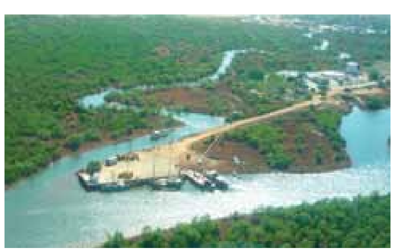
MADAGASCAR OIL

2010 ANNUAL REPORT





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Highlights

- Resolution of dispute on Tsimiroro Block – Company now proceeding with planned investment programme
- 18 successful wells out of 24 drilled on Tsimiroro
- Installation of steam flood pilot facility expected in Q3 2012
- Tsimiroro contingent original oil in place of 965 mmbbls under review by independent reporting engineers NSAI, with updated report showing upgrade expected in near future
- Shift in focus of Bemolanga work programme to pursue conventional hydrocarbon potential – PSC and JOA with Total, revised accordingly
- Exploration blocks - discussions with Government of Madagascar ongoing regarding work programmes and outstanding issues
- Cash of $59 million in June 2011 to deliver approved work plans

Strategy

Madagascar Oil Limited (the "Company" or "Madagascar Oil") and its subsidiaries (collectively, the "Group") have aggregated one of the largest onshore positions in a major emerging hydrocarbon province.

The Group has two fields that have considerable resources in place, being multi-billion barrel heavy oil and bitumen deposit resources in the Tsimiroro and Bemolanga Fields.

The Company's focus over the short to medium term is to prove up reserves and demonstrate commercial production capability.

Over the next twelve to eighteen months, Madagascar Oil will be undertaking key value changing events including:

- Execution of a steam flood pilot to test commercial development of the Tsimiroro Block, and additional drilling to expand and upgrade the Tsimiroro Block resource base; and
- Evaluation of conventional oil and gas deposits on the Bemolanga Block, while continuing to monitor the potential for an economic mining project for the substantial bitumen resource that has been confirmed, with its operational partner Total E&P Madagascar S.A.S. ("Total"); and
- Development of drillable prospects on its three exploration blocks, subject to approval of its 2011-2012 work programmes by the Government of Madagascar.

The Directors believe that the potential world-class heavy oil resource being developed by the Company in the Tsimiroro Block is well located for access to the worldwide heavy oil market, including the expanding Asian market. The Group has retained a top tier team encompassing the following key characteristics:

- World class technical expertise in executing and monetizing unconventional resources through the application of steam flood technology;
- Extensive expertise in managing, budgeting and executing multi-million US Dollar projects globally; and
- A board that has a high level of oil industry experience and will provide both strategic and operational oversight.

Madagascar Oil at a Glance

Madagascar Oil has one of the largest positions in onshore exploration and development in Madagascar, the Company's sole geographic area of focus. Madagascar Oil holds licenses in five blocks, representing an area of approximately 29,500 square kilometres (7.3 million acres). In operation since 2004, the Company has completed a variety of drilling and coring projects on its blocks, including most recently, a 24 well drilling programme on the Tsimiroro block in 2010 and a 160 well coring programme on the Bemolanga Block in 2009-2010 in which it owns a 40 per cent working interest. To date, Madagascar Oil has invested in excess of $210 million, more than any other company in Madagascar's oil sector, and is involved in helping Madagascar realise the development of its high potential oil resources:

Block Name	PSC	Operator	MOL Interest	Status	License Area (km^2)
Tsimiroro	3104	MOL	100%	Exploration/ Appraisal	6,670
Bemolanga	3102	Total	40%	Exploration/ Appraisal	5,463
Manambolo	3105	MOL	100%	Exploration	3,995
Morondava	3106	MOL	100%	Exploration	6,825
Manandaza	3107	MOL	100%	Exploration	6,580

The Company is poised to proceed with its work programme for Tsimiroro now that it has resolved the governmental delays that have occurred over the last six months. The Company will address resolution of the outstanding dispute on its three exploration blocks in July. Please see the Chairman/CEO Statement and Note 35 to the Company's financial statements, each of which is included in this Annual Report, for further discussion of these matters.

Oil-in-place Estimates

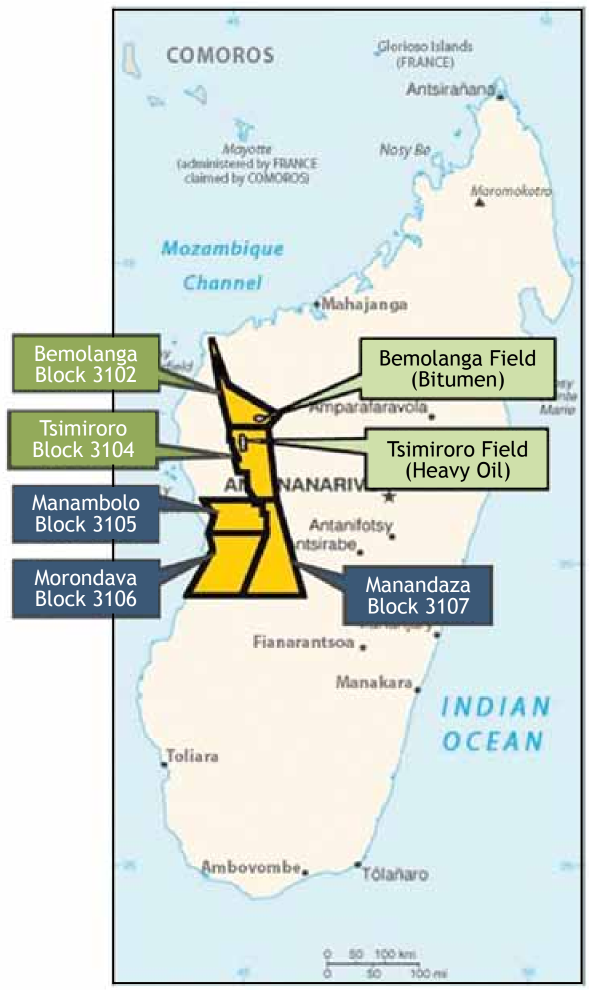
A 2010 independent reserve report by Netherland, Sewell & Associates, Inc. ("NSAI") of oil-in-place indicated a best estimate of contingent resource of approximately 965 million barrels in the Tsimiroro Field, plus an additional 786 million barrels of best estimate prospective resource. This estimate does not include results from the Q2/3/4 2010 drilling and ERT campaign that are currently being evaluated by NSAI.

OIP Resources (mm bbl)	Low Estimate	Best Estimate	High Estimate
Contingent	644	965	1,412
Prospective	0	786	1,843

In late 2010, Norwest Corporation ("Norwest") developed an independent reserve report for the bitumen mining field in the Bemolanga Block. Norwest provided a best estimate of petroleum-initially-in-place ("PIIP") volumes of approximately 1.2 billion barrels in the Bemolanga mining field, plus an additional 1.0 billion barrels of best estimate prospective PIIP volumes.

PIIP Resources (mm bbl)	Low Estimate	Best Estimate	High Estimate
Discovered	496	1,179	2,001
Undiscovered	562	1,005	1,927

Drilling in 2009-2010 and testing on bitumen extraction in late 2010/early 2011 have led to the conclusion that proceeding with a pilot test of a mining project is not a prudent choice in 2012 and that the mining evaluation requires additional study. The Company and its partner, Total, plan to further explore for conventional deeper oil and gas plays in 2011 and 2012 that have not previously been quantified on the Bemolanga Block.



Chairman / CEO Statement

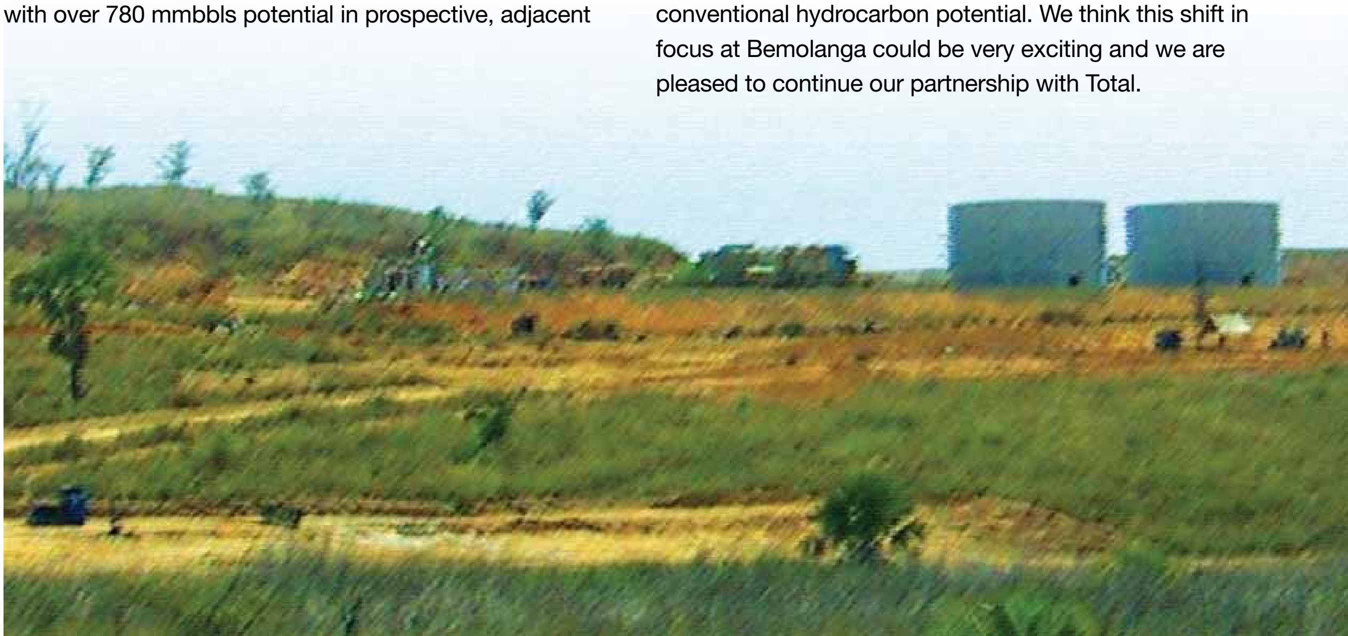
I am pleased to be able to present Madagascar Oil's first annual report following the Group's capital raising and the admission of its shares to trading on the AIM market of the London Stock Exchange in November 2010. We have experienced both highs and lows during the period. We are pleased to report, after several challenging months of efforts to engage with the Government of Madagascar to address uncertainty over the status of some of our Production Sharing Contracts ("PSCs"), that we have achieved resolution of the dispute on our Tsimiroro Block with the Government of Madagascar and believe that we can now proceed as contemplated at the date of our admission to trading on AIM market.

Madagascar Oil was founded in 2004 to investigate the potential development of existing heavy oil resources and to pursue further exploration and development opportunities of both heavy oil and conventional oil deposits in Madagascar.

Having acquired five contiguous onshore blocks covering 29,500 km², the Group currently has the largest onshore exploration and development rights for both heavy oil and conventional oil and gas in Madagascar. The Group's two principal fields have, in the last five years, been demonstrated to have considerable resources in place and field tests and studies undertaken suggest that a large portion of the Company's heavy oil assets have excellent potential for development.

The Tsimiroro field on Block 3104 has been independently attributed 'best estimate' gross original heavy oil-in-place of 965 million barrels ("mmbbls") in known accumulations, with over 780 mmbbls potential in prospective, adjacent structures. Base case production from Tsimiroro, if planned testing verifies commercial economics, is estimated to reach 87,500 barrels of oil per day and to last for between 30 and 40 years. The Company has recently performed additional evaluation and delineation of this resource and is in the process of revising its previous estimates with the aim of reflecting an increase in gross oil-in-place.

The Bemolanga field on Block 3102 has been independently attributed 'best estimate' gross discovered bitumen-in-place of approximately 1.2 billion barrels, with over 1.0 billion barrels potential upside. Following the 2008 farm-out of a 60 per cent interest and assignment of operatorship in the field to Total, the Company and Total recently completed a two-year 160 well coring programme at Bemolanga to determine the viability of a mining project. Based on the results from those wells, the parties have elected not to proceed currently with the next phase of the mining campaign. In May 2011, OMNIS (the state regulatory authority that is the counterparty to the Company's PSCs) agreed to an amendment to the PSC on Block 3102 (Bemolanga) that extended the current sub phase of the exploration period for an additional year and removed the obligation to fund our 40% share of a minimum work commitment of $100 million for the originally contemplated mining pilot. The revised PSC includes a modification of the work programme and this extension time will be utilized to conduct an aerial gravity survey to evaluate conventional hydrocarbon opportunities on this block. The work programme over the next twelve months will therefore shift to an evaluation of deeper potential by collecting reservoir and surface data on conventional hydrocarbon potential. We think this shift in focus at Bemolanga could be very exciting and we are pleased to continue our partnership with Total.



In response to the statements made by the Minister of Mines and Hydrocarbons regarding Blocks 3104, 3105, 3106 and 3107, in December 2010 the Company took the decision to request that trading in its common shares on the AIM market be suspended pending resolution of these issues. As a precautionary measure we reluctantly declared force majeure on the four blocks in March 2011. The exercise of this contractual provision allows the Group to preserve time upon the occurrence of an event or action that impedes that party from meeting contractual deadlines. In April 2011 we were advised that it would be prudent to begin international arbitration proceedings under the PSCs in order to preserve the rights of the Company and its shareholders, should a resolution not be forthcoming. The Company is confident that it has complied fully with all contractual obligations and has provided extensive documentation to the Ministry of Mines and Hydrocarbons ("MMH") regarding activity on all of the blocks. In mid May 2011, the Government of Madagascar acknowledged the delays that had been imposed upon the Company and began the process of resolving them.

We are pleased to report that our efforts in resolving this dispute have been successful. The Company recently held its Management Committee Meeting for the Tsimiroro Block. In conjunction with that meeting, OMNIS has approved the 2011-2012 work programme and budget for Tsimiroro and has acknowledged that the Tsimiroro PSC is valid and its validity has never been in question. The MMH and OMNIS have also assured us that that there are no technical issues outstanding under this PSC. OMNIS has scheduled a Management Committee Meeting for the Exploration Blocks (Blocks 3105, 3106 and 3107) for 6 July 2011 to work on full resolution of the budgets for work on these blocks. Based on these events, trading has resumed in our common shares. With this recent milestone, we are now in a position to put the difficulties of the last six months behind us.

Madagascar Oil has invested heavily in the country since first obtaining its PSCs in 2004. To date the Company has spent in excess of US$210 million, which is more than any other oil company active in the region.

The Company has recently resumed its planned development work, and with unrestricted cash balances of $59 million as of June 2011, it has the funds in place to execute its work programmes and increase value for shareholders. With 18 of the 24 wells drilled in 2010 discovering oil, an upgrade in the resource base by independent reservoir engineers NSAI is expected in the near future. The Company is also planning to commence immediately the installation of the steam flood pilot facility at Tsimiroro, which is designed to obtain reservoir performance data and evaluate the potential for a commercial development. Madagascar Oil will continue work on its exploration plays while it also continues to evaluate the mining options available at Bemolanga.

The last six months have highlighted risks associated with operating in frontier petroleum provinces, but we believe that our recent constructive dialogue with the Government of Madagascar has served to reaffirm our historical compliance under our contracts, the amount of work we have already completed to date, and our clear and well funded plans for future development to bring onstream the country's first commercial oil production.

The Company remains committed to Madagascar and is looking forward to continuing its work programme, which is in the best interests of all shareholders and stakeholders, including the people of Madagascar.

J. Laurie Hunter
Chairman of the Board and
Chief Executive Officer

Operational Review

The Company conducted operations on all five of its blocks in 2010. In all, a total of 110 wells were drilled and 490 kilometres of Electrical Resistivity Tomography were acquired in the shallow sands, and 880 square kilometres of GORE micro seepage survey was performed on deeper sands on seven deep prospects.

Tsimiroro – Block 3104

The Tsimiroro Block comprises 6,670 square kilometres, of which the northern portion contains an approximate 1,600 square kilometre area of formation, bearing heavy oil of an average 14° API, referred to as the Tsimiroro Field. The work to date has defined high confidence level oil-in-place volumes within the Amboloando sand. Drilling results have also found measurable oil in the more shallow Ankaramanabe sand and underlying Isalo sand. However, the potential in the Ankaramanabe and Isalo sands has not yet been quantified by third party experts.

A 44 well drilling programme was conducted in 2007 and 2008 on the Tsimiroro Field which led to a 2009 analysis that yielded a high estimate of 1.4 billion barrels of contingent oil-in-place plus 1.8 billion of prospective oil-in-place. The 2010 operations programme targeted further definition of the oil-in-place through a combination of surface investigation and drilling. Based on the fact that the definition of the shallow oil horizons was not conclusive utilizing a conventional seismic approach, the Company's geologic team developed a programme to test and subsequently utilize a surface process known as Electrical Resistivity Tomography ("ERT").

ERT utilizes an array of 18 inch long probes that are driven into the soil every 22.5 metres over a line that is 450 metres long. Electric current is applied to alternating pairs of probes and signal returns are measured at the other 18 probe sites on the line; penetrating to a depth of approximately 300 metres investigative depth. Following processing, an implied resistivity trace is developed that allows low resistive intervals like shale to be distinguished from sands. The ERT results were utilized to identify the 24 delineation well locations for the 2010 drilling programme. The results of the initial examination of the ERT results indicate that it is very effective for identifying structural areas. The drilling programme encountered 18 wells with good oil shows and six that were not oil bearing (three were drilled in fault zones and three found wet sand). Additional follow-up drilling locations have been identified for 2011 and ERT will be studied further for application in subsequent years.

At year-end the Tsimiroro nine pattern steam flood pilot project design phase was well underway, and the location preparation for the wells and facilities was approximately 30% completed. Engineering preparation and location work has progressed in early 2011; however, the uncertainties surrounding the block since December 2010 indicated in the Chairman/CEO Statement have resulted in delays in the procurement and estimated timing of the pilot production schedule. In June 2011 those delays were resolved and approval from OMNIS of our proposed steam flood project was confirmed. At the end of the contract term in August 2012, the Company's option to extend the term for two years beyond the end of Phase 3 has also been reaffirmed. This will provide the Company with three years prior to reaching the decision point required to make a declaration for commercial development. In addition, OMNIS and the MMH acknowledged the force majeure and the parties have agreed to address an extension to the Tsimiroro PSC should it be necessary at the end of the contract term.

The steam flood pilot will test the application of both cyclic and continuous injection of steam in a vertical steam flood configuration and it is presently projected that cyclic steam injection will begin in Q3 2012 and continuous steam injection in Q4 2012.

The cost for the drilling and ERT operation in 2010 was approximately $8 million. We estimate that the 2010 work will result in an increase in contingent and prospective resources oil-in-place volumes and that an independent report by Netherland, Sewell & Associates, Inc. will be issued shortly.

Manambolo – Block 3105 / Morondava – Block 3106 / Manandaza – Block 3107

These three blocks, referenced collectively as the "Exploration Blocks", comprise 3,995, 6,825 and 6,580 square kilometres respectively. Manambolo had a gas well test in 1987 and Manandaza had a 41° API light oil test in 1991. Madagascar Oil has analyzed existing seismic in past years, and in 2009 designed a seismic acquisition programme that resulted in the identification of nine structural leads in seven areas. There were two areas on both Manambolo and Morondava and three areas on Manandaza that suggested potential for structures up-dip from hydrocarbon observations. To further examine the leads and attempt to de-risk the possibility for hydrocarbon capture in the structures; a team was contracted to install GORE® Modules for geochemical testing of hydrocarbon micro-seepage to surface over a total of 880 square kilometres in 2010.

The GORE testing is conducted by installing sampling modules in a grid on the surface above an identified subsurface structural feature. The modules selectively capture minute carbon molecules from C2 to C20 in four groupings. Following a three week ground exposure, the modules are removed and sent to the laboratory for testing, with the goal of determining if any areas above the structures have micro-seepage of hydrocarbon at levels above the normal background level.

The Manambolo structures tested were east of the 1987 gas test in the centre of the block. The structure from the gas well was determined, following the 2009 seismic test, to have been very small and to have fully migrated to surface before encountering any structural trap up dip to the east. Two areas of 160 square kilometres each were sampled above the two newly projected Manambolo leads. The northern test area indicated very few GORE readings above background and initial judgment is that the identified structure does not contain hydrocarbon. The southern lead had several areas of elevated hydrocarbon signature, but lacks the seismic definition to fully determine the structural continuity.

The Morondava leads have very little data that suggest hydrocarbon presence from any wells drilled prior to Madagascar Oil's operation. The north Morondava lead was a 160 square kilometre area and, like Manambolo in the north, showed very little hydrocarbon activity. The southerly 160 square kilometre area, however, indicated at least two areas of elevated hydrocarbon that look like potential prospects, however, the shapes do not conform to the structural high that has been mapped below the survey area. There may be a correlation to Cretaceous channel sands in a slightly shallower horizon, but additional seismic will be required to obtain a more complete assessment.

There were three areas sampled with GORE on Manandaza. These were 146, 54 and 40 square kilometres in size respectively and all three had good signs of elevated hydrocarbon. The largest, most northerly area is the site of the Manandaza #1 well and 1991 drill stem test conducted by Shell, which recovered 10 barrels of 41° API light oil. The two smaller areas were similar in style, but exhibited considerably smaller areas of potential hydrocarbon capture. The larger area is currently being examined for stratigraphic features, as the largest areas of hydrocarbon response were not on the crest of the structure. It is likely additional seismic will also be required in this location.

The cost for the GORE testing was approximately $2.2 million in 2010.

Work on these blocks was halted during the first half of 2011 pending resolution of Company's impasse with the Government of Madagascar. OMNIS has scheduled our Management Committee Meeting for these blocks on 6 July 2011. Each PSC requires either seismic work or the drilling of one well in 2011. We hope to enter into a negotiation with OMNIS to extend the term on these blocks to account for the 2011 delay and for the additional time required to conduct the assessment of prospective drilling locations identified in the work to date. It is expected that a combination of airborne gravimetric surveys (Full Tensor Gravity) and seismic will be required to define further the drilling prospects and the addition of these items to the block work activity will be addressed at the upcoming Management Committee Meeting.

Bemolanga – Block 3102

The Bemolanga block is a 5,463 square kilometre area and contains the oldest know hydrocarbon deposit in Madagascar. The first wells were drilled in the late 1800's and work has been conducted over the area of what has been determined to be a potential bitumen mining project. The block is operated by Total (60% working interest) and Madagascar Oil (40% working interest) and following the farm-in by Total in 2008, 72 core wells were drilled in 2009 and an additional 86 wells were drilled and cored in 2010.

There was considerable work done to define the mineable area and bitumen content based on the two drilling programmes. The most significant finding is that the bitumen content ranges from about 3.5 weight percent to approximately 11.0 weight percent, with the effective mineable area at the level of an average of 5.5 weight percent bitumen in the ore. For reference, this bitumen content is approximately half of that found on the Canadian tar sands.

In addition, extraction testing and detailed cost estimates for mine and extraction plant design were conducted by both Total and Madagascar Oil. Removal of the bitumen from the ore was tested extensively with hot water extraction and subsequent froth treatment and the resulting production and sales streams were estimated. The sales stream is an approximate 10° API product that will require diluent blending or upgrading for subsequent pipelining to the west coast of Madagascar and delivery via offshore terminal to crude tankers. The shipping and handling were also estimated, along with the projected market value of the blended. A key factor in the evaluation is that, with no current native oil or gas supply, the required diluent must be imported and the project power requirements will need to be fueled by either the bitumen production or the diluent import.

There is an estimated median volume of approximately 1.2 billion barrels of mineable bitumen present (Madagascar Oil share: 472 mmbbls). However, at an evaluation price range per barrel of $60-$100 Brent, the cost of handling the ore, the bitumen extraction, and the upgrading and shipping, does not presently support proceeding with the mine project. In June 2011 Total and Madagascar Oil received approval from OMNIS for a modification of the Bemolanga work plans to focus on deeper conventional plays on the block. An extension of one year was granted in June 2011 with the commitment to run airborne gravity surveys later this year over the entire block area to identify possible conventional hydrocarbon plays, with an option for a further two-year extension to drill a well. The mine will continue to be evaluated for potential improvements in extraction and upgrading technology.

The Bemolanga project spent approximately $28 million in 2010 and Madagascar Oil's 40% share of the costs was carried by Total as part of the farm-in transaction. Under the terms of the revised Joint Operating Agreement with Total, the Company is carried on the next $10 million of gross expenditures for the revised work programme.

Financial Review

Loss for the Financial Year

The net loss for the year 2010 was $11.6 million, taking account of $7.9 million in IPO-related expenditures (of which $5.1 million of such expenses were netted against the share premium account, with the balance included in the 2010 net loss calculation). This compares to a loss of $3.9 million in 2009.

Gross administrative costs, summarised in the table below, totaled $7.2 million (2009: $10.9 million). Employees and headcount-related contractor payments were $3.5 million (2009: $7.3 million), including $1.3 million (2009: $5.1 million) of IFRS charges related to restricted stock and share options granted to directors, staff and third parties. Production sharing contract-related fees and expenses were $1.1 million (2009: $1.3 million). Depreciation, IPO costs and losses associated with foreign currency exchange, asset disposal and impairments are not included in gross administrative costs listed below.

Gross Administrative Costs

Gross Administrative Costs	2010 US$ Millions	2009 US$ Millions
Employee and Headcount - Related Contractors	$2.2	$2.2
Share Based Payments	$1.3	$5.1
Total Employee and Headcount - Related Payments	$3.5	$7.3
Production Sharing Contract - Related Fees and Expenses	$1.1	$1.3
Other	$2.6	$2.3
Total Gross Administrative Costs	$7.2	$10.9

Statement of Financial Position

At 31 December 2010 the Group had net assets of $174 million (2009: $98 million). The most significant balances are property, plant and equipment of $15.1 million (2009: $18.5 million), exploration and evaluation assets of $85.8 million (2009: $70.9 million) and cash of $69.2 million (2009: $6.4 million).

Capital Expenditures

The Company had $12.4 million of capital expenditures in 2010. This compares to $4.3 million in capital expenditures in 2009. The Company focused its capital expenditures as follows:

Capital Expenditures	2010 US$ Millions
ERT - Electrical Resistivity Tomography	$4.3
Exploration wells-drilling	$4.2
Steam Flood Pilot	$1.7
Prospect testing (GORE)	$2.2
Total	$12.4

Cash Flow

The Group ended the year with $67.5 million of unrestricted cash and cash equivalents (2009: $2.9 million) and a further $1.8 million of restricted cash (2009: $3.5 million). The Group remains debt free, other than trade payables in the ordinary course of business, which ended the year at $2.8 million (2009: $0.7 million).

All of the Group's restricted cash at 31 December 2010 supports $1.5 million of performance guarantees in favor of the Government of Madagascar under the Group's PCSs for Blocks 3105, 3106, and 3107. These guarantees will remain in effect through 31 December 2011, which is the end of the current phase of each license.

At 31 December 2010, approximately $69 million was held on deposit with Credit Suisse and earns a floating rate interest. Madagascar Oil has diversified its cash holdings amongst other significant financial institutions in 2011. At 31 December 2010, over 95% of the Group's cash was held in US dollars.

On 29 November 2010, the Company's common shares were admitted to trade on the AIM market of the London Stock Exchange. The Company's common shares trade on the AIM through depository interests under the symbol "MOIL". In its initial public offering the Company issued 53,197,000 shares at 95 pence per share for total gross proceeds to the Company of $78.3 million. Net proceeds to the Company after payment of certain IPO expenses were $70.4 million. At the time of admission, the Company's total outstanding share capital was 192,365,157 shares.

Board of Directors

John Laurie Hunter

Chairman and Chief Executive Officer

Laurie Hunter, aged 64, has been a director of Madagascar Oil since October 2008, and became CEO in July 2009. Previously he was the founder of Hunter Capital LLC, which focused on investing in early stage energy companies and assisting them to raise finance and generate growth. Mr. Hunter has served on the board of a number of private North American based E & P companies and has been both a limited and a general partner of a number of private drilling partnerships in the United States. In addition, Mr. Hunter is currently an independent director of Living Cell Technologies Limited (ASX-LCT), a New Zealand based biotechnology company. Mr. Hunter holds an MA in Politics, Philosophy and Economics from Oxford University.

Mark Field Weller

Chief Operating Officer

Mark Weller, aged 60, has been with the Company since 2008, after serving five years as President of a small independent Texas oil company. He has over 39 years of oil industry experience with an extensive background in domestic and international oil and gas development (both onshore and offshore drilling and production operations), including 15 years direct involvement with the design, initiation and operation of heavy oil steam flood projects in California. Mr. Weller has previously worked with Texaco and Getty Oil in a variety of positions throughout the United States and worked internationally developing projects in West Africa. Mr. Weller has a Bachelor's degree in Mechanical Engineering from the University of California, Davis.

Andrew James Morris

Non-Executive Director

Andrew Morris, aged 42, is the founder and Managing Director of Persistency Capital LLC. He focuses on value investing and deal structuring across a broad geographical and sectoral spectrum. Prior to establishing Persistency Capital, Mr. Morris spent 15 years in the financial services industry, most recently as a Director of the Financial Services Risk Management practice of Ernst & Young, advising a broad range of organizations in enterprise risk management. Mr. Morris currently sits on the board of a number of private companies, ranging from early stage resource companies to emerging technology companies. Mr. Morris holds a BSc (Hons) degree in Mathematics from Bristol University and is a member of the Institute of Chartered Accountants in England and Wales.

Ian Colin Orr-Ewing

Non-Executive Director

Ian Colin Orr-Ewing, aged 69, is a natural resources consultant for Blakeney Management, a fund management company specializing in advising on investment in Africa and the Middle East, with whom he has been associated since 1994. He has over 40 years of oil industry experience with an extensive background in domestic and international oil and gas development, including both onshore and offshore drilling and production operations. Mr. Orr-Ewing has served on the boards of several oil companies, including Stratic Energy Corporation (a Canadian oil company), and is currently on the board of Vatukoula Gold Mines Plc (formerly River Diamonds, a Fijian Gold Mining company), which is listed on AIM and Bacanora Minerals (a TSX quoted company). Mr. Orr-Ewing has a Bachelor's degree in Geography from Oxford University.

Ian Christopher Simon Barby

Non-Executive Director

Ian Barby, aged 66, practised as a Barrister before joining Warburg Investment Management Ltd in 1985, subsequently becoming a vice chairman of Mercury Asset Management plc and latterly, until 2003, a managing director of Merrill Lynch Investment Managers. He is currently chairman of Invesco Perpetual UK Smaller Companies Investment Trust plc and Ecofin Water and Power Opportunities plc, as well as being a director of BlackRock World Mining Trust plc, Schroder Income and Growth Fund plc, Pantheon International Participations plc and SR Europe Investment Trust plc. Mr. Barby holds an M.A. in History & Law from Cambridge University.

John Alexander van der Welle

Non-Executive Director

John van der Welle, aged 56, was a director and Chief Financial Officer of Canadian – listed Stratic Energy Corporation until November 2010. Mr. van der Welle is currently a non-executive director of Groundstar Resources Limited (a Canadian listed oil company) and has extensive senior business and financial experience in the oil industry. Prior to joining Stratic Energy Limited he was Managing Director and Head of Oil & Gas at the Royal Bank of Scotland. After qualification as a chartered accountant at Arthur Andersen & Co., Mr. van der Welle joined UK listed Enterprise Oil plc in 1984. He had a number of business development and finance roles there, and was Group Treasurer from 1993 until 1995 following which he joined UK listed Hardy Oil and Gas plc as Finance Director. He subsequently became Finance Director of UK listed Premier Oil plc, and then a director and Chief Financial Officer of First Calgary Petroleums Ltd (a Canadian listed oil company). Mr. van der Welle holds a BSc (Hons) degree in Electronic Engineering from Southampton University, and is a member of the Institute of Chartered Accountants in England and Wales, the Association of Corporate Treasurers and the Chartered Taxation Institute.

The Directors will review the composition of the Board on a regular basis and intend to appoint additional executive and/or independent non-executive directors at appropriate stages of the Company's development.

Management Team

Seth Fagelman

Chief Financial Officer

Seth Fagelman has served as the Company's Chief Financial Officer since December 2009. He has significant financial and business experience, having previously held CFO and senior management positions for CyrusOne, Prime Cable and GW Communications. He currently serves as a strategic adviser and board member to several private companies. Mr. Fagelman has helped raise over US$1.7 billion in debt and equity capital to finance acquisitions and growth in the telecommunications, technology, manufacturing and distribution sectors. Mr. Fagelman graduated with an MBA from the University of Texas, Austin.

Gil Melman

General Counsel

Gil Melman became the General Counsel of the Company in March 2011. From August 2008 through February 2011, Mr. Melman was seconded to the Company to act as general counsel. During that time, Mr. Melman was a partner at Selman, Munson & Lerner P.C., a Texas based law firm specializing in corporate transactional work. Prior to joining Selman, Munson & Lerner P.C., Mr. Melman was employed as Vice President of Legal at a regional private equity fund and also as Vice President and Assistant General Counsel at a large Fortune 100 energy company. Mr. Melman began his career at Vinson & Elkins LLP, as a lawyer in its Corporate & Securities Group. Mr. Melman obtained his Bachelors of Business Administration and his Juris Doctor Degrees from the University of Texas, Austin.

Employees / Contractors

Alvaro Kempowsky

General Manager - Madagascar

Alvaro Kempowsky is the General Manager of Madagascar Oil SA, having joined from Chevron Corporation in early 2007. Mr. Kempowsky spent much of his career as a Project and Operations Manager with Texaco in Colombia and Angola, including responsibility for, inter alia, operations and construction of heavy oil, light oil and natural gas developments. In addition, Mr. Kempowsky spent 14 years as the project manager for a new heavy oil steam project in Columbia for Texaco and Ominex. Mr. Kempowsky has a M.E. in Petroleum Engineering and an M.E. in Engineering Management from the University of Tulsa, Oklahoma. He also has a degree in Electrical Engineering from the National University of Colombia.

Dr. Emma Ralijohn

Deputy General Manager - Madagascar

Dr. Emma Ralijohn is Deputy General Manager of Madagascar Oil SA, having joined in 2007, and is primarily responsible for working and negotiating with government authorities for environmental and operational permitting and contract requirements. Prior to joining the Company, Dr. Ralijohn served as finance adviser to the president of Madagascar for 2 years, which included negotiating a contract for the US$110 million provided US-funded Millennium Challenge Account. In 2005 she was named fund CEO and was responsible for development and implementation of the fund for the Madagascar government. Since 1991, Dr. Ralijohn has also served as a faculty member and consultant for l'Institut National des Sciences Comptables et de l'Administration d'Enterprises (INSCAE). Dr. Ralijohn has a Ph.D. in Business Administration – Finance from Southern Illinois University of Carbondale,Illinois; a Doctorate ès Sciences de Gestion – Strategic Management, École Supérieure des Affaires (ESA) – Université Pierre Mendès, Grenoble, France; and a Masters in Accounting from National Business and Accounting School (INSCAE) Antananarivo, Madagascar.

Jim Lederhos P.E.

Chief Engineer

Jim Lederhos is Chief Engineer for the Company, having joined in 2008 from Chevron, where, over a 27 year career, he was involved in all aspects of steam flood design and evaluation of heavy oil projects worldwide, including California and Indonesia. Mr. Lederhos has co-ordinated all aspects of the Tsimiroro Field project design and evaluation for thermal testing. He has also served as a consultant for several heavy oil projects worldwide in the last several years. Mr. Lederhos has B.S. degrees in Engineering and Geology from Oregon State University in Corvalis, Oregon.

Matthew Meyer

Mining Engineer

Matthew Meyer has worked with Madagascar Oil since 2006, providing strategic analysis and engineering expertise for the oil sands development of the Bemolanga Block. He has been part of project development and operational teams for the construction and start-up of four major mining projects in four different countries during his 25 year career. From 1999 to 2006, he was responsible for various commercial, engineering and managerial roles during the permitting, construction, start-up and expansion of the Athabasca Oil Sands operation in northern Alberta. Mr. Meyer has an MBA from St. Mary's College, California, and a BSc Mining Engineering from the University of Idaho.

The Group currently has around 45 employees and consultants in total. The majority of personnel are engaged on a contractual basis.

Corporate Governance Statement

The Directors recognise the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its shareholders. The UK Corporate Governance Code does not apply to companies quoted on AIM and there is no formal alternative for AIM listed companies. The Directors have implemented steps to comply with the UK Corporate Governance Code, so far as it is considered practicable having regard to the size and current stage of development of the Company. The Quoted Companies Alliance has published a set of corporate governance guidelines for AIM companies, which include a code of best practice for AIM companies, comprising principles intended as a minimum standard, and recommendations for reporting corporate governance matters. The Board considers the Quoted Companies Alliance guidelines when implementing corporate governance policies and internal controls.

Set out below is a description of the Company's corporate governance practices.

The Board

The Board consists of two executive directors and four non-executive directors. In connection with its admission, the Company implemented staggered terms for members of the Board of Directors. Each director serves for a term of three years and there are three classes of directors. Only one class is up for re-election at any given annual general meeting. The Company has populated its Board with directors who either have a depth of experience and/or extensive knowledge in the international oil and gas industry, or who provide expertise in a specific discipline such as finance and accounting. The directors and their biographies are set out on page 16 of this Annual Report.

The Board meets regularly and is responsible for setting strategy, monitoring operational and financial performance and reporting, approval of annual budgets for capital, operating and other expenditure and their financing, material transactions, the framework of internal controls and business risk assessment.

The Board also plays a supervisory role in the Company's recent dispute with the Government of Madagascar over its PSCs. Management provides the Board with regular updates on the status of this matter, and schedules meetings of the Board as necessary to allow the Board to provide advice to management in addressing the dispute. The Board has established Audit and Remuneration Committees as follows:

Audit Committee. The Audit Committee is comprised of John van der Welle (chairman), Andrew J. Morris and Colin Orr-Ewing. Reporting to the Board, it has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. In addition, it receives and reviews reports from the Company's management and auditors. The Audit Committee meets at least three times a year and has unrestricted access to the Company's auditors, with whom it actively liaises. Meetings of the Audit Committee are attended by members of senior management as and when required.

Remuneration Committee. The Remuneration Committee is comprised of Ian Barby (chairman), Colin Orr-Ewing and John van der Welle and, amongst other things, makes recommendations to the Board on matters relating to the remuneration of the executive directors. The Remuneration Committee reviews the performance of the executive directors and advises on salary, bonus and incentive remuneration for other employees as directed by the Board. In addition, it makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The Remuneration Committee meets at least twice a year. Directors of the Company generally do not participate in recommendations of the Remuneration Committee regarding their own remuneration. See the Remuneration Committee Statement set out on page 19 of this Annual Report.

The Directors do not consider that, given the size of the Board, it is appropriate to have a Nomination and Corporate Governance Committee. The appropriateness of such committees will however, be kept under a regular review by the Board.

Internal Control

The Board is responsible for establishing, maintaining and monitoring the Company's system of internal control, and importance is placed on maintaining a robust control environment to the extent practicable given the Company's size and resources. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's system is designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The Board maintains a financial reporting procedure manual that is monitored by the Audit Committee and the Company's financial management. The Company has implemented a Board approved detailed delegation of authority to management covering purchasing, invoice approval and payments. This delegation is reviewed periodically to determine if changes are necessary.

To enable the Board to discharge its duties, all of the directors receive timely information from the Company's management.

The key procedures which the Board has established with a view to providing effective internal financial control includes the following:

- The Board meets regularly to discuss all material issues affecting the Company;
- The Board has adopted and reviewed a comprehensive annual budget for the Company. Monthly results are examined against the budget and deviations are monitored closely by the Board;
- The Company has instituted and continues to develop a monthly management reporting process to enable the Board to monitor the performance of the Company;
- The Board is responsible for identifying major business risks faced by the Company and for determining the appropriate courses of action to manage those risks; and
- Fully consolidated management information is prepared on a regular basis, at least half yearly.

No significant control deficiencies have come to light during the year and no weaknesses in internal financial control have resulted in any material losses, contingencies or uncertainties which would require disclosure as recommended by the guidance for directors on reporting on internal financial control. The effectiveness of the system of internal financial control operated by the Company is subject to regular review by the Board and Audit Committee in light of the future growth and development of the Company.

The Board considers that in view of the nature and size of the Company at present it would not be appropriate to establish a separate internal audit function. The Audit Committee will continue to review this decision and make recommendations to the Board on this matter annually.

Business Risks Management

The Board regularly reviews the effectiveness of the systems of internal control and considers the major business risks and the control environment. The Company maintains a business risk management policy that is periodically updated based on recommendations from the Audit Committee and senior management. Management is responsible for routinely identifying and evaluating risks.

The Company recognises that the effective management of business risk is critical to the success of the Company. Accordingly, the Company's approach to risk management embodies the following principles:

- Risk management is embedded in all management systems and business processes and is an integral part of the Company's internal control processes;
- The identification and management of risk is not limited to just the Board of Directors, but includes all managers and staff throughout the Company;
- The development by the Board of a comprehensive risk management framework which senior executives are in the process of implementing to ensure that risks are being managed in an efficient, effective, and economic manner. The framework includes risk management standards and risk assessment criteria; and
- The Audit Committee reviews the effectiveness of risk management systems and internal controls regularly, and the results are communicated to the Board of Directors.

The Company is exposed to a range of technical, geological, operational, political, environmental, health and safety and financial risks in the conduct of its operations. Key areas include: (a) risks related to Madagascar, specifically political instability, natural disaster and emerging markets risks, governmental delays and expropriation risks; (b) general business risks such as risk of inability to obtain future financing, tax risks and insurance coverage issues; (c) operational risks, such as technical difficulties, weather, risks associated with estimation of hydrocarbons, uncertainty surrounding labor and equipment; volatility in oil and gas prices and health and safety issues; and (d) risks associated with the common shares, such as price volatility and illiquidity, risks of holding depositary interests and risks associated with Bermuda law. The risks set out above are not exhaustive and there may be additional risks and uncertainties not presently known by the Company.

The Share Dealing Code

The Company has adopted a Share Dealing Code for the Directors and employees (as well as certain relevant persons) that is appropriate for a company whose shares are admitted to trading on AIM (in order to, among other things, ensure compliance with Rule 21 of the AIM Rules).

The Company takes all reasonable steps to ensure compliance with the terms of the Share Dealing Code by the Directors and all other relevant persons.

Relations with Shareholders

The Chairman and Chief Executive Officer is the Company's principal spokesman with investors, analysts, the press and other interested parties. Communications with shareholders are given high priority and there is regular dialogue with institutional investors, as well as general presentations to analysts at the time of the release of the annual and interim results. The Company maintains a website for the purposes of improving information flow to shareholders as well as potential investors. It contains all press releases, reports and accounts and extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to the Company are welcomed. Shareholders are also encouraged to attend the Annual General Meeting at which they are given the opportunity to put questions to the Chairman and Chief Executive Officer and other members of the Board.

The Company intends to hold its next Annual General Meeting in the fourth quarter of 2011.

Remuneration Committee Statement

This report was prepared by the Remuneration Committee of the Company's Board of Directors and has been approved by the Board. This report addresses the activities of the Remuneration Committee since its inception in October 2010 prior to the Company's listing of its common shares on AIM through to 31 December 2010. Prior to the formation of the Remuneration Committee by the Board on 19 October 2010, the Company's Board of Directors maintained a Remuneration Committee with similar functions that acted pursuant to authority granted in its previous Bye laws in effect prior to admission. This report does not address the activities of the predecessor to the Company's current Remuneration Committee.

Composition

The terms of reference of the Remuneration Committee provide for the Remuneration Committee to be composed of at least three non-executive directors. Members of the Remuneration Committee are appointed for a three year term.

The Remuneration Committee currently consists of Mr. Ian Barby (who serves as its Chairman), Mr. Colin Orr-Ewing and Mr. John van der Welle. Each is a non-executive director.

The Company's Chairman and Chief Executive Officer are invited to attend the meetings of the Remuneration Committee and the Assistant Secretary of the Board of Directors acts as its secretary, although none are present or involved when his own remuneration is discussed. From time to time the Chief Operating Officer is also invited to attend to provide insight into the compensation levels of other employees.

Responsibilities

The Remuneration Committee is responsible for recommending and monitoring the remuneration levels for executive directors and senior executives of the Company, including levels of equity incentive compensation. The role of the Remuneration Committee is advisory in nature. As such, it makes recommendations to the Board on matters within the scope of its authority for ultimate approval by the Board.

The Remuneration Committee's responsibilities include, among other things:

(a) determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chairman and Chief Executive Officer, Chief Operating Officer, the executive directors, the company secretary and such other members of the executive management of the Company as it is designated to consider;
(b) determining the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments, share options, restricted shares and other share awards;
(c) reviewing the ongoing appropriateness and relevance of the remuneration policy;
(d) administering and designing performance related pay schemes, including share incentive plans and approving payments or awards under such schemes.
(e) overseeing any major changes in employee benefits structures;
(f) vetting, authorising and agreeing the policy for authorising claims for expenses from the Chairman and Chief Executive Officer;
(g) reviewing its terms of reference, its work and effectiveness annually and reporting any recommendations to the Board; and
(h) considering, determining and approving all service contracts between the Company and its directors or between the Company and any subsidiary and any such senior executive.

The Remuneration Committee is obligated under its terms of reference to meet at least twice per year.

Remuneration Policy.

The Company's policy on remuneration of directors and senior management is to ensure that remuneration levels are designed to attract, retain and motivate individuals of the quality required by the Company to effectively achieve its goals. A key component of the Remuneration Committee's policy is to ensure that there is a strong link between executive remuneration and performance of the Company and the achievement of its goals. Performance related elements of remuneration are designed to align the interests of senior management and the shareholders and to give such individuals keen incentives to perform at the highest levels. The Remuneration Committee recommends remuneration packages that are both competitive and aligned to shareholders' interests.

The following comprise the principal elements of the current executive directors' remuneration:

- base salary and benefits
- annual discretionary bonus
- long term share based incentives

The Company does not make pension contributions or provide for post-employment health benefits.In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to the best practice provisions set out in the committee's terms of reference. The Remuneration Committee is authorized under its terms of reference to obtain outside legal or other independent professional advice on any matters for which it is responsible.

2010 Activity of the Remuneration Committee.

The Remuneration Committee met once during 2010 immediately prior to the Company's admission to AIM. All of the members of the Remuneration Committee attended this meeting. Prior to such time during 2010, the previously constituted Remuneration Committee met three times during the first three quarters of 2010.

In connection with the determination of the remuneration packages for the Company's Chairman and Chief Executive Officer, the Chief Operating Officer and the non-executive directors, the Remuneration Committee engaged H2glenfern, a London UK based group specializing in executive remuneration. During 2010, the Remuneration Committee designed and negotiated remuneration packages for the Chairman and Chief Executive Officer and the Chief Operating Officer, both of which became effective at the consummation of the Company's admission to AIM. Summaries of the terms of these packages are set forth below.

Remuneration of J. Laurie Hunter, Chairman and Chief Executive Officer of the Company.

Pursuant to Mr. Hunter's employment agreement, Mr. Hunter receives an annual base salary of US$317,000 plus US$55,000 in lieu of benefits. Mr. Hunter is entitled, from time to time, to be considered for incentive bonus compensation based upon performance criteria established by the Remuneration Committee. Beginning in 2011, Mr. Hunter is eligible to receive a maximum bonus of 100 percent of his base salary. Mr. Hunter will devote four days per week to the Company and is eligible to receive an additional bonus payment at the discretion of the Remuneration Committee if he works five days per week. The Remuneration Committee has deferred consideration of Mr. Hunter's 2010 bonus until there is greater clarity over the Company's future.

During his employment and for a period of two years following termination, Mr. Hunter has agreed to refrain from competing with the Company's business in Madagascar and from recruiting or soliciting the employment of any person who is an employee of the Company or any of the Group. Mr. Hunter's employment agreement has no specified term as he is considered an employee-at-will, but either party is required to provide six months prior notice with respect to termination of service. Mr. Hunter would be entitled to be paid the remainder of his salary during such six-month period to the extent the Company does not provide prior notice. Mr. Hunter is entitled to 12 months' notice if the Company terminates his employment for any reason other than for "cause" in connection with a change-in-control transaction.
Mr. Hunter is also entitled to be considered for a pro-rata portion of any incentive bonus payments or equity-based awards that might be considered appropriate in the event his employment is terminated other than for "cause". Under the employment agreement, Mr. Hunter is also be eligible for termination payments as a result of his resignation within 30 days of certain specified circumstances, which include a material change in his position with the Company, reduction in base salary of more than 30 per cent., or the Company's breach of his employment agreement.The Company has also provided Mr. Hunter with incentive based compensation in the form of (a) 500,000 Options vesting in three equal parts

over three years with an exercise price of 95 pence pursuant to the Company's 2010 Omnibus Equity Incentive Plan, and (b) 1,000,000 Restricted Shares under the Company's existing Restricted Stock Plan, of which 666,670 restricted shares will vest upon expiry of Mr. Hunter's lock-up agreement on 2 January 2012 and of which 333,330 will vest if, during the three year period following admission to the AIM market, the closing price of the common shares is at least equal to 150% of the placing price for five consecutive days.

The Company has agreed to maintain Director and Officer Liability Insurance for the benefit of Mr. Hunter consistent with custom and practice within the industry and in amounts agreed by the Board to be adequate to protect the Company. Mr. Hunter is entitled to serve in the capacity of a director to other companies, subject to approval of the Board.

Remuneration of Mark F. Weller, Chief Operating Officer of Madagascar Oil.

Pursuant to Mr. Weller's employment agreement, Mr. Weller continues to serve as the Company's Chief Operating Officer, responsible for overseeing the day-to-day operations of the Company, and as a member of the Board. Mr. Weller receives an annual base salary of US$317,000 plus US$55,000 in lieu of benefits and is entitled, from time to time, to be considered for incentive bonus compensation based upon performance criteria established by the Remuneration Committee of the Board. Beginning in 2011, Mr. Weller is eligible to receive a maximum bonus of 100 percent of his base salary. Up to 75 percent of the bonus will be paid on the basis of operational targets against time and budget, and 25 percent of the bonus will be paid at the discretion of the Remuneration Committee or subject to strategic targets.

During his employment and for a period of two years following termination, Mr. Weller has agreed to refrain from competing with the Company's business in Madagascar and from recruiting or soliciting the employment of any person who is an employee of the Company or any of the Group. Mr. Weller's employment agreement has no specified term as he is considered an employee-at-will, but either party is required to provide six months prior notice with respect to termination of service. Mr. Weller is entitled to be paid the remainder of his salary during such six-month period to the extent the Company does not provide prior notice. Mr. Weller is entitled to 12 months' notice if the Company terminates his employment for any reason other than for "cause" in connection with a change-in-control transaction. Mr. Weller is also entitled to be considered for a pro-rata portion of incentive bonus payments or equity-based awards that might be considered appropriate in the event his employment is terminated other than for "cause". Under the employment agreement, Mr. Weller is also eligible for termination payments as a result of his resignation within 30 days of certain specified circumstances, which include a material change in his position with the Company, reduction in base salary of more than 30 per cent., or the Company's breach of his employment agreement.

The Company has also provided Mr. Weller with incentive based compensation in 2010 in the form of 750,000 Options vesting in three equal parts over three years with an exercise price of 95 pence pursuant to the Company's 2010 Omnibus Equity Incentive Plan, and (b) 100,000 Restricted Shares under the Company's existing Restricted Stock Plan, all of which will vest upon expiry of Mr. Weller's lock up agreement on 2 January 2012.

The Company has agreed to maintain Director and Officer Liability Insurance for the benefit of Mr. Weller consistent with custom and practice within the industry and in amounts agreed by the Board to be adequate to protect the Company. Mr. Weller is entitled to serve in the capacity of a director to other companies, subject to approval of the Board.

Adoption of the 2010 Omnibus Equity Incentive Plan by the Company.

On 19 October 2010, the Company's shareholders adopted the 2010 Omnibus Equity Incentive Plan to provide long-term incentives and rewards to the Company's directors, officers, employees and consultants. See Part 6, Section 5 of the Company's Admission Document (a copy of which is available on the Company's website: www.madagascaroil.com under "Investor Relations") for a more detailed description of this plan.

Prior to admission, the Company had made equity incentive based awards under its then existing Restricted Stock Plan. Since admission, the Company has not issued, and does not intend to issue any awards under its previous Restricted Stock Plan and all capacity to issue awards under such plan has been used.

The table on the following page sets forth the compensation for the directors of the Company for 2010. Please note that remuneration matters related to the non-executive directors are addressed by the entire Board of Directors.

2010 Remuneration of Directors

	Salary & fees	Benefits	Annual Bonus	Other	Total	Long–term Incentives
Executive						
J. Laurie Hunter	$258,862	-	-	(1)	$258,862	(5)
Mark Weller	$415,762	-	-	-	$415,762	(5)
Non-Executive(2)						
Ian Christopher Simon Barby	$12,324(3)	-	-	-	$12,324	(6)
Andrew James Morris	$11,376	-	-	-	$11,376	(6)
Ian Colin Orr-Ewing	$11,376	-	-	-	$11,376	(6)
John Alexander van der Welle	$9,999(4)	-	-	-	$9,999	(6)
Total	**$719,699**	**-**	**-**	**-**	**$719,699**	

Notes:

(1) The Remuneration Committee has deferred a decision regarding Mr. Hunter's 2010 bonus until there is greater clarity over the Company's future.

(2) Includes fees for fourth quarter 2010 only.

(3) Includes $948 in fees for service as Chairman of Remuneration Committee

(4) Includes $1,428 in fees for service as Chairman of Audit Committee

(5) Mr. Hunter and Mr. Weller's long-term incentives are summarised elsewhere in this report.

(6) Each of the non-executive directors received options to purchase 78,947 shares at the Company's admission date on 29 November 2010. Such options have a ten-year term with an exercise price equal to 95 pence. These options vest and become exercisable in three equal annual installments upon completion of each year of service following the grant date.

Directors' Report

The Directors submit their report together with the audited consolidated financial statements of Madagascar Oil Limited for the year ended 31 December 2010.

Business Review

The principal activity of the Company and its subsidiary undertakings (the Group) during the year continued to be exploration and development of heavy oil and conventional oil deposits which have been discovered on five contiguous onshore blocks in Madagascar. Information on the Company's principal subsidiary undertakings appears in note 2 of the Company's financial statements.

The information that fulfills the requirements of the business review and future developments can be found within the Report of the Chairman and Chief Executive Officer, the Operational Review, and the Corporate Governance Statement included in this Annual Report.

Results and Dividends

The loss on ordinary activities after taxation for 2010 amounted to $11.6 million.

The directors have not recommended payment of a dividend.

Directors

The directors of the Company at the date of this Annual Report and their biographical details are set out on page 12 of this Annual Report.

Mr. Rafat Rizvi resigned from the Board in March 2010.

In September 2010, Mr. William West resigned from the Board.

In November 2010, immediately prior to admission of the Company to trading on AIM, Mr. Gil Caffray and Mr. Craig Niven resigned from the Board.

In October 2010, Mr. Mark Weller, Mr. Ian Barby, and Mr. Colin Orr-Ewing were newly elected to the Board and Mr. Laurie Hunter and Mr. Andrew Morris were re-elected to the Board. In November 2010, Mr. John van der Welle was elected to the Board.

In accordance with our Bye-Laws and in keeping with best corporate governance practice of AIM-listed companies the current Class III Director, Mr. Colin-Orr-Ewing, will retire by rotation and will seek re-appointment to the Board of Directors of the Company at this year's Annual General Meeting.

The interests of the Directors and persons connected with them in the issued share capital of the Company at 31 December 2010, all of which are beneficial, are as follows:

	No. of Common Shares	No. of Options, Warrants and Restricted Shares(1)
J. Laurie Hunter	1,000,000	1,500,000
Andrew J. Morris(2)	225,700	78,947
Colin Orr-Ewing(3)	–	78,947
Mark Weller	–	1,350,000
John van der Welle	–	78,947
Ian Barby	–	78,947

Notes:

(1) See the Report of the Remuneration Committee included elsewhere in this Annual Report for details regarding the options and restricted shares granted to these individuals.

(2) Includes 225,700 Common Shares held by CLMS Management, LLC, as nominee on behalf of Mr. Morris and does not include an aggregate of 22,792,150 Common Shares held by Persistency Private Equity Limited with which Mr. Morris is affiliated. Mr. Morris is a director of Persistency Capital, investment adviser to Persistency Private Equity Limited, of which he is also a member of the investment committee. He has no direct or indirect interest in Persistency Private Equity Limited.

(3) Does not include 6,666,670 Common Shares held by various affiliated entities of Blakeney General Partners III, Blakeney General Partners IV and Blakeney LP, of which Mr. Orr-Ewing has served as a consultant.

Insurance Cover

The Company maintains directors' and officers' liability insurance cover, the level of which is reviewed annually.

Share Capital

At the date of this report 192,365,157 ordinary shares are issued and fully paid.

Significant Interests

As of the date of this report the Company has been notified of the following interests of three per cent or more in the Company's ordinary share capital.

Touradji Group	29,356,680	15.3%
Persistency	22,792,150	11.8%
Grafton Group (1)	17,963,900	9.3%
MSD	14,399,000	7.5%
The John Paul DeJoria Family Trust	12,830,000	6.7%
Plainfield Special Situations Master Fund Limited	11,681,790	6.1%
Blakeney Group	9,990,670	5.2%
RAB Special Situations (Master) Fund Limited	8,700,000	4.5%
Norges	6,649,000	3.5%
Henderson	6,649,000	3.5%
Carmignac	6,649,000	3.5%

(1) Includes combined holdings of Grafton Resource Investments Ltd. and MOL Holdings Ltd.

The Company has not been notified of any other person who has an interest in three per cent or more in the Company's share capital.

Shareholder Information

The common shares of the Company are listed on the AIM market under the symbol MOIL. On 17 December 2010 the Company suspended trading in its common shares due to a dispute with the government of Madagascar. The Company has resumed trading in its common shares based on the recent resolution of the dispute around its Tsimororo Block.

Financial Instruments

Details of cash holdings are shown in notes 22 and 32 to the financial statements. Details of the Group's exposure to credit risk, foreign currency risk and interest rate risk are shown in note 32 to the financial statements.

Post Balance Sheet Events

In March 2011, the Company declared force majeure under certain of its production sharing contracts and, in April 2011 the Company submitted a request for arbitration with the International Chamber of Commerce. This dispute has been recently resolved with respect to the Tsimiroro Block PSC, and the Company will be addressing the dispute on its three exploration blocks in early July 2011. Further details of post balance sheet events are set out in note 35 to the financial statements.

Supplier Payment Policy

The Company's policy is to agree on payment terms with individual suppliers and to abide by those terms. Trade creditors of the Group as at 31 December 2010 were approximately 30 to 40 days.

Donations

During the year the Company made no political contributions and a de minimis amount of charitable contributions.

Auditors

A resolution to re-appoint BDO USA, LLP as auditors of the Company is being proposed at the Annual General Meeting.

Going Concern

The financial statements have been prepared on a going concerning basis.

Disclosure of Information to the Auditors

Each person who is a Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of of the Board
Gil Melman
General Counsel

Statement of Directors' Responsibilities

Bermuda Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and its subsidiaries and the profit or loss for that year. The Directors are required to prepare the financial statements of the Company and its subsidiaries on the going concern basis unless it is inappropriate to presume that the Company and its subsidiaries will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the year ended 31 December 2010 and that applicable standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and for ensuring that the financial statements comply with International Financial Accounting Standards. Legislation in Bermuda governing the preparation and dissemination of the financial statements and other information included in the Annual Reports may differ from legislation in other jurisdictions. They are also responsible for safeguarding the assets for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

J. Laurie Hunter
Chairman of the Board

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Board of Directors and shareholders of Madagascar Oil Limited
Madagascar Oil Limited
Houston, Texas

We have audited the accompanying consolidated statements of financial position of Madagascar Oil Limited and subsidiaries ("the Company") as of 31 December 2010 and 2009 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 35, uncertainty exists related to the status of certain of the Company's production sharing contracts in Madagascar.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Madagascar Oil Limited at 31 December 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

BDO USA, LLP
25 June 2011

Madagascar Oil Limited

Consolidated Statements of Financial Position

As of 31 December	**2010**	**2009**
	US $(000)	US $(000)
Assets		
Non-Current Assets		
Property, plant and equipment (Note 16)	15,171	18,540
Exploration and evaluation assets (Note 17)	85,830	70,857
Other intangible assets (Note 18)	172	370
Non-current tax assets (Note 15)	1,802	1,570
Financial assets (Note 21)	16	11
Restricted cash (Note 22)	1,765	3,508
Total non-current assets	104,756	94,856
Current Assets		
Other assets (Note 20)	1,386	451
Cash and cash equivalents (Note 22)	67,523	2,901
Total current assets	68,909	3,352
Total Assets	173,665	98,208
Equity and Liabilities		
Capital and reserves		
Issued capital (Note 23)	195,087	111,419
Equity-settled transactions reserve (Note 28)	3,049	141,911
Accumulated deficit (Note 24)	(27,567)	(156,540)
Total equity	170,569	96,790
Non-Current Liabilities		
Provisions (Note 25)	246	603
Total non-current liabilities	246	603
Current Liabilities		
Trade and other payables (Note 26)	2,800	723
Provisions (Note 25)	50	92
Total current liabilities	2,850	815
Total Equity and Liabilities	173,665	98,208

See accompanying notes to consolidated financial statements.

Madagascar Oil Limited

Consolidated Statements of Comprehensive Income

For the Years Ended 31 December	2010	2009
	US $(000)	US $(000)
Revenue	–	–
Operating expenses		
Salaries and employee benefits expense (Note 12)	(3,471)	(7,327)
Depreciation and amortization expense (Note 13)	(322)	(373)
Consulting expense (Note 10)	(559)	(639)
Production sharing and contractual fees (Note 11)	(1,127)	(1,272)
IPO transaction expense (Note 23)	(2,763)	–
Other expenses (Note 9)	(2,068)	(1,715)
Net foreign exchange loss (Note 6)	(290)	(198)
Loss on Disposals	(298)	(91)
Oil activities income (loss) (Note 33)	(105)	7,798
Operating Loss	**(11,003)**	**(3,817)**
Finance Income (Note 7)	**9**	**320**
Finance Expense (Note 7)	**(518)**	**(307)**
Loss before taxes	**(11,512)**	**(3,804)**
Income Tax Expense (Note 8)	**(62)**	**(49)**
Net Loss	**(11,574)**	**(3,853)**
(Loss) per share attributable to the equity owners (Note 14) Basic and Diluted	(0.08)	(0.03)

See accompanying notes to consolidated financial statements.

Madagascar Oil Limited

Consolidated Statements of Cash Flow

For the Years Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Cash Flows From Operating Activities:		
Net Loss	(11,574)	(3,853)
Income tax expense recognized in net loss	62	49
Finance (income) expense, net	509	(13)
Loss on disposals	298	91
Depreciation and amortization of non-current assets	322	373
Oil activities (income) loss	105	(7,798)
Net foreign exchange loss	462	198
Expense recognized in loss in respect of equity-settled share-based payments	1,304	5,054
	(8,512)	**(5,899)**
Movements in working capital		
(Increase) decrease in other assets	(1,635)	284
Increase (decrease) in trade and other payables	2,031	(1,578)
Decrease in provisions	(42)	(1,000)
Interest paid	(125)	—
Income taxes paid	(14)	(62)
Net cash used in operating activities	**(8,297)**	**(8,255)**
Cash Flows From Investing Activities		
Interest received	—	7
Payments for equipment and intangible assets	(57)	(11)
Proceeds from disposal of property, plant and equipment	7	193
Exploration and evaluation costs paid	(12,436)	(4,297)
Net cash used in investing activities	**(12,486)**	**(4,108)**
Cash Flows From Financing Activities		
Proceeds from issues of equity shares	83,657	5,820
Proceeds from debt	2,873	—
Repayment of debt	(2,868)	—
Restricted cash	1,743	3,051
Net cash provided by financing activities	**85,405**	**8,871**
Net increase (decrease) in cash and cash equivalents	64,622	(3,492)
Cash and cash equivalents at beginning of year	2,901	6,393
Cash and cash equivalents at end of year	67,523	2,901
Non-cash Investing and Financing Activities:		
Warrants liability reclassified to equity	—	9,656
Conversion of debt to equity	5	—
Depreciation capitalized in exploration and evaluation assets	2,932	2,934

See accompanying notes to consolidated financial statements.

Madagascar Oil Limited

Consolidated Statements of Changes in Equity

For the Years Ended 31 December 2010 and 2009	Share Capital	Share Premium	Equity-Settled Transactions Reserves	Accumu-lated Deficit	Total
	US $(000)	US $(000)	US $(000)	US $(000)	US $(000)
Balance at 31 December 2008	116	105,175	127,183	(152,687)	79,787
Loss for the period	—	—	—	(3,853)	(3,853)
Issue of ordinary shares to shareholders	12	5,808	—	—	5,820
Issue of ordinary shares under employee share option plan	1	—	274	—	275
Issue of ordinary shares to Directors	1	—	135	—	136
Recognition of equity-settled transactions under employee share option plan	—	—	4,643	—	4,643
Issue of ordinary shares to Credit Suisse	1	305	—	—	306
Reclassification of warrants issued	—	—	9,676	—	9,676
Balance at 31 December 2009	131	111,288	141,911	(156,540)	96,790
Loss for the period	—	—	—	(11,574)	(11,574)
Transfer of equity-settled transaction reserve	—	—	(140,547)	140,547	—
Issue of ordinary shares to shareholders	60	83,597	—	—	83,657
Recognition of equity-settled transactions under employee share option plan	—	—	709	—	709
Issue of ordinary shares under employee share option plan	2	—	478	—	480
Issue of ordinary shares to Directors	1	—	114	—	115
Issue of ordinary shares to Credit Suisse and conversion of convertible debt	3	5	384	—	392
Balance at 31 December 2010	197	194,890	3,049	(27,567)	170,569

	Voting Shares	Non-Voting Shares	Total
Balance at 31 December 2008	103,179,470	13,040,000	116,219,470
Shares granted to directors	500,000	—	500,000
Shares granted to personnel	1,922,990	—	1,922,990
Shares granted to shareholders	12,442,230	—	12,442,230
Shares granted to others	613,580	—	613,580
Balance at 31 December 2009	118,658,270	13,040,000	131,698,270
Shares granted to Directors	1,100,000	—	1,100,000
Shares granted to personnel	1,003,300	—	1,003,300
Shares granted to shareholders	72,829,947	(13,040,000)	59,789,947
Shares granted to others	2,773,640	—	2,773,640
Balance at 31 December 2010	196,365,157	—	196,365,157

See accompanying notes to consolidated financial statements.

Madagascar Oil Limited

Notes to Consolidated Financial Statements

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1. General Information

Madagascar Oil Limited (Bermuda) (the "Company") is an exempted limited liability company incorporated in Bermuda with registration number 37901. The address of its registered office is Canon's Court 22 Victoria Street – Hamilton HM12 Bermuda.

Madagascar Oil Limited and its affiliates (collectively, the "Group") commenced business in 2004 by entering into six production sharing contracts ("PSC's") for oil exploration and production in Madagascar with the Republic of Madagascar. The production sharing contracts are held in two wholly owned subsidiaries, Madagascar Oil SA ("MOSA") and Majunga Oil SARL ("Majunga") registered under the Laws of the Republic of Madagascar.

On 17 March 2006 an internal reorganization took place in order to improve the visibility of the structure of the Group: a share exchange agreement (the "Share Exchange Agreement") was entered into between all of the shareholders of Madagascar Oil Limited of Mauritius ("MOM") and the Company which was created for this purpose.

Under the Share Exchange Agreement all of the shareholders in MOM agreed to transfer their shares in MOM to the Company in exchange for Common Shares or Non-Voting Shares of the Company. Pursuant to the Share Exchange Agreement, among other things (a) each shareholder agreed to waive and/or to procure the waiver of all pre-emption and similar rights over the shares in MOM in relation to the sale and purchase contemplated by the Share Exchange Agreement; (b) each shareholder agreed to waive any and all provisions of any contract or arrangement under which it was required to give his consent for the transactions contemplated by the Share Exchange Agreement; (c) each shareholder agreed that any breach by MOM or another shareholder of the constitution of MOM as set out in the Second Schedule of the Companies Act of Mauritius 2001 (pre-emption on transfer) was ratified, and that it had no claim against MOM or any other shareholder for any such breach; (d) all existing shareholder agreements and contractual investor rights terminated; (e) relevant options issued by MOM converted into options over Common Shares in the capital of the Company or (in one instance) into options over Non-Voting Shares in the Company on the same terms; and (f) relevant warrants issued by MOM converted into warrants over Common Shares in the Company on the same terms.
The principal activities of the Group are described in Note 5.

MOSA holds Production Sharing Contracts for the onshore license blocks 3102, 3104, 3105, 3106 and 3107 all of which are geographically contiguous on the west part of the island:

- **Block 3102 Bemolanga** is 7,175 km^2 (2,770 sq. mi.) in size and hosts the Bemolanga ultra heavy oil field. It was granted on 17 August 2004.
- **Block 3104 Tsimiroro** is 6,670 km^2 (2,575 sq. mi.) in size and hosts the Tsimiroro heavy oil field. It was granted on 17 August 2004.
- **Block 3105 Manambolo** is 5,325 km^2 (2,056 sq. mi.) in size and was granted on 14 December 2004. Surrendered 25% to 3,994 km^2 on 3 April 2007.
- **Block 3106 Morondava** is 9,100 km^2 (3,514 sq. mi.) in size and was granted on 14 December 2004. Surrendered 25% to 6,825 km^2 on 3 April 2007.
- **Block 3107 Manandaza** is 8,775 km^2 (3,388 sq. mi.) in size and was granted on 14 December 2004. Surrendered 25% to 6,581 km^2 on 3 April 2007.

Majunga also held one production sharing contract for Block 2103 that was surrendered in 2009. Block 2103 Majunga is 11,930 km^2 (4,606 sq. mi.) in size and was granted on 14 December 2004. It was surrendered to the Madagascar government effective 27 July 2009.

On 17 September 2008, the Malagasy government approved a 60% farm out and transfer of operatorship of Block 3102 Bemolanga to an affiliate of TOTAL S.A. ("TOTAL"). MOSA has also transferred to TOTAL the operatorship of the license.

1. General Information (continued)

In addition to the 4 blocks held 100% and operated by the Group and the 40% non-operated share in the 3102 Bemolanga block, the Group entered into an Agreement in December 2006 with Tullow Oil, Plc ("Tullow") for the exploration of the onshore block 3109 Mandabe (11,050 km^2 in size). The Office des Mines Nationales et des Industries Strategiques ("OMNIS") approved the transfer to Majunga on 20 December 2006 of a 50% interest in the block. Tullow is operating the block. In September 2008 Majunga withdrew from the Joint Operating Agreement and the Production Sharing Contract as of 31 October 2008. See Note 19.
The exploration period under the PSC's generally consist of 3 phases of 2 years, 2 years and 4 years respectively. An extension of 2 years maximum can also be granted by the OMNIS at the end of the 3rd phase of the Exploration Period specified in the PSC.

Per amendments to the applicable PSC's in June 2009, the split of the different phases composing the exploration period has been modified for the licenses 3105, 3106, 3107. The total duration of the Exploration Period was not modified.

At 31 December 2010, the:

- **3102 and 3104 blocks** held by Madagascar Oil SA are in the 3rd of the 3 phases constituting the Exploration Period
- **3105, 3106 and 3107 blocks** held by Madagascar Oil SA are in the 2nd of the 3 phases constituting the Exploration Period.

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2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied from those used in prior years, unless otherwise stated.

Standards, amendments and interpretations effective in 2009 and 2010

- IFRS 8 'Operating Segments' – IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.
- IAS 27 'Consolidated and Separate Financial Statements (Amendment)' – The amendment affects the acquisition of subsidiaries achieved in stages and disposals of interests. Amendment does not require the restatement of previous transactions.
- IFRS 2 'Share-Based Payments (Amendment)' – The amendment clarifies that where a parent (or another group entity) has an obligation to make a cash-settled share-based payment to another group entity's employees or suppliers, the entity receiving the goods or services should account for the transaction as equity-settled.
- IAS 1 'Presentation of Financial Statements (Amendment)' – The amendment addresses the current/non-current classification of convertible instruments.
- IAS 7 'Statement of Cash Flows (Amendment)' – The amendment addresses the classification of expenditures on unrecognized assets.
- IAS 17 'Leases (Amendment)' – The amendment addresses the classification of leases of land and buildings.
- IAS 18 'Revenue (Amendment)' – The amendment addresses the determination of whether an entity is acting as a principal or as an agent.
- IAS 32 and 39 'Financial Investments (Amendments)' – The amendments clarified the principles for determining eligibility of hedged items.
- IFRIC 18 'Transfers of Assets from Customers' – The interpretation clarifies the treatment of agreements in which an entity receives from a customer an item of property that it must use to provide the customer with an on-going access to goods or services.
- IFRIC 17 'Distributions of Non-Cash Assets to Owners' – The interpretation clarifies the reporting, measurement and disclosures of non-cash assets distributed to owners.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them. The Company does not expect implementation of these statements to have a material impact on financial results.

- IAS 24 Related Party Disclosures
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IRFIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)
- IFRS 9 Financial Instruments
- FRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair value measurement (applied for annual periods beginning or after 1 January 2013)

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared on the historical cost basis except for the revaluation of financial instruments and impairment of exploration and evaluation assets.

Management has concluded that the US dollar is the functional currency of each entity of the Group due mainly to the facts that the US dollar is the currency in which:

- Most of the expenses of the entities of the Group are denominated in US dollars
- Oil sales are always denominated in US dollars on the international markets and
- Funds from financing activities (debt or equity instruments) are generated in US dollars, other than its November IPO, which was denominated in Great British pounds before subsequent conversion into US dollars.

The consolidated financial statements are presented in US dollars.

2. Significant Accounting Policies (continued)

Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries are those entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The following companies have been consolidated within the Group financial statements:

Name of Subsidiary	Registered	Holding	Voting power held	Principal activity
		%	%	
Madagascar Oil Ltd	Mauritius	100	100	Investment
Madagascar Oil SA	Madagascar	100	100	Oil exploration and production
Majunga Oil SARL	Madagascar	100	100	Oil exploration and production
Madagascar Oil (USA) LLC	United States of America	100	100	Administration and Technical Support

Transactions eliminated upon consolidation

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. There is no non-controlling interest in any of the subsidiaries of the Group.

Joint venture operations

It is standard industry practice to conduct petroleum operations jointly with other exploration and production companies.

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control (venturers). Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Since its creation, the Group has recognized no revenue due to the fact that the Group is in the exploration phase of its projects and has not reached commercial operations as of 31 December 2010.

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2. Significant Accounting Policies (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are related to non-qualifying assets and charged directly to profit and loss. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Foreign Currencies

The individual financial statements of each entity of the Group are presented in the currency of the primary economic environment that the entity operates (its functional currency). On consolidation the results and financial position of each entity are expressed in US dollar (USD).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the average of the official bid and offered exchange rates as published by the Central Bank of Madagascar on the first day of the month in which the expenses are recorded in order to comply with the regulation stated in the Production Sharing Contracts signed by the Group with Malagasy authorities. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Actual exchange differences are recognized in profit or loss in the period in which they arise. Exchange differences resulting from the retranslation of monetary items at the rates prevailing at the statement of financial position date are recognized in profit or loss at each statement of financial position date.

Share-based payments

The Group issues equity-settled share-based payments to some of their employees through stock options plans or restricted shares. According to IFRS 2, these plans are measured at fair value on the grant date and are accounted for as an employee expense on a straight-line basis over the vesting period of the plans. The fair value of granted options is determined based on a lattice model in order to take into account all the characteristics of these instruments.

The Group issues equity-settled share-based payments to certain members of its Board through stock options plans or restricted shares or warrants. According to IFRS 2, these plans are measured at fair value on the grant date and are accounted for as a director fee expense on a graded vesting for each tranche over the vesting period of the plans. The fair value of granted options and warrants is determined based on a lattice model in order to take into account all the characteristics of these instruments.

The Group may also issue equity instruments as a counterpart of goods and services received from financial institutions and other intermediaries. According to IFRS 2, these instruments (warrants) are accounted for as an expense on the basis of the market value of goods and services received.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognized at the current fair value determined at each statement of financial position date.

The proceeds received net of any directly attributable costs are credited to share capital (nominal value) and share premium.

2. Significant Accounting Policies (continued)

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax
Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the statement of financial position liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or to settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

Property, plant and equipment
Fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Useful lives used by the Group are the following:

	Useful Lives (Years)
Installations and equipment	10
Machinery	10
Drilling and exploration equipment	5-10
Vehicles	5
Furniture, fittings and equipment	5
IT equipment	5

2/

2. Significant Accounting Policies (continued)

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives of 4 years and recorded in the statement of comprehensive income as depreciation and amortization expense. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Exploration and evaluation assets

The Group applies the full cost method of accounting for exploration and evaluation costs. Under the full cost method, costs directly associated with exploring for and evaluating oil and gas properties are accumulated and capitalized. However, they do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement of operations as they are incurred. Once commercial reserves are found, exploration and evaluation assets are tested for impairment. Depreciation of property, plant and equipment assets utilized in exploration and evaluation activities is capitalized within exploration and evaluation costs. No amortization or depletion is charged during the Exploration and Evaluation Phase. Management believes that the carrying value of these costs will be recovered from future operations.

If the exploration and development is ceased or if it is determined that the carrying value cannot be supported by future production or sale, the excess of the carrying value above recoverable value will be charged against operations in the period that the determination of an impairment is made. Where an impairment subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

At the completion of the Exploration and Evaluation Phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the carrying value of the relevant E&E asset will be reclassified as a Development and Production (“D&P”) asset, but only after the carrying value of the asset has been assessed for impairment.

Impairment

Tangible and intangible assets excluding exploration and evaluation assets

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of comprehensive income as non-current activities income.

2. Significant Accounting Policies (continued)

Exploration and evaluation assets

Impairment tests are performed when the Group identifies facts or circumstances implying a possible impairment in accordance with IFRS 6.

Decommissioning costs

When the Group is legally, contractually or constructively required to restore a site, the estimated costs of site restoration are accrued. The estimated future costs for known restoration requirements are determined on a field by field basis and are calculated based on the present value of estimated future costs. When the Group does not have a reliable reversal time or when the effect of the passage of time is not material, the provision is calculated based on undiscounted cash flows.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial assets

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash and time deposits. Time deposits are used to guaranty the Bank Letters of Guarantee submitted to the Malagasy State as per Production Sharing Contracts' requirements during Exploration Period.

Other financial assets

Other financial assets consist of deposits paid under lease agreements. These assets are stated at the carrying value, as it approximates fair-value due to the short-term maturity of these instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be rebated objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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2. Significant Accounting Policies (continued)

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

The Company has classified the convertible debt in issue as a compound financial instrument. Accordingly, the Company presents the liability and equity components separately on the balance sheet. The classification of the liability and equity components is not reversed as a result of a change in the likelihood that the conversion option will be exercised. No gain or loss arises from initially recognizing the components of the instrument separately. Interest on the debt element of the loan is accreted over the term of the loan. Costs associated with the raising of debt are set off against the gross value of monies received.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Trade payables

Trade payables are stated at their carrying value, as it approximates fair value due to the short-term maturity of these instruments.

Financial liabilities

Financial liabilities consist of trade and other payables and borrowings.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The effective interest method is always considered but not applied when its impact is negligible.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3/

3. Prior Period Presentation

The Company made reclassifications to 2009 of $103K, increasing salaries expense and decreasing other expenses to better reflect operational comparisons. Drilling and exploration equipment totaling $18,084K as of 31 December 2009 has been reclassified to property, plant and equipment from exploration and evaluation assets. The corresponding adjustment at 1 January 2009 was $21,003K. Depreciation expense on equipment used in exploration and evaluation activities totaling $7.7 million is capitalized as of 31 December 2009 as exploration and evaluation assets. This adjustment has no effect on the reported net assets or results for the Group at 1 January 2009 or 31 December 2009.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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. Such disclosures are included in the relevant asset and liability notes or as part of the relevant accounting policy disclosures. The estimates used by management relate to the decommissioning costs, impairments and share-based transactions.

The estimates and underlying assumptions are based on the best possible review and interpretation of the petroleum and general regulations applicable to the Group in the countries where it operates in accordance with international industry standards.

Critical accounting judgements and key sources of estimation uncertainty.

In the process of applying the Group's accounting policies, which are described in Note 1, Management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

Recoverability of exploration and evaluation costs – Under the full cost accounting method of accounting for exploration costs, such costs are capitalized as intangible assets and assessed for impairment on a cost pool basis when circumstances suggest that the carrying amount of the costs pool may exceed its recoverable value and, therefore, there is a potential risk of an impairment adjustment. This assessment involves judgement as to the likely future commerciality of the asset and when such commerciality should be determined based on future revenue and costs pertaining to any concession based on proved plus probable, prospective and contingent resources and the discount rate to be applied to such revenues and cost for the purpose of deriving a recoverable value. Management has reviewed the recoverability of the assets and consider this to be greater than the current net book value.

Share options – Provisions for share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the continuing participation of employees.

Fair value of exploration and evaluation assets – The fair value of exploration and evaluation assets is based on internal and third-party reports, further discounted to reflect future risks such as higher interest rates, smaller than expected reserves and variation to other critical assumptions.

Impairment review - While conducting an impairment review of its assets, the Group makes certain judgements in making assumptions about the likelihood of license conversion, the future prices, reserve levels and future development and production costs. Changes in the estimates used can result in significant charges to the statement of comprehensive income. This is performed solely for the purposes of considering the carrying value of the Group's assets.

Legal proceedings and commercial disputes - In accordance with IFRS, the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefit is probable and the amount of cost of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of this accounting principle requires the Group's management to make determinations about various factual and legal matters beyond their control. Among the factors considered in making decisions on provisions are the nature of the disputes and litigations, the progress of the cases, the opinions of legal advisers, experience of similar cases and any decision of the Group's management as to how it will respond to any such claim or litigation.

5/

5. Business and Geographical Segments

Business Segment

The Group operated in one principle operating segment, the exploration for and production of oil and gas in the country of Madagascar. The Group is engaged in oil and gas exploration and production which represents its only activity as of 31 December 2010; all its operations are in the Exploration Period of the Production Sharing Contracts signed by its subsidiaries with the Republic of Madagascar.

No revenues have been generated by the Group. Non-current assets located in Madagascar total $102.9 million as of 31 December 2010.

Geographical segment

The Group only operates in Madagascar where it holds all its licenses. The primary segment of the Group is the business segment and its secondary segment is the geographical segment.

6/

6. Net Foreign Exchange Losses

The net foreign exchange loss booked is not significant and mainly the consequence of the erratic movements of the Malagasy currency (MGA) as well as the ones of other currencies against the US dollar during the years 2009 and 2010. For information 1 USD = 2,146.12 MGA as of 31 December 2010 and 1 USD = 1,954.64 MGA as of 31 December 2009.

7. Finance Income (Expense)

7/

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Time deposits investments (i)	9	8
Interest on borrowings (ii)	(374)	(307)
Other finance income	—	312
Convertible debt warrants(iii)	(144)	—
Total finance income (loss), net	**(509)**	**13**

(i) Available cash represents the amount of funds raised by the Company to finance its operations but not yet used. This cash is invested in time deposits with an international bank of first rank at short term.
(ii) Interests on borrowings are composed of the value of shares issued to Credit Suisse in settlement of terms of a warrant contract (Note 28). At 31 December 2010, interests on borrowings are composed of costs associated with the modification of the Credit Suisse warrants and of interest paid on interim financing.
(iii) The Company incurred expense due to the issuance of convertible debt with warrants in 2010 (Note 27).

8. Income Taxes

8/

The tax expense for the Group is:

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
The minimum tax liability payable by Madagascar Oil SA	—	—
The minimum tax liability payable by Majunga Oil SARLU	—	—
The tax liability due by Madagascar Oil (USA) LLC	62	49
	62	**49**

As of 31 December 2010 the Group has $9.7 million in operating losses in the Madagascar subsidiaries, MOSA and Majunga, which may be applied to future operating income for income tax purposes with no expiration date. The Group did not recognize any deferred tax in accordance with IAS 12 for 2009 or 2010.

9/

9. Other Expenses

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Rentals	249	397
Auditors Fees and Expenses	194	141
Services from related parties(i)	658	839
Travel and telecommunications	502	94
Other general and administrative expenses(ii)	465	244
	2,068	**1,715**

(i) Services from related parties constitute contracts with Mark Weller, Jim Lederhos, Jim Collins, Gil Melman and Seth Fagelman. See Note 29 Related Parties.
(ii) Other general and administrative expenses are constituted of recruitment fees, public relations, insurance, contracted personnel, security expenses, office running costs and bank commissions.

10/

10. Consulting Expenses

The consulting expenses relate to the legal, fiscal and financial advices provided to the Group related to its activities in Bermuda, Madagascar and Mauritius. See Note 29 about legal advisors from related parties.

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Legal and fiscal advisors – Bermuda & Mauritius	427	145
Legal and fiscal advisors – Madagascar	67	11
Legal and fiscal advisors – USA	65	483
	559	**639**

11. Production Sharing Contractual Fees

11/

Year Ended 31 December	2010	2009
	US $(000)	US $(000)
Administrative fees	837	944
Training fees	290	328
	1,127	**1,272**

Amounts represent the contractual charges for all licenses under the Production Sharing Contracts signed with the Republic of Madagascar.

12. Salaries and Employee Benefits Expenses

12/

Year Ended 31 December	2010	2009
	US $(000)	US $(000)
Wages, salaries and incentives	2,144	2,241
Social security costs	23	32
Share-based payments	1,304	5,054
	3,471	**7,327**

See Note 28 Share-based payment for more details.

13. Depreciation and Amortization Expenses

13/

Year Ended 31 December	2010	2009
	US $(000)	US $(000)
Depreciation of tangible assets	136	160
Amortization of intangible assets	186	213
	322	**373**

14/

14. (Loss)/Earnings per share (EPS)

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

Diluted loss per share amounts are calculated by dividing the loss for the years attributable to ordinary holders by the weighted average number of ordinary shares outstanding during the year, 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 2009 and 2010.

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Net loss attributable to equity holders used in basic calculation	(11,574)	(3,853)
Net loss attributable to equity holders used in dilutive calculation	(11,574)	(3,853)
Basic weighted average number of shares	139,461,480	124,136,340
Dilutive potential ordinary shares		
Shares related to warrants	3,984,945	3,860,370
Shares related to options	364,150	180,000
Diluted weighted average number of shares	**143,810,575**	**128,176,710**
Loss Per Share		
Basic	$(0.08)	$(0.03)
Dilutive	$(0.08)	$(0.03)

15/

15. Non-Current Tax Assets

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
VAT credit	1,802	1,570
	1,802	**1,570**

The amount corresponds to the VAT receivable and shall be recovered when the Company begins collecting VAT on sales of crude oil.

16. Property, Plant and Equipment

Cost	Vehicles	Equipment	Other	Drilling & Exploration Equipment	Total
	US $(000)	US $(000)	US $(000)	US $(000)	US $(000)
Balance at 1 January 2009	188	784	350	25,858	27,180
Additions	—	2	4	—	6
Disposals	(45)	(30)	(244)	(25)	(344)
Balance at 31 December 2009	143	756	110	25,833	26,842
Additions	—	22	—	57	79
Disposals	—	(360)	(58)	(72)	(490)
Balance at 31 December 2010	**143**	**418**	**52**	**25,818**	**26,431**

Accumulated depreciation	Vehicles	Equipment	Other	Drilling & Exploration Equipment	Total
	US $(000)	US $(000)	US $(000)	US $(000)	US $(000)
Balance at 1 January 2009	(104)	(288)	(66)	(4,855)	(5,313)
Depreciation expense	(34)	(152)	(27)	(2,934)	(3,147)
Disposals	29	22	67	40	158
Balance at 31 December 2009	(109)	(418)	(26)	(7,749)	(8,302)
Depreciation expense	(29)	(94)	(13)	(2,932)	(3,068)
Impairment(i)	—	—	—	(105)	(105)
Disposals	—	199	16	—	215
Balance at 31 December 2010	**(138)**	**(313)**	**(23)**	**(10,786)**	**(11,260)**

Net	Vehicles	Equipment	Other	Drilling & Exploration Equipment	Total
	US $(000)	US $(000)	US $(000)	US $(000)	US $(000)
Balance at 1 January 2009	84	496	284	21,003	21,867
Balance at 31 December 2009	34	338	84	18,084	18,540
Balance at 31 December 2010	**5**	**105**	**29**	**15,032**	**15,171**

(i) The Group recorded $105K as impairment of exploration works for the license 3104 Tsimiroro during 2010.

17/

17. Exploration and Evaluation Assets

During the Exploration Period of the existing Production Sharing Contracts the Group considers as intangible assets:

- The exploration works performed in the licenses 3102 Bemolanga, 3104 Tsimiroro, 3105 Manambolo, 3106 Morondava and 3107 Manandaza
- The consumable costs included in the pilot project costs implemented in the license 3104 Tsimiroro

During the Exploration Period of the Production Sharing Contracts the Group considers as tangible assets the capital costs included in the licenses.

Cost	Total
	US $(000)
Balance at 1 January 2009	60,569
Movements	4,250
Capitalization of depreciation	2,934
Reversal of impairment at 31 December 2009(i)	3,104
Balance at 31 December 2009	70,857
Movements	12,398
Capitalization of depreciation	2,932
Asset retirement discount (iii)	(357)
Balance at 31 December 2010	**85,830**

17. Exploration and Evaluation Assets (continued)

The detail of the exploration works by license as explained in Note 1 is:

As of 31 December	**2010**	**2009**
	US $(000)	US $(000)
License 3102 Bemolanga (operated by TOTAL)(ii)	—	—
License 3104 Tsimiroro (operated)	76,978	64,300
Environmental assessment	872	508
Pilot project	56,973	52,913
Studies and other exploration expenses	6,039	2,594
Exploration wells	3,514	1,279
E&E capitalization of depreciation	9,937	7,006
Asset retirement discount (iii)	(357)	—
License 3105 Manambolo (operated)	**2,606**	**1,841**
Geochemistry	344	344
Environmental assessment	95	95
Studies and other exploration expenses	1,092	350
Seismic acquisition	1,075	1,052
Impairment(i)	—	—
License 3106 Morondava (operated)	**3,235**	**2,469**
Environmental assessment	148	148
Geochemistry	380	380
Seismic acquisitions	1,104	1,079
Rock physics	199	199
Studies and other exploration expenses	1,402	662
E&E capitalization of depreciation	2	1
Impairment(i)	—	—
License 3107 Manandaza (operated)	**3,011**	**2,247**
Airborne magnetic	214	214
Environmental assessment	132	132
Seismic acquisitions	1,241	1,217
Rock physics	198	197
Studies and other exploration expenses	1,226	487
Impairment(i)	—	—
Total of exploration works	**85,830**	**70,857**

(i) Management reversed the 2008 impairment of these assets in accordance with decisions of the Board made in 2009 and instead to pursue additional work in these blocks in 2009 and 2010. Although the Group is seeking partners for its 100% held exploration blocks (3105, 3106 and 3107), if it is unable to obtain partners, the Group may elect to return the blocks to the government in 2011 which may result in the forfeiture of $1.5 million USD of bank guarantees pursuant to the Production Sharing Contracts.

(ii) All historical costs related to the Bemolanga block were recovered through the sale of 60% of the interest to TOTAL in 2008.

(iii) In 2010 the Company recorded $357K as a discount on the provision for the retirement of wells. No discount was recorded in 2009.

The Group has the intention to continue to operate Tsimiroro block and has no reason to believe that any impairment other than the impairment related to the 120 man camp and the VSAT equipment that is provided for in these consolidated financial statements, should be considered on the related Tsimiroro assets recorded by the Company. (See discussion in footnote 35)

18/

18. Other Intangible Assets

Cost	Software
	US $(000)
Balance at 1 January 2009	864
Additions	5
Disposals	—
Balance at 31 December 2009	869
Additions	—
Disposals	(33)
Balance at 31 December 2010	**836**

Accumulated depreciation	Software
	US $(000)
Balance at 1 January 2009	(286)
Depreciation expense	(213)
Disposals	—
Balance at 31 December 2009	(499)
Depreciation expense	(186)
Disposals	21
Balance at 31 December 2010	**(664)**

19/

19. Joint Venture Operations

License 3109 Mandabe

Majunga and Tullow were 50/50 parties to a joint operating agreement dated 7 December 2005 for Production Sharing Contract No. 3109 (the "Tullow JOA"). In January 2011, Majunga S.A.R.L., a subsidiary of Madagascar Oil Ltd., entered into a settlement agreement with Tullow Madagascar Limited, a subsidiary of Tullow, covering their joint operating agreement for Block 3109 (Mandabe), of which Tullow was the operator. Majunga had withdrawn from the Mandabe block in September 2008. Under the settlement agreement, Majunga paid Tullow approximately US$127,000, which reflected Majunga's share of costs incurred for joint operations prior to its withdrawal. As part of the settlement agreement, the parties entered into mutual releases in connection with the joint operations.

License 3102 Bemolanga

Since 17 September 2008 the Group has held a 40% interest in a joint venture with the group TOTAL for the license 3102 Bemolanga. Under the farm-out agreement TOTAL has become the operator.

The Group is entitled to a proportionate share of the rental income received and bears a proportionate share of the expenses.

The following amounts are included in the consolidated financial statements as a result of the share of the Group in the joint venture operations:

Year Ended 31 December	2010	2009
	US $(000)	US $(000)
Non-current assets (Note 17)	—	—
Current liability (Note 26)	(140)	(52)
Expenses	**(29)**	**(52)**

20. Other Assets

20/

Prepayments correspond to payments made to OMNIS as per Production Sharing Contracts signed for periods covering 2010 and 2009 and to payments for insurance policies.

21. Financial Assets

21/

Deposits are for the rental of offices and equipment.

22. Cash and Cash Equivalents

22/

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in time deposits, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the statement of financial position as follows:

As of 31 December	**2010**	**2009**
	US $(000)	US $(000)
Cash and bank balances	69,288	6,409
Restricted cash(i)	(1,765)	(3,508)
Net cash available	**67,523**	**2,901**

(i)Cash collateral of $1,765K in 2010 and $3,508K in 2009, corresponds to 118% of guarantees provided by the bank on the behalf of the Group. See Note 31 Commitments for expenditure – bank guarantees for more details about the guarantees provided.

23/

23. Issued Capital

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stockholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2006.

The capital structure of the Group consists of debt (when any), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated deficit as disclosed in Notes 23, 24 and 28 respectively.

The gearing ratio at the year-end was as follows:

As of 31 December	**2010**	**2009**
	US $(000)	US $(000)
Debt(i)	—	—
Cash and cash equivalents(ii)	(67,523)	(2,901)
Net debt	(67,523)	(2,901)
Equity(iii)	170,569	96,790
Net debt to equity ratio	**—%**	**—%**

(i)Debt is defined as long- and short-term borrowings from financial institutions.
(ii)Only non-restricted cash and cash equivalents.
(iii)Equity includes all capital and reserves of the Group including accumulated deficit.

In 2009 the Company completed a consolidation of its stock of 1:100. All share, option and warrant amounts, prices and fair values have been adjusted retrospectively accordingly. In 2010 the Company completed a 10:1 stock split. All share, option and warrant amounts, prices and fair values have been adjusted retrospectively accordingly.

In August 2010, the Company issued Blakeney LLP 6,666,670 common shares at a price of $1.50 per share for an aggregate price of $10,000,005. The Company raised funds from the Blakeney financing for general corporate purposes.

On 29 November 2010, the Company's common shares were admitted for listing on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Company's common shares trade on the exchange through depository interests under the AIM symbol "MOIL". In its initial public offering ("IPO") the Company issued and sold 53,197,000 shares at 95 pence per share for total gross proceeds to the Company of $78.3 million. Net proceeds to the Company after payment of IPO related expenses were $70.4 million. At the time of admission, the Company's total outstanding share capital was 192,365,157 shares. The Company incurred $7.9 million in IPO related costs of which $5.1 million is offset against the share premium.

Details of the Share Capital of the Company as of 31 December 2010 and 2009 are:

As of 31 December	**2010**	**2009**
Total number of shares authorized (post 2010 split)	1,200,000,000	1,200,000,000
Fully paid common shares	196,365,157	118,658,270
Fully paid non-voting shares	—	13,040,000
Total number of shares fully paid	196,365,157	131,698,270
Par value per share in USD	0.001	0.001

23. Issued Capital (continued)

As of 31 December	2010	2009
	US $(000)	US $(000)
Share capital	197	131
Share premium	194,890	111,288
Total issued capital	**195,087**	**111,419**

	Number of Shares	Share Capital	Share Premium
		US $(000)	US $(000)
Balance, 1 January 2009	116,219,470	116	105,175
Issue of shares	13,055,810	13	6,113
Shares granted to personnel for free (Note 25)	1,922,990	1	—
Shares granted to Directors for free (Note 25)	500,000	1	—
Balance, 31 December 2009	**131,698,270**	**131**	**111,288**
Issue of shares	60,119,967	60	83,597
Shares issued - conversion of debt and warrants	2,443,620	3	5
Shares granted to personnel for free (Note 28)	1,003,300	2	—
Shares granted to Directors for free (Note 28)	1,100,000	1	—
Balance, 31 December 2010	**196,365,157**	**197**	**194,890**

In 2010, all 13 million of the Company's non-voting shares were converted into voting shares. Approximately 5.6 million non-voting shares, held by existing shareholders, were exchanged for voting shares under the terms of contractual agreements between the Company and the holders of such shares. Approximately 7.4 million non-voting shares automatically converted, pursuant to their terms, into voting shares when they were sold to other shareholders.

At 31 December 2010 the detail of financial instruments in issue is:

Total number of warrants in issue	2,138,430
Warrants at $15 per share	30,000
Warrants at $10 per share	1,390,060
Warrants at $2 per share	718,370

Total number of options in issue	1,735,788
Options at $15 per share	10,000
Options at $13 per share	60,000
Options at $10 per share	100,000
Options at .95 GBP per share	1,565,788

The valuation of the warrants and options granted is described in Note 28 Share-based payments except:

1.3 million warrants granted to shareholders in connection with equity investment in the Company: Under IAS 32.22 these warrants are an equity instrument booked for its selling value at its grant date which is zero. Because these warrants are equity instruments their change in fair value over time is not recognized in the financial statements.

24/

24. Accumulated Deficit and Dividends

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Balance at beginning of the year	(156,540)	(152,687)
Transfer of equity settled transaction reserve	140,547	—
Net loss	(11,574)	(3,853)
	(27,567)	**(156,540)**

Since its creation no equity of the Group has proposed, declared nor distributed any dividend.

25/

25. Provisions

	2010	**2009**
	US $(000)	US $(000)
Employee Benefits(i)		
Current	50	92
Non-Current	—	—
Decommissioning costs(ii)		
Current	—	—
Non-Current	246	603
Total Current	**50**	**92**
Total Non-Current	**246**	**603**

(i) Provision for employee benefits represents annual leave accrued.
(ii) The provision for decommissioning costs represents management's best estimate for the plugging and abandonment costs associated with the core holes drilled to date on the license 3102 Bemolanga, with the cores holes, the cyclical steam simulation (CSS) wells and the exploration wells drilled to date on the license 3104 Tsimiroro and with the production facilities installed in relation with the production test conducted on the license 3104 Tsimiroro.

26. Trade and Other Payables

26/

As of 31 December	2010	2009
	US $(000)	US $(000)
Trade payables(i)	2,358	622
Other payables(ii)	182	33
Partner operator(iii)	260	68
Net cash available	**2,800**	**723**

(i)Trade payables include Malagasy suppliers for US $1,546K and $189K and non-Malagasy suppliers for US $812K and $432K as of 31 December 2010 and 2009 respectively.
(ii)Other payables include dues to personnel and other taxes.
(iii)Amount due to TOTAL and Tullow under the joint venture agreements in place at year end.

27. Debt

27/

In July and August 2010, the Company offered 12% convertible notes due 31 December 2010 to its shareholders to fund operations during the second half of 2010 in contemplation of a strategic transaction. Investor groups led by the Company's three largest shareholders (Grafton Resource Investments Limited, Touradji Capital Management LP and Persistency Capital) subscribed for $2,868,453 of notes with other shareholders subscribing for an aggregate of $4,903. The notes were convertible at a conversion price of $15.00 ($1.50 on a post 2010 split).

The notes were subject to mandatory prepayment upon aggregate financing by the Company during 2010 exceeding US $75 million or upon consummation of a merger or similar strategic transaction. Purchasers of the notes received 718,370 warrants with a term of one year in an amount equal to fifty percent of the principal amount of the notes. The warrants have a strike price of $20.00 per common share ($2.00 per share on a post 2010 split). The Company recognized $144K in expense due to the warrants in 2010.

Total notes in principal amount of $2,873,356 were issued. $4,903 of the notes were converted into 3,310 shares. The remainder of the notes were paid in full with proceeds from the Company's initial public offering.

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28. Share-Based Payments

All amounts stated are after consideration of the Company's 10:1 stock split which took place in 2010.

Credit Suisse Agreement

In July 2009, the Company issued Credit Suisse International 6,135,771 common shares in settlement of a dispute over whether certain share issuances during 2008 constituted dilutive events under Credit Suisse's warrant agreement. In November 2010 Credit Suisse exercised outstanding warrants for 2,440,310 common shares. The expense recognized related to the 2010 exercised warrants was $240,600 due to the modification of the exercise price from $1.00 to $.001 per share.

Bank Julius Baer Agreement

In November 2010, the Company issued Bank Julius Baer & Co. 333,330 common shares at a price of $1.50 per share for an aggregate value of $499,995 for services rendered in connection with the Blakeney financing (Note 23).

Stock options granted to management and employees

The Group issued several stock options in 2006 and 2007 but no options were granted in 2008 and 2009. In 2010 the Group issued 1,565,788 stock options to its Chairman and CEO, Chief Operating Officer, and Non-Executive Directors in conjunction with its IPO. The main characteristic of the options are summarised in the following table:

Option	Grant Dates	Exercise Price	First Exercise Date	Last Exercise Date	Estimated Fair Value of Option	Options Granted	Options Cancelled	Options Exercised	Outstanding Options
SO2	27/03/2006	13 USD	27/03/2006	29/11/2013	6 USD	120,000	(60,000)	0	60,000
SO8	15/06/2006	15 USD	15/06/2007	14/06/2011	5 USD	35,000	(25,000)	0	10,000
SO9	17/07/2007	10 USD	17/07/2007	17/07/2010	3 USD	10,000	(10,000)	0	0
SO10	27/07/2007	10 USD	27/07/2008	27/07/2017	5 USD	100,000	0	0	100,000
SO11	18/11/2010	.95 GBP	29/11/2011	18/11/2015	0.62 USD	1,250,000	0	0	1,250,000
SO12	18/11/2010	.95 GBP	29/11/2011	18/11/2020	0.90 USD	315,788	0	0	315,788

Plans SO2 and SO8 were partially surrendered in 2007. Plan S09 expired in 2010. No options were exercised in 2009 or 2010.

In order to determine the fair value of each option granted, the following parameters were considered:

- Share prices at grant date were determined based on the last known share price for capital increase
- Volatility was estimated based on a suitable peer group of companies listed in the Toronto stock exchange. This analysis led to volatility estimate of 46%
- Risk free rates based on zero coupon Canadian government bonds
- No forfeiture rate was recognized
- No expected dividends were considered

The expense recognized related to outstanding stock options plans granted to management and employees was zero in 2009 and $41,595 in 2010.

28. Share-Based Payments (continued)

Shares granted to management and employees

The Group granted restricted shares in 2006, 2007, 2008, 2009 and 2010. The main features of the plans are summarised in the following table.

Plan	Grant Dates	Vested Date	Estimated Fair Value of Shares	Shares Granted	Shares Cancelled	Shares Vested	Shares Non-Vested or Locked
S1	27/07/2006	31/12/2006	15 USD	70,000	0	70,000	0
S1	27/07/2006	27/07/2007	15 USD	100,000	0	100,000	0
S1	27/07/2006	27/07/2009	15 USD	100,000	0	100,000	0
S2	18/12/2006	31/12/2006	17.5 USD	26,230	0	26,230	0
S2	18/12/2006	31/12/2007	17.5 USD	26,230	(10,260)	15,970	0
S2	18/12/2006	31/12/2008	17.5 USD	26,230	(14,770)	11,460	0
S3	07/02/2007	29/11/2010	10 USD	675,000	(157,500)	517,500	0
S4	19/01/2007	19/01/2007	10 USD	25,005	0	25,005	0
S5	28/02/2007	28/02/2007	10 USD	16,888	0	16,888	0
S6	11/05/2007	11/05/2007	10 USD	6,667	0	6,667	0
S7	01/06/2007	01/06/2007	10 USD	10,000	0	10,000	0
S8	16/08/2007	16/08/2007	10 USD	15,000	0	15,000	0
S11	01/06/2007	01/06/2007	10 USD	20,000	(10,000)	10,000	0
S12	27/11/2007	27/11/2007	4 USD	33,330	0	33,330	0
S13	05/11/2007	05/11/2009	4 USD	25,000	0	25,000	0
S15	18/01/2008	18/01/2011	4 USD	568,820	(97,980)	425,112	45,728
S16	07/08/2008	07/08/2011	1 USD	5,947,250	(714,588)	4,726,390	506,272
S17	07/10/2008	10/07/2008	.2 USD	65,000	0	65,000	0
S18	10/07/2008	10/07/2011	1 USD	60,513	(60,513)	0	0
S19	22/02/2008	22/02/2008	4 USD	3,000	0	3,000	0
S20	16/07/2008	16/07/2008	1 USD	3,675	0	3,675	0
S20	16/07/2008	16/07/2011	1 USD	22,500	(22,500)	0	0
S21	14/10/2008	14/10/2011	.2 USD	1,000,000	0	300,000	700,000
S22	28/10/2008	28/10/2009	.2 USD	1,500,000	0	1,500,000	0
S23	31/12/2008	31/12/2008	.2 USD	49,080	0	49,080	0
S24	20/01/2009	20/01/2012	.2 USD	1,375,000	0	1,375,000	0
S25	19/06/2009	19/06/2010	.5 USD	500,000	0	500,000	0
S26	18/12/2009	29/11/2010	.5 USD	548,000	0	0	548,000
S27	18/11/2010	29/01/2011	1.5 USD	20,000	0	0	20,000
S28	18/11/2010	29/01/2011	1.5 USD	300,000	0	0	300,000
S29	18/11/2010	28/02/2012	1.5 USD	780,000	0	0	780,000
S30	18/11/2010	02/01/2012	1.5 USD	100,000	0	0	100,000
S31	18/11/2010	02/01/2012	1.5 USD	666,670	0	0	666,670
S31	18/11/2010	29/11/2013	1.5 USD	333,330	0	0	333,330

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28. Share-Based Payments (continued)

The Group granted restricted shares to Management (plan S1), on 27 July 2006: 270,000 shares were granted at a per share value of USD 15 (post 2010 split). Of these, 70,000 vested in 2006, 100,000 in July 2007 and 100,000 vested in July 2009. The share price at grant date was determined based on the last known share price for capital increase.

The Group also granted a total of 78,690 shares (plan S2) to some employees on 18 December 2006 as a bonus for the year 2006. The share price at grant date was determined based on the managements' best estimate of fair value. These shares vested by third until 31 December 2008.

Some options (780,000) and warrants (120,000) granted in 2006 (post 2010 split) were surrendered in 2007 and replaced by restricted shares (plan S3) vested at the Company's admission date to a recognized stock exchange. The share price at grant date was determined based on management best estimate of fair value. The total fair value of options and warrants surrendered and the increase in fair value for the restricted shares granted were recognized at the date of surrender.

Other shares (plans S4 to S14) were granted in 2007 to management and employees: The fair value of these plans was determined based on the estimated share price at grant date.

Plans S15 to S23 were granted in 2008: some plans vested at grant date, others were due to vest after 3 years. Furthermore, several beneficiaries left the Company as "good leavers" under the plan, thus they vested immediately. Vesting of certain shares in Plans S15, S16 and S21 were locked-in for 60 days at the November 2010 IPO.

Plans S24 to S26 were granted in 2009. Vesting periods ranged from one to three years with certain shares vesting upon an initial public offering or a change of control. Vesting of certain shares in Plan S26 were locked-in for 60 days at the November 2010 IPO.

Plans S27 to S31 were granted in 2010. Vesting periods ranged from one to three years with certain shares vesting upon an initial public offering or a change of control. Vesting of certain shares in Plan S27 and S28 were locked-in for 60 days at the November 2010 IPO.

The expense recognized in the 2009 and 2010 consolidated statement of operations related to shares granted to management and employees is $5.1 million and $1.3 million, respectively. During 2010, the Company reclassified certain amounts within the equity accounts in order to reflect only unvested restricted shares, warrants and options in the equity settled transaction reserve account.

Warrants plans issued to management

The Group issued several warrants in 2006 and 2007 but no warrants were issued in 2008, 2009 or 2010. The primary terms of such warrants are summarised in the following table:

Plan	Grant Dates	Exercise Price	First Exercise Date	Last Exercise Date	Estimated Fair Value of Warrant	Warrants Granted	Warrants Cancelled	Warrants Exercised	Outstanding Warrants
W2	15/06/2006	13 USD	15/06/2006	15/06/2012	6 USD	30,000	0	0	30,000
W6	30/06/2007	10 USD	30/06/2007	30/06/2012	3 USD	40,020	0	0	40,020

No warrants were exercised in 2008, 2009 or 2010.

28. Share-Based Payments (continued)

In order to determine the fair value of each warrant granted, following parameters were considered:

- Share prices at grant date were determined based on the last known share price for capital increase
- Volatility was estimated based on a suitable peer group of companies listed in the Toronto stock exchange. This analysis led to volatility estimate of 46%
- Risk free rates based on US government bonds
- No forfeiture rate was considered
- No expected dividends were considered

No expense was recognized in 2009 or 2010.

Other share based payments

The Group issued in 2007 and 2010 equity instruments (warrants and options) for the payment of goods and services to financial institutions and debt holders. In 2010, 2,440,300 of previously issued warrants held by the Credit Suisse consortium were converted into common shares. Main features of the plans are summarised in the following table:

Plan	Grant Dates	Number of Options and Warrants	Exercise Price	First Exercise Date	Last Exercise Date	Estimated Fair Value of Warrant	Options and Warrants Cancelled	Options and Warrants Exercised	Outstanding Options and Warrants
TP7	28/03/2007	2,440,300	.001 USD	28/03/2007	28/03/2012	4 USD	0	2,440,300	0
TP8	15/07/2010	718,370	2 USD	15/07/2010	15/07/2011	0.2 USD	0	0	718,370

For plans TP7 and TP8, the fair value was determined based on a lattice model using the assumptions applied for options and warrants granted to management and employees.

No expense was recorded in 2009 related to share based payments granted to third parties. In 2010 the finance expense recognized related to the modification of the Credit Suisse exercised warrants and the warrants issued with convertible debt equaled $240,600 and $143,674, respectively.

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29. Related Party Transactions

Transactions between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

Trading transactions

During the years ended 31 December 2010 and 2009, Group entities entered into the following trading transactions with related parties that are not members of the Group:

Party	Transaction/ Contract	Term	Payments in 2010	Payments in 2009
			US $(000)	US $(000)
Laurie Hunter – Fees and Salary	Board Acceptance Letter	28/10/2008 to Present	259	180
Laurie Hunter – Business Expenses	Board Acceptance Letter	28/10/2008 to Present	206	60
Gene Davis – Pirinate Consulting	Consulting Agreement	28/10/2008 to 04/30/10	60	60
Ian Barby	Board Acceptance Letter	19/10/2010 to Present	12	—
John van der Welle	Board Acceptance Letter	06/11/2010 to Present	10	—
Colin Orr-Ewing	Board Acceptance Letter	19/10/2010 to Present	11	—
Andrew Morris	Board Acceptance Letter	19/10/2010 to Present	11	—
Gil Melman – Phillips & Reiter	Phillips & Reiter	On request	—	128
Gil Melman – Selman Munson & Lerner	Selman Munson	On request	527	100
Jim Collins	Consulting Agreement	On request	268	109
Jim Dorman – Dtex	Consulting Agreement	On request	71	50
Jim Lederhos	Consulting Agreement	On request	155	114
Mark Weller – Fees and Salary	Consulting Agreement	On request	416	98
Mark Weller – Business Expenses			106	18
Michael McGown – CFO & Consultant	Consulting Agreement & Employee	On request	—	98
Matthew Meyer	Consulting Agreement	On request	38	—
Seth Fagelman – CFO & Consultant	Consulting Agreement	On request	156	6

Amounts listed above include reimbursed business expenses and fees for services provided under the contract by individuals other than the identified related party. Fees payable to Mr. Melman include legal fees paid to Mr. Melman's firm for additional work by other attorneys in connection with the IPO. Outstanding amounts are unsecured. No guarantees have been given or received. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed to related parties.

29. Related Party Transactions (continued)

Compensation of key management personnel

Key management personnel of the Group is composed of the Chairman and Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the members of the Board.

The remuneration of directors and other members of key management during the year was as follows:

Year Ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Board fees	44	–
Service fees	813	442
Salaries	68	–
Bonuses	10	–
Share-based payments	419	274
	1,354	**716**

30. Operating Lease Arrangements

Leasing arrangements

Operating leases relate to:

- Office facilities and equipments with lease terms not over 5 years with options to renew for up to 5 years
- Housing facilities and equipments for expatriates with lease terms not over 1 year with monthly renewal options
- Air charter with lease term not over 1 year with option for annual renewal

All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company does not have an option to purchase the leased assets at the expiry of the lease period.

Payments recognized as an expense

For the years ended 31 December	**2010**	**2009**
	US $(000)	US $(000)
Minimum lease payments	**151**	**306**

Non-cancellable operating lease commitments

As of 31 December	**2010**	**2009**
	US $(000)	US $(000)
Not longer than 1 year	54	–
Longer than 1 year and not longer than 5 years	83	159
	137	**159**

The Group has no contingent rentals and does not receive any sublease payments as of 31 December 2010 & 2009.

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31. Commitments For Expenditure

Commitments

The Group has no commitment for expenditures with any of its consultants and advisors except in the case of fund raising (equity and debt) for which agreements have been signed with its usual financial institution advisor and other intermediaries.

Except for the finance lease and the operating leases mentioned in this document, the Group has no other pluri-annual commitment with private companies.

The Production Sharing Contracts signed with the Malagasy authorities with respect to blocks 3015, 3106 and 3107 state that the Group is obligated to drill an exploratory test well and perform additional seismic work (if needed) at each of the sites before 31 December 2011. As of 31 December 2010 both the financial and physical obligations for license 3104 Tsimiroro had been fulfilled. The contracts include the following annual fees:

- Administrative fees
  - Licenses 3102 (no longer operated since 17 September 2008) and 3104: $250,000 per year per license as of second phase of Exploration Period only during Exploration Period
  - Other operated licenses: $162,500 per year per license only during Exploration Period
- Training fees
  - Licenses 3102 and 3104: $100,000 per year for the life of the contract
  - All other licenses: $50,000 per year for the life of the contract

Bank guarantees

A bank guarantee exists in favor of OMNIS in respect of the Group's obligation for the execution of the minimum exploration works as under the terms of the production sharing contracts.

Expiration Date	Guarantor	Beneficiary	In Force at 31 December 2010
31 December 2011	Madagascar Oil Ltd (Bermuda)	OMNIS	$1,500,000
			$1,500,000

32. Financial Instruments

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(A) Fair value of financial instruments

Recognition and measurement principles regarding financial assets and liabilities are defined in IAS 32 and IAS 39. The classification of financial instruments into specific categories is described in Note 2.

	2009 Carrying Amount	Amortized Cost	Loans and Receivables	Fair Value Through Income	2009 Fair Value
Assets	US $(000)	US $(000)	US $(000)	US $(000)	US $(000)
Non-current financial assets	11	—	11	11	11
Restricted cash	3,508	—	—	3,508	3,508
Current financial assets	—	—	—	—	—
Cash and cash equivalents	2,901	—	—	2,901	2,901
Liabilities					
Accounts and other payables	**723**	**723**	**—**	**—**	**723**

	2010 Carrying Amount	Amortized Cost	Loans and Receivables	Fair Value Through Income	2010 Fair Value
Assets	US $(000)	US $(000)	US $(000)	US $(000)	US $(000)
Non-current financial assets	16	—	16	16	16
Restricted cash	1,765	—	—	1,765	1,765
Current financial assets	—	—	—	—	—
Cash and cash equivalents	67,523	—	—	67,523	67,523
Liabilities					
Accounts and other payables	**2,640**	**2,640**	**—**	**—**	**2,640**

(B) Risk management policy

In the context of its business activity, the Group operates in an international environment in which it is confronted with market risks, specifically foreign currency risk and interest rate risk. It does not use derivatives to manage and reduce its exposure to changes in foreign exchange rates and interest rates.

Cash and cash equivalents are kept in the Group's functional currency except for an amount corresponding to the needs of the local subsidiaries. The policy of the Group is to have a balance in the currency of the local subsidiaries not higher than the expected needs in local currency for one month.

In addition to market risks, the Group is also exposed to liquidity risk and financial instrument counterparty risk.

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32. Financial Instruments (continued)

Exposure to foreign currency risk

The Group has a very limited exposure to foreign exchange risk arising from transactions in currencies other than its functional currency since such transactions are either not material or very short term transactions.

Based on notional amounts, most of the Group's net exposure to foreign currency risk arises on the following currencies (excluding entities functional currencies):

As of 31 December 2010	USD	GBP	CAD	MGA	2009
	$(000)	$(000)	$(000)	$(000)	$(000)
Financial Assets	—	—	—	11	11
Restricted cash equivalents	3,508	—	—	—	3,508
Cash	2,869	12	—	20	2,901
Exposure (Assets)	6,377	12	—	31	6,420
Trade and other payables	432	—	—	291	723
Exposure (Liability)	432	—	—	291	723
Gross exposure in statement of financial position	5,945	12	—	(260)	5,697
Forecasted disbursements	—	—	—	—	—
Forecasted sales	—	—	—	—	—
Net Exposure	**5,945**	**12**	**—**	**(260)**	**5,697**

As of 31 December 2010	USD	GBP	CAD	MGA	2010
	$(000)	$(000)	$(000)	$(000)	$(000)
Financial Assets	—	—	—	16	16
Restricted cash equivalents	1,765	—	—	—	1,765
Cash	67,357	89	—	77	67,523
Exposure (Assets)	69,122	89	—	93	69,304
Trade and other payables	2,046	—	46	708	2,800
Exposure (Liability)	2,046	—	46	708	2,800
Gross exposure in statement of financial position	67,076	89	(46)	(615)	66,504
Forecasted disbursements	—	—	—	—	—
Forecasted sales	—	—	—	—	—
Net Exposure	**67,076**	**89**	**(46)**	**(615)**	**66,504**

Interest rate risk

Exposure to interest rate risk – Cash and cash equivalents are invested in short-term variable-rate instruments. There is no long-term debt at 31 December 2010.

Analysis of the sensitivity to interest rate risk – At 31 December 2010 100% of short-term investments is at variable rates.

A sudden 1% fall in short-term interest rates would have a positive $675K impact on consolidated income before tax.

32. Financial Instruments (continued)

Liquidity risk

The Group aims to maximize operating cash flows in order to be in a position to finance the investments required for its development.

The Group's strategy also aims to ensure that it has the cash resources necessary to meet all circumstances. See discussion in Note 2.

Residual contractual maturities of financial liabilities can be analyzed as follows:

	2009	Less than 1 Year	1 to 5 Years	More than 5 years
	US $(000)	US $(000)	US $(000)	US $(000)
Non-derivatives	(723)	(723)	–	–
Credit facilities	–	–	–	–
Debts related to finance leases	–	–	–	–
Trade and other payables	(723)	(723)	–	–
Derivatives	–	–	–	–
Total	**(723)**	**(723)**	**–**	**–**

	2010	Less than 1 Year	1 to 5 Years	More than 5 years
	US $(000)	US $(000)	US $(000)	US $(000)
Non-derivatives	(2,800)	(2,800)	–	–
Credit facilities	–	–	–	–
Debts related to finance leases	–	–	–	–
Trade and other payables	(2,800)	(2,800)	–	–
Derivatives	–	–	–	–
Total	**(2,800)**	**(2,800)**	**–**	**–**

33. Oil Activity Operations

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During 2009, per the strategy of its Board, the Group has reversed the impairment of the exploration works performed ($3,104K) (see Note 17 Exploration and evaluation assets) and reversed the provision for the letters of credit related to the minimum work commitments for the licenses 3105 Manambolo, 3106 Morondava and 3107 Manandaza for $4,694K. The Group recorded $105K as impairment of exploration works for the license 3104 Tsimiroro during 2010.

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34. Contingent Liabilities and Contingent Assets

Taxe Forfaitaire sur les Transferts (TFT)

During 2006 the Group received a notification from the Malagasy tax administration that it should apply the TFT to the services rendered by foreign suppliers. The Group believed that it is exempted from this tax as per applicable regulations. The Group challenged this interpretation of the Tax Administration which was contradicting the implementation of the TFT for many years and received confirmation in 2007 from the Minister of Finance that TFT was not applicable to petroleum industry transactions. Accordingly, TFT has been cancelled in subsequent Malagasy budgets.

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 Group believes it complied with the applicable regulations and the practice of all oil companies in Madagascar. Therefore, the Group has challenged the proposed tax adjustment and submitted the case to the Appeal commission (CFRA) for review and opinion.

In its letter addressed to the Appeal commission dated 30 August 2010, the tax administration dismissed the claims on income tax, but maintained its position on the VAT adjustment. The amount claimed relating to VAT is US $6,790K (consisting of VAT of US $3,990K, interest on delayed payment of US $980K and penalty of US $1,820K).

The case is being processed by the Appeal commission. Whatever the opinion of the Appeal commission, the tax administration has the ability to maintain the tax adjustment. The appeal ruling is not expected until 2012. If the appeal ruling is not in favor of the Group, the Group has the possibility to bring the matter before the Council of State. This procedure does not suspend the payment of the claimed tax (US $3,990K), nevertheless the Group can request to pay only 50% of the claimed tax (US $1,995K) pending the decision of the Council of State, but the authorities have the ability to refuse this request. Efforts are also underway to modify the Madagascar Petroleum Code to specifically exempt the disputed taxes, both retroactively and prospectively.

Management believes that the tax authority's position would be highly punitive to the industry with respect to claims for payment of VAT in prior years. The Company's position has been followed by all petroleum companies since 2006 and has never been challenged by the tax authority.

35. Events After the Statement of Financial Position Date

In January 2011, Majunga S.A.R.L., a subsidiary of Madagascar Oil Ltd., entered into a settlement agreement with Tullow Madagascar Limited, a subsidiary of Tullow, covering their joint operating agreement for Block 3109 (Mandabe), of which Tullow Madagascar Limited was the operator. Majunga had withdrawn from the Mandabe block in September 2008. Under the settlement agreement, Majunga paid Tullow Madagascar Limited approximately US$127,000 which reflected Majunga's share of costs incurred for joint operations prior to its withdrawal. As part of the settlement agreement, the parties entered into mutual releases in connection with the joint operations.

In a meeting with the Company's management on 16 December 2010, the Minister of Mines and Hydrocarbons of the State of Madagascar stated that Madagascar may be interested in MOSA's interest in the production sharing contracts for blocks 3104, 3105, 3106 and 3107 at a price based on historic costs. To date there has been no formal action or written statement from the government acting upon this statement. In addition, OMNIS cancelled the semi-annual management committee meeting that was to be held on 17 December 2010 and did not reschedule such meeting until 20 May 2011 (as discussed below). The Company has significantly curtailed operations and expenditures, pending resolution of these issues.

On 21 March 2011, MOSA declared force majeure under production sharing contracts for blocks 3104, 3105, 3106 and 3107 based on statements made by the Minister in December 2010 and OMNIS' failure to hold requisite management committee meetings for the blocks.

On 29 April 2011, MOSA filed a request for arbitration under the rules of the International Chamber of Commerce ("ICC") for breach of contract under these production sharing contracts based on the government's lack of response to the force majeure declaration. Such request claimed, among other things, breach of contract based on the recent actions by OMNIS and the Ministry of Mines and Hydrocarbons. The filing seeks declaration that the production sharing contracts that are subject of the dispute are valid and that OMNIS be instructed to proceed with the approval process of the Company's work programmes and related extensions.

Simultaneously the Company also submitted a notice of dispute to the government of Madagascar under the rules of the International Centre for Settlement of Investment Disputes ("ICSID") with regard to the government's threatened expropriation of the Company's assets. While the arbitration process under the ICC rules began immediately, the notice sent by the Company under ICSID triggered a nine-month cooling off period designed to stimulate negotiations between the parties. Management believes that it has fulfilled all of its obligations under the production sharing contracts and can demonstrate such compliance. The Company continues to vigorously pursue all of its legal rights under these agreements. Management believes that it has fulfilled all of its obligations under the production sharing contracts and can demonstrate such compliance. The Company continues to vigorously pursue all of its legal rights under these agreements.

In June 2011, MOSA and OMNIS resolved their outstanding dispute on the Tsimiroro Block, and the Company has had its 2011-2012 annual work programme and budget for the Tsimiroro Block approved by the management committee. In addition, MOSA was able to obtain assurances from OMNIS as to the validity of the Tsimiroro production sharing contract and the potential for an extension of the contract term to address the delays caused by the force majeure event.

With respect to MOSA's three exploration blocks (blocks 3105, 3106 and 3107), MOSA has been granted a management committee meeting to be held on 6 July 2011. The production sharing contracts for these blocks each require either seismic work or the drilling of one well in 2011. The Company intends on requesting an extension of the terms of these blocks to account for the 2011 delay and for the additional time required to conduct the assessment of prospective drilling locations. The Company will continue to maintain the force majeure declaration and the claim in arbitration for these blocks until the dispute is resolved. There can be no assurance that MOSA will be granted the requisite extensions and approvals by OMNIS in a timely fashion in order to proceed with contemplated operations on these blocks for 2011. Although management does not believe that the impact of these exploration blocks on the Company's business is material, a continued failure on the part of the government of Madagascar to allow MOSA to proceed under these production sharing contracts could have an adverse effect on the Company's assets.

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35. Events After the Statement of Financial Position Date (continued)

There can be no assurance that OMNIS or the government of Madagascar will not take actions in the future that are adverse to the Company's ownership of its assets and its ability to operate in the country.

On 20 May 2011 Total (the operator and holder of a 60% interest in the Bemolanga production sharing contract, Block 3102), MOSA and OMNIS amended the Bemolanga production sharing contract to extend the current exploration phase for one year and create an additional optional two year drilling phase for the purpose of exploring for conventional hydrocarbon resources. In addition, the requirement to incur US$100 million on a mining pilot project for the block has been removed. The parties intend to focus on assessing the viability of conventional oil extraction techniques on the block.

36. Approval of Financial Statements

The financial statements were reviewed by the Audit Committee, approved by the Board of Directors and authorized for issue on 25 June 2011.

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