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24 January 2013

MADAGASCAR OIL LIMITED

("Madagascar Oil" or the "Company")

New Financing Transaction to raise approximately £49.5 million (c. US$78.4 million) (gross)

Posting of Placing and Open Offer Document

Madagascar Oil (AIM: MOIL) is pleased to announce agreed terms for the New Financing Transaction, outline details of which were set out in the announcement of 15 January 2012.

Further details of the New Financing Transaction, including certain risk factors and action to be taken by Shareholders, are set out in the Placing and Open Offer document being posted to Shareholders today (the "Document").

All capitalised terms used in this announcement are as set out in the Document and have been reproduced at the end of this announcement.

Summary:

- The new financing package is expected to raise gross proceeds of approximately £49.5 million (approximately US$78.4 million) by way of a pre-emptive issue of Common Shares at a subscription price of 18 pence (US$0.285) per Common Share and will result in the Bridge Loan being amended such that, *inter alia*, the maturity date will be extended until 18 February 2013.

- The Company has received Irrevocable Undertakings totaling US$76.0 million (approximately £48.0 million) (gross).

- It is intended that the Bridge Loan will be repaid from the proceeds of the Placing and Open Offer.

- The Placing and Open Offer is expected to complete, on Admission, on 12 February 2013.

Andrew Morris, Chairman of Madagascar Oil, commented:

"The announcement of today's equity financing is another important step forward for Madagascar Oil. Securing this funding will enable us to move forward with the Tsimiroro Steam Flood Pilot, which represents not only a key moment for all our shareholders, but also for the people of Madagascar as we move ever closer to demonstrating the commercial potential of the significant Tsimiroro heavy oil deposit.

I would like to thank our shareholders for their ongoing support and for their endorsement of the new Board. We look forward to providing updates on our progress in the field, as the steam flood pilot gets underway."

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Introduction

Your Board is pleased to announce that it proposes to raise approximately £49.5 million (approximately US$78.4 million) (gross) by way of a Placing and Open Offer, allowing Shareholders the opportunity to participate (subject to certain exclusions for regulatory reasons) in the New Financing Transaction, further details of which are set out below.

On 18 and 20 December 2012, the Company announced the Original Financing Transaction, details of which were set out in the Circular (a copy of which is available on the Company's website at www.madagascaroil.com), to raise gross proceeds of up to US$65 million (approximately £40.6 million) to fund the Group's continuing operations including completion of the construction phase of the Tsimiroro Steam Flood Pilot, commencement of continuous steam flooding operations and further evaluation of the conventional oil and gas potential of the Exploration Blocks.

The Original Financing Transaction comprised the Bridge Loan of US$15 million (which it was anticipated would be repaid from the funds raised by the proposed issue of the Convertible Preference Shares) and the proposed issue of Convertible Preference Shares to raise between US$45 million and US$65 million (gross).

The Bridge Loan was drawn down in full and received by the Company on 21 December 2012, and is being used to fund the Company's immediate working capital requirements. US$10 million of the Bridge Loan was provided by BMK and US$5 million was provided by Persistency.

A Special General Meeting was convened for 15 January 2013 to approve the relevant Shareholder resolutions required to implement the Original Financing Transaction. As a result of receipt by the Board of an alternative financing proposal shortly in advance of this meeting, the Board elected to adjourn the Special General Meeting in order to consider the alternative financing proposal further. The Special General Meeting has now been adjourned indefinitely and will be cancelled on the date of Admission.

Having fully explored the alternative financing proposal together with the Original Financing Transaction, the Company has now agreed the terms of the New Financing Transaction which the Board believes represents a more attractive financing option for the Company than the Original Financing Transaction.

Expected Timetable of Principal Events

Date on which Special General Meeting originally adjourned	15 January 2013
Record Date for Open Offer	close of business on 22 January 2013
Publication and despatch of the Document	24 January 2013
Expected ex-entitlement date for Open Offer	8.00 a.m. on 25 January 2013
Open Offer Entitlements credited to CREST stock accounts of Qualifying Depositary Interest Holders	25 January 2013
Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST	4.30 p.m. on 4 February 2013
Latest time and date for splitting Application Forms (to satisfy bona fide market claims)	3.00 p.m. on 5 February 2013
Latest time for depositing Open Offer Entitlements into CREST	3.00 p.m. on 6 February 2013
Latest time and date for settlement of relevant CREST instruction in respect of Depositary Interests	11.00 a.m. on 8 February 2013
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	12.00 p.m. on 8 February 2013
Expected date of announcement of results of the Placing and Open Offer	12 February 2013
Admission of New Common Shares to trading on AIM	8.00 a.m. on 12 February 2013
CREST member accounts expected to be credited for the New Common Shares in Depositary Interest form	12 February 2013
Maturity date of Bridge Loan	18 February 2013
Despatch of definitive share certificates in respect of New Common Shares in certificated form	by 26 February 2013

Placing and Open Offer Statistics

Issue Price	18 pence
Number of Existing Common Shares	256,035,137
Maximum number of Open Offer Shares	275,237,772
Number of Common Shares in issue following the Placing and Open Offer[(1)]	531,272,909
Open Offer Shares as a percentage of the Enlarged Share Capital[(1)]	51.81 per cent.
Number of Committed Shares and Clawback Shares in respect of which Irrevocable Undertakings have been received	266,666,667
Number of Open Offer Shares expected to be issued in settlement of Break Fee Shares and Fee Shares[(2)]	9,843,750
Maximum number of Open Offer Shares expected to be issued for cash[(2)]	265,394,022
Number of Committed Shares and Clawback Shares in respect of which Irrevocable Undertakings have been received as a percentage of Open Offer Shares expected to be issued for cash[(2)]	100.48 per cent.
Estimated gross proceeds of Placing and Open Offer	£49,542,799
Estimated net proceeds of Placing and Open Offer[(3)]	£45,904,919
Market capitalisation at Issue Price following the Placing and Open Offer[(1)]	£95,629,124

(1) Assumes the maximum number of New Common Shares under the Placing and Open Offer are allotted.
(2) Assumes sufficient New Common Shares are available to issue the Break Fee Shares and the Fee Shares
(3) Includes the cost of the Break Fee Shares and the Fee Shares.

Principal terms of the New Financing Transaction

The New Financing Transaction will raise gross proceeds of approximately £49.5 million (approximately US$78.4 million) from an Open Offer of Common Shares on a pre-emptive basis (subject to certain regulatory exclusions) at a subscription price of 18 pence (US$0.285) per Common Share. Further details of the Open Offer are set out below and in the Document.

As part of the New Financing Transaction, the Company has entered into an amendment to the Bridge Loan Agreement such that, *inter alia*, (i) the maturity date of the Bridge Loan has been extended until 18 February 2013, (ii) the Break Fee Shares payable as a consequence of the New Financing Transaction will be issued from any Open Offer Shares not taken up by Qualifying Shareholders (in priority to any allocations under the Placing described below) and, to the extent there are insufficient New Common Shares available, the Company has given undertakings as to the manner in which the unissued Break Fee Shares shall be issued and (iii) the share pledge securing the Bridge Loan shall be released upon repayment of the principal of the Bridge Loan even if all the Break Fee Shares have not been issued. Further details of the Bridge Loan Amendment are set out in the Document.

The New Financing Transaction includes a Placing and the Company has entered into the Placing Agreement with Mirabaud and GMP pursuant to which Mirabaud and GMP have conditionally agreed to use their reasonable endeavours to procure subscribers for up to 106,057,327 Clawback Shares, subject to clawback by Qualifying Shareholders under the Open Offer. Further details of the Placing Agreement are set out in the Document.

The Board is pleased to confirm that, in connection with the Placing and Open Offer, the Company has received Irrevocable Undertakings from existing Shareholders for 266,666,667 New Common Shares, representing commitments in aggregate for US$76 million (gross), of which 160,609,340 are Committed Shares in the Open Offer and 106,057,327 are Clawback Shares under the Placing, which are subject to clawback by Qualifying Shareholders under the Open Offer.

Subject to the fulfilment of the terms and conditions referred to in the Document and, where relevant, set out in the Application Form, Qualifying Shareholders are being given the opportunity to apply for Open Offer Shares at a price of 18 pence (US$0.285) per Open Offer Share, free of expenses, payable in full in cash on application, on the basis of:

1,075 Open Offer Shares for every 1,000 Existing Common Shares

registered in the name of each Qualifying Shareholder at the Record Date and so on in proportion for any other number of Existing Common Shares then held. The Open Offer is subject to a minimum subscription of 467,223 Open Offer Shares (therefore being of a value, in excess of €100,000, such that the Company is not required to produce a prospectus for the purposes of the Prospectus Rules published by the Financial Services Authority) and is therefore only available to Qualifying Shareholders whose entitlement to Open Offer Shares is, or exceeds 467,223 Open Offer Shares. This represents a shareholding at the Record Date of 434,626 Common Shares.

Holdings of Existing Common Shares in certificated and/or uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer. Any Shareholder who: (i) is restricted from participating in the Open Offer only because their entitlement to Open Offer Shares would be less than 467,223 Open Offer Shares but who holds Common Shares in certificated and/or uncertificated form in two or more separate accounts which, when aggregated, would give them an entitlement of or exceeding 467,223 Open Offer Shares; and (ii) who would like to participate in the Open Offer, should contact Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6AH, United Kingdom (telephone number 0870 707 4040 or +44 (0)870 707 4040 from outside the UK) and provide such evidence to Computershare Investor Services PLC to demonstrate its eligibility to participate in the Open Offer as Computershare Investor Services PLC may require. The participation by any such Shareholder in the Open Offer will be at the absolute discretion of the Company and Computershare Investor Services PLC (in its capacity as Registrar).

The Open Offer constitutes an offer of Common Shares in compliance with the pre-emption rights contained in section 6 of the Bye-laws and, pursuant to Bye-law 6.6, incorporates certain exclusions which the Board has deemed necessary or desirable due to legal or practical problems arising in or under the laws of certain territories. These exclusions include: (i) the minimum subscription of 467,223 Open Offer Shares (therefore being of a value, in excess of €100,000, such that the Company is not required to produce a prospectus for the purposes of the Prospectus Rules published by the Financial Services Authority) and (ii) restrictions on the ability for Overseas Shareholders to participate in order to reduce the risk of the Company breaching any overseas securities laws.

The Existing Common Shares are admitted to trading on AIM. Application will be made for the New Common Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence in the New Common Shares by 8.00 a.m. on 12 February 2013.

Further information on the Placing and Open Offer and the terms and conditions on which it is made, including the procedure for application and payment, are set out in the Document and, where appropriate, in the Application Form, which you should read in full. Qualifying Shareholders who subscribe for Open Offer Shares represent, warrant, agree and acknowledge that they have reviewed the representations, warranties, covenants, agreements and acknowledgements set out in the Document and, in applying for Open Offer Shares, are deemed to have given such representations, warranties, covenants, agreements and acknowledgements.

The Issue Price of 18 pence per New Common Share represents a 14.3 per cent. discount to the closing middle market price of 21 pence per Common Share on 23 January 2013, the last business day before the announcement of the Placing and Open Offer.

The Placing and Open Offer is conditional, amongst other things, upon:

(i) Admission becoming effective by not later than 8.00 a.m. on 12 February 2013 (or such later time and/or date as the Company, Mirabaud and GMP may agree, not being later than 5.00 p.m. on 28 February 2013); and

(ii) the Placing Agreement having been entered into and not terminated in accordance with its terms.

Accordingly, if any of such conditions are not satisfied, or, if applicable, waived, the Placing and Open Offer will not proceed and any Open Offer Entitlements admitted to CREST will thereafter be disabled.

The Placing and Open Offer will result in the issue of 275,237,772 New Common Shares (representing approximately 51.81 per cent. of the issued share capital of the Company, as enlarged by the Placing and Open Offer). The New Common Shares, when issued and fully paid, will rank *pari passu* in all respects with the Existing Common Shares and will rank for all dividends or other distributions declared, made or paid after the date of issue of the New Common Shares. No temporary documents of title will be issued.

Dilution

Shareholders who are not eligible to participate or who do not elect to participate in the Open Offer will suffer a maximum dilution as set out in the table below:

Number of New Common Shares issued	Dilution to non-participating Shareholders
275,237,772*	51.81%*

* Assuming full subscription under the Placing and Open Offer.

Bridge Loan

The Bridge Loan, which was provided by BMK and Persistency on 21 December 2012, has been amended such that its maturity date has been extended to 18 February 2013 and it is anticipated that the principal amount outstanding under the Bridge Loan will effectively be capitalised in part payment of the obligations of the Benchmark Parties and Persistency to subscribe in the Placing and Open Offer pursuant to their Irrevocable Undertakings.

As set out above, the Company's obligation to pay a break fee of US$3 million under the Bridge Loan Agreement (as amended by the Bridge Loan Amendment) shall be satisfied by the issue of the Break Fee Shares at an issue price of US$0.32 each, from any Open Offer Shares not taken up by Qualifying Shareholders in the Open Offer and in priority to any New Common Shares issued under the Placing. To the extent that there are insufficient New Common Shares available, the Company will convene a new special general meeting after Admission in order to pass resolutions to authorise it to issue any such unissued Break Fee Shares and the Irrevocable Undertakings given to the Company by Shareholders as described in the Document include an undertaking to vote in favour of such resolutions. If the resolutions are not passed at that special general meeting, the Company is obliged, amongst other things, to issue such unissued Break Fee Shares in priority to any other Common Shares issued for cash (other than in certain limited circumstances) and, if so required by lenders under the Bridge Loan Agreement, to pay any balance in cash. The share pledge securing the Bridge Loan shall be released upon repayment of the Bridge Loan even if all the Break Fee Shares have not been issued. Further details of these arrangements are set out in the description of the Bridge Loan Amendment in the Document.

Fee Shares

In addition, the Company has agreed to issue the Fee Shares to Outrider Management, LLC in connection with the work undertaken by its legal advisers in relation to the preparation of an alternative to the Bridge Loan and related matters. The Fee Shares shall be satisfied from any Open Offer Shares not taken up by Qualifying Shareholders in the Open Offer, after the satisfaction of the Break Fee Shares and in priority to any New Common Shares issued under the Placing. To the extent that there are insufficient New Common Shares available to satisfy this obligation in full, the Company will pay the outstanding balance in cash.

Proposed amendments to the Bye-laws and to the Relationship Agreement

As a result of the adjournment of the Special General Meeting to approve the Original Financing Transaction, the Board has no current intention to propose the amendments to the Bye-laws that were set out in the Circular. As set out in the Document, the Special General Meeting has been adjourned indefinitely.

However, as part of the agreement with the Benchmark Parties and Persistency to provide the funds under the Original Financing Transaction, the Company entered into the Relationship Agreement with the Benchmark Parties and Persistency, which will remain in place on completion of the New Financing Transaction, given the resultant substantial equity position to be held by the Benchmark Parties and Persistency. The Relationship Agreement has been amended pursuant to the Relationship Agreement Amendment such that, amongst other things, (i) the parties have agreed that an additional Independent Director be appointed in due course following Admission such that it is envisaged that there will be a majority of Independent Directors on the Board and (ii) the Benchmark Parties may now only acquire Common Shares between them which (taken together with Common Shares in which persons acting in concert with the Benchmark Parties are interested) carry up to 40 per cent. of the voting rights of the Company without triggering the requirement to make an offer for the Company (previously, this threshold had been set at 45 per cent.). Further details of the Relationship Agreement Amendment are set out in the Document.

Related Party Transaction

Benchmark is currently interested in 64,029,238 Common Shares, representing approximately 25.0 per cent. of the Company's issued share capital and Persistency is currently interested in 29,492,150 Common Shares, representing approximately 11.5 per cent. of the Company's issued share capital. As a result, the Benchmark Parties and Persistency are deemed to be related parties of the Company and, therefore, the Bridge Loan Amendment and the Relationship Agreement Amendment and the allotment to the Benchmark Parties and Persistency of New Common Shares under the Placing and Open Offer greater than their respective *pro-rata* Open Offer Entitlements are considered to be related party transactions pursuant to AIM Rule 13.

For the purposes of assessing the related party transactions, the Independent Directors (comprising Mr. Paul Ellis, Mr. Ian Barby and Mr. Iain Patrick), consider, having consulted with Strand Hanson, the Company's Nominated Adviser, that the terms of each of the Bridge Loan Amendment, the Relationship Agreement Amendment and the possible allotment to the Benchmark Parties and Persistency of New Common Shares under the Placing and Open Offer greater than their respective *pro-rata* Open Offer Entitlements, are fair and reasonable insofar as Shareholders are concerned.

Use of proceeds

The New Financing Transaction will allow the Company to strengthen its financial position and should enable it to complete the Tsimiroro Steam Flood Pilot and commence evaluation of the commercial potential of the Tsimiroro heavy oil field using thermal recovery methods. In addition, the Company intends to progress the further evaluation of conventional oil and gas potential on the Exploration Blocks.

It is intended that the gross proceeds, being approximately US$78.4 million, to be received from the New Financing Transaction, will be applied as follows:

	US$ (millions)
Tsimiroro Steam Flood Pilot CAPEX and OPEX	38.3
Madagascar G&A	6.1
Geophysical & Geological Works	3.7
Working Capital, and Corporate G&A (including financing costs)	19.6
Payment of US$3 million Break Fee by issuance of 9,375,000 Common Shares at US$0.32	2.7
Contingency	8.0
Total	78.4

The table above is prepared on a *pro-forma* basis from 30 November 2012 to enable comparison with the use of proceeds included in the Circular. The use of proceeds table set out above assumes that the Placing and Open Offer are subscribed in full as described in the Document. If the full amount is subscribed, as expected, it will provide funds for the Company to continue the Tsimiroro Steam Flood Pilot operations, into 2014, such that meaningful conclusions can be drawn from the results of the pilot. Predicting ultimate oil recovery requires observation of the rate of production decline in the wells following steam breakthrough. The proceeds of the Placing and Open Offer will assist the Company in obtaining the necessary data.

Operational update

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

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

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

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

- insufficient contingency for the extended overheads in respect of the 2011 delays in operations associated with the *force majeure* events;
- a prolonged rainy season in April and May 2012 which contributed to additional civil and mechanical costs together with more extensive road repair and bridge building activity than planned;
- lower than budgeted construction productivity which extended the time required for construction and which in turn increased the cost of camp operations and overheads;
- the additional cost of hiring the expatriate workforce for the Tsimiroro Steam Flood Pilot project earlier than originally planned in 2012; and
- the addition of a larger than budgeted maintenance building to the project site.

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

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

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

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

Madagascar Value Added Tax Dispute

Additional taxes of approximately US$9 million (at the current Ariary/US Dollar exchange rate) were assessed on the Company for the years 2007 and 2008.

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

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

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

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

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

The Company announced on 31 December 2012 that it has received a preliminary tax notification relating to a routine government audit of its tax returns for the year 2009 in the total amount of approximately US$1.4 million. The Company announced that it had thirty days to make representations regarding the notification and the Company will respond in due course. The Company's tax returns for 2010 and 2011 are also under audit, but no notifications have yet been received.

Board changes and corporate governance

In connection with the Original Financing Transaction, the Company agreed to make significant changes to its Board. Several of these changes have already taken effect, resulting in the following Board composition:

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

Mr. Paul William Ellis (acting as the Chief Executive Officer and Independent Director)

Mr. Ian Christopher Simon Barby (acting as Independent Non-Executive Director)

Mr. Peter Eric Kingston (acting as a designated representative of the Benchmark Parties and Non-Executive Director)

Mr. John (Iain) Alexander Patrick (acting as Independent Non-Executive Director)

In accordance with the terms of the Relationship Agreement, the Benchmark Parties have the right to appoint an additional director to the Board and the Company is currently awaiting notification from the Benchmark Parties as to the identity of the proposed second designated director, so that the requisite due diligence under the AIM Rules can be performed. Accordingly, such appointment will be delayed until completion of this process.

As announced on 18 December 2012 and described in the associated Circular, Mr. Ian Barby has agreed to resign as Independent Non-Executive Director of the Company with effect from the date falling four weeks after the date of the Special General Meeting (or such later date as may be agreed), and he will then be replaced by a new Independent Non-Executive Director.

In addition, as set out above, in accordance with the Relationship Agreement Amendment, the Company intends to appoint another Independent Director in the short to medium term, such that, the Board will consist of seven Directors, of whom four would be Independent Directors, as follows:

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

Mr. Paul William Ellis (acting as the Chief Executive Officer and Independent Director)

Mr. Peter Eric Kingston (acting as a designated representative of the Benchmark Parties)

Mr. John (Iain) Alexander Patrick (acting as Independent Non-Executive Director)

A Non-Executive Director, to be notified (acting as a designated representative of the Benchmark Parties)

An Independent Non-Executive Director, to be notified

A further Independent Director, to be notified

Announcements confirming each of these anticipated Board changes will be made at the appropriate time.

Risk Factors and Additional Information

Your attention is drawn to the risk factors in the Document which are important and should be read in full and the additional information set out in the Document.

Adjournment of Special General Meeting

On 15 January 2013, the Company announced that the Special General Meeting had been adjourned until 10.00 a.m. on 30 January 2013. As the Board believes the New Financing Transaction is in the best interests of Shareholders and the Company (for the reasons set out in the recommendation below), the Special General Meeting has therefore been adjourned indefinitely and, subject to Admission, will be cancelled on the date of Admission in accordance with the provisions of the Bye-laws.

Recommendation

The Board (excluding Andrew Morris and Peter Kingston, who, as they represent Persistency and the Benchmark Parties respectively, each of whom are related parties for the purposes of the New Financing Transaction and are therefore not considered independent for the purposes of the recommendation) believes that the New Financing Transaction is in the best interests of Shareholders, and the Company, for the following reasons:

(i) it secures the Company's planned financing requirements at a time of challenging global economic and market conditions and at a time of increased investor caution ahead of Madagascar's forthcoming elections;

(ii) it enables the Company to complete the construction phase of its Tsimiroro Steam Flood Pilot project, which is already at an advanced stage, to commence continuous steam flood operations and continue evaluation of the conventional oil and gas potential of the Exploration Blocks; and

(iii) it represents a significant improvement over the terms of the Original Financing Transaction.

Accordingly, the Independent Directors (being Paul Ellis, Iain Patrick and Ian Barby) consider the New Financing Transaction to be in the best interests of the Company and the Shareholders as a whole.

DEFINITIONS

The following definitions apply throughout this announcement, unless the context requires otherwise:

"**Adjourned SGM**" and "**Special General Meeting**"	the Special General Meeting of the Company to approve the Original Financing Transaction (notice of which was contained in the Circular) held on 15 January 2012 and adjourned
"**Admission**"	admission of the New Common Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules
"**Admission Document**"	the admission document published by the Company on 24 November 2010 in connection with its admission to trading on AIM
"**AIM**"	the market known as "AIM" operated by the London Stock Exchange
"**AIM Rules**" or "**AIM Rules for Companies**"	the rules applicable to companies whose securities are traded on AIM and their advisers, together with the guidance note for mining and oil and gas companies, as published by the London Stock Exchange from time to time
"**Application Form**"	the application form accompanying the Document (where appropriate) to be used by Qualifying Common Shareholders in connection with the Open Offer
"**Bemolanga Block**"	Block 3102 PSC, in which the Group holds a 40 per cent. working interest, representing an area of approximately 5,463km^2
"**Benchmark**"	Benchmark Advantage Fund, Ltd.
"**Benchmark Parties**"	Benchmark and BMK
"**Block 3102 PSC**"	the Production Sharing Contract between Madagascar SA and OMNIS relating to the Bemolanga Block, further details of which are set out in paragraph 14.1(e) of Part 6 of the Admission Document
"**Block 3104 PSC**"	the Production Sharing Contract between Madagascar SA and OMNIS relating to the Tsimiroro Block, further details of which are set out in paragraph 14.1(b) of Part 6 of the Admission Document
"**Block 3105 PSC**"	the Production Sharing Contract between Madagascar SA and OMNIS relating to the Manambolo Block, further details of which are set out in paragraph 14.1(c) of Part 6 of the Admission Document
"**Block 3106 PSC**"	the Production Sharing Contract between Madagascar SA and OMNIS relating to the

	Morondava Block, further details of which are set out in paragraph 14.1(d) of Part 6 of the Admission Document
"**Block 3107 PSC**"	the Production Sharing Contract between Madagascar SA and OMNIS relating to the Manandaza Block, further details of which are set out in paragraph 14.1(a) of Part 6 of the Admission Document
"**Blocks**"	together the Tsimiroro Block, the Bemolanga Block and the Exploration Blocks and "Block" shall mean any one of them
"**BMK**"	BMK Resources Limited, a company connected with Benchmark
"**Board**"	the board of Directors of the Company
"**Break Fee Shares**"	9,375,000 Common Shares at an issue price of US$0.32 per Common Share that the Company is obliged to issue to BMK (as to 6,250,000 Common Shares) and to Persistency (as to 3,125,000 Common Shares) in satisfaction of the obligation to pay a break fee of US$3 million under the Bridge Loan Agreement
"**Bridge Loan**"	the short term, interest free, secured, financing for working capital purposes of US$15 million provided to the Company by Persistency and BMK on 21 December 2012 pursuant to the Bridge Loan Agreement (as amended by the Bridge Loan Amendment)
"**Bridge Loan Agreement**"	the agreement governing the terms of the Bridge Loan originally dated 18 December 2012 (and, as the context requires, as subsequently amended pursuant to the Bridge Loan Amendment), details of which are set out in paragraph 3(a) of Part 4 of the Document
"**Bridge Loan Amendment**"	the amendment to the original Bridge Loan Agreement, details of which are set out in paragraph 3(a) of Part 4 of the Document
"**Bye-laws**"	the bye-laws of the Company, in force from time to time
"**certificated**" or "**certificated form**"	not in uncertificated form
"**Circular**"	the circular from the Company to Shareholders dated 28 December 2012
"**City Code**"	the UK City Code on Takeovers and Mergers
"**Clawback Shares**"	up to 106,057,327 New Common Shares which are being conditionally placed by Mirabaud and GMP pursuant to the Placing Agreement, subject to the rights of clawback by Qualifying Shareholders pursuant to the Open Offer
"**Committed Shares**"	the 160,609,340 Open Offer Shares in respect of which Irrevocable Undertakings to take up certain

	entitlements under the Open Offer have been received from certain Shareholders
"**Common Shares**"	common shares of US$0.001 each in the capital of the Company and, where the context requires, the Depositary Interests
"**Company**" or "**Issuer**"	Madagascar Oil Limited, a company incorporated in Bermuda with registered number 37901 whose registered office is at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda
"**Convertible Preference Shares"**	convertible preference shares of par value US$0.32 each which BMK and Persistency had agreed to subscribe for as part of the Original Financing Transaction
"**CREST**"	the relevant system for the paperless settlement of trades and the holding of uncertificated securities operated by Euroclear Limited in accordance with the Regulations
"**CREST member**"	a person who has been admitted by Euroclear as a system-member (as defined in the Regulations)
"**CREST participant**"	a person who is, in relation to CREST, a system-participant (as defined in the Regulations)
"**CREST Payment**"	shall have the meaning given in the CREST Manual issued by Euroclear
"**CREST sponsor**"	a CREST participant admitted to CREST as a CREST sponsor
"**CREST sponsored member**"	a CREST member admitted to CREST as a sponsored member (which includes all CREST Personal Members)
"**Deed Poll**"	the deed poll dated 15 November 2010 made by the Depositary dealing with the creation and issue of depositary interests in respect of the Common Shares
"**Depositary**"	Computershare Investor Services PLC acting in its capacity as depositary pursuant to the terms of the agreement for the provision of depositary services entered into between the Company and Computershare Investor Services PLC
"**Depositary Interests**"	a depositary interest issued by the Depositary representing an entitlement to a Common Share which may be traded through CREST in dematerialised form
"**Directors**"	the directors of the Company as at the date of the Document whose names are set out in the "Directors and Advisers" section of the Document
"**enabled for settlement**"	in relation to Open Offer Entitlements, enabled for the limited purpose of settlement of claim transactions and unmatched stock event transactions (each as described in the CREST Manual issued by Euroclear)

“**Euroclear**”	Euroclear UK & Ireland Limited, the operator of CREST
“Existing Common Shares”	the 256,035,137 Common Shares in issue as at the date of the Document
“**Exploration Blocks**”	together, the Manambolo Block, the Morondava Block and the Manandaza Block
“**Fee Shares**”	the 468,750 New Common Shares to be issued to Outrider Management, LLC in connection with work undertaken by its legal advisers to prepare an alternative to the Bridge Loan and related matters
“**FSA**”	the Financial Services Authority
“**FSMA**”	the Financial Services and Markets Act 2000 (as amended) of the UK including any regulations made pursuant thereto
“**GMP**”	GMP Securities Europe LLP, joint bookrunner to the Placing and Open Offer
“**Group**”	the Company and its subsidiary undertakings
“**Independent Directors**”	the directors of the Company who are independent of the Benchmark Parties and Persistency
“**Irrevocable Undertakings**”	the irrevocable undertakings to subscribe for Committed Shares and Clawback Shares entered into by certain Shareholders, further details of which are set out in paragraph 3(e) of Part 4 of the Document
“**Issue Price**”	18 pence per New Common Share
“**London Stock Exchange**”	London Stock Exchange plc
“**Madagascar SA**”	Madagascar Oil Société Anonyme, a company incorporated in Madagascar with registered number 2004B241 whose registered office is at 9th Floor, Immeuble Fitaratra, Ankorondrano, Antananarivo, Madagascar
“**Manambolo Block**”	Block 3105 PSC, in which the Group holds a 100 per cent. working interest, representing an area of approximately 3,995km^2
“**Manandaza Block**”	Block 3107 PSC, in which the Group holds a 100 per cent. working interest, representing an area of approximately 6,580km^2
“**Member Account ID**”	the identification code or number attached to any member account in CREST
“**Mirabaud**”	Mirabaud Securities LLP, the Company's broker and joint bookrunner to the Placing and Open Offer
“**Money Laundering Regulations**”	the Money Laundering Regulations 2007 and obligations in connection with money laundering under the Criminal Justice Act 1993 and the Proceeds of Crime Act 2002
“**Morondava Block**”	Block 3106 PSC, in which the Group holds a 100 per cent. working interest, representing an area of

	approximately 6,825km^2
"**New Common Shares**"	the 275,237,772 new Common Shares to be issued pursuant to the New Financing Transaction
"**New Financing Transaction**"	the Placing and Open Offer and the Bridge Loan Amendment described in paragraph 2 of Part 1 of the Document
"**Official List**"	the Official List of the United Kingdom Listing Authority
"**OMNIS**"	the Office des Mines Nationales et des Industries Stratégiques (the Office of National Mines and Strategic Industries), a Malagasy State Body located at BP Ibis, Antananarivo 101, Madagascar
"**Open Offer**"	the invitation to Qualifying Shareholders to subscribe for Open Offer Shares at the Issue Price on the terms and subject to the conditions set out or referred to in Part 3 and Schedule 1 of the Document and, where relevant, in the Application Form
"**Open Offer Entitlement**"	an entitlement to apply to subscribe for one Open Offer Share, allocated to a Qualifying Shareholder pursuant to the Open Offer
"**Open Offer Shares**"	the 275,237,772 New Common Shares which are to be made available for subscription by Qualifying Shareholders under the Open Offer (and, where applicable, the equivalent number of Depositary Interests representing such New Common Shares)
"**Original Financing Transaction**"	the financing transaction detailed in the Circular
"**Overseas Shareholders**"	Qualifying Shareholders who are resident in, or who are citizens of, or who have registered addresses in, territories other than the United Kingdom (including, without limitation, Qualifying Shareholders who are persons in the United States when receiving the Document or purchasing Open Offer Shares)
"**Participant ID"**	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant
"Persistency"	Persistency Private Equity Limited
"**Placing**"	the conditional placing by Mirabaud and GMP on behalf of the Company of the Clawback Shares pursuant to the Placing Agreement
"**Placing Agreement**"	the agreement dated on or around the date of the Document between the Company, Mirabaud and GMP relating to the Placing and Open Offer, further details of which are set out in paragraph 3(d) of Part 4 of the Document
"**Production Sharing Contracts**" or "**PSCs**"	the production sharing contracts with OMNIS pursuant to which OMNIS granted the exclusive right to engage in exploration, development and exploitation operations and associated activities in respect of specified contractual areas in

	Madagascar, details of which are set out in paragraphs 14.1(a) to 14.1(e) of Part 6 of the Admission Document
"**Qualifying Depositary Interest Holders**"	holders of Depositary Interests on the register of Depositary interest holders at the close of business on the Record Date
"**Qualifying Common Shareholders**"	holders of Common Shares on the register of members of the Company at the close of business on the Record Date
"**Qualifying Shareholders**"	Qualifying Common Shareholders and Qualifying Depositary Interest Holders (other than certain Overseas Shareholders) with an entitlement to at least 467,223 Open Offer Shares
"**Record Date**"	close of business on 22 January 2013
"**Regulation D**"	Regulation D under the Securities Act
"**Regulations**"	the Uncertificated Securities Regulations 2001, as amended from time to time
"**Regulatory Information Service**"	any of the services specified in schedule 12 to the Listing Rules for the dissemination of information by listed issuers
"Relationship Agreement"	the relationship agreement entered into by the Company, the Benchmark Parties and Persistency, originally dated 18 December 2012 (and, as the context requires, as subsequently amended pursuant to the Relationship Agreement Amendment), details of which are set out in paragraph 3(b) of Part 4
"**Relationship Agreement Amendment**"	the amendment to the original Relationship Agreement, details of which are set out in paragraph 3(b) of Part 4 of the Document
"**Resolutions**"	the resolutions proposed to be passed at the Adjourned SGM, details of which are contained in the Circular
"**Securities Act**" or "**US Securities Act**"	US Securities Act of 1933, as amended
"**Shareholders**"	holders of Common Shares
"**stock account**"	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited
"**Strand Hanson**"	Strand Hanson Limited, the Company's financial and Nominated Adviser
"**Tsimororo Block**"	Block 3104 PSC, in which the Group holds a 100 per cent. working interest, representing an area of approximately 6,670km^2
"**Tsimororo Steam Flood Pilot"**	the Group's steam flood pilot project located at Tsimiroro, Madagascar
"**uncertificated**" or	
"**uncertificated form**"	recorded on the relevant register or other record of

	the share or other security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST
"**United Kingdom**" or "**UK**"	the United Kingdom of Great Britain and Northern Ireland
"**United States**" or "**US**"	the United States of America, its territories and possessions and any state of the United States and the District of Columbia