**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to the action you should take, you should seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) (''FSMA'') who specialises in advising on the acquisition of shares and other securities.**

If you have sold or otherwise transferred all of your registered holding of Existing Common Shares before the Record Date, please forward this document, together with the accompanying Application Form (having completed Box J on the Application Form), at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom or by whom the sale or transfer was made, for delivery to the purchaser or transferee. However, this document and any accompanying documents should not be sent or transmitted in, or into, any jurisdiction where to do so might constitute a violation of local securities law or regulations. If your Existing Common Shares which were sold or transferred were held in uncertificated form and were sold or transferred before that date, a claim transaction will automatically be generated by Euroclear which, where the purchaser or transferee is a Qualifying DI Holder, on settlement, will transfer the appropriate number of Open Offer Entitlements to the purchaser or transferee.

The minimum subscription amount under the Open Offer is 467,223 Open Offer Shares (which exceeds €100,000 at the Issue Price). Therefore, in accordance with section 85 of FSMA, this document is not, and is not required to be, a prospectus for the purposes of the Prospectus Rules published by the Financial Services Authority and has not been approved by the Financial Services Authority or any other authority or regulatory body. In addition, this document does not constitute an admission document drawn up in accordance with the AIM Rules. 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.

AIM is a market designed primarily for emerging and smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the London Stock Exchange nor the United Kingdom Listing Authority have examined or approved the contents of this document. This document does not constitute a recommendation regarding securities of the Company.

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# MADAGASCAR OIL LIMITED

*(Incorporated in Bermuda under the Companies Act 1981 with registered number 37901)*

## Placing and Open Offer of 275,237,772 New Common Shares at a price of 18 pence per New Common Share on the basis of: 1,075 Open Offer Shares for every 1,000 Existing Common Shares

| Financial and Nominated Adviser: | Broker and Joint Bookrunner: | Joint Bookrunner: |
|---|---|---|
| Strand Hanson Limited | Mirabaud Securities LLP | GMP Securities Europe LLP |

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**This document should be read in its entirety. Your attention is drawn to the letter from the Chairman of the Company which is set out in Part 1 of this document and to the section headed ''Risk Factors'' in Part 2 of this document.**

**The Open Offer constitutes an offer of Common Shares in compliance with the pre-emption rights contained in section 6 of the Bye-laws.**

The latest time and date for acceptance and payment in full under the Open Offer is 12.00 p.m. on 8 February 2013. The procedure for acceptance and payment is set out in Part 3 of this document and, where relevant, in the Application Form. The New Common Shares to be issued will, following their issue, rank *pari passu* with the Existing Common Shares and will rank in full for all dividends and other distributions thereafter declared, made or paid on the common share capital of the Company.

This document does not constitute an offer to sell, or a solicitation to buy Common Shares in any jurisdiction in which such offer or solicitation is unlawful. The distribution of this document and/or any accompanying documents and/or the transfer of Open Offer Entitlements through CREST in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any such distribution or failure to comply with those restrictions could result in a violation of the law of such jurisdictions. In particular, subject to certain limited exemptions, this document is not for distribution into the United States, Canada, the Republic of South Africa, Australia, the Republic of Ireland or Japan, or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation (and, in particular, this document is not for distribution directly or indirectly to any person in the United States that is not an accredited investor). Neither the Existing Common Shares, the New Common Shares nor the Open Offer Entitlements have been, nor will they be, registered under the securities legislation of the United States, any province or territory of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. Accordingly, the New Common Shares may not, subject to certain exemptions, be offered or sold directly or indirectly in or into (and no Application Form will be posted to and no Open Offer Entitlements will be credited to the stock account of any person in) the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan, or to any national, citizen or resident of the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. No action has been taken by the Company, the holders of Common Shares, or by Strand Hanson Limited that would permit a public offer of New Common Shares or Open Offer Entitlements or possession or distribution of this document where action for that purpose is required. **The attention of Overseas Shareholders and other recipients of this document who are residents or citizens of any country other than the United Kingdom is drawn to the section entitled ''Overseas Shareholders'' at paragraph 7 of Part 3 of this document.**

Strand Hanson Limited, which is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority, is acting as financial and Nominated Adviser to the Company in connection with the Placing and Open Offer and is not acting for any other person and will not be responsible to any person other than the Company for providing the protections afforded to clients of Strand Hanson Limited.

Mirabaud Securities LLP, which is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority, is acting as broker and joint bookrunner to the Company in connection with the Placing and Open Offer and is not acting for any other person and will not be responsible to any person other than the Company for providing the protections afforded to clients of Mirabaud Securities LLP.

GMP Securities Europe LLP, which is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority, is acting as joint book runner to the Company in connection with the Placing and Open Offer and is not acting for any other person and will not be responsible to any person other than the Company for providing the protections afforded to clients of GMP Securities Europe LLP.

Neither Strand Hanson Limited, Mirabaud Securities LLP or GMP Securities Europe LLP have authorised the contents of this document and no representation or warranty, express or implied, is made by either Strand Hanson Limited, Mirabaud Securities LLP or GMP Securities Europe LLP as to the accuracy or contents of this document or the opinions contained therein, without limiting the statutory rights of any person to whom this document is issued. The information contained in this document is not intended to inform or be relied upon by any subsequent purchasers of Common Shares (whether on or off exchange) and accordingly no duty of care is accepted by Strand Hanson Limited or Mirabaud Securities LLP or GMP Securities Europe LLP in relation to them. No person has been authorised to give any information or make any representations in connection with the Placing and/or Open Offer other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. The delivery of this document will not, under any circumstances, be deemed to create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct at any time subsequent to its date.

## Forward-looking statements

This document contains forward looking statements relating to the Company's future prospects, developments and strategies, which have been made after due and careful enquiry and are based on the Directors' current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Forward-looking statements are identified by the use of terms and phrases such as ''believe'', ''could'', ''envisage'', ''estimate'', ''intend'', ''may'', ''plan'', ''will'' or the negative of those, variations or comparable expressions, including references to assumptions. These forward-looking statements are subject to, amongst other things, the risk factors described in Part 2 of this document. The Directors believe that the expectations reflected in these statements are based on reasonable grounds, but may be affected by a number of variables which could cause actual results or trends to differ materially. Each forward-looking statement speaks only as of the date of the particular statement.

## United States securities laws

The New Common Shares and Open Offer Entitlements are being offered and sold outside the United States in transactions complying with Regulation S, which provides an exemption from the requirement to register the offer and sale under the Securities Act. In certain limited cases, the New Common Shares and Open Offer Entitlements are being offered and sold in the United States, but only in private placements to persons who are accredited investors (within the meaning of Regulation D promulgated under the Securities Act) in transactions complying with Rule 506 of Regulation D, which provides an exemption from the requirement to register the offer and sale under the Securities Act.

**THE NEW COMMON SHARES AND OPEN OFFER ENTITLEMENTS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE ''SEC'') OR BY ANY UNITED STATES STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS ANY SUCH US AUTHORITY PASSED ON THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

**THE NEW COMMON SHARES AND OPEN OFFER ENTITLEMENTS HAVE NOT BEEN (AND WILL NOT BE) REGISTERED UNDER THE SECURITIES ACT OR SECURITIES LAWS OF ANY UNITED STATES STATE OR JURISDICTION AND WILL NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS.**

Each Shareholder purchasing New Common Shares pursuant to Regulation D will be required to provide the representations, warranties and covenants in Schedule 1 to this document, including the representation and warranty that such purchaser is an accredited investor as defined in Rule 501(a) of Regulation D promulgated under the Securities Act.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## CIRCULAR 230 NOTICE

**TO ENSURE COMPLIANCE WITH US TREASURY REGULATIONS, YOU ARE ADVISED THAT ANY TAX DISCUSSION HEREIN WAS NOT WRITTEN AND IS NOT INTENDED TO BE USED AND CANNOT BE USED BY ANY TAXPAYER FOR THE PURPOSES OF AVOIDING US FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF NEW COMMON SHARES TO BE ISSUED PURSUANT TO THIS DOCUMENT. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

**NOTWITHSTANDING ANY PROVISION HEREIN AND THE NATURE OF THIS DOCUMENT AND ITS CONTENTS, AND EFFECTIVE FROM THE DATE OF COMMENCEMENT OF DISCUSSIONS CONCERNING THE OFFER OF NEW COMMON SHARES AND OPEN OFFER ENTITLEMENTS, EACH PARTY HERETO (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF SUCH PARTY) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT OR TAX STRUCTURE OF THIS TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO IT RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT TO THE EXTENT THAT ANY SUCH DISCLOSURE COULD REASONABLY BE EXPECTED TO CAUSE THE OFFER OF NEW COMMON SHARES AND OPEN OFFER ENTITLEMENTS NOT TO BE IN COMPLIANCE WITH SECURITIES LAWS. FOR THE PURPOSES OF THIS PARAGRAPH, THE TAX TREATMENT OF THIS TRANSACTION IS THE PURPORTED OR CLAIMED US FEDERAL INCOME TAX TREATMENT OF THIS TRANSACTION, AND THE TAX STRUCTURE OF THIS TRANSACTION IS ANY FACT THAT MAY BE RELEVANT TO UNDERSTANDING THE PURPORTED OR CLAIMED US FEDERAL INCOME TAX TREATMENT OF THIS TRANSACTION.**

Qualifying Common Shareholders will find an Application Form enclosed with this document. Qualifying Depositary Interest Holders (none of whom will receive an Application Form) will receive a credit to their appropriate stock accounts in CREST in respect of the Open Offer Entitlements which will be enabled for settlement on 25 January 2013. Applications under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim arising out of a sale or transfer of Common Shares prior to the Record Date. If the Open Offer Entitlements are for any reason not enabled by 3.00 p.m. or such later time as the Company may decide on 25 January 2013, an Application Form will be sent to each Qualifying Depositary Interest Holder in substitution for the Open Offer Entitlements credited to his/her stock account in CREST. Qualifying Depositary Interest Holders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer.

# CONTENTS

## 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 this document | 24 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 |

**Notes:**

Each of the times and dates in the above timetable is subject to change at the absolute discretion of the Company. If any of the details should change, where appropriate, the revised times and/or dates will be notified to Shareholders by means of an announcement through a Regulatory Information Service.

If you have any questions on how to complete the Application Form, please contact Computershare Investor Services (Bermuda) Limited on telephone number 0870 707 4040 or +44 (0)870 707 4040 from outside the UK. This helpline is open from 8.30 a.m. to 5.00 p.m. on Monday to Friday. Please note that calls to the helpline cost approximately 8 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside of the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones. Please note that calls to the helpline may be monitored or recorded and that the helpline is not able to advise on the merits of the matters set out in this document or provide any legal, financial or taxation advice.

The ISIN code for the Common Shares is BMG5738R1016. The ISIN code for the Open Offer Entitlements is GB00B926045. All references are to London time unless otherwise stated.

## 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.

# DIRECTORS AND ADVISERS

| | |
|---|---|
| **Directors** | Andrew James Morris (Non-Executive Chairman)<br>Paul William Ellis (Chief Executive Officer)<br>Ian Christopher Simon Barby (Non-Executive Director)<br>Peter Eric Kingston (Non-Executive Director)<br>John (Iain) Alexander Patrick (Non-Executive Director) |
| **Registered office** | Canon's Court<br>22 Victoria Street<br>Hamilton HM12<br>Bermuda |
| **Financial Adviser and Nominated Adviser** | Strand Hanson Limited<br>26 Mount Row<br>London W1K 3SQ<br>United Kingdom |
| **Broker and joint bookrunner** | Mirabaud Securities LLP<br>33 Grosvenor Place<br>London SW1X 7HY<br>United Kingdom |
| **Joint bookrunner** | GMP Securities Europe LLP<br>Stratton House<br>5 Stratton Street<br>London W1J 8LA<br>United Kingdom |
| **Financial PR** | Pelham Bell Pottinger<br>5th Floor<br>Holborn Gate<br>330 High Holborn<br>London WC1V 7QD<br>United Kingdom |
| **Solicitors to the Company as to English law** | Watson, Farley & Williams LLP<br>15 Appold Street<br>London EC2A 2HB<br>United Kingdom |
| **Solicitors to the Company as to Bermuda law** | Appleby<br>Canon's Court<br>22 Victoria Street<br>PO Box HM 1179<br>Hamilton HM EX<br>Bermuda |
| **Auditor to the Company** | BDO LLP<br>333 Clay St., Suite 4700<br>Houston TX 77002<br>United States |
| **Receiving Agents** | Computershare Investor Services PLC<br>The Pavilions<br>Bridgwater Road<br>Bristol BS99 6AH<br>United Kingdom |
| **Registrars** | Computershare Investor Services (Bermuda) Limited<br>Corner House<br>20 Parliament Street<br>PO Box HM1556<br>Hamilton HM12 Bermuda |

# PART 1

# LETTER FROM THE CHAIRMAN OF MADAGASCAR OIL LIMITED


*(Incorporated in Bermuda under the Companies Act 1981 with registered number 37901)*

*Directors:*
Andrew James Morris (Non-Executive Chairman)
Paul William Ellis (Chief Executive Officer)
Ian Christopher Simon Barby (Non-Executive Director)
Peter Eric Kingston (Non-Executive Director)
John (Iain) Alexander Patrick (Non-Executive Director)

*Registered office:*
*Canon's Court*
*22 Victoria Street*
*Hamilton HM12*
*Bermuda*

24 January 2013

Dear Shareholder,

## 1. Introduction and Summary

Your Board is announcing today 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 in paragraph 2 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.

## 2. 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 in this Part 1 and Part 3 of this 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 paragraph 3(a) of Part 4 of this 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 paragraph 3(d) of Part 4 of this 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 this 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.

If you have received an Application Form with this document, please refer to paragraph 4(i) and paragraphs 5 to 9 of Part 3 of this document.

If you hold your Common Shares in CREST and have received a credit of Open Offer Entitlements to your CREST stock account, please refer to paragraph 4(ii) and paragraphs 5 to 9 of Part 3 of this document and also to the CREST Manual for further information on the CREST procedures referred to below.

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 Part 3 of this 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 Schedule 1 of this document and, in applying for Open Offer Shares, are deemed to have given such representations, warranties, covenants, agreements and acknowledgements.**

**For Qualifying Common Shareholders, completed Application Forms, accompanied by full payment, should be returned by post to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6AH, United Kingdom or by hand to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE (during normal business hours only) so as to arrive as soon as possible and in any event so as to be received no later than 12.00 p.m. on 8 February 2013. For Qualifying Depositary Interest Holders the relevant CREST instructions must have settled as explained in this document by no later than 11.00 a.m. on 8 February 2013.**

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 paragraph 3(e) of Part 4 of this 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 paragraph 3(a) of Part 4 of this 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.

**3. 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 paragraph 13 of this Part 1 of this 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 shares between them which (taken together with 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 paragraph 3(b) of Part 4 of this document.

**4. 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 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 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.**

## 5. 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 this 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.

## 6. 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.

**7. 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.

**8. 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.

**9. Action to be taken**

If you are a Qualifying Common Shareholder, you will have received an Application Form which gives details of your maximum entitlement under the Open Offer (as shown by the number of Open Offer Entitlements allocated to you). If you wish to apply for Open Offer Shares under the Open Offer, you should complete the enclosed Application Form in accordance with the procedure for application set out in paragraph 4(i) of Part 3 of this document and on the Application Form itself.

If you are a Qualifying Depositary Interest Holder, no Application Form is enclosed and you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer

Entitlements representing your maximum entitlement under the Open Offer. You should refer to the procedure for application set out in paragraph 4(ii) of Part 3 of this document.

**The latest time for applications under the Open Offer to be received is 12.00 p.m. (for Qualifying Common Shareholders) or 11.00 a.m. (for Qualifying Depositary Interest Holders) on 8 February 2013. The procedure for application and payment depends on whether, at the time at which application and payment is made, you have an Application Form in respect of your entitlement under the Open Offer or have Open Offer Entitlements credited to your stock account in CREST in respect of such entitlement. The procedures for application and payment are set out in Part 3 of this document. Further details also appear in the Application Form which has been sent to Qualifying Common Shareholders.**

**Qualifying Depositary Interest Holders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer.**

### 10. Overseas Shareholders

Information for Shareholders who have registered addresses outside the United Kingdom appears in paragraph 7 of Part 3 of this document, which sets out the restrictions applicable to such persons. If you are an Overseas Shareholder, it is important that you read that part of this document.

### 11. Taxation

Information regarding taxation in the United Kingdom in connection with the Placing and Open Offer is set out in paragraph 6 of Part 3 of this document. Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult their professional adviser as soon as possible.

### 12. Risk Factors and Additional Information

Your attention is drawn to the risk factors in Part 2 of this document which are important and should be read in full and the additional information set out in Part 4 of this document.

### 13. 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 paragraph 14 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.

### 14. Recommendation

**The Board (excluding myself and Peter Eric Kingston, since we are not considered independent for the purposes of giving the recommendation, as I represent Persistency and Peter Eric Kingston represents the Benchmark Parties, each of whom are related parties for the purposes of the New Financing Transaction) 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.**

**The Independent Directors consider the New Financing Transaction, to be in the best interests of the Company and the Shareholders as a whole.**

Yours faithfully,

**Andrew James Morris**
Non-Executive Chairman

# PART 2

# RISK FACTORS

**The investment detailed in this document may not be suitable for all of its recipients and involves a high degree of risk. Before making an investment decision, prospective investors are advised to consult a professional adviser authorised under the FSMA who specialises in advising on investments of the kind described in this document. Prospective investors should consider carefully whether an investment in the Company is suitable for them in the light of their personal circumstances and the financial resources available to them.**

**The exploration for and development of natural resources is a highly speculative activity which involves a high degree of risk. Accordingly, the Common Shares should be regarded as a highly speculative investment and an investment in the Company should only be made by those with the necessary expertise to evaluate the investment fully.**

**In addition to the other relevant information set out in this document, the Directors consider that the following risk factors, which are not set out in any particular order of priority, are of particular relevance to the Group's activities and to any investment in the Company. It should be noted that additional risks and uncertainties not presently known to the Directors or which they currently believe to be immaterial may also have an adverse effect on the Group. Any one or more of these risk factors could have a materially adverse impact on the value of the Group and should be taken into consideration when assessing the Company.**

**There can be no certainty that the Company will be able to implement successfully the strategy set out in this document. No representation is or can be made as to the future of the Group and there can be no assurance that the Group will achieve its objectives.**

## 1. Risks relating to the Group's activities

### *Early stage of operations*

The Group's operations are at an early stage of development and future success will depend on the Directors' ability to successfully manage the current projects and to take advantage of further opportunities which may arise. There can be no guarantee that the Group can or will be able to, or that it will be commercially advantageous for the Group to, develop the Blocks.

Further, the Group has no assets producing positive cash flow and its ultimate success will depend on the Directors' ability to implement their strategy, generate cash flow from economically viable projects and access equity markets. Whilst the Directors are optimistic about the Group's prospects, there is no certainty that anticipated outcomes and sustainable revenue streams will be achieved. There is no local market for the small quantities of oil to be produced from the Tsimiroro Steam Flood Pilot, and the Group will not generate any material income until commercial production has commenced. In the meantime the Group will continue to expend its cash reserves and will, in due course, need to raise debt or additional equity capital.

The Group's projects have no operating history upon which to base estimates of future cash operating costs. For early stage projects, estimates of proven, probable and possible reserves and cash operating costs are, to a large extent, based upon the interpretation of geological data and feasibility studies which derive estimates of cash operating costs based upon anticipated recoveries, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns may differ materially from those estimated.

### *General exploration and production risks*

There can be no guarantee that the hydrocarbons currently discovered will be developed into profitable production, or that additional hydrocarbons will be discovered in commercial quantities or developed to profitable production. The business of exploration for, and development and exploitation of, hydrocarbon deposits is speculative and involves a high degree of risk, which even a combination of careful evaluation, experience and knowledge may not eliminate. Hydrocarbon deposits assessed by the Group as contingent resources may not ultimately contain economically recoverable hydrocarbon reserves, and even if they do, delays in the construction and commissioning of production projects or other technical difficulties may result in any projected target dates for production being delayed or further capital expenditure being required.

The operations of the Group may be disrupted, curtailed, delayed or cancelled by a variety of risks and hazards which are beyond the control of the Group, including unusual or unexpected geological formations, formation pressures, geotechnical and seismic factors, environmental hazards, industrial accidents, occupational and health hazards, technical failures, mechanical difficulties, equipment shortages, labour disputes, fires, explosions, power outages, rock falls, land slides, flooding and extended interruptions due to inclement or hazardous weather conditions and other acts of God. Any one of these risks and hazards could result in work stoppages, damage to, or destruction of, the Group's facilities, personal injury, damage to life or property, environmental damage or pollution, business interruption, monetary losses and possible legal liability which could have a material adverse impact on the business, operations and financial performance of the Group. Although precautions to minimise risk are taken, even a combination of careful evaluation, experience and knowledge may not eliminate all of the hazards and risks. In addition, not all of these risks are insurable.

As is common with many exploration ventures, there is uncertainty and therefore risk associated with the Group's operating parameters and costs which can be difficult to predict and are often affected by factors outside of the Group's control. Few exploration assets are ultimately developed into producing assets. There can be no guarantee that any estimates of quantities of hydrocarbons discovered by the Group will be available to exploit or extract. If reserves are developed, it can take significant expenditure and a number of years from the initial phases of drilling and identification of hydrocarbons until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish hydrocarbon reserves through drilling and other operations and, in the case of new properties, to construct processing facilities and other relevant infrastructure. With many natural resources operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions.

***Cost overruns***

The Company has incurred significant cost overruns on the development of the Tsimiroro Steam Flood Pilot. The capital cost for completion of the Tsimiroro Steam Flood Pilot was originally forecast to be US$36 million. The final capital cost is now forecast to be US$65 million, approximately 80 per cent. higher than the original estimate. While construction is substantially complete, there can be no assurance that the Company will not incur additional cost overruns in the final stages of construction. The operating costs of the Tsimiroro Steam Flood Pilot have also exceeded initial projections. Future cost overruns may limit the Company's ability to continue with planned operations in the absence of readily available sources of finance or revenue.

***Construction delays***

The Company has incurred construction delays due to a variety of factors, including a prolonged rainy season in April and May 2012, lower than projected productivity and the effect of a substantial reduction in development activity while the Company resolved the dispute over its Blocks in the first half of 2011. Additional delays may result which could negatively impact the Company's ability to commence the Tsimiroro Steam Flood Pilot as presently forecast.

***Hydrocarbon reserve and resource estimates***

The Company does not currently hold hydrocarbon deposits that can be classified as reserves, since it is not yet proven that the oil originally in place ("OOIP") in these deposits can be commercially produced. In any oilfield, only a fraction of the OOIP can be recovered commercially, such fraction being referred to as the recovery factor. The results of the Tsimiroro Steam Flood Pilot will assist the Company in determining the recovery factor and other parameters required before the Company can make any decision on commercial exploitation of the deposits. At present the estimates of recoverable oil are classified as "Contingent Resources" and these are calculated by applying an estimated recovery factor to the estimated OOIP based on oil field analogues. Only when commercial production is assured will the Contingent Resources (or part thereof) be reclassified as reserves. No assurance can be given that the hydrocarbon resources and reserves reported by the Group from time to time are present as OOIP as estimated, that reserves will be recovered in the quantities and at the rates estimated or that they can be brought into profitable production. Hydrocarbon reserve and resource estimates may require revisions and/or changes (either up or down) based on additional technical data, new interpretations of data, actual production experience and in light of the prevailing market price of oil and gas. A decline in the

market price for oil and gas could render reserves uneconomic to recover and may ultimately result in a reclassification of reserves as resources.

Unless stated otherwise, the hydrocarbon resources data reported by the Company are taken from the Company's resource reports commissioned from its reserve engineers. There are uncertainties inherent in estimating the quantity of reserves and resources and in projecting future rates of production, including factors beyond the Group's control. Estimating the amount of hydrocarbon reserves and resources is an interpretive process and, in addition, results of drilling, testing and production subsequent to the date of an estimate may result in material revisions to original estimates.

The hydrocarbon resources data historically reported by the Company are estimates only and should not be construed as representing exact quantities. The nature of reserve quantification studies means that there can be no guarantee that estimates of quantities and quality of the resources disclosed will be available for extraction. Therefore, actual production, revenues, cash flows, royalties and development and operating expenditures may vary from these estimates. Such variances may be material. Estimates of resources as reported by the Company may be based upon production data, prices, costs, ownership, geophysical, geological and engineering data, and other information assembled by the Group (which it may not necessarily have produced itself). The estimates may prove to be incorrect and potential investors should not place reliance on the forward looking statements contained in such reports (including data that has been expressed to have been certified by the relevant competent persons or otherwise) concerning the Group's reserves and resources or production levels.

Hydrocarbon reserves and resources estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were reasonable when made may change significantly when new information from additional analysis and drilling becomes available. This may result in alterations to development and production plans which may, in turn, adversely affect operations.

If the assumptions upon which the estimates of the Group's hydrocarbon resources and reserves have been based prove to be incorrect, the Group (or the operator of an asset in which the Group has an interest) may be unable to recover and produce the estimated levels or quality of hydrocarbons set out in this document and the Group's business, prospects, financial condition or results of operations could be materially and adversely affected.

***Farm-out and joint venture partners***

From time to time, the Group may enter into farm-out agreements to fund a portion of the exploration and development costs associated with its assets. Moreover, other companies may from time to time operate some of the assets in which the Group has an ownership interest. Liquidity and cash flow problems encountered by the partners and co-owners of such assets and any non-compliance by the partners and co-owners may lead to a delay in the pace of exploration, development or production programmes that may be detrimental to such programmes or may otherwise have adverse consequences for the Group. In addition, any farm-out partners and working interest owners may be unwilling or unable to pay their share of the costs of projects as they become due. In the case of a farm-out partner, the Group may have to obtain alternative funding in order to complete the exploration and development of the assets subject to the farm-out agreement. In the case of a working interest owner, the Group may be required to pay the working interest owner's share of the project costs in order to protect its interest in the asset. The Group cannot assure investors that it would be able to obtain the capital necessary in order to fund either of these contingencies. It is also possible that the interests of the Group and those of its joint venture partners are not aligned resulting in project delays or additional costs or losses.

Government approval may be required for farm-out transactions and negotiations with the government could delay exploration or development programmes or negatively impact the existing economics on a given Block.

***Volatility in the price of oil and gas and the general economic climate***

The general economic climate and market price of, and demand for, oil and gas is volatile and is affected by a variety of factors which are beyond the Group's control. These include international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, growth in gross domestic product, supply and demand of capital, employment trends, international economic trends, currency exchange rate fluctuations, the level of

interest rates and the rate of inflation, the cost of freight, global or regional political events and international events, as well as a range of other market forces. The aggregate effect of these factors is impossible to predict. Sustained downward movements in oil and gas prices could render less economic, or wholly uneconomic, some or all of the exploration and potential future oil and gas production related activities to be undertaken by the Group.

The Group expects to produce heavy oil with a gravity of approximately 14 degrees API at the Tsimiroro Field. When refining heavy crude oil, a lower proportion of high value products is produced than would be produced from lighter crude oil. As a result, the price of heavy crude oil is discounted relative to that of lighter crude oil. In addition, the cost of producing heavy oil by steam flood is typically higher than the cost of producing light oil from deposits at a similar depth. A significant prolonged decrease in oil prices could result in the Tsimiroro Steam Flood Project being uneconomic.

***Availability of drilling, exploration and production equipment***

The availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world. An increase in drilling operations in regions near the Company's operations may reduce the availability of equipment and services to the Group. Similarly, the Group may have difficulty sourcing the exploration and production equipment it requires in the timeframe envisaged by the Group's plans due to high global demand for such equipment. The reduced availability of equipment and services may delay the Group's ability to exploit any reserves and adversely affect the Group's operations and profitability.

***Government regulations and permits***

The Group's assets are located in Madagascar and there are a number of risks which the Group is unable to control. There is a risk that the Group's activities will be adversely affected by economic and political factors such as the imposition of additional taxes and charges, cancellation or suspension of permits, expropriation, war, terrorism, insurrection and changes to the laws and regulations governing petroleum exploration and development, including labour standards and occupational health, site safety, toxic substances and other matters. In addition, there exist uncertainties surrounding lack of judicial independence, inconsistencies among laws, decrees and regulations issued by the Government of Madagascar and its ministries, inconsistencies among regional and local laws and regulations and limited judicial guidance on interpreting legislation. The Company has encountered differing interpretations of tax and other regulations between ministries of the government as well as changes by the government in its acceptance of long-established reporting practices used by the Company and other foreign investors.

Governmental approvals, licences and permits (including the Production Sharing Contracts) are, as a practical matter, subject to the discretion of the applicable governments or governmental offices. The Group must comply with existing standards, laws and regulations that may entail greater or lesser costs and delays, depending on the nature of the activity to be permitted and the permitting authority.

The Group's intended activities are dependent upon the Production Sharing Contracts and other appropriate licences, concessions, leases, permits and regulatory consents which could subsequently be withdrawn or made subject to limitations. There can be no guarantee as to the terms of any such concessions or assurance that current concessions or future concessions will be renewed or, if so, on what terms when they come up for renewal. Although the Directors believe that the Group's activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules, laws and regulations will not be enacted or that existing or future rules and regulations will not be applied in a manner which could serve to limit or curtail exploration, production or development of the Group's business or have an otherwise negative impact on its activities. Amendments to existing rules, laws and regulations governing the Group's operations and activities, or increases in or more stringent enforcement, implementation or interpretation thereof, could have a material adverse impact on the Group's business, results of operations and financial condition and its industry in general in terms of additional compliance costs.

***Expropriation risk***

In late 2010, the Government of Madagascar took a series of actions that included a verbal threat of expropriation of certain of the Blocks and delays in holding the semi-annual management committee meetings necessary to progress work on those Blocks. The Company was forced to

significantly restrict operations while it resolved these issues. Ultimately, the Company declared *force majeure* on the Tsimiroro Block and the Exploration Blocks which was then followed by a claim in arbitration. This dispute was resolved in 2011 and the Company has obtained the necessary approvals to continue with its work programmes for these blocks. In addition, provision was made for extension of the term of each of the PSCs as necessary to compensate for the *force majeure* period. There can be no assurance that the Group will be granted the requisite further PSC extensions and approvals in the future in a timely fashion or that the Government of Madagascar will not take any actions in the future that are adverse to the Company's ownership of its assets and its ability to operate in the country.

***Climatic conditions***

Exploration and development programmes and the movement of personnel and materials by ground transportation may be adversely affected by climatic conditions, specifically the possibility of tropical storms and the generally high level of rainfall during the rainy season which normally extends from mid-November to mid-April but which can continue until late May. It is likely that such climatic conditions will cause delays in the Group's activities from time to time.

***Infrastructure and local resources***

The Production Sharing Contract areas are located in remote parts of Madagascar where power, transportation and communications infrastructure is rudimentary. These factors are taken into account when planning exploration and development programmes, but may have a greater impact on the Group's activities than anticipated. The Company's most recent activities in developing the Tsimiroro Steam Flood Pilot have indicated that it can be difficult to estimate productivity on construction projects in Madagascar. This inability to make accurate estimates has caused and is likely to cause delays and cost overruns.

The unavailability of satisfactory transportation and the remote location of the Group's drilling operations may hinder access to its assets. The lack of suitable infrastructure in Madagascar may impede potential future production activities as the ability to implement the Group's plan of operations is dependent upon the ability to procure the construction and development of suitable infrastructure and any delays or failures in this regard could adversely affect the Group's business.

***Dependence on key executives and personnel***

The future performance of the Group will to a significant extent be dependent on its ability to retain the services and personal connections or contacts of key executives and to attract, recruit, motivate and retain other suitably skilled, qualified and industry experienced personnel to form a high calibre management team. Such key executives are expected to play an important role in the development and growth of the Group, in particular by maintaining good business relationships with regulatory and governmental departments and essential contractors and suppliers.

Although certain key executives and personnel have entered into service agreements or letters of appointment with the Group, there can be no assurance that the Group will retain their services. The loss of the services of any of its key executives or personnel may have a material adverse effect on the business, operations, relationships and/or prospects of the Group.

***Labour***

Certain of the Group's operations may be carried out under potentially hazardous conditions. Whilst the Group intends to operate in accordance with relevant health and safety regulations and requirements, the Group remains susceptible to the possibility that liabilities might arise as a result of accidents or other workforce-related misfortunes, some of which may be beyond the Group's control.

Shortage of labour or of skilled workers may cause delays or restrictions during exploration and development activities.

***Risks associated with the need to maintain an effective system of internal controls***

The Group faces risks frequently encountered by developing companies such as under-capitalisation, cash shortages and limited resources. In particular, its future prospects will depend on its ability to manage growth and to continue to maintain, expand and improve operational, financial and management information systems on a timely basis, whilst at the same time maintaining effective cost controls. Any damage to, failure of or inability to maintain, expand and upgrade effective operational, financial and management information systems and internal controls

in line with the Group's growth could have a material adverse effect on the Group's business, financial condition and results of operations.

***Environmental, health and safety and other regulatory standards***

The projects in which the Group invests and its exploration and potential production activities are subject to various laws and regulations relating to the protection of the environment (including regular environmental impact assessments and the obtaining of appropriate permits or approvals by relevant environmental authorities) and are also required to comply with applicable health and safety and other regulatory standards. Environmental legislation in particular can, in certain jurisdictions, comprise numerous regulations which might conflict with one another and which cannot be consistently interpreted. Such regulations typically cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. The Group may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. As a result, although all necessary environmental consents for the Group's activities will be obtained and the Group intends to operate in accordance with applicable petroleum industry standards of environmental practice and comply in all material respects, full compliance with applicable environmental laws and regulations may not always be ensured.

Any failure to comply with relevant environmental, health and safety and other regulatory standards may subject the Group to extensive liability, fines and/or penalties and have an adverse effect on the business and operations, financial results or financial position of the Group. Furthermore, the future introduction or enactment of new laws, guidelines and regulations could serve to limit or curtail the growth and development of the Group's business or have an otherwise negative impact on its operations. Any changes to, and increases in, current regulations or legal requirements may have a material adverse effect upon the Group in terms of additional compliance costs.

***Decommissioning and abandonment***

Upon cessation of any operations on a Block, the Group is responsible for costs associated with abandoning infrastructure and restoring the operational sites by taking reasonable and necessary steps in accordance with generally accepted environmental practices in the international petroleum industry. The Group's environmental permits may specify commitments to the Government of Madagascar for specific rehabilitation activities on a site. At the end of the exploitation period, the relevant authority will confirm fulfilment, or require further work as necessary, to meet the permit conditions.

***Retention of key business relationships***

The Group will rely significantly on strategic relationships with other entities, on good relationships with regulatory and governmental departments and upon third parties to provide essential contracting services. There can be no assurance that its existing relationships will continue to be maintained or that new ones will be successfully formed, and the Group could be adversely affected by changes to such relationships or difficulties in forming new ones. Any circumstance which causes the early termination or non-renewal of one or more of these key business alliances or contracts could adversely impact the Group, its business, operating results and prospects.

***Project development risks***

There can be no assurance that the Group will be able to manage effectively the expansion of its operations or that the Group's current personnel, systems, procedures and controls will be adequate to support the Group's operations. This includes, *inter alia*, the Group managing the acquisition of required land tenure, infrastructure development and other related issues affecting local and indigenous populations, their cultures and religions. Any failure of the Board to manage effectively the Group's growth and development could have a material adverse effect on the Group's business, financial condition and results of operations. There is no certainty that all or, indeed, any of the elements of the Group's current strategy will develop as anticipated and that the Group will be profitable.

***Payment obligations under Production Sharing Contracts and other agreements***

Under the Production Sharing Contracts and certain other agreements to which the Group is, or may in the future become, a party, the Group is, or may become, subject to payment and other

obligations. If such obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by the Group. The Group may not have, or be able to obtain, funding for all such obligations as they arise.

***The Group's objectives may not be fulfilled***

The ability of the Board to implement the Group's strategy could be adversely affected by changes in the economy and/or industries in which it operates. Although the Group has a clearly defined strategy there can be no guarantee that its objectives or any of them will be achieved on a timely basis or at all. In particular, further projects and/or opportunities may not be available or of the quality or in the number required to satisfy the Group's requirements and therefore the anticipated development or growth of the Group may not be achieved. The Group's ability to attract new growth opportunities is also dependent on the maintenance of its reputation.

**2. General business risks relating to the Group**

***Future funding requirements***

Significant capital investment will be required to achieve commercial production from the Group's existing projects. The Group will need to raise additional capital by way of the issue of further Common Shares and/or by way of debt financing, or through other means, to finance its anticipated future operations, its working capital or capital expenditure requirements or to make acquisitions and finance its growth through future stages of development.

Additional equity issues may have a dilutive effect on the then prevailing Shareholders and investors if they are unable or choose not to subscribe for such additional Common Shares and the issue of additional Common Shares by the Company, or the possibility of such an issue, may cause the market price of the Common Shares to decline.

Furthermore, any debt financing, if available, may include conditions that would restrict the Group's freedom to operate its business, such as conditions that:

- limit the Group's ability to pay dividends or require it to seek consent for the payment of dividends;
- increase the Group's vulnerability to general adverse economic and industry conditions;
- require the Group to dedicate a portion of any cash flow arising from future operations to payments on its debt, thereby reducing the availability of its cash flow to fund capital expenditures, working capital and other general corporate purposes; and
- limit the Group's flexibility in planning for, or reacting to, changes in its business and its industries.

There can be no guarantee or assurance that such debt funding or additional equity will be forthcoming when required, or as to the terms and price on which such funds would be available if at all. If the Group is unable to obtain additional financing as needed, or on terms which are acceptable, it may not be able to fulfil its strategy, which could have a material adverse effect on the Group's business, financial position and prospects. It may also be required to reduce the scope of its operations or anticipated growth, forfeit its interest in some or all of its assets, incur financial penalties or reduce or terminate its operations.

***Risk of failure of Tsimiroro Steam Flood Pilot***

The Company has incurred and will continue to incur significant costs to develop and operate the Tsimiroro Steam Flood Pilot. This project currently represents the primary asset in the Company's portfolio. Failure of the pilot project to demonstrate the commercial viability of the Tsimiroro heavy oil deposit would have a material adverse affect on the Company's prospects.

***Insurance coverage and uninsured risks***

The Group insures its operations in accordance with industry practice and plans to insure the risks it considers appropriate for the Group's needs and circumstances. However, the Group may elect not to have insurance for certain risks, due to the high premium costs associated with insuring those risks or for various other reasons, including an assessment that the risks are remote. The Company currently does not carry political risk insurance.

No assurance can be given that the Group will be able to obtain insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any claims

arising. The Group may become subject to liability for pollution or other hazards against which it has not insured or cannot insure, including those in respect of past activities for which it was not responsible. Some forms of insurance protection used in developed western countries may be unavailable in Madagascar. In the event that insurance coverage is not available or the Group's insurance is insufficient to fully cover any losses, claims and/or liabilities incurred, the Group's business and operations, financial results or financial position may be disrupted and adversely affected.

The payment by the Group's insurers of any insurance claims may result in increases in the premiums payable by the Group for its insurance cover and adversely affect the Group's financial performance. In the future, some or all of the Group's insurance coverage may become unavailable or prohibitively expensive.

***Tax Assurance Certificate***

The duration of the Tax Assurance Certificate granted to the Company in Bermuda under the Exempted Undertakings Tax Protection Act 1966 is limited in duration and expires on 28 March 2016. Tax policy and legislation in Bermuda could change in the future (as is the case in other jurisdictions) and as such there is no guarantee as to whether the current tax treatment afforded to the Company would continue after 28 March 2016. The current government has indicated its intention to extend the duration of the Tax Assurance beyond 2016.

***Madagascar Tax Dispute***

Additional Madagascar taxes of approximately US$9 million (at the current Ariary/US Dollar exchange rate) in total 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 foreign suppliers' 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 suppliers' services in Madagascar following commissioning will be significantly lower and accordingly any continuing VAT liability going forward is expected to be greatly reduced.

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.

***Shareholder taxation***

The tax consequences to each Shareholder of owning Common Shares will depend, *inter alia*, on tax laws in the jurisdiction in which that Shareholder is resident or domiciled. Potential investors should consult their professional advisers on the possible tax consequences of subscribing for,

buying, holding, selling or transferring Common Shares under the laws of their country of citizenship, residence or domicile.

***Litigation***

While the Group currently has no material outstanding litigation or dispute (save as disclosed in this document), there can be no guarantee that the actions of the Group will not result in litigation and, without limitation as to the nature of any such potential claim, it is worth noting that there have been a number of cases where the rights and privileges of natural resource companies have been the subject of litigation. The petroleum industry, as with all industries, may be subject to legal claims, both with and without merit, from time to time. The Directors cannot preclude that such litigation may be brought against the Group in the future. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse effect on the Group's financial position, results or operations. The Group's business may be materially adversely affected if the Group and/or its employees or agents are found not to have met the appropriate standard of care or not exercised their discretion or authority in a prudent or appropriate manner in accordance with accepted standards.

**3. Risks relating to Madagascar**

***Political instability and significant changes in government policies and the Madagascan regulatory environment***

The Group's assets are located in Madagascar. Accordingly, the Group is subject to political, economic and social factors affecting Madagascar, regional diplomatic developments affecting Madagascar and changes in Madagascan laws, regulations and policies implemented by the Government of Madagascar from time to time. The Government of Madagascar has exercised, and continues to exercise, substantial influence over many aspects of strategic sectors and government agencies have direct requirements for oversight and approval of all company activities. The provisions for cost recovery under the PSCs suggest that the Government of Madagascar is not inclined to seek an active role either as a working interest owner, shareholder or director in exploration companies. Government actions or changes in political conditions (and the impact thereof on the domestic economy) in the future could have a significant effect on economic conditions in Madagascar, which could adversely affect the Group's business and its financial results.

Madagascar is currently experiencing a period of significant political instability. The previous president came to power following a disputed election in 2001. The current transitional regime took control with the support of the army in February 2009, which ultimately caused Madagascar to be suspended from international organisations and regional bodies such as the Southern African Development Community ("SADC") and the African Union. At the present time, Madagascar does not have a freely elected government in place. Negotiations are ongoing in an attempt to end the current impasse and restore a freely elected government; however SADC and the current regime have so far been unable to reach resolution. Elections are scheduled for May 2013 and transitional President Andry Rajoelina has recently announced that he will not run for election. During this transition period, the Government has limited powers and businesses in Madagascar are faced with significant uncertainty. The current regime has actively challenged longstanding interpretations of tax and resource laws in efforts to raise money. The Government has been more aggressive in trying to extract funding from foreign investors active in the country because of the lack of external political and financial support. Continued political instability may adversely affect the performance of the Madagascan economy and foreign sentiment towards the country and could have a material adverse effect on the Group.

The Petroleum Code requires a production sharing contract, including any amendments, to be certified by decree enacted by the President of the Republic of Madagascar. Certain amendments to the Production Sharing Contracts have been approved by OMNIS, in its capacity as legal representative of the Republic of Madagascar. Given the current political situation in Madagascar, as mentioned above, certain amendments to the PSCs are not yet approved by Presidential decree, pending receipt of which such amendments could be challenged as to their validity. It is unclear whether the head of the current regime is authorised to issue such presidential decrees or that they could be relied upon once a freely elected government is installed.

The role of government and local authorities in the Madagascan economy and their impact on producers, consumers, service providers and regulators has remained significant over the years. Since 1994, and particularly since 2003, the Government of Madagascar has made substantial macroeconomic reforms and pursued policies of economic liberalisation, including significantly relaxing restrictions on the private sector. However, there can be no assurance that these liberalisation policies will continue in the future. The rate of economic liberalisation could change, and laws and policies affecting petroleum regulation and the petroleum industries could also be subject to amendment. Any significant change in liberalisation and deregulation policies could adversely affect business and economic conditions in Madagascar generally and the Group's business in particular, which could have a material adverse effect on the Group's financial position, results of operations and the market price of the Common Shares.

***Natural calamities could have a negative impact on the Malagasy economy***

Madagascar has historically experienced natural calamities, in particular cyclones. Since its economy still has a sizeable agrarian component, Madagascar's economic growth and exports are also sensitive to rainfall levels and the volume of cotton and certain other cash crops produced. The extent and severity of natural disasters determines their impact on the Madagascan economy. Prolonged spells of abnormal rainfall and other natural calamities could have an adverse impact on the Madagascan economy which could adversely affect the Group's business and the market price of the Common Shares.

***Investors may not be able to enforce a judgment of a foreign court against the Company***

The Company's subsidiary, Madagascar Oil SA, is incorporated in Madagascar and substantially all of its assets are located in Madagascar. As a result, investors may not be able to enforce a judgement of a foreign court against the Company. Any foreign judgment, provided that it is enforceable in its initial country, can be enforced in Madagascar, subject to confirmation from Malagasy courts that such judgment is consistent with Malagasy laws and public policy. The Company has been advised by its Madagascan legal advisers that statutory recognition is given to foreign arbitral awards in Madagascar subject to the provisions of the 1958 New York Convention. This provides that subject to an admissibility hearing, arbitral awards can be enforced in Madagascar. Foreign judgements are not enforceable in the same way and a substantive hearing must take place before enforcement is granted.

A party seeking to enforce a foreign judgment in Madagascar would be required to obtain leave from the Tribunal (High Court) to execute such a judgment or to repatriate any amount recovered. Additionally, given the lack of financial resources, any judgment obtained against the Government of Madagascar may be difficult to recover.

***Any downgrading of Madagascar's prevailing debt rating by an international rating agency could have a negative impact on the Group***

Any adverse revision to Madagascar's prevailing credit rating for domestic and international debt by international rating agencies may adversely impact the Group's ability to raise future project financing and the interest rates and other commercial terms at which such additional financing may be available. This could have an adverse effect on the Group's financial performance and its ability to obtain financing to fund its growth on favourable terms or at all.

***Financial instability in other countries, particularly emerging market countries, could disrupt the Group's business and affect the price of the Common Shares***

Although economic conditions are different in each country, investors' reactions to developments in one country may have an adverse effect on the securities of companies in other countries, including Madagascar. A loss of investor confidence in the financial systems of other emerging markets may cause increased volatility in the Madagascan economy in general as investors move their money to more stable, developed markets. Any worldwide financial instability, including instability related to rising crude oil prices, could also have a negative impact on the Madagascan economy, including the movement of exchange rates and interest rates in Madagascar. Any financial disruption could have an adverse effect on the Group's business, future financial performance, shareholders' equity and the price of the Common Shares.

***Exchange rate fluctuations***

Currency fluctuations may affect the Group's operating cash flow since certain of its costs and revenues are likely to be denominated in a number of different currencies other than US Dollars such as Pounds Sterling, Canadian Dollars, Euros and Malagasy Ariary. Fluctuations in exchange rates between currencies in which the Group operates may cause fluctuations in its financial results which are not necessarily related to its underlying operations.

The Group has entered into hedging arrangements in connection with both the placing undertaken in February 2012 and also the New Financing Transaction. In each case the Group sold forward the Pounds Sterling it expected to receive pursuant to these fundraisings in exchange for US Dollars. These transactions were undertaken in order to ensure that the proceeds by the Group under each respective fundraising were received in US Dollars, which is the Group's primary currency. Save for these instances, the Group has not engaged in hedging or other risk management activities in order to offset the risk of currency exchange rate fluctuations although the Directors will consider minimising such risks, where appropriate, through the use of hedging or other financial instruments. The Group cannot predict in any meaningful way the effect of exchange rate fluctuations upon its future results.

***Transfer of funds to the Group's operating subsidiaries in Madagascar***

Madagascar SA, is incorporated in Madagascar. Pursuant to current legislation and the Petroleum Code, any transfer of funds from the Company to this subsidiary, either as a shareholder loan or as an increase in its registered capital, is free of exchange control. There can be no assurance that such freedom will be maintained, and this could restrict the Group's ability to respond to changing market conditions or to take advantage of acquisition opportunities.

***Acts of God, war, terrorist attacks and contagious diseases***

The Group's business is affected by general economic conditions in Madagascar and other parts of the world. Acts of God such as natural disasters and outbreaks of highly contagious diseases such as Chikungunya are beyond the control of the Group and, while isolated, may adversely affect the economy, infrastructure and livelihood of people in Madagascar and other parts of the world. The Group's business and profitability may be adversely affected should such acts of God and/or outbreaks occur and/or continue. There can be no assurance that any war, terrorist attack or other hostilities in any part of the world, potential, threatened or otherwise, will not, directly or indirectly, have an adverse effect on the operations and profitability of the Group.

**4. Risks associated with the Common Shares**

***Share price volatility and liquidity***

There can be no assurance that an active or liquid trading market for the Common Shares will be available or maintained. AIM is a market designed primarily for emerging or smaller growing companies which carry a higher than normal financial risk and tend to experience lower levels of liquidity than larger companies. Accordingly, AIM may not provide the liquidity normally associated with the Official List or some other stock exchanges. The Common Shares may therefore be difficult to sell compared to the shares of companies listed on the Official List and the share price may be subject to greater fluctuations than might otherwise be the case.

The Company is principally aiming to achieve capital growth and, therefore, Common Shares may not be suitable as a short-term investment. Consequently, the share price may be subject to greater fluctuation on small volumes of shares traded, and thus the Common Shares may be difficult to sell at a particular price. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Common Shares may not reflect the underlying value of the Company. There can be no guarantee that the value of an investment in the Company will increase. Investors may therefore realise less than, or lose all of, their original investment.

The share prices of publicly quoted companies can be highly volatile and shareholdings illiquid. The price at which the Common Shares are quoted and the price which investors may realise for their Common Shares may be influenced by a large number of factors, some of which are general or market specific, others which are sector specific and others which are specific to the Group and its operations. These factors include, without limitation, the performance of the Company and the overall stock market, large purchases or sales of Common Shares by other investors, changes in

legislation or regulations and changes in general economic, political or regulatory conditions and other factors which are outside of the control of the Company.

Shareholders may sell their Common Shares in the future to realise their investment. Sales of substantial amounts of Common Shares following Admission or the perception that such sales could occur, could materially adversely affect the market price of the Common Shares available for sale compared to the demand to buy Common Shares. Such sales may also make it more difficult for the Company to sell equity securities in the future at a time and price that is deemed appropriate. There can be no guarantee that the price of the Common Shares will reflect their actual or potential market value or the underlying value of the Group's net assets and the price of the Common Shares may decline below their current market price.

***Investment risk***

An investment in the Company is highly speculative, involves a considerable degree of risk and is suitable only for persons or entities which have substantial financial means and who can afford to hold their ownership interests for an indefinite amount of time. While various oil investment opportunities are available, potential investors should consider the risks that pertain to oil development projects in general, and ventures in Madagascar in particular.

As an example, in connection with the 2010-2011 expropriation dispute with the Government of Madagascar, the Company suspended trading in the Common Shares pending resolution of the dispute. Upon recommencement of trading in June 2011, the price of the Common Shares suffered a significant reduction and the Common Shares have been trading at a depressed level since that time.

***Dividends***

There can be no assurance as to the level of any future dividends. The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors, and will depend on, *inter alia*, the Company's earnings, financial position, cash requirements and availability of profits. A dividend may never be paid and at present, there is no intention to pay a dividend. At present, the Company's dividend policy is that all funds available for distribution should be reinvested in the business of the Company.

***Limited takeover protection***

As a Bermudan incorporated company, the Company is not directly subject to any restrictions on takeover offers such as those which exist in the UK pursuant to the City Code. As a result, any takeover offer for the Company or consolidation of control in the Company will not be regulated by the City Code or any other takeover regime. The Bye-laws contain certain limited takeover protections but do not provide the full protections afforded by the City Code.

***Influence by Substantial Shareholders***

Benchmark and Persistency have entered into the Relationship Agreement with the Company to regulate certain aspects of their relationship, further details of which are contained in paragraph 3(b) of Part 4. Benchmark is entitled to appoint two directors and Persistency is entitled to appoint one director for so long as the applicable Shareholder (together with its affiliates) holds at least 10 per cent. of the outstanding Common Shares. In addition, Benchmark is entitled to hold up to 40 per cent. of the outstanding Common Shares without being required under the Bye-laws to make a mandatory offer to all Shareholders consistent with Rule 9 of the City Code. Benchmark and Persistency will each be in a position to exert significant influence over the Company both at the Board level and as Shareholders. Whilst the Relationship Agreement includes certain controls and restrictions on Benchmark and Persistency which seek to preserve the independence of the Company, there can be no assurance that these will sufficiently protect other Shareholders, nor that Benchmark or Persistency will not take actions that benefit themselves individually at the risk of other Shareholders.

***Investors purchasing Open Offer Shares pursuant to Regulation D will be subject to transfer restrictions in this offering or in secondary offerings undertaken by the Company in the future***

Persons purchasing Open Offer Shares pursuant to Regulation D will be subject to resale restrictions in respect of the Open Offer Shares in this offering or in secondary offerings in the future. There can be no assurance that the person purchasing Open Offer Shares pursuant to Regulation D will be able to locate acceptable purchasers or obtain the required certifications.

***Persons holding shares in the form of Depositary Interests (''DIs'') may not be able to exercise voting rights***

Under the Bye-laws, only those persons who are Shareholders of record are entitled to exercise voting rights. Persons who hold Common Shares in the form of DIs will not be considered to be the recorded holders of the Common Shares that are on deposit with the Depositary and, accordingly, will not be able to exercise voting rights. However, the Deed Poll provides that the Depositary shall pass on, as far as it is reasonably able, rights and entitlements to vote. In order to direct the delivery of votes, holders of DIs must deliver instructions to the Depositary by the specified date. Neither the Company nor the Depositary can guarantee that holders of DIs will receive the notice in time to instruct the Depositary as to the delivery of votes in respect of Common Shares represented by DIs and it is possible that they will not have the opportunity to direct the delivery of votes in respect of such Common Shares.

In addition, persons who beneficially own Common Shares that are registered in the name of a nominee must instruct their nominee to deliver votes on their behalf. Neither the Company nor any nominee can guarantee that holders of DIs will receive any notice of a solicitation of votes in time to instruct nominees to deliver votes on behalf of such holders and it is possible that holders of DIs and other persons who hold Common Shares through brokers, dealers or other third parties will not have the opportunity to exercise any voting rights.

***Share options and warrants***

The Company has issued options, warrants and restricted shares to certain advisers, employees, Directors, senior management and consultants of the Group. The exercise of any such share options, warrants and restricted shares would result in a dilution of the shareholdings of other investors.

***Bermuda law***

The Company is incorporated in Bermuda and is, therefore, subject to Bermuda law. Accordingly, the rights of the Shareholders will be governed by the laws of Bermuda and by the Company's Memorandum of Association and Bye-laws. Bermuda law in respect of the protection of the interests of minority shareholders is different to that which pertains in England and Wales, and the differences may mean that minority shareholders have less protection than they would do under English law.

***Tax residence of the Company***

The Company is an exempted company incorporated in Bermuda. Whilst the Company has historically sought to manage its business so as to be treated as being resident outside of the UK for tax purposes, it is possible that the Company may be considered as being managed and controlled in the UK. Accordingly, it may be treated as being resident in the UK for UK tax purposes.

***Forward-looking statements***

This document contains forward-looking statements that involve risks and uncertainties. All statements, other than statements of historical facts, contained in this document, including statements regarding the Group's future financial position, business strategy and plans, business model and approach and objectives of management for future operations, are forward-looking statements. Generally, the forward-looking statements in this document use words like ''anticipate'', ''believe'', ''could'', ''estimate'', ''expect'', ''future'', ''intend'', ''may'', ''opportunity'', ''plan'', ''potential'', ''project'', ''seek'', ''will'' and similar terms. The Group's actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Group which are described in this section and elsewhere in this document. Investors are urged to read this entire document carefully before making an investment decision. The forward-looking statements in this document are based on the relevant Directors' beliefs and assumptions and information only as of the date of this document, and the forward-looking events discussed in this document might not occur. Therefore, investors should not place any reliance on any forward-looking statements. Except as required by law or regulation, the Directors undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future earnings or otherwise.

**It should be noted that the factors listed above are not intended to be exhaustive and do not necessarily comprise all of the risks to which the Group is or may be exposed or all**

**those associated with an investment in the Company. In particular, the Company's performance is likely to be affected by changes in market and/or economic conditions, political, judicial, and administrative factors and in legal, accounting, regulatory and tax requirements in the areas in which it operates and holds its major assets. There may be additional risks and uncertainties that the Directors do not currently consider to be material or of which they are currently unaware which may also have an adverse effect upon the Group.**

**If any of the risks referred to above crystallise, the Group's business, financial condition, results or future operations could be materially adversely affected. In such case, the price of its Common Shares could decline and investors may lose all or part of their investment.**

# PART 3

# TERMS AND CONDITIONS OF THE OPEN OFFER

## 1. Introduction

The Company proposes to raise approximately £49.5 million (approximately US$78.4 million) by way of the Placing and Open Offer of 275,237,772 New Common Shares at a price of 18 pence per New Common Share. The Open Offer Shares (other than the Committed Shares) are being placed conditionally at the Issue Price with placees, being existing Shareholders, subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer. The Committed Shares are the subject of Irrevocable Undertakings from Shareholders to take up their entitlements under the Open Offer and accordingly are not being placed or underwritten by Mirabaud or GMP.

The Open Offer is an opportunity for Qualifying Shareholders to apply to subscribe for Open Offer Shares at the Issue Price in accordance with the terms of the Open Offer. Any Qualifying Shareholder who has sold or transferred all or part of his registered holding of Existing Common Shares before the Record Date is advised to consult his stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible since the invitation to apply for Open Offer Shares under the Open Offer may be a benefit which may be claimed from him by the purchasers.

A summary of the arrangements relating to the Open Offer is set out below. This document and, for Qualifying Common Shareholders, the Application Form contains the formal terms and conditions of the Open Offer. Your attention is drawn to paragraph 4 of this Part 3 which gives details of the procedure for application and payment for the Open Offer Shares.

## 2. The Open Offer

Subject to the fulfillment of the terms and conditions referred to in this 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 per Open Offer Share, 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 on the Record Date and so on in proportion for any other number of Common Shares then held. The Open Offer is subject to a minimum subscription of 467,223 Open Offer Shares (therefore being of value, in excess of €100,000) 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 Common Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer.

In accordance with Bye-law 6.6, fractions of Open Offer Shares will not be allotted, each Qualifying Shareholder's entitlement being rounded down to the nearest whole number. The fractional entitlements will be aggregated and included in the Placing, with the proceeds being retained for the benefit of the Company. Qualifying Shareholders may apply for any number of Open Offer Shares up to their maximum entitlement which, in the case of Qualifying Common Shareholders, is equal to the number of Open Offer Entitlements as shown on their Application Form or, in the case of Qualifying Depositary Interest Holders, is equal to the number of Open Offer Entitlements standing to the credit of their stock account in CREST. No application in excess of a Qualifying Shareholder's maximum entitlement will be met and any Qualifying Shareholder so applying will be deemed to have applied for his maximum entitlement. Any monies paid in excess of the amount due in respect of an application will be returned to the applicant (at the applicant's risk) without interest within 14 days by way of cheque or CREST payment, as appropriate. The action to be taken in relation to the Open Offer depends on whether, at the time at which application and payment is made, you have an Application Form in respect of your entitlement under the Open Offer or have Open Offer Entitlements credited to your stock account in CREST in respect of such entitlement.

If you have received an Application Form with this document, please refer to paragraph 4(i) and paragraphs 5 to 9 of this Part 3.

If you hold your Common Shares in CREST and have received a credit of Open Offer Entitlements to your CREST stock account, please refer to paragraph 4(ii) and paragraphs 5 to 9 of this Part 3 and also to the CREST Manual for further information on the CREST procedures referred to below.

The Open Offer is not a rights issue. Qualifying Depositary Interest Holders should note that although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's Claims Processing Unit. Qualifying Common Shareholders should note that the Application Form is not a negotiable document and cannot be traded. Qualifying Shareholders should be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market or placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer, but instead will be placed under the Placing for the benefit of the Company.

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.

The Existing Common Shares are already admitted to CREST. No further application for admission to CREST is accordingly required for the Open Offer Shares; all of such Open Offer Shares, when issued and fully paid, may be held and transferred by means of CREST.

Application has been made for the Open Offer Entitlements to be admitted to CREST. The conditions to such admission having already been met, the Open Offer Entitlements are expected to be admitted to CREST with effect from 25 January 2013.

The Open Offer Shares will be issued fully paid and will be identical to, and 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 Open Offer Shares. No temporary documents of title will be issued.

Qualifying Depository Interest Holders will have their entitlement to Open Offer Shares passed on to them by Computershare Investor Services PLC in its capacity as Depositary in accordance with the terms of the Deed Poll and, as such, Computershare Investor Services PLC shall not separately constitute a Qualifying Common Shareholder in respect its legal holding of Common Shares.

### 3. Conditions and further terms 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.

Further details of the Placing Agreement are set out in paragraph 3(d) of Part 4 of this document.

Further terms of the Placing and Open Offer are set out in this document and, where appropriate, in the Application Form.

### 4. Procedure for application and payment

The action to be taken by a Qualifying Shareholder in respect of the Open Offer depends on whether, at the relevant time, a Qualifying Shareholder has an Application Form in respect of his entitlement under the Open Offer or Open Offer Entitlements credited to his CREST stock account in respect of such entitlement.

Qualifying Shareholders who hold their Existing Common Shares in certificated form will be allotted Open Offer Shares in certificated form. Qualifying Shareholders who hold all or part of their

Existing Common Shares in uncertificated form will be allotted Open Offer Shares in uncertificated form to the extent that their entitlement to Open Offer Shares arises as a result of holding Existing Common Shares in uncertificated form. However, it will be possible for Qualifying Shareholders to deposit entitlements into, and withdraw them from, CREST. Further information on deposit and withdrawal from CREST is set out in paragraph 4(ii)(e) of this Part 3.

CREST sponsored members should refer to their CREST sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document the Company will make an appropriate announcement on a Regulatory Information Service giving details of the revised dates.

**Qualifying Shareholders who do not want to take up or apply for the Open Offer Shares under the Open Offer should take no action and, where appropriate, should not complete or return the Application Form.**

(i) ***If you have an Application Form in respect of your entitlement under the Open Offer***

(a) *General*

Qualifying Common Shareholders will have received an Application Form enclosed with this document. The Application Form shows the number of Existing Common Shares registered in your name at the close of business on the Record Date. It also shows the maximum number of Open Offer Shares for which you are entitled to apply under the Open Offer, as shown by the total number of Open Offer Entitlements allocated to you. You may apply for less (subject to a minimum subscription of 467,223 Open Offer Shares), but not more, than your maximum entitlement should you wish to do so. You may also hold such an Application Form by virtue of a *bona fide* market claim.

The instructions and other terms set out in the Application Form form part of the terms of the Open Offer.

(b) *Market claims*

Applications may only be made on the Application Form and may only be made by the Qualifying Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Existing Common Shares through the market prior to the Record Date, being close of business on 22 January 2013. Application Forms may be split up to 3.00 p.m. on 5 February 2013. The Application Form is not a negotiable document and cannot be separately traded. A Qualifying Common Shareholder who has sold or transferred all or part of his holding of Existing Common Shares prior to the Record Date, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire Open Offer Shares under the Open Offer may be a benefit which may be claimed by the transferee from his counterparty. Qualifying Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box J on the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Application Form should not, however, subject to certain exceptions, be forwarded to or transmitted in or into the United States, Australia, Canada, Japan, New Zealand, the Republic of Ireland or South Africa.

If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedures set out in paragraph ii(e) below.

(c) *Application procedures*

If you are a Qualifying Common Shareholder and wish to apply for all or some of your entitlement to Open Offer Shares under the Open Offer you should complete and sign the Application Form in accordance with the instructions on it and send it, together with the appropriate remittance, by post to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom, or by hand to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, United Kingdom (during normal business hours only), telephone number

0870 707 4040 so as to arrive no later than 12.00 p.m. on 8 February 2013. A reply paid envelope is enclosed for use by Qualifying Common Shareholders in connection with the Open Offer.

Please note that the Registrar cannot provide financial advice on the merits of the Open Offer or as to whether or not you should take up your entitlement to Open Offer Shares under the Open Offer. If any Application Form is sent by first class post within the United Kingdom, Qualifying Common Shareholders are recommended to allow at least four business days for delivery. The Company may, in its absolute discretion, elect to accept Application Forms and remittances received after that date. The Company may, in its sole discretion, elect to treat an Application Form as valid and binding on the person(s) by whom or on whose behalf it is lodged, even if it is not completed in accordance with the relevant instructions, or if it does not strictly comply with the terms and conditions of application. Applications will not be acknowledged.

(d) *Payments*

All payments must be in pounds sterling and cheques or banker's drafts should be made payable to ''CIS plc re: Madagascar Oil Limited – Open Offer'' and crossed ''A/C payee only''. Cheques or banker's drafts must be drawn on an account at a branch or a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which is a member of either of the Committees of Scottish or Belfast clearing houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right hand corner. Eurocheques, unless drawn on a bank in the United Kingdom, the Channel Islands or the Isle of Man, will not be accepted.

Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct Computershare Investor Services (Bermuda) Limited (in its capacity as registrar to the Company) to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be allowed on payments made before they are due and any interest earned on such payments will accrue for the benefit of the Company. It is a term of the Open Offer that cheques shall be honoured on first presentation, and the Company and/or Strand Hanson (on the Company's behalf) may elect in their absolute discretion to treat as invalid acceptances in respect of which cheques are not so honoured.

Application monies will be paid into a separate bank account pending the Open Offer becoming unconditional. In the event that it does not become unconditional by 8.00 a.m. on 12 February 2013 or such later time and date as the Company shall agree (being no later than 5.00 p.m. on 28 February 2013), the Placing and Open Offer will lapse and application monies will be returned by post to Applicants, at the Applicants' risk and without interest, to the address set out on the Application Form, within 14 days thereafter. The interest earned on monies held in the separate bank account will be retained for the benefit of the Company.

(e) *Effect of application*

All documents and remittances sent by post by or to an Applicant (or as the Applicant may direct) will be sent at the Applicant's own risk.

**By completing and delivering an Application Form, the Applicant gives the representations, warranties and covenants set out in Schedule 1.**

If you do not wish to apply for any of the Open Offer Shares to which you are entitled under the Open Offer, you should not complete and return the Application Form.

If you are in any doubt as to whether or not you should apply for any of the Open Offer Shares under the Open Offer, you should consult your independent financial adviser immediately. All enquiries in relation to the procedure for application for Qualifying Common Shareholders under the Open Offer should be addressed to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6AH, United Kingdom, telephone 0870 707 4040. Please note that Computershare Investor Services (Bermuda) Limited cannot provide financial advice on the merits of the Open Offer or as to whether or not you should take up your entitlement.

(ii) ***If you have Open Offer Entitlements credited to your stock account in CREST in respect of your entitlement under the Open Offer***

(a) *General*

Save as provided in paragraph 7 of Part 3 of this document in relation to certain Overseas Shareholders, each Qualifying Depositary Interest Holder will receive a credit to his stock account in CREST of his Open Offer Entitlements equal to the maximum number of Open Offer Shares for which he is entitled to apply under the Open Offer.

The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Common Shares held on the Record Date by the Qualifying Depositary Interest Holder in respect of which the Open Offer Entitlements have been allocated.

If for any reason the Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Qualifying Depositary Interest Holders cannot be credited by, 3.00 p.m. on 25 January 2013 or such later time as the Company may decide, an Application Form will be sent out to each Qualifying Depositary Interest Holder in substitution for the Open Offer Entitlements credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Qualifying Common Shareholders with Application Forms will apply to Qualifying Depositary Interest Holders who receive Application Forms.

CREST members who wish to apply for some or all of their entitlements to Open Offer Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact Computershare Investor Services plc on 0870 707 4040. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to apply for Open Offer Shares as only your CREST sponsor will be able to take the necessary action to make this application in CREST.

*(b) Market claims*

The Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as ''cum'' the Open Offer entitlement will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

*(c) USE instructions*

CREST members who wish to apply for Open Offer Shares in respect of all or some of their Open Offer Entitlements in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event (''**USE**'') instruction to Euroclear which, on its settlement, will have the following effect:

(i) the crediting of a stock account of the Registrar under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of Open Offer Shares applied for; and

(ii) the creation of a CREST payment, in accordance with the CREST payment arrangements, in favour of the payment bank of the Registrar in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above.

*(d) Content of USE instructions*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

(i) the number of Open Offer Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to the Registrar);

(ii) the ISIN of the Open Offer Entitlement. This is GB00B9626045;

(iii) the CREST participant ID of the accepting CREST member;

(iv) the CREST member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;

(v) the participant ID of the Registrar, in its capacity as a CREST receiving agent. This is RA65;

(vi) the member account ID of the Registrar, in its capacity as a CREST receiving agent. This is MADOIL01;

(vii) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above;

(viii) the intended settlement date. This must be on or before 11.00 a.m. on 8 February 2013;

(ix) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 8 February 2013.

In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

(A) a contact name and telephone number (in the free format shared note field); and

(B) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 8 February 2013 in order to be valid is 11.00 a.m. on that day.

In the event that the Open Offer does not become unconditional by 8.00 a.m. on 12 February 2013 or such later time and date as the Company shall agree (being no later than 5.00 p.m. on 28 February 2013), the Placing and Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Registrar will refund the amount paid by a Qualifying Depositary Interest Holder by way of a CREST payment, without interest, within 14 days thereafter. The interest earned on such monies will be retained for the benefit of the Company.

*(e) Deposit of Open Offer Entitlements into, and withdrawal from, CREST*

A Qualifying Common Shareholder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Application Form may be deposited into CREST (either into the account of the Qualifying Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim). Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer is reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Application Form.

A holder of an Application Form who is proposing so to deposit the entitlement set out in such form is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 8 February 2013.

In particular, having regard to normal processing times in CREST and on the part of the Registrar, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Application Form as Open Offer Entitlements in CREST, is 3.00 p.m. on 6 February 2013, and the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 4.30 p.m. on 4 February 2013, in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements prior to 11.00 a.m. on 8 February 2013.

Delivery of an Application Form with the CREST Deposit Form duly completed whether in respect of a deposit into the account of the Qualifying Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Registrar by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes under the paragraph headed "Instructions for Depositing entitlements under the Open

Offer into CREST'' on page 3 of the Application Form, and a declaration to the Company and the Registrar from the relevant CREST member(s) that it/they is/are not citizen(s) or resident(s) of Australia, Canada, Japan, New Zealand, the Republic of South Africa or the Republic of Ireland and, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

*(f) Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 8 February 2013 will constitute a valid application under the Open Offer.

*(g) CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear does not make available special procedures, in CREST, for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 8 February 2013. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

*(h) Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company through the Registrar reserves the right:

(i) to reject the application in full and refund the payment to the CREST member in question;

(ii) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of Open Offer Shares as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question;

(iii) in the case that an excess sum is paid, to treat the application as a valid application for all the Open Offer Shares referred to in the USE instruction refunding any unutilised sum to the CREST member in question.

*(i) Effect of Valid Application*

A CREST member who makes or is treated as making a valid application in accordance with the above procedures will thereby:

(i) **give the representations, warranties and covenants set out in Schedule 1**;

(ii) pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to the Registrars payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);

(iii) request that the Open Offer Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the Memorandum and Articles of Association of the Company.

*(j) Company's discretion as to the rejection and validity of applications*

The Company may in its sole discretion:

(i) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part 3;

(ii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;

(iii) treat a properly authenticated dematerialised instruction (in this sub paragraph the ''first instruction'') as not constituting a valid application if, at the time at which the Registrar receives a properly authenticated dematerialised instruction giving details of the first

instruction or thereafter, either the Company or the Registrar have received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

(iv) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for Open Offer Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

## 5. Money Laundering Regulations

(i) *Holders of Application Forms*

To ensure compliance with the Money Laundering Regulations, the Registrar may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf the Application Form is lodged with payment (which requirements are referred to below as the ''verification of identity requirements''). If the Application Form is submitted by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Receiving Agent. In such case, the lodging agent's stamp should be inserted on the Application Form.

The person lodging the Application Form with payment and in accordance with the other terms as described above (the ''acceptor''), including any person who appears to the Registrar to be acting on behalf of some other person, accepts the Open Offer in respect of such number of Open Offer Shares as is referred to therein (for the purposes of this paragraph 5, the ''relevant Open Offer Shares'') and shall thereby be deemed to agree to provide the Receiving Agent with such information and other evidence as the Registrar may require to satisfy the verification of identity requirements.

If the Registrar determines that the verification of identity requirements apply to any acceptor or application, the relevant Open Offer Shares (notwithstanding any other term of the Open Offer) will not be issued to the relevant acceptor unless and until the verification of identity requirements have been satisfied in respect of that acceptor or application. The Registrar is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any acceptor or application and whether such requirements have been satisfied, and neither the Registrar nor the Company will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity and address within a reasonable time may result in delays in the despatch of share certificates or in crediting CREST accounts. If, within a reasonable time following a request for verification of identity, the Registrar has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, treat the relevant application as invalid, in which event the monies payable on acceptance of the Open Offer will be returned (at the acceptor's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn.

Submission of an Application Form with the appropriate remittance will constitute a warranty to each of the Receiving Agent, the Company and Strand Hanson from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.

The verification of identity requirements will not usually apply:

(a) if the applicant is an organisation required to comply with the Money Laundering Directive (2005/60/EC of the European Parliament and of the EC Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing); or

(b) if the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or

(c) if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the applicant's name.

In other cases the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

(A) if payment is made by cheque or banker's draft in sterling drawn on a branch in the British Isles of a bank or building society which bears a UK bank sort code number in the top right hand corner, the lowing applies. Cheques should be made payable to ''CIS plc re: Madagascar Oil Limited — Open Offer'' in respect of an application by a Qualifying Shareholder and crossed ''A/C Payee Only'' in each case. Third party cheques will not be accepted with the exception of building society cheques or bankers' drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque/bankers' draft to such effect. The account name should be the same as that shown on the Application Form; or

(B) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in paragraph 5(i)(a) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, China, Gibraltar, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, the Russian Federation, Singapore, The Republic of South Africa, Switzerland, Turkey, UK Crown Dependencies and the US and, by virtue of their membership of the Gulf Cooperation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide with the Application Form, written confirmation that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to the Registrar. If the agent is not such an organisation, it should contact the Registrar by post to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6AH, United Kingdom, or by hand to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom (during normal business hours only) or by telephone (telephone number 0870 707 4040).

To confirm the acceptability of any written assurance referred to in paragraph 5(i)(B) above, or in any other case, the acceptor should contact the Registrar on 0870 707 4040 or if you are calling from outside the UK on +44 (0)870 707 4040. Calls to the 0870707 4040 number cost approximately 8 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 8.30 a.m. to 5.00 p.m. (London time) Monday to Friday. Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Open Offer nor give any financial, legal or tax advice.

If the Application Form(s) is/are in respect of Open Offer Shares with an aggregate subscription price of €15,000 (approximately £12,615) or more and is/are lodged by hand by the acceptor in person, or if the Application Form(s) in respect of Open Offer Shares is/are lodged by hand by the acceptor and the accompanying payment is not the acceptor's own cheque, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and separate evidence of his address.

If, within a reasonable period of time following a request for verification of identity, and in any case by no later than 11.00 a.m. on 8 February 2013, the Registrar has not received evidence satisfactory to it as aforesaid, the Registrar may, at its discretion, as agent of the Company, reject the relevant application, in which event the monies submitted in respect of that application will be returned without interest to the applicant (without prejudice to the rights of the Company to undertake proceedings to recover monies in respect of the loss suffered by it as a result of the failure to produce satisfactory evidence as aforesaid).

(ii) *Open Offer Entitlements in CREST*

If you hold your Open Offer Entitlements in CREST and apply for Open Offer Shares in respect of all or some of your Open Offer Entitlements as agent for one or more persons and you are not a

UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Registrar is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact the Registrar before sending any USE or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Registrar such information as may be specified by the Registrar as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to the Registrar as to identity, the Registrar may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay issue of the Open Offer Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the Open Offer Shares represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

## 6. Taxation

The following summary is intended as a general guide for United Kingdom resident individuals and companies who hold Common Shares as investments (rather than as dealing stock). Special rules apply to UK resident individuals who are not domiciled in the United Kingdom; those rules are not described in this summary. The summary is based upon existing legislation and current HM Revenue and Customs practice. Any person who is in any doubt as to his tax position, whether in the United Kingdom or in any other jurisdiction in which he may be liable to tax, should consult, and rely upon, the advice of his own professional adviser. The statements below do not constitute advice to any person.

(i) *Tax residence of the Company*

The Company is an exempted company incorporated in Bermuda. Whilst the Company has historically sought to manage its business so as to be treated as being resident outside of the UK for tax purposes, it is possible that the Company may be considered as being managed and controlled in the UK. Accordingly, it may be treated as being resident in the UK for UK tax purposes.

(ii) *Taxation of Dividends*

*(a) Individuals*

An individual shareholder who is resident in the UK (for tax purposes) and who receives a dividend from the Company (and, if the Company is not considered as resident in the UK for tax purposes, owns less than 10 per cent. of the total share capital of the Company) will generally be entitled to a tax credit which such shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the ''gross dividend''), which is also equal to one-ninth of the cash dividend received. A UK resident individual shareholder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit (if available) will satisfy in full such shareholder's liability to income tax on the dividend.

A UK resident individual shareholder who is liable to income tax at the higher rate will be liable to tax on the gross dividend at the rate of 32.5 per cent. A UK resident individual shareholder who is liable to tax at the 'additional' rate will be liable to tax on the gross dividend at the rate of 42.5 per cent. The gross dividend will be regarded as the top slice of the shareholder's income. After taking into account the 10 per cent. tax credit (if available), a higher rate tax payer will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the net cash dividend received). An individual paying 'additional' rate income tax will have to account, after taking into account the 10 per cent. tax credit (if available), for tax equal to 32.5 per cent. of the gross dividend (which is also equal to approximately 36 per cent. of the net cash dividend received).

It will not be possible for UK resident shareholders to claim repayment of the tax credit in respect of dividends.

If an individual owns more than 10 per cent. of the total share capital they will not be entitled to the tax credit if the Company is not treated as being resident in the UK for tax purposes.

*(b) Companies*

If the Company is not considered as UK tax resident, UK resident corporate Shareholders may be liable to corporation tax on dividends from the Company depending upon whether or not they are treated as a ''small company'' for the purposes of the relevant rules. Companies which are not small should not be liable to corporation tax on the receipt of a dividend. If the Company is considered to be UK tax resident, a dividend may be exempt from corporation tax. Corporate Shareholders are recommended to consult, and rely upon, the advice of their own professional advisers in relation to dividend income from the Company.

*(c) Withholding Tax*

The Company will not be required to make any deduction from any dividend on account of UK taxation.

*(d) Capital Gains Tax*

For the purposes of UK taxation of chargeable gains (''**CGT**''), the issue of Open Offer Shares to Qualifying Shareholders who take up their entitlement should be regarded as a reorganisation of the share capital of the Company. Accordingly, to the extent that a Qualifying Shareholder takes up all or part of his entitlement under the Open Offer, he should not be treated as making a disposal of all or part of his holding of Existing Common Shares and no liability to CGT should arise. Instead, the Open Offer Shares acquired and the Existing Common Shares in respect of which they are issued will, for CGT purposes, be treated as the same asset and as having been acquired at the same time as the Existing Common Shares. The amount paid for the Open Offer Shares will be added to the base cost of the Existing Common Shares when computing any gain or loss on any subsequent disposal but, for the purposes of calculating the indexation allowance (in the case of corporate Shareholders) on a subsequent disposal of Common Shares, the amount paid will generally be taken into account only from the time that the payment was made. In the case of non-corporate Shareholders, indexation allowance is not available.

(iii) *Stamp duty*

No UK stamp duty should be payable on the issue by the Company of any New Common Shares.

**Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult their independent professional adviser immediately.**

## 7. Overseas Shareholders

The making of the Open Offer to persons resident in, or who are citizens of, or who have a registered address in, countries other than the UK may be affected by the law or regulatory requirements of the relevant jurisdiction. The comments set out in this paragraph 7 are intended as a general guide only and any Overseas Shareholders who are in any doubt as to their position should consult their professional advisers without delay.

(i) *General*

The distribution of this document and, where appropriate, the Application Form and the making of the Open Offer to persons who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the UK or to persons who are nominees of or custodians, trustees or guardians for citizens, residents in or nationals of, countries other than the UK may be affected by the laws or regulatory requirements of the relevant jurisdictions. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirement or other formalities to enable them to apply for Open Offer Shares under the Open Offer.

No action has been or will be taken by the Company, Mirabaud, GMP or Strand Hanson or any other person to permit a public offering or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Open Offer Shares) in any jurisdiction where action for that purpose may be required.

Receipt of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in any jurisdiction in which it may be illegal to make such an invitation or offer including, without limitation, and subject to certain exemptions, the United States, Canada, the Republic of South Africa, Australia, the Republic of Ireland or Japan (each, a ''**Restricted**

**Jurisdiction**") and, in those circumstances, and subject to certain exemptions, this document and/or the Application Form must be treated as sent for information purposes only and should not be copied or redistributed.

Due to restrictions under the securities laws of the Restricted Jurisdictions and certain commercial considerations, Application Forms will not be sent to, and Open Offer Entitlements will not be credited to stock accounts in CREST of, Overseas Shareholders who are resident in, or who are citizens of, or who have a registered address in, a Restricted Jurisdiction, or their agents or intermediaries, except where the Company is satisfied, at its sole and absolute discretion, that such action would not result in the contravention of any registration or other legal requirement in the relevant jurisdiction.

No person receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use any such Application Form and/or credit of Open Offer Entitlements to a stock account in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him and such Application Form and/or credit of Open Offer Entitlements to a stock account in CREST could lawfully be used, and any transaction resulting from such use could be effected, without contravention of any registration or other legal or regulatory requirements. In circumstances where an invitation or offer would contravene any registration or other legal or regulatory requirements, this document and/or the Application Form must be treated as sent for information purposes only and should not be copied or redistributed.

It is the responsibility of any person (including, without limitation, custodians, agents, nominees and trustees) outside the UK wishing to apply for Open Offer Shares under the Open Offer to satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any governmental or other consents that may be required, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such territory.

None of the Company, Mirabaud, GMP or Strand Hanson nor any of their respective representatives is making any representation to any offeree or purchaser of Open Offer Shares regarding the legality of an investment in the Open Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

Persons (including, without limitation, custodians, agents, nominees and trustees) receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST, in connection with the Open Offer or otherwise, should not distribute or send either of those documents nor transfer Open Offer Entitlements in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST is received by any person in any such territory, or by his custodian, agent, nominee or trustee, he must not seek to apply for Open Offer Shares unless the Company and Strand Hanson determine that such action would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, agents, nominees and trustees) who does forward a copy of this document and/or an Application Form and/or transfers Open Offer Entitlements into any such territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this Part 3 (Terms and conditions of the Open Offer) and specifically the contents of this paragraph 7.

Subject to paragraphs 7(ii) to 7(vii) below, any person (including, without limitation, custodians, agents, nominees and trustees) outside the UK wishing to apply for Open Offer Shares must satisfy himself as to the full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and pay any issue, transfer or other taxes due in such territories.

The Company reserves the right to treat as invalid any application or purported application for Open Offer Shares that appears to the Company or its agents to have been executed, effected or despatched by an Overseas Shareholder who is resident in, or who is a citizen of, or who has a registered address in, a Restricted Jurisdiction or on behalf of such a person by their agent or intermediary or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements or if it provides an address for delivery of the share certificate(s) for Open Offer

Shares or, in the case of a credit of Open Offer Entitlements to a stock account in CREST, to a CREST member whose registered address would be, in a Restricted Jurisdiction or any other jurisdiction outside the UK in which it would be unlawful to deliver such share certificate(s) or make such a credit.

The attention of Overseas Shareholders is drawn to paragraphs 7(ii) to 7(vii) below. Notwithstanding any other provision of this document or the Application Form, the Company reserves the right to permit any Qualifying Shareholder who is resident in, or who is a citizen of, or who has a registered address in, a Restricted Jurisdiction to apply for Open Offer Shares if the Company, in its sole and absolute discretion, is satisfied that the transaction in question is exempt from, or not subject to, the legislation or regulations giving rise to the restrictions in question.

Overseas Shareholders who wish, and are permitted, to apply for Open Offer Shares should note that payment must be made in sterling denominated cheques or bankers' drafts or where such an Overseas Shareholder is a Qualifying Depositary Interest Holder, through CREST.

Due to restrictions under the securities laws of the Restricted Jurisdictions, subject to certain exceptions, Overseas Shareholders who are resident in, or who are citizens of, or who have a registered address in, a Restricted Jurisdiction will not qualify to participate in the Open Offer and will not be sent an Application Form nor will their stock accounts in CREST be credited with Open Offer Entitlements.

The Open Offer Shares have not been and will not be registered under the relevant laws of any Restricted Jurisdiction or any state, province or territory thereof and may not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, in or into any Restricted Jurisdiction or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Restricted Jurisdiction except pursuant to an applicable exemption.

No public offer of Open Offer Shares is being made by virtue of this document or the Application Form into any Restricted Jurisdiction. Receipt of this document and/or an Application Form and/or a credit of an Open Offer Entitlement to a stock account in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Application Form must be treated as sent for information purposes only and should not be copied or redistributed.

(ii) *United States*

Subject to certain exceptions, this document is intended for use only in connection with offers of Open Offer Shares outside the United States and neither this document nor any Application Form is to be sent or given to any person within the United States. The Open Offer Shares offered hereby are not being and will not be registered under the US Securities Act or securities laws of any US state or jurisdiction and will not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and such other applicable laws.

Subject to certain exceptions, the Open Offer Shares will be distributed, offered or sold, as the case may be, outside the United States in offshore transactions within the meaning of, and in accordance with, Regulation S under the US Securities Act.

Each person to which the Open Offer Shares are distributed, offered or sold outside the United States will be deemed by its subscription for the Open Offer Shares to have represented and agreed, on its behalf and on behalf of any investor accounts for which it is subscribing the Open Offer Shares, as the case may be, that:

(a) it is acquiring the Open Offer Shares from the Company in an ''offshore transaction'' as defined in Regulation S under the US Securities Act; and

(b) the Open Offer Shares have not been offered to it by the Company or Mirabaud or GMP or Strand Hanson by means of any ''directed selling efforts'' as defined in Regulation S under the US Securities Act.

Each subscriber acknowledges that the Company, Mirabaud, GMP and Strand Hanson will rely upon the truth and accuracy of the foregoing representations and agreements, and agrees that if any of the representations and agreements deemed to have been made by such subscriber or purchaser by its subscription for the Open Offer Shares, as the case may be, are no longer

accurate, it shall promptly notify the Company, Mirabaud, GMP and Strand Hanson. If such subscriber is subscribing for the Open Offer Shares as a fiduciary or agent for one or more investor accounts, each subscriber or purchaser represents that it has sole investment discretion with respect to each such account and full power to make the foregoing representations and agreements on behalf of each such account.

Each subscriber acknowledges that it will not resell the Open Offer Shares without registration or an available exemption or safe harbour from registration under the US Securities Act.

(iii) *Canada*

This document is not, and is not to be construed as, a prospectus, an advertisement or a public offering of securities in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this document or the merits of the Open Offer Shares, and any representation to the contrary is an offence.

In addition, the relevant exemptions are not being obtained from the appropriate provincial authorities in Canada. Accordingly, the Open Offer Shares are not being offered for subscription by persons resident in Canada or any territory or possessions thereof. Applications from any Canadian Person who appears to be or whom the Company has reason to believe to be so resident or the agent of any person so resident will be deemed to be invalid. Neither this document nor an Application Form will be sent to and no Open Offer Entitlements will be credited to a stock account in CREST of any Shareholder in the Company whose registered address is in Canada. If any Application Form is received by any Shareholder in the Company whose registered address is elsewhere but who is, in fact, a Canadian Person or the agent of a Canadian Person so resident, he should not apply under the Open Offer.

For the purposes of this paragraph 7(iii), ''Canadian Person'' means a citizen or resident of Canada, including the estate of any such person or any corporation, partnership or other entity created or organised under the laws of Canada or any political sub-division thereof.

(iv) *Other Restricted Jurisdictions*

The Open Offer Shares have not been and will not be registered under the relevant laws of any Restricted Jurisdiction or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into any Restricted Jurisdiction or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Restricted Jurisdiction except pursuant to an applicable exemption.

No offer of Open Offer Shares is being made by virtue of this document or the Application Forms into any Restricted Jurisdiction.

(v) *Other overseas territories*

Application Forms will be sent to Qualifying Common Shareholders and Open Offer Entitlements will be credited to the stock account in CREST of Qualifying Depositary Interest Holders. Qualifying Shareholders in jurisdictions other than the Restricted Jurisdictions may, subject to the laws of their relevant jurisdiction, take up Open Offer Shares under the Open Offer in accordance with the instructions set out in this document and the Application Form. Such Qualifying Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, countries other than the UK should, however, consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for any Open Offer Shares. The participation by any such Qualifying Shareholder in the Open Offer will be at the absolute discretion of the Company.

(vi) *Representations and warranties relating to Overseas Shareholders*

(a) Qualifying Common Shareholders

Any person completing and returning an Application Form or requesting registration of the Open Offer Shares comprised therein represents and warrants to the Company, Strand Hanson and the Registrar that, except where proof has been provided to the Company's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction: (i) such person is not requesting registration of the relevant Open Offer Shares from within any Restricted Jurisdiction; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares or to use the Application Form in any manner in which such person has used or will use it; (iii) such person is not acting on

a non-discretionary basis for a person located within any Restricted Jurisdiction or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) such person is not acquiring Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into any of the above territories.

The Company and/or the Registrar may treat as invalid any acceptance or purported acceptance of the allotment of Open Offer Shares comprised in an Application Form if it: (i) appears to the Company or its agents to have been executed, effected or despatched from a Restricted Jurisdiction or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or (ii) provides an address in a Restricted Jurisdiction for delivery of the share certificate(s) of Open Offer Shares (or any other jurisdiction outside the UK in which it would be unlawful to deliver such share certificates); or (iii) purports to exclude the representation and warranty required by this sub-paragraph 7 (vi) (a).

(b) Qualifying Depositary Interest Holders

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part 3 (Terms and conditions of the Open Offer) represents and warrants to the Company and Ambrian that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction: (i) neither it nor its client is within any Restricted Jurisdiction; (ii) neither it nor its client is in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares; (iii) it is not accepting on a non-discretionary basis for a person located within any Restricted Jurisdiction or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) neither it nor its client is acquiring any Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into any of the above territories.

(vii) *Waiver*

The provisions of this paragraph 7 and of any other terms of the Open Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company, in its absolute discretion. Subject to this, the provisions of this paragraph 7 supersede any terms of the Open Offer inconsistent herewith. References in this paragraph 7 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of this paragraph 7 shall apply to them jointly and to each of them.

**8. Admission, Settlement and Dealings**

The result of the Open Offer is expected to be announced on 12 February 2013. Application will be made to AIM for Admission to trading of the New Common Shares. It is expected that Admission will become effective and that dealings in the New Common Shares, fully paid, will commence at 8.00 a.m. on 12 February 2013.

The Depositary Interests are already admitted to CREST and application will be made for any Depositary Interests in respect of New Common Shares to be admitted to CREST. All such Depositary Interests, when issued and fully paid, may be held and transferred by means of CREST.

Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 8 February 2013 (being the latest practicable date for applications under the Open Offer). If the conditions to the Open Offer described above are satisfied, the Open Offer Shares will be issued in uncertificated form to those persons who submitted a valid application for the Open Offer Shares by utilising the CREST application procedures and whose applications have been accepted by the Company. On 25 January 2013, the Registrar will instruct Euroclear to credit the appropriate stock accounts of such persons with such persons' entitlements to Open Offer Shares with effect from Admission (expected to be on 12 February 2013). The stock accounts to be credited will be accounts under the same CREST participant IDs and CREST member account IDs in respect of which the USE instruction was given.

Notwithstanding any other provision of this document, the Company reserves the right to send Qualifying Depositary Interest Holders an Application Form instead of crediting the relevant stock account with Open Offer Entitlements, and to allot and/or issue any Open Offer Shares in

certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

For Qualifying Common Shareholders who have applied by using an Application Form, share certificates in respect of the Open Offer Shares validly applied for are expected to be despatched by post by 26 February 2013. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the register of members of the Company. All documents or remittances sent by or to applicants, or as they may direct, will be sent through the post at their own risk. For more information as to the procedure for application, Qualifying Non-CREST shareholders are referred to in paragraph 4(i)(c) of this Part 3, and the Application Form.

The result of the Open Offer will be announced and made public through an announcement on a Regulatory Information Service as soon as reasonably practicable after the results are known.

**9. Times and dates**

The Company shall, in its discretion, and after consultation with its financial and legal advisers, be entitled to amend the dates on which Application Forms are despatched or amend or extend the latest date for acceptance under the Open Offer and all related dates set out in this document and in such circumstances shall make an announcement on a Regulatory Information Service.

If a supplementary circular is published by the Company two or fewer Business Days prior to the latest time and date for acceptance and payment in full under the Open Offer specified in this document, the latest date for acceptance under the Open Offer shall be extended to the date that is at least three Business Days after the date of publication of the supplementary circular (and the dates and times of principal events due to take place following such date shall be extended accordingly).

**10. Governing law and jurisdiction**

The terms and conditions of the Open Offer as set out in this document, the Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, the laws of England. The courts of England are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Open Offer, this document or the Application Form including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with the Open Offer, this document or the Application Form. By taking up Open Offer Shares under the Open Offer in accordance with the instructions set out in this document and, where applicable, the Application Form, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

**11. Further information**

Your attention is drawn to the further information set out in this document and also to the terms, conditions and other information printed on any Application Form.

# PART 4

# ADDITIONAL INFORMATION

## 1. Share capital

The authorised and issued share capital of the Company as at the date of this document and as it will be immediately following Admission is set out below:

| | Authorised | | Issued and fully paid | |
|---|---|---|---|---|
| | Number | Amount US$ | Number | Amount US$ |
| As at the date of this document | | | | |
| Common Shares | 1,200,000,000 | 1,200,000 | 256,035,137 | 256,035.14 |
| Immediately following Admission | | | | |
| Common Shares* | 1,200,000,000 | 1,200,000 | 531,272,909 | 531,272.91 |

* Assuming full subscription under the Placing and Open Offer.

## 2. Significant shareholders

| | As at the date of this document | | Immediately following Admission* (full subscription) for Open Offer Entitlements | | Immediately following Admission** (maximum holdings) | |
|---|---|---|---|---|---|---|
| | No. of Common Shares | % of issued share capital | No. of Common Shares | % of issued share capital | No. of Common Shares | % of issued share capital |
| Benchmark Advantage Fund, Ltd. | 64,029,238 | 25.0% | 132,860,669 | 25.0% | 175,105,230 | 33.0% |
| Blakeney Group | 30,819,026 | 12.0% | 63,949,479 | 12.0% | 41,345,342 | 7.8% |
| Persistency | 29,492,150 | 11.5% | 61,196,211 | 11.5% | 84,997,607 | 16.0% |
| MSD Capital LP | 17,790,817 | 6.9% | 36,915,945 | 6.9% | 17,790,817 | 3.3% |
| Outrider Management, LLC | 15,882,790 | 6.2% | 32,956,789 | 6.2% | 68,556,442 | 12.9% |
| The John Paul DeJoria Family Trust | 13,507,016 | 5.3% | 28,027,058 | 5.3% | 31,014,591 | 5.8% |
| RAB Special Situations (Master) Fund Limited | 12,000,000 | 4.7% | 24,900,000 | 4.7% | 17,263,158 | 3.2% |
| Henderson Global Investors | 9,980,011 | 3.9% | 20,708,523 | 3.9% | 9,980,011 | 1.9% |
| Carmignac Gestion | 7,617,000 | 3.0% | 15,805,275 | 3.0% | 12,880,158 | 2.4% |
| Artemis Investment Management LLP | 6,909,000 | 2.7% | 14,336,175 | 2.7% | 24,331,464 | 4.6% |

* Assuming full subscription under the Open Offer

** Assuming (i) the only subscriptions in the Placing and Open Offer are by persons who have provided Irrevocable Undertakings (further details of which are set out in paragraph 3(e) of Part 4 of this document) and only to the extent of such undertakings and (ii) the Break Fee Shares and the Fee Shares are fully issued (at a price of US$0.32 each) from any Open Offer Shares not taken up by Qualifying Shareholders

## 3. Terms of the proposed New Financing Transaction

The following summarises the key terms of the agreements and instruments comprising the proposed New Financing Transaction (and certain relevant documents that relate to the Original Financing Transaction):

(a) *Bridge Loan Agreement and Bridge Loan Amendment*

On 18 December 2012, the Benchmark Parties, Persistency and the Company entered into the original Bridge Loan Agreement which was amended pursuant to the terms of the Bridge Loan Amendment described below.

Under the Bridge Loan Agreement, BMK and Persistency provided the Company with loans of US$15 million, in aggregate, under the Bridge Loan Agreement on terms which include the following:

| | | |
|---|---|---|
| **Commitment:** | BMK | US$10 million |
| | Persistency | US$5 million |

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

**Security:** A share pledge (the ''Share Pledge'') by the Company of 100 per cent. of its shares in Madagascar Oil Ltd. (Mauritius), the Company's direct subsidiary that owns the Madagascan operating company that holds the Production Sharing Contracts has been granted by the Company as security for the Loans. Failure by the Company to complete the issuance of the Convertible Preference Shares (or pursuant to the Bridge Loan Amendment, the Placing and Open Offer) or the occurrence of any other event of default under the Bridge Loan Agreement may result in an exercise by BMK and Persistency of the Share Pledge.

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

**Maturity date:** 31 January 2013 (as extended pursuant to the Bridge Loan Amendment to 18 February 2013). The Loans are anticipated to be repaid out of the issue of the tranche 1 Convertible Preference Shares (or, pursuant to the Bridge Loan Amendment, the capitalisation of such amounts through the issue of the relevant number of Open Offer Shares, as the case may be).

**Interest:** The Loans will not bear interest.

**Break fee:** The Company is obliged to pay a break fee of US$3,000,000, payable through the issue of the Break Fee Shares at an issue price of US$0.32 to the Lenders (*pro rata*) in certain limited circumstances including a sale of the Company, a change of control of the Company and the repayment of the Loans through debt or equity raised from third parties. Under the Bridge Loan Amendment, it has been agreed that the break fee will be payable upon repayment of the Loans and that the Break Fee Shares will be issued from any Open Offer Shares not taken up by Qualifying Shareholders in priority to any New Common Shares issued under the Placing. To the extent that there are insufficient New Common Shares available, the Company is obliged to convene a new special general meeting after Admission in order to pass resolutions to authorise it to issue any such unissued Break Fee Shares failing which the Company may be obliged to pay any undischarged part of the break fee in cash. 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), to propose the relevant resolutions required for the issue of any unissued Break Fee Shares at any subsequent special general meeting or annual general meeting of the Company and, if so required by the Lenders under the Bridge Loan Agreement, to pay any balance in cash. The Lenders have agreed that the Share Pledge securing the Bridge Loan shall be released upon repayment of the Bridge Loan notwithstanding that all the Break Fee Shares may not have been issued.

**Conversion to Common Shares:** Where a Lender defaults on its obligation to subscribe for tranche 1 Convertible Preference Shares, there is a mechanism under the Bridge Loan Agreement to convert that Lender's Loan into Common Shares at an issue price of US$0.32. Under the Bridge Loan Amendment, the Loans are to be effectively capitalised by the issue of Common Shares to Benchmark and Persistency under the Open Offer.

**Costs and expenses:** The Company has agreed to pay the Lenders' reasonable legal fees and expenses in relation to the Bridge Loan Agreement, the Bridge Loan Amendment and the Share Pledge and related matters. The Company has also entered into certain indemnities in favour of the security trustee of the Share Pledge and the Lenders which are standard for a facility of this type.

**Representations, warranties and undertakings:** The Bridge Loan Agreement contains usual representations and warranties which relate to the Company's business, financial position, solvency and other customary representations and warranties that are typical in a commercial loan agreement of this nature. The representations and warranties have been made as at the date of

the Bridge Loan Agreement. The Company has also committed to certain undertakings typical of a borrower under a commercial loan agreement (to continue until all liabilities and obligations of the Company under each of the Bridge Loan Agreement as amended and the Share Pledge have been discharged).

**Events of default:** The Bridge Loan Agreement includes usual events of default. An event of default will occur upon prescribed events including, but not limited to, a payment default, breach of the Company's obligations under the finance documents, misrepresentation, cross default, insolvency and related proceedings, appointment of receivers and managers, creditors' process, litigation, expropriation, an occurrence of a material adverse change (subject to some limited carve outs, specific to certain agreed events) and failure to issue the Convertible Preference Shares (or pursuant to the Bridge Loan Amendment, complete the Placing and Open Offer) by, or the related resolution being voted down prior to, 18 February 2013. Some of these events of default are subject to rights of remediation.

On or around the date of this document, the parties to the Bridge Loan Agreement entered into the Bridge Loan Amendment.

The Bridge Loan Amendment provides for the amendments to the term of the Bridge Loan, the manner for dealing with the issue of the Break Fee Shares and the release of the Share Pledge set out above and an undertaking not to seek alternative finance.

(b) *Relationship Agreement*

On 18 December 2012, the Benchmark Parties and Persistency (for the purposes of this summary, the "**Investors**" (the Benchmark Parties (as between them) being an "**Investor**" and Persistency being an "**Investor**")) entered into a relationship agreement with the Company to regulate certain aspects of their relationship. The Relationship Agreement was amended pursuant to the Relationship Agreement Amendment described below.

The Relationship Agreement is on terms which include the following:

**Appointment of Directors**: The Relationship Agreement includes rights pursuant to which the Investors can appoint certain numbers of Directors to the Board ("**Investor Directors**"). With effect from the date of the Relationship Agreement, the Benchmark Parties (between them) shall be entitled to appoint in total two Investor Directors to the Board for such time as the Benchmark Parties (between them and together with any members of their groups) hold at least 10 per cent. of the Common Shares on a consolidated basis. Persistency shall be entitled to appoint one Investor Director to the Board, being Andrew Morris as at the date of the Relationship Agreement, for such time as it (together with any member of its group) holds at least 10 per cent. of the Common Shares. Appointments will be subject to the due diligence of the Company's Nominated Adviser, from time to time and the requirement that at least half the Board (at any time) be Independent Directors.

**Board composition**: The Relationship Agreement provides for certain agreed changes to the Board. Following execution of the Relationship Agreement Amendment which provided for the appointment of an additional Independent Director, the Relationship Agreement envisages a Board consisting 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

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

The undertakings can be grouped as follows:

**General undertakings**:

(i) to keep confidential all unpublished price-sensitive information (as defined in the AIM Rules for Companies) relating to the Company; and

(ii) to acknowledge and agree that the Board (other than any relevant Investor Director) alone shall determine the appropriate action the Board should take in relation to a conflict between an Investor and the Company.

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

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

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

(i) the terms of the Relationship Agreement are implemented in full and complied with;

(ii) no variations are made to the Bye-laws which would be contrary to the terms of the Relationship Agreement or in such manner which would restrict or adversely affect the Company's independence;

(iii) for so long as the Company is not subject to the City Code on Takeovers and Mergers, the Bye-laws of the Company import equivalent protections to Rule 9 (mandatory offers), Rule 16 (special deals) and Rule 21 (frustrating actions) for shareholders of the Company;

(iv) save with the consent of the Independent Directors, at least half of the Directors shall be Independent Directors at all times;

(v) the Chief Executive Officer of the Company is an Independent Director;

(vi) the Chairman of the remuneration committee, the audit committee and, if established, any nomination or corporate governance committees, shall be an Independent Director at all times and one Investor Director appointed by the Benchmark Parties shall sit on each of these committees;

(vii) the Company is capable at all times of carrying on its business, and making decisions, independently of each Investor and its related parties; and

(viii) the Company adheres to its policies of corporate governance,

unless the Independent Directors agree otherwise.

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

(i) until the first anniversary of the Special General Meeting, the cancellation of the admission of the Common Shares to trading on AIM (save in connection with an offer) or any actions which would render the Company unsuitable for continued admission to trading on AIM (and each Investor shall procure that its representative directors do not take any action which would render the Company unsuitable for continued admission to trading on AIM);

(ii) the appointment of a majority of the Directors or (pursuant to the Relationship Agreement Amendment) the appointment of additional non-independent directors without the consent of the Independent Directors.

**Permitted acquisitions**: The Company has agreed and confirmed that:

(i) conversions of Convertible Preference Shares into Common Shares (in accordance with their terms) or the receipt of Common Shares pursuant to the Subscription Agreement; and

(ii) (provided that in the case of the Benchmark Parties only) the Benchmark Parties acquiring shares between them (whether through the conversion of Convertible Preference Shares, the issue of shares pursuant to the Subscription Agreement or otherwise) which (taken together with shares in which persons acting in concert with the Benchmark Parties are interested) carry up to 40 per cent. (as reduced from 45 per cent. pursuant to the Relationship Agreement Amendment) of the voting rights of the Company at any time, it being acknowledged that for the purposes of Bye-Law 50.2, it shall be the exercise of any conversion rights under the Convertible Preference Shares and not the acquisition of the Convertible Preference Shares themselves that will be considered to be an acquisition of an interest in shares,

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

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

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

**Notification of interest:** Each of Benchmark, BMK and Persistency agree that it will notify the Company promptly when the percentage of its voting rights in the Company reaches, exceeds or falls below 15 per cent. and each 5 per cent. threshold thereafter up to and including 30 per cent. and each 3 per cent. threshold thereafter in between 30 per cent. and 40 per cent. (inclusive).

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

On or around the date of this document, the parties to the Relationship Agreement entered into the Relationship Agreement Amendment.

The Relationship Agreement Amendment provides for the appointment of an additional Independent Director and the reduction of the level at which the Benchmark Parties are required to make a mandatory offer set out above.

(c) *Subscription Agreement*

Details of the Subscription Agreement are contained in the Circular. The Subscription Agreement will terminate in accordance with its terms if the Resolutions are not passed by 18 February 2013.

(d) *Placing Agreement*

Pursuant to a placing and open offer agreement between the Company, Mirabaud and GMP dated on or around the date of this document (the "**Placing Agreement**"), Mirabaud and GMP have conditionally agreed, as agents for the Company, to use their respective reasonable endeavours to procure placees for the Clawback Shares at the Issue Price. GMP and Mirabaud have undertaken to transfer the net proceeds of the issue of the Clawback Shares to the Company by no later than the second business day following Admission.

The Company has agreed to pay to Mirabaud and GMP commission of US$900,000 (in aggregate). Mirabaud and GMP are also entitled to be reimbursed for their reasonable out-of pocket expenses (including the fees and expenses of their legal advisers) incurred by them in the performance of their duties under the Placing Agreement.

The Company has given representations and warranties to Mirabaud and GMP, including as to the information in this document and the financial, accounting, constitutional and legal standing and history of the Company and the Group, its business and its assets. In addition, the Company has agreed to indemnify Mirabaud and GMP and their directors, officers and employees in respect of, and they shall have no liability to the Company for, any losses incurred by them in connection with the performance of their duties under the Placing Agreement, except to the extent that such losses arise as a result of the bad faith, fraud, negligence or wilful default of any of Mirabaud and GMP or their directors, officers or employees or a breach by Mirabaud or GMP of any of their directors, officers or employees of the terms of the Placing Agreement or which is of a nature that liability may not be excluded pursuant to the conduct of business rules of the FSA.

The Placing Agreement may be terminated by Mirabaud and GMP (acting jointly) in certain specified circumstances including if there has been a material breach of any of the warranties or any other material term of the Placing Agreement on the part of the Company or by reason of *force majeure*.

The Placing Agreement is governed by English law and the parties submit to the exclusive jurisdiction of the English courts.

(e) *Irrevocable Undertakings*

The Company has received Irrevocable Undertakings from certain Shareholders to subscribe for the Committed Shares and Clawback Shares (further details of which are set out in paragraph 2 of Part 1).

The Irrevocable Undertakings are conditional on the Placing Agreement being entered into and not terminated in accordance with its terms and certain other conditions which have already been satisfied.

**4. Further information and documents**

(a) Where relevant in this document, amounts have been converted as follows:

- US Dollars into Pounds Sterling at USD 1.583 : £1
- Euros into Pounds Sterling at €1 : £0.841.

(b) The following documents and information are incorporated by reference into this document:

(i) unaudited half year results for the 6 month period ended 30 June 2012;

(ii) annual report for the Group for the financial year ended 31 December 2011;

(iii) annual report for the Group for the financial year ended 31 December 2010; and

(iv) the Memorandum of Association of the Company and the Bye-laws.

(c) Copies of this document and the documents and information incorporated by reference referred to in paragraph 4(a) of this Part 4 are available on the Company's website at: www.madagascaroil.com.

(d) Copies of this document will be available free of charge to the public at the offices of Strand Hanson at 26 Mount Row, London W1K 3SQ during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) until the date falling one month after the date of this document.

24 January 2013

# DEFINITIONS

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

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| "**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 this 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 |

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| "**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 this 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 this 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, HM12, 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 |

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| ''**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 this document whose names are set out in the ''Directors and Advisers'' section of this 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 this 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 this 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$^2$ |

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| "**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 this 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 this 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 this 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 this 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 this 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 |

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| "**Regulations**" | the Uncertificated Securities Regulations 2001, as amended from time to time |
| "**Regulatory Information Service**" | has the meaning given to it in the AIM Rules |
| "**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 this 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 |

# SCHEDULE 1

**The Schedule is comprised of three parts – A, B and C. Please read each part carefully so that you are fully aware of which representations, warranties, covenants, agreements and acknowledgements you are giving.**

**A Each Qualifying Shareholder applying for Open Offer Shares represents, warrants, covenants, agrees and acknowledges as set out in this part A:**

1. the Company, Mirabaud, GMP, Strand Hanson and others will rely upon its representations, warranties, covenants, agreements and acknowledgements set forth herein, and it agrees to notify the Company and Strand Hanson promptly in writing if any of its representations, warranties, covenants, agreements or acknowledgements ceases to be accurate and complete;
2. it has read and understood and accepted the terms and conditions of the Open Offer contained in this document and its application for Open Offer Shares shall be on and subject to the terms and conditions of this document and, if it is a Qualifying Common Shareholder the Application Form;
3. it agrees that all applications, and contracts resulting therefrom, under the Placing and/or Open Offer or in connection therewith shall be governed by, and construed in accordance with, the laws of England;
4. it is a Qualifying Shareholder originally entitled to Open Offer Entitlements or if it has received some or all of its Open Offer Entitlements from a person other than the Company, it is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim;
5. it may lawfully acquire the Open Offer Shares to be subscribed by it pursuant to the Open Offer and has the capacity and authority and is entitled to enter into and perform its obligations as a subscriber for Open Offer Shares and will honour such obligations;
6. it agrees that its obligations under this schedule shall not be capable of recission or termination by it in any circumstance;
7. in agreeing to acquire the Open Offer Shares, it is relying on the information contained in this document and any announcement made by or on behalf of the Company through a Regulatory Information Service since the publication of the audited accounts of the Company for the year ending 31 December 2011 and it is not relying on any information given or representation, warranty, undertaking, agreement or statement made at any time by the Company, Mirabaud, GMP, Strand Hanson or any of their respective officers, directors, agents, employees or advisers, or any other person in relation to the Company or its subsidiary undertakings, the Open Offer, the Placing or the New Common Shares to be issued pursuant to the Open Offer and the Placing, and neither the Company, Mirabaud, GMP, Strand Hanson nor any other person will be liable for any Qualifying Shareholder's decision to participate in the Open Offer based on any other information, representation, warranty, undertaking, agreement or statement which Qualifying Shareholders may have obtained or received. In addition, it has neither received nor relied on any confidential price-sensitive information. Nothing in this paragraph shall exclude the liability of any person for fraud;
8. it is entitled to acquire Open Offer Shares under the terms of the Open Offer and the laws of all relevant jurisdictions which apply to it (the "**Applicable Securities Laws**") and it has fully observed such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities and it has not taken any action or omitted to take any action which will or may result in the Company, Mirabaud, GMP, Strand Hanson or any of their respective officers, directors, agents, employees or advisers acting in breach of any law or regulatory requirement of any territory or jurisdiction in connection with the Open Offer or its entitlement;
9. it is not, nor is it applying on behalf of any person who is, a citizen or resident, or which is a corporation, partnership or other entity created or organised in or under any laws, of any Restricted Jurisdiction or any jurisdiction in which the application for Open Offer Shares is or may be prevented by law (except where proof satisfactory to the Company has been provided to the Company that the Qualifying Shareholder is able to accept the invitation by the

Company pursuant to an applicable exemption and free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome) and the Qualifying Shareholder is not applying with a view to re-offering, re-selling, transferring or delivering any of the Open Offer Shares which are the subject of his application to, or for the benefit of, a person who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of any Restricted Jurisdiction or any jurisdiction in which the application for Open Offer Shares is or may be prevented by law (except where proof satisfactory to the Company has been provided to the Company that the Qualifying Shareholder is able to accept the invitation by the Company pursuant to an applicable exemption and free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor such person otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares under the Open Offer;

10. it irrevocably appoints any director of the Company, Mirabaud, GMP and Strand Hanson as its agent for the purpose of executing and delivering to the Company and/or the Registrars any documents on its behalf necessary to enable it to be registered as the holder of Open Offer Shares;

11. it is not, and nor is it applying for Open Offer Shares as nominee or agent for, a person who is or may be liable to notify and account for stamp duty or stamp duty reserve tax at any of the increased rates referred to in sections 67 to 72 inclusive and sections 93 to 97A inclusive of the Finance Act 1986 (Depositary Receipts and Clearance Services) and, in the event of any breach of this warranty, it agrees that neither the Company nor Mirabaud nor GMP nor Strand Hanson will have any liability to it or other persons in respect of such duty or tax;

12. the Applicable Securities Laws do not require the Company to make any filings or seek any approvals of any kind whatsoever from any regulatory authority of any kind in connection with the Placing or the Open Offer in the jurisdiction in which it is resident;

13. the purchase by it of Open Offer Shares does not trigger in the jurisdiction in which it is resident: (a) any obligation to prepare or file a prospectus or similar document or any other report with respect to such purchase; or (b) any disclosure reporting obligation of the Company; or (c) any registration or other obligation on the part of the Company; or (d) the requirement for the Company to take any other action;

14. the offer and sale to it of Open Offer Shares was not made through an advertisement of the Open Offer Shares in printed media of general and regular paid circulation, radio or television or any other form of advertisement;

15. it and any person acting on its behalf is aware of the obligations in connection with money laundering under the Money Laundering Regulations to the extent applicable to it and, if it is making payment on behalf of a third party, it has obtained and recorded satisfactory evidence to verify the identity of the third party as required by the Money Laundering Regulations;

16. it agrees to be bound by the terms of the Memorandum of Association of the Company and the Bye-laws in force immediately following Admission;

17. it will not deal or cause or permit any other person to deal in all or any of the Open Offer Shares unless and until Admission becomes effective;

18. the Company is relying on one or more exemptions from the registration requirements of the Securities Act and, as a consequence of acquiring the Open Offer Shares pursuant to such exemption(s), certain protections, rights and remedies provided by applicable securities laws will not be available to it, including an obligation on the Company to provide it with a prospectus or other disclosure document, and, save for this document, no offer document, admission document or prospectus has been, or is required to be, prepared in connection with the Open Offer;

19. it has not received a prospectus or admission document or, save for this document, other offering document in connection with the Open Offer, and no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Open Offer Shares or the fairness or suitability of the investment in the Open Offer Shares nor have such authorities passed upon or endorsed the merits of the offering of the Open Offer Shares;

20. it acknowledges that the Common Shares are admitted to trading on AIM and the Company is therefore required to publish certain business and financial information in accordance with the rules of AIM (the "**Exchange Information**"), and that it is able to obtain or access the Exchange Information without undue difficulty;

21. neither the Company nor Mirabaud nor GMP nor Strand Hanson nor any person acting on their behalf nor any of their respective affiliates nor any of their respective directors, officers, employees, agents, partners or professional advisers has or shall have any liability for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement contained in the Exchange Information, any other information made available by or on behalf of the Company or made publicly available by the Company on its website, by press release, by public filing or otherwise or any other information, provided that nothing in this paragraph excludes the liability of any person for fraud made by that person;

22. the Company may be or may become a "passive foreign investment company" or "PFIC" within the meaning of Section 1297 of the US Internal Revenue Code of 1986, as amended (the "US Internal Revenue Code") for United States federal income tax purposes and it has consulted with its own independent tax adviser as to the United States federal, state and local tax consequences of any investment in the Company;

23. if it is acquiring any Open Offer Shares as a fiduciary or agent for one or more accounts, it has sole investment discretion with respect to each such account and full power and authority to make such foregoing representations, warranties, covenants, agreements and acknowledgements on behalf of each such account;

24. it is not (i) an "employee benefit plan" (within the meaning of Section 3(3) of the US Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") that is subject to Part 4 of Title 1 of ERISA, (ii) a plan, individual retirement account or other arrangement that is subject to section 4975 of the US Internal Revenue Code or any other state, local laws or regulations that would have the same effect as regulations promulgated under ERISA by the US Department of Labor and codified at 29 C.F.R. Section 2510.3-101 to cause the underlying assets of the Company to be treated as assets of that investing entity by virtue of its investment (or any beneficial interest) in the Company and thereby subject the Company (or other persons responsible for the investment and operation of the Company's assets) to laws or regulations that are similar to the fiduciary responsibility or prohibited transaction provisions contained in Title I of ERISA or Section 4975 of the US Internal Revenue Code, or (iii) an entity whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement;

25. it acknowledges that the Open Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, resold, taken up, exercised, renounced, transferred, delivered or distributed, directly or indirectly, into or within the United States absent registration under the Securities Act or an exemption or exclusion from the registration requirements of the Securities Act;

26. if in the future it decides to offer, sell, transfer, assign or otherwise dispose of the Open Offer Shares, it will do so only (i) in an offshore transaction complying with the provisions of Regulation S under the Securities Act, and not in a pre-arranged transaction to a person in the United States, (ii) in a transaction exempt from the registration requirements of the Securities Act pursuant to Rule 144 or another exemption from the registration requirements of the Securities Act, if available, (iii) to the Company or an affiliate thereof, or (iv) pursuant to an effective registration statement under the Securities Act (which it acknowledges that the Company has no obligation to file or make available) and in each case in accordance with any applicable securities laws of any state or jurisdiction of the United States. It understands that any sale not made in accordance with the above may not be recognised by the Company;

27. the Company is not obligated to file and has no intention of filing with the Securities and Exchange Commission or any state securities administrations any registration statement in respect of the resale of the Open Offer Shares in the United States;

28. the Company has not registered and will not register as an investment company under the US Investment Company Act of 1940, as amended ("**Investment Company Act**");

29. the Company reserves the right to make inquiries of any holder of the Open Offer Shares or interests therein at any time as to such person's status under the federal US securities laws and to require any such person that has not satisfied the Company that the holding by such person will not violate or require registration under the US securities laws to transfer such Open Offer Shares or interests immediately at the direction of the Company;

30. it has not, directly or indirectly, distributed, forwarded, transferred or otherwise transmitted this document (or any part thereof) to or within the United States, nor will it do any of the foregoing;

31. it is purchasing the Open Offer Shares for its own account or for one or more investment accounts for which it is acting as a fiduciary or agent, in each case for investment only, and not with a view to or for sale or other transfer in connection with any distribution of the Open Offer Shares in any manner that would violate the Securities Act, the Investment Company Act or any other applicable securities laws, or otherwise cause the Company's assets to become subject to ERISA, and it does not have a present arrangement to effect any distribution of the Open Offer Shares to or through any person or entity;

32. it is not acquiring any Open Offer Shares for resale in the United States and it has not and will not deliver or forward any advertisement or other offering material in relation to the Open Offer Shares in or into the United States; and

33. it will indemnify and hold the Company, Mirabaud, GMP and Strand Hanson and their respective affiliates harmless from any and all costs, claims, liabilities and expenses (including legal fees and expenses) arising out of or in connection with any breach of the representations, warranties, agreements and covenants in this document. All representations, warranties, agreements and covenants given by it in this document are given to the Company and will survive completion of the Open Offer.

**B Each Qualifying Shareholder in the United States who is applying for Open Offer Shares represents, warrants, covenants, agrees and acknowledges if it was offered the Open Offer Shares whilst in the United States or if it is applying for the Open Offer Shares in the United States as set out in this part B:**

1. nothing in this document or, where appropriate, the Application Form or any other materials presented by or on behalf of the Company to it in connection with the purchase of the Open Offer Shares constitutes legal, tax or investment advice, and it has consulted such legal, tax and investment advisors as it, in its sole discretion, has deemed necessary or appropriate in connection with its purchase of the Open Offer Shares;

2. at the time it was offered the Open Offer Shares, it was, and at the date of purchase of the Open Offer Shares it is, (i) an ''accredited investor'' as defined in Rule 501(a) under the Securities Act (as amended by Section 413(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and (ii) not a broker dealer registered under Section 15(a) of the U.S. Securities Exchange Act of 1934, as amended, or a member of Financial Industry Regulatory Authority, Inc. or an entity engaged in the business of being a broker-dealer;

3. it is not purchasing the Open Offer Shares as a result of or to its knowledge subsequent to any advertisement, article, notice, internet posting or other communication regarding the Open Offer Shares published in any newspaper, magazine or similar media, broadcast over television or radio, disseminated over the Internet or presented at any seminar or meeting, or any solicitation of a subscription by a person not previously known to it in connection with investments in securities generally, or any other general solicitation or general advertisement;

4. it has conducted its own due diligence on the Company and has been afforded: (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Open Offer Shares and the merits and risks of investing in the Open Offer Shares, (ii) access to information about the Company and its subsidiaries and their respective financial condition, results of operations, business, properties, management and prospects sufficient to enable you to evaluate the investment, and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire that is necessary to make an informed investment decision with respect to the investment and has received all the information requested in connection with its decision to apply for Open Offer Shares;

5. it, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Open Offer Shares, and has so evaluated the merits and risks of such investment; it further understands that it must bear the economic risk of this investment in the Open Offer Shares indefinitely, and it is able to bear such risk and is able to afford a complete loss of such investment;

6. it or its duly authorised representative realises that because of the inherently speculative nature of businesses of the kind conducted and contemplated by the Company, the Company's financial results may be expected to fluctuate from month to month and from period to period and will, generally, involve a high degree of financial and market risk that could result in substantial or, at times, even total losses for investors in securities of the Company, and it has reviewed the risk factors contained in Part 2 of this document;

7. it and each person or body (including, without limitation, any local authority or the managers of any pension fund) on whose behalf it accepts the entitlement to the Open Offer Shares or to whom it allocates the Open Offer Shares in whole or in part has the capacity and authority to enter into and to perform its obligations as a subscriber of the Open Offer Shares comprised therein and will honour those obligations;

8. the Open Offer Shares are ''restricted securities'' within the meaning of the Securities Act, and it agrees that the Company shall not be required to reflect any transfer of the Open Offer Shares unless and until it has provided to the Company sufficient evidence that the transfer is in accordance with, and not a violation of, the Securities Act;

9. it agrees that any statement of account indicating or any certificates representing Open Offer Shares held may contain a legend in substantially the following form:

   ''**THE SECURITIES REPRESENTED HEREIN HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE ''SECURITES ACT'') OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED, HEDGED OR OTHERWISE TRANSFERRED, EXCEPT (A) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT (AND IS NOT ACTING IN A PREARRANGED TRANSACTION RESULTING IN THE RESALE OF THESE SECURITIES INTO THE UNITED STATES); (B) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT; (C) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT; OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, SUBJECT, IN THE CASES OF CLAUSES (A), (B) AND (C), TO THE RIGHT OF THE ISSUER TO OBTAIN, IF THE ISSUER SO REQUESTS, AN OPINION, IN FORM AND SUBSTANCE AND FROM COUNSEL SATISFACTORY TO THE ISSUER AT THE EXPENSE OF THE SHAREHOLDER, WHICH PROVIDES THAT SUCH OFFER, SALE, PLEDGE, HEDGE OR TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION**.'';

10. it acknowledges and agrees that the Company may instruct its registrar and transfer agent to place a trading lock on the Open Offer Shares until such time as such registrar and transfer agent has received the opinion of a law firm reasonably satisfactory to the Company that the Open Offer Shares are no longer restricted under the Securities Act and/or were offered or sold pursuant to an effective registration statement under the Securities Act or pursuant to an available exemption therefrom or in a transaction not subject to the registration requirements of the Securities Act; and

11. it agrees that the Company may make a notation on its records or give instruction to the registrar and transfer agent of the Company in order to implement the restrictions on transfer set forth and described herein.

**C Each Qualifying Shareholder outside of the United States who is applying for Open Offer Shares represents, warrants, covenants, agrees and acknowledges, if it was not offered the Open Offer Shares while it was in the United States and it is not purchasing the Open Offer Shares in the United States, as set out in this part C:**

1. it is acquiring the Open Offer Shares in an offshore transaction meeting the requirements of Regulation S under the Securities Act;
2. at the time it received the offer to purchase the Open Offer Shares it was not in the United States;
3. it (i) understands and acknowledges that the offering and sale of the Open Offer Shares are not being, and will not be, made, directly or indirectly, in or into, or by the use of the mails or any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States; and (ii) acknowledges that no Application Form, where appropriate, will be accepted by any such use, means, instrumentality or facility or from within the United States, and doing so may render such Application Form invalid;
4. its receipt and execution of the Application Form, where appropriate, each occurred outside the United States; and
5. it is not acquiring the Open Offer Shares as a result of or due to, and will not engage in, any ''directed selling efforts'' (as defined in Regulation S under the Securities Act) in the United States in respect of the Open Offer Shares, which would include any activities undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the resale of the Open Offer Shares, including placing an advertisement in a publication with a general circulation in the United States, nor has it seen or been aware of any activity that, to its knowledge, constitutes directed selling efforts in the United States.

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