



# Admission Document

Admission to AIM by Strand Hanson Limited,  
Mirabaud Securities LLP and GMP Securities Europe LLP



STRAND  
HANSON

Nominated Adviser

MIRABAUD  
4181

Lead Manager and Joint Broker

GMP  
Securities  
Griffiths McBain

Joint Broker

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

The Company and the Directors, whose names appear on page 16 of this document, accept responsibility, collectively and individually, for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document does not comprise a prospectus within the meaning of section 85 of FSMA and does not constitute an offer of transferrable securities to the public in the United Kingdom, within the meaning of section 102B of the FSMA and has not been approved or examined by and will not be filed with the United Kingdom Financial Services Authority, the London Stock Exchange or the United Kingdom Listing Authority ("UKLA"), but is an admission document in relation to AIM. It has been drawn up in accordance with the AIM Rules for Companies and has been issued in connection with the proposed admission to trading of the Common Shares of the Company to AIM. The AIM Rules for Companies are less demanding than those of the Official List of the UKLA.

In accordance with the AIM Rules, application will be made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that dealings in the Common Shares will commence on AIM on 29 November 2010. The Common Shares are not dealt in on any market other than, from Admission, AIM and, apart from the application for Admission to AIM, no application has been or is intended to be made for the Common Shares to be admitted to trading on any such other market.

AIM is a market designed primarily for emerging or 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 and the AIM Rules for Companies are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Enlarged Share Capital to trading on the Official List. 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.

Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

THE WHOLE OF THE TEXT OF THIS DOCUMENT SHOULD BE READ AND IN PARTICULAR YOUR ATTENTION IS DRAWN TO THE SECTION ENTITLED "RISK FACTORS" SET OUT IN PART 2 OF THIS DOCUMENT.

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## MADAGASCAR OIL LIMITED

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

**Placing of 53,197,000 Common Shares at 95 pence per Common Share  
Application for admission of the Enlarged Share Capital to trading on AIM**

**Financial and Nominated Adviser: Lead Manager and Joint Broker: Joint Broker:  
Strand Hanson Limited Mirabaud Securities LLP GMP Securities Europe LLP**

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The Placing is conditional on, *inter alia*, Admission taking place on or before 29 November 2010 (or such later date as the Company, Strand Hanson Limited, Mirabaud Securities LLP and GMP Securities Europe LLP may agree).

The New Shares will, on Admission, rank equally in all respects with the existing Common Shares and will rank in full for all dividends or other distributions declared, made or paid on the Common Shares after the date of issue.

Strand Hanson Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial and nominated adviser to the Company in connection with the Placing and the proposed admission of the Enlarged Share Capital to trading on AIM. Its responsibility as the Company's nominated adviser under the AIM Rules is owed solely to the London Stock Exchange and is not owed to the Company or to any Director or to any other person in respect of their decision to acquire shares in the Company in reliance on any part of this document. Strand Hanson Limited is acting exclusively for the Company and for no one else and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the contents of this document or the Placing or the proposed admission of the Enlarged Share Capital to trading on AIM.

Mirabaud Securities LLP and GMP Securities Europe LLP, which are both authorised and regulated in the United Kingdom by the Financial Services Authority, are acting as joint brokers to the Company in connection with the Placing and the proposed admission of the Enlarged Share Capital to trading on AIM. Mirabaud Securities LLP and GMP Securities Europe LLP are acting exclusively for the Company and for no one else and will not be responsible to anyone other than the Company for providing the protections afforded to their clients or for providing advice in relation to the contents of this document or the Placing or the proposed admission of the Enlarged Share Capital to trading on AIM.

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 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.

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 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 could result in a violation of the law of such jurisdictions. In particular this document is not for distribution into 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 U.S. Person that is not an institutional person that is an accredited investor). The Common Shares have not 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 Common Shares may not, subject to certain exemptions, be offered or sold directly or indirectly into 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 or Mirabaud Securities LLP or GMP Securities Europe LLP that would permit a public offer of Common Shares or possession or distribution of this document where action for that purpose is required. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Failure to comply with any such restrictions may constitute a violation of the securities laws of any such jurisdiction.

Copies of this document will be available free of charge during normal business hours on weekdays (excluding Saturdays, Sundays and public holidays) from the date hereof until one month after Admission from the offices of Strand Hanson Limited, 26 Mount Row, London W1K 3SQ and from the Company's website: [www.madagascaroil.com](http://www.madagascaroil.com).

#### **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 their 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, *inter alia*, the risk factors described in Part II of this document. The Directors believe that the expectations reflected in these statements are reasonable, 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 Common Shares are being offered and sold outside the United States to persons who are not "U.S. Persons" (within the meaning of Regulation S under the Securities Act) 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 Common Shares are being offered and sold in the United States, but only in private placements to persons who are institutional accredited investors (within the meaning of Regulation D) 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 COMMON SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR BY ANY US STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS ANY SUCH U.S. AUTHORITY PASSED ON THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

**THE COMMON SHARES HAVE NOT BEEN (AND WILL NOT BE) REGISTERED UNDER THE SECURITIES ACT OR SECURITIES LAWS OF ANY U.S. 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 purchaser purchasing the Placing Shares in a Regulation D Placing will be required to execute and deliver a Regulation D Placing Letter to the Company containing representations and warranties such as 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 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 ORDINARY 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 THE ADMISSION DOCUMENT AND ITS CONTENTS, AND EFFECTIVE FROM THE DATE OF COMMENCEMENT OF DISCUSSIONS CONCERNING THE PLACING OF COMMON SHARES, 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 PLACING NOT TO BE IN COMPLIANCE WITH SECURITIES LAWS. FOR 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.

### Notice to Residents of Canada in the Province of Ontario only

This document provides information on an offering of the Common Shares described herein only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell such securities. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of the Common Shares referred to herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the Common Shares described herein and any representation to the contrary is an offence.

The distribution of the Common Shares in Canada will be made only on a private placement basis (to residents of Ontario) and will be exempt from the requirement that the Company prepare and file a prospectus with the relevant Canadian securities regulatory authorities. Accordingly, any resale of the Common Shares must be made in accordance with applicable securities laws, which will require resales to be made in accordance with exemptions from registration and prospectus requirements. Ontario resident purchasers are advised to seek legal advice prior to any resale of the Common Shares.

Each purchaser who receives a purchase confirmation regarding the Common Shares ("Purchaser") will be deemed to have represented to the Company and any dealer from whom such confirmation is received that (i) such Purchaser has reviewed the resale restrictions in the definitive offering memorandum, and (ii) the Purchaser is qualified as an "Accredited Investor" as such term is defined in National Instrument 45-106 of the Canadian Securities Administrators.

### Right of action for rescission or damages

The Common Shares which will be offered are those of a foreign issuer. The Company and the other persons named herein may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company or such other persons. All or a substantial portion of the assets of the Company and such other persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company or such other persons in Canada or to enforce a judgment obtained in Canadian Courts against the Company or other persons outside of Canada.

The Purchaser has a statutory right of action against the offeror for damages or rescission in the event that this document together with any amendments hereto contains a misrepresentation (as defined in applicable securities legislation). A Purchaser may exercise a right of action for damages, or alternatively, while still the owner of the Common Shares, a right of rescission, provided that if the Purchaser exercises its right of rescission, it shall no longer have a right of action for damages.

The Company will not be liable, subject to other limitations or defences available in Ontario (i) if it proves that the Purchaser purchased the Common Shares with knowledge of the misrepresentation, or (ii) for all or any portion of damages that it proves do not represent the depreciation in value of the Common Shares as a result of the misrepresentation. In no case shall the amount recoverable exceed the price at which the Common Shares were offered.

In addition, these rights are subject to the Purchaser commencing an action to enforce these rights within the time limits specified below:

- (a) no action shall be commenced to enforce an action for rescission more than one hundred and eighty (180) days from the date of the transaction that gave rise to the cause of action, and
- (b) in the case of an action for damages, the Purchaser must commence its action within the earlier of (i) one hundred and eighty (180) days from the day the Purchaser first had knowledge of the facts giving rise to the cause of action; or (ii) three years from the day of the transaction that gave rise to the cause of action.

These rights do not apply to Purchasers that are within a prescribed class of financial institutions or their subsidiaries.

### Notice to Prospective Investors in the European Economic Area

No Common Shares have been offered or sold, or will be offered or sold, to the public in any member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") except (with effect from and including the Relevant Implementation Date): (a) to legal entities which are authorised or regulated to operate in the

financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Mirabaud Securities LLP or GMP Securities Europe LLP; or (d) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.”

#### **Notice to prospective investors in France**

The Common Shares may only be offered or sold in France to qualified investors (investisseurs qualifiés), as defined and in accordance with articles L.411-1, L.411-2, D.411-1 and D.411-2 of the French “Code Monétaire et Financier”. Prospective investors are informed that:

- (a) the documentation describing the transaction has not been submitted for clearance to the Autorité des Marchés Financiers;
- (b) qualified investors and other persons falling within the restricted circle of investors as defined in article L.411-2 II 2. of the French “Code Monétaire et Financier” may only take part in the transaction solely for their own account, as provided in articles D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French “Code Monétaire et Financier”; and
- (c) the Common Shares thus acquired cannot be distributed directly or indirectly to the public in France otherwise than in accordance with articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French “Code Monétaire et Financier.”

#### **Notice to prospective investors in Switzerland**

This document is being communicated in Switzerland to a small number of selected investors only. Each copy of this document is addressed to a specifically named recipient and must not be passed on to third parties. The Placing Shares are not to be offered to the public in Switzerland, and neither this document nor any other offering materials relating to the Placing Shares may be distributed in connection with any such public offering.

#### **Notice to prospective investors in South Africa**

This document is strictly private and confidential and does not constitute an offer to the public in terms of South African law. This document is being issued to a small number of investors in South Africa and subscriptions for Placing Shares in South Africa would, in each case, be subject to a single South African addressee investing no less than R100,000 (one hundred thousand South African Rand) and such investor either: (a) subscribing as principal; or (b) being a wholly owned subsidiary of a bank registered as such under the Banks Act, 1990, a mutual bank registered as such under the Mutual Banks Act, 1993 or a long-term insurer as defined in the Long-term Insurance Act, 1998 or a short-term insurer as defined in the Short-term Insurance Act, 1998, acting as agent in the capacity of authorised portfolio manager for a pension fund (registered as such in terms of the Pension Funds Act, 1956) or as a manager for a collective investment scheme (registered as such in terms of the Collective Investment Schemes Act, 2002).

#### **Notice to prospective investors in the Netherlands**

The Common Shares may not be and are not, directly or indirectly offered or sold in the Netherlands, except to individuals or entities that are qualified investors (gekwalificeerde beleggers) within the meaning of Section 1:1 of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	24 November 2010
Admission and commencement of dealings in the Common Shares expected to commence on AIM	29 November 2010
Expected date for CREST accounts to be credited with Depository Interests (where applicable)	29 November 2010
Expected date of despatch of share certificates for New Shares (where applicable)	by 13 December 2010

*Each of the times and dates in the above timetable is subject to change. All references are to London time unless otherwise stated. Temporary documents of title will not be issued.*

## PLACING STATISTICS

Placing Price	95p
Number of Existing Common Shares in issue	12,797,425
Number of Common Shares in issue <sup>(1)</sup>	127,974,250
Number of Placing Shares to be issued pursuant to the Placing	53,197,000
Number of Additional Shares to be issued	11,193,907
Enlarged Share Capital at Admission	192,365,157
Percentage of the Enlarged Share Capital represented by the Placing Shares at Admission	27.65 per cent.
Percentage of the Enlarged Share Capital held by the Directors at Admission	0.64 per cent.
Estimated gross proceeds of the Placing	£50.5 million
Estimated net proceeds of the Placing receivable by the Company	£46.5 million
Market capitalisation of the Company at the Placing Price on Admission	£182,746,899
AIM symbol	MOIL
ISIN Number	BMG5738R1016

(1) For comparative purposes, this assumes that the Sub-division that will be effective immediately prior to Admission has become effective at the date of this document.

## SUB-DIVISION OF SHARE CAPITAL

On 19 October 2010, the Shareholders approved, conditional on Admission, a sub-division of the Company's share capital pursuant to which each Existing Common Share will be split into ten Common Shares. All references in this document to the share capital of the Company and the Common Shares are to the share capital of the Company and the Common Shares on a post Sub-division basis (except as the context otherwise requires and except where expressly stated otherwise).

## EXCHANGE RATES

For reference purposes only, the following exchange rate was prevailing on 23 November 2010 (being the latest practicable day prior to the publication of this document):

US\$1.583 per £1

All amounts in Parts 1 and 6 of this document expressed in the above currencies have, unless otherwise stated, been calculated using the above exchange rate.

## DEFINITIONS

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

<b>"Act"</b>	the Companies Act 2006, as amended from time to time;
<b>"Additional Shares"</b>	the Credit Suisse Shares, the BJB Shares, the Strand Shares, the Vested Restricted Shares and the Vesting Restricted Shares, all of which are to be issued on Admission;
<b>"Admission"</b>	admission of the Enlarged Share Capital to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules for Companies;
<b>"AIM"</b>	the market known as "AIM" operated by the London Stock Exchange;
<b>"AIM Rules for Companies" or "AIM Rules"</b>	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;
<b>"Bemolanga Block"</b>	Block 3102 PSC, in which the Group holds a 40 per cent. working interest, representing an area of approximately 5,463 km <sup>2</sup> , as delineated in Figure 1 of Part 1 of this document;
<b>"Bemolanga Field"</b>	the bitumen mining field area within the Bemolanga Block, as delineated in Figure 1 of Part 1 of this document;
<b>"Bermuda Companies Act"</b>	the Companies Act 1981 of Bermuda, as amended from time to time;
<b>"BJB Shares"</b>	the 333,330 Common Shares to be issued to Bank Julius Baer & Co. Limited on Admission, further details of which are set out in paragraph 14.1(mm) of Part 6 of this document;
<b>"Block 3102 PSC"</b>	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 this document;
<b>"Block 3104 PSC"</b>	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 this document;
<b>"Block 3105 PSC"</b>	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 this document;
<b>"Block 3106 PSC"</b>	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 this document;
<b>"Block 3107 PSC"</b>	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 this document;
<b>"Blocks"</b>	together the Tsimiroro Block, the Bemolanga Block and the Exploration Blocks and "Block" shall mean any one of them;
<b>"Board"</b>	the board of directors of the Company from time to time;
<b>"BMA"</b>	the Bermuda Monetary Authority;
<b>"Bye-Laws"</b>	the bye-laws of the Company, in force from time to time;



<b>“certificated” or “in certificated form”</b>	a Common Share which is not in uncertificated form;
<b>“City Code”</b>	the UK City Code on Takeovers and Mergers;
<b>“Common Shares”</b>	the common shares (arising pursuant to the Sub-division) of par value US\$0.001 each in the capital of the Company, in issue from time to time;
<b>“Company” or “Madagascar Oil” or “MOL”</b>	Madagascar Oil Limited, a company incorporated in Bermuda with registered number 37901 whose registered office is at Canon’s Court, 22 Victoria Street, Hamilton, HM 12, Bermuda;
<b>“Competent Persons’ Reports” or “CPRs”</b>	together, the Netherland Sewell CPR and the Norwest CPR;
<b>“Convertible Promissory Notes”</b>	the convertible promissory notes in the principal amount of US\$2,873,355.74, further details of which are set out in paragraph 14.1(aa) of Part 6 of this document;
<b>“Corporate Governance Code”</b>	the UK Corporate Governance Code published by the Financial Reporting Council in June 2010;
<b>“Credit Suisse Shares”</b>	the 2,440,310 Common Shares to be issued on Admission to Credit Suisse Securities (Europe) Limited and others pursuant to the exercise of certain Warrants, further details of which are set out in paragraphs 4.2 and 14.1(ll) of Part 6 of this document;
<b>“CREST”</b>	the computerised settlement system (as defined in the CREST Regulations) operated by Euroclear which facilitates the transfer of title to shares in uncertificated form;
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 including any enactment or subordinate legislation which amends or supersedes those regulations and any applicable rules made under those regulations or any such enactment or subordinate legislation for the time being in force;
<b>“Deed Poll”</b>	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, further terms of which are summarised in paragraph 16 of Part 1 of this document;
<b>“Depositary”</b>	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;
<b>“Depositary Interest” or “DI”</b>	a dematerialised depositary interest issued by the Depositary representing an entitlement to a Common Share which may be traded through CREST in dematerialised form;
<b>“Directors”</b>	the current directors of the Company whose names are set out on page 16 of this document;
<b>“Enlarged Share Capital”</b>	the 192,365,157 Common Shares in issue on Admission (which includes the New Shares);
<b>“Equity Incentive Plan”</b>	the 2010 Omnibus Equity Incentive Plan of the Company further details of which are set out in paragraph 5 of Part 6 of this document;

<b>“Euroclear”</b>	Euroclear UK and Ireland Limited, a company incorporated in England & Wales with registered number 2878738, being the operator of CREST;
<b>“Existing Common Shares”</b>	the 12,797,425 common shares of par value US\$0.01 in issue at the date of this document;
<b>“Exploration Blocks”</b>	together, the Manambolo Block, the Morondava Block and the Manandaza Block;
<b>“FSA”</b>	the Financial Services Authority of the United Kingdom;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 (as amended) of the UK including any regulations made pursuant thereto;
<b>“GMP”</b>	GMP Securities Europe LLP, the Company’s joint broker together with Mirabaud;
<b>“Granherne”</b>	Granherne Inc, a subsidiary of KBR Inc, a contributor to both the Netherland Sewell CPR and the Norwest CPR, providing technical and cost input for oil handling facilities for the Tsimiroro Block and the Bemolanga Block;
<b>“Group”</b>	the Company and its subsidiaries;
<b>“IFRS”</b>	International Financial Reporting Standards;
<b>“ISIN”</b>	International Securities Identification Number;
<b>“London Stock Exchange” or the “Exchange”</b>	London Stock Exchange plc;
<b>“Madagascar”</b>	the Republic of Madagascar;
<b>“Madagascar Mauritius”</b>	Madagascar Oil Limited, a wholly-owned subsidiary of the Company being a company incorporated in Mauritius with registered number 41412 whose registered office is at Level 8, Medine Mews, La Chaussee Street, Port Louis, Mauritius;
<b>“Madagascar SA”</b>	Madagascar Oil Société Anonyme, a subsidiary of Madagascar Mauritius, being a company incorporated in Madagascar with registered number 2004B241 whose registered office is at 9th Floor, Immeuble Fitaratra, Ankorondrano, Antananarivo, Madagascar;
<b>“Madagascar USA”</b>	Madagascar Oil (USA) LLC, a wholly-owned subsidiary of the Company, being a limited liability company formed in Texas with registered number 800741681 whose registered office is at 350 N. St. Paul St., Suite 2900, Dallas, Texas, USA 75201;
<b>“Majunga”</b>	Majunga Oil Sarl, a subsidiary of Madagascar Mauritius, being a company incorporated in Madagascar with registered number 2004B785 whose registered office is at 9th Floor, Immeuble Fitaratra, Ankorondrano, Antananarivo, Madagascar;
<b>“Malagasy Ariary”, “MGA” or “Ariary”</b>	the legal currency of Madagascar from time to time;
<b>“Manambolo Block”</b>	Block 3105 PSC, in which the Group holds a 100 per cent. working interest, representing an area of approximately 3,995 km <sup>2</sup> , as delineated in Figure 1 of Part 1 of this document;
<b>“Manandaza Block”</b>	Block 3107 PSC, in which the Group holds a 100 per cent. working interest, representing an area of approximately 6,580 km <sup>2</sup> , as

	delineated in Figure 1 of Part 1 of this document;
<b>“Mirabaud”</b>	Mirabaud Securities LLP, the Company’s joint broker together with GMP;
<b>“Morondava Block”</b>	Block 3106 PSC, in which the Group holds a 100 per cent. working interest, representing an area of approximately 6,825 km <sup>2</sup> , as delineated in Figure 1 of Part 1 of this document;
<b>“Netherland Sewell”</b>	Netherland, Sewell & Associates Inc, the author of the Netherland Sewell Competent Person’s Report;
<b>“Netherland Sewell Competent Person’s Report” or “Netherland Sewell CPR”</b>	the competent person’s report on the Tsimiroro Block and the Exploration Blocks, as set out in Part 4 of this document;
<b>“New Shares”</b>	the Placing Shares and the Additional Shares;
<b>“Norwest”</b>	Norwest Corporation, the author of the Norwest Competent Person’s Report;
<b>“Norwest Competent Person’s Report” or “Norwest CPR”</b>	the competent person’s report on the Bemolanga Block, as set out in Part 5 of this document;
<b>“Official List”</b>	the Official List of the UK Listing Authority;
<b>“OMNIS”</b>	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;
<b>“Options”</b>	the outstanding options to purchase Common Shares (stated in this document on a post Sub-division basis), details of which are set out in paragraphs 4 and 10.1 of Part 6 of this document;
<b>“Petroleum Code”</b>	the Code Pétrolier Law No. 96/018 of 4 September 1996 or Petroleum Code in Madagascar including any relevant decrees, further details of which are set out in Appendix II of this document;
<b>“Placees”</b>	the subscribers for Placing Shares pursuant to the Placing;
<b>“Placing”</b>	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement;
<b>“Placing Agreement”</b>	the conditional agreement dated 24 November 2010 between the Company, the Directors, Strand Hanson, Mirabaud and GMP, details of which are set out in paragraph 14.1(ee) of Part 6 of this document;
<b>“Placing Price”</b>	95 pence per Placing Share;
<b>“Placing Shares”</b>	53,197,000 new Common Shares to be allotted and issued to Placees pursuant to the Placing at the Placing Price;
<b>“Production Sharing Contracts” or “PSCs”</b>	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 this document;
<b>“Prospectus Directive”</b>	Directive EC/809/2004 of the European Parliament and Council;

<b>“Ramsgate”</b>	Ramsgate Engineering Inc, a contractor specializing in steam flood design and development that provided technical design and cost input for the Tsimiroro Block;
<b>“Registrar”</b>	Computershare Investor Services (Bermuda) Limited acting in its capacity as registrar pursuant to the terms of the agreement for the provision of registry services entered into between the Company and Computershare Investor Services (Bermuda) Limited;
<b>“Regulation D”</b>	Regulation D under the Securities Act;
<b>“Regulation D Placing”</b>	the Placing in the U.S. or to U.S. Persons of the Placing Shares;
<b>“Regulation D Placing Letter”</b>	the letters from the Company to be signed by each Placee that is a U.S. Person or that is in the U.S., procured by the Company wishing to take part in the Regulation D Placing, setting out the terms on which they agree to subscribe for the Placing Shares;
<b>“Regulation S”</b>	Regulation S under the Securities Act;
<b>“Restricted Shares”</b>	the conditional rights to receive Common Shares at no additional cost on a one-for-one basis awarded by the Company under the Restricted Stock Plan (stated in this document on a post Sub-division basis), further details of which are set out in paragraph 4.3 of Part 6 of this document;
<b>“Restricted Stock Plan”</b>	the restricted stock plan of the Company, used prior to Admission further details of which are set out in paragraph 5.2 of Part 6 of this document;
<b>“SEC”</b>	US Securities and Exchange Commission;
<b>“Securities Act” or “US Securities Act”</b>	US Securities Act of 1933, as amended;
<b>“Share Dealing Code”</b>	the code on dealing in the Company’s securities adopted by the Company that complies with the AIM Rules;
<b>“Shareholders”</b>	holders of Common Shares in the Company, from time to time;
<b>“Significant Shareholder”</b>	a Shareholder holding three per cent. or more of the Common Shares in issue from time to time;
<b>“Statutes”</b>	means the Act, Bermuda Companies Act, the FSMA, the CREST Regulations and every other act and statutory instrument for the time being in force affecting the Company;
<b>“Sterling” or “£”</b>	pounds sterling, the lawful currency of the UK from time to time;
<b>“Strand Hanson”</b>	Strand Hanson Limited, the Company’s financial and nominated adviser;
<b>“Strand Shares”</b>	the 70,707 Common Shares to be subscribed for by Strand Hanson on Admission as is more fully described in paragraph 14.1(z) of Part 6 of this document;
<b>“Sub-division”</b>	the sub-division of the share capital of the Company approved (conditional on Admission) by Shareholders on 19 October 2010 pursuant to which each Existing Common Share will, immediately prior to Admission, be split into ten Common Shares;
<b>“subsidiary” or “subsidiary undertaking”</b>	have the meanings given to them in the Act;

<b>“Touradji”</b>	any or each of Touradji Global Resources Master Fund Ltd, Touradji Global Resources Offshore Fund Ltd, Touradji DeepRock Master Fund Ltd, Touradji Global Resources Holdings Ltd, Touradji DeepRock Holdings Ltd, Touradji Global Resources Holdings LLC, Touradji DeepRock Holdings LLC as the context requires;
<b>“Total E&amp;P”</b>	Total E&P Madagascar S.A.S, a company registered in France with its registered office at Avenue 2, Place de Coupole, Defense 6 - 92078 - Paris La Defense CEDEX, being the designated operator of the Bemolanga Block with a 60 per cent. interest in the Block 3102 PSC;
<b>“Tsimiroro Block”</b>	Block 3104 PSC, in which the Group holds a 100 per cent. working interest, representing an area of approximately 6,670 km <sup>2</sup> , as delineated in Figure 1 of Part 1 of this document;
<b>“Tsimiroro Field”</b>	the steam project field area within the Tsimiroro Block, as delineated in Figure 1 of Part 1 of this document;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UKLA” or “UK Listing Authority”</b>	the FSA, acting in its capacity as the competent authority for the purposes of Part VI of the FSMA, as amended;
<b>“uncertificated” or “in uncertificated form”</b>	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which may be transferred by means of CREST;
<b>“United States” or “U.S.”</b>	the United States of America, its territories and possessions, any state of the United States of America and the district of Columbia and all other areas subject to its jurisdiction;
<b>“US Dollar” or “US\$”</b>	the legal currency of the United States from time to time;
<b>“Vested Restricted Shares”</b>	the 1,000,000 Common Shares to be issued to Hunter Capital International, Ltd (a company affiliated with Mr. Hunter) on Admission in respect of the Restricted Shares held by Mr. Hunter that vested prior to the date of this document, further details of which are set out in paragraphs 10.1 and 11.2 of Part 6 of this document;
<b>“Vesting Restricted Shares”</b>	the 7,349,560 Common Shares to be issued to certain holders of Restricted Shares on Admission, pursuant to the Restricted Stock Plan;
<b>“Warrants”</b>	warrants to purchase Common Shares (stated in this document on a post Sub-division basis), details of which are set out in paragraph 4 of Part 6 of this document; and
<b>“Worley Parsons”</b>	Worley Parsons Canada Services Limited, a contributor to the Norwest CPR providing technical cost input for bitumen extraction facilities for the Bemolanga Block.

A glossary of technical terms and expressions is set out on pages 13 to 15 of this document.

## GLOSSARY OF TECHNICAL TERMS

The following table provides an explanation of certain technical terms and abbreviations used in this document. The terms and their assigned meanings may not correspond to standard industry meanings or usage of these terms:

"2D seismic"	geophysical data that depicts the subsurface strata in two dimensions;
"3D seismic"	geophysical data that depicts the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic;
"° API"	a standard measure of oil density, as defined by the American Petroleum Institute;
"barrels" or "bbl"	stock tank barrel, a standard measure of volume for oil, condensate and natural gas liquids, which equals 42 US gallons;
"BIP"	bitumen in place;
"block"	an area of licensed territory comprising one or more licences;
"bopd"	barrels of oil per day;
"Carnian"	a stage of the Triassic Period - and/or the geological section of that age;
"COGE"	the Canadian Oil and Gas Evaluation system;
"contingent resources"	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies;
"Cretaceous"	a Period of the Mesozoic Era - and/or the geological section of that age;
"CSS"	Cyclic Steam Stimulation - a technique for increasing the productivity of heavy oil wells by alternately injecting steam and producing oil from a single well bore. Also known as "Huff and Puff";
"CSS"	cyclic steam stimulation;
"discovery"	petroleum having been detected in a exploration well;
"ERT"	electrical resistivity tomography, a geophysical technique for imaging sub-surface structures from electrical measurements made at the surface, or by electrodes in one or more boreholes;
"EUR"	Estimated Ultimate Recovery - the total cumulative historic oil and/or gas production plus projected future production from a well or field;
"exploration well"	a well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir;
"farm-out"	to assign an interest in a licence to another party;
"field"	an area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition;

"geophysical"	measurement of the earth's physical properties to explore and delineate hydrocarbons by means of electrical, seismic, gravity and magnetic methods;
"GOR"	gas to oil ratio;
"GORE"	W.L. Gore and Associates Inc, a US based consultancy providing, <i>inter alia</i> , a geochemical survey service for the detection of microseepage and used in the exploration for oil;
"gross reserves"	the total estimated petroleum to be produced from a field;
"gross resources"	the total estimated petroleum that is potentially recoverable;
"hydrocarbon"	compound containing only the elements hydrogen and carbon, a term mainly used in a catch-all sense for oil, gas and condensate;
"Jurassic"	a Period of the Mesozoic Era - and/or the geological section of that age;
"km <sup>2</sup> " or "sq km"	square kilometre;
"lead"	a conceptual exploration idea usually based on minimal data but with sufficient support from geological analogues and the like to encourage further data acquisition and/or study on the basis that hydrocarbon accumulations of unknown size may be found in the future;
"m"	metres;
"mD"	milledarcie - a unit of measurement of permeability;
"microseepage"	the seepage of trace amounts of hydrocarbons from the subsurface into surface sediments, where they can be detected by geochemical survey techniques, and may be used as an indicator of the presence of deeper hydrocarbon accumulations;
"MM bbl" or "mmbbl"	million barrels of oil;
"natural gas"	gas that occurs naturally in the gaseous state;
"oil"	mixture of liquid hydrocarbons of different molecular weights;
"OOIP"	original oil-in-place;
"operator"	company that has legal authority to undertake petroleum operations;
"PIIP"	petroleum initially in place;
"play"	a project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects;
"Precambrian"	the period pre-dating the Palaeozoic Era - and/or the geological section of that age, which underlies the fossiliferous Palaeozoic, Mesozoic and Cenozoic strata;
"PRMS"	Petroleum Resources Management System;
"prospect"	a project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target;
"prospective resources"	those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects;
"psig"	pounds per square inch (gauge) - a unit of measurement of pressure, relative to atmospheric pressure;

<b>"reserves"</b>	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions;
<b>"reservoir"</b>	a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. A reservoir is a critical component of a complete petroleum system;
<b>"resources"</b>	deposits of naturally occurring hydrocarbons which, if recoverable, include those volumes of hydrocarbons either yet to be found (prospective) or if found the development of which depends upon a number of factors (technical, legal and/or commercial) being resolved (contingent);
<b>"Royalty"</b>	funds payable to the lessor from the production of oil or gas, free of costs, except taxes;
<b>"Royalty oil"</b>	the portion of oil or gas retained by the lessor on execution of a lease;
<b>"seal"</b>	a relatively impermeable rock, commonly shale, anhydrite or salt, that forms a barrier or cap above and around reservoir rock such that fluids cannot migrate beyond the reservoir. A seal is a critical component of a complete petroleum system; and
<b>"seismic survey"</b>	a method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two or three dimensional form.



## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors:</b>	John Laurie Hunter ( <i>Chairman and Chief Executive Officer</i> ) Mark Field Weller ( <i>Chief Operating Officer</i> ) Andrew James Morris ( <i>Non-Executive Director</i> ) Ian Colin Orr-Ewing ( <i>Non-Executive Director</i> ) Ian Christopher Simon Barby ( <i>Non-Executive Director</i> ) John Alexander van der Welle ( <i>Non-Executive Director</i> )
<b>Registered Office:</b>	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
<b>Principal place of business and business address of the Directors:</b>	2180 North Loop West Suite 500 Houston Texas 77018 United States  Website: <a href="http://www.madagascaroil.com">www.madagascaroil.com</a>
<b>Company Secretary:</b>	Zina Marie Darrell Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
<b>Financial and Nominated Adviser:</b>	Strand Hanson Limited 26 Mount Row London W1K 3SQ United Kingdom
<b>Joint Brokers:</b>	Mirabaud Securities LLP 33 Grosvenor Place London SW1X 7HY United Kingdom  GMP Securities Europe LLP 5 Stratton Street London W1J 8LA United Kingdom
<b>Solicitors to the Company:</b>	<i>As to English Law:</i> Watson, Farley & Williams LLP 15 Appold Street London EC2A 2HB United Kingdom  <i>As to Bermuda Law:</i> Appleby Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda  <i>As to Mauritius Law:</i> Appleby Level 8, Medine Mews La Chaussée Street Port Louis Mauritius

	<p><i>As to Madagascan Law:</i>  PricewaterhouseCoopers Tax and Legal SARL  Rue Augustin Rajakoba Ankadivato  Antananarivo 101  Madagascar</p>
<b>Solicitor to the Nominated Adviser and Joint Brokers:</b>	<p>Lawrence Graham LLP  4 More London Riverside  London SE1 2AU  United Kingdom</p>
<b>Auditor to the Company:</b>	<p>BDO USA, LLP  333 Clay Street  Suite 4700  Houston  TX 7700 2  United States</p>
<b>Reporting Accountant to the Company:</b>	<p>BDO LLP  55 Baker Street  London W1U 7EU  United Kingdom</p>
<b>Competent Persons:</b>	<p>Netherland, Sewell &amp; Associates Inc  1601 Elm Street  Suite 4500  Dallas  Texas 75201  United States</p> <p>Norwest Corporation  2700  411 - 1st Street SE  Calgary, Alberta  T2G 4YS  Canada</p>
<b>Financial PR:</b>	<p>Pelham Bell Pottinger  5th Floor  Holborn Gate  330 High Holborn  London WC1V 7QD  United Kingdom</p>
<b>Registrars:</b>	<p>Computershare Investor Services (Bermuda) Limited  Corner House  Church and Parliament Streets  Hamilton HM FX  Bermuda</p>
<b>Depositary:</b>	<p>Computershare Investor Services PLC  The Pavilions  Bridgwater Road  Bristol BS99 6ZZ  United Kingdom</p>

## PART 1

### INFORMATION ON THE GROUP

#### 1. Introduction

Madagascar Oil is incorporated in Bermuda and has operational offices in Antananarivo, Madagascar and administrative offices in Houston, Texas. It is the holding company of a group of companies involved in the exploration and development of heavy oil and conventional oil deposits which have been discovered on five contiguous onshore blocks in Madagascar owned by the Group. The Blocks represent one of the largest onshore exploration and development rights for both heavy oil and conventional oil and gas in Madagascar.

The Tsimiroro Block and the Bemolanga Block have been the subject of prior development efforts by several companies dating back to the early 1900's. The Exploration Blocks have experienced various partially successful exploration efforts over the past 40 years, none of which led to development.

The Tsimiroro Block, which is wholly owned by the Group, is a heavy oil discovery, while the Bemolanga Block is an oil sand/mineable bitumen discovery. The Group holds a 40 per cent. interest in the Bemolanga Block, with Total E&P holding the remaining 60 per cent. as partner and operator. The Exploration Blocks, which lie directly to the south of the Tsimiroro Block, are wholly owned by the Group and total approximately 17,400 km<sup>2</sup> (4.3 million acres). The Company has identified eight prospective lead areas in the Exploration Blocks which it intends to develop further.

The map below identifies the location of the Blocks and highlights the field areas of the Tsimiroro Field steam project and the Bemolanga Field bitumen mining project.



Figure 1: Location map of the Tsimiroro Block, the Bemolanga Block and the Exploration Blocks.

The Blocks represent an area of approximately 29,500 km<sup>2</sup> (7.3 million acres). Each of the Blocks comprise 4,000 to 7,000 km<sup>2</sup> and the Bemolanga Field and the Tsimiroro Field are approximately one tenth of the area of their respective blocks.

The Company is proposing to raise approximately £50.5 million (before expenses) through the Placing (approximately £46.5 million, net of expenses), with the intention of expanding and upgrading the resource base across the Tsimiroro Block and the Bemolanga Block, proving commerciality of the Tsimiroro Field with a steam flood pilot plant and further developing drillable prospects in the Exploration Blocks. Further details of the Company's intended use of proceeds from the Placing are set out in paragraph 10 of this Part 1.

## **2. Key Investment Proposition**

Madagascar Oil has aggregated one of the largest onshore positions in a major emerging hydrocarbon province. The Group has two fields which have considerable resources in place, being multi-billion barrel heavy oil and bitumen deposit resources in both the Tsimiroro Field and the Bemolanga Field.

The Company's focus over the short to medium term is to prove up reserves and demonstrate commercial production capability. Madagascar Oil will be undertaking key value changing events including:

- additional drilling to expand and upgrade the Tsimiroro Block resource base - first results from the current drilling and ERT program expected in early 2011;
- execution of a steam flood pilot facility on the Tsimiroro Field - first production expected in late 2011;
- evaluation of the mining options available on the Bemolanga Block - next major operational decision in June 2011; and
- development of drillable prospects on the Exploration Blocks - next results from microseepage evaluation expected in early 2011.

The farm-in by Total E&P at the Bemolanga Block for an implied gross valuation of US\$233 million (based on the acquisition of a 100 per cent. interest) validates the play potential and demonstrates its attraction as a stand alone project to super majors and national oil companies looking to secure resources. A potential disposal of the Group's remaining 40 per cent. interest in the Bemolanga Block represents a possible future liquidity event for the Company, provided that Total E&P decides to continue to fund the significant capital costs required to develop the Bemolanga Block.

The Directors believe that further value enhancing opportunities exist via a potential farm-out of the Exploration Blocks.

The Directors believe that the potential world class heavy oil resource being developed by the Company at the Tsimiroro Block is well located for access to the world wide heavy oil market, including the expanding Asian market and has enabled the Group to retain a top tier team encompassing the following key characteristics:

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

## **3. History and Development**

The Company was incorporated in Bermuda on 25 January 2006 to effect a reorganisation of an existing Mauritius incorporated company that was founded in 2004 by an investor group based in Canada and the UK. During 2004, the Group entered into six production sharing contracts (one of which was relinquished in 2009) covering the largest onshore acreage position for oil and gas exploration and development in Madagascar. The Bemolanga Block and the Tsimiroro Block were the subject of prior development efforts

by several companies dating back to the early 1900s. The Exploration Blocks experienced various partially successful exploration efforts over the prior 40 years, none of which led to development.

In 2005, the Group raised approximately US\$20 million in equity for its early stage exploration endeavours. During 2006, the Group raised approximately US\$90 million from an investor group led by Touradji Capital and Persistency Capital. Touradji Capital is a New York based private investment management firm and Persistency Capital is a Cayman Islands and New York based international private investment firm. In connection with the financing in March 2006, the Group undertook the reorganisation pursuant to which the Company was formed to act as the holding company for the Group. As part of the reorganisation, a new management team was engaged.

During the period from 2006 to 2008, the Group completed successful drilling and coring programs on the Tsimiroro and Bemolanga Blocks. This work defined significant oil resources in a field development area on each of the Tsimiroro Block and the Bemolanga Block. The Group performed a cyclical steam pilot project on the Tsimiroro Field and successfully produced 2,000 bbl of 13° API oil during this cyclic steam stimulation pilot test conducted in 2008. The next stage is to prove up a commercial field development plan for Tsimiroro, which will involve the construction of a pilot steam flood facility, currently projected to commence in Q4 of 2011, with production response data estimated to be available in 12 to 18 months, followed by a decision on project sanction in mid 2013.

In March 2007, the Group entered into an US\$85 million senior credit facility with Credit Suisse International and a syndicate of lenders. The facility was entered into during the course of negotiating the terms of a farm-out of a 60 per cent. interest in the Bemolanga Block with Total E&P. This facility and additional related costs (including interest, penalty payments and advisory fees), equating to, in aggregate, US\$95 million, was repaid in the fourth quarter of 2008 using the US\$100 million proceeds from the farm-out to Total E&P. The farm-out to Total E&P provides the Group with a carried interest over the next US\$100 million in exploration and development costs to be expended by Total E&P, which is acting as operator of the Bemolanga Block. Total E&P drilled and cored 72 wells in the Bemolanga Block during 2009 and a further 85 wells in 2010. It is anticipated that the US\$100 million to be expended by Total E&P will be fully utilised by June 2012.

In November 2008, the Company undertook a shareholder rights offering which raised approximately US\$7 million at an equivalent value of US\$0.20 per Common Share. Persistency Capital agreed to subscribe for the balance of common shares that the shareholders did not take up. During early 2009, the Company underwent a change in management and reduced its headcount in Houston and Madagascar in order to conserve its cash resources.

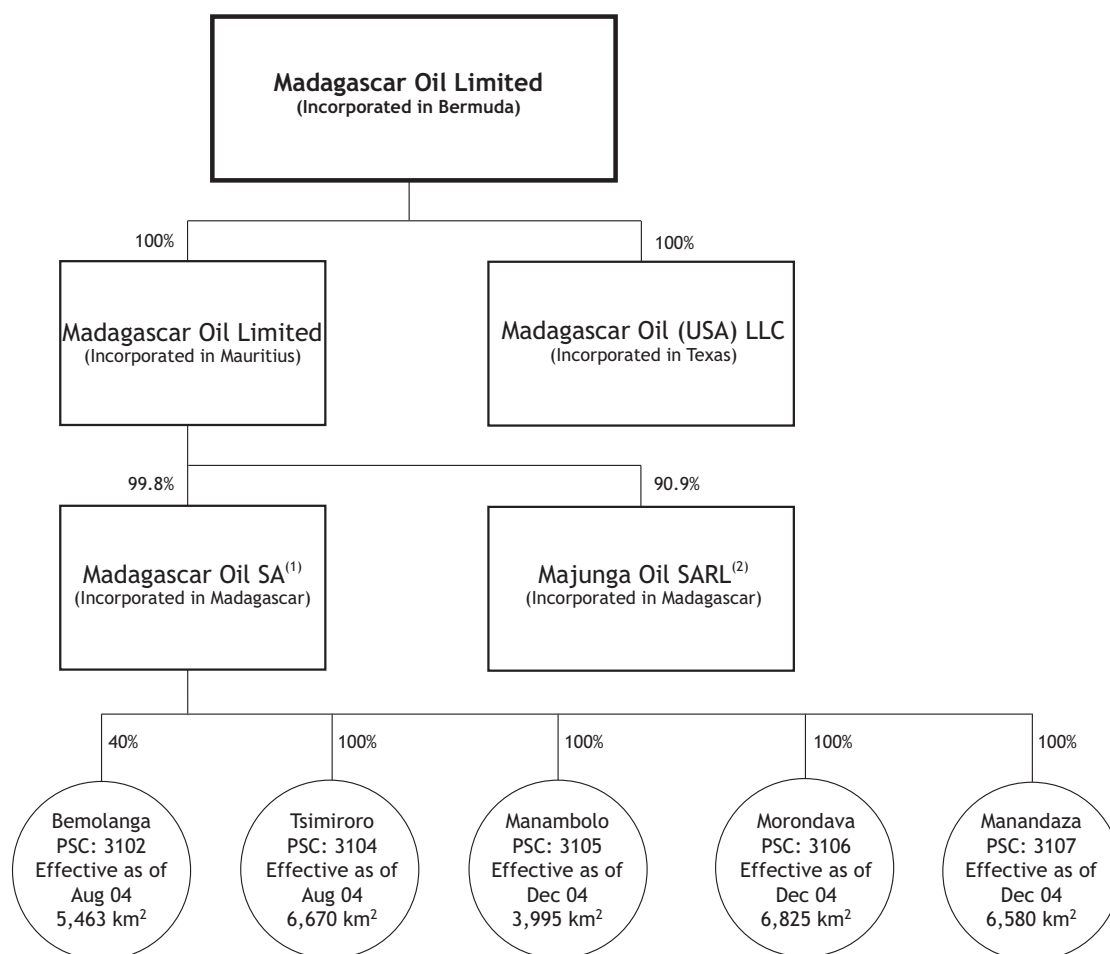
In July 2009, the Company raised approximately US\$5.5 million through an issue of common shares to Grafton Resource Investments Limited and certain associated investors. These proceeds were used for general working capital purposes and for a seismic acquisition program for the Exploration Blocks, which was completed in 2009.

During 2010, the Company has been undertaking a significant program on the Tsimiroro Block to drill 24 wells and collect up to 500 km of ERT data across the field, to further delineate oil resources on the block and to confirm the size of existing structures. In addition, the Company is collecting microseepage data across the Exploration Blocks. This work program is being funded via the issue to the Company's three largest Shareholder groups, in July 2010, of the Convertible Promissory Notes expiring on 31 December 2010, raising approximately US\$3 million as a bridge financing to Admission. In August 2010, the Company issued shares representing approximately 5 per cent. of the Company's issued share capital to investment funds advised by Blakeney LLP, a UK investment adviser, raising US\$10 million. Further details relating to these arrangements are set out in paragraph 14 of Part 6 of this document.

#### **4. Information on the Group**

The Company is the holding company of the Group comprising Madagascar Mauritius and its subsidiaries, Madagascar SA and Majunga. The Company's interests in each of the Tsimiroro Block, the Bemolanga Block and the Exploration Blocks are held through its subsidiary Madagascar SA. In 2007, the Company formed Madagascar USA, a limited liability company domiciled in Texas, as a direct subsidiary for the purpose of providing administrative services to the Group. Majunga was previously a party to (a) a joint venture with Tullow Madagascar Limited in respect of the production sharing contract for the Mandabe block 3109 in Madagascar; and (b) a production sharing contract for the Majunga block 2103, both of which were relinquished to OMNIS in 2009. Majunga is now a dormant company.

## Madagascar Oil: Group Structure Chart



(1) Madagascar SA is owned as to 99.8 per cent. by Madagascar Mauritius and 0.2 per cent. by the Company.

(2) Majunga is owned as to 90.9 per cent. by Madagascar Mauritius and 9.1 per cent. by the Company.

## 5. Description of Principal Assets

Madagascar Oil currently holds interests (through its wholly-owned subsidiaries) in five contiguous blocks onshore western Madagascar, comprising over 29,500 km<sup>2</sup> (around 7.3 million acres), for which rights were acquired (pursuant to the Production Sharing Contracts) in 2004. The location of the Blocks is shown in Figure 1 in Part 1 of this document. The Directors consider that the Production Sharing Contracts granted to Madagascar Oil contain attractive terms and conditions, the key terms of which are summarised in paragraphs 14.1(a) to 14.1(e) of Part 6 of this document. The Tsimiroro Block and the Bemolanga Block have been extensively explored and are known to contain substantial heavy oil/bitumen accumulations, while commercial resources have yet to be discovered on the Exploration Blocks. Key details of each of the Blocks are set out in Table 5-1 below:

**Table 5-1 - Summary Table of Assets**

Block Name	PSC	Operator	MOL Interest (%)	Status	Expiry Date	Current Licence Area (km <sup>2</sup> )	Comment
Tsimiroro	3104	MOL	100%	Exploration/ Appraisal	Phased - to Aug 2012	6,670	Tsimiroro heavy oil field under appraisal
Bemolanga	3102	Total E&P	40%	Exploration/ Appraisal	Phased - to Sep 2012	5,463	Bemolanga tar sands project under appraisal
Manambolo	3105	MOL	100%	Exploration	Phased - to Dec 2012	3,995	
Morondava	3106	MOL	100%	Exploration	Phased - to Dec 2012	6,825	
Manandaza	3107	MOL	100%	Exploration	Phased - to Dec 2012	6,580	

The Competent Persons Reports, which include, *inter alia*, independent resource assessments in respect of the Tsimiroro Block and the Bemolanga Block, are contained in Parts 4 and 5 of this document. An independent assessment of the Tsimiroro Block and the three “early stage” Exploration Blocks was undertaken by Netherland Sewell. An independent assessment of the Total E&P operated Bemolanga Block was undertaken by Norwest (with expert reports on the development concept produced by Worley Parsons and Granherne). The oil resources defined in the CPRs have been classified by Netherland Sewell, under the Petroleum Resource Management System (PRMS), and by Norwest under the Canadian Oil and Gas Evaluation system (COGE). No “Reserves” exist at this time under either the PRMS or COGE system, although the potential of the assets is reflected in the Contingent Resource and Prospective Resource estimates shown below in Tables 5-2 and 5-3.

**Table 5-2 - Summary of Contingent Resources**

Contingent Resources (MM bbl)	Gross (100%) <sup>(1)</sup>			Net Attributable <sup>(2)</sup>			Risk	
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate	Factor	Operator
Tsimiroro Field <sup>(3)</sup>	324	634	1,096	193	464	879	0.68 <sup>(4)</sup>	MOL
Bemolanga Field <sup>(5)</sup>	197	435	678	75	165	258	— <sup>(6)</sup>	Total E&P
TOTAL <sup>(7)</sup>				268	629	1,137		

- (1) Gross technically recoverable resource volumes. In respect of the Bemolanga Block, bitumen produced but used as fuel in the process has been deducted from the Gross number.
- (2) Attributable to the Company’s interest, net of fuel use and Royalty oil. Royalty oil in respect of the Bemolanga Block ranges from 4.5% to 10%, depending on the Brent price. For the purposes of the resource estimate in respect of the Bemolanga Block, a 5% Royalty oil has been applied based on a US\$70 Brent price and a constant US Dollar economic analysis.
- (3) Source: Netherland Sewell CPR (Table II).
- (4) “Risk Factor” for Contingent Resources means the estimated chance, or probability, that the volumes will be commercially extracted.
- (5) Source: Norwest CPR (Table 4.2).
- (6) The estimates in the table do not include a risk factor. The COGE system provides for two approaches that are applicable to deterministic resource and reserve estimates such as was completed for Bemolanga. The COGE handbook states that “*the uncertainty-based approach is more consistent with the COGE reserves definitions and guidelines. The uncertainty based approach is strongly recommended over the risk-based approach*”. Norwest estimates have been made in accordance with this COGE recommendation.
- (7) The basis of estimation of Gross Resources differs between Tsimiroro and Bemolanga (see note (1) above), accordingly a summation to give a Total Gross Resource figure is not appropriate.

**Table 5-3 - Summary of Prospective Resources**

Prospective Resources (MM bbl)	Gross (100%) <sup>(1)</sup>			Net Attributable <sup>(2)</sup>			Risk		
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate	Factor	Operator	
Tsimiroro Field <sup>(3)</sup>	0	544	1,475	0	400	1,185	0.48 <sup>(4)</sup>	MOL	
Bemolanga Field <sup>(5)</sup>	176	325	660	67	124	251	— <sup>(6)</sup>	Total E&P	
Exploration Blocks	No prospects yet defined with volumetrics								MOL
TOTAL <sup>(7)</sup>				67	524	1,436			

- (1) Gross technically recoverable resource volumes. In respect of the Bemolanga Block, bitumen produced but used as fuel in the process has been deducted from the Gross number.
- (2) Attributable to the Company’s interest, net of fuel use and Royalty oil. Royalty oil in respect of the Bemolanga Block ranges from 4.5% to 10%, depending on the Brent price. For the purposes of the resource estimate in respect of the Bemolanga Block, a 5% Royalty oil has been applied based on a US\$70 Brent price and a constant US Dollar economic analysis.
- (3) Source: Netherland Sewell CPR (Table III).
- (4) “Risk Factor” for Prospective Resources means the estimated chance, or probability, that the volumes will be matured into Contingent Resources.
- (5) Source: Norwest CPR (Table 4.3).
- (6) The estimates in the table do not include a risk factor. The COGE system provides for two approaches that are applicable to deterministic resource and reserve estimates such as was completed for Bemolanga. The COGE handbook states that “*the uncertainty-based approach is more consistent with the COGE reserves definitions and guidelines. The uncertainty based approach is strongly recommended over the risk-based approach*”. Norwest estimates have been made in accordance with this COGE recommendation.
- (7) The basis of estimation of Gross Resources differs between Tsimiroro and Bemolanga (see note (1) above), accordingly a summation to give a Total Gross Resource figure is not appropriate.

## 5.1 Tsimiroro Field - Heavy Oil

The Tsimiroro Field is located on PSC 3104, approximately 125 km from the west coast of Madagascar. The field comprises a series of structurally defined accumulations of heavy, 13° API oil, located at shallow depths (30 m to 300 m) in fluvial sandstone reservoirs of the Triassic Amboloando Formation. Figure 2 shows the Top Amboloando Formation depth structure in the northern part of PSC 3104, and the location of the main heavy oil accumulation.

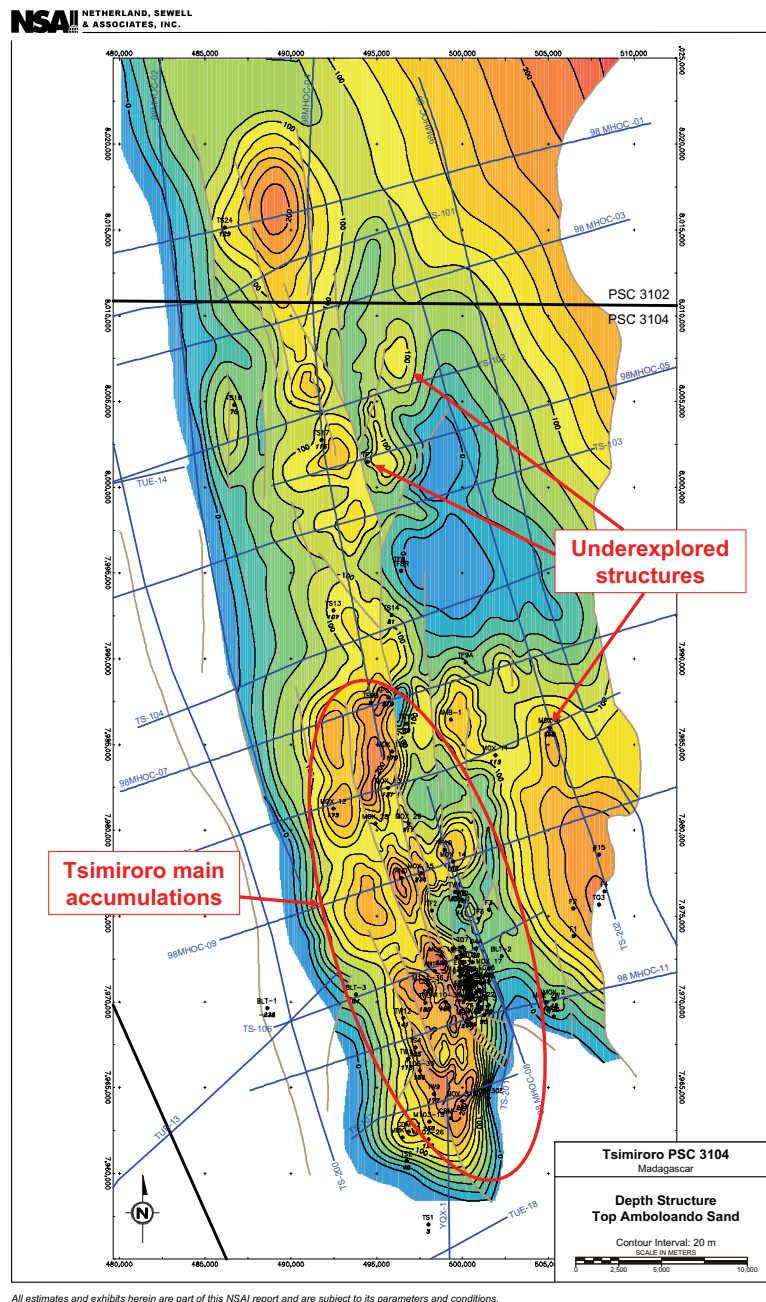


Figure 2: Tsimiroro Field area - Depth Structure, Top Amboloando Sand

### History

The Tsimiroro Field was first discovered in 1909 and around 75 wells were drilled by various operators over the years as attempts were made to define reservoir correlations and develop the oil resource. Following the 2004 award of Block 3104 PSC, Madagascar Oil commissioned an extensive re-appraisal of the Tsimiroro Field incorporating regional geology and detailed analysis of well and seismic data. This study re-defined the structural understanding of the Tsimiroro Field, and identified 32 new structural closures outside the main, most intensely drilled area known as TO-1.



Fifteen of these structures were drilled by Madagascar Oil in a 2008 drilling campaign, 13 of which discovered oil, leading to a significant upwards revision in the estimated total oil-in-place which now stands at over 1.7 billion bbl (Best Estimate), with a High Estimate in excess of 3.2 billion bbl.

Following the drilling of 21 wells in 2007 and the very successful results from the 2008 drilling campaign, the Directors believe that this very large resource can be successfully developed using conventional steam flood injection techniques to increase the mobility of this high-viscosity oil. A steam production test facility was constructed in the central TO-1 area of the Tsimiroro Field in 2008, where three Amboloando wells were subjected to cyclic steam stimulation (CSS, or "Huff and Puff") production tests. Each of the wells produced a few barrels of oil prior to steaming. After stimulation, the wells produced at peak rates of 100 to 150 bopd and exhibited a classic steam stimulation production decline. The Company now plans a 9 pattern pilot test facility using a one acre spacing pattern steam flood - also in the TO-1 area of the Tsimiroro Field - in order to establish the commercial viability of a full field development.

#### *Geology of the Tsimiroro Field*

The heavy oil accumulations at the Tsimiroro Field occur within a stacked series of fluvial channel sands and braided stream deposits of Late Triassic (Carnian) age, in an overall sequence that is up to 100 m thick. Good porosities are preserved in these sandstones, averaging 24% to 26%, and permeabilities are around 500 mD. The oil source is believed to be deeper, Permian aged lacustrine shales, and the reservoir sands are sealed by an overlying shale (Mokara Shale). The oil accumulations are structurally defined; regional dip is to the west, with Amboloando sands outcropping to the east of the area, while a series of mainly north-south normal faults define various horst blocks and three-way fault closures (see Figure 2 above). A high proportion of the structural closures drilled to date contain oil, although cross-fault leakage may have occurred in a few cases where the seal was broken and the sand was wet.

#### *Oil-In-Place Estimation*

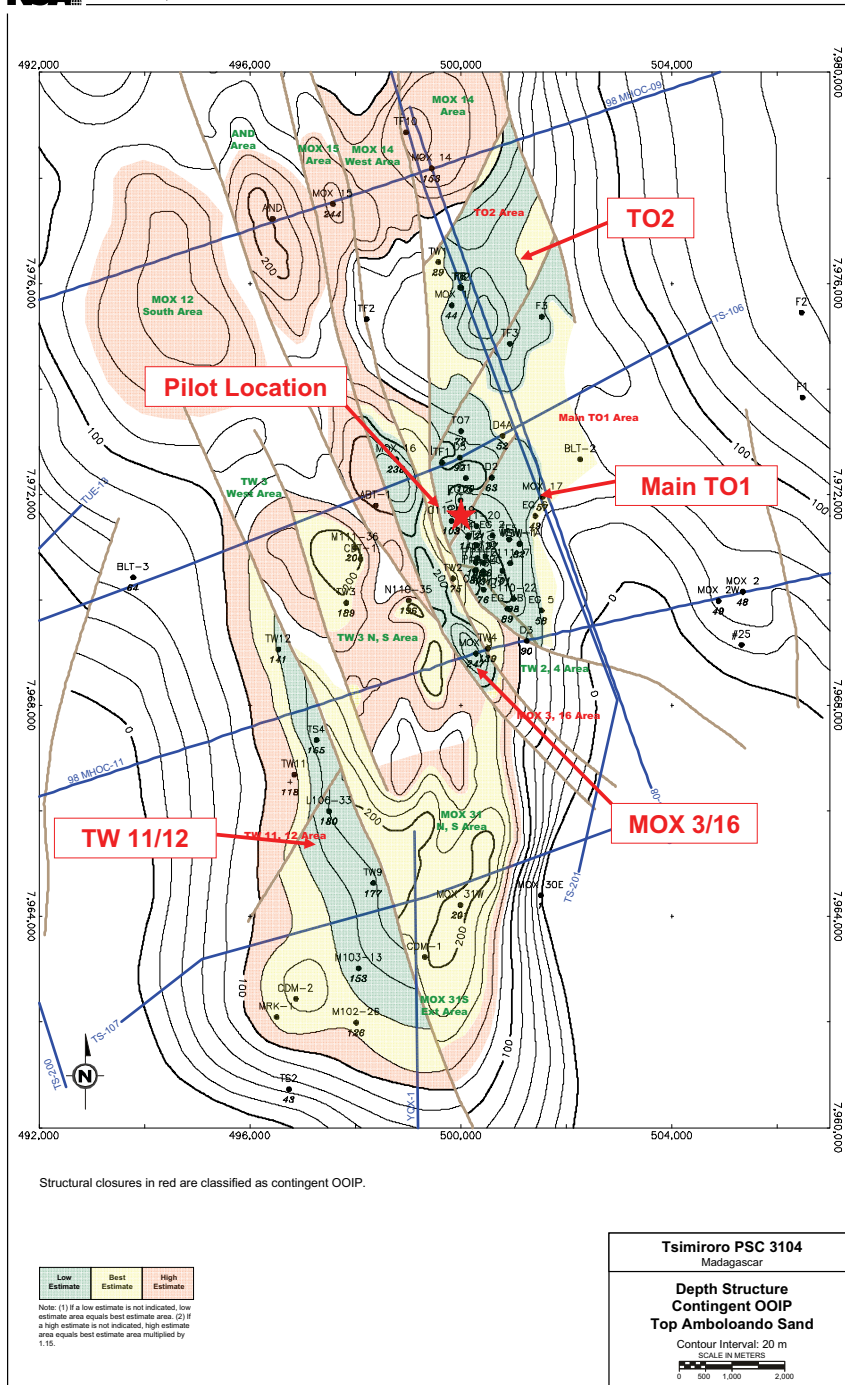
Netherland Sewell have estimated the Oil-In-Place for the Tsimiroro Field based on the individual evaluation of 24 structural closures mapped in the "greater Tsimiroro" area (see Figure 2 above). Of these, four accumulations (Main T01, T02, MOX3/16 and TW11/12 - see Figure 3 below) have multiple well penetrations with fairly consistent and favourable results, and are considered as Contingent OOIP volumes. The other 20 mapped closures have few or no well penetrations and/or conflicting results, and are classified as Prospective OOIP volumes. The Best Estimate, Low Estimate and High Estimate case volumes (excluding areas with oil columns less than 10 m) are as follows:

**Table 5.1-1 - Tsimiroro OOIP Estimation**

<i>OOIP MM bbl</i>	<i>Low Estimate</i>	<i>Best Estimate</i>	<i>High Estimate</i>
Contingent (4 structures) <sup>(1)</sup>	644	965	1,412
Prospective (20 structures) <sup>(2)</sup>	0	786	1,843

(1) Comprising T01, T02, MOX3/16 and TW11/12 - Source: Netherland Sewell CPR (Figure 30)

(2) Source: Netherland Sewell CPR (Figure 31)



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3: Tsimiroro Main Field Area - Contingent OOIP and Top Amboloando Depth Structure

### Development Plan

Madagascar Oil plans to develop the Tsimiroro Field by means of a full-field 2-acre pattern steam flood comparable to that at Kern River in California (see Production Analogue - The Kern River Field below) - that will involve the drilling of 6,600 (in the Best Estimate case) to 11,200 (in the High Estimate case) well pairs over a 20 to 30 year period. The reservoir response to a prolonged steam flood will first be evaluated with a 9 pattern, 25 well, pilot currently being developed and installed and expected to commence production in late 2011. The work plan anticipates that the pilot will

be operated for between 12 to 18 months, and the results of this pilot will be critical in determining the viability of a full development project. The following outline schedule is currently envisaged:

2010:	24 wells drilled to test prospective structures (14 wells completed to date); 500 km ERT survey over planned development area (330 km completed to date)
2010-2013	Steam flood pilot construction, operation and evaluation
2013-2015	Development design, construction and installation of first commercial phase
2016	First commercial oil production
2016-2035	Continuous development drilling at rates of 100 to 700 well pairs per year
2065	Abandonment and site restoration prior to concession termination in 2066.

Development of the Contingent volumes in the four core structures could be accomplished at a plateau production rate of around 87,500 bopd or 32 MM bbl per annum (Best Estimate). Inclusion of the wider Prospective volumes (or the High Estimate Contingent volumes) would imply higher plateau rates of around 140,000 to 160,000 bopd. It is intended that the produced oil will be upgraded to a low quality synthetic crude by a visbreaking unit installed at the Tsimiroro Field central processing facility, which will be linked to an export facility, tank farm and offshore loading system on the coast via a 125 km pipeline.

Capital investment and operating costs for the Tsimiroro steam flood development have been studied by Granherne and Ramsgate. These costs were reviewed by Netherland Sewell and incorporated with minor modifications into their economic evaluation of the project. Details are included in the Netherland Sewell CPR set out in Part 4 of this document. Total capital costs are estimated to be approximately US\$5.1 billion for the development of the Best Estimate Contingent Resource volumes, rising to US\$8.7 billion with the addition of the Best Estimate Prospective Resource volumes. These costs correspond to capital expenditure of US\$7 to US\$8/bbl, comparable to many conventional oil development projects.

#### *Recoverable Resource Potential*

Based on the development scheme outlined above, Netherland Sewell anticipate potential recovery of 60% to 80% of the OOIP in the Tsimiroro Field, and on this basis have calculated Estimated Ultimate Recovery (EUR) volumes for the Contingent and Prospective volumes described above. Significant volumes of raw produced oil are used as fuel in the process for steam generation (around 22% of gross production), and this along with Royalty Oil is deducted to give the Net Resource attributable to Madagascar Oil.

**Table 5.1-2 - Tsimiroro Contingent Resource Estimation**

<i>MM bbl</i>	<i>Low Estimate</i>	<i>Best Estimate</i>	<i>High Estimate</i>
EUR <sup>(1)</sup>	324	634	1,096
Net Contingent Resource <sup>(2)</sup>	193	464	879

(1) Estimated Ultimate Recovery

(2) Excludes fuel usage and Royalty oil

Source: Netherland Sewell CPR (Table II)

**Table 5.1-3 - Tsimiroro Prospective Resource Estimation**

<i>MM bbl</i>	<i>Low Estimate</i>	<i>Best Estimate</i>	<i>High Estimate</i>
EUR <sup>(1)</sup>	0	544	1,475
Net Prospective Resource <sup>(2)</sup>	0	400	1,185

(1) Estimated Ultimate Recovery

(2) Excludes fuel usage and Royalty oil

Source: Netherland Sewell CPR (Table III)

### *Production Analogue - The Kern River Field*

The Directors consider the Kern River Field in the United States to be a useful “production analogue” in that certain similarities between that field (which has commercially produced under steam flood for over 40 years) and the Tsimiroro Field mean that knowledge and technology improvements in Kern River may have direct application to the development of the Tsimiroro Field.

The Kern River Field is a giant, shallow heavy oil field located in the San Joaquin Valley north-north-east of Bakersfield, California. It is one of the largest oil fields in the United States, having produced over 2 billion bbl of oil since its discovery in the 1890’s. In the late 1960’s, production had dropped to less than 10,000 bopd and, in 1968, steam flood patterns were installed that eventually expanded to develop over 140,000 bopd production in the late 1970’s. The field is still producing at around 80,000 bopd due largely to the widespread application of steam flood techniques. The Directors believe that the Kern River Field is a good analogue for the Tsimiroro Field in terms of the application of, and potential response to, a patterned steam flood development. Reservoir and fluid properties are broadly similar with similar quality oil deposited in multiple layers, although the Tsimiroro reservoir sands are somewhat shallower and with lower porosity.

The principal operator at Kern River is Chevron. Several of Madagascar Oil’s technical staff have worked for Chevron on the Kern River Field in the past, in particular Mark Weller (COO), who was involved in the engineering development and installation of over a dozen new steam floods in the San Joaquin Valley from 1972 to 1982 and an Area Manager responsible for three different California areas from 1982 to 1994. All of the key individuals employed by Madagascar Oil for Tsimiroro have San Joaquin Valley experience, with several having over 30 years experience in Bakersfield. The technical experience gained by these Madagascar Oil employees at Kern River and on other steam flood projects around the world will be directly applicable to the development of the analogous Tsimiroro Field.

<i>Parameter</i>	<i>Kern River</i>	<i>Tsimiroro</i>
Reservoir depth below surface	700-770 ft	100-250 ft
Porosity	35%	24-26%
Permeability	7,600 mD	500 mD
Oil saturation	50%	53-57%
Net Pay	70 ft	100-150 ft
Formation Pressure (initial)	60-70 psig	50-60 psig
Formation Temperature	80-85 °F	82-85 °F
Oil API Gravity	14	13
Original Oil In Place	3-4 B bbl	1.7-3.2 B bbl

### **5.2 Bemolanga Field - Oil Sands Project**

The Bemolanga bitumen accumulation is located in north-western Madagascar, about 170 km from the coast, within Block 3102 PSC which lies immediately to the north of the Tsimiroro Block.

#### *History*

The occurrence of heavy oil in this part of Madagascar has been well known for more than a century, with systematic exploration and test mining taking place since the early 1900’s. The first reconnaissance geological maps of the deposit were produced in the 1930’s. More detailed exploration and drilling was undertaken by various private groups during the late 1950’s and 1960’s which delineated the deposit with over 80 drill holes, but this work had largely ceased by the mid 1970’s.

In 1978, the newly formed Madagascar government agency OMNIS began an exploration campaign in the area, responding to technological advances in the extraction of bitumen (particularly in Canada). A large number of drill holes (over 220) were drilled by various groups in collaboration with OMNIS over the following three to four years, with the delineation of parts of the deposit by a 200 m x 200 m drill hole grid, and tests were conducted for different extraction processes in various laboratories around the world during the early 1980’s.

The large amount of data existing for the area, with over 300 drill holes and core holes totalling 17,314 metres, was collated and re-appraised by Madagascar Oil following the 2004 award of

Block 3102 PSC. Madagascar Oil resumed drilling on the deposit in 2007 with a 9 hole programme and, in 2008, were joined on the project by Total E&P, who took over operatorship and a 60 per cent. interest in the PSC. A large scale drilling and sample analysis project was initiated in 2009 and 72 wells were drilled and cored and examined for this report. In September 2010, Total E&P completed an additional exploration programme that included the drilling and coring of approximately 85 wells. The data and results from this programme have not yet been analysed and have not been used in the preparation of the Norwest CPR.

*Geology of the field*

The Bemolanga bitumen accumulation is located on the north-west flank of a broad anticlinal dome, in which around 1,440 m of Triassic aged sediments overlie Precambrian basement. The accumulation of 9<sup>0</sup>-14<sup>0</sup> API heavy oil/bitumen occurs within a series of fine to medium grained shallow marine and alluvial sandstones, separated by thin shale or clay units, forming the Isalo II and (to a lesser extent) the underlying Isalo I Formations. These outcrop at the surface in the Bemolanga area, with associated weathering and biodegradation of the hydrocarbon, and there are widespread surface seeps of bitumen or heavy oil. The sands are relatively well lithified, with calcareous and clay cements predominant.

A number of faults cross-cut the field, with the Bemolanga Plateau area to the north (Pits 3, 4 and 5) separated from the South Hill area (Pit 1) by a graben feature partially defined by ENE-WSW trending faults with a throw of about 30 m. A series of doleritic igneous intrusions are also present in the area, mainly in the form of dykes intruded along fault planes. These are quite widespread, averaging 3 m thick and extending for 0.3 to 4 km, and represent a period of Cretaceous igneous activity which affected the whole Malagasy sedimentary area.

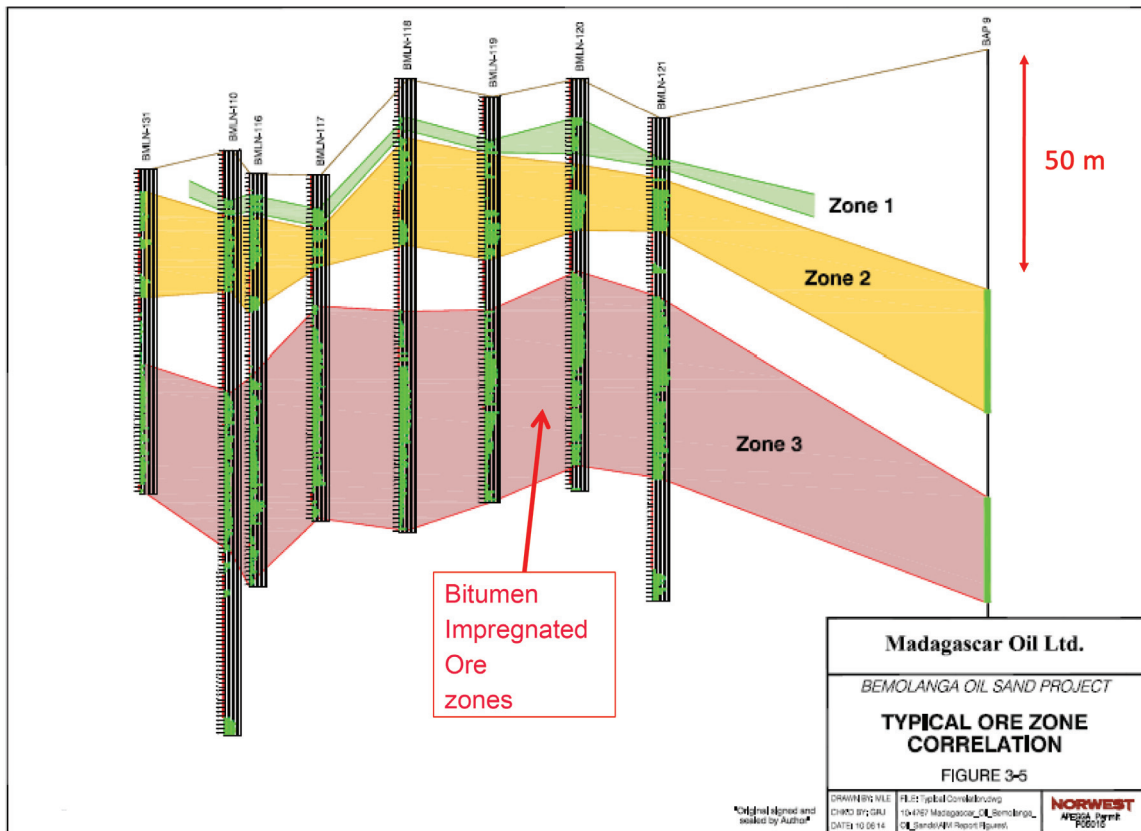


Figure 4: Bemolanga Deposit - "Ore Zones" in the Isalo II Formation

*Oil-In-Place Estimation*

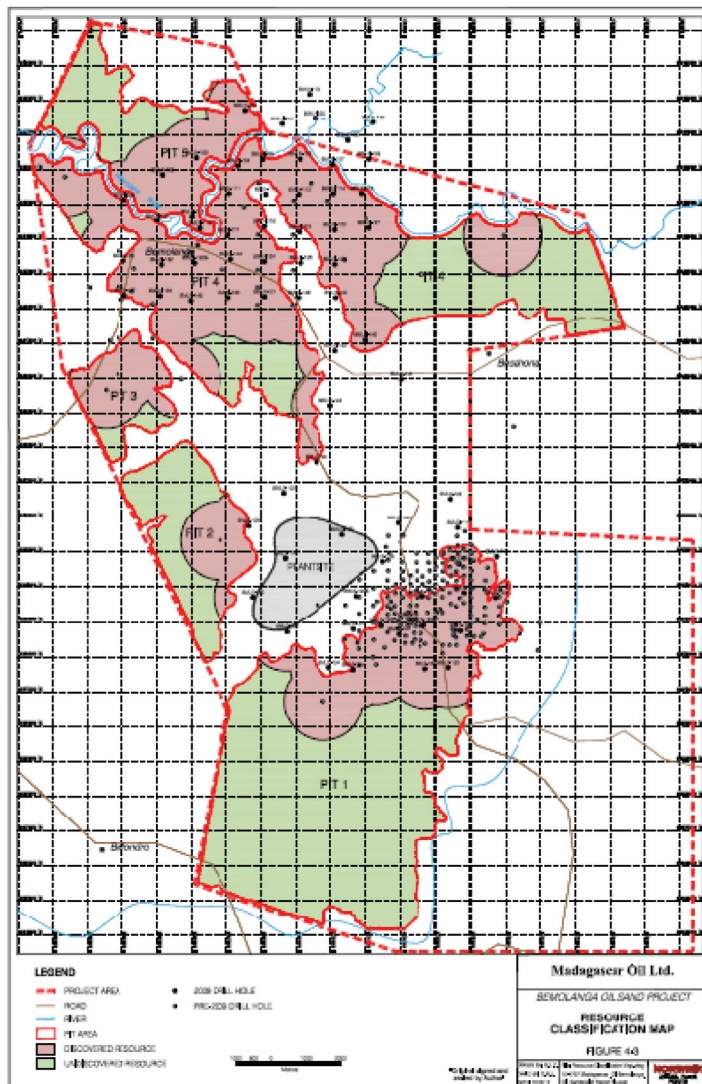
Norwest have estimated the Petroleum Initially In Place (PIIP) volumes for bitumen in the Bemolanga area, based on the delineation of three “ore zones” in the Isalo II Formation - Zones 1, 2 and 3 (see Figure 4 above). These zones of bitumen enrichment are correlated across the property, with variable thickness but in the case of Zones 1 and 2, are each up to approximately 30 m thick, locally, and approximately 77 m thick locally, in the case of Zone 3, and are separated by non-ore sediment intervals (shales or siltstones) 5 to 25 m thick. Bitumen grade is variable between the zones and across the area, but is generally approximately 5% to 8% (weight % bitumen), and locally as high as 10%. The overall package of Isalo sediments containing the ore zones is about 100 m thick.

Norwest’s assessment is based on the definition of five separate potential surface mining Pits (shown in Figure 5 below), of which Pit 4 is the largest with almost 58.5% of the total PIIP. The limits of these potential Pits are defined by the application of mining criteria such as the ratio of Total Volume to Bitumen-in-Place (TV/BIP) >24. Volumes are classified as Discovered or Undiscovered according to drill hole coverage, with Discovered PIIP limited to volumes defined within 1,600 m of a drill hole (see Figure 5 below). The Low/Best Estimate/High volumes represent the range of uncertainty remaining in the PIIP estimation.

**Table 5.2-1 - Bemolanga, Petroleum Initially In Place (PIIP) Estimation**

<i>MM bbl</i>	<i>Low Estimate</i>	<i>Best Estimate</i>	<i>High Estimate</i>
Discovered (Pits 1-5)	496	1,179	2,001
Undiscovered (Pits 1-5)	562	1,005	1,927

Source: Norwest CPR (Table 1.2)



**Figure 5: Bemolanga Deposit - Pit Areas and Resource Classification Map**

### *Potential Outcomes*

Key decision milestones in relation to the Bemolanga Block will include whether to progress with the next phase of appraisal involving a pilot plant (around June 2011) and, following analysis of the results from this pilot plant, whether to proceed to full development (anticipated around June 2014).

The potential outcomes for the Group in relation to the Bemolanga Block are therefore as follows:

- (i) proceed with the pilot plant in 2011;
- (ii) no further development is undertaken as it is concluded that the pilot is not feasible in the prevailing conditions; or
- (iii) Total E&P decides not to proceed with any further development of the Bemolanga Block and relinquishes its participating interest.

### *Development Plan*

Norwest have developed mine designs for the area which are based on experience in the Alberta oil sands mining industry and adapted where appropriate to the geological conditions in the Bemolanga deposit. The Triassic sands here are more consolidated than the Athabasca sands and much of the material will require blasting. The extraction process will be designed to address lower grades, and Norwest adopt a cut-off grade of 4.5% bitumen. A Total Volume to Bitumen in Place (TV/BIP) ratio of 24 defines the breakeven point for extraction, and this was used to delineate 5 separate mining Pit areas across the property (see Figure 5 above). The northern part of the Pit 1 area, in the south of the property, is particularly well delineated, having been the focus of much of the drilling activity prior to 2004 and this is expected to be developed over the initial decade of the project life.

A wide range of bitumen extraction processes have been examined and tested on Bemolanga tar sands over the years, and this work is continuing. The largest amount of testing has been with a hot water extraction process -the Clark Hot Water Process - which is widely used in Alberta; this is the most broadly applied technology in Canada, and, with a large database for performance, is the base case assumption utilised in the Norwest CPR analysis. Hot water has worked satisfactorily on Bemolanga samples, achieving comparable recoveries to Athabasca for higher grade (>8%) ores, with apparently better recoveries from lower grade (<6%) Bemolanga ores. Technical differences exist in the qualities of the "bitumen froth" generated as part of the process, and froth treatment plant designs have been modified to take account of this.

Subject to the sanction of a commercial project, the development plan envisages production building to a 90,000 bopd processing capability, recovering up to 32 MM bbl annually and up to 1,250 MM bbl over an approximate 40 year project life. The capital costs for the project are estimated by Norwest to be around US\$7.8 billion for extraction at Bemolanga, with another US\$1.6 billion estimated by Granherne for a pipeline to the coast and upgrading and export facilities. Operating costs are estimated to be approximately US\$12/bbl for mining and US\$9.50/bbl for extracting the oil from the ore.

### **Recoverable Resource Potential**

The overall recovery of "sales" bitumen from the mining and extraction process envisaged is around 68% based on Athabasca standard recovery rates. An additional 18% of production is utilised as fuel for the mining process. In Norwest's analysis, the recoverable portion of the PIIP volumes defined as "Discovered" become Contingent Resources, of which 40% are attributable to the Company's equity interest (Table 5.2-2 below). "Undiscovered" PIIP translates to Prospective Resources (Table 5.2-3).

**Table 5.2-2 - Bemolanga, Contingent Resource Estimation<sup>(1)</sup>**

<i>Contingent Resources</i>	<i>Gross (100%)</i>			<i>Net Attributable</i>		
	<i>Low</i>	<i>Best</i>	<i>High</i>	<i>Low</i>	<i>Best</i>	<i>High</i>
<i>MM bbl</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Pit 1	70	95	137	28	38	55
Pits 2-5	127	340	541	51	136	216
TOTAL <sup>(2)</sup>	197	435	678	79	174	271
TOTAL <sup>(3)</sup>	188	414	644	75	165	258

(1) The estimates in the table do not include a risk factor. The COGE system provides for two approaches that are applicable to deterministic resource and reserve estimates such as was completed for Bemolanga. The COGE handbook states that "the uncertainty-based approach is more consistent with the COGE reserves definitions and guidelines. The uncertainty-based approach is strongly recommended over the risk-based approach". Norwest estimates have been made in accordance with this COGE recommendation.

Source: Norwest CPR (Table 1.3)

(2) Total bitumen net of fuel use.

(3) Total bitumen net of fuel use and Royalty oil. Royalty oil ranges from 4.5% to 10.0%, depending on the Brent price. For the purposes of this resource estimate, a 5% Royalty oil has been applied based on a US\$70 Brent price and a constant US Dollar economic analysis.

**Table 5.2-3 - Bemolanga, Prospective Resource Estimation<sup>(1)</sup>**

<i>Prospective Resources</i>	<i>Gross (100%)</i>			<i>Net Attributable</i>		
	<i>Low</i>	<i>Best</i>	<i>High</i>	<i>Low</i>	<i>Best</i>	<i>High</i>
<i>MM bbl</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Pit 1	33	67	304	13	27	122
Pits 2-5	143	258	356	57	103	142
TOTAL <sup>(2)</sup>	176	325	660	70	130	264
TOTAL <sup>(3)</sup>	167	309	627	67	124	251

(1) The estimates in the table do not include a risk factor. The COGE system provides for two approaches that are applicable to deterministic resource and reserve estimates such as was completed for Bemolanga. The COGE handbook states that "the uncertainty-based approach is more consistent with the COGE reserves definitions and guidelines. The uncertainty-based approach is strongly recommended over the risk-based approach". Norwest estimates have been made in accordance with this COGE recommendation.

Source: Norwest CPR (Table 1.4)

(2) Total bitumen net of fuel use.

(3) Total bitumen net of fuel use and Royalty oil. Royalty oil ranges from 4.5% to 10.0%, depending on the Brent price. For the purposes of this resource estimate, a 5% Royalty oil has been applied based on a US\$70 Brent price and a constant US Dollar economic analysis.

### 5.3 Exploration Assets

The Group's exploration rights comprised within the Tsimiroro Block and the Exploration Blocks cover a very large tract of acreage totalling 24,070 km<sup>2</sup>. Although exploration remains at an early stage, the Group continues to make progress in examining the three Blocks for potential drillable prospects. This effort is reflected in the 200 km<sup>2</sup> 2009 seismic program and the 2010 geochemical testing covering 278 km<sup>2</sup> over 8 leads developed from the seismic analysis.

Netherland Sewell have reviewed the petroleum play concepts being pursued by the Group in the Morondava Basin, which they characterise as follows:

#### *Triassic Plays*

The Early Triassic, Middle Sakamena Formation lacustrine shale, is thought to be the source of much of the heavy oil found in the Bemolanga and Tsimiroro accumulations, and is the primary source rock in the Morondava Basin. These prolific source rocks are thought to have been mature for oil since Jurassic time, and much of the hydrocarbon appears to have migrated upwards into the overlying



Isalo/Amboloando sands of Middle to Late Triassic age, and trapped below Late Triassic or Jurassic shale sequences. On the eastern margin of the basin, uplift and erosion has brought these reservoirs close to the surface, allowing fresh water ingress and biodegradation of the oils in the two giant heavy oil accumulations. Further west, however, the Isalo sands occur at greater depths and could have preserved lighter, non-biodegraded oils in suitable traps (Triassic Isalo Play). These targets are being pursued by the Group in a number of places, although the preservation of top seal and of porosity in more deeply buried sands are significant risks. The possibility also exists that sands of Early Triassic or Late Permian age, within the Sakamena Formation itself, could have preserved light oils in suitable structures (Triassic Sakamena Play).

#### *Jurassic Plays*

A secondary, unproved play type is defined within the Jurassic section. A source rock interval of Early Jurassic (Liassic) age is identified from outcrops in Madagascar, and although the limited well data from the Exploration Blocks suggests that it may not be very high quality, the overlying Middle Jurassic limestones of the Bemaraha Formation contain gas shows in some wells, which are thought to be derived from the Liassic. The Bemaraha limestones are generally poor quality reservoirs, although the Group is investigating areas where thickened, mounded and/or reefal sections may occur along the palaeo-shelf edge, as well as structures where fracturing may have enhanced reservoir quality.

#### *Cretaceous Plays*

A series of sand-rich sequences in the Middle and Late Cretaceous form high quality potential reservoirs in the deeper parts of the basin where this younger section is preserved. These overlie a thick marine shale of Late Jurassic to Early Cretaceous age, which could form a significant source interval although there is no direct evidence for this from the very limited drilling data available. Although few suitable structural closures have been identified to date, the Group is investigating the potential for stratigraphic trapping around the basin margins.

#### *Exploration Activity*

The Group is pursuing exploration in all the blocks it operates. The current geochemical testing utilising GORE Sorbers to test microseepage is the largest effort in 2010. Results of the GORE data are likely to be available in early 2011 and the data will be reviewed for potential drilling targets for 2011, or for directing additional seismic acquisition as necessary. A favourable test result that defines a drillable prospect may also lead the Group to seek a farm-out partner, depending on the exact nature of the potential identified. It is also possible that a significant need for seismic acquisition may require the Group to request a time extension on the drilling commitments under the relevant PSCs.

**PSC 3104 (Tsimiroro Block).** There are no exploration commitments outstanding on this block. Exploration activities are largely focused on identifying new heavy oil accumulations in the shallow Amboloando sands, as potential future extensions to the Tsimiroro Field. ERT techniques are being used to both delineate the existing known field, and to explore for new potential accumulations - 500 km of ERT data is currently being collected and evaluated. This is also being used to select delineation drilling location for the 24 well drilling program in the outlying areas. Some of these wells have also noted occurrences, as in the 2008 drilling campaign, of oil sand in the Isalo 1, which is a secondary play underlying the main Amboloando sand. The field has over a dozen wells showing Isalo 1 resource, which is a Triassic fluvial sand 50 - 60 m below the Amboloando. No resource amounts have been assigned and more investigative drilling is needed.

**PSC 3102 (Bemolanga Block).** There are no exploration commitments on this block. Approximately 16 wells were drilled in 2009 that penetrated the Isalo 1 oil sand interval that underlies the mine area.

**PSC 3105 (Manambolo Block).** Phases I and II(1) of the exploration commitment have been completed, with 65 km of 2D seismic acquired in an area east of the Manambolo East-1 well (Amoco, 1990), where the Cretaceous stratigraphic trap play is being explored. GORE data was acquired in this area during Q3 2010, and is currently being evaluated. A well and additional seismic (if needed) is required by the end of 2011 in order to meet the licence requirements.

**PSC 3106 (Morondava Block).** Phases I and II(1) of the exploration commitment have been completed, with 65 km of 2D seismic acquired in the NE of the block. Exploration targets include the Jurassic play, particularly in an area east of the Namakia-1 well (Amoco, 1985) where a significant structural lead has been identified on older seismic. GORE data was acquired in this area, and around the new seismic area to the NE, during Q3 2010 and is currently being evaluated. A well and additional seismic (if needed) is required by the end of 2011 in order to meet the licence requirements, followed by two wells in 2012.

**PSC 3107 (Manandaza Block).** Phases I and II(1) of the exploration commitment have been completed, with 65 km of 2D seismic acquired in the north of the block in the area of the Manadaza-1 well (Shell, 1991). The Triassic Sakamena Play is the primary target in this area, with a number of structural leads defined on seismic. GORE data was acquired in this area during Q3 2010, and is currently being evaluated. A well and additional seismic (if needed) is required by the end of 2011 in order to meet the licence requirements, followed by an 80 km<sup>2</sup> 3D seismic survey and a second well drilled in 2012. The Sakamena play is also thought to extend northwards into the Tsimiroro Block (in the so-called Tsimilet area), although there are no current exploration activities here.

Based on the results of the 2010 GORE geochemical surveys on PSCs 3105, 3106 and 3107, the Group will propose work plans for 2011. If these plans recommend additional seismic, the Group is likely to need to request that OMNIS extend phase II(2) for an additional year in order to meet the drilling commitments.

None of the leads identified to date have been evaluated by Netherland Sewell from a volumetric standpoint, and no potential volumes or risks are assigned at this stage.

## **6. The Markets for Heavy Oil**

The U.S. Gulf Coast has the most mature market for heavy oil refining capability. There has however been a steady increase in heavy oil refining capability in Asia, particularly China and India, where several recently constructed refineries have included heavy oil processing function in the plant design.

The Tsimiroro and Bemolanga development project plans have included the upgrading of the crude streams to achieve a viscosity reduction that allows the crude to be fully transportable at ambient temperatures. The respective sale volumes will be delivered by pipeline to a marine loading facility on the west coast of Madagascar at Maintirano. A single point mooring will be installed approximately 30 km offshore that will be capable of loading Suez max class vessels for subsequent delivery to any world market.

The upgraded oil will be delivered to the particular market that provides the most favorable combination of price and cost of transport. The Directors anticipate examining market options for off-take agreements in the late stages of the Tsimiroro pilot and it is expected that a letter of intent will be put in place to ensure predictable volume and price assumptions prior to full project sanction.

## **7. Current Trading and Prospects for the Group**

Audited financial information on the Group for the three years ended 31 December 2009 and unaudited financial information for the six month period ended 30 June 2010 are set out in Part 3 of this document. Since its inception, the Company's only activity has been to perform exploration activities in connection with its assets.

The Directors are optimistic as to the Group's prospects, based on their expectations for the continued development of the Blocks through the planned field work programmes, as summarised above in paragraph 5 of Part 1 of this document and as further identified in the Competent Persons' Reports set out in Parts 4 and 5 of this document.

## **8. Directors, Senior Management and Employees**

Brief biographical details of the Directors, senior management and employees within the Group are set out below.

## **Directors**

### *John Laurie Hunter, Chairman and Chief Executive Officer*

Laurie Hunter, aged 64, is the founder of Hunter Capital LLC, which is focused on investing in early stage energy companies and assisting them to raise finance and generate growth. Mr. Hunter has recently served on the board of directors of Trident Resources Corp (a Canadian coalbed methane exploration and development company) and is currently an independent director of Direct Petroleum Exploration Inc (an international oil and gas exploration and development company with assets based in Morocco, Bulgaria and Russia). In addition, Mr. Hunter is currently an independent director of Living Cell Technologies Limited (ASX-LCT), a New Zealand based biotechnology company, and is both a limited and a general partner of various private drilling partnerships in the United States. Mr. Hunter holds an MA in Politics, Philosophy and Economics from Trinity College, Oxford.

### *Mark Field Weller, Chief Operating Officer*

Mark Weller, aged 60, has been with the Company since 2008, after serving five years as President of a small independent Texas oil company. He has over 37 years of oil industry experience with an extensive background in domestic and international oil and gas development (both onshore and offshore drilling and production operations), including 15 years direct involvement with the design, initiation and operation of heavy oil steam flood projects in California. Mr. Weller has previously worked with Texaco and Getty Oil in a variety of positions throughout the United States and worked internationally developing projects in West Africa. Mr. Weller has a Bachelors degree in Mechanical Engineering from the University of California, Davis.

### *Andrew James Morris, Non-Executive Director*

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

### *Ian Colin Orr-Ewing, Non-Executive Director*

Ian Colin Orr-Ewing, aged 68, is a natural resources consultant for Blakeney Management, a fund management company specialising in advising on investment in Africa and the Middle East, with whom he has been associated since 1994. He has over 40 years of oil industry experience with an extensive background in domestic and international oil and gas development, including both onshore and offshore drilling and production operations. Mr. Orr-Ewing has served on the boards of several oil companies, including Stratic Energy Corporation (a Canadian oil company), and is currently on the board of Vatukoula Gold Mines Plc (formerly River Diamonds, a Fijian Gold Mining company), which is listed on AIM. Mr. Orr-Ewing has a Bachelors degree in Geography from Oxford University.

### *Ian Christopher Simon Barby, Non-Executive Director*

Ian Barby, aged 65, practised as a Barrister before joining Warburg Investment Management Ltd in 1985, subsequently becoming a vice chairman of Mercury Asset Management plc and latterly, until 2003, managing director of Merrill Lynch Investment Managers. He is currently chairman of Invesco Perpetual UK Smaller Companies Investment Trust plc and Ecofin Water and Power Opportunities plc, as well as being a director of BlackRock World Mining Trust plc, Schroder Income and Growth Fund plc, Pantheon International Participations plc and SR Europe Investment Trust plc. Mr. Barby holds an M.A. in History & Law from Cambridge University.

### *John Alexander van der Welle, Non-Executive Director*

John van der Welle, aged 55, was a director and Chief Financial Officer of Stratic Energy Corporation from July 2008 until November 2010. Mr. van der Welle is currently a non-executive director of Groundstar Resources Limited (a Canadian oil company) and has extensive senior financial experience in the oil industry. Prior to joining Stratic Energy Limited he was Managing Director and Head of Oil & Gas, Sector

Corporate Finance at the Royal Bank of Scotland, from September 2007. From 2006 until August 2007, he was a director and Chief Financial Officer of First Calgary Petroleum Limited (a Canadian company), and from 1999 to mid 2005 was Finance Director of Premier Oil plc. After qualification as a chartered accountant at Arthur Andersen & Co., Mr. van der Welle joined Enterprise Oil plc in 1984 and had a number of business development and finance roles there, and was Group Treasurer from 1993 until 1995 following which he joined Hardy Oil and Gas plc as Finance Director.

Following Admission, the Directors will review the composition of the Board on a regular basis and intend to appoint additional executive and/or independent non-executive directors at appropriate stages of the Company's development. Further information on the Directors terms of engagement are set out in paragraph 11 of Part 6 of this document.

### **Senior Management**

#### ***Seth Fagelman, Chief Financial Officer***

Seth Fagelman is the President and CEO of Turning Point Venture Partners, which provides capital and senior financial management services for early stage and rapidly growing companies with operations in Texas. Mr. Fagelman has significant financial and business experience, having previously held CFO and senior management positions for CyrusOne, Prime Cable and GW Communications. He currently serves as a strategic adviser and board member to several private companies. Mr. Fagelman has helped raise over US\$1.7 billion in debt and equity capital to finance acquisitions and growth in the telecommunications, technology, manufacturing and distribution sectors. Mr. Fagelman graduated with an MBA from the University of Texas, Austin.

#### ***Gil Melman, General Counsel***

Gil Melman is a partner at Selman, Munson & Lerner P.C., a Texas based law firm specialising in corporate transactional work. Since August 2008, Mr. Melman has been seconded to the Company to act as general counsel. Prior to joining Selman, Munson & Lerner P.C., Mr. Melman was employed as Vice President of Legal at a regional private equity fund and also as Vice President and Assistant General Counsel at a large Fortune 100 energy company. Mr. Melman began his career at Vinson & Elkins LLP, as a lawyer in its Corporate & Securities Group.

### **Employees / Contractors**

#### ***Alvaro Kempowsky, General Manager - Madagascar***

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

#### ***Dr. Emma Ralijohn, Deputy General Manager - Madagascar***

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

#### ***Jim Lederhos P.E., Chief Engineer***

Jim Lederhos is Chief Engineer for the Company, having joined in 2008 from Chevron, where, over a 27 year career, he was involved in all aspects of steam flood design and evaluation of heavy oil projects

worldwide, including California and Indonesia. Mr. Lederhos has co-ordinated all aspects of the Tsimiroro Field project design and evaluation for thermal testing. He has also served as a consultant for several heavy oil projects worldwide in the last several years. Mr. Lederhos has B.S. degrees in Engineering and Geology from Oregon State University in Corvallis, Oregon.

*Matthew Meyer, Mining Engineer*

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

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

## **9. Placing Details**

The Joint Brokers have conditionally agreed, pursuant to the Placing Agreement, to act as agents for the Company and to use their reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Placing will raise approximately £50.5 million (approximately US\$80.0 million) for the Company (before commissions and expenses). The Placing Shares are being placed with institutional and other investors. In addition, the Company will issue the Strand Shares to Strand Hanson as part of its fee arrangements with the Company in connection with Admission. Further details of this arrangement are summarised in paragraph 14.1(z) of Part 6 of this document. On Admission, the Company shall also issue the Credit Suisse Shares and the Vesting Restricted Shares. In addition, the BJB Shares and the Vested Restricted Shares are, for administrative purposes only, also being issued on Admission. Following Admission, the Placing Shares will represent 27.65 per cent. of the Enlarged Share Capital and the New Shares will represent 33.47 per cent. of the Enlarged Share Capital.

The Placing, which is not underwritten, is conditional, *inter alia*, on Admission becoming effective by 29 November 2010 (or such later date as Strand Hanson, the Joint Brokers and the Company may agree, not being later than 31 December 2010) and on the Placing Agreement not being terminated prior to Admission. The New Shares will rank *pari passu* in all respects with all other Common Shares in issue, including the right to receive all dividends and other distributions declared, paid or made after the date of issue and will be placed free of any expenses and stamp duty. In the case of investors receiving Common Shares in uncertificated form, it is expected that the appropriate CREST accounts will be credited with the Depository Instruments with effect from 29 November 2010. In the case of investors receiving Common Shares in certificated form, it is expected that certificates will be despatched by post, within 14 days of the date of Admission. All investors purchasing Placing Shares in the Regulation D Placing shall receive Common Shares in certificated form.

Following Admission, the Directors (and persons connected with them) will, between them, hold 1,225,700 Common Shares, representing approximately 0.64 per cent. of the Enlarged Share Capital, as referred to in paragraph 10.1 of Part 6 of this document. Following Admission, certain other Significant Shareholders, as referred to in paragraph 13 of Part 6 of this document, will each hold three per cent. or more of the Enlarged Share Capital. The existing aggregate shareholdings of Shareholders prior to Admission will be diluted to 66.53 per cent. of the Enlarged Share Capital and 63.31 per cent. on a fully diluted basis (assuming all Warrants and Options are exercised, all Restricted Shares have vested and are issued and all Convertible Promissory Notes are converted).

Further details of the Placing Agreement are set out in paragraph 14.1(ee) of Part 6 of this document.

## **10. Reasons for Admission and Use of Proceeds**

The Directors are seeking Admission in order to raise sufficient funds to enable the Group to carry out its exploration and development programme on the Blocks with the intention of expanding and upgrading the resource base across the Tsimiroro Block and the Bemolanga Block, proving commerciality of the Tsimiroro Field with a steam flood pilot plant and further develop drillable prospects in the Exploration Blocks.

In addition, Admission will, in the Directors' opinion, enable the Company to raise further funds in the future to fund appraisal and further exploration on the Group's existing and any future permit areas.

The net proceeds of the Placing, of approximately £46.5 million (approximately US\$73.6 million), together with the existing cash (including cash equivalents and term deposits) resources of the Group, will be used to fund the Group's work programme on its existing blocks for the next 24 months and for general working capital purposes. Specifically the net proceeds are currently intended to be applied as follows:

	<i>(£ million)</i>	<i>(US\$ million)</i>
Tsimiroro ERT (2010-2011)	1.3	2.0
Tsimiroro delineation drilling (2010-2011)	2.5	4.0
Tsimiroro steam flood pilot construction	19.6	31.0
Tsimiroro steam flood pilot operation	7.6	12.0
Seismic work on the Exploration Blocks	2.5	4.0
Working capital requirements <sup>(1)</sup>	13.0	20.6
<b>TOTAL</b>	<b>46.5</b>	<b>73.6</b>

(1) This sum includes approximately £1.9 million (US\$3 million), which the Directors anticipate expending on repayment of the Convertible Promissory Notes (to the extent not converted), further details of which are set out in paragraph 14.1(aa) of Part 6 of this document.

## 11. Corporate Governance

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

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

### *The Board*

The Board will meet regularly and be responsible for strategy, performance, approval of any major capital expenditure and the framework of internal controls. The Board will have a formal schedule of matters specifically reserved to it for decision, including matters relating to management structure and appointments, strategic and policy considerations, transactions and finance.

The Board will be responsible for establishing and maintaining the Group's system of internal financial controls and importance is placed on maintaining a robust control environment. The key procedures which the Board intends to establish with a view to providing effective internal financial control includes the following:

- the Company will institute a monthly management reporting process to enable the Board to monitor the performance of the Group;
- the Board will adopt and review a comprehensive annual budget for the Group. Monthly results will be examined against the budget and deviations will be closely monitored by the Board;
- the Board will be responsible for maintaining and identifying major business risks faced by the Group and for determining the appropriate courses of action to manage those risks; and
- fully consolidated management information will be prepared on a regular basis, at least half yearly.

The Board recognises, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The effectiveness of the system of internal financial control operated by the Group will therefore be subject to regular review by the Board in light of the future growth and development of the Company and adjusted accordingly.

To enable the Board to discharge its duties it is intended that all of the Directors will receive timely information.

The Board includes four non-executive directors. If necessary, the non-executive directors may take independent advice. The Board has delegated specific responsibilities to the committees referred to below.

#### ***The audit committee***

The audit committee will initially comprise Andrew J. Morris, Colin Orr-Ewing and John van der Welle and will have primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. In addition, it will receive and review reports from the Company's management and auditors. The audit committee will meet at least three times a year and will have unrestricted access to the Company's auditors.

#### ***The remuneration committee***

The remuneration committee will initially comprise Ian Barby, Colin Orr-Ewing and John van der Welle and will, amongst other things, make recommendations to the Board on matters relating to the remuneration of the executive directors. In addition, it will make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The remuneration committee will meet at least twice a year.

#### ***Nomination and corporate governance committee***

Following Admission, the Company intends to establish a nomination and corporate governance committee for the purposes of, *inter alia*, making recommendations to the Board on matters relating to the nomination of directors of the Company and the steps to be implemented to comply with the Corporate Governance Code.

#### ***The Share Dealing Code***

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

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

### **12. Dividend Policy**

Given that the Group is at an exploration and appraisal stage, it is not anticipated that there will be any earnings arising from the Group's activities in the short to medium term. Accordingly, the Board does not expect to recommend or pay any dividends in the foreseeable future.

The Directors will consider an appropriate dividend policy at such time as the Company is generating an operating profit. The declaration and payment by the Company of any future dividends, and the amount of such dividends, will ultimately be dependent upon the Company's financial condition, future prospects, profits legally available for distribution, the need to maintain an appropriate level of dividend cover and other factors deemed by the Board to be relevant at that time.

### **13. Social and Environmental Policy**

The Group places great emphasis on the environment and in maintaining the highest international standards of sensitivity to the environment and environmental protection. In its activities, the Group meets its own high standards and all local regulations.

The Group also works with the local community, as well as international NGOs, to foster environmental awareness and environmentally-friendly practices to ensure it is in tune with current environmental issues and understanding.

The Group has an ongoing program of consultation with the Madagascan Government and the local communities in the areas of operation to assist with funding community amenities and increasing availability of healthcare and education for local residents.

#### **14. Non-applicability of the City Code**

As a Bermuda 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. However, the Company has included in its Bye-Laws provisions dealing with takeover bids, a summary of which is contained under the heading "Takeover Provisions" at paragraph 7.1(j) of Part 6 of this document.

#### **15. Taxation**

Certain information regarding certain taxation considerations in the United Kingdom is set out in paragraph 9 of Part 6 of this document. These details are, however, intended only as a general guide to the current position under UK taxation law. If you are in any doubt as to your tax position you should consult an appropriate professional adviser immediately.

Your attention is also drawn to the risk factor on taxation set out on page 48 of this document.

#### **16. Settlement, Dealings and CREST**

The Bye-Laws permit the Company to issue Common Shares in uncertificated form and contain provisions concerning the transfer of shares which are consistent with the transfer of shares in uncertificated form under the CREST Regulations.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. Euroclear is unable to take responsibility for the electronic settlement of shares issued by companies incorporated in certain non-UK jurisdictions, including companies incorporated in Bermuda.

Securities in overseas companies cannot generally be held or settled electronically in the CREST system. To enable investors to settle their securities in the Company through the CREST system, the Company has put in place the Depository Interest facility operated by the Depository.

Under the Deed Poll, the Depository (or its nominee) will hold Common Shares in certificated form on trust for investors and it will issue uncertificated Depository Interests (on a one-for one basis) representing those underlying Common Shares and provide the necessary custodian services. The relevant investors will retain the beneficial interest in the Common Shares held through the Depository Interest facility and voting rights, dividends or any other rights relating to those Common Shares will be passed on by the Depository (or its nominee) in accordance with the terms of the Deed Poll. The Depository Interests can then be traded and settlement can be effected within the CREST system in the same way as any other CREST security.

Investors wishing to withdraw from the Depository Interest facility and hold their Common Shares in certificated form may do so at any time using standard CREST messages.

Transfers of Depository Interests are subject to stamp duty or stamp duty reserve tax, as appropriate, in the normal way.

CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so. It is expected that, where Placees have asked to hold their Common Shares in uncertificated form, they will have their CREST accounts credited with Depository Interests on the day of Admission. Where Placees have requested to receive their Common Shares in certificated form, share certificates will be despatched by first-class post within fourteen days of the date of Admission. No temporary documents of title will be issued. Pending the receipt of definitive share certificates in respect of the Placing Shares (other than in respect of those Placing Shares settled via Depository Interests through CREST), transfers will be certified against the register.

Notwithstanding the foregoing, any Placing Shares held by a person in the United States or a U.S. Person who (i) acquired such Placing Shares in the Regulation D Placing, (ii) acquired such Placing Shares from a U.S. Person who acquired such Placing Shares in the Regulation D Placing, or (iii) is otherwise connected



by an unbroken series of purchasers in the US to a US Person who acquired such Placing Shares in the Regulation D Placing, must be held in certificated form (that is, outside CREST), which certificates will bear a legend containing notice of transfer restrictions and such Placing Shares will only be eligible for dematerialisation into CREST upon their sale to a non-US Person and the provision by the purchaser of a signed letter addressed to the Company containing representations including that the purchaser is not a US Person and the sale or transfer is not in a prearranged transaction resulting in the resale of such Placing Shares into the United States.

Notwithstanding the foregoing, in connection with sales of Placing Shares to Placees outside of the US and not to US Persons, any offer or sale of such Placing Shares within the US or to a US Person until 40 days after the closing of the Placing, may violate the registration requirements of the Securities Act. Placees will be restricted from selling, or offering to sell or deliver Placing Shares to, or for the account of or benefit of, US Persons until 40 days after the later of the commencement of the Placing or the date on which such Placing Shares were originally issued.

Following Admission, holders of Existing Common Shares will be issued with share certificates in respect of their Common Shares reflecting the effect of the Sub-division. Subject to the Company being satisfied that certain securities laws have been complied with, such Shareholders may subsequently be eligible for dematerialisation of their Common Shares into Depositary Interests in CREST.

For further information concerning CREST, Shareholders should contact their brokers or Euroclear UK & Ireland Limited at 33 Canon Street, London EC4M 5SB or by telephone on +44 (0)20 7849 0000.

## **17. Lock-in and Orderly Market Arrangements**

### ***Lock-in Arrangements***

The Directors, Touradji and Persistency Private Equity Limited, as required by Rule 7 of the AIM Rules, have agreed with the Company, Strand Hanson, Mirabaud and GMP:

- in accordance with Rule 7 of the AIM Rules, not to dispose of any of their interests in Common Shares for a period of at least twelve months from the date of Admission, save in those circumstances expressly permitted by the AIM Rules (and in the case of Touradji and Persistency Private Equity Limited, where such disposal has received the prior approval or consent of the AIM Team of the London Stock Exchange); and
- (in the case of the Directors only) to not (save with the prior written consent of the Company, Strand Hanson, Mirabaud and GMP) dispose of any of their interests in Common Shares for a period of twelve months from the first anniversary of the date of Admission, except through Mirabaud or GMP (or the Company's broker from time to time), so as to maintain an orderly market in the Common Shares.

The aggregate interests following Admission which shall be subject to the lock-in arrangements as described above will amount to 53,374,530 Common Shares, which is equivalent to approximately 27.75 per cent. of the Enlarged Share Capital.

In addition, certain holders of Restricted Shares who, as at the date of this document, hold no Existing Common Shares have agreed with the Company that, for a period of 60 days following Admission, they will not dispose of any interests in Common Shares that they have or acquire during that period.

### ***Orderly Market Arrangements***

Further, certain other Shareholders have agreed with the Company, Strand Hanson, Mirabaud and GMP to not (save with the prior written consent of the Company, Strand Hanson, Mirabaud and GMP) dispose of any of their interests in Common Shares (which in total amounts to 44,015,360 Common Shares, which is equivalent to approximately 22.88 per cent. of the Enlarged Share Capital) for twelve months from Admission (save in respect of 8,700,000 Common Shares held by RAB Special Situations (Master) Fund Limited which may, subject to the orderly market arrangements described in this paragraph, be disposed of at any time after 1 April 2011), except through either of Mirabaud or GMP (or the Company's broker from time to time), so as to maintain an orderly market in the Common Shares.

Further details of the lock-in and orderly arrangements described above are set out in paragraph 14.1(ii) of Part 6 of this document.

## **18. Equity Incentive Plan**

The Board believes that it is important that directors and employees of, and consultants to the Group are appropriately and properly motivated and rewarded. The Board has on 30 September 2010 adopted the Company's 2010 Omnibus Equity Incentive Plan, which allows the Company to grant to employees and Directors a variety of equity incentives, including stock options and restricted stock. The Shareholders have, on 19 October 2010, approved the Equity Incentive Plan. The Equity Incentive Plan will be administered by the Remuneration Committee and the maximum aggregate awards under the plan cannot exceed ten per cent. of the issued share capital of the Company at the time of grant. Further details of the Equity Incentive Plan are described in paragraph 5 of Part 6 of this document.

## **19. Further Information**

Your attention is drawn to the further information set out in:

- Part 2 of this document relating to risk factors;
- Part 3 of this document setting out the Accountant's Report and Financial Information on the Group;
- Part 4 of this document setting out the Netherland Sewell Competent Person's Report;
- Part 5 of this document setting out the Norwest Competent Person's Report;
- Part 6 of this document summarising statutory and general information on the Company and the Group;
- Appendix I of this document containing an overview of Madagascar and its Petroleum industry; and
- Appendix II of this document containing a summary of the relevant petroleum exploration laws and regulations in Madagascar.

## 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

Future results, including resource recoveries and work programme plans and schedules, will be affected by changes in market conditions, commodity price levels, political or regulatory developments, timely completion of exploration programme commitments or projects, the outcome of commercial negotiations and technical or operating factors.

##### *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. The Group will not generate any material income until production has successfully commenced and 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 and probable 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 may not ultimately contain economically recoverable volumes of resources 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, explosions 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, 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.

#### ***Hydrocarbon reserve and resource estimates***

No assurance can be given that hydrocarbon reserves and resources reported by the Group in the future are present as estimated, will be recovered 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 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 contained in this document are taken from the Competent Persons' Reports. The reserves and resources data contained in this document have been certified by the relevant competent persons unless stated otherwise. 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 contained in this document and in the Competent Persons' Reports 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. Reserves estimates contained in this document are based on production data, prices, costs, ownership, geophysical, geological and engineering data, and other information assembled by the Group (which it may not necessarily have produced). The estimates may prove to be incorrect and potential investors should not place reliance on the forward looking statements contained in this document (including data included in the Competent Persons' Reports or taken from the Competent Persons' Reports and whether 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. They are therefore imprecise and depend to some extent on interpretations, which may prove to be inaccurate. 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 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***

The Group has entered into a significant farm-out of 60 per cent. of its interest in, and the operation of, the Bemolanga Block. From time to time, the Group may enter into additional 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 other 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 drilling or project development that may be detrimental to a project 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. 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.

#### ***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 could 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.

#### ***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 outside the current focus area of the Group or in other areas 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 may 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.

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 will be 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.

#### ***Climatic Conditions***

The Directors are aware that exploration programmes may be adversely affected by climatic conditions, specifically excessive rainfall during the rainy season which extends from mid-November to mid-April and the possibility of tropical storms. It is likely that these climatic conditions will cause delays in the Group's exploration activities.

#### ***Infrastructure and local resources***

The Production Sharing Contract areas are located in remote parts of Madagascar where power and communications infrastructure is rudimentary. In planning exploration programmes, the Directors have taken this into account, but might find the lack of infrastructure to have a greater impact on the Group's activities than anticipated.

The unavailability of satisfactory transportation and the remote location of the Group's drilling operations may hinder access to the assets. The lack of suitable infrastructure in Madagascar may impede the production activities as the ability to implement the 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 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, or will subject to Admission enter, 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 the 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.

Further, the Group may struggle to recruit engineers and other important members of the workforce required to run a full exploration programme. Shortages of labour, or of skilled workers, may cause delays or other stoppages during exploration 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 growth and 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 are in place to enable exploration for oil and gas to take place and the Group intends to operate in accordance with the highest 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 regulation 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, among other things, 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 and the Board is optimistic about the Group's assets and future plans, 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.



### ***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.

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.

### ***Group taxation***

The Group is intended to be managed so as to be treated as being resident outside of the UK for tax purposes. Such treatment may be subject to challenge and, if challenged, there can be no assurance that it would be upheld.

### ***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.

### ***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.

### ***Potential adverse media coverage***

A prior shareholder of the Group has historically been subject to adverse media coverage and details of his prior association with the Group have appeared in the press and other media sources. Whilst this individual no longer holds a direct shareholding in the Group, his historic association may result in the media continuing to link him to the Group.

### ***Litigation***

While the Group currently has no material outstanding litigation or dispute, (save as disclosed in paragraph 15 of Part 6 of this document) there can be no guarantee that the current or future actions of the Group will not result in litigation since 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 has from time to time experienced political instability. The previous (now deposed) president came to power following a disputed election in 2001. In February 2009, his ousting ultimately caused Madagascar to be suspended from international organisations and regional bodies such as the Southern African Development Community and the African Union. Negotiations are ongoing in an attempt to end the current impasse. On 17 November 2010, in conjunction with a vote that is being held on a constitutional referendum, a dissident military group announced that they had taken over the Madagascar government, a claim that was picked up by major news agencies and reported worldwide. The events involved a very small group of disaffected military personnel, were localised and the situation was soon brought under control, with reports that the renegades had surrendered themselves into custody without any bloodshed. The Directors believe that the disturbance was intended to create negative publicity on the day of the referendum but the existing government remains firmly in place. Any political instability could adversely affect the performance of the Madagascan economy and could have a material adverse effect on the market for the Common Shares and on the Group's results of operations.

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, further details of which are set out in paragraph 14 of Part 6 of this document. 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.

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 or 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***

Two of the Company's subsidiaries, Madagascar SA and Majunga, are incorporated in Madagascar and substantially all of its assets are located in Madagascar. As a result, investors may not be able to enforce a judgment 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 Malagasy 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.

### ***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 Malagasy 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 Malagasy 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 Pounds Sterling such as US Dollars, 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 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, if appropriate, to minimise 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 future results.

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

Two of the Company's subsidiaries, Madagascar SA and Majunga, are incorporated in Madagascar. Pursuant to current legislation and the Petroleum Code, any transfer of funds from the Company to such subsidiaries, either as a shareholder loan or as an increase in 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***

Although the Company is applying for the Enlarged Share Capital to be admitted to trading on AIM, there can be no assurance that an active or liquid trading market for the Common Shares will develop or, if developed, that it will be 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 and/or termination of the lock-in restrictions, the terms of which are summarised in paragraphs 14.1(ii) and 14.1(jj) of Part 6 of this document), 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 the Placing 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.

##### ***Dividends***

There can be no assurance as to the level of 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, among other things, 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 Bermuda 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.

### ***Investors purchasing Placing Shares in the Regulation D Placing will be subject to significant transfer restrictions in this offering or in secondary offerings undertaken by the Company in the future***

Persons purchasing Placing Shares in the Regulation D Placing will be subject to significant resale restrictions in respect of the Placing Shares in this offering or in secondary offerings in the future. There can be no assurance that the person purchasing Placing Shares in the Regulation D Placing 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 record holders of 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***

As detailed in paragraphs 4 and 5.2 of Part 6 to this document, the Company has issued Options, Warrants and Restricted Shares to, amongst others, certain investors and certain of its existing and former professional advisers. The Company may, in the future, issue further share options, restricted stock and/or warrants to subscribe for new Common Shares to certain advisers, employees, Directors, senior management and consultants of the Group. The exercise of any such share options and warrants 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. Further details on the laws of Bermuda are summarised in paragraph 8 of Part 6 of this document entitled "Key Provisions of Bermuda Company Law".

### ***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 Part 2 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 in this Part 2 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

### ACCOUNTANT'S REPORT AND FINANCIAL INFORMATION ON THE GROUP

#### SECTION A: ACCOUNTANT'S REPORT



BDO LLP  
55 Baker Street  
London W1U 7EU  
United Kingdom

24 November 2010

The Directors  
Madagascar Oil Limited  
Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

The Directors  
Strand Hanson Limited  
26 Mount Row  
London W1K 3SQ  
United Kingdom

Dear Sirs

**Madagascar Oil Limited ("Madagascar Oil" or the "Company") and its subsidiary undertakings (together, the "Group")**

#### Introduction

We report on the financial information set out in Section B of Part 3. This financial information has been prepared for inclusion in the admission document dated 24 November 2010 of the Company (the "Admission Document") on the basis of the accounting policies set out in note 2 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

#### Responsibilities

The directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Save for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies.

#### Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its consolidated results, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 2 to the financial information and has been prepared in accordance with IFRSs as described in note 2 to the financial information.

### **Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies, we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

BDO LLP  
Chartered Accountants  
London  
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)



## SECTION B: FINANCIAL INFORMATION ON THE GROUP

### Consolidated Statement of Comprehensive Income

	<i>Notes</i>	<i>Year ended 31 December 2007 US\$000</i>	<i>Year ended 31 December 2008 US\$000</i>	<i>Year ended 31 December 2009 US\$000</i>
Revenue		-	-	-
Salaries and employee benefits expense	11	(13,969)	(10,839)	(7,224)
Depreciation and amortisation expense	12	(1,563)	(1,497)	(373)
Provision for exploration obligations		(830)	339	-
Consulting expense	9	(1,736)	(911)	(639)
Production Sharing contracts governmental & contractual fees	10	(1,630)	(1,525)	(1,272)
Other expenses	8	(5,736)	(3,068)	(1,818)
Net foreign exchange gain/(loss)	5	229	(143)	(198)
Current Operating Loss		<u>(25,235)</u>	<u>(17,644)</u>	<u>(11,524)</u>
Loss on disposals		-	(9)	(91)
Other Operating Expenses	26	-	(20,700)	-
Non-current Oil Activities Charges	31	(10,142)	(323)	(1,000)
Non-current Oil Activities Income	31	-	94,797	3,104
Operating (loss)/profit		<u>(35,377)</u>	<u>56,121</u>	<u>(9,511)</u>
Finance Income/(costs)	6	<u>(25,975)</u>	<u>(23,814)</u>	<u>13</u>
(Loss)/profit before Tax		<u>(61,352)</u>	<u>32,307</u>	<u>(9,498)</u>
Income tax expense	7	<u>(81)</u>	<u>(85)</u>	<u>(49)</u>
Net (loss)/profit for the year		<u>(61,433)</u>	<u>32,222</u>	<u>(9,547)</u>

## Consolidated Statement of Financial Position

	Notes	As at 31 December 2007 US\$000	As at 31 December 2008 US\$000	As at 31 December 2009 US\$000
<b>Assets</b>				
<i>Non-current assets</i>				
Property, plant and equipment	14	1,085	864	456
Exploration and evaluation assets	15	73,324	81,570	88,941
Other intangible assets		689	578	370
Non-current tax assets	13	1,780	1,423	1,570
Financial assets	18	88	78	11
Restricted cash	19	8,546	6,559	3,508
<b>Total non-current assets</b>		<u>85,512</u>	<u>91,072</u>	<u>94,856</u>
<i>Current assets</i>				
Receivables	17	996	701	451
Cash and cash equivalents	19	19,803	6,392	2,901
<b>Total current assets</b>		<u>20,799</u>	<u>7,093</u>	<u>3,352</u>
<b>Total assets</b>		<u>106,311</u>	<u>98,165</u>	<u>98,208</u>
<b>Equity and liabilities</b>				
<i>Capital and reserves</i>				
Issued capital	20	99,053	105,291	111,419
Equity-settled transactions reserve	26	101,230	127,183	141,911
Accumulated deficit	21	(179,215)	(146,993)	(156,540)
<b>Total equity</b>		<u>21,068</u>	<u>85,481</u>	<u>96,790</u>
<i>Non-current liabilities</i>				
Borrowings	22	63,973	-	-
Provisions	23	896	603	603
Warrant Liability		9,676	9,676	-
<b>Total non-current liabilities</b>		<u>74,545</u>	<u>10,279</u>	<u>603</u>
<i>Current liabilities</i>				
Trade and other payables	24	4,655	2,313	723
Borrowings	22	5,906	-	-
Provisions	23	137	92	92
<b>Total current liabilities</b>		<u>10,698</u>	<u>2,405</u>	<u>815</u>
<b>Total liabilities</b>		<u>85,243</u>	<u>12,684</u>	<u>1,418</u>

## Consolidated cash flow statement

	Year ended 31 December 2007 US\$000	Year ended 31 December 2008 US\$000	Year ended 31 December 2009 US\$000
<b>Cash Flows From Operating Activities:</b>			
<i>Loss for the year</i>	(61,433)	32,222	(9,547)
Prior year adjustment	-	-	-
Income tax expense recognised in net loss	81	85	49
Finance (income)/costs, net	25,974	23,814	(13)
Loss on disposals	-	9	91
Depreciation and amortisation of non-current assets	3,470	1,497	373
Non-current assets other charges	-	(979)	-
Non-current oil activities charges	10,142	323	-
Non-current oil activities income	-	(94,797)	(3,104)
Net foreign exchange loss/(gain)	(229)	143	198
Expense recognised in loss in respect of equity settled share-based payments	19,760	25,953	5,054
	<u>(2,235)</u>	<u>(11,730)</u>	<u>(6,899)</u>
<i>Movements in working capital</i>			
Decrease in trade and other receivables	-	663	-
(Increase)/decrease in other assets	(441)	(2,359)	285
(Decrease) in trade and other payables	(2,883)	(339)	(1,578)
Increase in provisions	467	-	-
	<u>(5,092)</u>	<u>(13,765)</u>	<u>(8,192)</u>
Cash generated from operations	(5,092)	(13,765)	(8,192)
Interest paid	(27,000)	(24,138)	-
Income taxes paid	-	(91)	(62)
	<u>(32,092)</u>	<u>(37,994)</u>	<u>(8,254)</u>
<b>Cash Flows From Investing Activities</b>			
Interest received	1,026	323	7
Amounts advanced to related parties	233	-	-
Payments for equipment and intangible assets	(2,461)	(1,166)	(11)
Proceeds from disposal of property, plant and equipment	57	94,797	193
Exploration and evaluation costs	(13,198)	(13,089)	(4,297)
	<u>(14,343)</u>	<u>80,865</u>	<u>(4,108)</u>
<b>Cash Flows From Financing Activities</b>			
Proceeds from issues of equity shares	9	6,732	5,820
Repurchase of shares	(3,500)	-	-
Proceeds from borrowings	60,000	5,000	-
Repayment of borrowings	(2,155)	(70,000)	-
Restricted cash	(2,140)	1,987	3,051
	<u>52,214</u>	<u>(56,281)</u>	<u>8,871</u>
Net cash provided by financing activities	52,214	(56,281)	8,871
<b>Net increase/(decrease) in cash and cash equivalents</b>			
	5,779	(13,410)	(3,491)
<b>Cash and cash equivalents at beginning of year</b>	<u>14,023</u>	<u>19,802</u>	<u>6,392</u>
<b>Cash and cash equivalents at end of year</b>	<u>19,802</u>	<u>6,392</u>	<u>2,901</u>
<b>Non-cash Investing and Financing Activities:</b>			
Warrants liability reclassified to equity	-	-	9,656

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	<i>Share capital US\$000</i>	<i>Share premium US\$000</i>	<i>Equity-settled transactions reserves US\$000</i>	<i>Accumulated deficit US\$000</i>	<i>Total US\$000</i>
Balance at 31 December 2008	116	105,175	127,183	(146,993)	85,481
Loss for the period	-	-	-	(9,547)	(9,547)
Issue of ordinary shares to shareholders	12	5,808	-	-	5,820
Issue of ordinary shares under employee share option plan	1	-	274	-	275
Issue of ordinary shares to Directors	1	-	135	-	136
Recognition of equity-settled transactions under employee share option plan	-	-	4,643	-	4,643
Issue of ordinary shares to Credit Suisse	1	305	-	-	306
Reclassification of warrants issued	-	-	9,676	-	9,676
Balance at 31 December 2009	<u>131</u>	<u>111,288</u>	<u>141,911</u>	<u>(156,540)</u>	<u>96,790</u>
			<i>Voting Shares</i>	<i>Non-Voting Shares</i>	<i>Total</i>
Balance at 31 December 2008			10,317,947	1,304,000	11,621,947
Shares granted to Directors			50,000	-	50,000
Shares granted to personnel			192,299	-	192,299
Shares granted to shareholders			1,244,223	-	1,244,223
Shares granted to others			61,358	-	61,358
Balance at 31 December 2009			<u>11,865,827</u>	<u>1,304,000</u>	<u>13,169,827</u>

## Notes to the consolidated financial information

### 1. General Information

Madagascar Oil is an exempted limited liability company incorporated in Bermuda with registration number 37901. The address of its registered office is Canon's Court 22 Victoria Street, Hamilton HM12 Bermuda.

The Group commenced business in 2004 by entering into six production sharing contracts, one of which was later relinquished, ("Production Sharing Contracts" or "PSC") for oil exploration and production in Madagascar with the Republic of Madagascar. The existing five Production Sharing Contracts are held in Madagascar Oil SA ("Madagascar SA") and the relinquished PSC was held by Majunga Oil SARL ("Majunga"), both companies being wholly-owned subsidiaries of Madagascar Oil and registered under the laws of the Republic of Madagascar.

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

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

On 31 March 2007, the Group closed its offices in London and relocated its administration and technical support to Houston (Texas - USA).

The principal activities of the Group are described in Note 4.

Madagascar SA holds Production Sharing Contracts for the onshore licence blocks 3102, 3104, 3105, 3106 and 3107 all of which are geographically contiguous and located on the west part of Madagascar:

- Block 3102 Bemolanga is 5,463 km<sup>2</sup> in size and hosts the Bemolanga bitumen mining field. It was granted on 17 August 2004.
- Block 3104 Tsimiroro is 6,670 km<sup>2</sup> in size and hosts the Tsimiroro heavy oil field. It was granted on 17 August 2004.
- Block 3105 Manambolo is 5,325 km<sup>2</sup> in size and was granted on 14 December 2004. Surrendered 25 per cent. to 3,995 km<sup>2</sup> on 3 April 2007.
- Block 3106 Morondava is 9,100 km<sup>2</sup> in size and was granted on 14 December 2004. Surrendered 25 per cent. to 6,825 km<sup>2</sup> on 3 April 2007.
- Block 3107 Manandaza is 8,775 km<sup>2</sup> in size and was granted on 14 December 2004. Surrendered 25 per cent. to 6,580 km<sup>2</sup> on 3 April 2007.

Majunga also held one production sharing contract for Block 2103 that was surrendered in 2009. Block 2103 Majunga is 11,930 km<sup>2</sup> in size and was granted on 14 December 2004. It was surrendered to the Madagascar government effective 27 July 2009.

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

In addition to the four wholly-owned blocks operated by the Group and the 40 per cent. non-operated share in the 3102 Bemolanga block, the Group entered into an agreement in December 2006 with Tullow Oil Plc ("Tullow") for the exploration of the onshore block 3109 Mandabe (11,050 km<sup>2</sup> in size). The Office des Mines Nationales et des Industries Strategiques ("OMNIS") approved the transfer to Majunga on 20 December 2006 of a 50 per cent. interest in, and operatorship of, the block. In September 2008, Majunga withdrew from the Joint Operating Agreement and the Production Sharing Contract as of 31 October 2008. See Note 16.

The exploration period under the production sharing contracts generally consist of three phases of two years, two years and four years respectively. A maximum extension of two years can also be granted by OMNIS at the end of the third phase of the exploration period.

Per amendments to the applicable PSCs in June 2009, the split of the different phases comprising the exploration period has been modified for the licences 3105, 3106, 3107. The total duration of the exploration period was not modified.

At 31 December 2009, the:

- 3102 and 3104 blocks held by Madagascar SA are in the third of the 3 phases constituting the exploration period; and
- 3105, 3106, 3107 blocks held by Madagascar SA are in the second of the 3 phases constituting the exploration period.

## **2. Significant Accounting Policies**

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

### ***Standards, amendment and interpretations effective in 2009***

IFRS 8 'Operating Segments' (effective date 1 January 2009) - IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IAS 27 Consolidated and Separate Financial Statements (Amendment)
- IFRS 2 Share-Based Payments (Amendment)
- IAS 1 Presentation of Financial Statements (Amendment)
- IAS 7 Statement of Cash Flows (Amendment)
- IAS 17 Leases (Amendment)
- IAS 18 Revenue (Amendment)
- IAS 32 and 39 Financial Investments (Amendments)
- IAS 24 Related Parties (Amendment)
- IFRS 9 Financial Instruments
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 18 Transfers of Assets from Customers
- IFRIC 17 Distributions of Non-Cash Assets to Owners

### **Interpretations to existing standards that are effective in 2009 but not relevant for the Group's operations**

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

IFRIC 15 'Agreements for the Construction of Real Estate' (effective date 1 January 2009) - IFRIC 15 applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.

IFRIC 16 'Hedges of Net Investment in a Foreign Operation' (effective 1 January 2009) - IFRIC 16 applies to an entity that hedges the foreign currency risk arising from its net investment in foreign operations and wishes to qualify for hedge accounting under IAS 39.

### **Basis of Preparation and Going Concern Assumption**

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards (IFRS). It has been prepared on the historical cost basis except for the revaluation of financial instruments.

This consolidated financial information has been prepared on the going concern basis, which presumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business for the foreseeable future. The consolidated financial information does not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Group be unable to continue its operations.

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

- Most of the expenses of the entities of the Group are denominated;
- Oil sales are always denominated on the international markets; and
- Funds from financing activities (debt or equity instruments) are generated.

The consolidated financial information is presented in US dollars.

### **Basis of consolidation**

#### **Subsidiaries**

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

The following companies have been consolidated within the Company's financial information:

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

#### *Transactions eliminated upon consolidation*

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

#### *Joint venture operations*

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

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control (venturers).

Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial information of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Since its creation, the Group has recognised no revenue due to the fact that the Group is in the exploration phase of its projects and has not reached commercial operations as of 31 December 2009.

#### *Non-current oil activities*

The Group recognises the proceeds of farm-out transactions and the reversal of impairments and provisions as non-current oil activities income.

#### *Leasing*

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

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

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

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

#### *Foreign currencies*

The individual financial information of each entity of the Group is presented in the currency of the primary economic environment that the entity operates (its functional currency). On consolidation, the results and financial position of each entity are expressed in US Dollar (US\$), which is both the functional and presentation currency of the Group.

In preparing the financial information of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the average of the official bid and offered exchange rates as published by the Central Bank of Madagascar on the first day of the month in which the



expenses are recorded in order to comply with the regulation stated in the Production Sharing Contracts signed by the Group with Malagasy authorities. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

### ***Share-based payments***

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

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

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

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

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

### ***Taxation***

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

#### ***Current tax***

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

#### ***Deferred tax***

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the

reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

#### *Current and deferred tax for the period*

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

#### ***Property, plant and equipment***

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

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

	<i>Useful Lives (Years)</i>
Installations and equipment	10
Machinery	10
Vehicles	5
Furniture, fittings and equipment	5
IT equipments	5

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

#### ***Intangible assets***

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

#### ***Exploration and evaluation assets***

The Group applies the full cost method of accounting for exploration and evaluation costs. Under the full cost method, costs directly associated with exploring for and evaluating oil and gas properties are accumulated and capitalised. However, they do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement of operations as they are incurred. Once commercial reserves are found, exploration and evaluation assets are tested for impairment. No amortisation or depletion is charged during the exploration and evaluation phase. The Directors believe that the carrying value of these costs will be recovered from future operations.

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

Cash generating units are treated as individual licence blocks as set out in Note 1.

### ***Impairment***

#### *Tangible and intangible assets excluding exploration and evaluation assets*

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

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

#### *Exploration and evaluation assets*

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

### ***Decommissioning costs***

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

### ***Provisions***

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

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

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

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

#### ***Financial assets***

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

#### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash and time deposits. Time deposits are used to guaranty the bank letters of guarantee submitted to the Malagasy State as per production sharing contracts' requirements during the exploration period.

#### ***Other financial assets***

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

#### ***Impairment of financial assets***

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

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

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

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

#### ***Financial liabilities and equity instruments issued by the Group***

##### ***Classification as debt or equity***

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

##### ***Equity instruments***

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

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

##### ***Trade payables***

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

### *Financial liabilities*

Financial liabilities consist of trade and other payables and borrowings.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The effective interest method is always considered but not applied when its impact is negligible.

### *Borrowing costs*

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

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

## **3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Such disclosures are included in the relevant asset and liability notes or as part of the relevant accounting policy disclosures. The estimates used by management relate to the decommissioning costs, impairments and share-based transactions.

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

## **4. Business and Geographical Segments**

### ***Business segment***

The Group is engaged in oil and gas exploration and production which represent its only activities as of 31 December 2009, 2008 and 2007; all its operations are in the exploration period of the Production Sharing Contracts signed by its subsidiaries with the Republic of Madagascar.

### ***Geographical segment***

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

## **5. Net Foreign Exchange (Losses)/Gains**

The net foreign exchange loss booked is not significant and mainly the consequence of the erratic movements of the Malagasy currency as well as the ones of other currencies against the US Dollar during the year 2009. For information 1 US\$ = 1,954.64 MGA as of 31 December 2009 versus 1 US\$ = 1,860.36 MGA as of 31 December 2008 versus 1 US\$ = 1,786.69 MGA as of 31 December 2007.

## 6. Finance Costs

		<i>Year ended</i> <i>31 December</i> <i>2007</i> <i>US\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2008</i> <i>US\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2009</i> <i>US\$000</i>
Time deposits investments	(i)	1,026	324	8
Interest on borrowings	(ii)	(6,946)	(15,344)	(307)
Costs on borrowings	(iii)	(18,162)	(11,627)	-
Interest on bank overdrafts and loans		-	-	-
Interest on obligations under finance leases	(iv)	(863)	3,586	-
Unwinding of discount factor	(v)	(1,030)	(753)	312
Total finance income/(costs), net		<u>(25,975)</u>	<u>(23,814)</u>	<u>13</u>

- (i) Available cash represents the amount of funds raised by the Company to finance its operations but not yet used. This cash is invested in time deposits with an international bank of first rank at short term.
- (ii) At 31 December 2009, interests on borrowings are composed of the value of shares issued to Credit Suisse in 2009 in settlement of terms of a warrant contract (Note 26). At 31 December 2008, interest on borrowing was composed of interest paid in cash during the exercise of (US\$12,247K) and final amortisation of financing costs (US\$3,098K). At 31 December 2007, interest on borrowings was composed of capitalised interests payable in fine (US\$2,643K), interests paid in cash during the exercise (US\$1,435K), accrued interests to pay in cash in January 2008 (US\$967K) and amortisation of financing costs related to credit facility obtained in March 2007 (Note 22).
- (iii) Borrowing costs incurred are equity-based and cash fees paid to the banks, cash fees to intermediaries, legal fees and stamp duties.
- (iv) Interest on obligations under finance leases results from the adjustment to the books performed in accordance with IAS 17 and the recognition of relevant finance costs related to the lease of the fleet of operational vehicles of the Company.
- (v) Unwinding of discount represents the change in the expected VAT receivable to be credited to the Group (Note 13).

## 7. Income Taxes

The tax expense for the Group is:

		<i>Year ended</i> <i>31 December</i> <i>2007</i> <i>US\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2008</i> <i>US\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2009</i> <i>US\$000</i>
Tax liability due by Madagascar USA		81	85	49
		<u>81</u>	<u>85</u>	<u>49</u>

The Group did not recognise any deferred tax relating to trading losses in accordance with IAS12 for 2009, 2008 and 2007 as the timing of the recovery of these assets could not be reliably estimated.

## 8. Other Expenses

		<i>Year ended</i> <i>31 December</i> <i>2007</i> <i>US\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2008</i> <i>US\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2009</i> <i>US\$000</i>
Rentals		552	500	397
Auditors' fees and expenses		707	334	141
Services from related parties	(i)	931	433	839
Travel and telecommunications		1,216	793	94
Other general and administrative expenses	(ii)	2,330	1,008	347
		<u>5,736</u>	<u>3,068</u>	<u>1,818</u>

- (i) In 2009, services from related parties comprised contracts with Mark Weller, Jim Lederhos, Jim Collins and Gil Melman. In 2008, services from related parties comprised contracts with Mark Weller, Jim Lederhos and Brian Hill (ongoing at 31 December 2008) and Lydia Boarlaza (no longer valid at 31 December 2008). In 2007, services from related parties comprised contracts with Samuel Malin and Benjamin Skelton (no longer valid at 31 December 2007), Lydia Boarlaza and Brian Hill (ongoing at 31 December 2007) and Bernard de Combret (punctual advisory services). See Note 27 Related Parties.

- (ii) Other general & administrative expenses comprised recruitment fees, public relations, insurance, contracted personnel, security expenses, office running costs and bank commissions.

## 9. Consulting Expenses

Consulting expenses relates to legal, fiscal and financial advice provided to the Group in relation to its activities in Bermuda, Madagascar, Mauritius and London.

The significant details by year are as follows:

2009 - the secretarial fees in Bermuda and Mauritius (US\$24K), the corporate and employment fees (US\$259K), the legal and fiscal advisers related to the regulations in Madagascar (US\$8K) and in Houston (US\$348K). See Note 27 about legal advisers from related parties.

2008 - the secretarial fees in Bermuda and Mauritius (US\$84K), the corporate and employment advices (US\$551K), the legal and fiscal advices related to the regulations in Madagascar (US\$113k) and in Houston (US\$163K).

2007 - the secretarial fees in Bermuda and Mauritius (US\$77K), the corporate and employment advices (US\$410K), the legal and fiscal advices related to the regulations in Madagascar (US\$189K) and in Houston (US\$32K), the preparation and follow-up of potential farm out transactions (US\$281K) and the costs incurred in 2007 related to the preparation of an IPO to occur in the following years (US\$476K).

## 10. Production Sharing Contractual Fees

	<i>Year ended 31 December 2007 US\$000</i>	<i>Year ended 31 December 2008 US\$000</i>	<i>Year ended 31 December 2009 US\$000</i>
Administrative fees	1,205	1,129	944
Training fees	425	396	328
	<u>1,630</u>	<u>1,525</u>	<u>1,272</u>

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

## 11. Salaries and Employee Benefits Expenses

	<i>Year ended 31 December 2007 US\$000</i>	<i>Year ended 31 December 2008 US\$000</i>	<i>Year ended 31 December 2009 US\$000</i>
Wages & Salaries	4,491	5,794	2,141
Leaving indemnity	278	-	-
Social security costs	60	23	29
Share-based payments	(i) 9,140	5,022	5,054
	<u>13,969</u>	<u>10,839</u>	<u>7,224</u>

- (i) See Note 26 (share-based payment) for more details.

## 12. Depreciation and Amortisation Expenses

	<i>Year ended 31 December 2007 US\$000</i>	<i>Year ended 31 December 2008 US\$000</i>	<i>Year ended 31 December 2009 US\$000</i>
Amortisation of intangible assets	78	179	165
Depreciation of tangible assets	1,485	1,318	208
	<u>1,563</u>	<u>1,497</u>	<u>373</u>

## 13. Non-Current Tax Assets

	<i>As at 31 December 2007 US\$000</i>	<i>As at 31 December 2008 US\$000</i>	<i>As at 31 December 2009 US\$000</i>
VAT credit	1,780	1,423	1,570

The amount corresponds to the VAT receivable after a change in discount of (US\$312K for 2009, US\$753K for 2008 and US\$1,030K for 2007), (Note 6) and shall be recovered when the Company begins collecting VAT on sales of crude oil.

## 14. Property, Plant and Equipment

	<i>Vehicles US\$000</i>	<i>Equipment US\$000</i>	<i>Other US\$000</i>	<i>Total US\$000</i>
<b>Cost</b>				
Balance at 1 January 2007	228	229	212	669
Transfers	(40)	40	-	-
Additions	-	101	570	671
Disposals	-	(7)	(11)	(18)
Balance as of 1 January 2008	188	363	770	1,321
Transfers	-	420	(420)	-
Additions	-	16	2	18
Disposals	-	(15)	(2)	(17)
Balance as of 1 January 2009	188	784	350	1,322
Additions	-	2	4	6
Disposals	(45)	(30)	(244)	(319)
Balance at 31 December 2009	<u>143</u>	<u>756</u>	<u>110</u>	<u>1,009</u>
<b>Accumulated depreciation and impairment</b>				
Balance at 1 January 2007	(47)	(57)	(26)	(130)
Depreciation expense	(20)	(16)	(70)	(106)
Balance as of 1 January 2008	(67)	(73)	(96)	(236)
Depreciation expense	(37)	(215)	31	(222)
Balance as of 1 January 2009	(104)	(288)	(65)	(458)
Depreciation expense	(34)	(152)	(22)	(208)
Disposals	29	22	62	113
Balance at 31 December 2009	<u>(109)</u>	<u>(418)</u>	<u>(26)</u>	<u>(553)</u>
<b>Carrying Amount</b>				
As of 1 January 2007	181	172	186	539
As of 31 December 2007	121	290	674	1,085
As of 31 December 2008	84	496	285	864
As of 31 December 2009	<u>34</u>	<u>338</u>	<u>84</u>	<u>456</u>



## 15. Exploration and Evaluation Assets

During the exploration period of the Production Sharing Contracts, the Group considers as intangible assets:

- the exploration works performed in the licences 3102 Bemolanga, 3104 Tsimiroro, 3105 Manambolo, 3106 Morondava, 3107 Manandaza, 2103 Majunga South and 3109 Mandabe;
- the consumable costs included in the pilot project costs implemented in the licence 3104 Tsimiroro

During the exploration period of the Production Sharing Contracts the Group considers as tangible assets the capital costs included in licences.

	<i>Intangibles</i> <i>US\$000</i>	<i>Tangibles</i> <i>US\$000</i>	<i>Total</i> <i>US\$000</i>
<b>Cost</b>			
Balance at 1 January 2007	31,281	28,846	60,127
Additions	18,931	4,408	23,339
Impairment at 31 December 2007	(9,399)	(743)	(10,142)
Balance at 1 January 2008	40,813	32,511	73,324
Movements	15,221	(7,326)	7,895
Impairment at 31 December 2008	423	(72)	351
Balance at 1 January 2008	56,457	25,113	81,570
Movements	4,289	(22)	4,267
Reversal of impairment at 31 December 2009 (ii)	3,104	-	3,104
Balance at 31 December 2009 after impairment	<u>63,850</u>	<u>25,091</u>	<u>88,941</u>

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

		<i>As at</i> 31 December 2007 US\$000	<i>As at</i> 31 December 2008 US\$000	<i>As at</i> 31 December 2009 US\$000
<b>Licence 3102 Bemolanga (operated by Total)</b>	(iii)	4,679	-	-
Airborne magnetics		441	-	-
Coring		3,728	-	-
Ground electro-magnetics		81	-	-
Studies and other exploration expenses		425	-	-
Environmental assessment		4	-	-
<b>Licence 3104 Tsimiroro (operated)</b>		68,645	81,570	82,377
Environmental assessment		292	326	508
Pilot project		-	-	-
Tangibles		33,254	25,856	25,826
Intangibles		34,441	52,449	52,913
Studies and other exploration expenses		1,401	2,345	2,594
Exploration wells		-	1,337	1,279
Impairment - tangibles		(743)	(743)	(743)
<b>Licence 3105 Manambolo (operated)</b>		-	-	1,843
Geochemistry		344	344	344
Environmental assessment		36	95	95
Studies and other exploration expenses		314	315	350
Seismic acquisitions		-	-	-
Tangibles		-	-	2
Intangibles		-	-	1,052
Impairment	(ii)	(694)	(754)	-
<b>Licence 3106 Morondava (operated)</b>		-	-	2,472
Environmental assessment		119	148	148
Geochemistry		372	380	380
Seismic acquisitions		-	-	-
Tangibles		-	-	2
Intangibles		-	-	1,079
Rock physics		199	199	199
Studies and other exploration expenses		-	-	-
Tangibles		-	2	2
Intangibles		637	628	662
Impairment	(ii)	(1,327)	(1,357)	-
<b>Licence 3107 Manandaza (operated)</b>		-	-	2,249
Airborne magnetics		214	214	214
Environmental assessment		74	132	132
Seismic acquisitions		-	-	-
Tangibles		-	-	2
Intangibles		-	-	1,217
Rock physics		199	198	197
Studies and other exploration expenses		448	452	487
Impairment	(ii)	(935)	(996)	-
<b>Licence 2103 Majunga South (operated)</b>	(i)	-	-	-
Environmental assessment		169	169	-
Seismic acquisition 2D & reprocessing		-	-	-
Tangibles		-	70	-
Intangibles		5,446	5,412	-
Studies and other exploration expenses		315	281	-
Impairment	(ii)	(5,930)	(5,932)	-
<b>Licence 3109 Mandabe (operated by Tullow Oil)</b>	(i)	-	-	-
<b>Total of exploration works</b>		<u>73,324</u>	<u>81,570</u>	<u>88,941</u>

(i) Accumulated exploration expenses at 31 December 2008 have been expensed following the withdrawal from the licence (Note 16).

- (ii) In 2009 management reversed the 2008 impairment of these assets in accordance with the decisions of the Board, made in 2009, instead to pursue additional work in these blocks in 2009 and 2010 based upon the availability of finance and/or partners to develop these blocks. Although the Group is seeking partners for its 100 per cent. held exploration blocks (3105, 3106 and 3107), if it is unable to obtain partners, the Group may elect to return the blocks to the government in 2011 which may result in the forfeiture of US\$1.5 million USD of bank guarantees pursuant to the production sharing contracts.
- (iii) All historical costs related to the Bemolanga block were recovered through the sale of 60 per cent. of the interest to TOTAL in 2008.

The Group has the intention to continue to operate Tsimiroro block and has no reason to believe that any impairment other than the impairment related to the 120 man camp that is provided for in the consolidated financial information, should be considered on the related Tsimiroro assets recorded by the Company.

## 16. Joint Venture Operations

### *Licence 3109 Mandabe*

#### *Joint Venture Operations*

Majunga and Tullow were 50/50 parties to a joint operating agreement dated 7 December 2005 for Production Sharing Contract No. 3109 (the "Tullow JOA"). Tullow and Majunga did not agree on a 2008 work program by the deadline required under the Tullow JOA and Tullow also unilaterally extended the PSC with OMNIS without the consent of Majunga. Majunga withdrew from the Tullow JOA in September 2008 due to the dramatic increase in the cost of obtaining seismic in that region. Both Tullow and OMNIS have acknowledged and accepted Majunga's withdrawal from the Tullow Joint Venture. Majunga extended an offer to turn over its share of the bank guarantees in favor of OMNIS which represented approximately US\$1.5 million in exchange for a full release by Tullow but Tullow never accepted such offer. The bank guarantee was released by the government in 2009 and subsequently returned by Credit Suisse to the Company. Since that time, there has been no communication between the parties. Tullow apparently requested and received another one year extension of the exploration period under the PSC in November 2009. Management's interpretation of the terms of the Tullow JOA is such that Majunga has no liability for expenditures incurred without its prior approval nor does Majunga have any obligation to fund any work incurred during the extensions of the PSC that it did not approve and that occurred subsequent to Majunga's withdrawal. In the event that Tullow were to make a claim against Majunga, management believes that in the unlikely event that such claim were successful, the claim would be limited to the amount of the original guarantee (US\$1.5 million). Tullow's sole recourse under the Tullow JOA is to Majunga which is an entity that currently holds no assets.

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

	<i>As at</i> <i>31 December</i> <i>2007</i> <i>US\$000</i>	<i>As at</i> <i>31 December</i> <i>2008</i> <i>US\$000</i>	<i>As at</i> <i>31 December</i> <i>2009</i> <i>US\$000</i>
Current liabilities (Note 24)	185	120	-
Expenses	177	136	-
Non-current expenses (Note 31)	513	684	-

#### *Licence 3102 Bemolanga*

Since 17 September 2008, the Group holds a 40 per cent. interest in a joint venture with TOTAL for the licence 3102 Bemolanga. Under the signed farm-out agreement TOTAL has become the operator.

The Group is entitled to a proportionate share of the rental income received and bears a proportionate share of the expenses subject to a carry over the initial US\$100 million to be expended by TOTAL.

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

	<i>As at</i> 31 December 2007 US\$000	<i>As at</i> 31 December 2008 US\$000	<i>As at</i> 31 December 2009 US\$000
Current liabilities (Note 24)	-	(154)	52
Expenses	-	(154)	52

#### 17. Receivables

	<i>Current</i>			<i>Non-current</i>		
	<i>31 December</i> 2007 US\$000	<i>31 December</i> 2008 US\$000	<i>31 December</i> 2009 US\$000	<i>31 December</i> 2007 US\$000	<i>31 December</i> 2008 US\$000	<i>31 December</i> 2009 US\$000
Prepayments	<u>996</u>	<u>701</u>	<u>451</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

#### 18. Financial Assets

	<i>Current</i>			<i>Non-current</i>		
	<i>31 December</i> 2007 US\$000	<i>31 December</i> 2008 US\$000	<i>31 December</i> 2009 US\$000	<i>31 December</i> 2007 US\$000	<i>31 December</i> 2008 US\$000	<i>31 December</i> 2009 US\$000
Deposits paid	<u>88</u>	<u>78</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>-</u>

Deposits are for the rental of offices and equipment.

#### 19. Cash and cash equivalents

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

	<i>As at</i> 31 December 2007 US\$000	<i>As at</i> 31 December 2008 US\$000	<i>As at</i> 31 December 2009 US\$000
Cash and bank balances	1,349	2,451	6,409
Time deposits (2 weeks maximum)	<u>27,000</u>	<u>10,500</u>	<u>-</u>
	28,349	12,951	6,409
Restricted Cash (i)	<u>(8,546)</u>	<u>(6,559)</u>	<u>(3,508)</u>
Net cash available	<u>19,803</u>	<u>6,392</u>	<u>2,901</u>

(i) Cash collateral of US\$3,508K in 2009, US\$6,559K in 2008 and US\$8,546K in 2007 corresponds to 111 per cent. of guarantees provided by the bank on the behalf of the Group. See Note 29 Commitments for Expenditure - bank guarantees for more details about the guarantees provided and Note 31 Non-Current Oil Activity.

#### 20. Issued Capital

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

The capital structure of the Group consists of debt when any (see disclosures in Note 22), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated deficit as disclosed in Notes 20, 21 and 26 respectively.

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

		<i>As at</i> <i>31 December</i> <i>2007</i> <i>US\$000</i>	<i>As at</i> <i>31 December</i> <i>2008</i> <i>US\$000</i>	<i>As at</i> <i>31 December</i> <i>2009</i> <i>US\$000</i>
Debt	(i)	65,511	-	-
Cash and cash equivalents (ii)	(ii)	<u>(19,803)</u>	<u>(6,392)</u>	<u>(2,901)</u>
Net debt		45,708	(6,392)	(2,901)
Equity	(iii)	<u>21,068</u>	<u>85,481</u>	<u>96,790</u>
Net debt to equity ratio		217%	-%	-%

(i) Debt is defined as long-term and short-term borrowings from financial institutions, as detailed in Note 22.

(ii) Only non-restricted cash and cash equivalents.

(iii) Equity includes all capital and reserves of the Group including accumulated deficit.

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

Details of the share capital of the Company as of 31 December 2007, 31 December 2008 and 31 December 2009 are:

	<i>As at</i> <i>31 December</i> <i>2007</i> <i>(No.)</i>	<i>As at</i> <i>31 December</i> <i>2008</i> <i>(No.)</i>	<i>As at</i> <i>31 December</i> <i>2009</i> <i>(No.)</i>
Fully paid common shares of US\$ 0.01 each	3,784,910	10,317,947	11,865,826
Fully paid non-voting shares	<u>1,304,000</u>	<u>1,304,000</u>	<u>1,304,000</u>
<b>Total number of shares fully paid</b>	<u>5,088,910</u>	<u>11,621,947</u>	<u>13,169,826</u>
Par value per share in US\$	0.01	0.01	0.01
	<i>As at</i> <i>31 December</i> <i>2007</i> <i>US\$000</i>	<i>As at</i> <i>31 December</i> <i>2008</i> <i>US\$000</i>	<i>As at</i> <i>31 December</i> <i>2009</i> <i>US\$000</i>
Share capital	51	116	131
Share premium	<u>99,002</u>	<u>105,175</u>	<u>111,288</u>
<b>Total issued capital</b>	<u>99,053</u>	<u>105,291</u>	<u>111,419</u>

	<i>Number of shares</i>	<i>Share capital US\$000</i>	<i>Share premium US\$000</i>
<b>Balance, 1 January 2007</b>	4,268,944	43	102,502
Fully paid common shares of US\$0.01 each: modification of voting rights	300,000		
Fully paid non voting shares: modification of voting rights	(300,000)		
Shares granted for free (see Note 26)	752,571	8	
Shares granted to personnel (see Note 26)	35,229		
Shares granted to Directors (see Note 26)	67,167	1	
Shares repurchased	(35,000)		(3,500)
<b>Balance, 31 December 2007</b>	5,088,910	52	99,002
Issue of shares	3,365,854	33	6,698
Equity fund Raising finance costs			(525)
Shares granted for free (see Note 26)	2,450,300	24	
Shares granted to personnel (see Note 26)	573,604	6	
Shares granted to Directors (see Note 26)	143,279	1	
<b>Balance, 31 December 2008</b>	11,621,947	116	105,175
Issue of shares	1,305,581	13	6,113
Shares granted to personnel for free	192,299	1	-
Shares granted o Directors for free	50,000	1	-
<b>Balance, 31 December 2009</b>	13,169,827	131	111,288

No new financial instruments were issued during 2009. At 31 December 2009, the detail of financial instruments in issue is:

Total number of warrants in issue:		386,037
Warrants at US\$150 per share:	3,000	
Warrants at US\$100 per share:	139,006	
Warrants at US\$1 per share:	244,031	
Total number of options in issue:		30,000
Options at US\$150 per share:	13,000	
Options at US\$130 per share:	4,000	
Options at US\$100 per share:	11,000	
Options for Non-Voting shares at US\$130 per share:		2,000

At 31 December 2008 and 31 December 2007, the detail of financial instruments in issue is:

Total number of warrants in issue:		665,938
Warrants at US\$250 per share:	60,000	
Warrants at US\$165 per share:	60,000	
Warrants at US\$150 per share:	2,161	
Warrants at US\$130 per share:	4,747	
Warrants at US\$100 per share:	140,000	
Warrants at US\$85 per share:	244,030	
Warrants at US\$25 per share:	50,00	
Warrants at US\$15 per share:	150,000	
Total number of options in issue:		230,769
Options at US\$150 per share:	1,000	
Options at US\$150 per share issued in change of control:	12,000	
Options at US\$130 per share:	4,000	
Options at US\$100 per share:	211,769	
Options for Non-Voting shares at US\$130 per share:	2,000	

The valuation of the warrants and options granted is described in Note 26 Share - Based Payments except:

- 135K warrants granted to shareholders in connection with equity investment in the Company: Under IAS 32.22 these warrants are an equity instrument booked for its selling value at its grant date which is zero. Because these warrants are equity instruments their change in fair value over the time is not recognised in the financial information.
- 12,000 options which vest upon a change of control of the Company.

## 21. Accumulated Deficit & Dividends

	<i>As at</i> 31 December 2007 US\$000	<i>As at</i> 31 December 2008 US\$000	<i>As at</i> 31 December 2009 US\$000
Balance at beginning of the year	(117,782)	(179,215)	(146,993)
Net loss	(61,433)	32,222	(9,547)
	<u>(179,215)</u>	<u>(146,993)</u>	<u>(156,540)</u>

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

## 22. Borrowings

		<i>As at</i> 31 December 2007 US\$000	<i>As at</i> 31 December 2008 US\$000	<i>As at</i> 31 December 2009 US\$000
<i>Non-current liabilities</i>				
Finance lease obligations	(i)	1,931	-	-
Loans from financial institutions	(ii)	62,042	-	-
		<u>63,973</u>	<u>-</u>	<u>-</u>
<i>Current liabilities</i>				
Finance lease obligations	(i)	2,435	-	-
Loans from financial institutions	(ii)	3,471	-	-
		<u>5,906</u>	<u>-</u>	<u>-</u>

(i) Relates to the restatement of a finance lease contract which provides operational vehicles; the total amount of activated costs under the contract amounts to US\$7,095K minus amortisation of the debt for US\$2,152K and US\$575K for 2007 and 2006 respectively.

(ii) On 28 March 2007, the Company entered an US\$85 million Senior Facility Agreement (the "Facility") with a group of lenders ("Lenders"), with Credit Suisse serving as the agent and arranger for the Facility. The loan is at variable rate and repayable on 28 March 2009.

At 31 December 2007, detail of the loan recognised in balance sheet as non-current liability is:

	<i>US\$000</i>
Drawdowns	65,000
Accrued interest	2,642
Unamortised financing costs	(5,600)
<b>Total</b>	<u>62,042</u>

At 31 December 2007 detail of the loan recognised in balance sheet as current liability is:

	<i>US\$000</i>
Accrued interests	967
Amortised financing costs	2,504
<b>Total</b>	<u>3,471</u>

The Senior Facility Agreement has been fully repaid on 25 September 2008 and some restrictions on the Group assets remain in force at 31 December 2008.

## 23. Provisions

	<i>Current</i>			<i>Non-current</i>		
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
Employee Benefits (i)	137	92	92	-	-	-
Decommissioning costs (ii)	-	-	-	896	603	603
	<u>137</u>	<u>92</u>	<u>92</u>	<u>896</u>	<u>603</u>	<u>603</u>

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

## 24. Trade and Other Payables

		<i>As at</i>	<i>As at</i>	<i>As at</i>
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
		<i>2007</i>	<i>2008</i>	<i>2009</i>
		<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
Trade Payables	(i)	2,892	958	622
Other Payables	(ii)	141	98	49
Accrued Charges	(iii)	1,437	1,291	-
Partner operator	(iv)	185	(34)	52
		<u>4,655</u>	<u>2,313</u>	<u>723</u>

- (i) As of 31 December 2009, trade payables include Malagasy suppliers for US\$291K and non-Malagasy suppliers for US\$432K. As of 31 December 2008, trade payables include Malagasy suppliers for US\$175K and non - Malagasy suppliers for US\$783K. As of 31 December 2007, trade payables include Malagasy suppliers for US\$1,200K and non - Malagasy suppliers for US\$1,692K.
- (ii) Other payables as of 31 December 2009, as of 31 December 2008 and as of 31 December 2007, include dues to personnel and other taxes
- (iii) Accrued charges as of 31 December 2008 are for invoices dated in 2009 but related to goods purchased or services rendered during the year 2008, Audit fees for the Group and other dues. Accrued charges as of 31 December 2007 are for invoices dated in 2008 but related to goods purchased or services rendered during the year 2007, Audit fees for the Group and other dues.
- (iv) Amount due to Tullow Oil and Total under the joint venture agreements in place at 31 December 2009, 31 December 2008 and 31 December 2007.

## 25. Obligations under finance lease

### *Leasing arrangements*

The Company had only one finance lease related to its fleet of operational vehicles with lease terms of three years. The Company has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. At 31 August 2008, the Company and lessor decided to terminate the finance lease by mutual agreement.



### **Finance lease liabilities**

	<i>Minimum Lease payment</i>			<i>Present value of Minimum Lease payment</i>		
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
No later than 1 year	3,015	-	-	2,435	-	-
Later than 1 year and not later than 5 years	2,185	-	-	1,931	-	-
Later than five years	-	-	-	-	-	-
	<u>5,200</u>			<u>4,366</u>		
Less future finance charges	(834)					
<b>Present value of minimum lease payments</b>	<b>4,366</b>	-	-	<b>4,366</b>	-	-
<b>Included in the financial information as:</b>						
Current borrowings	-	-	-	2,435	-	-
Non-current borrowings	-	-	-	1,931	-	-

### **26. Share-Based Payments**

All amounts stated are after consideration of consolidation of the Company's stock of 1:100 which took place in 2009.

#### ***Royalty Agreements extinguishment***

In October 2006, the Company issued 400,000 (40,000,000 shares pre-consolidation) common shares of US\$0.01 to Miramas Services Ltd and Blairwest Holdings as consideration for the extinguishment of royalty interests in certain of the Group's Production Sharing Contracts. At the grant date, the estimated fair value of this share issuance was US\$76 million. This estimated value is based upon a per share valuation of US\$190 (US\$1.90 pre-consolidation) assigned to the Company's shares in connection with financing completed by the Company in October 2006.

#### ***Touradji Transaction***

On 22 August 2008, the Company issued 2,000,000 common shares of US\$0.01 to the Touradji Group of companies as consideration for the relinquishment of a contractual consent right related to share issuances by the Company at a value of less than US\$100 per share that Touradji had acquired from the Company in connection with a subscription of shares by Touradji from the Company in October 2006. At the grant date, the estimated fair value of his share issuance was US\$20 million. This estimated value is based upon a per share valuation of US\$10 assigned to the Company's shares in connection with its best estimate during the third quarter of 2008.

#### ***Persistency Transaction***

On 21 October 2008, the Company issued 350,000 common shares of US\$0.01 to Persistency Capital as consideration for a right Persistency obtained in November 2006 in connection with a subscription of shares by Persistency from the Company. At the grant date, the estimated fair value of this share issuance was US\$700K. This estimated value is based upon a per share valuation of US\$2 assigned to the Company's shares in connection with financing completed by the Company in the last quarter of 2008.

#### ***Credit Suisse Agreement***

In July 2009, the Company issued Credit Suisse International 61,358 common shares of US\$0.01 each in settlement of a dispute over whether certain share issuances during 2008 constituted dilutive events under Credit Suisse's warrant agreement.

### Stock option plans granted to management and employees

The Group issued several stock options in 2006 and 2007 but no options were granted in 2008 and 2009. The main characteristic of the options are summarised in the following table:

Plan	Grant dates	Exercise price	First exercise date	Last exercise date	Estimated Fair value of option	Options granted	Options cancelled	Options exercised	Outstanding options
S01	03/27/2006	150 USD	03/27/2006	03/27/2011	50 USD	2,500	(2,500)	-	-
S02	03/27/2006	130 USD	03/27/2006	See *	60 USD	12,000	(6,000)	-	6,000
S03	03/27/2006	150 USD	03/27/2006	03/27/2011	50 USD	8,500	(8,500)	-	-
S04	07/27/2006	150 USD	Various	07/27/2016	70 USD	40,000	(40,000)	-	-
S05	08/15/2006	150 USD	08/15/2006	08/15/2011	50 USD	500	(500)	-	-
S06	11/01/2006	150 USD	Various	11/01/2011	110 USD	8,000	(8,000)	-	-
S07	07/27/2006	150 USD	07/27/2006	07/27/2009	40 USD	10,000	(10,000)	-	-
S08	06/15/2006	150 USD	06/15/2007	03/27/2011	50 USD	3,500	(2,500)	-	1,000
S09	07/17/2007	100 USD	07/17/2007	07/17/2010	30 USD	1,000	-	-	1,000
S010	07/27/2007	100 USD	07/27/2008	07/27/2017	50 USD	10,000	-	-	10,000

\* for option number S02, the last exercise date is three years after the Company's admission to a recognised stock exchange.

Plans S01, S03, S04, S05, S06 and S07 were fully surrendered in 2007 and replaced by free shares;

plans S02 and S08 were partially surrendered in 2007. No options was exercised in 2009, 2008 and 2007.

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

- Share prices at grant date were determined based on the last known share price for capital increase
- Volatility was estimated based on a suitable peer group of companies listed in the Toronto stock exchange. This analysis led to volatility estimate of almost 30 per cent.
- Risk free rates based on zero coupon Canadian government bonds
- No forfeiture rate was considered
- No expected dividends were considered

The expense recognised in the 2009 income statement related to outstanding stock options plans granted to management and employees was zero compared to US\$0.3 million compared to US\$0.8 million recognised respectively in 2008 and 2007.

### Shares granted to management and employees

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

Plan	Grant dates	Vested date	Estimated fair value of shares	Shares granted	Shares cancelled	Shares vested	Shares non vested
S1	07/27/2006	12/31/2006	150 USD	7,000	-	7,000	-
S1	07/27/2006	07/27/2007	150 USD	10,000	-	10,000	-
S1	07/27/2006	07/27/2009	150 USD	10,000	-	10,000	-
S2	12/18/2006	12/31/2006	175 USD	2,623	-	2,623	-
S2	12/18/2006	12/31/2007	175 USD	2,623	(1,026)	1,597	-
S2	12/18/2006	12/31/2008	175 USD	2,623	(1,477)	1,146	-
S3	02/07/2007	See *	100 USD	67,500	(15,750)	-	51,750
S4	01/19/2007	01/19/2007	100 USD	2,500	-	2,500	-
S5	02/28/2007	02/28/2007	100 USD	1,681	-	1,681	-
S6	05/11/2007	05/11/2007	100 USD	667	-	667	-
S7	06/01/2007	06/01/2007	100 USD	1,000	-	1,000	-
S8	08/16/2007	08/16/2007	100 USD	1,500	-	1,500	-
S9	05/03/2007	05/03/2007	100 USD	200	(200)	-	-
S10	05/11/2007	See *	100 USD	4,500	(4,500)	-	-
S11	06/01/2007	06/01/2007	100 USD	2,000	(1,000)	1,000	-
S12	11/27/2007	11/27/2007	40 USD	3,333	-	3,333	-
S13	11/05/2007	11/05/2009	40 USD	2,500	-	2,500	-
S14	11/27/2007	11/27/2009	40 USD	6,667	(6,667)	-	-
S15	01/18/2008	01/18/2011	40 USD	56,882	(9,798)	15,789	31,295
S16	08/07/2008	08/07/2011	10 USD	594,725	(64,590)	135,473	394,662
S17	10/07/2008	10/07/2008	2 USD	6,500	-	6,500	-
S18	07/10/2008	07/10/2011	10 USD	6,051	(5,500)	-	551
S19	02/22/2008	02/22/2008	40 USD	300	-	300	-

<i>Plan</i>	<i>Grant dates</i>	<i>Vested date</i>	<i>Estimated fair value of shares</i>	<i>Shares granted</i>	<i>Shares cancelled</i>	<i>Shares vested</i>	<i>Shares non vested</i>
S20	07/16/2008	07/16/2008	10 USD	368	-	368	-
S20	07/16/2008	07/16/2011	10 USD	2,250	-	-	2,250
S21	10/14/2008	10/14/2011	2 USD	100,000	-	-	100,000
S22	10/28/2008	10/28/2009	2 USD	150,000	-	150,000	-
S23	12/31/2008	12/31/2008	2 USD	4,908	-	4,908	-
S24	01/20/2009	01/20/2012	2 USD	137,500	-	-	137,500
S25	06/19/2009	06/19/2010	5 USD	50,000	-	50,000	-
S26	12/18/2009	see *	5 USD	54,799	-	-	54,799

\* for plan S3 and S10, vesting date is the Company's admission date to a recognised stock exchange

The Group granted restricted shares to management (plan S1) on 27 July 2006: 27,000 shares were granted at a per share value of US\$150. Of these, 4,500 vested in 2006, 6,500 in July 2007 and 6,500 vested in July 2009. Share price at grant date was determined based on the last known share price for capital increase.

The Group also granted a total of 7,869 shares (plan S2) to some employees on 18 December 2006 as a bonus for the year 2006. The share price at grant date was determined based on the management best estimate of fair value. These shares were fully vested by 31 December 2008.

Some options (78,000) and warrants (12,000) granted in 2006 were surrendered in 2007 and replaced by restricted shares (plan S3) vested at the Company's admission date to a recognised stock exchange. The share price at grant date was determined based on management best estimate of fair value. The total fair value of options and warrants surrendered and the increase in fair value for the restricted shares granted were recognised at the date of surrender.

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

Plans S15 to S23 were granted in 2008: some plans vested at grant date, others were supposed to vest after 3 years. Furthermore, several beneficiaries left the Company as "good leavers", under the plan, thus they vested immediately.

Plans S24 to S26 were granted in 2009. Vesting periods ranged from one to three years with certain shares vesting upon initial public offering or change of control.

The expense recognised in the 2009 consolidated statement of operations related to shares granted to management and employees is US\$5.1 million (US\$4.6 million of which related to vesting of awards granted in prior years) compared to US\$5 million and US\$7.7 million recognised respectively in 2008 and in 2007.

### ***Warrants plans issued to management***

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

<i>Plan</i>	<i>Grant dates</i>	<i>Exercise Price</i>	<i>First exercise date</i>	<i>Last exercise date</i>	<i>Estimated fair value of warrant</i>	<i>Warrants granted</i>	<i>Warrants cancelled</i>	<i>Warrants exercised</i>	<i>Outstanding warrants</i>
W1	06/15/2006	150 USD	06/15/2006	04/30/2009	40 USD	10,000	(10,000)	-	-
W2	06/15/2006	130 USD	06/15/2006	06/15/2012	60 USD	3,000	-	-	3,000
W3	06/15/2006	150 USD	06/15/2006	06/15/2012	60 USD	3,000	(3,000)	-	-
W4	07/13/2006	150 USD	07/13/2007	07/12/2012	60 USD	3,000	(3,000)	-	-
W5	08/15/2006	150 USD	08/15/2007	08/14/2012	60 USD	4,000	(4,000)	-	-
W6	06/30/2007	100 USD	06/30/2007	06/30/2012	30 USD	4,003	-	-	4,003

Among options granted through plan W1, 8,000 options were cancelled in 2007 and the remaining 2,000 options were surrendered and replaced by restricted shares. Plans W3, W4, and W5 were fully surrendered in 2007 and replaced by restricted shares. No warrants were exercised in 2008 and 2009.

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

- Share prices at grant date were determined based on the last known share price for capital increase
- Volatility was estimated based on a suitable peer group of companies listed in the Toronto stock exchange. This analysis led to volatility estimate of almost 30 per cent.
- No forfeiture rate was considered
- No expected dividends were considered

No expense was recognised in 2009 and 2008.

The expense recognised in the 2007 income statement related to outstanding warrants granted to management and employees was US\$0.3 million.

### **Other share based payments**

The Group issued in 2005, 2006 and in 2007 equity instruments (warrants and options) for the payment of good and services to financial institutions. Main features of the plans are summarised in the following table:

<i>Plan</i>	<i>Grant dates</i>	<i>Number of options and warrants</i>	<i>Exercise Price</i>	<i>First exercise date</i>	<i>Last exercise date</i>	<i>Estimated fair value of warrant</i>	<i>Options and warrants cancelled</i>	<i>Options and warrants exercised</i>	<i>Outstanding options and warrants</i>
TP1	09/12/2006	75,000	15 USD	03/27/2006	04/30/2009	20 USD	(75,000)	-	-
TP2	09/12/2006	75,000	15 USD	12/31/2006	04/30/2009	20 USD	(75,000)	-	-
TP3	03/27/2006	5,000	25 USD	03/27/2006	04/30/2009	20 USD	(5,000)	-	-
TP4	03/27/2006	1,000	100 USD	03/27/2006	04/30/2009	20 USD	(1,000)	-	-
TP5	03/27/2006	3,490	130 USD	03/27/2006	04/30/2009	20 USD	(3,490)	-	-
TP6	03/27/2006	417	150 USD	03/27/2006	04/30/2009	20 USD	(417)	-	-
TP7	03/28/2007	244,030	1 USD	03/28/2007	03/28/2012	40 USD	0	-	244,030
TP8	03/28/2007	200,769	100 USD	04/30/2008	09/01/2008	40 USD	(200,769)	-	-

The warrants issued in Plans TP1 and TP2 below were issued as partial consideration to the Company's placement agent in connection with its October 2005 and March 2006 financing. The placement agent received part cash and part warrants as compensation for its services. The value of the warrants was derived by taking the fair market value of the placement agent's services minus the cash component of the consideration for placement agent services. This valuation methodology was applied to Plans TP3 - TP6.

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

No expense was recorded in 2009 related to share based payments granted to third parties

The expense recognised in the 2008 income statement related to share-based payment granted to third party is US\$20.7 million compared to an expense of US\$8 million recognised in 2007.

## **27. Related Party Transactions**

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

## Trading transactions

During the years covered by this report, Group entities entered into the following trading transactions with related parties that are not members of the Group:

Director Transactions Party	Transaction/Contract	Term	Total Value US\$000	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009
Sam Malin	Consulting Agreement with MOB	November 2006 - October 2007	500	US\$500K	-	-
Robert Nelson	Repayment of shares	March-07	3,500	35,000 shares repurchased at US\$100	-	-
Lydia Boarlaza	Termination indemnity	Ended August 2007	79	US\$79k	-	-
Bernard de Combret	Consulting Service Agreement		150	1,500 shares issued as compensation	-	-
Laurie Hunter	Board Acceptance Letter	28 October 2008 - Present	195	-	US\$5K	US\$190K
Gene Davis - Pirinate Consulting	Consulting Agreement	28 October 2008 - 30 April 2010	250	-	US\$10K	US\$240K
<b>Third Party Transactions</b>						
Lydia Boarlaza	Consultancy Agreement	7 November 07 - 6 May 08	77	US\$23K	US\$54K	-
Jean Chretien	Consulting Fee	17 July 07	27	1,000 options granted	-	-
Heenan Blaikie LLP	Consulting Agreement	16 July 09	179	US\$59K	US\$120K	-
Jackdaw Accountants Ltd	Consulting Agreement	On request	62	US\$48	US\$14K	-
Benjamin Skelton	Consulting Agreement	31 July 07	211	US\$211K	-	-
Mark Waller	Consulting Agreement	On request	429	-	US\$189K	US\$240K
Jim Lederhos	Consulting Agreement	On request	301	-	US\$187K	US\$114K
Jim Dorman	Consulting Agreement	On request	231	-	US\$181K	US\$50K
Jim Collins	Consulting Agreement	On request	161	-	US\$52K	US\$109K
Gil Melman	Consulting Agreement	On request	135	-	US\$133K	-
Gil Melman	Consulting Agreement	One time	20	-	10,000 stocks granted	-
Mark Weller	Consulting Agreement	One time	60	-	30,000 stocks granted	-
Jim Lederhos	Consulting Agreement	One time	60	-	30,000 stocks granted	-
Jim Dorman	Consulting Agreement	One time	40	-	20,000 stocks granted	-
Jim Collins	Consulting Agreement	One time	20	-	10,000 stocks granted	-
Mathew Meyer	Consulting Agreement	One time	12	-	300 stocks granted	-
Mathew Meyer	Consulting Agreement	On request	19	US\$19K	-	-
Touradji Group of companies	Abandonment of rights	One time	20,000	-	2,000,000 shares	-
Persistency Group of Companies Related to Touradji abandonment of rights	Abandonment of rights	One time	700	-	350,000 shares	-
Gil Melman - Phillips & Reiter	Phillips & Reiter	On Request	128	-	-	US\$128K
Gil Melman - Selman Munson	Selman Munson	On Request	100	-	-	US\$100K
Michael McGown - CFO & Consultant	Consulting Agreement & Employee	On Request	98	-	-	US\$98K

Outstanding amounts are unsecured. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed to related parties.

## Compensation of key management personnel

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

The remuneration of directors and other members of key management during the years covered by this report was as follows:

	<i>Year ended 31 December 2007 US\$000</i>	<i>Year ended 31 December 2008 US\$000</i>	<i>Year ended 31 December 2009 US\$000</i>
Short term benefits	2,136	1,867	-
Share-based payments	8,241	4,278	274
Board members fees	433	553	290
	<u>10,811</u>	<u>6,697</u>	<u>564</u>

## 28. Operating Lease Arrangements

### *Leasing arrangements*

Operating leases relate to:

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

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

Payments recognised as an expense

	<i>As at 31 December 2007 US\$000</i>	<i>As at 31 December 2008 US\$000</i>	<i>As at 31 December 2009 US\$000</i>
Minimum lease payments	1,365	870	306

Non-cancellable operating lease commitments:

	<i>As at 31 December 2007 US\$000</i>	<i>As at 31 December 2008 US\$000</i>	<i>As at 31 December 2009 US\$000</i>
Not longer than 1 year	288	249	-
Longer than 1 year and not longer than 5 years	1,385	471	159
	<u>1,673</u>	<u>720</u>	<u>159</u>

The Group has no contingent rentals and does not receive any sublease payments.

## 29. Commitments for Expenditure

### *Commitments:*

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

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

The Production Sharing Contracts signed with the Malagasy authority states the following annual fees:

- Administrative fees
  - Licences 3102 (no longer operated since 17 September 2008) and 3104: US\$250K per year per licence as of second phase of exploration period only during exploration period
  - Other operated licences: US\$162K per year per licence only during exploration period
  - Licence 3109 (non-operated): zero as at 31 December 2009, compared with the following as at 31 December 2008 and 31 December 2007:
    - US\$250K during 1st phase of exploration period
    - US\$300K during 2nd phase of exploration period
    - US\$250K during 3rd phase of exploration period
- Training fees
  - Licences 3102 and 3104: US\$100K per year for the life of the contracts
  - All other licences: US\$50K per year for the whole life of the contracts

### Bank guarantees

In favour of OMNIS, in order to guaranty the execution of the minimum exploration works, as per article 8 of the Production Sharing Contracts signed

Expiration date	Guarantor	Beneficiary exploration period	In force at			
			Phase 1	31 December 2007	31 December 2008	31 December 2009
31 July 2008	Madagascar Oil Ltd (Bermuda)	OMNIS		US\$200,000	N/A	N/A
31 July 2009	Madagascar Oil Ltd (Bermuda)	OMNIS		N/A	US\$200,000	-
			Exploration period Phase 2			
31 July 2009	Madagascar Oil Ltd (Bermuda)	OMNIS		US\$4,000,000	US\$4,000,000	N/A
31 December 2009	Madagascar Oil Ltd (Bermuda)	OMNIS		N/A	N/A	US\$3,000,000
		TOTAL		US\$4,200,000	US\$4,200,000	US\$3,000,000

## 30. Financial Instruments

### (A) Fair value of financial instruments

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

	2009 Carrying amount	Amortised cost	Loans and receivables	Fair value through equity	Fair value through income	2009 Fair value	2008 Fair value	2007 Fair value
<b>Assets</b>								
Non-current financial assets	11	-	11	-	11	11	78	88
Restricted cash	3,508	-	-	-	3,508	3,508	6,559	8,546
Current financial assets	-	-	-	-	-	-	-	490
Cash and cash equivalents	2,901	-	-	-	2,901	2,901	6,392	19,803
<b>Liabilities</b>								
Borrowing (Long term portion)	-	-	-	-	-	-	-	69,575
Accounts and other payables	723	723	-	-	-	723	2,313	4,672
Borrowing (Short term portion)	-	-	-	-	-	-	-	3,403

(B) **Risk management policy**

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

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

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

**Exposure to foreign currency risk**

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

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

	EUR	US\$	CAD	GBP	MGA	2009	2008	2007
Financial Assets	-	-	-	-	11	11	78	88
Restricted cash equivalents	-	3,508	-	-	-	3,508	6,559	8,546
Cash equivalents	-	-	-	-	-	-	3,941	18,454
Cash	-	2,869	-	12	20	2,901	2,372	1,349
<b>Exposure (Assets)</b>	<b>-</b>	<b>6,377</b>	<b>-</b>	<b>12</b>	<b>31</b>	<b>6,420</b>	<b>12,951</b>	<b>28,437</b>
Borrowings	-	-	-	-	-	-	-	72,978
Trade and other payables	-	432	-	-	291	723	2,313	4,672
<b>Exposure (Liability)</b>	<b>-</b>	<b>432</b>	<b>-</b>	<b>-</b>	<b>291</b>	<b>723</b>	<b>2,313</b>	<b>77,650</b>
Gross exposure in balance sheet	-	5,945	-	12	(260)	5,697	10,638	(49,213)
Forecasted disbursements	-	-	-	-	-	-	-	-
Forecasted sales	-	-	-	-	-	-	-	-
<b>Net exposure</b>	<b>-</b>	<b>5,945</b>	<b>-</b>	<b>12</b>	<b>(271)</b>	<b>5,697</b>	<b>10,638</b>	<b>(49,213)</b>

**Interest rate risk**

**Exposure to interest rate risk**

Cash and cash equivalents are invested in short term variable-rate instruments. Long-term debt was also at variable rates.

**Analysis of the sensitivity to interest rate risk**

At 31 December 2007, 100 per cent. of debt is at a variable rate and 100 per cent. of short-term investments are at variable rates.

At 31 December 2008, 100 per cent. of short-term investments is at variable rates.

At 31 December 2009, 100 per cent. of short-term investments is at variable rates.

The maximum impact on consolidated income before tax of a sudden one per cent. rise in short-term interest rates applied to financial assets and liabilities at variable rates is a loss of US\$65K.

Similarly, a sudden one per cent. fall in short-term interest rates would have a positive US\$65K impact on consolidated income before tax.

**Liquidity risk**

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

The Group's strategy also aims to ensure that it has the cash resources necessary to meet all circumstances. See discussions in Note 2. Also, for these reasons, the Group entered in 2007 a



US\$85 million credit facility agreement in March 2007 with Credit Suisse. US\$65 million of this credit line have been drawn down at 31 December 2007.

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

	2009	Less than 1 year	1 to 5 years	More than 5 years	2008	2007
<b>Non derivatives</b>	(723)	(723)	-	-	(2,313)	(77,647)
Credit facilities	-	-	-	-	-	(68,610)
Debts related to finance leases	-	-	-	-	-	(4,365)
Trade and other payables	(723)	(723)	-	-	(2,313)	(4,672)
<b>Derivatives</b>	-	-	-	-	-	-
<b>Total</b>	<u>(723)</u>	<u>(723)</u>	<u>-</u>	<u>-</u>	<u>(2,313)</u>	<u>(77,647)</u>

### 31. Non-Current Oil Activity Operations

#### *Non-current Income*

During 2009, per the strategy of its Board, the Group has reversed the impairment of the exploration works performed (US\$3,104K) (see Note 15 Exploration and Evaluation Assets).

#### *Gain arising on farm-out*

On 17 September 2008, the Republic of Madagascar approved the transfer of 60 per cent. of the interest the Group held in the Production Sharing Contract 3102 Bemolanga to TOTAL SAS. The proceeds generated by this transaction after deducting the historical costs incurred on the licence area have been credited to the income statement.

In addition to the cash received the agreement between the Group and Total foresees:

- That the first US\$40 million expenses corresponding to the share of the Group will be carried by TOTAL.
- An additional revenue per barrel depending on the Development Plans approved.

#### *Non-Current Expenses*

Pursuant to its withdrawal on 31 October 2008, the Group expensed the accumulated intangible assets related to licence 3109 Mandabe operated by Tullow for US\$684K at 31 October 2008 and US\$513K at 31 December 2007.

Per the strategy of the Board, the Group impaired the value of exploration works performed (USD8,967K at 31 December 2008 and US\$8,886K at 31 December 2007) - see Note 15 Exploration and Evaluation Assets.

The Group also impaired some tangible assets based on its best estimate of the market at 31 December 2008 for US\$815K at 31 December 2008 and US\$743K at 31 December 2007 - see Note 15 Exploration and Evaluation Assets.

### 32. Contingent Liabilities and Contingent Assets

#### *Taxe Forfaitaire sur les Transferts (TFTI) (See Note 33)*

During 2009, the Group received a notification from the Malagasy Tax Administration that it should apply the TFT to the services rendered by foreign suppliers. The Group believed that it is exempted from this tax as per applicable regulations. The Group challenged this interpretation of the Tax Administration which was contradicting the implementation of the TFT for many years and received confirmation in 2007 from the Minister of Finance that TFT was not applicable to petroleum industry transactions. Accordingly, TFT has been cancelled in subsequent Malagasy budgets.

In July 2010, the Group received a notification from the Malagasy tax administration claiming the payment of VAT and income tax on services rendered by foreign suppliers, with interests on delayed payment and penalties. The adjustments relate to fiscal year 2007 and 2008.

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

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

The case is being processed by the Appeal commission. Whatever the opinion of the Appeal commission, the tax administration has the ability to maintain the tax adjustment. The appeal ruling is not expected until 2011. If the appeal ruling is not in favour of the Group, the Group has the possibility to bring the matter before the Council of State. This procedure does not suspend the payment of the claimed tax (US\$3,990K), nevertheless the group can request to pay only 50 per cent. of the claimed tax (US\$1,995K) pending the decision of the Council of State, but the authorities have the ability to refuse this request. Efforts are also underway to modify the Madagascar Petroleum Code to specifically exempt the disputed taxes, both retroactively and prospectively.

### **33. Events After the Statement of Financial Position Date**

#### ***Taxe Forfaitaire sur les Transferts (TFT)***

In July 2010, the Group received a notification from the Malagasy tax administration claiming the payment of VAT and income tax on services rendered by foreign suppliers, with interests on delayed payment and penalties. See discussion in Note 32.

#### ***Issuance of Shares***

In July 2010, the Company sold US\$2.87 million of its convertible notes due 31 December 2010 to its three largest shareholder groups. The notes are convertible into common shares of US\$0.01 each in the Company at a conversion ratio of US\$15.00. 71,843 warrants with a one year term and a strike price of US\$20.00 per share were issued to such shareholders as a part of this financing.

#### ***Bridge Financing***

In August 2010, the Company issued 666,667 common shares of US\$0.01 each in the Company at a subscription price of US\$15.00 per share for total proceeds of US\$10 million to a group of related investors. As a part of such financing, the Company agreed to use reasonable endeavours to list the Company's shares on a recognised stock exchange and to issue additional shares to the investors as a make whole if an initial public offering of the Company is priced below the subscription price.

#### ***Non-Voting Shares***

Subsequent to year end, the non-voting shareholder sold a significant portion of its non-voting interest to another shareholder. Pursuant to a share exchange agreement dated 30 September 2010, the non-voting shareholder has also agreed to exchange the remaining 261,836 non-voting shares held for the equivalent number of the Company's voting common shares of US\$0.01 each in the Company.

#### ***Sub-division of Shares***

Conditional on Admission, immediately prior to Admission, the issued common shares of par value US\$0.01 each in the capital of the Company will be sub-divided on a ten for one basis into common shares of par value US\$0.001 each and the remaining authorised but unissued common shares of par value US\$0.01 each in the capital of the Company will be sub-divided on a ten for one basis into common shares of par value US\$0.01 each.

## SECTION C: UNAUDITED INTERIM FINANCIAL STATEMENTS

The following are the unaudited interim primary financial statements prepared by the Board:

### Balance sheet as at

	<i>30 June</i>	<i>31 December</i>
	<i>2010</i>	<i>2009</i>
	<i>US\$(000)</i>	<i>US\$(000)</i>
<b>Assets</b>		
<b>Non-Current Assets</b>		
Property, plant and equipment	160	457
Exploration and evaluation assets	90,529	88,941
Other intangible assets	263	370
Non-current tax assets	1,123	1,570
Financial assets	10	11
Restricted cash	1,765	3,508
Total non-current assets	93,850	94,856
<b>Current Assets</b>		
Other assets	732	451
Cash and cash equivalents	781	2,901
Total current assets	1,513	3,352
<b>Total Assets</b>	95,362	98,208
<b>Equity and Liabilities</b>		
<b>Capital and reserves</b>		
Issued capital	111,419	111,419
Equity-settled transactions reserve	142,096	141,911
Accumulated deficit	(160,749)	(156,540)
Total equity	92,767	96,790
<b>Non-Current Liabilities</b>		
Provisions	603	603
Total non-current liabilities	603	603
<b>Current Liabilities</b>		
Trade and other payables	1,901	723
Provisions	92	92
Total current liabilities	1,993	815
<b>Total Liabilities</b>	2,596	1,418

**Income statement for the year ended**

	<i>30 June 2010 US\$(000)</i>	<i>30 June 2009 US\$(000)</i>
<b>Revenue</b>		
Salaries and employee benefits expense	(409)	(6,444)
Depreciation and amortisation expense	(186)	(187)
Consulting expense	(384)	(296)
Production Sharing Contracts governmental and contractual fees	(565)	(713)
Other expenses	(1,906)	(860)
Net foreign exchange loss	(495)	(158)
<b>Current operating loss</b>	<u>(3,945)</u>	<u>(8,658)</u>
<b>Loss on Disposals</b>	(225)	(72)
<b>Non-Current Oil Activities Income</b>	<u>-</u>	<u>7,697</u>
<b>Operating Loss</b>	(4,170)	(1,033)
<b>Finance Costs</b>		(147)
<b>Loss before tax</b>	(4,170)	(1,179)
<b>Income Tax Expense</b>	(39)	(11)
<b>Net Loss for the Year</b>	<u>(4,209)</u>	<u>(1,191)</u>

## Cash flow statement for the Year Ended

	30 June 2010 US\$(000)	30 June 2009 US\$(000)
<b>Cash Flows From Operating Activities:</b>		
Loss for the year	(4,209)	(1,191)
Income tax expense recognised in loss	39	11
Finance costs	-	147
Loss (gain) on sale or disposal of property, plant and equipment	-	159
Depreciation and amortisation of non-current assets	186	187
Non-current oil activities	-	(7,697)
Net foreign exchange loss	494	158
Expense recognised in loss in respect of equity-settled share-based payments	186	5,052
	<u>(3,304)</u>	<u>(3,174)</u>
Movements in working capital		
Increase in other assets	(327)	(424)
Increase/(decrease) in trade and other payables	1,178	(1,054)
Decrease in provisions	-	-
	<u>(2,453)</u>	<u>(4,652)</u>
Cash generated from operations	(2,453)	(4,652)
Interest paid	-	-
Income taxes paid	(39)	(11)
	<u>(2,492)</u>	<u>(4,663)</u>
Net cash used in operating activities	(2,492)	(4,663)
<b>Cash Flows From Investing Activities</b>		
Interests received	-	-
Payments for equipment and intangible assets	-	-
Proceeds from disposal of property, plant and equipment	217	29
Exploration and evaluation costs paid	(1,588)	(1,672)
	<u>(1,371)</u>	<u>(1,672)</u>
Net cash used in investing activities	(1,371)	(1,672)
<b>Cash Flows From Financing Activities</b>		
Proceeds from issues of equity shares	-	1,125
Restricted cash	1,743	3,051
	<u>1,743</u>	<u>4,176</u>
Net cash provided by financing activities	1,743	4,176
<b>Net decrease in cash and cash equivalents</b>	<b>(2,120)</b>	<b>(2,130)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,901</b>	<b>6,392</b>
	<u>781</u>	<u>4,262</u>
<b>Cash and cash equivalents at end of year</b>	<b>781</b>	<b>4,262</b>

## PART 6

### ADDITIONAL INFORMATION

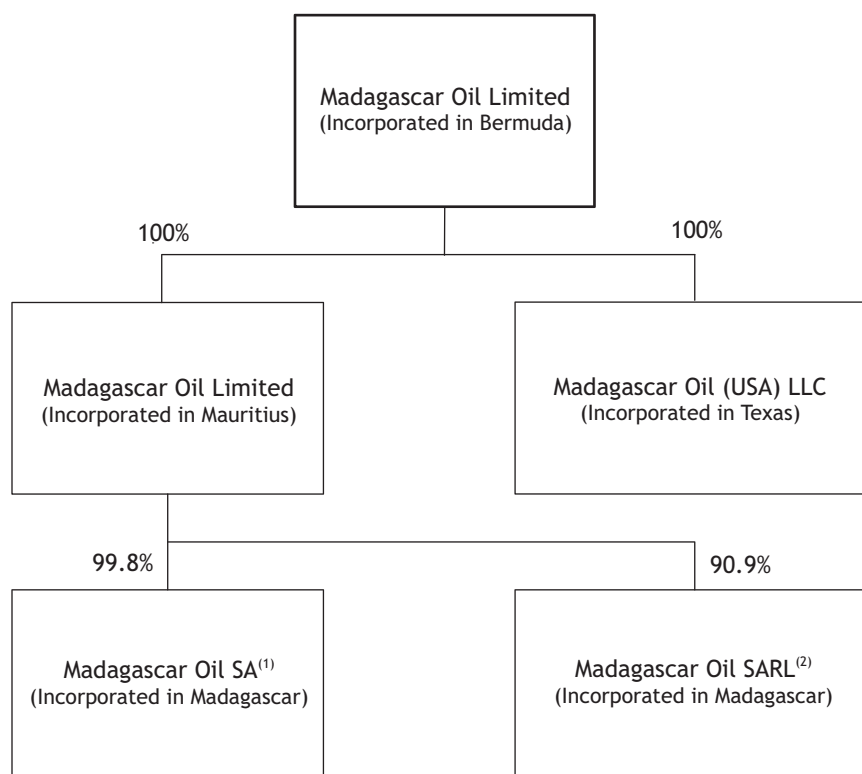
#### 1. RESPONSIBILITY

- 1.1 The Company, together with the Directors, whose names and functions appear on page 16 of this document, accept responsibility, both individually and collectively, for all of the information contained in this document, and for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Company, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 BDO LLP accept responsibility for their report set out in Part 3 of this document. To the best of the knowledge and belief of BDO LLP, who have taken all reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.3 Netherland Sewell accept responsibility for their report set out in Part 4 of this document. To the best of the knowledge and belief of Netherland Sewell, who have taken all reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.4 Norwest accept responsibility for their report set out in Part 5 of this document. To the best of the knowledge and belief of Norwest, who have taken all reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. THE COMPANY

- 2.1 The Company was incorporated in Bermuda on 25 January 2006 under the Bermuda Companies Act as an exempted limited liability company with registered number 37901.
- 2.2 The liability of the members of the Company is limited to the amount, if any, unpaid on the shares respectively held by them.
- 2.3 The Company is an “exempted company” under the Bermuda Companies Act. As an “exempted company”, the Company is authorised to carry on business outside Bermuda from a place of business in Bermuda but may not, without a specific licence granted by the Minister of Finance, or in certain circumstances permitted by the Bermuda Companies Act, conduct business within Bermuda. The Company is therefore permitted to establish a place of business in Bermuda and to conduct business outside Bermuda.
- 2.4 The Company has been classified as non-resident of Bermuda for the purposes of the Exchange Control Act 1972 and regulations made thereunder. As such, the Company may deal in and convert currency (other than Bermuda currency) held for its account to any other currency without restriction.
- 2.5 The Company’s registered office is at Canon’s Court, 22 Victoria Street, Hamilton, HM 12, Bermuda. The Group’s principal place of business is at 2180 North Loop West, Suite 500, Houston, TX 77018, United States and the telephone number at the Group’s principal place of business is +1 (713) 357 4820. The Group does not have a place of business in the United Kingdom.
- 2.6 The Company is governed by the Memorandum of Association and the Bye-Laws and the principal legislation under which the Company operates and under which the Common Shares have been created is the Bermuda Companies Act and the regulations made thereunder.
- 2.7 The Company’s auditors are BDO USA, LLP of 333 Clay Street, Suite 4700, Houston, TX 77002, United States.
- 2.8 The accounting reference date of the Company is 31 December.

- 2.9 The Company is the holding company of the Group. Each of Madagascar Mauritius, Madagascar USA, Madagascar SA and Majunga are wholly owned subsidiaries (either directly or indirectly) of the Company.
- 2.10 The business of the Company and its principal activity is to act as a holding company of the Group. The Group's oil and gas exploration and production activities and operations are carried on by Madagascar SA. Madagascar Mauritius is an intervening holding company, Madagascar USA is a wholly owned subsidiary of the Company that performs certain administrative functions and services to the Group and Majunga is a former operating subsidiary with no current operations (nor is it party to any ongoing agreements or relationships).
- 2.11 The structure of the Group is as follows:



(1) Madagascar SA is owned as to 99.8 per cent. by Madagascar Mauritius and 0.2 per cent. by the Company.

(2) Majunga is owned as to 90.9 per cent. by Madagascar Mauritius and 9.1 per cent. by the Company.

- 2.12 Save as referred to in the paragraphs above, the Company does not hold any shares or other securities in the capital of any company and is not otherwise part of a group of companies.

### 3. SHARE CAPITAL

- 3.1 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:

	<i>Authorised Number</i>	<i>Amount (US\$)</i>	<i>Issued and fully paid Number</i>	<i>Amount (US\$)</i>
<b>As at the date of this document common shares of US\$0.01</b>	120,000,000	1,200,000	12,797,425	127,974.25
<b>As at the date of this document Common Shares<sup>(1)</sup></b>	1,200,000,000	1,200,000	127,974,250	127,974.25
<b>Immediately following Admission Common Shares</b>	1,200,000,000	1,200,000	192,365,157	192,365.16

(1) For comparative purposes, this assumes that the Sub-division that will be effective immediately prior to Admission has become effective at the date of this document.

- 3.2 The Company was incorporated with an authorised share capital of US\$12,000 divided into 120,000,000 common shares of US\$0.0001 each of which 4 common shares were issued and fully paid. Since incorporation, the following alterations to the share capital have been made:
- (a) On 16 March 2006, the authorised share capital of the Company was increased from 120,000,000 common shares of par value US\$0.0001 each to 500,000,000 common shares of par value US\$0.0001 each by authorisation of 380,000,000 common shares of par value US\$0.0001 each;
  - (b) on 17 March 2006, the number of common shares issued and fully paid was increased from 4 common shares of par value US\$0.0001 each to 333,213,064 common shares of par value US\$0.0001 each, of which 140,400,000 were non-voting shares;
  - (c) on 17 March 2006, the number of common shares issued and fully paid was increased from 333,213,064 common shares of par value US\$0.0001 each to 333,279,731 common shares of par value US\$0.0001 each;
  - (d) on 17 March 2006, the number of common shares issued and fully paid was increased from 333,279,731 common shares of par value US\$0.0001 each to 371,877,084 common shares of par value US\$0.0001 each;
  - (e) on 20 September 2006, the number of common shares issued and fully paid was increased from 371,877,084 common shares of par value US\$0.0001 each to 391,877,084 common shares of par value US\$0.0001 each;
  - (f) on 24 September 2006, the number of common shares issued and fully paid was increased from 391,877,084 common shares of par value US\$0.0001 each to 411,877,084 common shares of par value US\$0.0001 each;
  - (g) on 28 September 2006, the number of common shares issued and fully paid was increased from 411,877,084 common shares of par value US\$0.0001 each to 412,177,084 common shares of par value US\$0.0001 each;
  - (h) on 28 September 2006, the Company bought back shares and the number of common shares issued and fully paid was decreased from 412,177,084 common shares of par value US\$0.0001 each to 408,677,084 common shares of par value US\$0.0001 each;
  - (i) on 18 October 2006, the number of common shares issued and fully paid was increased from 408,677,084 common shares of par value US\$0.0001 each to 418,677,084 common shares of par value US\$0.0001 each;
  - (j) on 23 October 2006, the number of common shares issued and fully paid was increased from 418,677,084 common shares of par value US\$0.0001 each to 421,377,084 common shares of par value US\$0.0001 each;
  - (k) on 23 October 2006, the Company bought back shares and the number of common shares issued and fully paid was decreased from 421,377,084 common shares of par value US\$0.0001 each to 420,432,098 common shares of par value US\$0.0001 each;
  - (l) on 14 November 2006, the number of common shares issued and fully paid was increased from 420,432,098 common shares of par value US\$0.0001 each to 422,432,098 common shares of par value US\$0.0001 each;
  - (m) on 13 December 2006, the authorised share capital of the Company was increased from 500,000,000 common shares of par value US\$0.0001 each to 750,000,000 common shares of par value US\$0.0001 by the authorisation of 250,000,000 common shares of par value US\$0.0001 each;
  - (n) on 3 March 2007, the number of common shares issued and fully paid was increased from 422,432,098 common shares of par value US\$0.0001 each to 423,267,671 common shares of par value US\$0.0001 each;
  - (o) on 9 March 2007, the number of common shares issued and fully paid was increased from 423,267,671 common shares of par value US\$0.0001 each to 423,770,001 common shares of par value US\$0.0001 each;



- (p) on 27 March 2007, the number of common shares issued and fully paid was increased from 423,770,001 common shares of par value US\$0.0001 each to 498,427,055 common shares of par value US\$0.0001 each;
- (q) on 16 August 2007, the number of common shares issued and fully paid was increased from 498,427,055 common shares of par value US\$0.0001 each to 498,677,055 common shares of par value US\$0.0001 each;
- (r) on 22 February 2008, the number of common shares issued and fully paid was increased from 498,677,055 common shares of par value US\$0.0001 each to 499,425,075 common shares of par value US\$0.0001 each;
- (s) on 6 March 2008, the number of common shares issued and fully paid was increased from 499,425,075 common shares of par value US\$0.0001 each to 499,645,159 common shares of par value US\$0.0001 each;
- (t) on 6 August 2008, the authorised share capital of the Company was increased from 750,000,000 common shares of par value US\$0.0001 each to 1,500,000,000 common shares of par value US\$0.0001 each by the authorisation of 750,000,000 additional common shares of par value of US\$0.0001 each;
- (u) on 22 August 2008, the number of common shares issued and fully paid was increased from 499,645,159 common shares of par value US\$0.0001 each to 699,645,159 common shares of par value US\$0.0001 each;
- (v) on 8 September 2008, the number of common shares issued and fully paid was increased from 699,645,159 common shares of par value US\$0.0001 each to 699,728,492 common shares of par value US\$0.0001 each;
- (w) on 21 October 2008, the number of common shares issued and fully paid was increased from 699,728,492 common shares of par value US\$0.0001 each to 734,728,492 common shares of par value US\$0.0001 each;
- (x) on 18 May 2009, the number of common shares issued and fully paid was increased from 734,728,492 common shares of par value US\$0.0001 each to 1,085,188,340 common shares of par value US\$0.0001 each;
- (y) on 2 July 2009, the number of common shares issued and fully paid was increased from 1,085,188,340 common shares of par value US\$0.0001 each to 1,084,581,197 common shares of par value US\$0.0001 each;
- (z) on 23 July 2009, the number of common shares issued and fully paid was increased from 1,084,581,197 common shares of par value US\$0.0001 each to 1,096,188,340 common shares of par value US\$0.0001 each;
- (aa) on 3 August 2009, the number of common shares issued and fully paid was increased from 1,096,188,340 common shares of par value US\$0.0001 each to 1,196,188,340 common shares of par value US\$0.0001 each;
- (bb) on 13 August 2009, the number of common shares issued and fully paid was increased from 1,196,188,340 common shares of par value US\$0.0001 each to 1,196,271,673 common shares of par value US\$0.0001 each;
- (cc) on 31 August 2009, the number of common shares issued and fully paid was increased from 1,196,271,673 common shares of par value US\$0.0001 each to 1,202,407,444 common shares of par value US\$0.0001 each;
- (dd) on 8 September 2009, the number of common shares issued and fully paid was increased from 1,202,407,444 common shares of par value US\$0.0001 each to 1,203,005,746 common shares of par value US\$0.0001 each;
- (ee) on 15 September 2009, the number of common shares issued and fully paid was increased from 1,203,005,746 common shares of par value US\$0.0001 each to 1,203,075,746 common shares of par value US\$0.0001 each;

- (ff) on 4 December 2009, the authorised share capital of the Company was increased from 1,500,000,000 common shares of par value US\$0.0001 each to 12,000,000,000 common shares of par value US\$0.0001 each by the authorisation of 10,500,000,000 new common shares of par value US\$0.0001 each;
- (gg) on 31 December 2009, the 1,203,075,746 issued common shares of par value US\$0.0001 each in the capital of the Company were consolidated into 12,030,758 common shares of par value US\$0.01 each and the remaining authorised but unissued common shares of par value US\$0.0001 each were consolidated on a 1 for 100 basis into common shares of par value US\$0.01 each;
- (hh) on 8 July 2010, the number of common shares issued and fully paid was increased from 12,030,758 common shares of par value US\$0.01 each to 12,130,758 common shares of par value US\$0.01 each;
- (ii) on 13 August 2010, the number of common shares issued and fully paid was increased from 12,130,758 common shares of par value US\$0.01 each to 12,797,425 common shares of par value US\$0.01 each;
- (jj) on 6 October 2010, the Company issued 261,836 common shares of par value US\$0.01 each to Ultimo Assets Limited. The number of issued and fully paid common shares was not increased as, in consideration for the issue of the common shares, Ultimo Assets Limited transferred its 261,836 non-voting common shares (representing the balance of the non-voting common shares) to the Company which were subsequently cancelled; and
- (kk) conditional on Admission, immediately prior to Admission, the issued common shares of par value US\$0.01 each in the capital of the Company will be sub-divided on a ten for one basis into common shares of par value US\$0.001 each and the remaining authorised but unissued common shares of par value US\$0.01 each in the capital of the Company will be subdivided on a ten for one basis into common shares of par value US\$0.001 each.

3.3 The Board has, prior to Admission, granted Options, Warrants and Restricted Shares as set out in paragraphs 4 and 10.1 of this Part 6 and the Convertible Promissory Notes. On Admission, there will be Options, Warrants, Restricted Shares and Convertible Promissory Notes (ignoring any accrued interest) in issue to subscribe for, receive, or convert into 9,789,789, in aggregate,<sup>(1)</sup> Common Shares representing approximately 5.09 per cent. of the Enlarged Share Capital. The total number of Common Shares in respect of which options may be granted in any 10 year period under the Equity Incentive Plan and any future option scheme to be constituted by the Company shall not, at any time after Admission, exceed 10 per cent. of the issued share capital of the Company.

(1) assuming no Options or Warrants (excluding those Warrants that have been exercised and will result in the issue of the Credit Suisse Shares) are exercised, no Convertible Promissory Notes are converted and ignoring the Vested Restricted Shares and the Vesting Restricted Shares which will have vested and be issued on Admission.

3.4 The Common Shares (including the New Shares) will rank *pari passu* in all respects including the right to receive all dividends and other distributions declared, made or paid on the Common Shares from the date of this document.

3.5 The Common Shares are in registered form and may be held either in certificated form or in uncertificated form through CREST, by way of Depositary Interests.

3.6 There are no issued but not fully paid Common Shares.

3.7 Save as disclosed in this Part 6, since 25 January 2006 (being the date of incorporation of the Company):

- (a) no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for consideration other than cash, to any person;
- (b) no person has any preferential subscription rights for any share capital of the Company<sup>(1)</sup>;
- (c) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company<sup>(2)</sup>; and

- (d) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

Notes:

- (1) Pursuant to a warrant instrument executed by the Company on 30 March 2007, the Company granted the warrant holders (including, without limitation, Credit Suisse Securities (Europe) Limited) a right to participate in any new issue of common shares for an amount of up to 33 per cent. of the total number of common shares issued. This right ceases to apply on Admission.
- (2) In addition to the amounts disclosed in paragraph 14 of this Part 6, the Company has made payments to: (a) Jefferies International Limited totalling US\$6,062,500; and (b) Scotia Waterous Limited totalling US\$400,000, in each case in connection with the issue or sale of share capital or other Group interests.

- 3.8 None of the Common Shares have been marketed or are being made available to the public in whole or in part in conjunction with the application for Admission.
- 3.9 The Existing Common Shares have not been admitted to dealing on any recognised investment exchange or other trading facility, nor has any application for such admission been made and it is not intended to make any arrangements for dealings in the Common Shares on any such exchange other than the application to be made in connection with Admission.
- 3.10 Other than as disclosed in this document, the Company does not have, nor are there in progress or under consideration by the Company, any significant investments.

#### 4. OPTIONS, WARRANTS AND RESTRICTED SHARES

- 4.1 The following Options to subscribe for Common Shares (each Option entitles the holder to subscribe for one Common Share) have been granted and are still outstanding, such Options being exercisable at the price and on the dates shown below (this table does not include Options granted to Directors which are set out in paragraph 10.1 below):

<i>No. of Options<sup>(1)</sup></i>	<i>Date of Grant</i>	<i>Exercise Price per Common Share<sup>(1)</sup></i>	<i>Exercise Period Ends</i>
60,000	27/03/2006	US\$13.00	Third anniversary of Admission
10,000	15/06/2007	US\$15.00	27/03/2011
100,000	27/07/2007	US\$10.00	27/07/2017

- (1) The number of Options and the exercise prices shown above have been adjusted to reflect the anticipated position at Admission on the basis that the Sub-division has occurred.

- 4.2 The following Warrants to subscribe for Common Shares (each Warrant entitles the holder to subscribe for one Common Share) have been granted and are still outstanding, such warrants being exercisable at the price and on the dates shown below (this table does not include Warrants granted to Directors which are set out in paragraph 10.1 below and Warrants for which exercise notices were delivered to the Company to be effective in connection with Admission):

<i>No. of Warrants<sup>(1)</sup></i>	<i>Date of Issuance</i>	<i>Exercise Price per Common Share<sup>(1)</sup></i>	<i>Exercise Period Ends</i>
30,000	15/06/2006	US\$15.00	14/06/2012
1,350,040	28/03/2007	US\$10.00	28/03/2012
2,440,310 <sup>(2)</sup>	30/03/2007	US\$0.001	30/03/2012
40,020	30/06/2007	US\$10.00	30/06/2012
717,120	13/07/2010	US\$2.00	13/07/2011
1,250	09/09/2010	US\$2.00	13/07/2011

- (1) The number of warrants and the exercise prices shown above have been adjusted to reflect the anticipated position at Admission on the basis that the Sub-division has occurred.

- (2) The Company has received exercise notices which are conditional upon Admission in respect of these Warrants, pursuant to which the Company shall issue the Credit Suisse Shares.

- 4.3 Participants in the Restricted Stock Plan have been awarded Restricted Shares that would on vesting entitle them to an aggregate of 12,349,560 Common Shares. Of these:
- (a) 1,000,000 Restricted Shares vested prior to the date of this document but, for administrative purposes only, the Company will arrange for the corresponding Vested Restricted Shares to be issued on (but not conditional on) Admission;
  - (b) 7,349,560 Restricted Shares will automatically vest on Admission and the Company will accordingly arrange for the corresponding Vesting Restricted Shares to be issued on Admission;
  - (c) 1,620,000 Restricted Shares held by certain management and employees of the Company (not including Mr. Hunter and Mr. Weller) will automatically vest (and the corresponding 1,620,000 Common Shares shall be issued) 60 days following Admission;
  - (d) 1,600,000 Restricted Shares held by Mr. Hunter and Mr. Weller shall vest (and the corresponding 1,600,000 Common Shares shall be issued) subject to certain terms further details of which are set out in paragraph 11.2 of this Part 6; and
  - (e) 780,000 Restricted Shares held by certain management and employees of the Company (not including Mr. Hunter and Mr. Weller) will automatically vest (and the corresponding 780,000 Common Shares shall be issued) on 28 February 2012.

## 5. OMNIBUS EQUITY INCENTIVE PLAN AND RESTRICTED STOCK PLAN

5.1 On 19 October 2010, the Company adopted the Equity Incentive Plan. The following is a summary of the key features of the Equity Incentive Plan:

(a) *Background*

The purpose of the Equity Incentive Plan is to provide long-term incentives and rewards to the Company's directors, officers, employees, consultants and advisers and to provide the Company with a mechanism to attract and retain highly qualified individuals to serve the Company in executive and management roles and promote the interests of the Company and the Shareholders.

Under the Equity Incentive Plan, the Board's remuneration committee shall administer the Equity Incentive Plan (the "Committee") and may grant share options, share appreciation rights, may make restricted share awards or awards of restricted share units as well as other equity based or equity related awards that the Committee determines are consistent with the Equity Incentive Plan's purpose and the interests of the Company.

(b) *Awards*

**Share options**

Share option grants will generally be structured as instalment options, which become exercisable for vested shares over the optionee's period of service with the Company or any of its subsidiaries. Each share option grant must be evidenced by an incentive award agreement that specifies the exercise price, the term, and such other provisions as the Committee may determine. The exercise price of each share option granted under the Equity Incentive Plan must be at least 100 per cent. of the fair market value of a Common Share as of the date the option is granted to a participant. Fair market value is the closing price of the Common Shares, as reported on AIM. The Committee will fix the terms and conditions of each share option, subject to certain restrictions, but share options granted under the Equity Incentive Plan will not be exercisable more than 10 years after the date of grant. Share options may be exercised, in whole or in part, by payment in full of the exercise price in cash or its equivalent. At the discretion of the Committee, payment may also be made by the delivery of Common Shares already owned by the participant prior to such delivery or to be issued upon the exercise of the option being exercised, by broker-assisted cashless exercise, or by a combination of such methods; or such other method as may be permitted by the Committee.

### **Share Appreciation Rights**

A share appreciation right ("SAR") is a right granted to receive payment of cash, shares or a combination of both, equal to the difference between the fair market value of the Common Shares and the exercise price of such Common Shares. Each SAR granted must be evidenced by an incentive award agreement which specifies the exercise price, the term, and such other provisions as the Committee may determine. The exercise price of a SAR must be at least 100 per cent. of the fair market value of the Common Shares on the date of grant. The Committee will fix the term of each SAR, but SARs granted under the Equity Incentive Plan will not be exercisable more than 10 years after the date the SAR is granted.

### **Restricted Share Awards and Restricted Share Units**

Restricted share awards and/or restricted share units may be awarded under the Equity Incentive Plan. A restricted share award is an award of Common Shares that is subject to restrictions on transfer and risk of forfeiture upon certain events, typically including termination of service. Restricted share units are similar to restricted share awards except that no Common Shares are actually awarded to the participant on the award date. The Committee shall determine, and set forth in an incentive award agreement, the period of restriction, the number of Common Shares of restricted share awards or the number of restricted share units awarded, and other such conditions or restrictions. Participants holding restricted share awards may be granted voting rights with respect to their Common Shares, but participants holding restricted share units will not have voting rights with respect to their restricted share units. After all conditions and restrictions applicable to restricted share awards and/or restricted share units have been satisfied or have lapsed (including the satisfaction of any applicable tax withholding obligations), the Common Shares will become freely transferable (except as otherwise provided in the Equity Incentive Plan) and restricted share units will be paid in cash, Common Shares, or some combination of cash and Common Shares as determined by the Committee.

### **Other Equity-Based Awards**

Other equity-based awards (including the award or offer for sale of unrestricted Common Shares or the payment in cash or otherwise of amounts based on the value of Common Shares) may be granted in such amounts and subject to such terms and conditions (including performance goals) as determined by the Committee. These other equity-based awards shall be expressed in terms of Shares or units based on Common Shares, as determined by the Committee. Other equity-based awards will be paid in cash or Common Shares, as determined by the Committee.

#### **(c) *Common Shares available***

##### **Shares authorised**

Subject to adjustment (as described below), thirty million Common Shares are reserved for issuance under the Equity Incentive Plan to officers and other selected employees, the members of the Board and consultants and other independent advisers in the Company's service; provided that the maximum aggregate Common Shares available will not exceed 10 per cent. of the Company's outstanding Common Shares on a fully diluted basis as determined in accordance with the AIM Rules.

Common Shares issued under the Equity Incentive Plan or that are subject to outstanding incentive awards will be applied to reduce the maximum number of Common Shares remaining available for issuance under the Equity Incentive Plan only to the extent they are actually used. However, the full number of Common Shares subject to SARs granted under the Equity Incentive Plan that are settled by the issuance of Common Shares will be counted against the Common Shares authorised for issuance under the Equity Incentive Plan, regardless of the number of Common Shares actually issued upon settlement of such SARs. Furthermore, any Common Shares withheld to satisfy tax withholding obligations on incentive awards issued under the Equity Incentive Plan, to pay the exercise price of incentive awards under the Equity Incentive Plan and any Common Shares not issued or delivered as a result of the "cashless exercise" of an outstanding option will be counted against the Common

Shares authorised. Any Common Shares related to incentive awards that terminate by expiration, forfeiture, cancellation or otherwise without the issuance of the Common Shares, or are settled in cash in lieu of Common Shares, or are exchanged with the Committee's permission, prior to the issuance of Common Shares, for incentive awards not involving Common Shares, will be available again for future grant or award under the Equity Incentive Plan.

### **Adjustments**

In the event of any reorganisation, merger, amalgamation, consolidation, recapitalisation, liquidation, reclassification, share dividend, share split, combination of shares, rights offering, divestiture or other dividend (including a spin off) or other similar change in the corporate structure or Common Shares, the Committee will make the appropriate adjustment. These adjustments may be to the number and kind of securities and property that may be available for issuance under the Equity Incentive Plan. In order to prevent dilution or enlargement of the rights of participants, the Committee may also adjust the number, kind, and exercise price of securities or other property subject to outstanding awards.

#### **(d) *Amendment and Termination***

Unless sooner terminated by the Board, the Equity Incentive Plan will terminate on 19 October 2020. No incentive award will be granted after termination of the Equity Incentive Plan, but incentive awards outstanding upon termination of the Equity Incentive Plan will remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Equity Incentive Plan.

Subject to certain exceptions, the Board has the authority to terminate and the Committee has the authority to amend the Equity Incentive Plan or any outstanding award agreement at any time and from time to time, although certain amendments to the Equity Incentive Plan may require approval of the Shareholders in accordance with applicable laws, rules, or regulations. No termination or amendment of the Equity Incentive Plan or an incentive award agreement shall adversely affect in any material way any award previously granted under the Equity Incentive Plan without the written consent of the participant holding such award.

- 5.2 Prior to Admission, the Company made equity incentive based awards under the Restricted Stock Plan, which was administered by the compensation committee of the Board. The Restricted Stock Plan authorises awards to be made as a conditional right to receive common shares at no additional cost to the participant based upon service and performance vesting conditions determined under the Restricted Stock Plan. Awards typically vested as to one-third on the date of grant, one-third on the first anniversary of the date of grant, and the remainder on the second anniversary of the date of grant. Awards have also been granted with vesting based solely upon an initial public offering of Common Shares or change of control of the Company. Upon termination of service, a participant's award will vest if service is terminated due to death; illness, injury or disability; reorganisation of the Company; agreed retirement; and dismissal without "cause". In addition, the Company's Chief Executive Officer or the Chairman of the Board can provide alternative vesting of awards, including any performance targets imposed, and the compensation committee has discretion to provide for additional vesting in whole or in part upon termination of service under circumstances other than those listed above.

Participants in the Restricted Stock Plan have been awarded Restricted Shares that would on vesting entitle them to an aggregate of 12,349,560 Common Shares, further details of which are set out in paragraph 4.3 of this Part 6. Following Admission, the Company does not intend to award any further Restricted Shares under its Restricted Stock Plan.

## 6. MEMORANDUM OF ASSOCIATION

- 6.1 The Memorandum of Association states that the liability of Shareholders is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the Company is an exempted company as defined in the Bermuda Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed and the powers of the Company, which includes the powers set out in the First Schedule to the Bermuda Companies Act as in effect at the date of incorporation of the Company and annexed to the Memorandum of Association. As an exempted company, the Company carries on business outside Bermuda from a place of business within Bermuda.
- 6.2 The Memorandum is available for inspection at the registered office of the Company.

## 7. BYE-LAWS

- 7.1 The following is a summary of the principal provisions in the Bye-Laws:

(a) *Board of Directors*

The Board shall consist of not less than three Directors and not more than ten or such number in excess thereof as the Board may determine. The Directors will serve staggered three year terms. Directors will usually be elected by resolution of a majority of the votes cast by Shareholders present in person or by proxy in general meeting, although the Board may appoint a new Director to fill a casual vacancy as long as a quorum of Directors remain in office. The quorum for meetings of the Board is two Directors then appointed (excluding any vacancies) unless the quorum is fixed by the Board at another number.

Pursuant to the Bermuda Companies Act and the Bye-Laws, the Board is responsible for managing the Company's business. The Directors have wide powers of management and may exercise all the powers of the Company except those that are required by the Bermuda Companies Act or the Bye-Laws to be exercised by the Shareholders and the Board may delegate their powers to individuals or committees as they see fit. The Board has the power to sell, transfer, assign or dispose of all or any part of the undertaking, property and assets (present and future) of the Company.

The Directors' fees for their services as directors will be such sums (if any) as the Board may from time to time determine. Directors may also be paid all reasonable travel, hotel and incidental expenses properly incurred by them in connection with the Company's business or in performing their duties as Directors generally.

The Directors may (by the establishment of schemes or otherwise) provide additional benefits to any past or present director or employee of the Company or any of its subsidiaries and for any member of such person's family or any person who is or was dependent on him.

Subject to the provisions of the Bermuda Companies Act, a Director may, notwithstanding his office, be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested and be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in whom the Company is interested.

A Director who is interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest in writing or at a meeting of Directors, and if he or she does so, may vote and be counted in the quorum for the meeting.

So long as, where it is necessary, such Director declares the nature of his interest at the first opportunity at a Board meeting or by writing to the Directors as required by the Bermuda Companies Act, a Director shall not by reason of his office be accountable to the Company for any benefit which he derives from any office or employment to which the Bye-Laws allow him to be appointed or from any transaction or arrangement in which the Bye-Laws allow him to be interested, and no such transaction or arrangement shall be liable to be avoided on the ground of any interest or benefit.

(b) *Authorised share capital*

Subject to the Bermuda Companies Act, the Bye-Laws and any special rights conferred on the holders of any share, the Board may offer, allot, grant options over or otherwise dispose of all the unissued shares of the Company to such persons, at such times and for such consideration and upon such terms and conditions as they shall determine.

The Company may increase its share capital by such sum to be divided into shares of such class and par value as the Shareholders by resolution shall prescribe. The Company may also, by resolution of the Shareholders, divide its shares into classes, consolidate all or any of its share capital into shares of larger par value than the existing shares, sub-divide its shares or any of them into shares of smaller par value than is fixed by the Company's Memorandum of Association, make provision for the issue and/or allotment of shares which do not carry any voting rights, cancel shares which at the date of such resolution have not been taken or agreed to be taken by any person, and change the currency denomination of its share capital.

(c) *Rights attaching to Common Shares*

**Dividends and other distributions**

The holders of Common Shares (subject to the Bye-Laws) are, subject to provision being made for payment of any preferred dividend in respect of any preference shares in the Company then outstanding, entitled to dividends or other distributions *pari passu* and *pro rata* to the number of Common Shares held by each of them together with all other shares ranking equally with the Common Shares for such purpose.

The Company may, subject to the Bermuda Companies Act regarding dividends generally, by resolution of the Board, declare dividends or distributions out of contributed surplus to be paid to the Shareholders, in accordance with their respective rights and interests, including such interim dividends as appear to the Board to be justified by the position of the Company. Under the Bermuda Companies Act, a dividend may not be declared or paid if there are reasonable grounds for believing that:

- (i) the Company is, or after the payment would be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

A dividend may be paid in cash or wholly or partly by the distribution of specific assets and the Directors may fix the value for distribution for dividend purposes of any such specific assets.

**Voting**

The holders of Common Shares (subject to the Bye-Laws) are:

- (i) entitled to receive notice of, and attend and vote at, general meetings of the Company; and
- (ii) entitled on a poll to one vote per Common Share.

**Liquidation**

In the event of a winding-up or dissolution, reduction of capital or otherwise, the holders of the Common Shares are entitled to be paid the surplus assets of the Company remaining after payment of the Company's liabilities (subject to the rights of any preference shareholders (if any) having a preferred right on the return of capital) in respect of their holdings of Common Shares *pari passu* and *pro rata* to the number of Common Shares held by each of them together with all other shares ranking equally with the Common shares for such purposes.

If the Company is wound up, the liquidator may, with the sanction of a resolution of its Shareholders and any other sanction required by the Bermuda Companies Act, divide amongst the Shareholders *in specie* or kind the whole or any part of the Company's assets (whether



they shall consist of property of the same kind or not) and may for such purposes set such values as it deems fair upon any property and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders.

#### **Transfer of Common Shares**

All transfers of Common Shares may be effected by an instrument of transfer in writing in any usual or common form or in such other form as the Board may approve or by way of a relevant system. An instrument of transfer shall be signed by or on behalf of the transferor and (where any share is not fully paid) the transferee. The Directors may, in their absolute discretion and without assigning any reason therefor, decline to register any transfer of any share which is not a fully-paid share. Save for the foregoing, the Bye-Laws do not contain any restriction on the transferability of fully paid Common Shares provided that the Company has no lien over such Common Shares, the instrument of transfer is in favour of less than five joint transferees and is in respect of only one class of Common Share, is duly stamped (if so required) and lodged with the Company and the Directors are satisfied that all applicable approvals under Bermuda law (and the law of any other applicable jurisdiction) required to be obtained prior to such transfer have been obtained and that the transferor is not in breach of the provisions of the Bye-Laws relating to Takeover Offers and Failure to Disclose Interests in Shares.

#### **Pre-emption rights on allotment**

The Bye-Laws provide for pre-emption rights on the issue of Common Shares similar to those contained in the Act.

#### **Return of Capital**

The Directors may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund which is available for distribution or to the credit of any share premium account and accordingly that such amount be set free for distribution amongst the Shareholders or class thereof who would be entitled thereto if distributed by way of dividend and in the same proportions, on the footing that the same be not paid in cash but be applied in paying up amounts for the time being unpaid on any shares in the Company held by such Shareholders respectively or in payment up in full of unissued shares, debentures or other obligations of the Company, to be allotted and distributed credited as fully paid amongst the Shareholders or partly in one way and partly the other, provided that a share premium account may be applied only in paying up of unissued shares to be issued to such Shareholders credited as fully paid.

Capital may also be returned, with the approval of Shareholders, by way of a reduction of capital pursuant to the Bermuda Companies Act, or by way of a distribution of contributed surplus pursuant to the Bye-Laws and the Bermuda Companies Act. Further, the Company has the power pursuant to the Bermuda Companies Act and its constitution to issue redeemable preference shares, and pursuant to the Bermuda Companies Act, and without the sanction of a resolution of the shareholders, to repurchase its Common Shares.

#### **(d) *Alteration of Share Rights***

The rights attaching to any class of the Company's shares may be altered or abrogated with the consent in writing of the holders of not less than 75 per cent. of the issued shares of that class, or with the sanction of a resolution passed at a separate general meeting of the holders of the shares of such class voting in person or by proxy and the quorum of such meeting shall be two or more persons holding or representing by proxy the majority of the shares of the relevant class of shares.

#### **(e) *General Meetings***

Annual general meetings can be called by not less than 21 clear days' notice in writing and special general meetings can be called by not less than 14 clear days' notice in writing. Notice shall be given to all Shareholders entitled to receive notice from the Company and to each Director and to any resident representative who has delivered a written notice to the Company's registered office and shall specify the place, day and time of the meeting and the

nature of the business to be considered. A notice may specify several venues for the same meeting, provided that Shareholders attending at each meeting place shall be able to communicate simultaneously and instantaneously with the persons present at the other meeting places and shall have access to all documents which are required to be made available at the meeting. The Board may, from time to time, make any such arrangements as it sees fit for the purpose of controlling the level of attendance at any such simultaneous meetings. The quorum for any general meeting shall be two Shareholders present in person or represented by proxy and entitled to vote.

(f) *Discontinuance*

The Company may, with the approval of the Board and a resolution of the Shareholders, resolve to discontinue the Company in Bermuda and continue the Company in a jurisdiction outside Bermuda, as may from time to time be approved by the Minister of Finance, at which time the laws in respect of Bermuda companies will cease to apply to the Company, provided that such jurisdiction has been approved by the Minister of Finance.

(g) *Amalgamation*

The Company may, with the approval of the Board and a resolution of the Shareholders, resolve to amalgamate with any other company, wherever incorporated.

(h) *Alteration of Bye-Laws*

The Bye-Laws of the Company may be revoked or amended in any way by a resolution of the Board, but no such revocation or amendment shall be effective unless and until it is approved by a resolution of the Shareholders passed, on a show of hands, by a majority of 75 per cent. of Shareholders who, being entitled to vote on the resolution, do so in person or by proxy or, on a poll, Shareholders representing at least 75 per cent. of the total voting rights of Shareholders who, being entitled to vote on the resolution, do so in person or by proxy.

(i) *Depository Interests*

Subject to the Bermuda Companies Act and any applicable laws and regulations and the facilities and requirements of any relevant system concerned and to the Bye-Laws, the Directors have the power to implement any arrangements which they may think fit in relation to the evidencing of title and transfer of securities of the Company. To the extent that such arrangements are implemented, no provision of the Bye-Laws shall apply or have effect to the extent that it is in any respect inconsistent with the holding or the transfer of uncertificated securities or the shares in the capital of the Company represented thereby. The Directors may from time to time take such actions and do such things as they may in their absolute discretion think fit in relation to the operation of any such arrangements.

(j) *Takeover Provisions*

For so long as the Company is not subject to any takeover protections, the Bye-Laws apply protections similar to those contained in the City Code.

The Bye-Laws provide that a person must not:

- (i) whether by himself or with persons acting in concert with him, acquire an interest in shares which, taken together with his existing interest (and that of persons acting in concert with him), carries 30 per cent. or more of the voting rights in the Company; or
- (ii) whilst he, together with persons acting in concert with him, is interested in shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company, acquire any further shares,

except with the consent of the Board or where he makes a mandatory offer to all other Shareholders to acquire their shares at the highest price he has paid for shares in the previous 12 months. Any such offers must also comply with certain provisions based on the requirements in the City Code.

The Directors have various powers to enforce these provisions including disenfranchisement (as regards voting and entitlement to dividends), requiring the sale of shares held and refusing to register transfers of shares.

(k) *Disclosure of interests in shares and company investigations*

The Bye-Laws provide that the Company may serve notice on Shareholders and certain other persons requiring disclosure of certain details as to the beneficial ownership of shares as contemplated by Section 793 of the Act.

Failure by a Shareholder to give the Company the requisite information could result in the imposition of sanctions such as restrictions on, among other things, that Shareholder's right to attend or vote at shareholder meetings, receive dividends, and registration of the transfer of shares.

In addition, the Bye-Laws require Shareholders to notify the Company of the percentage of their voting rights in the Company as contemplated by the UK Financial Services Authority's Disclosure and Transparency Rules Sourcebook.

## 8. KEY PROVISIONS OF BERMUDA COMPANY LAW

8.1 The Company is incorporated in Bermuda and therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, which does not purport to contain all applicable qualifications and exemptions and does not purport to be a complete review of all matters of Bermuda company law or a comparison of provisions that may differ from the laws of other jurisdictions, with which interested parties may be more familiar.

(a) *Share capital*

The Bermuda Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on those shares shall be transferred to an account, to be called "the share premium account" and the provisions of the Bermuda Companies Act relating to a reduction of share capital shall, except as provided in section 40 of the Bermuda Companies Act, apply as if the share premium account were paid up share capital of the company. An exception is made to this rule in the case of an exchange of shares where the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company. Contributed surplus is a North American concept recognised under the generally accepted accounting principles of the Canadian Institute of Chartered Accountants which accounting principles can be applied in Bermuda.

The Bermuda Companies Act permits a company to issue preference shares and under certain circumstances to convert those preference shares into redeemable shares.

(b) *Alteration of share capital*

A company may, if authorised by a general meeting of the shareholders of the company and by its bye-laws, alter the conditions of its Memorandum of Association to increase its share capital, divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions, consolidate and divide all or any of its share capital into shares of a larger amount than is fixed by the Memorandum of Association, sub-divide its shares, or any of them, into shares of smaller amounts than is fixed by the memorandum, (so however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived), make provision for the issue and allotment of shares which do not carry any voting rights, cancel shares which have not been taken or agreed to be taken by any person, diminish the amount of its share capital by the amount of the shares so cancelled and change the currency denomination of its share capital. With the exception of an increase in capital, cancellation of shares and redenomination of currency of capital, there are no filing requirements for any of the above-mentioned alterations.

Furthermore, a company may, if authorised by a general meeting of the shareholders, reduce its share capital. There are certain statutory requirements, including a requirement prior to the reduction to publish a notice in an appointed newspaper stating the amount of the share capital as last determined by the company, the amount to which the share capital is to be reduced and the date on which the reduction is to have effect.

The Bermuda Companies Act provides that a company shall not reduce the amount of its share capital if on the date the reduction is to be effected there are reasonable grounds for believing that the company is, and after the reduction would be, unable to pay its liabilities as they become due.

The Bermuda Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied.

The Bermuda Companies Act requires that as soon as practicable after the allotment of any of its shares a company must complete and have ready for delivery share certificates in relation to those shares allotted unless the conditions of issue of the shares otherwise provide. A certificate given under the common seal of the Company; or signed by at least one person who is a director or the secretary of the Company or a person expressly authorised to sign; or given in such manner as the bye-laws may provide, shall be prima facie evidence of the title of the shareholder to the shares. The Bermuda Companies Act prohibits bearer shares.

(c) *Financial assistance to purchase shares of a company or its holding company*

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, in certain circumstances, the prohibition from giving financial assistance may be excluded such as where the company's principal purpose in giving that assistance is not to give it for the purpose of any such acquisition, or the giving of the assistance for that purpose is but an incidental part of some larger purpose of the company, and the assistance is given in good faith in the interests of the company. In addition, a company is only prohibited from granting financial assistance if on the date from which the financial assistance is to be given, there are reasonable grounds for believing that the company is, or after the giving of such financial assistance would be, unable to pay its liabilities as they become due.

(d) *Purchase by the Company of its own shares and warrants*

The Bermuda Companies Act permits the Company, if authorised to do so by its Memorandum of Association or by its bye-laws, to purchase its own shares. It should be noted that the Company is authorised by its bye-laws, subject to certain approvals, to purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares, profits otherwise available for dividend or distribution (see "Dividends and distributions" below) or out of the proceeds of a new issue of shares made for the purpose. Any premium payable on a repurchase over the par value of the shares to be repurchased must be provided for out of the profits otherwise available for dividends, out of the company's share premium account, or out of contributed surplus. A purchase by a company of its own shares may be authorised by its directors or otherwise in accordance with the provisions of its bye-laws. The Bermuda Companies Act provides that no purchase by the Company of its own shares may be effected if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares purchased pursuant to the Bermuda Companies Act shall be treated as cancelled and the amount of the company's issued capital shall be diminished by the nominal amount of those shares accordingly. It shall not be taken as reducing the amount of the company's authorised share capital.

A company may, if authorised by its Memorandum of Association or bye-laws, acquire its own shares, to be held as treasury shares, for cash or any other consideration. However, the Bermuda Companies Act provides that a company may not acquire its own shares to be held as treasury shares if, as a result of the acquisition, all of the company's issued shares, other

than the shares to be held as treasury shares, would be non-voting shares. No acquisition by a company of its own shares to be held as treasury shares may be effected if, on the date on which the acquisition is to be effected, there are reasonable grounds for believing that the company is, or after the acquisition would be, unable to pay its liabilities as they become due. A company that acquires its own shares to be held as treasury shares may hold, dispose of, transfer or cancel all or any of the shares. A company holding shares as treasury shares is entitled to be entered into the share register as the holder of the shares but shall not exercise any rights in respect of those shares, including any right to attend and vote at meetings or receive dividends or distributions.

A company has power to hold and purchase shares of its holding company. A distinction must be drawn between the purchase of shares in the holding company by the holding company itself and the purchase by a subsidiary. A holding company (which is a Bermuda company) can only purchase its own shares in accordance with the provisions referred to above. When a subsidiary acquires shares in its holding company, the shares, once purchased, may be voted by the subsidiary for its own benefit.

(e) *Transfer of securities*

Title to securities of companies whose securities are traded or listed on an appointed stock exchange (AIM is such an appointed stock exchange) may be evidenced and transferred without a written instrument by an appointed agent or in accordance with Regulations made by the Minister of Finance under the Bermuda Companies Act.

(f) *Dividends and distributions*

The Bermuda Companies Act provides that a company shall not declare or pay a dividend or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Contributed surplus for these purposes is defined as including proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital, the excess value of shares acquired over those issued in a share exchange should the directors elect to treat it as such and donations of cash and other assets to the company.

(g) *Charges on the assets of the company*

The Bermuda Companies Act established a register of charges at the office of the Registrar of Companies permitting any charges on (other than charges on land in Bermuda, any ship or aircraft registered in Bermuda or any interest therein), the assets of a Bermuda company or assets held by a Bermuda company to be registered. Registration is not mandatory but does govern priority in Bermuda, giving a registered charge priority over any subsequently registered charge and over all unregistered charges save those created before 1 July 1983. Any such charges shall continue to have the priority it had prior to that date. The register of charges is available for inspection by members of the public. The Bermuda Companies Act also makes provision for the registration of a series of debentures.

(h) *Management and administration*

The management and administration of a Bermuda company is essentially governed by Part VI of the Bermuda Companies Act and provides that the management and administration of a Bermuda company shall be vested in the hands of not less than two (2) directors duly elected by the shareholders. The Bermuda Companies Act requires that a Bermuda exempted company maintain either (a) a minimum of one director, other than an alternate director, who is ordinarily resident in Bermuda; or (b) a secretary who is an individual who is ordinarily resident in Bermuda or a company which is ordinarily resident in Bermuda; or (c) a resident representative who is an individual who is ordinarily resident in Bermuda or a company which is ordinarily resident in Bermuda.

The Bermuda Companies Act contains no specific restrictions on the power of the directors to resolve to dispose of assets of a company although it specifically requires that every officer (which includes a director and managing director and secretary) of a company, in exercising his powers and discharging his duties, shall act honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, it requires that every officer should comply with the Bermuda Companies Act, regulations passed pursuant to the Bermuda Companies Act and the bye-laws of the company.

(i) *Accounting requirements under the Bermuda Companies Act*

The Bermuda Companies Act requires that a company shall cause to be kept proper records of account with respect to:

- (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;
- (ii) all sales and purchases of goods by the company; and
- (iii) the assets and liabilities of the company.

It further requires that the records of account shall be kept at the registered office of the company or at such other place as the directors think fit and shall at all times be open to inspection by the directors or the resident representative. The Bermuda Companies Act also requires that if these records are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or a resident representative to ascertain with reasonable accuracy the financial position of the company at the end of each three (3) month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or a resident representative to ascertain with reasonable accuracy the financial position of the company at the end of each six (6) month period. Power is vested in the courts of Bermuda to order the company to make available the records of account to any of the directors or the resident representative of the company should the company for some reason refuse to do so. Furthermore, the Bermuda Companies Act imposes a fine in the event of failure to comply with the aforementioned requirements which fine would be levied on the company and each officer and is limited to the sum of BD\$500.00 (approximately equivalent in value to US\$500.00), for the time being.

(j) *Auditing requirements*

The Bermuda Companies Act provides that the directors of every company shall at such intervals and for such periods as the Bermuda Companies Act (at least once in every year) and the bye-laws of a company provide, lay before the company in general meeting:

- (i) financial statements for the period, which shall include:
  - (A) a statement of the results of operations for such period;
  - (B) a statement of retained earnings or deficits;
  - (C) a balance sheet at the end of such period;
  - (D) a statement of changes in the financial position cash flows for the period;
  - (E) notes to the financial statements;
  - (F) such further information as required by the Bermuda Companies Act and the company's Memorandum of Association and its bye-laws;
- (ii) the report of the auditor in respect of the financial statements described above based upon the results of the audit made in accordance with generally accepted accounting principles; and
- (iii) the notes referred to in paragraph (j)(i)(E) above shall include a description of the generally accepted accounting principles used in the preparation of the financial statements and may be those of Bermuda or a country or jurisdiction other than

Bermuda or such other generally accepted accounting principles as may be approved by the Minister of Finance. Where the generally accepted accounting principles used are other than those of Bermuda, notes shall identify the generally accepted accounting principles so used.

Financial statements to be laid before the shareholders in general meeting shall be signed on the balance sheet by two (2) of the directors of the company.

If for some reason it becomes impossible, for reasons beyond the reasonable control of the directors, to lay the financial statements before the shareholders, it shall be lawful for the meeting to adjourn the meeting for a period of up to ninety (90) days or such longer period as the shareholders may agree.

All shareholders of a company are entitled to receive a copy of the financial statements prepared in accordance with the aforementioned requirements, at least five (5) days before the general meeting of the company at which the financial statements would be tabled. The Bermuda Companies Act also provides that companies listed on an appointed stock exchange (including AIM) may send summarised financial statements instead of the unabridged financial statements mentioned above. Each shareholder can elect to receive unabridged financial statements for that period and/or any subsequent period. The summarised financial statements together with auditors report and notice to elect to receive the unabridged financial statements must be sent to shareholders twenty-one (21) days before the general meeting. A company shall send the full financial statements to a member within seven (7) days of receipt of the member's election to receive the full financial statements.

The summarised financial statements must be derived from the company's financial statements and shall include:

- (A) a summarised report of the unabridged financial statements;
- (B) such further information extracted from the financial statements as the board of directors considers appropriate; and
- (C) a statement in a prominent position that it is only a summarised version of the company's financial statements and does not contain sufficient information to allow as full an understanding of the financial position, results of operations or changes in financial position or cash flows of the company as would be provided by unabridged financial statements.

A company is not required to make financial statements available to shareholders not entitled to receive notices of general meetings, to more than one of the joint holders of shares or to any person whose address is not known to the company.

The Bermuda Companies Act also makes provision vesting power in the shareholders in general meeting to waive the laying of the financial statements and auditors' report and to waive the appointment of an auditor. In order to do so, it is required that all shareholders and directors of the company agree either in writing or at a general meeting, that in respect of a particular interval no financial statement or auditors' report thereon need be laid before a general meeting.

The Bermuda Companies Act contains specific requirements in Section 89 in relation to the appointment and disqualification of an auditor.

By way of general reference, the provisions of Sections 83, 84, 87, 88, 89 and 90 of the Bermuda Companies Act govern the preparation and maintenance of accounting records and audited financial statements.

(k) *Exchange control*

Although incorporated in Bermuda, the Company has been classified as non-resident in Bermuda for exchange control purposes by the Bermuda Monetary Authority. Accordingly, the Company may convert currency (other than Bermuda currency) held for its account to any other currency without restriction.

Specific permission from the Bermuda Monetary Authority is required for all issues and transfers of securities of Bermuda companies involving persons who are non-resident in Bermuda. The Bermuda Monetary Authority has granted by notice to the public dated 1 June 2005, general permission to any Bermuda company shares of which are listed on an appointed stock exchange (which includes AIM) for the issue and subsequent transfer of any securities of that company from and/or to a non-resident, for as long as any equity securities of that company remain so listed. As such, for as long as the Common Shares are listed on AIM, no further consents or permissions of the Bermuda Monetary Authority need be obtained by the Company for the transfer of equity securities of the Company from and/or to a non-resident.

In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in this document with regard to them.

(l) *Taxation*

In Bermuda, there are no taxes on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. Profits can be accumulated and it is not obligatory for a company to pay dividends. A company is required to pay an annual government fee (the "Government Fee"), which is determined on a sliding scale by reference to a company's authorised share capital and share premium account (referred to as the assessable capital), with the minimum fee being BD\$1,995 and the maximum BD\$31,120 (the BD\$ is on par with the US\$). The Government Fee is payable at the end of January in every year and is based on the assessable capital as it stood at 31 August in the preceding year.

The government of Bermuda has enacted legislation under which the Minister of Finance is authorised to give an assurance to an exempted undertaking that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax shall not be applicable to the shares, debentures or other obligations of such entities. This assurance has been obtained by the Company for a period ending on the 28 March 2016.

(m) *Stamp duty*

In Bermuda, stamp duty is not chargeable in respect of the incorporation, registration or licensing of an exempted company, or, subject to minor exceptions, on their transactions. The Company is an exempted company, and accordingly, no stamp duty will be payable on the increase in or the issue or transfer of the share capital of the Company.

(n) *Loans to directors*

The Bermuda Companies Act prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold a 20 per cent. interest, without the consent of shareholders of the company holding in the aggregate not less than nine-tenths (9/10) of the total voting rights of all shareholders having the right to vote at any meeting of the shareholders of the company. These prohibitions do not apply to anything done to provide a director with funds to meet expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it shall be repaid within six (6) months of the next annual general meeting if the loan is not approved at such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising. Further, the Bermuda Companies Act provides that a company may advance moneys to an officer for the costs, charges and expenses incurred by the officer in defending any civil or criminal proceedings against them, on the condition that the officer shall repay the advance if any allegations of fraud or dishonesty is proven against them.

(o) *The investigation of the affairs of a company and the protection of minorities*

The Bermuda Companies Act makes specific provision with regard to the investigation of the affairs of a company and the protection of minorities and provides that the Minister of Finance may, at any time of his own volition, appoint one or more inspectors to investigate



the affairs of an exempted company and to report thereon in such manner as he may direct. The Bermuda Companies Act requires that such an investigation be conducted in private unless the company requests that it be held in public. Furthermore, any shareholder of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the shareholders, including himself, may make an application to the court by petition for an order that the company's affairs are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the shareholders and that to wind up the company would unfairly prejudice that part of the shareholders but otherwise the facts would justify the making of a winding up order on the ground that it would be just and equitable that the company should be wound up. Where a report has been made by the Minister of Finance as described above, the Registrar on behalf of the Minister may petition the court in like manner to minority shareholders. If the court finds that the affairs of the company have been conducted in an oppressive or prejudiced manner, then it may, with a view to bringing to an end the matters complained of, make such order as it thinks fit whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any shareholders of the company by other shareholders of the company or by the company and in the case of a purchase by the company, for the reduction accordingly of the company's capital, or otherwise.

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would expect to follow English case law precedent which would permit a shareholder to commence an action in the name of the company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of a company's Memorandum of Association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

In addition to the above, the shareholders may be able to bring claims against a company; such claims must, however, be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers to shares of a company against persons (including directors and officers) responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein but this confers no right of action against the company itself. In addition, the company itself (as opposed to its shareholders) may take action against the officers (including directors) for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(p) *Inspection of corporate records*

Members of the general public have the right to inspect the public documents of the Company available at the office of the Registrar of Companies in Bermuda which will include the Company's Certificate of Incorporation, its Memorandum of Association (including its objects and powers) and any alteration to the Company's Memorandum of Association and documents relating to an increase or reduction of authorised capital. The shareholders have the additional right to inspect the bye-laws of the Company, minutes of general (i.e. shareholders) meetings and audited financial statements of the Company, which must be presented to the shareholders at the annual general meeting. The register of shareholders of the Company is also open to inspection by shareholders and to members of the general public at the registered office without charge. The Company is required to maintain its share register in Bermuda but may establish a branch register outside Bermuda. The Company is required to keep at its registered office a register of its directors and officers which is open for inspection by members of the public without charge.

(q) *Winding up and liquidation provisions of Bermuda legislation*

Introduction

The winding up of Bermuda companies is governed by the provisions of the Bermuda Companies Act and by the Companies (Winding Up) Rules 1982 (the "Rules") and may be divided into the following two types:

- (i) Voluntary winding up which commences with a shareholders' resolution or upon the happening of a specified event (fixed or limited life company) and which itself can be sub-divided into a shareholders' voluntary winding up and a creditors' voluntary winding up; and
- (ii) Compulsory winding up, by petition presented to the courts of Bermuda followed by a winding up order.

Voluntary winding up

(i) **Shareholders' voluntary winding up**

A shareholders' voluntary winding up is only possible if a company is solvent. A Statutory Declaration of Solvency to the effect that a company is able to meet its debts within twelve (12) months from the date of the commencement of its winding up is sworn by a majority of the company's directors and filed with the Registrar of Companies.

A general meeting of shareholders is then convened which resolves that the company be wound up voluntarily and that a liquidator (responsible for collecting in the assets of the company, determining its liabilities and distributing its assets amongst its creditors and the surplus to the shareholders) be appointed.

Once the affairs of the company are fully wound up, the liquidator prepares a full account of the liquidation which he then presents to the company's shareholders at a general meeting called for that purpose. This special general meeting must be advertised in an appointed newspaper in Bermuda at least one (1) month before it is held and within one (1) week after it is held, the liquidator notifies the Registrar of Companies that the company has been dissolved.

(ii) **Creditors' voluntary winding up**

A creditors' voluntary winding up may occur where a company is insolvent and a Declaration of Solvency cannot be sworn.

The company shall cause a meeting of the creditors to be held on the day, or the day following the day, on which there is to be held a meeting at which the resolution for the creditors voluntary winding up is to be proposed, and shall cause the notices of the meeting of the creditors' to be sent to the creditors simultaneously with the sending of notices of the meeting of the company.

Notice of the creditors' meeting must appear in an appointed newspaper on at least two (2) occasions and the directors must provide this meeting with a list of the company's creditors and a full report of the position of the company's affairs.

At their respective meetings, the creditors and the company are entitled to nominate a person or persons to serve as liquidator(s) and whose responsibilities include collecting in the assets of the company, ascertaining its liabilities and distributing its assets rateably amongst its creditors in accordance with their proofs of debt. In addition to the liquidator, the creditors are entitled to appoint a Committee of Inspection which, under Bermuda Law, is a representative body of creditors who assist the liquidator during the liquidation.

As soon as the affairs of the company are fully wound up, the liquidator prepares his final account explaining the liquidation of the company and the distribution of its assets which he then presents to the company's shareholders in a special general meeting and to the company's creditors in a meeting. Each such meeting shall be

called by advertisement in an appointed newspaper specifying the time, place and object of the meeting. The advertisement must be published at least one (1) month before the meeting. Within one (1) week after the last of these meetings, the liquidator sends a copy of the account to the Registrar of Companies in Bermuda who proceeds to register it in the appropriate public records and the company is deemed dissolved three (3) months after the registration of this account.

#### Compulsory winding up

The courts of Bermuda may wind up a Bermuda company on a petition presented by persons specified in the Bermuda Companies Act and which include the company itself and any creditor or creditors of the company (including contingent or prospective creditors) and any shareholder or shareholders of the company.

Any such petition must state the grounds upon which the Bermuda court has been asked to wind up the company and may include either one of the following:

- (i) that the company has by resolution resolved that it be wound up by the Bermuda court;
- (ii) subject to Section 88, default is made in holding the statutory meeting or failing to present financial statements or appoint auditors;
- (iii) that the company does not commence its business within a year of its incorporation or suspends its business for a whole year;
- (iv) the company carries on any restricted business activity in contravention of the Bermuda Companies Act;
- (v) the company carries on any prohibited business activity in contravention of the Bermuda Companies Act;
- (vi) that the company is unable to pay its debts;
- (vii) the consent of the Minister of Finance, where under the Bermuda Companies Act such consent was required, was obtained as a result of a material misstatement in the application for consent; or
- (viii) that the Bermuda court is of the opinion that it is just and equitable that the company be wound up.

The winding up petition seeks a winding up order and a request for the appointment of a provisional liquidator.

After the presentation of the winding up petition the petitioner may apply to the court for the appointment of a provisional liquidator to act until the making of a winding up order. Such an appointment may be made where there is a need to secure the assets of the Company. A provisional liquidator may also be appointed prior to the making of a winding up order to facilitate a scheme or arrangement.

When a winding up order is made the court orders that the affairs of the company be wound up and appoints a provisional liquidator. If a provisional liquidator had previously been appointed on application by the petitioner that provisional liquidator may well be appointed.

The provisional liquidator is obliged to summons separate meetings of the company's creditors and contributories (as defined in the Bermuda Companies Act which would include current shareholders and, in some circumstances, past members) in order to determine whether or not he should serve as the permanent liquidator or be replaced by some other person who will serve as the permanent liquidator. The creditor and contributors meetings also determine whether there should be a committee of inspection.

The liquidator's duty is to realize and collect the company's assets, determine the claims of the company's creditors and to rateably distribute the company's realised

assets to its creditors by way of dividend. If the company is solvent the liquidator will distribute the company's assets to its shareholders after all creditors are paid in full.

A permanent liquidator's powers are prescribed by the Bermuda Companies Act and include the power to bring or defend actions or other legal proceedings in the name and on behalf of the company and the power to carry on the business so far as may be necessary for the beneficial winding up of the company. His primary role and duties are the same as a liquidator in a creditors' voluntary winding up i.e. distributing the company's assets rateably amongst its creditors whose debts have been admitted.

As soon as the affairs have been completely wound up, the liquidator applies to the courts of Bermuda for an order that the company be dissolved and the company is deemed dissolved from the date of this order being made.

(r) *Squeeze out provisions*

Pursuant to sections 102 and 103 of the Bermuda Companies Act, an acquiring entity may obtain the right to compulsory acquire shares.

Under section 102, the acquiring entity, supported by 90 per cent. in value of the shares or shares of a class of a company that were the subject of an offer may force a scheme or arrangement or merger on the holders of the remaining 10 per cent. of shares or shares of that class. When calculating the 90 per cent. threshold, shares already held at the date of the offer by (or by a nominee for) the acquiring entity (or where a company, its subsidiary) are ignored. The 90 per cent. support must be garnered within four months of the making of the offer by the acquiring entity. At any time within two months beginning with the date on which the approval is obtained the acquiring entity may give notice to any dissenting shareholder that the acquiring entity desires to acquire his shares.

When notice is given, the acquiring entity is entitled and bound to acquire the shares subject to the notice on the same terms under which the shares of the shareholders who have already approved the scheme are to be transferred to the acquiring entity. However, on an application made to the court by the dissenting shareholder within one month from the date on which the notice was given the court may order otherwise. Once outside this time period, subsequent dissenting shareholders (if any) would be dealt with by way of a specific offer and negotiation or any alternative procedure available.

If the acquiring entity already holds greater than 10 per cent. in value of the aggregate value of the shares to be acquired, (where "aggregate value" means the value of the acquiring entity's existing shares plus the value of the other shares of the same class the subject of the offer) then, in order to take advantage of the compulsory acquisition procedure, the acquiring entity must offer the same terms to all holders of the shares and the holders who approve the arrangement, must not only satisfy the 90 per cent. test set out above but should not be less than 75 per cent. in number of the holders of the shares subject to the offer and not already held by the acquiring entity.

Under section 103, holders of not less than 95 per cent. of the shares or class of a company can force the minority shareholders to sell their interest to the 95 per cent. shareholder provided that the terms offered are the same for all of the holders of the shares whose acquisition is involved. Where two or more shareholders are acting in concert to make a bid, and the relevant shareholders collectively own at least 95 per cent. of the issued capital of the company the target of the bid, then it is possible to issue joint notices to acquire the remainder.

Under this procedure, the majority shareholder need only give notice to the remaining shareholder of his intention to acquire their shares. He must set out in the notice the terms upon which he intends to acquire the shares. When the notice is received, the acquiring shareholder is bound to acquire the outstanding shares on the terms set out in the notice unless one of the remaining shareholders applies to the court for an appraisal. Within one month of the court appraising the shares, the acquiring entity will be entitled to acquire the shares at the price fixed by the court or cancel the notice. There is no appeal from the courts valuation of the shares.

Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## 9. UNITED KINGDOM TAXATION

9.1 The following summary is intended as a general guide to 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.

(a) *Tax residence of the Company*

The Company is a Bermudan incorporated company. It is expected that the Company will be managed and controlled in Bermuda. Accordingly, it should not be treated as being resident in the United Kingdom for United Kingdom tax purposes.

(b) *Taxation of Dividends*

*Individuals*

An individual shareholder who is resident in the UK (for tax purposes) who owns less than 10 per cent. of the total share capital of the Company and who receives a dividend from 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 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 new '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, 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, 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 the individual owns more than 10 per cent. of the total share capital they will not be entitled to the tax credit.

*Companies*

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 rules. Such companies may be liable to corporation tax. Companies which are not small should not be liable to such 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) *Taxation on disposals*

For the purpose of UK tax on chargeable gains, the amount paid by a Shareholder for Common Shares will constitute the base cost of his holding. If a Shareholder disposes of all or some of

his Common Shares, a liability to tax on chargeable gains may arise. This will depend on the base cost which can be allocated against the proceeds, the Shareholder's circumstances and any reliefs to which they are entitled. In the case of corporate shareholders, indexation allowance will apply to the amount paid for the shares. A corporate Shareholder may be entitled to exemption from tax on chargeable gains under the substantial shareholding exemption where it is able to satisfy the conditions for such exemption.

The current rate of tax is 18 per cent. for individuals paying the basic rate of tax and 28 per cent. for individuals paying the higher rate of tax. Trustees, personal representatives and corporate shareholders will pay tax at a rate of 28 per cent.

## 10. DIRECTORS AND OTHER INTERESTS

10.1 The interests of the Directors, their immediate families and persons connected with them in the issued share capital of the Company at the date of this document and as they are expected to be following Admission, all of which are beneficial, are as follows:

	<i>As at the date of this document<sup>(1)</sup></i>			<i>Immediately following Admission</i>		
	<i>No. of Common Shares</i>	<i>% of issued share capital</i>	<i>No. of Options, Warrants and Restricted Shares</i>	<i>No. of Common Shares</i>	<i>% of issued share capital</i>	<i>No. of Options, Warrants and Restricted Shares</i>
J. Laurie Hunter	-	-	2,500,000 <sup>(3)</sup>	1,000,000 <sup>(2)</sup>	0.52	1,500,000 <sup>(3)</sup>
Andrew J. Morris	225,700 <sup>(4)</sup>	0.18	-	225,700 <sup>(4)</sup>	0.12	78,947 <sup>(7)</sup>
Colin Orr-Ewing <sup>(5)</sup>	-	-	-	-	-	78,947 <sup>(7)</sup>
Mark Weller	-	-	1,350,000 <sup>(6)</sup>	-	-	1,350,000 <sup>(6)</sup>
John van der Welle	-	-	-	-	-	78,947 <sup>(7)</sup>
Ian Barby	-	-	-	-	-	78,947 <sup>(7)</sup>

Notes:

- (1) For comparative purposes, this assumes that the Sub-division which will be effective immediately prior to Admission has become effective at the date of this document.
- (2) Mr. Hunter has been awarded: (a) 2,000,000 Restricted Shares under the Restricted Stock Plan; and (b) 500,000 Options under the Equity Incentive Plan. 1,000,000 of the Restricted Shares vested prior to the date of this document but, for administrative purposes only, the Company will arrange for the corresponding Vested Restricted Shares to be issued on (but not conditional on) Admission. Of the remaining 1,000,000 Restricted Shares, 666,670 will automatically vest (and the corresponding 666,670 Common Shares shall be issued) upon the expiry of the lock-in arrangement to which he is subject, further details of which are set out in paragraph 14.1(ii) of this Part 6 and 333,330 will vest (and the corresponding 333,330 Common Shares shall be issued) if, during the three year period following Admission: the closing price of the Common Shares is at least equal to 150 per cent. of the Placing Price for any five consecutive business days; or the Company undergoes a change of control, including a sale of a the majority of the Group's assets. Mr. Hunter's Options have a five-year term with an exercise price equal to the Placing Price and vest and become exercisable in three equal annual instalments upon completion of each year of service following Admission.
- (3) To be held in the name of Hunter Capital International, Ltd., which is an affiliate of Mr. Hunter.
- (4) Includes 225,700 Common Shares held by CLMS Management, LLC, as nominee on behalf of Mr. Morris and does not include an aggregate of 22,792,150 Common Shares held by Persistency Private Equity Limited with which Mr. Morris is affiliated. Mr. Morris is a director of Persistency Capital, investment adviser to Persistency Private Equity Limited, of which he is also a member of the investment committee. He has no direct or indirect interest in Persistency Private Equity Limited.
- (5) Does not include 6,666,670 Common Shares held by various affiliated entities of Blakeney General Partners III, Blakeney General Partners IV and Blakeney LP, of which Mr. Orr-Ewing has served as a consultant.
- (6) Mr. Weller has been awarded: (a) 600,000 Restricted Shares under the Restricted Stock Plan; and (b) 750,000 Options under the Equity Incentive Plan. The 600,000 Restricted Shares will automatically vest (and the corresponding 600,000 Common Shares shall be issued) upon the expiry of the lock-in arrangement to which he is subject, further details of which are set out in paragraph 14.1(ii) of this Part 6. Mr. Weller's Options have a five-year term with an exercise price equal to the Placing Price and vest and become exercisable in three equal annual instalments upon completion of each year of service following Admission.
- (7) The Options have been granted to the Non-Executive Directors conditional upon Admission, have a ten-year term with an exercise price equal to the Placing Price and vest and become exercisable in three equal annual instalments upon completion of each year of service following Admission.

None of the Directors hold warrants, options or any other interest in Common Shares, except as set out above.

- 10.2 Save as disclosed in paragraph 10.1 above, none of the Directors, nor any member of their respective immediate families nor any person connected with the Directors has any interest, whether beneficial or non-beneficial, in any share capital of the Company or any options or other rights to subscribe for Common Shares or in any other financial product (including a contract for difference or a fixed odds bet) whose value is determined by reference to the price of the Common Shares.
- 10.3 There are no outstanding loans granted or guarantees provided by any member of the Group to any Director.
- 10.4 Save as otherwise disclosed in this document, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company since its incorporation and which remains in any respect outstanding or unperformed.
- 10.5 Save as disclosed in this document, no Director has or has had any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, the Group or which are proposed to be acquired by, disposed of by, or leased to, the Group.
- 10.6 Save as disclosed in paragraphs 11.3 and 11.4 of this Part 6 (executive directors service agreements and non-executive director agreements) and paragraph 14.1(ee) of this Part 6 (placing agreement) and paragraph 14.1(ii) of this Part 6 (Lock-in and orderly market deed), there are no contracts, existing or proposed, between any Director and the Company.
- 10.7 In addition to their directorships of the Group, the Directors are or have been directors or partners of the following companies or partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
J. Laurie Hunter	Direct Petroleum Exploration, Inc. Living Cell Technology Ltd Hunter Capital LLC	Trident Resources Corp. Trident Exploration Corp.
Andrew J. Morris	Direct Petroleum Exploration, Inc. SouthWest Energy Ltd Blake Oil and Gas Ltd Kriisa Research, Incorporated Persistency Advisor affiliates <sup>(1)</sup>	
Colin Orr-Ewing	Vatukoula Gold Mines Plc Amlib Holdings plc Bacanora Minerals Ltd. <sup>(2)</sup>	Stratic Energy Corporation Tubutama Ltd Tubutama Borax plc
Mark Weller		Pangea Petroleum Corp.
John van der Welle		Stratic Energy Corporation First Calgary Petroleums Ltd
Ian Barby	Blackrock World Mining Trust plc Invesco Perpetual UK Smaller Companies Investment Trust plc Ecofin Water & Power Opportunities plc Schroder Income Growth Trust plc Pantheon International Participations plc SR Europe Investment Trust plc HCP Social Infrastructure Holdings plc	

Notes:

(1) Includes Camomille International Ltd, Persistency Capital Ltd, Persistency Private Equity Limited, CLMS Management LLC, and Persistency Capital LLC.

(2) Relates to family interests of approximately 25 per cent. ownership.

10.8 Save as disclosed in this document, as at the date of this document, none of the Directors have:

- (a) any unspent convictions in relation to fraudulent offences or unspent convictions in relation to indictable offences;
- (b) had a bankruptcy order made against him or entered into an individual voluntary arrangement;
- (c) been a director of any company or been a member of the administrative, management or supervisory body of an issuer or a senior manager of an issuer which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or which entered into any composition or arrangement with its creditors generally or any class of its creditors whilst he was acting in that capacity for that company or within the twelve months after he ceased to be so acting;
- (d) been a partner in any partnership placed into compulsory liquidation, administration or partnership voluntary arrangement where such Director was a partner at the time of or within the twelve months preceding such event;
- (e) been subject to the receivership of any asset of such director or of a partnership of which the director was a partner at the time of or within twelve months preceding such event; or
- (f) been subject to any public criticisms by any statutory or regulatory authority (including designated professional bodies) nor has he been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

During 2009 and 2010, Mr. Hunter was a director of Trident Resources Corp., a Delaware corporation and holding company for a Canadian-based coal bed methane exploration and production company, and a director of one of its Canadian subsidiaries, Trident Exploration Corp., a Nova Scotia unlimited liability company. On 8 September 2009, Trident Resources Corp. and certain of its subsidiaries and affiliates filed for relief under Chapter 11 of the United States Bankruptcy Code, and its Plan of Reorganisation was confirmed, effective 30 June 2010. Trident Exploration Corp. and certain of its affiliates similarly filed for relief in Canada seeking and obtaining an Initial Order under the Companies' Creditors Arrangement Act. On 18 June 2010, the Court approved this Plan of Reorganization. Mr. Hunter assisted with the initial founding and early-stage capital financing of the Trident organisation in 2003. Mr. Hunter became a director in 2009 to represent the interests of equity investors as the organisation pursued its debt and reorganisation strategy. He resigned from the board of directors of each of Trident Resources Corp. and Trident Exploration Corp. in 2010 in connection with Trident's Plan of Reorganisation.

Mr. Orr-Ewing filed an individual voluntary arrangement in 1992 with respect to a tax claim and completed the payment schedule for such matter in 1996.



## 11. DIRECTORS' AND KEY MANAGEMENT'S SERVICE AGREEMENTS AND REMUNERATION

11.1 A summary of the key terms of appointment for or in respect of each Director and member of the Group's key management is set out in paragraphs 11.2 to 11.5 of this Part 6 below.

11.2 The following table summarises the annual gross remuneration payable to or in respect of each Director and member of the Group's key management:

<i>Director/key management</i>	<i>Annual gross remuneration</i>	<i>Commencement of period of office/employment with the Group</i>	<i>Date of expiration of term of office/employment</i>
J. Laurie Hunter Director, CEO & Chairman of the Board	US\$372,000 <sup>(1), (3)</sup>	28 October 2008	<sup>(3)</sup>
Andrew J. Morris Non-Executive Director	<sup>(2)</sup>	28 October 2008	<sup>(2)</sup>
Colin Orr-Ewing Non-Executive Director	<sup>(2)</sup>	19 October 2010	<sup>(2)</sup>
<i>Director/key management</i>	<i>Annual gross remuneration</i>	<i>Commencement of period of office/employment with the Group</i>	<i>Date of expiration of term of office/employment</i>
Mark Weller Chief Operating Officer & Director	US\$372,000 <sup>(3), (4)</sup>	1 August 2009	<sup>(3)</sup>
John van der Welle Non-Executive Director	<sup>(2)</sup>	6 November 2010	<sup>(2)</sup>
Ian Barby Non-Executive Director	<sup>(2)</sup>	19 October 2010	<sup>(2)</sup>
Seth Fagelman Chief Financial Officer	US\$144,000 <sup>(5)</sup>	15 December 2009	<sup>(5)</sup>

### Notes:

- (1) Reflects annual salary and payment in lieu of benefits following Admission. For 2008 until April 2009, Mr. Hunter earned a monthly base salary of US\$10,000 and was eligible for an additional bonus of 150 per cent. of annual salary subject to achievement of performance objectives focused on securing the Company's financial stability. Beginning 1 May 2009, Mr. Hunter's monthly base salary was increased to US\$20,000. Final determination with respect to payment of bonuses has not been determined. Beginning 1 January 2010, the compensation committee of the Board set Mr. Hunter's full compensation at US\$25,000 per month until Admission. Mr. Hunter has been awarded: (a) 2,000,000 Restricted Shares under the Restricted Stock Plan; and (b) 500,000 Options under the Equity Incentive Plan. 1,000,000 of the Restricted Shares vested prior to the date of this document but, for administrative purposes only, the Company will arrange for the corresponding Vested Restricted Shares to be issued on (but not conditional on) Admission. Of the remaining 1,000,000 Restricted Shares, 666,670 will automatically vest (and the corresponding 666,670 Common Shares shall be issued) upon the expiry of the lock-in arrangement to which he is subject, further details of which are set out in paragraph 14.1(ii) of this Part 6 and 333,330 will vest (and the corresponding 333,330 Common Shares shall be issued) if, during the three year period following Admission: the closing price of the Common Shares is at least equal to 150 per cent. of the Placing Price for any five consecutive business days; or the Company undergoes a change of control, including a sale of a the majority of the Group's assets. Mr. Hunter's Options have a five-year term with an exercise price equal to the Placing Price and vest and become exercisable in three equal annual instalments upon completion of each year of service following Admission. The share option automatically accelerates and vests in full upon Mr. Hunter's death, disability, upon a change of control, including a sale of a majority of the Group's assets and upon resignation within 30 days of certain specified circumstances, which include a material change in his position with the Company, reduction in base salary of more than 30 per cent., or the Company's breach of his employment agreement. The award of the 1,000,000 Restricted Shares that have vested was structured through two awards of 500,000 Restricted Shares (which vested in one instalment) one of which was awarded upon his initial appointment and the second on 1 July 2009. The subsequent awards of Restricted Shares and Options were originally considered by the compensation committee of the Board in December 2009 and have been made primarily in recognition of Mr. Hunter's past contribution to the Company.
- (2) Each of the Non-Executive Directors has entered into an agreement with the Company, governing their respective service, the material terms of which are summarised below. In addition, 78,947 Options have been issued to each Non-Executive Director conditional upon Admission. The Options have a ten-year term with an exercise price equal to the Placing Price

- and vest and become exercisable in three equal annual instalments upon completion of each year of service following Admission.
- (3) The executive has entered into an employment agreement, effective upon Admission, with Madagascar USA, a subsidiary of the Company, the material terms of which are summarised below.
  - (4) Reflects annual salary and payment in lieu of benefits following Admission. Prior to Admission, Mr. Weller received compensation at a rate of US\$22,500 per month plus overtime. Mr. Weller has been awarded: (a) 600,000 Restricted Shares under the Restricted Stock Plan; and (b) 750,000 Options under the Equity Incentive Plan. The 600,000 Restricted Shares will automatically vest (and the corresponding 600,000 Common Shares shall be issued) upon the expiry of the lock-in arrangement to which he is subject, further details of which are set out in paragraph 14.1(ii) of this Part 6. Mr. Weller's Options have a five-year term with an exercise price equal to the Placing Price and vest and become exercisable in three equal annual instalments upon completion of each year of service following Admission. The share option automatically accelerates and vests in full upon Mr. Weller's death, disability, upon a change of control, including a sale of a majority of the Group's assets and upon resignation within 30 days of certain specified circumstances, which include a material change in his position with the Company, reduction in base salary of more than 30 per cent., relocation of principal workplace by more than 50 miles, or the Company's breach of his employment agreement.
  - (5) Service provided under an independent contractor agreement between the Company and Turning Point Venture Partners, LLC, the material terms of which are summarised below. Through 30 June 2010, fees were paid at a rate of US\$12,000 per month. Mr. Fagelman is a principal of Turning Point Venture Partners, LLC. Mr. Fagelman has been awarded 200,000 Restricted Shares under the Restricted Stock Plan. The 200,000 Restricted Shares will automatically vest (and the corresponding 200,000 Common Shares shall be issued) 60 days following Admission.

### 11.3 *Executive Directors service contracts*

#### J. Laurie Hunter

The Company, through its wholly owned subsidiary, Madagascar USA, has entered into an employment agreement with Mr. Hunter to be effective upon Admission and closing of the Placing. Mr. Hunter will continue to serve as the Company's Chief Executive Officer, responsible for implementing the Company's strategic initiatives and policies as established by the Board, and will remain Chairman of the Board. During his employment, Mr. Hunter may be entitled to serve in the capacity of a director to other companies, subject to approval of the Board. Mr. Hunter will receive an annual base salary of US\$317,000 plus US\$55,000 in lieu of benefits and be entitled, from time to time, to receive incentive bonus compensation based upon performance criteria established by the Remuneration Committee of the Board. Beginning in 2011, Mr. Hunter is eligible to receive a maximum bonus of 100 per cent. of his base salary. Mr. Hunter will devote four days per week to the Company and is eligible to receive an additional bonus payment at the discretion of the Remuneration Committee if he works five days per week.

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

The Company has also agreed to provide incentive based compensation in the form of 500,000 Options and 1,000,000 Restricted Shares as more fully described in note (3) of Paragraph 11.2 above.

The Company has agreed to maintain Director and Officer Liability Insurance for the benefit of Mr. Hunter consistent with custom and practice within the industry and in amounts agreed by the Board to be adequate to protect the Company.

Mark Weller

The Company, through its wholly owned subsidiary, Madagascar USA, has entered into an employment agreement with Mr. Weller to be effective upon Admission and closing of the Placing. Mr. Weller will continue to serve as the Company's Chief Operating Officer, responsible for overseeing the day-to-day operations of the Company, and as a member of the Board. During his employment, Mr. Weller may be entitled to serve in the capacity of a director to other companies, subject to approval of the Board. Mr. Weller will receive an annual base salary of US\$317,000 plus US\$55,000 in lieu of benefits and be entitled, from time to time, to receive incentive bonus compensation based upon performance criteria established by the Remuneration Committee of the Board. Beginning in 2011, Mr. Weller is eligible to receive a maximum bonus of 100 per cent. of his base salary. Up to 75 per cent. of the bonus will be paid on the basis of operational targets against time and budget, and 25 per cent. of the bonus will be paid at the discretion of the Remuneration Committee also subject to strategic targets.

During his employment and for a period of two years following termination, Mr. Weller has agreed to refrain from competing with the Company's business in Madagascar and from recruiting or soliciting the employment of any person who is an employee of the Company or any of the Group.

Mr. Weller's employment agreement has no specified term as he is considered an employee-at-will, but either party is required to provide six months prior notice with respect to termination of service. Mr. Weller would be entitled to be paid the remainder of his salary during such six-month period to the extent the Company does not provide prior notice. Mr. Weller is also entitled to twelve months notice if the Company terminates his employment for any reason other than for "cause" in connection with a change-in-control transaction. Mr. Weller will also be entitled to his *pro-rata* portion of incentive bonus payments or equity-based awards in the event his employment is terminated other than for "cause". Under the employment agreement, Mr. Weller will also be eligible for termination payments as a result of his resignation within 30 days of certain specified circumstances, which include a material change in his position with the Company, reduction in base salary of more than 30 per cent., relocation of principal workplace by more than 50 miles, or the Company's breach of his employment agreement.

The Company has also agreed to provide incentive based compensation in the form of 750,000 Options and 600,000 Restricted Shares as more fully described in note (4) of Paragraph 11.2 above.

The Company has agreed to maintain Director and Officer Liability Insurance for the benefit of Mr. Weller consistent with custom and practice within the industry and in amounts agreed by the Board to be adequate to protect the Company.

#### 11.4 *Non-Executive Director agreements*

Each of the Company's four Non-Executive Directors has entered into an agreement governing their appointment as members of the Board to be effective upon Admission. These agreements provide for the terms of service and compensation (in the form of retainer fees) and expense reimbursement for serving on the Board, the Company's provision of suitable director liability Insurance, rights of indemnification, and restrictions concerning "confidential information" of the Company and following termination of service as a director.

The Company intends to pay each its Non-Executive Directors an annual retainer fee of £36,000 for service on the Board. The Company has also agreed that, subject to the Bye-Laws and applicable law, if the Non-Executive Director is requested to terminate his appointment prior to the Company's 2011 annual general meeting of its shareholders or at any time thereafter without at least six months advance notice, the Non-Executive Director would be entitled to receive his retainer fees through the date six months from such notice or through the 2011 annual meeting date, whichever is later. In addition, the Company will reimburse on a quarterly basis for all expenses reasonably incurred. The Company has agreed to purchase and maintain liability insurance while the Non-Executive Director remains a director and for a minimum of six years following termination of service.

The agreements provide that, among other things, the Company will indemnify the applicable director to the fullest extent authorised or permitted by law. The agreements further provide that, subject to the terms set forth therein, the Company will indemnify the applicable director for any and all damages, liabilities, costs, charges or expenses (including amounts paid to settle any action

or to satisfy a judgment, legal fees, other professional fees, and out-of-pocket expenses) (collectively, "Costs"), provided however, that such Costs were not suffered or incurred as a direct result of the director's own fraud or dishonesty. Accordingly, under the agreements, the Company has agreed to Indemnify against all costs reasonably incurred:

- in respect of any civil, criminal or administrative proceeding to which the director is made a party by reason of being or having been a director of the Company or an affiliated company;
- in respect of an action by or on behalf of the Company or an affiliated company to procure a judgment in its favor to which the director is made a party because of his association with the Company or an affiliated company; and
- in connection with the defense of any civil, criminal or administrative action or proceeding or threatened civil, criminal or administrative action or proceeding or alleged wrongdoing (or settlement with the Company's consent) to which the director is subject or which is brought against the director because of his association with the Company of an affiliated company.

The agreements (i) also require the Company to advance Costs prior to the final adjudication of any such proceeding (subject to reimbursement if the director is ultimately not entitled to indemnification) and (ii) provide for certain presumptions and procedures applicable to a determination of a director's right to receive indemnification and advancement of expenses. The Company is also obligated to pay for the director's fees of separate counsel if mutually agreed upon or upon counsel's recommendation as a result of a conflict of interest.

Each Non-Executive Director has agreed that he will not (except with the prior written consent of the Board) use or disclose any "confidential information" of the Company, which information includes, among other things, trade secrets business methods, marketing strategies, identities of clients and consultants, and all records, papers, and documents kept or made by the director during his term of service. Each director has also agreed that for a period of six months following termination of service as a director, he will not (without the written consent of the Board) accept an appointment as a director of a company that at such time competes with the Company's business in Madagascar.

The Chairman of the Company's audit committee will be entitled to a £6,000 annual retainer, and the Chairman of the Company's compensation committee will be entitled to a £3,000 annual retainer.

#### 11.5 *Other management service agreements*

Seth Fagelman

##### **Finance Consultant Agreement**

The Company, through its wholly owned subsidiary, Madagascar USA, has an agreement with Turning Point Venture Partners, LLC, a Texas limited liability company located in Austin, Texas ("Turning Point"), pursuant to which Seth Fagelman, a manager and principal of Turning Point, serves as the Company's Chief Financial Officer and Finance Consultant.

During the term of the agreement and following any termination, Turning Point has agreed to maintain the confidential nature of the Company's non-public information and refrain from using such information outside the Company without the Company's prior written consent. In addition, during the term of its engagement and for a period of six months following termination, Turning Point has agreed to refrain from engaging in any commercial arrangement with any customer or supplier of the Group for the provision or supply of goods or services directly in competition with the Group. Turning Point has also agreed during such period to refrain from enticing or soliciting the employment of any relevant employee of the Company or any of the Group or otherwise engaging any such employee.

The agreement is dated 15 December 2009, and the term has been extended until 30 June 2011. Effective 30 June 2010, fees are based upon an hourly rate of US\$150 per hour, with a minimum fee of US\$6,000 per month to be paid. The agreement may be terminated by either party with 30 days written notice, or if either party becomes insolvent, enters into a compulsory liquidation, has an administrator or receiver appointed over any of its assets or ceases or threatens to cease carrying on its business. In addition, the Company may terminate the agreement upon written notice to

Turning Point for "cause," which includes certain intentional acts or material failures to provide the services under the agreement.

Gil Melman  
**General Counsel Services**

Under an arrangement with the Group, Mr. Melman provides general counsel services to the Group through the law firm of Selman, Munson & Lerner, P.C. with whom he is a shareholder. The Group engages Mr. Melman on either a full or part time basis each month depending on the Group's needs. Monthly fees are between US\$20,000 up to a maximum of US\$40,000. The Group may terminate this arrangement at any time.

## 12. EMPLOYEES

The following table reflects the Group's number of employees and other service providers in the capacities and for the periods so indicated.

<i>Employee Category<sup>(1)</sup></i>	<i>As at the date of this document<sup>(2)</sup></i>	<i>31 December 2009</i>	<i>31 December 2008</i>	<i>31 December 2007</i>
Executive and Administrative	9	10	12	12
Technical and Field Staff	31	39	82	78
<b>Total</b>	<b>40<sup>(3)</sup></b>	<b>49<sup>(3)</sup></b>	<b>94<sup>(3)</sup></b>	<b>90<sup>(3)</sup></b>

Notes:

- (1) Includes persons employed as independent contractors who provide significant services to the Company.
- (2) The Company has a significant number of temporary employees (averaging around 13 in 2010).
- (3) As of the date of this document, 7 were employed in Houston, Texas, and the remainder in Madagascar. For the year ended 31 December 2009, 11 were employed in Houston, Texas, and the remainder in Madagascar. For the year ended 31 December 2008, 19 were employed in Houston, Texas, and the remainder in Madagascar. For the year ended 31 December 2007, 18 were employed in Houston, Texas, and the remainder in Madagascar.

## 13. SIGNIFICANT SHAREHOLDERS

13.1 Except for the interests of the Directors and their immediate families and persons connected with them, which are set out in paragraph 10.1 of this Part 6, and those persons set out in this paragraph 13.1, the Directors are not aware of any persons who, at the date of this document and immediately following Admission, directly or indirectly, jointly or severally, hold or will hold, three per cent. or more of the issued share capital of the Company or exercise or could exercise control over the Company:

	<i>As at the date of this document</i>		<i>Immediately following Admission</i>	
	<i>No. of Common Shares<sup>(1)</sup></i>	<i>% of issued share capital</i>	<i>Common Shares</i>	<i>% of issued share capital</i>
Touradji Group <sup>(2)</sup>	29,356,680	22.94	29,356,680	15.26%
Persistency Private Equity Limited <sup>(3)</sup>	22,792,150	17.81	22,792,150	11.85%
Grafton Group <sup>(4)</sup>	16,966,900	13.26	16,966,900	8.82%
John Paul DeJoria Family Trust <sup>(5)</sup>	12,830,000	10.03	12,830,000	6.67%
Plainfield Special Situations Master Fund Limited	11,681,790	9.13	11,681,790	6.07%
RAB Special Situations Master Fund Limited	8,700,000	6.80	8,700,000	4.52%
Blakeney Group <sup>(6)</sup>	6,666,670	5.21	6,666,670	3.47%
Samuel A. Malin <sup>(7)</sup>	4,542,960	3.55	4,542,960	2.36%

Notes:

- (1) For comparative purposes, this assumes that the Sub-division that will be effective immediately prior to Admission has become effective at the date of this document.
- (2) Includes Common Shares held as follows: Touradji DeepRock Holdings LLC (656,860); Touradji DeepRock Holdings Ltd. (3,012,730); Touradji Global Resources Holdings LLC (3,894,900); Touradji DeepRock Global Resources Holdings Ltd. (17,388,690); and Touradji Global Resources Offshore Fund Ltd. (4,403,500). Does not include (i) an aggregate of 261,400 Common Shares issuable upon exercise of Warrants, which are exercisable until 13 July 2011, at an exercise price of

- US\$2.00 per Common Share and (ii) an aggregate of 1,125,020 Common Shares issuable upon exercise of Warrants, which are exercisable until 28 March 2010, at an exercise price of US\$10.00 per Common Share.
- (3) Does not include (i) an aggregate of 205,720 Common Shares issuable upon exercise of Warrants, which are exercisable until 13 July 2011, at an exercise price of US\$2.00 per Common Share and (ii) an aggregate of 223,890 Common Shares issuable upon exercise of Warrants held by affiliates, which are exercisable until 28 March 2012, at an exercise price of US\$10.00 per Common Share.
  - (4) Includes Common Shares held as follows: Grafton Resource Investments Ltd. (14,552,650) and MOL Holdings Limited (2,414,250).
  - (5) Does not include an aggregate of 125,000 Common Shares issuable upon exercise of warrants, which are exercisable until 13 July 2011, at an exercise price of US\$2.00 per Common Share.
  - (6) Includes Common Shares held as follows: Blakeney General Partners III Ltd as general partner of Onyx LP (505,000); Blakeney General Partners III Ltd as general partner of Austin Alpha LP (845,000); Blakeney General Partners III Ltd as general partner of Blakeney Sand Hill LP (118,000); Blakeney General Partners III Ltd as general partner of CC Development Partners LP (303,000); Blakeney General Partners III Ltd as general partner of Heviben LP (976,000); Blakeney General Partners III Ltd as general partner of Ithaca LP (116,000); Blakeney General Partners III Ltd as general partner of Menafrika LP (213,000); Blakeney General Partners III Ltd as general partner of Palo Alto LP (416,000); Blakeney General Partners IV Ltd as general partner of Blakeney LP (1,914,670); and Blakeney Investors SICAV (1,260,000).
  - (7) Includes Common Shares held as follows: Alexandra Malin (in trust) (1,000); Brian Malin (13,640); Samuel A Malin (33,670); Thelma Malin (13,640); Walsall Quicksilver LLC (3,500,000); Flitwick Limited (911,180); Irene Malin (as guardian) (3,790); Marylebone Trust (46,020); and The Gazelle Trust (20,020). Does not include an aggregate of 70 Common Shares issuable upon exercise of Warrants, which are exercisable until 13 July 2011 at an exercise price of US\$2.00 per Common Share.
- 13.2 Save as disclosed in paragraph 13.1 of this Part 6, the Directors are not aware of any person who either at the date of this document or immediately following Admission exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company.
- 13.3 No holder of Common Shares, including those listed above, has voting rights which are different from the other holders of Common Shares (issued or to be issued).
- 13.4 The Directors are not aware of any arrangements in place or under negotiation which may, at a subsequent date, result in a change of control of the Company.

#### 14. MATERIAL CONTRACTS

- 14.1 The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years immediately preceding the date of this document or are other contracts that contain provisions under which the Company has an obligation or entitlement which is or may be material to the Company:

##### **PSCs and related material agreements**

###### **(a) Block 3107 PSC**

###### **Date, parties and scope**

The Block 3107 PSC was entered into on 23 June 2004 between OMNIS and Madagascar SA (Madagascar SA entered into the agreement as a société à responsabilité limitée (Sarl) and subsequently became a société anonyme (SA) pursuant to a resolution of the company dated 15 September 2004 – the resolution had the effect of changing the legal nature of the company but did not, under Malagasy law, imply the creation of a new entity and no assignment of any contract was necessary following the change). It was amended by an agreement dated 10 September 2009 and further amended by an agreement dated 3 September 2010 between OMNIS and Madagascar SA.

The Block 3107 PSC gives the exclusive responsibility to conduct all exploration, development and production activities in the contract area. On 5 November 2004, the Block 3107 PSC was approved by presidential decree n° 2004-1010 and an exploration drilling permit title n° 15/04/TM was granted to OMNIS extending over 8775 km<sup>2</sup> in the Manandaza region (Block 3107). The Block 3107 PSC became effective, in accordance with its terms, on 20 November 2004.

#### Exploration period

The Block 3107 PSC provides for an exploration period of 8 years, comprising a first exploration phase of 2 years and, at the option of Madagascar SA, a second exploration phase of 5 years (comprising a first sub-phase of 3 years and a second sub-phase of 2 years), and an optional third exploration phase of 1 year. Commencement of any phase (or sub-phase) is subject to the fulfilment of contractual obligations (including the work programme to be submitted by Madagascar SA for each calendar year) in relation to the previous phase. Madagascar SA may extend the exploration period by a further 2 years by written notice to OMNIS. If no commercial discovery is made by the end of the exploration period (including any extension) the agreement shall terminate.

Having fulfilled all obligations in relation to the first exploration phase and the first sub-phase of the second exploration phase, Madagascar SA is currently in the second sub-phase of the second exploration phase, which shall continue until 31 December 2011.

#### Minimum exploration work commitments

During the first exploration phase, Madagascar SA was obliged to re-process existing data by conducting appraisal studies of reserves and reservoir studies using such data. The minimum commitment for the first exploration phase was US\$500,000 and Madagascar SA incurred expenditure of approximately US\$1,023,666.

During the first sub-phase of the second exploration phase, Madagascar SA was required to acquire, process and interpret 65 km of 2D seismic data. The minimum commitment for the first sub-phase of the second exploration phase was US\$500,000 and Madagascar SA incurred expenditure of approximately US\$1,243,147.

During the second sub-phase of the second exploration phase, Madagascar SA is required to perform "GORE" geochemistry acquisition, acquire additional seismic data if needed and drill an exploration well. The minimum commitment for the second sub-phase of the second exploration phase was US\$500,000.

During the third exploration phase, Madagascar SA is required to drill a new well and to acquire 80 km<sup>2</sup> of 3D seismic data. The minimum commitment for the third exploration phase is US\$2,000,000.

In order to guarantee the minimum expenditure, Madagascar SA is obliged to obtain an irrevocable and reducing standby letter of credit from an internationally recognised bank in each phase (or sub-phase) in an amount equal to the minimum expenditure in that phase.

The letter of credit in relation to the second exploration phase for an initial amount of US\$1,000,000 was issued by Credit Suisse in favour of OMNIS on 30 January 2007. Credit Suisse released US\$500,000 of this letter of credit and that it was therefore reduced to US\$500,000 when the first sub-phase of the second exploration phase was completed. This letter of credit shall not be reduced by any expenditure in relation to GORE survey work.

Expenditure in excess of that required for any exploration phase may be taken into account in reaching the minimum expenditure in any subsequent exploration phase.

#### Relinquishment

Madagascar SA was required to relinquish 25 per cent. of the initial contract area (excluding any production areas) at the end of the first exploration phase and a further 20 per cent. of the initial contract area (excluding any production areas) at the end of the second exploration phase. At the end of the final exploration phase, Madagascar SA is required to relinquish all of the initial contract area which has not been designated a production area. As at the date of this document, all required relinquishments have been effected.

#### Production

If exploration leads to a discovery of hydrocarbons which is commercial (as determined by Madagascar SA), Madagascar SA is required to (i) notify OMNIS immediately, (ii) within 60 days of such notification, submit a discovery report giving its opinion on the commercial potential of the discovery, (iii) within 90 days of such notification, submit an evaluation schedule in

respect of such discovery, and (iii) within 90 days after the execution of the evaluation schedule, provide an evaluation report and a written declaration as to whether the discovery is a commercial discovery (or a significant discovery which could become commercial subject to additional works).

If the discovery is declared to be commercial, Madagascar SA is required to submit, within a period of 180 days from such declaration, a development plan in respect of such discovery. If within 30 days from the submission of the development plan OMNIS does not propose any amendment, the development plan is considered to be approved.

OMNIS shall obtain a mining title in relation to the area designated as the production area under such plan. The mining title shall be for a duration of 25 years (except any mining title in relation to natural gas, which shall be for a period of 35 years), with further extensions if production remains feasible.

#### Natural gas

Madagascar SA has the right to use all natural gas in the contract area in connection with the petroleum operations and the right to exclusive production of any commercial natural gas in the contract area (that is, natural gas which is not dissolved in light hydrocarbons or heavy oil in reservoir conditions). If it elects not to do so, OMNIS may do so as a sole risk operation, provided that it shall not interfere with the use of any natural gas used by Madagascar SA in relation to the petroleum operations and Madagascar SA has confirmed that it does not intend to exploit natural gas on behalf of OMNIS.

#### Recovery of petroleum cost

Madagascar SA may use without restriction any hydrocarbons discovered in the contract area in connection with its petroleum operations. It may also use any hydrocarbons (at cost plus royalty) produced from any other area covered by a production sharing contract between itself and OMNIS in connection with the same. Any royalties paid on such hydrocarbons shall be included in petroleum costs relating to Block 3107.

In order to recover its costs of exploration, development and production, Madagascar SA may retain up to 80 per cent. of the volume of hydrocarbons produced and saved from the contract area each year.

#### Royalty

Madagascar SA is obliged to pay a royalty on hydrocarbons not used in petroleum operations, lost, flared, or otherwise unusable, of 8 per cent. to 20 per cent. in the case of light hydrocarbons and 5 per cent. to 10 per cent. in the case of natural gas, based on average production volume during the relevant quarter. A royalty of 0 per cent. to 4 per cent. of production volume is also payable in relation to heavy oil depending on the average price of Brent crude in the relevant quarter.

#### Share of profit oil

Any profit oil available after deduction of amounts used for petroleum operations, payment of royalties and recovery of petroleum costs is shared between Madagascar SA and OMNIS. The production phase of the production sharing contract is divided into three production periods of 10 years each, and a final production period which runs until the Block 3107 PSC is terminated. Madagascar SA's share of profit oil in the first, second and third such periods is 80 per cent., 75 per cent. and 70 per cent. respectively, and its share for any subsequent production in the final period is 60 per cent.

#### Executive committee

The parties shall each appoint 3 representatives to the executive committee, which is responsible for decisions in relation to:

- (i) the adoption of work programmes and budget;
- (ii) the adoption of reports on the contractors activities;



- (iii) the approval of levels of production;
- (iv) the inspection of accounts;
- (v) tender procedures in relation to sub-contractors;
- (vi) the examination and approval of the development plan and budget for each deposit;
- (vii) any significant event or obstacle which may affect the petroleum operations; and
- (viii) any other matter referred to it by the parties.

The quorum required for voting is at least 2 representatives of OMNIS and 2 representatives of Madagascar SA.

The executive committee is required to attempt to reach unanimous agreement. If no unanimous agreement is reached at a meeting, a second meeting shall be held within 15 days. If no unanimous agreement is reached at the second meeting:

- (i) if he has one (see below), the chairman may exercise his casting vote;
- (ii) if the chairman does not have a casting vote, the decision is submitted to an expert (who shall determine which of the proposals put forward by OMNIS or Madagascar SA shall be adopted) in accordance with the dispute resolution procedures set out under the production sharing contract.

The chairman is appointed by Madagascar SA during the first 4 years from the date of commencement of the Block 3107 PSC and has a casting vote. Thereafter, the chairman is appointed by OMNIS but does not have a casting vote.

#### Accounting procedure

A detailed accounting procedure is set out in Appendix B to the Block 3107 PSC. The accounting procedure includes provisions to deal with, *inter alia*, which costs and expenses are "recoverable" by Madagascar SA and limitations on overheads.

#### Sole risk operations

OMNIS is entitled to carry out, or request that Madagascar SA carries out, sole risk operations in the contract area (subject to such operations having first been proposed as operations to be carried out by Madagascar SA). Madagascar SA retains a right to reinstate its rights in a discovery made through a sole-risk operation. If it wishes to do so, Madagascar SA must reimburse to OMNIS all costs incurred by the sole-risk operation (such cost is not considered a petroleum cost). The related invoice must be paid to OMNIS within 30 days from the date of receipt. As at the date of this document, no sole risk operations have been carried out.

#### Assets

Madagascar SA is responsible for purchasing all goods and services in accordance with approved work programmes and budgets, provided always that preference is to be given to goods and services available in Madagascar insofar as the price, competence, capacity, quality, quantity and delivery time are competitive.

Assets remain the property of Madagascar SA during the period of validity of the Block 3107 PSC, but are transferred to OMNIS in case of termination during the exploration period. If the Block 3107 PSC is terminated during the production phase, the assets shall become the property of OMNIS, free from any financial encumbrances (other than those created as a condition of external project financing).

#### Fiscal regime

Madagascar SA is subject to the Direct Tax on Hydrocarbons (based on income derived from profit oil) which replaces corporate income tax, Capital Gains Tax and the Fixed Tax on Transfers as defined in Article 48 of the Malagasy Petroleum Code.

#### Customs regime

During the exploration period, the assets and products used in the oil and gas operations benefits from the temporary admission regime which suspends customs charges and duties (provided that such exemption does not exceed the duration of exploration permit).

During the production period, Madagascar SA is exempt from all customs charges and duties on import of all materials, equipments required for the development operations and used for the initial installation of the hydrocarbon production, transformation and transportation units. Madagascar SA may export the hydrocarbons to which it is entitled under the production sharing contract from the contract area free of all export charges and duties.

#### Production bonus

Madagascar SA is obliged to pay to OMNIS a production bonus of US\$2,000,000 when production reaches an average of 50,000 barrels per day over a period of 90 consecutive days.

#### Administrative fees

Madagascar SA is also obliged to pay to OMNIS annual administrative fees of US\$162,500 on each anniversary of the signing of the agreement.

#### Training of personnel

For the training of its personnel and transfer of management and technical knowledge, OMNIS is entitled to receive US\$50,000 per year 120 days after the date of commencement of the production sharing contract. Such amount is payable US\$12,500 per quarter (such cost is considered to be a petroleum cost).

#### Domestic market

Madagascar SA is obliged, so far as necessary and as notified to it in advance by OMNIS, to supply a portion of the hydrocarbons produced from the contract area to the Malagasy market determined in accordance with a formula set out in the Block 3107 PSC. The price payable shall be the international market price and, in relation to sales of light hydrocarbons, shall be made in US Dollars within 30 days of the delivery date.

Madagascar SA has, at its own discretion, the right to market and sell on behalf of OMNIS, all of the hydrocarbons to which OMNIS is entitled under the agreement, subject to one month's notice. The conditions of sale shall be the same as for Madagascar SA, and shall be under arm's length conditions and in accordance with the international market price. Any additional cost incurred by Madagascar SA in connection with such marketing or sale is borne by OMNIS.

#### Unitisation

If a production area extends into adjacent areas in the Republic of Madagascar controlled by any third parties, OMNIS and Madagascar SA are required to reach an agreement for the exploitation of such area with any such third parties.

#### Force majeure

Any delay caused by an event of force majeure shall be deemed to extend the duration of the contract by such time as is required to remedy the damage caused by such event.

A party demanding the suspension of its obligations under the production sharing contract for force majeure shall notify the other party in writing immediately. The affected party shall take all reasonable and legal actions to remedy the force majeure and to restart the operations as soon as possible.

#### Assignment

Madagascar SA is entitled to assign, transfer, sell or dispose of any or all of its rights and interest in the Block 3107 PSC to an affiliated company by notice to OMNIS, subject to proving the financial and technical capabilities of such affiliated company.

Madagascar SA is not entitled to assign, transfer, sell or dispose of any or all of its rights and interest in the Block 3107 PSC to a non-affiliated company without the prior consent of OMNIS

(which may not be unreasonably withheld). Any proposed assignee must prove its financial and technical capabilities and undertake to fulfil Madagascar SA's obligations under the Block 3107 PSC to the extent of the transferred interest. Where all of Madagascar SA's interest is to be transferred, the transferee must also provide a standby letter of credit in the same form as provided by Madagascar SA.

If, as is intended, a Malagasy national oil company is set up, OMNIS shall assign to it all its commercial rights and obligations under the Block 3107 PSC. The parties agree that the Block 3107 PSC will be amended as required in those circumstances.

#### Abandonment

The Block 3107 PSC does not include express provisions for abandonment. However, Madagascar SA is obliged, prior to any relinquishment, to return the environment so far as possible, to its original state prior to the petroleum operations.

#### Termination

OMNIS is entitled to terminate the Block 3107 PSC, and take possession of all the assets pertaining to the contract area, in the event that Madagascar SA fails to fulfil its financial or minimum work obligations under the contract, or if Madagascar SA fails to abide by any arbitration decision in relation to it.

Madagascar SA may terminate the contract by relinquishing all of the contract area at the end of any phase, provided that in the exploration period Madagascar SA shall be obliged to pay to OMNIS a sum equal to the remaining amount of the standby letter of credit relating to the current exploration phase.

In addition, either party may terminate the contract for any breach which the other party fails to remedy, or in respect of which the other party fails to propose reasonable compensation, within 4 months of notice thereof.

#### Governing law and jurisdiction

The Block 3107 PSC and petroleum operations are governed by Malagasy law and the parties have submitted to the non-exclusive jurisdiction of the Malagasy courts. Disputes in relation to certain provisions of the contract are referred in the first instance to an expert. All other disputes (including disputes referred to, but not settled by, an expert) in relation to the contract will be finally settled by ICC arbitration.

The arbitration shall take place in Geneva. The language of the arbitration shall be French. The arbitration decision shall be final binding and shall not be subject to appeal.

The arbitration procedure will not abrogate the Parties of their respective legal and/or contractual obligations.

#### (b) *Block 3104 PSC*

The Block 3104 PSC is on substantially the same terms as the Block 3107 PSC, save to the extent required to reflect the different exploration area and save as set out below.

#### Date, parties and scope

The Block 3104 PSC was entered into on 29 April 2004 between OMNIS and Madagascar SA (currently under the legal nature of Société Anonyme).

The Block 3104 PSC gives Madagascar SA the exclusive responsibility to conduct all exploration, development and production activities in the contract area. On 6 July 2004, the Block 3104 PSC was approved by presidential decree n° 2004- 689 and an exploration drilling permit n° 11/04/TM was granted to OMNIS extending over 6,670 km<sup>2</sup> in the Tsimiroro region ("Block 3104"). The Block 3104 PSC became effective, in accordance with its terms, on 21 July 2004.

#### Exploration period

The Block 3104 PSC provides for an exploration period of 8 years, comprising a first exploration phase of 2 years and, at the option of Madagascar SA, second and third exploration phases of 2 years and 4 years respectively. Commencement of any phase is subject to the fulfilment of contractual obligations (including the work programme to be submitted by Madagascar SA for each calendar year) in relation to the previous phase. Madagascar SA may extend the exploration period by a further 2 years by written notice to OMNIS. If no commercial discovery is made by the end of the exploration period (including any extension) the Block 3104 PSC shall terminate.

Having fulfilled all obligations in relation to the first and second phases, Madagascar SA elected to enter the third exploration phase, which commenced on 17 August 2008 and extends to 17 August 2012.

#### Minimum exploration work commitments

During the first exploration phase, Madagascar SA was obliged to complete an appraisal programme in relation to any existing discoveries and carry out certain studies in relation to Block 3104, including in relation to reserves, production engineering, upgrading and local and regional infrastructure. Madagascar SA was also obliged to commence the drilling of a minimum of 2 reconfirmation appraisal wells. The minimum expenditure required in the first exploration phase was US\$1,000,000.

During the second exploration phase, Madagascar SA was obliged to evaluate the potential for conventional hydrocarbons in Block 3104 by re-evaluating existing data and acquiring new data through appropriate geological and geophysical methods. The minimum expenditure required in the second exploration phase was US\$1,000,000.

In the first two exploration phases, Madagascar SA incurred expenditure of approximately US\$72,300,000 and satisfied the relevant expenditure commitments.

During the third exploration phase, Madagascar SA is obliged to acquire and analyse further geophysical and geological data and re-evaluate existing data. The minimum expenditure to be incurred by Madagascar SA in the third exploration phase is US\$2,000,000. Madagascar SA is currently in discussions regarding a further one year extension of the third exploration phase to August 2013 based on upcoming results of its pilot project.

OMNIS has waived the requirement to provide a letter of credit in relation to the third exploration phase given that surplus expenditure for the first two exploration phases already exceeds that required for the third.

#### Relinquishment

Madagascar SA is not required to relinquish any part of the contract area, but may at the end of any phase relinquish all or part of the contract area by notice in writing to OMNIS, provided that any partial relinquishment shall not reduce or exempt Madagascar SA from any obligation under the Block 3104 PSC.

#### Recovery of petroleum costs

In order to recover its costs of exploration, development and production, Madagascar SA may retain up to 90 per cent. of the volume of hydrocarbons produced and saved from the contract area each year.

#### Royalty

Madagascar SA is obliged to pay a royalty on hydrocarbons which are not used in petroleum operations (or those lost, flared, or which are otherwise unusable) of 8 per cent. to 20 per cent. in the case of light hydrocarbons and 5 per cent. to 15 per cent. in the case of natural gas, based on average production volume during the relevant quarter. A royalty of 0 per cent. to 4 per cent. of production volume is also payable in relation to heavy oil depending on the average price of Brent crude in the relevant quarter.

#### Share of profit oil

Any profit oil available after deduction of amounts used for petroleum operations, recovery of petroleum costs and payment of royalties is shared between Madagascar SA and OMNIS. The production phase of the production sharing contract is divided into three production periods of 10 years each, and a final production period which runs until the Block 3104 PSC is terminated. Madagascar SA's share of profit oil in the first, second and third such periods is 90 per cent., 80 per cent. and 70 per cent. respectively, and its share for any subsequent production in the final period is 60 per cent.

#### Change of local laws

In case of more favourable modification of the Madagascar laws, Madagascar SA is entitled to ask for an amendment to the relevant articles of the production sharing contract. Such amendment will take effect after the signature or ratification of the amendment by presidential decree.

The parties agreed to approach the Malagasy Government in respect of changes to certain provisions of the Malagasy fiscal and customs regime which the parties acknowledged were necessary to the commercial success of the petroleum operations. Madagascar SA is entitled to terminate the Block 3104 PSC if such changes are not made within 2 years, provided that Madagascar SA will fulfil those commitments in progress, including, without limitation to the restoration of the environment so far as possible, to its original state prior to the petroleum operations.

#### Production bonus

Madagascar SA is obliged to pay to OMNIS a production bonus of US\$2,000,000 when production reaches an average of 100,000 barrels over a period of 90 consecutive days.

#### Annual administrative fees

Madagascar SA is obliged to pay to OMNIS annual administrative fees of US\$150,000 during the first exploration phase and US\$250,000 during all subsequent exploration phases.

#### Training of personnel

For the training of its personnel and transfer of management and technical knowledge, OMNIS is entitled to receive US\$100,000 per year 120 days after the date of commencement of the production sharing contract. Such amount is payable at a rate of US\$25,000 per quarter (such cost is considered as petroleum cost).

#### Termination

Madagascar SA may terminate the Block 3104 PSC, by notice in writing to OMNIS if the changes to Malagasy law which have been agreed by the parties as being desirable and which Madagascar SA is seeking to have implemented are not effected by the Malagasy Government within 2 years of the effective date.

#### (c) *Block 3105 PSC*

The Block 3105 PSC is on substantially the same terms as the Block 3107 PSC, save to the extent required to reflect the different exploration area and save as set out below.

#### Date, parties and scope

The Block 3105 PSC was entered into on 23 June 2004 between OMNIS and Madagascar SA (currently under the legal nature of Société Anonyme). It was amended by an agreement dated 10 September 2009 and further amended by an agreement dated 3 September 2010 between OMNIS and Madagascar SA.

The Block 3105 PSC gives Madagascar SA the exclusive responsibility to conduct all exploration, development and production activities in the contract area. On 5 November 2004, the Block 3105 PSC was approved by presidential decree n° 2004-1006 and an exploration drilling permit n° 13/04/TM was granted to OMNIS extending over 5,325 km<sup>2</sup> in

the West Manambolo region ("Block 3105"). The Block 3105 PSC became effective, in accordance with its terms, on 20 November 2004.

#### Exploration period

Having fulfilled all obligations in relation to the first exploration phase and the first sub-phase of the second exploration phase, Madagascar SA is currently in the second sub-phase of the second exploration phase, which shall continue until 31 December 2011.

#### Minimum exploration work commitments

During the first exploration phase, Madagascar SA was obliged to re-evaluate existing data in relation to reserves and acquire new geological or geophysical data. The minimum commitment for the first exploration phase was US\$300,000 and Madagascar SA incurred expenditure of approximately US\$782,081.

During the first sub-phase of the second exploration phase, Madagascar SA was required to acquire, process and interpret 65 km of 2D seismic data. The minimum commitment for the first sub-phase of the second exploration phase was US\$500,000 and Madagascar SA has incurred expenditure of approximately US\$1,077,748.

During the second sub-phase of the second exploration phase, Madagascar SA is required to perform "GORE" testing, acquire additional seismic data if needed and drill one exploration well. The minimum commitment for the second sub-phase of the second exploration phase is US\$500,000.

During the third exploration phase, Madagascar SA is required to perform engineering studies. The minimum commitment for the third exploration phase is US\$2,000,000.

The letter of credit in relation to the second exploration phase for an initial amount of US\$1,000,000 was issued by Credit Suisse in favour of OMNIS on 30 January 2007. We understand from the Company that Credit Suisse released US\$500,000 of this letter of credit and that it was therefore reduced to US\$500,000 when the first sub-phase of the second exploration phase was completed. This letter of credit shall not be reduced by any expenditure in relation to GORE survey work.

#### Recovery of petroleum costs

In order to recover its costs of exploration, development and production, Madagascar SA may retain up to 80 per cent. of the volume of hydrocarbons produced and saved from the contract area each year.

#### Royalty

Madagascar SA is obliged to pay a royalty on hydrocarbons not used in petroleum operations, lost, flared, or otherwise unusable, of 8% to 20% in the case of light hydrocarbons and 5 per cent. to 10 per cent. in the case of natural gas, based on average production volume during the relevant quarter.

#### (d) *Block 3106 PSC*

The Block 3106 PSC is on substantially the same terms as the Block 3107 PSC, save to the extent required to reflect the different exploration area and save as set out below.

#### Date, parties and scope

The Block 3106 PSC was entered into on 23 June 2004 between OMNIS and Madagascar SA (currently under the legal nature of Société Anonyme). It was amended by an agreement dated 10 September 2009 and further amended by an agreement dated 3 September 2010 between OMNIS and Madagascar SA.

The Block 3106 PSC gives Madagascar SA the exclusive responsibility to conduct all exploration, development and production activities in the contract area. On 5 November 2004, the Block 3106 PSC was approved by presidential decree n° 2004-1008 and an exploration drilling permit was granted to OMNIS extending over 9,100 km<sup>2</sup> in the Morondava

region ("Block 3106"). The Block 3106 PSC became effective, in accordance with its terms, on 20 November 2004.

#### Exploration period

Having fulfilled all obligations in relation to the first exploration phase and the first sub-phase of the second exploration phase, Madagascar SA is currently in the second sub-phase of the second exploration phase, which shall continue until 31 December 2011.

#### Minimum exploration work commitments

During the first exploration phase, Madagascar SA was obliged to re-evaluate existing data in relation to reserves and acquire new geological or geophysical data. The minimum commitment for the first exploration phase was US\$300,000 and Madagascar SA incurred expenditure of approximately US\$1,386,155.

During the first sub-phase of the second exploration phase, Madagascar SA was required to acquire, process and interpret 65 km of 2D seismic data. The minimum commitment for the first sub-phase of the second exploration phase was US\$500,000 and Madagascar SA incurred expenditure of approximately US\$1,106,688.

During the second sub-phase of the second exploration phase, Madagascar SA is required to perform "GORE" testing, acquire additional seismic data if needed and drill one exploration well. The minimum commitment for the second sub-phase of the second exploration phase is US\$500,000.

During the third exploration phase, Madagascar SA is required to perform drilling on two (2) wells. The minimum commitment for the third exploration phase is US\$2,000,000.

The letter of credit in relation to the second exploration phase for an initial amount of US\$1,000,000 was issued by Credit Suisse in favour of OMNIS on 30 January 2007. Credit Suisse released US\$500,000 of this letter of credit and that it was therefore reduced to US\$500,000 when the first sub-phase of the second exploration phase was completed. This letter of credit shall not be reduced by any expenditure in relation to GORE survey work.

#### Recovery of petroleum costs

In order to recover its costs of exploration, development and production, Madagascar SA may retain up to 80 per cent. of the volume of hydrocarbons produced and saved from the contract area each year.

#### Royalty

Madagascar SA is obliged to pay a royalty on hydrocarbons not used in petroleum operations, lost, flared, or otherwise unusable, of 8 per cent. to 20 per cent. in the case of light hydrocarbons and 5 per cent. to 10 per cent. in the case of natural gas, based on average production volume during the relevant quarter.

#### (e) *Block 3102 PSC*

The Block 3102 PSC is on substantially the same terms as the Block 3107 PSC, save to the extent required to reflect the different exploration area and save as set out below.

#### Date, parties and scope

The Block 3102 PSC was entered into on 29 April 2004 between OMNIS and Madagascar SA (currently under the legal nature of Société Anonyme) and was amended on 17 September 2008 to reflect that Madagascar SA has sold 60 per cent. of its participating interest in the Block 3102 PSC to Total E&P Madagascar S.A.S., which is also designated as the operator in relation to the contract area ("Total E&P" or the "Operator"). For the purposes of this summary, references to Madagascar SA shall, unless the context requires otherwise, refer to both Madagascar SA and Total E&P (in their joint capacity as "Contractor" under the Block 3102 PSC and whose obligations as regards each other are determined in accordance with the joint operating agreement entered into between them (further details of which are set out in paragraph (f) below or as otherwise agreed between them)).

The Block 3102 PSC gives Madagascar SA the exclusive responsibility to conduct all exploration, development and production activities in the contract area. On 6 July 2004, the Block 3102 PSC was approved by presidential decree and an exploration drilling permit was granted to OMNIS. The Block 3102 PSC became effective, in accordance with its terms, on 21 July 2004.

#### Exploration period

The Block 3102 PSC provides for an exploration period of 8 years, comprising a first exploration phase of 2 years and, at the option of Madagascar SA, second and third exploration phases of 2 years (split into 2 sub-phases) and 4 years respectively. The third sub-phase is further split into two sub-phases. Commencement of any phase is subject to the fulfilment of contractual obligations (including the work programme to be submitted by Madagascar SA for each calendar year) in relation to the previous phase. Madagascar SA may extend the exploration period by a further 2 years by written notice to OMNIS. If no commercial discovery is made by the end of the exploration period (including any extension) the Block 3102 PSC shall terminate.

Having fulfilled all obligations in relation to the first and second phases, Madagascar SA elected to enter the first sub-phase of the third exploration phase, which commenced on 17 September 2008.

#### Minimum exploration work commitments

During the first exploration phase, Madagascar SA was obliged to complete an appraisal programme in relation to any existing discoveries and carry out certain studies in relation to Block 3102, including in relation to reserves, production engineering (including asphalt), upgrading and local and regional infrastructure. Madagascar SA was also required to commence the acquisition of new data and the reconfirmation of existing data by appropriate geological and geophysical methods. The minimum expenditure required in the first exploration phase was US\$1,000,000.

During the second exploration phase, Madagascar SA was obliged to re-evaluate existing data and acquire new data through appropriate geological and geophysical methods in relation to both heavy oil and conventional hydrocarbons. Madagascar SA was also obliged to study options for boosting production of heavy oil. The minimum expenditure required in the second exploration phase was US\$1,000,000.

Madagascar SA incurred expenditure of approximately US\$5,000,000 in the first two exploration phases and satisfied the relevant expenditure commitments.

The third exploration phase is split into two sub-phases. The first sub-phase is an assessment phase which requires the drilling and coring of at least 60 wells and an evaluation of the geology, reservoir engineering and preliminary development studies. The minimum expenditure to be incurred by Madagascar SA is US\$30,000,000. Following completion of this stage, Madagascar SA must decide whether to enter into the second sub-phase.

The second sub-phase requires Madagascar SA to conduct a drilling campaign, front end engineering and development work, engineering procurement and construction for the pilot project, and operation of the pilot project. The minimum expenditure to be incurred by Madagascar SA is US\$100,000,000.

The letter of credit in relation to the first sub-phase of the third exploration phase for an initial amount of US\$30,000,000 was issued by Total E&P in favour of OMNIS in September 2008. Madagascar SA pays its share of the fees for maintaining this letter of credit.

Total E&P has requested that additional costs of around US\$45,000,000 incurred in the first sub-phase of the third exploration phase are applied in reaching the minimum expenditure in the second sub-phase of the third exploration phase.

#### Relinquishment

Madagascar SA is not required to relinquish any part of the contract area, but may at the end of any phase relinquish all or part of the contract area by notice in writing to OMNIS, provided



that any partial relinquishment shall not reduce or exempt Madagascar SA from any obligation under the Block 3102 PSC.

#### Production

Before making any development decision, the parties have agreed that they will re-negotiate in good faith the tax and customs terms of the contract. It is acknowledged that Madagascar SA wishes to achieve an internal rate of return of 15 per cent. (based on a rate of inflation of 2.5 per cent. and the price per barrel of Brent crude of US\$80 (+/- US\$20)).

#### Social and economic development

Madagascar SA has agreed that it shall contribute an amount of US\$850,000 per year from the date of approval of an appraisal programme by OMNIS (up to a maximum of US\$5,000,000, the balance of which shall be paid following the development decision) to promote social development in and around the contract area. Madagascar SA has also agreed that it shall contribute US\$5,000,000 to the renovation of the road between Tsiroanomandidy and Morafenobe.

All sums contributed by Madagascar SA to social and economic development shall be recoverable as petroleum costs.

#### Recovery of petroleum costs

In order to recover its costs of exploration, development and production, Madagascar SA may retain up to 75 per cent. of the volume of hydrocarbons produced and saved from the contract area each year.

#### Royalty

Madagascar SA is obliged to pay a royalty on hydrocarbons which are not used in petroleum operations (or those lost, flared, or which are otherwise unusable) of 8 per cent. to 20 per cent. in the case of light hydrocarbons and 5 per cent. to 10 per cent. in the case of natural gas, based on average production volume during the relevant quarter. A royalty of 2 per cent. to 10 per cent. of production volume is also payable in relation to heavy oil depending on the average price of Brent crude in the relevant quarter.

#### Share of profit oil

Any profit oil available after deduction of amounts used for petroleum operations, recovery of petroleum costs and payment of royalties is shared between Madagascar SA and OMNIS. The production phase of the production sharing contract is divided into three production periods of 10 years each, and a final production period which runs until the Block 3102 PSC is terminated. Madagascar SA's share of profit oil in the first, second and third such periods is 90 per cent., 80 per cent. and 70 per cent. respectively, and its share for any subsequent production in the final period is 60 per cent.

#### Production bonus

Madagascar SA is obliged to pay to OMNIS a production bonus of US\$2,000,000 when production reaches an average of 100,000 barrels per day over a period of 90 consecutive days.

#### Administrative fees

Madagascar SA was also obliged to pay to OMNIS annual administrative fees of US\$150,000 during the first exploration phase and US\$250,000 during all subsequent exploration phases. OMNIS is also entitled to receive US\$25,000 per quarter for the training of its personnel.

#### Abandonment

No later than 6 years before the end of the use of the facilities, or when 50 per cent. of the oil reserves have been produced, the operator is required to prepare an abandonment plan in relation to, inter alia, the abandonment of all facilities and equipment in the production area, the restoration of displaced material and the re-planting of vegetation. No later than 2 years prior to the end of the use of the facilities, such plan must be submitted to OMNIS for

approval. In order to fund the works to be carried out pursuant to the abandonment plan, Madagascar SA must put sufficient funds in a separate bank account for this purpose no later than 5 years prior to the end of the use of the facilities or when 50 per cent. of the oil reserves have been produced.

#### Termination

Madagascar SA may terminate the Block 3102 PSC, by notice in writing to OMNIS, if the changes to Malagasy law which have been agreed by the parties as being desirable and which Madagascar SA is seeking to have implemented are not effected by the Malagasy Government within 2 years of the effective date.

#### (f) *Block 3102 Farm-out Agreement*

##### Date, parties and scope

The Block 3102 farm-out agreement was entered into on 20 June 2008 between Madagascar SA as farmor (the "Farmor") and Total E&P as farmee (the "Farmee"). The Block 3102 farm-out agreement records the terms on which the Farmee acquired a 60 per cent. participating interest in the Block 3102 PSC from the Farmor.

##### Farm-out

Prior to the farm-out, the Farmor held a 100 per cent. participating interest in the Block 3102 PSC. The Farmor agreed to sell, and the Farmee agreed to acquire, a 60 per cent. participating interest in the Block 3102 PSC, such that following the farmout the participating interests of the parties were:

Total	60 per cent.
Madagascar SA	40 per cent.

In consideration of the transfer, the Farmee agreed to pay the initial cash consideration of US\$100,000,000, and, in the event that one or more development plans are submitted pursuant to the Block 3102 PSC, the amount of US\$0.20 for each barrel of oil above 3,000,000,000 barrels expressed to be targeted pursuant to such plans multiplied by the Farmee's participating interest.

##### New farmee

The Farmor and the Farmee have agreed that during the second evaluation phase, they will seek a new farmee to become a party to the Block 3102 PSC and the Block 3102 joint operating agreement (further details of which are set out in paragraph (g) below). The Farmor and the Farmee have agreed that once a new farmee has been identified, each of them shall transfer to such party from their respective participating interests between 5 per cent. and 10 per cent. of the total of the participating interests of all the parties to the Block 3102 PSC, such that the new farmee shall hold a participating interest of between 10 per cent. and 20 per cent.

##### Assignment

A party is entitled to transfer its interest under the Block 3102 farm-out agreement, provided that it also transfers its interest under the Block 3102 joint operating agreement (please see paragraph (g) of this Part 6 below).

##### Governing law and jurisdiction

The Block 3102 farm-out agreement is governed by English law and any disputes shall be resolved by arbitration in accordance with the arbitration rules of the ICC.

#### (g) *Block 3102 Joint Operating Agreement (the "Block 3102 JOA")*

##### Date, parties and scope

The Block 3102 JOA was entered into on 20 June 2008 between Madagascar SA and Total E&P. The Block 3102 JOA establishes the rights and obligations of Madagascar SA and Total with regard to operations under the Block 3102 PSC including the exploration, appraisal,

development and production of hydrocarbons from the contract area. Total E&P has been appointed operator for the joint venture.

The rights and obligations, as between the parties, are expressed to be several, not joint or joint and several.

#### Operating committee and operations

The operating committee consists of one representative of each participant holding a participating interest. Decisions of the operating committee are generally taken by affirmative decision, being a decision of any party or parties holding at least 55 per cent. of the participating interests. Certain decisions of the operating committee (including, without limitation, those in relation to the amendment, termination or extension of the Block 3102 PSC, development plans and relinquishments) require a unanimous vote. Where a decision requires unanimity and it is not achieved, there is a mechanism whereby the parties may elect for the non-operator party to be bought out by the operator at a fair market value.

#### Removal of operator

The operator may resign on 120 days notice and may be removed immediately by notice from any non-operator in the case of an insolvency event. The operator may also be removed by an affirmative vote if it commits a material breach of the joint operating agreement, or if its participating interest falls below 25 per cent.

#### Limitation of liability of operator

The operator shall not (and nor shall its affiliates or their respective directors, officers and employees) bear any liability (except in its capacity as a party to the agreement to the extent of its participating interest) for any losses or damages arising out of its function as operator (whether such damages are caused by misconduct or negligence or any other legal fault of the operator), save for damages caused by the wilful misconduct or gross negligence of the senior supervisory personnel of the operator.

#### Carry

Costs incurred in evaluation works are to be borne by the parties in accordance with their respective participating shares, save that the first US\$40,000,000 of such costs to be borne by Madagascar SA shall be payable by Total E&P.

#### Term

The Block 3102 JOA shall continue in effect whilst there are two or more participants and until (i) the Block 3102 PSC terminates, (ii) all materials and equipment in relation to the operations have been removed, and (iii) final settlement has been made among the participants. Confidentiality and indemnity provisions may remain in force for a longer period.

#### Transfer

A party may transfer all or part of its participating interest under the Block 3102 JOA, provided that (i) no transfer may be made if it would result in any party holding a participating interest of less than 10 per cent., (ii) both the transferee and transferor shall be liable for the transferor's obligations which have crystallised on the date of the transfer, (iii) each transferee must undertake to perform the obligations of the transferor under the Block 3102 JOA, and (iv) except in the case of a transfer to an affiliate, the transferee must be an investment grade company with a technical capacity which is of demonstrable value to the joint venture.

All transfers (other than those to an affiliate, or by way of the granting of an encumbrance) are subject to pre-emption.

#### Default

A defaulting party loses its voting rights and its rights to any production entitlement under the Block 3102 JOA. If the default is not remedied within 90 days, the non-defaulting parties

may buy out the participating interest of the defaulting party or require it to withdraw from the agreement.

#### Withdrawal

Any party (other than a defaulting party) may withdraw from the Block 3102 JOA without compensation by notice to the other parties. A withdrawing party is entitled to all benefits and is responsible for all costs and obligations derived under the Block 3102 JOA up to the date of withdrawal. A withdrawing party is required to assign its participating interest to the non-withdrawing parties in the proportion which each of their participating interests bears to the total participating interests of all the non-withdrawing parties.

#### Governing law and jurisdiction

The Block 3102 JOA is governed by English law and any disputes in relation to it shall be resolved by arbitration in accordance with the arbitration rules of the ICC.

#### (h) *BGP Seismic Acquisition Agreement*

The agreement was entered into on 1 August 2009 between Madagascar SA and BGP, Inc. ("BGP").

Under the agreement BGP agreed to provide 200 km of 2D seismic data in accordance with a work programme and other related services, including, without limitation, personnel and equipment.

Madagascar SA agreed to pay monthly invoices based on estimates of work carried out in the previous month. The acquisition of seismic data is charged at an operational rate of US\$10,500 per km (and a standby rate of up to US\$7,500 per day). The amount payable in respect of additional services under the agreement is approximately US\$775,000.

#### (i) *Ramsgate Services Agreement*

The agreement was entered into on 5 November 2009 between Madagascar SA and Ramsgate Engineering, Inc ("Ramsgate"). Under the agreement, Ramsgate agreed to provide certain engineering services for a period of 1 year. Madagascar SA agreed to pay Ramsgate on the basis of an hourly rate for services provided.

#### (j) *Worley Consultancy Agreement*

The agreement was entered into on 15 April 2010 between Madagascar SA and WorleyParsons Canada Ltd ("Worley"). Under the agreement, Worley agreed to conduct geophysical surveys (including electrical resistivity tomography) at the Tsimiroro site in Madagascar. Madagascar SA agreed to pay to Worley US\$2,429,838 in monthly instalments based on work completed during the preceding month.

#### (k) *Peregrine Services Agreement*

The agreement was entered into on 1 July 2010 between Madagascar SA and Peregrine Ventures, Inc ("Peregrine"). Under the agreement, Peregrine agreed to provide a "W.L. Gore & Associates Amplified Geochemical Imaging Survey" in Madagascar. Madagascar SA agreed to pay to Peregrine US\$545,444.60 for its services in three instalments.

#### (l) *Gore Services Agreement*

The agreement was entered into on 30 July 2010 between Madagascar SA and W.L. Gore & Associates, Inc ("Gore"). Under the agreement, Gore agreed to provide surface geo-chemical exploration surveys to Madagascar SA. Madagascar SA agreed to pay to Gore US\$1,725,031 for its services in four instalments.

#### (m) *Simmons Services Agreement*

The agreement was entered into on 17 August 2010 between Madagascar SA and Simmons Drilling (Overseas) Limited ("Simmons"). Under the agreement, Simmons agreed to provide personnel to operate Madagascar SA's coring rig in Madagascar and provide equipment and

carry out auxiliary operations and services in relation thereto. Madagascar SA agreed to pay Simmons on the basis of a daily rate for services provided.

(n) *Semm Logging Agreement*

The agreement was entered into on 4 August 2010 between Madagascar SA and Semm Logging. Under the agreement, Semm Logging is providing geophysical logging services to the Tsimiroro Block. The duration of the contract is six months and the agreement calls for scheduled payments of approximately €276,000 over the term.

**Other Material Agreements**

(o) *March 2006 Subscription Agreement*

The subscription agreement was entered into on 17 March 2006 between the Company and an investor group including Touadji, Persistency Capital LLC ("Persistency") and Prospector Limited (the "March 2006 Investors").

Under the subscription agreement, the March 2006 Investors subscribed for 40,000,000 common shares of par value US\$0.0001 each (in aggregate) at a price of US\$1.50 per common share for an aggregate subscription amount of US\$60,000,000.

The subscription agreement contains extensive representations, warranties and indemnities given by the Company to the March 2006 Investors relating to, among other things, information provided on the Company and its assets, the PSCs and various corporate (including status, power, authority and non-violation of laws), financial, accounting and business matters. The Company's aggregate liability to each March 2006 Investor is limited to the amount of such investor's aggregate subscription.

Under the subscription agreement, Touradji is entitled to appoint an observer to attend board meetings of the Company in a non-voting capacity for a period expiring 120 days after Admission.

Each March 2006 Investor agreed not to sell, pledge or otherwise dispose of the common shares it has subscribed for under the agreement during the period commencing on consummation of an initial public offering of the Company (including on AIM) and ending on the date falling 120 days thereafter.

(p) *October 2006 Subscription Agreement*

The subscription agreement was entered into on 18 October 2006 between the Company and Touradji.

Under the subscription agreement, Touradji subscribed for 10,000,000 common shares of par value US\$0.0001 each at a price of US\$2.50 per common share for an aggregate subscription amount of US\$25,000,000. The Company also agreed to grant to Touradji 5,000,000 warrants to subscribe for common shares of par value US\$0.0001 each at a price of US\$1.65 per common share and 5,000,000 warrants to subscribe for common shares of par value US\$0.0001 each at a price of US\$2.50 per common share. These warrants have now expired.

The subscription agreement contains extensive representations, warranties and indemnities given by the Company to Touradji relating to, among other things, information provided on the Company and its assets, the PSCs and various corporate (including status, power, authority, non-violation of laws), financial, accounting and business matters. The Company's aggregate liability to Touradji is limited to the amount of Touradji's aggregate subscription.

Touradji agreed not to sell, pledge or otherwise dispose of the common shares it has subscribed for under the agreement during the period commencing on consummation of an initial public offering of the Company (including on AIM) and ending on the date falling 120 days thereafter.

On 15 August 2008, the Company and Touradji entered into an amendment agreement in relation to the subscription agreement. Under the amendment agreement, Touradji agreed to surrender certain rights contained in the subscription agreement in consideration for the

Company agreeing to issue 200,000,000 (prior to giving effect to the consolidation of share capital referred to in paragraph 3.2(gg) of this Part 6) common shares to Touradji.

(q) *November 2006 Subscription Agreement*

The subscription agreement was entered into on 14 November 2006 between the Company and Persistency.

Under the subscription agreement, Persistency subscribed for 2,000,000 common shares of par value US\$0.0001 each at a price of US\$2.50 per common share for an aggregate subscription amount of US\$5,000,000. The Company also agreed to grant to Persistency 1,000,000 warrants to subscribe for common shares of par value US\$0.0001 each at a price of US\$1.65 per common share and 1,000,000 warrants to subscribe for common shares of par value US\$0.0001 each at a price of US\$2.50 per common share. These warrants have now expired.

The subscription agreement contains extensive representations, warranties and indemnities given by the Company to Persistency relating to, among other things, information provided on the Company and its assets, the PSCs and various corporate (including status, power, authority, non-violation of laws), financial, accounting and business matters. The Company's aggregate liability to Persistency is limited to the amount of Persistency's aggregate subscription.

Persistency agreed not to sell, pledge or otherwise dispose of the common shares it has subscribed for under the agreement during the period commencing on consummation of an initial public offering of the Company (including on AIM) and ending on the date falling 120 days thereafter.

On 15 August 2008, the Company and Persistency entered into an amendment agreement in relation to the subscription agreement. Under the amendment agreement, Persistency agreed to surrender certain rights contained in the subscription agreement in consideration for the Company agreeing to issue 35,000,000 (prior to giving effect to the consolidation of share capital referred to in paragraph 3.2(gg) of this Part 6) common shares to Persistency.

(r) *November 2008 Shareholder Financing*

The Company carried out a shareholder financing (through the issue of common shares of par value US\$0.0001 each to existing shareholders) between November 2008 and February 2009 (the "November 2008 Shareholder Financing"). The November 2008 Shareholder Financing was carried out in three tranches. The first tranche consisted of an offer of common shares of par value US\$0.0001 each to significant shareholders, the second tranche consisted of an offer of common shares of par value US\$0.0001 each to warrant holders in the Company and the third tranche consisted of an offer of common shares of par value US\$0.0001 each to all remaining shareholders (i.e. those not included in the first tranche).

Those shareholders and warrant holders who subscribed for common shares of par value US\$0.0001 each did so pursuant to a subscription agreement.

The Company entered into a subscription agreement with:

- (i) those significant shareholders who subscribed for common shares of par value US\$0.0001 each on or around 7 November 2008;
- (ii) those warrant holders who subscribed for common shares of par value US\$0.0001 each on or around 2 December 2008; and
- (iii) those remaining shareholders who subscribed for common shares of par value US\$0.0001 each on or around 20 February 2009.

Under the subscription agreements, the relevant shareholders/warrant holders subscribed for 349,837,676 common shares of par value US\$0.0001 each in aggregate (some of which did not carry the right to vote) at a price of US\$0.02 per common share. The shareholders, but not

the warrant holders, were entitled to apply for any unsubscribed shares by way of over allotment.

(s) *Persistency Standby Equity Commitment Agreement*

The agreement was entered into on 6 November 2008 between the Company and Persistency and relates to the November 2008 Shareholder Financing.

Under the agreement, Persistency made a firm commitment to provide the Company with US\$7,000,000 through the purchase of 350,000,000 common shares of par value US\$0.0001 each (the "Maximum Obligation"). It was agreed that the Maximum Obligation would be reduced by the number of common shares actually purchased by shareholders and warrant holders in the November 2008 Shareholder Financing.

The agreement provides for a fee to be paid to Persistency of 7.5 per cent. of the cash amount raised pursuant to the November 2008 Shareholder Financing. The fee actually paid by the Company to Persistency under the agreement was US\$525,000.

The Company is under an obligation not to issue any debt or equity security which is senior in right of payment or liquidation preference to the common shares, except with the prior consent of Persistency and Touradji. Persistency and Touradji have indicated that this restriction will be terminated at Admission.

(t) *June 2009 Subscription Agreement*

The Company entered into a subscription agreement on 1 June 2009 with each of the following investors: Minvest Securities (New Zealand) Limited, Ocean Equities Limited and Rupert Edward Williams.

Under each subscription agreement, the relevant investors subscribed for 11,000,000 common shares of par value US\$0.0001 each in aggregate at a price of US\$0.05 per common share.

(u) *Grafton Subscription Agreement*

The agreement was entered into on 24 July 2009 between the Company, Grafton Resources Investments Limited (and its subsidiary, MOL Holdings Ltd, together referred to as "Grafton") and Touradji.

Under the subscription agreement, Grafton subscribed for 100,000,000 common shares of par value US\$0.0001 each at a price of US\$0.05 per common share for an aggregate subscription amount of US\$5,000,000.

The agreement contains certain representations and warranties given by the Company to Grafton relating to, among other things, various corporate, financial and business matters.

(v) *August 2009 Shareholder Financing*

The Company carried out a shareholder financing (through the issue of common shares of par value US\$0.0001 each to existing shareholders) on 7 August 2009. The shareholder financing was carried out in satisfaction of shareholders' pre-emption rights under the Company's by-laws (in force at the date of the agreement) following the issue of common shares of par value US\$0.0001 each to Grafton pursuant to the subscription agreement referred to at paragraph 14.1(u) above.

The shareholders who subscribed for common shares of par value US\$0.0001 each did so pursuant to a subscription agreement. Each subscription agreement is on the similar terms (except as to the number of common shares subscribed for).

Under the subscription agreement, the shareholders subscribed for 70,000 common shares of par value US\$0.0001 each in aggregate at a price of US\$0.05 per common share. The shareholders were entitled to apply for any unsubscribed common shares by way of over allotment.

- (w) *Global Deed of Release in relation to an US\$85,000,000 secured facility agreement provided by, among others, Credit Suisse International (the "Credit Suisse Facility")*

On 19 September 2009, the Company entered into a global deed of release with, among others, Credit Suisse, London Branch in its capacity as security agent under the Credit Suisse Facility and related financing and security documents.

Under the global deed of release, the security agent (on behalf of itself and the other secured parties) agreed to release the security (put in place under the Credit Suisse Facility) over the secured assets and agreed that the security documents were terminated.

Although, pursuant to the global deed of release, the security provided for under the Credit Suisse Facility has been released and Madagascar SA has taken all actions necessary to have this pledge removed from the register in Madagascar, however, this pledge remains in place due to an administrative delay. The Company is arranging for this pledge to be removed (which is purely an administrative issue) and the fees and expenses incurred in effecting the release will be approximately US\$85,000.

- (x) *Credit Suisse Side Letter*

The side letter was entered into 23 July 2009 between the Company, Credit Suisse International and Credit Suisse, London Branch (as security agent under the Credit Suisse Facility).

Under the side letter, it was agreed that the Company would issue 6,135,771 common shares of par value US\$0.0001 each to (or to the order of) Credit Suisse International (the "Credit Suisse International Shares") and (among other things):

- (i) Credit Suisse, London Branch (as security agent) would execute the global deed of release (referred to at paragraph 14.1(w) above); and
- (ii) the issue of the Credit Suisse International Shares would be in full and final satisfaction and discharge of certain of the Company's obligations under a warrant instrument executed by the Company on 30 March 2007 pursuant to which the Company agreed to issue warrants to subscribe for common shares to the order of Credit Suisse International (the "Credit Suisse Warrant Instrument").

- (y) *Standard Bank Engagement Letter*

Pursuant to an engagement letter dated 18 January 2010, the Company appointed Standard Bank plc ("Standard Bank") to act as its financial adviser in relation to a potential sale or recapitalisation of the Company.

Pursuant to the engagement letter, the Company agreed to pay to Standard Bank a fee of: (i) US\$500,000 in connection with the subscription for common shares of par value US\$0.01 each by the Blakeney Investors (as defined in paragraph 14.1(bb) below); and (ii) US\$500,000 in connection with Admission.

The Company agreed to indemnify and hold harmless and keep indemnified Standard Bank and its affiliates and related persons from, amongst others, any and all losses, claims, proceedings or judgments which relate to Standard Bank's appointment and the services provided as set out in the engagement letter.

The engagement letter was terminated by the Company on 15 October 2010. The engagement letter provides for a fee to be paid to Standard Bank in certain circumstances in respect of transactions completed by the Company within 9 months after termination of the engagement letter.

- (z) *Financial and Nominated Adviser Engagement Letter*

Pursuant to an engagement letter dated 8 July 2010 (as amended by way of a side letter dated 18 November 2010), the Company appointed Strand Hanson to act as the Company's financial and nominated adviser in relation to the Admission.



The Company agreed to pay to Strand Hanson: (i) £16,500 payable in cash on signing of the agreement; (ii) £16,500 payable in cash on publication of the pathfinder admission document; (iii) £100,000 payable in cash on Admission; (iv) £67,000 payable on Admission, to be satisfied by the issue of Common Shares at the Placing Price; and (v) an additional amount in respect of Strand Hanson's services of £25,000.

The engagement letter contains a number of representations provided by the Company to Strand Hanson. In addition, the Company agreed to indemnify and hold harmless Strand Hanson and its related companies and persons against, amongst others, all losses, proceedings, damages, costs, and other liabilities which an indemnified party may incur in connection with or relate to the terms of the engagement.

Strand Hanson's financial liability to the Company (including that of any related companies) is limited to two times its corporate finance advisory fee.

(aa) *July 2010 Shareholder Financing*

The Company carried out a shareholder financing (through the issue to existing shareholders of promissory notes convertible into common shares of par value US\$0.01 each in the aggregate principal amount of US\$2,873,355.74 and in aggregate 71,837 warrants to subscribe for common shares of par value US\$0.01 each) in July and August 2010. The shareholder financing was carried out in two tranches. The first tranche consisted of an offer to the Company's three largest shareholders (or their affiliates) and the second tranche consisted of an offer to all remaining shareholders.

Under the Convertible Promissory Notes, the Company agrees to pay the principal amount of the note together with all accrued interest on or before 31 December 2010.

The Convertible Promissory Notes bear interest at a rate of 12 per cent. per annum. Any amount not paid when due bears interest at a rate of 14 per cent. per annum.

The investors may convert the principal amount of the Convertible Promissory Notes (together with accrued and unpaid interest) into common shares of par value US\$0.01 each at any time (whilst the principal amount remains outstanding) at a conversion price of US\$15 per common share. The conversion price is subject to adjustment in certain specified circumstances which would include the Sub-division (following which the conversion price would be US\$1.50 per Common Share).

Subject to the investors' conversion right, the Company is under an obligation to prepay the Convertible Promissory Notes in whole (without penalty) on the fifth business day following the date on which: (i) the cumulative total of equity financings by the Company in 2010 equals or exceeds US\$75,000,000 (which would be triggered by the Placing); or (ii) there is a consolidation with or merger into another person or there is a sale of all or substantially all of the Group's assets, whichever is the earlier. The Company is also under an obligation to give the investors the opportunity to convert the Convertible Promissory Notes into common shares prior to prepayment.

Upon an event of default, the investors may declare the unpaid principal amount of, and interest on, the Convertible Promissory Notes due and payable and the same will become immediately due and payable.

The Convertible Promissory Notes contain usual default provisions and the Company is under an obligation not to: (i) issue any indebtedness that ranks senior or *pari passu* to the indebtedness under the Convertible Promissory Notes; or (ii) prepay or acquire any of the other Convertible Promissory Notes in certain circumstances.

The Convertible Promissory Notes contain standard representations given by the Company to the investors relating to, among other things, status, power, authority and non-violation of laws.

The Company issued the warrants pursuant to a warrant instrument to subscribe for up to 100,000 common shares of par value US\$0.01 each in the Company at a price of US\$20.00 per common share. The warrant price is subject to adjustment in certain specified circumstances

which would include the Sub-division (following which the warrant price would be US\$2.00 per Common Share). The exercise period for the warrants expires on the first anniversary of 13 July 2010 (being the date of the warrant instrument).

(bb) *Blakeney Subscription Agreement*

The subscription agreement was entered into on 13 August 2010 between the Company and Blakeney General Partners III Limited (as general partners for each of the following: CC Development Partners LP; Onyx LP; Ithaca LP; Austin Alpha LP; Heviben LP; Palo Alto LP; Menafrika LP; and Blakeney Sand Hill LP), Blakeney General Partners IV Limited (as general partner of Blakeney LP) and Blakeney Investors SICAV (the "Blakeney Investors").

Under the agreement, the Blakeney Investors subscribed for 666,667 common shares of par value US\$0.01 each (in aggregate) at a price of US\$15 per common share for an aggregate subscription amount of US\$10,000,005.

The agreement contains certain warranties given by the Company to the Blakeney Investors relating to, among other things, the Company's assets and various corporate (including status, power, authority and non-violation of laws), financial, accounting and business matters. The Company's liability under the warranties is subject to certain limitations.

(cc) *Ultimo Share Repurchase Agreement*

The agreement was entered into on 22 September 2010 between the Company and Ultimo Assets Limited ("Ultimo").

Under the agreement, the Company agreed to purchase 261,836 non-voting common shares from Ultimo in exchange for the issue by the Company to Ultimo of 261,836 common shares of par value US\$0.01 each (which are stated to be of equal economic value to the non-voting common shares).

Under the agreement, each party agrees to release the other from, and waive, any breach by the other party, or any claim it may have against the other party, under a certain founder agreement.

(dd) *Marketing and Publicity Services Agreement*

Pelham Bell Pottinger Limited ("PBP") provides marketing and publicity services to the Group pursuant to an agreement between the Company and PBP dated 20 October 2010. In connection with financial public relations services associated with the Admission, PBP is to be paid a fee of £70,000. After Admission, PBP will be paid a quarterly retainer of £15,000 for work to be agreed upon by PBP and the Company. Such retainer is subject to increase annually at a minimum rate equal to the then current inflation rate. The Company is obligated to pay hourly rates for PBP as set forth in the agreement for services beyond those covered by the retainer. Either party may terminate the agreement with one month prior notice.

(ee) *Placing Agreement*

Pursuant to a placing agreement between the Company, the Directors, Strand Hanson, Mirabaud and GMP dated on or about 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 in aggregate for the Placing Shares at the Placing Price. The Joint Brokers have undertaken to transfer the net proceeds of the Placing 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 5 per cent. of the aggregate value of gross monies raised pursuant to the Placing. Strand Hanson is entitled to receive, conditional on Admission, a corporate finance fee of £100,000, a fee of £67,000 (to be satisfied through the issue of the Strand Shares) and, to the extent not already paid under the Company's engagement letter with Strand Hanson, a further fee of £33,000. Strand Hanson, 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 Directors have each given various representations and warranties as to their personal information, interests, positions and obligations to Strand Hanson, Mirabaud and GMP. The Directors and the Company have also given joint and several representations and warranties to Strand Hanson, Mirabaud and GMP (subject to various limitations), 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 Strand Hanson, 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 Strand Hanson, Mirabaud and GMP or their directors, officers or employees or a breach by Strand Hanson, 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 Strand Hanson, Mirabaud or GMP 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.

(ff) *Nomad Agreement*

On or about the date of this document, the Company and Strand Hanson entered into a nominated adviser agreement pursuant to which the Company, conditional on Admission, agreed to appoint Strand Hanson to act as nominated adviser to the Company for the purposes of the AIM Rules following Admission. The agreement contains certain indemnities and undertakings given by the Company in favour of Strand Hanson.

The Company has agreed to pay Strand Hanson a fee of £50,000 per annum for its services as nominated adviser under the agreement, together with all reasonable and properly incurred out-of-pocket expenses.

The agreement may be terminated by either party forthwith in the event of a material breach of the agreement by the other party. In addition, either party may terminate the agreement by giving the other party 30 days' written notice, except that the Company may not terminate the agreement on such notice before the end of the initial period of 6 months from the date of the agreement.

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

(gg) *Mirabaud Broker Agreement*

On or about the date of this document, the Company and Mirabaud entered into a broker agreement pursuant to which Mirabaud agreed to act as joint broker to the Company for the purposes of the AIM Rules for a minimum period of 12 months following Admission. The agreement contains certain indemnities, continuing obligations and undertakings given by the Company in favour of Mirabaud.

The Company has agreed to pay Mirabaud a fee of £15,000 per annum for its services as broker under the agreement, together with any reasonable and properly incurred out-of-pocket expenses.

Either party may terminate the agreement by giving the other party 3 months' written notice, such notice not to take effect earlier than the first anniversary of the date of this Agreement. The agreement may also be terminated forthwith by either party in certain circumstances including a material breach of the agreement or insolvency.

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

(hh) *GMP Broker Agreement*

On 29 October 2010, the Company and GMP entered into a broker agreement pursuant to which GMP agreed to act as joint broker to the Company for the purposes of the AIM Rules for a minimum period of 12 months following Admission. The agreement contains certain indemnities and undertakings given by the Company in favour of GMP.

The Company has agreed to pay GMP a fee of £15,000 per annum for its services as broker under the agreement, together with any reasonable and properly incurred out-of-pocket expenses.

Either party may terminate the agreement by giving the other 7 days' written notice. The agreement may also be terminated with immediate effect by either party in the event that the other party commits a material breach of the agreement.

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

(ii) *Lock-in and Orderly Market Deeds*

Pursuant to lock-in and orderly market deeds each dated on or around the date of this document, the Directors, Touradji and Persistency Private Equity Limited, as required by Rule 7 of the AIM Rules, as set out in the table below (the "Locked-in Persons") have agreed with the Company, Strand Hanson, Mirabaud and GMP that they will not dispose of any interest in Common Shares held by them for a period of at least 12 months from the date of Admission (the "Lock-in Period"), save in those circumstances expressly permitted by the AIM Rules, as set out below (and in the case of Touradji and Persistency Private Equity Limited, where such disposal has received the prior approval or consent of the AIM Team of the London Stock Exchange).

The provisions of the arrangements outlined above will not apply to transfers of Common Shares in the following circumstances:

- (i) in the case of an individual, by the personal representatives of the Locked-in Persons if they shall die;
- (ii) pursuant to the acceptance of an offer for all the Common Shares; and
- (iii) pursuant to any sale or transfer required by a court order.

In addition, the Directors have agreed to not (save with the prior written consent of the Company, Strand Hanson, Mirabaud and GMP) dispose of any of their interests in Common Shares for a period of twelve months from the first anniversary of the date of Admission, except through either of Mirabaud or GMP (or the Company's broker from time to time), provided that the terms of Mirabaud and GMP (or the Company's broker from time to time) are no less favourable than the terms being offered by any other brokers and the sale price though either Mirabaud or GMP (or the Company's broker from time to time) of any Common Shares proposed to be disposed of is at least equivalent to the price that the Locked-in Persons can obtain elsewhere and save that the Locked-in Persons shall be free to dispose of any Common Shares if Mirabaud or GMP (or the Company's broker from time to time) are unable to find a buyer within 5 business days of being requested by the Locked-in Persons to do so, save that Mirabaud and GMP (or the Company's broker from time to time) shall have 2 business days in which to match any other broker's terms and/or obtain an equivalent sale price for the Common Shares from the date such terms are notified to Mirabaud or GMP (or the Company's broker from time to time).

The lock-in and orderly market deeds are governed by English law and the parties irrevocably submit to the exclusive jurisdiction of the English courts.

The following Locked-in Persons have entered into lock-in and orderly market deeds in respect of the following numbers of Common Shares on the above terms:

<i>Locked-In Person</i>	<i>Immediately following Admission</i>	
	<i>No. of Common Shares</i>	<i>% of issued share capital</i>
Touradji Group <sup>(1)(2)</sup>	29,356,680	15.26%
Persistency Private Equity Limited <sup>(1)</sup>	22,792,150	11.85%
J. Laurie Hunter <sup>(3)</sup>	1,000,000	0.52%
Mark Weller <sup>(3)</sup>	-	-%
Andrew J. Morris <sup>(4)</sup>	225,700	0.12%
Colin Orr-Ewing	-	-
Ian Barby	-	-
John van der Welle	-	-

Note:

- (1) Agreement provides for a Lock-in period only.
- (2) Includes Common Shares held as follows: Touradji DeepRock Holdings LLC (656,860); Touradji DeepRock Holdings Ltd. (3,012,730); Touradji Global Resources Holdings LLC (3,894,900); Touradji DeepRock Global Resources Holdings Ltd. (17,388,690); and Touradji Global Resources Master Fund Limited (4,403,500).
- (3) Includes a Lock-in period ending 2 January 2012.
- (4) Being the Common Shares held by CLMS Management, LLC, as nominee on behalf of Mr. Morris.

In addition, certain holders of Restricted Shares, as set out in the table below (the "Restricted Share Locked-in Persons"), who, as at the date of this document, hold no Existing Common Shares have, on or around the date of this document, each entered into agreements with the Company pursuant to which the Restricted Share Locked-in Persons have undertaken to the Company that they will not dispose of any interest in Common Shares that they hold or acquire for a period of 60 days from the date of Admission. The provisions of the arrangements with the Restricted Share Locked-in Persons outlined above will not apply to transfers of Common Shares in certain limited circumstances being gifts to third parties and transfers to certain trusts (in each case where the transferee agrees to be bound by the terms of the agreement) or where the Company consents to any transfer.

The following Restricted Share Locked-in Persons have entered into lock-in agreements with the Company on the above terms:

<i>Restricted Share Locked-in Person</i>	<i>As at the date of this document No. of Restricted Shares<sup>(1)</sup></i>
Gil Melman	200,000
Seth Fagelman	100,000
Alvaro Kempowsky	450,000
Dr. Emma Ralijohn	250,000
Jim Collins	200,000
Jim Dorman	200,000
Elden Gilbertson	100,000
Raul Gomey Moreno	100,000
Rene O'Neil	20,000

Note:

- (1) For comparative purposes, this assumes that the Sub-division that will be effective immediately prior to Admission has become effective at the date of this document.

(jj) *Orderly Market Deeds*

Pursuant to orderly market deeds each dated on or about the date of this document, entered into with the Company, Strand Hanson, Mirabaud and GMP, certain Shareholders (as set out in the table below) (the "Relevant Shareholders"), have undertaken not dispose of any interest in Common Shares held by them, for certain periods of up to a year following Admission (save in respect of 8,700,000 Common Shares held by RAB Special Situations (Master) Fund Limited which may, subject to the orderly market arrangements described in this paragraph, be disposed of at any time after 1 April 2011), without the prior written consent of the Company, Strand Hanson, Mirabaud and GMP and except through either Mirabaud or GMP (or the Company's broker from time to time), provided that the terms of Mirabaud and GMP (or the Company's broker from time to time) are no less favourable than the terms being offered by any other brokers and the sale price though either Mirabaud or

GMP (or the Company's broker from time to time) of any Common Shares proposed to be disposed of is at least equivalent to the price that the Relevant Shareholders can obtain elsewhere and save that the Relevant Shareholders shall be free to dispose of any Common Shares if Mirabaud or GMP (or the Company's broker from time to time) are unable to find a buyer within 5 business days of being requested by the Relevant Shareholders to do so, save that Mirabaud and GMP (or the Company's broker from time to time) shall have 2 business days in which to match any other broker's terms and/or obtain an equivalent sale price for the Common Shares from the date such terms are notified to Mirabaud or GMP (or the Company's broker from time to time).

Notwithstanding the above, RAB Special Situations (Master) Fund Limited shall be permitted to dispose of its 8,700,000 Common Shares, pursuant to a general offer made to all Shareholders, pursuant to a compromise or arrangement between the Company and its creditors, pursuant to a scheme of arrangement which is similar to that pursuant to section 110 of the UK Insolvency Act 1986, pursuant to an order of a court of competent jurisdiction, to the Company (where the Company makes an offer to the holders of all Common Shares), to any of RAB Special Situations (Master) Fund Limited's subsidiaries or subsidiary undertakings, a nominee or trustee for such fund or from a nominee or trustee for a fund to that fund or to another nominee or trustee for such fund or to another fund which is managed by RAB Capital plc, subject to the recipient entering into a deed of adherence to the orderly market deed.

The Common Shares which are subject to the orderly market arrangements described above amount, in total to 44,015,360 Common Shares, which is equivalent to approximately 22.88 per cent. of the Enlarged Share Capital.

The orderly market deeds are governed by English law and the parties irrevocably submit to the exclusive jurisdiction of the English courts.

The following Relevant Shareholders have entered into orderly market deeds in respect of the following numbers of Common Shares on the above terms:

<i>Relevant Shareholders</i>	<i>Common Shares</i>	<i>% of issued share capital</i>
Grafton Group <sup>(1)</sup>	16,966,900	8.82
Plainfield Special Situations Master Fund Limited	11,681,790	6.07
RAB Special Situations (Master) Fund Limited	8,700,000	4.52
Blakeney Group <sup>(2)</sup>	6,666,670	3.47

Note:

(1) Includes shares held as follows: Grafton Resource Investments Ltd. (14,552,650) and MOL Holdings Limited (2,414,250).

(2) Includes shares held as follows: Blakeney General Partners III Ltd as general partner of Onyx LP (505,000); Blakeney General Partners III Ltd as general partner of Austin Alpha LP (845,000); Blakeney General Partners III Ltd as general partner of Blakeney Sand Hill LP (118,000); Blakeney General Partners III Ltd as general partner of CC Development Partners LP (303,000); Blakeney General Partners III Ltd as general partner of Heviben LP (976,000); Blakeney General Partners III Ltd as general partner of Ithaca LP (116,000); Blakeney General Partners III Ltd as general partner of Menafrika LP (213,000); Blakeney General Partners III Ltd as general partner of Palo Alto LP (416,000); Blakeney General Partners IV Ltd as general partner of Blakeney LP (1,914,670); and Blakeney Investors SICAV (1,260,000).

(kk) *Registrar and Depositary agreements*

The Company has entered into an agreement with Computershare Investor Services PLC for the provision of services as registrar, custodian and in its capacity as Depositary, in respect of the Depositary Interests. The Company has entered into an agreement with Computershare Investor Services (Bermuda) Limited for the provision of registrar services in Bermuda. The contractual arrangements fall within normal commercial terms and the remuneration payment is not material for the purposes of this disclosure.

(ll) *Amendment to the Credit Suisse Warrant Instrument*

On 22 October 2010, the Company executed a deed poll pursuant to which the Credit Suisse Warrant Instrument was amended to reduce the exercise price per warrant issued under such

instrument (the "Credit Suisse Warrants") to par value. Under the deed poll (and related documents) the issue and allotment of Common Shares at the reduced exercise price on exercise of the Credit Suisse Warrants is conditional upon Admission.

(mm) *Arrangement with Bank Julius Baer & Co. Limited*

On or around 13 August 2010, the Company and Bank Julius Baer & Co. Limited ("BJB"), a shareholder of the Company, entered into an unwritten agreement pursuant to which the Company agreed to issue the BJB Shares to BJB as compensation for its assistance to the Group in connection with the subscription by the Blakeney Investors for common shares in August 2010 (see paragraph 14.1(bb) of this Part 6).

## 15. LITIGATION

- 15.1 In July 2010, the Company received a notification from the Malagasy tax administration claiming the payment of value added tax ("VAT") and income tax on services rendered by foreign suppliers, with interests on delayed payment and penalties relating to the 2007 and 2008 fiscal years of the Company. The Company believes it complied with the applicable regulations and the practice of all oil companies in Madagascar. Therefore, the Company has challenged the proposed tax adjustment and submitted the case to the appeal commission for review and opinion. In its letter addressed to the appeal commission dated 30 August 2010, the tax administration dismissed the claims on income tax but maintained its position on the VAT adjustment. The amount claimed relating to VAT is US\$6.79 million (consisting of VAT payments of US\$3.99 million, late payment interest of US\$980,000 and US\$1.82 million penalty payment).

The case is being processed by the appeal commission. Whatever the opinion of the appeal commission, the tax administration has the ability to maintain the tax adjustment. The appeal ruling is not expected until 2011. If the appeal ruling is not in favor of the Company, the Company has the possibility to bring the matter before the Council of State. This resolution procedure does not suspend the payment of the claimed tax (US\$3.99 million), nevertheless the Company can request to pay only 50 per cent. of the claimed tax (US\$1.995 million) pending the Council of State's decision. There is no assurance that the request would be granted.

- 15.2 Save as disclosed in this document, in the 12 months prior to the date of this document, neither the Company nor any member of the Group has been engaged in, or is currently engaged in, any governmental, legal or arbitration proceedings which have had or may have a significant effect on the financial position or profitability of the Company and, so far as the Directors are aware, there are no such proceedings pending or threatened against the Company or any member in the Group.

## 16. RELATED PARTY TRANSACTIONS

- 16.1 Save as disclosed in this document (and in particular as summarised in paragraphs 11.3 (Executive Directors Service Contracts), 11.4 (Non Executive Directors Agreements), 14.1(r) (November 2008 Shareholder Financing), 14.1(s) (Persistency Standby Equity Commitment Agreement), 14.1(t) (June 2009 Subscription Agreement), 14.1(u) (Grafton Subscription Agreement), 14.1(v) (August 2009 Shareholder Financing), 14.1(w) (Global Deed of Release etc), 14.1(x) (Credit Suisse Side Letter), 14.1(aa) (July 2010 Shareholder Financing), 14.1(ee) (Placing Agreement), 14.1(ii) (Lock-in and Orderly Market Deed), 14.1(ll) (Amendment to Credit Suisse Warrant Instrument) and 14.1(mm) (Arrangement with Bank Julius Baer & Co. Limited) of this Part 6 and as referred to in Note 27 to the Accountant's Report in Section B of Part 3 of this document) and excluding for these purposes intra-Group transactions, neither the Company nor any member of the Group has, during the period commencing on 1 January 2007 and ending on the date of this document, entered into a related party transaction.

## 17. WORKING CAPITAL

The Directors are of the opinion that, having made due and careful enquiry, and taking into account the net proceeds of the Placing, the working capital available to the Group will be sufficient for its present requirements, that is, for at least twelve months from the date of Admission.

## 18. OTHER INFORMATION

- 18.1 The gross proceeds of the Placing are expected to be approximately £50.5 million (approximately US\$80.0 million). The total costs and expenses payable by the Company in connection with the Admission (including professional fees, commissions, the costs of printing and the fees payable to the registrars) are estimated to amount to approximately £4.0 (excluding VAT (US\$6.4 million)). The Company will finance the application for Admission out of its internal resources.
- 18.2 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- (a) received, directly or indirectly, from the Company within 12 months preceding the date of this document; or
  - (b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
    - (i) fees totalling £10,000 or more; or
    - (ii) securities in the Company with a value of £10,000 or more; or
    - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- 18.3 The financial information in this document has been prepared in accordance with the law and the Directors accept responsibility for it.
- 18.4 Save as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the Company's activities.
- 18.5 Save as disclosed in this document, no commission is payable by the Company to any person in consideration of his agreeing to subscribe for securities to which this document relates or of his procuring or agreeing to procure subscriptions for such securities.
- 18.6 Save as disclosed in this document, no payment (including commissions) or other benefit has been or is to be paid or given to any promoter of the Company.
- 18.7 Save as disclosed in this document, the Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes.
- 18.8 Save as disclosed in this document, there has been no public takeover bid for the whole or any part of the share capital of the Company or any member of the Group prior to the date of this document.
- 18.9 There are no mandatory takeover bids and, save as disclosed in this document, squeeze and sell out rules in relation to the Common Shares.
- 18.10 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Company since 30 June 2010, the date for which the unaudited financial information set out in Section C of Part 3 has been drawn up.
- 18.11 In the period since the end of the last financial year to the date of this document, there have been no significant recent trends in production, sales and inventory and the costs and the selling prices of the Company.
- 18.12 Save as disclosed in this document, the Company is not aware of any material environmental issues or risks affecting the utilisation of the Group's tangible fixed assets or its operations.
- 18.13 Where information contained in this document has been sourced from a third party, the Company confirms that such information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.



## **19. CONSENTS**

- 19.1 Strand Hanson has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which they appear.
- 19.2 Mirabaud has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which they appear.
- 19.3 GMP has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which they appear.
- 19.4 BDO LLP has given and not withdrawn its written consent to the inclusion in this document of its report in Section A of Part 3 in the form and context in which it is included.
- 19.5 Netherland Sewell has given and not withdrawn its written consent to the inclusion in Part 4 of this document of its report, the references thereto and to its name in the form and context in which they appear.
- 19.6 Norwest has given and not withdrawn its written consent to the inclusion in Part 5 of this document of its report, the references thereto and to its name in the form and context in which they appear.

## **20. DOCUMENTS AVAILABLE FOR INSPECTION**

- 20.1 Copies of the following documents will be available for inspection during normal business hours on any weekdays (Saturdays, Sundays and public holidays excepted) at the offices of Watson, Farley & Williams LLP, 15 Appold Street, London EC2A 2HB for a period of one month from the date of this document:
  - (a) the Memorandum of Association and the Bye-Laws;
  - (b) the financial information on the Group set out in Part 3 of this document;
  - (c) the Director's service contracts and letters of appointment referred to in Part 6 of this document;
  - (d) the written consents referred to in paragraph 19 of this Part 6;
  - (e) the Netherland Sewell Competent Person's Report set out in Part 4 of this document; and
  - (f) the Norwest Competent Person's Report set out in Part 5 of this document.

## **21. COPIES OF THIS DOCUMENT**

- 21.1 Copies of this document will be available free of charge during normal business hours on weekdays (excluding Saturdays, Sundays and public holidays) from the date hereof until one month after Admission from the offices of Strand Hanson Limited, 26 Mount Row, London W1K 3SQ and from the Company's website: [www.madagascaroil.com](http://www.madagascaroil.com).

24 November 2010

## APPENDIX I

### OVERVIEW OF MADAGASCAR AND ITS PETROLEUM INDUSTRY

#### HISTORY, POPULATION AND POLITICAL ENVIRONMENT

Formerly an independent kingdom, Madagascar became a French colony in 1896 but regained its independence after 65 years in 1960. It comprises an area of approximately 590,000 km<sup>2</sup> located off the eastern coast of Southern Africa in the Indian Ocean, east of Mozambique. Madagascar is the world's fourth largest island and lies 420 kilometres off the East African coast.

The population is approximately 20 million, growing at an estimated annual rate of 3 per cent., with 44 per cent. of the population under the age of 15. Average life expectancy is just under 63 years. The capital city and main commercial centre is Antananarivo with a population in the Greater Antananarivo area of approximately 1.3 million.

The main religions in Madagascar are Christian, 41 per cent., Muslim, 7 per cent. and indigenous faiths at 52 per cent. The main languages are French and Malagasy and the average literacy rate is approximately 69 per cent.

During 1992-93, free presidential and National Assembly elections were held ending 17 years of socialist regime. In 1997, in the second presidential race, Didier Ratsiraka, the country's leader during the 1970s and 1980s, was returned to the presidency. The 2001 presidential election was contested between the followers of Mr. Ratsiraka and Marc Ravalomanana. In April 2002, the High Constitutional Court announced Mr. Ravalomanana the winner. Mr. Ravalomanana achieved a second term following a convincing victory in the generally held to be free and fair presidential elections of 2006. In early 2009, protests due, *inter alia*, to increasing restrictions on the opposition press and other activities resulted in Mr. Ravalomanana being forced from power and the presidency of transitional period was assumed by the 33 year old mayor of Antananarivo, Andry Rajoelina. Following negotiations under the supervision of the international community in July and August 2009, a power-sharing agreement with a 15-month transitional period was established. Such power-sharing agreement was not maintained and accordingly a new draft constitution has been prepared and is anticipated to be submitted for referendum in late 2010. In addition, new presidential election should be held during the course of 2011.

On 17 November 2010, the date of the referendum, a dissident military group announced that they had taken over the Madagascar government, a claim that was picked up by major news agencies and reported worldwide. The events involved a very small group of disaffected military personnel, were localised and the situation was soon brought under control, with reports that the renegades had surrendered themselves into custody without any bloodshed. The Directors believe that the disturbance was intended to create negative publicity on the day of the referendum on the constitution but the existing government remains firmly in place.

#### ECONOMIC AND FINANCIAL ENVIRONMENT

Madagascar's Gross Domestic Product ("GDP") was estimated in 2009 to be US\$8.551 billion or US\$425 per capita. Past socialist economic policies were replaced in the mid 1990s with a World Bank and International Monetary Fund led policy of privatisation and liberalisation.

Agriculture, including fishing and forestry, is a mainstay of the economy, accounting for more than 26 per cent. of GDP and employing 80 per cent. of the country's population. Exports of apparel have increased significantly in recent years primarily due to duty-free access to the United States. The Directors believe that the Madagascan Government is encouraging petroleum exploration and development activities, with a modern petroleum code and a tax regime promoting foreign investment.

#### TRANSPORT AND COMMUNICATIONS

Madagascar's transport and communications infrastructure is generally poor, with sub-standard road maintenance and lighting, an inadequate communications network and lack of repair facilities. Only approximately 7,617 kilometres, out of a total 65,663 kilometres of roads, are paved, although the

network is slowly expanding from the capital. In the rainy season use of the unpaved roads may be restricted.

The railways only cover approximately 854 kilometres and serve both the capital, Antananarivo, and the main seaport, Toamasina. The track and infrastructure is utilised by Madarail, a subsidiary of Comazar of South Africa, under concession agreement with the Government of Madagascar.

#### **THE PETROLEUM INDUSTRY IN MADAGASCAR**

The petroleum industry in Madagascar has historically consisted of exploratory activities during the last 100 years. Approximately 60 wells have been drilled to date, the large majority of which are onshore. There have historically been no economic discoveries and there has been no commercial production to date. Since the 1960's, major oil companies (Shell, Chevron, British Petroleum, Exxon and Total) have undertaken exploratory activities in Madagascar. In addition, several smaller organisations have concessions and are undertaking exploratory activities.

## APPENDIX II

### SUMMARY OF THE RELEVANT PETROLEUM LAWS AND REGULATIONS IN MADAGASCAR

The following information is a brief summary of the legal system in Madagascar and the relevant petroleum and mining exploration laws and regulations:

#### BACKGROUND

The legal system in Madagascar is based upon the French civil law system. This is a codified legal system based on the Napoleonic model. As in all civil law systems, statute law has the greatest importance. In contrast with common law systems, the doctrine of precedent (jurisprudence) has less value.

Most of the current codes were implemented more than forty years ago. Many of these have not been updated for some time. However, the Government of Madagascar is in the process of updating laws in key areas - for example, the new Companies Code enacted in 2004, the Labour Code enacted in 2004 and the Competition Code.

The petroleum sector was brought up to date with the Petroleum Code in 1999 (the main features of which are described below). The Petroleum Code was brought into effect by Decree n° 97-740, which came into force on 23 June 1997.

#### MAKING LAW

In order to bring a new law onto the statute books, the following procedure is adopted:

- the government drafts a proposition, after consultation with various interested parties;
- the proposal is presented to Parliament for approval;
- following approval by the lower house, it is approved by the Senate;
- after Senate approval, it is passed to the Constitutional Court, which opines on its constitutionality;
- following validation by the Constitutional Court, the law is returned to the President for signature;
- once signed, the law must be published in the official journal along with a decree bringing the law into force.

In the event that the new law is uncontroversial and meets no opposition, it routinely takes about six months between proposition and coming into force. In the event that further clarification is necessary under the law, or is required as a matter of practicality, laws are backed up by interpretive decrees. These are issued directly by the minister responsible for the law and may be issued without the need for approval by Parliament.

#### DISPUTE RESOLUTION

Trials of commercial cases are held, in the first instance, before a single judge who may sit with two assessors but without a jury. Parties are represented by an "avocat", the equivalent of a barrister or trial attorney. In the trial, much more reliance is placed on written submissions than in common law jurisdictions, and much less legal argument takes place in court.

Parties have the right of appeal to the Court of Appeal, where up to three judges will hear the case, again largely on written submission. Cases take a few months to reach the Court of Appeal. Following the Court of Appeal, parties can appeal to the Cour de Cassation on points of law and procedure only. This will be heard by up to five judges. Beyond the Cour de Cassation lies the Supreme Court, again comprising five judges, for a final finding in law. The Constitutional Court exists solely to decide questions relating to the constitution.

As an alternative to the court system, arbitration is recognised in Madagascar and foreign arbitral awards are enforceable and there is an arbitration centre in Madagascar.

## **CORPORATE LAW**

The system of company and corporate law in Madagascar is now similar to that found in any other French-speaking country. Since the new company law was implemented in 2004, the procedure for setting up and operating companies has become much simpler.

The two main types of corporate entities used for commercial business in Madagascar are the société à responsabilité limitée ("SARL") (similar to an English private limited company) and the société anonyme ("SA") (similar to an unlisted UK plc).

An SARL is administered by one or more gérants, or statutory directors. The gérant is appointed by the shareholders in the statutes or at a shareholders meeting. The gérant has full powers to run the company and it is very difficult to limit his apparent authority when dealing with third parties. Should he exceed the authority he has under his appointment, no recourse is available against the third party to unwind any unauthorised transaction or claim compensation. Action may only be taken by the shareholders against the gérant.

There are two forms of SA company:

- An SA administered by a board of 3 to 12 directors and managed by a Président and a directeur général ("DG") or managed by a Président Directeur General. An SA having less than 4 shareholders cannot adopt this type of company; and
- An SA administered by a sole director named "administrateur general". This type of company is compulsory for an SA with less than 4 shareholders but can also be adopted by an SA with more than 3 shareholders.

There is no obligation to have local shareholders and an SA or an SARL can be wholly owned by non-Madagascan nationals or foreign companies. However, someone involved in the management or administration of a Malagasy company must be a resident in Madagascar. In the case of an SARL this means that one of the gérants must be a Madagascan resident. For an SA, one of the administrators, the Président, the DG or the Président Directeur Général or his deputy must be a Madagascan resident.

The gérant, the DG, the Président Directeur Général or the sole director (whichever the case may be) is responsible for the day to day management of the company. They can sign documents on behalf of the company and represent the company in dealings with third parties. They execute decisions taken by the board of directors or by the shareholders.

Under company law, companies, once legally registered, are free to contract with third parties and to carry on business without seeking permissions, to the extent that a permission is not required by law.

A system exists in Madagascar for a company to charge or pledge its assets by way of security for a loan. Rights under permits or contracts can be pledged or assigned.

Companies registered under the laws of Madagascar can open foreign currency accounts in Madagascar, can receive foreign currency and settle payment for foreign supplies with foreign currencies. Any transaction between two entities established in Madagascar must be made in Ariary. Foreign exchange is freely available and the Ariary is freely convertible, but only for the purpose of authorised cross-boarder transactions or operations.

## **LAND**

There is a system of land registration in Madagascar. Land is registered at the land registry. The topographic service will hold an official plan drawn up by a surveyor, showing the limits of the land. An application to acquire or lease unregistered land can be made upon request to the land registry.

The registration system allows charges and other interests including mortgages to be registered at the land registry. Upon application, the land registry can issue a certificate of land registration showing the name of the land owner and mentioning all liens and mortgage charged on the land.

Prior to 2003, foreign nationals were only permitted to have a long lease on land for a maximum period of 99 years. Since 2003, a company controlled by foreign nationals is permitted to purchase land subject to certain conditions and reform on the restriction of foreign land ownership and the reduction of long lease periods is currently under discussion.

## AN OVERVIEW OF THE PETROLEUM CODE IN MADAGASCAR

The Petroleum Code covers all aspects of upstream oil and gas activities. It provides for the establishment of a technical agency, which has been designated to OMNIS, a public entity set up by decree 96-1133 of 7 November 1996, and is responsible for the administration of all oil and gas activities in Madagascar. We would note that the Petroleum Code provides for a national oil and gas company to take responsibility for all oil and gas activities in Madagascar but until such time as a national company is established, responsibility has been assumed by OMNIS.

All upstream oil and gas activities within the national mining domain must be the subject of a mining title issued by decree of the President of the republic of Madagascar, following submission of the proposal by OMNIS. A mining title can only be granted to a Madagascan incorporated company. OMNIS may enter into a production sharing contract with a private entity. OMNIS may also transfer all or part of its rights and duties under the mining title to its contracting partner under a production sharing contract. The production sharing contract must be approved by decree of the President of the republic of Madagascar.

There are 3 types of mining titles:

- (1) An exploration title which is valid for a period of 8 years. A request to renew an exploration title for an additional period of 2 years can be submitted to OMNIS 6 months before the expiration of the initial period. A renewal period of 15 years can be granted should a market study be undertaken following the discovery of gas.
- (2) An exploitation title which is valid for a period of 25 years for oil discoveries and 35 years for gas discoveries. It can be renewed for an additional period of 5 years upon request, 2 years before the expiration of the initial period.
- (3) A transportation title which is valid for a period of 25 years for oil production and 35 years for gas production. It can be renewed for an additional period of 5 years upon request, 2 years before the expiration of the initial period.

A production sharing contract is governed by the laws of Madagascar. Any type of production sharing contract generally used in the petroleum industry is permitted in Madagascar. However, in practice all production sharing contracts are drafted according to a model pre-established by OMNIS. Contractors must use best endeavours to retain and participate in the training of Malagasy employees. Contractors must comply with the laws governing labour and social welfare. Contractors must also contribute any oil and gas production to supplying the domestic market, comply with environment protection policies and contribute to the development of the local community where the exploration works are conducted. Any change in control of a party to the PSC or its ultimate shareholder must be notified to OMNIS within 30 days. We would note that the Petroleum Code does not define a change of control but it is generally understood to mean a change in shareholding of 51 per cent.

The counter party to a production sharing contract must establish a branch office or subsidiary in Madagascar and appoint a resident legal representative to act on behalf of the company as the key contact with OMNIS. The entity designated as the operator to the PSC must also execute the production sharing contract and conduct oil and gas activities on behalf of all parties to the contract. The production sharing contract sets out the minimum exploration work to be performed and the minimum costs to be expended.

The production sharing contract can be either fully or partly assigned to another contractor subject to prior authorisation from OMNIS.

Foreign contractors must provide a letter of guarantee covering their financial commitment during the exploration period. All funds required for local expenses to be incurred during an exploration period must be deposited with a Madagascan bank. Contractors can open and hold foreign currency in a foreign bank. Foreign contractors are not allowed to borrow funds locally or obtain security from a Malagasy bank, other Malagasy financial institution or a Malagasy corporate entity.

The production sharing contract gives a contractor rights of access within the perimeters of a mining title. Any rights required to access privately owned land is subject to a private agreement between the contractor and the landowner. State owned land will be subject to the terms of a lease.

The mining title grants the right to the titleholder and the contractors to dispose of the hydrocarbons extracted from the ground during exploration work, as well as any hydrocarbons produced during

production tests. Any discovery of mineral substances other than hydrocarbons must be immediately brought to the attention of OMNIS, which must inform the Ministry of Mines.

The holder of an exploitation title must delineate the authorised area with physical markers implanted in the ground.

During an exploitation period, contractors must carry out and conform their activities according to general internationally accepted practices in the petroleum industry and all current Malagasy legislation and regulations.

Pursuant to the Petroleum Code and applicable tax codes, a company conducting research, exploration, development and exploitation of hydrocarbons in accordance with the Petroleum Code is subject to:

- Direct tax on hydrocarbon at the same rate as the corporate tax rate, which is currently 23 per cent. This tax is representative of income tax, withholding tax on interest and withholding tax on foreign supplier fees; and
- Royalties which are payable on hydrocarbons extracted from the well.

During the research and exploration period, equipment required for the petroleum project can be imported under a temporary admission regime, exempt from import and custom duties and VAT.

During an exploitation period, equipments required for initial implementation can be imported free of any tax on importation including VAT.





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