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29 September 2015

MADAGASCAR OIL LIMITED

(“Madagascar Oil” or the “Company”)
Financing and Operational update

Bridge Financing Facility of up to US$21.89 million agreed with Major Shareholders

Madagascar Oil, which has over 1.7 billion barrels of contingent resources in the Tsimiroro field, is pleased to provide a financing and operational update.

Financing

The Company has reached agreement with its four major shareholders to provide a Bridge Financing Facility (the “Facility”) of approximately US$21.89 million, designed to fund the Company through to the conclusion of its previously announced process to identify a potential strategic partner(s) to work with the Company on the development and funding of the world class Tsimiroro field (the “Partner Process”). As previously announced, Jefferies International Limited (“Jefferies”) has been appointed to assist with the Partner Process.

The Facility will incorporate the existing US$5.0 million working capital facility (the “Outrider Loan”), provided by an associate of Outrider Management LLC., which was announced on 29 June 2015 (the “Original Outrider Facility Agreement”). The Outrider Loan was due to be repayable, with accrued interest, on 6 October 2015. After taking into account the existing Outrider Loan, this new Facility will provide the Company with new funds of up to approximately US$16.89 million.

The four major shareholders who have provided the Facility, through their associated entities, are Outrider Management LLC (“Outrider”), Benchmark Advantage Fund Ltd (“BMK”), SEP African Ventures Ltd (“SEP”) and the John Paul Dejoria Family Trust (“JEP”), together the (“Lenders”).

Under the terms of the Facility, US$8.89 million of new funds will become available, following satisfaction of certain conditions precedent which the Company expects will be satisfied within the next 48 hours and will be used to fund the Company’s business activities and working capital requirements during the Partner Process.

During January 2016, the Lenders will assess, amongst other things, the progress of the Company in meeting its objectives, including progress towards achieving a strategic transaction and may, on 31 January 2016 (the “Review Date”) choose between options including, *inter alia*, a) releasing an additional tranche of funding under the Facility of up to US$8.0 million or b) calling for the Facility to be immediately repaid in full (a decision requiring the agreement of at least 66% (by loan value) of the Lenders). In any event, the Facility becomes repayable on 30 September 2016.

This Facility is the conclusion of an extensive and thorough process during which the Company and its advisers have discussed short term financing options with a very wide range of potential counterparties.

As a result of those discussions, the board of directors of the Company (the "Board") has concluded that entering into the Facility with the Lenders is the best option open to the Company.

A summary of the key terms of the Facility is set out in Appendix 1 to this announcement.

Given that the Facility has been entered into with a number of the Company's major shareholders, it is a transaction which will constitute a related party transaction under AIM Rule 13.

The independent directors, as defined by the AIM Rules for the purposes of AIM Rule 13 (being Robert Estill, Michael Duginski and Iain Patrick), having consulted with the Company's nominated adviser, Strand Hanson Limited, consider that the terms of the Facility and ancillary documentation are fair and reasonable insofar as the Company's shareholders are concerned.

Operational
The Steam Flood Pilot ("SFP") continues to operate within expectations, and, as at 28 September 2015, the Company holds over 130,000 barrels of crude oil in the storage tanks at the SFP, which are available for domestic sale. The Company has not yet secured an offtake agreement for this crude oil, meaning that the Company faces potential storage capacity constraints at Tsimiroro during the upcoming rainy season. As a result, and in response to the challenging oil price environment faced by many oil and gas companies, management has decided to take a conservative approach and scale down its operations from the SFP, until such a time as an offtake agreement has been signed for the domestic sale of the product and the Partner Process has come to a successful conclusion.

Discussions are ongoing with a number of potential offtakers, including a dialogue with Symbion Power LLC ("Symbion Power") following the signing of a Protocol D'Accord directly between His Excellency Hery Rajaonarimampianina, President of the Republic of Madagascar and Symbion Power for the development of seven new power plants with a total capacity of 180 megawatts, including a 116 megawatt power plant near Tsimiroro. Symbion Power has also announced the signing of a 20-year contract with local utilities provider Jirama for the management and operation of the 40 megawatt Mandroseza power generation facility in Antananarivo and have announced that they intend this to be powered by heavy fuel oil.

In the meantime, the Partner Process is making steady progress, despite the current adverse market conditions, with interest being expressed by a number of credible parties. A timetable has been established and the process is currently expected to run through to the end of 2015, with the Board targeting the finalisation of any transaction by the end of Q1 2016.

The planning for the Anchor Phase of the Tsimiroro Development continues to progress well, with tenders for long lead items such as casing and tubulars under way. Further tenders will be issued shortly for downhole/surface pumps, drilling fluids & cement materials. The Board would note that the fall in oil price has resulted in a significant reduction in service costs across the sector. In light of this, the Company is developing a drilling, tubular and supply procurement strategy to take advantage of this opportunity, in order to reduce the initial project development cost estimates.

Chief Executive Officer, Robert Estill, commented:
"*We are very pleased to have secured this Bridge Financing Facility of up to US$21.89 million in this current market and we appreciate the on-going support of our long-standing, major shareholders who have participated in this Facility as Lenders to the Company. Current market conditions remain*

challenging for a number of oil and gas companies, particularly with respect to short term financing and we are pleased that we have now secured the financing that enables us to focus on meeting our strategic objectives through the Partner Process.

"Given the size and long term nature of our world class asset, the Company has a certain amount of flexibility in this challenging oil environment. The Steam Flood Pilot has run for nearly 27 months and that, together with our other planning activities, means that we now have sufficient data to scope fully our Anchor Phase. With this in mind, we have decided to scale down our SFP operations, to protect our resources, while we work on securing an offtake agreement and a strategic partner".

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Notes to Editors:

Madagascar Oil (AIM: MOIL) is the leading independent oil and gas company in Madagascar and is quoted on the AIM market of the London Stock Exchange.

The Company has a variety of exploration and development opportunities, through its five licence interests in western Madagascar, with significant upside potential from the Tsimiroro heavy oil field, which includes over 1.7 billion barrels of contingent resources, and additional exploration prospectivity from its four exploration licences.

Madagascar Oil has a strong track record of operational success in country and, in April 2015, received Field Development Plan approval from the Malagasy Government, securing the first-ever 25-year development licence to be issued in Madagascar, for the Tsimiroro Block 3104, thereby moving the Company's flagship asset from the exploration to the development phase. The 25-year licence period may be extended to up to 50 years if the field is still commercial beyond 25 years.

The Company is currently in the process of identifying and securing a strategic partner(s) with Jefferies International Limited to assist the Company with the development and funding of the world class Tsimiroro field. The Company is focused on delivering profitable future development and significant long term value to its shareholders and the people of Madagascar.

Appendix 1

Bridge Financing Facility of up to US$21,886,301

The Company has entered into an amendment agreement, with the Lenders, to the Original Outrider Facility Agreement, which appends an amended and restated facilities agreement (the "New Facility Agreement"), pursuant to which the Lenders will provide a Bridge Financing Facility (the "Facility") of up to US$21,886,301 (of which US$5m has already been drawn under the Original Outrider Facility Agreement (the "Original US$5m")), designed to fund the Company through to the conclusion of its previously announced process to identify a potential strategic partner(s) to work with the Company on the development and funding of the world class Tsimiroro field (the "Partner Process").

The following are the key provisions of the New Facility Agreement:

a) *Principal*

Maximum:	US$21,886,301 (of which US$5m has already been drawn under the Original US$5m)		
First Drawdown:	US$13,886,301.37 (of which the Original US$5m has already been drawn - i.e. an additional US$8,886,301.37) made available as follows:		
	Outrider	US$66,301.37	(in addition to the Original US$5m)
	SEP	US$1,670,000	
	JEP	US$2,000,000	
	BMK	US$5,150,000	
Second Drawdown:	up to US$8m made available as follows:		
	Outrider:	up to US$2,000,000	
	SEP:	up to US$2,000,000	
	JEP:	up to US$2,000,000	
	BMK:	up to US$2,000,000	

b) *Drawdown* - First Drawdown is available, either as a full or partial drawdown at the Company's discretion, when each Lender confirms that the conditions precedent have been met.

Second Drawdown is available from 1 February 2016 to the Repayment Date subject to each Lender confirming that it is satisfied, in its discretion, with the progress being made by the Company towards achieving its objectives. In such event the amount to be advanced is up to the amount specified "Second Drawdown" above.

c) *Term* - The Loan is to be repaid on 30 September 2016 or such later date as the Lenders may agree. The New Facility Agreement includes various mandatory prepayment requirements described below.

d) *Fees* - The fees for the Loan are:

(i) Arrangement fee – an arrangement fee is payable:

(A) on the First Drawdown Date equal to 5% of the Loans drawndown from each Lender (either on the full drawdown or for each partial drawdown made);

(B) on the Second Drawdown Date equal to 5% of the Loan made by that Lender on that date;

(ii) Maturity fee – a maturity fee equal to 20% of any and all amounts of the Loans repaid to that Lender prior to a Strategic Transaction on the date of that repayment (for the avoidance of doubt, no maturity fee shall be due or payable for any repayment made on or after the date on which a Strategic Transaction is closed).

(iii) Lender's legal fees are payable by the Company up to a cap of US$150,000.

(iv) Escrow Agent fees are GBP £8,000.

e) *Interest* - Interest accrues at a fixed rate of 10% per annum from the relevant drawdown date. The New Facility Agreement also provides for default interest. Interest accrued on the Original US$5m shall be paid by the Company to Outrider on the Drawdown Date first following the date of the Agreement (see "Principal" above).

f) *Use of proceeds* - The Company is required to apply the Loan, as is market practice, in accordance with the use of proceeds set out in the New Facility Agreement.
The First Drawdown under the Facility Agreement of US$13,886,301.37 ($8,886,301.37 excluding the Outrider Loan already utilised) will be used on the following activities to 1 March 2016:

i. **Steamflood Pilot operations:** Maintain low level of operations in accordance with good oilfield practices to keep the plant functioning effectively and safely and to continue to gather data on steamflood response for future development activities.

ii. **Development Planning:** Undertake tendering processes and essential civil & road engineering work to enable development well drilling operations to commence in 2Q 2016, dependent on outcome of the strategic process.

iii. **Staffing:** Maintain current national staffing levels in Tana and Tsimiroro at an appropriate level in preparation for commencement of development activity in 2016.

iv. **Environmental:** Continue process of public consultation and ONE (Madagascar Environmental Office) engagement in order to ensure issuance of the Phase 1a Environmental Permit.

v. **Diesel:** Order sufficient diesel to provide fuel to maintain operations as mentioned above.

vi. **Corporate Social Responsibility (CSR):** Maintain appropriate CSR programme as agreed with Madagascar authorities and local communities during Development Plan approval process.

vii. **Crude Sales:** Progress towards crude oil sales with third parties and establish commercial arrangements with power-generation companies.

viii. **Licence and PSC Payments:** Meet Block 3104 Governmental and partner payments as required under the terms of the PSC.

ix. **Corporate activities & Jefferies Strategic Process:** Undertake all required activities to deliver optimal strategic deal for all shareholders, including visits to potential partners, etc. Will involve third party costs.

x. **Fund Raising Costs:** Arrangement fees on new loan facility and accrued interest on original Outrider loan.

xi. **VAT:** VAT payable on local services.

The use of proceeds for the Loans drawndown from the Second Drawdown Date will be proposed by the Company prior to the Second Drawdown Date and will be determined by business circumstances at that time.

g) *Conditions precedent* – The New Facility Agreement is conditional on certain documentary conditions precedent.

The obligation of the Lenders to make the Loans under the New Facility Agreement is subject to various conditions, including there being no event of default or a potential event of default in accordance with the terms of the New Facility Agreement and the representations and warranties (see below) given by the Company being true in all material respects.

The Company expects all conditions precedent to be satisfied within 48 hours.

h) *Mandatory prepayment* - Mandatory prepayment provisions apply on the occurrence of certain events including:

I. Sale of assets: upon the sale of all or substantially all of the assets of the Group the facilities will be cancelled and all Loans and all other amounts owed will become immediate due and payable;

II. Change of control: any Lender may elect to cancel its facilities in which case all Loans and other amounts owed to the Lender will become due and repayable within 15 days;

III. Equity fundraising: upon any equity fundraising, any amounts raised (net of costs and expenses) shall be applied in repayment of the Loans pro rata. The Company is to procure that any equity fundraising is conducted in a manner and in a form such that the Lenders may elect to set off any amounts due and payable by the Company under the Loans against any amounts due by the Lender in connection with the equity fundraising;

IV. Oil Sale revenues: all revenues from oil sales (minus transportation costs) – are to be applied to repaying amounts outstanding under the Finance Documents (as defined in the New Facility Agreement); and

V. Strategic Transaction: as a separate general undertaking, the Company agrees that all amounts raised from any Strategic Transaction are to be applied to the repayment of the Loans.

i) *Representations and warranties* - The New Facility Agreement contains usual representations and warranties which relate to the Company's business, financial position, solvency and other customary representations and warranties that are typical in a commercial loan agreement of this nature. The representations and warranties have been made as at the date of the New Facility Agreement. Certain of the representations and warranties are also deemed to be made by the Borrower on the date of each request for drawdown under the New Facility Agreement, on each Drawdown Date and on each Interest Calculation Date under the New Facility Agreement.

j) *Information undertakings* - The Company has also given certain information undertakings which are in force for so long as any amount is outstanding under the Finance Documents or any Commitment is in force. These information undertakings include the provision by the Company to each Lender (subject to applicable law) of all documents sent to the Company shareholders and creditors, the notification of any current, threatened or pending litigation or analogous proceedings which might have a material adverse effect (as such term is defined in the New Facility Agreement) and the provision of such further information regarding the financial condition, assets and operations of the Group (and/or any member of it) (including any requested amplification or explanation of any item in the financial statements, budgets or other material provided by the Company under the New Facility Agreement, any changes to management of the Group and an up to date copy of its shareholders' register) as the Majority Lenders (representing 66% or more of the Loans) may reasonably request.

The Company is also required to provide the Lenders with a progress report, as reasonably determined by the Company, in relation to the proposed strategic transaction within 3 Business Days after 31 December 2015.

The Company is also required to notify each Lender of any default.

k) *General undertakings* - The Company has also committed to certain undertakings typical of a borrower under a commercial loan agreement.

In addition, the Company has also given certain undertakings in relation to a strategic transaction and the Company's budget and plan for 2016.

The Company has undertaken to use reasonable endeavours to complete a strategic transaction by 31 March 2016 (if the Company does not do so this will not be an event of default under the New Facility Agreement). The Company has undertaken to apply any and all amounts raised under a strategic transaction first to repay the Lenders the amounts owing under the Facility Agreement.

The Company has also undertaken, within 5 Business Days from the date of the New Facility Agreement to consult with a professional firm (designated by the Majority Lenders) with a goal of producing, prior to 31 October 2015, a budget and plan for the Company's operations under various scenarios in 2016. This shall be reviewed and discussed with the Lenders.

l) *Events of Default* - The New Facility Agreement includes a long list of circumstances or events of default, many of which are usual for a commercial loan agreement. An event of default will occur upon prescribed events including, but not limited to, a payment default, breach of the Company's obligations under the Finance Documents, misrepresentation, cross default, insolvency and related proceedings, creditors' process, litigation, expropriation and an occurrence of a material adverse change. Some of these events of default are subject to a cure right.

m) An event of default will also occur if the Majority Lenders confirm (having considered, amongst other things, the Company's progress report on the strategic transaction) on, or within 10 Business Days after, 31 January 2016, that, in their opinion, insufficient progress has been made by the Company towards achieving its objectives. *(NB. After the First Drawdown has been fully drawn down, BMK will hold 37.09% and Outrider will hold 36.48% of the loan amount outstanding).*

n) *Security* - Guarantees for the Facility Agreement will be given by MOM and MOSA.

   The share certificates and registers of Madagascar Oil Mauritius ("MOM") and Madagascar Oil SA ("MOSA") will be held in escrow and released back and returned to the Company upon the repayment in full by the Company of the Loans and any other amounts outstanding under the Finance Documents.

o) Lenders obligations, and actions under the Finance Documents are several, separate and independent, and any corresponding debt to a Lender is a separate and independent debt, except however that a consent of the Majority Lenders is required to enforce the Guarantees.