

Last Price \$0.12
Price Target \$0.24
Sector Oil & Gas

Risk Rating HIGH
Short term <12m ACCUMULATE
Long Term > 12m BUY

| | |
|-----------------------|-------------------|
| Company update | Operations update |
| Recommendation Change | No Change |
| Target Price Change | No Change |
| Forecast Change | No Change |

Positive start to active drilling program

Event / Investment case summary

We visited Mosaic's operations in the Surat-Bowen Basin, including gas processing plants at Churchie and Silver Springs, the LPG processing plant at Wallumbilla and drilling operations at Waggamba gas field.

Following the field trip we feel confident in reiterating our Short Term Accumulate and Long Term Buy recommendations on Mosaic shares. The investment case remains unchanged – Mosaic is a profitable oil and gas producer that is looking to scale up its operations through accelerated development of its existing reserves. A ten well drilling program is fully funded and under way, with first well successful. Second well is drilling ahead and if successful may have meaningful impact on valuation.

The company has extensive in-house experience in exploration, development and production. Mosaic also owns gas/liquids infrastructure (gas and LPG processing plants, pipelines) that is underutilized – therefore any new production can come online quickly.

Finally, one well on the current drilling schedule is a "company making" target that carries higher risk but could substantially alter Mosaic's production profile.

Key notes from the field trip

- Drilling operations at the Waggamba gas field are underway, with the vertical section of the well nearing completion.
- Gas from the Waggamba project has high value to Mosaic as it has high volume of associated condensate and LPG.
- If successful, Waggamba-4H could add circa \$11m to Mosaic's NPV (\$0.015 / share). Numbers are based on conservative commodities price assumptions.
- Waggamba-4H is the second of 10-15 wells to be drilled back to back in 2008. First well – Fairymount-9 was a successful oil development well and is expected to be in production around May. Mosaic is fully funded for 10 wells and its equity owned infrastructure has spare capacity to immediately accommodate any new production volumes.
- Gas processing plants at Churchie and Silver Springs (operated by Mosaic) and the LPG processing plant at Wallumbilla (operated by Santos) are established operations, and require very little operating costs to run. The facilities are only utilized at around 50% - should Mosaic's reserves development strategy be successful, we would see gradual increased utilization levels at minimal marginal costs.

Market Stats

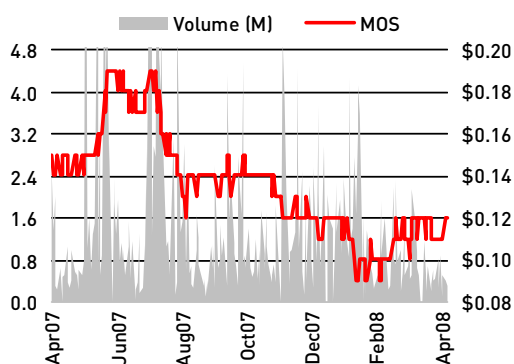
| | | |
|-----------------------------|-----|-----------------|
| Market Capitalisation | \$m | 73 |
| 12 Month Price Range | | \$0.08 - \$0.20 |
| Monthly Turnover | \$m | 1.3 |
| Monthly Volume | m | 11.5 |
| Monthly Turnover (of total) | % | 1.8 |

| Fundamentals | | 2007A | 2008E | 2009E | 2010E |
|--------------|-----|-------|-------|-------|-------|
| Net Profit | \$m | 2.6 | 5.5 | 6.4 | 4.8 |
| EPS | ¢ | 0.4 | 0.9 | 1.0 | 0.8 |
| EPS Growth | % | 155.1 | 108.8 | 15.4 | -25.3 |
| PE | x | 27.3 | 13.1 | 11.3 | 15.2 |
| DPS | ¢ | 0.0 | 0.0 | 0.0 | 0.0 |
| Yield | % | N/A | N/A | N/A | N/A |
| EV/EBITDA | x | 12.3 | 9.6 | 11.4 | 18.4 |

Forecast Returns % Return- 12 months

| | |
|-----------------------------|-------|
| Forecast Price Appreciation | 105.6 |
| Expected Dividend Yield | 0.0 |
| Total Forecast Return | 105.6 |

Share Price Chart 1 Year



Valuation and Recommendation

Our risked valuation remains unchanged at \$0.24 a share. Success at Waggamba-4H and confirmation of the Fairymount-9 productivity would provide valuation uplift.

We maintain our Accumulate/High Risk recommendation for Short Term investors given volatile market conditions that lead to general exit from the smaller end of oil & gas sector. We are however confident in maintaining our Long Term Buy/High Risk recommendation as Mosaic's accelerated growth strategy carries only a modest risk and is fully funded.



MOSAIC OIL NL (MOS)

RESEARCH

TOLHURST

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|------------|--------------|-----------|-------------|-----------------|-----------------|
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Mosaic Oil Valuation Summary

| | Unrisked | | | Risked | | | |
|---|----------------------|-------------------|-----------------|----------------|---------------|-----------------|---------------|
| | NPV, \$m | Per share | Probability | NPV | Per share | | |
| Current Producing assets - no growth scenario | \$13.35 | \$0.02 | 100% | \$13.35 | \$0.02 | | |
| Gas infrastructure (at the insured value) | \$56.00 | \$0.08 | 50% | \$28.00 | \$0.04 | | |
| Cash on Hand | \$ 16.12 | \$0.02 | 100% | \$16.12 | \$0.03 | | |
| CS farm-in cash | \$ 7.00 | \$0.01 | 100% | \$7.00 | \$0.01 | | |
| 2008 CAPEX | \$ (10.25) | (\$0.01) | 100% | (\$10.25) | (\$0.02) | | |
| NPV options | \$ 11.93 | \$0.02 | 0% | \$0.00 | \$0.00 | | |
| Total Cash and Production | \$94.14 | \$0.13 | | \$54.22 | \$0.09 | | |
| Reserves | | | | | | | |
| | <u>Reserves (2P)</u> | <u>Unit Value</u> | | | | | |
| Liquids / Permian, mmboe | 2.1 | \$ 15.00 | \$ 31.5 | \$0.04 | 30% | \$9.45 | \$0.02 |
| Liquids / non-Permian, mmboe | 1.6 | \$ 20.00 | \$ 31.3 | \$0.04 | 50% | \$15.63 | \$0.02 |
| Gas / Permian, PJ | 38.7 | \$ 1.40 | \$ 54.1 | \$0.07 | 30% | \$16.23 | \$0.03 |
| Gas / non-Permian, PJ | 12.0 | \$ 1.50 | \$ 18.0 | \$0.02 | 50% | \$9.02 | \$0.01 |
| Total Reserves | | | \$134.92 | \$0.19 | | \$50.34 | \$0.08 |
| Exploration (including 3P reserves) | | | | | | | |
| | <u>Res.potential</u> | <u>Unit Value</u> | | | | | |
| Liquids, mmboe (3P) | 9.7 | \$ 10.00 | \$ 97.2 | \$0.13 | 15% | \$14.58 | \$ 0.02 |
| Gas, PJ (3P) | 81.2 | \$ 1.00 | \$ 81.2 | \$0.11 | 15% | \$12.18 | \$ 0.02 |
| Further exploration potential | | | | | | | |
| Permian gas, PJ | 65.0 | \$ 0.35 | \$ 22.8 | \$0.03 | 10% | \$2.28 | \$ 0.00 |
| Triassic gas, PJ | 22.0 | \$ 0.50 | \$ 11.0 | \$0.02 | 10% | \$1.10 | \$ 0.00 |
| Permian liquids, mmboe | 13 | \$ 5.00 | \$ 65.0 | \$0.09 | 10% | \$6.50 | \$ 0.01 |
| Triassic liquids, mmboe | 10.0 | \$ 7.50 | \$ 75.0 | \$0.10 | 10% | \$7.50 | \$ 0.01 |
| Total Exploration | | | \$352.18 | \$0.48 | | \$44.14 | \$0.07 |
| Total Valuation | | | \$581.24 | \$0.80 | | \$148.69 | \$0.24 |

Income Statement Summary

| | | 2006 | 2007 | 2008f | 2009f | 2010f | 2011f |
|---|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Production | Mmboe | 0.38 | 0.41 | 0.39 | 0.27 | 0.19 | 0.15 |
| Gas | GJ | 1,848,977 | 1,935,474 | 1,815,059 | 1,218,932 | 880,575 | 660,431 |
| Oil | bbls | 57,645 | 75,298 | 68,673 | 49,974 | 37,047 | 27,785 |
| LPG | tonnes | 3,668 | 3,672 | 3,757 | 2,902 | 2,097 | 1,572 |
| Average Prices | | | | | | | |
| Gas | \$/GJ | \$ 2.71 | \$ 2.88 | \$ 3.07 | \$ 3.13 | \$ 3.20 | \$ 3.31 |
| Oil | \$/bbl | \$ 85.22 | \$ 85.58 | \$ 105.96 | \$ 106.74 | \$ 78.65 | \$ 78.65 |
| LPG | \$/tonne | \$ 440.08 | \$ 555.56 | \$ 743.04 | \$ 880.00 | \$ 880.00 | \$ 880.00 |
| Operating Revenue | \$m | 14.75 | 17.27 | 18.63 | 14.81 | 10.68 | 6.56 |
| change y/y | | | 17% | 8% | -20% | -28% | -39% |
| Total Revenue | \$m | 15.99 | 18.38 | 19.59 | 15.61 | 11.48 | 7.36 |
| EBITDAX | \$m | 3.49 | 5.90 | 7.54 | 6.32 | 3.93 | 1.09 |
| EBITDAX margin (per unit of production) | \$/boe | \$ 9.18 | \$ 14.34 | \$ 19.53 | \$ 23.72 | \$ 20.34 | \$ 7.53 |
| EBITDAX margin | % | 22% | 32% | 39% | 40% | 34% | 15% |
| Interest Income / (Expense) | \$m | 0.32 | 0.28 | 0.59 | 1.18 | 1.64 | 1.96 |
| NPAT | \$m | 1.04 | 2.65 | 5.53 | 6.38 | 4.77 | 2.45 |
| Change | | | 155% | 109% | 15% | -25% | -49% |
| EPS | c | 0.17 | 0.42 | 0.88 | 1.01 | 0.76 | 0.39 |
| P/E | | 69.7 | 27.3 | 13.1 | 11.3 | 15.2 | 29.5 |
| EV/EBITDA | | 20.7 | 12.3 | 9.6 | 11.4 | 18.4 | 66.2 |
| Balance sheet Summary | \$m | 2006 | 2007 | 2008f | 2009f | 2010f | 2011f |
| Cash/ equivalents | | 6.23 | 3.73 | 13.10 | 20.52 | 26.35 | 29.74 |
| Receivables | | 2.46 | 2.29 | 2.68 | 2.14 | 1.57 | 1.01 |
| Current Assets | | 11.05 | 8.11 | 17.88 | 24.76 | 30.02 | 32.85 |
| Total Assets | | 56.40 | 60.66 | 82.02 | 87.78 | 92.24 | 94.46 |
| Current Liabilities | | 2.03 | 3.69 | 2.08 | 1.46 | 1.15 | 0.92 |
| Total Liabilities | | 6.26 | 7.87 | 6.26 | 5.64 | 5.33 | 5.11 |
| Total Equity | | 50.14 | 52.79 | 75.30 | 81.68 | 86.45 | 88.90 |

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Infrastructure

Gas processing plants at Churchie and Silver Springs (operated by Mosaic) and the LPG processing plant at Wallumbilla (operated by Santos) are established operations, and require little operating costs to run. The facilities are only utilized at around 50% - should Mosaic's reserves development strategy be successful, we would see gradual increased utilization levels at minimal marginal costs.

Drilling operations

Drilling of Waggamba-4H appraisal well is underway. It is a horizontal well and its vertical section is almost complete.

Waggamba-4H targets gross resource of 3.3PJ gas and 275 thousand barrels of liquids (condensate and LPG) at P50 level. We estimate gross NPV of this well at \$19.1m (pre-tax, discounted at 20%). Mosaic's farmin partner - CS Energy - is paying 100% of drilling costs (estimated at \$3.5m) therefore Net NPV to Mosaic runs at circa \$11m, \$0.015 / share. These numbers are based on conservative commodities price assumptions and are of course contingent on a successful outcome of drilling.

At the moment our risked valuation includes only \$1.5m / \$0.002 per share value for the Waggamba-4H potential. Therefore in case of success we would expect valuation uplift.

Waggamba wells are high cost (circa \$3.5m) and carry modest-to-high technical risk. We therefore see recent farmout agreement with CS Energy as positive. CS will cover 100% drilling costs for two Waggamba wells, and in return will get 50% of resulting gas production and 35% of liquids production. The farmout agreement is a prudent way to manage risk - in case of an unsuccessful well there is no funding exposure for Mosaic. However in case of success the company still maintains meaningful equity in production (50% for gas and 65% in condensate and LPG).

Waggamba-4H is the second of 10 to 15 wells to be drilled back to back in 2008. Mosaic is fully funded for 10 wells and owns underutilized infrastructure (gas/LPG processing plants, pipeline and gathering infrastructure). Thus any new production can come online immediately.

The first well on current program - Fairymount-9 - was a successful oil development well that targeted 80-130 thousand barrels of oil potential. Final estimates of the oil accumulation size will not be known until the well establishes production profile, however in addition to expected oil sands Fairymount-9 intersected one new sand -not previously seen in the field. This indicates potential for upside on the pre-drill estimates. Fairymount-9 has been put on test and is expected to be in production around May. Once production rates have been estimated we will adjust our production forecasts.

The next well (well #3) will be Taylor-18 development, targeting 1.9-2.2 Bcfe of gas resource potential (MOS 100%). Site preparations are under way.

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Tolhurst's Recommendation and Risk Rating system:

Recommendations are assessments of each Tolhurst Analyst's view of potential total returns over Short Term and/or Long Term time horizons. A Short Term time horizon is less than 12 months; a Long Term time horizon is greater than 12 months.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into four main categories:

Buy: Expected Total Return more than 20%

Accumulate: Expected Total Return between 5% - 20%

Hold: Expected Total Return between -5% and 5%

Sell: Expected Total Return less than -5%

Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size. We divide our risk into three categories:

High: Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

Medium: Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

Low: Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation

Disclosure of Interest

Tolhurst Ltd acted as broker to Mosaic's November 2007 rights issue for which it received a management fee equal to 1.0% of the funds raised, equalling \$57,076.54 plus GST. It also acted as broker to the November 2007 placement for which it received a management and selling fee totalling 5.0%, equalling \$600,000.00 plus GST.

On the 4th March 2008 Mosaic issued Tolhurst Ltd with 4.0 million unlisted 31 December 2009 options with an exercise price of \$0.20 per share for investor relations and advisory services.

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