

Last Price
\$0.115

Price Target
\$0.24

Sector
Oil & Gas

Risk Rating
HIGH

Short term <12m
ACCUMULATE

Long Term > 12m
BUY

Company update
FY 2008 first half results

Recommendation Change
No change

Target Price Change
No change

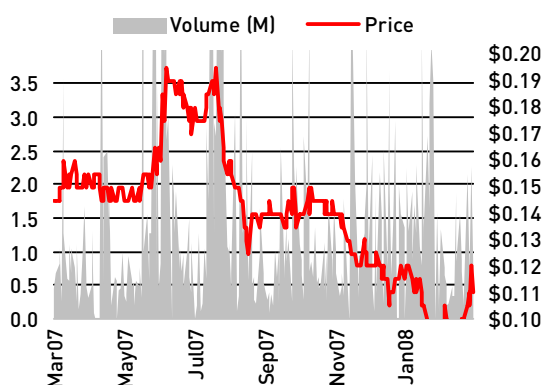
Forecast Change
Adjustments

Market Stats

Market Capitalisation	\$m	\$69m
12 Month Price Range		\$0.08 - \$0.20
Monthly Turnover	\$m	\$1.9m
Monthly Volume	m	19m
Monthly T'over (of total)	%	3%

Fundamentals		2007a	2008E	2009E	2010E
Net Profit	\$m	2.65	5.19	6.03	4.46
EPS	¢	0.42	0.82	0.96	0.71
EPS Growth	%	155	9%	16	-26
PE	x	26.1	13.3	11.5	15.5
DPS	¢	0	0	0	0
Yield	%	0	0	0	0
Franking	%	n/a	n/a	n/a	n/a
EV/EBITDA	x	11.7	9.5	11.4	18.4

+Share Price Chart 1 Year



Drilling program commences

Event

Mosaic Oil (MOS) reported results for the first half of FY2008 and announced commencement of the drilling program designed to accelerate growth.

Key Points

- Production and revenue in the first half of FY08 remain largely in line with the results for the previous corresponding period.
- Margins, however, benefited strongly from higher commodities prices – EBITDA margin was 41% compared to 32% for full FY2007. \$3.8m EBITDA recorded in the first half puts the company on track to achieve our forecast of over \$7m in full FY2008 EBITDA.
- Net profit for the half was \$2.3m compared to \$2.65m recorded for full FY2007.
- All in all the results are not exceptional – as expected – and reflect the “old” growth profile of the company, i.e. no growth or limited growth.
- Mosaic now embarks on an active drilling program, with the view to accelerate growth through developing existing reserves base.
- First well in a ten back-to-back well program is Fairymount-9, an oil development well targeting 0.1mmbbls resource potential.
- With rig and funding secured for ten wells, Fairymount-9 is expected to spud on or around 10 March.

Valuation and Recommendation

Our forecasts remain largely unchanged, with only minimal adjustments to reflect the first half results.

Our risked valuation of Mosaic shares is also unchanged at \$0.24, including \$0.09 for current production, owned infrastructure, cash and NPV of options, \$0.08 for the development potential and \$0.07 for exploration potential. We currently attribute no value to the company's exposure to Northwest Shelf and PNG permits as path to development for these assets is uncertain.

Mosaic shares are trading at a considerable discount to our risked valuation, reflecting both the current market conditions (limited interest in higher risk investments), and the more warranted company-specific discount as Mosaic is yet to prove it can successfully unlock the value of its 2P reserves base.

While we expect the general market discount to remain with the company as long as conditions remain volatile, we feel that the company-specific discount should reduce as Mosaic executes on its accelerated growth strategy. Given that the fully funded 2008 drilling program is of a moderate risk nature, we believe the risk to drilling results is skewed to the upside.

Due to expected short term volatility in the share price and increased risk-aversion of the markets, we rate Mosaic shares as **ACCUMULATE / HIGH RISK** for the investment horizon of 12 months or less. For long term investors, our recommendation is **BUY / HIGH RISK** as we expect both the market risk discount and company specific discount to our valuation to begin unwinding, driven mostly by an active drilling campaign.



MOSAIC OIL NL (MOS)

RESEARCH

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Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.115	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

Mosaic Oil Valuation Summary

	Unrisked			Risked			
	NPV, \$m	Per share	Probability	NPV	Per share		
Current Producing assets - no growth scenario	\$12.78	\$0.02	100%	\$12.78	\$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		
NPV options	\$ 11.80	\$0.02	0%	\$0.00	\$0.00		
Total Cash and Production	\$96.70	\$0.13		\$56.90	\$0.09		
Reserves	Reserves (2P) Unit Value						
Liquids /Permian, mmboe	2.2	\$ 15.00	\$ 33.1	\$0.05	30%	\$9.93	\$0.02
Liquids / non-Permian, mmboe	1.6	\$ 15.00	\$ 23.5	\$0.03	50%	\$11.73	\$0.02
Gas / Permian, PJ	40.3	\$ 1.40	\$ 56.4	\$0.08	30%	\$16.91	\$0.03
Gas / non-Permian, PJ	12.0	\$ 1.50	\$ 18.0	\$0.02	50%	\$9.02	\$0.01
Total Reserves	\$130.99	\$0.18		\$47.60	\$0.08		
Exploration	Resource potential Unit Value						
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	\$579.87	\$0.80		\$148.64	\$0.24		

Income Statement Summary

	2006	2007	2008f	2009f	2010f	2011f	
Net Production	Mmboe	0.38	0.41	0.39	0.26	0.19	0.14
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	3,657	2,673	1,931	1,448
Average Prices							
Gas	\$/GJ	\$ 2.71	\$ 2.88	\$ 3.07	\$ 3.13	\$ 3.20	\$ 3.31
Oil	\$/bbl	\$ 85.22	\$ 85.58	\$ 103.05	\$ 106.74	\$ 78.65	\$ 78.65
LPG	\$/tonne	\$ 440.08	\$ 555.56	\$ 732.38	\$ 850.00	\$ 850.00	\$ 850.00
Operating Revenue	\$m	14.75	17.27	18.31	14.53	10.48	6.40
change y/y			17%	6%	-21%	-28%	-39%
Total Revenue	\$m	15.99	18.38	19.28	15.33	11.28	7.20
EBITDAX	\$m	3.49	5.90	7.25	6.08	3.76	0.96
EBITDAX margin (per unit of production)	\$/boe	\$ 9.18	\$ 14.34	\$ 18.82	\$ 22.98	\$ 19.58	\$ 6.68
EBITDAX margin	%	22%	32%	38%	40%	33%	13%
Depreciation, Depletion, Amortization	\$m	(1.49)	(1.45)	(1.47)	(1.12)	(0.81)	(0.61)
Expensed exploration / development	\$m	(0.96)	(1.80)	(1.14)	-	-	-
Interest Income / (Expense)	\$m	0.32	0.28	0.54	1.07	1.51	1.82
Less Tax / (benefit)	\$m	-	-	-	-	-	-
Tax rate		-	-	-	-	-	-
NPAT	\$m	1.04	2.65	5.19	6.03	4.46	2.17
Change			155%	96%	16%	-26%	-51%
EPS	c	0.17	0.42	0.82	0.96	0.71	0.35
P/E		69.7	27.3	13.9	12.0	16.2	33.3
EV/EBITDA		20.7	12.3	10.0	11.9	19.2	75.2
Balance sheet Summary	\$m	2006	2007	2008f	2009f	2010f	2011f
Current Assets							
Cash/ equivalents		6.23	3.73	11.80	18.87	24.40	27.50
Receivables		2.46	2.29	2.64	2.10	1.55	0.99
Inventories		2.36	2.10	2.10	2.10	2.10	2.10
Current Assets		11.05	8.11	16.55	23.07	28.04	30.59
Non-Current Assets		45.35	52.55	65.13	64.01	63.19	62.59
Total Assets		56.40	60.66	81.67	87.08	91.23	93.18
Current Liabilities		2.03	3.69	2.08	1.45	1.15	0.92
Non-current Liabilities		4.23	4.18	4.18	4.18	4.18	4.18
Total Liabilities		6.26	7.87	6.26	5.64	5.33	5.10
Net Assets		50.14	52.79	75.41	81.44	85.91	88.08
Issued Capital		70.71	70.71	70.71	87.69	87.69	87.69
Accumulated losses		(20.57)	(17.92)	(12.74)	(6.71)	(2.24)	(0.07)
Total Equity		50.14	52.79	74.95	80.98	85.44	87.61

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FY 2008 FIRST HALF RESULTS

Production of 0.2 mmmboe for the period ended December 2007 was as reported in the quarterly production reports. Overall production volumes remain at the same level as during the first half of FY2007. By commodity, gas production increased over the previous corresponding period, while oil production declined slightly.

Revenue for the period was \$9.36m – somewhat less than the production volumes would have implied, with the closure of the Moonie Oil pipeline responsible for the difference. As oil is being trucked to the market, there were delays in selling some oil production – we do not expect the full year results to be affected by this as oil sales should catch up in the June half.

Mosaic recorded \$3.8m in EBITDA – a 41% cash margin, compared to 37% for the pcp and 32% for FY2007. Cash margin per unit of production was \$18.04 per barrel of oil equivalent (boe) compared to \$14.43 / boe for full FY2007 – the increase reflects higher prices for oil, LPG and gas.

Net Profit for the half was \$2.3m, representing 25% profit margin, compared to 14% for FY2007. Mosaic is not yet paying corporate taxes due to accumulated net operating losses.

Mosaic received \$3.04 in revenue per every thousand cubic feet of gas (on average) – compared to \$2.88/mcf for full FY2007. Average price received per tonne of LPG also increased from \$556 for FY2007 to \$613 in the first half of FY2008. Currently Saudi CP (benchmark for the LPG pricing in Asia/Pacific) is quoted at \$905/tonne (LPG Australia), and in January it was quoted at over \$1,000 / tonne – we therefore expect Mosaic to benefit even further from strong LPG price trends in the second half of FY2008, both in terms of revenue and margins.

Average price received for the produced oil and condensate has been skewed down by time lag in oil sales receipts due to closure of the Moonie pipeline. Adjusting for this, we estimate Mosaic received c. \$99 per barrel during the half (US\$86)

All in all, the half year result was not exceptional and almost flat over the pcp – this is just as expected and reflects the “old” growth profile of the company, i.e. no growth or limited growth.

As we outlined in our initiation report, Mosaic now embarks on an active drilling program with the view to accelerate growth by developing already discovered reserves. Ten wells are planned to be drilled back to back, including development, appraisal and exploration wells.

Rig and funding for this program are in place, with the first well, Fairymount-9, expected to spud on or around 10th of March. Fairymount-9 is an oil development well targeting 0.1mmbbls resource in Triassic interval. We estimate that if successful, the well should represent c. \$2.55m added npv for the company.

Our forecasts remain largely unchanged, with some minor adjustments to reflect the results. Valuation remains unchanged at \$0.24 and we maintain our Short Term ACCUMULATE/HIGH RISK and Long Term BUY?HIGH RISK recommendations.

MOSAIC OIL NL (MOS)

RESEARCH



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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

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Tolhurst may seek from the company subject to this Research Report and/or their shareholders, advisory mandates or mandates for dealings in securities, and therefore may receive commissions or fees from the companies, and/or their shareholders, at some time in the future.

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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Analyst verification

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This report has been reviewed by peers within the research department.