

MOSAIC OIL NL (MOS)

RESEARCH



TOLHURST

Last Price \$0.11
Price Target \$0.24
Sector Oil & Gas

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

Company update	Initiation of coverage
Recommendation Change	Initiation of coverage
Target Price Change	Initiation of coverage
Forecast Change	Initiation of coverage

Embarking on an aggressive growth path

Thesis

We initiate coverage on Mosaic Oil (MOS) with an ACCUMULATE/HIGH RISK recommendation for short term investors, and BUY/HIGH RISK recommendation for long term investors.

Mosaic is a profitable company with producing assets (gas, oil, condensate, and LPG) in Australia's Surat-Bowen Basin. Listed almost 20 years ago, Mosaic was instrumental in commercializing new Surat-Bowen gas play in the early 2000s with the discovery of the 62Bcf Churchie gas field in deep Permian interval. Commercial success with Permian reservoirs was achieved through use of underbalanced drilling technique.

Mosaic boasts a significant 2P reserve base of 12mmboe -including 52PJ gas, 2.9mmbbls oil/condensate, and 106K tonnes LPG. The company also owns or part-owns key gas infrastructure (gas and LPG processing plants and pipelines) located close to the producing fields.

Despite all this, Mosaic up to until recently had only a limited (albeit profitable) growth profile – due to lack of funding to allow faster growth.

In 2006-2007, four new Directors joined the Board, consequently adopting and promoting the accelerated growth / accelerated drilling strategy. The strategy seeks to monetize the already discovered 2P reserves base through an active drilling campaign – funded by a capital raising in late 2007. This strategy is backed not only by the large existing 2P reserves base and spare capacity in Mosaic-owned infrastructure, but also by the considerable depth of the management team – including in-house experienced exploration and production managers, as well as a consulting drilling manager with long ties to Mosaic and experience in drilling Permian targets.

Valuation

We value Mosaic shares at \$0.24 on a risk-adjusted basis, including \$0.08 for current production, owned infrastructure, cash and NPV of options, \$0.09 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 risk-adjusted 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.

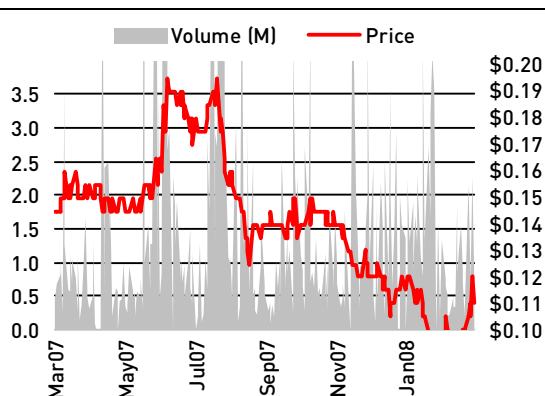
Due to expected short term volatility in the share price and increased risk-aversion of the markets, we rate Mosaic shares as **ACCUMULATE / HIGH RISK** for the investment horizon of 12 months or less. For long term investors, our recommendation is **BUY / HIGH RISK** as we expect both the market risk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

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	7.59	7.22	5.66
EPS	¢	0.42	1.21	1.15	0.90
EPS Growth	%	155	187	-5	-22
PE	x	26.1	9.1	9.6	12.2
DPS	¢	0	0	0	0
Yield	%	0	0	0	0
Franking	%	n/a	n/a	n/a	n/a
EV/EBITDA	x	11.7	8.7	11.5	19

+Share Price Chart 1 Year





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\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

Mosaic Oil Valuation Summary

	Unrisked		Probability	Risked			
	NPV, \$m	Per share		NPV	Per share		
Current Producing assets - no growth scenario	\$13.22	\$0.02	100%	\$13.22	\$0.02		
Gas infrastructure (at the insured value)	\$56.00	\$0.08	50%	\$28.00	\$0.04		
Cash on Hand	\$ 17.50	\$0.02	100%	\$17.50	\$0.03		
NPV options	\$ 11.73	\$0.02	0%	\$0.00	\$0.00		
Total Cash and Production	\$98.45	\$0.14		\$58.72	\$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	\$0.49		\$44.14	\$0.07
Total Valuation			\$581.62	\$0.80		\$150.45	\$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	\$ 2.94	\$ 3.00	\$ 3.06	\$ 3.17
Oil	\$/bbl	\$ 85.22	\$ 85.58	\$ 102.70	\$ 106.74	\$ 78.65	\$ 78.65
LPG	\$/tonne	\$ 440.08	\$ 555.56	\$ 876.39	\$ 850.00	\$ 850.00	\$ 850.00
Operating Revenue	\$m	14.75	17.27	18.70	14.37	10.36	6.31
change y/y			17%	8%	-23%	-28%	-39%
Total Revenue	\$m	15.99	18.38	19.50	15.17	11.16	7.11
EBITDAX	\$m	3.49	5.90	7.98	6.00	3.64	0.87
EBITDAX margin (per unit of production)	\$/boe	\$ 9.18	\$ 14.34	\$ 20.70	\$ 22.69	\$ 18.98	\$ 6.05
EBITDAX margin	%	22%	32%	41%	40%	33%	12%
Depreciation, Depletion, Amortization	\$m	(1.49)	(1.45)	(1.48)	(1.01)	(0.73)	(0.55)
Expensed exploration / development	\$m	(0.96)	(1.80)	-	-	-	-
Interest Income / (Expense)	\$m	0.32	0.28	1.10	2.22	2.75	3.13
Less Tax / (benefit)	\$m	-	-	-	-	-	-
Tax rate		-	-	-	-	-	-
NPAT	\$m	1.04	2.65	7.59	7.22	5.66	3.46
Change			155%	187%	-5%	-22%	-39%
EPS	c	0.17	0.42	1.21	1.15	0.90	0.55

Balance sheet Summary

	\$m	2006	2007	2008f	2009f	2010f	2011f
Current Assets							
Cash/ equivalents		6.23	3.73	27.56	35.96	42.61	46.94
Receivables		2.46	2.29	2.67	2.08	1.53	0.97
Inventories		2.36	2.10	2.10	2.10	2.10	2.10
Current Assets		11.05	8.11	32.33	40.14	46.24	50.01
Non-Current Assets		45.35	52.55	51.07	50.06	49.33	48.78
Total Assets		56.40	60.66	83.40	90.20	95.57	98.80
Current Liabilities		2.03	3.69	1.86	1.44	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	6.04	5.62	5.33	5.10
Net Assets		50.14	52.79	77.36	84.58	90.24	93.70
Issued Capital		70.71	70.71	87.69	87.69	87.69	87.69
Accumulated losses		(20.57)	(17.92)	(10.33)	(3.11)	2.55	6.01
Total Equity		50.14	52.79	77.36	84.58	90.24	93.70

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Risked Valuation of \$0.24 comprised of:

\$0.09 for existing production, owned infrastructure, liquid assets

\$0.08 risked development potential (2P reserves)

\$0.07 risked exploration upside

Value of the development potential is enhanced by

- 1) sufficient funds to start a 10 well drilling program
- 2) Diversified drilling target inventory
- 3) Proximity to equity owned gas processing infrastructure

Mosaic shares trade at a considerable discount to valuation – driven in part by volatile market conditions.

We expect the company-specific discount to begin unwinding if Mosaic proves it can unlock value of its 2P reserves base.

VALUATION AND RECOMMENDATION

We value Mosaic shares at \$0.24 on a risk-adjusted basis. We attribute \$0.09 to the value of current production, owned infrastructure, cash on hand and NPV of options. Our \$0.02 valuation of the company's existing production is based on a discounted cash flow analysis – assuming no growth and cessation of production in 2012 due to natural field decline.

Mosaic's infrastructure assets (the Silver Springs gas processing plant, Wallumbilla LPG plant and pipeline, and Churchie/Downlands pipelines) are insured at over \$50m. These assets contribute significantly to the valuation. We stress that the very presence of this scaleable and (currently) underutilized assets enhances the value of Mosaic's development opportunities as any new production of gas/oil can be quickly tied in, at only a marginal cost. We however recognize that to fully enjoy the value of these assets the company must develop sufficient resource to increase capacity utilization – we therefore include only half of the insured value to the risked valuation, as the risk to resource development potential in our view should be reflected.

We value the development potential at \$0.08 a share – based on the existing 2P reserves, risked down to 50% for conventional targets and 30% for Permian targets (due to higher operational risk).

Critical to the value of the development potential is the fact that Mosaic is in possession of sufficient cash to allow the development to proceed.

Finally we attribute \$0.07 to the risked exploration potential, including \$0.04 for possible reserves (3P), and \$0.03 for blue sky exploration potential. We note that our valuation does not attribute value to the company's vast contingent resource base in PNG (Kimu field) as the path and timeline to commercialization of this resource is very much uncertain at this time.

Mosaic shares trade at considerable discount to our risked valuation. We believe the discount reflects both the current market conditions, where there is limited interest in higher risk investment stories, and the more warranted discount as the company is yet to prove it can successfully unlock the value of its 2P reserves base.

We expect the excessive market risk discount to remain with the company as long as the general market conditions remain volatile. However we feel that as the company embarks on the 10 well drilling campaign (to commence in March), the news flow and results will drive the share price in the short to medium term. Given that the 2008 drilling campaign has been fully funded and is of a relatively moderate risk nature (majority of wells represent development and near-field exploration), we believe the risk to drilling results is skewed to the upside.

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

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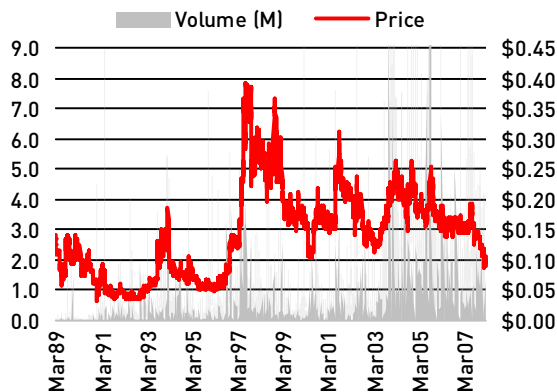
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Mosaic Oil NL (MOS) trading history -since listing



Growth strategy is based on developing already discovered substantial 2P reserves (12mmboe).

Funding for accelerated drilling in place, a 10 well program to commence in March.

Owned infrastructure is underutilized – scope for quick monetization of any new production.

Mosaic's exposure to long term potential of the Kimu gas development in Papua New Guinea offers today's investors a leverage to the high but distant potential of this field (not included in risked valuation as path to development uncertain)

BACKGROUND AND INVESTMENT CASE

Mosaic Oil NL (Mosaic) has been exploring for, developing and producing oil, gas and liquefied petroleum gas (LPG) onshore Australia for almost two decades. The company was listed on ASX in February 1989 and remained since then in the same corporate incarnation. Key producing and exploration assets are located in South East Queensland – Surat and Bowen basins. Mosaic holds a small interest in a Norshwest Shelf permit (operated by Santos) and has a meaningful exposure to the long term development potential of the Oil Search operated Kimu gas field in PNG.

Mosaic has been at the forefront of unlocking the new gas play in the Surat-Bowen Basin through identifying and developing the technically challenging Permian reservoirs (Tinowon Sandstone). The major breakthrough was discovery and consequent development of the 62Bcf Churchie gas field in the early 2000s. The company achieved commercial production from this deep Permian reservoir by applying underbalanced drilling technique (see Appendix 1 for a primer on underbalanced drilling). Several other Permian targets have been developed since, including use of horizontal underbalanced drilling at Waggamba.

Despite this success, Mosaic remained a small-scale company generating sufficient cash flows to continue drilling a small number of wells almost every year, but possessing neither funds nor Board interest for a faster and more aggressive growth path. By the middle of this decade, the company came to a crossroads, with activity all but ceasing during 2006. During that year the majority of existing Board were replaced (a change largely driven by shareholders), with four new Directors joining. Armed with the new Board, the company went through a detailed review of its assets and opportunities and came up with an aggressive growth strategy.

The essence of the growth strategy can be summarized as “monetize potential of the **existing reserves** base through accelerated drilling activity”. This is a relatively moderate risk strategy as the reserves the company seeks to develop have already been discovered. The 2P reserves base to be developed stands at 12mmboe – a substantial size for an under \$100m company. Majority – 69%- of reserves is gas, with oil/condensate/LPG accounting for 31%. In terms of play type, 2P reserves are 71% Permian.

In addition to substantial 2P reserves base to be developed, Mosaic owns strategic pieces of gas infrastructure (pipelines, gas and LPG processing plants) that are located near the targeted development areas and have sufficient spare capacity to accommodate the accelerated production rates.

While the majority of accelerated drilling will have a moderate risk profile of development and near-field exploration, there are some high impact/high risk pure exploration targets on the drilling schedule that – if successful – should give meaningful boost to the scale of Mosaic's resource base (for example the Freneau well scheduled for 2008 will target mean recoverable resource of 29 Bcf – this translates into over \$60m un-risked npv).

Mosaic's exposure to long term potential of the Kimu gas development in Papua New Guinea (operated by Oil Search) offers today's investors a leverage to the high but distant potential of this field.

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With significant technical, operational, and management expertise in-house, as well as sufficient funding secured, the company is well positioned to execute on its new strategy.

Should Mosaic be successful with the new accelerated growth trajectory, we believe the profile of the company should be very much altered over the next 12-18 months. **From a small scale, limited growth prospect company, Mosaic should transform itself into a fast growing producer and explorer in one of Australia's premier hydrocarbon provinces.**

Top Shareholders	Shares, mm	% of FPO
Cooper Energy	32.0	5%
Berne No 132 Nominees	19.3	3.1%
ANZ Nominees	18.0	2.9%
Citicorp Nominees	10.1	1.6%
HSBC Custody Nominees	9.3	1.5%
R. Pullan & C. Pullan (Pullan family super fund)	6.5	1.0%

Relatively low liquidity adds risks of large price swings

Mosaic targets a three-fold increase in production and revenues over the next three years, by means of an accelerated drilling program of 10-15 wells a year

Mosaic's growth strategy has a moderate risk to it as drilling is aimed largely at increasing production from already discovered reserves. At the same time there are some potentially high impact exploration wells on the schedule

10 well program fully funded, drilling targets ready and well diversified (gas/oil, Permian/ Triassic, development/exploration, "bread and butter"/"company maker")

Mosaic's register is fairly wide open with only one substantial holder – ASX-listed Cooper Energy - holding 32m shares or 5% of share capital (FPO). Cooper Energy bought the stake on the market in 2007 and has not altered its holding since. We believe since acquiring the stake Cooper's strategic interest shifted somewhat towards its Indonesian projects and expect the company to monetize its Mosaic shares (timing uncertain).

In addition to typical operational, exploration, production, commodities pricing, and personnel risks, investment in Mosaic has an added risk that relatively low share liquidity could lead to large share price swings. At the time of this report, some 6.6m shares were traded on a week rolling basis (1% of FPO), 19m shares on a month rolling basis (3% of FPO) and 371m shares on a year rolling basis (59% of FPO).

SURAT –BOWEN GROWTH STRATEGY

Mosaic targets a three-fold increase in production and revenues over the next three years, by means of an accelerated drilling program. The company's aim is to drill circa 10 wells a year (and perhaps up to 15 wells) for the next three years, commencing in February –March 2008. The first ten wells have been funded while the funding of the balance of the program will be affected by the rate of success with the 2008 drilling round. Altogether Mosaic expects to commit c. \$33m in capital expenditure to the three year program – majority for drilling and some \$3m for facilities upgrade.

This growth strategy has a decidedly moderate risk tone to it as drilling is aimed largely at **increasing production from company's 2P reserve base** – in other words, the reserves have already been discovered, but not yet developed. Part of funds will also be dedicated to further exploration and appraisal work with the view to increase the 2P reserves – reducing risk through farmout funding has been contemplated for some of these higher risk targets.

2008 drilling in detail

The 2008 drilling targets are well diversified along the hydrocarbon type (oil/gas), reservoir or play type (Permian/ Triassic) and therefore the risk profile (exploration / near-field exploration / development).

The 10 well a year program is fully funded by a \$17.7m capital raising, completed in late 2007. Should the company push for up to 15 wells a year, additional funding may be necessary – most likely through farming out some of Mosaic's assets. We expect the farmouts to be sought by Mosaic for higher risk / higher cost drilling targets – such as the Waggamba gas field and the Freneau gas exploration prospect (Mosaic holds 100% in both).



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With rig secured for up to 15 first wells (a Century Rig #7), Mosaic's tentative 2008 drilling targets is as follows:

2008 drilling targets

Well Sequence	Well Name	Location	Target type	Targeted Interval	Equity	Mean resource mmbbls(green)/Bcf (red)	Pc*	
1	Fairymount 9	PL46	oil	Triassic	100%	0.1	80%	Development, to drill March 2008
2	Waggamba-4H	PL202	gas	Permian	100%	2.5	80%	Horizontal / underbalanced
3	Taylor-18	PL16	gas	Triassic	100%	1.9	80%	Development
4	Armstrong	ATP709P	oil	Triassic	100%	0.5	40%	near field exploration (Taylor field)
5	Waggamba-5H	PL202	gas	Permian	100%	2.5	80%	Horizontal/ underbalanced
6 (?)	Freneau	ATP709P	gas	Permian	100%	28.9	19%	Vertical / underbalanced
7 (?)	Jawsone	PL15	oil	Triassic	50%	0.4	20%	Near field exploration
TBA	Soldier-1	PL16	gas	Triassic	100%	1.2	24%	Taylor near-field exploration
TBA	Churchie-11	PL192	gas	Permian	49%	3.5	87%	Development / underbalanced
TBA	W. Boggo Creek	PL16	oil	Triassic	100%	0.1	80%	Development
Total Mean oil resource targeted (Net)						0.8 mmbbls		
Total Mean gas resource targeted (Net)						38.7 Bcf		

*Probability of a commercial discovery Source: Mosaic Oil

Cost, risk and payout profiles vary significantly across drilling targets

As the program covers a variety of targets, there is a large differential in drilling costs from well to well. Conventional wells (target Triassic sands) cost \$1m (dry hole) to \$1.5m (completed for production), while the underbalanced wells (target Permian sands) may cost \$1.8-\$2m, for a vertical well and over \$3m for a horizontal well (the two Waggamba wells on the schedule are horizontal). Total Capital Expenditure for the first ten wells is estimated at between \$11m and \$15m (the low end assumes dry hole costs and the upper end assumes all wells are completed for production).

Similarly the payout profile of the targets varies meaningfully. Lower risk Triassic oil targets carry a pre-tax un-risked npv of around \$2.5m for a 100K barrel resource, and close to \$10m for a 500K barrels target. Value of the gas targets depends not only on the size, but also varies strongly depending on the liquids content. For example a successful well at Waggamba would add over \$19m in value to the company (based on a 2.5Bcf resource and 2.5mmcf initial production rates). A successful Churchie well, on the other hand could be valued at just under \$9m for a larger 3.5Bcf target – as the Waggamba gas is substantially more rich in condensate and LPG.

All in all we estimate that the 10 targets on the 2008 drilling schedule have un-risked pre-tax npv of over \$140m. Clearly this is a very meaningful program for the company Mosaic's size – and now all depends on the rate of success that the company will attain.

Well	Target type	Interval	Equity	Mean resource mmbbls/Bcf	Pc	Pre-tax un-risked NPV @20%, Gross, \$Am
Fairymount 9	oil	Triassic	100%	0.1	80%	\$ 2.55
Waggamba-4H	gas	Permian	100%	2.5	80%	\$ 20.17
Taylor-18	gas	Triassic	100%	1.9	80%	\$ 4.03
Armstrong	oil	Triassic	100%	0.5	40%	\$ 9.95
Waggamba-5H	gas	Permian	100%	2.5	80%	\$ 20.17
Freneau	gas	Permian	100%	28.9	19%	\$ 62.21
Jawsone	oil	Triassic	50%	0.4	20%	\$ 7.32
Soldier-1	gas	Triassic	100%	1.2	24%	\$ 2.91
Churchie-11	gas	Permian	49%	3.5	87%	\$ 8.72
West Boggo Creek	oil	Triassic	100%	0.1	80%	\$ 2.55
Total NPV						\$140.6

*All calculations based on a 20% discount rate, \$70/bbl price for condensate/oil, \$3/GJ gas and \$800/tonne LPG pricing. Source: Tolhurst research

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What happens beyond 2008?

The three year long accelerated growth program foresees an over \$30m total capital expenditure, including \$30m on drilling and just under \$3m for facilities upgrade. The first year program is fully funded, while funding of the balance of the program would in a large measure depend on the success of the initial drilling round. With key gas commercialization infrastructure owned or part owned by Mosaic, significant volumes of new production can be brought on stream and start generating cash flow very quickly. We expect that self-funding would be supplemented by farmout agreements – aimed at both reducing risk exposure and getting funds for drilling. Further equity raising cannot be excluded.

In terms of drilling inventory, the company has an extensive list of targets beyond the initial ten. These targets again are well diversified across a range of target profile / size / risk level.

RESERVES

For a company capitalized at under \$70m, Mosaic has a surprisingly substantial Proven and Probable (2P) reserve of gas, oil and LPG to its name. An internal Mosaic assessment places current 2P reserves at 12 million barrels of oil equivalent (mmboe), comprised of 52.3PJ of natural gas, 2.9mmbbls of oil and 106 thousand tonnes of LPG. Only 4PJ of the gas reserves have been contracted and developed and are therefore classified as Proven Reserves (1P). Moreover, existing two main gas sales agreements can absorb over 11PJ (Net) from the date of this report through the contract expiry. The two main contracts are on a “take or pay” basis, thus providing an offtake guarantee.

In terms of play type, over 70% of the company’s 2P reserves are for Permian reservoirs (development with underbalanced drilling).

The existing spare capacity of Mosaic-owned infrastructure (gas and LPG processing, pipelines) can accommodate up to 9PJ/year production (see Portfolio profile section for details on owned infrastructure).

Mosaic relies on internal expertise for an ongoing reserves assessment, deferring to an independent expert for regular audits. Over half of the reserve base has been independently assessed. While we would have preferred to have all the reserves independently verified, we concede there is a cost element added to ongoing audit.

Up to now the value of such substantial reserves base has been significantly discounted by the markets as Mosaic did not have a funding mechanism to realize the potential within a reasonable time frame. While profitable and cash flow positive, the scale of current production and cash flows would allow only a very limited drilling commitment. It could have taken literally decades to monetize the reserves at this rate.

The situation has changed since the new board approved an accelerated growth program and the company raised circa \$17m to fund an active drilling campaign. The 10 well program for the company’s Surat-Bowen assets is set to kick off imminently.

Mosaic’s Proven and Probable (2P) reserves are substantial:

52.3 PJ gas (8.3 mmboe)

2.9mmbbls oil/condensate

106 K tonnes LPG (0.9 mmboe)

Total 12 mmboe

Only 4PJ of gas (0.6 mmboe) has been classified as producing (1P)

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RECENT FINANCIAL PERFORMANCE AND FORECASTS

Mosaic is a profitable company, with the net profit increasing almost three-fold in the year ended June 2007 (FY2007) to \$2.65m. EBITDAX margin in FY07 was 32% at \$5.90m. This compares to \$3.5m / 22% EBITDAX margin recorded in FY2006. The FY07 results were achieved on a record high \$17.3m operating revenue – a 17% improvement over FY2006. The revenue growth was largely driven by an 8% growth in production volume, as well as higher oil and LPG prices.

Overall production reached 412 thousand barrels of oil equivalent (boe) in FY2007, from 374 thousand boe in FY2006. Production growth was driven by an 80% plus increase at the Silver Springs and Waggamba projects – offset by natural field declines in other producing areas.

Our valuation of the current producing assets is based on an assumption that no additional volumes are brought on stream and production stops after 2012 in line with natural field decline rates. Under this theoretical scenario the company would produce an EBITDAX of \$8m, \$6m, and \$3.6m for FY2008, 2009, and 2010 respectively. The operating revenue in FY2008 would grow at 8% to \$18.7m then declining to \$14.4m and \$10.3m in FY2009 and 2010.

As the upcoming development and exploration program has a wide range of targets in terms of drilling costs, probability of success, and payout profile, it is a challenge to make financial forecasts that incorporate the results. With dozens of possible outcomes – which of the wells will succeed, will the Capex be as planned, will the production rates be as planned, will the drilling run on time etc – any one forecast scenario will likely differ markedly from real performance.

With these challenges in mind, we created a blended scenario for the first 10 wells, assuming the following:

- 1) An average 40% success rate is achieved across the drilling program
- 2) The wells perform in line with a “master” well model (different models for Permian and Triassic reservoirs)
- 3) The first five wells affect F2009 and thereafter, and the effect of the second 5 wells starts in F2010.
- 4) We exclude exploration well Freneau from this analysis as success with this large target would in our view markedly change Mosaic’s profile.

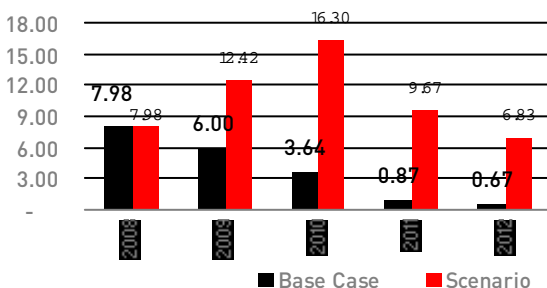
With these constraints in mind, we intend to demonstrate how the model is leveraged to success of drilling. The chart on this page outlines difference in EBITDAX generated under our base scenario (existing production only, in line with natural field decline) and the scenario that takes drilling results into account.

THE BOARD AND MANAGEMENT TEAM

A closer look at the composition of the Board reveals that 2006 was a year of change for the company – of six current members four joined the Board in 2006. Charles Copeman – the founding Chairman of Mosaic, and Lan Nguyen – MD since 2005 and at Mosaic since 1994 – remain the two longest serving members.

The new Board has an impressive collective experience in international oil &

EBITDAX, \$Am - scenario comparison



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Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

gas and mining industries – including strong technical credentials - as well as in areas of capital markets, corporate advisory, accounting, law, and corporate governance. Five out of six directors are independent.

The Board has adopted and promoted the accelerated growth / accelerated drilling strategy. This strategy is backed not only by the large existing 2P reserves base and spare capacity in Mosaic-owned infrastructure, but also by the considerable depth of the management team – including in-house experienced exploration and production managers, as well as a consulting drilling manager with long ties to Mosaic and experience in drilling Permian targets.

David Herlihy, Chairman

Appointed to the Board in February 2006, Mr Herlihy assumed the Chairmanship in September 2006. He has a long track record as a director and business professional, including capital markets experience. Over the past 30 years Mr Herlihy served on Boards of a wide range of public, private, and government entities – including Chairmanship of the State Transit Authority of NSW.

Andy Rigg, Deputy Chairman

Mr Rigg joined the Board in February 2006. His decades of oil and gas industry experience include work with Santos, Ampolex and Esso. Most recently he has been on the Board of Anzon Australia. Mr Rigg is a Distinguished Member of Petroleum Exploration Society of Australia and a member of the American Association of petroleum Geologists.

Mr Rigg is deputy CEO and Special Projects Manager for the Cooperative Centre for Greenhouse Gas Technologies, and serves on the Board of MEO Australia.

Charles Copeman, Non-Executive Director

On Mosaic's Board since 1988, Mr Copeman is the founding Chairman of Mosaic. He has over four decades of mining, oil and gas related experience in Australia, Iran and the UK. Mr Copeman has been awarded the Order of Australia for his services to the Australian Mining Industry.

Peter Barrow, Non-Executive Director

Mr Barrow's background covers a range of accounting and commercial activities – having established MBT Chartered Accountants in 1978 he remains MBT's Senior Partner and provides private and public companies with taxation, financial, commercial and audit advice.

Mr Barrow joined Mosaic's Board in December 2006. He is also a non-Executive Director of Flight Centre Ltd, Oaks Hotels and Resorts, and Cluff Resource Pacific NL (a listed gemstone producing company).

Peter Reid, Non-Executive Director

Appointed in December 2006 Mr Reid brings to Mosaic over three decades of experience as a lawyer specializing in international and domestic resources and energy projects. He worked with Esso as Senior Exploration Counsel, and has been a partner at several national law firms serving energy and resources sectors.

Mr Reid continues practicing law through Energy & Resources Lawyers Pty –

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Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

the practice he has established in 2004.

Lan Nguyen, Managing Director

Mr Nguyen joined Mosaic in 1994 as a geologist/geophysicist. He became an Executive Director and Deputy CEO in 2001 and took over as a Managing Director in 2005. His work in developing large stratigraphic trap concept in the Tinowon Sandstone, as well as introducing the underbalanced drilling technique has been instrumental to unlocking the Permian oil and gas reserves in the Surat-Bowen Basin. Mr Nguyen is a mining engineer and geologist by training (the Azerbaijan Institute of Oil and Chemistry), and has a Master's degree in Petroleum Geology from University of New England. His experience in oil and gas industry includes work in the Russian oil industry (in Baku) and the Vietnam Petroleum Institute in Ho Chi Minh City.

Mr Nguyen is a Fellow of the Geologic Society of London, a member of the Petroleum Exploration Society of Australia, a member of the American Association of Petroleum Geologists, and a member of the Society of Petroleum Engineers.

Terry Russell, Exploration Manager

Mr Russell joined Mosaic in April 2007. He is responsible for all exploration, seismic programs, farm-outs and new venture activities. Geologist by training, Mr Russell has an extensive oil and gas experience in Australia (both onshore and offshore basins), New Zealand, as well as the United States, Argentina and Tunisia. Prior to joining Mosaic Mr Russell was a Geoscience Manager for New Zealand's Swift Energy. Mr Russell has a degree from the Victoria University of Wellington and a PhD from the University of New England.

Tim Petersen, Production Manager

Mr Petersen joined Mosaic in 2000 when Mosaic took over gas infrastructure and treatment plants from Bridge Oil. He oversees production operations, facilities engineering and management of reservoir / production engineering for the Surat-Bowen properties. His many years of oil and gas related experience include designing some of the infrastructure plants (now owned by Mosaic) while with Bridge Oil. Having Mr Petersen onboard allows Mosaic to source all facilities design and management expertise in-house, thus reducing need to rely on third party services.

Mr Petersen received his Engineering degree at the University of Sydney.

Mr James Dingle, Drilling Manager (consultant)

Mr Dingle has been Mosaic's Drilling Manager through 2006 when he left to pursue other opportunities. Among many other targets, Mr Dingle supervised the drilling of the breakthrough Churchie-3 well that targeted the Tinowon sandstone in the Permian interval. Churchie-3 was the first pure nitrogen underbalanced well drilled in Australia and effectively opened the new gas play in the Surat-Bowen basin. Now based in Brisbane, Mr Dingle is back as a consultant to manage the upcoming intensive drilling campaign.

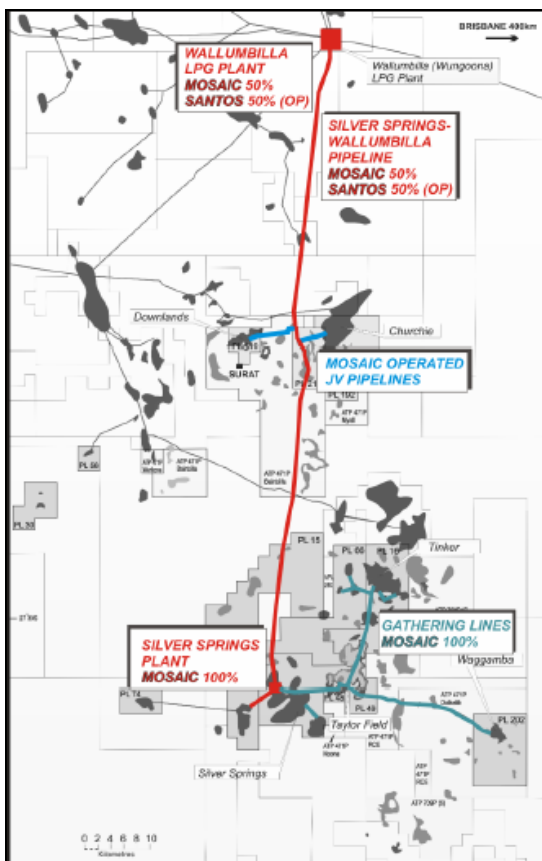
PORTFOLIO

Surat-Bowen Basins upstream interests

Petroleum properties located in the Western Surat-Bowen basin form the

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

Mosaic Oil: Equity owned Surat-Bowen Infrastructure



Source: Mosaic Oil

core of Mosaic's operations. Located on major productive trends, the acreage is source of both current production and near field exploration opportunities.

Mosaic is credited with identifying and developing the new Permian Tinowon stratigraphic gas play in the Basin. Commercial development of this play was achieved by successful application of (then) little used in Australia underbalanced drilling technique.

At the time of this report Mosaic Oil had equity 13 Surat-Bowen Basin production permits, as well as in a range of exploration permits (Authority to Prospect, or ATP). Equity positions range from 10% to 100%. Eleven out of thirteen production licenses (PL) are operated by Mosaic (the other two operated by Origin), with majority of the exploration acreage also under full Mosaic ownership / operatorship.

All these permits are located close to equity owned infrastructure (gathering networks, pipelines, processing plants), allowing speedy development of any potential discoveries. The infrastructure has plenty of spare capacity to accommodate Mosaic's accelerated growth plan (current utilization levels are 40%-50%, with scope for further capacity increase by installing additional compression).

Silver Springs, Taylor, Tinker and Fairymount fields (Triassic)

These fields were discovered in the 1970s and 1980s, and produce oil and gas from Triassic sandstones. Production from these fields continues declining in line with natural field depletion, with some further scope for additional drilling. Development of Triassic targets is through conventional (overbalanced) drilling.

Downlands/Spring Grove, Churchie and Waggamba (Permian)

Discovered as recently as late 1990s – early 2000s, these fields produce from the deeper and older Permian reservoirs. Perfecting the underbalanced drilling technique has been key to Mosaic's successful commercialization of the large Permian potential in the Surat-Bowen basin. When drilled in a conventional way (overbalanced) the wells that targeted Permian sandstones would achieve relatively low production rates (in the range of 1-2 million cubic feet a day). Mosaic's approach, however, led to production rates from the same Permian targets of up to 20 million cubic feet a day (this rate was achieved on test at Churchie-3. When put on production in 2003 the well produced at circa 7mmcf/d, and keeps producing today at circa 2mmcf/d).

Downlands/Spring Grove is an gas/ oil fields (Mosaic 's equity is between 53.5 and 62.7%). Churchie is a large gas-condensate –LPG field (Mosaic 49%, Santos 51%), while Waggamba is gas-condensate –LPG field (Mosaic 100%).

Waggamba represents Mosaic's highest value gas in the Surat-Bowen Basin because of its high content of condensate and LPG – the company is looking to further develop the field via use of horizontal drilling approach. Two development wells are envisaged for 2008, both are on the high end of Mosaic's drilling cost curve. While the chance of commercial success is relatively high for these wells (circa 80%), their high cost (underbalanced/horizontal) could prompt Mosaic to find a farmin partner.

Surat-Bowen energy infrastructure assets

Mosaic has equity interests in three Surat-Bowen Basin energy

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Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

Mosaic has equity ownership or part ownership in key gas processing infrastructure, including the Silver Springs gas-liquids processing plant and gathering network, Wallumbilla LPG Plant and pipeline, and the Churchie / Downlands pipelines.

This infrastructure is only 20%-50% utilized.

We do not include Northwest Shelf permit to our valuation until such time that the commerciality of the Hurricane discovery becomes more likely

infrastructure elements: the Silver Springs gas-liquids processing plant and gathering network (100% owned and operated), Wallumbilla LPG Plant and pipeline (50% - operated by Santos), and the Churchie / Downlands pipelines (Mosaic operates both, owns 49%-61%). This infrastructure has meaningful scope for capacity upgrades through installation of additional compression, however at the moment it is very much underutilized (current utilization ranges 20%-50%).

These assets serve exclusively Mosaic and its Surat JV partners – Origin and Santos (for the JV fields only). While the company has been approached with the view to transport /process third party gas, Mosaic's strategy is to keep the spare capacity available so that any growth coming from the accelerated drilling program can be readily accommodated in-house.

Each asset is reviewed below.

- Mosaic owns (100%) and operates the Silver Springs gas-liquids processing plant and gathering network. The plant dehydrates gas (separates water and oil) and compresses gas before sending it into the 120km pipeline to Wallumbilla. Silver Springs gas processing plant is the largest of three such plants servicing the Roma area (the other two are Origin's Kincora and Santos's Roma plants).

Currently system is used at only 3TJ/d (equivalent to 1.1PJ/year) – only a fraction of full capacity. The insured value of the plant and the gathering infrastructure is over \$21m.

- Mosaic also owns 50% of Santos-operated Wallumbilla (Wungoona) LPG plant and pipeline. The 120km / 8" pipeline connects the Silver Springs plant to the Wallumbilla node (where major Queensland gas pipelines meet).

The Wallumbilla LPG plant is one of two such plants in the region (the other one is Origin's Kincora). The system has a 25TJ/day (9PJ/y) capacity but only half is being utilized. With additional compression the plant can be upscaled to 40 TJ/day (14.6PJ/y) with additional compression. Insured value is in excess of \$60m, or \$30m+ net to Mosaic.

- Finally Mosaic holds 49% ownership in Churchie pipeline, and 60.92% in the Downlands pipeline. The company operates both pipelines. Current combined capacity is 17TJ/d with utilization running in 40% range. The capacity is expandable to 30TJ/d (10.9PJ/y) with additional compression. Combined insured value, net to Mosaic is \$5m.

North West Shelf

Mosaic holds a 6% equity interest in WA-208P offshore Western Australia. The permit is operated by Santos and hosts 2004 Hurricane oil and gas discovery.

Hurricane-1 drilled in 2004 discovered gas accumulation with an inferred oil leg. Appraisal of this discovery with Hurricane-2 (drilled in June 2007) determined that this accumulation of oil and gas is not commercial on a stand-alone basis. Hurricane-2 encountered an 18m (gross) oil column in the primary target (Eliassen Formation) and data provided by the two wells suggested the structure contains a 28m gross oil column and a 100m gas column.

Mosaic believes the discovery should encourage further exploration in the permit the permit is currently in the process of being renewed. At the same

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Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

Despite a meaningful resource potential at Kimu, the timeline to any form of commercialization is very much uncertain – we therefore do not include this asset into our risked valuation and consider it a free option for incoming investors.

time the location application by the operator has been approved for the Hurricane discovery (meaning the JV partners have two years to decide how to proceed with the discovery).

Apart from Santos (operator) other participants in the block are Apache, ENI and Beach Petroleum.

As commerciality of this discovery is not guaranteed at this time, we do not include this asset to our valuation – should any positive developments come through it would provide upside to our risked valuation.

Cooper-Eromanga

Mosaic was party to a successful application for the exploration permit ATP 934P, tendered as a part of the 2007 gazettal round.

The permit will be operated by Avery Resources, with Mosaic's interest at 20%. The third participant is Seoul City Gas.

This area has scarcely been explored, with only a handful of wells (none over the past decade or so) and very little seismic. The permit is considered prospective for oil in Jurassic reservoirs (relatively lower risk, small targets) and gas in deeper Permian targets (higher risk / higher reward – Mosaic seeks to pursue a stratigraphic play).

ATP934P is going through the Native Title process – once completed the JV partners will acquire a new set of seismic data (in FY2008-2009), with drilling potentially happening around FY2010.

Papua New Guinea

Mosaic has a 28.57% interest in the Kimu gas resource. This is a substantial gas field with an over 1Tcf (gross) contingent recoverable gas resource. The field is operated by Oil Search who in 2007 increased its equity interest by 16% to 60.7% (increase subject to PNG government approval). The field is located on the shore of PNG, south of the Papuan Mountains. Development options for the field being considered include supplying gas to a domestic (PNG) petrochemical plant (a petrochemical and an ammonia/urea plant are proposed to be installed at Port Moresby) and/or LNG plant (being considered by Exxon Mobile as operator and other partners).

With a view to achieve reserves certification for the field, the JV partners have acquired new 2D seismic – however neither timing nor targets for appraisal drilling have been determined yet.

Despite a meaningful resource potential at Kimu, the timeline to any form of commercialization is very much uncertain – we therefore do not include this asset into our risked valuation and consider it a free option for incoming investors.

New Ventures

Mosaic is actively seeking new venture opportunities that would allow establishing another significant exploration/production area, similar to that in Surat-Bowen.

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

Underbalanced drilling (UBD) is a drilling method where the pressure in the wellbore is lower than the pressure of the formation being drilled.

The advantages of UBD over conventional drilling techniques are

- minimization of formation damage,
- reduction of lost circulation and of differential sticking,
- increased rate of penetration,
- early detection and testing of productive intervals,
- lower environmental impact

The disadvantages of UBD include:

- higher drilling costs,
- additional safety issues,
- operational difficulties in maintaining the underbalanced state,
- increased chance of wellbore collapsing.

Any underbalanced well must be completed for production straight away.

APPENDIX 1-WHAT IS UNDERBALANCED DRILLING?

Underbalanced drilling (UBD) is a drilling method where the pressure in the wellbore is lower than the pressure of the formation being drilled. The underbalanced state is achieved through control of the hydrostatic pressure of the drilling fluid column. The opposite to UBD is the conventional overbalanced method where the pressure in the wellbore is higher than that in the formation, thus preventing uncontrolled hydrocarbon flows to the surface.

The advantages of UBD over conventional drilling techniques are minimization of formation damage, reduction of lost circulation and of differential sticking, increased rate of penetration, early detection and testing of productive intervals, lower environmental impact .

- Minimizing formation damage – in conventional drilling where the pressure of the drilling liquids is higher than the pressure of the formation, the drilling liquids (mud) is forced into the formation immediately surrounding the wellbore – process known as invasion. This frequently causes damage to the formation that may or may not be repairable. **Formation damage may often result in poor production rates.** In UBD, if the pressure differential between the wellbore and formation is maintained until start of production (i.e pressure in the wellbore is lower than formation pressure) the invasion does not occur thus damage to the formation can be entirely avoided.
- Reduction of lost circulation – lost circulation describes the uncontrolled flow of the drilling mud into the formation. This is costly (mud needs to be replaced to continue drilling), may require additional treatment (such as lost circulation treatment) and may result in significant formation damage. If drilled in underbalanced state, the mud will not enter the formation in the first place.
- Reduction of differential sticking – differential sticking occurs when the drill pipe gets pressed against a wall in the wellbore and the differential in pressures (lower pressure in formation, higher in the wellbore) may lead to the pipe becoming stuck to the wall. Releasing the drill pipe may require massive force and/or specialist operations (called fishing). Often fishing is not successful. In UBD the higher pressure of the formation pushes the pipe away from the walls, thus eliminating differential sticking.
- Higher rate of penetration – as the pressure at the bottom of the wellbore is lower, it is easier for the drillbit to cut and remove rock at a faster rate when compared to conventional techniques.
- Early detection of hydrocarbon zones – UBD allows hydrocarbons to flow to surface while drilling thus aiding early detection of potential intervals of interest (sometimes these intervals could go undetected in conventional wells).

The disadvantages of UBD include higher drilling costs, additional safety issues, operational difficulties in maintaining the underbalanced state, increased chance of wellbore collapsing. Any underbalanced well must be completed for production straight away.

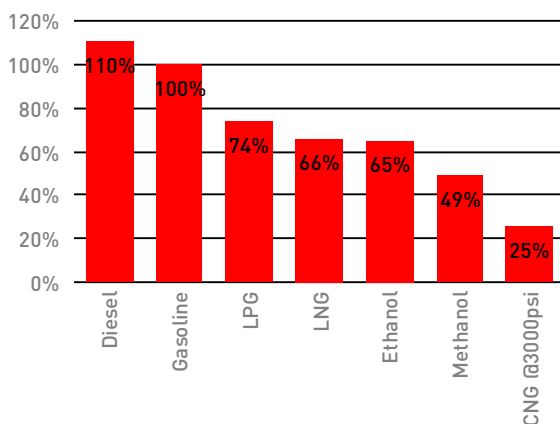
There are several main techniques used to achieve the underbalanced state, including use of lightweight drilling liquids, gas injection through the drilling column, gas injection into the parasite string and foam. Air, nitrogen, carbon dioxide or natural gas may be used for gas-based techniques, with nitrogen being preferred medium.

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

Liquefied Petroleum Gas (LPG), also known as autogas, is a hydrocarbon based fuel, with propane and/or butane as the main components.

Main uses are vehicle fuel, cooking fuel, refrigeration and air-conditioning, and emergency backup for natural gas –based systems.

Energy Content per Fuel Unit (for internal combustion engines)



LPG pricing is closely related to crude oil pricing

APPENDIX 2 - WHAT IS LPG?

Liquefied Petroleum Gas (LPG), also known as autogas, is a hydrocarbon based fuel, with **propane and/or butane** as the main components.

LPG is combustible, colourless and odourless – for safety small amounts of odorant is added. The exact composition of LPG varies between countries, refineries and seasons.

LPG is produced as part of oil refining process or extracted from oil and/or wet gas as they emerge from the ground. It is distributed in pressurised steel bottles because the fuel becomes gaseous and evaporates at normal pressures and temperatures.

Main uses of LPG are vehicle fuel, cooking fuel, refrigeration and air-conditioning, as well as in emergency backup for natural gas –based systems. In vehicle applications LPG is used as fuel in internal combustion engines, and more recently in diesel engines. It burns cleaner than gasoline and diesel, however has only about ¾ of gasoline's energy content (see chart).

Number of industrial and public installations worldwide, as well as some utilities, use LPG in times of peak demand to make up for shortage of natural gas. Before it can be fed into natural gas distribution system, LPG must be mixed with air – as LPG has over 2.5-x higher calorific value than methane (natural gas). LPG mixed with air is known as Synthetic natural Gas

In Australia LPG is primarily used as transportation fuel (60%), followed by use in chemical products. According to ABARE statistics, LPG represented 2.8% of final energy use in Australia in financial years 2006 and 2007 (1.97m tonnes in 2006 and 2.07m tonnes in 2007). Total production of LPG was 3.1 million tonnes in both 2006 and 2007, with bulk of production (circa 80%) based on naturally occurring LPG – i.e. LPG coming directly from below the ground as part of production of oil and gas. The balance of production was sourced from seven Australian oil refineries, where LPG is a by-product of crude oil refining.

Five Australian regions have naturally occurring LPG. Bass Strait is the largest (over 30% of total production), followed by the Northwest Shelf (25%), Cooper Basin (12%), Kwinana in WA (10%) and the Surat-Bowen Basin (0.5%). Refinery sourced LPG comes from seven refineries and is 20% of total production.

Australia is a net exporter of LPG at a rate of approximately 1million tonnes a year (predominantly Butane), after accounting for about 0.3million tonnes imports into the East Coast market (propane).

ABARE expects LPG to grow as proportion of total energy consumption between 2.8% now and 3.5% in 2030 – this represents forecast 88% increase in LPG domestic consumption. The production is set to grow at a faster rate – the exports of LPG are expected to double within 10 years from 2007 levels.

Wholesale pricing form LPG was de-regulated in early 1990s and Australian prices are largely driven by the international LPG market, adjusted for transportation and storage costs. The major benchmark for the spot LPG market is Saudi CP (Saudi Aramco Contract Price)- expressed in US\$/metric tonne. This is because Saudi Arabia is by long way the largest LPG supplier for the Asia/Pacific region. LPG pricing moves with price for crude oil.

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.11	\$0.24	Oil & Gas	HIGH	ACCUMULATE	BUY

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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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.

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ANALYST VERIFICATION

I verify that I, Irina McCreadie, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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