

30 January 2009

Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

Mod-High Volatility

Target price

A\$0.20 (from A\$0.23)

Price

A\$0.083

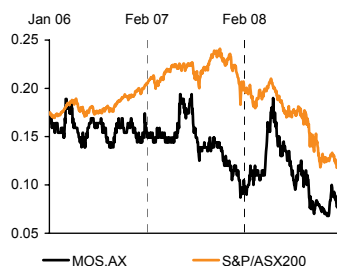
Short term (0-60 days)

n/a

MOS90130

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.08	0.07	0.10
Absolute (%)	0.0	18.6	-13.5
Rel market (%)	2.7	28.1	40.2
Rel sector (%)	4.2	-3.0	71.0


Market capitalisation

A\$52.41m (US\$34.58m)

Average (12M) daily turnover

A\$0.14m (US\$0.13m)

RIC: MOS.AX, MOS AU
 Priced at close of business 29 Jan 2009.
 Source: Bloomberg

Analyst
Chris Brown

Australia
 +61 7 3334 4885
 cbrown@abnamromorgans.com.au

ABN AMRO Morgans Limited
 (A.B.N. 49 010 669 726) AFSL235410
 A Participant of ASX Group

www.abnamromorgans.com.au

Mosaic Oil

Production up, prices down

No debt, A\$15m in the bank and production of 128,078boe for the quarter. This enables MOS to pursue its growth options through exploration and development. It is also evaluating the use of the Silver Springs gas field for storage.

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	3.81	7.10	17.20 ▼	18.30 ▼	20.30
Reported net profit (A\$m)	2.65	4.14	11.50 ▼	12.10 ▼	13.70
Normalised net profit (A\$m) ¹	2.65	6.69	11.50 ▼	12.10 ▼	13.70
Normalised EPS (c) ¹	0.55	1.06	1.82 ▼	1.66 ▼	1.87
Normalised EPS growth (%)	155.1	92.60	71.70	-8.76	12.70
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	15.10	7.83	4.56	5.00	4.43
EV/EBITDA (x)	12.50	3.87	1.25	0.80	0.32
Price/net oper. CF (x)	4.56	5.63	4.00 ▲	4.36 ▲	4.00
ROIC (%)	3.77	8.39	22.10	21.10	21.90

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

¹. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, ABN AMRO forecasts

year to Jun, fully diluted

December quarter production – a solid result

Overall production for the December quarter was up 27% from the previous quarter to 128.1boe. Oil production was up 3.8% to 21,254bbl, although the received oil price dropped from A\$154.82/bbl to average A\$89.19. Gas sales were up 33% to 619TJ. Taylor-19 contributed to the growth in gas/condensate production in the December quarter, and we expect the successful completion of Waggamba-5H to enable MOS to deliver further production growth this quarter.

Development or exploration – good news and “think again”

The remedial completion of Waggamba-5H is still in progress and, when successful, should add significantly to gas and condensate production. Under the funding structure, MOS has a 50% interest in gas and a 65% interest in free oil and condensate from these wells. The Freneau-1 well reported 9.1m of interpreted net gas pay. The Tinowon reservoir proved tight at this location and MOS will evaluate other locations. It appears the hole intersected the oil-water contact in the Rewan reservoir; MOS will now look up dip, towards the interpreted stratigraphic pinch-out, with the presence of oil significant in terms of potential value.

Further upside – PNG exploration and gas storage

Mosaic has a 28.57% interest in the Kimu gas field in the Foreland Basin, PNG, operated by Oil Search. It holds an estimated 1tcf of recoverable gas and we expect will be involved with the LNG development in PNG, although the timeframe remains uncertain. With A\$15m in net cash and cash flow from operations, MOS is well placed to maintain its exploration and development in Queensland, and participate in any rationalisation of the junior oil and gas players. Ownership of production and processing facilities is of strategic importance, and MOS reports that it is progressing studies and is in discussions with potential customers on the potential for underground storage of gas in the largely depleted Silver Springs gas field.

Valuation and risks

In line with a reduction in our house view of the oil price, we have downgraded our FY09 NPAT forecasts 15.4% to A\$11.5m. The reduction in our forecast oil price has also lowered our sum-of-the-parts valuation of MOS to A\$0.20, from A\$0.23. We attribute A\$0.14 to Mosaic's production assets and 2P reserves in the Western Surat-Bowen Basin. The level of potential exploration upside has been reduced with our projected oil price lowering our valuation and a decline in cash backing. Mosaic's exploration tenements in Papua New Guinea and on the North West Shelf (offshore WA) together with net cash, offset by an allowance for corporate overheads, comprise the balance.

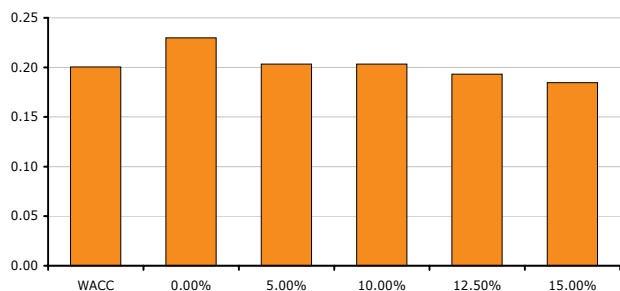
Lower than the forecast 25% success rate on exploration, further weakness in the oil price and the strength of the AUD/USD exchange rate are also risks to profitability and our valuation/target price. Exploration success at a rate above 25% provides potential upside, increasing the reserve base above our expectations. In particular, a strengthening Queensland domestic gas price offers potential upside in the longer term with little chance of declining prices, in our view.

In summary, the key risks to our earnings, valuation and target price relate to the success rate of the ongoing exploration program, movements in the prices of oil and gas, and the AUD/USD exchange rate. An increase in success rate of exploration, increase in the oil and gas price, or decrease in the AUD/USD exchange rate would all have a positive impact on future earnings and valuation. Likewise, downside potential exists should the opposite occur.

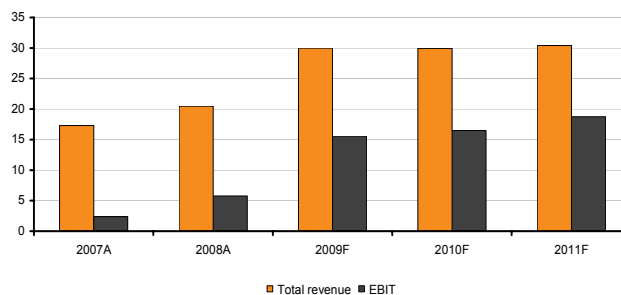
MOS – financial summary

Year to 30 Jun (A\$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	0.08	Price target (A\$)	0.20	
Income statement	2007A	2008A	2009F	2010F	2011F	Valuation methodology	SOTP	Val'n (A\$)	\$ 0.20	
Divisional sales	17.3	16.4	24.8	23.7	23.2	Valuation summary	A\$m	A\$ps	DCF valuation inputs	
Total revenue	17.3	20.5	30.0	29.9	30.4	Surat-Bowen 2P Reserves	85.4	0.14	Rf 6.25%	
EBITDA	3.8	7.1	17.2	18.3	20.3	Surat-Bowen Exploration	23.1	0.04	Rm-Rf 4.50%	
Depreciation & amortisation	-1.4	-1.3	-1.6	-1.8	-1.5	Production Assets	0.0	0.00	Beta 1.54	
EBIT	2.4	5.8	15.6	16.5	18.8	Other Exploration	23.1	0.04	CAPM (Rf+Be) 13.2%	
Net interest expense	0.3	0.9	0.8	0.8	0.8	Net Cash	15.0	0.02	Tax rate (t) 30.0%	
Pre-tax profit	2.6	6.7	16.4	17.3	19.5	Corporate & Other	-20.0	-0.03	WACC 10.58%	
Income tax expense	0.0	0.0	-4.9	-5.2	-5.9	Total valuation	126.6	0.20	Shares 631.4	
After-tax profit	2.6	6.7	11.5	12.1	13.7	Production (Mt)	2008A	2009F	2010F	2011F
Minority interests	0.0	0.0	0.0	0.0	0.0	Liquids mmbbl	0.08	0.08	0.09	0.08
NPAT	2.6	6.7	11.5	12.1	13.7	Gas Pj	2.14	2.35	2.58	2.20
Significant items	0.0	-2.6	0.0	0.0	0.0	Key assumptions	2008A	2009F	2010F	2011F
NPAT post abnormal	2.6	4.1	11.5	12.1	13.7	AS/US\$	0.90	0.75	0.72	0.72
Divisional sales revenue	2007A	2008A	2009F	2010F	2011F	Oil Price (US\$/bbl)	96.82	64.48	45.00	62.50
Liquids						Gas Price (AUD\$/Gj)	3.50	3.50	3.50	3.50
Gas						Per share data	2008A	2009F	2010F	2011F
Growth ratios	2007A	2008A	2009F	2010F	2011F	No. shares	631.4	631.4	729.4	729.4
Sales growth	17%	-5%	51%	-4%	-2%	EPS (cps)	0.7	1.8	1.7	1.9
Operating cost growth		-31%	-18%	-28%	-46%	EPS (normalised) (c)	1.1	1.8	1.7	1.9
Cash flow statement	2007A	2008A	2009F	2010F	2011F	Dividend per share (c)	0.0	0.0	0.0	0.0
EBITDA	3.8	7.1	17.2	18.3	20.3	Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Cash flow from ops (1)	8.8	9.3	13.1	13.9	15.2	Dividend yield (%)	0.0	0.0	0.0	0.0
Capex (2)	-10.3	-7.9	-7.0	-7.0	-7.0	Operating performance	2008A	2009F	2010F	2011F
Disposals/acquisitions	0.0	-1.7	0.0	0.0	0.0	EBIT growth	144%	170%	6%	14%
Cash flow from invest (3)	-10.4	-6.2	-7.0	-7.0	-7.0	NPAT growth	n.m.	n.m.	n.m.	n.m.
Incr/(decr) in equity	0.0	18.0	0.0	0.0	0.0	Normalised EPS growth	93%	72%	-9%	13%
Incr/(decr) in debt	0.0	0.2	0.0	0.0	0.0	Asset turnover (%)	5.5	6.6	5.6	4.9
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	22.1	43.4	69.3	77.0
Other financing cash flow	0.0	-0.8	0.0	0.0	0.0	EBIT margin (%)	13.7	35.3	62.9	69.5
Cash flow from fin (5)	0.0	17.4	0.0	0.0	0.0	Net profit margin (%)	15.3	40.9	46.4	51.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	7.8	18.2	16.9	16.8
Incr/(decr) cash (1+3+5+6)	-1.6	20.5	6.1	6.9	8.2	Net debt (A\$m)	-24.8	-30.9	-37.7	-45.9
Equity FCF (1+2)	-1.6	1.4	6.1	6.9	8.2	Net debt/equity (%)	-33.4	-36.0	-38.6	-41.2
Balance sheet	2007A	2008A	2009F	2010F	2011F	Net interest/EBIT cover (x)	-6.6	-18.7	-20.9	-25.0
Cash & deposits	4.6	25.1	31.2	38.1	46.2	ROIC (%)	8%	22%	21%	22%
Trade debtors	2.3	3.8	3.8	3.8	3.8	Comparable multiples (x)	2008A	2009A	2010A	2011A
Inventory	2.1	2.7	2.7	2.7	2.7	Mosaic Oil	EV/EBITDA	1.0	0.4	0.0
Investments	0.4	0.4	0.4	0.4	0.4	Year to 30 Jun	PE	3.8	3.9	4.5
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Horizon Oil	EV/EBITDA	0.9	-0.4	-1.1
Fixed assets	39.0	42.9	48.3	53.5	59.0	Year to 30 Jun	PE	1.5	0.4	0.6
Other assets	12.3	13.6	13.6	13.6	13.6	Tap Oil	EV/EBITDA	-0.1	-0.3	-0.3
Total assets	60.7	88.4	99.9	112.0	125.7	Year to 31 Dec	PE	10.5	15.6	38.5
Interest bearing debt	0.0	0.2	0.2	0.2	0.2	Earnings Sensitivity	NPV \$ps	2009F	2010F	2011F
Trade payables	3.4	9.3	9.3	9.3	9.3	Oil sensitivity (+10%)	0.01	0.78	0.62	0.73
Long-term borrowings	0.0	0.1	0.1	0.1	0.1	Oil sensitivity (+\$US10/bbl)	0.01	1.12	0.89	1.05
Provisions	4.2	4.3	4.3	4.3	4.3	Gas sensitivity (+10%)	0.01	0.56	0.61	0.52
Other liabilities	0.3	0.4	0.4	0.4	0.4	Gas sensitivity (+US10c/GJ)	0.00	0.14	0.16	0.14
Total liabilities	7.9	14.2	14.2	14.2	14.2	AUD sensitivity (+10%)	-0.01	-0.71	-0.57	-0.67
Share capital	70.7	87.9	87.9	87.9	87.9	AUD sensitivity (+1c)	0.00	-0.09	-0.07	-0.08
Other reserves	0.0	0.0	0.0	0.0	0.0					
Retained earnings	-17.9	-13.8	-2.3	9.8	23.5					
Total equity	52.8	74.2	85.6	97.8	111.4					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	52.8	74.2	85.6	97.8	111.4					
Total liabilities & SE	60.7	88.4	99.9	112.0	125.7					

Valuation sensitivity to discount rate (A\$/share)



Total revenues and EBIT (A\$m)



Source: ABN AMRO Morgans forecasts, Company reports

RESEARCH TEAM

ROGER LEANING	-	Head of Research	SCOTT POWER	-	Senior Analyst
CHRIS BROWN	-	Senior Analyst	TOM SARTOR	-	Analyst
FIONA BUCHANAN	-	Senior Analyst	TAMARA STRETCH	-	Analyst
NICK HARRIS	-	Analyst	TANYA SOLOMON	-	Analyst
MICHAEL KNOX	-	Director of Strategy & Chief Economist	PAUL STEVENSON	-	Analyst
JAMES LAWRENCE	-	Fixed Interest Analyst	REBECCA SULLIVAN	-	Retail Strategy
JOSEPHINE LITTLE	-	Analyst	SAM TURNER	-	Analyst
BELINDA MOORE	-	Senior Analyst			

ABN AMRO MORGANS OFFICES

BRISBANE	(07) 3334 4888	CHATSWOOD	(02) 9411 8988
BUNDABERG	(07) 4153 1050	COFFS HARBOUR	(02) 6651 5700
BURLEIGH HEADS	(07) 5520 8788	GOSFORD	(02) 4325 0884
CAIRNS	(07) 4052 9222	HURSTVILLE	(02) 9570 5755
CALOUNDRA	(07) 5491 5422	MERIMBULA	(02) 6495 2869
CAPALABA	(07) 3245 5466	NEUTRAL BAY	(02) 8969 7500
CHERMSIDE	(07) 3350 9000	NEWCASTLE	(02) 4926 4044
EMERALD	(07) 4988 2777	NEWPORT	(02) 9998 4200
GLADSTONE	(07) 4972 8000	ORANGE	(02) 6361 9166
GOLD COAST	(07) 5592 5777	PARRAMATTA	(02) 9615 4500
IPSWICH	(07) 3202 3995	PORT MACQUARIE	(02) 6583 1735
MACKAY	(07) 4957 3033	SCONE	(02) 6544 3144
MILTON	(07) 3114 8600	WOLLONGONG	(02) 4227 3022
MISSION BEACH	(07) 4088 6188	MELBOURNE	(03) 9947 4111
NOOSA	(07) 5449 9511	BERWICK	(03) 9796 2676
REDCLIFFE	(07) 3897 3999	BRIGHTON	(03) 9519 3555
ROCKHAMPTON	(07) 4922 5855	CAMBERWELL	(03) 9813 2945
SPRING HILL	(07) 3833 9333	GEELONG	(03) 5222 5128
SPRINGWOOD	(07) 3808 7588	TRARALGON	(03) 5176 6055
SUNSHINE COAST	(07) 5479 2757	WARRNAMBOOL	(03) 5559 1500
TOOWOOMBA	(07) 4639 1277	CANBERRA	(02) 6232 4999
TOWNSVILLE	(07) 4771 4577	ADELAIDE	(08) 8464 5000
YEPPON	(07) 4939 3021	PERTH	(08) 9261 0888
SYDNEY	(02) 8215 5000	BUNBURY	(08) 9791 9188
ARMIDALE	(02) 6770 3300	DARWIN	(08) 8981 9555
BALLINA	(02) 6686 4144	HOBART	(03) 6236 9000
BALMAIN	(02) 8755 3333		

DISCLAIMER - ABN AMRO MORGANS LTD

This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of ABN AMRO Morgans Ltd ("ABN AMRO Morgans"). While this report is based on information from sources which ABN AMRO Morgans considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect ABN AMRO Morgans judgment at this date and are subject to change. ABN AMRO Morgans has no obligation to provide revised assessments in the event of changed circumstances. ABN AMRO Morgans, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information without first consulting one of ABN AMRO Morgans investment advisors do so entirely at their own risk. It is recommended that any persons who wish to act upon this report consult with an ABN AMRO Morgans investment advisor before doing so. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST

ABN AMRO Morgans and/or its affiliated companies may make markets in the securities discussed. Further, ABN AMRO Morgans and/or its affiliated companies and/or their employees from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. ABN AMRO Morgans affiliates may have acted as manager or co-manager of a public offering of any such securities in the past three years. ABN AMRO Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report.

The Directors of ABN AMRO Morgans advise that they and persons associated with them may have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Proper Authority holders may be remunerated wholly or partly by way of commission. The Directors of ABN AMRO Morgans advise that the author/s of this report and/or their associates hold an interest in securities mentioned in this report.

RECOMMENDATION STRUCTURE

Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

Subject companies: MOS.AX

ABN AMRO Morgans Limited was a broker to the placement of shares by Mosaic Oil NL in November 2007 and received fees in this regard.: MOS.AX.

PRIVACY

Personal information held by ABN AMRO Morgans Ltd may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans Ltd office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001.