



**Financial Report
for the half year ended 31 December
2008**

Mosaic Oil NL and its controlled entities

ABN 56 003 329 084

Directors Report

Your Directors submit the financial report of the consolidated entity for the half-year ended 31 December 2008.

Directors

The names of Directors who held office during or since the end of the half-year are:

David Herlihy (Chairman) B.A. University of New South Wales

Andrew Rigg (Deputy Chairman) B.Sc. Sydney University and B.Sc.(Hon) University of Tasmania

Lan Nguyen* (Managing Director) B.Sc.Baku; M.Sc. (Geology) University of New England

Peter Barrow (Non-Executive Director) FICA; FICD

Peter Reid (Non-Executive Director) B.A.; LLB. Sydney University

* Mr Nguyen has given notice of his resignation and will cease being a director on 9 May 2009.

Principal Activities

The principal activities of the consolidated entity during the half year were the production, development and exploring for oil and gas. There was no significant change in the nature of the consolidated entity's activities during the half year.

Review and results of operations

Total revenue for the half year was \$13,117,000, an increase of 40.1% over the previous corresponding periods' \$9,360,000. Revenue from sales and services for the half were \$12,445,000, an increase of 34.8% (2007: \$9,233,000).

Production increased by 8% for the half-year to 31 December 2008 of 229,229 BOE (barrels of oil equivalent) compared to 211,058 BOE and 198,098 BOE for the previous half-years to 31 December 2007 and to 30 June 2008 respectively.

The half-year result reflects the higher production and sales of natural gas, LPG and Oil/Condensate production and strong sales from the Surat-Bowen Basin operations. Oil/Condensate production for the half year was also up 17.8%.

Operating Result

The consolidated profit for the half year ended 31 December 2008 was \$3,117,000 (2007 \$2,305,000). Earnings before interest, income tax, depreciation and impairment charges for the half was \$5,304,000 (2007 \$3,806,000) an increase of 39.4%.

Subsequent events

Since 31 December 2008 no matter or circumstance has arisen which has significantly affected or which may significantly affect the operations of the company or of a related entity.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 3 for the half-year ended 31 December 2008.

This report is signed in accordance with a resolution of the Board of Directors.

Sydney, 26th February 2009



Lan Nguyen
Director



A D Danieli

Chartered Accountants

Level 5, 285 George Street
Sydney NSW 2000
PO Box H88
Australia Square NSW 1215

Ph: (02) 9290 3099
Fax: (02) 9262 2502

A D Danieli Pty Ltd
ABN: 12 135 030 858

Email: add3@addca.com.au
Website: www.addca.com.au

**Auditor's Independence Declaration Under Section 307C
of the Corporations Act 2001
To the Directors of Mosaic Oil NL**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2008 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

**A D Danieli
Chartered Accountants**



**Sam Danieli
Principal**

Sydney, 24th February 2009

Consolidated income statement for the half year ended 31 December 2008

	Consolidated	
	31-Dec	31-Dec
	2008	2007
Note	\$'000	\$'000
Revenue from operating activities		
Product sales	2	9,527
Service revenue	2	2,918
		<u>12,445</u>
Other revenue	2	672
Total revenue		<u>13,117</u>
Cost of sales		5,539
Corporate and administration expenses		<u>2,274</u>
Earnings before interest, income tax, depreciation and amortisation and impairment charges		5,304
Depreciation and amortisation expenses		(741)
Impairment charge for exploration and development assets		(1,446)
Profit/(loss) from ordinary activities before income tax		<u>3,117</u>
Income tax expense		-
Net profit/(loss) attributable to shareholders of the Company		<u>3,117</u>
	Cents	Cents
Basic earnings per share	0.49	0.47
Diluted earnings per share	0.49	0.33

The accompanying notes form part of these financial statements.

Consolidated balance sheet as at 31 December 2008

	Consolidated	
	31-Dec 2008	30-Jun 2008
	\$'000	\$'000
Current assets		
Cash and cash equivalents	15,270	25,089
Trade and other receivables	3,211	3,754
Inventories	3,681	2,650
Total current assets	22,162	31,493
Non current assets		
Trade and other receivables	501	431
Plant and equipment	8,387	7,310
Exploration and evaluation assets	14,908	13,571
Development and production assets	39,531	35,602
Total non-current assets	63,327	56,914
Total assets	85,489	88,407
Current liabilities		
Trade and other payables	3,526	9,273
Provisions	189	529
Interest bearing loans and borrowings	68	36
Total current liabilities	3,783	9,838
Non current liabilities		
Interest bearing loans and borrowings	144	144
Provisions	4,276	4,266
Total non current liabilities	4,420	4,410
Total liabilities	8,203	14,248
Net assets	77,286	74,159
Equity		
Issued capital	87,932	87,932
Reserves	25	15
Accumulated losses	(10,671)	(13,788)
Total equity	77,286	74,159

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity for the half year ended 31 December 2008

	Share capital \$'000	Accumulated losses \$'000	Reserves \$'000	Total \$'000
Consolidated				
Balance at 1 July 2007	70,712	(17,922)	-	52,790
Shares issued during the year	15,742	-	-	15,742
Profit/(loss) attributable to members of parent entity	-	2,305	-	2,305
Balance at 31 December 2007	86,454	(15,617)	-	70,837
Balance at 1 July 2008	87,932	(13,788)	15	74,159
Share payment expense	-	-	10	10
Profit/(loss) attributable to shareholders of the Company	-	3,117	-	3,117
Balance at 31 December 2008	87,932	(10,671)	25	77,286

The accompanying notes form part of these financial statements.

Consolidated cash flow statement for the half year ended 31 December 2008

	Consolidated	
	31 Dec 2008	31 Dec 2007
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers *	14,117	7,437
Payments to suppliers and employees *	(10,986)	(7,427)
Interest received	672	128
Net cash provided by/(used in) operating activities	3,803	138
Cash flows from investing activities		
Payments for development and production assets	(9,371)	(557)
Payment for exploration & evaluation assets	(2,782)	(2,001)
Payments for security deposits	-	(57)
Payments for plant & equipment	(1,512)	(866)
Net cash used in investing activities	(13,665)	(3,481)
Cash flows from financing activities		
Proceeds from issues of shares	-	16,422
Fund raising expenses	-	(680)
Proceeds from interest bearing liabilities	43	-
Net cash provided by financing activities	43	15,742
Net increase/(decrease) in cash	(9,819)	12,399
Cash at beginning of half year	25,089	3,726
Effect of exchange rates on cash holdings in foreign currencies	-	(6)
Cash at balance date	15,270	16,119

* inclusive of GST.

The accompanying notes form part of these financial statements.

Notes to the financial statements for the half year ended 31 December 2008

1. Statement of significant accounting policies

The half year consolidated financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report also complies with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Mosaic Oil N.L. during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half year report does not include full disclosures of the type normally included in an annual financial report.

The accounting policies used to prepare this half year financial report are the same as used in the annual financial report for the year ended 30 June 2008.

Reporting basis and conventions

This half year financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Principles of consolidation

A controlled entity is any entity Mosaic Oil NL has the power to control the financial and operating policies of so as to obtain benefits from its activities. All controlled entities have a June financial year end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Comparative figures

Where necessary comparative information has been reclassified and repositioned for consistency with the current year disclosures.

(c) Rounding of amounts

The Company is of a kind referred in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Estimates of reserves

The estimated quantities of proven and probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and amortisation expense and to the assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves.

**Notes to the financial statements for
the half year ended 31 December 2008**

	Consolidated	
	31-Dec-08	31-Dec-07
	\$'000	\$'000
2. Revenue		
Operating revenue		
Product sales		
Oil sales	4,637	3,153
Gas sales	3,091	3,071
LPG sales	1,799	1,184
	<hr/>	<hr/>
	9,527	7,408
Service revenue		
Tariff income	877	859
Operator revenue	638	-
Equipment and labour hire	546	440
Management services	857	526
	<hr/>	<hr/>
Total services revenue	2,918	1,825
	<hr/>	<hr/>
	12,445	9,233
Other revenue		
Interest - other persons	672	127
Total revenue	<u>13,117</u>	<u>9,360</u>

3. Segment information

The consolidated entity operates in one business segment being the oil and gas industry and in two geographical regions, namely Australia and New Zealand, and Papua New Guinea.

Geographical Segments

31 December 2008	Australia & New Zealand	Papua New Guinea	Total
	\$'000	\$'000	\$'000
Revenue	13,117	-	13,117
Expenses	(7,810)	(4)	(7,814)
Depreciation and amortisation	(740)		(740)
Impairment charges for exploration and development assets	<hr/>	<hr/>	<hr/>
	(1,446)		(1,446)
Segment result	<hr/>	<hr/>	<hr/>
	3,121	(4)	3,117
Capital expenditure	8,522	56	8,578
Assets			
Current assets	22,162		22,162
Plant & equipment	8,387		8,387
Exploration and evaluation assets	13,043	1,865	14,908
Development and production assets	39,531		39,531
Other non current assets	501		501
Total assets	<hr/>	<hr/>	<hr/>
	83,624	1,865	85,489
Current liabilities	3,783		3,783
Non current liabilities	4,420		4,420
Net assets	<u>75,421</u>	<u>1,865</u>	<u>77,286</u>

**Notes to the financial statements for
the half year ended 31 December 2008**

31 December 2007	Australia & New Zealand \$'000	Papua New Guinea \$'000	Total \$'000
Revenue	9,360		9,360
Expenses	(5,547)	(7)	(5,554)
Depreciation and amortisation	(563)		(563)
Impairment charges for exploration and development assets	(938)		(938)
Segment results	2,312	(7)	2,305
Capital expenditure	2,786	1,157	3,943
Assets			
Current assets	24,550	33	24,583
Plant and equipment	7,175		7,175
Exploration and evaluation assets	12,041	1,530	13,571
Development and production assets	31,564		31,564
Other non current assets	397	-	397
Total assets	75,727	1,563	77,290
Current liabilities	2,312	6	2,318
Non current liabilities	4,135		4,135
Net assets	69,280	1,557	70,837

Business segments

The consolidated entity operates in one business being the oil and gas industry.

4. Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting date. As disclosed in the 2008 annual report, a special allowance is payable to the Managing Director, Mr Nguyen under his employment contract notwithstanding Mr Nguyen's resignation. The total outstanding amount payable is \$2,266,254. This allowance is payable in annual instalments between \$200,000 and \$700,000, subject to certain conditions, calculated with reference to the Company's after tax profit performance.

5. Events subsequent to reporting date

Since 31 December 2008 no matter or circumstance has arisen which has significantly affected or which may significantly affect the operations of the company or of a related entity.

6. Contributed equity

	31-Dec-08	30-Jun-08	31-Dec-08	30-Jun-08
	Number	Number	\$'000	\$'000
Fully paid ordinary shares at balance date	631,418,515	631,418,205	87,738	87,738
Employee contributing shares at balance date	19,235,000	19,235,000	194	194
Total shares of all classes at balance date	650,653,515	650,653,205	87,932	87,932

**Notes to the financial statements for
the half year ended 31 December 2008**

During the half year the following employee options were issued pursuant to the Employee Incentive plan:

	Number	Exercise price \$	Expiry date
Employee options	777,818	0.104	30-Jun-11
Employee options	250,000	0.119	8-Sep-11

Balance of outstanding options at balance date:

Listed options	75,017,739	0.18	31-May-09
Employee options	1,180,000	0.176	30-Jun-10
Employee options	250,000	0.176	21-Feb-11
Employee options	777,818	0.104	30-Jun-11
Options	4,000,000	0.2	31-Dec-09
Employee options	<u>250,000</u>	0.119	8-Sep-11
Total options on issue	<u>81,475,557</u>		

Directors' declaration

In the opinion of the directors

1. the financial statements and notes, as set out on pages 4 to 11, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standard AAB134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the group's financial position as at 31 December 2008 and of the performance for the half year ended on that date.
2. As at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Sydney, 26th February 2009.



Lan Nguyen
Director



A D Danieli

Chartered Accountants

Level 5, 285 George Street
Sydney NSW 2000
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Australia Square NSW 1215

Ph: (02) 9290 3099
Fax: (02) 9262 2502

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ABN: 12 135 030 858

Email: add3@addca.com.au
Website: www.addca.com.au

Independent Review Report

to the members of

Mosaic Oil NL ABN 56 003 329 084

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mosaic Oil NL and Controlled Entities (the consolidated entity) which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Mosaic Oil NL and Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



A D Danieli

Chartered Accountants

Level 5, 285 George Street
Sydney NSW 2000
PO Box H88
Australia Square NSW 1215

Ph: (02) 9290 3099
Fax: (02) 9262 2502

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ABN: 12 135 030 858

Email: add3@addca.com.au
Website: www.addca.com.au



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Mosaic Oil NL and Controlled Entities on 24 February 2009, would be in the same terms if provided to the directors as at the date of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mosaic Oil NL and Controlled Entities is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

A D DANIELI
Chartered Accountants
Sam Danieli
Principal

Sydney, 26th February 2009