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MOSAIC UPDATE ON FRACTURE STIMULATION OF CHURCHIE-1 WELL

Australian oil and gas producer, Mosaic Oil NL (ASX: MOS) is pleased to provide the following update on the Fracture Stimulation of the Churchie-1 well, located within the Churchie Field, PL 192, Surat-Bowen Basin, Queensland.

Highlights

- The Frac Job was operationally successful with approximately 200,000lbs of proppant successfully pumped into fractures created around the well across all perforated intervals.
- The post frac gas production rate has stabilised at approximately 0.5MMscf/d, and whilst double the pre frac test rate, the rate is less than was anticipated from the design.
- The Churchie-1 well will now be placed on production for sale of the gas and to gather further long term production performance data.
- Whilst slightly disappointing, the operation was cost effective, conducted safely and has provided a significant amount of data that will be used to refine the design of future frac jobs.
- Mosaic believes fracture stimulation is an appropriate technology to develop the tight gas reservoirs in the Surat-Bowen basin and plans are already being progressed for a second trial.

CEO of Mosaic Oil Alex Parks commented on the result "The Churchie-1 frac, was Mosaic's initial trial of the deep penetration hydraulic fracture stimulation in the Tinowon reservoir. Whilst the current indication of gas rate is somewhat disappointing, the fracturing operation itself went well. We have already learnt a lot from the initial trial, and will continue to evaluate the well over the coming weeks. It was always recognised that it may take us a few wells to refine the process and realise the full potential of the technology and of the Churchie wells. We undertook this first trial operation primarily as a data gathering exercise, and there were a number of specific diagnostic elements incorporated into the operation (such as including tracers in the injected frac fluid and proppant), that we can now use to evaluate and refine the process for the next field trial.

Overall, whilst the gas rate is lower than targeted, trialling the technology in an old well has been cost effective and a good data gathering exercise. The data will be used to refine the planning process for future operations. Mosaic believes that hydraulic fracture stimulation is an appropriate technology for development of the

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Tinowon gas fields and remains confident we can achieve substantial increases in field production rates over the coming years."

Technical Details

The main frac pumping operations were completed on the morning of 24 May 2010. About 200,000 pounds, or 80% of the planned quantity, of proppant was pumped into the newly fractured reservoir. Prompt flow back of the frac fluid occurred, and the well was allowed to flow and unload the frac fluid and some gas which was flared. The fracture operation went well, and the well flowed back strongly after the initial frac.

As per the plan, the Company changed out the 3.5 inch frac string for a smaller (2.375 inch) production tubing, and has now been flowing the well for several days. After the tubing change out the gas rate has stabilised at approximately 0.5MMscf/d and the well continues to unload fracture fluid at a current rate of approximately 30bbls per day. This is a lower gas rate than was anticipated pre-frac, and is lower than indicated by the initial clean up flow performance.

There are a number of possible reasons why the gas rate has not improved as the well unloads fluid and continues to clean up. There may be some formation damage caused by the well kill and tubing change-out operations or there could be frac fluid or proppant sitting across a portion of the perforations impeding flow, or there may be less net pay within the interval frac'd than initially estimated.

The company will be running diagnostic operations over the coming weeks to test these hypotheses and evaluate the frac, its placement and resultant geometry and will review all of the post frac operations with a view to how things may be done differently on any future fracture stimulation operations. The well will be connected to the production facilities over the coming weeks and placed on production to evaluate the longer term performance.

Currently the Company suspects that it may be post frac damage that is restricting the rate. Approximately 150bbls of "kill fluid" were lost to the formation during the tubing change-out. Whilst inhibited kill fluid of the correct density to match reservoir pressure was used, it is possible to include additional specific additives to further mitigate adverse reservoir rock interactions with the fluid, and this may be considered for future operations.

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