

**Free Hit**
**Date**

10 June 2008

**ASX Code**

COE

**Share Price**

51cps

**Valuation**

91cps

**Market Cap (fully diluted)**

\$128.7m (\$134.9m)

**Issued Capital (fully diluted)**

252.3m shares (264.5m)

**Cash (as at 1 June 2008)**

\$63m

**Management**

 Laurie Shervington (Chairman)  
 Michael Scott (Managing Director)

**Top Two Shareholders**

 National Nominees Ltd (9.5%)  
 HSBC Custody Nominees (7.3%)

**Resources Analyst**

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 david\_wall@hartleys.com.au

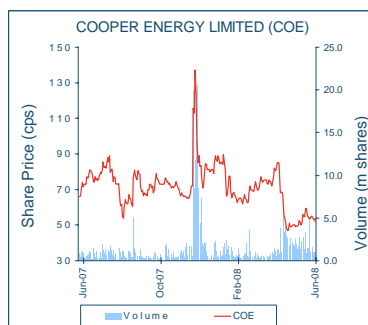
Cooper Energy Limited ("COE", "Cooper", "Company") is poised to report strong production, revenue and profit for the FY08 year. The Company's Cooper Basin portfolio has continued to deliver increased reserves and production due to successful development and exploration activity over the last 12 months. Production growth is expected to continue in the short term via commissioning of the Parsons oil discovery and construction of the Callawonga pipeline.

Cooper's exploration portfolio remains highly prospective both domestically and abroad; however, a modicum of patience is required, as there is little exploration drilling over the remainder of the year. CY2009 should see 5-6 exploration wells drilled, 2 domestically and 3-4 internationally. These wells have combined potential upside in excess of 600cps.

The Company has recently suffered a sharp decline in its share price after two disappointing exploration results in Indonesia. Cooper retains cash of \$63m and is averaging net production of ~1,000 barrels of oil per day. This should deliver operating cash flow of ~\$30m. As exploration activity draws closer and strong operating cashflow is reported, appreciation in the Company's share price is expected and we rate **Cooper Energy Limited** as a **Speculative Buy**.

**Investment Highlights**

- Strong Production from Cooper Basin Assets** – The Company's assets in the Cooper Basin continue to perform strongly and we expect reserves of 1.4 million barrels of oil to be reported subsequent to 30<sup>th</sup> June 2008. These assets are predicted to produce more than 350,000 barrels of oil for this financial year. This is 50,000 barrels more than budgeted. This should deliver operating cash flow of ~\$30m.
- Cooper Basin Exploration (COE 25%)** – Cooper is embarking on a 3D seismic program over PEL92, in the Cooper Basin, in the second half of 2008. The program is designed to firm up prospects for drilling, scheduled for early 2009. We believe the upside potential of PEL92 is 31cps, based on 5 prospects with 1-2 million barrels of recoverable oil each.
- What Happened in Indonesia** – Cooper has experienced volatility in its share price related to excitement and subsequent disappointment caused by the recent drilling of two dry wells in Indonesia. The first well, a high-risk prospect, at Kurnia (COE 30%) encountered hydrocarbon shows in two tight reservoirs. The second well, at Gurame (COE 22.5%), was considered to be a low risk prospect; however, no commercial quality reservoir was encountered. One possibility is that the targeted reservoir exists only in structurally high pockets not encountered in the Gurame well. Cooper's Indonesian acreage remains prospective and further exploration drilling may occur in 2009, pending further analysis.
- Large Exploration Potential in Tunisia (COE 35-100%)** – Cooper is a participant in two exploration permits in offshore Tunisia that both have company making potential. The Hammamet PSC (COE 35%) contains the Tazerka oil field that has produced 21 million of 78 million barrels of oil originally in place. The Company will decide whether to reactivate this field or drill the Fuschia exploration prospect, estimated to contain 48 million barrels of recoverable oil. Drilling is subject to rig availability but is likely to be either Q1 2009 or Q3 2009. The Bargou PSC (COE 100%) also contains large exploration targets in the order of 250 million barrels of recoverable oil. The forward program at Bargou consists of further seismic and then farming down the Company's interest prior to possible drilling in 2009.

**Share Price Performance**


Source: Iress

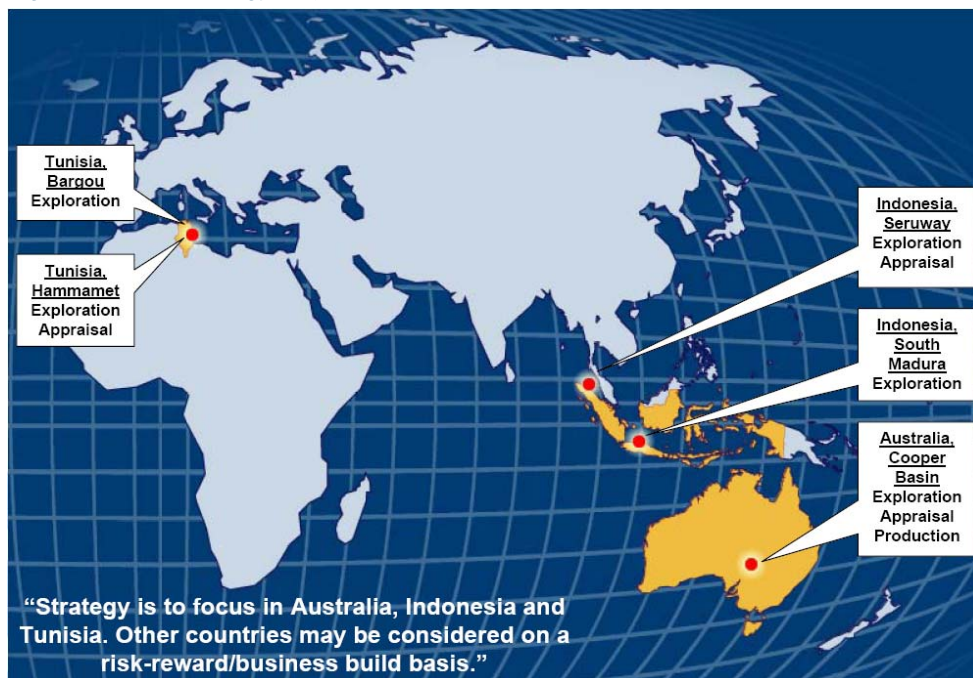
## Background

Cooper Energy Limited is an ASX listed [Code: COE] oil and gas company. It was floated in 2002 on the strength of its Cooper Basin assets. These assets have continued to perform well for the Company, maintaining a proven reserves level of >1 mmbbls of oil for the last 4 years whilst achieving relatively steady production.

In more recent times, the Company has expanded its areas of interest internationally, to Indonesia and Tunisia. During the 2008 financial year, Cooper drilled two high impact wells in Indonesia, one a high-risk oil target and the other a low risk gas appraisal well. Unfortunately, both wells were unsuccessful.

The Company’s local and international drilling campaigns intensify in the 2009 calendar year, with the potential for transformational success from its international wells.

Figure 1: Cooper Energy Project Locations



Source: Cooper Energy Limited

## Principal Assets

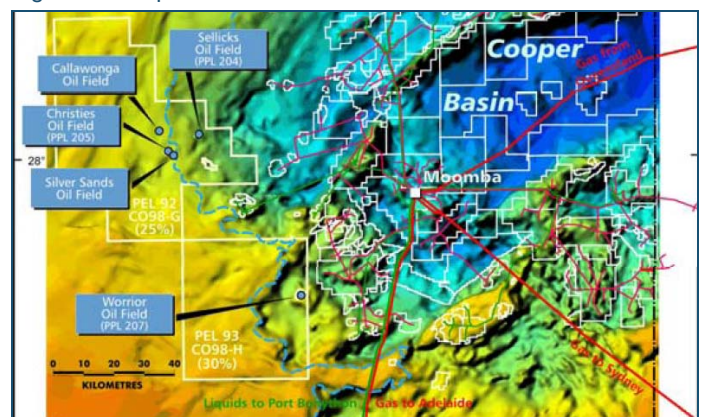
### Cooper Basin Assets (COE 19% - 30%)

The Company is currently producing from 6 oilfields in the Cooper Basin, with the Parsons oilfield due to begin production towards the end of June 2008. During FY2008, Cooper has experienced solid performance from existing fields, in particular Worrior and Callawonga. It has also experienced exploration success with oil discovered at the Cleansweep and Parsons oilfields.

### Mosaic Oil Investment (COE 4.75%)

Cooper holds ~30m Mosaic shares worth ~\$5m at current prices. It is expected that these will be disposed in a responsible manner, as this investment is no longer in line with the Company strategy.

Figure 2: Cooper Basin Permits



Source: Cooper Energy Limited

## Reserves

Table 1 – Cooper Basin Reserves as at 30/6/2007

Field Name	Ultimate Recovery (mmbbls)	Production (mmbbls)	P50 Reserves (mmbbls)
Worrior	1.05	0.68	0.37
Christies	0.53	0.28	0.25
Sellicks	0.15	0.08	0.07
Silver Sands	0.03	0.00	0.03
Callawonga	0.40	0.07	0.33
<b>Totals</b>	<b>2.16</b>	<b>1.12</b>	<b>1.04</b>

Source: Cooper Energy Ltd

## Exploration

### PEL92, Cooper Basin, Australia (COE 25%)

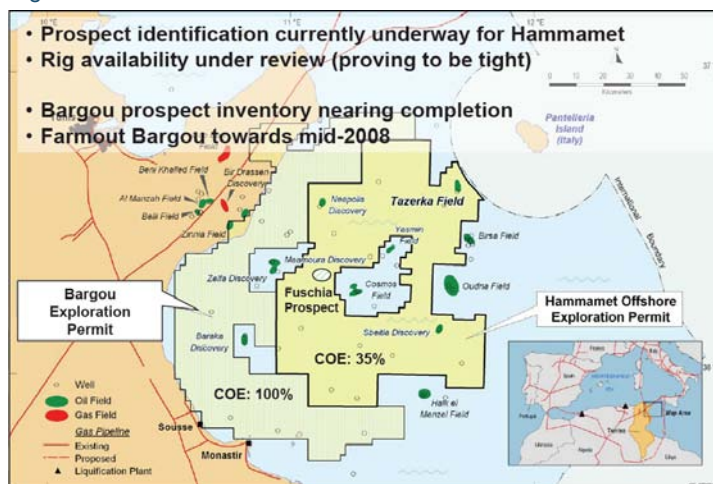
Cooper has several prospects located nearby to existing discoveries in this permit. The operator, Beach Petroleum Ltd, plans to acquire seismic over these prospects to decrease technical risk. It is anticipated that drilling may occur towards the end of 2008 or early 2009. The size of each prospect is estimated to be in the order of 1-2 mmbbls of recoverable oil.

### Hammamet PSC, Tunisia (COE 35%)

The Company farmed-in to the Hammamet PSC in October 2007, earning 35% by agreeing to fund the drilling of the first well. The permit is adjacent to the Bargou PSC, described below, and provides an attractive strategic fit for Cooper. Due to the scarcity of drilling rigs, economies of scale can be achieved by executing a multi-well drilling campaign to reduce mobilisation costs.

The PSC contains an existing oilfield, Tazerka, which was abandoned by Shell in 1998 after producing 21 mmbbls of 78 mmbbls of oil initially in place. There is potential for the Company to reactivate this field, with gross estimated recoverable oil of 18 mmbbls. There are many other prospects in the PSC, the most mature of which is Fuschia with estimated recoverable oil of 47.6 mmbbls. Fuschia is located nearby and on trend to existing fields and is considered a moderate risk prospect. Rig availability in the area indicates several opportunities, with one most likely to be available in Q1 2009 and another in Q3 2009. The appropriate slot will be selected dependant on timing and terms.

Figure 3: Tunisian Permits



Source: Cooper Energy Limited

### Bargou PSC, Tunisia (COE 100%)

Cooper retains a 100% working interest in the Bargou PSC and is currently interpreting seismic data that was acquired in 2007. The Company plans to mature prospects and then farm-down its interest to reduce risk. It is anticipated that a well may be drilled sometime in 2009. Offshore well costs in this region are in the order of US\$15-25m.

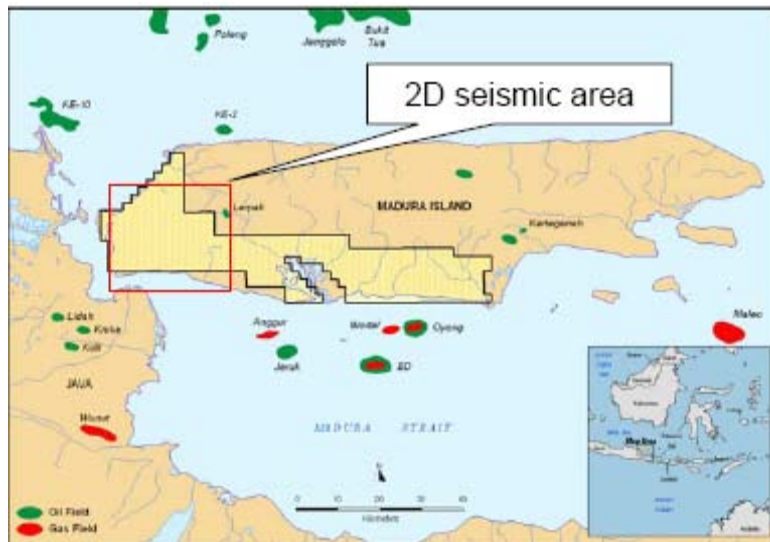
The Company has also identified shallow onshore leads in this permit with combined potential of ~25 mmbbls of recoverable oil. These wells are considerably cheaper to drill and the Company may choose to retain 100% ownership when drilling.

**South Madura PSC, Indonesia (COE 30%)**

In FY2008, Cooper drilled the high risk Kurnia-1 well targeting 200 mmbbls of recoverable oil. Oil shows were measured as well as elevated gas readings; however, the reservoirs encountered were interpreted to be tight. Potential for a gas discovery remains at the Kurnia location.

Cooper plans to drill shallow prospects defined by 2D seismic. This is considered a more cost effective and low risk strategy.

Figure 4: South Madura PSC



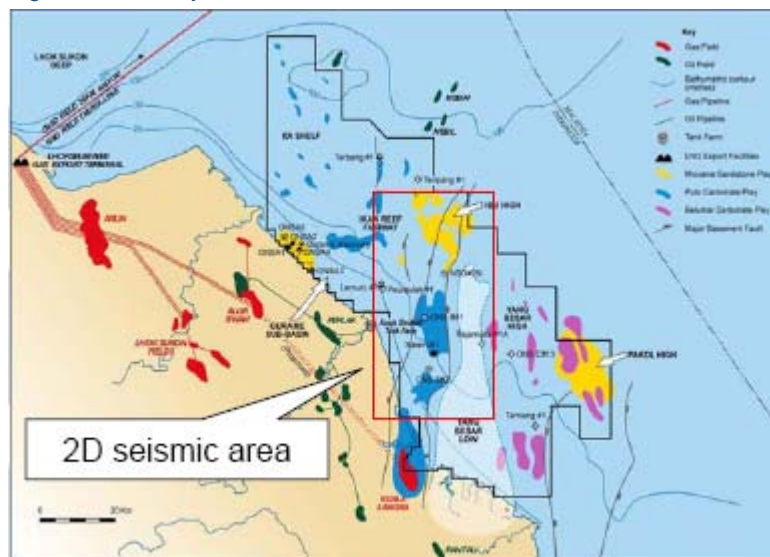
Source: Cooper Energy Limited

**Seruway PSC, Indonesia (COE 22.5%)**

Cooper recently drilled its Gurame-1X appraisal well targeting gas potential of up to 2,700 bcf. This was considered a low risk well due to its proximity to historic wells that had produced gas. It was also thought that previous drilling techniques might have hampered gas flow in the historic wells. The result at Gurame was ultimately disappointing and confounding. The Company is currently analysing possible reasons for why no commercial quality hydrocarbons or reservoir was encountered. It is estimated that further answers will be available in 4-6 weeks.

The permit remains prospective for a commercial gas project, with recoverable volumes of 50 bcf considered economically viable.

Figure 5: Seruway PSC



Source: Cooper Energy Limited

**Financial Analysis**

**Assumptions**

Table 2 details the exchange rate and commodity price forecasts used in our modelling.

Table 2: Hartleys Commodity Price and Exchange Rate Assumptions

		CY08	CY09	CY10	CY11	CY12 on
AUDUSD	A\$/US\$	0.91	0.87	0.83	0.78	0.72
Oil Price (WTI)	US\$	93.75	90	90	90	75

Source: Hartleys Estimates

Hartleys real discount rate of 7% is approximately equal to 10% nominal with 2.5% inflation. This is industry standard.

## Valuation

All of Cooper's producing assets are located onshore in Australia and are subject to a 10% royalty on revenues and 30% corporate tax on profits.

We assume operating costs of A\$8 per bbl and capital requirements of A\$10m for development of existing discoveries. Current production levels are assumed to average ~1,000 bopd for FY2009 and then decrease at 70% per year.

These assumptions result in a discounted cash flow valuation for the Company's Cooper Basin assets of A\$61m or 24cps.

Table 3: Exploration Valuation

Prospect/Area	Location	Mean Net Recoverable Resource	NPV/bbl NPV/mcf	POS*	Riskd Value	Riskd cps	Unriskd (High Case) cps
Hammamet PSC	Tunisia	21 mmbbl oil	A\$12/bbl	15%	A\$37.5m	15cps	99cps
Bargou PSC	Tunisia	82.5 mmbbl oil	A\$12/bbl	2.5%	A\$24.8m	10cps	392cps
Cooper Basin	Australia	2.25 mmbbl oil	A\$35/bbl	20%	A\$15.8m	6cps	31cps
South Madura PSC	Indonesia	97.5 bcf gas	A\$1.50/mcf	5%	A\$7.2m	3cps	58cps
Seruway PSC	Indonesia	54 bcf gas 2.7 mmbbl oil	A\$20/bbl	5%	A\$5.0m	2cps	41cps
<b>Total</b>					<b>A\$90.2m</b>	<b>36cps</b>	<b>620cps</b>

Source: Hartleys Estimates, \*Probability of Success

## Valuation Summary

Table 4: Valuation Summary

Asset	Value (A\$m)	Value (cps)
Cooper Basin Assets	\$61m	24cps
Exploration	\$90m	36cps
Cash	\$63m	25cps
Net Receivables	\$8m	3cps
Investments - Mosaic	\$5m	2cps
Overheads	(\$10m)	(4cps)
Options	\$14m	6cps
<b>Total</b>	<b>\$231m</b>	<b>91cps</b>

Source: Hartleys Estimates

## Conclusions

We believe that Cooper has been oversold. Our core asset valuation is 56cps, underpinned by estimated 2P reserves of 1.4 million barrels and \$63m in cash. At current prices, there is no value assigned to its exploration portfolio. Investment at prices below the core asset valuation provides a "free hit" at potential company making exploration. Exploration drilling is not scheduled to occur for at least 6 months; however, strong operating cash flow is anticipated during this time. We expect that the share price will appreciate over the course of the year as high impact activity draws closer. We rate **Cooper Energy Limited** as a **Speculative Buy**.

## Cooper Energy Limited

Share Price

COE

\$0.51

## Key Market Information

Share Price	\$0.51
Market Capitalisation	\$129m
52 Week High-Low	\$1.45-\$0.46
Issued Capital	252.3m
Issued Capital (fully diluted inc. ITM options)	252.8m
Options	21.9m@\$A0.81
Hedging	-
Yearly Turnover/Volume	\$267.3m/338.0m shares
Liquidity Measure (Yearly Turnover/Issued Capital)	134%
Valuation	\$0.91

## Financial Performance

Unit	FY2007A	FY2008F	FY2009F	FY2010F
Net Revenue	A\$m 21.9	45.2	35.0	23.7
Total Costs	A\$m (13.5)	(24.9)	(30.0)	(23.7)
EBITDA	A\$m 8.4	20.3	5.0	0.1
Depreciation/Amort	A\$m (1.0)	(6.3)	(5.6)	(5.5)
EBIT	A\$m 7.4	14.0	(0.7)	(5.5)
Net Interest	A\$m 0.7	2.3	3.6	3.5
Pre-Tax Profit	A\$m 8.0	16.3	2.9	(2.0)
Tax Expense	A\$m (2.5)	(5.8)	(0.9)	(0.7)
NPAT	A\$m 5.5	10.5	2.0	(2.7)
Abnormal Items	A\$m -	-	-	-
Reported Profit	A\$m 5.5	10.5	2.0	(2.7)

## Financial Position

Unit	FY2007A	FY2008F	FY2009F	FY2010F
Cash	A\$m 15.3	57.2	58.4	56.9
Other Current Assets	A\$m 9.0	13.9	10.5	8.8
Total Current Assets	A\$m 24.3	71.2	68.9	65.7
Property, Plant & Equip.	A\$m 9.1	23.5	27.3	28.5
Exploration	A\$m 15.5	26.5	27.3	27.5
Investments/other	A\$m 5.4	5.4	5.4	5.4
Tot Non-Curr. Assets	A\$m 30.0	55.4	60.0	61.5
Total Assets	A\$m 54.3	126.5	128.9	127.2

Short Term Borrowings	A\$m -	-	-	-
Other	A\$m 3.4	2.7	2.2	1.9
Total Curr. Liabilities	A\$m 3.4	2.7	2.2	1.9
Deferred Tax Liability	A\$m 1.6	7.4	8.3	9.0
Other	A\$m 0.3	0.3	0.3	0.3
Total Non-Curr. Liabil.	A\$m 1.8	7.7	8.5	9.2
Total Liabilities	A\$m 5.2	10.4	10.7	11.1
Net Assets	A\$m 49.1	116.2	118.2	116.1

## Cashflow

Unit	FY2007A	FY2008F	FY2009F	FY2010F
Operating Cashflow	A\$m 2.1	30.9	29.1	18.4
Income Tax Paid	A\$m -	-	-	-
Interest & Other	A\$m 1.1	2.3	3.6	3.5
Operating Activities	A\$m 3.2	33.1	32.7	21.9
Property, Plant & Equip.	A\$m (2.2)	(17.3)	(6.5)	(4.0)
Exploration	A\$m (1.4)	(30.5)	(25.0)	(20.0)
Investments	A\$m (3.2)	-	-	-
Investment Activities	A\$m (14.5)	(47.8)	(31.5)	(24.0)
Repayment of Borrowings	A\$m -	-	-	-
Equity	A\$m 0.8	60.1	-	0.6
Financing Activities	A\$m 0.8	57.1	-	0.6
Net Cashflow	A\$m (10.5)	42.4	1.2	(1.5)

## Ratio Analysis

Unit	FY2007A	FY2008F	FY2009F	FY2010F
Cashflow Per Share	A¢ 2.7	6.7	3.0	1.1
Cashflow Multiple	X 19.0	7.6	16.8	45.6
Earnings Per Share	A¢ 2.3	4.2	0.8	(1.1)
Price to Earnings Ratio	X 22.5	12.3	63.7	(48.0)
Dividends Per Share	A¢ -	-	-	-
Dividend Yield	% -	-	-	-
Interest Cover	X na	0.2	-	-
Return on Equity	% 11%	9%	2%	na

June 2008

SPECULATIVE BUY

## Directors

Laurie Shervington (Chairman)  
 Michael Scott (MD & CEO)  
 Greg Hancock (Exec. Dir)  
 Christopher Porter (Non-Exec. Dir)  
 Stephen Abbott (Non-Exec Dir)

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## Company Information

## Top 10 Shareholders

	m shares	%
NATIONAL NOMINEES LIMITED	24.03	9.5
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	18.53	7.3
J P MORGAN NOMINEES AUSTRALIA LIMITED	15.68	6.2
CITICORP NOMINEES PTY LIMITED	5.09	2.0
CELTIC TRUST COMPANY LIMITED	5.00	2.0
MR P. R. DAVIES + MS S. V. DAVIES	5.00	2.0
MR GREGORY GEORGE HANCOCK	3.00	1.2
RBC DEXIA INVESTOR SERVICES PTY LIMITED	2.65	1.0
ANZ NOMINEES LIMITED	2.40	1.0
MARFORD GROUP PTY LTD	2.16	0.9

## Reserves &amp; Resources

(as at 30/6/2007)	Ultimate Recovery	Production	P50 Reserves
Worrior	1.05	0.68	0.37
Christies	0.53	0.28	0.25
Sellicks	0.15	0.08	0.07
Silver Sands	0.03	0.00	0.03
Callawonga	0.40	0.07	0.33
Totals	2.16	1.12	1.04

## Production Summary

Unit	FY2007A	FY2008F	FY2009F	FY2010F
*Attributable				
Oil	000bbl 275.3	358.3	344.3	224.7
Gas	Mcf -	-	-	-
Condensate	000bbl -	-	-	-
LPG	000bbl -	-	-	-

## Price Assumptions

Unit	FY2007A	FY2008F	FY2009F	FY2010F
Gas	\$A/GJ 3.58	3.33	3.25	3.75
Oil	US\$/bbl 63.31	93.15	90.00	90.00
Exchange Rate	A\$/US\$ 0.79	0.90	0.89	0.85

## Hedging

Unit	FY2007A	FY2008F	FY2009F	FY2010F
Total Forward Sales - Oil	bbl -	-	-	-
Forward Oil Price	A\$/bbl -	-	-	-

## Sensitivity Analysis

	Valuation (\$/s)	NPAT	EPS (¢)	CFPS (¢)
Base Case	0.91	10.5	4.2	6.7
Oil Price +10%	0.94	12.0	4.8	7.3
Oil Price -10%	0.89	8.9	3.5	6.1
Operating Costs +10%	0.91	10.3	4.1	6.6
Operating Costs -10%	0.92	10.7	4.2	6.8

\*N.B. NPAT, EPS, CFPS forecasts are for FY2008

## Share Price Valuation (NAV)

	Est. \$m	Est. \$/share
Cooper Basin Assets	60.9	0.24
Exploration	90.2	0.36
Cash	63.0	0.25
Net Receivables	7.8	0.03
Investments - Mosaic	4.8	0.02
Forwards	0.0	0.00
Corporate Overheads	(10.0)	(0.04)
Total Debt	0.0	0.00
Tax Losses	0.0	0.00
Options & Other Equity	14.2	0.06
Total	230.8	0.91

Analyst: David Wall  
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Last Updated: 10/06/2008

Sources: Iress, Company Announcements, Hartleys Estimates

# Hartleys Corporate Directory

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Email:	<a href="mailto:info@hartleys.com.au">info@hartleys.com.au</a>

Note: personal email addresses of company employees are structured in the following manner:

firstname\_lastname@hartleys.com.au

## Hartleys Recommendation Categories

Strong Buy	Significant share price appreciation anticipated
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but is considered high risk
Accumulate	Buy in periods of weakness
Hold	Take no action
Reduce	Sell in periods of strength
Sell	Significant price depreciation anticipated

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Davide Bosio	+61 8 9268 3042
Simon Van Den Berg	+61 8 9268 2867

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David Cross	+61 8 9268 2860
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Andrew Gribble	+61 8 9268 2842
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Christian Marriott	+61 8 9268 2828
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David Michael	+61 8 9268 2835
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Jamie Mouglin	+61 8 9268 2856
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Michael Munro	+61 8 9268 2820
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