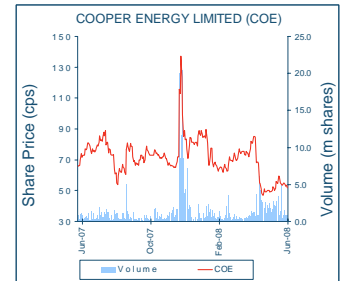


Cooper Bid for Incremental Makes Sense

Brief Update Note

Stock:	Cooper Energy Limited (COE 35cps)
Valuation:	86cps (unchanged)
Market Cap (Full. Dil.):	\$88.3m (\$88.5m)
Issued Capital (Full. Dil.):	252.3m shares (252.8m)
Cash (as at 30 June 2008):	\$65m
Date:	19 September 2008
Oil and Gas Analyst:	David Wall



Source: Iress

Details:

- Offer Details** – Cooper Energy Limited (“Cooper”, “COE”, “Company”) has launched a takeover bid for Incremental Petroleum Limited (“Incremental”, “IPM”). The offer gives IPM holders a choice of 3.1 COE shares for each IPM share, or 50c cash and 1.9 COE shares for each IPM share. Incremental shareholders would retain the recently announced 3cps unfranked dividend.

The offer is subject to a pre-condition that the implied value of the offer for IPM does not fall below 118cps during the valuation period. The valuation period lasts for two full trading days and may begin 5 days after the bidder’s statement was served, on 15th September 2008, and must finish in the 5 days prior to the offer documents being issued. Incremental is currently trading at 98cps, a 20% discount to the minimum offer of 118cps.

The offer is also subject to other conditions such as a 90% acceptance level and material adverse change conditions.

Impact

- Clarification of Offer** – The pre-condition means that the volume weighted average of COE shares during the valuation period must be above 35.8cps; however, Cooper has announced that it will fix a date on which its offer documents will bear with the assumption that the pre-condition will be satisfied. This implies that Cooper believes it will be able to garner support to maintain the share price above this level.

Whilst 90% acceptance is a condition of the bid, it is possible that this percentage may be decreased in the future. Cooper has achieved 11.7% acceptance via purchase of 4.9% of shares on market and an agreement with major shareholder, Kinetic Investment Partners, for a further 6.8% (all scrip).

The all cash offer could cost Cooper around \$30m in cash; however, the Company has cash reserves of \$70m. This also indicates that there is room for negotiation in the offer price.

- Why the Offer Makes Sense** – We believe that the offer makes sense for both companies for several reasons, including:
 - Increased market cap for the merged entity (of ~\$200m), attracting a broader range of investors, particularly institutions.
 - For Incremental shareholders, Cooper brings greater liquidity, having turned over 138% of its market capitalisation in the last 12 months, as compared to only 18% of the same measure for Incremental.
 - Increased reserves, combining Cooper’s proved developed 1.4 million barrels of oil from Australia with Incremental’s 11.4 million barrel 2P reserve in Turkey.
 - Combined production of 2,500 barrels of oil per day, with 1,000 barrels of oil per day from Cooper and 1,500 barrels of per day from Incremental.
 - The assets of the merged entity provide a more complete project pipeline by combining producing assets from both companies with near term appraisal and production (COE in the Cooper Basin and Incremental in Turkey and the US) as well as longer term exploration potential (COE in Tunisia and Indonesia, and Incremental in the US).
 - A more diverse asset base, with a geographical fit between Cooper’s Tunisia acreage and Incremental’s Turkey projects. The US assets appear to be a geographical outlier in terms of fit; however, they are located in a producing basin, which is consistent with Cooper’s stated strategy.

Impact (cont)

- A broader range of technical skills, expertise and global contacts, increasing opportunity for quality asset identification.
- Incremental shareholders may also benefit from the more aggressive exploitation policy of Cooper that is enabled by its strong cash balance, which could see further increases in production and reserves from Incremental's Selmo oilfield in Turkey.
- Incremental shareholders would most likely lose the unfranked dividend in the short term; however, as the dividend is unfranked, our view is that the money would be better spent on growth and this should be viewed as a positive.

We believe that both companies are highly undervalued and that the proposed deal has the potential to unlock some of this value by providing increased earnings, reserves, production, market capitalisation and most importantly, liquidity. In the current economic environment, the synergies achieved by a "merger of equals" such as this are significant and we rate **Cooper Energy Limited** as a **Speculative Buy** and **Incremental Petroleum Limited** as a **Speculative Buy**.

Cooper Energy Limited		Share Price				September 2008	
COE		\$0.35				SPECULATIVE BUY	
Key Market Information							
Share Price		\$0.35					
Market Capitalisation		\$88m					
52 Week High-Low		\$1.45-\$0.32					
Issued Capital		252.3m					
Issued Capital (fully diluted inc. ITM options)		252.8m					
Options		21.9m@ \$A0.81					
Hedging		-					
Yearly Turnover/Volume		\$255.1m/347.9m shares					
Liquidity Measure (Yearly Turnover/Issued Capital)		138%					
Valuation		\$0.86					
		18%					
Financial Performance							
	Unit	FY2008A	FY2009F	FY2010F	FY2011F		
Net Revenue	A\$m	45.5	42.4	26.4	18.0		
Total Costs	A\$m	(29.0)	(31.2)	(20.2)	(14.5)		
EBITDA	A\$m	16.5	11.2	6.2	3.5		
Depreciation/Amort	A\$m	(4.5)	(5.6)	(5.4)	(5.4)		
EBIT	A\$m	12.0	5.5	0.8	(1.8)		
Net Interest	A\$m	3.3	4.0	4.4	4.9		
Pre-Tax Profit	A\$m	15.4	9.6	5.2	3.0		
Tax Expense	A\$m	(9.0)	(2.9)	(1.6)	(0.9)		
NPAT	A\$m	6.4	6.7	3.6	2.1		
Abnormal Items	A\$m	-	-	-	-		
Reported Profit	A\$m	6.4	6.7	3.6	2.1		
Financial Position							
	Unit	FY2008A	FY2009F	FY2010F	FY2011F		
Cash	A\$m	64.6	69.0	75.7	95.6		
Other Current Assets	A\$m	19.2	16.5	14.4	13.3		
Total Current Assets	A\$m	83.8	85.5	90.1	108.9		
Property, Plant & Equip.	A\$m	14.0	18.5	20.4	22.1		
Exploration	A\$m	28.9	29.0	27.9	26.4		
Investments/other	A\$m	3.2	3.2	3.2	3.2		
Tot Non-Curr. Assets	A\$m	46.1	50.7	51.5	51.7		
Total Assets	A\$m	129.9	136.3	141.6	160.6		
Short Term Borrowings	A\$m	-	-	-	-		
Other	A\$m	10.2	7.0	6.6	6.4		
Total Curr. Liabilities	A\$m	10.2	7.0	6.6	6.4		
Deferred Tax Liability	A\$m	3.9	6.8	8.4	9.3		
Other	A\$m	0.3	0.3	0.3	0.3		
Total Non-Curr. Liabil.	A\$m	4.2	7.1	8.6	9.6		
Total Liabilities	A\$m	14.4	14.1	15.3	16.0		
Net Assets	A\$m	115.5	122.2	126.4	144.6		
Cashflow							
	Unit	FY2008A	FY2009F	FY2010F	FY2011F		
Operating Cashflow	A\$m	27.3	31.9	20.7	12.9		
Income Tax Paid	A\$m	(3.2)	-	-	-		
Interest & Other	A\$m	2.6	4.0	4.4	4.9		
Operating Activities	A\$m	26.7	35.9	25.1	17.8		
Property, Plant & Equip.	A\$m	(27.9)	(6.5)	(4.0)	(4.0)		
Exploration	A\$m	(8.7)	(25.0)	(15.0)	(10.0)		
Investments	A\$m	1.2	-	-	-		
Investment Activities	A\$m	(35.4)	(31.5)	(19.0)	(14.0)		
Repayment of Borrowings	A\$m	-	-	-	-		
Equity	A\$m	61.0	-	0.6	16.1		
Financing Activities	A\$m	57.9	-	0.6	16.1		
Net Cashflow	A\$m	49.3	4.4	6.6	19.9		
Ratio Analysis							
	Unit	FY2008A	FY2009F	FY2010F	FY2011F		
Cashflow Per Share	A¢	4.3	4.9	3.6	2.8		
Cashflow Multiple	X	8.1	7.1	9.8	12.7		
Earnings Per Share	A¢	2.5	2.7	1.4	0.8		
Price to Earnings Ratio	X	13.8	13.2	24.5	44.8		
Dividends Per Share	A¢	-	-	-	-		
Dividend Yield	%	-	-	-	-		
Interest Cover	X	na	-	-	-		
Return on Equity	%	6%	5%	3%	1%		
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Christopher Porter (Non-Exec. Dir)				Fax: +61 8 9368 5844			
Stephen Abbott (Non-Exec Dir)				Web: http://www.cooperenergy.com.au			
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		2.55	1.0				
ANZ NOMINEES LIMITED		2.40	1.0				
MARFORD GROUP PTY LTD		2.16	0.9				
Reserves & Resources							
(as at 30/6/2008)				P50 Reserves (mmbbl)			
Cooper Basin						1.45	
Production Summary							
	Unit	FY2008A	FY2009F	FY2010F	FY2011F		
*Attributable							
Oil	000bbl	358.3	344.3	224.7	147.4		
East Coast Dom Gas	Mcf	-	-	-	-		
Condensate	000bbl	-	-	-	-		
LPG	000bbl	-	-	-	-		
Price Assumptions							
	Unit	FY2008A	FY2009F	FY2010F	FY2011F		
East Coast Dom Gas	\$/GJ	3.33	3.25	3.75	4.25		
Oil	US\$/bbl	96.88	107.50	100.00	100.00		
Exchange Rate	A\$/US\$	0.90	0.88	0.85	0.82		
Hedging							
	Unit	FY2008A	FY2009F	FY2010F	FY2011F		
Total Forward Sales - Oil	bbl	-	-	-	-		
Forward Oil Price	A\$/bbl	-	-	-	-		
Sensitivity Analysis							
	Valuation (\$/s)	NPAT	EPS (¢)	CFPS (¢)			
Base Case	0.86	6.4	2.5	4.3			
Oil Price +10%	0.88	6.4	2.5	4.3			
Oil Price -10%	0.83	6.4	2.5	4.3			
Operating Costs +10%	0.86	6.4	2.5	4.3			
Operating Costs -10%	0.86	6.4	2.5	4.3			
<i>*N.B. NPAT, EPS, CFPS forecasts are for FY2008</i>							
Share Price Valuation (NAV)							
		Est. \$m	Est. \$/share				
Cooper Basin Assets		53.4	0.21				
Exploration		90.2	0.36				
Cash		64.6	0.26				
Net Receivables		7.8	0.03				
Investments - Mosaic		3.2	0.01				
Forwards		0.0	0.00				
Corporate Overheads		(14.9)	(0.06)				
Total Debt		0.0	0.00				
Tax Losses		0.0	0.00				
Options & Other Equity		14.2	0.06				
Total		218.4	0.86				
<i>10% real discount rate used for DCF (-13.3% nominal)</i>							
Analyst: David Wall				Last Updated: 19/09/2008			
Phone: +61 8 9268 2826							
Sources: Iress, Company Announcements, Hartleys Estimates							

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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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