

Development Success Underpins Cooper
Date

28 April 2006

ASX Code

COE

Share Price

70cps

Market Cap (fully diluted)

\$97.3m (\$105.9m)

Issued Capital (fully diluted)

139.0m shares (151.3m)

Cash (as at 31 March 2006)

\$23.1m

Management

 Laurie Shervington (Chairman)
 Michael Scott (Managing Director)

Top Two Shareholders

 National Nominees Limited (4.74%)
 Nefco Nominees Pty Ltd (3.85%)

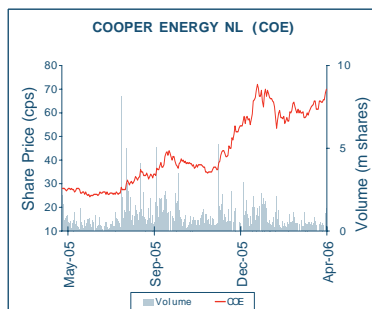
Resources Analyst

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Cooper Energy Limited ("Cooper", "COE", "Company") had good success in its development drilling during the March quarter, which along with high oil prices, resulted in the production of 88,809 barrels and increased sales of \$8.1m. Drilling successes at Worrior-4, Christies-4 and Christies-5 and the subsequent tie in to facilities will result in COE exceeding its FY06 production forecast of up to 350,000 barrels. With Fairbridge-1 now cased for production testing in May, secondary target success at Silver Sands-1 and Kurnia-1 to commence in early July, we can see little downside and plenty of upside. Our upgraded valuation of 72 – 145cps indicates that there is strong support for the share price and significant upside based on drilling results. We continue to rate **Cooper Energy Limited** as a **Buy**.

Investment Highlights

- **Solid Production Results:** Attributable production for the December quarter was 88,809 barrels, down 6% on the December quarter result due to natural field decline. Working Capital (cash + receivables – payables – current tax payable) increased by 8% to \$23.2m.
- **Development Success to Sustain Production:** Successful wells were drilled at Worrior-4 (COE 30%), Christies-4 (COE 25%) and Christies-5 (COE 25%). These wells have subsequently been tied into the Worrior and Christies production facilities.
- **Full Year Forecast to be Exceeded:** COE had forecast FY2006 production of up to 350,000 barrels. As at March 31 2006, COE had produced 272,239 barrels. Based on the current production attributable rate of 1100-1200bopd, we expect the full year result to be 360-370,000 barrels.
- **Tunisian Block Awarded:** COE has been advised that it has been formally granted the Bargou Block in Tunisia for a period of 2 years. COE has 100% equity in the project. We expect COE to complete the interpretation of seismic data and then farm down its interest to fund drilling.
- **Silver Sands-1 Successful:** Whilst drilling is still ongoing, the Company has reported initial success at Silver Sands-1 (COE 25%) with oil flows of 860bopd in the secondary Namur Formation. Drilling is continuing towards the primary Birkhead/Hutton target with good potential for the well to be completed as a producer.
- **Kurnia-1 to Commence in Early July:** COE has advised that Kurnia-1, located within the South Madura property (COE 45%), will spud in early July. The well is expected to take 3 months to drill with a target of 200m barrels.

Share Price Performance


Source: IRESS

Earnings Summary

		FY2005A	FY2006F	FY2007F	FY2008F
Revenue	A\$m	25.3	32.3	33.2	26.0
EBITDA	A\$m	14.5	17.4	19.5	17.5
NPAT	A\$m	11.5	10.5	12.0	11.9
Free Cash Flow	A\$m	9.9	13.4	15.5	15.5
EPS	A¢	8.4	7.6	8.6	8.2
EPS	% chg	-	(9.6)	13.9	(5.3)
PER	x	8.4	9.3	8.1	8.6
DPS	cents	-	-	-	-
Dividend Yield	%	-	-	-	-
Franking	%	-	-	-	-

Sources: IRESS, Company Announcements, Hartleys' Estimates

Quarterly Update

Cooper Basin production for the December quarter was 6% lower than the December quarter at 88,809 barrels (94,334 barrels), due to natural decline of the fields and some operational downtime on Sellicks, Christies and Arwon. After the successful tie-in of Worrior-4, Christies-4 and Christies-5, we expect a production level for the current year to exceed the Company's upper end forecast of 350,000 barrels by 10-20,000 barrels.

Despite lower production in the quarter, oil sales were up 11% on the December quarter as a result of higher oil prices. We expect the oil price to be sustained at around US\$75/barrel for the remainder of CY2006 and CY2007 before retreating towards a long term average price of US\$45/barrel.

Cash at hand increased by 25% during the quarter to \$23.1m.

Exploration and Development Highlights

Worrior-4 (PPL207, Cooper 30%)

Worrior-4 was successful in defining commercial oil in the McKinlay and Birkhead Formations. Worrior-4 has now been completed as an oil production well, which provides a fourth off-take point for the field. The well was brought into production in early-April 2006 at an initial flow rate of 1,660bopd.

Christies-4 and Christies-5 (PPL205, Cooper 25%)

During the quarter, Christies-4 and Christies-5 were both drilled with oil intersections in the Namur and Birkhead Formations. Both of these will be brought into production through tie in to the Christies production facility.

Strickland Bay-1 (PEL100, Cooper 38.33%)

Strickland Bay-1, located in PEL100, was spudded on 18 January. COE (operator) increased its working interest to 38.33% by funding Enterprise Energy's share of costs (10%). Only weak hydrocarbon indications were encountered and the well was plugged and abandoned.

Geordie-1 (PEL88, Cooper 30%)

Geordie-1, located in PEL88, was completed during the quarter with no significant hydrocarbons intersected. The well was plugged and abandoned.

Silver Sands-1 (PEL92, Cooper 25%)

As at the writing of this report, the drilling of Silver Sands-1 was ongoing. Initial production testing of the secondary Namur Formation objective produced an excellent result of 860 bopd. Based on the results of the secondary objective, COE is excited about the potential of the deeper primary Birkhead/Hutton objective.

Fairbridge-1 (PEL100, Cooper 38.33%)

After successfully encountering hydrocarbon indications at Fairbridge-1, the well was cased and suspended for future cased hole production tests. COE has advised that the workover operation is expected to commence on or around 5 May 2006.

Prior to drilling, COE stated that the prospect would be expected to yield most likely (mean) recoverable volumes of approximately 3.6mmbo. With limited intersections in the secondary objectives, we believe that a much smaller reserve will be demonstrated at the Fairbridge location but a positive production test will open up a new productive area with a number of follow-up targets.

Based on an arbitrary initial flow rate of 1,100bopd and recoverable reserves of 2mmbo, we value COE's stake in Fairbridge at up to 12cps.

Planned Drilling

Table 1: Cooper Drilling Program – Q2 CY2006

Well	Location	Share	Target Info	Well Type
Dalray-1	PEL93	30%	May spud. Oil exploration well – up-dip from Padulla discovery	Exploration
Sellicks-2	PPL204	25%	May spud. Oil development well – up-dip from Sellicks-1	Development
Sellicks-3	PPL204	25%	May spud. Oil development well	Development
Boomer-1	PEL92	25%	June spud. Oil exploration well	Exploration

Source: Cooper Energy Limited

Valuation

The base case and expanded case valuations shown below have been updated to reflect recent production statistics as well as a revision of the Cooper Basin reserves. We have also once again revised our commodity price forecasts, taking into consideration the current strong prices. The key parameters that impact the COE valuation are shown in Table 2.

Table 2: Hartleys' Financial Parameters

	CY2006	CY2007	CY2008	Long-Term
Oil Price (US\$/bbl)	75.00	75.00	65.00	45.00
A\$:US\$ Exchange Rate	0.75	0.74	0.73	0.72

Source: Hartleys' estimates

Base Case

In the Base Case scenario we have assumed a 2P reserve estimate of 1.13mmbo (as at December 2005) for Sellicks, Christies, Worrior and Arwon (Table 3). Exploration potential for Cooper's portfolio of projects has been valued at \$40m, based on probabilities of success for the current Australian drill programme (\$20m) and a discounted valuation for the international projects (\$20m). Our Base Case valuation, including Cooper Basin risked exploration, is 72cps (Table 3).

Table 3: Hartleys Base Case Valuation

Asset	2P Reserves (mmbo)	COE (%)	Hartleys Valuation	
			NPV (A\$m)	NPV (cps)
Worrior	2.00	30	25.0	16.5
Christies	1.73	25	15.3	10.1
Arwon	0.05	11.2	0.3	0.2
Sellicks	0.35	25	0.5	0.3
Cash			23.1	15.3
Net Receivables			6.0	4.0
Corporate Overheads			(4.1)	(2.7)
Exploration – Cooper Basin			20.0	13.2
Exploration – International Assets			20.0	13.2
Options and Other Equity			3.3	2.2
Implied Valuation			109.4	72.3

Implied valuation per share is based upon a fully diluted basis of 151.3m shares

Source: Hartleys' Estimates

Expanded Case

We believe that the Base Case is conservative and recoverable reserve estimates for Worrior may increase and that Cooper should be able to make further discoveries in the Basin (Table 4). In our Expanded Case, we have assumed that there is 3.8mmbo (recoverable) at Worrior. Based on Cooper's success rate to date and its region of focus, it would not be unreasonable to assume a further increase to Worrior, however, we have limited our valuation to a smaller discovery. We note that there is good potential to exceed this value should a larger discovery similar in nature to Worrior be made.

Our Expanded Case also includes a valuation for the international assets on a risked basis. We have increased our NPV/barrel parameter from A\$15/barrel to A\$25/barrel in line with our increased oil price forecasts. For Cambodia Block B, we have used a valuation based on a 5% probability of discovering 100mmbo with an NPV/bbl value of \$25/bbl, less exploration costs, resulting in an attributable value of \$10.5m or 6.9cps. For the South Madura Production Sharing Contract, we have also assumed a 200mmbo target with a low 5% probability, less exploration costs, resulting in an attributable value of \$102m or 67.4cps. Subsequent technical evaluations will be required to refine the target parameters of the South Madura project, but our evaluation appears conservative pending release of these evaluations. The Bargou Block in Tunisia is less advanced than the other properties and we have assigned it a nominal value of \$5m.

It should be noted that the valuations ascribed above are risk based and if drilling is successful in discovering the targets shown above, the value to Cooper would be significantly in excess of the values above. Using a value of \$10/bbl for discoveries not yet developed, a 100mmbo discovery in Cambodia Block B would be worth \$100m to COE or 68.7cps, whilst a 100mmbo discovery at South Madura would be worth \$450m or 309cps to COE. However, if drilling is completely unsuccessful, the Cooper valuation would be reduced by 13.2cps from the current base case.

Our Expanded Case valuation, including international risked exploration, is 145cps.

Table 4: Expanded Case Valuation

Asset	Recoverable Oil (mmbo)	COE (%)	Hartleys Valuation	
			NPV (A\$m)	NPV (cps)
Worrior	3.80	30	28.0	18.5
Christies	1.73	25	15.3	10.1
Arwon	0.05	11.2	0.3	0.2
Sellicks	0.35	25	0.4	0.3
Cambodia Block B			10.5	6.9
Tunisia Bargou Block			5.0	3.3
South Madura PSC			101.9	67.4
Cash			23.1	15.3
Net Receivables			6.0	4.0
Corporate Overheads			(3.0)	(2.0)
Exploration – Cooper Basin			20.0	13.2
Options and Other Equity			3.3	2.2
Implied Valuation			218.7	144.6

Implied valuation per share is based upon a fully diluted basis of 151.3m shares

Source: Hartleys' Estimates

Cooper Energy Limited		Share Price				April 2006	
COE		\$0.70				BUY	
Key Market Information							
Share Price		\$0.70					
Market Capitalisation		\$97m					
52 Week High-Low		\$0.73-\$0.25					
Issued Capital		136.9m					
Issued Capital (fully diluted inc. ITM options)		151.3m					
Options		12.3m@\$A0.36					
Hedging		-					
Yearly Turnover/Volume		\$98.4m/235.2m shares					
Liquidity Measure (Yearly Turnover/Issued Capital)		172%					
Valuation		\$0.72					
Financial Performance							
	Unit	FY2005A	FY2006F	FY2007F	FY2008F		
Net Revenue	A\$m	25.3	32.3	33.2	26.0		
Total Costs	A\$m	(10.8)	(14.9)	(13.6)	(8.5)		
EBITDA	A\$m	14.5	17.4	19.5	17.5		
Depreciation/Amort	A\$m	(1.6)	(3.0)	(3.7)	(2.6)		
EBIT	A\$m	12.9	14.4	15.8	14.8		
Net Interest	A\$m	0.6	1.0	1.4	2.2		
Pre-Tax Profit	A\$m	13.5	15.4	17.2	17.0		
Tax Expense	A\$m	(2.0)	(4.9)	(5.2)	(5.1)		
NPAT	A\$m	11.5	10.5	12.0	11.9		
Abnormal Items	A\$m	-	-	-	-		
Reported Profit	A\$m	11.5	10.5	12.0	11.9		
Financial Position							
	Unit	FY2005A	FY2006F	FY2007F	FY2008F		
Cash	A\$m	19.6	29.4	45.0	62.1		
Other Current Assets	A\$m	5.3	3.1	3.1	2.4		
Total Current Assets	A\$m	25.0	32.4	48.1	64.5		
Property, Plant & Equip.	A\$m	0.2	0.2	0.1	0.1		
Exploration	A\$m	5.8	11.6	7.9	5.4		
Investments/other	A\$m	0.0	1.9	1.9	1.9		
Tot Non-Curr. Assets	A\$m	6.0	13.7	10.0	7.3		
Total Assets	A\$m	30.9	46.1	58.0	71.8		
Short Term Borrowings	A\$m	-	-	-	-		
Other	A\$m	(4.5)	(6.4)	(5.3)	(4.9)		
Total Curr. Liabilities	A\$m	(4.5)	(6.4)	(5.3)	(4.9)		
Long Term Borrowings	A\$m	(0.4)	(2.3)	(3.3)	(4.0)		
Other	A\$m	(0.2)	(0.2)	(0.2)	(0.2)		
Total Non-Curr. Liabil.	A\$m	(0.5)	(2.5)	(3.4)	(4.2)		
Total Liabilities	A\$m	(5.1)	(8.9)	(8.8)	(9.0)		
Net Assets	A\$m	25.9	37.2	49.3	62.8		
Cashflow							
	Unit	FY2005A	FY2006F	FY2007F	FY2008F		
Operating Cashflow	A\$m	13.0	20.4	18.4	17.7		
Income Tax Paid	A\$m	-	(0.3)	(4.2)	(4.4)		
Interest & Other	A\$m	0.6	1.0	1.4	2.2		
Operating Activities	A\$m	13.5	21.1	15.5	15.5		
Property, Plant & Equip.	A\$m	(0.2)	(0.1)	-	-		
Exploration	A\$m	(3.4)	(7.5)	-	-		
Investments	A\$m	0.3	(4.2)	-	-		
Investment Activities	A\$m	(3.3)	(11.9)	-	-		
Repayment of Borrowings	A\$m	-	-	-	-		
Equity	A\$m	0.5	0.5	0.1	1.6		
Financing Activities	A\$m	0.5	0.5	0.1	1.6		
Net Cashflow	A\$m	10.7	9.7	15.6	17.1		
Ratio Analysis							
	Unit	FY2005A	FY2006F	FY2007F	FY2008F		
Cashflow Per Share	A¢	9.6	9.7	11.3	10.0		
Cashflow Multiple	X	7.3	7.2	6.2	7.0		
Earnings Per Share	A¢	8.4	7.6	8.6	8.2		
Price to Earnings Ratio	X	8.4	9.3	8.1	8.6		
Dividends Per Share	A¢	-	-	-	-		
Dividend Yield	%	-	-	-	-		
Interest Cover	X	na	na	na	-		
Return on Equity	%	44%	28%	24%	19%		
Directors							
Laurie Shervington (Chairman)				Suite 4, Level 4, 83-85 The Esplanade			
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Robert Kitlan (Executive Director)				Tel: +61 8 93685833			
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Greg Hancock (Exec. Dir)				Web: http://www.cooperenergy.com.au			
Company Information							
Top 10 Shareholders							
		m shares	%				
National Nominees Limited		8.56	6.3				
Westpac Custodian Nominees Limited		7.06	5.2				
Catequil Overseas Partners Ltd		4.09	3.0				
Mrs Jane Fredrica Hancock		3.50	2.6				
JP Morgan Nominees Australia Limited		3.33	2.4				
Nefco Nominees Pty Ltd		3.30	2.4				
Vanez Holdings Pty Ltd		2.57	1.9				
Citicorp Nominees Pty Limited		1.53	1.1				
Sydney Fund Managers Limited		1.50	1.1				
Sir Ian McFarlane		1.40	1.0				
Reserves & Resources							
(as at 31/12/05)		Ultimate Recovery	Production	P50 Reserves			
Warrior		1.06	0.46	0.60			
Christies		0.61	0.18	0.43			
Sellicks		0.15	0.06	0.09			
Arwon		0.01	0.00	0.01			
Totals		1.82	0.69	1.13			
Production Summary							
	Unit	FY2005A	FY2006F	FY2007F	FY2008F		
*Attributable							
Oil - West Texas Int* (OIL)	000bbl	368.0	360.1	329.5	272.0		
Gas	Mcf	-	-	-	-		
Condensate	000bbl	-	-	-	-		
LPG	000bbl	-	-	-	-		
Price Assumptions							
	Unit	FY2005A	FY2006F	FY2007F	FY2008F		
Gas	\$/GJ	3.20	3.40	3.58	3.83		
Condensate	\$/bbl	-	-	-	-		
Oil - West Texas Int* (OIL)	\$/bbl	48.73	65.34	75.00	70.00		
Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.74		
Hedging							
	Unit	FY2005A	FY2006F	FY2007F	FY2008F		
Total Forward Sales - Oil	Mcf	-	-	-	-		
Forward Oil Price	A\$/bbl	-	-	-	-		
Sensitivity Analysis							
	Valuation (\$/s)	NPAT	EPS (¢)	CFPS (¢)			
Base Case	0.72	10.5	7.6	9.7			
Oil Price +10%	0.76	11.5	8.3	10.5			
Oil Price -10%	0.69	9.5	6.8	9.0			
*N.B. NPAT, EPS, CFPS forecasts are for FY2006							
Share Price Valuation (NAV)							
		Est. \$m	Est. \$/share				
Warrior (NPV @ 5%)		25.0	0.17				
Christies (NPV @ 5%)		15.3	0.10				
Sellicks (NPV @ 5%)		0.5	0.00				
Arwon (NPV @ 5%)		0.3	0.00				
Exploration- Cooper Basin		20.0	0.13				
Exploration - International		20.0	0.13				
Cash		23.1	0.15				
Net Receivables		6.0	0.04				
Corporate Overheads		(4.1)	(0.03)				
Options & Other Equity		3.3	0.02				
Total		109.4	0.72				
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Phone: +61 8 9268 2837							
Last Updated: 27/04/2006							
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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Nathan Featherby	+61 8 9268 2823
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John Goodlad	+61 8 9268 2890
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