

# Cooper Energy Limited

## Acquisition of low risk company maker

Cooper has acquired a 22.5% stake (consideration A\$6.5m) in the shallow water Seruway PSC which contains 6 undeveloped discoveries from 14 exploration wells drilled in the 1960's and 70's. The block lies 50km from the Arun LNG plant in north Sumatra, Indonesia. An appraisal well will be drilled in late 2007 at the low risk (COS 75%) Gurame gas and condensate field which has a low to high reserve range of 400 to 2,700Bcf gas and 20 to 150MMbbls of condensate. With a successful flow test (>5mmcf/d) from the appraisal well a development decision is expected to follow in 2008/9.

Within the PSC (excluding the Gurame field) other discoveries, leads and prospects have potential for over 10Tcf of gas and over 500MMbbls of condensate on a medium case basis.

### High impact drilling schedule

- Mid year - drill Kurnia-1 well (30%) appraising 256Bcf gas zone and 199MMbbls oil prospect (P50).
- June - complete 3D seismic and interpretation at Cooper Basin Permit PEL92 (25%) with at least two wells to be drilled in DH07
- End 2007 - drill Kurnia-2 well or another prospect in South Madura PSC
- End 2007 - drill and appraise Gurame field (22.5%) with a medium case of 1.3Tcf gas and 70MMbbls of condensate.

### Financials

The December half report provided an NPAT of A\$1.8m (Veritas A\$3.5m) in line with lower oil production from declining fields and lower oil prices. Cash remained buoyant at A\$22.5m (16cps).

### Recommendation and Value Impact

The addition of a further high impact well in 2007 we see as significant, cementing the Company's high impact growth prospects outside the Cooper Basin. The Kurnia and Gurame wells provide potential upside of A\$3.42 per share (unrisked medium case basis).

We recommend a BUY with the Seruway PSC acquisition adding low risk appraisal value to our fully diluted valuation of A\$0.69 (previous A\$0.56). We anticipate a share price re-rating moving into drilling of Kurnia towards our A\$0.69 price target in the short term and over A\$1.00 per share with a discovery and flow test at Kurnia.

COE.ASX

BUY

Thursday, March 22, 2007

Price	\$0.52
Price target	\$0.69
Valuation	\$0.69
Valuation Method	DCF
GICS sector	Energy
Market capitalisation	\$m 80
Shares on Issue	m 155 (Incl 13m for acquisition)
Enterprise value	\$m 63
Previous rating	BUY

Year Ended June 30		06A	07E	08E	09E
Production (mmboe)		0.35	0.30	0.27	0.20
Sales revenue	\$m	33.1	23.2	21.2	12.3
EBITDAX	\$m	21.3	12.8	11.9	5.2
EBITDAX margin	%	64.4	55.0	56.2	41.8
Reported NPAT	\$m	9.4	4.7	4.4	1.1
Adjusted NPAT	\$m	9.4	4.7	4.4	1.1

EPS adj	c	6.7	3.2	2.7	0.7
EPS adj growth	%		-0.5	-0.1	-0.7
DPS	c	0.0	0.0	0.0	0.0
Franking	%	0%	0%	0%	0%
PER	x	7.7	16.3	19.2	76.3
PER rel ASX 300	x				
Dividend yield	%	na	na	na	na
NTA	\$	0.26	0.26	0.29	0.30

EV/EBITDAX	x	2.6	5.0	5.1	11.4
Price / NTA	x	2.0	2.0	1.8	1.7
ROA	%	93%	20%	16%	4%
ROE	%	26%	12%	9%	2%
Debt / Debt + equity	%	0%	0%	0%	0%
Interest cover (EBIT)	x	0.6	0.5	0.2	0.1

COE Vs Energy Index (XEJ)



Source: IRESS

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## Acquires company making asset

The acquisition includes 6 undeveloped discoveries

Cooper is to acquire unlisted Australian Company Rion Energy which owns a 22.5% stake in the shallow water Seruway offshore PSC located in north Sumatra. The acquisition has the ability to propel Cooper into significant production via the development of the Gurame field which was discovered in 1967, but not developed due to an immature gas market.

The first well will be drilled in late 2007 to appraise the Gurame gas and condensate field which has estimated recoverable hydrocarbons of 400-2700 Bcf gas and 20 – 150 mmbbls condensate.

The PSC terms are highly favourable with 25% of oil revenue and 40% of gas revenue attributable to the JV parties after full capital cost re-imburement

### Prolific Location

The block is located in the prolific North Sumatra Basin hydrocarbon province with the Arun gas field and associated underutilized Arun LNG plant being located 50km to the west of the block. The Arun gas field was the largest gas field in Asia when discovered by Mobil in 1971. The field was brought on stream in 1977 and had high gas recoveries with 15Tcf recovered from an OGIP of 17.2Tcf. The Arun gas reservoirs are early to middle Miocene carbonates with enhanced permeability due to several sea level falls. Although in decline, the Arun field still produces 1,300 mmcf (1.3Bcf) of gas per day.

### Natural gas in Indonesia, Malaysia and Brunei

The block is in a prolific hydrocarbon province and ideally located for commercialisation adjacent to the Arun LNG plant

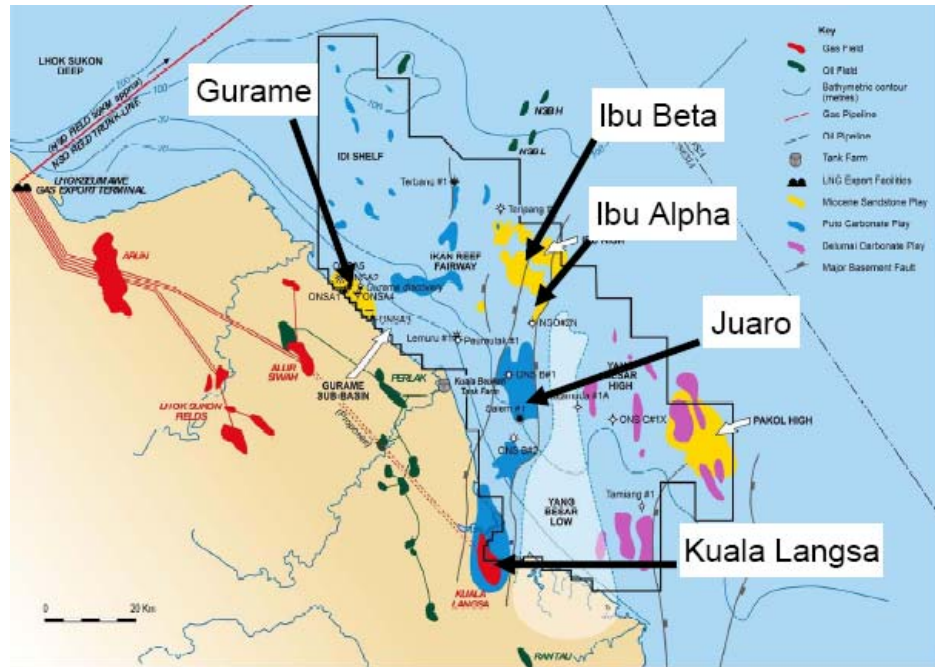


Source: Liquefied Natural Gas, May 2004, Mehden & Lewis

Excluding the Gurame appraisal field, the Seruway PSC has 35 identified leads, prospects and gas discoveries with potential for over 10Tcf of recoverable gas and 500 MMbbls of condensate.

**Plan of Seruway PSC and Arun plant and infrastructure**

The Gurame field lies within 5km of a gas pipeline to the Arun LNG plant



**Seruway PSC details**

As part of the work program for the PSC the first well will be an appraisal well in late 2007 into the Gurame gas and condensate field which has estimated recoverable hydrocarbons of 400-2,700 Bcf gas and 20 – 150 MMbbls condensate.

The field lies within less than 10m of water which will allow drilling cost reductions by using a drilling barge rather than a jack-up rig. Further cost-saving potential exists for development wells which could be drilled using a lower cost land rig from onshore, or from gravel pads linked to shore by a short causeway. The three main reservoir horizons occur from 1,200m depth to 2,700m.

The Gurame field appraisal commenced with the completion in March quarter 2007 of a 100km<sup>2</sup> 3D seismic survey which will aid reserve definition and locate the appraisal well in the most optimal location. The 3D seismic is currently being processed.

**PSC Terms:** The current owners were granted attractive PSC terms on 18 December 2004 with post cost recovery splits of 75:25 for oil and 60:40 for gas making the PSC highly attractive to commercialise wet gas fields, especially due to the Arun LNG plant being located 50km to the west. The Arun plant is underutilized with 2 out of 6 LNG trains operating. A moth balled fertilizer plant is also located adjacent to the LNG plant. Any gas would therefore be easily monetised.

**The Gurame field background:** The Gurame field was discovered in 1967. A total of 5 wells (discovery and appraisal) were drilled to 1972 by Japex with the last well drilled by



Gulf Oil. During the drilling of the first well, over pressuring in the deeper reservoirs caused a blow out with the well burning oil and gas for several months. The following wells were subsequently drilled with over weight drilling muds to reduce the risk of blow outs. These 5 wells discovered gas, condensate and oil in 3 main reservoir horizons.

In the second well oil and gas was sampled on wireline and from the pressure response the potential flow rate for the formation was estimated to be 4,000 barrels of oil per day, however the subsequent drill stem test was unsuccessful due to swelling clays reacting with the water based drilling mud. The Gulf well tested the shallow reservoirs with an estimated flow rate of 4.2mmcf and the deeper reservoir estimated at 2.8mmcf.

**Historical volume estimates indicate a medium case reserve of 1.3Tcf gas and 70MMbbls of condensate.**

**Gurame historical volumes:** Shell were active in the area in the early 1990's and concluded that the lower two hydrocarbon zones contained most likely recoverable reserves of 760Bcf gas and 40MMbbls of condensate to which they attributed a 100% chance of success. Mobil in the late 1990's who like Shell were also under similar uneconomic PSC terms concluded the upper reservoirs contained 550Bcf gas and associated condensate.

The combined lower and upper zones provide a most likely reserve of 1.3Tcf gas and 70MMbbls of condensate.

### Consideration

The agreement to acquire Rion Energy is for 13m Cooper shares at an issue price of A\$0.50 per share for a total consideration of A\$6.5m. The directors of Rion Energy have accepted the offer and will recommend the offer to the Rion Energy shareholders. To date 96% of shareholders have accepted the offer.

**The consideration for the acquisition is A\$6.5m.**

### Participants and PSC commitments

The Joint venture participants are

Transworld (operator)	55.0%
GFI Oil and Gas	22.5%
Cooper Energy	22.5%

The drilling of the Gurame appraisal well will fulfill the year 3 commitment for the JV partners. Years 4, 5 and 6 are discretionary for the drilling of at least 4 wells (which we assume will be exploratory in nature despite any development drilling at Gurame) and seismic acquisition.

Cooper anticipate that the expenditure commitment for Rion Energy's interest is A\$5.4m in 2007FY and A\$5.6m in 2008FY which includes the cost of drilling a well

### Risks

Cooper appears to have acquired a low risk strategic stake in a Company making opportunity at a low entry price. We assess the main risks as:

A key risk to monetising the field is a commercial flow test of at least 5mmcf plus condensates

Sovereign risk reduced significantly in 2006 due to the Aceh province receiving autonomy, including 70% of tax and royalty revenues from oil and gas.

**Flow test:** A commercial flow of hydrocarbons from the Gurame gas and condensate field is the main commercial risk to a project go-ahead. Cooper assesses the chance of success at greater than 75%.

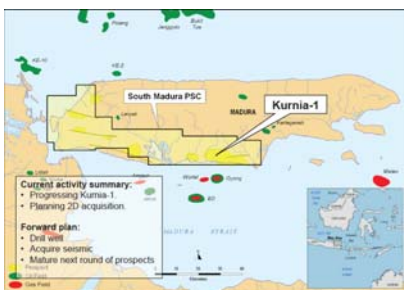
**Technical aspects:** The presence of smectite and illite clays which expand with water is also of concern. Drilling with an oil based mud will counteract this problem.

**Over pressuring:** The discovery well on the field blew out in the deeper reservoir. The over-pressuring in this deeper reservoir will need to be managed by a safe and prudent well design with a well planned casing and mud program.

**Sovereign risk:** The Arun gas field has been a security hot spot in Indonesia due to unrest in Aceh province with the Arun gas plant being closed on numerous occasions due to deteriorating security concerns or flare ups between the Indonesian military and independence fighters. The Indonesian government and the separatist Free Aceh Movement reached an agreement in Helsinki, Finland in August 2005 in a bid to end the three-decade long conflict. In July 2006 the Indonesian province was given autonomy in a law passed by the Indonesian parliament consolidating an 11-month peace process. The law gives the province control over all areas of government except external defence, foreign relations and fiscal policy. It allows Aceh to retain 70% of its significant natural resources, allows the Acehnese to field independent candidates in elections for provincial governor and district chiefs and to establish local political parties to run in future elections. Local and provincial elections were conducted in December 2006.

The recent progress is positive for oil and gas developments with natural resources to be governed in the province by both the central government and the Aceh province for the first time.

## South Madura PSC (farming down to 30% from 45%)



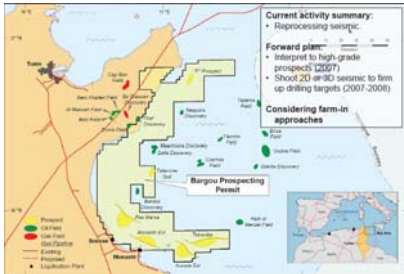
Cooper recently announced a farm out of the South Madura PSC to Nations Petroleum who are earning a 60% interest reducing Cooper to a 30% interest which relieves the Company of financial commitment to the upcoming Kurnia-1 well up to a cost of US\$9m.

The spud date of the Kurnia-1 well is pending, however we anticipate drilling commencing in mid 2007. We assess the potential upside to the Cooper share price on a risked basis at A\$0.27 per share or A\$2.05 per share on an unrisked basis.

The Ngrayong gas appraisal zone (COS 40%) which has a medium case of 256Bcf gas also has the potential for condensate. The deeper Kujung prospect (199MMbbls on medium case, COS 10%) has an aerial extent of 120km<sup>2</sup>. Drilling is onshore and the depth of the target is 3,000m. We anticipate a drilling time of approximately 70 days to total depth.

Cooper has identified several drilling rigs with the timing and capacity of each rig critical to the spud date. An announcement of a drilling spud date we anticipate to be imminent.

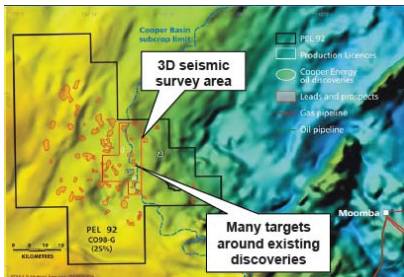
## Bargou PL (100%)



The Bargou block is located offshore Tunisia in an area which is prospective for 10 to 40MMbbl oil fields. Cooper will identify leads and prospects in the June quarter 2007, which will enable value to be more accurately attributed to the block. Cooper is already being approached by companies interested in farming into the block and is continuing to review the options.

Following or in conjunction with a farm out Cooper will acquire 2D seismic over the block to prioritise leads and prospects. Drilling of the highest priority target we anticipate will not occur until at least late 2008.

## Cooper Basin PEL92 (25%)



The completion of the 3D seismic survey over the Christies, Silver Sands and Callawonga fields and interpretation in June is likely to highlight immediate low risk drill targets. The 3D seismic will accurately pin point the crest of the Callawonga field which may increase the field size and require the drilling of an additional well to add further reserves to the 1.6MMbbl field.

Other high priority structures may also provide exploration potential of up to 5MMbbls of oil. We anticipate continued success in the Cooper Basin, which will provide continued positive cashflows underpinning exploration and development drilling over at least the next 2 to 3 years.

## Activity Schedule

Cooper has an active high impacting drilling schedule to the end of 2007. Our unrisks potential upside for Kurnia and Gurame is A\$3.42 per share. Activities include:

- Mid year: drill and test Kurnia-1 well, gas appraisal of 256Bcf and oil prospect of 199MMbbls
- June 2007: complete 3D seismic interpretation in Cooper Basin PEL92 with at least 2 wells to be drilled in December half 2007 targeting up to 5MMbbl prospects
- End 2007: drill either Kurnia-2 or another prospect in South Madura PSC
- End 2007: drill and test Gurame appraisal well with unrisks potential upside of A\$1.37 on a medium case basis.

The activity schedule is indicative of Coopers' building international high impact portfolio which is now sufficient in its own right to provide at least two high impact wells per year, providing substantial upside to Coopers core Cooper Basin activities.

**High impact drilling commences with Kurnia-1.**

## Drill schedule EMV

Below is a summary of our risk assessment of appraisal and exploration drilling in 2007 and likely drilling in 2008 excluding Cooper Basin and Tunisia.

**Our risked upside for Kurnia and Gurame drilling is A\$1.30 per share and unrisked is A\$3.42 per share.**

Field / Prospect Name	Permit	Interest (%)	Pre drill potential risked reserves		Permit Volume (%)	Risk (%)	Pre drill net reserves		EMV (\$m)	Risked (cps)	Unrisked (cps)
			Oil (mmbbl)	Gas (Bcf)			Oil (mmbbl)	Gas (Bcf)			
			Kurnia-1/Kujung	PSC			30.0	199.0			
Kurnia-1/Ngrayong	PSC	30.0	0.0	256.0	100	40.0	0.0	30.7	15.4	9	23
Gurame	PSC	22.5	70.0	1300.0	100	75.0	11.8	219.4	168.8	103	137
Kuala Langsa	PSC	22.5	0.0	600.0	50	10.0	0.0	6.8	3.4	2	21
Juaro	PSC	22.5	0.0	300.0	100	40.0	0.0	27.0	13.5	8	21
Ibu Alpha	PSC	22.5	100.0	450.0	100	20.0	4.5	20.3	32.6	20	99
Ibu Beta	PSC	22.5	100.0	2000.0	100	10.0	2.3	45.0	33.8	21	206
<b>Total</b>										<b>181</b>	<b>688</b>

Source: Company reports, Veritas Securities estimates

Notes: based on A\$5/bbl NPV and A\$0.5m/Bcf NPV, fully diluted FPD, Volumes on P50 or P90 basis

## Financials – December half 2006

Cooper has reported lower oil sales, revenue and subsequently profits in their December half 2006 financial report. Revenue from 127,193 (pcp 183,430) barrels of oil was A\$9.7m (pcp A\$15.9m) resulting in an NPAT of A\$1.8m (pcp A\$5.2m). The fall in profit was primarily due to:

- Lower production due to down time and the declining Warrior, Selicks and Christies fields despite the commencement of production from the Callawonga field in the December quarter 2006
- Lower oil price for the period.
- Increase in the dollar against the US\$

Our profit estimate of A\$3.5m was 70% higher than Coopers A\$1.8m from a combination of;

- Revenue of A\$9.8m compared to our estimate of A\$11.5m, which is likely to be due to the difference in receivables for oil sales.
- Operating costs were higher at A\$2.5m compared to our estimate of A\$1.9m
- Capital expenditure of A\$1.3m was in line with our estimate of A\$1.2m and
- Depreciation was lower at A\$1.0m from our estimate of A\$1.3m.
- Coopers exploration write off was also lower at A\$1.2m to our estimate of A\$2.2m.

Cash at the end of the half was A\$17.6m compared to our estimate of A\$25.6m This was due to a strategic investment being made in Mosaic Oil, lower exploration spend of A\$1.4m (Veritas A\$3.0m) and a higher than anticipated tax bill of A\$5.4m (Veritas A\$4.0m).

We anticipate funding for exploration, appraisal and Cooper Basin development activities will continue to be provided from ongoing cash flows. We estimate cash at the end of the calendar year 2007 to be A\$19.4m after exploration and development expenditure of A\$15.0m.

We forecast an NPAT of A\$5.0m in 2007FY from production of 299,000 barrels of oil and in 2008FY NPAT of A\$4.4m from production of 273,000 barrels based on the current decline rate from existing fields.

## Cooper Energy financial summary

### Profit & Loss

Year ending June	2006a	2007e	2008e	2009e
Sales	33.1	23.2	21.2	12.3
Op. costs	6.8	5.1	4.1	3.0
Royalty	2.0	2.5	2.3	1.4
Corporate	3.0	2.9	2.9	2.9
<b>EBITDAX</b>	<b>21.3</b>	<b>12.8</b>	<b>11.9</b>	<b>5.2</b>
Exploration Writeoff	5.7	3.8	3.5	2.0
Dep/Amtz	3.3	2.6	3.0	2.6
<b>EBIT</b>	<b>12.3</b>	<b>6.3</b>	<b>5.4</b>	<b>0.6</b>
Net Interest	1.1	1.1	0.9	1.0
<b>Pre-Tax Profit</b>	<b>13.4</b>	<b>6.8</b>	<b>6.2</b>	<b>1.6</b>
Tax Provision	4.0	2.0	1.9	0.5
<b>Net Profit/(Loss)</b>	<b>9.4</b>	<b>4.7</b>	<b>4.4</b>	<b>1.1</b>
Abnormals	0.0	0.0	0.0	0.0
Reported Net Profit	9.4	4.7	4.4	1.1

### Balance Sheet

Year ending June	2006a	2007e	2008e	2009e
Cash	26.0	16.8	19.2	21.4
Receivables	7.7	9.1	9.1	9.1
Fixed assets	9.9	15.2	18.2	16.6
Other assets	2.7	6.2	6.2	6.2
<b>Total Assets</b>	<b>46.4</b>	<b>47.2</b>	<b>52.7</b>	<b>53.4</b>
Creditors	5.5	3.6	3.6	3.6
Borrowings	0.0	0.0	0.0	0.0
Other liabilities	4.8	2.8	2.2	1.8
<b>Total Liabilities</b>	<b>10.3</b>	<b>6.4</b>	<b>5.8</b>	<b>5.4</b>
<b>Net Assets</b>	<b>36.1</b>	<b>40.9</b>	<b>46.9</b>	<b>48.0</b>
Share capital	21.7	22.3	23.9	23.9
Retained earnings	14.4	18.6	23.0	24.1
<b>Shareholders Funds</b>	<b>36.1</b>	<b>40.9</b>	<b>46.9</b>	<b>48.0</b>

### Cashflow

Year ending June	2006a	2007e	2008e	2009e
Sales Revenue	31.4	24.6	21.2	12.3
Less Outflows	-11.3	-10.7	-4.1	-3.0
Prod. costs in exc. sales	0.0	-2.8	-5.2	-4.2
Net interest	1.1	1.1	0.9	1.0
Income tax paid	0.0	-6.3	-2.4	-0.8
<b>Operational Cash Flow</b>	<b>21.4</b>	<b>6.0</b>	<b>10.4</b>	<b>5.3</b>
Exploration	-6.3	-9.8	-8.6	-2.0
Capex	-6.7	-1.8	-1.0	-1.0
Asset (Purchases)/Sales	0.0	0.0	0.0	0.0
<b>C/Flow from Investing</b>	<b>-15.7</b>	<b>-15.7</b>	<b>-9.6</b>	<b>-3.0</b>
Dividends paid	0.0	0.0	0.0	0.0
Debt (Repay)/Borrowings	0.0	0.0	0.0	0.0
Equity Raised	0.5	0.6	1.6	0.0
Other	0.2	-0.1	0.0	0.0
<b>C/Flow from Financing</b>	<b>0.7</b>	<b>0.5</b>	<b>1.6</b>	<b>0.0</b>
Cash at Beginning	19.6	26.0	16.8	19.2
Net Increase/(Decrease)	6.3	-9.2	2.4	2.3
<b>Cash at end</b>	<b>26.0</b>	<b>16.8</b>	<b>19.2</b>	<b>21.4</b>

### Company Description

Cooper Energy is a emerging Australian listed oil producer and oil and gas explorer. Cooper produces and explores in the Cooper Basin of South Australia and has a number of value adding projects of Company making potential in Indonesia and Tunisia.

### Market Measures

Year ending June		2006a	2007e	2008e	2009e
EPS adjusted	cps	6.7	3.2	2.7	0.7
EPS growth	%		-53%	-15%	-75%
<b>PE multiple</b>	<b>x</b>	<b>7.7</b>	<b>16.3</b>	<b>19.2</b>	<b>76.3</b>
CFPS	cps	11.6	-2.0	1.1	2.0
CF multiple	x	na	-26.1	47.8	25.5
DPS	cps	0.0	0.0	0.0	0.0
Dividend Yield	%	na	na	na	na
Enterprise value	\$m	54.4	63.6	61.2	58.9

### Profitability & liquidity ratios

Year ending June		2006a	2007e	2008e	2009e
ROE	%	26.0%	11.6%	9.3%	2.3%
ROA	%	92.7%	19.7%	15.8%	4.1%
NPAT / Sales	%	28.4%	20.5%	20.6%	8.9%
EBITDA / sales	%	64.4%	55.0%	56.2%	41.8%
Gearing (ND/[ND+E])	%	0.0%	0.0%	0.0%	0.0%
Interest cover	x	0.6	0.5	0.2	0.1

### Valuation

	Equity	dr @ 8%		dr @ 5%	
		A\$m	A\$ps	A\$m	A\$ps
Cooper Basin (100%)		32.1	0.20	34.2	0.21
Other		0.0	0.00	0.0	0.00
Exploration		56.0	0.35	56.0	0.35
Option Value		2.6	0.02	2.8	0.02
Cash & Liquids		33.6	0.21	33.6	0.21
Total Borrowings/Payables		-5.5	-0.03	-5.5	-0.03
Corporate/Other		-6.3	-0.04	-6.6	-0.04
<b>Total Valuation</b>		<b>112.5</b>	<b>0.69</b>	<b>114.4</b>	<b>0.71</b>

### Production

Year ending June	2006a	2007e	2008e	2009e
Attrib. Prod (mmboe)	0.354	0.299	0.273	0.197
Cash Costs (A\$/bbl)	24	23	24	22

### Price Assumptions

Year ending June	2006a	2007e	2008e	2009e
Exchange Rate (A\$/US\$)	0.75	0.76	0.73	0.72
Oil (\$US/bbl)	64	64	57	48
Oil (\$A/bbl)	86	84	77	66

### Reserves

	Company		Veritas estimate	
	mmboe		mmboe	
Cooper Basin	1.2		1.2	
Other	0.0		0.0	
Other	0.0		0.0	
Other	0.0		0.0	
Total Reserves	1.2		1.2	

### Sensitivities - eps % Change

Year ending June	2006a	2007e	2008e	2009e
Oil Price +/- 10%	0%	38%	71%	176%
Exchange Rate +/- 10%	0%	-21%	-39%	-98%

## EQUITY RESEARCH

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### RATING

BUY – anticipated stock return is greater than 10%  
 SELL – anticipated stock return is less than -10%  
 HOLD – anticipated stock return is between -10% and +10%  
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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