

20 October 2008

Analyst: Oliver Foster

- ▶ **Price Target:** \$0.77/sh
- ▶ **Reason For Update:** Sept Q Results
- ▶ **Quick Comment:**

The Sept Q yielded oil production of 98 kbbls (v's 83 kbbls for the June Q) - in line with our estimates.

Revenues totalled \$15m (v's \$13m), slightly above our estimates due to a strong Tapis price during the period.

Strong production from the Worrior field (COE 30%) and the ramp-up of the Parsons field (COE 25%) were the highlights, combined with increasing uptime as a result of the completion of the Callawonga-Tantanna flowline.

We expect continued strong oil production from COE's Cooper Basin assets over the next 6-12 months due to the pipeline completion (reducing trucking reliance), remediation and workovers of existing fields, and a further Callawonga development well.

Work continued during the Q on COE's international exploration projects; the two blocks in Tunisia are nearing the farmout and drilling phases, whilst the two Indonesian blocks are in an interim seismic acquisition, processing and interpretation phase.

The cash position increased by \$4m during the Q to \$75m (incl investments) or \$0.28/sh fully diluted. COE has no debt.

We have left our production and earnings forecasts unchanged following the Sept Q results.

During the Q, COE announced a takeover offer for Incremental Petroleum (IPM). The consideration is a choice of:

- 3.1 COE shares or
- 50 cents cash and 1.9 COE shares

If successful, the transaction will be positive for COE, providing production and 2P reserve growth (>100% and 700% respectively), whilst reducing risk through portfolio diversification.

The combined company will benefit from a larger asset base and stronger balance sheet, enhancing growth potential in a market where capital is more difficult to find.

Based on our forecasts for both companies, the transaction would be highly EPS accretive (>20%) for COE from the first full year (FY'10).

▶ Investment Case:

Regardless of the success of the offer, COE is grossly undervalued v's our valuation of \$0.91/sh. It currently has a negative EV, and furthermore, our valuation of cash and proven developed oil reserves is \$0.45/sh - a 61% premium to the current share price.

We expect investor interest to increase over the next six months leading up to the Tunisian drilling program next year. CY'09 looks to be a very busy year for COE with at least four high impact wells likely in Tunisia and Indonesia.

A farmout is likely on the Bargou Block (COE 100%) over the next few months, reducing COE's drilling exposure and should confirm at least the \$0.10/sh valuation currently held for the block. We expect a mid-sized experienced operator will come in based on the

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interest COE has received on this block over the past 18 months.

COE's Tunisian portfolio prospect sizes vary from 10 mmbbls to >300 mmbbls recoverable oil – these could add multiples to the current share price at assumed equity positions of 35% and 50% for the Hammamet and Bargou PSC's respectively. Timing for the drilling of at least two wells is dependent on rig availability, but best guess at this stage is the June/Sept Q's 2009.

COE is scheduled to participate in the drilling of two Western Flank Cooper (COE 25%) exploration/appraisal wells in the current Q. The potential value-add for these wells is \$0.05 - 0.10/sh combined and should provide some welcome news flow. Up to ten exploration and appraisal wells are planned over the next 18 months in the Cooper permits.

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Cooper Energy during the last year. Euroz Securities has received a fee for these services.

Euroz declares that it is acting as financial adviser to Cooper Energy Limited (Cooper) in relation to its takeover bid for Incremental Petroleum Limited (Incremental) and that Cooper has paid or agreed to pay Euroz a retainer of \$50,000 per month (in respect of which a total of \$250,000 has been paid to date) for advisory services in relation to the takeover bid. Euroz may also be entitled to an additional fee payable by Cooper if certain conditions are met.

As at the date of this report, Westoz Funds Management Pty Ltd, a related body corporate of Euroz, hold a relevant interest in approximately 8.0% of the issued shares of Incremental.

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Euroz declares that in February 2008 it entered into an agreement with Incremental to provide Incremental with corporate advisory services in relation to a specific proposed transaction. Euroz did not receive and will not receive any fees from Incremental under that agreement, which is now at an end.

Cooper Energy Ltd

20 October 2008

EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

COOPER ENERGY LTD (COE)		YEAR END 30 JUNE			
MARKET STATISTICS					
Share Price	\$0.28 A\$/sh	Directors			
Issued Capital		L Shervington		Ch'n	
FP Ord	252.3 m	M Scott		MD	
Opt (@ \$0.87/sh ave)	19.9 m	G Hancock		Exec Dir	
		C Porter		Non Exec Dir	
		S Abbott		Non Exec Dir	
Total Dil. FPOrd	272.2 m				
Market Capitalisation	\$59 m	Shareholders			
Enterprise Value	-\$9 m	Acorn Capital		6.6%	
Debt	nil				
Cash	\$68 m				
ASSET VALUATION		A\$m	A\$/sh		
Western Flank Fields (25%)		45	0.17		
Worrior (30%)		10	0.04		
South Madura PSC		15	0.06		
Seruway PSC		9	0.03		
Bargou PSC		26	0.10		
Hammamet PSC		29	0.11		
Investments		7	0.03		
Working Capital		10	0.04		
Corporate		(14)	(0.05)		
Exploration		25	0.09		
Unpaid Capital		17	0.06		
Debt		-	-		
Cash		68	0.25		
Total @ 10% nom		247	0.91		
Total @ 0% nom		251	0.93		
Total @ 5% nom		256	0.94		
Total @ 15% nom		244	0.90		
Valuation @ spot (10% nom)		250	0.92		
Valuation @ 10 year average (10% nom)		225	0.83		
FORECAST PRODUCTION	2008a	Dec H'08f	2009f	2010f	2011f
Attrib. Prod'n (mboe)					
Western Flank fields	214.8	146.0	284.7	263.5	244.1
Worrior	165.3	50.7	96.2	78.0	63.1
Total Attrib (mboe)	380.1	196.7	380.9	341.5	307.2
Assumptions					
Avg Oil Price (US\$/bbl)	96.9	100.0	90.0	80.0	80.0
US\$:A\$	0.90	0.80	0.80	0.80	0.80
Cash Cost - excl royalties (A\$m)					
Western Flank fields	4.4	3.1	6.0	5.5	5.1
Worrior	4.3	1.2	2.2	1.8	1.5
Ave Cash Cost (A\$/boe)	22.8	21.5	21.5	21.5	21.4
Ave Total Cost (A\$/boe)	37.5	34.7	34.7	34.7	34.6
RATIO ANALYSIS	2008a	Dec H'08f	2009f	2010f	2011f
CF (A\$m)	27	11	20	16	14
CF / Sh (Ac/sh)	10	4	7	6	5
CF Ratio (x)	5	-	4	5	5
Earnings (A\$m)	6	7	12	9	8
EPS (Ac/sh)	2	3	4	3	3
EPS Growth (%)	-31%	0%	81%	-23%	-10%
Earnings Ratio (x)	20	-	7	9	9
E'prise Val. (A\$m)	45	(6)	11	23	22
EV : EBITDA (x)	2	-	1	1	1
EV : EBIT (x)	4	-	1	2	2
Net Debt / ND+Eq (%)	-127%	0%	-98%	-78%	-88%
Interest Cover (x)	n/a	-	n/a	n/a	n/a
EBIT Margin (%)	26%	0%	30%	29%	30%
ROE (%)	6%	0%	12%	11%	10%
ROA (%)	9%	0%	11%	10%	9%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	-	-	-	-	-
Div. Yield	-	-	-	-	-
Div. Franking	-	-	-	-	-

PROFIT AND LOSS	2008a	Dec H'08f	2009f	2010f	2011f
Oil Equivalent Sales	43	24	42	33	30
Deferred Revenue	2	(2)	(2)	-	-
Interest Revenue	3	2	5	3	3
Other Revenue	0	-	-	-	-
TOTAL REVENUE	49	24	44	36	32
Operating Costs	13	7	13	11	10
Dep/Amort	4	3	5	5	4
Writeoffs (explor)	12	3	5	3	2
Corp O/H	4	3	5	5	5
Provisions	2	-	-	-	-
EBITDA	29	13	22	17	15
EBIT	12	8	12	10	9
Interest Expense	-	-	-	-	-
NPBT	15	10	17	13	11
Tax	9	3	5	4	3
NPAT	6	7	12	9	8
Minority Interest	-	-	-	-	-
NET PROFIT	6	7	12	9	8
Net Abnormal Loss after Tax	-	-	-	-	-
Net Profit After Abnormal	6	7	12	9	8
DIVISIONAL EBIT	2008a	Dec H'08f	2009f	2010f	2011f
Western Flank fields	16	11	18	14	13
Worrior	10	4	6	4	3
Other (Corp & Expl'n)	(13)	(7)	(12)	(8)	(7)
Total EBIT	12	8	12	10	9
CASH FLOW	2008a	Dec H'08f	2009f	2010f	2011f
+ Net Profit	6	7	12	9	8
+ Working Capital Adjustment	-	-	-	-	-
+ Dep/Amort	4	3	5	5	4
+ Provisions, W/O	13	3	5	3	2
+ Tax Expense	9	3	5	4	3
- Tax Paid	3	5	8	4	4
- Deferred Revenue	2	(2)	(2)	-	-
= Operating Cashflow	27	11	20	16	14
-Capex + Development	7	1	3	3	3
-Exploration	18	10	35	25	5
-Assets Purchased	14	-	-	-	-
+Asset Sales	1	-	-	-	-
+Other	2	-	-	-	-
= Investing Cashflow	(36)	(11)	(38)	(28)	(11)
+ Equity Issues (Rts,plc,opts)	58	-	-	-	-
+Loan Drawdown/Receivable	-	-	-	-	-
+Other	-	-	-	-	-
-Loan Repayment	-	-	-	-	-
-Dividends	-	-	-	-	-
= Financing Cashflow	58	-	-	-	-
Period Surplus	49	0	(17)	(11)	3
Adj. FX effects	-	-	-	-	-
CASH	65	65	47	36	40
BALANCE SHEET	2008a	Dec H'08f	2009f	2010f	2011f
Assets					
Cash	65	65	47	36	40
Current Receivables	15	15	15	15	15
Other Current Assets	4	4	4	4	4
Non-Current Assets	46	45	44	42	40
Total Assets	130	129	110	97	99
Liabilities					
Borrowings	-	-	-	-	-
Current Accounts Payable	7	7	7	7	7
Non-Current Liabilities	4	4	4	4	4
Other Liabilities	3	3	3	3	3
Total Liabilities	14	14	14	14	14
Net Assets	115	114	96	82	84
OIL RESERVES (1P)					
		Oil	Gas	Total	
		mmbbls	bcf	mmboe	
Western Flank fields		1.0	-	1.0	
Worrior		0.4	-	0.4	
Total		1.4	-	1.4	
EV / boe (A\$)				(7)	

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