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New exploration holds promise for better results ahead

Snapshot

Last Price	\$0.23
Market Cap.	\$101.0 million
52 Week High	\$0.67
52 Week Low	\$0.195
Sector	Energy

Investment Fundamentals

Cash reserves	\$23.1 million
Shares on issue	438.85 million

Directors

Stephen Barry	Non-executive Chairman
Ray James	Managing Director
Ray McNamara	CFO & Company Secretary
Derek Murphy	Non-executive
Keith Hillless	Non-executive

Major Shareholders

ANZ Nominees	4.9%
Directors & Management	5.5%
Top 20 shareholders	26.7%

Price Chart



Recent Events

- Lydia pilot continuing to dewater with possible water breakthrough occurring in one well
- Thirteen well drilling program in ATP 626 P is underway of which 8 wells have been drilled.
- Encouraging early results from new wells indicating areas of enhance permeability, essential for the sustained production of commercial volumes of gas.
- Beach Energy farms into ATP 855P for a combined value of up to \$12 million.
- Wakefield 1 well drilled in PEL 218 in South Australia with the possible establishment of a new CSG province

Company Overview

Icon Energy Limited is an ASX listed oil and gas company with a focus on establishing a commercial coal seam gas (“CSG”) operation in the Surat Basin where it has majority ownership in two permits known to contain CSG. Of these, ATP 626P is the most advanced with a large number of wells drilled, a production pilot established and contingent resources certified. The continuous exploration and appraisal program undertaken by ICN since July 2009 has as its objective the collection of sufficient data for CSG reserves to be certified inside the Stanwell farm in area as well as in the remaining area of ATP 626P in which ICN continues to maintain a 100% interest.

Under the farm in agreement, Stanwell Corporation has the right to acquire a 50% interest in 4 of the 30 blocks comprising ATP 626P. Having contributed the first \$6 million under Stage 1 of the farm in, Stanwell can elect to contribute a further \$30 million under Stage 2 with the objective of certifying a total of 340 PJ of 2P reserves inside the farm in area. At that stage Stanwell will also be able to commit to purchasing a total of 225 PJ of CSG under a 15 year gas sales agreement to provide fuel for a new gas fired power station to be constructed in south east Queensland.

In addition, to the planned sale of gas to Stanwell, ICN is pursuing other CSG marketing opportunities in the domestic and export markets. Additional upside potential for investors is provided by ICN’s conventional oil and gas as well as shale gas and geothermal power exploration opportunities in the Cooper and Eromanga Basins.

ATP 626P, Surat Basin QLD (ICN 100%, reducing to 50% in farm out area only)

Lydia pilot development: The Lydia pilot development consists of three vertical production wells, a vertical monitoring well and a storage pond for produced water. The wells were completed in June 2009 and dewatering of the Walloon Coals commenced. While gas bubbles were observed in the produced water almost immediately, accumulation of gas in the annulus between the tubing and casing was much slower than expected. In October 2009, sufficient gas had accumulated in the annulus for a sample of gas to be collected and the gas to be flared. At the time of writing, no sustained gas flow had been established at Lydia and the wells are continuing the dewatering process.

A sample of the gas was analysed and was found to have the following composition:

- Methane 97.87%
- Ethane, propane and Isobutane 0.56%
- Nitrogen 1.14%
- Carbon dioxide 0.43%

The gross heating value of the gas was measured at 1.054 GJ/MCF.

Sustained production of gas from coal seams requires that the pressure of the overlying water on the gas be reduced in order for the gas to commence desorbing from the coal matrix. The low volume of water produced from the three wells (less than 300 bbls water per day) indicated that the coals in the current pilot area have a low permeability and that insufficient water had been pumped off the coal for sustained gas production to commence.

Of the three production wells, Lydia 4 exhibited the lowest water flow of all three pilot production wells. However, following a planned shut down for a routine service of the diesel generator, the well was brought back into production at the previous low rate. Within three days, the water flow rate had increased by almost 3.5 times. Water flow from the three wells is now approximately 400 bbls per day. ICN is currently investigating the reason for the sudden increase in water production from the well. In the event that the increase represents a genuine breakthrough of water and that the breakthrough is translated to gas, the current Lydia pilot could still produce a sustained flow of gas, albeit at a lower rate.

Much work remains to be done in order to fully understand the behaviour of the coals in ATP 626P. However the message to take away from this recent development is that the Walloon Coals are not uniform across the whole of the Surat Basin and each area may have its own specifics that need to be taken into account when drilling and completing the wells. While the current Lydia pilot production wells may not form the core of a future Lydia commercial development, data obtained will assist ICN in designing and locating the next series of pilot production wells.

Exploration program:

In July 2009, ICN commenced the acquisition of 305 km of 2D seismic both inside the Stanwell farm in area as well in the 100% ICN area. The program was completed in October and since then, processing of the seismic and its incorporation into the existing data base has been an ongoing task. Early results have been encouraging as revised mapping of the top of the coal incorporating the new seismic has shown that the original Lydia pilot production wells were drilled on a structural high and away from areas of structural deformation that is thought to be responsible for areas of enhanced permeability. The same mapping has also caused ICN to move the location of one of the new Lydia core wells to be moved from an area of low structural relief to an area with higher structural relief and possibly enhanced permeability.

In reviewing the map showing the locations of the new seismic lines, the one thing that becomes immediately obvious is the wide spacing between lines. Other than a small number of east – west lines centred on the Lydia pilot, most of the new lines are up to 5 km apart. Given the fact the fact that development drilling is likely to be conducted on a spacing of no more than 1 km between wells, it is our view that ICN will have to undertake the acquisition of more seismic in the future in order to

develop a more accurate map of the top of Walloon Coal measures in advance of any development drilling.

The second half of 2009 also saw the commencement of a 13 well exploration and appraisal program in the permit. Of the 13 wells, 4 were located within the Stanwell farm in area. To date, 2 wells, Lydia 6 and Lydia 8 have been drilled in the farm in area and 6 – Lorena 1 Tommy 1 Dominic 1, Lucy 1 and Tingan 2 have been completed in the 100% owned area. The locations of the completed and proposed wells are indicated in Figure 1.

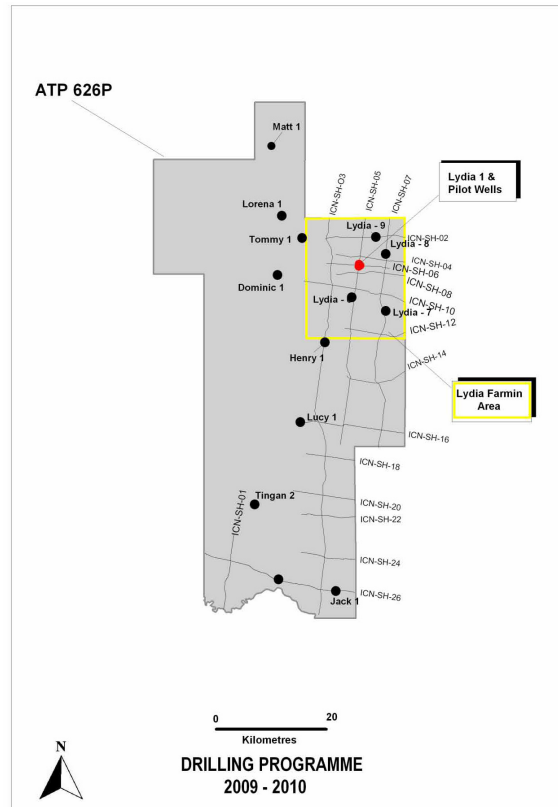


Figure 1: ATP 626P Well Location Map

Source: Icon Energy Limited

While little hard data has been released by ICN as the core samples are still undergoing laboratory testing, a qualitative analysis has been provided and is encouraging in that:

- Lorena 1 and Tommy 1 exhibited visible faults and fractures that have not been closed by secondary mineral precipitation.
- Fracture permeability in the range of 20 to 40 millidarcies measured in Dominic 1.
- Drill stem tests in Lydia 8, drilled some 5 km east of the Lydia pilot production wells confirmed that the coal sequences were over pressured. In one DST conducted over the interval from 781 to 807 metres a well head pressure of 225 psi was recorded and a water flow rate equivalent to 935 barrels per day was estimated.

All three pieces of data are positive as they indicate that the new wells may have encountered areas of enhanced permeability that is crucial to establishing a sustained and commercial flow rate.

On the basis of these results, ICN has approved the drilling of for new pilot production wells in ATP 626P. At this stage it has not been confirmed whether the wells will be single production pilots or will form a part of a multi well production pilot. Neither has it been announced whether the new wells will be drilled within or outside the Stanwell farm in area.

ICN has now gathered a large amount of new data within ATP 626P. The data consists of production data from the Lydia production pilot, new seismic data as well as new core, log and DST data from the new wells drilled in the permit. ICN is now

integrating all the data into a geological model with the objective of establishing areas of enhanced permeability that will be targeted by new core or production wells.

Investors should be prepared for a possible delay in the drilling of the remaining exploration wells and the commencement of the new production pilot program to allow the company to complete the integration of the data in order to optimise the location of any future wells. In addition, a rig designed for the drilling of production wells will have to be contracted for the drilling of the production pilots so as to minimise damage to the well bore that usually occurs with the drilling of core holes.

ATP 855P, Cooper Basin Qld (ICN 80% reducing to 40% in farm out to BPT)

In a recent statement, ICN has announced that Beach Energy Limited (ASX Code BPT) will acquire an interest of up to 40% in the permit through a farm in agreement valued at up to \$12 million. In summary, the transaction includes:

- Under Stage 1 of the farm in, BPT will acquire a 25% interest in the permit by contributing to 80% of the cost of reprocessing existing seismic and the acquisition of 300 km of new 2D seismic.
- Under Stage 2, BPT can acquire a further 15% interest by funding ICN's participating interest share of drilling costs up to a maximum of \$7 million.
- Subscribing for a \$3.5 million placement in ICN securities.

The farm in partners are targeting the deep shale gas deposits that are thought to be contained in the eastern section of the Nappamerri Trough covered by this permit.

The permit is subject to native title claims by the traditional owners. Negotiations under a Right to Negotiate commenced in early 2009 and are yet to be concluded. Until that time, the permit cannot be formally granted by the Queensland government and no exploration activity can commence.

PEL 218, Cooper Basin SA (ICN 33.3% upper post Permian strata only)

The Wakefield 1 well drilled by the JV partners towards the end of 2009 had as its objective the testing a number of sand intervals encountered in the Burley 2 well some 7 km to the east of the Wakefield prospect that encountered good oil shows, but was not properly tested. While the well failed to encounter hydrocarbons in the primary objective sands. The well did encounter coals with good methane shows between 906.9 and 956.8 metres.

A total of 8.9 metres of coal was encountered in the Winton Formation with associated gas shows of 112 units of methane gas. While it is too early to declare the find as a new coal seam gas province, the JV partners planning a program specifically targeting CSG. This approach is supported by a number of other junior oil and gas explorers who have acquired permits in the Cooper Basin specifically targeting CSG.

It is also interesting to note that PEL 218 in the South Australian section of the Cooper Basin is contiguous with ATP 855P in the Queensland section of the same basin. The Nappamerri Trough is located in both the permits and two of the JV partners in the post Permian strata – BPT and Adelaide Energy Limited (ASX code ADE) have the rights to the Permian strata containing the same shale deposits thought to be prospective for shale gas as in ATP 855P. BPT has confirmed that the first well to test the shale gas play concept will be drilled in June 2010.

In the event that this test is successful, there will be an immediate flow on effect to ICN on account of its 40% interest in ATP 855P.

Conclusion

As the experience with CSG in the USA proved to be of little value to CSG projects in Australia with operators in the Bowen and central Surat Basins having to experiment with a variety of completion techniques to find the one best suited to the coals in their particular areas, so it would seem that ICN will have to experiment with a number of techniques to find the one that is best suited to the coals that it has in ATP 626P in the southern section of the Surat Basin on the border with New South Wales. Further south in the Gunnedah Basin, Eastern Star Gas has another suite of

coals entirely requiring a completely different drilling and completion technique to the one used in the Surat Basin.

Results from recent drilling activity undertaken by ICN in ATP 626P and in particular the high water flow rate tested in the Lydia 8 core hole and the apparent water breakthrough in the Lydia 4 production pilot well indicates that the coals are much more complex than previously thought and that much more work will be required to unlock the secret to establishing sustained and economic gas flow from these wells.

ICN has now assembled a large amount of CSG specific data in ATP 626P, including new seismic, core, down hole logging, drill stem testing as well as some 8 months of production data from the Lydia production pilot. The data is in the process of being incorporated into a permit wide geological model of the coals with the objective of identifying areas of enhanced permeability suitable for further coring or production testing.

It is inevitable that the creation of such a geological model will take some time and that there may be a slowdown in drilling until results of the modelling become apparent. However, any delay, while frustrating for investors, should have the beneficial effect in the long term as future wells should be able to be located in areas of such enhanced permeability.

In the long run, investors should be rewarded for their patience and will be able to witness the establishment of a commercial gas field in ATP 626P.

In the meantime, ICN has interests in two permits in the Cooper Basin that have multiple prospectivity for conventional oil and gas, CSG and shale gas. In addition, both permits will be operated by Beach Energy. Shale gas drilling is due to commence in PEL 218 in July 2010 and while ICN does not have an interest in the this drilling program, any success will be vitally important in upgrading the prospectivity of ATP 855P in which ICN will hold a 40% interest after the completion of a farm out to BPT.

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