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14 April 2009

The Manager  
Company Announcements Office  
Australian Securities Exchange Limited  
20 Bridge Street  
Sydney NSW 2000

Dear Sir

***UPDATE ON DRILLING STATUS LYDIA PILOT LP-4***

Lydia Pilot LP4 has reached a total depth of 819 metres and showed excellent gas saturations over the Walloon Coal Measures with gas readings ranging from 40 to 75 units ( 8,000 to 15,000 parts per million) against a background gas reading of 2 to 9 units (400 to 1800 ppm). Drilling encountered a total of 12 well developed coals, which correlated well with the coals found in Lydia No.1. The shows consisted of natural gas (methane) and were sharply co-incident with the coal breaks in the well. This indicates that the coals contain abundant gas and are saturated.

The well is half way through under reaming the coals, which is an operation to open the well bore over the coal intervals to increase the coal surface area in contact with the well. When this operation is completed the well will be cleaned out in preparation for running and cementing the 7 inch casing. A 5 ½ inch slotted liner will then be run over the coals. Tubing and pump will then be installed and the well placed on pump.

When all three new wells are completed and Lydia No.1 will be completed as a monitoring well, the wells will be placed on pump to remove the water from the well bores to determine gas flow rates. Gas flow rates do not usually reach commercial rates for some time and the buildup of production gas will be reported on a regular basis. A new storage holding pond is under construction to take the water produced from the Lydia Pilot.

Netherland Sewell and Associates Inc will engaged to independently estimate and certify the gas reserves as they are proven. These numbers will also be regularly released to the market.

The coal seam gas resource identified in ATP 626P has been determined utilising 54 previously drilled wells. Some of these wells were drilled the 1960s when technology was not as advanced as it is now, but they have been very useful in outlining the distribution of the Jurassic Walloon Coal Measures throughout the permit. The reserves in the permit have not been determined at this point. What has been determined and reported is the estimated size of the gas in place which is classified as a resource. The resource is estimated at 5.4 TCF (5400PG) Gas Initially In Place (GIIP).

Ray James

A handwritten signature in black ink, appearing to read 'Ray', with a long horizontal stroke extending to the right.

Managing Director  
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