

ICON ENERGY LIMITED (ICN)

A day out with the Beach Boys

We initiate coverage on Icon Energy (ICN) with a Speculative Buy recommendation and a target price of 23c. Of the “known” success factors for a commercial gas development ICN stacks up very well. These include strong partners, access to infrastructure and exploring within a highly prospective gas resource. ICN has partnered with Beach and Chevron on its key Cooper Basin acreage (ATP-855) and has a gas pipeline running across its ground. In addition, the recent success of the Moomba-191 (SACB JV) unconventional well proves that Cooper Basin shale can be commercial.

A timely cash injection – and at a premium

Icon recently completed a \$A18.8m capital raise of approximately 80.3m new ordinary shares to HK Prosperous Technology Limited at \$0.235/share (62% premium). The proceeds from the placement will be used primarily to fund Icon's contribution to the ATP-855 work program. The placement brings ICN's cash balance to A\$40.7m or 6.6c/share.

Iconic Tenements in the Cooper Basin

ICN's key asset is a 35.1% interest in the ATP-855 block located in the Cooper Basin. ICN's partners in the block are Beach Energy (BPT) (46.9% and operator) and Chevron (18%). ATP-855 is located on the Queensland / South Australian border and close to the Santos (STO) owned Moomba production facility. Other interests include unconventional exploration tenements targeting the Gippsland Basin (PEP 170), however the Victorian State Government moratorium on fracking means work has been suspended on this block.

Catalysts

Over the next year ICN and its partners will continue to prove up the geological model across the ATP-855 block. This will involve the drilling of two further exploration wells, the fracture stimulation of four wells and finally flow testing of these four wells. Most recent activity was the spudding of the Geoffrey-1 well. This well will be drilled to a depth of 4,266m and is designed to evaluate the gas potential across five zones.

An infrastructure advantage

The close proximity of the ATP-855 to gas pipelines and processing plants means ICN's hurdle to a commercial success is significantly reduced. ICN has both a raw gas pipeline (West to gas processing plant) and a sales gas pipeline (East to gas markets in Adelaide, Brisbane and Sydney) running through its Cooper Basin acreage.

Valuation and balance sheet

A very simplistic valuation of ICN involves the look through value of ATP-855 based on the recent farm in agreements. Beach Energy paid ICN US\$18m for a 4.9% stake in the block in June 2013. Based on this transaction ICN remaining 35.1% interest in the block has a look through value of A\$135m or 23c/share. In our view it is too early to conduct a full field development model.

5 Dec 2013

Share Price:	\$0.160
Valuation:	\$0.23

Brief Business Description:

Exploration, appraisal and development of oil and gas properties both conventional and non-conventional.

Investment Summary:

ICN offers investors exposure to the developing Cooper Basin unconventional exploration story.

Chairman & CEO:

Mr. Stephen Barry (Chairman)
Mr. Raymond James (Managing Director)

Top Shareholders:

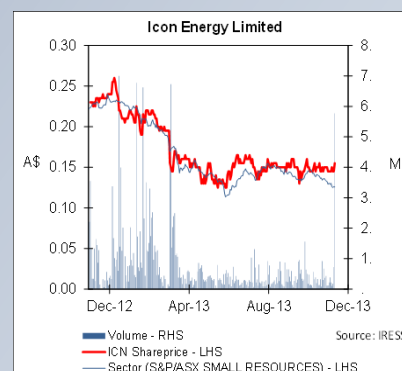
HK Prosperous Technology Limited	13.0%
Citigroup Nominees Pty Limited	8.6%

Company Address:

4 Miami Key
Broadbeach Waters, QLD, 4101

Valuation:	\$0.230
Issued Capital:	615.8m
- fully diluted	620.8m
Market Cap:	\$98.5m
- fully diluted	\$99.3m
Cash (Dec 13):	\$40.7m
Debt (Dec 13):	\$3.4m

Source: Hartleys Research



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SUMMARY MODEL

Icon Energy Limited ICN				Share Price \$0.160	Dec-13 Speculative Buy			
Key Market Information				Directors				
Share Price				\$0.160	Mr.Stephen Barry			Non Executive Chairman
Market Capitalisation				\$99m	Mr.Raymond James			Managing Director
Cash				\$40.7m	Dr.Kevin Jih			Chief Financial Officer
Debt				3.4m	Mr.Derek Murphy			Non Executive Director
Issued Capital				615.8m	Dr.Keith Hilless AM			Non Executive Director
Unvested 2012-13 LTI Performance Rights				2.7m	Mr.Howard Lu			Non Executive Director
Issued Capital (fully diluted performance rights)				618.5m				
Issued Capital (fully diluted all options)				620.8m				
EV				\$61.2m				
Valuation				\$0.23				
Projects				Interest	Major Partners		Net acres	
ATP-855				35.1%	Beach Energy 46.9%		145,314	
ATP-549				33.3%	Drillsearch		303,168	
ATP-560				50.0%	Lake Oil		37,956	
ATP-626				100.0%			549,562	
ATP794				65.0%	Victoria Petroleum		853,687	
PEL218				33.3%	Beach Energy		131,941	
PEP170				100.0%			198,672	
Substantial Shareholders				m shs	%			
HK Prosperous Technology Limited				80	13.0%			
Citigroup Nominees Pty Limited				53	8.6%			
Ray James				22	3.6%			
Howard Lu				16	2.6%			
Taiwan Fructose Co Limited				9	1.5%			
Investment Summary								
Icon Energy's activities include the exploration, appraisal and development of oil and gas properties focused primarily on the Cooper Basin. Over the next 12 months the work program on the ATP-855 block will dominate news flow for ICN.								
Quarterly Cash Burn (A\$k)								
		Corporate Overheads	Capex	Other	End Cash Balance			
Sep-12		-1,288	-734	65	-1,957			
Dec-12		-2,315	-1,703	17,605	13,587			
Mar-13		-1,312	-113	2,806	1,381			
Jun-13		-923	-4,651	19,005	13,431			
Sep-13		-1,064	-6,731	424	-7,249			
Forecast								
Dec-13		-1,300	-12,570	18,000	4,130			
Analyst: Simon Andrew				Last Updated: 05/12/2013				
Phone: 618 9286 3020								
Sources: IRESS, Company Information, Hartleys Research								

ATP-855 – JEWEL IN THE CROWN

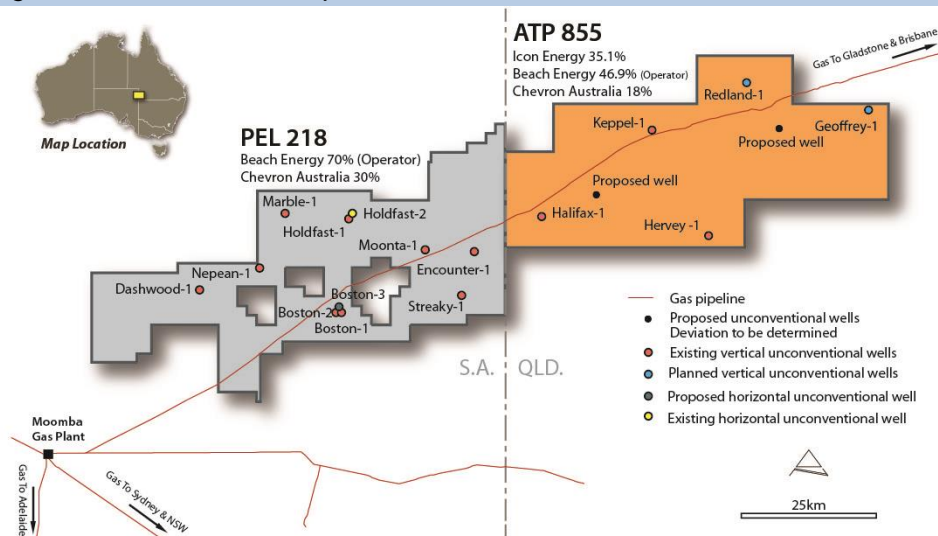
The work program on the ATP-855 will drive news flow in 2014

In our view the major value driver over the next 12 months will be the work program on the ATP-855 block located in the Cooper Basin (Queensland). ICN maintains a high equity position in a block that has many of the required features to achieve a commercial gas development. These include access to infrastructure, strong partners and a highly prospective gas resource. If the current work program can grow the resource base then ICN will have gone a long way to being able to prove the viability of a gas project on the ATP-855.

Chevron choosing to proceed to Stage 2 of its farm-in to the ATP-855 (decision due towards the end of 2014) will provide material evidence that gas can be produced commercially.

Chevron deciding to proceed to Phase 2 of the farm out will be a key catalyst in late 2014

Fig. 1: ATP-855 Map



Source: The Company

Strong partners – Beach as operators and Chevron

Strong partners: ICN's partners in the ATP-855 block are Beach Energy and Chevron. In June of this year ICN exercised a put option on a 4.9% stake in the ATP-855 requiring Beach to acquire the stake in return for US\$18m. This transaction raised Beach's stake to 46.9%. The current ownership structure is shown in Fig. 2:

Fig. 2: ATP-855 – Ownership structure

Current Ownership

Beach Energy 46.9% (Operator)
Icon Energy 35.1%
Chevron 18%

Ownership - if Chevron complete stage 2

Chevron 36%
Icon Energy 35.1%
Beach Energy 28.9%

Source: The Company

The farm in by Chevron announced in February 2012 will occur in stages. Stage 1, completed in May 2012, saw Chevron pay US\$59m in cash for an initial 18% interest. Should Chevron elect to proceed to Stage 2 then a further US\$36m will be paid to Beach for an additional 18%. Chevron has 6 months (Sep 2014 to

March 2015) in which to decide to proceed to Stage 2. If Chevron elects not to proceed then the interest held by Chevron will be reassigned to Beach for no consideration.

ICN has a two way pipeline running through its Cooper Basin acreage

Close proximity to existing infrastructure: The close proximity of the ATP-855 to gas pipelines and processing plants means ICN's hurdle to a commercial success is significantly reduced. ICN has both a raw gas pipeline (West to gas processing plant) and a sales gas pipeline (East to gas markets in Adelaide, Brisbane and Sydney) running through its Cooper Basin acreage. The cost to tie gas production into the raw gas pipeline would require only modest capex.

A proven gas province: Ongoing exploration success and now commercial production around the ATP-855 provides further evidence of the potential within the block. Furthermore a recent study by the EIA suggests the Cooper Basin is one of the most significant unconventional oil and gas basins outside of the United States.

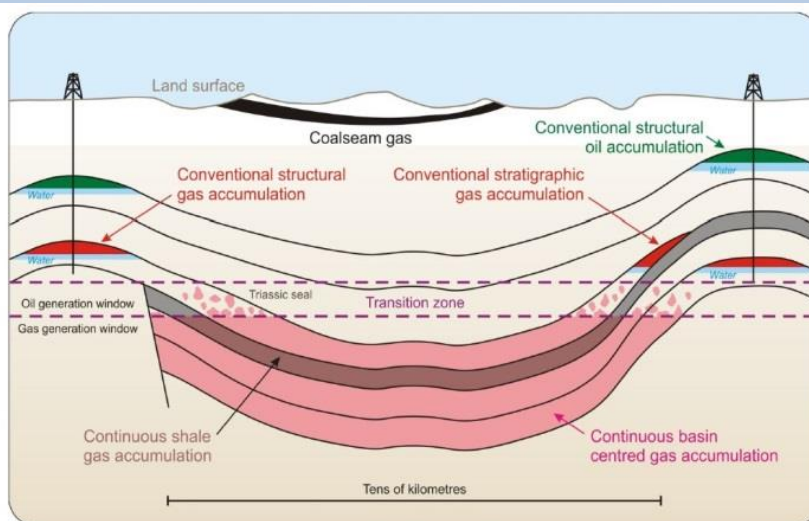
The Moomba 191 well drilled by Santos is widely regarded as Australia first commercial unconventional gas well

The poster boy of the Cooper Basin has been Santos and its Moomba gas production facility. In 2012 Santos successfully achieved Australia's first commercial shale production. The Moomba 191 well generated an initial flow rate of 3 mmscf/d. Its close proximity to the Moomba production facility (8km) allowed the well to be quickly tied into the existing infrastructure. The Moomba 191 (Santos) well is widely regarded as Australia first commercial unconventional gas well. The well flowed from the Roseneath, Epsilon and Murteree shale all of which are present across the ATP-855 block.

Beach Energy currently operates 20 oil fields in the Cooper, along with six gas discoveries, of which two are producing. Beach's operating licenses are primarily along the flanks of the Cooper, targeting deep source rocks.

As recently as last week Senex Energy (SXY) announced its latest oil discovery in the Worrier Oil field. The discovery within the Patchawarra Formation flowed 700kscf/d and 670 bbl/d of oil from the Worrier 8 well.

Fig. 3: Schematic of basin centered gas accumulation



Source: Amended from Schenk and Pollastro, 2002

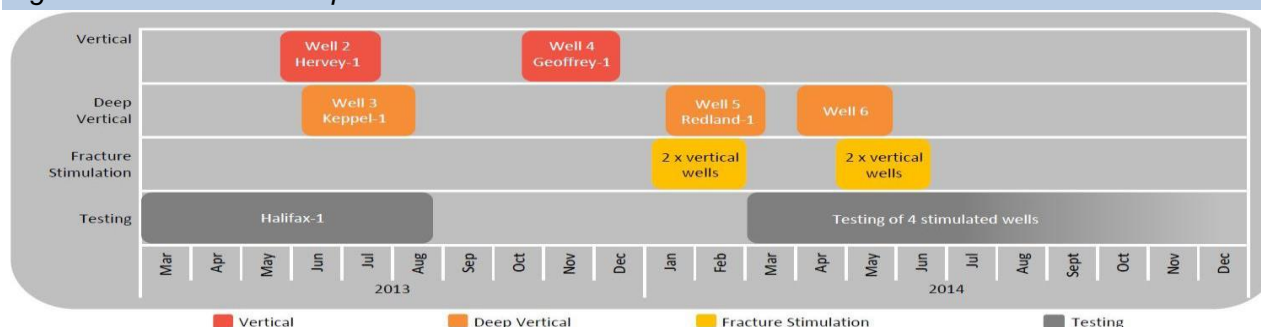
Gas saturation across a continuous shale and basin centred gas play

Source: Schenk and Pollastro

The 2014 work program - catalysts

The 2014 work program will be the key share price driver for ICN. This will involve the drilling of a further two deep vertical wells (Redland-1 and Well #6). Fracturing of four wells (Hervey-1, Geoffrey-1, Redland-1 and #6) and flow testing of these four wells. The Geoffrey-1 well is currently being drilled to a depth of 4,266m. As of last week the well had reached a depth of 3,682m.

Fig. 4: ATP-855 Exploration Timeline



Source: The Company

Halifax-1 Maiden Significant Contingent Resource at ATP-855

Beach Energy as the Operator of ATP-855 recently engaged an experienced international consultant to undertake an assessment of the contingent resources estimated in the vicinity of the Halifax-1 well. The Contingent Resource estimate was evaluated in accordance with the Petroleum Resource Management System (March 2007).

Fig. 5: Halifax-1 / ATP-855 – Contingent Resources (Bcf)

1C	2C	3C
318	629	1115

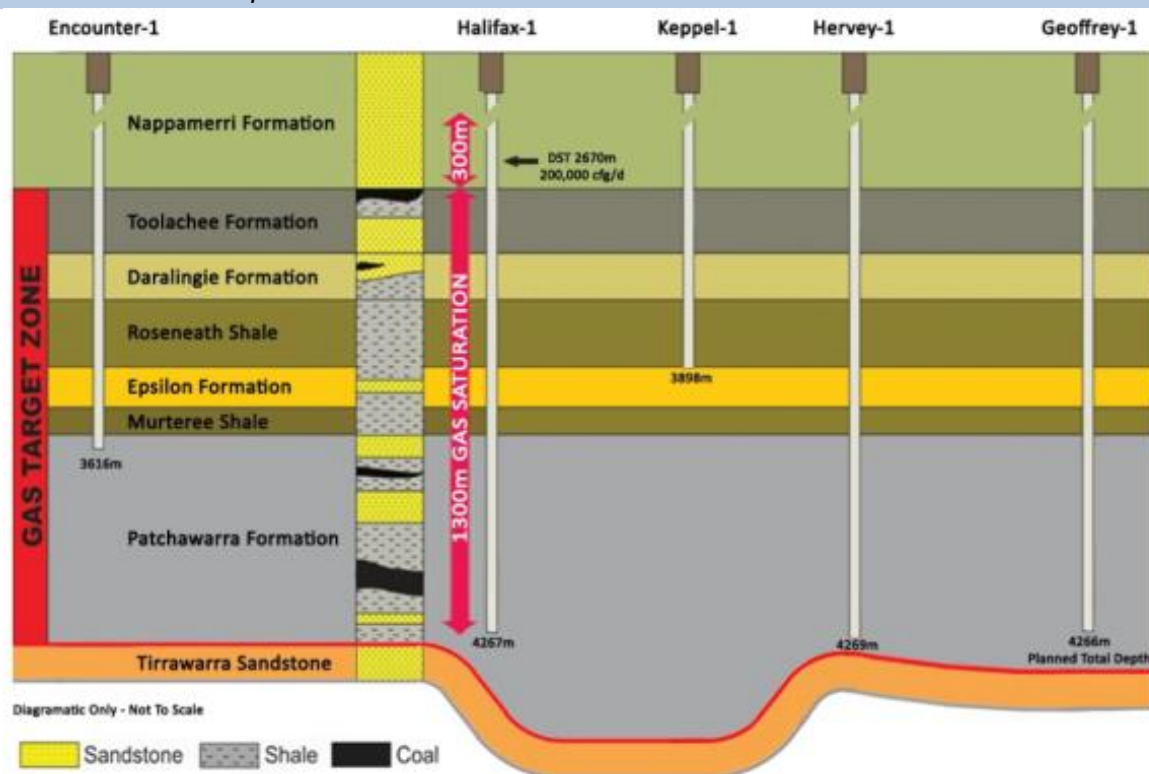
Source: The Company

Halifax-1, the first well drilled and fractured in the ATP-855 continues to flow gas on extended production tests and demonstrates that producing gas from the basin centred and shale gas has significant potential. The well, which has been on extensive production testing for a period of six months, is currently flowing at 0.7MMscfd with cumulative gas produced of 239MMcf.

Hervey-1 intersects Patchawarra Formation at 800m+

Located 30 kilometres east of Halifax-1, Hervey-1 was spudded on 26 May 2013 at a total depth of 4,269 metres. The vertical well encountered gas through the Permian Section and the thickness of the Patchawarra Formation was at total depth greater than 800 metres at total depth. ICN anticipates Hervey-1 will begin the fracture stimulation program in first quarter 2014, followed by an extended production test.

Fig. 6: Well map



Source: Company Presentation

Fig. 7: Icon's Project Summary

Tenements	Location	ICN(WI)	Partners	Gross Area (Acres)	ICN net acres	Status
ATP-855	Nappamerri Trough	35.1%	Beach Energy 46.9% Chevron Australia 18%	414,000	145,314	Redland-1 and #6 set to be drilled into the new year.
ATP-549	Cooper Basin	33.33%	Drillsearch 66.67%	909,595	303,168	Farmin interest not a title interest. ATP549 title held by AGS. Prospect for natural oil an gas.
ATP-560	Cooper Basin	50.00%	Lakes Oil NL – 25% Victoria Petroleum 17% Charles Morgan – 5% Oilwells Inc – 2.5% Private interests – 4%	75,911	37,956	Farmin interest not a title interest. ATP560 title held by Bridgeport. Prospect for natural oil an gas.
ATP-626	Surat Basin	100.00%		549,562	549,562	Planning new drilling and seismic exploration program.
ATP-794 Brightstop	Eromanga Basin	75.00%	Victoria Petroleum 15% Bow Energy 10%			
ATP-794 Springfield	Eromanga Basin	60.00%	Victoria Petroleum 24% Bow Energy 16%	1,313,365	853,687	Directly north of ATP594, farmin interest only. Prospective for coal seam gas, oil and possibly deep shale gas.
ATP-794 Regleigh	Eromanga Basin	60.00%	Victoria Petroleum 24% Bow Energy 16%			
PEL218	Nappamerri Trough	33.33%	Beach Energy 33.33% Deka Resources 13.92% Well Traced 13.92% Bounty Oil and Gas 5.5%	395,863	131,941	Prospective for coal seam gas. Beach Energy is currently concentrating its exploration efforts on the shale opportunities in the Permian section of the tenement
PEP170	Gippsland Basin	100%		198,672	198,672	The suspension on the use of hydraulic fracturing in coal seam and conventional gas exploration projects in Victoria Government. Thus causing a suspension on exploration activities.
Total				3,856,968	2,220,300	

Source: Hartleys Research

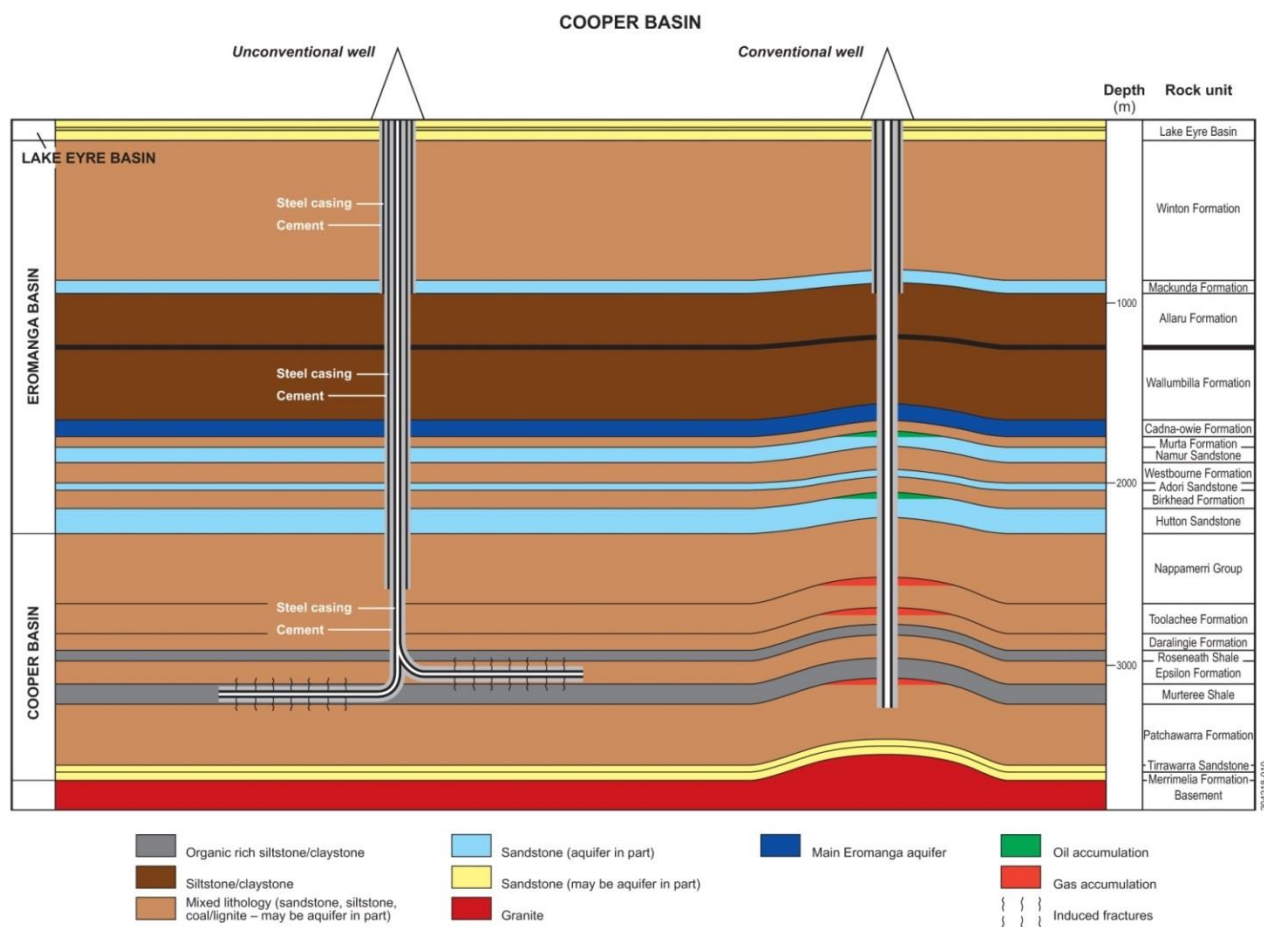
COOPER BASIN

The Cooper Basin is Australia's largest onshore producing hydrocarbon basin. Historically exploited for its conventional oil and gas potential it has now become the most prospective basin for unconventional production. Oil and gas reservoirs occur within multi-zone fluvial sandstones generating a range of reservoir quality. The major gas reservoirs sit within the Patchawarra Formation (porosities up to 23.8%) and Toolachee Formation (porosities up to 25.3%), in reference to the EIA's *World Shale Gas Resources: An Initial Assessment of 14 Regions outside the United States*.

In a recent publication ("World Shale Gas Resources: An Initial Assessment of 14 Regions outside the United States") the EIA makes the following comments regarding Australia:

"Of the six assessed basins, the Cooper Basin, Australia's main onshore gas-producing basin, with its existing gas processing facilities and transportation infrastructure, could be the first commercial source of shale hydrocarbons. The basin's Permian-age shales have a non-marine (lacustrine) depositional and the shale gas appears to have elevated CO₂ content, both factors adding risk to these shale gas and shale oil plays. Santos, Beach Energy and Senex Energy are testing the shale reservoirs in the Cooper Basin, with initial results from vertical production test wells providing encouragement for further delineation."

Fig. 8: Cooper Basin Lithology



Source: Advanced Resources International Inc, Government of South Australia

The EIA described the stratigraphy of the Cooper as follows:

“Conventional and tight sandstone oil and gas reservoirs are found in the Patchawarra and Toolachee formations, interbedded with coal deposits. These formations were sourced by two complexes - - the Late Carboniferous to Late Permian Gidgealpa Group and the Late Permian to Middle Triassic Nappamerri Group, both of which were deposited in non-marine settings. Of the two source rocks, the Gidgealpa Group is more prospective. Most of the gas generated by the Nappamerri Group likely came from its multiple, thin and discontinuous coal seams, since the shales in the Nappamerri Group are low in TOC.

The most prospective shales in the Gidgealpa Group, with oil and gas shows during drilling and higher TOCs, are the Early Permian Roseneath and Murteree shales. The Roseneath, Epsilon, and Murteree are collectively termed REM sequence within the Nappamerri Trough.”

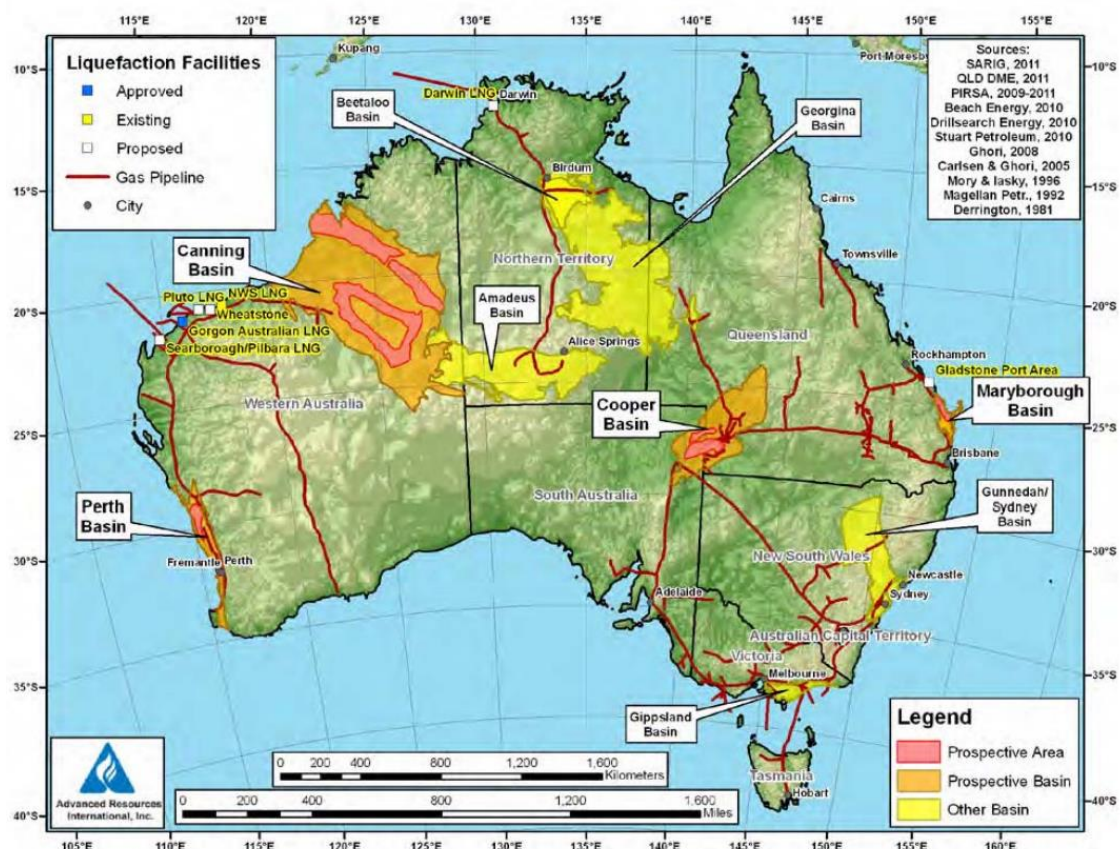
Fig. 9: Major Australian shale basins

Continent	Region	Basin	Formation	Risked Gas In-Place (Tcf)	Technically Recoverable (Tcf)	Risked Oil In-Place (Billion bbl)	Technically Recoverable (Billion bbl)
Australia	Australia	Cooper	Roseneath-Epsilon Murteree (Nappamerri)	307	89	17	1.0
			Roseneath-Epsilon Murteree (Patchawarra)	17	4	9	0.4
			Roseneath-Epsilon Murteree (Tenappera)	1	0	3	0.1
		Marborough	Goodwood/Cherwell Mudstone	64	19	0	0.0
		Perth	Carygina	124	25	0	0.0
			Kockatea	44	8	14	0.5
		Canning	Goldwyer	1227	235	244	9.7
		Georgina	L Arthur Shale (Dulcie Trough)	41	8	3	0.1
			L Arthur Shale (Toko Trough)	27	5	22	0.9
		Bettaloo	M Velkerri Shale	94	22	28	1.4
			L Kyalla Shale	100	22	65	3.3

Source: EIA

Fig. 10: Australia's Prospective Shale Gas Basins

Figure XIV-1. Australia's Prospective Gas Shale Basins, Gas Pipelines, and LNG Infrastructure



Source: Advanced Resources International Inc.

AUSTRALIAN GAS MARKET

Domestic gas being redirected to planned LNG export facilities may add to upward pressure on domestic gas prices

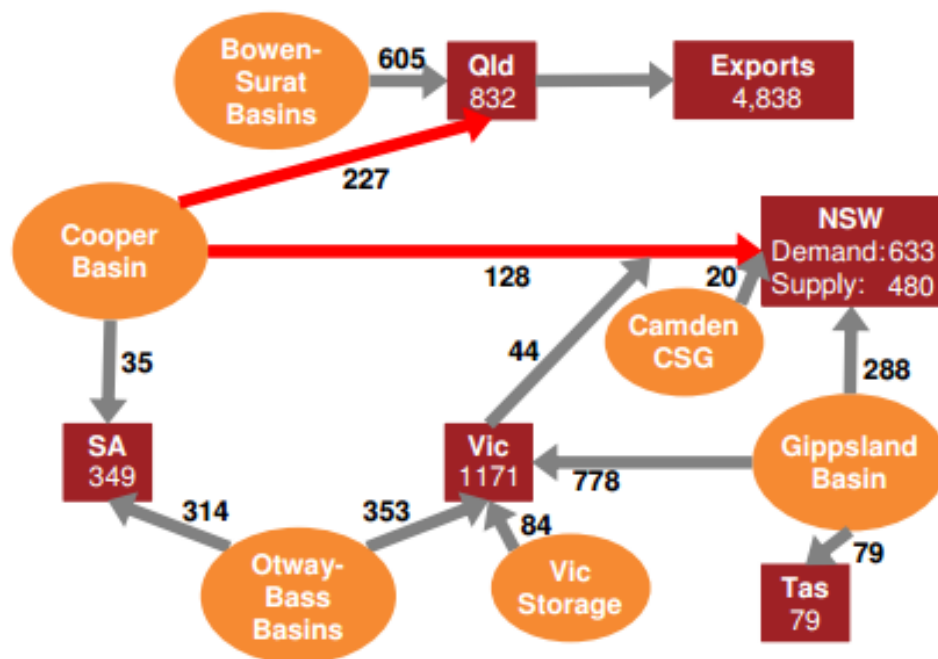
A report published by the Grattan Institute in June of this year highlights some of the challenges confronting the Australian gas industry. Most important of these is the ramp up of major LNG production facilities in both Queensland and Western Australia. The report highlights that expected increase in demand for gas to supply LNG exports may in turn reduce domestic supply thus placing upward pressure on pricing. For example gas produced in Queensland has historically helped supply gas demand in NSW and Victoria. If this Queensland gas is redirected for LNG production it may result in reduced supply especially to NSW. Obviously higher gas prices will improve the economics of on-shore gas production.

The graphic in Figure 10 highlights the typical gas flow in Eastern Australia.

Other conclusions from the report include the following:

- There is no shortage of gas, however, infrastructure constrains supply. Gas producers need to respond to infrastructure constraints in order to ease the bottleneck to market.
- Falling demand, rising prices and a renewable energy target that largely supports wind energy means that new gas-fired power generation is unlikely to be required for at least the next decade.
- Governments need to resist calls from industry groups to cap domestic prices and reserve gas for domestic use. A further A\$160bn is expected to be invested in the LNG industry which is clearly good for the domestic economy. Quasi protectionism may provide some short term relief for target industries, but ultimately leads to higher prices and damages the economy.

Fig. 11: Gasflow in Eastern Australia on the 8th of June 2011



Source: National Gas Market Bulletin Board (2013)

MANAGEMENT, DIRECTORS AND MAJOR SHAREHOLDERS

Fig. 12: Economic Exposure of Board and Key Management

Economic Exposure of Board and Key Management (30 June 2013)							
	Position	Number of Ordinary Shares	Options	Performance Rights (Unvested)	Performance Rights (Vested)	Total Economic Exposure	Rank
Directors							
Stephen Barry	Non-Executive Chairman	1,623,593				1,623,593	3
Raymond James	Managing Director	21,345,517		1,192,658	754,881	23,293,056	1
Derek Murphy	Non-Executive Director	288,181				288,181	7
Keith Hilless	Non-Executive Director	46,727				46,727	8
Howard Lu	Non-Executive Director	16,068,181				16,068,181	2
Kevin Jih	CFO and Executive Director	201,766		689,751	436,571	1,328,088	6
Senior Management							
Ross Mallett	Legal Counsel and Company Secretary	593,872		565,452	334,742	1,494,066	4
Richard Holliday	Commercial Manager	907,517		257,636	228,777	1,393,930	5

Source: Icon Energy FY13 Annual Report

Mr. Stephen Barry was appointed as the Chairman of the Board on 18 December 2008, and has been a Director of Icon Energy Limited since 1993. He has been a key player in the development of the strategic direction of the company. As a practicing solicitor he has extensive experience in joint venture and farm in agreements together with a wealth of knowledge on commercial law and corporate litigation. Stephen is a member and Chairman of the Board's Remuneration Nominations and Successions Committee. He is also a member of the Board's Audit and Risk Management Committee. He has held no other Australian listed company directorships during the past three financial years.

Mr. Ray James has been the Managing Director of Icon Energy Limited and its subsidiaries since 1993. Ray has over 40 years experience in the petroleum industry in Australia, USA, Indonesia, South East Asia, Middle East and Russia. He worked with Chevron in Perth and Houston from 1969-74 and with Gulf Oil from 1974-80. He was the Managing Director of Australian Hydrocarbons from 1980-81 and the Managing Director of Omega Oil from 1987-91. Ray was a Director of Australian Petroleum Production & Exploration Association Ltd (APPEA) from 1999-2007 and Vice Chairman of APPEA from 2003-2005. Ray is a Fellow of the Australian Institute of Management. He is a Fellow of the Australian Institute of Company Directors (AICD) and Vice Chairman of the Gold Coast AICD Committee. Ray is also a member of the Advisory Council of the Griffith School of Business and Board member of the Gold Coast Waterways Authority

Mr. Martin Berry joined Icon Energy as Exploration Manager in August 2013. Martin is a Geologist with over 30 years' experience in the Petroleum Industry including Australia, North America, Europe and the Middle East. After graduating in 1975 from the University of London, Martin began working in the British and Norwegian sectors of the North Sea. Following a move to Australia in 1983, Martin continued his career in the industry working as a contractor, Senior Geologist for Magellan Petroleum and Consultant Geologist working for numerous active exploration companies. Most recently, Martin was employed as Chief Geologist for Celtique Energie Holdings Limited, based in London and working on exploration projects throughout Europe. Martin brings a broad range of technical experience to the team at Icon, having worked on exploration and development projects in a variety of sedimentary basins, gaining extensive experience in the evaluation and exploitation of clastic and carbonate reservoirs as well as CSG, fractured reservoirs and unconventional resource plays. He also has considerable experience in field operations and drilling, including the use of under-balanced drilling technology. Martin has been a Fellow of the Geological Society of London for over 35 years and has been an active member of the American Association of Petroleum Geologists for over 25 years.

Source: The Company

MAJOR SHAREHOLDERS

The Top 20 Shareholders are:

Fig. 13: Top 20 Shareholder

Rank	Name	Units	% of Units
1	HK PROSPEROUS TECHNOLOGY LIMITED	80,318,393	13.04
2	CITICORP NOMINEES PTY LIMITED	52,797,978	8.57
3	RAY JAMES	22,016,987	3.58
4	HOWARD LU	16,068,181	2.61
5	TAIWAN FRUCTOSE CO LTD	9,000,000	1.46
6	MRS DIANNE BETH BALDWIN	7,209,600	1.17
7	MR TIMOTHY ALLEN KENNEDY + MRS GLENDA KAY KENNEDY <TA & GK KENNEDY S/F NO2 A/C>	5,025,825	0.82
8	CABLEX INDUSTRIES PTY LTD	4,991,332	0.81
9	SAMBOR NOMINEES PTY LTD <SUSANNE & MONIAK SAMBOR A/C>	4,522,256	0.73
10	MR CHIEN HUA LEE	4,500,000	0.73
11	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	4,355,293	0.71
12	ALPHA GEM PTY LTD	4,304,581	0.7
13	MR CHRISTOPHER JOHN MARTIN	4,000,000	0.65
14	JOHN E GILL TRADING PTY LTD	3,918,747	0.64
15	MOROHI PTY LTD	3,620,058	0.59
16	J P MORGAN NOMINEES AUSTRALIA LIMITED	3,596,995	0.58
17	LINK ORANGE PTY LTD	3,393,181	0.55
18	ZONEX CAPITAL PTY LTD	3,077,829	0.5
19	WILLIAM DOUGLAS GOODFELLOW	2,750,000	0.45
20	IAN PETHERBRIDGE RETIREMENT FUND PTY LTD <IAN PETHERBRIDGE R/F A/C>	2,750,000	0.45
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)		242,217,236	39.34
Total Remaining Holders Balance		373,557,115	60.66

Source: The Company, 3 December 2013

VALUATION

The look through value of recent farm outs values ICN's 35.1% stake in the ATP-855 at 23c/share

ICN is full funded for the CY14 exploration program on the ATP-855

We have assumed total field capex in CY2014 of A\$60m. This would equate to a capex budget for ICN of A\$21m for CY14.

VALUATION

The simplest way to value ICN is the look through value of the ATP-855 given the two recent farm-in agreements. In June Beach paid ICN US\$18m for a 4.9% stake in the block. This values ICN's 35.1% stake at US\$128m (A\$122m) or 23c/share. The Beach farm-down to Chevron values ICN's stake at 24c/share.

An assessment of the in ground hydrocarbon value is a far more difficult proposition. Given the JV is still in the early stage of assessing a 6 well drill program any reserve estimates will need to be aggressively discounted.

QUARTERLY CASH FLOW

Cash at the end of the September Quarter stood at \$25.9m. After the completion of the A\$18m capital raising cash was A\$41.7m which fully funds ICN through the CY14 exploration program on the ATP-855.

Expenditure during the September Quarter was A\$7.3m of which exploration accounted for A\$6.7m and administration A\$1m. The Company expects to spend A\$12.6m in the December Quarter offset by the recently completed A\$18m capital raise.

We estimate that on average a vertical well in the Cooper Basin will cost A\$10m. If we add the cost of additional testing to an exploration well the individual well cost can rise to A\$20m.

We have assumed total field capex in CY2014 of A\$60m. Our basic assumptions are a spend of A\$40m for the Redland and #6 wells plus an addition A\$20m on going flow testing across the field. This would equate to a capex budget for ICN of A\$21m for CY14. If we add in corporate overheads of A\$1m per quarter we come to a total cash spend of A\$25m in CY14. This would leave ICN with an approximate cash balance of A\$17m at the end of CY14. ICN currently carries A\$3.4m in short term debt which it plans to pay down in 2014.

Fig. 14: Quarterly Cash Burn

A\$'000	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Revenue					
Exploration	-734	-1,703	-113	-4,651	-6,731
Administration	-1,288	-2,315	-1,312	-923	-1,064
Other	65	3,134	49	187	130
Cash flow from operations	-1,957	-884	-1,376	-5,387	-7,665
Capex	-41	31	26	-13	-4
Other	169	371		18,837	424
Cash flow from Investing	128	402	26	18,824	420
Proceeds from financing	-16	14,100	-31	-6	-4
Other		-31			
Cash flow from financing	-16	14,069	-31	-6	-4
Cash beginning	9,411	7,566	21,153	19,772	33,203
Net change in cash	-1,845	13,587	-1,381	13,431	-7,249
Cash end	7,566	21,153	19,772	33,203	25,954

Source: Hartleys Research

INVESTMENT CONCLUSION

ICN offers investors exposure to the developing Cooper Basin unconventional exploration story. The company has managed to farm-down to two strong partners in Beach Energy (Operator) and Chevron. As with any exploration story there is significant uncertainty until the flow testing is complete and an assessment of commercial viability is complete.

RISKS

The risks to our investment thesis are both specific to ICN but also to the macro in nature.

By definition exploration is risky. Even within known gas bearing zones commercial flow rates may not be achieved because of poor reservoir quality governed by localised geology.

The cost of drilling and limited infrastructure mean the hurdle to achieve a commercial gas project is much higher in Australia than in other parts of the world. This means gas producers are at risk even from a modest fall in the domestic gas price.

The unconventional assets do not have a long term production history; as such decline curves and long term production rates are not as well understood as conventional wells. The general nature of unconventional wells in the US is an aggressive production decline curve. This results in operators having to maintain an aggressive drill program in order to replenish lost production.

SIMPLE S.W.O.T. TABLE

Strengths	Proven shale prospectively in the Cooper Basin. Experienced board and management. Close to infrastructure Operating in low sovereign risk environment.
Weaknesses	Exposure solely to ATP-855. Difficulties associated with fracking. Uncertainty with exploration.
Opportunities	ATP-855 exploration upside. Exploration upside of other tenements.
Threats	Whether Chevron elected to become operator after completion of stage 2, signalling the viability of the project. Gas price decline. Operating costs increase unexpectedly. New wells do not achieve current expectations.

Source: Hartleys Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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