



2013 ANNUAL REPORT HIGHLIGHTS **ICON ENERGY LIMITED**



Competent Persons Statement

This report contains information on Icon's contingent resources that has been compiled by Mr Martin Berry who is a full time employee of Icon Energy Limited, is qualified in accordance with ASX listing rule 5.11, and has consented to the inclusion of this information in the form and context in which it appears.

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

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KEY ACHIEVEMENTS

- The Company maintained its excellent safety record with no Lost Time Injuries experienced during the year;
- The Company achieved a substantial profit of \$3.7 million;
- The Company successfully drilled, fracture stimulated and flow tested the Halifax-1 well in ATP 855 and spudded the Hervey-1 and Keppel-1 vertical wells;
- The Company drilled two exploration wells in ATP 626 and conducted a feasibility study to determine future exploration options. On 3 July 2013 the Company announced that it had regained the 100% equity interest in ATP 626 previously held by JV partner Goondi Energy;
- The Company secured the necessary capital to progress its exploration campaign.

Dear Shareholder,

We are pleased to report that 2012-2013 was a very successful year for the Company underscored by a number of corporate and operational achievements that we believe will lay the foundation for an active value adding exploration program moving into the future.

Icon's flagship asset is its interest in ATP 855 in the Cooper Basin. During the year the ATP 855 joint venture drilled, fracture stimulated and flow tested its first exploration well, Halifax-1, in ATP 855. Icon believes the results from Halifax-1 and two other wells drilled in ATP 855 are very encouraging and have confirmed that the basin-centred and shale gas potential within the Nappamerri Trough extends into ATP 855 in south west Queensland. The potential of ATP 855 was further confirmed by the significant gas shows recorded from the Halifax-1, Hervey-1 and Keppel-1 wells and Icon's first booking of a contingent resource in the area surrounding Halifax-1.

Early in 2013, Chevron Australia farmed into ATP 855 with Beach Energy assigning up to 60% of its interest in ATP 855 and PEL 218 to Chevron over two stages. The joint venture will benefit from Chevron's experience in shale gas and basin-centred tight gas exploration and development.

One of the significant challenges for listed exploration companies in the current economic environment is to source sufficient capital to fund a productive exploration program. In late 2012 Icon Energy undertook a successful fundraising campaign raising a total of \$14.1 million through a corporate share placement and a Share Purchase Plan. In June 2013, Icon Energy farmed down its interest in ATP 855 by 4.9% to Beach for US\$18 million. Capital raised from these initiatives will be used to fund an accelerated exploration program in ATP 855. The total raised was approximately A\$34 million.

At the end of the 2013 financial year, the Company recorded a profit of \$3,720,392 after tax. The Company is in a strong financial position and is well placed to take advantage of exploration opportunities.

OPERATIONAL STRATEGY

During the year Icon Energy's operational strategy has been



Stephen Barry and Ray James

the re-evaluation, restructuring and prioritisation of its operations. For an exploration company of Icon Energy's size, there is a need for exploration strategy and capital allocation to be focussed on the most commercially viable projects while maintaining a portfolio of alternative project options for future development.

Icon Energy's interest in ATP 855 is the largest asset in the Company's portfolio and exploration results to date have been encouraging. The Company is committed to continue exploration in ATP 855 that will result in the drilling, fracture stimulation and flow testing of at least another three wells by October 2014.

The Company's other major assets include interests in ATP 626 in the Surat Basin and PEPs 170, 172 and 173 in the Gippsland Basin in Victoria. During the year the ATP 626 joint venture conducted a review of the potential of the tenement. The Company is using the review findings to formulate a strategy for further evaluation of the permit. In Victoria the Company has secured its interest in PEPs 172 and 173 by completing the negotiation of an Indigenous Land Use Agreement (*ILUA*) with the Gunaikurnai People.

STRATEGIC MANAGEMENT

Our main objective in 2012-2013 was to secure the necessary finances to fund our exploration program and work closely with our joint venture partners to implement the program in a way that would maximise the value from our investment. We were pleased that we were able to raise approximately \$34 million in a difficult financial market.

In recognition of the highly prospective nature of tenement ATP 855 and the value added by the joint venture parties, Beach Energy and Icon were able to achieve record prices for the sale of part of their interests in the tenement during the year when compared to prior sales of shale gas interests. Icon's sale of 4.9% of its interest in ATP 855 was necessary in order to be able to fund the ongoing development of the tenement.

OPERATION HIGHLIGHTS

Cooper Basin (Nappamerri Trough Natural Gas)

The ATP 855 joint venture commenced drilling the

Halifax-1 vertical exploration well in early August 2012. Halifax-1 was the first well to be drilled in ATP 855 as part of a drilling program designed to evaluate the continuation of the unconventional shale gas and basin-centred gas potential of the Nappamerri Trough into south west Queensland.

Gas shows over an interval in excess of 1,300 metres were encountered throughout the Roseneath, Epsilon and Murteree (**REM**) and Patchawarra Formations with very thick horizons including 460 metres of the REM section and 490 metres of the Patchawarra Formation at total depth. All these horizons appeared to be over-pressured throughout.

In late December 2012, the Joint Venture began a 14 stage hydraulic stimulation of the Halifax-1 well including seven stages in the Toolachee, Daralingie and REM Formations and seven stages in the Patchawarra Formation. Halifax-1 was then flow tested over a six month period recording a peak gas flow rate of 4.5 MMscf/d on a 48/64" choke for a short period and a maximum daily rate of 3.7 MMscf/d on 96/64" choke.

Over the six month flow test period from February 2013, Halifax-1 produced 243 MMscf of gas. A Notice of Petroleum Discovery was lodged with the Department of Natural Resources and Mines (**DNRM**). In late August Halifax-1 was shut in and the well is currently on long term pressure build-up.

Beach Energy, in its capacity as Operator of the ATP 855 joint venture, recently engaged a petroleum resource evaluation consultant to undertake a report on Contingent Resources in the area around the Halifax-1 well. The assessment reported 318 Bcf of 1C, 629 Bcf of 2C and 1.115Tcf of 3C gross contingent resource.

Following the good results from the Halifax-1 well the Company announced that five additional wells will be drilled in ATP 855 prior to October 2014 to meet the exploration permit obligations.

The first of the additional wells, Hervey-1 was spudded on 26 May 2013 and was located 30 km east of Halifax-1. Hervey-1 encountered significant gas shows throughout the Permian section which was very encouraging and the thickest Patchawarra Formation segment intersected to date of over 800 metres. Hervey-1 is expected to be hydraulically stimulated in early 2014.

The second additional vertical well Keppel-1, located 25 km north east of Halifax-1, was spudded on 3 June 2013. Significant gas influx was experienced from the over-pressured Epsilon Formation at a depth of 3,898 metres and the Operator suspended the well making it available for re-entry. On 20 August 2013 the Operator lodged a Notice of Petroleum Discovery with the DNRM.

Geoffrey-1 is the next well proposed in the drilling program with a spud date scheduled in October 2013. The Geoffrey-1 well is located 36 km north-east of Hervey-1 and will be a vertical well drilled to a target depth of 4,266 metres. The drilling activity in ATP 855 to date has confirmed the continuation of the basin-centred gas play across the tenement and shows that the Nappamerri Trough is a prospective shale and tight gas province.

Surat Basin

Following the drilling of Eolus-1 and Windom-1 wells in ATP 626, Icon and joint venture partner Goondi Energy engaged AWT International to evaluate the potential of the tenement

using results from all exploration wells drilled in and around the tenement as well as 2D seismic data. In accordance with best environmental safety practices, Icon Energy initiated a plug and abandonment and rehabilitation program of old exploration wells that would not be utilised in the future development of the permit. On 3 July 2013, Icon Energy acquired the equity interest of Goondi Energy in ATP 626. Icon Energy is committed to the ongoing development of ATP 626 and is in the process of formulating a strategy for further evaluation of the permit.

Gippsland Basin

In 2012 the Victorian Government introduced a moratorium on fracture stimulation of unconventional gas wells in Victoria. Prior to the introduction of the moratorium the Company was in the process of securing approval to carry out 400 km of 2D seismic acquisition and drill two exploration wells on PEP 170. Following the announcement the Company decided not to progress its exploration program in Victoria until the moratorium has been lifted. In August 2013 the Company successfully concluded negotiations with the Gunnaikurnai People for an ILUA covering areas subject to native title in PEPs 170, 172 and 173. PEPs 172 and 173 had been awarded to Icon Energy subject to the successful completion of an ILUA. The Company looks forward to working closely with our stakeholders in the future development of these tenements for the mutual benefit of all parties.

GOVERNANCE

We are very pleased to report that the Company has maintained its excellent record for safe and environmentally responsible operations with no incidents or accidents occurring during the year. Icon Energy's OHS&E strategy focuses on competent employees, ongoing training and vigorous contractor management to ensure that Company personnel operate safely and with respect and integrity at all times.

The Board works closely with management to ensure the Company has the right frameworks, policies and controls in place to create an environment that motivates executives and staff to outperform but does so in a structured and responsible manner. During the year the Board approved a number of key governance initiatives including the rollout of a new executive and staff performance incentive plan, risk management framework and a comprehensive update of Company policies.

Icon Energy has had an outstanding year in 2012-2013 and it would be remiss of us not to acknowledge the significant contribution made by the members of the Board, the management team and most importantly our employees. We would also like to thank our shareholders for their support and patience over recent years. Your Directors believe that the results in 2012-2013 will set the foundation for even better results in the years to come.



S M Barry
Chairman



R S James
Managing Director

REMUNERATION REPORT (EXTRACT)

Key Points

- Remuneration framework structured to reward executives for achievement of goals that add shareholder value
- Short and long term incentives only vest on achievement of corporate and individual goals
- Long term incentives will not vest unless the share price exceeds 40 cents for at least 30 days and the Company's share price growth performs well when benchmarked against other energy companies
- Company achieves profit after tax result of \$3,720,392
- Executive and employee salary increases for 2012-2013 restricted to CPI increases
- Non-executive Directors have not had a fee increase since 2009

Relationship Between Remuneration Policy and Performance

Icon Energy's remuneration policy seeks to encourage an alignment between the performance of the Company and remuneration of its executive Key Management Personnel (**KMP**). It does this by including short-term and long-term 'at risk' incentives that only vest when executives achieve pre-determined key corporate performance objectives. The long-term incentive (**LTI**) plan in particular links vesting of LTI plan rights to achievement of long-term company objectives such as growth in share price and market capitalisation and exploration performance which contributes to long-term shareholder value.

During the year the Company achieved a number of positive milestones that are mentioned on Page 2 of this Review.

The Company issued a total of 2,334,736 Performance Rights during the year to senior executives and staff under the Company's Short – term (**STI**) and 2,705,497 Performance Rights to senior executives under the LTI on 14 December 2012. The benefits available under these plans only vest to the extent that the Company and its executives can achieve rigorous performance objectives that add shareholder value.

STI

In August 2013 the Remuneration Committee assessed the extent to which senior executives and staff had achieved corporate and individual objectives during the year to 30 June 2013 and determined that on average 88% of STI performance rights issued in December 2012 would vest. The Committee stated that it had been many years since the Company had issued equity based incentives under the Performance Rights Plan and the efforts of Company management and staff in planning, funding and implementing a successful exploration program deserved to be commended and recognised.

LTI

In August 2015 the Remuneration Committee will assess the extent to which senior executives have achieved corporate objectives during the 3 years to 30 June 2015. LTI incentives will not vest unless the share price exceeds 40 cents for a continuous period of at least 30 days and the Company's share price growth performs well when benchmarked against that of other energy companies.

2012 - 2013 PERFORMANCE

ICON ENERGY UNCONVENTIONAL GAS RESOURCES



ICON ENERGY PROFIT AFTERTAX AS AT 30 JUNE 2013



ICON ENERGY MARKET CAPITALISATION AS AT 30 JUNE 2013



ICON ENERGY METRES OF EXPLORATION WELLS DRILLED

