



Quarterly Report

REPORT FOR THE QUARTER ENDING 31 DECEMBER 2008

HIGHLIGHTS

- \$4.3 million cash at 31 December 2008.
- Farmin agreement signed for \$36 million with Stanwell Corporation Limited.
- Rig inspections for potential drilling rigs.
- Drilling program for establishing for certification of resources to 2P and 3P status.
- Contracts signed to commence drill Lydia Pilot in February/March 2009.
- Drilling, geological, finance, and legal teams recruited to bring the staff complement to twelve (four full-time equivalent 2007).
- Icon completed the seismic survey of PEL 218 in the NappaMerri Trough in South Australia.

EVENTS SUBSEQUENT to 31 DECEMBER 2008

- Gas Sale Agreement and Joint Venture Operating Agreement completed.
- Safety inspection organised for rig prior to commencement of drilling the Lydia Pilot.
- Appointment of ACIL Tasman to advise on Gas Sale Agreements.
- Onsite geologist for Lydia Pilot project engaged.
- Drilling expected to commence late February early March.
- Completed preliminary plan for core drilling for ATP626P over and above the Lydia Pilot.

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Electronic copies and more information are available on Icon's website www.iconenergy.com. Icon's website and the ASX are the only sources of official information concerning the company

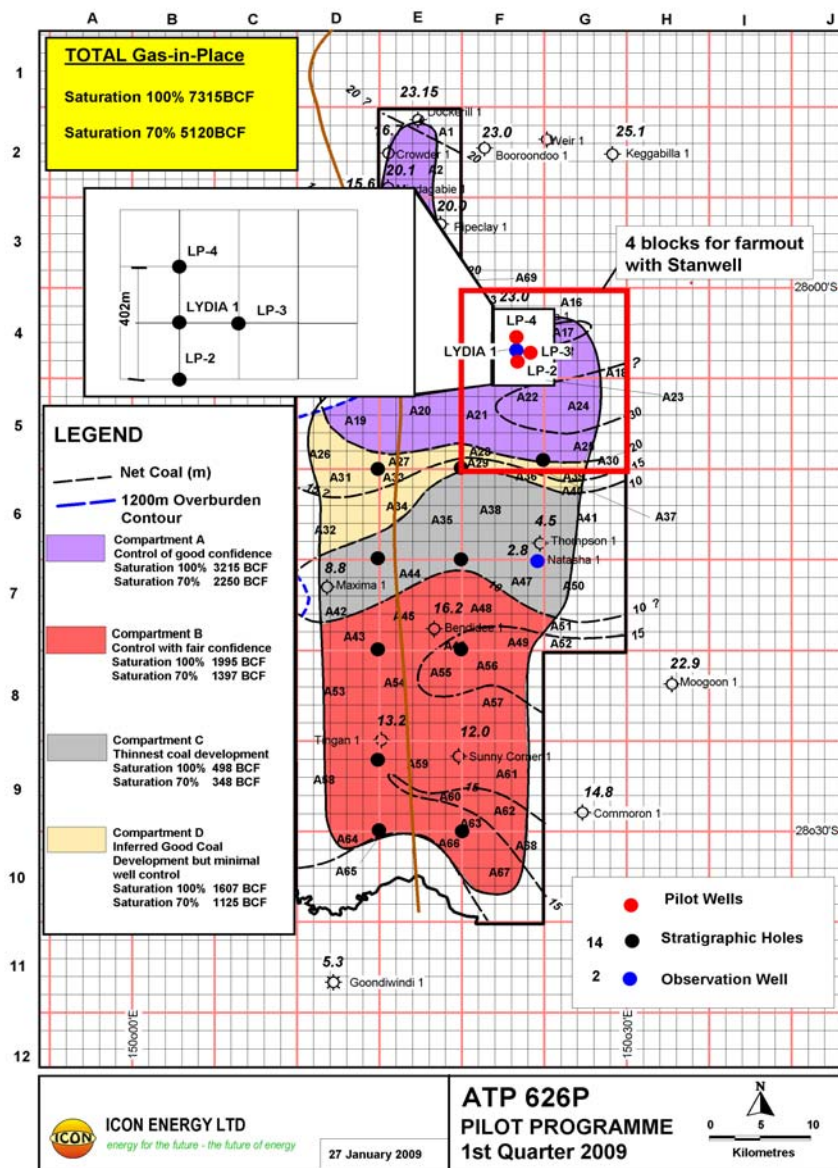
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COAL SEAM GAS EXPLORATION

Authority to Prospect (ATP) 626P Farmin

On 24 December 2008, Icon Energy Ltd. (Icon) signed a Farmin Agreement with the Stanwell Corporation Limited (Stanwell) for an interest in part of ATP626P consisting of four blocks. ATP 626P has an estimated prospective gas resource of up to 5400 petajoules of gas initially in place (GIIP). The diagram below shows the blocks together with the planned locations for the Lydia Pilot.



The four blocks comprising the Stanwell farmin have an estimated 18.5% of total prospective resource in the ATP.

Under the agreement, Stanwell will provide up to \$36 million to prove up coal-seam gas resources in four of the 30 blocks in Icon's ATP 626P in the Surat Basin. Stanwell agreed to commit \$6 million to an initial pilot program as shown above. The risk capital is designed to show that commercial gas flows may be obtained from ATP626P. At Stanwell's option it can then commit to spending a further \$30 million to secure a minimum 2P reserve of 340 PJ. At the completion of this second stage funding payment, Stanwell will earn a 50% interest in the four blocks.

Stanwell will buy 225PJ under the Gas Sale Agreement (GSA) over a 15-year period. This purchase is subject to 2P reserves of at least 340 petajoules of gas being confirmed in the second stage. Stanwell is not required to enter into the second stage of the agreement if commercial gas flows are not established after the expenditure of the first \$6 million.

The agreement anticipates the two parties will jointly build a 110km pipeline which will connect the Lydia Gas Project and all of ATP 626P with the Roma-Brisbane pipeline. It is envisaged that each joint venture partner will be able to sell their share of any surplus gas through a joint marketing agreement.

The Farmin agreement with Stanwell is considered important to the achievement of the Company's strategy of moving the resource certification to the 2P and 3P reserves category. ACIL Tasman has provided the Board with the results of a review of 14 CSG transactions completed between July 2003 and September 2008. All 14 transactions involved prospects with both 2P and 3P independently certified reserves. For the nine non-LNG-tied transactions the average implied valuation for 3P reserves was \$0.27/GJ.

There are no independently certified reserves in ATP 626P and much work needs to be done, at considerable cost, in order to achieve such certification. Under the joint venture arrangement, Stanwell will

contribute up to \$36 million of at-risk capital for precisely this purpose. The joint venture exploration effort stands to add considerable value to the ATP 626P resource by promoting the estimated gas-in-place resource to the status of independently certified reserves. In this period of financial crisis, the farmin agreement provides Icon with the opportunity to use its current capital to further prove reserves in the remainder of ATP 626P. In addition, the development of ATP 626P with the pipeline access will open other gas markets such as the LNG market.

Drilling – Lydia Pilot

Icon recently announced that it has signed a drilling contract with ANCON for a four-well pilot program centered around Lydia #1. The Lydia Pilot program is due to start in early February to early March 2009. The ANCON rig was constructed on the Gold Coast by Gallagher Engineering.



ANCON Rig No. 1 at Roma

This rig is similar in construction to the rig that Icon is considering building when funds are available to construct its own rig.

The rig has been modified to allow a coring capability which is essential to the reserves certification effort. The rig is currently in use in a nearby tenement. Delays in that program have pushed the expected start date for the Lydia Pilot Drilling Program to late February to early March.

Since the signing of the rig contract for the 2009 drilling program significant site preparation has occurred.

In November/December 2008, the sites and roadways were finished for the Lydia Pilot consisting of LP-2, LP-3, and LP-4. Conductors were set on each of the three wells in the Lydia Pilot. The picture below shows the work in early December on Lydia LP-3.



Setting Conductor on Lydia LP-3



All supplies and materials have been delivered or ordered in preparation for the commencement of drilling in February/March 2009. In addition, Lydia No.1 will be completed as a monitor well for the Lydia pilot on the advice of the reserves certification expert advisors.

Production Tubing – Lydia Pilot

Because of the extensive amount of drilling required over the next two years, the company built and outfitted its own geological mud shack. The mud shack was completed in December 2008 and sent to the storage area in the Goondiwindi Township.

Preliminary plans have been completed for the drilling of seven (7) stratigraphic holes in the remainder of the ATP 626P blocks (8th hole will be filled by the first core well in the Lydia Pilot – LP-2). These plans can now proceed following the Stanwell Stage 1 payment of \$6million. The stratigraphic holes are essential for coal seam gas evaluation and to support Icon's application for "Potential Commercial Area (PCA) licenses under the Queensland Petroleum Act.

Seismic – Petroleum Exploration License (PEL 218)

Icon Energy completed a seismic survey in PEL 218 in the NappaMerri Trough in South Australia. The survey was conducted under a farmin agreement with Adelaide Energy Ltd wherein Icon has the right to earn a 33.3% working interest in the Mesozoic sedimentary section of the permit by funding 50% of 100 kilometers of new seismic data. The seismic lines are being used to locate leads for further exploration. An oil exploration well is planned for July 2009.

OTHER TENEMENTS

Authority to Prospect (ATP) 849P

- Located west of Roma Township in the Surat Basin in Queensland. The town of Mitchell is located in the southern region of the tenement
- ATP 849P covers an area of 3854 sq kms.
- Icon's working interest is 80% and is the operator of the block.
- A Work Program is currently being devised including a geological and drilling strategy.
- Icon Energy is devising a Cultural Heritage Agreement with the traditional owners, "the Bidgera People".
- Drilling on tenements adjacent to ATP 849P suggest this block has potential for Coal Seam Gas. Until seismic and test drilling is undertaken, based on very limited control data, our expectations are for a non-certified estimate of approximately 500 petajoules of gas initially in place.

Authority to Prospect (ATP) 594P

- Located in the Cooper Basin in Queensland.
- ATP 594P is approximately 99 kms west of the town of Quilpie and west of ATP 560P.
- Tenement area ATP 549P covers 3 blocks consisting of a total area of 1538 sq kms.
- Icon Energy has a 50% working interest in the permit and is the Operator.
- ASIC holds a 50% interest in the permit as a result of the default of the joint venture partner.

- Native Title Claim has been lodged by the Boonthamurra people and is awaiting a Federal Court hearing.

Authority to Prospect (ATP) 855P

- ATP 855P is located on the eastern side of the Queensland and South Australian border and is 50km west of Jackson. This permit lies next to PEL 218 and is traversed by the Moomba to Ballera Gas Pipeline.
- ATP 855P occupies a total area of 1674 sq kms.
- Icon has an 80% working interest and is the Operator of ATP 855P.
- A Native Title Claim has been lodged by the the traditional owners, the Wangkumurra People.
- A Cultural Heritage Management Agreement will be negotiated with the traditional owners, the Wangkumurra People. This first meeting which was to take place in early November has been deferred until the first quarter of 2009.

EPG 49 and EPG 51

- Icon Energy's geothermal area consists of NappaMerri 1 and NappaMerri 2. They are located underneath ATP 855P which is located on the eastern side of the Queensland and South Australian border.
- The drilling program for NappaMerri 1 and NappaMerri 2 will be strategically aligned with ATP 855P to allow for cost savings and efficiencies in this phase.
- A five year work program has been devised involving geological and geophysical studies and techniques to obtain new information in regards to the permits geothermal potential.
- The Federal Government is tabling an amendment to the Native Title legislation to enable Geothermal Development to proceed without a Right to Negotiate process.

Authority to Prospect (ATP) 549P

- Located on the border region of southwest Queensland and South Australia
- ATP 549P covers an area of 3854 sq kms.
- Icon has a 33.33% working interest and is the designated Operator.
- Right to Negotiate discussions will be required to renew the permit under a new ATP. The exploration permit has a renewal date of 30 April 2009 for the second term.
- Environmental Applications will be lodged for ATP549P West including geological and drilling programs after the Government approves the separation of the west and east blocks which are currently held under a complicated trust title.

Authority to Prospect (ATP) 794P

- Located North West of the town of Quilpie and lies directly north of ATP 594P.
- ATP 794P is approximately 5315 sq kms in area.
- Icon holds a 60% working interest and is the designated Operator.
- The Work Program details 500 km of seismic data and the drilling of two wells. To date 270 km of seismic data has been reprocessed and one exploration well has been drilled.
- Discussions are progressing for a farmin by a major oil and gas entity.

ICON'S PLANNED ACTIVITIES FOR THE NEXT QUARTER

- Commencement of Drilling three wells for the Lydia Pilot
- Finishing Lydia No. 1 as a monitoring well
- Commence dewatering of the Lydia Pilot
- Evaluate the results of core samples
- Plan Stage 2 of the Stanwell Farmin to bring gas in place to a certifiable resource at 2P and 3P levels
- Finalising the programs for the stratigraphic wells in ATP 626P.

Yours faithfully,



Executive Director/Company Secretary
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