

# 2012 ANNUAL REPORT HIGHLIGHTS **ICON ENERGY LIMITED**

*ATP 855P: Drilling Halifax 1, Cooper Basin, Queensland*



# CHAIRMAN'S AND MANAGING DIRECTOR'S LETTER >>>

## Stephen Barry and Ray James

Dear Shareholders,

**We are pleased to report to you the progress of the Company over the past financial year and to restate the commitment of the Board and management to Icon Energy's future.**



The 2011-2012 year was a difficult one. The Australian economy and the world's equity markets suffered as a result of overseas influences and a general lack of confidence in Europe's ability to manage debt.

ASX listed companies operating in the Cooper Basin have seen their share prices drop by up to 47.2% between January and June 2012. Icon's share price was not immune but held up better than most outperforming the Standard and Poors ASX 300 Energy Companies Index during the year. The Directors and management team are aware of volatility in the market but remain focused on growing shareholder value.

On 1 July 2012, the Australian Government's carbon tax commenced. The carbon tax is expected to cause a shift in energy markets towards lower carbon emitting fuels such as natural gas. If Australia is to meet its projected greenhouse emission targets into the future natural gas will play a leading role in achieving this outcome.

Gas accounted for 23 per cent of total primary energy consumption in Australia in 2009-10 and this is expected to rise to 35 per cent by 2034-35.

Australia's gas production is projected to reach 8274PJ (7.5tcf) in 2034-35 with production from both conventional gas and Coal Seam Gas expected to rise. Unconventional gas exploration is expected to contribute significant new resources to add to Australia's proven reserves.

As we continue to develop our assets in Queensland and Victoria, we believe Icon Energy can play a role in delivering natural gas to domestic, commercial and industrial customers into the future as well as meeting our Gas Sale Agreements with Shantou SinoEnergy

Co., Ltd (**Shantou SinoEnergy**) and Stanwell Corporation Limited.

Icon Energy welcomed a Chinese Delegation led by Mr Zhang Zulin Director of Energy Bureau, Development and Reform Commission 'Guangdong Province'. The delegation comprised of representatives from Shantou SinoEnergy, Guodian South Corporation (**Guodian**) and the City of Shantou. The purpose of the delegation was to discuss and further progress the LNG Sales Agreement reached with Shantou SinoEnergy on 29 March 2011.

Since signing the LNG Sales Agreement with Shantou SinoEnergy, the Company has continued to advance business and strategic initiatives to secure the necessary gas reserves required to meet that contract.

### Surat Basin - Queensland

In conjunction with Goondi Energy we drilled two wells, Windom 1 and Eolus 1 in ATP 626P as part of the Farmin Agreement. Eolus 1 has been cased and suspended until further technical investigation can be completed. A third well North Maroon was drilled by the Company to investigate an oil play but the well was plugged and abandoned due to the lack of an effective trap.

### Cooper Basin - Queensland

In 2011 the US Energy Information Administration's (**EIA**) Report on World Shale Gas Resources stated that the Cooper Basin contained some 342TCF of gas - 85TCF recoverable.

Approximately twelve months after this report was published Icon Energy and Beach Energy (**Beach**) spudded their first shale gas well Halifax 1 in ATP 855P in the Cooper Basin on 4 August 2012. Icon Energy

and Beach believe that success in the Halifax 1 well will enable them to replicate Beach's success in the adjoining PEL 218 tenement in the Nappamerri Trough where 300+TCF of gas in place has been estimated.

We are very excited by the immediate opportunities in ATP 855P and over the course of the next six months we will see the fracture stimulation of Halifax 1 and ultimately the flow testing of multiple zones.

## Gippsland Basin - Victoria

During the year Icon Energy put in place the groundwork for the Murray Seismic Program consisting of 46 lines totalling approximately 400 km across PEP 170. Planning was also initiated on the drilling of the Tiger West 1 and Dragon 1 well prospects in Gippsland Victoria which have the potential to address more than 1 TCF of gas-in-place.

Conduct and Compensation Agreements have been executed with landowners for the Dragon 1 and Tiger West 1 wells and Icon Energy has submitted the Seismic and Drilling Operations and Environmental Management Plans for final approval by the Victorian Department of Primary Industry (**DPI**).

In August and December 2011, the DPI Victoria offered Icon Energy the tenements PEP 172 and 173 onshore in the Gippsland Basin. We are currently working on securing an Indigenous Land Use Agreement with the Gurnaikurnai traditional owners in the region and once this is signed the tenements will be granted by the DPI.

On 24 August the Victorian Government announced "Reforms to strengthen Victoria's Coal Seam Gas regulation and protect communities" which will apply until a National Harmonised Framework for Coal Seam Gas (CSG) exploration has been agreed upon. The Company is currently evaluating the impact of the announcement including likely delays on its Victorian exploration projects.

## Sustainability

The Board of Icon Energy believes that working with communities and providing accurate and transparent information to stakeholders is the only way the Company can build its *Social License to Operate*.

The Company has focussed on building its relationship with local stakeholders in Victoria in advance of initiating its drilling and seismic programs. Meetings have been held with stakeholders including the Deputy Premier of Victoria and Member for Gippsland South, the Hon Peter Ryan MLA, the Federal Member for Gippsland Mr Darren Chester MP, the Wellington Shire Council and community members.

Icon Energy is committed to conducting its business in a manner that prevents injury or detriment to employees, contractors, customers and the communities in which we operate. We aspire to best practice in occupational health and safety and environmental management throughout our operations. At Icon we have a safety first culture and believe that all workplace accidents are preventable. This year we recorded zero reportable safety incidents.

## Refocusing the Business

2012 was a difficult year for the Company and despite the commitment and hardwork of management and employees we did not achieve all the objectives we set at the start of the year. With our exploration program being spread across a longer time frame due to the additional levels of Government approvals both in Queensland and Victoria and the need to continually focus attention on overheads, we made the difficult decision during the year to offer voluntary redundancies to a number of staff. The total savings from cost reduction initiatives was in excess of \$870,000.

As a consequence of the limited exploration success and the adverse impact of economic conditions on the Company, the Board determined that no bonuses would be paid to management and staff in respect of the current financial year and salaries would be restricted to CPI increase (for Brisbane) of 1.9%. Non-executive Directors also agreed to forgo any increase in fees which have not increased since 2009.

Despite the challenges encountered during the year, we are confident that the considerable planning and groundwork put into the exploration effort in Victoria and Queensland will deliver positive results in the near future when we hope to reward shareholders for their loyalty and patience.

Finally we would like to thank our fellow Directors, management and staff for their hard work over the past year. We all look forward to a successful year as we continue our efforts focussed on securing the gas reserves needed to fulfil our sales contracts and to deliver value to our shareholders.

Yours sincerely



Stephen Barry  
Chairman



Ray James  
Managing Director

# REMUNERATION REPORT (EXTRACT) >>>

## Key Points

- No bonuses paid to executives and employees for performance for the 2012 financial year
- Executive and employee salary increases for year restricted to CPI increases (except CFO)
- 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 plan (**LTI**) 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. These included:

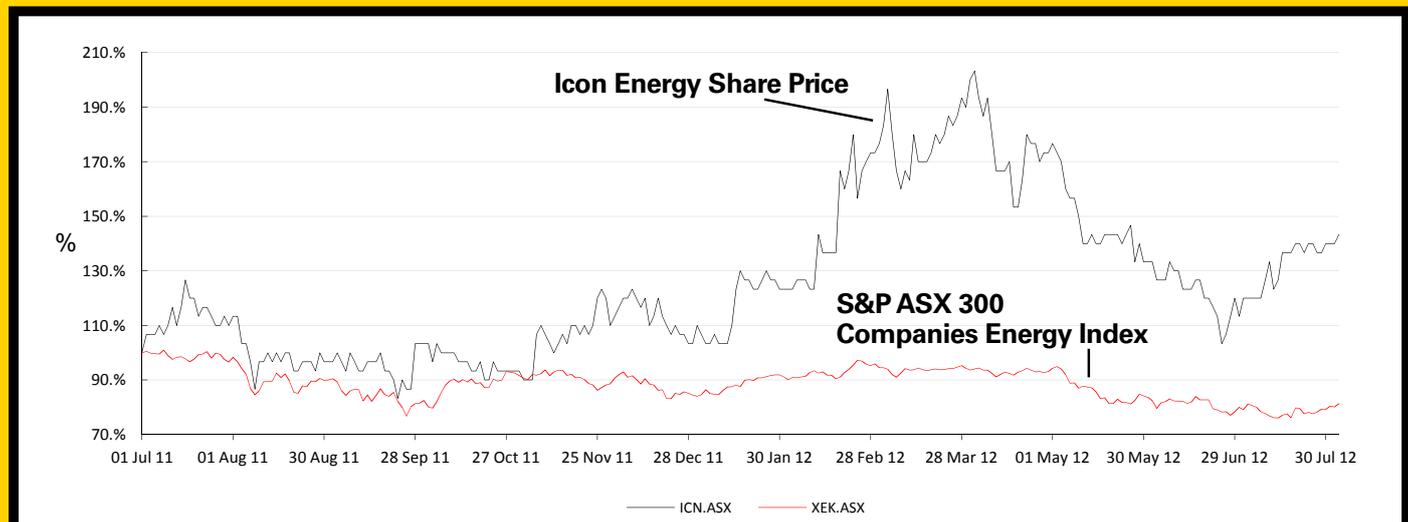
- The Icon Energy share price significantly outperformed the S&P ASX300 Companies Energy Index during the year;
- The Company maintained its excellent safety record with no Lost Time Injuries experienced during the year;
- Good progress was made in the development of exploration projects in both Victoria and Queensland.

Icon Energy did not pay any bonuses to Company executives and employees in respect of performance during the financial year ended 30 June 2012. Due to the limited exploration success and the adverse impact of economic conditions on the Company during the reporting period the Board determined that it was not appropriate for the Company to award short-term or long-term incentives to executives and employees in respect of the 2011/12 financial year.

## HIGHLIGHTS >>>

- **In the Cooper Basin**, Nappamerri Trough, the ATP 855P joint venture completed the Gallus Seismic Survey with the final processing of the data to be completed by Q4 2012.
- The Drilling Program for Halifax 1 in ATP 855P, was brought forward from September to August. Halifax 1 spudded on 4 August and will be drilled to a total depth of 4130 metres.
- **In the Surat Basin**, Icon Energy drilled two coal seam gas wells Eolus 1 and Windom 1 in conjunction with Goondi Energy (a wholly owned subsidiary of Stanwell Corporation). The Eolus 1 well revealed encouraging results and was cased and suspended.
- **In Gippsland Victoria**, Icon Energy prepared and submitted Operations Plans and Environmental Management Plans to the Department of Primary Industries (DPI) Victoria for the drilling of two natural gas wells and the 400km 2D Murray Seismic Survey in PEP 170.
- In Q4 2011 DPI Victoria offered to grant tenement PEP 172 and PEP 173 to Icon Energy subject to the completion of an Indigenous Land Access Agreement (ILUA).
- The Company hosted a delegation from the Development and Reform Commission of Guangdong Province China in August 2011.
- **Health, Safety & Environment** - Zero reportable incidents.
- **Financial** - Reduction in operational expenses (including staffing costs) of \$870,000.
- For the last 12 months Icon Energy significantly outperformed the Standard and Poors ASX Top 300 Energy Companies Index (**XEK**).

## RELATIVE PERFORMANCE (01 Jul 11 - 02 Aug 12) >>>



To view the full 2012 Icon Energy Annual Report including the Remuneration and Financial Reports, go to Investor Information at [www.iconenergy.com](http://www.iconenergy.com)