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The Manager
Companies Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
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Report for Quarter Ended 31 December 2010

Key Activities and Highlights

- Termination of the Scheme of Arrangement with Drillsearch Energy Limited was announced on 22 December. A group of significant shareholders have expressed support for, and a positive view of, the Company's future as a viable and prospective Cooper Basin explorer.
- Joint Venture Work Program and Budget Approval obtained to process new exploration activity across Flax and Juniper fields commencing with a 3D seismic program in 2011
- Seismic reprocessing and inversion and additional technical studies continue with the aim of identifying drilling targets for 2011 in both conventional gas and Eromanga oil prospects in PEL103
- Production at Flax Oil Field progressed with 6,199 bbls produced during the quarter (INP share 2,325 bbls) despite regional flooding and continued local rains
- Strong financial position maintained with \$7.7m cash, no debt, and a remaining carry commitment by AGL Energy Limited of \$4.4m.

OPERATIONAL ACTIVITY

Cooper-Eromanga Basin

Within the Cooper-Eromanga Basin, the major activity during the quarter has centered on:

- Optimising the oil production from the Flax field, with focus on cost reduction
- Planning acquisition of 3D seismic over Flax – Juniper (PEL 103, PRL's 17 & 18)
- Finalising the reprocessing of 2D seismic, focussed on maturing 3 prospective leads in PEL 103 to drillable status.
- Planning of the acquisition of 2D seismic in ATP543P South

A summary of the key permits and associated activities are as follows:

PEL 182 (37.6% Innamincka)

Extensive flooding in the Cooper Basin has prevented access to the area, delaying seismic surveying and drilling. An application was made and approved by PIRSA, suspending the license for 12 months.

In the meantime, the joint venture will undertake technical workshops, to be coordinated by the new permit Operator, Victoria Petroleum Limited, to identify, refine and commence active pursuit of the significant opportunities in the permit.

PRL 14 (37.5% Innamincka)

PRL 14 encompasses the Flax field.

Production continued during the quarter, with total production of 6,199 bbls. Local rains necessitated that the field to be shut-in for 11% of the period and restricted production for a further 38% of the remainder.

Forward operations are to further optimize production and reduce costs from the established facilities.

The Flax field and facilities remain a key hub of the company's presence in the region.

ATP 543P South (50% Innamincka)

Joint venture discussions continued with Santos Limited during the quarter to approve locations of the 2D seismic program scheduled for 2011. Organisational processes and planning to establish the program continue.

Late in 2010, the company received notice via Santos (as permit licensee) that the renewal of the permit had been refused by the Queensland Government authority (DEEDI). The joint venture is progressing all avenues to remedy the situation.

Gas Aggregation

PEL 103 (37.5% Innamincka)

PEL 101 (25% Innamincka)

Focus on a broader gas aggregation strategy continues with the aim of prioritising development potential for the already identified conventional resources and prospects in PEL 103 and PEL 101.

Reprocessing and inversion is currently underway for 2D lines around the Tallow and Cypress gas prospects in PEL 103 to finalise potential drilling targets.

Other Exploration and Development

PEL 103 (37.5% Innamincka)

PEL 103A Aspen Block (37.5% Innamincka)

PRL's 17 & 18 (37.5% Innamincka)

The joint venture agreed to acquire 3D seismic across the Flax/Juniper areas with the aim of identifying locations for development and appraisal drilling within the currently productive reservoirs. The potential to identify exploration targets in other traps and reservoirs in the permits is recognised and will be addressed with the planned survey.

The Banyan prospect in the north of PEL103 also remains a key focus and technical studies are underway to identify potential drilling targets.

General

Under the terms of the farm-in agreement with AGL, INP has been fully carried for the 2009/10 CSG activity and will be carried for subsequent activities up to a limit of \$5m. At this time \$4.4m of this carry still remains to be applied against future exploration and appraisal activities in the Cooper Basin.

Bass Basin

T/18P (5% Innamincka)

Inversion of the Shearwater 3D seismic data is now complete, and is being used to update the detailed model of reservoir and hydrocarbon distribution. The operator of the permit, Origin Energy Limited continues integration of the well and seismic data to confirm the field volumetrics, and identify potential development strategies.

The Joint Venture has contracted PGS to acquire the Chappell 3D seismic survey of 225 km², programmed for acquisition in February 2011. The objective is to delineate traps in this part of the permit, proven as oil prone by the success at Rockhopper.

The permit is currently going through its licence renewal process. In conjunction, applications have been lodged with the Mineral Resources Tasmania (MRT) seeking the determination of locations across portions the Rockhopper, Trefoil and White Ibis areas.

CORPORATE

Innamincka Drillsearch Merger

As announced to the ASX on 22nd December 2010, the merger agreement with Drillsearch Energy Limited (Drillsearch) was terminated as a result of the shareholder vote at the Scheme Meeting, and the subsequent inability of the parties to agree a way forward.

Major shareholder preference for the company to continue on its own supports the refocus on the further exploration and evaluation of the significant potential of the company's assets in the Cooper Basin. This is highlighted by the recently announced acquisition of an additional interest in the company's core assets in the region.

Innamincka has received a letter of demand from Drillsearch for an amount of \$400,000. Drillsearch alleges that Innamincka breached certain 'exclusivity' obligations contained in the Merger Implementation Agreement between Innamincka and Drillsearch dated 7 September 2010. Innamincka is considering the allegations made by Drillsearch, however based on the information currently available to it, Innamincka does not consider there to be much substance to the demand.

Management Changes

As announced to the ASX on 31st December 2010, Chief Executive Officer David Kinsman will be leaving the company at the end of January. Appointment of a replacement is underway and will be the subject of separate announcements.

Financial Position

INP retains a healthy cash balance of \$7.7m at the end of the quarter.

In addition, AGL still retains an obligation to fund a further \$4.4m of INP's expenditure on appraisal or exploration activity in the Cooper Basin permits. (This equates to a total program of between \$11.7m and \$17.6m depending on which permits the money is spent).

These amounts, when combined with a balance sheet with no debt, continue to place INP on a strong financial footing.

Subsequent Activity – PEL103 Interests

As advised in Innamincka's announcement to the ASX on 7 January 2011, Innamincka has accepted an offer from SCGAU Pty Ltd (SCGAU) to acquire an additional 25% interest in PEL 103 and PRLs 14, 17 and 18 (PEL 103 Interests).

Innamincka currently holds a 37.5% interest in these permits and is the current operator. This interest will increase to 62.5% once the transaction is completed.

The PEL 103 Interests were initially offered for sale by SCGAU to Drillsearch. As a current joint venture partner of SCGAU and holder of an interest in the permits, Innamincka has pre-emptive rights to acquire any interest offered to a third party, such as Drillsearch. Innamincka has exercised this right in order to acquire the PEL 103 Interests from SCGAU.

SCGAU has not indicated whether it considers itself bound by the sale agreement with Innamincka or not. The parties have been in correspondence regarding the validity of the notice issued by SCGAU advising of the proposed sale to Drillsearch and of Innamincka's acceptance. Innamincka contends that completion of its acquisition was to have occurred on 30 January 2011. That did not occur, and Innamincka is now considering its options to enforce the sale agreement, including commencing legal proceedings.

FORWARD PROGRAM

Planned activities for the next quarter are:

- to finalise the acquisition of the additional interest in PEL103 and associated PRL's 14, 17 and 18;
- to continue production from the Flax Oil Field with focus on cost reduction and maximizing field uptime;
- to plan acquisition of 3D seismic over Flax – Juniper (PEL 103, PRL's 17 & 18);
- to mature the 3 prospective leads in PEL 103 to drillable status; and
- to work with new PEL 182 JV partners and formulate forward program to identify exploration targets on the Cooper Basin Western Margin.



David Kinsman
Chief Executive Officer