

**INNAMINCKA PETROLEUM LIMITED**  
**ABN 11 101 313 777**

**INTERIM REPORT – 31 DECEMBER 2010**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Innamincka Petroleum Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

## DIRECTORS' REPORT

Your directors present their report on the company for the half-year ended 31 December 2010.

### Directors

The following persons were directors of Innamincka Petroleum Limited during the whole of the half-year and up to the date of this report:

A R Johnson - Chairman  
D I McEvoy – Non-Executive Director  
S J Koroknay – Non-Executive Director

Mr Nicholas Davies was appointed a director on 31 January 2011 and continues in office at the date of this report.

Mr Anwar Awan was appointed a director on 4 March 2011 and continues in office at the date of this report.

### Review of Operations

The operating loss after income tax of the company for the half-year was \$2,609,837 (2009: \$2,995,103) after expensing exploration costs of \$72,346 (2009: \$189,811) incurred to December 31, 2010. The loss reflects the nature of the company's principal activity.

In July 2010 the company completed a transaction with Strategic Energy Resources Ltd purchasing a 37.6% interest in the PEL 182 permit. Funding came from existing cash reserves.

PEL 182 is located on the prospective and productive western margin of the Cooper-Eromanga Basin. The permit encompasses 1,750km<sup>2</sup>, is adjacent to Innamincka's PEL 101 and represents a very strategic fit within the company's Cooper Basin portfolio.

Considered both oil and gas prone, the block offers Innamincka considerable exploration potential which will begin with the recording of a 3D seismic program to identify drilling targets. Currently the permit is in a period of suspended activity while the region recovers from unseasonal rainfall and flooding.

In parallel to the extensive corporate activity, production continued from the company's Cooper Basin facility at Flax in PRL 14.

Total production for the half year was 10,995 bbls (Innamincka share 4,123 bbls). Local rain and regional flooding during the period necessitated the field be shut in for intermittent intervals resulting in restricted production. The focus remains on maximising field commerciality through cost control and increased production via careful field management.

Seismic reprocessing and inversion and additional technical studies have been undertaken on PEL 103 with the aim of identifying drilling and exploration targets. The joint venture has approved a 110km<sup>2</sup> 3D Juniper seismic program for 2011.

No activity was undertaken in the PEL 101 permit during the period.

Late in 2010, the company received notice via Santos (as permit licensee) that the renewal request for ATP543P had been declined by the Queensland Government authority (DEEDI). The joint venture is pursuing the processes of appeal.

The T/18P permit operator Origin Energy Limited has contracted PGS to acquire the 225km<sup>2</sup> Chappell 3D Seismic Survey in early 2011. The survey is focussed on delineating traps with oil potential in the northern part of the permit.

Major activity for the second half of 2010 also included the corporate transaction that was to see Innamincka Petroleum Limited and Drillsearch Energy Limited merge by way of a Scheme of Arrangement (Scheme).

The Scheme was ultimately not approved by the requisite majorities at the shareholder Scheme Meeting held on 15 December 2010 and subsequently in accordance with the terms of the agreement was terminated on 22 December 2010.

Post the Scheme Meeting however a group of significant shareholders expressed their support for the Company's future as a viable Cooper Basin explorer and a refocus on the potential of the company's assets in the Cooper Basin.

#### **Activities Subsequent to the Reporting Date**

On 31 January 2011, the Company announced Management and Board changes and a significant Recapitalisation Proposal.

The Management and Board changes comprised the:

1. Appointment of Mr Nicholas Davies as Interim Managing Director on 31 January 2011 following the departure of the company's chief executive officer David Kinsman; and
2. Appointment of Mr Anwar Awan as Non-Executive Director of Innamincka on 4 March 2011.

The Recapitalisation Proposal comprises:

1. a fully underwritten 1 for 3 non-renounceable rights issue of ordinary shares at 11.5 cents per share (Rights Issue) to raise approximately \$10 million; and
2. a placement of 110 million Innamincka ordinary shares at 19 cents per share to Republic Investment Management Pte Ltd (Republic) which will raise \$20.9 million (Placement).

The Rights Issue was successfully completed on 3 March 2011 after being oversubscribed.


Completion of the Placement is conditional on achieving majority shareholder approval at a General Meeting of the members of Innamincka Petroleum Limited to be held at the offices of Norton Rose Australia, Level 18, 225 George Street, Sydney, NSW at 1.00pm on 31 March 2011.

In line with the Company's refocused direction and strategy, the Company also announced on 4 March 2011 that it had completed the purchase of a further 25% interest in PEL103, PRL's 14, 17 & 18 from SCGAU Pty Ltd.

#### **Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3.

This report is made in accordance with a resolution of the directors.



Adam Johnson  
Chairman

9 March 2011



## Auditor's Independence Declaration

As lead auditor for the review of Innamincka Petroleum Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Innamincka Petroleum Limited during the period.

A handwritten signature in black ink that reads 'Sarah Nelson'.

Sarah Nelson  
Partner  
PricewaterhouseCoopers

Brisbane  
9 March 2011

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Note	Half-year 2010 \$	Half-year 2009 \$
<b>Revenue</b>		594,121	270,060
Other income		4,731	-
Field operation expenses		(476,325)	(453,746)
Oil sales fees and charges		(78,332)	(39,351)
Exploration and evaluation expensed	3	(72,346)	(189,811)
Impairment of site restoration asset	3	-	(573,389)
Share based payments		(37,152)	(73,073)
Depreciation expense		(171,140)	(172,796)
Professional services and consulting fees		(1,444,291)	(921,023)
Office rental expense		(71,628)	(78,928)
Employee benefits expense		(475,841)	(294,638)
General and administrative expenses		(381,634)	(468,408)
		<hr/>	<hr/>
Loss before income tax		(2,609,837)	(2,995,103)
Income tax expense		-	-
		<hr/>	<hr/>
Loss after income tax		(2,609,837)	(2,995,103)
		<hr/>	<hr/>
<i>Other comprehensive income</i>			
Other comprehensive income for the period, net of tax		-	-
		<hr/>	<hr/>
<b>Total comprehensive income attributable to the ordinary equity holders of the company</b>		(2,609,837)	(2,995,103)
		=====	=====
Earnings per share for loss attributable to the ordinary equity holders of the company:			
Basic earnings per share		(1.0 cents)	(1.2 cents)
Diluted earnings per share		(1.0 cents)	(1.2 cents)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010**

	Note	31 December 2010 \$	30 June 2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		7,664,797	11,168,131
Trade and other receivables		858,119	1,162,666
Inventory		61,632	51,918
Other assets		4,391,324	4,395,366
		<hr/>	<hr/>
Total current assets		12,975,872	16,778,081
		<hr/>	<hr/>
<b>Non-current assets</b>			
Property, plant and equipment		1,281,383	1,451,693
Exploration and evaluation costs	5	16,309,832	15,401,549
Other		135,333	176,046
		<hr/>	<hr/>
Total non-current assets		17,726,548	17,029,288
		<hr/>	<hr/>
<b>Total assets</b>		30,702,420	33,807,369
		=====	=====
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		836,849	1,369,421
		<hr/>	<hr/>
Total current liabilities		836,849	1,369,421
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Provisions		2,051,367	2,051,059
		<hr/>	<hr/>
Total non-current liabilities		2,051,367	2,051,059
		<hr/>	<hr/>
<b>Total liabilities</b>		2,888,216	3,420,480
		=====	=====
<b>Net assets</b>		27,814,204	30,386,889
		=====	=====
<b>EQUITY</b>			
Contributed equity	4	77,170,386	77,170,386
Reserves		3,548,907	3,511,755
Accumulated losses		(52,905,089)	(50,295,252)
		<hr/>	<hr/>
<b>Total equity</b>		27,814,204	30,386,889
		=====	=====

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Ordinary shares \$	Retained earnings \$	Share based payments reserve \$	Total \$
<b>Balance at 1 July 2009</b>	63,101,535	(44,228,073)	3,365,608	22,239,070
Loss for the period	-	(2,995,103)	-	(2,995,103)
Non cash share based payments	-	-	73,073	73,073
Total other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	-	(2,995,103)	73,073	(2,922,030)
Shares issued during the period	14,069,986	-	-	14,069,986
<b>Sub total</b>	77,171,521	(47,223,176)	3,438,681	33,387,026
Dividends paid or provided for	-	-	-	-
<b>Balance at 31 December 2009</b>	<u>77,171,521</u>	<u>(47,223,176)</u>	<u>3,438,681</u>	<u>33,387,026</u>
<b>Balance at 1 July 2010</b>	77,170,386	(50,295,252)	3,511,755	30,386,889
Loss for the period	-	(2,609,837)	-	(2,609,837)
Non cash share based payments	-	-	37,152	37,152
Total other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	-	(2,609,837)	37,152	(2,572,685)
Shares issued during the period	-	-	-	-
<b>Sub total</b>	77,170,386	(52,905,089)	3,548,907	27,814,204
Dividends paid or provided for	-	-	-	-
<b>Balance at 31 December 2010</b>	<u>77,170,386</u>	<u>(52,905,089)</u>	<u>3,548,907</u>	<u>27,814,204</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	<b>Half-year 2010 \$</b>	<b>Half-year 2009 \$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	563,936	563,181
Payments to suppliers (inclusive of goods and services tax)	(3,144,468)	(2,877,977)
Interest received	250,201	142,369
<b>Net cash outflows from operating activities</b>	<u>(2,330,331)</u>	<u>(2,172,427)</u>
<b>Cash flows from investing activities</b>		
Payments for exploration and evaluation	(1,172,173)	(3,719,000)
Payment for refundable deposit on potential JV tenement	-	(4,000,000)
Payments for property, plant and equipment	(830)	(1,030)
<b>Net cash outflows from investing activities</b>	<u>(1,173,003)</u>	<u>(7,720,030)</u>
<b>Cash flows from financing activities</b>		
Proceeds from share issue	-	14,379,170
Payments for share issue costs	-	(309,184)
<b>Net cash inflows from financing activities</b>	<u>-</u>	<u>14,069,986</u>
<b>Net decrease in cash held</b>	(3,503,334)	4,177,529
Cash at the beginning of the reporting period	11,168,131	12,355,641
<b>Cash at the end of the reporting period</b>	<u>7,664,797</u> =====	<u>16,533,170</u> =====

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

### Note 1. Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Innamincka Petroleum Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

#### *Accounting Standards not previously applied*

The company has adopted the following new and revised Australian Accounting Standards issued by the Australian Accounting Standards Board ("AASB") which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in the information from the previously made available.

#### **Impact of standards issued but not yet applied by the entity**

##### **AASB 9 *Financial Instruments* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9*** (effective from 1 January 2012)

AASB 9 *Financial Instruments* requires that gains or losses on financial liabilities measured at fair value are recognized in profit or loss, except that the effects of changes in the liability's credit risk are recognized in other comprehensive income. The entity does not have any financial liabilities measured at fair value through profit or loss. There will be no impact on the financial statements when these amendments to AASB 9 are first adopted.

##### **AASB 124 *Related Party Disclosures*** (effective from 1 January 2011)

AASB 124 *Related Party Disclosures* is a disclosure standard only, there will be no impact on amounts recognized in the financial statements. This standard will help to clarify the definition of related parties.

##### **AASB 7 *Financial Instruments: Disclosures*** (effective from 1 January 2011)

AASB 7 *Financial Instruments: Disclosures* deletes various disclosures relating to credit risk. There will be no impact on initial adoption to amounts recognized in the financial statements as the amendments result in fewer disclosures only.

##### **AASB 101 *Presentation of Financial Statements*** (effective from 1 January 2011)

AASB 101 *Presentation of Financial Statements* requires a detailed reconciliation of each item of other comprehensive income to be included in the statement of changes in equity or in the notes to the financial statements.

### Note 2 Segment information

The company operates predominantly in the one business segment and one geographical segment. Its activities comprise exploration for oil and gas in Australia.

### Note 3 Loss for the half-year

	Half-year 2010 \$	Half-year 2009 \$
Loss for the half-year includes the following items that are unusual because of their nature, size or incidence:		

#### Expenses

Exploration and evaluation expensed	72,346	189,811
Impairment of site restoration asset	-	573,389

### Note 4 Equity securities issued

	Half-year		Half-year	
	2010 Shares	2009 Shares	2010 \$	2009 \$
Opening balance	261,548,890	189,653,040	77,170,386	63,101,535
<b>Issues of ordinary shares during the half-year</b>				
Issued on exercise of options	-	-	-	-
Issued pursuant to share purchase plan	-	56,895,850	-	11,379,170
Placement	-	15,000,000	-	3,000,000
Transaction costs arising on share issues			-	(309,184)
Balance 31 December 2009	261,548,890	261,548,890	77,170,386	77,171,521

### Note 5 Non-current assets – Exploration and evaluation costs

	31 December 2010 \$	30 June 2010 \$
Exploration and evaluation costs		
Geological, geophysical, drilling and other expenditure – at cost	16,309,832	15,401,549
	=====	=====

The capitalised exploration and evaluation costs carried forward above have been determined as follows:

Opening balance	15,401,549	3,913,928
Costs incurred during the year	980,629	12,377,876
Site restoration charge	-	748,855
Impairment charge relating to PEL103, PEL103A and PEL101	-	(696,204)
Costs expensed during the year	(72,346)	(942,906)
	-----	-----
	16,309,832	15,401,549
	=====	=====

## **Note 6      Events occurring after the balance sheet date**

Since the end of the half-year reporting period the Company has:

- completed a non-renounceable rights issue under which 87,182,963 ordinary shares at 11.5 cents each were issued raising \$10,026,041.
- completed the acquisition from SCGAU Pty Ltd of an additional 25% interest in PEL103 and PRLs 14, 17 & 18. This increases Innamincka Petroleum Limited's holding in PEL103 from 37.5% to 62.5%. Total consideration paid for the acquisition was \$5 million.

There have been no other matters or circumstances that have arisen since the end of the half-year that have not already been announced to the Australian Securities Exchange, that have significantly affected, or may affect, the operations of the company, the results of those operations or the state of affairs of the company in future financial year.

## DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 10 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Innamincka Petroleum Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



A Johnson  
Director

Brisbane  
9 March 2011



## **Independent auditor's review report to the members of Innamincka Petroleum Limited**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Innamincka Petroleum Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Innamincka Petroleum Limited (the Company).

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Innamincka Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

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**PwC, ABN 52 780 433 757**

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*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of the Company for the half-year ended 31 December 2010 included on Innamincka Petroleum Limited's web site. The company's directors are responsible for the integrity of the Innamincka Petroleum Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Innamincka Petroleum Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Sarah Nelson*

Sarah Nelson  
Partner

Brisbane  
9 March 2011