
ANNOUNCEMENT TO ASX

Date: 31 January 2011
To: Australian Securities Exchange Limited
Companies Announcement Office
Electronic Lodgment System

Dear Sir,

Innamincka Petroleum – \$31 million Recapitalisation

Highlights

Funding:

- Placement of shares to Republic at 19 cents per share to raise approximately \$21 million.
- 1 for 3 rights issue at 11.5 cents per share to shareholders to raise approximately \$10 million.

Management & Board:

- Nick Davies, who led Arrow Energy from early stages to its sale for \$3.5 billion is to join the Board and to be interim CEO while assembling the new management team.
- Major shareholder, Republic Investment Management to provide significant support with Anwar Awan joining the Innamincka Board on completion of rights issue.

Forward Strategy:

- Definition of the Flax/Juniper fields through 3D-seismic, additional reservoir studies and for trials of new completion techniques.
- Exploration and new venture activity in existing and, potentially, additional new areas.

Recapitalisation Process

The Recapitalisation Process which has been agreed with Republic will involve:

- the placement of 110 million Innamincka ordinary shares at 19 cents per share to Republic, which will raise approximately \$20.9 million (**Placement**); and
- a 1 for 3 non-renounceable rights issue of ordinary shares at 11.5 cents per share (**Rights Issue**), which will raise up to approximately \$10 million.

Board and Management Appointments

Mr Nick Davies will be joining the Board of Innamincka and will be Acting CEO. Mr Davies was CEO and MD of Arrow Energy from 2004 to 2010 and led the company from early stages until agreement to sell the company was reached in early 2010 for approximately \$3.5 billion. Mr Davies has 32 years experience in the Oil and Gas business and prior to Arrow was President of BP's Asia Gas and Power business based in Tokyo. He is also currently Chairman of International CSG Company Dart Energy Limited. Mr Davies commented:

"I am delighted to be working with Innamincka. I believe there is significant potential in the current Cooper Basin assets and many additional commercial and technical opportunities to pursue. The recapitalisation program will provide the funds necessary to enable this new strategy to be followed and will be essential for an effective new strategy to be implemented. In particular the funds will be used for further definition of the Flax/Juniper fields through 3-D seismic, additional reservoir studies and for trials of new completion techniques – together with exploration and new venture activity in existing and, potentially, additional Cooper Basin assets."

Upon Republic's subscription for its full entitlement under the Rights Issue, Anwar Awan of Republic will join the Innamincka Board as a Non-Executive Director. Mr Awan brings 18 years of investment management experience focusing primarily on the Asia Pacific region. As a portfolio manager, he has been investing in the resources sector since the early 1990s. After working for almost 10 years in large investment management firms, Mr Awan co-founded Republic in October 2003.

Innamincka Chairman and Joint Founder, Mr Adam Johnson, welcomed the appointments of Nick Davies and Anwar Awan and said:

I am excited by the appointment of Nick Davies and the experience and leadership he brings. Innamincka will be properly funded and, with strong new management to implement our strategy, Innamincka shareholders can look forward to the future with optimism and confidence.

I also look forward to welcoming Anwar who will bring great vision and drive to Innamincka and he will play a very important role as we move forward. He has been a key driver in achieving the revitalisation and recapitalisation of Innamincka.

The Placement

The placement of 110 million Innamincka ordinary shares at 19 cents per share to Republic, which will raise \$20.9 million (**Placement**), is subject to shareholder approval.

Commenting on the Placement, Mr Anwar Awan said:

“Republic became a substantial shareholder in Innamincka in June 2010 and believes the company has significant potential. Republic is offering a \$20 million capital injection structured as a placement so that it can be productively invested alongside existing shareholders’ funds to create value for all shareholders. Assuming that the Placement is approved by Innamincka shareholders, Republic will increase its shareholding in Innamincka to approximately 39%. Republic has agreed to pay a 65% premium over the Rights Issue price for its increased shareholding so that the new and highly experienced management team has sufficient capital and can focus its full attention to proving the potential and growing the company.”

The Rights Issue

Innamincka will undertake a 1 for 3 non-renounceable rights issue of ordinary shares at 11.5 cents per share (**Rights Issue**) to shareholders to raise approximately \$10 million. The Rights Issue itself does not require shareholder approval.

The Rights Issue is proposed to be fully underwritten by Azure Capital Limited (**Azure**), and Innamincka has appointed Azure Capital Limited to act as underwriters to the Rights Issue, subject to the execution of a formal underwriting agreement on terms acceptable to Azure and Innamincka and approval by Innamincka shareholders (**Underwriting**).

Subject to shareholder approval being obtained, shareholders who take up their entitlement in full may apply for excess shares under the Rights Issue if these are available (**Shortfall Shares**).

The issue of Shortfall Shares, the Underwriting and the Placement are each subject to Innamincka shareholder approval.

Funds raised will be used to refocus Innamincka’s direction and strategy on the exploration, development and appraisal of its core Cooper Basin business. The company will be looking to extract maximum value from its existing assets, to regenerate its existing core portfolio and to add selective, new assets as appropriate.

Innamincka’s major shareholder, Republic, has indicated that it intends to subscribe for its full entitlement under the Rights Issue and to apply for any excess shares to increase its holding to 20% of Innamincka. It has also indicated that it intends to vote in favour of the resolution to approve the issue of the Shortfall Shares and the Underwriting.

Shareholder Approvals

Innamincka shareholder approval to the issue of Shortfall Shares (**Shortfall Resolution**), the issue of shares pursuant to the Underwriting (**Underwriting Resolution**), the issue of the options to Nick Davies in accordance with his employment contract (**Davies Options**) (**Option Resolution**) and the issue of shares to Republic under the Placement (**Placement Resolution**) is required under ASX Listing Rule 7.9. ASX Listing Rule 7.9 requires that an entity must not issue or agree to issue shares without shareholder approval for three months after it has been told in writing that a person is making, or proposes to make, a takeover for securities in it.

Drillsearch Energy Limited has made an incomplete, non-binding proposal in respect of an off-market takeover for Innamincka. Despite repeated requests from Innamincka, Drillsearch has not indicated whether or not it proposes to proceed with a proposal. As a result, Innamincka is now (by virtue of ASX Listing Rule 7.9) prevented from issuing the Shortfall Shares, the Underwriting Shares and the Davies Options unless it first obtains shareholder approval.

The issue of shares to Republic under the Placement also needs shareholder approval under Item 7 of Section 611 of the Corporations Act, ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

A shareholders' meeting to seek approval to the Shortfall Resolution, the Underwriting Resolution, the Option Resolution and the Placement Resolution (together, the **Resolutions**) will be convened as soon as possible (**Shareholders' Meeting**).

Innamincka has engaged BDO Corporate Finance (Qld) Ltd (**Independent Expert**) to prepare an Independent Expert's Report for the purposes of the issue of shares to Republic under the Placement Resolution. A copy of that report will be attached to the Explanatory Memorandum that is to be sent to Innamincka shareholders with the Notice of Meeting for the Shareholders' Meeting.

The Innamincka Board is fully supportive of the overall proposal and unanimously recommends that shareholders support the overall proposal by voting in favour of the Resolutions at the Shareholders' Meeting unless, in the case of the Placement Resolution, the Independent Expert concludes in the Independent Expert's Report that the Placement is not fair and not reasonable to Innamincka shareholders whose votes are not to be disregarded on the Placement Resolution. Furthermore, the Innamincka Board Members intend to vote the shares which they own or control in favour of the Resolutions unless, in the case of the Placement Resolution, the Independent Expert concludes in the Independent Expert's Report that the Placement is not fair and not reasonable to Innamincka shareholders whose votes are not to be disregarded on the Placement Resolution.

Overview of Rights Issue

Eligible Innamincka shareholders will be entitled to subscribe for 1 new Innamincka ordinary share for every 3 existing Innamincka ordinary shares held at 5:00pm on 8 February 2011, at a price of 11.5 cents per share. The offer price of 11.5 cents per share represents an 18% discount to the closing price of Innamincka ordinary shares on 28 January 2011. All new ordinary shares issued will rank equally with existing ordinary Innamincka shares.

Eligible Innamincka shareholders who take up their entitlement in full may also apply for Shortfall Shares. However, Shortfall Shares will only be allocated if there is a shortfall in subscriptions under the Rights Issue and subject both to the passing of the Shortfall Resolution and to any allocation or share scale back policy that Innamincka may apply.

The Rights Issue is non-renounceable and entitlements will not be tradeable on the ASX or otherwise transferable. Innamincka shareholders who do not take up their entitlements in full will not receive any value for those entitlements that they do not take up.

An offer document setting out the terms of the Rights Issue will be lodged with ASX on 9 February 2011. Eligible shareholders will also be sent a copy of the offer document and application form on 9 February 2011.

Yours sincerely
Innamincka Petroleum Limited

Adam Johnson
Chairman

Indicative Timetable

Event	Date
Innamincka announces Rights Issue	31 January 2011
Innamincka sends notice to security holders containing the information required by Appendix 3B	1 February 2011
Existing Innamincka Shares quoted on an 'ex' basis	2 February 2011
Record Date to determine Rights Issue entitlements	8 February 2011
Rights Issue opens	9 February 2011
Offer document dispatched to eligible shareholders	9 February 2011
Rights Issue closes	23 February 2011
Deferred settlement trading begins	24 February 2011
Notice of under-subscriptions to ASX	28 February 2011
Allotment of new shares under Rights Issue	3 March 2011
Commencement of trading on a normal settlement basis	4 March 2011

Attachment A - Nick Davies Employment Contract

Under the terms of Mr Davies' employment contract, Mr Davies will be paid a base salary of \$75,000 per annum (increasing to \$95,000 per annum when Mr Davies takes on the role of Non-Executive Chairman), and subject to receiving all necessary shareholder approvals, Mr Davies will be granted three tranches of options (**Davies Options**) The three tranches are as follows:

- 2,000,000 options which will vest on 30 June 2011 and which are exercisable up until 20 June 2014 (**Tranche A Options**) with:
 - 666,667 of these options having an exercise price A\$0.40
 - 666,667 of these options having an exercise price A\$0.60; and
 - the remaining 666,666 options have an exercise price A\$0.80.

- 2,000,000 options which will vest on 30 June 2012 and which are exercisable up until 20 June 2014 (**Tranche B Options**) with:
 - 666,667 of these options having an exercise price A\$0.40
 - 666,667 of these options having an exercise price A\$0.60; and
 - the remaining 666,666 options have an exercise price A\$0.80

- 2,000,000 options which will vest on 30 June 2013 and which are exercisable until 30 June 2014 (**Tranche C Options**) with:
 - 666,667 of these options having an exercise price A\$0.40
 - 666,667 of these options having an exercise price A\$0.60; and
 - the remaining 666,666 options have an exercise price A\$0.80.

The full terms and conditions attaching the Davies Options will be included in the Explanatory Memorandum to the notice of meeting at which the issue of the Davies Options will be sought.