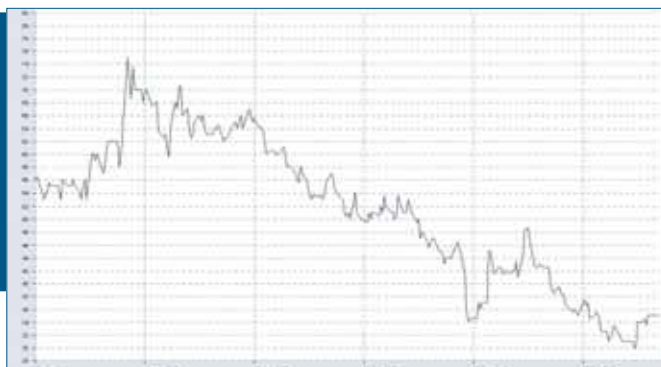


Innamincka to focus on Flax development

Innamincka Petroleum Ltd (INP)
 Market Capitalisation: \$27,525,461
 Issued Capital: 79,783,946
 Share Price at April 4: \$0.3450
 P/E Ratio: -10.15
 12 month high/low: \$0.80/\$0.285



By
 Haydn Black

Innamincka Petroleum is expecting to book the first real profits from its Flax oil field development in the year ahead, providing cash flow that will allow the PEL 103 Joint Venture (Innamincka 35% and operator, Vernon E Faulconer Australia 65%) to ramp up ongoing exploration and development activities in its three Cooper Basin permits.

Since exploration began two years ago the joint venture has discovered two oil fields (Flax and Juniper) and three gas fields (Yarrow, Crocus and Ginko) and has conducted production testing operations on the Flax and Yarrow fields.

In late 2005 Innamincka commissioned a group of independent technical experts to estimate the recoverable reserves at Flax and Yarrow fields, and to assess the resources contained in the Juniper, Crocus and Ginko fields.

The initial report estimated Flax's recoverable reserves at 3.2 mmbbl – a figure that has just been updated to 4mmbbl recoverable based in additional production test data from the Flax-1 well which may indicate additional upside.

Production from Flax-1 has stabilised at 100 bopd along with 500 mcf gas and 7bbl of water.

The experts estimated that Yarrow has 22.8 bcf recoverable gas with mean in-place resource estimates for Juniper (65.8 mmbbl), Crocus (29 bcf) and Ginko (20 bcf).

Innovative

Innamincka's managing director Ross Wecker said that development of Flax would require some innovative solutions such as gas-flood technology which, thankfully, have been proven by Santos in its development of the Tirrawarra, Moorari and Fly Lake oil fields.

Wecker said miscible gas flood was the best technology match providing reservoir pressure maintenance and an effective oil sweep operation

"Our Flax oil is a highly volatile oil and is reservoired in low permeability sandstones where natural oil production relies on the pressure created when associated gas breaks out," he said.

"We're in the Permian where production relies on the associated gas breaking out. As the oil comes to surface the gas comes out and bubbles form ... just like opening a coke bottle.

"Unfortunately, these solution gas drive reservoirs decline fairly quickly and introduced reservoir pressure support is necessary for economic production.

"By comparison, the oil fields hosted by the shallower Eromanga reservoirs are supported by a strong artesian water drive and generally do not require any lead time for commerciality.

"However, the Eromanga fields are generally short lived ... they gush oil initially, and have a fairly rapid decline curve compared to the plateau-type of oil production from a gas flood operation which after commercial oil production ceases, leaves a gas field for future gas and gas liquids sales."

He said the Innamincka was hoping to learn from and improve on Santos' experience at Tirrawarra, which is 70km to the west of Flax.

The Tirrawarra field was developed in the 1980s and early 1990s and has produced more than 20 mmbbl oil from a gas flood operation.

"We are certainly hoping to learn from that operation and improve upon field management using the latest production techniques," Wecker said.

"This is quite common in the US and Canada, where you have low permeability rocks a high volatile oil, and a gas expansion drive system.

"We are planning to install a pattern of five production wells around a central injection well with the injected gas supplied by the associated gas coming from the oil production wells and from the nearby Yarrow field if needed. It is anticipated the pattern will be producing at least 1000 barrels of oil per

day once pressure maintenance has been achieved."

At present Innamincka is considering drilling the wells at 120 acre spacing, compared to Tirrawarra, which uses 160-200 acres.

"We're working on a conservative 120 acres because (at this stage) we don't know how good the well-to-well communication is in that area. We are being conservative to start with, and as we build up our production data we'll be able to see what happens."

Using 120 acre spacing will require five wells drilled, but if the well-to-well communication is better than expected the Joint Venture could have the option of increasing the spacing and perhaps reducing the number of wells to four, reducing up-front capital costs.

"It's a bit of a juggle of the reservoir quality, the frac efficiency, and the type of oil that will flow.

"Once we have some more history with drilling the development wells that may change, but 120 acres is a good starting point," Wecker said.

Demanding

For a junior, that form of multi-well development demands a big share of a small purse, but Wecker said things were falling into place for a mid-year spud of the first well in what is planned to be a back-to-back drilling program.

The ballpark figure for this first stage of Flax field development is likely to be in the \$15 million range.

"Getting the financing of this operation right is very important to us and we are investigating all avenues including bringing in a new joint venture partner to carry a share of the costs," he said.

Wecker said that getting cash-flow from Flax is a high priority as it will underpin further exploration across its three permits.

One particular opportunity is to drill a well into the saddle between the Flax and Juniper fields, potentially confirming the company's theory of a single Flax-Juniper complex.

"We believe there is a fair likelihood of that and, if it is the case, then there is a very large oil resource in this area.

"Flax itself has sufficient reserves to be commercial in its own right and Juniper offers substantial upside. Once Flax is up and running, we will progress the appraisal of the Juniper field with the variation in reservoir quality being the only unknown.

"The bottom line is that we've got one hell of an oil and gas province in the subsurface ... but how much can we get

out of the ground commercially is the \$64 million dollar question.”

To date the company has focused on its gas discovery at Yarrow-1 and Flax in order to control costs.

“Juniper hasn’t worried us at this stage because the reservoir quality isn’t as good as at Flax, but we know it will vary in the area and we hope there will be spots within the Juniper field that will be even better than Flax,” Wecker said.

Eromanga

In terms of the Eromanga plays, Canadian Avery Resources has farmed in to several areas within PEL 103 although it has yet to be successful with its exploration drilling.

The Aspen-1 and Pine-1 wells drilled in late 2005 failed to turn up a commercial discovery, however Avery has completed key steps to earn its 25% share in the Aspen and South Candra blocks. The Canadian now expects to drill either the Spindle or Alder prospects to complete its farm in obligations and will earn a 35% participation interest in the Turban block through contribution to the funding of a 3D seismic survey in late 2006.

Aspen-1, some 8km east of Cummin-1, came in low to prognosis although it intersected good quality reservoirs in the Hutton Sandstone and Poolowanna Formations and a drill stem test of the top Hutton interval flowed gas to surface at a rate too small to measure

Pine-1, 2.6km south south-east of Sprigg South-1 and 12km east of

Streeton-1, intersected hydrocarbon saturated sandstones throughout the target intervals, however a drill stem test conducted over the Tirrawarra Sandstone and upper Merrimelia Formation but failed to recover hydrocarbons.

“What Pine-1 told us was that even though the reservoir there was tight and thinning into the old Innamincka High, it was nevertheless hydrocarbon saturated, and showed us the trap is working along the northern margin. That was very important to us” Wecker said.

Innamincka is also chasing Eromanga targets in its exploration of ATP 543P South in south-western Queensland.

Exploration

The company is looking to test the Zeta prospect as its first exploration well in a play that requires migration from the Permian section some 20 km to the north to be successful.

“With a trap potential exceeding 5mmbbl of recoverable oil and shallow target depth, it is certainly worthy of investigation,” Wecker said.

“It requires a long distance of oil migration but it’s not impossible because there are fields to the north of it. We’re just waiting for the Minister to sign the renewal, and once we get that we can get a farm-in partner and we’ll drill it.”

While developing PEL 103 is the prime focus the company is also considering drilling an additional development well as part of its upcoming program, either up dip Willowie to follow up strong oil

shows, or either a well between Yanpurra and Yarrow.

“Yarrow was very liquids-rich gas, and it was the structurally highest well we’ve drilled, so we think there is a chance there may be an oil leg to that, or an oil envelope below it,” Wecker said.

An earlier well in the area, drilled in 1970, recovered a small amount of oil from the Tirrawarra sands, so there exists the potential that a larger oil accumulation may be held in a separate trap.

“We’ll select an exploration play somewhere there and try to look at the potential oil fairway through there,” Wecker said.

With the start of commercial oil production, the substantial appraisal potential offered by the known oil accumulations at Juniper, Willowie and Yanpurra, and wildcat exploration opportunities across its three permits, Wecker said Innamincka would be focussed on the Cooper Basin for some time to come.

It has identified 20 leads and prospects to date, and the potential to host significant volumes of oil and gas that should be drilled in the future.

“Naturally with the historically high oil prices likely to prevail for the foreseeable future and the relatively unfavourable gas market in Australia, our prime interest will be on oil development projects,” he said.

“The Cooper Basin provides many challenges as the politically-correct would say, but we reckon this is a great place for a junior oil and gas company.”



◀ Innamincka Petroleum has revised its Flax reserves up to 4mmbbl.