

INNAMINCKA PETROLEUM LIMITED
ABN 11 101 313 777

HALF-YEAR REPORT – 31 DECEMBER 2006

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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 2006 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 2006.

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:

Adam Johnson - Chairman
Ross Wecker – Managing Director
Michael Brown – Non-Executive Director
David McEvoy – Non-Executive Director

Review of Operations

The operating loss after income tax of the company for the half-year was \$1,108,027 (2005: \$1,868,766), after expensing exploration costs of \$615,662 (2005: \$2,408,356) incurred to December 31, 2006. The loss reflects the nature of the company's principal activity.

During the reporting period, Innamincka Petroleum Limited ("INP"), as the operator for the PEL 101, the PEL 103 and the ATP 543P South Joint Ventures in the Cooper Basin, was engaged in farmin discussions regarding potential purchasers for the Vernon E Falconer Australia Inc ("VFI") interest in the three tenements. Concurrently, Innamincka and VFI were considering future work program options to recommence field activities.

In late November, VFI informed Innamincka that they had received acceptable offers for their interests in PEL 103 and ATP 543P, including ATP 543P South.

In early December, Innamincka advised VFI that, under the provisions of the PEL 103 Joint Operating Agreement, it pre-empted the offer for VFI's 65% interest in the permit. Subsequently Innamincka has agreed to farm out a 25% interest with Innamincka retaining a 75% interest in the permit. This was a major step forward for Innamincka in gaining control of evaluation and commercial development of its assets.

Innamincka did not pre-empt the offer for ATP 543P South. Accordingly, the interests going forward on this permit block will be Innamincka 50% and Santos 50%.

The Company is now in an ideal position to focus on achieving its immediate objective of successfully bringing the Flax Oil Field into production. The Company has a 75% working interest in this field. Other activities scheduled in the next 18 months include drilling the exploration well to test whether the Flax and Juniper oil fields are part of one larger accumulation, and conducting a seismic survey with joint venturer Santos in ATP543P South.

Given the advanced nature of the Company's oil and gas projects, their proximity to existing infrastructure, its experienced management team and historically strong oil prices, Innamincka believes the next six to twelve months has the potential to be a very exciting period, with the potential evolution of Innamincka into an oil and gas production company.

On 20 February 2007 the Company announced to the ASX its Capital Raising Program to raise up to \$15 million. The Capital Raising Program is to take place through a two part approach, a Shareholder Share Purchase Plan and Prospectus. The Shareholder Share Purchase Plan was detailed on 23 February 2007 in an ASX announcement whereby the Company will raise up to \$5 million of the \$15 million Capital Raising Program from existing shareholders. Through this Transaction Specific Prospectus, the Company will seek to raise the balance of the \$15 million from new wholesale and retail investors.

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 2.

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



Adam Johnson
Chairman

12 March 2007

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the review of Innamincka Petroleum Limited for the half year ended 31 December 2006, 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.



Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane
12 March 2007

**INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Note	Half-year 2006 \$	Half-year 2005 \$
Revenue		62,004	1,008,492
Exploration and evaluation abandoned	3	(615,662)	(2,408,356)
Oil sales fees and charges		-	(138,129)
Professional services		(121,912)	(107,829)
Insurance		(78,752)	(73,444)
ASX and share registry expenses		(35,911)	(39,508)
Other expenses		(116,854)	(109,992)
Finance costs	3	(200,940)	-
		<hr/>	<hr/>
Loss before income tax		(1,108,027)	(1,868,766)
Income tax expense		-	-
		<hr/>	<hr/>
Loss for the half-year attributable to members of Innamincka Petroleum Limited		<u>(1,108,027)</u>	<u>(1,868,766)</u>
		<u>=====</u>	<u>=====</u>
Basic earnings per share		(1.3 cents)	(2.3 cents)
Diluted earnings per share		(1.3 cents)	(2.3 cents)

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

**BALANCE SHEET
AS AT 31 DECEMBER 2006**

	Note	31 December 2006 \$	30 June 2006 \$
ASSETS			
Current assets			
Cash and cash equivalents		2,566,700	2,038,171
Receivables		419,608	360,257
Exploration inventory		1,064,116	1,043,213
Deferred finance costs	5	1,820,248	-
Other		26,400	26,400
		<hr/>	<hr/>
Total current assets		5,897,072	3,468,041
		<hr/>	<hr/>
Non-current assets			
Property, plant and equipment		142,640	172,640
Exploration and evaluation costs	6	17,577,854	6,964,780
		<hr/>	<hr/>
Total non-current assets		17,720,494	7,137,420
		<hr/>	<hr/>
Total assets		23,617,566	10,605,461
		=====	=====
LIABILITIES			
Current liabilities			
Payables		1,074,803	280,156
Borrowings	7	10,313,689	-
		<hr/>	<hr/>
Total current liabilities		11,388,492	280,156
		<hr/>	<hr/>
Total liabilities		11,388,492	280,156
		=====	=====
Net assets		12,229,074	10,325,305
		=====	=====
EQUITY			
Contributed equity	4	20,329,771	19,199,698
Reserves		1,988,250	106,527
Accumulated losses		(10,088,947)	(8,980,920)
		<hr/>	<hr/>
Total equity		12,229,074	10,325,305
		=====	=====

The above Balance Sheet should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Half-year 2006 \$	Half-year 2005 \$
Total equity at the beginning of the half-year	10,325,305	13,321,020
Loss for the half-year	(1,108,027)	(1,868,766)
Share based payment linked to borrowings	1,881,723	-
Transactions with equity holders in their capacity as equity holders: Contributions of equity, net of transaction costs (note 4)	1,130,073	-
	<hr/>	<hr/>
Total equity at the end of the half-year	12,229,074 =====	11,452,254 =====

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

**CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Half-year 2006 \$	Half-year 2005 \$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	11,279	980,096
Payments to suppliers (inclusive of GST)	(485,442)	(1,055,062)
Interest received	62,004	146,757
Finance costs	(298,129)	-
Net cash inflows from operating activities	<u>(710,288)</u>	<u>71,791</u>
Cash flows from investing activities		
Payments for exploration and evaluation	(589,882)	(3,110,878)
Payments for joint venture interests	(9,842,322)	-
Payments for exploration inventory	-	(1,033,150)
Payments for property, plant and equipment	-	(2,443)
Net cash outflows from investing activities	<u>(10,432,204)</u>	<u>(4,146,471)</u>
Cash flows from financing activities		
Proceeds from share issue	1,130,073	-
Proceeds from borrowings	10,540,948	-
Net cash inflows from financing activities	<u>11,671,021</u>	<u>-</u>
Net decrease in cash held	528,529	(4,074,680)
Cash at the beginning of the reporting period	2,038,171	7,189,904
Cash at the end of the reporting period	<u>2,566,700</u> =====	<u>3,115,224</u> =====

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note 1. Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 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 2006 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 except for the accounting policies detailed below.

(a) Basis of preparation

The financial report has been prepared on a going concern basis. In December 2006 Innamincka Petroleum Limited acquired a further 65% interest in PEL103 from its joint venture partner, Vernon E Falconer Australia Inc. This acquisition was funded by a \$12 million short term loan facility provided by Macquarie Bank Limited. This facility is repayable at \$7 million by 31 March 2007 and the balance no later than 31 December 2007. The facility had been drawn down to \$10.5 million at 31 December 2006.

In order to fund this acquisition Innamincka Petroleum Limited will complete the 25% farm out to Seoul City Gas of PEL103 for \$7 million. Proceeds from this farm out will be used to retire a portion of the Macquarie Bank facility.

On 20 February 2007 Innamincka Petroleum Limited announced its Capital Raising Program. The Capital Raising Program consists of a share purchase plan and a prospectus offer to collectively raise up to \$15 million which will be used to repay the balance of the Macquarie Bank facility and further develop the assets.

Should the farm out and equity raising set out above not be successful, there would be significant uncertainty whether the company will continue as a going concern and therefore, whether the Company will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

However, based upon the advice Directors have received that the prospect for the capital raising being good and that the farmout will proceed in accordance with the agreement, the financial report has been prepared on a going concern basis. At this time the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2006. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(b) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed.

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 the Cooper-Eromanga Basin. The company operates in Australia.

Note 3 Profit for the half-year

	Half-year 2006 \$	Half-year 2005 \$
Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:		
Expenses		
Profit before income tax includes the following specific expenses:		
Exploration and evaluation abandoned	615,662	2,408,356
Finance costs	200,940	-

Note 4 Equity securities issued

	Half-year		Half-year	
	2006 Shares	2005 Shares	2006 \$	2005 \$
Opening balance	79,783,946	79,783,946	19,199,698	19,199,698
Issues of ordinary shares during the half-year				
Issued on exercise of options (a)	5,650,363	-	1,130,073	-
Transaction costs arising on share issues	-	-	-	-
Balance 31 December 2006	<u>85,434,309</u>	<u>79,783,946</u>	<u>20,329,771</u>	<u>19,199,698</u>

(a) Options issued to seed investors under the prospectus dated 19 September 2003, exercisable at 20 cents, exercised during the financial period for cash.

Note 5 Current assets – Deferred finance costs

	Half-year 2006 \$	30 June 2006 \$
Deferred finance costs	1,820,248	-
	=====	=====

The capitalised deferred finance costs carried forward above have been determined as follows:

Options issued to Macquarie Bank Limited	1,881,723	-
Legal fees	52,040	-
Stamp duty	54,000	-
	-----	-----
Deferred finance costs amortised during the current period	1,987,763	-
	(167,515)	-
	-----	-----
	1,820,248	-
	=====	=====

Deferred finance costs include 12 million options issued to Macquarie Bank Limited on 19 December 2006 pursuant to the Facility Agreement (note 7). A further 9 million options may be issued under the Facility Agreement to Macquarie Bank Limited in late March 2007, subject to shareholder approval.

Note 6 Non-current assets – Exploration and evaluation costs

	Half-year 2006 \$	30 June 2006 \$
Exploration and evaluation costs		
Geological, geophysical, drilling and other expenditure – at cost	17,577,854	6,964,780
	=====	=====

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

Opening balance	6,964,780	6,513,186
Costs incurred during the year	429,245	3,814,635
Additional interest acquired in PEL103	10,799,491	-
Costs written off during the year	(615,662)	(3,363,041)
	-----	-----
	17,577,854	6,964,780
	=====	=====

Note 7 Current liabilities – Borrowings

	Half-year 2006 \$	30 June 2006 \$
Secured		
Bank loans	10,313,689	-
	=====	=====

(a) Total secured liabilities

The total secured liabilities are reconciled as follows:

Face value of facility	10,486,948	-
Interest accrued to 31 December 2006	33,426	
Less: Facility fees	(206,685)	-
	-----	-----
	10,313,689	-
	=====	=====

\$7,000,000 of the facility is due for repayment by 31 March 2007 with the balance of the facility to be repaid by 13 December 2007.

(b) Assets pledged as security

The bank loan is secured by a fixed and floating charge over all real and personal property, choses in action, goodwill, uncalled and called but unpaid capital of Innamincka Petroleum Limited.

(c) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Half-year 2006 \$	30 June 2006 \$
Bank loan facilities		
Total facilities	12,000,000	-
Used at balance date	10,486,948	-
	-----	-----
Unused at balance date	1,513,052	-
	=====	=====

(d) Interest rate exposure

Interest on the facility is charged at the bank bill swap bid rate plus 2.5%p.a.

Note 8 Business combination

Current period

On 19 December 2006 Innamincka Petroleum Limited acquired a further 65% interest in PEL103 from Vernon E Faulconer Australia Inc for cash consideration of \$10,242,819. Innamincka Petroleum Limited's total interest is now 100%.

Details of the net assets acquired are as follows:

	\$
Purchase consideration	
Cash paid	10,242,819
Direct costs relating to the acquisition	556,672

Total purchase consideration	10,799,491

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount \$	Fair value \$
Cash and cash equivalents	450,132	450,132
Receivables	8,189	8,189
Payables	(192,706)	(192,706)
Exploration expenditure	19,741,814	10,533,876
	-----	-----
Net identifiable assets acquired	20,007,429	10,799,491
	=====	=====

Note 9 Events occurring after the balance sheet date

Subsequent to year end Innamincka Petroleum Limited has announced a Capital Raising Program to raise up to \$15 million with a minimum subscription of \$10 million. The funds raised from the Capital Raising Program will enable the Company to work toward its immediate goal of bringing the Flax Oil Field into production.

There have been no other matters or circumstances that have arisen since the end of the half-year, 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.

Note 10 Contingent liabilities

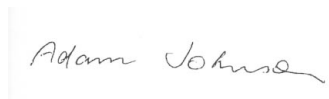
Since the last annual report date there has been no material change in any contingent liabilities. No material losses are expected in relation to any contingent liabilities.

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 1 to 11 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 2006 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 the company 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
12 March 2007

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 balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Innamincka Petroleum Limited (the company).

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 consolidated entity's financial position as at 31 December 2006 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.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Innamincka Petroleum Limited (the Company) for the half-year ended 31 December 2006 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 financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. 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*.¹

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 consolidated entity's financial position as at 31 December 2006 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*

Material uncertainty regarding continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As disclosed in note 1 the company has received short term funding to complete the acquisition of assets. The retirement of this short term debt and further development of its assets depends upon the Company's capital raising initiatives. Should these initiatives not be successful there is significant uncertainty whether the Company will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



PricewaterhouseCoopers



Robert Hubbard
Partner

Brisbane
12 March 2007