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29 October 2010

The Manager
Companies Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
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Report for Quarter Ended 30 September 2010

Key Activities and Highlights

- Innamincka Petroleum and Drillsearch Energy Ltd agree to friendly merger via Scheme of Arrangement subject to Innamincka shareholder approval;
- Completion of acquisition of a 37.6% interest in prospective Cooper Basin Western Margin permit PEL 182
- Production at Flax Oil Field continued with 4,796 bbls produced during the quarter (INP share 1,798 bbls). Local rain restricted production activity for much of the period.
- ATP543P joint venture commences scoping work for the 2D seismic program scheduled for early 2011
- Strong financial position maintained with \$8.8m cash, no debt, and a remaining carry commitment by AGL Energy Limited of \$4.4m.

CORPORATE

Innamincka Drillsearch Merger

On 8 September 2010 the Boards of Drillsearch Energy Limited (ASX: DLS) and Innamincka Petroleum Limited (ASX: INP) announced that they have unanimously agreed to merge by way of Scheme of Arrangement (Scheme).

The Scheme is subject to a number of conditions, including Innamincka shareholder and Court approval. If approved, Innamincka shareholders will receive 2.5 Drillsearch shares for each Innamincka share they own (Scheme Consideration).

The merger will create a leading mid-tier oil and gas company in the Cooper-Eromanga Basin, with:

- A market capitalisation expected to be in excess of \$150 million providing Innamincka shareholders with the benefits of greater liquidity through Drillsearch's membership and participation in the All Ordinaries Index.
- A leading position in quality oil and gas production, development and exploration permits and projects across the Cooper-Eromanga Basin.
- Increased oil exploration exposure across the Western Flank Oil Fairway with major positions in PEL 91 (60%) and PEL 182 (37.6%) with over 40 2D/3D defined Namur Sandstone and Birkhead Formation oil prospects.
- Significant upside potential from a focussed appraisal and development approach to the Flax and Juniper Tight Oil discoveries.
- Existing commercial relationships with a strong JV partner in AGL to assist with the development of Cooper-Eromanga Basin gas commercialisation plans.

Further details will be forthcoming to shareholders in the near future to enable a considered decision on the recommended merger.

Financial Position

INP retains a healthy cash balance of \$8.8m 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.

OPERATIONAL ACTIVITY

Cooper-Eromanga Basin

Within the Cooper-Eromanga Basin, the major objectives during the quarter have been to:

- Complete the acquisition of a 37.6% interest PEL 182
- Optimise the oil production from the Flax field.
- Progress the planning for 2011 seismic program on ATP543P South
- Formulate strategies to extract value from the remaining assets

A summary of the key activities are as follows:

PEL 182 (37.6% Innamincka)

In June 2010, INP announced that it had entered into an arrangement to purchase a 37.6% interest in the PEL 182 permit from Strategic Energy Resources Ltd. This transaction was completed in July and has been funded from existing cash reserves.

PEL 182 is located on the prospective and productive western margin of the Cooper-Eromanga Basin. The permit encompasses 1,750 km², is adjacent to INP's PEL101, and represents a very strategic fit within the company's Cooper Basin portfolio.

Considered both oil and gas prone, the block offers INP considerable exploration potential, which will begin with recording a 3D seismic program to identify drilling targets. The permit also contains the Vanessa gas/condensate discovery immediately adjacent to Pennie and Cutapirrie gas fields and an oil discovery at Emily 1, due north of Vanessa. These discoveries are awaiting further appraisal and evaluation.

The company anticipates participating in technical workshops in the coming quarter with the new permit Operator, Victoria Petroleum Limited, and other joint venture partners to 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 4,796 bbls. Local rains necessitated that the field to be shut-in for 40% of the period and only restricted production achievable for much of the remainder.

Forward operations are to continue to optimise production from the established facilities.

ATP 543P South (50% Innamincka)

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

No field activity was conducted during the reporting period.

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.

Planning is currently underway for a seismic inversion study around the Tallow and Cypress gas prospects in PEL 103 to identify potential drilling targets, Quotes from the service providers are currently being assessed.

Under the terms of the farm-in agreement with AGL, INP has been fully carried for the recent 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.

Other Exploration and Development

PEL 103 (37.5% Innamincka)

PEL 103A Aspen Block (37.5% Innamincka)

PRL's 17 & 18 (37.5% Innamincka)

Technical studies are in process with the aim of identifying the potential for acquiring additional 3D seismic across the Flax/Juniper areas with the aim of identifying channelling in the Patchawarra formation.

In addition, the shallower oil plays in the Jurassic/Triassic sands such as the Poolawanna are being assessed for their inclusion in seismic programs. This focus on the shallower sands aligns with the renewed focus on the Banyan prospect in the north of PEL103, and the shallow oil plays in PEL 182 and ATP543P South.

Bass Basin

T/18P (5% Innamincka)


Inversion of the Shearwater 3D seismic data is now complete, and this will be used to update the detailed model of reservoir and hydrocarbon distribution. The operator of the permit, Origin Energy Limited continues detailed analysis of the well and seismic data with the aim of confirming field volumetrics and identifying potential development strategies.

The discovery of oil at Rockhopper has significantly improved the prospectivity of the northern permit area, opening up the possibility that the sizeable leads delineated on 2D could be oil charged in reservoirs analogous to Trefoil – Rockhopper, or the better reservoirs in the overlying Eocene. The Joint Venture has committed to a 3D seismic survey of 225 km² which will be acquired in 2011.

FORWARD PROGRAM

Planned activities for the next quarter are:

- to continue information flow to shareholders to enable a considered decision on the recommended merger with Drillsearch
- to work with new PEL 182 JV partners and formulate forward program to identify exploration targets on the Cooper Basin Western Margin;
- to further refine the gas aggregation strategy in the Cooper-Eromanga Basin and undertake studies to identify potential drilling targets in PEL 103;
- to finalise the seismic program for ATP543P South; and
- to further progress studies to identify value-adding activity on existing core assets of Flax/Juniper



David Kinsman
Chief Executive Officer