

**JOINT ASX / MEDIA ANNOUNCEMENT**

8 September 2010

**Drillsearch Energy Ltd and Innamincka Petroleum Ltd  
agree to friendly merger**

- **Drillsearch and Innamincka agree to friendly merger via Scheme of Arrangement subject to Innamincka shareholder approval**
- **Innamincka shareholders to receive 2.5 Drillsearch shares for each Innamincka share**
- **Scheme has implied value of 16 cents per Innamincka share – a premium of 80% over the previous trading days close**
- **Strong strategic rationale for combining complementary Cooper assets of the two companies**
- **Scrip consideration represents a fair price for both Drillsearch and Innamincka shareholders**

The Boards of Drillsearch Energy Limited (**ASX: DLS**) and Innamincka Petroleum Limited (**ASX: INP**) are pleased to announce that they have unanimously agreed to merge by way of Scheme of Arrangement (**Scheme**) and create the Cooper Basin's leading mid-tier oil and gas company, which will provide:

- A market capitalisation expected to be in excess of \$150 million providing Innamincka shareholders with the benefits of greater liquidity and through Drillsearch's membership, participation in the All Ordinaries Index.
- A leading position in quality oil and gas production, development and exploration permits and projects across the Cooper Basin.
- Existing commercial relationships with a strong JV partner in AGL to assist with the development of Cooper Basin gas commercialisation plans.
- A strong combined 2P oil and gas current reserve position of 4.2 MMBOE including 2.2 mmbbls of hydrocarbon liquids.
- Significant oil and gas 2C Contingent Resources position of 8.4 MMBOE (DLS contingent resources: Tintaburra 0.3 MMBOE + PEL 106A 5.5 MMBOE; INP contingent resources of 2.6 MMBOE).

- Significant upside potential from a focussed appraisal and development approach to the Flax and Juniper Tight Oil discoveries currently considered to be separate fields with OOIP of 70mmbbls (gross); a combined accumulation has been estimated to potentially contain up to 170 mmbbls OOIP (gross) or 64mmbbls OOIP (net).
- 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.

## About the 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**). These conditions, a summary of the exclusivity and break arrangements and other relevant provisions of the Merger Implementation Agreement are contained in Annexure A.

The Scheme Consideration has an implied value of 16 cents per Innamincka share based on Drillsearch's closing share price of 6.4 cents per share on 6 September 2010. The implied value of 16 cents per Innamincka share represents a premium of 80% to the last traded price of 8.9 cents per Innamincka share on 6 September 2010 and 94% to the Innamincka 30 day VWAP up to the trading halt of 8.25 cents per share.

## Recommendation of Directors

Each of Innamincka's Directors recommends that shareholders vote in favour of the Scheme at the Scheme Meeting in the absence of superior proposal and subject to the Independent Expert concluding that the Scheme is in the best interests of Innamincka Shareholders.

Innamincka's Chairman Adam Johnson said:

*"The merger of the two companies makes compelling strategic sense, bringing together two highly complementary Cooper Basin asset portfolios and it gives Innamincka shareholders exposure to a much larger conventional oil & gas project pipeline especially expanding shareholders' exposure to the prolific Western Flank Oil Fairway. The merger also gives Innamincka shareholders exposure to the significant unconventional resource potential of the Western Cooper and Central Cooper Unconventional Resource Projects identified by Drillsearch. The same technologies that Drillsearch is pursuing to unlock these resources can be deployed to appraise and develop the Flax/Juniper Tight Oil discoveries with their very large tight oil in place resources."*

Drillsearch's Chairman Jim McKerlie said:

*The merger is in line with our corporate strategy and adds significantly to our existing Cooper Basin portfolio strengthening both the New Oil business through increased exposure to the Western Flank Oil Fairway and our Wet Gas business with the addition of Innamincka's gas and liquids discoveries comprising significant 2P reserves and 2C Contingent Resources in the South Western and Central Cooper Basin.*

*The merger also importantly continues the development of our organisational capability to drive the development of our assets by the creation of a stronger technical and commercial group. Drillsearch continues to grow its capacity to deal with New Oil, Wet Gas and Unconventional Gas and Oil opportunities and make use of new technologies being successfully deployed overseas. This confirms Drillsearch's leading position in quality oil and gas production, development and exploration permits and projects across the Cooper Basin.*

## The Merged Group

The merged group will have a quality diversified Cooper Basin portfolio with 2P Reserves of 4.2 mmboe including 2.2 mmbbls of liquids, combined oil production of over 300 bopd growing to 600 bopd with the commencement of production at the Chiton Oil Field.

The merged group will cement its position as the Cooper Basin's leading mid-tier oil and gas explorer with a substantial development project pipeline in the Western Cooper Gas & Liquids Project and with the Flax/Juniper Tight Oil Project. The merged group will also hold one of the largest positions in the Western Flank Oil Fairway with Beach Energy in PEL 91 (60%) and with Victoria Petroleum in PEL 182 (37.6%). The merged group will also hold a significant position in the Southern Margin Oil Fairway with the positions in the Tintaburra Block JV (11%) and ATP 543P (50% & operator) – both in 2 party joint ventures with Santos Limited.

The merged group will have improved financial strength to develop these projects and to accelerate exploration activities. The merged group will be headquartered in Sydney and Innamincka's Brisbane office will be maintained to increase the merged groups' access to technical personnel and resources growing in Queensland due to the rapid expansion of activity around the Queensland CSG projects.

As part of the Scheme, Drillsearch must appoint at least one Director (as nominated by Innamincka and agreed to by Drillsearch) to the Drillsearch Board of Directors on or before the Implementation Date (subject to the Scheme becoming effective).

## Scheme Timing

The parties envisage that the Scheme will become effective in December 2010, based on the following indicative timetable:

Key Milestone	Date
Announcement	8 September
Scheme booklet lodged with ASIC	19 October
First Court Hearing Date to approve scheme documentation and convene Scheme Meeting	5 November
Scheme documentation (including Independent Expert's Report) sent to Innamincka shareholders	10 November
Scheme Meeting	13 December
Second Court Hearing Date	16 December
Implementation Date	31 December

A summary of the terms of the Merger Implementation Agreement is attached as Annexure A. Further details will be set out in the Scheme Booklet which is expected to be despatched to Innamincka shareholders in mid November 2010.

Drillsearch is advised by RFC Corporate Finance and Blake Dawson.

Norton Rose Australia is acting as legal adviser to Innamincka.

For further information please contact:

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**About Drillsearch Energy Limited** (ASX: DLS), which listed on ASX in 1987, explores and develops conventional oil and gas projects. Drillsearch has a strategic spread of petroleum exploration and production acreage in Australia's most prolific onshore oil and gas province, the Cooper/ Eromanga Basins in South Australia and Queensland. The company's focus is on 'brownfields' exploration where geological risk is reduced and there is access to existing infrastructure, ensuring that any discoveries can be brought into production. The company also has offshore exploration interests in the Gippsland Basin and oil & gas production interests in Canada which are pending sale.

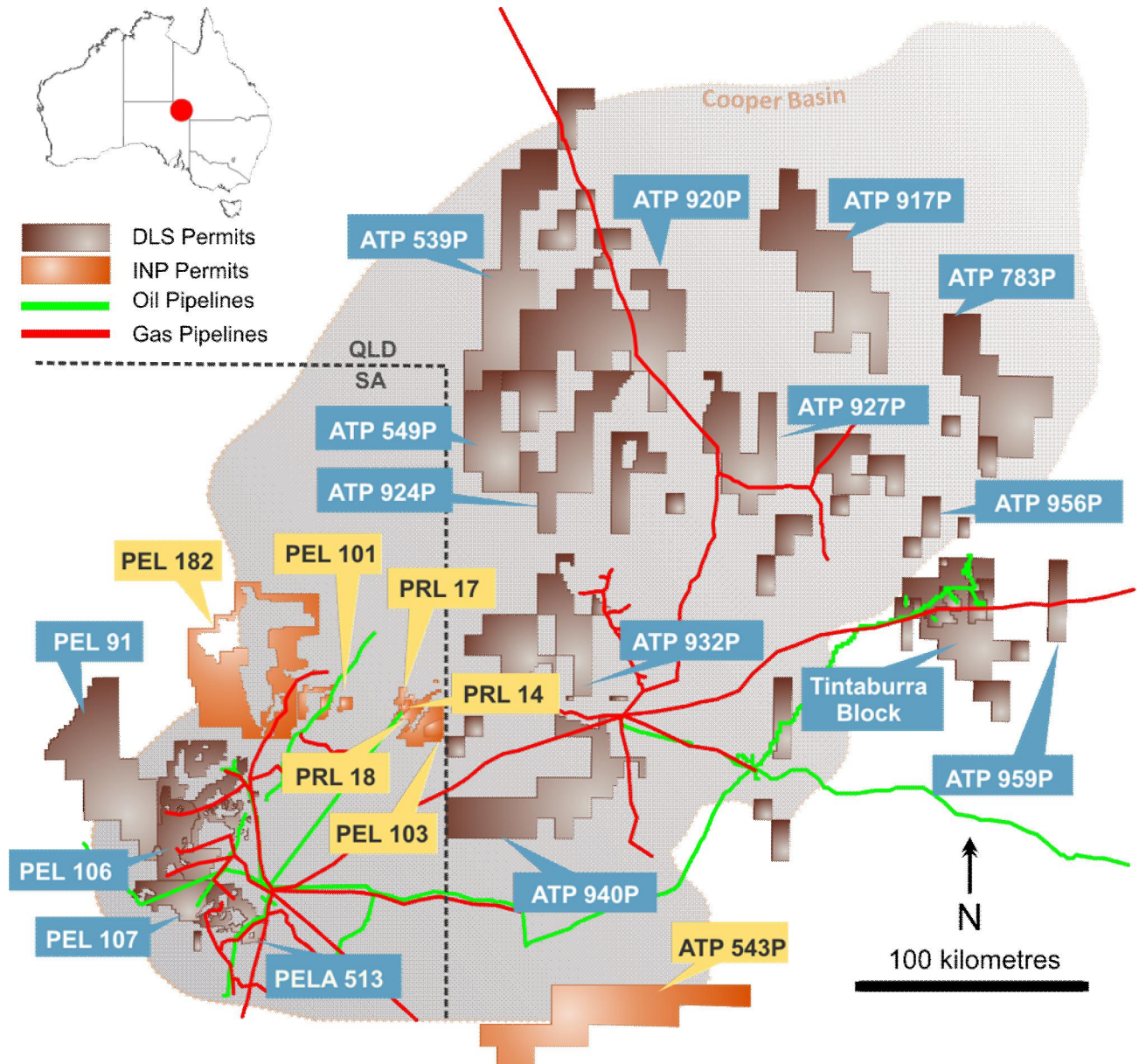
**About Innamincka Petroleum Limited** (ASX: INP), which listed on ASX in 2003 is a growing energy company, purposefully positioned with a balance of exploration and producing assets covering both on and off shore Australia. Innamincka has developed an extensive tenement portfolio with core assets in the Cooper/Eromanga Basin as well as the offshore Bass Basin and is actively partnered with some of Australia's premier energy companies. The company's headquarters are located in Brisbane, Australia

#### **Competent Person Statement**

Information on the Reserves and Resources in this release is based on information compiled by Mr. David Evans, Chief Technical Officer of Drillsearch and Mr Peter Stephenson, Partner of RISC who have given their consent as of the date of this release to the inclusion of this statement and the information in the form and the context in which they appear in this release.



## Combined Drillsearch / Innamincka Cooper Basin Portfolio



## Annexure A - Key terms of the Merger Implementation Agreement

### Introduction

Drillsearch and Innamincka entered into a Merger Implementation Agreement on 7 September 2010 (**MIA**). The MIA sets out the terms on which the Scheme will proceed and the obligations of both parties with respect to the implementation of the Scheme. A copy of the MIA will be included in the Scheme Booklet which will be provided by Innamincka to Scheme Participants prior to the Scheme Meeting. A summary of the key terms of the MIA is set out below.

### Conditions Precedent

The principal conditions precedent to the implementation of the Scheme include:

- Innamincka shareholder approval in accordance with the requisite majorities outlined in the Corporations Act.
- Court approval in accordance with s411(4)(b) of the Corporations Act on the Second Court Hearing Date.
- Unanimous recommendation of the Scheme by the Innamincka Board.
- The Independent Expert concluding that the Scheme is in the best interests of Innamincka shareholders and the Independent Expert not changing its conclusion or withdrawing its report prior to the Innamincka shareholder meeting.
- Obtaining necessary regulatory consents and approvals (including ASIC and ASX).
- ASX approving for quotation the New Drillsearch Shares.
- The MIA not having been terminated.
- Innamincka not entering into a Competing Transaction (as defined in the MIA).
- No Innamincka or Drillsearch "Prescribed Event" or Innamincka or Drillsearch "Material Adverse Change" (as defined in the MIA) occurring.
- The Innamincka and Drillsearch representations and warranties remaining true and correct in all material respects up until the Second Court Hearing Date.
- No person other than Drillsearch or its related bodies corporate acquiring more than a 15% relevant interest in Innamincka.
- Innamincka having a cash balance of at least \$5 million at the Second Court Hearing Date.

### Exclusivity - No shop and no talk

Innamincka must ensure that during the period from the date of the MIA to the earlier of the termination of the MIA, the Second Court Hearing Date and 31 March 2011 (**Non-solicitation Period**):

- (**No shop**) Innamincka nor any of its representatives directly or indirectly solicits, invites, facilitates, encourages or initiates any enquiries, negotiations or discussions or

communicates any intention to do any of these things with a view to obtaining any offer, proposal or expression of interest with any person in relation to a Competing Transaction.

- **(No talk)** Innamincka nor any of its representatives negotiating or entering into or participating in negotiations or discussions regarding a Competing Transaction or communicating any intention to do any of those things (subject to the fiduciary duties exception specified below).
- **(Notification)** During the Non-Solicitation Period, Innamincka must notify Drillsearch of (amongst other things):
  - any approach, inquiry or proposal made with respect to, or that could reasonably be expected to lead to any Competing Transaction;
  - any request for information relating to Innamincka which Innamincka has reasonable grounds to suspect may relate to a current or future Competing Transaction or any intention of Innamincka to provide such information; or
  - any action taken by Innamincka in reliance on the fiduciary carve out discussed below.

Any notice must include the identity of the persons taking the action referred to (**Rival Bidder**), the terms and conditions of any Competing Transaction and the circumstances in which any information is provided to a Rival Bidder.

- **(Fiduciary carve out)** The no talk restriction and notification obligations, do not apply to the extent that they restrict Innamincka or the Innamincka Directors from taking or refusing to take any action with respect to a bona fide Competing Transaction provided that the Innamincka Board has determined acting in good faith and acting reasonably and after consultation with its financial adviser that such a bona fide Competing Transaction is capable of being valued and completed and is more favourable to the Innamincka shareholders and having taken legal advice, that failing to respond to such a bona fide Competing Transaction would be likely to constitute a breach of the Innamincka Director's fiduciary or statutory obligations.

## Break Fee

Innamincka must pay Drillsearch a break fee of \$400,000 if (among other things):

- Any Innamincka Director fails to recommend the Scheme or withdraws or varies his recommendation or otherwise makes a public statement that he no longer supports the Scheme (except because the Independent Expert has concluded that Scheme is not in the best interests of Innamincka shareholders).
- Any Innamincka Director publicly recommends, promotes or otherwise endorses a Competing Transaction.
- A Competing Transaction more favourable to Innamincka shareholders is announced open for acceptance and the person proposing the Competing Transaction acquires a relevant interest in 40% or more of Innamincka shares.
- Any person other than Drillsearch obtains control of, or merges or amalgamates with Innamincka or acquires an interest in all or a substantial part of the business or assets of Innamincka.

- Drillsearch terminates the agreement because Innamincka breaches the exclusivity provisions set out above.
- The Court fails to approve the Scheme or the Effective Date has not occurred by 31 March 2011 for no other reason than as a direct result of material non-compliance by Innamincka with any of its obligations under the MIA.

Drillsearch must pay Innamincka a break fee of A\$400,000 if:

- Drillsearch commit an unrectified material breach of any material clause of the MIA.
- The Court fails to approve the Scheme or the Effective Date has not occurred by 31 March 2011 for no other reason than as a direct result of material non-compliance by Drillsearch with any of its obligations under the MIA.

### Obligations

Each party is obligated under the MIA to take all necessary steps within its power in order to implement the Scheme in accordance with the indicative timetable set out in the body of the Announcement.

### Conduct of Business

Innamincka has agreed to various restraints on its conduct of business until the earlier of termination of the MIA or the Implementation Date of the Scheme.

### Representations and Warranties

Representations and warranties have been given by each party including in relation to corporate capacity, authorisation and the accuracy of information provided to the other party as part of the MIA and associated Scheme documentation.

### Definitions

Term	Meaning
Competing Transaction	<ul style="list-style-type: none"> <li>• a transaction which, if completed, would mean a person (other than Drillsearch and its Related Bodies Corporate or Representatives) would, directly or indirectly: <ul style="list-style-type: none"> <li>• acquire all or a substantial part of the assets or business of Innamincka;</li> <li>• acquire a Relevant Interest in or become the holder of 10% or more of Innamincka's share capital or enter into any cash settled equity swap or other derivative contract arrangement in respect of 10% or more of the Innamincka's share capital; or</li> <li>• acquire Control of Innamincka;</li> </ul> </li> <li>• a takeover bid (including by way of a reverse takeover bid or dual listed companies structure), scheme of arrangement, amalgamation, merger, capital reconstruction, consolidation, purchase of main undertaking or other business combination involving Innamincka; or</li> <li>• a transaction involving the formation of a dual listed company structure, stapled security structure or other form of synthetic merger having the same or substantially the same effect as a takeover bid for, or scheme of arrangement in respect of, Innamincka.</li> </ul>



Effective Date	The date on which the Scheme becomes Effective.
Implementation Date	The fourth Business Day (or earlier if agreed) following the Record Date.
New Drillsearch Shares	Fully paid ordinary shares in the capital of Drillsearch to be issued under the Scheme.
Record Date	7.00pm on the fifth Business Day following the Effective Date or such other date (after the Effective Date) as Innamincka and Drillsearch agree.
Scheme Participants	A holder of Innamincka Shares as at the Record Date (other than Drillsearch to the extent that it holds Innamincka Shares as at the Record Date).