

incremental

OIL AND GAS

L T D



A.B.N. 66 138 145 114

Preliminary Final Report (Appendix 4E)
for the year ended 31 December 2014

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	%'age Change	US\$ 2014	US\$ 2013
Revenue from ordinary activities	↓ 41%	\$6,466,932	\$10,939,590
Profit/(Loss) from ordinary activities after tax attributable to members	↑ 106%	\$669,037	(\$11,469,595)
Net profit after tax for the period attributable to members	↑ 106%	\$669,037	(\$11,469,595)
Earnings per share	↑ 106%	0.42 cents	(7.35) cents
Diluted earnings per share	↑ 106%	0.42 cents	(7.35) cents
Net tangible assets per share	↑ 3%	9.0 cents	8.7 cents

Directors have not proposed a dividend and no dividend has been paid since incorporation

This report is based on accounts which have not yet been audited or reviewed. Oilfield asset values in the financial statements are subject to review by external competent persons and could result in impairment if the estimates are below net book value.

The functional and presentation currency of Incremental Oil and Gas Ltd is United States dollars (US\$). Any reference to dollars or currency in this report will be a reference to US\$ unless stated otherwise.

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COMMENTARY ON RESULTS

This consolidated financial report of Incremental Oil and Gas Limited ("Incremental" or "the Company") covers the twelve months of operations for the year ended 31 December 2014.

Incremental has improved its net profit after tax for the financial year ending 31 December 2014 (Profit - \$426,000) compared to the prior year (Loss - \$6.326M). Cash flow from operations remained strong despite a decrease in production from natural decline. A summary of operating profit is as follows:

	2014 US\$M	2013 US\$M
Volume of oil/gas sold	74,643 boe	114,677 boe
Revenue from oil and gas sales (US\$ million)	\$6.467	\$10.940
Royalty Payments	(\$1.108)	(\$1.958)
Production Expenses	(\$1.118)	(\$1.912)
Operating Profit	\$4.241	\$7.070
<i>Gross Profit margin</i>	66%	65%
Other income	\$0.008	\$0.003
Overhead Expenses	(\$1.998)	(\$3.140)
EBITDAX	\$2,251	\$3.927
Loss on sale of assets	(\$0.008)	(\$0.385)
Interest income/expense (net) & Finance costs	(\$0.378)	(\$0.397)
Depreciation/Amortisation	(\$0.874)	(\$1.839)
Tax (expense)/benefit	(\$0.327)	\$3.182
Impairment	\$ -	(\$15.925)
Other non-operating income/(expenses)	\$0.005	(\$0.042)
Net Profit/(Loss) After Tax	\$0.669	(\$11.470)

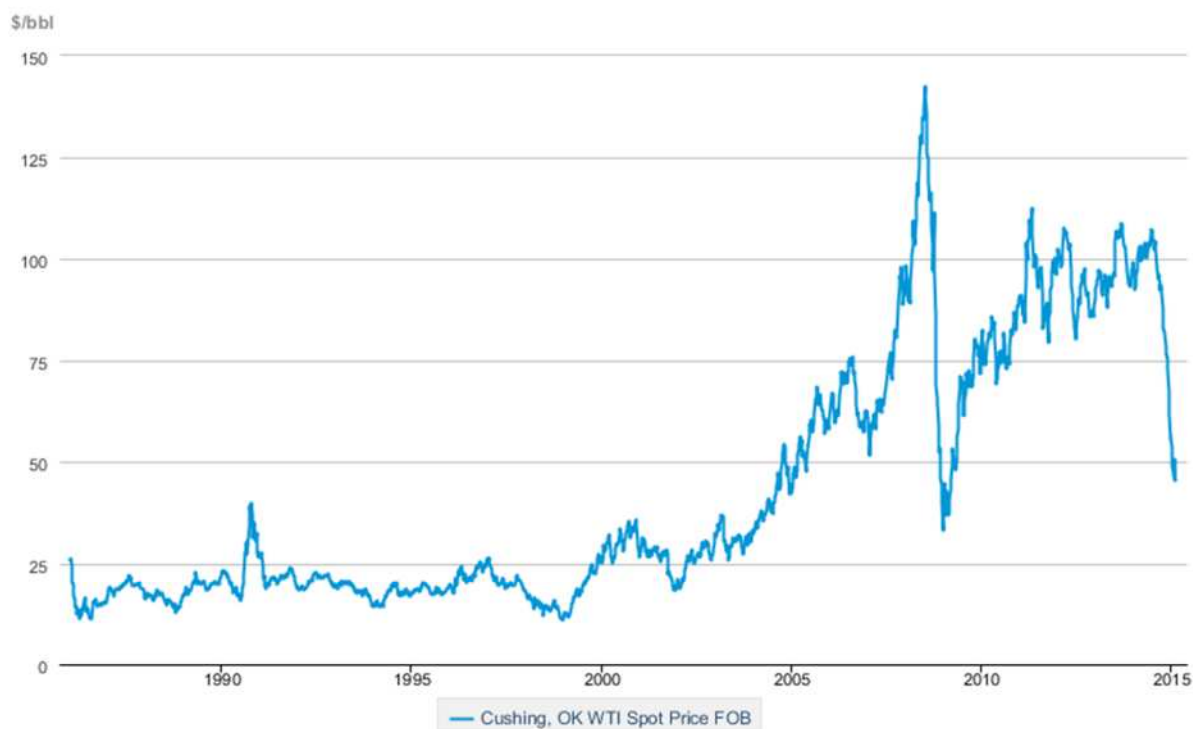
Production declined during the year in line with expectations as a result of decreased reservoir energy. The table below indicates the production of oil from each of the Company's fields.

Field	2014 (Bbls)	2013 (Bbls)
Sheep Springs (oil only)	24,167	33,665
Round Mountain	18,559	24,884
Florence	30,418	54,065
TOTAL	73,144	112,614

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Revenue was impacted by a lower average oil price. During the first three quarters of 2014, WTI oil prices were relatively strong but there was a severe decrease in pricing during Q4-14 (Refer WTI Oil Price chart below). The average oil price received for 2014 was US\$88/bbl (2013 – US\$97/bbl). Incremental was fully exposed to the market price of oil with no hedging in place.

Spot Prices



THOMSON REUTERS Source: U.S. Energy Information Administration

The net proceeds after royalties, production taxes and lease operating expenses (netback) for the company was \$58/bbl (2013 - \$63/bbl). Lease operating costs were reduced during 2014 with the biggest saving from the Round Mountain Field where there was a \$350k cost reduction from improvements in water disposal management.

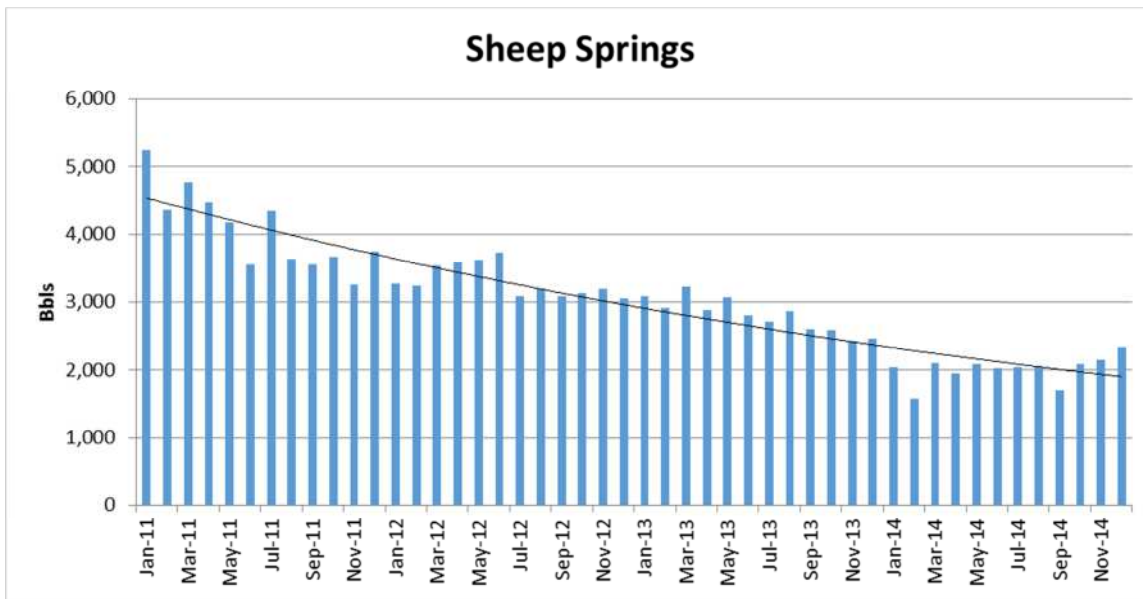
The company increased its cash reserves by around \$830,000 in 2014 ending the year with a cash position of \$1,361,814 (2013 - \$541,110). Debt was reduced by \$512,000 during the year.

OPERATING REVIEW

SHEEP SPRINGS :

The Sheep Springs Oilfield, bought by Incremental in January 2010, continued to perform well during 2014, with only minimal production decline, mainly due to the gradual depletion of reservoir pressure in the field. Some minor remedial workovers were performed during 2014 and production in December 2014 was higher than any month during the year.

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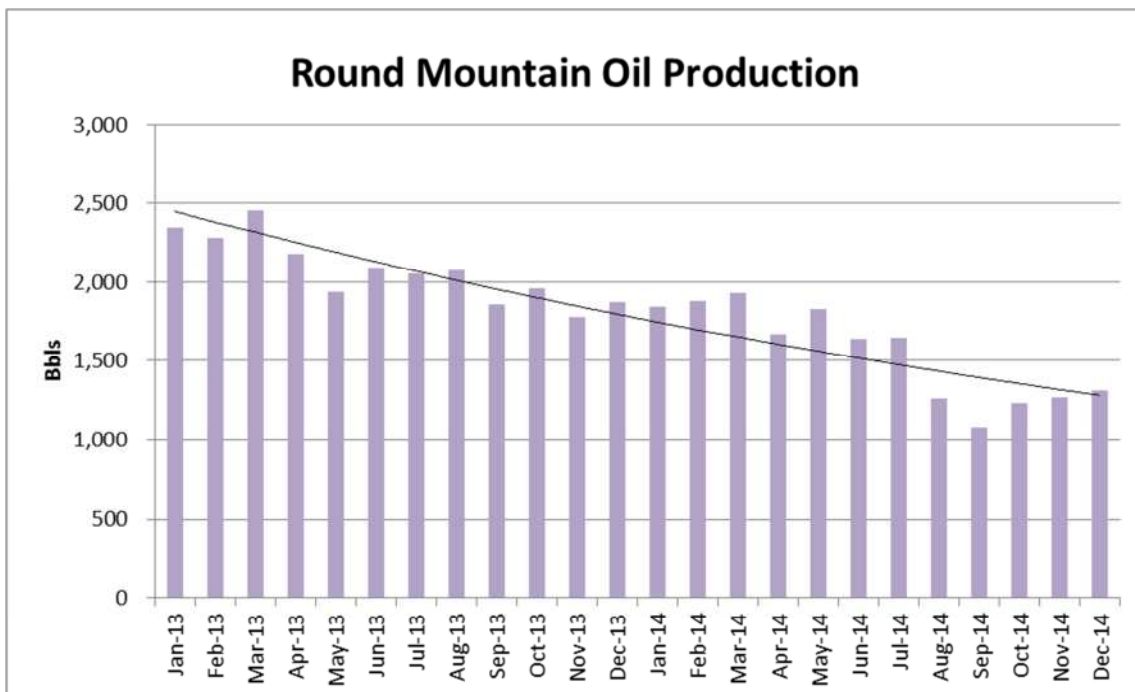
Sheep Springs oil production 2011 – 14

Technical analysis was undertaken in relation to the potential for the recovery of undeveloped reserves in the Sheep Spring Oilfield. It was determined that these reserves could be accessed and there were nearby analogues to demonstrate this.

ROUND MOUNTAIN :

No new wells have been drilled in the Round Mountain Field during 2014. Disposal of increasing water production from the Smoot #7 and #8 wells was addressed through workovers.

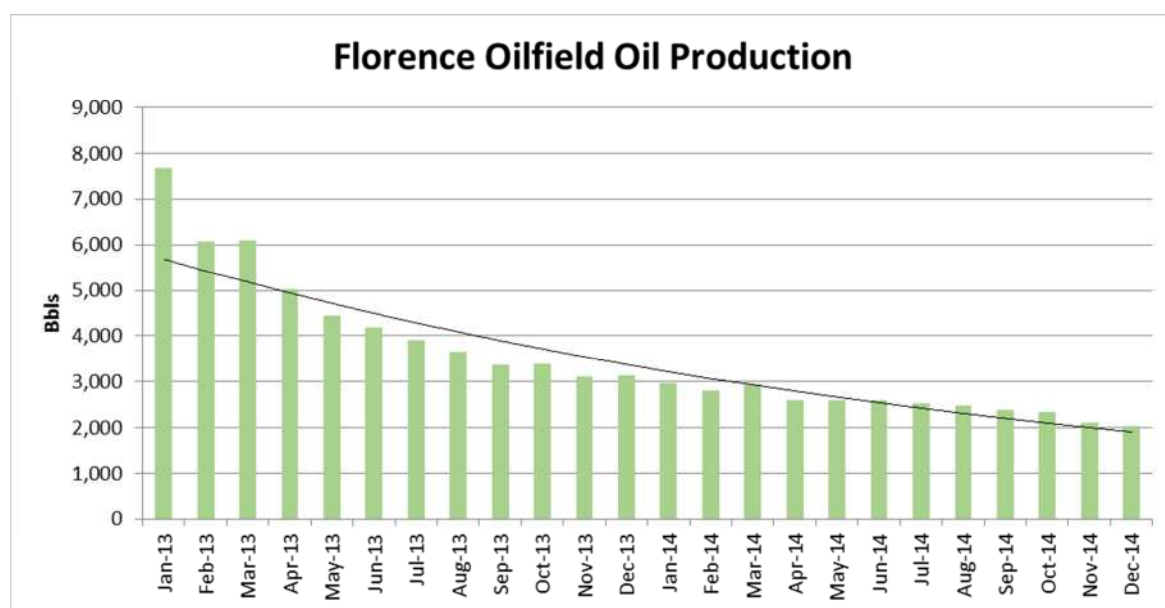
The decline rate of the field has been variable but the low cost operation continues to be profitable.



FLORENCE :

Since the acquisition of the Florence Oilfield in the southern part of the DJ Basin in May 2012 and the unsuccessful drilling campaign of two wells commenced in Q1 2013, no further development has taken place in the field in 2014. We believe that the Niobrara is still sub-economic due to the proportion of gas and limited infrastructure.

The rate of decline in production at Florence has continued to slow substantially throughout 2014 as was expected from the Pierre Shale production (see Figure 1 below) and is now similar to the decline rate in conventional oilfields.



Florence oil production 2013-14

OTHER PROJECTS :

Incremental has invested considerable resources over the last year in reviewing a number of producing assets in the USA. The company has submitted offers on a number of projects but has been outbid by competitors. The substantial drop in oil price in Q4-14 is expected to result in a realignment of oil asset values which is likely to create acquisition opportunities for the Company within its value range.

CORPORATE :

Incremental had a number of Board changes in 2014. Founding Directors, Mr Chris Cronin and Mr John (Sandy) Macdonald, retired from the Board. Matt McCann was appointed as a non-executive director in May. Mr McCann has extensive public company experience in the energy sector and brings a US perspective to the Board. During the year, Mr Gerry McGann moved from the role of Managing Director to a non-executive Technical Director role. The Managing Director role was taken up by John Whisler who had been the President of the US entities. Mr Whisler comes to the role of CEO with a highly credentialed track record and extensive experience in management and operations in the energy sector in the US.

During 2014, Incremental refinanced the debt that it held from RMB Resources with a loan facility from ANB Bank (based in the USA). ANB Bank provided the company with a US\$3M term loan that is repayable over a four year term plus a line of credit facility that can be used for acquisitions and working capital requirements as they are required.

SUMMARY :

Incremental has weathered a difficult year with its main achievements being:

- Refinancing of its debt facility at a lower cost and with improved covenants;
- Investigation of a considerable number of new business opportunities under a rigorous set of criteria which has created extensive market knowledge and a good understanding of a range of territories where other opportunities can be reviewed with a higher degree of certainty;
- Lowering of operating and overhead costs;
- Optimisation of existing well production in all fields.

Incremental is in a sound position to commit to new opportunities as it is restructuring its capital position to provide additional capital to invest in new projects. Its focus will continue to be producing oilfields in North America that have a range of opportunities to add value through behind pipe workovers and drilling of new wells to increase production.

Consolidated statement of profit and loss and other comprehensive income (for the year ended 31 December)

		2014 US\$	2013 US\$
Oil and gas sales	2a	6,466,932	10,939,590
Direct cost of sales			
Royalty costs		(1,107,780)	(1,957,700)
Production and exploration expenses		(1,118,047)	(1,911,785)
Amortisation and depreciation	2b	(848,128)	(1,819,933)
Restoration		9,866	(32,799)
Gross profit from operations		3,402,843	5,217,373
Other revenue	2a	8,292	3,047
Compliance costs		(356,283)	(411,394)
Operating lease costs		(140,521)	(254,575)
Salaries, directors' fees and employee benefits		(1,199,515)	(1,885,393)
Interest and finance costs	2d	(378,475)	(396,827)
Other costs		(301,396)	(588,231)
Foreign exchange (losses) / gains		(8,623)	(5,966)
Depreciation	2b	(25,963)	(18,989)
Gain/(loss) on sale of assets	2c	(4,184)	(384,966)
Impairment of assets	2e	-	(15,925,208)
Profit / (Loss) before income tax		966,175	(14,651,129)
Income tax (expense) / benefit		(327,138)	3,181,534
Profit / (Loss) after tax		669,037	(11,469,595)
Profit / (Loss) for the period attributable to members of the entity		669,037	(11,469,595)
Other comprehensive income:			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit or loss		-	-
Other comprehensive income / (loss) for the period , net of tax		-	-
Total comprehensive income / (loss) for the period attributable to members of the entity		669,037	(11,469,595)
Basic earnings per share attributable to ordinary equity holders of the entity (cents)	3	0.42	(7.35)
Diluted earnings per share attributable to ordinary equity holders of the entity (cents)	3	0.42	(7.35)

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Consolidated statement of financial position (as at 31 December)

	Note	2014 US\$	2013 US\$
Current assets			
Cash and cash equivalents	4	1,361,814	541,110
Trade and other receivables	5	298,013	766,243
Inventories	6	364,528	390,675
Total current assets		<u>2,024,355</u>	<u>1,698,028</u>
Non-current assets			
Trade and other receivables	5	27,707	-
Other financial assets		10,626	10,626
Oil properties	7	15,168,734	15,733,764
Exploration assets		-	-
Plant and equipment	8	1,522,770	1,614,587
Deferred tax asset		41,791	307,023
Total non-current assets		<u>16,771,628</u>	<u>17,666,000</u>
Total assets		<u>18,795,983</u>	<u>19,364,028</u>
Current liabilities			
Trade and other payables	9	515,687	1,379,593
Borrowings	10	750,000	2,785,057
Provisions	11	45,852	84,962
Taxes payable		126,273	64,358
Total current liabilities		<u>1,437,812</u>	<u>4,313,970</u>
Non-current liabilities			
Trade and other payables	9	134,410	318,590
Borrowings	10	1,737,534	-
Provisions	11	1,104,749	1,133,159
Deferred tax liabilities		-	-
Total non-current liabilities		<u>2,976,693</u>	<u>1,451,749</u>
Total liabilities		<u>4,414,505</u>	<u>5,765,719</u>
Net assets		<u>14,381,478</u>	<u>13,598,309</u>
Equity			
Issued capital	12	22,620,836	22,430,823
Share reserve for employee share plan	12	(156,512)	(65,636)
Reserves	14	349,661	334,666
Accumulated profit/(loss)		<u>(8,432,507)</u>	<u>(9,101,544)</u>
Total equity		<u>14,381,478</u>	<u>13,598,309</u>

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Consolidated statement of cash flows (for the year ended 31 December)

	Note	2014 US\$	2013 US\$
Cash flows from operating activities			
Receipts from customers		6,960,797	11,319,761
Payments to suppliers and employees		(4,284,768)	(6,913,276)
Interest received		436	3,047
Interest paid		(134,517)	(295,194)
State tax paid		(958,337)	(104,713)
Net cash provided by operating activities		<u>1,583,611</u>	<u>4,009,625</u>
Cash flows from investing activities			
Proceeds from sale and farm-down of oil properties		-	165,000
Oil property development expenditure		(104,466)	(3,394,834)
Refunds/(payments) for performance bonds		-	184,374
Payments for purchases of property, plant and equipment		(135,504)	(127,631)
Payments for lease renewals		-	(1,367,281)
Net cash used in investing activities		<u>(239,970)</u>	<u>(4,540,372)</u>
Cash flows from financing activities			
Proceeds from issues of equity securities		-	112,003
Cost of share issue		-	-
Proceeds/ (repayment) of borrowings		(512,438)	(3,000,000)
Net cash provided by financing activities		<u>(512,438)</u>	<u>(2,887,997)</u>
Cash and cash equivalents at the start of the year/period		541,110	3,970,247
Net increase/(decrease) in cash and cash equivalents		831,203	(3,418,744)
Exchange differences on cash balances held		<u>(10,499)</u>	<u>(10,393)</u>
Cash and cash equivalents at the end of the year/period		<u>1,361,814</u>	<u>541,110</u>

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Consolidated statement of changes in equity (for the year ended 31 December)

	Issued capital US\$	Shares reserved for employee share plan US\$	Accumulated profits/ (losses) US\$	Share option reserve US\$	Total equity US\$
At 31 December 2013	22,430,823	(65,636)	(9,101,544)	334,666	13,598,309
Profit attributable to members of the entity	-	-	669,037	-	669,037
Total income/expense for the year	-	-	669,037	-	669,037
Issue of employee shares	-	(90,876)	-	-	(90,876)
Issue of options	-	-	-	14,995	14,995
Placement of shares	190,013	-	-	-	190,013
Cost of issue of share capital	-	-	-	-	-
At 31 December 2014	22,620,836	(156,512)	(8,432,507)	349,661	14,381,478

	Issued capital US\$	Shares reserved for employee share plan US\$	Accumulated profits/ (losses) US\$	Share option reserve US\$	Total equity US\$
At 31 December 2012	22,318,820	-	2,368,051	35,769	24,722,640
Profit attributable to members of the entity	-	-	(11,469,595)	-	(11,469,595)
Total income/expense for the year	-	-	(11,469,595)	-	(11,469,595)
Issue of employee shares	-	(65,636)	-	-	(65,636)
Issue of options	-	-	-	298,897	298,897
Placement of shares	112,003	-	-	-	112,003
Cost of issue of share capital	-	-	-	-	-
At 31 December 2013	22,430,823	(65,636)	(9,101,544)	334,666	13,598,309

Condensed notes to the financial statements

1. Summary of significant accounting policies

a. Basis of preparation

The report is based on accounts that are in the process of being audited.

The report does not include all of the notes normally included in an annual financial report. Accordingly this report is to be read in conjunction with the financial report for the year ended 31 December 2013 and any public announcements made by Incremental during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial report is presented in United States dollars (US\$) unless otherwise stated.

b. Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The Company has adopted all new and revised Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) which are mandatory to apply to the current year.

c. Principals of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incremental Oil and Gas Ltd ("Incremental") as at 31 December 2014 and the results of all subsidiaries for the year then ended. Incremental and its subsidiaries together are referred to as the Group. Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Entity, using consistent accounting policies. Accounting policies of subsidiaries have been changed when necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. There are deconsolidated from the date that control ceases. Intercompany transactions and balances, income and expenses and profit and losses between Group companies, are eliminated.

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	2014 US\$	2013 US\$
2. Revenue, other income and expenses		
a) Sales revenue		
Oil and gas	6,404,490	10,805,052
Royalties	62,442	134,538
Oil and gas sales	<u>6,466,932</u>	<u>10,939,590</u>
Other revenue		
Interest Income	436	3,047
Other revenue	7,856	-
Total other revenue	<u>8,292</u>	<u>3,047</u>
b) Depreciation and amortisation included in the statement of comprehensive income		
Amortisation – oil and gas properties	(650,953)	(1,616,931)
Depreciation – oil and gas properties	<u>(197,175)</u>	<u>(203,002)</u>
	(848,128)	(1,819,933)
Depreciation – other plant & equipment	<u>(25,963)</u>	<u>(18,989)</u>
	<u>(874,091)</u>	<u>(1,838,922)</u>
c) Net gain/(loss) on sale of oil properties and exploration assets		
West Mountain -sold	-	(367,019)
Equipment sale	<u>(4,184)</u>	<u>(17,947)</u>
	<u>(4,184)</u>	<u>(384,966)</u>
d) Finance costs		
Interest on bank loans	(133,679)	(293,368)
Other Interest Charges	(838)	(1,826)
Financing charges	<u>(243,958)</u>	<u>(101,633)</u>
	<u>(378,475)</u>	<u>(396,827)</u>
e) Impairment of assets		
Impairment of oil and gas properties		
-Florence – uncommercial new wells	-	(2,734,124)
-Florence – Niobrara Formation downgrade	-	(9,045,777)
-Sheep Springs and Round Mountain	-	(3,474,823)
Impairment of exploration and evaluation assets	<u>-</u>	<u>(670,484)</u>
	<u>-</u>	<u>(15,925,208)</u>

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	2014 US\$	2013 US\$
3. Earnings per share		
Earnings used in calculating basic earnings per share	669,037	(11,469,595)
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	158,306,505	156,023,790
Effect of dilutive securities:		
Share Options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	158,306,505	156,023,790
	2014 US\$	2013 US\$
4. Cash and cash equivalents		
Cash at bank and on hand	1,361,814	541,110
5. Trade and other receivables		
Current -		
Oil and gas sales debtors	271,131	735,029
Other receivables	26,882	31,234
	298,013	766,243
Non-current -		
Other receivables	27,707	-
6. Inventories		
Oil and gas inventory at cost of production	87,275	111,804
Field inventory	277,253	278,871
	364,528	390,675
7. Oil properties		
Cost of acquisition and enhancements	24,436,849	24,350,927
Impairment	(3,474,823)	(3,474,823)
Accumulated amortisation	(5,793,292)	(5,142,340)
	15,168,734	15,733,764
8. Fixed assets		
Cost	2,290,461	2,174,675
Depreciation	(767,691)	(560,088)
	1,522,770	1,614,587

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	2014 US\$	2013 US\$
9. Trade and other payables		
CURRENT -		
Trade payables and accruals	<u>515,687</u>	<u>1,379,593</u>
NON CURRENT -		
Trade payables and accruals	<u>134,410</u>	<u>318,590</u>
10. Borrowings		
CURRENT -		
Bank Loan (Secured)	<u>750,000</u>	<u>2,785,057</u>
NON-CURRENT -		
Bank Loan (Secured)	<u>1,737,534</u>	<u>-</u>

The secured bank loan is provided by ANB Bank as a US Dollar denominated term loan facility which was provided in May 2014 for the purpose of repaying a loan facility from RMB Australia Holdings Ltd. The RMB Australia Holdings loan was advanced to the Company in 2012 for the purpose of acquiring the Florence Oilfield. The loan balance shown at the end of 2013 was payable to RMB Australia Holdings. Details of the term loan to ANB are as follows:

- Security - mortgages over the Company's producing oilfields in California and Colorado
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (2014 – 3.75%)
- Term – four years from May 2014
- Principal repayments – monthly equal instalments (\$62,500)
- Initial face value of loan - \$3.0 million
- Financial covenants – Modified Current Ratio shall not be less than 1:1 (Modified Current Ratio means, as of the end of any Fiscal Quarter ending after the Closing Date, the ratio of: (a) the sum of Borrower's current assets (including as a current asset any and all unused availability under the Revolving Loan, but excluding assets resulting from any mark-to-market of unliquidated hedge contracts); to (b) the sum of Borrower's current liabilities (excluding the current portion of long term Debt with the exception of principal that is due within ninety (90) days and liabilities resulting from any mark-to-market of unliquidated hedge contracts), all determined on a consolidated basis pursuant to the most recent financial statements delivered by Borrower to Lender. Oil in inventory, not reported on the most recent financial statement, will be added to the current assets at market price.)

In addition to the Term Loan, ANB Bank approved a line of credit (Revolving Loan) for an amount of \$5.0 million which could be used for the purpose of funding of capital expenditures relating to oil and gas properties, drilling and well development and general working capital. At the financial year-end, the amount drawn down from this Revolving Loan facility was \$Nil. Following a redetermination of the facility limit for the Revolver Loan by ANB, the limit of this facility has been reduced to \$3,642,694. This limit will be redetermined again in March 2015

11. Provisions

CURRENT -		
Employee leave provision	<u>45,852</u>	<u>84,962</u>
NON CURRENT -		
Asset retirement obligation	<u>1,104,749</u>	<u>1,133,159</u>

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	2014	2013
	US\$	US\$
12. Issued capital		
	Number of shares	Number of shares
At 1 January	156,242,680	155,743,680
New shares issued - placement	-	-
New shares issued- employee shares	4,094,000	499,000
Exercise of options	-	-
At 31 December	<u>160,336,680</u>	<u>156,242,680</u>
	US\$	US\$
At 1 January	22,430,823	22,318,820
New shares issued – placement (net of capital raising costs)	-	-
New shares issued – employee shares	190,013	112,003
At 31 December	<u>22,620,836</u>	<u>22,430,823</u>
Shares reserved for employee share plan	<u>(156,512)</u>	<u>(65,636)</u>
13. Options		
92,500,000 options exercisable at 20 cents per option on or before 1 November 2014 expired during 2014		
The company has on issue 5,000,000 options exercisable at A\$0.1485 per option on or before 27 July 2018		
The company has on issue 400,000 options exercisable at A\$0.07 per option on or before 26 May 2017		
14. Reserves		
Share option reserve	<u>349,661</u>	<u>334,666</u>