incremental
OIL AND GAS LTD

Annual Report 2012

Contents

This annual review is of the group comprising Incremental Oil and Gas Ltd ("the Company") and its subsidiaries (collectively "the Group"). The Company's functional and presentation currency is USD ($). At 1 January 2011 the Company adopted the US Dollar as the functional and presentation currency. Unless otherwise stated, all amounts in the Annual Review are in US Dollars.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 1 to 45 of the Financial Report.

Notice of AGM

The Annual General Meeting of Incremental Oil & Gas Limited will be held at Fremantle, WA (venue to be advised, see Notice of Meeting) at 10:00 am on Tuesday 21st May 2013.

2012 Highlights

CORPORATE

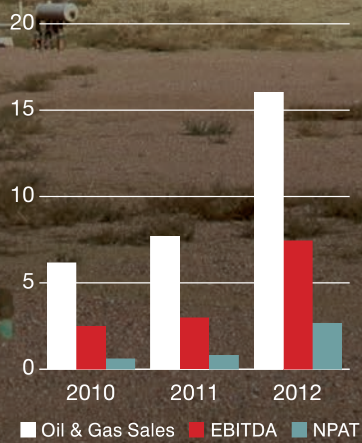
- Incremental Oil and Gas Ltd ("Incremental or the Company") has increased sales revenue to $16,037,233 in the current financial period (2011 - $7,704,018) and achieved a 150% increase in earnings before interest, tax, depreciation and amortisation (EBITDA) of $7,452,974 (2011 - $2,981,917).
- The asset base of the company has grown substantially through the acquisition of the Florence Oilfield in Colorado for $12.25M which was funded through debt ($6M), equity and cash flow.

USA OPERATIONS

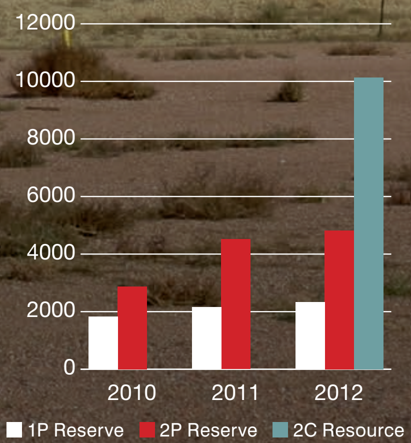
- On May 1, 2012 Incremental made the significant acquisition of 100% WI in the Florence Oilfield in Colorado which subsequently settled on July 3, 2012. The acquisition of this asset took production from an average of 209 barrels of oil per day (bopd) in the first four months of 2012 prior to the purchase, to 809 bopd in the month of May.
- The Florence Oilfield was acquired with 21 operating wells over a net leased area of 20,892 acres, 100 miles south of Denver in the DJ Basin. Existing production of oil was from the Pierre Shale.

  The deeper undeveloped Niobrara formation remains as a prospective resource for future development.
- Acquisition of the Florence Oilfield adds in excess of 10M barrels of contingent resource to the Company.
- Two additional wells were drilled at the Round Mountain Oilfield in July and November.

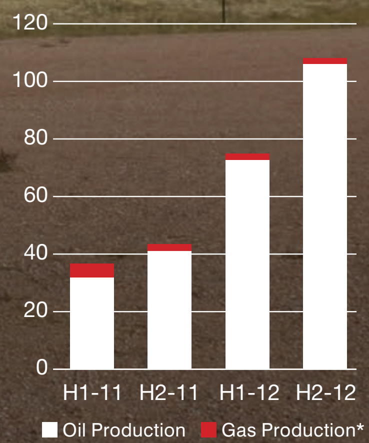
FINANCIAL RESULTS (US$M)



RESERVES AND RESOURCES (MBBLS)



PRODUCTION RESULTS (MBBLS)



MBbls - thousands of barrels
* Barrels of oil equivalent
(6mcf of gas: 1 barrel of oil)

Reserves Report

As at 31 December 2012, the Group held the following tenements:

Field/Tenement name	State & Country	Working Interest	Area of lease – Gross acres
Florence Oilfield	Colorado, USA	100%	20,892
Sheep Springs Oilfield	California, USA	100%	200
Round Mountain	California, USA	100%	320
West Mountain, Ventura	California, USA	25%	300
McDonald Anticline	California, USA	75-100%	1,418
Raven Pass	California, USA	100%	1,826

Oil Reserves and Resources held by the Group as at 31 December 2012:

(Mbbl)	Sheep Springs, California	Round Mountain, California	Florence, Colorado	TOTAL (Mbbl)
1P Reserves	**1,623**	**460**	**257**	**2,340**
Developed	493	95	110	698
Undeveloped	1,130	365	147	1,642
2P Reserves	**2,673**	**1,767**	**378**	**4,818**
Developed	713	743	165	1,621
Undeveloped	1,960	1,024	213	3,197
2C Contingent Resources	**Nil**	**Nil**	**10,135**	**10,135**

Reconciliation of Reserves and Contingent Resources:

(Mbbl)	Year end 2011	Production	Additions	Acquisition/ divestment	Year end 2012
1P Reserves	2,157	(179)	–	362	2,340
2P Reserves	4,515	(179)	–	482	4,818
2C Contingent Resources	–	–	–	10,135	10,135

Mbbl – Thousands of barrels of oil at standard oilfield conditions
1P – Proved Reserves
2P – Proved and Probable Reserves

The estimated quantities of hydrocarbons that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

The Reserves Statement has been compiled by Mr Gerry McGann, Incremental's Managing Director, who is a full-time employee of the company. Mr McGann is a certified Petroleum Geologist (#5702) with the professional division of the American Association of Petroleum Geologists with more than 40 years of relevant experience. Mr McGann has consented to the inclusion of this information in this report.

Incremental Oil and Gas Ltd, as an Australian company listed on the Australian Securities Exchange, reports its petroleum resource estimates using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers (SPE)/World Petroleum Council (WPC)/ American Association of Petroleum Geologists (AAPG)/ Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS). In accordance with the PRMS guidelines, Incremental uses crude oil price forecasts and, where applicable, individual project production sales contract terms or other financial products for the purpose of reserves estimation.

Chairman's Letter

Chris Cronin, **Chairman**

I am very pleased to report that the Company achieved a growth of almost **229%** in **NPAT** and a **150% growth** in **EBITDA** in the last financial year.

Dear Shareholder,

In 2012 Incremental had two primary objectives:

- to grow profit from our US based oil production operations; and
- to build reserves through a combination of development drilling and acquisition.

I am very pleased to report that the Company achieved a growth of almost 229% in NPAT and a 150% growth in EBITDA in the last financial year. These improvements were achieved through a 138% increase in production as a result of acquiring additional production at the Florence Oilfield in Colorado and increased production at the Round Mountain Oilfield in California. Average field operating costs per barrel were reduced by around 30% in the same period.

In relation to the second objective, we were able to close the acquisition of the Florence Oilfield in May. While this gave us a significant uplift in group-wide production, it more importantly opens up some substantial growth opportunities. We believe the shallow Pierre Formation, which hosts all of the Florence Field's existing production, offers further targets to allow us to maintain production while the deeper Niobrara play has the potential to substantially increase production and reserves.

The Niobrara is in the top tier of new oil and gas plays in the US and the large regional DJ Basin is already being commercially exploited some 100 miles to the North of Florence and in permits contiguous to the south west boundary of our approximate 21,000 acre holding. Incremental has obtained an independent assessment confirming the presence of a 2C resource of 10 million barrels of oil in this Niobrara zone. This resource together with total 2P reserves of 4.818 million barrels from the Sheep Springs, Round Mountain and Florence (Pierre) field provides a very substantial base from which to grow value for shareholders in the coming years.

The Company continues to review opportunities to strengthen the asset portfolio through acquisition and divestment but the strategy remains firmly focused on oil production and development opportunities in North America and the requirement that any new projects in the portfolio must meet the Company's specific financial and operational criteria which are centred around production, cost efficiency and cash flow.

As a result of the increased activities during the year the Company progressively recruited a number of key management and technical staff to the organisation. On behalf of the Board, I welcome the new members of the team and extend our sincere gratitude to all staff, consultants and contractors for their outstanding contributions toward a very pleasing result for the year. On a sad note, we lost an extremely respected petroleum engineering colleague, Ertug Ergun, as a result of a tragic hiking accident in June but Ertug's significant contribution to the team will always be remembered with pride by those who worked with him.

I thank shareholders for their continuing support and affirm that the Board and management remain strongly focused on delivering further growth in shareholder value in 2013.

Chris Cronin
Chairman

25 March 2013

Operational Review

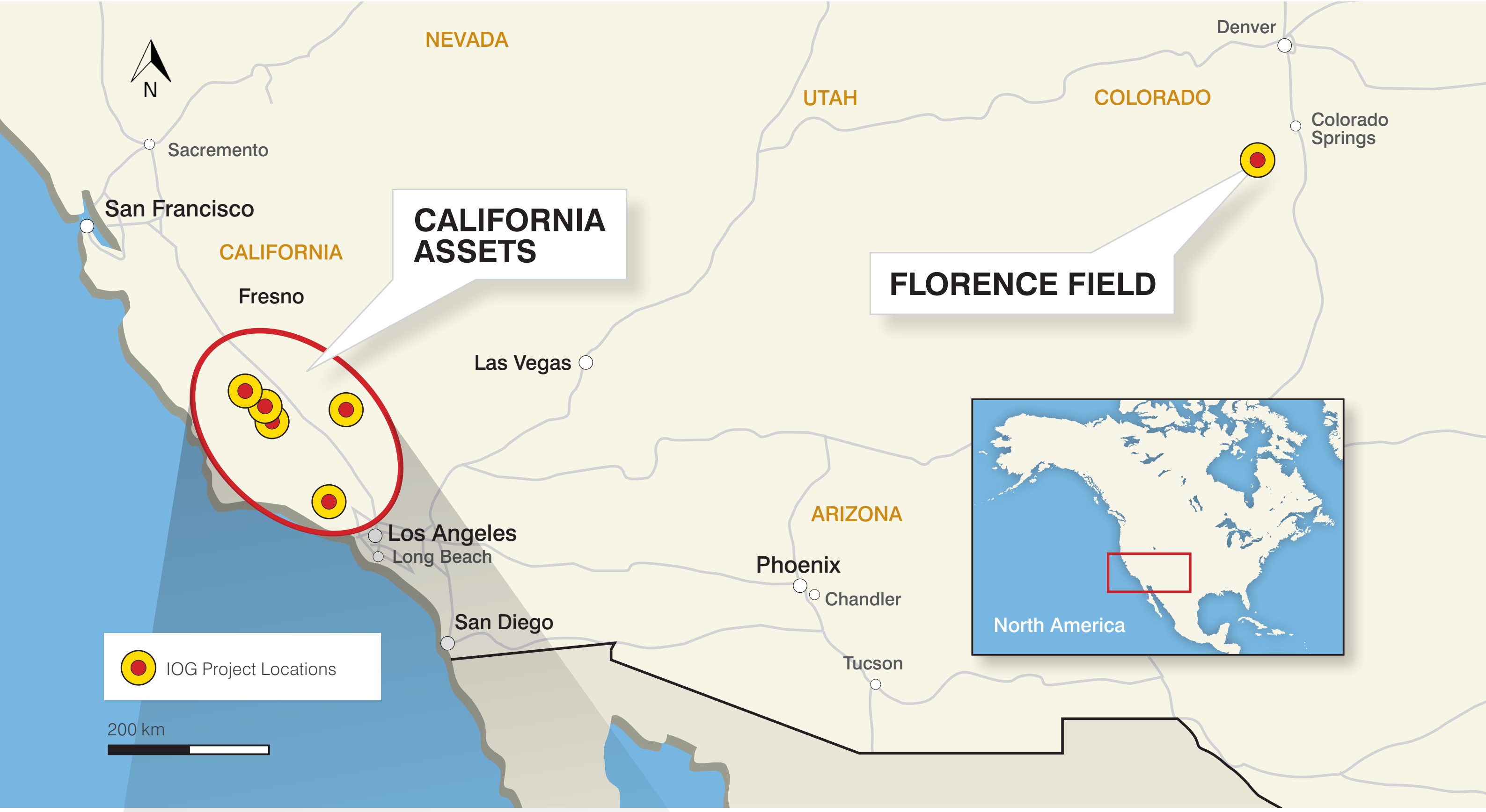


Figure 1. Location map of California and Colorado projects

Figure 1a. Location map of California projects

Incremental has six projects located in California and Colorado, USA:

Prospects	Working Interest	Comments
1. Sheep Springs California	100%	200 gross acres 11 operating wells
2. Round Mountain California	100%	320 gross acres 7 operating wells
3. Ventura California	25%	300 gross acres
4. McDonald Anticline California	75-100%	1,418 gross acres
5. Raven Pass California	100%	1,826 gross acres
6. Florence Colorado	100%	20,892 gross acres 21 operating wells

The Florence Oilfield was acquired in 2012. These projects provide a balanced mix with positive cash flow, low risk development with near term production expansion and exploration upside. The locations of our projects are shown in Figure 1a.

1. Florence Oilfield (100% working interest)

The Florence Oilfield was discovered in 1876 and has produced over 15 million barrels of oil. The Field produces from the fractured Pierre Formation between 1880ft and 3600ft. Florence has gone through two major phases of development (Figure 2), the first in the late 1800's and the most recent in the last four years. Recent wells have an average initial production of about 225 barrels of oil per day ("bopd") with no water. The average field production over the 12 months to December 2012 was 573 bopd from 21 wells.

A number of additional drillable Pierre prospects have been identified on 3D seismic and from surface mapping. The seismic covers most of the 20,892 gross acres leased.

There is also significant untapped potential in reservoirs below the Pierre Formation (Figure 3), including the Niobrara Formation. The Niobrara Formation is an inter-bedded sequence of oily shales and limestones. It has produced for many decades from vertical wells at modest rates in oilfields north of Florence. In the last three years, the application of horizontal drilling and multi-stage fracture stimulation have resulted in a number of wells producing in excess of 600 bopd, with a prognosed ultimate recovery per well in excess of 300 thousand barrels.

The first fracced horizontal Niobrara well was drilled in Florence during the last quarter of the 2012. Austin Exploration Ltd (Austin) announced on October 15th that a vertical pilot hole had intersected 95 ft of net pay in the Niobrara Formation. Austin then drilled a 4100' long horizontal well and performed a frac job on the well. At the end of the report period, the well was still cleaning up, producing unreported volumes of oil and gas. The Austin well was just 400m to the west of Incremental leases. Commercial flow rates from the Austin well will substantially upgrade the deeper prospectivity of the Incremental leases at Florence.

> Since the acquisition of the Florence project on 1 May 2012, the Florence Oilfield has grossed US$8.1M in revenue from oil sales for the Company to the end of 2012.

The Florence acquisition is a significant step in the Company's growth, substantially increasing the company's production and cash flow. Incremental's technical team has extensive experience in optimising fractured reservoirs and are actively building on the knowledge base of the company that has sold the asset. A reserve and resources report has been prepared on the field and the details are shown in the Reserves Report section on page 2.

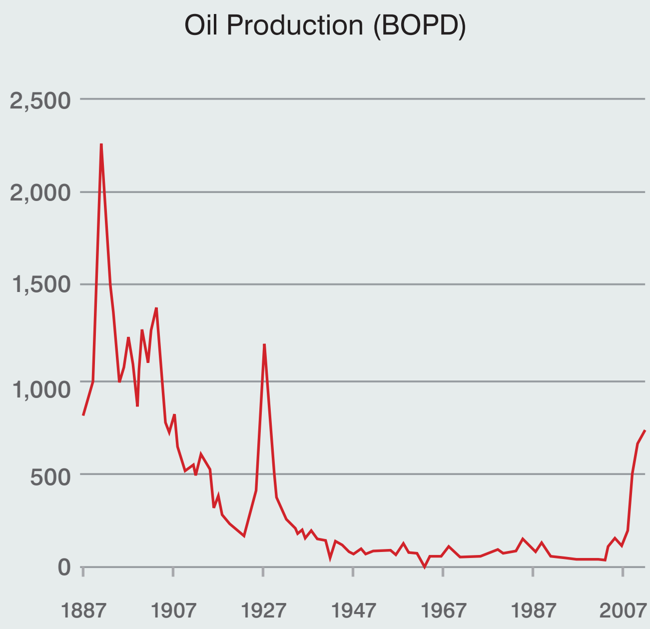


Figure 2. Florence Oil Production by year

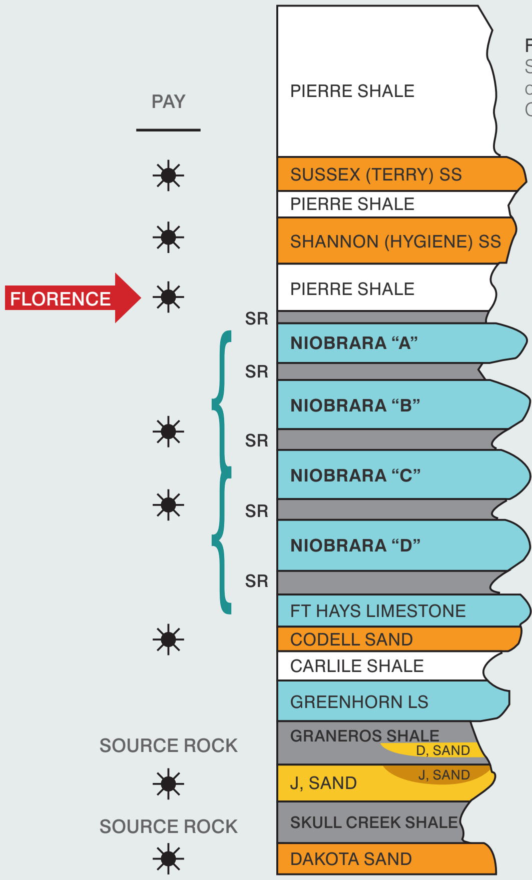


Figure 3. Stratigraphic column, Florence Oilfield.

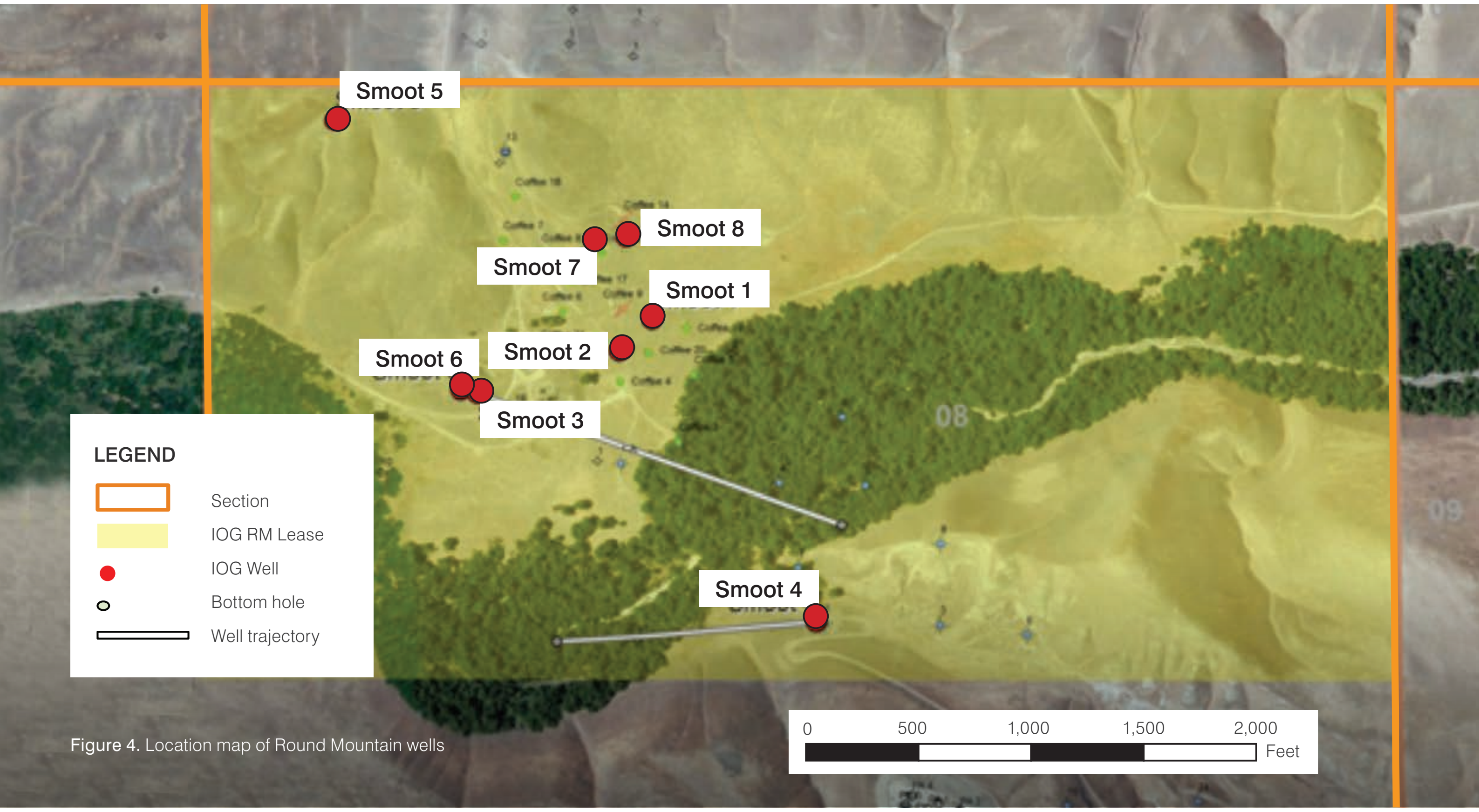
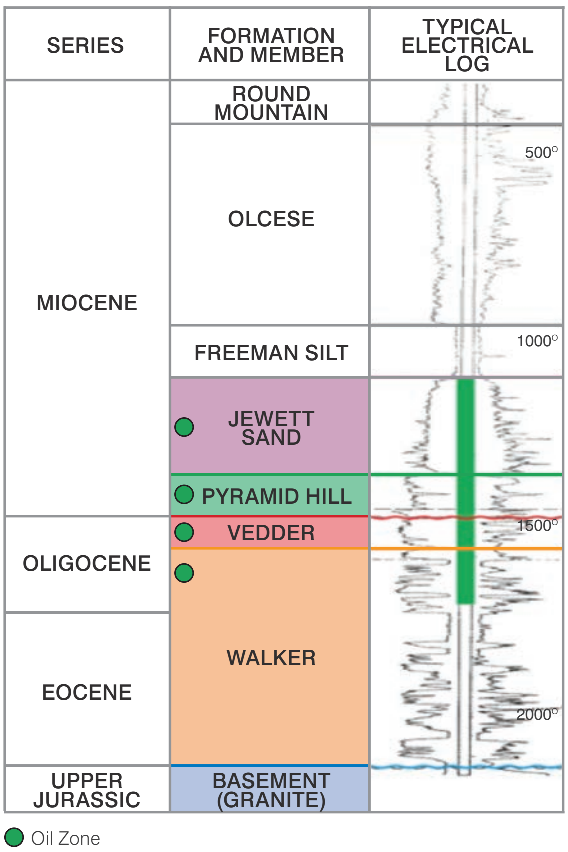


Figure 4. Location map of Round Mountain wells

Figure 5.
Round Mountain stratigraphic section



2. Round Mountain development project (100% working interest)

Two new wells (Figure 4) were drilled in the Round Mountain Field during 2012. Both wells targeted the Walker Formation, discovered by Incremental in 2011 (see Figure 5).

SMOOT 7 was spudded on 11 August and took less than three days to drill and complete. At least 102 ft of net oil pay was intersected over three formations. The well began production from the interval 1415-1465 ft at 89 bopd with 80-90 barrels of water per day (bwpd).

SMOOT 8 was spudded on 31 October and drilled without incident to a total depth of 1,600 ft the next day. It intersected the Top Walker reservoir 45 ft high to Smoot 7 as planned with excellent reservoir characteristics. The well was perforated at 1367-84 ft, 1412-24 ft and 1470-76 ft. It commenced production at an average of 56 bopd and 226 bwpd over the first 6 days.

Average production for the Round Mountain Field over the year was 93 bopd. Incremental purchased five fiberglass production tanks at 400 barrels capacity each during the year. A 1500 barrel capacity wash tank (right on Figure 6) was also installed. This new facility replaces rental equipment and will significantly reduce the operating costs of this already very profitable oilfield.


Figure 6. Round Mountain tank battery

Reserves and Resources have been calculated for the Round Mountain Field and are shown in the Reserve Report section on page 2.

3. Sheep Springs producing oilfield (100% working interest)

The Sheep Springs Oilfield, bought by Incremental in January 2010, continued to perform well during the year, with only minimal production decline (Figure 7), mainly due to the gradual depletion of reservoir pressure in the Field. Incremental continues to pursue opportunities to evaluate the substantial heavier oil reserves in this lease at shallow depths.

4. McDonald Anticline development project (75-100% working interest)

Incremental continued to acquire mineral leases in the McDonald Anticline area on the western margin of the San Joaquin Basin over the year and now holds 1419 acres either wholly leased or as a farminee (Figure 8). The McDonald Anticline Field has produced more than 22 million barrels of light oil from shallow, stacked sandstone reservoirs. A number of potential targets have already been identified for drilling in 2013.

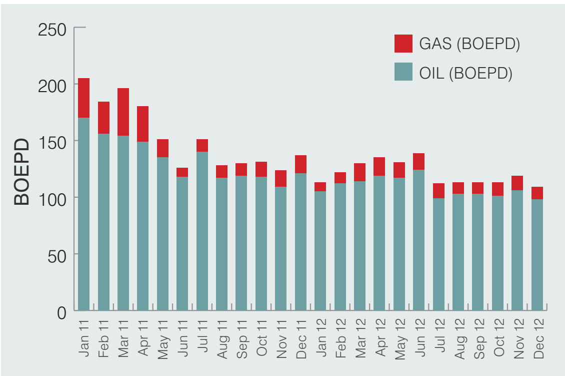


Figure 7. Monthly production graph, Sheep Springs Oilfield (shows average bopd production on a monthly basis)

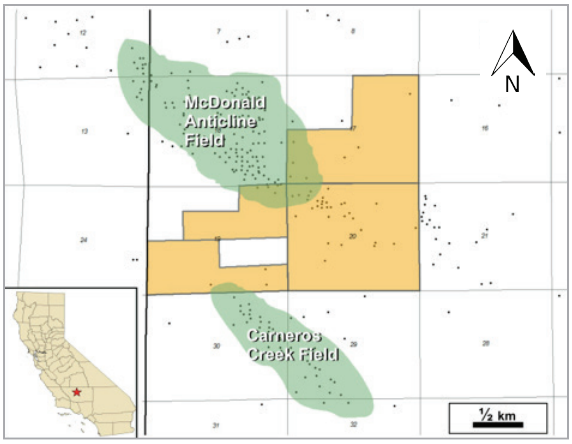


Figure 8. Incremental acreage in the McDonald Anticline area.

Operational Review (continued)

The Company continues to review opportunities to strengthen the asset portfolio through acquisition and divestment but the strategy remains firmly focused on oil production and development opportunities in North America.

5. Ventura Basin project (25% working interest)

At the West Mountain project in Ventura, California, Incremental decreased its working interest from 75% to 25%. The farm-in party paid Incremental the bulk of past development costs and will now operate the project. The farm-down of this project in no way diminishes Incremental's enthusiasm for West Mountain, but allows the company to better balance its risk profile.

The first well, C & H 18, was spudded on 13 December 2012. The well was drilled directionally to a total depth of 6800', which was reached on January 1st.

Moderate to poor shows in porous sandstone were observed in multiple intervals below 3900', with good shows observed in the following intervals:

4825-4905'	80'
5250-5310'	60'
5340-5350'	10'
5910-6020'	110'
6060-6200'	140'

At the end of the reporting period, the operator was preparing to run wireline logs, which will better determine the potential for prospective reservoirs to be produced from.

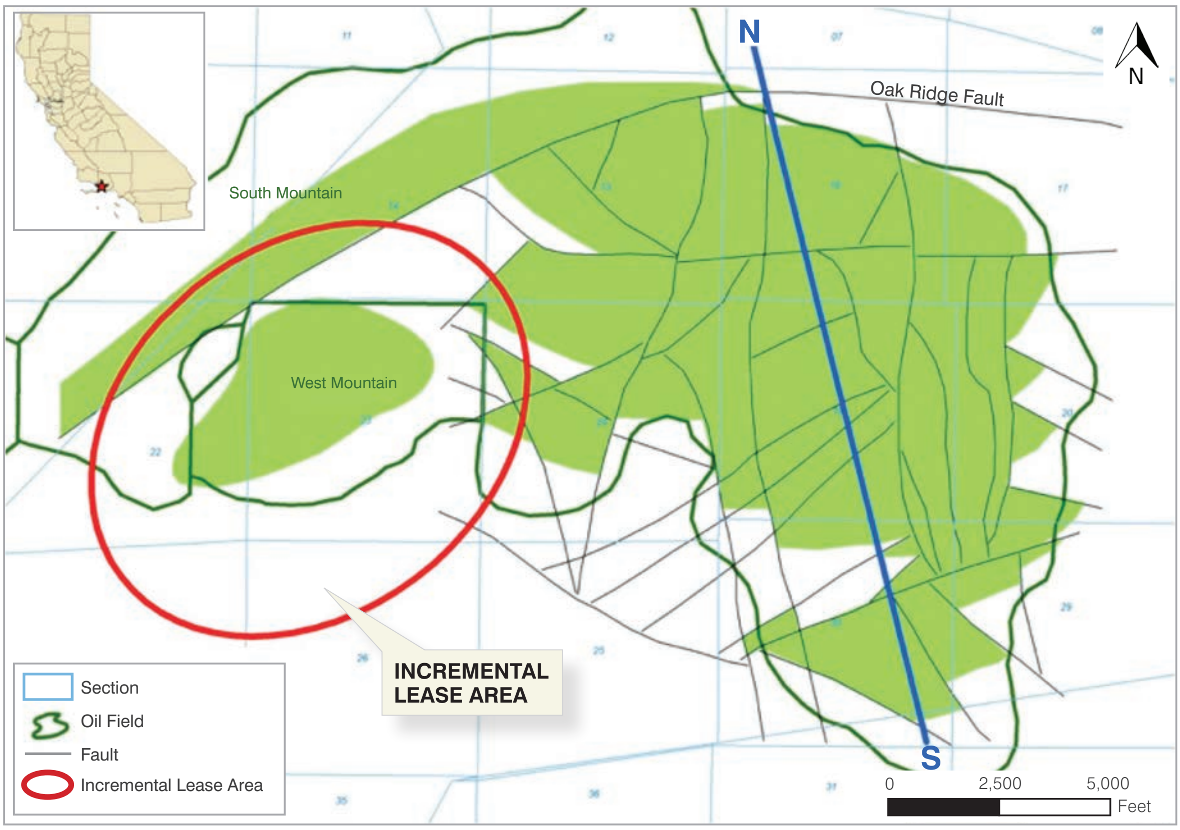


Figure 9. Ventura Project, showing Incremental's lease area. The location of Figure 10 is shown by the blue line.

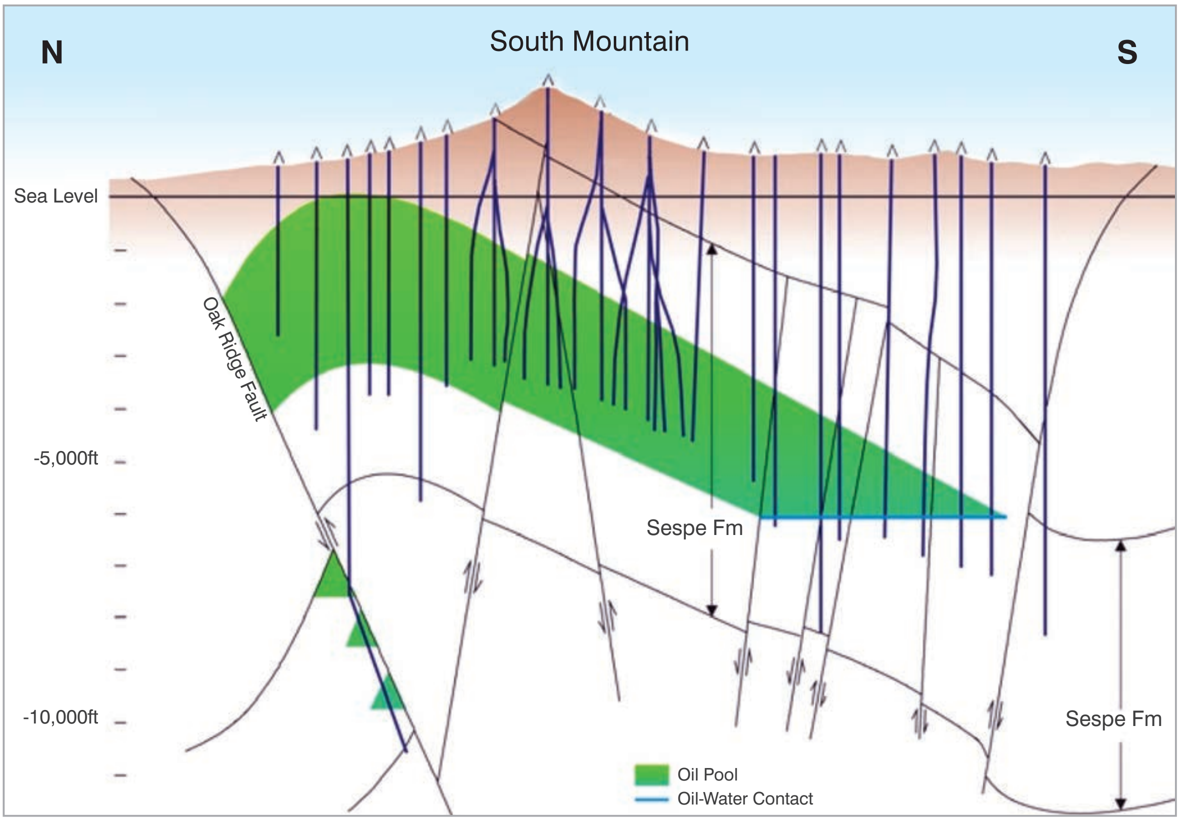


Figure 10.
North-south cross section, Ventura project (refer Figure 9).

The West Mountain Oilfield (Figures 9 & 10) is characterised by multiple stacked reservoirs between 3200' and 8000' and oil production is typically accompanied by minimal water production. Oil is light to moderate gravity. Incremental believes that the field was inadequately drained by the early operators and that there is substantial scope to drill infill wells.

6. Raven Pass exploration prospect (100% working interest)

The Raven Pass prospect is a large surface anticline with a strike length of over 10 kilometres. It is well defined by surface mapping, with 1500' of structural relief and is located in the west of San Joaquin Basin, California (Figure 1), neighbouring giant oilfields such as Belridge. A shallow well drilled into the anticline flowed 52° API gravity oil in 1942, but the deeper reservoir section has not been tested. As an exploration well on this prospect carries risk along with potentially substantial reward, Incremental has undertaken a campaign to farm out the drilling of one well in late 2013, whilst maintaining significant equity in the project. A number of International companies have expressed interest in farming in, and negotiations with some of these parties are well advanced.

7. Other Projects

The Guijarral Hills and East Joaquin Exploration Projects were sold and relinquished respectively throughout the year. Both were seen to be outside of the risk profile that the board and management of Incremental believe were consistent with the philosophy of the company.

8. Personnel

Four new technical staff have been hired during the report period and a new office established in Denver Colorado.

Board and Management

Directors

Mr C. Cronin
Non-Executive Chairman

Appointed to the Board July 2009

Mr Cronin has over 30 years' experience in executive positions with some of the largest international companies in the oil and gas industry. He retired from the position of Director, Corporate Strategy and Planning, Woodside Petroleum Ltd in October 2003 after 23 years of service. Key responsibilities during four years in this job included mergers and acquisitions, strategy and business planning, portfolio management (economics), and external affairs.

Other roles at Woodside included Director, Northern Australian Gas Projects and prior to that General Manager, Human Resources, IT and Corporate Affairs. Prior to joining Woodside in 1980, Mr Cronin spent 9 years with BP Australia Ltd in Marketing and Personnel/Industrial Relations roles in both Victoria and W.A.

Founder and Director of Incremental Petroleum Ltd from inception in 2003, which acquired a 1500 BOPD operation in the Selmo Oilfield in Turkey, and was ultimately sold in 2009.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Chairman of the David Wirrpanda Foundation, a not-for-profit trust which provides assistance for the development of indigenous youth.

Additional appointments in the last 3 years include:

- Deputy Chairman, Indian Pacific Ltd, owner and operator of the West Coast Eagles Football Club (Oct 2002 – Oct 2011)

Mr G. McGann
Managing Director

Appointed to the Board July 2009

Mr McGann has over 40 years' experience in the upstream oil and gas industry, in a career that has spanned all five continents. As a petroleum geologist, he has been instrumental in the discovery of oilfields totalling more than 200 million barrels in Australia, Middle East and the North Sea, and been part of teams that have discovered other substantially oil resources. As Exploration Manager for Occidental Petroleum, Mr McGann was responsible for increasing production from 32,000 bopd to 50,000 bopd in 3 years in Oman. Mr McGann was one of only seven exploration managers in Occidental Petroleum, and one of only four Chief Scientists in Baker Hughes (approximately 30,000 employees).

Mr McGann was a founding shareholder and Managing Director of Incremental Petroleum Ltd. He identified the Selmo Oilfield in South-east Turkey in 2005, and increased the production from a declining 1,500 bopd to 2,000 bopd when the company was sold in March 2009.

Mr McGann has taught Petroleum Geology at degree and post-degree level at Curtin University for seven years. He was the president of three chapters of the Society of Petro Physicists and Well Log Analysts (SPWLA) and has been an invited speaker to SPWLA and the Society of Exploration Geophysicists annual conventions. He has published 14 technical papers and is a certified petroleum geologist.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- None

Additional appointments in the last 3 years include:

- None

Hon JAL Macdonald
Non-Executive Director

Appointed to the Board July 2009

Mr Macdonald holds a Bachelor of Law from the University of Sydney and was admitted to the Roll of Solicitors in 1977. Mr Macdonald was elected to the Australian Senate in 1993. During his parliamentary career of 15 years he was Deputy Leader of the National Party in the Senate and served in the Howard Ministry as Parliamentary Secretary for Trade and Parliamentary Secretary for Defence. He also chaired the Senate Foreign Affairs, Defence and Trade Committee for eight years. Mr Macdonald had political responsibility for Austrade and has represented Australia at a high level. He has led delegations of both business and parliamentarians on behalf of Government to Turkey, the Middle East, Asia and the Pacific Rim.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Non-executive Director of Defence Housing Australia (DHA) and serves on the DHA board audit committee.
- Non-executive Director of the Anzac Centenary Advisory Board.

Additional appointments in the last 3 years include:

- None

Company Secretary

Mr M. Stowell

Non-Executive Director

Appointed to the Board July 2009

Mr Stowell has been involved in the public company corporate sector for 20 years, formerly as a manager in Arthur Anderson Corporate, involved in significant IPO and merger activity in the resource and energy sectors. Subsequently he has gained extensive experience at a board and management level in a number of successful ventures as principal in a wide variety of industries. Mr Stowell was a founder and board member for seven years of Anvil Mining Ltd, a significant African based copper mining company, listed on the ASX and subsequently the Toronto Stock Exchange ("TSX"). Founder and Director of Incremental Petroleum Ltd from inception in 2003, to acquisition of 1500 BOPD oilfield, ASX listing, profit growth and ultimate sold in 2009.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Non-executive Director of Mawson West Ltd
- Non-executive Director of Orrex Resources Ltd
- Non-executive Director of Kula Gold Ltd

Additional appointments in the last 3 years include:

- None

Mr S. Adams

Company Secretary

Appointed Secretary – 18 May 2012

Mr Adams has a wide range of experience in the area of corporate and financial management, corporate compliance and business development. Mr Adams has worked in a range of industries across the resource and industrial sectors. Prior to joining Incremental Oil and Gas Ltd in May 2012 as CFO/Company Secretary, Mr Adams had 12 years with Atlas South Sea Pearl Ltd, a listed pearl production and distribution company, in the capacity of CEO and CFO.

Directors and officers were in office for the entire period unless otherwise stated.

Further information on the Board is available in the **Incremental Oil and Gas 2012 Financial Report.**

Financial Summary

For the year ended 31 December 2012

Consolidated Statement of Comprehensive Income

	2012 US$	2011 US$
Oil and Gas Revenue	16,037,233	7,704,018
Other Revenue	34,927	46,476
	16,072,160	7,750,494
Royalties paid	(2,674,078)	(1,157,910)
Depreciation	(209,340)	(68,402)
Amortisation	(1,894,464)	(993,442)
Exploration	(186,544)	(64,081)
Lease operating expenses	(2,454,866)	(1,472,946)
Other costs	(2,320,495)	(1,343,095)
Wages and salaries	(1,592,912)	(730,545)
Interest	(234,548)	(324,799)
Foreign exchange losses (differences)	82,848	(142,074)
Profit/(Loss) before income tax	4,587,761	1,453,200
Income tax expense	(1,903,926)	(638,528)
Profit/(Loss) after tax	2,683,835	814,672
Other comprehensive income		
Items that will not be reclassified to profit or loss	–	–
Items that may be reclassified subsequently to profit or loss	–	–
Total comprehensive income/(loss)	2,683,835	814,672
Profit for the period attributable to members of the entity	2,683,835	814,672
Total comprehensive income/(loss) for the period attributable to members of the entity	2,683,835	814,672

	Cents per share	Cents per share
Basic Earnings Per Share	1.84	0.66
Diluted Earnings Per Share	1.60	0.54

Consolidated Statement of Financial Position

	2012 US$	2011 US$
Assets		
Current assets		
Cash and cash equivalents	3,970,247	1,456,780
Trade and other receivables	1,305,468	704,372
Inventories	431,013	91,046
Total current assets	5,706,728	2,252,198
Non–current assets		
Other financial assets	195,000	100,000
Oil properties	27,764,750	15,747,741
Exploration assets	760,898	739,700
Plant and equipment	1,765,530	472,588
Deferred tax asset	3,880,435	–
Total Non–current assets	34,366,613	17,060,029
Total assets	40,073,341	19,312,227
Liabilities		
Current liabilities		
Trade and other payables	1,730,532	516,805
Borrowings	6,000,000	–
Taxes payable	104,715	–
Provisions	75,950	30,769
Total current liabilities	7,911,197	547,574
Non–current liabilities		
Provisions	620,201	–
Deferred taxation	6,819,303	1,139,658
Total non–current liabilities	7,439,504	1,139,658
Total liabilities	15,350,701	1,687,232
Net assets	24,722,640	17,624,995
Equity		
Equity attributable to equity holders of the parent		
Issued capital	22,318,820	17,905,010
Reserves	35,769	35,769
Accumulated profit/(losses)	2,368,051	(315,784)
Total Equity	24,722,640	17,624,995

Statement of Cash Flows

	2012 US$	2011 US$
Cash flows from operating activities		
Receipts from customers	13,414,451	7,540,508
Royalty Payments	(2,676,992)	(1,157,910)
Payments to suppliers and employees	(5,777,531)	(3,567,674)
Interest received	16,951	44,394
Realized foreign currency differences	57,258	–
Interest paid	(192,894)	(646,693)
Net cash provided by operating activities	4,841,243	2,212,625
Cash flows from investing activities		
Proceeds from sale and farm–down of oil properties	243,000	–
Payments for purchase of oil properties	(9,914,409)	–
Payment for development of oil properties	(2,452,052)	(5,499,243)
Payment for security bonds	(95,000)	–
Payments for exploration	(487,951)	(406,286)
Payments for purchases of property plant and equipment	(60,765)	(30,841)
Net cash used in investing activities	(12,767,177)	(5,936,370)
Cash flows from financing activities		
Proceeds from issue of shares	4,650,452	32,927
Capital raising costs	(236,642)	(31,373)
Proceeds of borrowings	6,000,000	–
Net cash provided by financing activities	10,413,810	1,554
Net increase/(decrease) in cash and cash equivalents	2,487,876	(3,722,191)
Exchange differences on cash balances held	25,591	64,550
Cash and cash equivalents at beginning of the year	1,456,780	5,114,421
Cash and cash equivalents at end of year	3,970,247	1,456,780

Disclaimer:

This financial summary is an edited extract from the 2012 financial statements and is provided for illustrative purposes only. Complete audited financial statements, including all explanatory notes, are available in the 2012 Financial Report which can be downloaded from the Incremental Oil & Gas website www.incrementaloilandgas.com.

incremental
OIL AND GAS LTD

DIRECTORS

Chris Cronin B.Bus (Acc), FAIM
Non-executive Chairman

Gerry McGann B.Sc (Hons)
Managing Director

Mark Stowell B.Bus, CA
Non-executive Director

Hon JAL (Sandy) Macdonald LLB.
Non-executive Director

COMPANY SECRETARY

Simon Adams, B.Bus, M.Acc, ACIS
(Appointed 18 May 2012)

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Unit 2, 16 Phillimore Street
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Johnson Winter & Slattery

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SHARE REGISTRY

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770 Canning Highway
Applecross WA 6153
Australia

BANKERS

Bank of Western Australia

Bankwest Place
300 Murray Street
Perth WA 6000
Australia

HOME EXCHANGE

Australian Securities Exchange Ltd

Exchange Plaza
2 The Esplanade
Perth WA 6000
Australia

INGENUITY | RELIABILITY | PROFITABILITY

FOREST MANAGEMENT
RECYCLED CONTENT
ECF ELEMENTAL CHLORINE FREE
EMS ENVIRONMENTAL MANAGEMENT SYSTEMS
CERTIFIED CO_2 NEUTRAL CARBON NEUTRAL

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This Annual Review provides an overview of the past 12 months. Further information about IOG's performance can be found in the 2012 Financial Report document and on our website at www.incrementaloilandgas.com.

incremental
OIL AND GAS LTD

Financial Report 2012

Contents

incremental
OIL AND GAS LTD

ABN: 66 138 145 114

This financial report is of the group comprising Incremental Oil and Gas Ltd ("the Company") and its subsidiaries (collectively "the Group"). The Company's functional and presentation currency is USD ($). At 1 January 2011 the Company adopted the US Dollar as the functional and presentation currency. Unless otherwise stated, all amounts in the Annual Report are in US Dollars.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 1 to 45. The Directors' Report is not part of the financial report.

Notice of AGM

The Annual General Meeting of Incremental Oil & Gas Limited will be held at Fremantle, WA (venue to be advised, see Notice of Meeting) at 10:00 am on Tuesday 21st May 2013.

Directors' Report

For the year ended 31 December 2012

Your Directors submit their report for the year 1 January 2012 to 31 December 2012.

Directors

The names and details of the Company's Directors and officers in office during the financial year and until the date of this report are as follows. Directors and officers were in office for the entire period unless otherwise stated.

Mr C. Cronin

B.Bus (Acc.) FAIM (Non-executive Chairman)
Appointed to the Board July 2009
Age: 64

Mr Cronin has over 30 years' experience in executive positions with some of the largest international companies in the oil and gas industry. He retired from the position of Director, Corporate Strategy and Planning, Woodside Petroleum Ltd in October 2003 after 23 years of service. Key responsibilities during four years in this job included mergers and acquisitions, strategy and business planning, portfolio management (economics), and external affairs.

Other roles at Woodside included Director, Northern Australian Gas Projects and prior to that General Manager, Human Resources, IT and Corporate Affairs. Prior to joining Woodside in 1980, Mr Cronin spent 9 years with BP Australia Ltd in Marketing and Personnel/Industrial Relations roles in both Victoria and W.A.

Founder and Director of Incremental Petroleum Ltd from inception in 2003, which acquired a 1500 BOPD operation in the Selmo Oilfield in Turkey, and was ultimately sold in 2009.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Chairman of the David Wirrpanda Foundation, a not-for-profit trust which provides assistance for the development of indigenous youth.

Additional appointments in the last 3 years include:

- Deputy Chairman, Indian Pacific Ltd, owner and operator of the West Coast Eagles Football Club (Oct 2002–Oct 2011).

Mr G. McGann

B.Sc (Hons) (Managing Director)
Appointed to the Board July 2009
Age: 64

Mr McGann has over 40 years' experience in the upstream oil and gas industry, in a career that has spanned all five continents. As a petroleum geologist, he has been instrumental in the discovery of oilfields totalling more than 200 million barrels in Australia, Middle East and the North Sea, and been part of teams that have discovered other substantially oil resources. As Exploration Manager for Occidental Petroleum, Mr McGann was responsible for increasing production from 32,000 bopd to 52,000 bopd in 3 years in Oman. Mr McGann was one of only seven exploration managers in Occidental Petroleum, and one of only four Chief Scientists in Baker Hughes (approximately 30,000 employees).

Mr McGann was a founding shareholder and Managing Director of Incremental Petroleum Ltd. He identified the Selmo Oilfield in South-east Turkey in 2005, and increased the production from a declining 1,500 bopd to 2,000 bopd when the company was sold in March 2009.

Mr McGann has taught Petroleum Geology at degree and post-degree level at Curtin University for seven years. He was the president of three chapters of the Society of Petro Physicists and Well Log Analysts (SPWLA) and has been an invited speaker to SPWLA and the Society of Exploration Geophysicists annual conventions. He has published 14 technical papers and is a certified petroleum geologist.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- None

Additional appointments in the last 3 years include:

- None

Directors' Report

For the year ended 31 December 2012

Hon JAL Macdonald

LLB. (Non-executive Director)
Appointed to the Board July 2009
Age: 58

Mr Macdonald holds a Bachelor of Law from the University of Sydney and was admitted to the Roll of Solicitors in 1977. Mr Macdonald was elected to the Australian Senate in 1993. During his parliamentary career of 15 years he was Deputy Leader of the National Party in the Senate and served in the Howard Ministry as Parliamentary Secretary for Trade and Parliamentary Secretary for Defence. He also chaired the Senate Foreign Affairs, Defence and Trade Committee for eight years. Mr Macdonald had political responsibility for Austrade and has represented Australia at a high level. He has led delegations of both business and parliamentarians on behalf of Government to Turkey, the Middle East, Asia and the Pacific Rim.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Non-executive Director of Defence Housing Australia (DHA) and serves on the DHA board audit committee.
- Non-executive Director of the Anzac Centenary Advisory Board.

Additional appointments in the last 3 years include:

- None

Mr M Stowell

B.Bus CA (Non-executive Director)
Appointed to the Board July 2009
Age: 49

Mr Stowell has been involved in the public company corporate sector for 20 years, formerly as a manager in Arthur Anderson Corporate, involved in significant IPO and merger activity in the resource and energy sectors. Subsequently he has gained extensive experience at a board and management level in a number of successful ventures as principal in a wide variety of industries. Mr Stowell was a founder and board member for seven years of Anvil Mining Ltd, a significant African based copper mining company, listed on the ASX and subsequently the Toronto Stock Exchange ("TSX"). Founder and Director of Incremental Petroleum Ltd from inception in 2003, to acquisition of 1500 BOPD oilfield, ASX listing, profit growth and ultimate sold in 2009.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Non-executive Director of Mawson West Ltd
- Non-executive Director of Orrex Resources Ltd
- Non-executive Director of Kula Gold Ltd

Additional appointments in the last 3 years include:

- None

Mr S Adams

B.Bus M.Acc ACIS (Company Secretary)
Appointed Secretary – 18 May 2012

Mr Adams has a wide range of experience in the area of corporate and financial management, corporate compliance and business development. Mr Adams has worked in a range of industries across the resource and industrial sectors. Prior to joining Incremental Oil and Gas Ltd in May 2012 as CFO/Company Secretary, Mr Adams had 12 years with Atlas South Sea Pearl Ltd, a listed pearl production and distribution company, in the capacity of CEO and CFO.

Ms S Hunter

B.Com, CA, F Fin (G.Dip A.Fin (Sec Inst)), MAICD (Dip), ACIS (Dip)
Appointed 1 February 2011, Resigned 18 May 2012

Ms Hunter has over 18 years' experience in the corporate finance industry. She has held senior management positions in Ernst & Young, PricewaterhouseCoopers, Bankwest and boutique advisory firm Norvest. Ms Hunter is founder and Managing Director of consulting firm Hunter Corporate which provides corporate governance advice and company secretarial services to ASX listed companies.

Directors' Report

For the year ended 31 December 2012

Directors' interests in the shares and options of the Company

As at the date of this report, the interests of the Directors in the shares and options of Incremental Oil and Gas Ltd were:

Director	Ordinary Shares	Unlisted Options AUD$0.20 exercise price
C Cronin	7,500,002	6,000,000
G McGann	24,340,004	20,500,000
J Macdonald	5,778,001	4,250,000
M Stowell	13,500,002	10,200,000

Principal activities

The principal activities during the year of entities within the Group are oil and gas exploration and production in North America. There has been no significant change in the nature of these activities during the year.

Dividends

No dividends were paid or declared during the financial year or subsequent to the year end.

Operating results for the year

The Group's operating profit after income tax for the year was $2,683,835(2011: $814,672). The Group's basic earnings per share for the year was 1.84 cents (2011: 0.66 cents).

		%' age Change	2012	2011
Revenue from ordinary activities	Up ↑	108%	$16,037,233	$7,704,018
Net tangible assets per share	Up ↑	22%	15.8 cents	13.0 cents
Earnings before interest, tax, depreciation and amortisation	Up ↑	150%	$7,452,974	$2,981,917

Review of operations

The review of the oil and gas operations of the Company and the Group is set out in the Operational Review which is available at the Company's web site www.incrementaloilandgas.com.

Likely developments and expected results of operations

The consolidated entity intends to continue with the current range of activities in 2013. The focus of production efforts will remain on the development of wells within the Florence Oilfield, more specifically from the Pierre Shale, where a number of drilling targets remain within the lease area. Economic analysis and research will continue in relation to the exploitation of the significant resources that exist within the Niobrara which may be developed under a farm-in arrangement. Expansion of the lease acreage within the Florence Oilfield is being pursued. The California assets contain significant reserves which will continue to be developed. Information of the likely future activities is contained within the Operational Review which is available at the Company's web site www.incrementaloilandgas.com.

Significant changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the year other than as disclosed elsewhere in this report.

Financial condition

Following the successful capital raising of US$4.629M and the securing of debt funding of US$6M in June and July 2012 respectively, the Group had sufficient funds to complete the acquisition of the Florence Oilfield. The Company has sufficient funds to repay debts as and when they fall due. The consolidated cash flow statement illustrates that there was an increase in cash and cash equivalents in the year of $2,487,876 (2011 -decrease of $3,722,191) of which operational activities contributed a surplus of $4,841,243 (2011 – $2,212,625 surplus). Analyses of the components of the changes are detailed in the consolidated statement of cash flows.

Share issues during the year and to the date of this report

The number of shares on issue at 31 December 2012 was 155,743,680. Details of the issues of shares are set out in Note 18 to the accounts.

Share options

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

Date of Expiry	Exercise Price (AUD)	Number under option
1 November 2014	20 cents	92,500,000

Risk management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

An Audit and Risk Committee is in place with a purpose to review the financial affairs of the Company and monitor the risks associated with business operations to determine whether these will impact adversely on financial performance. At the discretion of the committee, the external auditor and other members of the Board and management will be invited to Audit and Risk Committee meetings. The Audit and Risk Committee will consider any matters relating to the financial affairs of the Company and any other matter referred to it by the Board. The members of the Audit and Risk Committee are Mark Stowell (Chair) and Chris Cronin.

Environmental Regulation and Performance

The Group's activities are subject to environmental regulations under various Federal or State legislation and regulations in the regions of operation in the USA. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

Significant events after the balance date

Except for the foregoing, there were no significant events after the balance date.

- Allocation of 360,000 shares to executives at a price of AUD0.25 per share. Shares were paid for by way of a non-recourse loan from the Company and there are vesting conditions of between one and two years for these shares.

Indemnification and insurance of Directors and officer

The Company has entered into Deeds of Indemnity, Insurance and Access ("Deed") with each Director and the Company Secretary (collectively "Officers"). Under the Deed, the Company indemnifies the Officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the Officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed. The total amount of insurance premiums paid in relation to Directors and Officers Indemnity insurance for 2012 was $18,572 (2011 – $16,876).

The Company has not provided any insurance or indemnification for the Auditor of the Company.

Remuneration Report (Audited)

Incremental Oil and Gas Ltd received more than 75% of the votes in favour of the Remuneration Report for the 2011 financial year.

This remuneration report outlines the Directors' and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company, Incremental Oil and Gas Ltd ("the Parent"). For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the Parent and the Group.

Directors' Report

For the year ended 31 December 2012

Details of key directors and management personnel

The Directors of Incremental Oil and Gas Ltd during the year were:

- Chris Cronin (Chairman)
- Gerry McGann (Managing Director)
- Hon JAL (Sandy) Macdonald
- Mark Stowell

The key management personnel (other than the directors) during the year were:

- Jim Hussey (Vice President)
- Simon Adams (Company Secretary and CFO)

Remuneration Policy

The performance of the Group depends on the quality of its key management and personnel. In order to achieve the Company's financial and operational objectives, it must attract, motivate and retain highly skilled directors and executives.

To this end the Group embodies the following principles in its remuneration policy:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- A proportion of executive compensation 'at risk', dependent upon meeting pre-determined targets; and
- Establishing appropriate performance hurdles in relation to variable executive compensation.

Remuneration is not linked to profit performance. The remuneration policy is for executives to be paid on terms that are competitive with those offered by entities of a similar size with the same industry. Packages are reviewed annually by the Remuneration Committee with any recommendations of this committee reviewed and approved by the Board.

The members of the Company's remuneration committee are Chris Cronin (Chair) and Sandy Macdonald.

Non-Executive Director Remuneration

The Board policy is to remunerate non-executive Directors based on market rates and with consideration given to the time, commitment and responsibility of the role. Fees are determined within an aggregate fee pool limit, which is periodically recommended for approval by shareholders. This amount is separate from any specific tasks that the Directors may take on for the Company. The current aggregate fee pool limit approved by shareholders is AUD$350,000.

Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the senior executive remuneration policy the remuneration of senior executives may be comprised of the following:

- fixed salary that is comparable with the market and reflects core performance requirements, expertise and responsibility expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option schemes which align executive and shareholder values; and
- statutory superannuation and pension contributions where required.

There are no fixed terms of employment in the senior executive employment agreements.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders through the increase in Company performance.

The Board may use its discretion with respect to the payment of bonuses, stock options, share purchase plans and other incentives.

Remuneration of each Company Director and key management personnel

Year ended 31 December 2012

	Short Term			Post-Employment	Equity payments		
	Salary & Fees[i] US$	Other Benefits [ii] US$	Bonuses US$	Super-annuation US$	Shares and options US$	Total US$	Equity based payments % of Remuneration %
Directors							
C Cronin	85,664	4,643	–	7,710	–	98,017	–
G McGann	311,505	36,993	175,797	28,035	–	552,330	–
J Macdonald	57,109	4,643	–	5,140	–	66,892	–
M Stowell	67,493	4,643	–	6,074	–	78,210	–
Executives							
J Hussey	250,000	6,351	70,000	–	–	326,351	–
S Adams[iii]	104,066	5,991	–	9,366	–	119,423	–
Total	**875,837**	**63,264**	**245,797**	**56,325**	–	**1,241,223**	–

Year ended 31 December 2011

	Short Term			Post-Employment	Equity payments		
	Salary & Fees[i] US$	Other Benefits [ii] US$	Bonuses US$	Super-annuation US$	Shares and options US$	Total US$	Equity based payments % of Remuneration %
Directors							
C Cronin	77,498	4,219	–	6,975	–	88,692	–
G McGann	236,799	4,219	–	44,776	–	285,794	–
J Macdonald	51,665	4,219	–	4,650	–	60,534	–
M Stowell	51,665	4,219	–	4,650	–	60,534	–
Executives							
J Hussey	215,264	5,309	–	–	–	220,573	–
Total	**632,891**	**22,185**	–	**61,051**	–	**716,127**	–

(i) Included in Salary and Fees are amounts made available to related parties of directors. The amounts shown above in relation to directors include the provision of their services relating to other geologists and geological services and corporate services and administration.

(ii) Other benefits comprise health insurance and employment related benefits as well as the cost of D&O insurance which is split equally between the Directors.

(iii) S Adams joined the Company on 1 May 2012.

Directors' Report

For the year ended 31 December 2012

Service Agreements

Mr G McGann (Managing Director)

Term of Agreement:	No fixed term
Base Salary:	AUD$300,000
Superannuation:	9% of base salary
Incentives:	AUD$50,000 on achieving average daily gross production of 300 bopd over a continuous period of 3 months.
	AUD$60,000 on achieving average daily gross production of 400 bopd over a continuous period of 3 months.
	AUD$60,000 on achieving average daily gross production of 600 bopd over a continuous period of 3 months.
Termination:	The contract may be terminated by either the Company or Mr McGann by providing three months' notice in writing, with Mr McGann being entitled to the salary up to and including the date of termination.

Mr J Hussey (Vice President USA)

Term of Agreement:	No fixed term
Base Salary:	US$250,000
Incentives:	Half yearly production avg > 500 bopd 20% of gross salary Half yearly production avg > 700 bopd 20% of gross salary Half yearly production avg > 1000 bopd 20% of gross salary
Termination:	The contract may be terminated by either the Company or Mr Hussey by providing four months' notice in writing, with Mr Hussey being entitled to the salary up to and including the date of termination.

Mr S Adams (CFO & Company Secretary)

Term of Agreement:	No fixed term
Base Salary:	AUD$150,000
Superannuation:	9% of base salary
Incentives:	Nil
Termination:	No specific provision for termination.

Committee Memberships

Memberships of Board committees by independent Board members are as follows:

Director	Audit and Risk committee	Remuneration and nomination committee
C Cronin	X	X
JAL Macdonald	–	X
M Stowell	X	–

Corporate governance

In recognising the need for high standards of corporate behaviour and accountability, the Directors' support and have, where currently considered appropriate given the size and nature of the Company, adhered to the best practice recommendations set by the ASX Corporate Governance Council.

Directors' Meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

	Directors Meetings		Audit & Risk	Remuneration
Directors	Held	Attended	Committee	Committee
Mr C Cronin	8	8	3	3
Mr G McGann	8	8	–	–
Mr J Macdonald	8	8	–	3
Mr M Stowell	8	8	3	–

Directors' benefits

No Director of the Company has received or become entitled to receive a benefit because a contract that the Director or a firm of which the Director is a member or an entity in which the Director has a substantial financial interest made with the company or an entity that the company controlled, or a body corporate that was related to the company, when the contract was made or when the Director received, or became entitled to receive the benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in Note 5 to the Financial Statements.

Number of Employees

The number of employees at 31 December 2012 is 6 (2011 – 2).

Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Auditor Independence Declaration to the Directors of Incremental Oil and Gas Ltd

The auditor's independence declaration for the year ended 31 December 2012 has been received and is to be found on page 10.

Non-Audit Services

During the year no amount was paid to Stantons International or a related entity of Stantons International for the provision of non-audit services.

This report is signed in accordance with a resolution of the Directors, made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the Directors

Gerard J McGann

Gerry McGann
Managing Director
Perth
25 March 2013

Auditors' Independence Declaration

For the year ended 31 December 2012

Stantons International Audit and Consulting Pty Ltd
trading as

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Chartered Accountants and Consultants

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25 March 2013

Board of Directors
Incremental Oil and Gas Limited
Unit 2, 16 Phillimore Street
Fremantle WA 6160

Dear Directors

RE: INCREMENTAL OIL AND GAS LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Incremental Oil and Gas Limited.

As the Audit Director for the audit of the financial statements of Incremental Oil and Gas Limited for the year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully
STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

JP Van Dieren
Director

Corporate Governance Statement

For the year ended 31 December 2012

Incremental Oil and Gas Ltd ("the Company" or "Incremental") and its subsidiaries (collectively "the Group") are committed to implementing a high standard of corporate governance. The Board of Directors of the Company is responsible for its corporate governance and the Board has adopted a manual of corporate governance policies and procedures based on control systems and accountability. The Board of the Company adopted the Corporate Governance Manual which is available in the corporate governance information section of the Company's website at www.incrementaloilandgas.com. A summary of the Group's corporate governance policies and procedures is included in this Statement.

The Group's corporate governance policies and procedures are in line with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("the Principles & Recommendations"). The Group has followed the Principles & Recommendations where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration by the Board, the Company's corporate governance practices depart from the Principles & Recommendations, the Board has fully disclosed the departure and the reason for the adoption of its own practice, in compliance with the "if not, why not" exception reporting regime.

Board of Directors – Role of the Board and Management

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chief Financial Officer and other key executives in the performance of their roles.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- **Leadership of the Organisation:** overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- **Strategy Formulation:** to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- **Overseeing Planning Activities:** the development of the Company's strategic plan.
- **Shareholder Liaison:** ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- **Monitoring, Compliance and Risk Management:** the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- **Company Finances:** approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- **Human Resources:** appointing, and, where appropriate, removing the Chief Executive Officer or Managing Director (CEO/MD), and key executives as well as reviewing their performance in the implementation of the Company's strategy.
- **Ensuring the health, safety and well-being of employees:** in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- **Delegation of Authority:** delegating appropriate powers to the CEO/MD to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

The Board's role and the Company's corporate governance practices are periodically reviewed and improved as required.

The Company will undertake periodic performance reviews of senior executives, committees of the Board and the Board. The Board evaluates the performance of individual directors and of committees. The Company has not adopted formal processes for evaluating the performance of the Board, its committees and individual directors on the basis that such formal processes are not appropriate at this stage of the Company's development.

Corporate Governance Statement

For the year ended 31 December 2012

The Board under the Remuneration and Nominations Committee Charter will oversee the performance evaluation of the senior executive team. This evaluation will be based on specific criteria, including the performance of the Company, whether strategic objectives are being achieved and the development of management and personnel. At this stage of the development of the Company, Incremental has only informal procedures in place for performance evaluation of the senior executives but will consider formal processes in future.

The Board Charter including matters reserved for the Board and senior management and the performance evaluation policies are available on the Company's website at www.incrementaloilandgas.com.

Composition of the Board

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company has adopted a policy on assessing the independence of Directors which is consistent with the guidelines detailed in the ASX Principles & Recommendations and detailed in the Board Charter. The materiality thresholds in this policy are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. The current Board includes a non-executive Chairman, Mr Cronin, two non-executive Directors, Mr Stowell and Mr Macdonald and one executive Director, the Managing Director, Mr McGann.

The role of the Chairman and Managing Director are exercised by different people. Mr Cronin (Chairman and Non-Executive Director) and Mr Macdonald (Non-Executive Director) meet the Company's criteria for independence. Mr Stowell (by virtue of his shareholding being higher than 5% of the Company's issued capital) and Mr McGann (by virtue of his holding being above 5% of the Company's issued capital and due to the fact that he is an executive of the Company) are not considered to be independent. However, their experience and knowledge of the Company makes their contribution to the Board such that it is appropriate for them to remain on the Board.

A minimum of three (3) Directors and a maximum of nine (9) Directors is stipulated under the Company's Constitution. Any changes to the composition of the Board will be determined by the Board, subject to any applicable laws and the resolutions of Shareholders. The Board will seek to nominate persons for appointment to the Board with the appropriate mix of skills and experience to ensure an effective decision-making body and to ensure that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance. The Board should comprise Directors with a mix of qualifications, experience and expertise which will assist the Board in fulfilling its responsibilities, as well as assisting the Company in achieving growth and delivering value to shareholders. The Company aims at all times to have at least two Directors with experience appropriate to the Company's target market.

Pursuant to the Constitution of the Company, at every Annual General Meeting of Shareholders, one-third of the Non-executive Directors, or, if their number is not a multiple of 3, then the whole number nearest one-third, shall retire from office. Prior to the Board proposing re-election of non-executive Directors, their performance will be evaluated to ensure that they continue to contribute effectively to the Board.

The Company's policy for re-election of Directors and selection and appointment of new Directors is available in the Board Charter and Remuneration and Nominations Committee Charter in the Corporate Governance Manual on the Company's website at www.incrementaloilandgas.com.

It is the policy of the Company that any new director will undergo an induction process in which they are given a briefing on the Company. Where possible this includes meetings with key executives, tours of the Company's projects and exploration sites, an induction package and presentations. Information conveyed to new directors includes:

- details of the roles and responsibilities of a director;
- formal policies on director appointment as well as conduct and contribution expectations;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all directors are encouraged to undergo continual professional development.

A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report.

Statement concerning availability of Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, subject to the prior written approval of the Chairman and up to specified limits, to assist them to carry out their responsibilities.

Remuneration and Nominations Committee

The role of the Remuneration and Nominations Committee is to assist the Board in respect of establishing appropriate remuneration levels and incentive policies for employees. The purpose of the Remuneration and Nominations Committee is to ensure that the Company attracts and retains appropriate people by offering competitive remuneration packages and to review Board composition and performance.

The members of the Remuneration and Nomination Committee are Mr Cronin (Chairman) and Mr Macdonald.

The Remuneration and Nominations Committee monitors and reviews:

- the remuneration arrangements for the Managing Director and other senior executives;
- the remuneration policies, personnel practices and strategies of the Company generally;
- any employee incentive scheme;
- the remuneration arrangements for non-executive members of the Board;
- the size and composition of the Board, and criteria for Board membership; and
- the membership of the Board and propose candidates for consideration by the Board.

The Remuneration and Nominations Committee Charter is available on the Company's website www.incrementaloilandgas.com in the Corporate Governance Manual.

Remuneration of Directors and senior management is determined with regard to the performance of the Company, the performance and skills and experience of the particular person and prevailing remuneration expectations in the market. Details of remuneration of Directors and Key Management Personnel are disclosed in the Remuneration Report.

There are no termination or retirement benefits for non-executive Directors (other than for superannuation).

Executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

Code of Conduct

The Company has adopted a Code of Conduct that outlines how the Company expects its Directors and employees of the Group to behave and conduct business in the workplace on a range of issues. The Company is committed to the highest level of integrity and ethical standards in all business practices.

The purpose of the Code of Conduct is to provide a framework for decisions and actions in relation to ethical conduct in employment. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders.

It sets out the Company's expectations of its Directors and employees with respect to a range of issues including conflicts of interests, receipt of gifts, company property, computer, telephone and internet use, confidentiality, business ethics, equal opportunity, harassment and discrimination, health and safety, the environment and travel expenses.

A breach of the Code is subject to disciplinary action which may include punishment under legislation and/or termination of employment.

The Code of Conduct is available on the Company's website at www.incrementaloilandgas.com.

Ethical Standards

The Board considers that the success of the Company will be enhanced by a strong ethical culture within the Company. Accordingly, the Board is committed to the highest level of integrity and ethical standards in all business practices. The Company expects its Directors, employees and consultants to deal in good faith, with integrity and with the highest standards of business ethics and morals in their negotiations and commercial dealings with third parties.

Conflicts of Interest

In accordance with the Corporations Act, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

Securities Trading Policy

The Securities Trading Policy adopted by the Board prohibits trading in shares by a Director, officer or employee during certain blackout periods (in particular, prior to release of quarterly, half yearly or annual results or any other market sensitive information relating to the Company's activities) except in exceptional circumstances and subject to procedures set out in the Policy.

Outside of these blackout periods, a Director, officer or employee must first obtain clearance in accordance with the Policy before trading in shares. For example:

- A Director must receive clearance from the Chairman, or in his absence the Managing Director, before he may buy or sell shares.
- If the Chairman wishes to buy or sell shares he must first obtain clearance from the Audit and Risk Committee.
- Other officers and employees must receive clearance from the Chairman, or in his absence the Managing Director, before they may buy or sell shares.

Directors, officers and employees must observe their obligations under the Corporations Act not to buy or sell shares if in possession of price sensitive non-public information and that they do not communicate price sensitive non-public information to any person who is likely to buy or sell shares or communicate such information to another party.

The Securities Trading Policy is available on the Company's website at www.incrementaloilandgas.com.

Continuous Disclosure

The Company's Board Charter includes a section on Continuous Disclosure. The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

All relevant information provided to ASX in compliance with the continuous disclosure requirements and legislation and the Listing Rules is promptly posted on the Company's website www.incrementaloilandgas.com.

Audit and Risk Committee

The members of the Audit and Risk Committee are Mr Stowell (Chairman) and Mr Cronin. The Board has adopted an Audit and Risk Committee Charter which is available on the Company's website www.incrementaloilandgas.com in the Corporate Governance Manual.

The Audit and Risk Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The Committee will set aside sufficient time to discharge its functions to ensure the integrity of the financial statements of the Company and the independence of the external auditor.

The Audit and Risk Committee will review the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommend their approval or otherwise to the full Board.

The Audit and Risk Committee will each year review the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

Communication to Shareholders

The Company's Board Charter includes a section on Shareholder Communication.

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

Risk Management

As noted in the Audit and Risk Committee Charter, the Board is responsible for ensuring there is a sound system for overseeing and managing risk. Due to the size and scale of operations of the Company, risk management issues are considered by the Board as a whole.

The Board has delegated to the Managing Director responsibility for implementing the risk management system. The Managing Director submits particular matters to the Board for its approval or review. The Managing Director is required to report on management of the Company's material risks as a standing agenda item at each Board meeting. This involves the tabling of a risk register which is monitored and updated by management periodically.

The Board also requires Mr McGann, in the capacity as Managing Director of the Company, to confirm that a risk management and internal control system to manage the Company's material business risks has been designed and implemented. This confirmation has been received by Mr McGann prior to finalisation of the 31 December 2012 Financial Report.

Environmental, Health and Safety Policy

The Company has an Environmental, Health and Safety Policy. The purpose of this Environmental, Health and Safety Policy is to provide guidelines for Directors, officers, employees and contractors of the Company to conduct their business activities and work practices in relation to the Company in a safe and environmentally sensitive and sustainable manner. The policy also seeks to encourage Directors, officers, employees and contractors to conduct their business activities and work practices in a manner that promotes general health and well-being, as well as a suitable work-life balance.

The Environmental, Health and Safety Policy is available on the Company's website at www.incrementaloilandgas.com.

Diversity Policy

The Company has not adopted a formal Diversity Policy. The Board will re-consider establishing a formal Diversity Policy as the Company's workforce and operations grow.

The Company has one woman in a senior executive position and no women on the Board. The Company's VP Land and Business Development, is female and is employed on a full time basis in the USA.

Integrity of Financial Reporting

Mr McGann, Managing Director, and Mr Adams, Chief Financial Officer, have provided a declaration in accordance with section 295A of the Corporations Act in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for the year ended 31 December 2012 present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

Corporate Governance Statement

For the year ended 31 December 2012

ASX LISTING RULE DISCLOSURE – EXCEPTION REPORTING

As required by ASX Listing Rules, the following table discloses the extent to which the Company has not followed the best practice recommendations set by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
1.2	Disclose the process for evaluation of senior executives	The Company has in place informal procedures for evaluating the performance of senior executives.	At this stage of the development, the Company has only informal procedures in place for performance evaluation of the senior executives but will consider the implementation of formal processes when required as the Company's operations evolve.
2.1	A majority of the Board should be independent Directors.	The Board is not currently made up of a majority of independent directors as some of the directors are substantial shareholders of the Company or act in an executive capacity in management.	The Board considers that in the current phase of the Company's growth, the Company's shareholders are better served by directors who have a vested interest in the Company. The Board has been structured based on the need to effectively discharge its responsibilities and duties, given the current scale of the Company's operations. Each director has the relevant experience and specific expertise relevant to the Company's business and level of operations. The Company considers that the non-independent directors possess the skills and experience suitable for building the Company. The Board will monitor its composition as the Company's operations evolve, and may appoint independent directors as it deems appropriate.
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	The Company has not adopted formal processes for evaluating the performance of the Board, its committees and individual Directors.	The Company has not adopted formal processes for evaluating the performance of the Board, its committees and individual directors on the basis that such formal processes are not appropriate at this stage of the Company's development. The Company will consider the implementation of formal processes in future particularly as the size of the Company, Board and the level of activity of the Company increase.
3.2	The Company should establish a diversity policy.	The Company does not currently have a diversity policy in place.	Given the current size and stage of the Company's operations it is yet to establish and implement a diversity policy. The Board will review the need for a diversity policy as the Company develops.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	The Company does not currently have a diversity policy in place and has not disclosed the information required in the 31 December 2012 financial report.	Given the current size and stage of the Company's operations it is yet to implement a diversity policy. The Board will review the need for a diversity policy as the Company develops.
4.2	The audit committee should be structured so that it is chaired by an independent chairperson, consists of a majority of independent directors and have at least three members.	The members of the Audit and Risk Committee are Mr Stowell (Chairman) and Mr Cronin, both non-executive Directors of the Company. The Chairman of the Committee, Mr Stowell, does not meet the independence criteria. There are currently only two members of the Audit Committee.	The Board believes that given the Company's size and stage of development and the size of the Board the composition of the Audit and Risk Committee is appropriate and adequate. Mr Stowell, the Chairman of the Committee, is a Chartered Accountant and has over 20 years of corporate finance and business management experience in a large variety of roles and is an appropriate Chairman for the Committee. As the size and composition of the full Board evolves and the Company develops, the Company will consider the appropriateness of the composition of the Audit and Risk Committee.
8.2	The remuneration committee should be structured so that it is chaired by an independent chairperson, consists of a majority of independent directors and have at least three members.	The members of the Remuneration and Nomination Committee are Mr Cronin (Chairman) and Mr Macdonald, both non-executive Directors of the Company. Both members meet the independence criteria. There are currently only two members of the Remuneration and Nomination Committee.	The Board believes that given the Company's size and stage of development and the size of the Board the composition of the Remuneration and Nomination Committee is appropriate and adequate. As the size and composition of the full Board evolves and the Company develops, the Company will consider the appropriateness of the composition of the Remuneration and Nomination Committee.

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Oil and Gas Revenue	3a	16,037,233	7,704,018
Other Revenue	3a	34,927	46,476
		16,072,160	7,750,494
Royalties paid		(2,674,078)	(1,157,910)
Depreciation	3(b)(i)	(209,340)	(68,402)
Amortisation	3(b)(i)	(1,894,464)	(993,442)
Exploration	3(b)(v)	(186,544)	(64,081)
Lease operating expenses		(2,454,866)	(1,472,946)
Other costs		(2,320,495)	(1,343,095)
Wages and salaries		(1,592,912)	(730,545)
Interest	3(b)(iii)	(234,548)	(324,799)
Foreign exchange losses (differences)	3(b)(iv)	82,848	(142,074)
Profit/(Loss) before income tax		4,587,761	1,453,200
Income tax expense	4	(1,903,926)	(638,528)
Profit/(Loss) after tax		2,683,835	814,672
Other comprehensive income			
Items that will not be reclassified to profit or loss		–	–
Items that may be reclassified subsequently to profit or loss		–	–
Total comprehensive income/(loss)		2,683,835	814,672
Profit for the period attributable to members of the entity		2,683,835	814,672
Total comprehensive income/ (loss) for the period attributable to members of the entity		2,683,835	814,672
Basic Earnings Per Share (cents)	20	1.84	0.66
Diluted Earnings Per Share (cents)	20	1.60	0.54

The above Statement of Profit and Loss or Other Comprehensive Income should be read in conjunction with the accompanying notes

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	2012 US$	2011 US$
Current assets			
Cash and cash equivalents	8	3,970,247	1,456,780
Trade and other receivables	9	1,305,468	704,372
Inventories	10	431,013	91,046
Total current assets		5,706,728	2,252,198
Non-current assets			
Other financial assets	11	195,000	100,000
Oil properties	12	27,764,750	15,747,741
Exploration assets	13	760,898	739,700
Plant and equipment	14	1,765,530	472,588
Deferred tax asset	4(a)&(b)	3,880,435	–
Total Non-current assets		34,366,613	17,060,029
Total assets		40,073,341	19,312,227
Current liabilities			
Trade and other payables	15	1,730,532	516,805
Borrowings	16	6,000,000	–
Taxes payable	4	104,715	–
Provisions	17	75,950	30,769
Total current liabilities		7,911,197	547,574
Non-current liabilities			
Provisions	17	620,201	–
Deferred taxation	4(a)&(b)	6,819,303	1,139,658
Total non-current liabilities		7,439,504	1,139,658
Total liabilities		15,350,701	1,687,232
Net assets		24,722,640	17,624,995
Equity attributable to equity holders of the parent			
Issued capital	18	22,318,820	17,905,010
Reserves	19	35,769	35,769
Accumulated profit/(losses)		2,368,051	(315,784)
Total Equity		24,722,640	17,624,995

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Issued capital US$	Accumulated profits/ (losses) US$	Other reserves US$	Total equity US$
At 31 December 2011	17,905,010	(315,784)	35,769	17,624,995
Profit attributable to members of the Group	–	2,683,835	–	2,683,835
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	–	2,683,835	–	2,683,835
Exercise of Options	20,552	–	–	20,552
Placement of Shares	4,629,900	–	–	4,629,900
Cost of issue of share capital	(236,642)	–	–	(236,642)
At 31 December 2012	22,318,820	2,368,051	35,769	24,722,640

	Issued capital US$	Accumulated profits/ (losses) US$	Other reserves US$	Total equity US$
At 31 December 2010	12,604,832	(1,130,456)	35,769	11,510,145
Profit attributable to members of the Group	–	814,672	–	814,672
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	–	814,672	–	814,672
Exercise of Options	32,927	–	–	32,927
Capital raising costs	(31,373)	–	–	(31,373)
Conversion of Convertible notes	5,298,624	–	–	5,298,624
At 31 December 2011	17,905,010	(315,784)	35,769	17,624,995

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 US$	2011 US$
Cash flows from operating activities			
Receipts from customers		13,414,451	7,540,508
Royalty Payments		(2,676,992)	(1,157,910)
Payments to suppliers and employees		(5,777,531)	(3,567,674)
Interest received		16,951	44,394
Realised foreign currency differences		57,258	–
Interest paid		(192,894)	(646,693)
Net cash provided by operating activities	21	4,841,243	2,212,625
Cash flows from investing activities			
Proceeds from sale and farm-down of oil properties		243,000	–
Payments for purchase of oil properties		(9,914,409)	–
Payment for development of oil properties		(2,452,052)	(5,499,243)
Payment for security bonds	11	(95,000)	–
Payments for exploration	13	(487,951)	(406,286)
Payments for purchases of property plant and equipment	14	(60,765)	(30,841)
Net cash (used in) investing activities		(12,767,177)	(5,936,370)
Cash flows from financing activities			
Proceeds from issues of shares		4,650,452	32,927
Capital raising costs		(236,642)	(31,373)
Proceeds of borrowings		6,000,000	–
Net cash provided by financing activities		10,413,810	1,554
Net increase/(decrease) in cash and cash equivalents		2,487,876	(3,722,191)
Exchange differences on cash balances held		25,591	64,550
Cash and cash equivalents at beginning of the year		1,456,780	5,114,421
Cash and cash equivalents at end of year	8	3,970,247	1,456,780

The above Consolidated Statement of Cash Flows should be read in conjuction with the accompanying notes.

Notes to the Financial Statements

Note 1. Summary of significant accounting policies

The financial statements cover the consolidated entity of Incremental Oil and Gas Ltd and its consolidated subsidiaries. Incremental Oil and Gas Ltd is a public company with its shares listed on the Australian Securities Exchange (ASX), and incorporated and domiciled in Australia.

The significant policies that have been adopted in the preparation of this financial report are:

a. Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including Australian Accounting Interpretations. The financial report has also been prepared on a historical cost basis and accrual accounting, modified where applicable by the measurement of selected financial assets and financial liabilities at fair value. The financial report is presented in United States dollars (US$ or USD).

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 Group has, where applicable, adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the year ended 31 December 2012. The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior years. The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group.

At the date of the authorization of the financial statements, the standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)', and AASB 2012-6 'Amendments to Australian Accounting Standards-Mandatory Effective date of AASB 9 and Transition Disclosures'	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 19 (2011)'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements (2011), AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011), AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards-Disclosures-Offsetting Financial Assets and Liabilities' (Amendments to AASB 7)	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards-Disclosures-Offsetting Financial Assets and Liabilities' (Amendments to AASB 132)	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements cycle'	1 January 2014	30 June 2015
AASB 2012-6 'Amendments to Australian Accounting Standards-Mandatory Effective date of AASB9 and Transition Disclosures'	1 January 2014	30 June 2015
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'.	1 January 2014	30 June 2015

The Group has decided not to early adopt any of the new and amended pronouncements. Of the above new and amended Standards and Interpretations the Group's assessment of those new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (December 2010) and AASB 2012-6: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2015).

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation - Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

Notes to the Financial Statements

Note 1. Summary of significant accounting policies (continued)

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or 'joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the 'special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will only affect disclosures and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

› AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurements.

AASB 13 requires:

› inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and

› enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are not expected to significantly impact the Group.

AASB 119 (September 2011) includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

i. for an offer that may be withdrawn – when the employee accepts;

ii. for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

iii. where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

› AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to the presentation and disclosure of defined benefit plans, including:

› removal of the "corridor' approach from AASB 119, thereby requiring entities to recognise all changes in a net defined benefit liability (asset) when they occur;

› disaggregation of changes in a net defined benefit liability (asset) into service cost (including past service cost and gains and losses on non-routine settlements and curtailments), net interest expense (interest based on the net defined benefit liability (asset) using the discount rate applicable to post-employment benefits) and remeasurements (comprising actuarial gains and losses, return on plan assets less the "revenue" component of the net interest expense, and any change in the limit on a defined benefit asset). In addition, AASB 119 (September 2011) requires recognition of:

– service cost and net interest expense in profit or loss; and

– remeasurements in OCI; and

› introduction of enhanced disclosure requirements to facilitate the provision of more useful information in relation to an entity's defined benefit plans.

The Group has not yet been able to reasonably estimate the impact of these changes on its financial statements.

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of Incremental Oil and Gas Ltd ("Incremental ") and its subsidiaries (as outlined in Note 23) as at and for the period ended 31 December. Interests in associates are equity accounted and are not part of the Group.

Subsidiaries are all those entities over which Incremental has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Incremental controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which Incremental obtains control until such time as Incremental ceases to control such entities.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their fair values at the date of acquisition. Any difference between the fair value of the consideration and the fair values of the identifiable net assets acquired is recognised as goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented with equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If Incremental loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying value of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises and surplus or deficit in the statement of comprehensive income;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

d. Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer fie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed, in addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer to Note 1(k)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements, consideration may comprise the sum of the assets transferred by the acquirer. Liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability off equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement comprehensive income.

e. Taxation

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements

Note 1. Summary of significant accounting policies (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

f. Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments*: *Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale assets. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and when allowed and appropriate re-evaluates this designation at each financial period-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the Market place.

i. Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

ii. Held- to- maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through amortisation process.

iii. Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

iv. Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of the investments that are actively traded in the organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market fair values are determined using valuation techniques. Such techniques include: using recent arm’s length market transactions; reference to the current market value of another instrument that is substantially the same discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

g. Interest in a jointly controlled operation

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than the establishment of a separate entity. The Group recognises its interest in the jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

h. Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – 5 to 10 years.

Impairment – The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current Market assessments of the time value of money and the risks specific to the asset.

i. Exploration and evaluation expenditure

Expenditure incurred during exploration and the early stages of evaluation of new areas of interest are capitalised until such time as it is determined that the area of interest is uneconomical at which time the cost is written off.

Costs of acquisition of exploration areas of interest are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

j. Oil and Gas Assets

i. Assets in development
The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and production commences, these costs are subject to amortisation. Once the required statutory documentation for a production licence is lodged the accumulated costs are transferred to oil and gas assets – producing assets.

ii. Producing assets
The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation. Where asset costs incurred in relation to a producing field are under evaluation and appraisal, those costs will be continually reviewed for recoupment of those costs by future exploration. When a determination has been made that those expenditures will not be recouped and/or further appraisal will be undertaken, they will be written off.

iii. Amortisation of oil and gas assets
Costs in relation to producing assets are amortised on a production output basis. Non-producing assets under evaluation and appraisal are not subject to amortisation until such time as the evaluation and appraisal stage is complete.

iv. Restoration costs
Site restoration costs are capitalised within costs of the associated assets and the provision is included in the statement of financial position at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, environmental legislation and technologies. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the profit and loss through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

k. Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Notes to the Financial Statements

Note 1. Summary of significant accounting policies (continued)

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

l. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

m. Share-based payment transactions

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Incremental Oil and Gas Ltd (`market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (`vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

i. the extent to which the vesting period has expired and
ii. the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of Market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

n. Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

o. Foreign currency translation

i. Functional and presentation currency
Until 31 December 2010, both functional and presentation currency of Incremental Oil and Gas Ltd was Australian dollars. Each entity in the Group determined its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency for the US subsidiary was United States dollars (US$ or USD). At 1 January 2011 all companies in the group adopted US dollars as the functional and presentational currency. All amounts included in the financial statements are in US dollars unless otherwise indicated.

An entity's functional currency is the currency of the primary economic environment in which the entity operates. The economic entity now has a significant US dollar revenue stream and most of its costs are paid in US dollars. Consequently the directors determined that the functional currency of the Company and all its subsidiaries is US dollars. The change in functional currency was applied with effect from 1 January 2011 in accordance with the requirements of accounting standards.

Following the change in functional currency, Incremental Oil and Gas Ltd has elected to change its presentation currency from Australian dollars to US dollars. The directors believe that changing the presentation currency to US dollars will enhance comparability with its industry peer group, a majority which report in US dollars.

ii. Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation.

These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

iii. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US dollars at exchange rates at the reporting date. The income and expenses of Australian operations are translated to US dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Such differences are recognised in the foreign currency translation reserve (FCTR). When the foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit and loss.

p. Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the assets value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is carried as a revaluation decrease).

q. Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of those goods and services.

r. Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

s. Trade and other receivables

Debtors are carried at amounts due. The recoverability of debts is assessed at balance date and specific provision is made for any doubtful accounts.

t. Employee leave benefits

Wages, salaries, annual leave and sick leave liabilities for wages and salaries, including non-monetary benefits and annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

u. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

v. Inventories

Oil stocks and field repair inventory amounts are physically measured, counted or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Notes to the Financial Statements

Note 1. Summary of significant accounting policies (continued)

w. Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred onto a vessel, train, conveyor or other delivery mechanisms. Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i. Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

ii. Dividends
Revenue is recognised when the shareholders' right to receive the payment is established.

x. Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to include any costs of servicing equity (other than dividends) and preference share dividends divided by the average weighted number of ordinary shares adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares; and
- Dilutive potential ordinary shares, adjusted for any bonus element.

y. Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with the current year disclosures. The comparatives have also been translated to the current functional and presentation currency, which is in United States dollars.

z. Going Concern Basis

The Financial Report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the year ended 31 December 2012, the Company recorded a profit of $3,564,033(2011: $814,672) and had cash and cash equivalents of $3,970,247 (2011: $1,456,780).

The Company will not require further funding during the 2013 and 2014 financial years in order to meet debt repayment obligations in relation to the loan to RMB Australia Ltd, day to day obligations as they fall due and progress its exploration projects. Based on the Company's cash flow forecast, the Board of Directors believes that the Company's will not need to access additional working capital funds in the next 12 months to enable the Company to continue its normal business activities and extinguishment of liabilities as and when they fall due. The Directors are aware that the Company has the option, if necessary to relinquish oil leasesin order to maintain its cash funds at appropriate levels. Based on these facts, the Directors consider the going concern basis of preparation to be appropriate for this financial report.

Note 2. Significant accounting judgements, estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Significant accounting judgements

Classification of valuation of investments
The Group has decided to classify investments in listed and unlisted securities as 'available-for-sale' investments and movements in fair value are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market. The fair values of unlisted securities not traded in an active Market are determined by an appropriately qualified independent valuer by projecting future cash flows from expected future dividends and subsequent disposal of the securities.

Impairment of non-financial assets other than goodwill
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment, including economic and political environments. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Share based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

Allowance for impairment loss on trade receivables
Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management.

Capitalised exploration and evaluation expenditure
The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could impact future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes and changes to commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable, profits and net assets will be reduced in the period in which determination is made.

Estimation of useful lives of assets
The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in Note 14.

Contingencies
By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Recovery of deferred tax assets
Judgment is required in determining whether deferred tax assets are recognised on the statement of financial position, Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Oil and Gas reserve and resource estimates
Oil and Gas reserves are estimates of the amount of Oil and Gas that can be economically and legally extracted from the Group's mining properties. The Group estimates its Oil and Gas reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the reserve, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortisation charges.

Units-of-production amortisation
Estimated recoverable reserves are used in determining the amortisation of oilfield assets. This results in an amortisation charge proportional to the depletion of the anticipated remaining life of field production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Numerous units-of-production (UOP) depreciation methodologies are available to choose from. Changes are accounted for prospectively.

Notes to the Financial Statements

Note 3. Revenues and Expenses

Revenue and expenses from continuing operations Profit from ordinary activities before income tax includes the following items of revenue and expense.

a. Revenue

	2012 US$	2011 US$
Oil and gas sales	15,835,389	7,704,018
Royalties	201,844	–
	16,037,233	7,704,018
Interest Income	14,869	46,476
Other revenue	20,058	–
	16,072,160	7,750,494

b. Expenses

	2012 US$	2011 US$
i. Depreciation and amortisation included in the statement of comprehensive income		
Amortisation – oil and gas properties	(1,894,464)	(993,442)
Depreciation – oil and gas properties	(199,602)	(68,402)
	(2,094,066)	(1,061,844)
Depreciation – other plant & equipment	(9,738)	–
	(2,103,804)	(1,061,844)
ii. Net gain/(loss) on sale of oil properties and exploration assets (included in other costs)		
Guijarral Hills – sold	(182,434)	–
West Mountain – farm-down	(10,583)	–
	(193,017)	–
iii. Finance costs		
Interest on bank loans/convertible loans	(192,277)	(324,799)
Other Interest Charges	(42,271)	–
Financing charges (included in other costs)	(541,730)	–
	(776,278)	(324,799)
iv. Foreign exchange gain/(losses)	82,848	(142,074)
v. Exploration expenditure expensed	(186,544)	(64,081)

Note 4. Income tax

	2012 US$	2011 US$
Current tax expense		
Current tax expense	104,715	–
Adjustment for current tax of prior period	–	–
	104,715	–
Deferred income tax/(revenue) expenses included in income tax expense		
Decrease/(increase) in deferred tax	2,318,897	638,528
Adjustment for deferred tax of prior period – Australia	(226,417)	–
Adjustment for deferred tax of prior period – USA	(293,269)	–
	1,799,211	638,528
Income Tax attributed to:		
Continued operations	1,903,926	638,528
Discontinued operations	–	–
	1,903,926	638,528
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(Loss) from continuing operations before income tax	4,587,761	1,453,200
Profit/(Loss) from discontinued operations before income tax	–	–
	4,587,761	1,453,200
Prima facie tax payable on profit/(loss) from ordinary activities at 30% (2011 – 30%)	1,376,328	435,960
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of different taxation rates of other countries	937,198	63,853
Movement in unrecognised temporary differences	–	(169,409)
Tax effect of current period tax losses for which no deferred tax asset has been recognised	–	307,588
State income tax liability	104,715	–
Tax effect of amounts which are not deductible in calculating taxable income	5,371	536
Benefit of tax losses not previously recognised:		
Temporary differences and tax losses previously not brought to account – Australia	(226,417)	–
Prior year adjustments to temporary differences and tax losses – USA	(293,269)	–
	1,903,926	638,528
Tax Losses and temporary differences not recognised	–	–
Income tax expense	1,903,926	638,528

Notes to the Financial Statements

Note 4. Income tax (continued)

	2012 US$	2011 US$
a. Recognised temporary differences from foreign source income		
Deferred tax assets (at 35%)		
Provision for expenses	–	265,469
Interest & management fees	2,118,178	–
Carry forward foreign tax losses	1,042,240	1,387,401
	3,160,418	1,652,870
Deferred tax liabilities (at 35%)		
Oil production assets	5,786,775	2,504,031
Inventory	–	30,956
Depreciable assets	637,387	125,350
Exploration	–	132,191
	6,424,162	2,792,528
Net deferred tax asset/(liability)	(3,263,744)	(1,139,658)
b. Recognised temporary differences from Australian source income		
Deferred tax assets (at 30%)		
Provision for expenses	48,447	–
Capital raising costs	133,766	–
Carry forward foreign tax losses	537,804	–
	720,017	–
Deferred tax liabilities (at 30%)		
Receivables	387,461	–
Unrealised foreign exchange gains	7,680	–
	395,141	–
Net deferred tax asset/(liability)	324,876	–
c. Unrecognised deferred tax assets (at 30%) from Australian source income		
Deferred tax assets (at 30%)		
Provision for expenses	–	23,341
Capital raising costs	–	76,125
Carry forward tax losses	–	352,582
	–	452,048
Carry forward revenue tax losses	–	44,994
Other timing differences	–	99,466
	–	144,460

The Group has $1,792,681 (2011 – $1,175,273) income tax losses carried forward in Australian and $2,977,827 (2011 – $7,016,722) in foreign income tax losses carried forward.

Note 5. Directors' and key management personnel compensation

The aggregate compensation of the Company's Directors and key management personnel is set out below.

	2012 US$	2011 US$
Compensation by category-Key Management Personnel		
Short-Term	1,184,898	655,076
Post-Employment	56,325	61,051
Other long term	–	–
Termination Benefits	–	–
Equity-Based Payments	–	–
	1,241,223	716,127

Related Party Transactions

Specific transactions with Directors and Director-related entities:

There are no outstanding balances or commitments at 31 December 2012 and no valuation adjustments for doubtful or bad debts were made during the year.

Movement of shareholdings of each Company Director and the key management personnel during the year ended 31 December 2012.

	Balance at 1 January 2012 Number	Conversion of Convertible notes Number	Net Change Other Number	Balance at 31 December 2012 Number
Directors				
C Cronin	7,500,002	–	–	7,500,002
G McGann	24,340,004	–	–	24,340,004
J Macdonald	5,778,001	–	–	5,778,001
M Stowell	13,500,002	–	–	13,500,002
Executives				
J Hussey	1,034,000	–	–	1,034,000
S Adams	–	–	–	–
Total	52,152,009	–	–	52,152,009

Movement of shareholdings of each Company Director and the key management personnel during the year ended 31 December 2011.

	Balance at 1 January 2011 Number	Conversion of Convertible notes Number	Net Change Other Number	Balance at 31 December 2011 Number
Directors				
C Cronin	6,000,002	1,500,000	–	7,500,002
G McGann	20,500,004	3,750,000	90,000	24,340,004
J Macdonald	4,250,001	1,500,000	28,000	5,778,001
M Stowell	9,900,002	3,500,000	100,000	13,500,002
Executives				
J Hussey	1,034,000	–	–	1,034,000
J Asquith[(i)]	5,000,003	–	(5,000,003)	–
Total	46,684,012	10,250,000	(4,782,003)	52,152,009

(i) No longer key management personnel

Notes to the Financial Statements

Note 5. Directors' and key management personnel compensation (continued)

Movement on option holdings of each Company Director and the key management personnel during the year ended 31 December 2012.

	Balance at 1 Jan 2012 Number	Changed during the year Number	Granted as Remuneration Number	Balance at 31 Dec 2012 Number
Directors				
C Cronin	6,000,000	–	–	6,000,000
G McGann	20,500,000	–	–	20,500,000
J Macdonald	4,250,000	–	–	4,250,000
M Stowell	10,200,000	–	–	10,200,000
Executives				
J Hussey	1,000,000	–	–	1,000,000
S Adams	–	–	–	–
Total	41,950,000	–	–	41,950,000

Movement on option holdings of each Company Director and the key management personnel during the year ended 31 December 2011.

	Balance at 1 Jan 2011 Number	Changed during the year Number	Granted as Remuneration Number	Balance at 31 Dec 2011 Number
Directors				
C Cronin	6,000,000	–	–	6,000,000
G McGann	20,500,000	–	–	20,500,000
J Macdonald	4,250,000	–	–	4,250,000
M Stowell	10,200,000	–	–	10,200,000
Executives				
J Hussey	1,000,000	–	–	1,000,000
J Asquith[(i)]	5,000,000	(5,000,000)	–	–
Total	46,950,000	(5,000,000)	–	41,950,000

(i) No longer key management personnel

Note 6. Equity-based payments to Directors, employees and consultants

During the current year ended 31 December 2012, the Company did not grant shares and options to Directors, key management personnel, consultants and staff.

Note 7. Auditors remuneration

The auditor of Incremental Oil and Gas Ltd is Stantons International

	2012 US$	2011 US$
During the year, the following amounts were paidor payable to Stantons International by the Company in relation to audit services	127,405	100,589
During the year, the following amounts were paid or payable to Brown Armstrong, a US audit firm, by the Company in relation to audit services	27,500	–
During the year, the following amounts were paid or payable to Stantons International by the Company in relation to non-audit services	–	–
	154,905	100,589

Note 8. Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents comprise the following at 31 December

	2012 US$	2011 US$
Cash at bank and on hand	3,970,247	1,456,780

Note 9. Trade and other receivables

	2012 US$	2011 US$
Oil and gas sales debtors	1,262,594	704,372
Other receivables	42,874	–
	1,305,468	704,372

i. Trade and other receivables are non-interest bearing and generally 30 – 90 day terms. An allowance for doubtful debts is made where there is objective evidence that a trade receivable is impaired.

ii. Trade and other receivables do not contain impaired assets and are not past due.

Note 10. Inventories

	2012 US$	2011 US$
Oil inventory	152,142	91,046
Field inventory	278,871	–
	431,013	91,046

Note 11. Other financial assets

	2012 US$	2011 US$
Non-current		
Bonds	195,000	100,000

Notes to the Financial Statements

Note 12. Oil properties

	2012 US$	2011 US$
Cost of acquisition and enhancements	31,290,159	17,378,686
Accumulated amortisation	(3,525,409)	(1,630,945)
	27,764,750	15,747,741
Opening balance	15,747,741	11,120,893
Additions(i)	13,911,473	5,620,290
Amortisation	(1,894,464)	(993,442)
Closing balance	27,764,750	15,747,741

(i) Includes acquisition of Florence Oilfield (2012)

Note 13. Exploration and evaluation assets

	2012 US$	2011 US$
Exploration and evaluation assets at cost	760,898	739,700
Opening balance	739,700	388,797
Additions	487,951	406,286
Amounts expensed	(9,988)	(55,383)
Transfer to Oil Production Property	(20,748)	–
Disposal	(436,017)	–
Closing balance	760,898	739,700

The ultimate recoupment of exploration and evaluationcosts carried forward is dependent on the successful development commercial exploitation or sale of the respective lease-holdings.

Note 14. Plant and equipment

	2012 US$	2011 US$
Opening balance: net of accumulated depreciation and impairment	472,588	510,149
Assets acquired through purchase of Florence Oilfield	1,441,517	–
Other additions	60,765	30,841
Depreciation charge	(209,340)	(68,402)
Closing balance: net of accumulated depreciation and impairment	1,765,530	472,588
Balance at beginning of year		
Cost	602,709	571,868
Accumulated depreciation and impairment	(130,121)	(61,719)
Net carrying amount	472,588	510,149
Balance at end of year		
Cost	2,104,991	602,709
Accumulated depreciation and impairment	(339,461)	(130,121)
Net carrying amount	1,765,530	472,588

Note 15. Trade and other payables

	2012 US$	2011 US$
Trade payables and accruals	1,730,532	516,805

Trade payables are non-interest bearing payables and are normally settled on 30 day terms.

Note 16. Interest Bearing Liabilities

	2012 US$	2011 US$
Current		
Bank Loan (Secured)	6,000,000	–
Non-Current	–	–

The secured bank loan is provided by RMB Australia Holdings Ltd (RMB) as a US Dollar denominated acquisition and working capital cash term loan facility for the purpose of acquiring the Florence Oilfield, repayment of the loan will be by way of four equal quarterly instalments in 2013. The loan is secured by:

- Fixed and floating charge over the assets of the Borrower;
- Guarantees from the Borrower and each of the Guarantors;
- Mortgage over the oil producing tenements in California (only);
- Share pledge over the shares in the subsidiary holding the Florence tenements held by the Borrower;
- Fixed and floating charge over the assets of the subsidiary holding the Florence tenements.

Interest is paid quarterly at rates of between 6.36% and 6.46%. The approved facility limit for the RMB loan was US$8M of which $6M was drawn down for the settlement of the Florence Oilfield acquisition. The remaining US$2M will not be drawn down and is no longer available to the Company under this facility as the time limit for drawdown has expired.

Note 17. Provisions

	2012 US$	2011 US$
Current		
Employee entitlements – annual leave	75,950	30,769
Non-Current		
Asset retirement obligation	620,201	–

Note 18. Contributed Equity

	2012 US$	2011 US$
155,743,680 Fully paid ordinary shares (2011:135,643,680)	22,318,820	17,905,010

	Year ended 31 December 2012		Year ended 31 December 2011	
Movement in ordinary shares on issue	US$	No.	US$	No.
Equity at the start of the year	17,905,010	135,643,680	12,604,832	110,477,010
Exercise of Options	20,552	100,000	32,927	166,670
Conversion of convertible notes 2011	–	–	5,298.624	25,000,000
Placement of new shares 2012	4,629,900	20,000,000	–	–
Capital raising costs	(236,642)	–	(31,373)	–
At 31 December	22,318,820	155,743,680	17,905,010	135,643,680

Notes to the Financial Statements

Note 19. Reserves

	2012 US$	2011 US$
Share option reserve	35,769	35,769

Share Options

At 31 December 2012 there were the following unlisted options over unissued fully paid ordinary shares on issue:

92,500,000 unlisted options exercisable at AUD$0.20 per option on or before 1 November 2014.

Note 20. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

	2012 US$	2011 US$
Net profit attributable to equity holders of the parent	2,683,835	814,672

	Cents per share	Cents per share
Basic earnings per share	1.84	0.96

	No. of shares	No. of shares
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share	145,947,778	122,417,139

	Cents per share	Cents per share
Diluted earnings per share	1.60	0.54

	No.	No.
The weighted average number of ordinary shares on issue during the financial year used in the calculation of diluted earnings per share	168,530,923	151,168,863

Note 21. Reconciliation of net profit after tax to net cash flows from operations

	2012 US$	2011 US$
Profit per accounts	2,683,835	814,672
Adjustments for		
Tax expense	1,903,926	638,528
Leave provision	45,181	5,309
Amortisation	1,894,464	993,442
Depreciation	209,340	68,402
Decrease/(Increase) in current receivables	(601,096)	(165,592)
Decrease/(Increase) in inventories	(339,967)	(46,525)
(Decrease)/Increase in current payables	1,213,727	(237,685)
Loss on disposal of oil properties and exploration assets	193,017	–
Non cash transactions	(2,335,591)	–
Exchange differences	(25,593)	142,074
Cash used in operating activities	4,841,243	2,212,625

Non cash financing and investment activities:

During 2011,an amount of AUD$5,000,000 being the conversion of convertible notes into shares was represented as a non-cash financing activity. During 2012, there were no non-cash financing activities but as part of the Florence Oilfield purchase price, an amount of $2,335,591, being the sales proceeds from oil produced in May and June 2012 less associated field operating costs for these months, represents a non-cash investment activity.

Note 22. Commitments and contingencies

The Company has entered into a lease agreement for office and parking facilities in Australia for three years commencing 1 December 2012. The amount of the commitment is AUD$29,675 per annum. The Company has entered into a lease agreement for offices in Bakersfield and Denver for the United States operations. The amount of the commitment for these offices in total is $146,304 per annum. The leases for these offices were renewed for one year at various dates during 2012. A schedule of commitments follows:

	2012 US$	2011 US$
Office rental one year or less	123,956	35,052
Office rental greater than one year	61,785	–

Except for the foregoing, the Group has no commitments or contingencies.

Note 23. Controlled entities

Name of entity	Country of Incorporation	Ownership Interest
Parent entity		
Incremental Oil and Gas Ltd	Australia	
Controlled entity		
Incremental Security Pty Ltd	Australia	100%
Incremental Oil and Gas USA Holdings Inc	United States	100%
Incremental Oil and Gas LLC	United States	100%
Incremental Oil and Gas (Round Mountain) LLC	United States	100%
Incremental Oil and Gas (Guijarral) LLC	United States	100%
Incremental Oil and Gas (Florence) LLC	United States	100%

Notes to the Financial Statements

Note 24. Parent entity disclosures

	Company 2012 $	Company 2011 $
Assets		
Current assets	1,177,266	1,286,508
Non-current assets	26,770,778	14,758,654
Total assets	27,948,044	16,045,162
Liabilities		
Current liabilities	6,213,648	91,742
Non-current liabilities	395,141	–
Total Liabilities	6,608,789	91,742
Net Assets	21,339,255	15,953,420
Equity		
Issued Capital	22,318,820	17,905,010
Accumulated losses	(1,015,334)	(1,987,359)
Reserves	35,769	35,769
Total Equity	21,339,255	15,953,420
Financial performance		
Profit/(Loss) for the period	972,025	(143,120)

The Company has not guaranteed the debts of any of its subsidiaries.

The Company has no contingent liabilities.

The Company has no commitments for the acquisition of property, plant and equipment.

Note 25. Segment Reporting

The Group has adopted AASB 8 Operating Statements with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources.

The group operates in one operating segment, being oil and gas production and two geographical segments being Australia and the USA and this is the basis on which internal reports are provided to the Directors for assessing performance and determining the allocation of resources in the Group.

Geographical segments

The Group's geographical segments are determined based on location of the Group's assets.

Year ended 31 December 2012	Australia US$	United States US$	Consolidat'n Adjustments US$	Consolidated US$
Revenue				
Income	3,309,279	16,056,414	(3,293,533)	16,072,160
Total segment revenue	3,309,279	16,056,414	(3,293,533)	16,072,160
Segment profit/(loss) before tax	647,149	3,940,612	–	4,587,761
Income tax credit/(expense)	324,876	(2,228,802)	–	(1,903,926)
Segment profit/(loss) after income tax expense	972,025	1,711,810	–	2,683,835
Assets				
Segment assets	1,898,204	38,175,137	–	40,073,341
Liabilities				
Segment liabilities	(6,608,789)	(8,741,913)	–	(15,350,702)
Other				
Depreciation and amortisation of segment assets	1,554	2,102,250	–	2,103,804

Year ended 31 December 2011	Australia US$	United States US$	Consolidat'n Adjustments US$	Consolidated US$
Revenue				
Income	1,626,744	7,700,209	(1,576,459)	7,750,494
Total segment revenue	1,626,744	7,700,209	(1,576,459)	7,750,494
Segment profit/(loss) before tax	(143,120)	1,596,320	–	1,453,200
Income tax expense	–	(638,528)	–	(638,528)
Segment profit/(loss)loss after income tax expense	(143,120)	957,792	–	814,672
Assets				
Segment assets	1,288,801	18,023,426	–	19,312,227
Liabilities				
Segment liabilities	91,742	1,595,490	–	1,687,232
Other				
Depreciation and amortisation of segment assets	5,856	1,055,988	–	1,061,844

Note 26. Related Party Disclosures

The wholly-owned group includes the ultimate parent entity in the group and the controlled entities. The ultimate parent entity in the wholly owned group is Incremental Oil and Gas Ltd. During the year the company advanced loans of $11,293,548 (2011 - $3,163,840) which included management fees and interest of $3,293,533 (2011 - $1,576,459) by way of loan account transactions. The loans have no fixed terms of repayment.

Note 27. Events after the balance sheet date

Subsequent to the year end, the Company has issued 360,000 shares to executives at a price of AUD$0.25 per share under an employee share plan. These shares are vested for between one and two years. The Company has issued an interest free non-recourse loan for the purchase of these shares by the executives which is repayable at the time that the shares are sold or the shares are removed from trust and transferred to the employee.

The Company has continued production of oil from its properties and the development of new wells through planned drilling programs in the USA.

Notes to the Financial Statements

Note 28. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. The Board provides policies for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

a. Market Risk

i. Foreign Exchange Risk
The Group operates internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

The material foreign exchange exposure on the net monetary position of key group entities against its respective functional currency, expressed in the Group's presentation currency is an amount of cash of $360,967, receivables totalling $23,728 and creditors totalling $125,911 held in $A by the parent entity at 31 December 2012. A 10% movement in exchange rates would have a profit and loss effect of $10,218 (2011 – $38,550) before taxation.The effect on equity would be $10,218.

ii. Interest Rate Risk
The Group is exposed to interest rate risk as it invests funds at floating interest rates and it has a bank loan of $6 million which it pays interest at floating rates (2012 – 6.36% to 6.46%).

A 10% change in the interest rate for deposit accounts would have a negligible effect on profit before tax or equity. A 10% change in the interest rate for loan funds would have had a profit or loss effect of $19,228 (2011 – $nil) and an equity effect of $19,228 (Note – this impact reflects the impact on the bank loan interest only and for the period of 2012 (approx. 6 months) that the loan was in place).

iii. Commodity price risk
The Group is exposed to commodity price risk as its income is determined by reference to international prices of oil and gas. Pricing of oil produced from the California based oilfields is based off Brent oil prices while the oil produced in Colorado is priced off West Texas Intermediate (WTI) crude oil prices. A 10% change in the oil and gas prices during the period would have had a profit and loss effect of $1,583,539 (2011 – $770,401) before taxation and an equity effect of $1,583,539.

b. Credit Risk

There are no significant concentrations of credit risk within the Group.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure relating to outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The Group has a credit risk in relation to its receivables. All sales are normally settled within 30 days of the issue of the invoice.

The Group does not have any exposure to any derivative financial instruments.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

c. Fair Values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

	Average Interest Rate %	Variable Interest Rate US$	Fixed Interest Rate Maturity < 1 Year US$	Fixed Interest Rate Maturity 1–5 Years US$	Non-Interest Bearing US$	Total US$
2012						
Financial Assets						
Cash and cash equivalents	0.24%	3,970,247	–	–	–	3,970,247
Trade and other receivables	0.00%	–	–	–	1,305,468	1,305,468
Other financial assets	0.00%	–	–	–	195,000	195,000
		3,970,247	–	–	1,500,468	5,470,715
Financial Liabilities						
Bank loan	6.36%	6,000,000	–	–	–	6,000,000
Trade and other payables	0.00%	–	–	–	1,835,247	1,835,247
		6,000,000	–	–	1,835,247	7,835,247
Net financial assets/(liabilities)		(2,029,753)	–	–	(334,779)	(2,364,532)

	Average Interest Rate %	Variable Interest Rate US$	Fixed Interest Rate Maturity < 1 Year US$	Fixed Interest Rate Maturity 1–5 Years US$	Non-Interest Bearing US$	Total US$
2011						
Financial Assets						
Cash and cash equivalents	1.64%	1,456,780	–	–	–	1,456,780
Trade and other receivables	0.00%	–	–	–	704,372	704,372
Other financial assets	0.00%	–	–	–	100,000	100,000
		1,456,780	–	–	804,372	2,261,152
Financial Liabilities						
Trade and other payables	0.00%	–	–	–	516,805	516,805
		–	–	–	516,805	516,805
Net financial assets/(liabilities)		1,456,780	–	–	287,657	1,744,347

Reconciliation of net financial assets to net assets

	2012 US$	2011 US$
Net financial assets/(liabilities) as above:	(2,364,532)	1,744,347
Non-financial assets & liabilities		
Inventories	431,013	91,046
Oil properties	27,764,750	15,747,741
Exploration assets	760,898	739,700
Plant and equipment	1,765,530	472,588
Provision	(696,151)	(30,769)
Deferred taxation	(2,938,868)	(1,139,658)
Net Assets per Statement of Financial Position	24,722,640	17,624,995

Directors' Declaration

For the year ended 31 December 2012

In accordance with a resolution of the Directors of Incremental Oil and Gas Ltd I state that:

1. In the opinion of the Directors
   (a) The financial statements, and the additional disclosures included in the Directors' report designated as audited and notes of the Economic entity as set out on pages 1 to 45 are in accordance with the Corporations Act 2001, including;
      (i) giving a true and fair view of Group's financial position as at 31 December 2012 and of its performance for the year ended on that date, and
      (ii) complying with Accounting Standards and Corporations Regulations 2001; and
      (iii) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b).
   (b) There are grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ended 31 December 2012.

On behalf of the Board

Gerard J McGann

Gerry McGann
Managing Director
Perth
25 March 2013

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INCREMENTAL OIL AND GAS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Incremental Oil and Gas Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Independent Audit Report

To the Members of Incremental Oil And Gas Ltd

Stantons International

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

(a) the financial report of Incremental Oil and Gas Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 1(b).

Report on the Remuneration Report

We have audited the remuneration report included in pages 5 to 8 of the directors' report for the year ended 31 December 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Opinion
In our opinion the remuneration report of Incremental Oil and Gas Limited for the year ended 31 December 2012 complies with section 300A of the *Corporations Act 2001.*

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Stantons International Audit and Consulting Pty Ltd

John P Van Dieren
Director

West Perth, Western Australia
25 March 2013

Liability limited by a scheme approved
under Professional Standards Legislation

Member of Russell Bedford International

Russell Bedford

Additional ASX Information

For the year ended 31 December 2012

The following additional information is required by the Australian Securities Exchange. The information is current as at 13 March 2013.

a. Distribution schedule and number of holders of equity securities of Incremental Oil and Gas Limited as at 13 March 2013 is shown in the table below:

	Fully Paid Ordinary Shares	Unquoted Options – exercisable at AUD$0.20 expiring 1 Nov 2014
1–1,000	15	–
1,001–5,000	39	–
5,001–10,000	80	–
10,001–100,000	226	1
100,001 and over	135	61
Total	495	62

Total shares issued	156,103,683
Total options issued	92,500,000
Holders with less than a marketable parcel	30

b. Twenty largest shareholders
The names of the 20 largest holders of quoted equity securities (ASX code – IOG) as at 13 March 2013 are as follows:

Name		No. of Shares	%'age
1.	MCGANN CONS PL	10,300,004	6.60
2.	MCGANN RONA	7,524,364	4.82
3.	ASCOT PARK ENTPS PL	7,400,000	4.74
4.	MCGANN CONS PL	6,515,636	4.17
5.	PLAN B TTEES LTD	6,150,002	3.94
6.	LINEAR A PL	5,966,748	3.82
7.	MERCHANT HLDGS PL	5,800,002	3.72
8.	UPORA PL	5,500,000	3.52
9.	BRYAN WELCH PL	4,983,700	3.19
10.	MACDONALD JOHN A L	4,625,001	2.96
11.	BELLARINE GOLD PL	3,133,000	2.01
12.	JP MORGAN NOM AUST LTD	2,710,000	1.74
13.	UBS WEALTH MGNT AUST NOM	2,500,000	1.6
14.	RMB RES LTD	2,415,000	1.55
15.	ANKAA SPRINGS PL	2,350,000	1.51
16.	D N SUPER FUND PL	2,200,000	1.41
17.	FITZGERALD JAMES F + O	2,000,000	1.28
18.	LUBICH CRAIG	2,000,000	1.28
19.	RIVERGLEN NOM PL	2,000,000	1.28
20.	CARBONI ALLAN BRETT	1,543,333	0.99
		87,616,790	56.13

Listing has been granted on the Australian Securities Exchange to all ordinary fully paid shares of the Company on issue.

Additional ASX Information

For the year ended 31 December 2012

c. Substantial shareholders

Substantial shareholders of Incremental Oil and Gas Ltd and the number of equity securities over which the substantial shareholder has a relevant interest as disclosed in substantial holding notices given to the Company are listed below:

Name	No. of shares held	%'age of issued capital
G McGann and related entities	24,340,004	15.59
M Stowell and related entities	13,500,002	8.64

d. Unlisted securities
Details of the unlisted securities issued by Incremental Oil and Gas Ltd as at 13 March 2013 are as follows:

Unlisted options – exercisable at AUD$0.20, expiring 1 November 2014 92,500,000

e. Mr G McGann holds 22% of the unlisted options as at 18 March 2013. No other holder owns more than 20% of any unlisted securities as at the same date.

f. Restricted securities –
As at 18 March 2013, there were no restricted securities on issue. On 21 January 2013, 40,356,681 ordinary shares come out of escrow and were listed on the ASX.

g. Voting Rights
All fully paid ordinary shares carry one vote per share without restrictions. Unlisted options have no voting rights.

h. Company Secretary
The Company Secretary of the Company is Mr Simon Adams.

i. Registered Office
The details of the Company's registered office are:
2/16 Phillimore Street
Fremantle
W. Australia 6160

Telephone: +61 (0)8 9431 7306
Facsimile: +61 (0)8 9430 4983

j. Share Registry
The Company's share registry is:
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross
W. Australia 6153

Telephone: +61 (0)8 9315 2333
Facsimile: +61 (0)8 9315 2233
Web site: www.securitytransfer.com.au (for information on holdings)

k. On-market buyback
The Company is not performing an on-market buyback at the time of this report.

l. Application of funds
During the financial year, the Company has used cash and assets in a manner which is consistent with its business objectives.

incremental
OIL AND GAS LTD

DIRECTORS
Chris Cronin B.Bus (Acc), FAIM
Non-executive Chairman

Gerry McGann B.Sc (Hons)
Managing Director

Mark Stowell B.Bus, CA
Non-executive Director

Hon JAL (Sandy) Macdonald LLB.
Non-executive Director

COMPANY SECRETARY
Simon Adams, B.Bus, M.Acc, ACIS
(Appointed 18 May 2012)

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