INCREMENTAL OIL AND GAS LTD

ABN: 66 138 145 114

Interim Financial Report
for the half year ended 30 June 2013

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2012 and any public announcements made by Incremental Oil and Gas Ltd during the interim report period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Corporate Information

This half year report is of the group comprising Incremental Oil and Gas Ltd ("the Company" or "Incremental Oil and Gas" or "the Parent") and its wholly owned subsidiaries (collectively "the Group").

The Group's functional and presentation currency is $US.

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 page 2. The directors' report is not part of the financial report.

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

Company Secretary
Simon Adams

Registered office
Unit 2, 16 Phillimore Street
Fremantle WA 6160
Australia

Principal place of business
Unit 2, 16 Phillimore Street
Fremantle WA 6160
Australia

Telephone: +61 8 9431 7306
Facsimile: +61 8 9430 4983
Web: www.incrementaloilandgas.com

Auditors
Ernst & Young
11 Mounts bay Road
Perth WA 6000

Share Registrar
Security Transfer Registrars Pty Ltd
PO Box 535
Applecross WA 6953
770 Canning Highway
Applecross WA 6153

Exchange Listing
Australian Securities Exchange (ASX)
Home Exchange – Perth
Trading Code - IOG

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DIRECTORS' REPORT

The directors of Incremental Oil and Gas Ltd ("Incremental" or "the Company") submit their report for the half year ended 30 June 2013. In order to comply with the provisions of the Corporations Act 2001 the directors report as follows:

The names the directors of the Company during or since the end of the half year are:

Mr C. Cronin	Non-executive Chairman	Appointed director July 2009 Last re-elected May 2012
Mr G. McGann	Managing director	Appointed director July 2009
Hon J.A.L. Macdonald	Non-executive director	Appointed director July 2009 Last re-elected May 2013
Mr M. Stowell	Non-executive director	Appointed director July 2009 Last re-elected May 2011

Review of operations

Exploration/Production activities:

Figure 1. Incremental Oil and Gas Ltd project locations

Incremental focussed on drilling the Florence Oilfield during the period. Two wells were drilled in the reporting period, Patti 32-29 Sidetrack and Aurora 24-21.

PATTI 32-29 SIDETRACK well was designed to penetrate and drain oil in the Pierre Formation that was encountered by the original Patti well, drilled in June 2010, but left unproduced.

The rig moved onto the Patti location on 17 January and a window was cut in the casing. The well was then drilled as per plan to a total depth of 4376 ft, building angle gradually to the horizontal. Only minor gas and oil shows were observed throughout. After reaching total depth, the drill pipe became stuck while cleaning and reaming the hole. Efforts to work the drill string free were unsuccessful. Part of the stuck drill pipe assembly was subsequently recovered.

The Capstar rig at the Patti Sidetrack well

The Patti sidetrack well was drilled on the planned trajectory and encountered the seismically defined 'ghost' (see Figure 2) that represents the part of the target reservoir that is naturally fractured and thus potentially productive. The lack of producible hydrocarbons encountered in the well suggests that the reservoir connectivity within the 'ghosts' is significantly greater than anticipated pre-drill, and that the previously identified oil in the Patti area had been drained and produced by earlier wells. The Patti well is unlikely to be productive as an oil producer in the future.

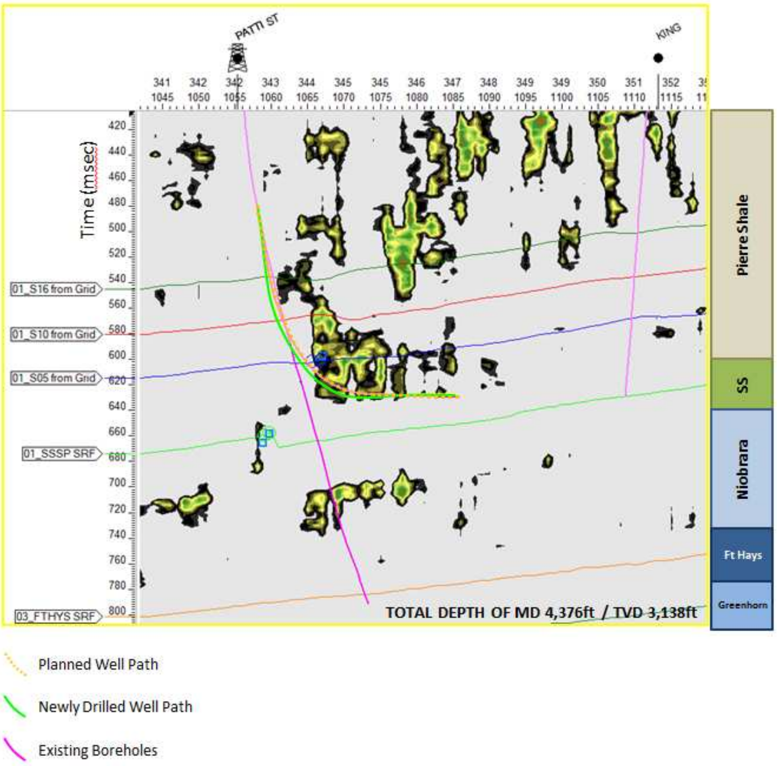

Figure 2. Seismic section through the Patti Sidetrack well showing well trajectory and location of "seismic ghost" in green.

The AURORA 24-21 well was spudded on 28 January and was planned as a deviated well targeting a seismically defined 'ghost' in the Pierre Formation. Excellent shows with free oil to surface were encountered between 2910 and 3250 ft. The well was drilled to 3260 ft as per programme and a pre-perforated liner was run. The well was swabbed and the production rate was disappointing, compared to the good shows, at less than 5 barrels per day. The drilling rig was re-mobilised and the well was deepened to 3572 ft. Good shows were encountered from 3500 to 3540 ft. 4 ½" perforated casing was then run to 3557 ft. The lower section of the well also failed to be commercially productive. An innovative technology was used in June in an attempt to possibly unblock perforations was also unsuccessful.

Post drill analysis of both Patti Sidetrack and Aurora suggested that the reservoir continuity within each seismic 'ghost' was much greater than IOG's pre-drill models. This suggests that the seismically defined anomalies in the shallower eastern part of the Florence Field have in most part been drained by vertical wells that have been drilled as much as 100 years ago.

The lack of discovery of commercial hydrocarbons in either Patti Sidetrack or Aurora does not diminish the Company's view of the prospectivity in the Pierre Shale at Florence, but provides valuable information for determining future well locations.

The prospectivity of the Niobrara Formation at Florence was significantly enhanced by the successful testing of this unit in the first horizontal Niobrara well drilled at Florence. This was the Pathfinder well drilled by Austin Exploration Ltd ("Austin"), only 400m from the nearest Incremental lease. This well substantially upgrades the prospectivity of the Niobrara at Florence. Applications have been submitted to the Colorado regulatory authorities for approval to drill a number of Niobrara wells in Florence. These wells are designed to be drilled as either a 'resource play' to be drilled as a long horizontal well and then fracced, or to be drilled as a shallower inclined well to target natural fractures within the Niobrara.

An additional 3D seismic acquisition programme has been bid and is awaiting implementation. This seismic data will be used to more accurately define drillable locations in the Pierre Formation and the Niobrara. Permitting is expected to start soon. An area of 6.2 square miles is programmed to be shot. It is anticipated that the permitting, planning and processing of data for this seismic program will take at least 6 months.

During the first quarter of 2013, the large pump jacks on four wells in the Florence Oilfield that had declined to low production values were replaced with smaller units (see photo below). By installing smaller pump jacks, the units are now operating continually and premature rod failures is thus minimised. The larger units that have been removed will be used on new wells where high production rates are common in the first six months of production.

In the California producing oilfields, no drilling or other development work was undertaken at the Sheep Springs and Round Mountain Oilfields (both 100% working interest), and the fields continued to produce normally.

In the California McDonald Anticline project, an additional 739 acres was added to Incremental Oil and Gas's leasehold position.

Incremental recruited a new Vice President (USA) during the quarter. John Whisler brings a wealth of knowledge and experience to the US management team and with the focus of the company moving to Colorado, an increase in management capacity was required.

In June 2013, the Company offered the Sheep Springs and Round Mountain Oilfields for sale to more than 20 California based independent oil producers. Acceptable bids were received from a number of parties and negotiations have been successfully completed for the sale of both assets for a total of US$13M. Purchase and Sale Agreements (PSA) are expected to be signed in August and the transaction is scheduled to settle in September. There are no fees payable to external parties in relation to this sale other than standard legal costs associated with this type of transaction.

The California oil production assets that were placed on the market in June meet the criteria to be reclassified as current assets held for sale as it is highly probable that they will be sold within one year of the reporting date. The reclassified assets, which includes the production asset, plant and equipment and restoration liability associated with the oilfields that are being sold, are recorded at the lower of their carrying value (US$16,144,478) and fair value less costs to sell (which is assumed to be the offer price for the assets - US$13 million). Prior to reclassifying the assets, they were required to be restated at their fair value less cost to sell which has resulted in an impairment charge of US$3.144 million being recognised for the six month period.

Sheep Springs was purchased as a producing oilfield in January 2010. Approximately US$1.92 million was invested in new wells. The field has generated US$17.43 million of income for the Company up until June 2013 and its sale represents a 32% internal rate of return (IRR). Oil production was established by Incremental Oil and Gas at the Round Mountain Oilfield in 2011 and US$5.42 million was invested in new wells and equipment since that time. Round Mountain generated US$7.15 million of revenue from oil sales up until June 2013 and its sale represents an IRR of 36% to the Company.

The Company's strategy of acquiring underdeveloped oilfields and extracting low cost remnant oil via field development is the cornerstone of the Group's business model. The sale of these projects will allow the Company to focus its resources on larger company-making projects such as the Niobrara formation in the Florence Oilfield (21,000 acres).

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

The auditor's independence declaration for the period ended 30 June 2013 has been received and is to be found on page 6.

This report is made out in accordance with a resolution of directors made pursuant to s. 306(3) of the Corporations Act 2001.

On behalf of the directors

Gerard J McGann

Gerard McGann
Managing Director
30 August 2013

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

In relation to our review of the financial report of Incremental Oil and Gas Ltd for the half Year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
30 August 2013

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Notes	30 Jun 2013 $US	31 Dec 2012 $US
Current assets			
Cash and cash equivalents	3	628,167	3,970,247
Trade and other receivables	4	947,361	1,305,468
Inventories	5	395,636	431,013
Assets classified as held for sale	6	13,210,492	-
Total current assets		15,181,656	5,706,728
Non-current assets			
Other financial assets		110,727	195,000
Oil properties	7	12,218,373	27,764,750
Exploration assets	8	524,483	760,898
Plant and equipment	9	1,339,290	1,765,530
Deferred tax asset		223,623	324,876
Total Non-current assets		14,416,496	30,811,054
Total assets		29,598,152	36,517,782
Current liabilities			
Trade and other payables	10	1,717,525	1,730,532
Borrowings	11	4,080,427	6,000,000
Provisions		82,427	75,950
Taxes payable		-	104,715
Liabilities directly associated with the assets classified as held for sale	6	210,492	-
Total current liabilities		6,090,871	7,911,197
Non-current liabilities			
Provisions		748,023	620,201
Non-current payables	10	161,197	-
Deferred tax liability		1,254,600	3,263,744
Total non-current liabilities		2,163,820	3,883,945
Total liabilities		8,254,691	11,795,142
Net assets		**21,343,461**	**24,722,640**
Equity attributable to equity holders of the parent			
Issued capital	12	22,416,124	22,318,820
Reserves		35,769	35,769
(Accumulated losses)/Retained profits		(1,108,432)	2,368,051
Total equity		**21,343,461**	**24,722,640**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2013

	Notes	2013 $US	2012 $US
Oil and Gas Sales		6,290,986	4,084,962
Direct cost of sales:			
Royalty costs		(1,136,431)	(604,521)
Production and Exploration expenses		(1,287,935)	(956,083)
Amortisation, depreciation & restoration		(864,295)	(606,421)
Gross profit from operations		3,002,325	1,917,937
Other revenue		3,016	4,004
Compliance costs		(251,088)	(305,907)
Administration expenses		(217,935)	(288,577)
Salaries, directors' fees and employee benefits		(998,898)	(532,053)
Interest and finance costs		(182,066)	(366)
Other costs		(291,761)	(139,852)
Foreign exchange (losses)/gains		(13,105)	57,763
Depreciation		(6,364)	(9,556)
Impairment of oil properties	13	(6,428,498)	-
(Loss)/Profit before income tax		(5,384,374)	703,393
Income tax benefit/(expense)		1,907,891	(222,900)
(Loss)/Profit after tax		(3,476,483)	480,493
Other Comprehensive income:			
Items that will not be reclassified to statement of comprehensive income		-	-
Items that may be reclassified to comprehensive income		-	-
Total comprehensive (loss)/income for the year, net of tax		(3,476,483)	480,493
Basic (loss)/earnings per share (cents)	14	(2.23)	0.35
Diluted (loss)/earnings per share (cents)	14	(2.23)	0.31

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDING 30 JUNE 2013

	Issued capital	(Accumulated losses)/ Retained profit	Other reserves	Total equity
	$US	$US	$US	$US
At 1 January 2013	22,318,820	2,368,051	35,769	24,722,640
Loss for the period	-	(3,476,483)	-	(3,476,483)
Other Comprehensive income	-	-	-	-
Total comprehensive income/(loss) for the period	-	(3,476,483)	-	(3,476,483)
Issue of share capital	97,304	-	-	97,304
Capital raising costs	-	-	-	-
At 30 June 2013	22,416,124	(1,108,432)	35,769	21,343,461

	$US	$US	$US	$US
At 1 January 2012	17,905,010	(315,784)	35,769	17,624,995
Profit for the period	-	480,493	-	480,493
Other Comprehensive income	-	-	-	-
Total comprehensive income for the period	-	480,493	-	480,493
Issue of share capital	4,629,900	-	-	4,629,900
Capital raising costs	(236,642)	-	-	(236,642)
At 30 June 2012	22,298,268	164,709	35,769	22,498,746

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 HALF YEAR ENDED 30 JUNE 2013

	2013 $US	2012 $US
Cash flows from operating activities		
Receipts from customers	6,673,897	4,238,415
Payments to suppliers and employees	(4,015,616)	(2,874,463)
Interest received	3,016	4,029
Interest paid	(99,851)	(366)
State tax paid	(104,715)	-
Net cash provided by operating activities	2,456,731	1,367,615
Cash flows from investing activities		
Oil property development expenditure	(3,396,220)	(988,116)
Refunds/(Payments) for performance bonds	84,274	(95,000)
Payments for purchases of property plant and equipment	(51,250)	(6,084)
Proceeds from sale of oil properties	125,000	-
Payments for exploration	(639,836)	(324,629)
Net cash used in investing activities	(3,878,032)	(1,413,829)
Cash flows from financing activities		
Proceeds from issue of shares	97,304	4,629,900
Cost of share issue	-	(236,642)
Repayment of borrowings	(2,000,000)	-
Net cash (used in)/provided by financing activities	(1,902,696)	4,393,258
Net (decrease)/increase in cash and cash equivalents	(3,323,997)	4,347,044
Exchange differences on cash balances held	(18,083)	62,620
Cash and cash equivalents at the start of the period	3,970,247	1,456,780
Cash and cash equivalents at end of period	628,167	5,866,444

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This half year report is of the group comprising Incremental Oil and Gas Ltd ("the Company" or "Incremental Oil and Gas" or "the Parent") and its wholly owned subsidiaries (collectively "the Group").

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

Basis of preparation
Incremental Oil and Gas Ltd is a company limited by shares incorporated in Australia whose shares commenced being publicly traded on the Australian Securities Exchange (ASX) on 18 January 2011.

The principal accounting policies adopted in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. This financial report presents the financial statements of Incremental Oil and Gas Ltd ('Incremental Oil and Gas' or 'the Company') and its subsidiaries for the six months ended 30 June 2013.

These consolidated interim financial statements of the Company and its subsidiaries for the period ended 30 June 2013 are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001.

These interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as the full financial report.

It is recommended that these interim financial statements be read in conjunction with the annual financial report for the year ended 31 December 2012 and any public announcements made by the Company during the half-year in accordance with the continuous disclosure requirements under Corporations Act 2001.

These consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

The financial information for the half year ended 30 June 2013 is presented in **US dollars**.

Statement of compliance
The interim financial statements for this six month ended 30 June 2013 have been prepared in accordance with AASB134 *Interim Financial Reporting*.

The accounting policies and methods of computation adopted in the preparation of the current interim financial review report are consistent with those adopted and disclosed in the Company's 2012 annual financial report for the financial period ended 31 December 2012.

The accounting policies adopted are consistent with those of the previous financial year. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Comparative information has been re-presented where necessary to ensure conformity in presentation with revised accounting standards. The Group has adopted all accounting standards which were effective from 1 January 2013. These accounting standards do not have a material impact on the financial position or performance of the Group.

Going concern

The financial report has been prepared on a going concern basis. In arriving at this position the Directors have had regard to the fact that the Consolidated Entity will have access to sufficient working capital to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

As at 30th June 2013 the Group has the following going concern indicators:

(i) The consolidated entity had cash and cash equivalents, including term deposits at 30 June 2013 of $628,167.
(ii) The Group recorded a loss before tax and incurred cash outflows for the six months ended 30 June 2013 of $5,384,374 and $3,323,997 respectively.
(iii) The Group's current liabilities exceed its current assets (excluding oil production properties and associated liabilities reclassified as assets and liabilities held for sale) by $3,909,215. This is due to the Group's loan facility of $4 million with RMB Australia Holdings Ltd (RMB) being classified as a current liability.
(iv) The Group has breached various covenants under its debt facility at 30 June 2013 which triggered an event of default. This breach has been rectified subsequent to the period end as set out further in (i) below.

Notwithstanding the above, the Directors are satisfied the Group can continue as a going concern having regard to the following mitigating factors:

(i) The Group have renegotiated the payment terms of its debt facility with RMB subsequent to the period end and as part of these renegotiations have secured a stand still on the covenant breaches and thus the facility is no longer in default.
(ii) The Group have offered for sale and entered into negotiations to sell their interests in the Sheep Springs and Round Mountain properties for a total of $13 million. The Group expects to have a binding sale agreement by the end of August and receive payment in full by the end of September 2013. The Group will repay the loan to RMB in full out of the sale proceeds from these properties.
(iii) Should the sale of these properties not ultimately take place the Group will need to raise additional working capital to enable it to meet its debt repayment requirements? Should this be the case the directors are satisfied the Group will be able to achieve this via a form of equity raising.

In the unlikely event that the sale is not completed and the Group is unable to raise additional funds to meet the group's ongoing working capital requirements when required there is uncertainty as to whether the group will be able to meet its debts as and when they fall due and thus continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the group not be able to continue as a going concern.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Incremental Oil and Gas Limited and its subsidiaries as at and for the half year ended 30 June 2012.

Subsidiaries are all those entities over which the Group 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 a Group controls another entity.

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

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Incremental Oil and Gas Limited are accounted for at cost in the separate financial statements of the Parent less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit disposal 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 based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount 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 any surplus or deficit in profit or loss
- Reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

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

Revenue recognition
Revenue is recognised at the fair value of consideration received or receivable to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from the sales of oil and gas produced is reported as gross revenue from the field after deduction of transport and refinery charges. The revenue is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the products from the following product streams:

- Oil – upon transfer of product to purchasers transportation mode, either truck or pipeline;
- Dry Gas – upon transfer into a third party's sales pipeline, typically at the exit of a third party processing facility.

Royalties that are payable to the mineral rights owners under extraction agreements are recorded as a direct cost of sale and presented in this way in the financial statements.

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.

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.

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 total reserves. Changes in the reserve estimates may impact upon the carrying value of exploration and evaluation assets, oil properties, property, plant and equipment, goodwill, provision for restoration, recognition of deferred tax assets, and depreciation and amortisation charges.

Provision for restoration
The Group records the present value of its share of the estimated cost to restore operating locations. The nature of restoration activities includes the obligations relating to the reclamation, waste site closure, plant closure, production facility removal and other costs associated with the restoration of the site.

A restoration provision is recognised after the construction of the facility and then reviewed on an annual basis. When the liability is recorded the carrying amount of the production assets is increased by the asset retirement costs and depreciated over the producing life of the asset. 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 unwinding of the discount is recorded as an accretion charge within finance costs.

Any changes in the estimate of the provision for restoration arising from the annual renewal is recorded by adjusting the carrying amount of the production asset and then depreciated over the producing life of the asset. The liability is correspondingly adjusted for the change in the present value on the risk adjusted pre-tax discount rate with the unwinding of the adjusted discount recorded as an accretion change within finance costs.

These estimated costs, whilst based on anticipated technological and legal requirements, assume no significant changes will occur in relevant government legislation.

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. Changes in estimates are accounted for prospectively.

Oil properties are amortised on the units-of-production basis using the best estimate of proved developed producing (PDP) reserves. No amortisation is charged on areas under development where production has not commenced.

		30 June 2013 $US	31 December 2012 $US
3.	**Cash and cash equivalents**		
	For the purposes of the statements of cash flows, cash and cash equivalents comprise the following at 30 June		
	Cash at bank and on hand	628,167	3,970,247
		628,167	3,970,247
4.	**Trade and other receivables**		
	Oil and gas sales debtors	899,272	1,262,594
	Other receivables	48,089	42,874
		947,361	1,305,468
	Trade and other receivables do not contain impaired assets and are not past due.		

	30 June 2013 $US	31 December 2012 $US
5. Inventory		
Oil inventory	116,765	152,142
Other inventory	278,871	278,871
	395,636	431,013

	30 June 2013 $US	31 December 2012 $US
6. Assets and liabilities classified as for sale		
Assets -		
Production assets and plant & equipment	13,210,492	-
Liabilities -		
Restoration liability associated with production assets classified as held for sale	(210,492)	-
	13,000,000	-

Refer Note 16 -

- Sheep Springs and Round Mountain Oilfields offered for sale in June 2013 with an expectation that they would be sold within 12 months;
- Sale agreement for oilfields and associated plant and equipment and liabilities negotiated in August at $13 million with settlement due in September.

	30 June 2013 $US	31 December 2012 $US
7. Oil properties		
Cost of acquisition and enhancement of production assets	13,127,021	31,290,159
Accumulated amortisation	(908,648)	(3,525,409)
	12,218,373	27,764,750
Opening balance	27,764,750	15,747,741
Additions	3,396,219	13,911,473
Transfer from exploration	803,874	-
Disposal – West Mountain	(125,000)	-
Reclassification to assets held for sale (i)	(12,839,169)	-
Restoration provision movement	305,515	-
Impairment (ii)	(6,356,121)	-
Amortisation for the period	(731,695)	(1,894,464)
Closing balance	12,218,373	27,764,750

(i) Sheep Springs and Round Mountain Oilfields were offered for sale in June 2013. Net book value of these assets was transferred to current assets as “Assets held for sale” at the lower of their carrying amount and fair value less costs to sell ($13,210,492) – see Note 6.

(ii) Refer Note 13. Impairment relates to the following assets –

Uncommercial wells drilled in Florence Oilfield in 2013	$2,844,624
California oilfield assets impaired before transfer to assets held for sale	$3,144,478
Oil production asset sold (West Mountain)	$367,019

	30 June 2013 $US	31 December 2012 $US
8. Exploration assets		
Exploration and evaluation assets at cost	524,483	760,898
Opening balance	760,898	739,700
Additions	639,835	487,951
Write-down (i)	(72,377)	(9,988)
Transfer to Production Assets	(803,873)	(20,748)
Disposals	-	(436,017)
Closing balance	524,483	760,898

(i) Refer Note 13

		30 June 2013 $US	31 December 2012 $US
9.	**Plant and equipment**		
	Opening balance: net of accumulated depreciation	1,765,530	472,588
	Additions	51,250	1,502,282
	Reclassification to assets held for sale	(371,325)	-
	Depreciation charges	(106,165)	(209,340)
	Closing balance: net of accumulated depreciation and impairment	1,339,290	1,765,530
10.	**Trade and other payables**		
	Current -		
	Trade payables and accruals	827,841	840,848
	Production taxes payable	889,684	889,684
		1,717,525	1,730,532
	Non-current -		
	Production taxes payable	161,197	-
	Total trade and other payables	1,878,722	1,730,532

Trade payables are non-interest bearing payables and are normally settled on 30 day terms.
Production taxes are non-interest bearing payables that are owed to the State of Colorado.

11.	**Borrowings**		
	Current -		
	Bank loan - principal	4,000,000	6,000,000
	Bank loan – interest payable	80,427	-
		4,080,427	6,000,000

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. 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.

At the reporting date, the Company was in breach of its loan covenants to RMB as follows:

- Minimum cash reserves of $1.5 million were not held;
- Loan Life Cover Ratio was below 1.2x

An agreement was signed with RMB Resources Ltd in July 2013 to restructure the debt repayment and secure a stand still on the abovementioned covenants so the facility is no longer in default. The new repayments consist of six $500,000 quarterly repayments from June 2013 to September 2014 with a final balloon payment of $1.5 million in December 2014 to fully repay the loan.

	30 June 2013 $US	31 December 2012 $US
12. Issued capital		
156,103,680 fully paid ordinary shares (31 December 2012: 155,743,680)	22,416,124	22,318,820

Movement in ordinary shares on issue	**2013 $US**	**No**
At 1 January 2013	22,318,820	155,743,680
Issued pursuant to employee share plan	97,304	360,000
At 30 June 2013	22,416,124	156,103,680

At 30 June 2013, there were 92,500,000 options on issue with an expiry date of 1 November 2014 and an exercise price of A$0.20.

13. Impairment of oil properties

	30 June 2013 $US	31 December 2012 $US
Oil properties that have been reclassified as assets held for sale – Sheep Springs and Round Mountain	3,144,478	-
Wells drilled that have proven uncommercial – Florence	2,844,624	-
Oil property sold (West Mountain)	367,019	-
Lease expired on exploration property	72,377	
	6,428,498	-

14. (Loss)/Earnings per share

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

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

	30 June 2013 $US	31 December 2012 $US
Net (loss)/profit attributable to equity holders of the parent	(3,476,483)	480,493
	Cents per share ($US)	**Cents per share ($US)**
Basic (loss)/earnings per share (cents)	(2.23)	0.35
	No.	**No.**
The weighted average number of ordinary shares on issue during the financial period used in the calculation of basic loss per share	155,943,680	136,083,240
	Cents per share ($US)	**Cents per share ($US)**
Diluted (loss)/earnings per share (cents)	(2.23)	0.31
	No.	**No.**
The weighted average number of ordinary shares on issue during the financial period used in the calculation of diluted earnings per share	155,943,680	154,603,240

15. Segment Reporting

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.

Period ended 30 June 2013	**Australia $US**	**United States $US**	**Consolidated $US**
Revenue			
Income	-	6,290,986	6,290,986
Total segment revenue	-	6,290,986	6,290,986
Segment Profit/(Loss)	467,380	(5,851,754)	(5,384,374)
Income tax (expense)/benefit	(140,214)	2,048,105	1,907,891
Segment Profit/(Loss) after income tax expense	327,166	(3,803,649)	(3,476,483)
Assets			
Segment assets	722,485	28,875,667	29,598,152
Liabilities			
Segment liabilities	(4,688,601)	(3,566,090)	(8,254,691)

Half year ended 30 June 2012	**Australia $US**	**United States $US**	**Consolidated $US**
Revenue			
Income	-	4,084,962	4,084,962
Total segment revenue	-	4,084,962	4,084,962
Segment Profit	406,536	296,857	703,393
Income tax expense	(121,969)	(100,931)	(222,900)
Segment Profit after income tax expense	284,567	195,926	480,493
Assets			
Segment assets	1,993,767	34,524,015	36,517,782
Liabilities			
Segment liabilities	(333,338)	(11,461,804)	(11,795,142)

16. Events after the balance sheet date

Sale of oil production assets – Sheep Springs and Round Mountain (California)
In August 2013, the Company, through its US subsidiary, negotiated the sale of its Sheep Springs and Round Mountain oil production assets. The combined sale price of these assets was US$13 million.

These assets were offered for sale in a competitive bidding process that was completed in July 2013 after which negotiations with the successful bidder were completed in August. The Round Mountain and Sheep Springs Oilfields were classified as available for sale current assets in the consolidated statement of financial position. An impairment of US$3.144 million to these assets resulted from the sale. No tax is payable on the sale.

The sale is due to be closed in September 2013. Proceeds from the sale will be used to accelerate the development of existing assets, invested in replacement assets and repayment of debt to RMB.

Debt restructuring
In July 2013, an agreement was finalised with RMB Australia Ltd ("RMB") for the restructuring of the debt repayment schedule on its loan to the Company. The new arrangements extended the repayment schedule by one year from quarterly instalments of US$1 million in 2013 to quarterly instalments of US$500,000 from June 2013 to September 2014 with a balloon payment of US$1.5 million in December 2014. This loan will be repaid in full from the Sheep Springs and Round Mountain assets sales proceeds subject to closing of this transaction. 4 million options exercisable at A$0.1485 per share expiring on 27th July 2018 were issued to RMB on 7th August as a fee for this debt restructuring.

Except for the foregoing, there has not been any matter or circumstance that has arisen after the end of the half year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

17. Contingent Liabilities

The Group has no material contingent liabilities at balance date or date of this report.

DIRECTORS' DECLARATION

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 notes of the Company are in accordance with the Corporations Act 2001, including;

      (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the half year ended on that date, and

      (ii) complying with Accounting Standards and Corporations Regulations 2001; and

   (b) Subject to the achievement of the matters set out in Note 1 to the financial report (Going concern), there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Gerard McGann
Managing Director
Perth

30 August 2013

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent review report to members of Incremental Oil and Gas Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Incremental Oil and Gas Ltd, which comprises the consolidated statement of financial position as at 30 June 2013, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Incremental Oil and Gas Ltd and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Incremental Oil and Gas Ltd is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter:

As a result of the matters described in Note 1 "Going Concern" of the financial report, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
30 August 2013

APPENDIX 4D
ASX INFORMATION

The information that is required by the Australian Stock Exchange Limited Listing Rules is as follows.

1. Details of the results for this reporting period and the corresponding prior year period are provided elsewhere in this report.

2. Results for announcement to the market

		Change from Prior period	US$
2.1.	Revenues from ordinary activities	54%↑	6,290,986
2.2.	Profit/(Loss) from ordinary activities after tax attributable to members	N/A	(3,476,483)
2.3.	Net profit/(loss) for the period attributable to members	N/A	(3,476,483)
2.4.	Dividends (distributions)		Nil

The increase in revenue for the first half of 2013 compared to the corresponding period in 2012 is due to an 72% increase in overall oil production (2012 – 64,798bbl compared to 2012 – 37,652bl). The increased production has come from the additional Florence Oilfield which the Incremental took ownership of in July 2012. There was also a decrease in average oil price achieved for the first half of 2013 (US$97/Bbl) compared to 2012 (US$110/Bbl).

There was an overall increase in operating costs in H1-13 compared to H1-12 due to the additional oilfield (Florence, Colorado) that is being operated. However, on a cost per barrel of oil produced, there has been a decrease from $25/bbl to $17/bbl, due mainly to the low production cost associated with the Florence Oilfield. Salaries have increase in 2013 due to additional management recruited (additional four new permanent staff) in the US office compared to H1-12. An increase in interest has resulted from the RMB Australia Ltd facility that was put in place to acquire the Florence Oilfield.

Dividends were not considered by the Board due to reinvestment requirements for cash reserves into new projects.

		June 2013 US$	December 2012 US$
3.	Net tangible assets per security	0.136	0.159

4. Control was neither gained nor lost over any entities during the half year.

5. No dividends were paid during the period

6. The Company does not have a dividend re-investment plan.

7. The Company does not have any Associated Companies or Joint Ventures.