INCREMENTAL OIL AND GAS LTD

ABN: 66 138 145 114

Interim Financial Report
for the half year ended 30 June 2012

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 2011 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 and its subsidiaries. **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 (Appointed 18 May 2012)
Susan Hunter (Resigned 18 May 2012)

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Australia

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Share Registrar
Security Transfer Registrars Pty Ltd
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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 2012. 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
Mr G. McGann	Managing director
Hon JAL Macdonald	Non-executive director
Mr M Stowell	Non-executive director

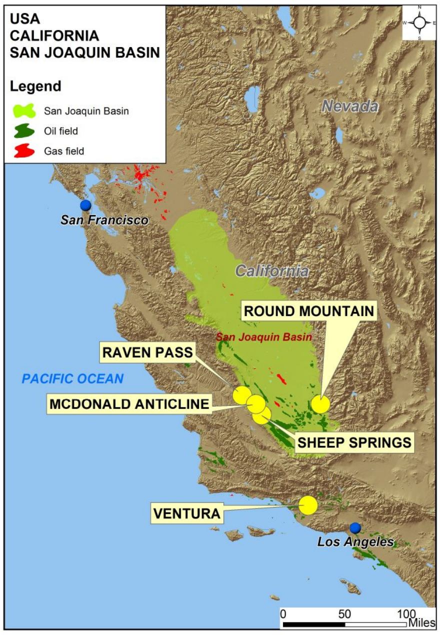
Review of operations

Incremental Oil and Gas Limited reported a net profit after tax of US$480,493 for the half year (2011: US$363,895). Gross profit for the six months to 30 June 2012 was US$1.918M (2011: US$2.085M).

Revenue from the sale of oil and gas for the reporting period was US$4.084M compared to $3.437M in the corresponding period in 2011, an increase of 19%. The increase in revenue was due in part to an 18% increase in oil production. Incremental produced 37,652 Bbl (from its California assets only NOTE: an additional production of 34,946 Bbl from the Florence Oilfield in May and June 2012 were brought to account in July after settlement – refer Events Subsequent to Reporting Date) in the six months to 30 June 2012 (2011: 31,857 Bbl's). Oil production was boosted by a full six months' production from the Round Mountain wells which commenced in April 2011. The average price for produced oil in this period was US$110/BBL (2011: US$106/BBL).

Exploration/Production Activities:
Incremental continued to focus its efforts on its production assets in California for the first half of 2012 while it secured a new oil field in Colorado, settlement of which took place in early July (refer to Events Subsequent to Reporting Date).

As at the date of this report, Incremental owns and operates two oilfields in California: Round Mountain and Sheep Springs and one oilfield in Colorado:. Incremental maintains a 100% working interest in these producing projects. In addition to these producing oilfields, the Company controls a number of other development and explorations sites.



Smoot 6 at Round Mountain was placed into production during the reporting period as was Smoot 5 which in spite of excellent oil shows was completed as a water disposal well to significantly reduce Round Mountain operating costs.

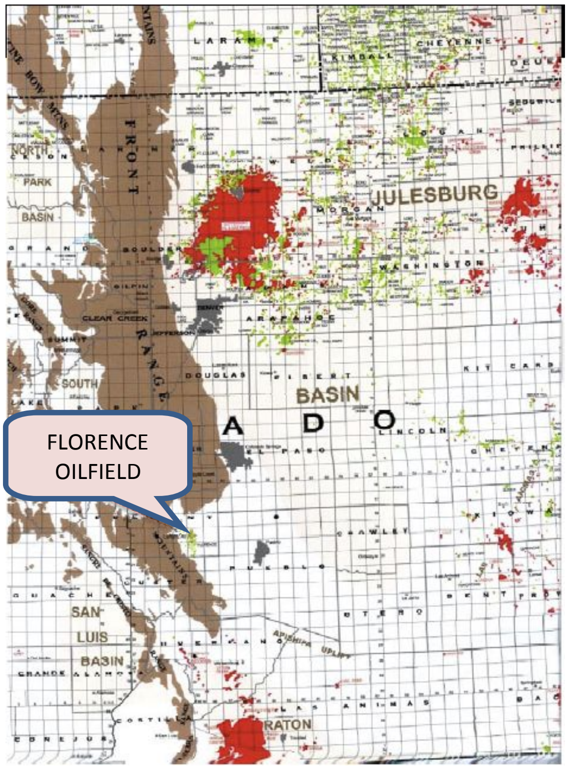
Additional leases were acquired in the prospective McDonald Anticline area with a view of drilling in this field in H2 2012.

Capital
On 25 June 2012 the Company announced a private placement of 20 million shares at a price of A$0.23 per share to sophisticated and professional investors raising A$4.6 million (before costs of issue). These funds were raised in part to facilitate the acquisition of the Florence oilfield and also to enable drilling to be undertaken at Florence, Round Mountain and McDonald Anticline in H2 of 2012.

Events Subsequent to Reporting Date

Florence Acquisition

On 2 May 2012 the Company announced that a Purchase and Sale Agreement (PSA) had been entered into to acquire the 100% working interest in the Florence Oilfield. The field is located about 100 miles south of Denver, Colorado. Twenty one (21) wells produce in this field. The leased area acquired is in excess of 22,000 net acres. Settlement of this transaction took place on 3 July 2012. Net sales production from 1 May 2012 to settlement on 3 July 2012 of approximately US$1.9M was credited to the account of Incremental in July 2012. The Florence oilfield is one of the oldest fields in the US having first been drilled in 1862. It has produced in excess of 15m Bbl during its lifetime. Production to date has predominantly been from the naturally fractured Pierre shale at around 1800-3600 feet. The field has produced an average of 700 bopd in the two years prior to its acquisition by Incremental. There are at least 27 further drilling targets identified in the Pierre zone from 3D seismic surveys on Incremental's leases. No water is produced with the oil and it is generally a light sweet crude which attracts WTI prices. Drilling of two new wells is due to commence as soon as regulatory approvals are granted.



Of significant interest is the deeper Niobrara Formation which has been actively developed in other parts of the Denver Julesburg basin. The Niobrara Formation is an inter-bedded sequence of source rocks and limestones. It has produced for many decades from vertical wells at modest rates in some 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 1000 bopd, with a prognosed ultimate recovery per well in excess of 300 thousand barrels. Fracced horizontal wells have not yet been drilled at Florence, but the geology appears very similar to areas that have been drilled successfully.

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

The auditor's independence declaration for the period ended 30 June 2012 has been received and is to be found on page 4.

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 McGann
Managing Director
30 August 2012

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

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30 August 2012

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 review of the financial statements of Incremental Oil and Gas Limited for the half year ended 30 June 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 review; and

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

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

JP Van Dieren
Director

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	30 Jun 2012 $US	31 Dec 2011 $US
Current assets			
Cash and cash equivalents		5,866,444	1,456,780
Trade and other receivables		533,530	704,372
Inventories		117,998	91,046
Total current assets		6,517,972	2,252,198
Non-current assets			
Other financial assets		695,000	100,000
Production assets	4	15,654,435	15,747,741
Exploration assets		1,064,329	739,700
Plant and equipment		444,117	472,588
Total Non-current assets		17,857,881	17,060,029
Total assets		24,375,853	19,312,227
Current liabilities			
Trade and other payables		431,186	516,805
Provisions		83,363	30,769
Total current liabilities		514,549	547,574
Non current liabilities			
Deferred taxation		1,362,558	1,139,658
Total non-current liabilities		1,362,558	1,139,658
Total liabilities		1,877,107	1,687,232
Net assets		**22,498,746**	**17,624,995**
Equity attributable to equity holders of the parent			
Issued capital	5	22,298,268	17,905,010
Reserves		35,769	35,769
Accumulated profits/(losses)		164,709	(315,784)
Total equity		**22,498,746**	**17,624,995**

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2012

	Notes	2012 $US	2011 $US
Oil and Gas Revenue		4,084,962	3,437,070
Direct cost of sales:			
Production and royalty costs		(1,560,604)	(920,881)
Amortisation and depreciation		(606,421)	(430,946)
Gross profit from operations		1,917,937	2,085,243
Other revenue		4,004	34,830
Compliance costs		(305,907)	(327,953)
Administration expenses		(288,577)	(141,006)
Salaries, directors' fees and employee benefits		(532,053)	(349,256)
Interest and finance costs		(366)	(324,799)
Other costs		(139,852)	(213,362)
Foreign exchange gains/(losses)		57,763	(131,949)
Depreciation		(9,556)	(2,928)
Profit before income tax		703,393	628,820
Income tax expense		(222,900)	(264,925)
Profit after tax		480,493	363,895
Profit after tax attributable to the equity holders of the parent		480,493	363,895
Other comprehensive income/(loss) for the period			
Foreign currency translation differences		-	-
Total comprehensive income/(loss)		480,493	363,895
Total comprehensive income/(loss) attributable to the equity holders of the parent		480,493	363,895
Basic Earnings Per Share (cents)	5	0.35	0.33
Diluted Earnings per share (cents)	5	0.31	0.24

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital $US	Accumulated profit/(losses) $US	Other reserves $US	Total equity $US
At 1 January 2012	17,905,010	(315,784)	35,769	17,624,995
Profit attributable to members of the Group	-	480,493	-	480,493
Profit attributable to members of the Group				
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

	$US	$US	$US	$US
At 1 January 2011	12,604,832	(1,130,456)	35,769	11,510,145
Profit attributable to members of the Group	-	363,895	-	363,895
Total comprehensive income for the period	-	363,895	-	363,895
Issue of share capital	53,417	-	-	53,417
Capital raising costs	(30,545)	-	-	(30,545)
At 30 June 2011	12,627,704	(766,561)	35,769	11,896,912

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2012

	2012 $US	2011 $US
Cash flows from operating activities		
Receipts from customers	4,238,415	3,348,947
Payments to suppliers and employees	(2,874,463)	(1,369,147)
Interest received	4,029	31,480
Interest paid	(366)	(2,438)
Net cash provided by operating activities	1,367,615	2,008,842
Cash flows from investing activities		
Payments for oil properties	(988,116)	(2,633,154)
Payments for performance bonds	(95,000)	-
Payments for purchases of property plant and equipment	(6,084)	(28,416)
Payments for exploration	(324,629)	(83,079)
Net cash used in investing activities	(1,413,829)	(2,744,649)
Cash flows from financing activities		
Proceeds from issue of shares	4,629,900	32,099
Cost of share issue	(236,642)	(30,545)
Net cash provided by financing activities	4,393,258	1,554
Net increase/(decrease) in cash and cash equivalents	4,347,044	(734,253)
Exchange differences on cash balances held	62,620	74,675
Cash and cash equivalents at the start of the period	1,456,780	5,114,421
Cash and cash equivalents at end of period	5,866,444	4,454,843

The above Condensed 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 2012

1. CORPORATE INFORMATION

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 on 18 January 2011.

This financial report presents the financial statements of Incremental Oil and Gas Ltd (the Company) and its subsidiaries for the six months ended 30 June 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation and statement of compliance
These consolidated interim financial statements of the Company and its subsidiaries for the period ended 30 June 2012 are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB').

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 2011 and any public announcements made by the Company during the half-year in accordance with the continuous disclosure requirements under Corporations Act 2001.

The interim financial statements have also been prepared on a historical cost basis, except for available-for – sale financial assets and derivative financial instruments which have been measured at fair value.

The financial information for the half year ended 30 June 2012 is presented in **US dollars** following a change of functional and presentation currency by the company as at 1 January 2011 from Australian dollars to US dollars.

Comparative information has been re-presented where necessary to ensure conformity in presentation with revised accounting standards.

(b) Statement of compliance
The financial report, in so far as it relates to the Reviewed Information, complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

The accounting policies and methods of computation adopted in the preparation of the current financial review report are consistent with those adopted and disclosed in the company's 2011 annual financial report for the financial period ended 31 December 2011.

For the half year reporting period to 30 June 2012, a number of new and revised Accounting Standards requirements became mandatory for the first time. Application of these new requirements did not have any significant impact on the reported results, financial position or disclosures of the Group.

(c) Basis of consolidation
The consolidated financial statements comprise the financial statements of Incremental Oil and Gas Limited ("Incremental Oil and Gas ") and its subsidiaries. Interests in associates are equity accounted and are not part of the Consolidated Entity.

Subsidiaries are all those entities over which Incremental Oil and Gas 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 Oil and Gas controls another entity.

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 Oil and Gas obtains control until such time as Incremental Oil and Gas 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 Oil and Gas 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.

The Consolidated Entity has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures.*

Previously, transactions with non-controlling interests were treated as transactions with parties external to the Consolidated Entity. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Consolidated Entity ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Consolidated Entity has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(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, being the entity that obtains control of another business (the acquiree). 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 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 acquires.

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) Foreign currency translation

Functional and presentation currency

Until 31 December 2010, both the functional and presentation currency of Incremental Oil and Gas Ltd and its Australian subsidiaries was Australian Dollars ($). Each entity in the Group determined its own functional currency and items included in the financial statements of each entity were measured using that functional currency. The functional currency for the US subsidiary was the US Dollar.

At 1 January 2011 all companies in the group adopted the US Dollar as the functional and presentation currency.

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 of which report in US Dollars.

3. 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:

(i) Significant accounting judgements

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 the statement of comprehensive income.

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 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.

4. Production assets

	2012 $US	2011 $US
Production assets	15,654,435	15,747,741
Opening balance	15,747,741	11,120,893
Additions	488,115	5,498,332
Transfer from exploration	-	121,958
Disposals	-	-
Amortisation for the period	(581,421)	(993,442)
Closing balance	15,654,435	15,747,741

5. Contributed Equity

	$US	No.
At 30 June 2012: 155,643,680 Fully paid ordinary shares	22,298,268	

Movement in ordinary shares on issue	2012 $US	
At 1 January 2012	17,905,010	135,643,680
Issued pursuant to placement	4,629,900	20,000,000
Capital raising costs	(236,642)	-
At 30 June 2012	22,298,268	155,643,680

At 30 June 2012, there were 92,600,000 options on issue with an expiry date of 1 November 2014 and an exercise price of A$0.20.

6. 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 period.

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

	2012 $US	2011 $US
Net profit attributable to equity holders of the parent	480,493	363,895

	Cents per share ($US)	Cents per share ($US)
Basic earnings per share	0.35	0.33

	No.	No.
The weighted average number of ordinary shares on issue during the financial period used in the calculation of basic loss per share	136,083,240	110,607,568

	Cents per share ($US)	Cents per share ($US)
Diluted earnings per share	0.31	0.24

	No.	No.
The weighted average number of ordinary shares on issue during the financial period used in the calculation of diluted earnings per share	154,603,240	148,754,725

7. 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 2012	**Australia $US**	**United States $US**	**Adjustments $US**	**Consolidated $US**
Revenue				
Income	1,276,269	4,084,968	(1,214,482)	4,164,755
Total segment revenue	1,276,269	4,084,968	(1,214,482)	4,164755
Segment Profit/(Loss)	406,563	296,857	(27)	703,393
Income tax expense	(121,969)	(100,931)	-	(222,900)
Segment profit after income tax expense	284,594	195,926	(27)	480,493
Assets				
Segment assets	20,964,610	22,382,086	(18,970,843)	24,375,853
Liabilities				
Segment liabilities	(333,338)	(20,514,586)	18,977,817	(1,877,107)

Half year ended 30 June 2011	**Australia $US**	**United States $US**	**Adjustments $US**	**Consolidated $US**
Revenue				
Income	996,854	3,431,954	(956,908)	3,471,900
Total segment revenue	996,854	3,431,954	(956,908)	3,471,900
Segment Profit/(Loss)	(133,973)	762,793	-	628,820
Income tax expense	40,192	(305,117)	-	(264,925)
Segment Profit/(Loss) after income tax expense	(93,781)	457,676	-	363,895
Assets				
Segment assets	3,274,446	17,105,621	-	20,380,067
Liabilities				
Segment liabilities	5,982,654	2,500,501	-	8,483,155

8. Events after the balance sheet date

Florence Acquisition
On 2 May 2012 the Company announced that a purchase and sale agreement had been entered into to acquire the 100% working interest in a 21 well oilfield with in excess of 22,000 net acres under lease at the Florence oilfield located at the southern end of the Denver Julesburg basin. Settlement of this transaction took place on 3 July 2012. Net sales proceeds from oil production that took place from 1 May 2012 was credited to Incremental, the proceeds being approximately US$1.9M. These receipts were used as part payment of the US$12.25 purchase price at settlement.

Debt Financing
A US$8 million debt facility was approved by RMB Resources Ltd on 30 May 2012 for the purpose of funding part of the purchase price of the Florence acquisition and to provide working capital for this project. The initial drawdown of the loan took place on 3 July 2012 to coincide with settlement of the Florence purchase.

The terms and conditions of this loan were as follows:

Facility Limit:	US$8 million
Initial drawdown:	US$6 million
Term of the loan:	18 months
Principal Repayments:	25% on 31 March 2013
	25% on 30 June 2013
	25% on 30 September 2013
	25% on 31 December 2013
Security:	First ranking security consisting of:

- Fixed and floating charge over the assets of the Company;
- Guarantees from the Company and its subsidiaries;
- Mortgage over the oil producing tenements in California (Sheep Springs and Round Mountain);
- Share pledge over the shares in the subsidiary holding the Florence tenement;
- Fixed and floating charge over the assets of the subsidiary holding the Florence tenements.

Loan Covenants:

- Must maintain a Loan Life Cover Ratio (LLCR) of 1.8x over the term of the loan where the LLCR is the present value of the company's operating cash flows divided by the outstanding debt NOTE – a LLCR of 1.2x or less creates a default event;
- Must maintain a minimum cash reserve (including available undrawn loan facility) of US$1.5 million;

Except for the foregoing, there has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, 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.

9. 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 2012 and of its performance for the half year ended on that date, and

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

   (b) There are 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 2012

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Incremental Oil and Gas Limited, which comprises the condensed statement of financial position as at 30 June 2012, the condensed statement of comprehensive income, condensed statement of changes in equity, and condensed 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 for Incremental Oil and Gas Limited (the consolidated entity). The consolidated entity comprises both Incremental Oil and Gas Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Incremental Oil and Gas Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is 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 half year 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 31 December 2011 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 Limited, 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.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Incremental Oil and Gas Limited on 30 August 2012.

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 Limited 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 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 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
30 August 2012

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	19%↑	4,084,962
2.2.	Profit from ordinary activities after tax attributable to members	32%↑	480,493
2.3.	Net profit for the period attributable to members	32%↑	480,493
2.4.	Dividends (distributions)		Nil

The increase in revenue for the first half of 2012 compared to the corresponding period in 2011 is due to an 18% increase in overall oil production (2012 – 37,652Bbl compared to 2011 – 31,857Bbl). There was also an increase in average oil price achieved for the first half of 2012 (US$110/Bbl) compared to 2011 (US$106/Bbl).

There was an overall increase in operating and administration costs but a decrease in interest (due to interest on convertible notes being paid in the first half of 2011) and a foreign exchange gain (loss in 2011) resulted in an increased NPAT.

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

	June 2012 US$	June 2011 US$
3. Net tangible assets per security	0.14	0.13

4. Control was neither gained or 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.