A.B.N. 66 138 145 114

Preliminary Final Report for the year ended 31 December 2013

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		%'age Change	US$ 2013	US$ 2012
Revenue from ordinary activities	**Down ↓**	**32%**	**$10,939,590**	**$16,037,233**
Profit from ordinary activities after tax attributable to members	**Down ↓**	**335%**	**($6,326,057)**	**$2,683,835**
Net profit after tax for the period attributable to members	**Down ↓**	**335%**	**($6,326,057)**	**$2,683,835**
Earnings per share	**Down ↓**	**320%**	**(4.05) cents**	**1.84 cents**
Diluted earnings per share	**Down ↓**	**353%**	**(4.05) cents**	**1.60 cents**
Net tangible assets per share	**Down ↓**	**25%**	**12.0 cents**	**15.9 cents**
Earnings before interest, income tax, depreciation and amortisation	**Down ↓**	**49%**	**$3,529,402**	**$6,926,113**

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

This report is based on accounts which have not yet been audited or reviewed.

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

COMMENTARY ON RESULTS

This consolidated financial report of Incremental Oil and Gas Limited ("Incremental" or "the Company") covers the twelve months of operations for the year ended 31 December 2013.

The financial results for 2013 are weaker than the prior year, mainly due to the impairment of oilfield assets. Cash flow from operations remained strong despite a decrease in production from natural decline, especially in the Florence Oilfield. A summary of operating profit is as follows:

	Change	2013 US$M	2012 US$M
Volume of sales	**-36%**	114,677 boe	180,538 boe
Revenue from oil and gas sales (US$ million)	**-32%**	$10.940	$16.037
Royalty Payments		($1.958)	($2.674)
Lease Operating Expenses		($1.884)	($2.455)
Exploration		$ -	($0.187)
Loss on sale of assets		($0.384)	($0.193)
Net Operating Profit	**-33%**	**$6.712**	**$10.528**
Gross Profit margin		*65%*	*65%*
Overhead Expenses		($3.184)	($3.143)
EBITDAX	**-47%**	**$3.529**	**$7.385**
Interest income & expense (net) & Bank costs		($0.612)	($0.797)
Depreciation/Amortisation		($1.839)	($2.104)
Tax benefit/(expense)		$8.552	($1.904)
Impairment		($15.925)	$ -
Other non-operating (expenses)/ income		$0.033	$0.103
Net Profit/(Loss) After Tax		**($6.326)**	**$2.683**

Revenue decreased as no new commercial wells were drilled during the year. There was a 7% increase in average oil price in 2013 ($95.40/bbl) compared to the prior year. Production decline rates were in line with expectation but higher in the Florence Oilfield which produces from the Pierre Shale Formation (see Table 1 below).

Field	**Decrease in Prod'n**	**2013 (Bbls)**	**2012 (Bbls)**
Sheep Springs (oil only)	15%	33,665	39,701
Round Mountain	26%	24,884	33,835
Florence	49%	54,065	105,160
TOTAL	37%	112,614	178,696

The net proceeds after royalties and lease operating expenses (netback) for the company was $59.61/bbl (2012 - $58.31/bbl). Sheep Springs and Florence provided the higher netback returns of $72/bbl and $59/bbl respectively. Round Mountain costs were negatively impacted by the disposal of excess salt water in the order of $450,000 in 2013. These costs are likely to decrease in 2014 with water mitigation strategies implemented.

In mid 2013, the Company put its Round Mountain and Sheep Springs Oilfields for sale. In August, an offer of US$13M for both fields was received and accepted by the Company. In the June half yearly accounts these assets were therefore transferred to current assets (Assets Held For Sale) to comply with accounting standards. The sale contract subsequently did not close, and the company decided to retain the assets, following further successful technical work on Round Mountain. As a result both assets have therefore been moved back to the non-current asset category of Oil Properties.

Following considerable technical analysis and with the benefit of reviewing the results from Niobrara wells drilled on neighbouring leases, the commercial potential of the Niobrara Formation in the Florence Oilfield has been downgraded. It is the view of the Company that a significant part of the value that has been allocated to this part of the field should be impaired. A write-down of $9.046M has been made leaving a written down value of $3.286M for the whole Florence field.

The Board has reviewed its existing exploration & development lease holdings of McDonald Anticline, new project opportunities and Raven Pass in California. Efforts have been made to find a farmin partner for the Raven Pass prospect without success, and the company does not propose to drill any wells. As a result decision has been made to write down the value of these assets resulting in an impairment of $0.67M.

The company's cash position at the end of 2013 - $541,110 (2012 - $3,970,247) has resulted from payments including debt repayment of US$3M, payments for the renewal and acquisition of leases in the Florence Oilfield (US$1.367M) and drilling of new wells at the Florence Oilfield (US$2.528M).

In 2012 a loan of US$6M was drawn down from RMB for acquisition of the Florence Oilfield. The outstanding principal for this loan is US$3M as at 31 December 2013. Repayment of this loan is scheduled for 2104 with three tranches of US$500,000 followed by a balloon payment of US$1.5M in December.

Net assets per share have decreased from US$0.159 per share to US$0.12 per share

OPERATING REVIEW

FLORENCE :
Following the acquisition of the Florence Oilfield in the southern part of the DJ Basin in May 2012, the first drilling campaign of two wells commenced there in Q1 2013. The Patti sidetrack well was designed to penetrate and drain oil that was encountered by the original Patti well, drilled in June 2010, but left unproduced oil in the Pierre Formation. The Aurora well was spudded on 28th January and was planned as a deviated well targeting a seismically defined ‘ghost’ in the Pierre Formation. Neither of these wells was commercially successful.

IOG has undertaken a number of geological and geochemical studies on the prospectivity of the Niobrara over the year. This work suggests that any Niobrara well that Incremental could drill on its extensive lease holding in Florence is likely to encounter dominantly gas rather than oil as the reservoired hydrocarbon.

The rate of decline in production at Florence has slowed substantially throughout 2013 (see Figure 1 below) and is now similar to the decline rate in conventional oilfields at about 15-20% annually.

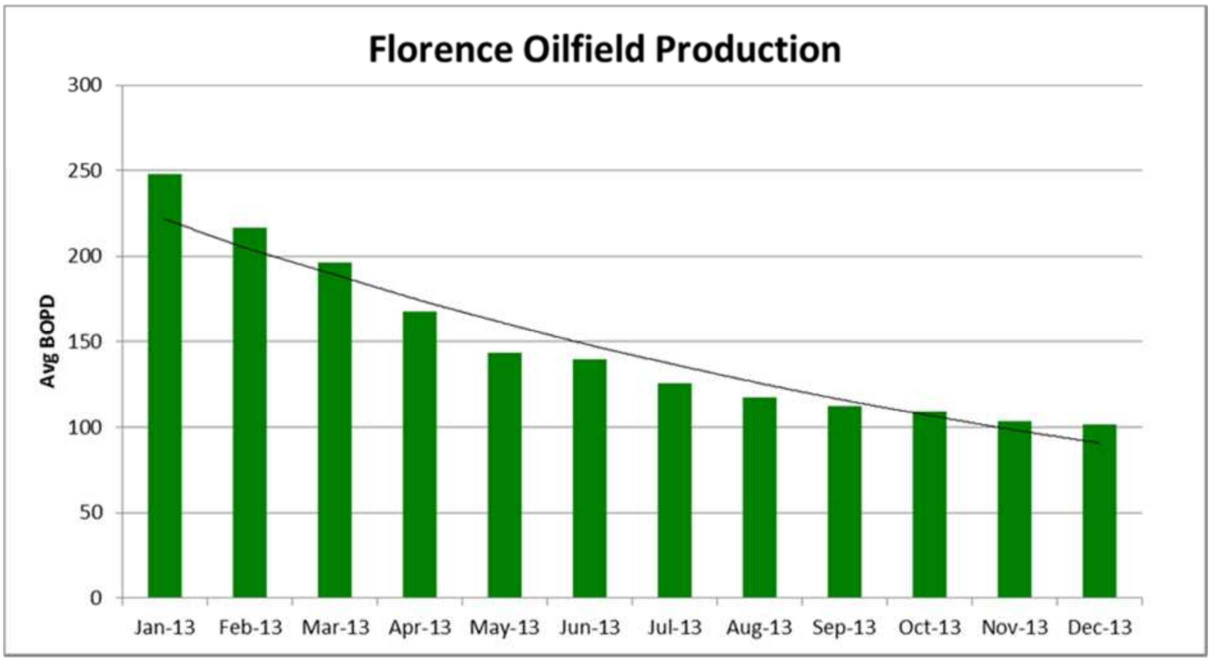

Figure 1: Florence oil production 2013 (avg bopd)

ROUND MOUNTAIN :
No new wells have been drilled or significant workovers performed in the Round Mountain Field during 2013. For close to half of 2013 the field was on care and maintenance while protracted negotiations were ongoing with a potential buyer for the field. Increasing water production from the Smoot #7 and #8 wells added significantly to lease operating costs. Subsequent to the year end, successful action has been taken to reduce the water production from these wells.

A review of the undeveloped potential of the Round Mountain Field based on recently released drilling and production data associated with the adjacent lease to Round

Mountain indicates that considerable upside exists in the IOG lease. These opportunities are being analysed at present for development in 2014.

SHEEP SPRINGS :
The Sheep Springs Oilfield, bought by Incremental in January 2010, continued to perform well during 2013, with only minimal production decline, mainly due to the gradual depletion of reservoir pressure in the field.

OTHER PROJECTS :
Incremental has invested considerable resources over the last year in reviewing a number of producing assets in the USA. These reviewed assets all have the following attributes:

- Conventional, shallow, light oil
- Positive cash flow
- Ability for production and profitability to be significantly enhanced.

The company has not as yet been able to secure a new project, despite two bids being submitted, but an actively brief is being maintained to identify new opportunities.

PERSONNELL :
Incremental recruited a new Executive Vice President in the first quarter of 2013. 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. John has held senior management rolls within organisations that have built and then successfully divested of large oil production portfolios in the US. He has had a personal involvement in the management of the process where the organisations have developed from a very small capital base to a $220m businesses in three years and has extensive experience in resuscitating mature oilfields, which is the business model of Incremental.

During the year Incremental closed the California office and all California operations are now run out of Denver. In Denver the company moved to a larger, but more economical office at year end.

SUMMARY :
Incremental has weathered a difficult year with cash constraints resulting from its poor drilling results early in 2013. However, it has maintained its cash flow from the producing assets and undertaken various restructuring of its operations which have resulted in cost savings. IOG is in a sound position to commit to new opportunities as it is restructuring its capital position to provide additional capital to invest in new projects. Its focus will continue to be cash flow positive, profitable, producing oilfields in North America. The company has a good mix of assets that provide strong cash flow.

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

		2013 US$	2012 US$
Oil and gas sales	2a	10,939,590	16,037,233
Direct cost of sales:			
Royalty costs		(1,957,700)	(2,674,078)
Production and exploration expenses		(1,911,785)	(2,641,410)
Amortisation , depreciation and restoration	2b	(1,852,732)	(2,094,066)
Gross profit from operations		5,217,373	8,627,679
Other revenue	2a	3,047	34,927
Compliance costs		(411,394)	(765,767)
Administration expenses		(290,837)	(391,299)
Salaries, directors' fees and employee benefits		(1,897,281)	(1,592,912)
Interest and finance costs	2d	(611,770)	(811,979)
Other costs		(551,969)	(392,981)
Foreign exchange (losses) / gains		(5,966)	82,848
Depreciation	2b	(18,989)	(9,738)
Gain/(loss) on sale of assets	2c	(384,966)	(193,017)
Impairment of assets	2e	(15,925,208)	-
(Loss) / Profit before income tax		(14,877,960)	4,587,761
Income tax benefit/ (expense)		8,551,903	(1,903,926)
(Loss) / Profit after tax		(6,326,057)	2,683,835
(Loss) / Profit for the period attributable to members of the entity		(6,326,057)	2,683,835
Other comprehensive income:			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit or loss		-	-
Other comprehensive (loss) / income for the period , net of tax		-	-
Total comprehensive (loss) / income for the period attributable to members of the entity		(6,326,057)	2,683,835
Basic earnings per share attributable to ordinary equity holders of the entity (cents)	3	(4.05)	1.84
Diluted earnings per share attributable to ordinary equity holders of the entity (cents)	3	(4.05)	1.60

Consolidated statement of financial position (as at 31 December)

	Note	2013 US$	2012 US$
Current assets			
Cash and cash equivalents	4	541,110	3,970,247
Receivables	5	819,991	1,305,468
Inventories	6	390,675	431,013
Total current assets		1,751,776	5,706,728
Non-current assets			
Other financial assets		10,626	195,000
Oil properties	7	15,733,764	27,764,750
Exploration assets		-	760,898
Plant and equipment	8	1,614,587	1,765,530
Deferred tax asset		5,677,392	3,880,435
Total non-current assets		23,036,369	34,366,613
Total assets		24,788,145	40,073,341
Current liabilities			
Trade and other payables	9	1,379,593	1,730,532
Borrowings	10	3,000,000	6,000,000
Provisions	11	84,962	75,950
Taxes payable		64,358	104,715
Total current liabilities		4,528,913	7,911,197
Non-current liabilities			
Trade and other payables	9	318,590	-
Provisions	11	1,133,159	620,201
Deferred tax liabilities		-	6,819,303
Total non-current liabilities		1,451,749	7,439,504
Total liabilities		5,980,662	15,350,701
Net assets		18,807,483	24,722,640
Equity			
Issued capital	12	22,430,823	22,318,820
Reserves	13	334,666	35,769
Accumulated profit/(loss)		(3,958,006)	2,368,051
Total equity		18,807,483	24,722,640

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

	Note	2013 US$	2012 US$
Cash flows from operating activities			
Receipts from customers		11,319,761	13,414,451
Payments to suppliers and employees		(6,913,276)	(8,397,265)
Interest received		3,047	16,951
Interest paid		(295,194)	(192,894)
State tax paid		(104,713)	-
Net cash provided by operating activities	15	4,009,625	4,841,243
Cash flows from investing activities			
Proceeds from sale and form-down of oil properties		165,000	243,000
Purchase of new oil properties		-	(9,914,409)
Oil property development expenditure		(3,394,834)	(2,452,052)
Refunds/(payments) for performance bonds		184,374	(95,000)
Payments for purchases of property, plant and equipment		(127,631)	(60,765)
Payments for lease renewals		(1,367,281)	(487,951)
Net cash used in investing activities		(4,540,372)	(12,767,177)
Cash flows from financing activities			
Proceeds from issues of equity securities		112,003	4,650,452
Cost of share issue		-	(236,642)
Proceeds/ (repayment) of borrowings		(3,000,000)	6,000,000
Net cash provided by financing activities		(2,887,997)	10,413,810
Net increase/(decrease) in cash and cash equivalents		(3,418,744)	2,487,876
Exchange differences on cash balances held		(10,393)	25,591
Cash and cash equivalents at the start of the year/period		3,970,247	1,456,780
Cash and cash equivalents at the end of the year/period		541,110	3,970,247

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

	Issued capital US$	Accumulated profits/(losses) US$	Other reserves US$	Total equity US$
At 31 December 2012	**22,318,820**	**2,368,051**	**35,769**	**24,722,640**
Profit attributable to members of the entity	-	(6,326,057)	-	(6,326,057)
Total income/expense for the year	-	(6,326,057)	-	(6,326,057)
Exercise of options	-	-	-	
Issue of options	-	-	298,897	298,897
Placement of shares	112,003	-	-	112,003
Cost of issue of share capital	-	-	-	-
At 31 December 2013	**22,430,823**	**(3,958,006)**	**334,666**	**18,807,483**

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

Condensed notes to the financial statements

1. Summary of significant accounting policies

a. Basis of preparation

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

The report does not include all of the notes normally included in an annual financial report. Accordingly this report is to be read in conjunction with the financial report for the year ended 31 December 2012 and any public announcements made by Incremental during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

b. Statement of Compliance

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

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

c. Principals of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incremental Oil and Gas Ltd as at 31 December 2013 and the results of all subsidiaries for the year then ended. Incremental and its subsidiaries together are referred to as the Group. Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

	2013 US$	2012 US$
2. Revenue, other income and expenses		
a) Sales revenue		
Oil and gas	10,805,052	15,835,389
Royalties	134,538	201,844
Oil and gas sales	10,939,590	16,037,233
Other revenue		
Interest Income	3,047	14,869
Other revenue	-	20,058
Total other revenue	3,047	34,927
b) Depreciation and amortisation included in the statement of comprehensive income		
Amortisation – oil and gas properties	(1,616,931)	(1,894,464)
Depreciation – oil and gas properties	(203,002)	(199,602)
	(1,819,933)	(2,094,066)
Depreciation – other plant & equipment	(18,989)	(9,738)
	(1,838,922)	(2,103,804)
c) Net gain/(loss) on sale of oil properties and exploration assets		
Guijarral Hills – sold	-	(182,434)
West Mountain -sold	(367,019)	(10,583)
Equipment sale	(17,947)	-
	(384,966)	(193,017)
d) Finance costs		
Interest on bank loans/convertible loans	(293,368)	(192,277)
Other Interest Charges	(1,826)	(42,271)
Financing charges	(316,576)	(541,730)
	(611,770)	(776,278)
e) Impairment of assets		
Impairment of oil and gas properties		
-Florence – uncommercial new wells	(2,734,124)	-
-Florence – Niobrara Formation downgrade	(9,045,777)	-
-Sheep Springs and Round Mountain	(3,474,823)	-
Impairment of exploration and evaluation assets	(670,484)	-
	(15,925,208)	-

	2013 US$	2012 US$
3. Earnings per share		
Earnings used in calculating basic earnings per share	(6,326,057)	2,683,835

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	156,023,790	145,947,778
Effect of dilutive securities:		
Share Options	2,010,803	22,583,145
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	158,034,593	168,530,923

	2013 US$	2012 US$
4. Cash and cash equivalents		
Cash at bank and on hand	541,110	3,970,247
5. Trade and other receivables		
Oil and gas sales debtors	735,029	1,262,594
Other receivables	84,962	42,874
	819,991	1,305,468
6. Inventories		
Oil and gas inventory at cost of production	111,804	152,142
Field inventory	278,871	278,871
	390,675	431,013
7. Oil properties		
Cost of acquisition and enhancements	20,876,104	31,290,159
Accumulated amortisation	(5,142,340)	(3,525,409)
	15,733,764	27,764,750
8. Fixed assets		
Cost	2,174,675	2,104,991
Depreciation	(560,088)	(339,461)
	1,614,587	1,765,530

	2013 US$	2012 US$
9. Trade and other payables		
CURRENT -		
Trade payables and accruals	1,379,593	1,730,532
NON CURRENT -		
Trade payables and accruals	318,590	-
10. Borrowings		
Current :		
Bank Loan (Secured)	3,000,000	6,000,000

The bank loan is provided by RMB Australia Holdings Ltd as a US Dollar denominated acquisition and working capital cash term loan facility for the purpose of acquiring the Florence Oilfield, Repayment of the loan will be by way of three equal quarterly instalments of $500,000 in 2014 and a final payment on 31December 2014. The loan is secured by:

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

Interest is paid quarterly at a rate of 6.28%

	2013 US$	2012 US$
11. Provisions		
CURRENT -		
Employee leave provision	84,962	75,950
NON CURRENT -		
Asset retirement obligation	1,133,159	620,201

	2013 US$	2012 US$
12. Issued capital		
	Number of shares	**Number of shares**
At 1 January	155,743,680	135,643,680
New shares issued - placement	-	20,000,000
New shares issued- employee shares	499,000	-
Exercise of options	-	100,000
At 31 December	156,242,680	155,743,680
	US$	**US$**
At 1 January	22,318,820	17,905,010
New shares issued – placement (net of capital raising costs)	-	4,393,258
New shares issued – employee shares	112,003	-
Exercise of options	-	20,552
At 31 December	22,430,823	22,318,820

13. Options

The company has on issue 92,500,000 options exercisable at 20 cents per option on or before 1 November 2014
The company has on issue 5,000,000 options exercisable at 14.85 cents per option on or before 27 July 2018

14. Reserves

	2013	2012
Share option reserve	334,666	35,769

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

	2013	2012
Profit per accounts	(6,326,057)	2,683,835
Adjustments for		
Tax expense	(8,616,259)	1,903,926
Leave provision	9,012	45,181
Impairment of assets	15,254,724	-
Amortisation	1,616,931	1,894,464
Depreciation	221,991	209,340
Write down of assets	670,484	-
Share based payments	298,897	-
Decrease/(Increase) in current receivables	485,472	(601,096)
Decrease/(Increase) in current tax payable	(40,357)	-
Decrease/(Increase) in inventories	40,338	(339,967)
(Decrease)/Increase in current payables	158,127	1,213,727
Loss on disposal of oil properties and exploration assets	384,966	193,017
Non cash transactions	32,798	(2,335,591)
Exchange differences	(181,442)	(25,593)
Cash used in operating activities	4,009,625	4,841,243