

Corporate Governance Statement

Incremental Oil and Gas Limited ABN 66 138 145 114

Incremental Oil and Gas Limited (**Company**) is committed to implementing a high standard of corporate governance. In determining what that high standard should involve, the Company has referenced the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (with 2010 amendments) (**Recommendations**).

Where the Company's corporate governance practices do not correlate with the Recommendations, the Company is working towards compliance. However, it does not consider that all the practices are appropriate for the Company due to the current size of the Company and the scale of its operations.

The following outlines the Company's response to each of the Recommendations.

1. Lay solid foundations for management and oversight

1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions

The principal functions and responsibilities of the Company's Board are set out in the Company's Corporate Governance Manual, which will be posted on the Company's website.

The Board has appointed the managing director, Mr Gerry McGann, to manage the operational aspects of oil and gas fields owned by the Company and day to day administration of the Company, as well as for identifying and evaluating new opportunities for the Company.

1.2 Companies should disclose the process for evaluating the performance of senior executives

The Board is responsible for evaluating the performance of senior executives, including measuring the actual performance against planned performance.

The Company has a policy of remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration. Given the size of the Company, it does not currently have a formal evaluation and review process to assess the performance of senior executives. The Board intends to implement a formal process when required as the Company's operations evolve.

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

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

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

1.3 Other information

The Company intends to conduct annual performance reviews of senior executives, committees of the Board and the Board itself.

The Company will provide an explanation for any departure from Recommendations 1.1 to 1.3 in the "Corporate Governance" section of its website.

2. Structure the board to add value

2.1 A majority of the board should be independent directors

An independent director is a non-executive director and:

- (a) is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- (b) within the last three years has not been:
 - (i) employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment; or
 - (ii) a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- (c) is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- (d) has no material contractual relationship with the Company or other group member other than as a director of the Company;
- (e) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- (f) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board is not currently made up of a majority of independent directors as the directors are also substantial shareholders of the Company. The Board considers that in the current phase of the Company's growth, the Company's shareholders are better served by directors who have a vested interest in the Company.

The Board has been structured based on the need to effectively discharge its responsibilities and duties, given the current scale of the Company's operations. Each director has the relevant experience and specific expertise relevant to the Company's business and level of operations.

The Company considers that the non-independent directors possess the skills and experience suitable for building the Company. The Board will monitor its composition as the Company's operations evolve, and may appoint independent directors as it deems appropriate.

2.2 The chair should be an independent director

Due to the size and scale of the Company and its operations, the Chairperson is not currently independent as the Chairperson is also a substantial shareholder of the Company.

2.3 The roles of chair and chief executive officer should not be exercised by the same individual

The Company has separated the roles of chair and managing director, with Mr Chris Cronin being the chair of the Board and Mr Gerry McGann being the Company's managing director.

2.4 The board should establish a nomination committee

The Board has established a Remuneration and Nominations Committee. In relation to nominations, the Remuneration and Nominations Committee monitors and reviews the:

- (a) size and composition of the Board, and criteria for Board membership; and
- (b) membership of the Board and proposes candidates for consideration by the Board.

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least two directors with experience appropriate to the Company's target market. In addition, directors should have the relevant blend of personal experience in accounting and financial management and director-level business experience.

No director who is not the managing director may hold office without re-election beyond the third Annual General Meeting following the meeting at which the director was last elected or re-elected.

2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Company will undertake annual performance reviews of senior executives, committees of the Board and the Board.

The Board evaluates the performance of individual directors and of committees. The company secretary is accountable to the board, through the chair, on all governance matters. The Board is responsible for the appointment and removal of the company secretary. The Company also provides its Corporate Governance Charter and Code of Conduct to all directors and senior executives.

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

2.6 Other information

The Company will provide details of each director, including his or her skills, experience and expertise relevant to his or her position, in its future annual reports.

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

The Company intends to establish a "Corporate Governance" section on its website which will, at the appropriate stages in the Company's future, include:

- (a) a description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors;
- (b) a summary of the role, rights, responsibilities and membership requirements for the nomination committee; and

- (c) the board's policy for the nomination and appointment of directors.

3. Promote ethical and responsible decision making

- 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The Company has a Code of Conduct within its Corporate Governance Manual. A copy of the Corporate Governance Manual will be posted on the Company's website.

- 3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.**

Given the current size and stage of the Company's operations it is yet to establish and implement a diversity policy. Following the Company's listing on the ASX, the Board will review the need for a diversity policy.

- 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.**

Given the current size and stage of the Company's operations it is yet to implement a diversity policy. The Board will review the need for a diversity policy as the Company develops.

- 3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.**

The Company will disclose the number of women employees, women in senior executive positions and women on the board in its future annual reports.

3.5 Other information

Once the Company establishes a diversity policy it will provide a summary of the policy in the "Corporate Governance" section of the Company's website.

4. Safeguard integrity in financial reporting

4.1 The board should establish an audit committee

The Board has established a Audit and Risk Committee. The Audit and Risk Committee is responsible for reviewing the:

- (a) integrity of the Company's financial reporting and overseeing the independence of the external auditors;
- (b) audited annual and half-yearly financial statements and any reports which accompany published financial statements and for recommending their approval or otherwise to the full Board; and
- (c) appointment of the external auditor, their independence, the audit fee and any questions of resignation or dismissal.

4.2 The audit committee should be structured so that it: consists only of non-executive directors, consists of a majority of independent directors, is chaired by an independent chair, who is not chair of the board, has at least three members

The members of the Audit and Risk Committee are as follows:

Mark Stowell B.Bus CA. (Audit and Risk Committee Chair) - Mark has over 20 years of corporate finance and business management experience in a large variety of roles. Mark's initial senior role was Manager of Corporate Finance at Arthur Andersen, involved in significant IPO and merger activity in the resource and energy sectors.

Chris Cronin B.Bus (Acc.) FAIM. - Chris has 33 years' experience in executive positions with some of the largest international companies in the oil and gas industry.

Both Mark Stowell and Chris Cronin are non-executive directors who do not meet the Company's independence criteria. As the size and composition of the full Board evolves the Company will consider the appropriateness of the composition of the Audit and Risk Committee.

4.3 The audit committee should have a formal charter.

Given the current size and stage of the Company's operations it has not yet implemented formal risk management and internal control systems to manage key risks. Following the Company's listing on the ASX, the Board and the Audit and Risk Committee will review and consider appropriate internal controls and risk management systems having regard to the material risks impacting the Company.

4.4 Other information

The Company will provide a summary of the responsibilities of the Audit and Risk Committee and information on the selection and appointment of the external auditor and processes for rotation of external auditors in the "Corporate Governance" section of the Company's website.

5. Make timely and balanced disclosure

5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

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

Given the size of the Company, it not yet established formal policies in relation to compliance with the Listing Rule disclosure requirements. The Board will review the need for formal policies as the Company develops.

5.2 Other information

Once the Company establishes formal policies relating to compliance with Listing Rule disclosure requirements, it intends to make those policies publicly available in the "Corporate Governance" section of the Company's website.

6. Respect the rights of shareholders

6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

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

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

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

6.2 Other information

The Company also intends to communicate with its shareholders publicly by posting relevant information in the "Corporate Governance" section of the Company's website.

7. Recognise and manage risk

7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Board is responsible for ensuring there is a sound system for overseeing and managing risk. Due to the size and scale of operations of the Company, risk management issues are considered by the Board as a whole.

7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Due to the size and scale of operations of the Company, risk management issues are considered by the Board as a whole with informal processes for management to report to the Board and the Board to assess material business risks.

7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board intends to disclose whether, in relation to its financial records and statements, it has received assurance from the chief financial officer and managing director that the declaration provided in accordance with section 295A(2) of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

7.4 Other information

Once established, the Company's formal risk management policies will be made publicly available on the Company's website..

8. Remunerate fairly and responsibly

8.1 The board should establish a remuneration committee.

The Board has established a Remuneration and Nominations Committee.

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

The role and responsibilities of the Remuneration and Nominations Committee is set out in the Company's Corporate Governance Manual, which provides that the Committee monitors and reviews:

- (a) the remuneration arrangements for the managing director and other senior executives;
- (b) the remuneration policies, personnel practices and strategies of the Company generally;
- (c) any employee incentive scheme; and
- (d) the remuneration arrangements for non-executive members of the Board.

8.2 The remuneration committee should be structured so that it: consists of a majority of independent directors, is chaired by an independent chair and has at least three members.

The current members of the Remuneration and Nomination Committee are Chris Cronin (Chairman) and Sandy Macdonald. Chris Cronin and Sandy MacDonald are both non-executive directors. The Remuneration and Nomination Committee will meet twice yearly.

Due to the current size and scale of the Company and its operations, the members of the Remuneration and Nominations Committee do not meet the Company's criteria for independence. This recommendation will be satisfied at the appropriate time in the Company's future.

8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

The Company has established separate remuneration policies for non-executive directors and senior management and executive directors as set out below.

- (a) Non-executive directors:
 - (i) are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of non-executive directors
 - (ii) do not receive performance based bonuses; and
 - (iii) are entitled to but not necessarily paid statutory superannuation.

(b) Senior executives are remunerated in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. The remuneration may be comprised of:

- (i) a fixed salary (determined from a review of the market and reflects core performance requirements and expectations);
- (ii) a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- (iii) participation in any share/option scheme with thresholds approved by shareholders (with value being calculated using the Black and Scholes method, or market price if listed or listed comparable security); and
- (iv) statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance. The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

8.4 Other information

The Company will include a summary of the role, rights, responsibilities and membership requirements of the Remuneration and Nominations Committee, on the "Corporate Governance" section of the Company's website.