

incremental

OIL AND GAS

L T D



A.B.N. 66 138 145 114

Preliminary Final Report (Appendix 4E)
for the year ended 31 December 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	%'age Change	US\$ 2015	US\$ 2014
Revenue from ordinary activities	↓ 27%	\$4,707,061	\$6,466,932
Net Income from ordinary activities after tax attributable to members		(\$2,075,366)	(\$8,347,969)
Net Income after tax for the period attributable to members		(\$2,075,366)	(\$8,347,969)
Earnings per share		(1.28) cents	(5.27) cents
Diluted earnings per share		(1.28) cents	(5.27) cents
Net tangible assets per share	↓ 38%	2.1 cents	3.4 cents

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. Oilfield asset values in the financial statements are subject to review by external competent persons and could result in impairment if the estimates are below net book value.

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.

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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 2015.

Incremental has decreased its net loss after tax for the financial year ending 31 December 2015 compared to the prior year. A summary of operating results is as follows:

	2015 US\$M	2014 US\$M
Gross volume of oil/gas/NGL sold	161,478 boe	74,644 boe
Gross revenue from oil and gas sales	\$4.707	\$6.467
Royalty Payments	(\$0.821)	(\$1.108)
Production Expenses	(\$1.734)	(\$1.033)
Operating Profit	\$2.152	\$4.326
Gross Profit margin	46%	67%
Other income	\$0.031	\$0.008
Overhead Expenses	(\$2,056)	(\$2,011)
EBITDA	\$0.127	\$2.323
Interest expense & Finance costs	(\$0.248)	(\$0.378)
Depreciation/Amortisation	(\$1.954)	(\$2.399)
Tax (expense)/benefit	\$ -	(\$0.369)
Impairment	\$ -	(\$7.525)
Net Profit/(Loss) After Tax	(\$2.075)	(\$8.348)

Production increased during the year as a result of the purchase of the Silvertip Field which contributed 97,324 boe of production (60% of total) in the six months from July to December.

Revenue was impacted by a low average oil and gas prices. WTI oil prices have been in decline since Q4-14. The average well-head oil price received in 2015 was US\$42/bbl (2014 – US\$88/bbl). Incremental receives CIG Rocky Mountain prices for its natural gas that is sold from the Silvertip Field. The average wellhead price in 2015 was \$2.59/Mcf. Incremental was fully exposed to the market price of oil and gas with no hedging in place.

Cash provided from operating activities for the year was \$0.698M (2014 - \$1.584M). An amount of \$0.662M of cash was invested in field development at Silvertip and \$0.321M was allocated from cash reserves for bonding on the field to the Wyoming State and Federal Authorities. Other than the debt drawn down for the purchase and development of Silvertip(\$6.66M), there was a reduction in debt of \$0.882M in 2015 (2014 - \$0.512M).

REVIEW OF OPERATIONS

SILVERTIP, WYOMING:

Incremental acquired the Silvertip oil and gas field on 30 June 2015 which comprises of 5,250 net acres in the Bighorn Basin, Wyoming. Incremental operates the field and has a 100% working interest and a net revenue interest of approximately 82.5%.

The Silvertip Field was acquired after an extensive search for an asset that met the Company's criteria for development potential and profitability. This field produces oil and high BTU gas which is sold as natural gas and natural gas liquids (NGL's).

Hydrocarbons are produced from a number of formations in the multi stacked reservoir geology that exists in the Bighorn Basin.

The field contains in excess of 100 wells, the majority of which are less than ten years old. Along with the above mentioned gas processing plant, the field was acquired with oil and NGL storage facilities, a field gas pipeline network which connects to two inter-state distribution pipelines, a significant inventory of well equipment, tubulars and workshop and office building facilities.

Since the Silvertip Field was acquired, 27 workovers have been completed to bring shut-in wells back into production and optimize the efficiency of well performance. This program increased production by 50% from the time that the asset was acquired.

Two well recompletions¹ were undertaken to determine the productivity of different formations to the original well target. These were successful and have contributed to increasing the proven developed producing 1P reserves by 75%. There remains other behind pipe opportunities that can be exploited in the field and this will form the basis of the Company's development program for 2016.

SHEEP SPRINGS and ROUND MOUNTAIN:

The Sheep Springs Oilfield, bought by Incremental in January 2010, continued to perform well during 2015, with only minimal production decline, mainly due to the gradual depletion of reservoir pressure in the field. This field continues to provide good cash flow for the Company.

The decline rate of the Round Mountain Field has been more consistent and gradual in 2015 and with low cost operating costs, it continues to be profitable.

FLORENCE:

The rate of decline in production at Florence has remained low in 2015 as was expected from the Pierre Shale production and is now less than the decline rate in conventional oilfields.

The main producing formation in the Florence Field is the Pierre Shale. Incremental believes that the deeper Niobrara formation does contain hydrocarbons, particularly gas, but that the exploitation of this resource would be sub-economic at current prices.

¹ After the initial completion of a well, the action and techniques of re-entering the well and repeating or repairing the original completion to restore the well's productivity

OTHER PROJECTS:

Incremental has invested considerable resources over the last two years in reviewing numerous producing assets in the USA. The company was successful in purchasing the Silvertip Field at a competitive price in 2015. The substantial drop in oil and gas prices is expected to create further acquisition opportunities for the Company.

SUMMARY:

The milestones achieved by the Company during the year were:

- Acquisition of the Silvertip Field in WY which has substantially increased the overall group production;
- Successfully completed two gas recompletions which contributed to a 75% increase in producing reserves in the field;
- Undertook 27 well workovers to bring shut-in wells back on line and improve the efficiency of others which resulted in an increase in production of 50%;
- Lowering of operating and overhead costs.

Incremental will continue to focus on acquisition opportunities in North America. The Company has an ongoing commitment to creating value through workovers, recompletions and development of the fields that it owns and operates.

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

		2015 US\$	2014 US\$
Oil and gas sales	2a	4,707,061	6,466,932
Direct cost of sales -			
Royalty costs		(821,050)	(1,107,780)
Production and exploration expenses		(1,734,124)	(1,033,383)
Amortisation and depreciation	2b	(1,934,599)	(2,373,245)
Gross profit from operations		217,288	1,952,524
Other operating revenue	2a	30,976	8,292
Administrative expenses		(1,333,587)	(1,225,478)
Other operating expenses		(742,466)	(811,007)
Interest and finance costs	2d	(247,577)	(378,475)
Impairment of assets	2e	-	(7,524,896)
Profit / (Loss) before income tax		(2,075,366)	(7,979,040)
Income tax (expense) / benefit		-	(368,929)
Profit / (Loss) after tax		(2,075,366)	(8,347,969)
Profit / (Loss) for the period attributable to members of the entity		(2,075,366)	(8,347,969)
Other comprehensive income:			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit or loss		-	-
Other comprehensive income / (loss) for the period, net of tax		-	-
Total comprehensive income / (loss) for the period attributable to members of the entity		(2,075,366)	(8,347,969)
Basic (loss) /earnings per share attributable to ordinary equity holders of the entity (cents)	3	(1.28)	(5.27)
Diluted (loss) /earnings per share attributable to ordinary equity holders of the entity (cents)	3	(1.28)	(5.27)

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Consolidated statement of financial position (as at 31 December)

	Note	2015 US\$	2014 US\$
Current assets			
Cash and cash equivalents	4	445,419	1,361,814
Trade and other receivables	5	431,197	275,097
Inventories	6	98,283	439,326
Total current assets		974,899	2,076,237
Non-current assets			
Other receivables		321,604	-
Other financial assets		626	10,626
Oil properties	7	14,768,911	6,622,315
Plant and equipment	8	4,222,319	1,019,175
Total non-current assets		19,313,459	7,652,116
Total assets		20,288,358	9,728,353
Current liabilities			
Trade and other payables	9	862,947	443,364
Borrowings	10	950,000	727,084
Taxes payable		126,265	126,273
Provisions	11	89,105	45,852
Total current liabilities		2,028,317	1,342,573
Non-current liabilities			
Trade and other payables	9	56,494	134,410
Borrowings	10	7,291,193	1,709,826
Provisions	11	7,397,883	1,104,749
Total non-current liabilities		14,745,570	2,948,985
Total liabilities		16,773,887	4,291,558
Net assets		3,514,471	5,436,795
Equity			
Issued capital	12	22,717,388	22,620,836
Share reserved for employee share plan	12	(27,699)	(84,189)
Reserves	14	349,661	349,661
Accumulated losses		(19,524,879)	(17,449,513)
Total equity		3,514,471	5,436,795

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

	Note	2015 US\$	2014 US\$
Cash flows from operating activities			
Receipts from customers		4,366,861	6,960,797
Payments to suppliers and employees		(3,217,668)	(4,284,768)
Interest received		963	436
Interest paid		(210,403)	(134,517)
State tax paid		(241,625)	(958,337)
Net cash provided by operating activities		<u>698,128</u>	<u>1,583,611</u>
Cash flows from investing activities			
Acquisition of Silvertip, net of cash acquired		(6,295,587)	-
Oil property development expenditure		(662,563)	(104,466)
Refunds/(payments) for performance bonds		(321,604)	-
Proceeds from sale of assets		6,000	-
Payments for purchases of property, plant and equipment		(105,910)	(135,505)
Net cash used in investing activities		<u>(7,379,664)</u>	<u>(239,971)</u>
Cash flows from financing activities			
Proceeds from issues of equity securities		-	-
Cost of share issue		(5,276)	-
Proceeds/ (repayment) of borrowings		5,775,271	(512,437)
Net cash provided by/(used in) financing activities		<u>5,769,995</u>	<u>(512,437)</u>
Cash and cash equivalents at the start of the year/period		1,361,814	541,110
Net increase/(decrease) in cash and cash equivalents		(911,541)	831,203
Exchange differences on cash balances held		(4,854)	(10,499)
Cash and cash equivalents at the end of the year/period		<u>445,419</u>	<u>1,361,814</u>

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

	Issued capital US\$	Shares reserved for employee share plan US\$	Accumulated profits/ (losses) US\$	Share option reserve US\$	Total equity US\$
At 31 December 2014	22,620,836	(84,189)	(17,449,513)	349,661	5,436,795
Loss attributable to members of the Group	-	-	(2,075,366)	-	(2,075,366)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	(2,075,366)	-	(2,075,366)
Issue of employee shares	101,828	(101,828)	-	-	-
Issue of options	-	-	-	-	-
Share based payment expense	-	158,318	-	-	158,318
Cost of issue of share capital	(5,276)	-	-	-	(5,276)
At 31 December 2015	22,717,388	(27,699)	(19,524,879)	349,661	3,514,471

	Issued capital US\$	Shares reserved for employee share plan US\$	Accumulated profits/ (losses) US\$	Share option reserve US\$	Total equity US\$
At 31 December 2013	22,430,823	(65,636)	(9,101,544)	334,666	13,598,309
Loss attributable to members of the Group	-	-	(8,347,969)	-	(8,347,969)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	(8,347,969)	-	(8,347,969)
Issue of employee shares	190,013	(190,013)	-	-	-
Issue of options	-	-	-	14,995	14,995
Share based payment expense	-	171,460	-	-	171,460
At 31 December 2014	22,620,836	(84,189)	(17,449,513)	349,661	5,436,795

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 2014, the Interim Financial Report for the half year ended 30 June 2015 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 ("Incremental") as at 31 December 2015 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. They are deconsolidated from the date that control ceases. Intercompany transactions and balances, income and expenses and profit and losses between Group companies, are eliminated.

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	2015 US\$	2014 US\$
2. Revenue, other income and expenses		
a) Sales revenue		
Oil and gas	4,686,693	6,404,490
Royalties	20,368	62,442
Oil and gas sales	<u>4,707,061</u>	<u>6,466,932</u>
Other revenue		
Interest Income	963	436
Other revenue	<u>30,013</u>	<u>7,856</u>
Total other revenue	<u>30,976</u>	<u>8,292</u>
b) Depreciation and amortisation included in the statement of profit or loss		
Amortisation – oil and gas properties	(1,675,113)	(2,173,897)
Depreciation – oil and gas properties	<u>(259,486)</u>	<u>(199,348)</u>
	(1,934,599)	(2,373,245)
Depreciation – other plant & equipment	<u>(19,963)</u>	<u>(25,963)</u>
	<u>(1,954,562)</u>	<u>(2,399,208)</u>
c) Net gain/(loss) on sale of oil properties and exploration assets		
Equipment sale	<u>(12,772)</u>	<u>(4,184)</u>
d) Finance costs		
Interest on bank loans	(210,313)	(134,517)
Other Interest Charges	-	(4,779)
Financing charges	<u>(37,264)</u>	<u>(239,179)</u>
	<u>(247,577)</u>	<u>(378,475)</u>
e) Impairment of assets		
Impairment of oil and gas properties		
-Florence	-	(852,054)
-Sheep Springs and Round Mountain	-	(6,171,417)
Impairment of property , plant and equipment	<u>-</u>	<u>(501,425)</u>
	<u>-</u>	<u>(7,524,896)</u>

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	2015 US\$	2014 US\$
3. Earnings per share		
Earnings used in calculating basic earnings per share	(2,075,366)	(8,347,969)
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	162,061,078	158,306,505
Effect of dilutive securities:		
Share Options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	162,061,078	158,306,505
	2015 US\$	2014 US\$
4. Cash and cash equivalents		
Cash at bank and on hand	445,419	1,361,814
Note –		
Cash of \$321,604 is held on term deposit as security for performance bonds and is classified as non-current other receivables in the balance sheet.		
5. Trade and other receivables		
Current -		
Oil and gas sales debtors	377,331	271,131
Other receivables	53,866	3,966
	431,197	275,097
6. Inventories		
Oil and gas inventory at cost of production	98,283	162,073
Field inventory	-	277,253
	98,283	439,326
7. Oil properties		
Cost of acquisition and enhancements	46,038,459	36,216,750
Writedown	(11,779,901)	(11,779,901)
Impairment	(10,498,297)	(10,498,297)
Accumulated amortisation	(8,991,350)	(7,316,237)
	14,768,911	6,622,315
8. Fixed assets		
Cost	5,247,533	2,290,461
Depreciation and impairment	(1,025,214)	(1,271,286)
	4,222,319	1,019,175

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	2015 US\$	2014 US\$
9. Trade and other payables		
CURRENT -		
Trade payables and accruals	<u>862,947</u>	<u>443,364</u>
NON CURRENT -		
Trade payables and accruals	<u>56,494</u>	<u>134,410</u>
10. Borrowings		
CURRENT -		
Bank Loan (Secured)	<u>950,000</u>	<u>727,084</u>
NON-CURRENT -		
Bank Loan (Secured)	<u>7,291,193</u>	<u>1,709,826</u>

The secured bank loans are provided by ANB Bank as a US Dollar denominated term loan facility. A loan of \$3 million (balance at Dec 2015 - \$1,724,444) was provided in May 2014 for the purpose of repaying a loan facility from RMB Australia Holdings Ltd. A new loan facility was made available and drawn on for the purpose of acquiring the Silvertip Field in June 2015 (Dec-15 - \$6,533,643). The loans are made up of two term loans and a line of credit as follows:

Term Loan 1 -

- Security - mortgages over the Company's producing oilfields in California and Colorado
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (2015 – 3.75%)
- Term – four years from May 2014
- Principal repayments – monthly equal instalments (\$62,500)
- Initial face value of loan - \$3.0 million (Balance Dec-15 - \$1,724,447)

Term Loan 2 -

- Security - mortgages over the Company's gas processing plant and spare well equipment
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (2015 – 3.75%)
- Term – five years from July 2015
- Principal repayments – monthly equal instalments (\$16,667)
- Initial face value of loan - \$1.0 million (Balance Dec-15 - \$896,483)

Line of Credit -

- Security - mortgages over the Company's producing oilfields in Wyoming
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (2015 – 3.75%)
- Term – two years from July 2015
- Principal repayments – interest only repayments on a monthly basis. Principal due to be repaid on or before maturity. Any part of the principal that is repaid before the maturity date may be redrawn up until the maturity date of the loan.
- Initial loan facility limit - \$7.0 million (facility limit Dec-15 - \$6,408,141)
- Loan balance Dec-15 - \$5,657,160

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10. Borrowings (Cont)

Financial covenants for above loan facilities -

- Modified Current Ratio shall not be less than 1:1
Modified Current Ratio means, as of the end of any Fiscal Quarter ending after the Closing Date, the ratio of: (a) the sum of Borrower's current assets (including as a current asset any and all unused availability under the Revolving Loan, but excluding assets resulting from any mark-to-market of unliquidated hedge contracts); to (b) the sum of Borrower's current liabilities (excluding the current portion of long term Debt with the exception of principal that is due within ninety (90) days and liabilities resulting from any mark-to-market of unliquidated hedge contracts), all determined on a consolidated basis pursuant to the most recent financial statements delivered by Borrower to Lender. Oil in inventory, not reported on the most recent financial statement, will be added to the current assets at market price.)

	2015 US\$	2014 US\$
11. Provisions		
CURRENT -		
Employee leave provision	89,105	45,852
NON CURRENT -		
Asset retirement obligation	7,397,883	1,104,749

12. Issued capital

	Number of shares	Number of shares
At 1 January	160,336,680	156,242,680
New shares issued - placement	-	-
New shares issued- employee shares	3,347,900	4,094,000
Exercise of options	-	-
At 31 December	163,684,580	160,336,680
	2015 US\$	2014 US\$
At 1 January	22,620,836	22,430,823
New shares issued – placement (net of capital raising costs)	-	-
New shares issued – employee shares	96,552	190,013
At 31 December	22,717,388	22,620,836
Shares reserved for employee share plan	(27,699)	(84,189)

13. Options

The company has on issue 5,000,000 options exercisable at A\$0.1485 per option on or before 27 July 2018
The company has on issue 400,000 options exercisable at A\$0.07 per option on or before 26 May 2017

14. Reserves

Share option reserve	349,661	349,661
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