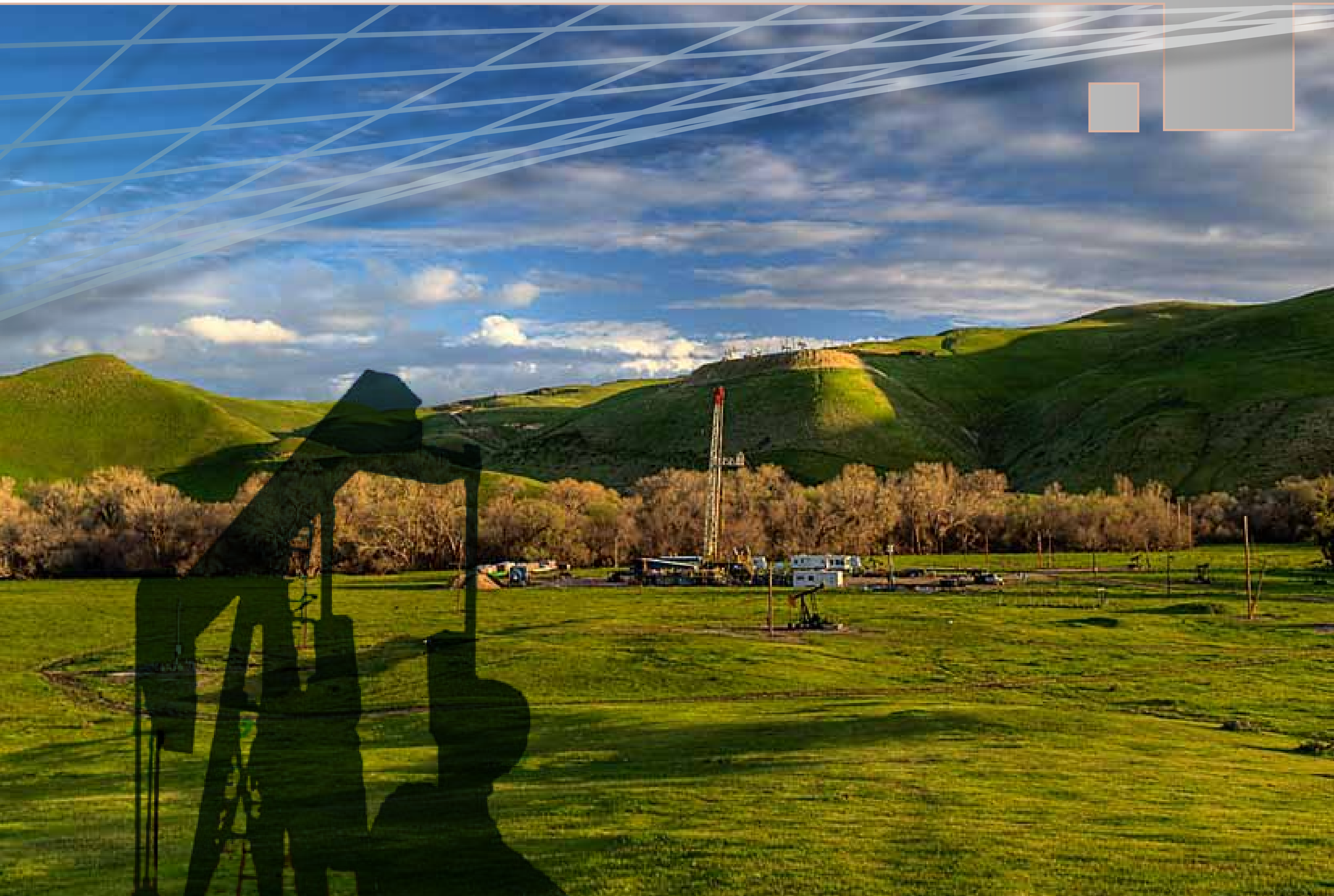
incremental
OIL AND GAS
LTD



annual report '10

Annual Report for the period ending 31 December 2010 incremental OIL AND GAS LTD

Contents

CORPORATE INFORMATION 3

CHAIRMAN'S LETTER 4

OPERATIONAL REVIEW 5

DIRECTORS' REPORT 10

STATEMENT OF FINANCIAL POSITION 18

STATEMENT OF COMPREHENSIVE INCOME 19

STATEMENT OF CHANGES IN EQUITY 20

STATEMENT OF CASH FLOWS 21

NOTES TO THE FINANCIAL STATEMENTS 22

DIRECTORS' DECLARATION 39

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF INCREMENTAL OIL AND GAS LTD 40

AUDITOR'S INDEPENDENCE DECLARATION 42

CORPORATE GOVERNANCE STATEMENT 43

ADDITIONAL ASX INFORMATION 48

Corporate Information

Incremental Oil And Gas Ltd. ABN: 66 138 145 114

This annual report is of the Group comprising Incremental Oil and Gas Ltd and its subsidiaries. The Company's functional and presentation currency is AUD ($).

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 pages 10 to 15. The Directors' Report is not part of the Financial Report.

DIRECTORS
Chris Cronin (Chairman)
Gerry McGann (Managing Director)
Mark Stowell
Hon JAL (Sandy) Macdonald

COMPANY SECRETARY
Susan Hunter (Appointed 1 February 2011)
Steven Robinson (Appointed on 13 August 2010
Resigned 1 February 2011)

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West Perth WA 6005
Australia

SHARE REGISTRAR
Security Transfer Registrars Pty Ltd
PO Box 535
Applecross WA 6953
770 Canning Highway
Applecross WA 6153

Chairman's letter

Dear Shareholder,

Incremental Oil and Gas Ltd ("IOG") is a producing oil and gas company with a primary focus on production and cash flow rather than high risk exploration.

IOG has been profitable over its first year of operations.

The four IOG projects in California are shown on Figure 1.

The Sheep Springs Oilfield has performed well over the year, with an average production of 230 boepd and revenues exceeding A$6 million. 2010 has been a year of building the company. From a single project in January 2010, IOG has built a portfolio of four projects. These projects range from the cash generative Sheep Springs Oilfield to the Round Mountain and Guijarral Hills Development projects. The Raven Pass exploration project adds exploration upside and excitement to the portfolio.

On behalf of the Board I express our gratitude to the management, staff and contractors and consultants who, together, have worked tirelessly to achieve this excellent outcome.

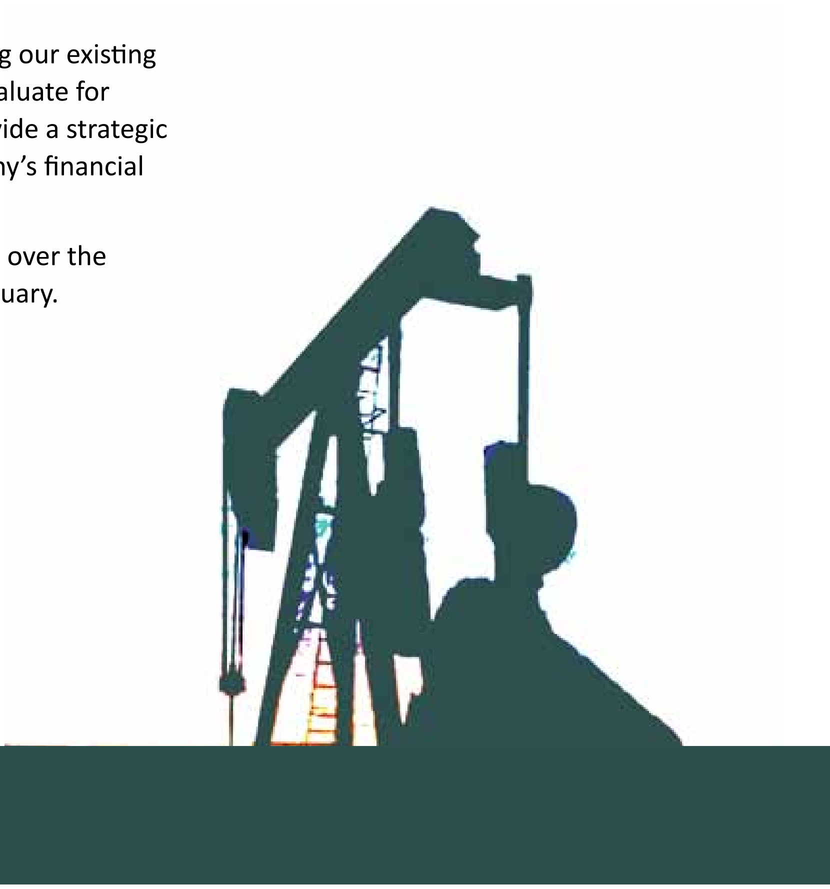
Your Board plans to diligently develop these existing projects to significantly enhance production and cash flow over the coming year.

In addition to ensuring a strong focus on developing our existing projects, the Board will continue to identify and evaluate for possible acquisition, additional projects which provide a strategic fit with our existing portfolio and meet the Company's financial criteria.

I would like to thank shareholders for their support over the year and especially during the successful IPO in January.

Yours sincerely

Chris Cronin
Chairman
18 April 2011



Operational review

IOG has four projects in California:

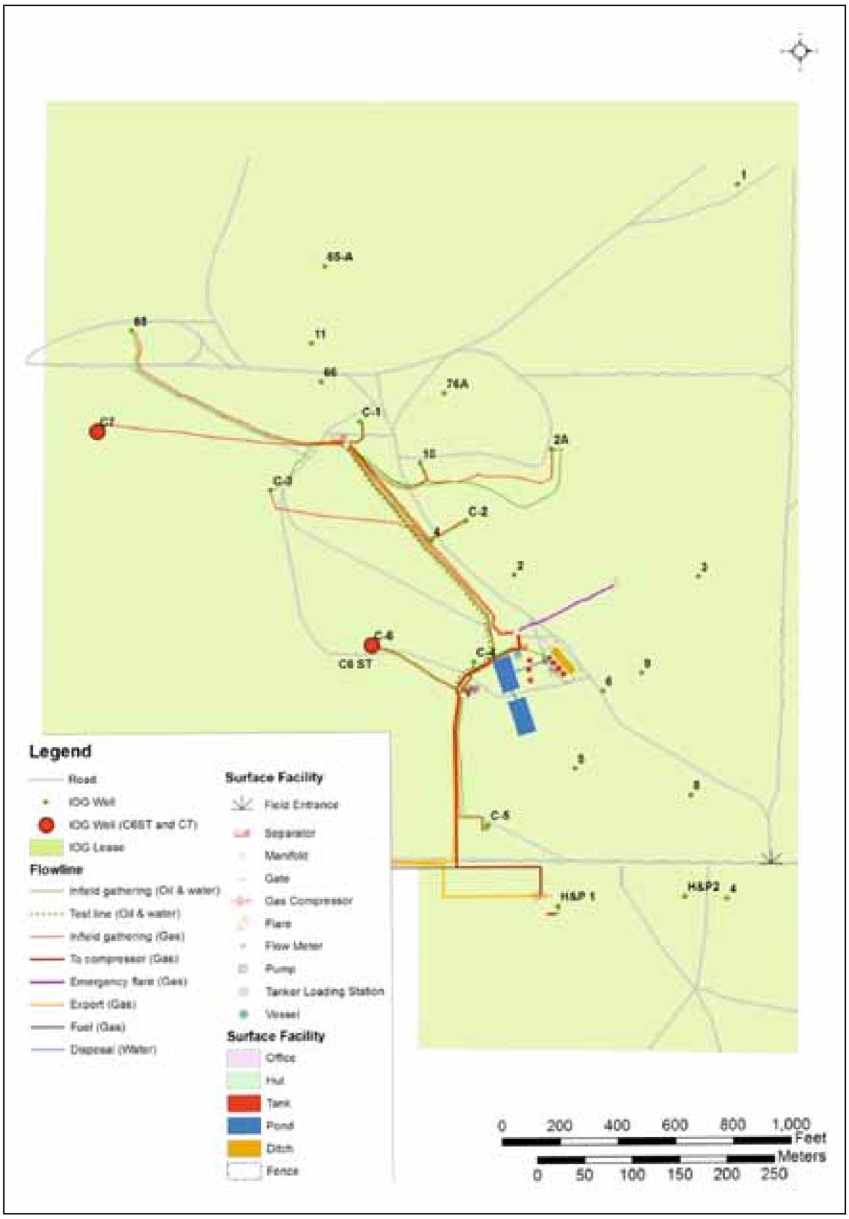
- Sheep Springs Producing Oilfield
- Round Mountain Development Project
- Guijarral Hills Development Project
- Raven Pass Exploration project

The Board believes these four projects in combination provide a balanced portfolio with underpinning positive cash flow, low risk development with substantial near term production expansion capability and exploration upside. The location of the four projects is shown in Figure 1.

Figure 1
Locations, IOG projects in California

1.1 SHEEP SPRINGS PRODUCING OILFIELD (100% WORKING INTEREST)

IOG acquired 200 acres within the Sheep Springs operating oilfield in January 2010. Production has increased from an average of 169 boepd at acquisition to an average rate of 230 boepd for the year as a whole. This increase in production was due to operational improvements and the drilling of two wells in mid 2010.



IOG drilled wells C-7 and C-6ST (Figure 2) in Sheep Springs in mid-2010. The total cost of the two wells was US$958,000, illustrating the low cost nature of operating in California. Each well intersected over 70 feet of hydrocarbon pay.

Figure 2
Sheep Springs surface facility map highlighting the C6ST and C7 wells

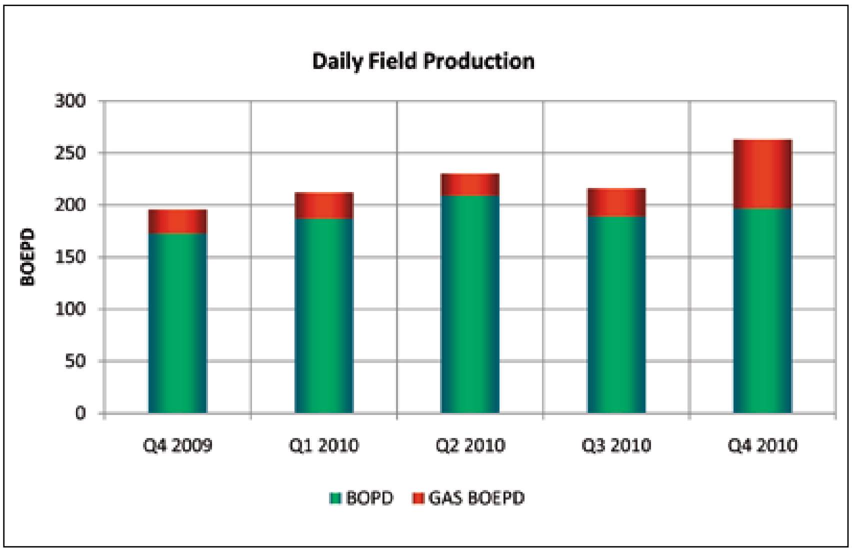


Figure 3
Sheep Springs quarterly production since January 2010

IOG's Sheep Springs leases have significant development potential in the shallow heavy oil reservoirs and it will be these reservoirs that are the next main phase of development. Near term projects include a water injection pilot project and a pilot steam injection project. The use of steam can greatly increase production rates and recovery factors of the shallower, heavier oils.

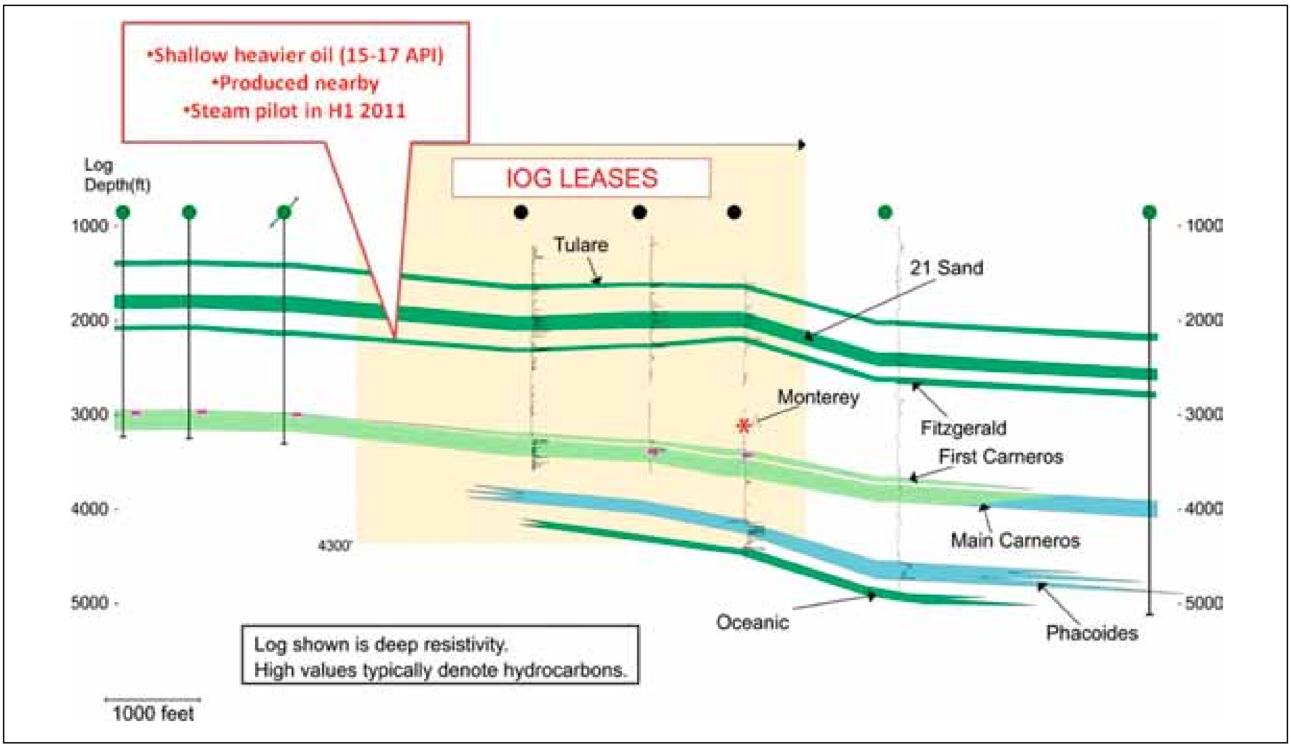


Figure 4
Cross section highlighting shallower reservoirs

1.2 ROUND MOUNTAIN DEVELOPMENT PROJECT (100% WORKING INTEREST)

Round Mountain is a development project. Substantial oil production has been demonstrated within the oilfield by adjacent producers.

The Round Mountain field has produced over 100 million barrels of oil. Most of this production was in the early part of the 20th century. The main reservoir section is at a depth between 1200 ft and 1600 ft and has excellent permeability and porosity.

IOG's excellent lease location within the oilfield suggests that production could be substantially increased by drilling a number of new wells. Initial wells will probably be vertical, with an option to drill horizontal wells at a later date.

Near term projects in Round Mountain include the drilling of a well with cores and a number of modern wireline logs. Existing wells were drilled at least 30 years ago and have only limited data available. A successful modern well will form the basis of a field development project at Round Mountain later in 2011.

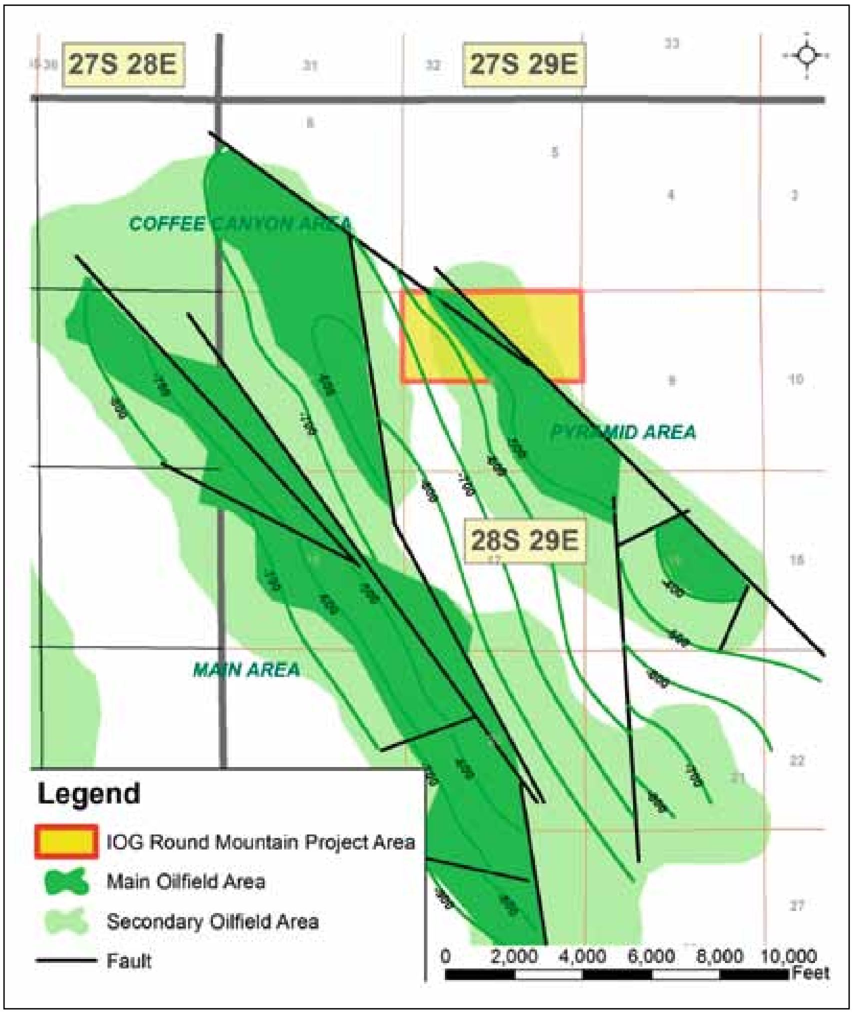


Figure 5
Round Mountain project area and top Vedder depth structure map

1.3 GUIJARRAL HILLS DEVELOPMENT PROJECT (80-100% WORKING INTEREST)

The Guijarral Hills project is situated approximately 90 km north of the Sheep Springs oilfield. IOG's leases are located within a prolific oilfield that has produced over 50 million barrels of light oil, mainly in the 1950's.

With the deepest reservoir being the focus of early production, some of the shallower reservoirs have remained undeveloped or partially developed. These shallower reservoirs between 8,000 ft and 9,500 ft have excellent reservoir properties and appear to contain light hydrocarbons. IOG has between 80% and 100% working interest in various leases to investigate and exploit these remaining reserves.

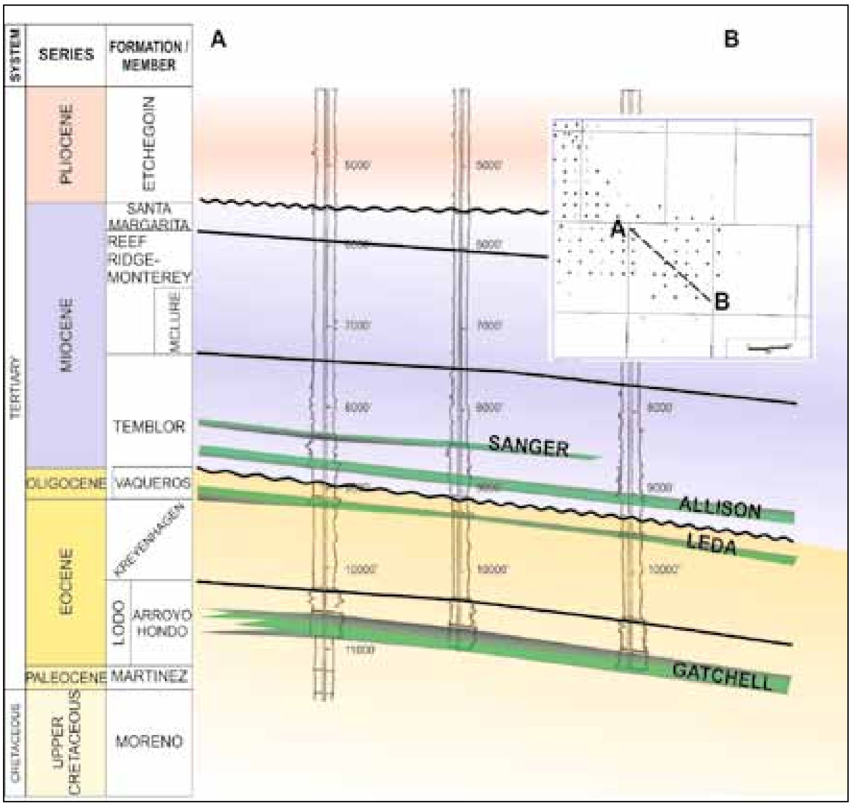


Figure 6
Guijarral Hills project area NW-SE cross-section with reservoirs highlighted

1.4 RAVEN PASS EXPLORATION PROSPECT (100% WORKING INTEREST)

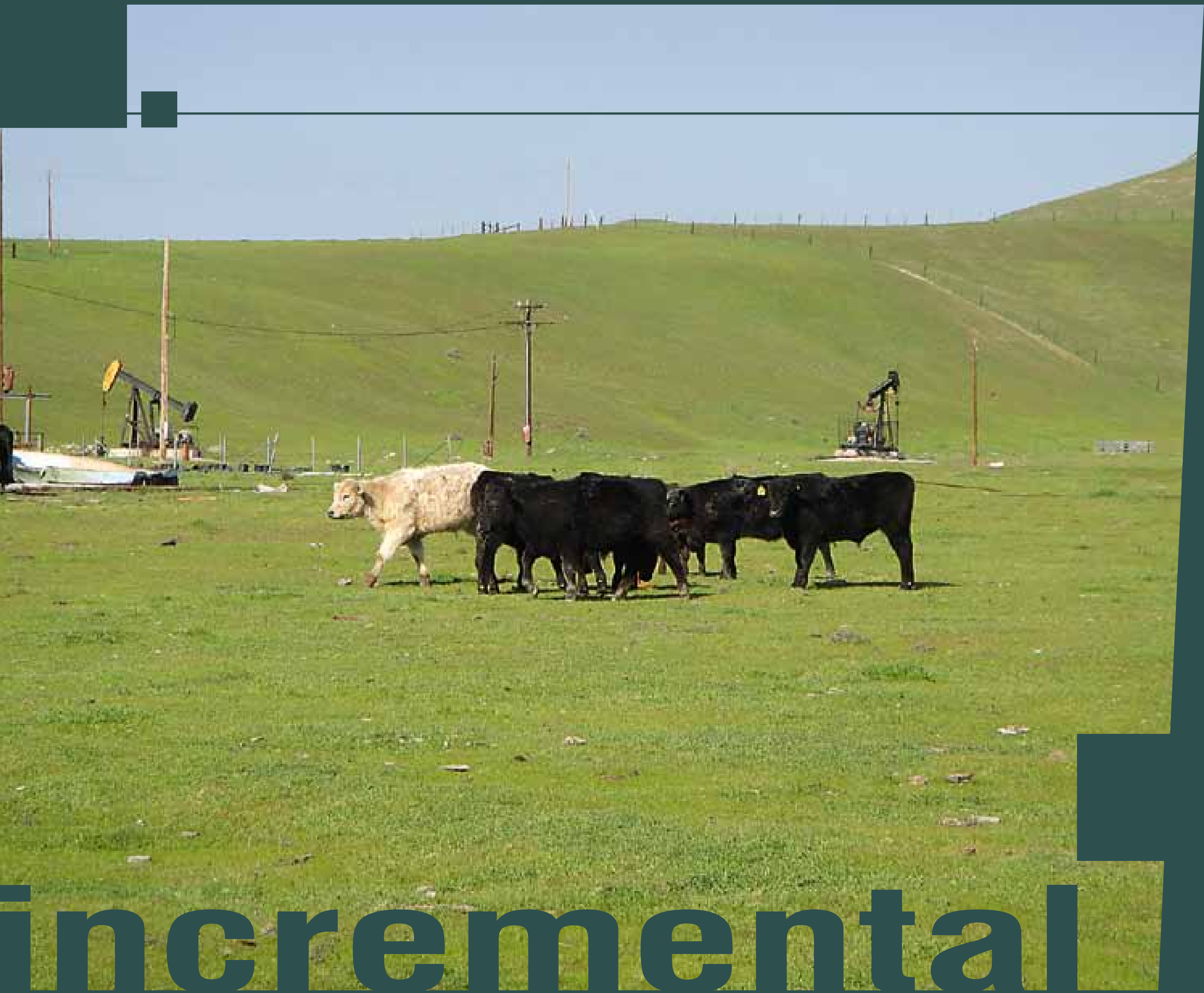
The Raven Pass prospect is a surface anticline with a strike length of over 10 kilometres. It is well defined by surface mapping, with 1500 ft of structural relief. It is located in the west of San Joaquin Basin, neighbouring giant oilfields such as Belridge. A shallow well drilled in the middle of the anticline flowed 52º API gravity oil, but the deeper reservoir section has not been tested, although it is productive in some nearby oilfields. IOG plan to continue surface mapping, purchasing of existing seismic and possibly acquiring additional seismic in the coming year.

1.5 IOG DEVELOPMENT STRATEGY

The IOG development strategy is initially focused on four projects:

- the development of the Round Mountain oilfield. Up to five wells are planned in 2011.
- the Guijarral Hills oilfield reservoirs will first be tested with a re-entry into an old well or the drilling of a new well to test the shallower horizons. These operations are anticipated to take place early in the second half of 2011.
- the continued development of the Sheep Springs oilfield. There are four undeveloped productive reservoirs in the lease area and these reserves will be developed in a conscientious and conservative fashion.
- Continue progressing Raven Pass to a drill ready stage.

Concurrent with the development of the above projects, IOG will continue to evaluate new projects for acquisition, consistent with available cash flow.



Directors' Report

Directors' Report

Your directors submit their report for the period from incorporation on 7 July 2009 to 31 December 2010.

DIRECTORS

The names and details of the company's directors and officers in office during the financial period and until the date of this report are as follows. Directors and officers were in office for the entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Mr C. CRONIN
B.Bus (Acc.) FAIM
(Non-executive Chairman)

Mr Cronin has 33 years' experience in executive positions with some of the largest international companies in the oil and gas industry. He retired from the position of Director, Corporate Strategy and Planning, Woodside Petroleum Ltd in October 2003 after 23 years of service. Key responsibilities during four years in this job included mergers and acquisitions, strategy and business planning, portfolio management (economics), and external affairs.

Other roles at Woodside included Director, Northern Australian Gas Projects and prior to that General Manager, Human Resources, IT and Corporate Affairs. Prior to joining Woodside in 1980, Chris spent 9 years with BP Australia Ltd in Marketing and personnel/industrial relations roles in both Victoria and W.A. Chris is a founding investor in IOG.

Current appointments in addition to IOG are:

- Deputy Chairman, Indian Pacific Ltd, owner and operator of the West Coast Eagles Football Club
- Chairman of the David Wirrpanda Foundation, a not-for-profit trust which provides assistance for the development of indigenous youth.

Additional non executive appointments in the last 5 years include:

- Chairman Incremental Petroleum Ltd (July 2005-June 2009)
- Chairman Alinta Network Holdings Pty Ltd (July 2003-Feb 2007)
- Non Executive Director, Geodynamics Ltd (October 2003-Feb. 2007)
- President, Australian Institute of Management (WA) (May 2004-May 2006)
- Appointed to Chair the Inquiry into the failure by Western Power, to supply electricity to Western Australia during the period 16-18 February 2004.

Mr G. MCGANN
B.Sc (Hons)
(Managing Director)

Mr McGann has 40 years' experience in the upstream oil and gas industry, in a career that has spanned all five continents. As a petroleum geologist, he has been instrumental in the discovery of oilfields totalling more than 200 million barrels in Australia, Middle East and the North Sea, and been part of teams that have discovered substantially more. As Exploration Manager for Occidental Petroleum, Mr McGann was responsible in increasing production from 32,000 bopd to 52,000bopd in 3 years in Oman. Mr McGann was one of only seven exploration managers in Occidental Petroleum, and one of only four Chief Scientists in Baker Hughes (approximately 30,000 employees).

Mr McGann was a founding shareholder and Managing Director of Incremental Petroleum Ltd. He identified the Selmo Oilfield in South-east Turkey in 2005, and increased the production from a declining 1500 bopd to 2000 bopd when the company was taken over in March 2009. Additional appointments in the last 5 years include a non-executive director of Target Energy in 2009.

Mr McGann has taught Petroleum Geology at degree and post-degree level at Curtin University for seven years. He was the president of three chapters of the Society of Petrophysicists and Well Log Analysts (SPWLA) and has been an invited speaker to SPWLA and the Society of Exploration Geophysicists annual conventions. He has published 14 technical papers and is a certified petroleum geologist. He is a founding investor in IOG.

Hon JAL MACDONALD
LLB. (Non-Executive Director)

Mr Macdonald holds a Bachelor of Law from the University of Sydney and was admitted to the Roll of Solicitors in 1977. Mr Macdonald was elected to the Australian Senate in 1993. During his parliamentary career of 15 years he was Deputy Leader of the National Party in the Senate and served in the Howard Ministry as Parliamentary Secretary for Trade and Parliamentary Secretary for Defence. He also chaired the Senate Foreign Affairs, Defence and Trade Committee for eight years. Mr Macdonald had political responsibility for Austrade and has represented Australia at a high level. He has led delegations of both business and parliamentarians on behalf of Government to Turkey, the Middle East, Asia and the Pacific Rim.

On retiring from politics in 2008 Mr Macdonald was appointed a non executive director of Defence Housing Australia by the Australian Government. He currently serves on both the Board Audit Committee and the Board Property Committee. Mr Macdonald was a Director of Incremental Petroleum Ltd from 2008 until its takeover in March 2009. He is a founding investor in IOG.

Mr M STOWELL
B.Bus CA (Non-executive Director)

Mr Stowell has over 20 years of corporate finance and business management experience in a large variety of roles. Mr Stowell'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.

Mr Stowell was a founder and board member for seven years of Anvil Mining, a significant African based copper mining company, listed on the ASX and subsequently the Toronto Stock Exchange. In 2004 he was a joint founder and Director of Incremental Petroleum Ltd and remains a non-executive director of Incremental Petroleum under the new owners subsequent to its acquisition by TransAtlantic Petroleum (TNP:TO).

Mr Stowell was a joint founder and now Chairman of Mawson West Ltd, a copper producer in Africa. Mr Stowell is a founding investor in IOG.

Mr Stowell is also a director of Orrex Resources Ltd and Kula Gold Ltd. He has held no other directorships in the past 3 years.

Ms S HUNTER
BCom, ACA, F Fin (GDipAFin (SecInst)), MAICD (Dip), ACIS (Dip)
(Company Secretary – Appointed 1 February 2011)

Ms Hunter has over 17 years experience in the corporate finance industry.

She holds a Bachelor of Commerce degree from the University of Western Australia majoring in accounting and finance, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors and is founder and Managing Director of consulting firm Hunter Corporate Pty Ltd.

Ms Hunter is also a Member of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia and she is currently Company Secretary for five Australian Securities Exchange listed companies.

Mr S ROBINSON
(Company Secretary – 13 August 2010 to 1 February 2011)

Mr Robinson is a Rhodes Scholar, business strategist and financial economist with 20 years' experience across the agribusiness and mining industries. Currently Mr Robinson is a director of Lincoln Capital, a corporate advisory firm providing commercial services predominantly to the mining sector. Prior to forming Lincoln Capital Mr Robinson held senior management roles in Barrick Gold, Iluka Resources Limited and WMC Resources Limited. During the past three years Mr Robinson has held directorships of public companies Bulletin Resources Ltd and DV01 Mechelle Limited.

Mr J ASQUITH
BA (Hons) CA MBA - CFO
(Company Secretary from incorporation to 13 August 2010)

Mr Asquith is a chartered accountant with over 20 years corporate experience with major international accounting firms and commercial enterprises. He has held senior executive positions with a number of public and listed Australian companies. Mr Asquith completed a Masters of Business Administration at the University of Western Australia. During the past three years Mr Asquith has held the position of director of Mawson West Ltd, a public company.

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of Incremental Oil and Gas Ltd were:

Director	Ordinary Shares	Unlisted Options $0.20 exercise price	Convertible Notes
C Cronin	6,000,002	6,000,000	1,500,000
G McGann	20,500,004	20,500,000	3,750,000
J Macdonald	4,250,001	4,250,000	1,500,000
M Stowell	10,100,002	10,200,000	3,500,000

PRINCIPAL ACTIVITIES

The principal activities during the period of entities within the Group are oil and gas exploration and production in North America. There has been no significant change in the nature of these activities during the period.

REVIEW OF OPERATIONS

Following the incorporation of the company in July 2009 directors identified the Sheep Springs oilfield in California USA as a potential acquisition. The acquisition was finalised effective 1 January 2010, financed by the proceeds of equity and convertible note issues and vendor loans. In April 2010 the company converted to a public company and the convertible notes were converted to shares. A further $5m of convertible notes were issued during the year, and the proceeds, along with cash flows from operations were applied to repay the vendor loans.

Following a successful Initial Public Offer in late 2010, the company issued 17,564,328 ordinary shares at 30 cents per share.

The Sheep Springs oilfield operated profitably during the period. The Group acquired further interests in prospective oil producing areas in California at Guijarral Hills and Round Mountain and an exploration prospect at Raven Pass.

OPERATING RESULTS FOR THE PERIOD

The Group's operating profit after income tax for the period was $616,669. The Group's earnings per share for the period was 0.95 cents.

FINANCIAL CONDITION

Following the successful Initial Public Offer, the Group has sufficient funds to implement its expansion strategies and repay debts as and when they fall due.

LIQUIDITY AND CAPITAL RESOURCES

The consolidated cash flow statement details the cash flows resulting in the closing balance of cash on hand at 31 December 2010 of $5,022,016.

SHARE ISSUES DURING THE PERIOD AND TO THE DATE OF THIS REPORT

The number of shares on issue at 31 December 2010 was 110,477,010. Details of the issues of shares are set out in Note18 to the accounts.

SHARE OPTIONS

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

Date of Expiry	Exercise Price	Number under option
1 November 2014	20 cents	92,766,670

DIVIDENDS

The directors do not recommend that a dividend be paid. No dividends have been paid by the Company since incorporation.

RISK MANAGEMENT

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

An Audit and Risk Committee has been established with a purpose to review and monitor the financial affairs of the Company. At the discretion of the committee, the external auditor and other members of the Board and management will be invited to Audit and Risk Committee meetings. The Audit and Risk Committee will consider any matters relating to the financial affairs of the Company and any other matter referred to it by the Board. The members of the Audit and Risk Committee are Mark Stowell (Chair) and Chris Cronin.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the group during the financial period other than as disclosed elsewhere in this report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's activities are not subject to any significant environmental regulations under either Commonwealth or State legislation but are subject to United States Federal and Californian State legislation. The Board believes that the group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The company's shares commenced trading on the Australian Securities Exchange on January 21st 2011.

Except for the foregoing, there were no significant events after the balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue to focus on oil and gas production and exploration opportunities.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICER

The Company has entered into Director and Officer Protection Deeds (Deed) with each Director and the Company Secretary (officers). Under the Deed, the Company indemnifies the officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

The Company has not provided any insurance or indemnification for the Auditor of the Company.

REMUNERATION REPORT (AUDITED)

The remuneration report outlines the director remuneration and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the Parent and the Group.

DETAILS OF KEY MANAGEMENT PERSONNEL (including the 5 most highly remunerated officers (other than the directors of the Group)).

The directors of Incremental Oil and Gas Ltd during the financial period were:

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

The key management personnel and the 5 most highly remunerated officers of the Group (other than the directors) during the financial period were:

- Jonathan Asquith (Chief Financial Officer)
- Jim Hussey (Vice President)

REMUNERATION POLICY

The performance of the Group depends on the quality of its key management and personnel. To prosper the Group must attract, motivate and retain highly skilled directors and executives.

To this end the Group embodies the following principles in its remuneration policy:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to share holder value;
- Significant proportion of executive compensation 'at risk', dependent upon meeting pre-determined targets; and
- Establishing demanding, appropriate performance hurdles in relation to variable executive compensation.

The members of the Company's remuneration committee are Chris Cronin (Chair) and Sandy Macdonald.

NON EXECUTIVE DIRECTOR REMUNERATION

Non Executive Directors' fees are determined within an aggregate fee pool limit, which is periodically recommended for approval by shareholders. This amount is separate from any specific tasks that the Directors may take on for the Company. The current aggregate fee pool limit approved by shareholders is $250,000.

SENIOR EXECUTIVE REMUNERATION POLICY

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option scheme with thresholds approved by shareholders; and
- statutory superannuation.

There are no fixed terms of employment in the senior executive employment agreements.

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, share purchase plans and other incentives.

In terms of the employment contact Mr Hussey was granted 1,000,000 ordinary shares at a deemed 10 cents per share during the period. Additionally, Mr Hussey received 1,000,000 options exercisable at 20 cents on or before 1 November 2014 and 34,000 shares at a deemed 30 cents per share as a bonus.

REMUNERATION OF EACH COMPANY DIRECTOR, THE KEY MANAGEMENT PERSONNEL AND THE 5 MOST HIGHLY REMUNERATED OFFICERS OF THE GROUP (OTHER THAN THE DIRECTORS)

June 2010	Short Term			Post Employment	Equity		
	Salary & Fees (i)	Non Monetary Benefits (ii)	Other Benefits (iii)	Superannuation	Equity based payments (iv)	Total	Value of Equity based payments % of Remuneration
Directors	$	$	$	$	$	$	%
C Cronin	75,000	4,071	-	6,750	-	85,821	-
G McGann	250,000	4,071	-	22,500	-	276,571	-
J Macdonald	50,000	4,071	-	4,500	-	58,571	-
M Stowell	50,000	4,071	-	4,500	-	58,571	-
Executives							
J Hussey	216,532	-	15,204	-	145,323	377,059	38.5%
J Asquith	24,000	-	-	-	-	24,000	-
Total	665,532	16,284	15,204	38,250	145,323	880,593	-

(i) Included in Salary and Fees are amounts made available to related parties of directors. The amounts shown above in relation to directors include the provision of their services relating to other geologists and geological services and corporate services and administration.

(ii) The cost of D&O insurance is split between the directors and is shown under Non Monetary Benefits

(iii) Other monetary benefits comprise health insurance and employment related benefits.

(iv) Employee options have been issued throughout the period as part of the remuneration philosophy of the company. The value of the options has been calculated using the Black-Scholes model. Bonuses have also been issued in the form of shares to certain employees.

Mr McGann has an employment contract with the Company dated 14 February 2010 which commenced on 1 January 2010. The per annum gross salary under the contract is:

- $250,000;
- increasing to $300,000 subject to the Company achieving average daily gross production of 400 boepd over a continuous 3 month period; and
- further increasing to $375,000, subject to the Company achieving average daily gross production of 700 boepd over a continuous 3 month period.

In addition to the salary, one-off cash bonuses are applicable as *follows:*

- $50,000 on achieving average daily gross production of 300 boepd over a continuous period of 3 months.
- $60,000 on achieving average daily gross production of 400 boepd over a continuous period of 3 months.
- $60,000 on achieving average daily gross production of 600 boepd over a continuous period of 3 months.

The contract is to be re-negotiated subject to average production of the Company exceeding 1000 boe per day. The contract may be terminated by either the Company or Mr McGann by providing three months notice in writing, with Mr McGann being entitled to the salary up to and including the date of termination.

Mr Hussey, Vice President USA of the Company, has an employment contract with the Company dated 5 January 2010, as amended on 7 August 2010. The salary under the contract (as amended) is related to gross annual average oil production as follows:

< 200 bopd	US$160,000

From Board approval of two new significant projects (Round Mountain and Guijarral)

	US$200,000
>400 bopd	US$250,000
>1000 bopd	US$300,000

The contract was modified on 7 August 2010 such that the base salary was increased to US$200,000, with other aspects remaining the same.

Cash bonuses are payable, related to half yearly average oil production, as a percentage of the gross salary as follows:

Half yearly production average >	500 bopd	20% of gross salary
Half yearly production average>	700 bopd	20% of gross salary
Half yearly production average>	1000 bopd	20% of gross salary

ANALYSIS OF MOVEMENTS IN OPTIONS ISSUED AS REMUNERATION

The movement during the reporting period of options issued as remuneration for Company director and the 5 most highly remunerated officers of the Group (other than the directors):

	Terms and Conditions for each Grant							Vested	
	Granted No.	Grant Date	Fair Value Per Option at Grant Date ($)(note 7)	Exercise Price Per Option ($) (note 7)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
J Hussey	1,000,000	1/12/2009	0.035123	0.20	1/11/2014	1/6/2010	1/11/2014	1,000,000	100

SUMMARY OPTIONS ISSUED AS REMUNERATION FOR EACH COMPANY DIRECTOR AND THE 5 MOST HIGHLY REMUNERATED OFFICERS OF THE GROUP (OTHER THAN THE DIRECTORS) BY VALUE FOR THE PERIOD ENDED 31 DECEMBER 2010

	Granted in period $	Value of Options exercised in period $	Lapsed in Period $
J Hussey	35,123	-	-

COMMITTEE MEMBERSHIPS

Memberships of Board committees by independent Board members are as follows:

Director	Audit and Risk committee	Remuneration and nomination committee	Corporate governance committee
C Cronin	x	x	
JAL Macdonald		x	x
M Stowell	x		x

CORPORATE GOVERNANCE

In recognising the need for high standards of corporate behaviour and accountability, the directors' support and have, where currently considered appropriate given the size and nature of the Company, adhered to the best practice recommendations set by the ASX Corporate Governance Council.

DIRECTORS' MEETINGS

The number of meetings of directors held during the period and the numbers of meetings attended by each director were as follows:

	Directors meetings	
Directors	Held	Attended
Mr C Cronin	19	19
Mr G McGann	19	18
Mr J Macdonald	19	18
Mr M Stowell	19	19

DIRECTORS' BENEFITS

No director of the Company has received or become entitled to receive a benefit because a contract that the director or a firm of which the director is a member or an entity in which the director has a substantial financial interest made with the company or an entity that the company controlled, or a body corporate that was related to the company, when the contract was made or when the director received, or became entitled to receive the benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in Note 6 to the Financial Statements.

NUMBER OF EMPLOYEES

The number of employees at 31 December 2010 is 3.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

AUDITOR INDEPENDENCE DECLARATION TO THE DIRECTORS OF INCREMENTAL OIL AND GAS LTD

The auditor's independence declaration for the period ended 31 December 2010 has been received and is to be found on page 42.

NON-AUDIT SERVICES

During the period $32,000 was paid to Stantons International Securities, a related entity of Stantons International for the provision of non-audit services in respect of Independent Experts and Investigating Accountant's Reports. The Board of Directors is satisfied that the provision of non-audit services during the period is compatible with the general standard of independence for auditors enforced by the Corporations Act as the Board is satisfied that these services do not adversely affect the integrity and objectivity of the auditor.

This report is signed in accordance with a resolution of the directors, made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the directors

Gerard J McGann

Gerry McGann

Director

28 March 2011

Financial Report

Statement of Financial Position

AS AT 31 DECEMBER 2010

	Notes	Consolidated 2010 $
Current assets		
Cash and cash equivalents	9	5,022,016
Trade and other receivables	10	529,046
Inventories	11	43,717
Total current assets		5,594,779
Non-current assets		
Other financial assets	12	98,193
Oil properties	13	10,919,966
Exploration assets	14	381,772
Plant and equipment	15	500,932
Total Non-current assets		11,900,863
Total assets		17,495,642
Current liabilities		
Trade and other payables	16	701,382
Convertible notes	17	2,750,000
Total current liabilities		3,451,382
Non current liabilities		
Convertible notes	17	2,250,000
Deferred taxation	5	492,076
Total non-current liabilities		2,742,076
Total liabilities		6,193,458
Net assets		11,302,184
Equity attributable to equity holders of the parent		
Issued capital	18	12,377,093
Reserves	19	(1,691,578)
Retained earnings	20	616,669
Total Equity		11,302,184

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

Statement of Comprehensive Income

FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2010

	Notes	Consolidated 2010 $
Oil and Gas Revenue	4	6,057,792
Other Revenue	4	31,273
		-
Royalties paid		(939,640)
Depreciation		(66,582)
Amortisation		(693,089)
Exploration		(105,554)
Lease operating expenses		(784,777)
Other costs		(941,186)
Wages and salaries		(709,144)
Share based payments		(156,123)
Foreign exchange losses		(100,994)
Interest		(483,231)
Profit/(Loss) before income tax		1,108,745
Income tax expense	5	(492,076)
Profit/(Loss) after tax		616,669
Other comprehensive income/(loss) for the period		
Foreign currency translation differences	19	(1,726,701)
Total comprehensive income/(loss)		(1,110,032)
Basic Earnings Per Share (cents)	21	0.95

Diluted Earnings Per Share is not shown as no options were dilutive during the period

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

Statement of Changes in Equity

FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2010

CONSOLIDATED	Issued capital $	Retained Profits $	Other reserves $	Total equity $
Profit attributable to members of the Group	-	616,669	-	616,669
Other comprehensive income				
Foreign currency reserve	-	-	(1,726,701)	(1,726,701)
Total comprehensive income for the period	-	616,669	(1,726,701)	(1,110,032)
Share option reserve	-	-	35,123	35,123
Issue of share capital	12,784,365	-	-	12,784,365
Capital raising costs	(407,272)	-	-	(407,272)
At 31 December 2010	**12,377,093**	**616,669**	**(1,691,578)**	**11,302,184**

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

Statement of Cash Flows

FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2010

	Notes	Consolidated 2010 $
Cash flows from operating activities		
Receipts from customers		5,528,746
Payments to suppliers and employees		(3,608,801)
Interest received		31,273
Interest paid		(168,131)
Net cash provided by operating activities	22	1,783,087
Cash flows from investing activities		
Payments for oil properties and bonds	12-13	(12,947,219)
Payments for purchases of property plant and equipment	15	(634,048)
Payments for exploration and evaluation	14	(422,697)
Net cash used in investing activities		(14,003,964)
Cash flows from financing activities		
Proceeds from issue of shares net of capital raising costs	18	12,242,893
Proceeds of borrowings	6&17	5,340,000
Repayment of borrowings	6	(340,000)
Net cash provided by financing activities		17,242,893
Net increase in cash and cash equivalents		5,022,016
Cash and cash equivalents at end of period	9	5,022,016

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

Notes to the Financial Statements

FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2010

1. CORPORATE INFORMATION

The financial report of Incremental Oil and Gas Ltd (the Company) for the financial period ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 21 March 2011. The consolidated financial statements of the company as at and for the period ended 31 December 2010 comprises the Company and its subsidiaries ("Group").

Separate financial statements for Incremental Oil and Gas Ltd as an individual entity are no longer presented as the consequence of a change in the Corporations Act 2001, however required financial information for Incremental Oil and Gas Ltd as an individual entity is included in Note 29.

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

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including Australian Interpretations. The financial report has also been prepared on a historical cost basis and accrual accounting, modified where applicable by the measurement of selected financial assets and financial liabilities at fair value. The financial report is presented in Australian dollars.

(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 issued by the AASB which are mandatory to apply to the current period. Disclosures required by the Standards that are deemed material have been included in this Financial Statement and are detailed below:

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of financial statements. Changes reflected in this financial report include:

- the replacement of the Income Statement which the Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of other comprehensive income. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the single statement approach to the presentation of the Statement of Comprehensive Income; and
- other financial statements are renamed in accordance with the Standard.

Other accounting standards which are effective for this accounting period include AASB 3 – Business Combinations and AASB 8.

Segment Reporting

The entity has applied AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires the entity to identify operating segments and disclose segment information on the basis of internal reports that are provided to, and reviewed by, the chief operating decision maker of the Company to allocate resources and assess performance. In the case of the Company, the chief operating decision maker is the Board of Directors. Operating segments now represent the basis on which the Company reports its segment information to the Board on a monthly basis.

Business combinations

Revised AASB 3 Business Combinations and AASB 127 Consolidated and Separate Financial Statements apply prospectively from 1 July 2009. Changes introduced by these standards which have affected the Company include the following:

- Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation;
- Any non-controlling interest (previously known as minority interest) in an acquiree is measured at either fair value or as the non-controlling interests proportionate share of net identifiable assets of the acquiree;
- The acquirer is prohibited from recognising contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability;
- Consideration for the acquisition, including contingent consideration, must be measured at fair value at acquisition date. Subsequent changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments but are rather recognised in accordance with other Australian Accounting Standards as appropriate;
- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity; and
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the company follows;

- AASB 9: Financial Instruments and AASB 2009-11; Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 138, 139, 1023 & 1038 and Interpretations 10 & 121 (applicable for annual reporting periods commencing on or alter 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on;
- the objective of the entity's business model for managing the financial assets; and
- the characteristics of the contractual cash flows.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.
- AASB 2009-5; Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

  These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.
- AASB 2009-8; Amendments to Australian Accounting Standards - Company Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments clarify the accounting for Company cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.
- AASB 2009-9: Amendments to Australian Accounting Standards - Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.
- AASB 2009-10: Amendments to Australian Accounting Standards - Classification of Rights Issues] AASB 132] applicable for annual reporting periods commencing on or after 1 February 2010).

  These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.
- AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.
- AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.
- AASB 2009-14: Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement [AASB interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This standard will not impact the Group.
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Incremental Oil and Gas Ltd ("Incremental Oil and Gas") and its subsidiaries (as outlined in note 24) as at and for the period ended 31 December. Interests in associates are equity accounted and are not part of the Group.

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.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from infra-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.

(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 fie parent entity). 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 (refer to Note 2 k) 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) Taxation

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(f) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale assets. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and when allowed and appropriate re-evaluates this designation at each financial period-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the Market place.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held- to- maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through amortisation process.

(iii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed determinable payments that are not quoted in an active Market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of the investments that are actively traded in the organised financial Markets are determined by reference to quoted Market bid prices at the close of business on the balance sheet date. For investments with no active Market fair values are determined using valuation techniques. Such techniques include: using recent arm's length Market transactions; reference to the current Market value of another instrument that is substantially the same discounted cash flow analysis and option pricing models making as much use of available and supportable Market data as possible and keeping judgemental inputs to a minimum.

(g) Interest in a jointly controlled operation

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than the establishment of a separate entity. The Group recognises its interest in the jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

(h) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment over 5 to 10 years.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current Market assessments of the time value of money and the risks specific to the asset.

(i) Exploration and evaluation expenditure

Expenditure incurred during exploration and the early stages of evaluation of new areas of interest is written off as incurred. Exploration expenses incurred after the early stages where the areas of interest are prospective is capitalised.

Costs of acquisition of exploration areas of interest are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also

reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

(j) Oil and Gas Assets

Assets in development

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and production commences, these costs are subject to amortisation. Once the required statutory documentation for a production licence is lodged the accumulated costs are transferred to oil and gas assets – producing assets.

Producing assets

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation. Where asset costs incurred in relation to a producing field are under evaluation and appraisal, those costs will be continually reviewed for recoupment of those costs by future exploration. When a determination has been made that those expenditures will not be recouped and/or further appraisal will be undertaken, they will be written off.

Amortisation of oil and gas assets

Costs in relation to producing assets are amortised on a production output basis. Producing assets under evaluation and appraisal are not subject to amortisation until such time as the evaluation and appraisal stage is complete.

Restoration costs

Site restoration costs are capitalised within costs of the associated assets and the provision is included in the statement of financial position at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, environmental legislation and technologies. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the profit and loss through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

(k) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(l) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Incremental Oil and Gas Ltd (`Market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (`vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

(i) the extent to which the vesting period has expired and

(ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of Market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(n) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current Market assessments of the time value of money and the risks specific to the asset.

(o) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Incremental Oil and Gas Ltd is Australian dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency for the US subsidiary is the US Dollar (USD).

(ii) Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized directly in equity. Such differences have been recognised in the foreign currency translation reserve (FCTR). When the foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit and loss.

(p) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the assets value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current Market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is carried as a revaluation decrease).

(q) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of those goods and services.

(r) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(s) Trade and other receivables

Debtors are carried at amounts due. The recoverability of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(t) Employee leave benefits

Wages, salaries, annual leave and sick leave liabilities for wages and salaries, including non-monetary benefits and annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(u) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) Inventories

Oil and gas amounts are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

(w) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred onto a vessel, train, conveyor or other delivery mechanisms. Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(x) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to include any costs of servicing equity (other than dividends) and preference share dividends divided by the average weighted number of ordinary shares adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses and;
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and
- dilutive potential ordinary shares, adjusted for any bonus element.

(y) Comparatives

No comparatives have been disclosed as the Company was incorporated on 7 July 2009 and this is the first reporting period.

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

Classification of valuation of investments

The Group has decided to classify investments in listed and unlisted securities as 'available-for-sale' investments and movements in fair value are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active Market.

The fair values of unlisted securities not traded in an active Market are determined by an appropriately qualified independent valuer by projecting future cash flows from expected future dividends and subsequent disposal of the securities.

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 note 15.

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 size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine 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.

	Consolidated 2010 $

4. REVENUES AND EXPENSES

Revenue and expenses from continuing operations

Profit from ordinary activities before income tax includes the following items of revenue and expense.

(a) Revenue	
Oil and gas sales	6,057,792
Interest income	31,273
	6,089,065
(b) Expenses	
Depreciation of property, plant and equipment	66,582
Amortisation of producing oilfield	693,089
Foreign exchange losses	100,994
Exploration expenditure expensed	105,554

5. INCOME TAX

(a) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from ordinary activities before income tax	1,108,745
Prima facie tax payable on profit from ordinary activities at 30%	332,624
Effect of different taxation rates of other countries	57,891
Tax effect of amounts which are not deductible in calculating taxable income	1,335
Tax effect of current period tax losses for which no deferred tax asset has been recognised	100,226
Income tax expense	492,076

(b) Unrecognised deferred tax assets (at 30%)

Carry forward revenue tax losses	53,349
Other timing differences	46,877
	100,226

The deferred tax assets have not been brought to account as it is not probable they will crystallise unless the Company generates sufficient revenue to utilise them.

(c) Deferred tax liabilities (at 30%)

Oilfield acquisition and enhancements	939,354
US tax losses carried forward	(324,610)
Other	(122,668)
	492,076

No income tax is payable by the Group. The Group has $53,349 in Australian income tax losses and $324,610 in foreign losses.

	Consolidated 2010 $
6. DIRECTORS' AND KEY MANAGEMENT PERSONNEL COMPENSATION	
The aggregate compensation of the Company's directors and key management personnel is set out below.	
Compensation by category-Key Management Personnel	
Short-Term	697,020
Post-Employment	38,250
Other long term	-
Termination Benefits	-
Equity-Based Payments	145,323
	880,593

Related Party Transactions

Specific transactions with directors and director-related entities:

During the period the Company received loans from directors in the amount of $340,000. The loans and interest thereon were repaid during the period. Interest was charged at arms-length commercial rates.

In relation to the above amounts, there are no outstanding balances or commitments at 31 December 2010 and no valuation adjustments for doubtful or bad debts were made during the year.

Directors also applied for and received shares, options and convertible notes in the Company as disclosed in this note.

Movement of shareholdings of each Company director and the key management personnel during the period ended 31 December 2010

	Issued for cash during the period	Granted as remuneration	Balance at 31 December 2010
	Number	Number	
Directors			
C Cronin	6,000,002	-	6,000,002
G McGann	20,500,004	-	20,500,004
J Macdonald	4,250,001	-	4,250,001
M Stowell	9,900,002	-	9,900,002
Executives			
J Hussey	-	1,034,000	1,034,000
J Asquith	5,000,003	-	5,000,003
Total	45,650,012	1,034,000	46,684,012

Movement on option holdings of each Company director and the key management personnel during the period ended 31 December 2010

	Issued during the period	Granted as Remuneration	Balance at end of period 31 December 2010	Vested at 31 December 2010 Total	Exercisable	Not Exercisable
	Number	Number	Number	Number	Number	Number
Directors						
C Cronin	6,000,000	-	6,000,000	6,000,000	6,000,000	-
G McGann	20,500,000	-	20,500,000	20,500,000	20,500,000	-
J Macdonald	4,250,000	-	4,250,000	4,250,000	4,250,000	-
M Stowell	10,200,000	-	10,200,000	10,200,000	10,200,000	-
Executives						
J Hussey	-	1,000,000	1,000,000	1,000,000	1,000,000	-
J Asquith	5,000,000	-	5,000,000	5,000,000	5,000,000	-
Total	45,950,000	1,000,000	46,950,000	46,950,000	46,950,000	

Convertible notes held by each Company director and key management personnel and their related parties.

	Issued during the period	Balance at 31 December 2010	Interest payable to 31 December 2010
Directors			
C Cronin	1,500,000	1,500,000	20,166
G McGann	3,750,000	3,750,000	50,628
J Macdonald	1,500,000	1,500,000	19,568
M Stowell	3,500,000	3,500,000	44,660
Executives			
J Hussey	-	-	-
J Asquith	1,000,000	1,000,000	12,932
Total	11,250,000	11,250,000	147,954

7. EQUITY-BASED PAYMENTS TO DIRECTORS EMPLOYEES AND CONSULTANTS

During the current period the Company granted the following shares and options to key management personnel, consultants and staff:

(i) 1,000,000 unlisted options to an employee, at an exercise price of $0.20 cents each and expiring on 1 November 2014. The fair value of the options at the grant date was 3.5123 cents per option. The fair value of the options has been calculated using the Black-Scholes option pricing model as follows:

Weighted average exercise price:	$0.20 cents
Weighted average life of options:	4.9 years
Underlying share price:	$0.10
Expected volatility:	70%
Risk free interest rate:	5.5%

A discount of 30% in recognition of the illiquid nature of the options and the underlying shares was applied.

(ii) 1,000,000 ordinary shares for an employee at a deemed 10 cents per share. The shares vested immediately.

(iii) 68,000 ordinary shares to various employees at a deemed price of 30 cents each. 48,000 shares were also issued to consultants at a deemed price of 30 cents each.

	Consolidated 2010 $
8. AUDITORS REMUNERATION	
The auditor of Incremental Oil and Gas Ltd is Stantons International	
Amounts received or due and receivable by Stantons International for Incremental Oil and Gas in relation to audit services	20,000
Amounts received or due and receivable by Stantons International for Incremental Oil and Gas in relation to non-audit services	32,000
	52,000
9. CASH AND CASH EQUIVALENTS	
For the purposes of the statements of cash flows, cash and cash equivalents comprise the following at 31 December	
Cash at bank and on hand	5,022,016
10. TRADE AND OTHER RECEIVABLES	
Oil and gas sales debtors	529,046

(i) Trade and other receivables are non interest bearing and generally 30 - 90 day terms. An allowance for doubtful debts is made where there is objective evidence that a trade receivable is impaired.

(ii) Trade and other receivables do not contain impaired assets and are not past due.

11. INVENTORIES	
Oil on hand, at cost	43,717
12. OTHER FINANCIAL ASSETS	
Non current	
Bonds	98,193
13. OIL PROPERTIES	
At cost	11,637,139
Additions	1,211,887
Amortisation	(693,089)
Exchange rate difference	(1,235,971)
	10,919,966
14. EXPLORATION AND EVALUATION ASSETS	
Exploration and evaluation assets at cost	422,697
Exchange rate difference	(40,925)
	381,772

The ultimate recoupment of acquisition costs carried forward is dependent on the successful development commercial exploitation or sale of the respective lease-holdings.

15. PLANT AND EQUIPMENT	
Additions	634,048
Depreciation charge	(66,582)
Foreign exchange differences	(66,534)
Closing balance: net of accumulated depreciation and impairment	500,932
Balance at end of period	
Cost	561,537
Accumulated depreciation and impairment	(60,605)
Net carrying amount	500,932

	Consolidated 2010 $
16. TRADE AND OTHER PAYABLES	
Trade payables and accruals	701,382

Trade payables are non interest bearing payables and are normally settled on 30 day terms.

17. INTEREST BEARING LIABILITIES	
Current	
Convertible Notes - current portion	2,750,000
Non-Current	
Convertible Notes - non-current portion	2,250,000

The Convertible Notes have a maturity date of 2 July 2011 and a conversion price of $0.20 per share.

Holders of the Notes to a value of $2,250,000 have agreed to extend the term for repayment of the notes by up to 12 months at the discretion of the Company, if not converted to shares by the holder on the conversion date.

The convertible notes are secured by way of a fixed and floating charge against all the property of the company.

18. CONTRIBUTED EQUITY

	$	No.
110,477,010 Fully paid ordinary shares	12,377,093	
Movement in ordinary shares on issue		
On incorporation		1
Issued for cash Jul-Oct 2009	200,000	20,000,000
Issued as remuneration to employee	100,000	1,000,000
Issued for cash Oct 2009 to February 2010	5,515,000	55,150,011
Conversion of convertible notes April 2010	1,661,667	16,616,670
Issued to consultant in lieu of payment	3,000	30,000
Issued pursuant to Initial Public Offer for cash	5,269,298	17,564,328
Issued to consultants and employees in lieu of payment	35,400	116,000
Capital raising costs	(407,272)	-
At 31 December 2010	12,377,093	110,477,010

19. RESERVES	$
Share option reserve	35,123
Foreign currency translation reserve	(1,726,701)
	(1,691,578)
Movement in share option reserve	
Options issued to employee	35,123

Share Options

At 31 December 2010 there were the following unlisted options Over unissued fully paid ordinary shares on issue: 92,766,670 unlisted options exercisable at 20 cents per option before 1 November 2014.

Foreign currency translation reserve	
Translation differences	(1,726,701)

	Consolidated 2010 $
20. RETAINED EARNINGS	
Net Profit for the period	616,669

21. EARNINGS PER SHARE

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

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

Net profit attributable to equity holders of the parent	616,669

	2010 Cents per share
Basic earnings per share	0.95

	No.
The weighted average number of ordinary shares on issue during the financial period used in the calculation of basic loss per share	64,968,407

Diluted earnings per share is not shown as no options were dilutive during the period.

	Consolidated 2010 $
22. RECONCILIATION OF NET PROFIT AFTER TAX TO NET CASH FLOWS FROM OPERATIONS	
Net Profit	616,669
Adjustments for:	
Tax expense	492,076
Amortisation	693,089
Depreciation	66,582
Consultancy fees (non cash)	13,200
Share based payments	156,123
Current receivables	(529,046)
Inventories	(43,717)
Current payables	701,382
Forex	(383,271)
Cash provided by operating activities	1,783,087

23. COMMITMENTS AND CONTINGENCIES

The Company has entered into a lease agreement for office and parking facilities in Australia. The amount of the commitment is $11,100 per annum. The lease was renewed for one year on 4 March 2011. The group has entered into a lease agreement for office facilities in the United States at a cost of $1,938 per month ending on 29 February 2012.

In terms of the acquisition of the oil and gas assets in the United States the Group has a commitment to drill an initial test well on or before 1 September 2011. The obligation for this well was met at a cost of approximately $427,000 in March 2011.

Except for the foregoing, the Group has no other commitments or contingencies.

24. CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest
Name of entity		
Parent entity		
Incremental Oil and Gas Ltd	Australia	
Controlled entity		
Incremental Oil and Gas USA Holdings Inc	United States	100%
Incremental Oil and Gas LLC	United States	100%
Incremental Oil and Gas (Round Mountain) LLC	United States	100%
Incremental Oil and Gas (Guijarral) LLC	United States	100%

25. SEGMENT REPORTING

The Group has adopted AASB 8 Operating Statements with effect from 1 July 2009. 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 31 December 2010	Australia $	United States $	Consolidation Adjustments $	Consolidated $
Revenue				
Income	1,209,124	6,057,792	(1,209,124)	6,057,792
Total segment revenue	1,209,124	6,057,792	(1,209,124)	6,057,792
Segment Profit/(Loss)	(1,810,918)	1,447,282	1,472,381	1,108,745
Income tax expense	-	(492,076)	-	(492,076)
Segment loss after income tax expense	(1,810,918)	955,206	1,472,381	616,669
Assets				
Segment assets	4,626,708	12,868,934	-	17,495,642
Liabilities				
Segment liabilities	5,408,482	784,976	-	6,193,458
Other				
Depreciation and amortisation of segment assets	4,841	754,830	-	759,671

26. RELATED PARTY DISCLOSURES

The wholly-owned group includes the ultimate parent entity in the group and the controlled entities. The ultimate parent entity in the wholly owned group is Incremental Oil and Gas Ltd. During the period the company met expenses of the wholly owned entities, totalling $US11,592,521 by way of loan account transactions. The loans have no fixed terms of repayment. The parent entity charged management fees and interest to the US subsidiary of $US1,201,185.

27. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the end of the financial period and prior to the date of this report the Company has issued 166,670 shares pursuant to the exercise of options at $0.20 per share.

28. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: Market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial Markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. The Board provides policies for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(a) Market Risk

(i) Foreign Exchange Risk

The Group operates internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

The material foreign exchange exposure on the net monetary position of key group entities against its respective functional currency, expressed in the group's presentation currency is an amount of cash of $3,099,488 held in $US by the parent entity. A 10% movement in shift in would have a profit and loss effect of $309,948 before taxation. As the Company is in a tax loss position the effect on equity would be $309,948.

(ii) Interest Rate Risk

The Group is exposed to interest rate risk as it invests funds at floating interest rates.

Sensitivity analysis has not been performed against movement in interest rates as the exposure is not considered material.

(iii) Commodity price risk

The Group is exposed to commodity price risk as its income is determined by reference to international prices of oil and gas. A 10% change in the oil and gas prices during the period of ownership of the Sheep Springs oilfield would have had a profit and loss effect of $605,779 before taxation.

(b) Credit Risk

There are no significant concentrations of credit risk within the Group.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure relating to outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The Group does not have any exposure to any derivative financial instruments.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

(c) Fair Values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

	Average Interest Rate	**Variable Interest Rate**	**Fixed Interest Rate** Maturity Less than 1 Year	**Fixed Interest Rate** Maturity 1-5 Years	Non Interest Bearing	**Total**
	%	**$**	**$**	**$**	**$**	**$**
2010						
Financial Assets						
Cash and cash equivalents	0.25%	5,022,016	-	-	-	5,022,016
Trade and other receivables	0.00%	-	-	-	529,046	529,046
Other financial assets	0.00%	-	-	-	98,193	98,193
		5,022,016	-	-	627,239	5,649,255
Financial Liabilities						
Trade and other payables	0.00%	-	-	-	701,382	701,382
Convertible notes	10.0%	-	-	-	5,000,000	5,000,000
		-	-	-	5,701,382	5,701,382
Net financial assets/(liabilities)		5,022,016	-	-	(5,074,143)	(52,127)

	Consolidated 2010 $
(d) Reconciliation of net financial assets to net assets	
Net financial liabilities as above:	(52,127)
Non-financial assets & liabilities	
Inventories	43,717
Oil properties	10,919,966
Exploration assets	381,772
Plant and equipment	500,932
Deferred taxation	(492,076)
Net Assets per Statement of Financial Position	11,302,184

29. PARENT ENTITY DISCLOSURES

	Company 2010 $
Assets	
Current assets	4,618,708
Non-current assets	11,391,072
Total assets	16,009,780
Liabilities	
Current liabilities	3,158,482
Non-current liabilities	2,250,000
Total Liabilities	5,408,482
Net Assets	
	10,601,298
Equity	
Issued Capital	12,377,093
Accumulated losses	(1,810,918)
Option premium Reserve	35,123
Total Equity	10,601,298

	Period ended 31 December 2010 $
Financial performance	
(Loss) for the period	(1,810,918)

The Company has not guaranteed the debts of any of its subsidiaries.

The Company has no contingent liabilities.

The Company has no commitments for the acquisition of property, plant and equipment.

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

   The financial statements, and the additional disclosures included in the directors' report designated as audited and notes of the Economic entity as set out on pages 10 to 38 are in accordance with the Corporations Act 2001, including;

   (i) giving a true and fair view of Group's financial position as at 31 December 2010 and of its performance for the period ended on that date, and

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

   (iii) The financial report also complies with International Financial Reporting Standards as disclosed in note 2 b.

There are grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ended 31 December 2010.

On behalf of the Board

Gerard J McGann

Gerry McGann
Managing Director
Perth

28 March 2011

Independent Audit Report to the members of Incremental Oil and Gas Ltd

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Stantons International Audit and Consulting Pty Ltd
(ABN 84 144 581 519) trading as
Stantons International
Chartered Accountants and Consultants

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

Report on the Financial Report

We have audited the accompanying financial report of Incremental Oil and Gas Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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Stantons International

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Incremental Oil and Gas Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the period ended on that date; and
  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 2(b).

Report on the Remuneration Report

We have audited the remuneration report included in pages 12 to 14 of the directors' report for the period ended 31 December 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Auditor's opinion
In our opinion the remuneration report of Incremental Oil and Gas Limited for the period ended 31 December 2010 complies with section 300A of the *Corporations Act 2001.*

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

Stantons International Audit and Consulting Pty Ltd

J P Van Dieren
Director

West Perth, Western Australia
28 March 2011

Auditor's Independence Declaration

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Stantons International
Chartered Accountants and Consultants

28 March 2011

Board of Directors
Incremental Oil and Gas Limited
20 Howard Street,
PERTH, WA 6000

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 Audit Director for the audit of the financial statements of Incremental Oil and Gas Limited for the period ended 31 December 2010, 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 audit; and

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

Yours sincerely

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED
(Authorised Audit Company)

JP Van Dieren
Director

Corporate Governance Statement

Incremental Oil and Gas Ltd ("IOG" or "the Company") and its subsidiaries (collectively "the Group") are committed to implementing a high standard of corporate governance. The Board of Directors of the Company is responsible for its corporate governance and the Board has adopted a manual of corporate governance policies and procedures based on control systems and accountability. The Board of the Company adopted the Corporate Governance Manual on 9 November 2010 which is available in the corporate governance information section of the Company's website at www.incrementaloilandgas.com. A summary of the Group's corporate governance policies and procedures is included in this Statement.

The Group's corporate governance policies and procedures are in line with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("the Principles & Recommendations"). The Group has followed the Principles & Recommendations where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration by the Board, the Company's corporate governance practices depart from the Principles & Recommendations, the Board has fully disclosed the departure and the reason for the adoption of its own practice, in compliance with the "if not, why not" exception reporting regime.

BOARD OF DIRECTORS - ROLE OF THE BOARD AND MANAGEMENT

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chief Financial Officer and other key executives in the performance of their roles.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- Overseeing Planning Activities: the development of the Company's strategic plan.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer or Managing Director (CEO / MD), and key executives as well as reviewing their performance in the implementation of the Company's strategy.
- Ensuring the health, safety and well-being of employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers to the CEO / MD to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

The Board's role and the Company's corporate governance practices are periodically reviewed and improved as required.

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 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.

The Board under the Remuneration and Nomination Committee Charter will oversee the performance evaluation of the senior executive team. This evaluation will be based on specific criteria, including the performance of the Company, whether strategic objectives are being achieved and the development of management and personnel. At this stage of the development of the Company, IOG has only informal procedures in place for performance evaluation of the senior executives but will consider formal processes in future.

The Board Charter including matters reserved for the Board and senior management and the performance evaluation policies are available on the Company's website at www.incrementaloilandgas.com.

COMPOSITION OF THE BOARD

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company has adopted a policy on assessing the independence of Directors which is consistent with the guidelines detailed in the ASX Principles & Recommendations and detailed in the Board Charter. The materiality thresholds in this policy are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. The current Board includes a non-executive Chairman, Mr. Cronin, two non-executive Directors, Mr. Stowell and Mr. Macdonald and Managing Director, Mr. McGann. The role of the Chairman, Mr. Cronin, and Managing Director, Mr. McGann, are exercised by different people. Mr. Cronin (Chairman and Non-Executive Director), Mr. Stowell (Non Executive Director), Mr. Macdonald (Non-Executive Director) and Mr. McGann (Managing Director) do not meet the Company's criteria for Independence. However, their experience and knowledge of the Company makes their contribution to the Board such that it is appropriate for them to remain on the Board.

A minimum of three (3) Directors and a maximum of nine (9) Directors is stipulated under the Company's Constitution. Any changes to the composition of the Board will be determined by the Board, subject to any applicable laws and the resolutions of Shareholders. The Board will seek to nominate persons for appointment to the Board with the appropriate mix of skills and experience to ensure an effective decision-making body and to ensure that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance. The Board should comprise Directors with a mix of qualifications, experience and expertise which will assist the Board in fulfilling its responsibilities, as well as assisting the Company in achieving growth and delivering value to shareholders. The Company aims at all times to have at least two Directors with experience appropriate to the Company's target market.

Pursuant to the Constitution of the Company, at every Annual General Meeting of Shareholders, one-third of the Directors, or, if their number is not a multiple of 3, then the whole number nearest one-third, shall retire from office. Prior to the Board proposing re-election of non-executive Directors, their performance will be evaluated to ensure that they continue to contribute effectively to the Board.

The Company's policy for re-election of Directors and selection and appointment of new Directors is available in the Board Charter and Remuneration and Nomination Committee Charter in the Corporate Governance Manual on the Company's website at www.incrementaloilandgas.com.

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, the Company's projects and exploration sites, an induction package and presentations. Information conveyed to new directors includes:

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

A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report.

STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

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.

REMUNERATION AND NOMINATION COMMITTEE

The role of the Remuneration and Nomination Committee is to assist the Board in respect of establishing appropriate remuneration levels and incentive policies for employees. The purpose of the Remuneration and Nomination 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 members of the Remuneration and Nomination Committee are Mr. Cronin (Chairman) and Mr. Macdonald.

The Remuneration and Nomination Committee monitors and reviews:

- the remuneration arrangements for the Managing Director and other senior executives;
- the remuneration policies, personnel practices and strategies of the Company generally;
- any employee incentive scheme;
- the remuneration arrangements for non-executive members of the Board;
- the size and composition of the Board, and criteria for Board membership; and
- the membership of the Board and propose candidates for consideration by the Board.

The Remuneration and Nomination Committee Charter is available on the Company's website www.incrementaloilandgas.com in the Corporate Governance Manual.

Remuneration of Directors and senior management is determined with regard to the performance of the Company, the performance and skills and experience of the particular person and prevailing remuneration expectations in the market. Details of remuneration of Directors and Key Management Personnel are disclosed in the Remuneration Report.

There are no termination or retirement benefits for non-executive Directors (other than for superannuation).

Executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

CODE OF CONDUCT

The Company has adopted a Code of Conduct that outlines how the Company expects its Directors and employees of the Group to behave and conduct business in the workplace on a range of issues. The Company is committed to the highest level of integrity and ethical standards in all business practices.

The purpose of the Code of Conduct is to provide a framework for decisions and actions in relation to ethical conduct in employment. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders.

It sets out the Company's expectations of its Directors and employees with respect to a range of issues including conflicts of interests, receipt of gifts, company property, computer, telephone and internet use, confidentiality, business ethics, equal opportunity, harassment and discrimination, health and safety, the environment and travel expenses.

A breach of the Code is subject to disciplinary action which may include punishment under legislation and/or termination of employment.

The Code of Conduct is available on the Company's website at www.incrementaloilandgas.com.

ETHICAL STANDARDS

The Board considers that the success of the Company will be enhanced by a strong ethical culture within the Company. Accordingly, the Board is committed to the highest level of integrity and ethical standards in all business practices. The Company expects its Directors, employees and consultants to deal in good faith, with integrity and with the highest standards of business ethics and morals in their negotiations and commercial dealings with third parties.

CONFLICTS OF INTEREST

In accordance with the Corporations Act, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

SECURITIES TRADING POLICY

The Securities Trading Policy adopted by the Board prohibits trading in shares by a Director, officer or employee during certain blackout periods (in particular, prior to release of quarterly, half yearly or annual results) except in exceptional circumstances and subject to procedures set out in the Policy.

Outside of these blackout periods, a Director, officer or employee must first obtain clearance in accordance with the Policy before trading in shares. For example:

- A Director must receive clearance from the Chairman, or in his absence the Managing Director, before he may buy or sell shares.
- If the Chairman wishes to buy or sell shares he must first obtain clearance from the Audit and Risk Committee.
- Other officers and employees must receive clearance from the Chairman, or in his absence the Managing Director, before they may buy or sell shares.

Directors, officers and employees must observe their obligations under the Corporations Act not to buy or sell shares if in possession of price sensitive non-public information and that they do not communicate price sensitive non-public information to any person who is likely to buy or sell shares or communicate such information to another party.

The Securities Trading Policy is available on the Company's website at www.incrementaloilandgas.com.

CONTINUOUS DISCLOSURE

The Company's Board Charter includes a section on Continuous Disclosure. 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:

- 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
- 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.

All relevant information provided to ASX in compliance with the continuous disclosure requirements and legislation and the Listing Rules is promptly posted on the Company's website www.incrementaloilandgas.com.

AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee are Mr. Stowell (Chairman) and Mr. Cronin. The Board has adopted an Audit and Risk Committee Charter which is available on the Company's website www.incrementaloilandgas.com in the Corporate Governance Manual.

The Audit and Risk Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The Committee will set aside sufficient time to discharge its functions to ensure the integrity of the financial statements of the Company and the independence of the external auditor.

The Audit and Risk Committee will review the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommend their approval or otherwise to the full Board.

The Audit and Risk Committee will each year review the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

COMMUNICATION TO SHAREHOLDERS

The Company's Board Charter includes a section on Shareholder Communication.

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

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- 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.

CONFIDENTIALITY

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

RISK MANAGEMENT

As noted in the Audit and Risk Committee Charter, 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.

The Board has delegated to the Managing Director responsibility for implementing the risk management system. The Managing Director submits particular matters to the Board for its approval or review. The Managing Director is required to report on management of the Company's material risks as a standing agenda item at each Board meeting. This involves the tabling of a risk register which is monitored and updated by management periodically.

The Board also requires Mr. McGann, in the capacity as Managing Director of the Company, to confirm that a risk management and internal control system to manage the Company's material business risks has been designed and implemented. This confirmation has been received by Mr. McGann prior to finalisation of the 31 December 2010 Financial Report.

INTEGRITY OF FINANCIAL REPORTING

Mr. McGann, Managing Director, and Mr. Asquith, Chief Financial Officer, have provided a declaration in accordance with section 295A of the Corporations Act in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for the period ended 31 December 2010 present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

ASX LISTING RULE DISCLOSURE – EXCEPTION REPORTING

As required by ASX Listing Rules, the following table discloses the extent to which the Company has not followed the best practice recommendations set by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
1.2	Disclose the process for evaluation of senior executives.	The Company has in place informal procedures for evaluating the performance of senior executives.	At this stage of the development, the Company has only informal procedures in place for performance evaluation of the senior executives but will consider the implementation of formal processes when required as the Company's operations evolve.
2.1	A majority of the Board should be independent Directors.	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	Currently the Company has a non-independent Chair.	The Board considers that the non-independent Chair possesses skills and experience suitable for leading the Board and considers a non-independent Chair to be appropriate in the context of the stage of development of the Company and the scope and scale of the Company's operations. The Board will consider the appointment of an independent Director as the Chair if deemed appropriate depending on the scope and scale of the Company's operations.
2.5	Companies should disclose the process for evaluating the performance of the Board, its committee and individual Directors.	The Company has not adopted formal processes for evaluating the performance of the Board, its committees and individual directors.	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. The Company will consider the implementation of formal processes in future particularly as the size of the Company, Board and the level of activity of the Company increase.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
3.2	The Company should establish a diversity policy.	The Company does not currently have a diversity policy in place.	Given the current size and stage of the Company's operations it is yet to establish and implement a diversity policy. The Board will review the need for a diversity policy as the Company develops.
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.	The Company does not currently have a diversity policy in place and has not disclosed the information required in the 31 December 2010 financial report.	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, women in senior executive positions and women on the Board.	The Company does not currently have a diversity policy in place and has not disclosed the information required in the 31 December 2010 financial report.	The Company will disclose the number of women employees, women in senior executive positions and women on the board in its future annual reports.
4.2	The audit committee should be structured so that it is chaired by an independent chairperson, consists of a majority of independent directors and have at least three members.	The members of the Audit and Risk Committee are Mr. Stowell (Chairman) and Mr. Cronin, both non-executive Directors of the Company. Both the Chairman of the Committee, Mr. Stowell, and Mr. Cronin do not meet the independence criteria. There are currently only two members of the Audit Committee.	The Board believes that given the Company's size and stage of development and the size of the Board the composition of the Audit and Risk Committee is appropriate and adequate. Mr. Stowell, the Chairman of the Committee, is a Chartered Accountant and has over 20 years of corporate finance and business management experience in a large variety of roles and is an appropriate Chairman for the Committee. As the size and composition of the full Board evolves and the Company develops, the Company will consider the appropriateness of the composition of the Audit and Risk Committee.
8.2	The remuneration committee should be structured so that it is chaired by an independent chairperson, consists of a majority of independent directors and have at least three members.	The members of the Remuneration and Nomination Committee are Mr. Cronin (Chairman) and Mr. Macdonald, both non-executive Directors of the Company. Both the Chairman of the Committee, Mr. Cronin, and Mr. Macdonald do not meet the independence criteria. There are currently only two members of the Remuneration and Nomination Committee.	The Board believes that given the Company's size and stage of development and the size of the Board the composition of the Remuneration and Nomination Committee is appropriate and adequate. As the size and composition of the full Board evolves and the Company develops, the Company will consider the appropriateness of the composition of the Remuneration and Nomination Committee.

Additional ASX Information

The following additional information is required by the Australian Securities Exchange. The information is current as at 6 April 2011.

(a) Distribution schedule and number of holders of equity securities of Incremental Oil and Gas Ltd as at 6 April 2011 is shown below:

	1 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 – 100,000	100,001 – and over	Total
Fully Paid Ordinary Shares (IOG)	4	46	86	218	87	441
Unquoted Options – exercise price 20c, expiring 1/11/14.	-	-	-	1	61	62
Convertible Notes – expiring 2/7/11, conversion price 20c, interest 10% per annum.	-	-	-	8	30	38

The number of holders holding less than a marketable parcel of fully paid ordinary shares (ASX code: IOG) as at 6 April 2011 is 7.

(b) 20 Largest holders of quoted equity securities as at 6 April 2011

The names of the twenty largest holders of fully paid ordinary shares (ASX code: IOG) as at 6 April 2011 are:

Rank	Name	Units	% of Units
1	RONA MCGANN	10,200,000	9.22%
2	MCGANN CONSULTING PTY LTD <MCGANN S/F PORTFOLIO>	8,516,671	7.70%
3	ASCOT PARK ENTERPRISES PTY LTD <MERCHANT PENSION FUND>	7,400,000	6.69%
4	LINEAR A PTY LTD <JHAR S/F A/C>	5,000,003	4.52%
5	PLAN B TRUSTEES LTD <LIFETIME S/F A/C>	4,900,002	4.43%
6	UPORA PTY LTD <LOOTEN S/F A/C>	4,000,000	3.62%
7	BRYAN WELCH PTY LTD <BRYAN WELCH S/F A/>	4,000,000	3.62%
8	JOHN A L MACDONALD	3,566,668	3.22%
9	JOERG MATTNER	2,700,000	2.44%
10	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,500,000	2.26%
11	MERCHANT HOLDINGS PTY LTD	2,300,002	2.08%
12	J & O FITZGERALD <J & O FITZGERALD FUND A/C>	2,000,000	1.81%
13	CRAIG LUBICH <LUBICH INV A/C>	2,000,000	1.81%
14	RIVERGLEN NOMINEES PTY LTD <BAIN FAMILY S/F A/C>	2,000,000	1.81%
15	MCGANN CONSULTING PTY LTD <MCGANN S/F PORTFOLIO A/C>	1,783,333	1.61%
16	A & O CARBONI <AARDVARK S/F A/C>	1,543,333	1.39%
17	FOPAR NOMINEES PTY LTD	1,500,000	1.36%
18	OLIVE PEGGY CARBONI	1,256,666	1.14%
19	PLAN B TRUSTEES LTD <LIFETIME S/F A/C>	1,250,000	1.13%
20	GWYNVILL TRADING PTY LTD	1,200,000	1.08%
	TOTAL	**69,616,678**	**62.94%**

Stock Exchange Listing – Listing has been granted for all ordinary fully paid shares of the Company on issue on the Australian Securities Exchange other than the restricted ordinary fully paid shares noted in section (f) below.

(c) Substantial shareholders

Substantial shareholders in Incremental Oil and Gas Ltd and the number of equity securities over which the substantial shareholder has a relevant interest as disclosed in substantial holding notices given to the Company are listed below:

	No. Shares Held	% of Issued Capital
G. MCGANN & RELATED ENTITIES	20,500,004	18.56%
MERCHANT HOLDINGS PTY LTD & RELATED ENTITIES	10,000,002	9.1%
C. CRONIN & RELATED ENTITIES	6,000,002	5.43%

(d) Unquoted Securities

The number of unquoted securities on issue as at 6 April 2011:

	Number on issue
Unquoted Options – exercise price 20c, expiring 1/11/14	**92,600,000**
Convertible Notes – expiring 2/7/11, conversion price 20c, interest 10% per annum.	**25,000,000**

(e) Holders of unquoted securities

There are no holders holding more than 20% of a given class of unquoted securities as at 6 April 2011.

(f) Restricted Securities as at 6 April 2011

Included below is a listing of restricted securities on issue as at 6 April 2011:

FULLY PAID ORDINARY SHARES, 24 MONTHS FROM DATE OF QUOTATION	36,606,680
UNLISTED OPTIONS, 24 MONTHS FROM DATE OF QUOTATION	47,150,000
CONVERTIBLE NOTES, 24 MONTHS FROM DATE OF QUOTATION	3,750,001
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 30/4/2011)	1,611,666
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 4/5/2011)	66,667
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 5/5/2011)	83,333
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 7/5/2011)	166,667
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 12/5/2011)	33,333
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 13/5/2011)	366,666
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 13/5/2011)	33,333
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 14/5/2011)	541,667
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 17/5/2011)	175,000
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 18/5/2011)	66,667
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 25/5/2011)	83,333
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 4/6/2011)	250,000
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 14/6/2011)	16,667
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 21/6/2011)	50,000
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 30/6/2011)	166,667
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 22/7/2011) *	66,667
CONVERTIBLE NOTES, 12 MONTHS FROM DATE OF ISSUE (RESTRICTION PERIOD EXPIRES 13/8/2011) *	805,000

* The convertible notes have a maturity date of 2 July 2011 and a conversion price of 20c. Those shares, if any, issued on conversion of these notes, will be restricted until the end of the restriction period noted above.

There are no other restricted securities on issue as at 6 April 2011.

g) Voting Rights

All fully paid ordinary shares carry one vote per ordinary share without restriction.

Unquoted options have no voting rights.

Convertible notes have no voting rights.

(h) Company Secretary

The Company Secretary is Ms Susan Hunter.

(i) Registered Office

The Company's Registered Office is Unit 2, 16 Phillimore Street, Fremantle, WA 6160. Telephone: (08) 6219 5069.

(j) Share Registry

The Company's Share Registry is Security Transfer Registrars Pty Ltd, 770 Canning Highway, Applecross WA 6153.
Telephone: (08) 9315 2333. Fax: (08) 9315 2233. Website: www.securitytransfer.com.au

(k) On-Market Buy-back

The Company is not currently performing an on-market buy-back.