

# incremental

## OIL AND GAS

### LTD



A.B.N. 66 138 145 114

Preliminary Final Report for the year ended 31 December 2012

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

		%'age Change	US\$ 2012	US\$ 2011
Revenue from ordinary activities	Up ↑	108%	\$16,037,233	\$7,704,018
Profit from ordinary activities after tax attributable to members	Up ↑	246%	\$2,817,362	\$814,672
Net profit after tax for the period attributable to members	Up ↑	246%	\$2,817,362	\$814,672
Earnings per share	Up ↑	192%	1.93 cents	0.66 cents
Diluted earnings per share	Up ↑	211%	1.68 cents	0.54 cents
Net tangible assets per share	Up ↑	23%	16.0 cents	13.0 cents
Earnings before interest, income tax, depreciation and amortisation	Up ↑	132%	\$6,911,244	\$2,981,917

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

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

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

## COMMENTARY ON RESULTS

This consolidated financial report of Incremental Oil and Gas Limited ("Incremental" or "the Company") covers the twelve months of operations for the year ended 31 December 2012.

The results for the 2012 financial year are significantly improved from the prior year, primarily due to the acquisition of the Florence Oilfield in May. The results include a full year of production from Incremental's Californian oilfields, Sheep Springs and Round Mountain.

	Change	2012	2011
Revenue from oil and gas sales (US\$ million)	+106%	\$15.835	\$7.704
Interest expense (US\$ million)		(\$0.235)	(\$0.325)
Interest income (US\$ million)		\$0.015	\$0.046
Depreciation/Amortisation (US\$ million)		(\$2.104)	(\$1.062)
Tax (US\$ million)		(\$1.770)	(\$0.639)
<b>Net Tangible Assets (US\$ million)</b>	<b>+41%</b>	<b>\$24.856</b>	<b>\$17.625</b>

Revenue increased as a result of production from the Florence Oilfield (which was acquired in May 2012) accounted for 51% of sales income for 2012. The average price per barrel decreased because oil produced from Florence is sold at WTI prices which has traded at an average \$17/barrel less than California realised prices during the period.

Field operating costs have decreased to \$14/bbl (2011 - \$20/bbl). Economies of scale at the Florence Oilfield along with savings made in the California operations have resulted in the lower costs. Further savings measures are being implemented in California.

The Company secured a loan of US\$6M from RMB Australia and raised a further US\$4.4M of equity to acquire the Florence Oilfield. The RMB facility is repayable in 2013 and is therefore classified as current debt. Interest on this loan has been charged at an average rate of 6.41%.

The Company's cash position has improved with strong inflows during the year from oil sales. Positive operating cash flow of \$4.841M resulted from investments made during the year in the Florence and Round Mountain Oilfields.

Expansion of oil production assets during 2012 has increased net tangible assets (NTA) to \$0.16 per share (2011 - \$0.13 per share).

## OPERATING REVIEW

The acquisition of the Florence Oilfield in the southern part of the DJ Basin was the primary focus of the Company during 2012. The Florence property was acquired with 21 existing wells which produce from the Pierre Shale. The large lease position (21,000 net acres) offers the opportunity to exploit the deeper Niobrara zone which has been highly sought after in other parts of the DJ Basin.

Incremental continued to develop its California assets with two new successful wells drilled in the Round Mountain Oilfield in 2012. Production continued from the Sheep Springs Oilfield and drilling of the first well commenced at the West Mountain lease in Ventura.

	Change	2012	2011
Production (barrels – excl equivalent gas)	+138%	178,696	71,651
Average sale price per barrel (US\$)	-19%	\$88	\$105
Average cost of production per barrel (US\$)	-30%	\$14	\$20

Since acquisition of the Florence Oilfield, daily oil production rate peaked in excess of 700 barrels for 2012. The average production in 2012 from all of the Company's oilfields since May when the Florence Oilfield was acquired, has been above 600 barrels of oil per day.

The expansion of operations in Colorado has resulted in a number of highly skilled executives joining the company and a new office was established in Denver to complement the existing California headquarters and service the Florence Oilfield. Planning for the development of the fornew Colorado leases was carried out in 2012 with multiple drilling campaigns targeted in 2013.

Incremental has strengthened its balance sheet during the year and will continue to develop its capabilities as it expands its business through organic growth and acquisition of new projects. Its focus will continue to be cash flow positive, profitable, producing oilfields in North America. The company has a good mix of assets that provide strong cash flow as well as offer significant development potential in the future.

## Consolidated statement of comprehensive income (for the year ended 31 December)

		2012 US\$	2011 US\$
Income from ordinary activities	2a	16,037,233	7,704,018
Other Income	2a	34,927	46,476
		<u>16,072,160</u>	<u>7,750,494</u>
Royalties		(2,674,078)	(1,157,910)
Depreciation	2b	(209,340)	(68,402)
Amortisation	2b	(1,894,464)	(993,442)
Exploration		(186,544)	(64,081)
Lease operating expenses		(2,454,866)	(1,472,946)
General administration and other costs	2c	(2,320,495)	(1,343,095)
Employee benefits expense		(1,592,912)	(730,545)
Interest paid	2d	(234,548)	(324,799)
Foreign exchange differences		82,849	(142,074)
<b>Profit before income tax</b>		4,587,762	1,453,200
Income tax expense		(1,770,400)	(638,528)
<b>Profit for the period</b>		<u>2,817,362</u>	<u>814,672</u>
<b>Profit for the period attributable to members of the entity</b>		<u>2,817,362</u>	<u>814,672</u>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income</b>		<u>2,817,362</u>	<u>814,672</u>
<b>Basic earnings per share attributable to ordinary equity holders of the entity (cents)</b>	3	1.93	0.66
<b>Diluted earnings per share attributable to ordinary equity holders of the entity (cents)</b>	3	1.68	0.54
<b>Number of shares on issue at year end</b>	12	<u>155,743,680</u>	<u>135,643,680</u>

## Consolidated statement of financial position (as at 31 December)

	Note	2012 US\$	2011 US\$
<b>Current assets</b>			
Cash and cash equivalents	4	3,970,247	1,456,780
Receivables	5	1,305,468	704,372
Inventories	6	431,013	91,046
<b>Total current assets</b>		5,706,728	2,252,198
<b>Non-current assets</b>			
Other financial assets		195,000	100,000
Oil properties	7	27,764,750	15,747,741
Exploration assets		760,898	739,700
Plant and equipment	8	1,765,530	472,588
<b>Total non-current assets</b>		30,486,178	17,060,029
<b>Total assets</b>		36,192,906	19,312,227
<b>Current liabilities</b>			
Trade and other payables	9	1,730,532	516,805
Borrowings	10	6,000,000	-
Provisions	11	75,950	30,769
<b>Total current liabilities</b>		7,806,482	547,574
<b>Non-current liabilities</b>			
Provisions	11	620,202	-
Deferred tax liabilities		2,910,056	1,139,658
<b>Total non-current liabilities</b>		3,530,258	1,139,658
<b>Total liabilities</b>		11,336,740	1,687,232
<b>Net assets</b>		24,856,166	17,624,995
<b>Equity</b>			
Issued capital	12	22,318,820	17,905,010
Reserves	14	35,769	35,769
Accumulated profit/(loss)		2,501,577	(315,784)
<b>Total equity</b>		24,856,166	17,624,995

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

	Note	2012 US\$	2011 US\$
<b>Cash flows from operating activities</b>			
Receipts from customers		13,414,451	7,540,508
Royalty Payments		(2,676,992)	(1,157,910)
Payments to suppliers and employees		(5,777,531)	(3,567,674)
Interest received		16,951	44,394
Realized foreign currency differences		57,258	-
Interest paid		(192,894)	(646,693)
Net cash provided by operating activities	15	4,841,243	2,212,625
<b>Cash flows from investing activities</b>			
Proceeds from sale and form-down of oil properties		243,000	-
Purchase of new oil properties		(9,914,409)	-
Payments for development of oil properties		(2,452,052)	(5,499,243)
Payments for security bonds		(95,000)	-
Payments for property, plant and equipment		(60,765)	(30,841)
Payments for exploration		(487,951)	(406,286)
Net cash used in investing activities		(12,767,177)	(5,936,370)
<b>Cash flows from financing activities</b>			
Proceeds from issues of equity securities		4,650,452	32,927
Cost of share issue		(236,642)	(31,373)
Proceeds of borrowings		6,000,000	-
Net cash provided by financing activities		10,413,810	1,554
<b>Net increase/(decrease) in cash and cash equivalents</b>		2,487,876	(3,722,191)
<b>Exchange differences on cash balances held</b>		25,591	64,550
<b>Cash and cash equivalents at the start of the year/period</b>		1,456,780	5,114,421
<b>Cash and cash equivalents at the end of the year/period</b>		3,970,247	1,456,780

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

	Issued capital US\$	Accumulated profits/(losses) US\$	Other reserves US\$	Total equity US\$
<b>At 31 December 2011</b>	<b>17,905,010</b>	<b>(315,785)</b>	<b>35,769</b>	<b>17,624,994</b>
Profit attributable to members of the entity	-	2,817,362	-	2,817,362
Total income/expense for the year	-	2,817,362	-	2,817,362
Exercise of options	20,552	-	-	20,552
Placement of shares	4,629,900	-	-	4,629,900
Cost of issue of share capital	(236,642)	-	-	(236,642)
<b>At 31 December 2012</b>	<b>22,318,820</b>	<b>2,501,577</b>	<b>35,769</b>	<b>24,856,166</b>

	Issued capital US\$	Accumulated profits/(losses) US\$	Other reserves US\$	Total equity US\$
<b>At 31 December 2010</b>	<b>12,604,832</b>	<b>(1,130,457)</b>	<b>35,769</b>	<b>11,510,144</b>
Profit attributable to members of the entity	-	814,672	-	814,672
Total income/expense for the year	-	814,672	-	814,672
Exercise of options	32,927	-	-	32,927
Cost of issue of share capital	(31,373)	-	-	(31,373)
Conversion of convertible notes	5,298,624	-	-	5,298,624
<b>At 31 December 2011</b>	<b>17,905,010</b>	<b>(315,785)</b>	<b>35,769</b>	<b>17,624,994</b>

## Condensed notes to the financial statements

### 1. Summary of significant accounting policies

#### a. Basis of preparation

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

The report does not include all of the notes normally included in an annual financial report. Accordingly this report is to be read in conjunction with the financial report for the year ended 31 December 2011 and any public announcements made by Incremental during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

#### b. Statement of Compliance

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

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

#### c. Principals of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incremental Oil and Gas Ltd as at 31 December 2012 and the results of all subsidiaries for the year then ended. Incremental and its subsidiaries together are referred to as the Group. Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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



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	<b>2012 US\$</b>	<b>2011 US\$</b>
<b>2. Revenue, other income and expenses</b>		
<b>a) Sales revenue</b>		
Oil and Gas Sales	15,835,389	7,704,018
Royalties	201,844	-
	<u>16,037,233</u>	<u>7,704,018</u>
Interest Income	14,869.	46,476
Other revenue	19,151	-
	<u>16,071,253</u>	<u>7,750,494</u>
<b>b) Depreciation and amortisation included in the statement of comprehensive income</b>		
Amortisation – oil and gas properties	(1,894,464)	(993,442)
Depreciation – oil and gas properties	(199,602)	(68,402)
	<u>(2,094,066)</u>	<u>(1,061,844)</u>
Depreciation – other plant & equipment	(9,738)	-
	<u>(2,103,804)</u>	<u>(1,061,844)</u>
<b>c) Net gain/(loss) on sale of oil properties and exploration assets</b>		
Gujarral Hills – sold	(182,434)	-
West Mountain – farm-down	(10,583)	-
	<u>(193,017)</u>	<u>-</u>
<b>d) Finance costs</b>		
Interest on bank loans/convertible loans	192,277	324,799
Other Interest Charges	42,271	-
Financing charges	541,730	-
	<u>776,278</u>	<u>324,799</u>
<b>3. Earnings per share</b>		
Earnings used in calculating basic earnings per share	<u>2,817,362</u>	<u>814,672</u>
	<b>Number of Shares</b>	<b>Number of Shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	145,893,133	122,417,139
Effect of dilutive securities:		
Share Options	<u>21,518,815</u>	<u>28,751,724</u>
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>167,411,948</u>	<u>151,168,863</u>
<b>4. Cash and cash equivalents</b>		
Cash at bank and on hand	<u>3,970,247</u>	<u>1,456,780</u>

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	2012 US\$	2011 US\$
<b>5. Trade and other receivables</b>		
Oil and gas sales debtors	1,262,594	704,372
Other receivables	42,874	-
	<u>1,305,468</u>	<u>704,372</u>
<b>6. Inventories</b>		
Oil and gas inventory at cost of production	152,142	91,046
Field inventory	278,871	-
	<u>431,013</u>	<u>91,046</u>
<b>7. Oil properties</b>		
Cost of acquisition and enhancements	31,290,159	17,378,686
Accumulated amortisation	(3,525,409)	(1,630,945)
	<u>27,764,750</u>	<u>15,747,741</u>
<b>8. Fixed assets</b>		
Cost	2,104,991	602,709
Depreciation	(339,461)	(130,121)
	<u>1,765,530</u>	<u>472,588</u>
<b>9. Trade and other payables</b>		
Trade payables and accruals	<u>1,730,532</u>	<u>516,805</u>
<b>10. Borrowings</b>		
Current :		
Bank Loan (Secured)	<u>6,000,000</u>	<u>-</u>

The bank loan is provided by RMB Australia Holdings Ltd as a US Dollar denominated acquisition and working capital cash term loan facility for the purpose of acquiring the Florence Oilfield. Repayment of the loan will be by way of four equal quarterly instalments in 2013. The loan is secured by:

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

Interest is paid quarterly at rates of between 6.36% and 6.46%

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	<b>2012 US\$</b>	<b>2011 US\$</b>
<b>11. Provisions</b>		
CURRENT -		
Employee leave provision	75,950	30,769
NON CURRENT -		
Asset retirement obligation	620,202	-
<b>12. Issued capital</b>		
	<b>Number of shares</b>	<b>Number of shares</b>
At 1 January	135,643,680	110,477,010
New shares issued - placement	20,000,000	-
Exercise of options	100,000	166,670
Conversion of convertible loan notes	-	25,000,000
At 31 December	155,743,680	135,643,680
	<b>US\$</b>	<b>US\$</b>
At 1 January	17,905,010	12,604,832
New shares issued – placement (net of capita; raising costs)	4,393,258	-
Exercise of options	20,552	32,927
Conversion of convertible loan notes (net of costs)	-	5,267,251
At 31 December	22,318,820	17,905,010
<b>13. Options</b>		
The company has on issue 92,500,000 options exercisable at 20 cents per option on or before 1 November 2014		
<b>14. Reserves</b>		
Share option reserve	35,769	35,769

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	2012 US\$	2011 US\$
<b>15. Reconciliation of net profit after tax to net cash flows from operations</b>		
Profit per accounts	2,817,362	814,672
Adjustments for		
Tax expense	1,770,400	638,528
Leave provision	45,181	5,309
Amortisation	1,894,464	993,442
Depreciation	209,340	68,402
Decrease/(Increase) in current receivables	(577,368)	(165,592)
Decrease/(Increase) in inventories	(339,967)	(46,525)
(Decrease)/Increase in current payables	1,189,996	(237,685)
Loss on disposal of oil properties and exploration assets	193,017	-
Non cash transactions	(2,335,591)	-
Exchange differences	(25,591)	142,074
Cash used in operating activities	<u>4,841,243</u>	<u>2,212,625</u>

**16. Segment information**  
**Year ended 31 December 2012**

	Australia US\$	United States US\$	Adjustments US\$	Consolidated US\$
<b>Revenue</b>				
Income	<u>3,309,279</u>	<u>16,056,414</u>	<u>(3,293,533)</u>	<u>16,072,160</u>
Total segment revenue	<u>3,309,279</u>	<u>16,056,414</u>	<u>(3,293,533)</u>	<u>16,072,160</u>
 Segment Profit/(Loss) before tax	647,149	3,940,613	-	4,587,762
Income tax expense	<u>(194,144)</u>	<u>(1,576,256)</u>	<u>-</u>	<u>(1,770,400)</u>
Segment loss after income tax expense	<u>453,005</u>	<u>2,364,357</u>	<u>-</u>	<u>2,817,362</u>
 <b>Assets</b>				
Segment assets	1,154,459	35,014,719	-	36,169,178
<b>Liabilities</b>				
Segment liabilities	(6,384,065)	(4,928,949)	-	(11,313,014)
<b>Other</b>				
Depreciation and amortisation	1,554	2,102,250	-	2,103,804

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**16. Segment information (Cont)**  
**Year ended 31 December**  
**2011**

	Australia US\$	United States US\$	Adjustments US\$	Consolidated US\$
<b>Revenue</b>				
Income	1,626,744	7,700,209	(1,576,459)	7,750,494
Total segment revenue	1,626,744	7,700,209	(1,576,459)	7,750,494
Segment Profit/(Loss) before tax	(143,120)	1,596,320		1,453,200
Income tax expense	-	(638,528)	-	(638,528)
Segment loss after income tax expense	(143,120)	957,792	-	814,672
<b>Assets</b>				
Segment assets	1,288,801	18,023,424	-	19,312,225
<b>Liabilities</b>				
Segment liabilities	91,742	1,595,490	-	1,687,232
<b>Other</b>				
Depreciation and amortisation	5,856	1,055,988	-	1,061,844