

**incremental**  
OIL AND GAS LTD

# **ANNUAL REPORT 2013**



# 2013 HIGHLIGHTS

## CORPORATE

- Incremental Oil and Gas Ltd (“Incremental” or “the Company”) has been able to maintain its sales revenue and EBITDA at rates that are above pre-Florence acquisition, despite no successful drilling activity in 2013.

US\$M	2013	2012	2011	2010
Revenue	\$10.94	\$16.04	\$7.75	\$6.20
EBITDA <sup>(1)</sup>	\$3.54	\$6.828	\$2.98	\$2.50

EBITDA<sup>(1)</sup> is reconciled to net profit/ (loss) after tax as follows:

	2013 US\$M	2012 US\$M
EBITDA <sup>(1)</sup>	\$3.542	\$6.828
Impairment	(\$15.925)	–
Interest income / (expense)	(\$0.397)	(\$0.220)
Depreciation/ amortisation	(\$1.839)	(\$2.104)
Tax benefit / (expense)	\$3.182	(\$1.904)
Other non-operating (expenses) / income	(\$0.033)	\$0.083
Profit / (loss) after income tax	(\$11.470)	\$2.684

<sup>(1)</sup>EBITDA is a non-IFRS measure. The information is unaudited but is extracted from the audited financial statements.

- External debt from RMB for the purchase of the Florence Oilfield was reduced by US\$3M from an initial drawdown of US\$6M.

## CONTENTS

2	Reserves Report	31	Consolidated Statement of Profit and Loss and Other Comprehensive Income
3	Production Report	32	Consolidated Statement of Financial Position
3	Leasehold Directory	33	Consolidated Statement of Changes in Equity
4	Chairman’s Letter	34	Consolidated Statement of Cash Flows
6	Review of Activities	35	Notes to the Financial Statements
10	Board and Management	64	Directors’ Declaration
12	Financial Report	65	Independent Audit Report
13	Directors’ Report	67	Additional ASX Information
22	Auditors’ Independence Declaration	69	Corporate Directory
23	Corporate Governance Statement		

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# RESERVES REPORT

As at 31 December 2013, the Group held the following assets:

Field/Tenement name	State & Country	Working Interest	Area of lease – Net acres
Sheep Springs Oilfield	California, USA	100%	200
Round Mountain	California, USA	100%	320
Raven Pass	California, USA	100%	536
Florence Oilfield	Colorado, USA	100%	13,536

Oil Reserves and Resources held by the Group as at 31 December 2013 are as follows:

(Mbbbl)	Sheep Springs, California	Round Mountain, California	Florence, Colorado	TOTAL (Mbbbl)
<b>1P Reserves</b>	<b>1,412</b>	<b>419</b>	<b>259</b>	<b>2,090</b>
Developed	282	57	112	451
Undeveloped	1,130	362	147	1,639
<b>2P Reserves</b>	<b>2,462</b>	<b>1,727</b>	<b>380</b>	<b>4,567</b>
Developed	502	68	167	737
Undeveloped	1,960	1,657	213	3,830

Reconciliation of Reserves and Contingent Resources:

(Mbbbl)	Year end 2012	Production	Revised Estimates	Impairment	Year end 2013
1P Reserves	2,340	(117)	(133)	–	2,090
2P Reserves	4,817	(117)	(133)	–	4,567
2C Contingent Resources	10,135	–	–	(10,135)	–

Mbbbl – Thousands of barrels of oil at standard oilfield conditions

1P – Proved remaining reserves

2P – Proved and probable remaining reserves

The estimated quantities of hydrocarbons that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Proven developed (1P) reserves for Sheep Springs, Round Mountain and Florence Oilfields have been determined by certified Professional Petroleum Engineers as listed below:

Field	Engineer	Effective Date
Sheep Springs	MHA Petroleum Consultants	31 December 2013
Round Mountain	MHA Petroleum Consultants	31 December 2013
Florence	Solutions Engineering	31 December 2013

The Reserves Statement has been compiled by Mr Gerry McGann, Incremental's Managing Director, who is a full-time employee of the company. Mr McGann is a certified Petroleum Geologist (#5702) with the professional division of the American Association of Petroleum Geologists with more than 40 years of relevant experience. Mr McGann has consented to the inclusion of this information in this report.

Incremental Oil and Gas Ltd, as an Australian company listed on the Australian Securities Exchange, reports its petroleum resource estimates using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers (SPE)/World Petroleum Council (WPC)/American Association of Petroleum Geologists (AAPG)/Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS). In accordance with the PRMS guidelines, Incremental uses crude oil price forecasts and, where applicable, individual project production sales contract terms or other financial products for the purpose of reserves estimation.

For the purpose of this document, the gas reserves in the Sheep Springs Field have been ignored. When converted to barrels of oil equivalent at a standard ratio of 6000 standard cubic feet of gas as equal to one standard barrel of oil, the quotient of gas is 5.7% of Sheep Springs 1P reserves in barrels equivalent. Neither Round Mountain or Florence have booked gas reserves.

Incremental's reserves have been evaluated as at 31st December 2013 by independent certified engineers (see above). As required under applicable laws, Incremental provides estimates of reserves annually as of the year end and these estimates are evaluated and confirmed by certified engineers or other suitably qualified persons. Incremental may disclose reserves estimates at interim periods where such disclosure is deemed necessary or desirable given the change in reserve estimates from prior independent evaluation. Such interim estimates may be performed internally and are not necessarily evaluated by qualified independent engineers. All reserve estimates that are disclosed by Incremental are subject to review and approval by the Company's Board of directors which includes the Managing Director, Mr Gerry McGann whose qualifications are stated above.

## PRODUCTION REPORT

Production for the Group in 2013 and prior years was as follows:

		2013	2012	2011
Oil (Bbls)	Sheep Springs	33,665	39,701	48,765
	Round Mountain	24,884	33,835	24,230
	Florence <sup>(1)</sup>	54,065	105,160	–
Gas (Mcf)	Sheep Springs	4,086	28,509	46,065

<sup>(1)</sup> Florence production from 1 May 2012 (date of acquisition)

## LEASEHOLD DIRECTORY

(as at 31 December 2013)

Prospects	Working Interest	Comments
Sheep Springs, California	100%	200 net acres, 11 operating wells, held by production
Round Mountain, California	100%	320 net acres, 7 operating wells, held by production
Raven Pass, California	100%	536 net acres, Leases expire July 2015 if not renewed
Florence, Colorado	100%	13,536 net acres, 21 operating wells 2,718 acres held by production 6,469 acres expiring 2014 if not renewed 184 acre expiring 2015 if not renewed 4,165 acres expiring 2016 or later if not renewed

# CHAIRMAN'S LETTER



## Dear Shareholder

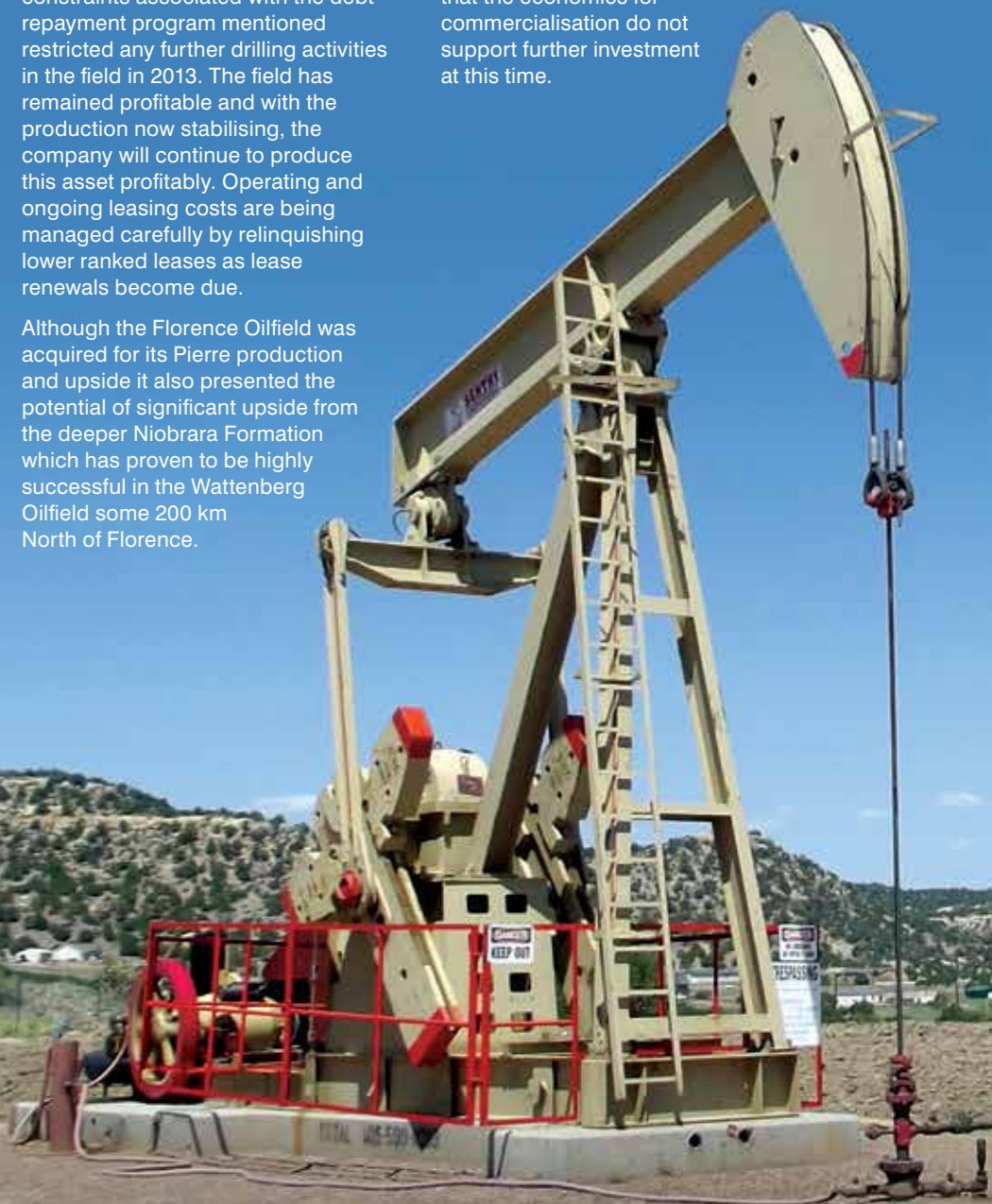
After a solid financial result in 2012, Incremental lost momentum in 2013 with regards to its growth strategy. This was directly attributable to a combination of factors in connection with the Florence oilfield, the acquisition of which in 2012 was about 50% debt funded. Two non-commercial wells drilled early in 2013 that went over budget meant that the Company's focus moved from operations and field development to debt repayment. Through 2013 the company repaid \$3m of debt from operating cashflow.

The Company continued to ensure that it was operating profitably throughout the year, on an operating cashflow basis and overhead costs were cut substantially along with reduced exploration expenditure.

While the Pierre wells drilled in Florence in 2013 impacted Incremental financially they also created an air of caution with regards to the drilling strategy at Florence. After the first two wells in the program proved uncommercial the planned third and fourth wells were deferred. However, technical work continued through the year and as a result up to five potential new Pierre targets were identified. Nevertheless, capital constraints associated with the debt repayment program mentioned restricted any further drilling activities in the field in 2013. The field has remained profitable and with the production now stabilising, the company will continue to produce this asset profitably. Operating and ongoing leasing costs are being managed carefully by relinquishing lower ranked leases as lease renewals become due.

Although the Florence Oilfield was acquired for its Pierre production and upside it also presented the potential of significant upside from the deeper Niobrara Formation which has proven to be highly successful in the Wattenberg Oilfield some 200 km North of Florence.

The technical analysis of this formation in the Florence Oilfield was undertaken internally prior to Incremental commencing any expensive drilling campaign. This analysis, along with Austin Exploration drilling this zone on an adjacent lease, has confirmed that although hydrocarbons are present, they are likely to be gas rather than oil. Further internal technical and financial work indicated that the economics for commercialisation do not support further investment at this time.



Nevertheless, Incremental holds lease acreage that will enable future monetisation if and when the gas prices in USA improve and gas pipeline infrastructure becomes available at the field.

In light of this technical analysis of new information, the Board has made the decision to write down the carrying value of the Niobrara portion of Florence by \$9m. This significant impairment together with the write-off of the drilling costs of the two 2013 Pierre wells (\$2.7m) and a reduction in the carrying value of some Californian assets (\$4.4m) has led to a headline NPAT loss of \$11.47m. Notwithstanding this, the company reported sound underlying revenue of \$10.9m, EBITDA of \$3.5m and a positive operating cashflow of \$4m.

In an effort to free up capital to acquire new business opportunities, the Company's Californian oilfields were offered for sale. At year end and following a protracted sale process the preferred buyer failed to close. These fields remain strongly cashflow positive and additional drilling opportunities have subsequently been identified in the Round Mountain Oilfield. The Company has decided to retain these producing assets at present and further develop Round Mountain.

Furthermore, the retention of these fields can allow the Company to leverage them through oil reserve backed borrowings to provide additional debt capital to help secure new projects.

The Board and Management have been diligent in ensuring that the company is conservatively managed, and the directors and management have supported the company's debt repayment in their own right as all Non-executive Directors fees were suspended from April 2013, other executive salaries were cut at that time and the Managing Director has suspended all of his salary from January 2014 until financial restructuring is completed. Other corporate and operating overheads have been cut in line with the reduced exploration activity and a total of more than \$1m has been cut from the Company's fixed costs on an annual basis.

Despite what has to be acknowledged as a disappointing year for the Company, the Board remains optimistic that following significant debt repayment from operational cashflow in 2013 that the current management team can now implement the strategies that are necessary to deliver sustainable growth in the short to medium term.

This will be derived primarily from acquisition of new assets. Any new acquisition will meet the Company's primary objectives to grow profit from US based oil production operations and to increase shareholder value by building reserves and production. A new, dynamic management team is in place in Denver led by John Whisler, who has successfully built two substantial companies from scratch in recent years and is incentivised to do likewise with Incremental. A number of low risk, conventional opportunities were reviewed in depth during 2013 and it is anticipated that with the strong deal flow that exists in the US, a transaction that meets our investment criteria will be identified in the near future.

I take this opportunity to thank shareholders for their support and patience through this tough year and affirm that the Board and management remain strongly focused and committed to delivering growth in shareholder value in 2014.

Yours sincerely,



**Chris Cronin**  
Chairman

28 March 2014

# REVIEW OF ACTIVITIES

## Incremental has three producing oilfields located in California and Colorado, USA

(refer to Lease Directory on page 3)



During the year, Incremental sold its 25% working interest in the West Mountain, Ventura project in California after uneconomic production result from a well that was drilled in December 2012. Leases in its McDonald Anticline project, California, were allowed to lapse due to technical work that was undertaken identifying that the likelihood of commercial success did not meet the Company's conservative criteria.

The locations of the Company's current projects are shown in Figures 1 and 2.

Figure 1.  
Location map of California properties

Figure 2.  
Location map of California and Colorado properties

### 1. FLORENCE OILFIELD (100% working interest)

The Florence Oilfield was discovered in 1876 and has produced over 15 million barrels of oil. The Field produces from the fractured Pierre Formation between 1880 ft and 3600 ft. Following the acquisition of the Florence Oilfield in May 2012, the first drilling campaign of two wells commenced in Q1 2013. The Patti sidetrack well was designed to penetrate and drain oil that was encountered by the original Patti well, drilled in June 2010, but left unproduced oil in the Pierre Formation.

The Patti sidetrack was drilled as planned and encountered the seismically defined 'ghost' (Figure 3) that represents the part of the target reservoir that is naturally fractured and thus potentially productive.

The Aurora well was spudded on 28th January and was planned as a deviated well targeting a seismically defined 'ghost' in the Pierre Formation. The well was drilled to 3260 ft as per programme. The production rate was disappointing, compared to the good oil shows. On 14 February, the drilling rig was re-mobilised and the well was deepened to 3572 ft.

Good shows were encountered from 3500 to 3540 ft. 4 1/2" perforated casing was then run to 3557 ft. Believing that perforations in the lower section of the well may be plugged by shale particles, a high-pressure surging tool was used in an attempt to unplug perforations. This did not increase the productivity of the well.

Neither of these wells was commercially successful. The lack of commercial hydrocarbons in either Patti Sidetrack or Aurora prompted Incremental to review all potential identified well locations. All available seismic was reprocessed, re-displayed and rigorously re-interpreted. A number of anomalies with significant reservoir potential were identified. These were ranked on geological merit, surface access and whether all leases along an intended horizontal well track were held by Incremental. At the end of this review, up to five potential PUD locations were identified as possible future drill targets.

#### Geology

The prospectivity of the Niobrara Formation at Florence was significantly enhanced by the successful testing of this unit in the first horizontal Niobrara well drilled at Florence, the Pathfinder





well drilled by Austin Exploration Ltd (ASX: AKK) on a neighbouring lease, only 400m from the Company's nearest lease boundary. The operator reported that the well had flowed at 403 boepd and that they were in a position to progress towards the commercialization of their Florence asset. Subsequently, the flow rate from the well declined and the produced stream was predominantly gas rather than oil.

Incremental has undertaken a number of geological and geochemical studies on the prospectivity of the Niobrara. This work suggests that any Niobrara well that Incremental could drill on its extensive lease holding in Florence is likely to encounter dominantly gas rather than oil as the reservoir hydrocarbon. Although the technical data suggests that drilling a Niobrara well in Florence is a high risk proposition, the geological similarity to the highly successful Niobrara developments by a number of operators in the Wattenberg Field to the north of Florence (Figure 4) suggest that the final word on Niobrara prospectivity in Florence has not yet been written.

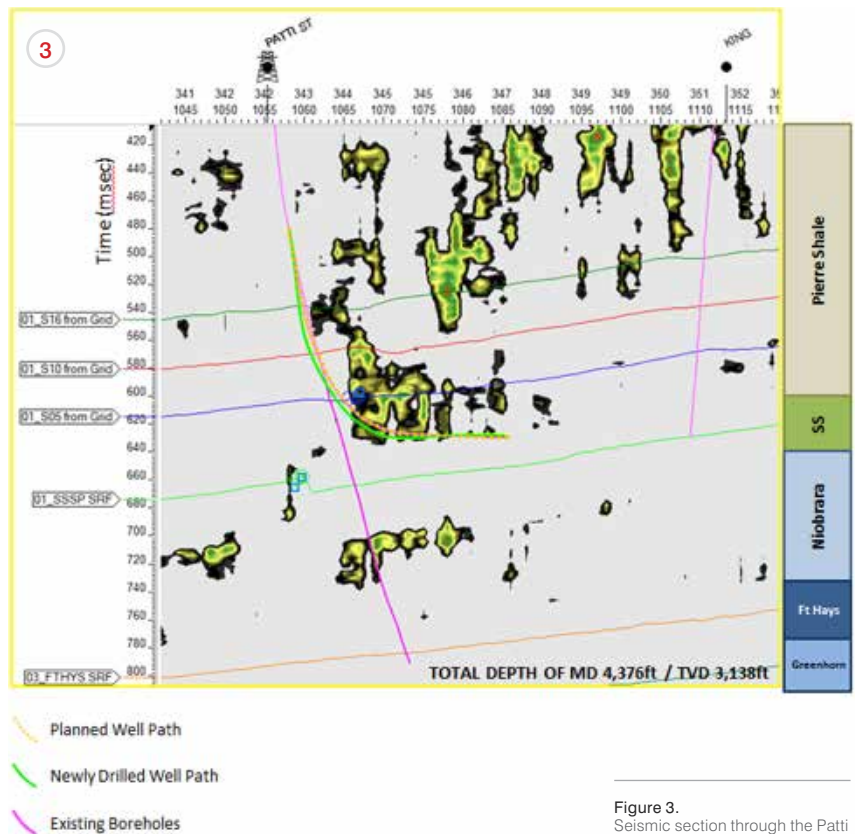
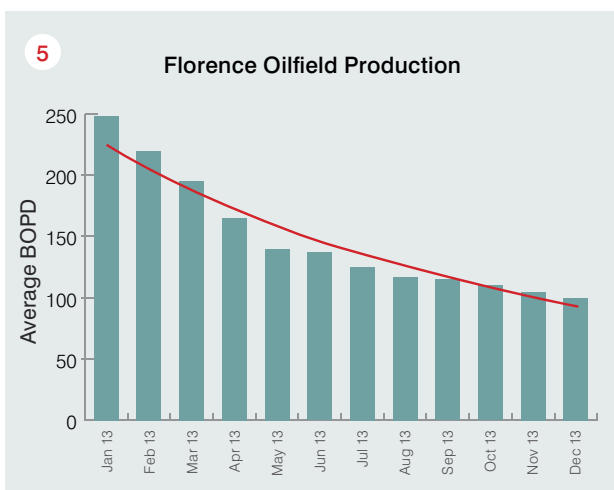
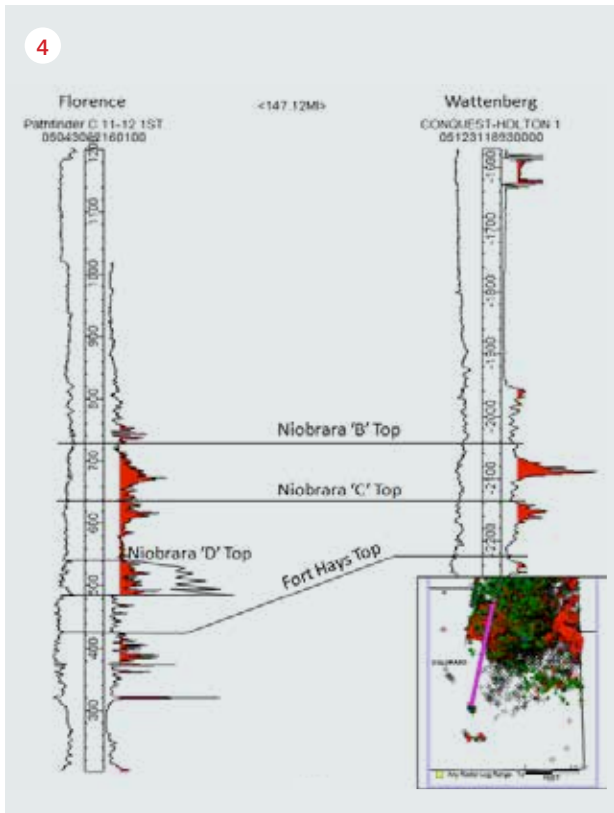


Figure 3. Seismic section through the Patti Sidetrack well (in green) showing well trajectory and location of "seismic ghost", shaded green

# REVIEW OF ACTIVITIES



**Figure 4.** Comparison of the Niobrara Formation in the extremely productive area in the Wattenberg Field, northern Colorado (right) and Florence. The high resistivity (and probably productive) intervals are shaded red.

**Figure 5.** Florence oil production 2013 (avg BOPD)

## OPERATIONS

The rate of decline in production from the Pierre Formation at Florence has slowed substantially throughout 2013 (Figure 5) and is now similar to the decline rate in conventional oilfields at about 10-20% annually.

### 2. ROUND MOUNTAIN OILFIELD (100% working interest)

No new wells were drilled or significant workovers performed in the Round Mountain Field during 2013. During the second half of 2013 no active interventions were undertaken in the field while protracted negotiations were ongoing with a potential buyer for the field. Increasing water production from the Smoot #7 and #8 wells added significantly to lease operating costs. Subsequent to the year end, successful action has been taken to reduce the water production from these wells reducing lease operating costs by around \$30,000 per month.

A review of the undeveloped potential of the Round Mountain Field based on recently released drilling and production data associated with the activity on an adjacent lease to Round Mountain indicates that considerable upside exists in the Incremental lease. These opportunities are being analysed at present for possible development in 2014.

### 3. SHEEP SPRINGS OILFIELD (100% working interest)

The Sheep Springs Oilfield, bought by Incremental in January 2010, continued to perform well during the year (Figure 6), with only minimal production decline, mainly due to the gradual depletion of reservoir pressure in the field.

The Field was offered for sale in mid-2013 and a number of bids were received. The highest bidder was eventually unable to secure sufficient finance to close the contract. As a result, the purchase and sale agreement was terminated by Incremental.

### 4. OTHER CALIFORNIA PROJECTS

At the West Mountain project in the Ventura Basin project (25% working interest), Logs from the C & H 18 well which was drilled in Dec-12/Jan-13, suggested that substantial oil pay was present over a large interval. The well was placed on production on 26 February but achieved an initial production of only 20 bopd. Additional perforations were added, with production increasing slightly. Even with the possibility of increased production with stimulation of the wellbore, this project was thought to be immaterial to Incremental and this working interest was sold to the operator for \$125,000 in April 2013.

In the Raven Pass exploration prospect (100% working interest), a number of International companies have expressed interest in farming in, but the lack of seismic on the prospect and the structural complexity of the pay meant that Incremental has been unable to attract sufficient funding to drill a well to date.

## 5. NEW PROJECTS, USA

Incremental spent considerable energy over during 2013 reviewing a number of projects in the USA. These reviewed assets all have the following attributes:

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

The company has not as yet been able to secure a new project, despite two bids being submitted to vendors. The Company remains focussed on identifying and securing new opportunities in the coming year.

## 6. PERSONNEL

Incremental recruited a new Executive Vice President in the first quarter of 2013. John Whisler brings a wealth of knowledge and experience to the US management team and with the focus of the company moving to Colorado, an increase in management capacity was required. John has held senior management rolls within organisations that have built and then successfully divested of large oil production portfolios in the US. He has had a personal involvement in the management of the process where the organisations have developed from a very small capital base to circa \$200m businesses and has extensive experience in rejuvenating mature oilfields, which is the business model of Incremental.

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

## 7. SUMMARY

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

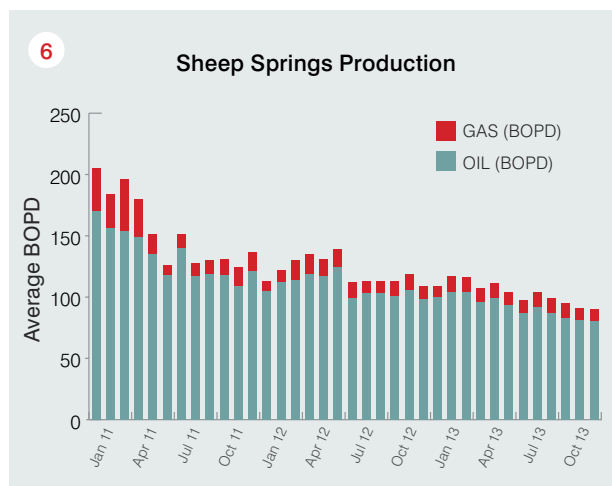


Figure 6.  
Monthly production,  
Sheep Springs Oilfield

# BOARD AND MANAGEMENT



**Mr C. Cronin** B.Bus (Acc.) FAIM  
NON-EXECUTIVE CHAIRMAN | AGE: 65

### Appointed to the Board July 2009

Mr Cronin has over 30 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, Mr Cronin spent 9 years with BP Australia Ltd in Marketing and Personnel/Industrial Relations roles in both Victoria and W.A.

Founder and Director of Incremental Petroleum Ltd from inception in 2003, which acquired a 1500 BOPD operation in the Selmo Oilfield in Turkey, and was ultimately sold in 2009.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Chairman of the David Wirrpanda Foundation, a not-for-profit trust which provides assistance for the development of indigenous youth.

Additional appointments in the last 3 years include:

- Deputy Chairman, Indian Pacific Ltd, owner and operator of the West Coast Eagles Football Club (Oct 2002 – Oct 2011)



**Mr G. McGann** B.Sc (Hons)  
MANAGING DIRECTOR | AGE: 65

### Appointed to the Board July 2009

Mr McGann has over 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 other substantially oil resources. As Exploration Manager for Occidental Petroleum, Mr McGann was responsible for increasing production from 32,000 bopd to 52,000 bopd 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 1,500 bopd to 2,000 bopd when the company was sold in March 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 Petro Physicists 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.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- None

Additional appointments in the last 3 years include:

- None



**Hon JAL Macdonald** LLB  
NON-EXECUTIVE DIRECTOR | AGE: 59

### Appointed to the Board July 2009

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.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Non-executive Director of Defence Housing Australia (DHA) and serves on the DHA board audit committee.
- Non-executive Director of the Anzac Centenary Advisory Board.

Additional appointments in the last 3 years include:

- None



**Mr M. Stowell** B.Bus CA  
NON-EXECUTIVE DIRECTOR | AGE: 50

**Appointed to the Board July 2009**

Mr Stowell has been involved in the public company corporate sector for more than 20 years, formerly as a manager in Arthur Anderson Corporate, involved in significant IPO and merger activity in the resource and energy sectors. Subsequently he has gained extensive experience at a board and management level in a number of successful ventures as principal in a wide variety of industries. Mr Stowell was a founder and board member for seven years of Anvil Mining Ltd, a significant African based copper mining company, listed on the ASX and subsequently the Toronto Stock Exchange ("TSX"). Founder and Director of Incremental Petroleum Ltd from inception in 2003, to acquisition of 1500 bopd oilfield, ASX listing, profit growth and ultimately sold in 2009.

Other current appointments in addition to Incremental Oil and Gas Ltd are:

- Non-executive Director of Mawson West Ltd
- Non-executive Director of Orrex Resources Ltd
- Non-executive Director of Kula Gold Ltd

Additional appointments in the last 3 years include:

- None



**Mr J. Whisler** B. Sc.  
VICE PRESIDENT, USA

**Appointed VP, USA 20 February 2013**

Mr Whisler has more than 20 plus year experience in leading, developing, and implementing projects. He has a successful-track record of managing and growing both public and private exploration and production companies. His diverse and extensive background in the US oil and gas industry covers all aspects of operations, including exploration, business development, acquisitions and divestures, corporate & project management, financial & economics, field operations, production and extensive experience in drilling and completions.

Mr Whisler joined Delek Energy US and Elk Companies in July 2008 as the Vice President of Operations, was promoted to Chief Operating Officer in January of 2009, and was then promoted to Chief Executive Officer in May 2010. He served as Chief Executive Officer until 2011 when he was responsible for the divestiture of all the US assets in multiple transactions. While at Delek John was responsible for the acquisition of multiple assets in the USA, design and implement work-over plans, re-completions, and optimize production in multiple mature fields within these assets.

Before joining Delek Energy, Mr Whisler served as VP of Operations/Operations Manager of Petrogulf Corporation (PGC). He had responsibility from operations in the San Juan Basin, Piceance Basin and Raton Basin. While at PGC, he implemented and drilled a 140 well field with infrastructure in 3 years with limited resources, optimized production through well-intervention completions and managed the non-brokered divestiture, negotiated and closed of a \$220M divestiture with a 2.81 ROI.



**Mr S. Adams** B.Bus M.Acc ACIS  
COMPANY SECRETARY

**Appointed Secretary – 18 May 2012**

Mr Adams has a wide range of experience in the area of corporate and financial management, corporate compliance and business development. Mr Adams has worked in a range of industries across the resource and industrial sectors. Prior to joining Incremental Oil and Gas Ltd in May 2012 as CFO/Company Secretary, Mr Adams had 12 years with Atlas South Sea Pearl Ltd, a listed pearl production and distribution company, in the capacity of CEO and CFO.

Directors and officers were in office for the entire period unless otherwise stated.

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# FINANCIAL REPORT

For the year ended 31 December 2013

- 13 Directors' Report
- 22 Auditors' Independence Declaration
- 23 Corporate Governance Statement
- 31 Consolidated Statement of Profit and Loss  
and Other Comprehensive Income
- 32 Consolidated Statement of Financial Position
- 33 Consolidated Statement of Changes in Equity
- 34 Consolidated Statement of Cash Flows
- 35 Notes to the Financial Statements
- 64 Directors' Declaration
- 65 Independent Audit Report
- 67 Additional ASX Information
- 69 Corporate Directory



# DIRECTORS' REPORT

For the year ended 31 December 2013

The Directors present their report together with the consolidated financial report of the Group, being Incremental Oil and Gas Limited (the "parent entity" or "Incremental" or "Company") and its controlled entities, for the financial year ended 31 December 2013, and the independent auditor's report thereon.

## Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report can be viewed on pages 10 to 11.

## 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 \$A0.20 exercise price
C Cronin	7,500,002	6,000,000
G McGann	24,340,004	20,500,000
J Macdonald	5,778,001	4,250,000
M Stowell	13,500,002	10,200,000

## Principal activities

The principal activities during the year 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 year.

## Dividends

No dividends were paid or declared during the financial year or subsequent to the year end.

## Operating results for the year

The Group's operating loss after income tax for the year was \$11,469,595 (2012: Profit: \$2,683,835). The Group's basic (loss)/earnings per share for the year was (7.35) cents (2012: 1.84 cents).

		%age Change	2013	2012
Revenue from ordinary activities	Down ↓	32%	\$10,939,590	\$16,037,233
Net tangible assets per share	Down ↓	45%	8.7 cents	15.8 cents
Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA)	Down ↓	48%	\$3,541,290	\$6,827,489

For EBITDA reconciliation, refer to inside front cover.

Operating results for the year were impacted by the following specific items:

- Revenue from oil sales in 2013 (\$10,805,052) was lower than the sales revenue from 2012 (\$15,835,389) due mainly to the decreased production from the three oilfields (refer Production Report on page 3). No additional wells were drilled to increase production in 2013;
- Cost of production decreased during the year from \$7,409,554 in 2012 to \$5,722,217 in 2013;
- Compliance costs were reduced by \$354,373 (46%) in 2013;
- Employee costs increased by \$292,481 during 2013 due to a temporary increase in staff numbers. Employee numbers were reduced by the end of 2013;
- Impairment costs relating to various oilfield and exploration assets totalling \$15,925,208 had a significant impact on the operating result for 2013 (refer Note 3(b)(v) for details);
- Due to the uncertainty of future tax profits, \$5.40M of deferred tax assets have not been brought to account which has the effect of decreasing the tax benefit.

# DIRECTORS' REPORT

For the year ended 31 December 2013

## Review of operations

The review of the oil and gas operations of the Company and the Group is set out in the Review of Activities section of the Annual Report (Pages 6 to 9).

## Likely Developments and expected results of Operations

The consolidated entity intends to continue with the current range of activities in 2014. Incremental will continue to produce out of its current assets while it looks further at the potential of additional drilling opportunities in the Round Mountain lease. This may be farmed out to maximise the potential for surplus capital to be invested into new projects. Consideration will be given to the drilling of additional Pierre Wells in Florence but these opportunities will need to compete for capital against other new investments on a risk-reward basis.

New project acquisitions will target assets that fall into the following criteria:

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

Quality assets that fit these criteria have been identified and will be pursued when the Company's debt is refinanced.

Information of the likely future activities is contained within the Review of Activities section in the Annual Report.

## Significant changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the year other than as disclosed elsewhere in this report.

## Financial condition

The Company has sufficient funds to repay debts as and when they fall due. The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents in the year of \$3,429,137 (2012: increase of \$2,487,876) of which operational activities contributed a surplus of \$4,009,625 (2012: \$4,841,243). Analyses of the components of the changes are detailed in the consolidated statement of cash flows. \$3,000,000 of debt was repaid during 2013 and non-recurring lease additions and renewals totalling \$1,431,000 were the main contributing factors towards the decrease in cash reserves during the year. The Company also incurred \$3.4 million on oil property development in connection with drilling of two uncommercial wells – Patti & Aurora.

## Share issues during the year and to the date of this report

The number of shares on issue at 31 December 2013 was 156,242,680. Details of the issues of shares are set out in Note 18 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 (AUD)	Number under option
1 November 2014	20 cents	92,500,000
27 July 2018	14.85 cents	5,000,000

As at the date of this report no options had been exercised since the end of the reporting period.

## 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 is in place with a purpose to review the financial affairs of the Company and monitor the risks associated with business operations to determine whether these will impact adversely on financial performance. 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.



## Environmental Regulation and Performance

The Group's activities are subject to environmental regulations under various Federal or State legislation and regulations in the regions of operation in the USA. 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.

## Subsequent events

There were no significant events after the reporting date.

## Indemnification and insurance of Directors and officer

The Company has entered into Deeds of Indemnity, Insurance and Access ("Deed") with each Director and the Company Secretary (collectively "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 in relation to Directors and Officers Indemnity insurance for 2013 was \$15,080 (2012: \$18,572).

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

## Remuneration Report (Audited)

This Remuneration Report for the year ended 31 December 2013 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3C) of the Act.

This Remuneration Report details the remuneration arrangements for key management personnel ("KMP") who 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, Incremental Oil and Gas Ltd ("the Parent").

Incremental Oil and Gas Ltd received more than 75% of the votes in favour of the Remuneration Report for the 2012 financial year.

## Details of directors and key management personnel

The Directors of Incremental Oil and Gas Ltd during the year were:

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

The key management personnel (other than the directors) during the year were:

- Jim Hussey (Vice President) – resigned on 31 March 2013
- Simon Adams (Company Secretary and CFO)
- John Whisler (Vice President – USA) – appointed on 25 February 2013

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

## Remuneration Policy

The performance of the Group depends on the quality of its key management and personnel. In order to achieve the Company's financial and operational objectives, it 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 shareholder value;
- A proportion of executive compensation 'at risk', dependent upon meeting pre-determined targets; and
- Establishing appropriate performance hurdles in relation to variable executive compensation.

# DIRECTORS' REPORT

For the year ended 31 December 2013

Remuneration is not linked to profit performance. The remuneration policy is for executives to be paid on terms that are competitive with those offered by entities of a similar size with the same industry. Packages are reviewed annually by the Remuneration Committee with any recommendations of this committee reviewed and approved by the Board.

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

The Company has not used any remuneration consultants in the year.

## Non-Executive Director Remuneration

The Board policy is to remunerate non-executive Directors based on market rates and with consideration given to the time, commitment and responsibility of the role. 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 AUD\$350,000.

The table below summarises the non-executive Director fees (all Australian \$):

Chairman	\$60,000 pa plus superannuation (9.25%)
Audit Committee Chair	\$50,000 pa plus superannuation (9.25%)
Non-executive Directors	\$40,000 pa plus superannuation (9.25%)

Non-executive directors' fees were voluntarily suspended from payment since 1 April 2013 following a decision by the Board to assist in addressing cost pressures from unsuccessful wells. The fees will be reinstated as determined by the board.

## 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 comparable with the market and reflects core performance requirements, expertise and responsibility 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 schemes which align executive and shareholder values; and
- statutory superannuation and pension contributions where required.

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 through the increase in Company performance. The Board may use its discretion with respect to the payment of bonuses, stock options, share purchase plans and other incentives.

The Company's performance is measured through net cash flow and the increase of average daily gross production of oil, through acquisition of projects and business opportunities and building reserves through a combination of development drilling and acquisition. This is the basis of the performance and incentives for senior executives as set out in their service agreements.

## Details of Share Based Payments Compensation

In 2013, an employee share plan was established which entitles the Board of Directors to offer shares to key management personnel within the Group for no cash consideration. A total of 360,000 shares were issued in January 2013 to six employees at a price of AUD\$0.25 cents per share, and a further 139,000 shares at a price of AUD\$0.13 cents per share in August 2013. The shares were valued at market price on the date of issue.

The equity remuneration is subject to service conditions and will vest 50% after 12 months and 50% after 24 months from the date of acquisition of the shares by the Incremental Oil and Gas Ltd Employee Share Trust, providing the employees are still employed by the Company at those dates. Shares issued to the employees are acquired and held in trust for the employees until they have met the service conditions. The shares rank equally with other fully paid ordinary shares.

The details relating to the allocation of shares to directors and key management personnel under the employee share plan (Note 6(a)) are as follows:

Name	Date granted	Dates shares may vest	Number of shares granted	Value of shares at grant date US\$ *	No. of shares forfeited during the year	Value at date of forfeiture	Forfeited %
Jim Hussey	17 January 2013	17.1.2014 -50% 17.1.2015 -50%	100,000	\$26,458	100,000	\$21,101	100%
Simon Adams	17 January 2013	17.1.2014 -50% 17.12.2015 -50%	52,000	\$13,758	Nil	\$Nil	-
Simon Adams	7 August 2013	7.8.2014 -50% 7.8.2015 -50%	8,000	\$951	Nil	\$Nil	-
John Whisler	7 August 2013	7.8.2014 -50% 7.8.2015 -50%	231,000	\$27,468	Nil	\$Nil	-

\* The value at grant date calculated in accordance with AASB 2 Share-based payment of shares granted during the year as part of remuneration

\* The Group has agreed to issue 4 million incentive shares to John Whisler as part of his employment contract dated 30 September 2013 as discussed on page 19. There are a number of milestones to be achieved before these are issued. The fair value of these incentive shares at the grant date of 30 September 2013 was \$480,000 based on closing share price of 12 cents. Based on current condition, no value has been attributed to these shares at 31 December 2013.

#### Remuneration of each Company Director and key management personnel

Name		Short Term Benefits			Post-Employment Benefits	Share Based Payments	Termination Benefits US\$	Total US\$	Equity based payments % of Remuneration %
		Salary & Fees <sup>(i)</sup> US\$	Other Benefits <sup>(ii)</sup> US\$	Cash Bonuses US\$	Super-annuation US\$	Shares US\$			
<b>Directors (Non-Executive)</b>									
C Cronin	2013	23,351	3,770	-	2,102	-	-	29,223	-
	2012	85,664	4,643	-	7,710	-	-	98,017	-
J Macdonald	2013	15,567	3,770	-	1,401	-	-	20,738	-
	2012	57,019	4,643	-	5,140	-	-	66,802	-
M Stowell	2013	18,161	3,770	-	1,633	-	-	23,564	-
	2012	67,493	4,643	-	6,074	-	-	78,210	-
<b>Directors (Executive)</b>									
G McGann	2013	317,882	3,770	-	28,618	-	-	350,270	-
	2012	311,505	36,993	175,797	28,035	-	-	552,330	-

# DIRECTORS' REPORT

For the year ended 31 December 2013

Name		Short Term Benefits			Post- Employment Benefits	Share Based Payments	Termination Benefits US\$	Total US\$	Equity based payments % of
		Salary & Fees <sup>(i)</sup> US\$	Other Benefits <sup>(ii)</sup> US\$	Cash Bonuses US\$	Super- annuation US\$	Shares US\$			Remuneration %
<b>Key Management Personnel</b>									
J Hussey <sup>(iii)</sup>	2013	75,000	3,471	–	–	–	126,538	205,009	–
	2012	250,000	6,351	70,000	–	–	–	326,351	–
S Adams <sup>(iv)</sup>	2013	154,393	–	–	13,106	6,735	–	174,234	3.86%
	2012	104,066	5,991	–	9,366	–	–	119,423	–
J Whisler <sup>(v)</sup>	2013	246,667	6,892	–	–	5,117	–	258,676	1.97%
	2012	–	–	–	–	–	–	–	–
<b>Total Company Directors and KMP</b>	<b>2013</b>	<b>851,021</b>	<b>25,443</b>	<b>–</b>	<b>46,860</b>	<b>11,852</b>	<b>126,538</b>	<b>1,061,714</b>	<b>–</b>
	<b>2012</b>	<b>875,747</b>	<b>63,264</b>	<b>245,797</b>	<b>56,325</b>	<b>–</b>	<b>–</b>	<b>1,241,223</b>	<b>–</b>

(i) Included in Salary and Fees are amounts made available to related parties of directors.

(ii) Other benefits comprise health insurance and employment related benefits as well as the cost of D&O insurance (which is split equally between the Directors)

(iii) J Hussey resigned from the Company on 31 March 2013.

(iv) S Adams joined the Company on 1 May 2012.

(v) J Whisler joined the Company on 25 February 2013.

Details of cash bonuses paid and included in remuneration tables preceding this table for key management personnel:

2012	Vesting date	Date paid	Amount paid US\$	Nature	Max potential entitlement US\$	% granted	Percentage forfeited
G McGann	31 Aug 2012	30 Oct 2012	175,797	Cash	175,797	100%	–
J Hussey	6 Sep 2012	30 Sep 2012	20,000	Cash	20,000	100%	–
J Hussey	31 Oct 2012	7 Dec 2012	50,000	Cash	50,000	100%	–

No bonuses were paid in 2013.

## Service Agreements

Remuneration arrangements for KMP are formalised in employment contracts. The following outlines the details of contracts with key management personnel.

### Mr G McGann (Managing Director)

Term of Agreement:	No fixed term
Base Salary:	AUD\$300,000
Superannuation:	9.25% of base salary
Incentives:	AUD\$50,000 on achieving average daily gross production of 300 bopd over a continuous period of 3 months (paid in 2012). AUD\$60,000 on achieving average daily gross production of 400 bopd over a continuous period of 3 months (paid in 2012). AUD\$60,000 on achieving average daily gross production of 600 bopd over a continuous period of 3 months (paid in 2012).
Termination:	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 J Whisler (Vice President USA)

Term of Agreement:	No fixed term
Base Salary:	US\$300,000
Benefits:	Full use of Company vehicle and health insurance
Incentives:	Half yearly production average > 500 bopd 15% of base salary (not yet paid). Half yearly production average > 1000 bopd 30% of base salary (not yet paid). Half yearly production average > 1500 bopd 45% of base salary (not yet paid).
Employee Share Plan:	Entitled to participate in the Incremental Employee Share Participation Program. Shares in Incremental equivalent in value to 10% of base salary may be offered at the discretion of the Board on an annual basis.
Incentive shares:	Entitled to incentive shares in Incremental. Shares offered at a price equivalent to the market price or an appropriate weighted average price at the time of issue. The shares will be held in trust and will be subject to vesting terms. The shares shall vest in four tranches of 1.0M shares each as follows: i) Tranche 1: following close of a project acquisition which contributes an average of 150 Gross boepd for 30 days within the first 6 months of closing. ii) Tranche 2: following production of above reaching an average of 400 Gross boepd over a continuous 6 month period. iii) Tranche 3: flowing close of a second project acquisition and which contributes an average of 300 Gross boepd for 30 days within the first 6 months of closing; and iv) Tranche 4: following production of above second project reaching an average of 1,000 Gross boepd over a continuous 6 month period.
New Project Bonus:	Entitled to an introduction bonus of 0.5% of the ultimate purchase price of each new acquisition- capped at one years' base salary. At the election of the Managing Director this bonus is to be paid in cash or shares.
Divestiture Bonus:	Entitled to a divestiture bonus of 0.2% of the ultimate sale price of each sale, exchange, merger or other divestiture of oil or gas properties or interests therein.
Termination:	The contract may be terminated by either the Company or Mr Whisler with Mr Whisler being entitled to 6 months base salary. After 2 years' service, this entitlement is increased to 8 months base salary. If the termination of employment is mutual by both parties then no such severance pay will be made.

# DIRECTORS' REPORT

For the year ended 31 December 2013

## Mr S Adams (CFO & Company Secretary)

Term of Agreement:	No fixed term
Base Salary:	AUD\$150,000
Superannuation:	9.25% of base salary
Incentives:	Nil
Termination:	No specific provision for termination.

## End of Remuneration Report.

### Committee Memberships

As at the date of this report, the Company had an audit and risk committee and a remuneration and nomination committee of the board of directors.

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

Director	Audit and Risk committee	Remuneration and nomination committee
C Cronin	X	X
JAL Macdonald	–	X
M Stowell	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 (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

Directors	Directors Meetings		Audit & Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr C Cronin	12	12	2	2	1	1
Mr G McGann	12	12	–	–	–	–
Mr J Macdonald	12	10	–	–	1	1
Mr M Stowell	12	12	2	2	–	–

## 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 5 to the Financial Statements.

## 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 year.

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### Auditor Independence Declaration to the Directors of Incremental Oil and Gas Ltd

The auditor's independence declaration for the year ended 31 December 2013 has been received and is to be found on page 22.

### Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst and Young Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst and Young Australia received or are due to receive the following amounts for the provision of non-audit services:

	<b>USD\$</b>
Assurance related	4,652

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



Gerry McGann  
Managing Director  
28 March 2014

# AUDITORS'S INDEPENDENCE DECLARATION

For the year ended 31 December 2013



Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

## Auditor's Independence Declaration to the Directors of Incremental Oil and Gas Ltd

In relation to our audit of the financial report of Incremental Oil and Gas Ltd for the year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Gavin Buckingham  
Partner  
28 March 2014

A member firm of Ernst & Young Global Limited  
Liability limited by a scheme approved under Professional Standards Legislation



# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2013

Incremental Oil and Gas Ltd (“the Company” or “Incremental”) 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 which is available in the corporate governance information section of the Company’s website at [www.incremental油和gas.com](http://www.incremental油和gas.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.

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# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2013

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

The Company will undertake periodic 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 Nominations 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, Incremental 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](http://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 one executive Director, the Managing Director, Mr McGann.

The role of the Chairman and Managing Director are exercised by different people. Mr Cronin (Chairman and non-executive Director) and Mr Macdonald (non-executive Director) meet the Company's criteria for independence. Mr Stowell (by virtue of his shareholding being higher than 5% of the Company's issued capital) and Mr McGann (by virtue of his holding being above 5% of the Company's issued capital and due to the fact that he is an executive of the Company) are not considered to be independent. 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 non-executive 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 Nominations Committee Charter in the Corporate Governance Manual on the Company's website at [www.incrementaloilandgas.com](http://www.incrementaloilandgas.com).

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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 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 Nominations Committee**

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

The members of the Remuneration and Nomination Committee are Mr Cronin (Chairman) and Mr Macdonald.

The Remuneration and Nominations 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 Nominations Committee Charter is available on the Company's website [www.incrementaloilandgas.com](http://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.

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# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2013

## 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](http://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 or any other market sensitive information relating to the Company's activities) 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](http://www.incrementaloilandgas.com).

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## 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.incremental油和gas.com](http://www.incremental油和gas.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.incremental油和gas.com](http://www.incremental油和gas.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.

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# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2013

## 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 the finalisation of the 31 December 2013 Financial Report.

## Environmental, Health and Safety Policy

The Company has an Environmental, Health and Safety Policy. The purpose of this Environmental, Health and Safety Policy is to provide guidelines for Directors, officers, employees and contractors of the Company to conduct their business activities and work practices in relation to the Company in a safe and environmentally sensitive and sustainable manner. The policy also seeks to encourage Directors, officers, employees and contractors to conduct their business activities and work practices in a manner that promotes general health and well-being, as well as a suitable work-life balance.

The Environmental, Health and Safety Policy is available on the Company's website at [www.incrementaloilandgas.com](http://www.incrementaloilandgas.com).

## Diversity Policy

The Company has not adopted a formal Diversity Policy. The Board will re-consider establishing a formal Diversity Policy as the Company's workforce and operations grow.

The Company currently we have no females in a senior executive position and no females on the Board. Incremental has and will continue to recruit female employees in the future based on merit and would consider female candidates for the Board in the same way as it would male counterparts.

## Integrity of Financial Reporting

Mr McGann, Managing Director, and Mr Adams, 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 year ended 31 December 2013 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 some of the directors are substantial shareholders of the Company or act in an executive capacity in management.	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.
2.5	Companies should disclose the process 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.	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.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2013

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 2013 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.
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. The Chairman of the Committee, Mr Stowell, does 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 members 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.



# CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 US\$	Year ended 31 December 2012 US\$
Oil and Gas Sales	3a	10,939,590	16,037,233
Direct cost of sales:			
Royalty costs		(1,957,700)	(2,674,078)
Production expenses		(1,911,785)	(2,641,410)
Amortisation and depreciation	3(b)(iii)	(1,819,933)	(2,094,066)
Restoration cost	17	(32,799)	–
Gross profit from operations		5,217,373	8,627,679
Other Revenue	3a	3,047	34,927
Compliance costs		(411,394)	(765,767)
Operating lease costs		(254,575)	(102,559)
Salaries, directors fees and employee benefits		(1,885,393)	(1,592,912)
Interest and finance costs	3(b)(i)	(396,827)	(811,979)
Other costs	3(c)	(588,231)	(681,721)
Foreign exchange(losses)/gains	3(b)(ii)	(5,966)	82,848
Depreciation	3(b)(iii)	(18,989)	(9,738)
Gain/(loss) on sale of assets	3(b)(iv)	(384,966)	(193,017)
Impairment of assets	3(b)(v)	(15,925,208)	–
<b>(Loss)/Profit before income tax</b>		<b>(14,651,129)</b>	<b>4,587,761</b>
Income tax benefit/(expense)	4	3,181,534	(1,903,926)
<b>(Loss)/Profit after tax</b>		<b>(11,469,595)</b>	<b>2,683,835</b>
<b>(Loss)/Profit for the period attributable to members of the entity</b>		<b>(11,469,595)</b>	<b>2,683,835</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit and loss		–	–
Items that may be reclassified to profit and loss		–	–
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<b>–</b>	<b>–</b>
<b>Total comprehensive (loss)/income for the period attributable to members of the entity</b>		<b>(11,469,595)</b>	<b>2,683,835</b>
Basic (loss)/earnings per share attributable to ordinary equity holders of the entity (cents)	20	(7.35)	1.84
Diluted (loss)/earnings per share attributable to ordinary equity holders of the entity (cents)	20	(7.35)	1.60

The above Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes .

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 US\$	2012 US\$
<b>Current assets</b>			
Cash and cash equivalents	8	541,110	3,970,247
Trade and other receivables	9	766,243	1,305,468
Inventories	10	390,675	431,013
<b>Total current assets</b>		<b>1,698,028</b>	<b>5,706,728</b>
<b>Non-current assets</b>			
Other financial assets	11	10,626	195,000
Oil properties	12	15,733,764	27,764,750
Exploration assets	13	–	760,898
Plant and equipment	14	1,614,587	1,765,530
Deferred tax asset	4(a)&(b)	307,023	324,876
<b>Total Non-current assets</b>		<b>17,666,000</b>	<b>30,811,054</b>
<b>Total assets</b>		<b>19,364,028</b>	<b>36,517,782</b>
<b>Current liabilities</b>			
Trade and other payables	15	1,379,593	1,730,532
Borrowings	16	2,785,057	6,000,000
Taxes payable	4	64,358	104,715
Provisions	17	84,962	75,950
<b>Total current liabilities</b>		<b>4,313,970</b>	<b>7,911,197</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	318,590	–
Provisions	17	1,133,159	620,201
Deferred tax liabilities	4(b)	–	3,263,744
<b>Total non-current liabilities</b>		<b>1,451,749</b>	<b>3,883,945</b>
<b>Total liabilities</b>		<b>5,765,719</b>	<b>11,795,142</b>
<b>Net assets</b>		<b>13,598,309</b>	<b>24,722,640</b>
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	18	22,430,823	22,318,820
Shares reserved for employee share plan	18	(65,636)	–
Reserves	19	334,666	35,769
(Accumulated losses)/retained profits		(9,101,544)	2,368,051
<b>Total Equity</b>		<b>13,598,309</b>	<b>24,722,640</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Issued capital (Note 18) US\$	Shares reserved for employee share plan US\$	(Accumulated losses)/ retained profits US\$	Share option reserve US\$	Total equity US\$
<b>At 31 December 2012</b>	<b>22,318,820</b>	<b>–</b>	<b>2,368,051</b>	<b>35,769</b>	<b>24,722,640</b>
Profit/(loss) attributable to members of the Group	–	–	(11,469,595)	–	(11,469,595)
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>(11,469,595)</b>	<b>–</b>	<b>(11,469,595)</b>
Issue of employee shares	–	(65,636)	–	–	(65,636)
Issue of Options	–	–	–	298,897	298,897
Placement of Shares	112,003	–	–	–	112,003
Cost of issue of share capital	–	–	–	–	–
<b>At 31 December 2013</b>	<b>22,430,823</b>	<b>(65,636)</b>	<b>(9,101,544)</b>	<b>334,666</b>	<b>13,598,309</b>

	Issued capital US\$	Shares reserved for employee share plan US\$	(Accumulated losses)/ retained profits US\$	Share option reserve US\$	Total equity US\$
<b>At 31 December 2011</b>	<b>17,905,010</b>	<b>–</b>	<b>(315,784)</b>	<b>35,769</b>	<b>17,624,995</b>
Profit attributable to members of the Group	–	–	2,683,835	–	2,683,835
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>2,683,835</b>	<b>–</b>	<b>2,683,835</b>
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>–</b>	<b>2,368,051</b>	<b>35,769</b>	<b>24,722,640</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 US\$	2012 US\$
<b>Cash flows from operating activities</b>			
Receipts from customers		11,319,761	13,414,451
Payments to suppliers and employees		(6,913,276)	(8,397,265)
Interest received		3,047	16,951
Interest paid		(295,194)	(192,894)
State tax paid		(104,713)	–
<b>Net cash (used)/provided by operating activities</b>	21	<b>4,009,625</b>	<b>4,841,243</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of oil properties		165,000	243,000
Purchase of new oil properties		–	(9,914,409)
Oil property development expenditure		(3,394,834)	(2,452,052)
Refunds/(payments) for performance bonds		184,374	(95,000)
Payments for lease renewals		(1,367,281)	(487,951)
Payments for purchases of property plant and equipment	14	(127,631)	(60,765)
<b>Net cash used in investing activities</b>		<b>(4,540,372)</b>	<b>(12,767,177)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		112,003	4,650,452
Cost of share issue		–	(236,642)
(Repayment )/proceeds of borrowings		(3,000,000)	6,000,000
<b>Net cash (used)/provided by financing activities</b>		<b>(2,887,997)</b>	<b>10,413,810</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3,418,744)</b>	<b>2,487,876</b>
Exchange differences on cash balances held		(10,393)	25,591
<b>Cash and cash equivalents at beginning of the year</b>		<b>3,970,247</b>	<b>1,456,780</b>
<b>Cash and cash equivalents at end of year</b>	8	<b>541,110</b>	<b>3,970,247</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 1. Summary of significant accounting policies

### Corporate Information

The consolidated financial statements of Incremental Oil and Gas Ltd and its subsidiaries (the "Company") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 25 March 2014.

Incremental Oil and Gas Ltd is a company limited by shares incorporated and domiciled in Australia where shares are publicly traded on the Australian Securities Exchange (ASX), and the entity is a for profit entity.

The nature of the operations and principal activities of the Company are described in the directors' report.

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 and authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis and accrual accounting. The financial report is presented in United States dollars (US\$ or USD).

#### b. Statement of compliance

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Group has, where applicable, adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the year ended 31 December 2013 including:

#### – AASB 10 Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and Interpretation 112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7. The adoption of AASB 10 had no effect on the financial position or performance of the Group as all of the subsidiaries in the Group are 100% owned by the Company.

#### – AASB 11 Joint Arrangements

AASB 11 replaces AASB 131 Interests in Joint Ventures and Interpretation 113 Jointly – controlled Entities – Nonmonetary Contributions by Venturers. AASB 11 uses the principle of controlling AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly- controlled entities using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128. The adoption of AASB 11 had no effect on the financial position or performance of the Group as it has no interest in any joint ventures.

#### – AASB 12 Disclosure of interests in Other Entities

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced regarding the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. Disclosures required by AASB 12 are set out in Note 23.

#### – AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets and liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8 which has resulted in additional disclosures around the fair values of financial instruments. The adoption of AASB 13 had no effect on the financial position or performance of the Group.

#### – AASB 119 Employee Benefits (revised 2011)

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. The adoption of AASB 19 had no effect on the financial position or the performance of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 1. Summary of significant accounting policies (continued)

### c. Going Concern

The financial report has been prepared on a going concern basis. In arriving at this position the Directors have had regard to the fact that the Group will have access to sufficient working capital to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

As at 31 December 2013 the Group has the following going concern indicators:

- i. The Group recorded a loss of \$14,651,129 (before tax) for the year ended 31 December 2013 and had a net cash outflow of \$3,418,744 during the year ended 31 December 2013.
- ii. The Group's current liabilities exceed its current assets by \$2,615,942. This is due to the Group's loan facility of \$3 million with RMB Australia Holdings (RMB) being classified as a current liability.
- iii. The Group's cash flow forecasts reflect that the Group may need to raise additional working capital over the next 12 month period to meet a short term temporary deficit of approximately \$600,000 to enable it to continue with planned operational activities and to be able to meet its debts as and when they currently fall due.

Notwithstanding the above, the Directors are satisfied the Group can continue as a going concern having regard to the following mitigating factors:

- i. The Group's before tax loss for the year ended 31 December 2013 was due to asset impairments.
- ii. The Group generated cash flow from operations during the year ended 31 December 2013 of \$4,009,625 from its 3 producing oilfields. The Group's forecasts for the year ended 31 December 2014 reflects a similar cash flow from operations as in the prior year.
- iii. The Group incurred \$3,394,834 on oil property development expenditure during the year ended 31 December 2013, primarily in connection with drilling two unsuccessful wells. No such expenditure has been committed to in connection with the 2014 year.
- iv. The Group's working capital deficiency is solely due to the current classification of its outstanding bank facility with RMB. This facility is currently required to be repaid over the course of the 2014 year in US\$500,000 installments on 31 March, 30 June and 30 September and a US\$1,500,000 final payment on 31 December 2014. Repayment of this facility on 31 December 2014 will leave the Group with no debt and three cash flow positive oilfields.
- v. Should the Directors require further funding to meet the Group's ongoing financial commitments over the course of the next 12 months, they are satisfied this can be achieved with one or a combination of the following:

- Refinancing or restructuring of its debt facility
- Sale of an asset
- Further cost reductions, and/or operational improvements

### d. New accounting standards not yet effective

At the date of the authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective and have not been adopted by the Company for the annual reporting period ending 31 December 2013.

<u>Standard/Interpretation</u>	<u>Effective for annual reporting periods beginning on or after</u>	<u>Application date for the Company</u>
AASB 9 'Financial Instruments', and AASB 2013-9 'Amendments to Australian Accounting Standards-Conceptual Framework, Materiality and Financial Instruments'	1 January 2017	1 January 2017
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	1 January 2014
AASB 2012-3 'Amendments to Australian Accounting Standards- Disclosures-Offsetting Financial Assets and Liabilities' (Amendments to AASB 132)	1 January 2014	1 January 2014
AASB 2013-3 'Amendments to AASB 136- Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	1 January 2014
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part B and Part C	1 January 2014/ 1 January 2015	1 January 2014/ 1 January 2015
AASB 1031 'Materiality'	1 January 2014	1 January 2014
Interpretation 21 'Levies'	1 January 2014	1 January 2014

The Company has decided not to early adopt any of the new and amended pronouncements. Of the above new and amended Standards and Interpretations the Company's assessment of those new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments and AASB 2013-9: Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- Financial assets that are debt instruments will be classified based on the objective of the Company's business model for managing the financial assets and the characteristics of the contractual cash flows
- Allows an election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income
- Financial assets can be designated and measured at fair value through profit and loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets and liabilities, or recognising the gains and losses on them, on different bases
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - The change attributable to changes in credit risk are presented in other comprehensive income
  - The remaining change is presented in profit or loss
- New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.
- Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time.

The Group has not yet determined the impact of these pronouncements on its financial statements.

- AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

This Standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124.

These changes are expected to have reduced disclosure requirements of KMP information for the Group.

- AASB 2012-3: Amendments to Australian Accounting Standards-Disclosures-Offsetting Financial Assets and Liabilities' (Amendments to AASB 132)

AASB 2012-3 adds application guidance to AASB 132: Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net set settlement.

The Group has not yet determined the impact of these pronouncements on its financial statements.

- Interpretation 21: Levies.

This interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation

The Group believes this will have no impact on its financial statements.

The other new and amended pronouncements above are not expected to have a material impact on the Company's financial statements.

#### **e. Basis of consolidation**

The consolidated financial statements comprise the financial statements of Incremental Oil and Gas Ltd ("Incremental") and its subsidiaries (as outlined in Note 23) as at and for the period ended 31 December.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions have been eliminated in full.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 1. Summary of significant accounting policies (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results of the part of the reporting period during which Incremental Oil and Gas Limited has had control.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

### f. Taxation

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit and loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### g. Financial instruments

#### Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### 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 at initial recognition.

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.

#### **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. This category generally applies to trade and other receivables.

#### **De-recognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement: and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### **Impairment of financial assets**

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal repayments or other observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### **Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or derivatives designed as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade payables and loans and borrowings.

#### **i. Loans and borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised as well. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortisation is included in finance costs in the statement of profit or loss.

#### **h. Plant and equipment**

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

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

Plant and equipment – 5 to 10 years.

Any item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

#### **i. Exploration and evaluation expenditure**

Expenditure incurred during exploration and the early stages of evaluation of new areas of interest are capitalised until such time as it is determined that the area of interest is uneconomical at which time the cost is written off. Exploration and evaluation expenditure is stated at cost and is accumulated in respect of each identifiable area of interest.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 1. Summary of significant accounting policies (continued)

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. Once an area of interest enters the development phase, all capitalised acquisition, exploration and evaluation expenditures are transferred to oil and gas properties.

### 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 exploitation. 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. Non-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. 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.

### l. 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 with employees is measured by reference to the fair values of the equity instruments at the date at which they are granted.

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 grant date fair value of the award;
- ii. the current best estimate of the number of awards that will vest, taking into account the likelihood of employee turnover;
- iii. the expired portion of the vesting period;

The charge to the income statement for the year is the cumulative amount, as calculated above, less the amounts charged in the previous years. There is a corresponding amount to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated.

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.

#### **m. Leases**

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

#### **n. Foreign currency translation**

##### *i. Functional and presentation currency*

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. From 1 January 2011 all companies in the group adopted US dollars as the functional and presentational currency. All amounts included in the financial statements are in US dollars unless otherwise indicated.

An entity's functional currency is the currency of the primary economic environment in which the entity operates. The economic entity has a significant US dollar revenue stream and most of its costs are paid in US dollars. Consequently the directors have determined that the functional currency of the Company and all its subsidiaries is US dollars.

##### *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.

#### **o. Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an 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 of disposal and value in use. It is determined for an individual asset, unless 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

#### **p. 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.

#### **q. 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.

The Group's own equity instruments, which are acquired for later use in employee share-based payment arrangements, are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

#### **r. 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.

#### **s. Employee leave benefits**

Wages, salaries, annual leave, sick leave and maternity 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.

#### **t. 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 1. Summary of significant accounting policies (continued)

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.

### u. Inventories

Oil stocks and field repair inventory amounts are physically measured, counted 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. Cost is determined as follows:

- i. Materials, which include drilling and maintenance stocks, are valued at cost; and
- ii. Petroleum products, comprising extracted crude oil stored in tanks, are valued at cost.

Inventories and material stocks are accounted for on a FIFO (first in, first out) basis.

### v. 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.

#### i. Sale of goods

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 not reduced for royalties and other taxes payable from production, and therefore recognised on a gross basis.

#### ii. 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.

#### iii. Dividends

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

### w. 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;
- 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.

### x. Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with the current year disclosures.

## Note 2. 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:

### Impairment of non-financial assets

In determining the recoverable amount of assets, estimations are made regarding the present value of future cash flows using asset-specific discount rates and a "value in use" discounting cash flow methodology. Additional disclosures are provided about the discount rate and any other significant assumptions in the notes. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

### **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 14.

### **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 reserves. 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. Barrels of oil produced as a proportion of 1P developed reserves are used as the depreciation methodology. Changes are accounted for prospectively.

### **Restoration obligations**

Where a restoration obligation exists, the Group estimates the future removal costs of oil and gas platforms, production facilities, wells and pipelines at the time of the installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability specific discount rates to determine the present value of these cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 3. Revenues and Expenses

Revenue and expenses from continuing operations.

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

### a. Sales revenue

	2013 US\$	2012 US\$
Oil and gas sales	10,805,052	15,835,389
Royalties	134,538	201,844
	10,939,590	16,037,233
<b>Other revenue</b>		
Interest Income	3,047	14,869
Other revenue	–	20,058
	3,047	34,927

### b. Expenses

	2013 US\$	2012 US\$
i. Finance costs		
Interest on bank loans	(293,368)	(192,277)
Other Interest Charges	(1,826)	(42,271)
Financing charges	(101,633)	(577,431)
	(396,827)	(811,979)
ii. Foreign exchange gains/(losses)	(5,966)	82,848
iii. Depreciation and amortisation included in the statement of profit and loss		
Amortisation – oil and gas properties	(1,616,931)	(1,894,464)
Depreciation – oil and gas properties	(203,002)	(199,602)
	(1,819,933)	(2,094,066)
Depreciation – other plant & equipment	(18,989)	(9,738)
	(1,838,922)	(2,103,804)
iv. Net gain/(loss) on sale of oil properties and exploration assets		
Guijarral Hills – sold	–	(182,434)
West Mountain – sold	(367,019)	(10,583)
Equipment sale	(17,947)	–
	(384,966)	(193,017)
v. Impairment of assets		
Impairment of oil and gas properties		–
– Florence – uncommercial new wells	(2,734,124)	–
– Florence – Niobrara Formation downgrade	(9,045,777)	–
– Sheep Springs and Round Mountain	(3,474,823)	–
Impairment of exploration and evaluation assets (Note 13)	(670,484)	–
	(15,925,208)	–

Refer Note 12 & 13 for details of impairment charges.

### c. Other Costs

	2013 US\$	2012 US\$
Travel expenses	139,109	196,714
Operating taxes	46,156	41,040
Marketing	75,515	76,001
Insurance	83,585	52,668
Computer expenses	61,026	118,805
Miscellaneous	182,840	196,493
	588,231	681,721

### Note 4. Income tax (benefit)/expense

	2013 US\$	2012 US\$
<b>Current income tax</b>		
Current income tax (benefit)/expense	64,358	104,715
	64,358	104,715
<b>Deferred income tax/(revenue) expense included in income tax expense comprises:</b>		
(Decrease)/increase in deferred tax	(3,245,891)	2,318,897
Adjustment for deferred tax of prior period – Australia	–	(226,417)
Adjustment for deferred tax of prior period – USA	–	(293,269)
	(3,245,891)	1,799,211
<b>Total income tax (benefit)/expense</b>	<b>3,181,534</b>	<b>1,903,926</b>
<b>Reconciliation of income tax (benefit)/expense to prima facie tax payable</b>		
Profit/(Loss) from continuing operations before income tax	(14,651,129)	4,587,761
<b>Accounting (loss)/profit before income tax</b>	<b>(14,651,129)</b>	<b>4,587,761</b>
Prima facie tax (benefit)/payable on profit/(loss) from ordinary activities at 30% (2012: 30%)	(4,395,339)	1,376,328
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of different taxation rates of other countries	(742,213)	937,198
Deferred tax assets not recognised	1,863,823	–
State income tax liability	–	104,715
Tax effect of amounts which are not deductible in calculating taxable income	92,195	5,371
Benefit of tax losses not previously recognised:		
Temporary differences and tax losses previously not brought to account – Australia	–	(226,417)
Prior year adjustments to temporary differences and tax losses – USA	–	(293,269)
<b>Income tax (benefit)/expense</b>	<b>(3,181,534)</b>	<b>1,903,926</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 4. Income tax (benefit)/expense (continued)

Movement in deferred income tax for the year ended 31 December relates to the following:

	2013 US\$	2012 US\$
<b>Deferred tax liabilities</b>		
Oil production assets	(5,697,146)	3,193,115
Inventory	–	(30,956)
Depreciable assets	(72,411)	512,037
Exploration	(89,629)	(42,562)
Receivables	(387,461)	387,461
Foreign exchange gains	(7,680)	7,680
<b>Deferred tax assets</b>		
Interest and management fees	1,323,834	(2,118,178)
Capital raising costs	104,558	83,257
Tax losses	1,580,044	(192,643)
<b>Deferred tax (income)/expense</b>	<b>(3,245,891)</b>	<b>1,799,211</b>
<b>Tax liabilities</b>		
<b>a. Current</b>		
Income tax payable	64,358	104,715
<b>b. Non-Current</b>		
Deferred income tax recognised at 31 December from foreign source income relates to the following:		
<b>Deferred tax assets (at 35%)</b>		
Interest & management fees	794,344	2,118,178
Carry forward foreign tax losses	–	1,042,240
	<b>794,344</b>	<b>3,160,418</b>
<b>Deferred tax liabilities (at 35%)</b>		
Oil production assets	–	5,786,775
Depreciable assets	564,976	637,387
	<b>564,976</b>	<b>6,424,162</b>
<b>Net deferred tax asset/(liability)</b>	<b>229,368</b>	<b>(3,263,744)</b>
Deferred income tax at 31 December from Australian source income relates to the following:		
<b>Deferred tax assets (at 30%)</b>		
Provision for expenses	34,711	48,447
Capital raising costs	42,944	133,766
Carry forward foreign tax losses	–	537,804
	<b>77,655</b>	<b>720,017</b>



	2013 US\$	2012 US\$
<b>Deferred tax liabilities (at 30%)</b>		
Receivables	–	387,461
Unrealised foreign exchange gains	–	7,680
	–	395,141
Net deferred tax asset	77,655	324,876
Total deferred tax asset/(liability)	307,023	(2,938,868)
<b>c. Reconciliations</b>		
The overall movement in recognised deferred tax is as follows:		
Opening balance	(2,938,868)	(1,139,657)
(Charge)/credit to statement of comprehensive income	3,245,893	(1,799,211)
Other movements	–	–
Closing balance	307,025	(2,938,868)
<b>d. Unrecognised deferred tax assets (at 30%) from Australian source income</b>		
<b>Deferred tax assets (at 30%)</b>		
Provision for expenses	–	–
Capital raising costs	–	–
Carry forward tax losses	9,769	–
	9,769	–
<b>e. Unrecognised deferred tax assets (at 35%) from foreign source income</b>		
<b>Deferred tax assets (at 35%)</b>		
Carry forward revenue tax losses	1,600,050	–
Other timing differences	4,283,539	–
	5,883,589	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 5. Key management personnel disclosure

### a. Key management personnel compensation

	2013 US\$	2012 US\$
Short-term employee benefits	876,464	1,184,898
Post-employment benefits	46,860	56,325
Other long term benefits	–	–
Termination Benefits	126,538	–
Share-based Payments	11,852	–
	1,061,714	1,241,223

### b. Equity instrument disclosures relating to key management personnel

The number of options over ordinary shares in the company that were held in the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below.

2013	Balance at 1 Jan 2013 Number	Granted as Remuneration Number	Changed during the year Number	Balance at 31 Dec 2013 Number
<b>Directors</b>				
C Cronin	6,000,000	–	–	6,000,000
G McGann	20,500,000	–	–	20,500,000
J Macdonald	4,250,000	–	–	4,250,000
M Stowell	10,200,000	–	–	10,200,000
<b>Other key management personnel</b>				
J Hussey <sup>(i)</sup>	1,000,000	–	(1,000,000)	–
S Adams <sup>(ii)</sup>	–	–	–	–
J Whisler <sup>(iii)</sup>	–	–	–	–
<b>Total</b>	<b>41,950,000</b>		<b>(1,000,000)</b>	<b>40,950,000</b>

2012	Balance at 1 Jan 2012 Number	Granted as Remuneration Number	Changed during the year Number	Balance at 31 Dec 2012 Number
<b>Directors</b>				
C Cronin	6,000,000	–	–	6,000,000
G McGann	20,500,000	–	–	20,500,000
J Macdonald	4,250,000	–	–	4,250,000
M Stowell	10,200,000	–	–	10,200,000
<b>Other key management personnel</b>				
J Hussey <sup>(i)</sup>	1,000,000	–	–	1,000,000
S Adams <sup>(ii)</sup>	–	–	–	–
<b>Total</b>	<b>41,950,000</b>			<b>41,950,000</b>

(i) No longer key management personnel – resigned 31 March 2013.

(ii) Appointed 1 May 2012.

(iii) Appointed 25 February 2013.

No options were issued to key management personnel as remuneration in 2013 or 2012.

The number of ordinary shares in the company that were held in the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below.

Details of shares granted as remuneration, together with their terms and conditions, can be found in the remuneration report on pages 15 to 20.

2013	Balance at 1 Jan 2013 Number	Granted as remuneration Number	Changed during the year Number	Balance at 31 Dec 2013 Number
<b>Directors</b>				
C Cronin	7,500,002	–	–	7,500,002
G McGann	24,340,004	–	–	24,340,004
J Macdonald	5,778,001	–	–	5,778,001
M Stowell	13,500,002	–	–	13,500,002
<b>Other key management personnel</b>				
J Hussey <sup>(i)</sup>	1,034,000	100,000	(1,134,000)	–
S Adams <sup>(ii)</sup>	–	60,000	–	60,000
J Whisler <sup>(iii)</sup>	–	231,000	–	231,000
<b>Total</b>	<b>52,152,009</b>	<b>391,000</b>	<b>(1,134,000)</b>	<b>51,409,009</b>
<b>2012</b>	<b>Balance at 1 Jan 2012 Number</b>	<b>Granted as remuneration Number</b>	<b>Changed during the year Number</b>	<b>Balance at 31 Dec 2012 Number</b>
<b>Directors</b>				
C Cronin	7,500,002	–	–	7,500,002
G McGann	24,340,004	–	–	24,340,004
J Macdonald	5,778,001	–	–	5,778,001
M Stowell	13,500,002	–	–	13,500,002
<b>Other key management personnel</b>				
J Hussey <sup>(i)</sup>	1,034,000	–	–	1,034,000
S Adams <sup>(ii)</sup>	–	–	–	–
<b>Total</b>	<b>52,152,009</b>	<b>–</b>	<b>–</b>	<b>52,152,009</b>

(i) No longer key management personnel – resigned 31 March 2013.

(ii) Appointed 1 May 2012.

(iii) Appointed 25 February 2013.

### c. Other transactions with key management personnel

There are no other transactions with key management personnel. There are no outstanding balances or commitments at 31 December 2013 and no valuation adjustments for doubtful or bad debts were made during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 6. Share-based payments

### a. Incremental Oil and Gas Employee Share Participation Program

In 2013, an employee share plan was established which entitles the Board of Directors to offer shares to key management personnel within the Group for no cash consideration. A total of 360,000 shares were issued in January 2013 to six employees at a price of AUD\$0.25 cents per share, and a further 139,000 shares at a price of AUD\$0.13 cents per share in August 2013. The shares were valued at market price on the date of issue.

The equity remuneration is subject to service conditions and will vest 50% after 12 months and 50% after 24 months from the date of acquisition of the shares by the Incremental Oil and Gas Ltd Employee Share Trust, providing the employees are still employed by the Company at those dates. Shares issued to the employees are acquired and held in trust for the employees until they have met the service conditions. The shares rank equally with other fully paid ordinary shares.

Shares issued as part of the employee share plan for 2013 are as follows:

Grant date	On issue at beginning of year	Granted during the year	Vested during the year	Forfeited/lapsed during the year	On issue at end of year
17 January 2013	–	360,000	72,000	(100,000)	260,000
7 August 2013	–	239,000	–	–	239,000

### b. Other share based payments

RMB Resources Limited was granted options in the Company as consideration for the renegotiation and extension to the term of the remaining bank loan. 2 tranches of unlisted options were issued, tranche 1, 4,000,000 on 5 August 2013 and tranche 2, 1,000,000 on 27 November 2013. The options expire on 27 July 2018 and have an exercise price of AUD\$0.1485.

Options granted have no dividend or voting rights. When exercisable each option is convertible into one ordinary share.

The assessed fair value at grant date of options granted during the year was USD\$0.0648 for tranche 1 options and USD\$0.0385 for tranche 2 options. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The model inputs for options granted during the year included:

	Tranche 1	Tranche 2
Exercise Price	AUD\$0.1485	AUD\$0.1485
Grant date	5 August 2013	27 November 2013
Expiry date	27 July 2018	27 July 2018
Share price at grant date	AUD\$0.13	AUD\$0.085
Expected price volatility	68%	75%
Expected dividend yield	Nil	Nil
Risk – free interest rate	3.05%	3.42%
Value	\$259,001	\$39,896

### c. Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	2013 US\$	2012 US\$
Shares issued under employee share scheme recognised in wages and salaries	38,059	–
Shares recognised in financing costs	83,954	–
	122,013	–

## Note 7. Auditors remuneration

The auditor of Incremental Oil and Gas Ltd is Ernst and Young (2012: Stantons International).

	2013 US\$	2012 US\$
Amounts received or due and receivable by Ernst and Young (2012: Stantons International) for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group	59,128	127,405
Other services in relation to the entity and any other entity in the consolidated group		
Assurance related	4,652	–
	63,780	127,405
Amounts receivable or due and receivable by non Ernst and Young (2012: Stantons International) audit firms for:		
Audit or review of financial report	–	27,500
	–	27,500

## Note 8. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 December

	2013 US\$	2012 US\$
Cash at bank and on hand	541,110	3,970,247

## Note 9. Trade and other receivables

	2013 US\$	2012 US\$
Oil and gas sales debtors	735,029	1,262,594
Other receivables	31,234	42,874
	766,243	1,305,468

- 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.
- For details of credit risk of receivables refer to Note 28 (b).
- Trade and other receivables do not contain impaired assets and are not past due.

### Ageing analysis of current receivables:

	Total	0–30 Days	31–60 days	60 days +
2013	766,243	766,243	–	–
2012	1,305,468	1,305,468	–	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 10. Inventories

	2013 US\$	2012 US\$
Oil and gas inventory at cost of production	111,804	152,142
Field inventory	278,871	278,871
	390,675	431,013

## Note 11. Other financial assets

	2013 US\$	2012 US\$
Non-current		
Bonds	10,626	195,000

## Note 12. Oil properties

	2013 US\$	2012 US\$
Cost of acquisition and enhancements	33,396,704	31,290,159
Accumulated amortisation & impairment	(17,662,940)	(3,525,409)
	15,733,764	27,764,750
Opening balance	27,764,750	15,747,741
Additions <sup>(i)</sup>	3,360,898	13,270,527
Transfer from exploration	1,458,831	20,745
Asset Retirement Obligation	512,958	620,201
Disposals	(492,018)	–
Amortisation	(1,616,931)	(1,894,464)
Impairment (see below)	(15,254,724)	–
Closing balance	15,733,764	27,764,750

(i) Includes acquisition of Florence Oilfield in 2012.

### Impairment charge

In 2013, the Company put up its Round Mountain and Sheep Springs Oilfields for immediate sale in their present condition subject to terms that are usual and customary in such sale, and therefore were disclosed as "held for sale assets" at 30 June 2013. As these assets were classified as held for sale, they were measured at the lower of their carrying value and fair value less costs of disposal. In August, an offer of US\$13M for both fields was received and accepted by the Company. The offer did not close. Subsequent to the year end, the assets were withdrawn from sale and management decided to retain these assets and focus on improving their profitability and productivity. Accounting standards require that if the sale of the assets is not highly probable these assets should cease to be classified as held for sale assets and reclassified as non-current assets and measured at the higher of its recoverable amount and its carrying amount before the assets were classified as held for sale adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale. The recoverable amount was based on a value in use model using a discount rate of 10% which resulted in a write down of \$3.475 million to these assets.

Following considerable technical analysis and with the benefit of reviewing the results from Niobrara wells drilled on neighbouring leases, the commercial potential of the Niobrara Formation in the Florence Oilfield has been downgraded. It is the view of the Board that a significant part of the value that has been allocated to this part of the field should be impaired. Based on value in use model using a discount rate of 10%, a write-down of \$9.046M has been made leaving a written down value of \$3.286M for the Florence Oilfield.

Following the unsuccessful drilling of two wells into the Pierre Shale zone in the Florence Oilfield in Q1-13, the cost of these wells (\$2.734M) has been written off.

### Note 13. Exploration and evaluation assets

	2013 US\$	2012 US\$
<b>Exploration and evaluation assets at cost</b>	–	760,898
Opening balance	760,898	739,700
Additions	1,368,417	487,951
Amounts expensed	–	(9,988)
Transfer to Oil Production Property	(1,458,831)	(20,748)
Disposal	–	(436,017)
Impairment (Note 3(b)(v))	(670,484)	–
<b>Closing balance</b>	–	760,898

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

#### Impairment charge

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

### Note 14. Plant and equipment

	2013 US\$	2012 US\$
Opening balance: net of accumulated depreciation and impairment	1,765,530	472,588
Assets acquired through purchase of Florence Oilfield	–	1,441,517
Other additions	127,631	60,765
Disposals	(56,583)	–
Depreciation charge	(221,991)	(209,340)
Closing balance: net of accumulated depreciation and impairment	1,614,587	1,765,530
<b>Balance at beginning of year</b>		
Cost	2,104,991	602,709
Accumulated depreciation and impairment	(339,461)	(130,121)
Net carrying amount	1,765,530	472,588
<b>Balance at end of year</b>		
Cost	2,174,675	2,104,991
Accumulated depreciation and impairment	(560,088)	(339,461)
Net carrying amount	1,614,587	1,765,530

For details of assets held for security see Note 16.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 15. Trade and other payables

	2013 US\$	2012 US\$
<b>Current</b>		
Trade payables and accruals	1,379,593	1,730,532
Trade payables are non-interest bearing payables and are normally settled on 30 day terms.		
<b>Non-Current</b>		
Trade payables and accruals	318,590	–

## Note 16. Interest Bearing Liabilities

	2013 US\$	2012 US\$
<b>Current</b>		
Bank Loan (Secured)	2,785,057	6,000,000

The secured bank loan is provided by RMB Australia Holdings Ltd as a US Dollar denominated acquisition and working capital cash term loan facility for the purpose of acquiring the Florence Oilfield. Repayment of the loan will be by way of three equal quarterly instalments of \$500,000 in 2014 on 31<sup>st</sup> March, 30 June and 30<sup>th</sup> September and a final payment on 31 December 2014 of \$1,500,000. 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;
- The interest is paid quarterly at rates of LIBOR plus 6%;
- The face value of the loan at 31 December 2013 is \$3,000,000.

During the year, the Company was not compliant with all of the covenants relating to the loan including the minimum cash reserve of \$1.5 million and the minimum Loan Life Cover ratio of 1.2x. No breach notice was served on the Company by RMB. An agreement was signed with RMB Resources Ltd in July 2013 to restructure the debt repayment (per above) and secure a stand still on the above mentioned covenants so the facility remained compliant.



## Note 17. Provisions

	2013 US\$	2012 US\$
<b>Current</b>		
Employee entitlements – annual leave	84,692	75,950
<b>Non Current</b>		
Asset retirement obligation	1,133,159	620,201
	Employee entitlements	Asset retirement obligation
<b>As at 1 January 2013</b>	75,950	620,201
Arising during the year	125,451	512,958
Utilised	(116,709)	–
<b>As at 31 December 2013</b>	84,692	1,133,159
<b>As at 1 January 2012</b>	30,769	–
Arising during the year	113,675	620,201
Utilised	(68,494)	–
<b>As at 31 December 2012</b>	75,950	620,201

### Asset retirement obligation

The asset retirement obligation provisions is for plugging and abandoning wells at the end of their economic life. The provision is the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed.

The cost has been capitalised as the restoration obligation is recognised during the evaluation stage.

These provisions have been created based on estimates provided to the Group. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil prices, which are inherently uncertain. These estimates of restoration are subject to significant estimates and assumptions, refer Note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 18. Issued capital

	2013 US\$	2012 US\$
156,242,680 Fully paid ordinary shares (2012: 155,743,680)	22,430,823	22,318,820
<b>Shares reserved for employee share plan</b>		
499,000 Fully paid ordinary shares (2012: nil)	(65,636)	–

### Shares reserved for employee share plan

The Group's own equity instruments, which are acquired for later use in employee share-based payment arrangements, are deducted from equity. Refer to page 16 for details.

Movement in ordinary shares on issue	Year ended 31 Dec 2013		Year ended 31 Dec 2012	
	US\$	No.	US\$	No.
Equity at the start of the year	22,318,820	155,743,680	17,905,010	135,643,680
Exercise of Options	–	–	20,552	100,000
Placement of new shares	112,003	499,000	4,629,900	20,000,000
Capital raising costs	–	–	(236,642)	–
At 31 December	22,430,823	156,242,680	22,318,820	155,743,680

### Capital management

For the purpose of the Company's financial management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximize the shareholder value.

In order to achieve this objective, the Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the Company. To maintain or adjust the capital structure, the Company may adjust dividend payments to shareholders, return capital to shareholders or issue new shares.

## Note 19. Reserves

	2013 US\$	2012 US\$
Share option reserve	334,666	35,769

### Share Options

At 31 December 2013 there were the following unlisted options over unissued fully paid ordinary shares on issue:

92,500,000 (2012: 92,500,000) unlisted options exercisable at AUD0.20 per option on or before 1 November 2014.

5,000,000 (2012: nil) unlisted options exercisable at AUD0.1485 per option on or before 27 July 2018.

### Share option reserve

The share option reserve is used to recognise the value of equity-settled share based payments provided to employees and suppliers.

## Note 20. Earnings per share

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

Diluted (loss)/earnings per share amounts are calculated by dividing the (loss)/profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all diluted potential ordinary shares into ordinary shares.

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

	2013 US\$	2012 US\$
(Loss)/ profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share	(11,469,595)	2,683,835
	Cents per share	Cents per share
Basic (loss) /earnings per share	(7.35)	1.84
	No. of shares	No. of shares
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share	156,023,790	145,947,778
Effect of dilution:		
Share options	–	22,583,145
The weighted average number of ordinary shares on issue during the financial year used in the calculation of diluted earnings per share	156,023,790	168,530,923
	Cents per share	Cents per share
Diluted (loss)/earnings per share	(7.35)	1.60

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted as at the 31 December as potential ordinary shares, which may have a dilutive effect on the result of the Group. As at 31 December 2013 no potential ordinary shares were considered dilutive.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 21. Reconciliation of net (loss)/profit after tax to net cash flows from operations

	2013 US\$	2012 US\$
(Loss)/profit per accounts	(11,469,595)	2,683,835
Adjustments for		
Tax expense	(3,181,534)	1,903,926
Leave provision	9,012	45,181
Impairment of assets	15,925,208	–
Amortisation	1,616,931	1,894,464
Depreciation	221,991	209,340
Share based payments	83,954	–
Loss on disposal of oil properties and exploration assets	384,966	193,017
Restoration costs	32,798	–
Decrease/(Increase) in current receivables	539,220	(601,096)
(Decrease)/Increase in current tax payable	(40,357)	–
Decrease/(Increase) in inventories	40,157	(339,967)
(Decrease)/Increase in trade and other payables	(32,377)	1,213,727
Non cash transactions	(129,992)	(2,335,591)
Exchange differences	9,243	(25,593)
Cash used in operating activities	4,009,625	4,841,243

## Note 22. Commitments and contingencies

The Company has entered into a lease agreement for office and parking facilities in Australia for three years commencing 1 December 2012. The Company has entered into a lease agreement for offices in Denver for the United States operations for 39 months commencing 20 November 2013.

	2013 US\$	2012 US\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	156,786	123,956
Later than 1 year but not later than 5 years	317,513	61,785
Later than 5 years	–	–
	474,299	185,741

There are no capital commitments in place in relation to the acquisition of property, plant and equipment. Other than those disclosed above there are no further commitments or contingent liabilities.

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**Note 23. Information relating to subsidiaries**

<b>Name of entity</b>	<b>Country of Incorporation</b>	<b>Ownership Interest</b>
<b>Parent entity</b>		
Incremental Oil and Gas Ltd	Australia	
<b>Controlled entity</b>		
Incremental Security Pty Ltd	Australia	100%
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%
Incremental Oil and Gas (Florence) LLC	United States	100%
Incremental Oil and Gas (Coalinga) LLC	United States	100%

Set out above are the Company's subsidiaries as at 31 December 2013. Unless otherwise stated, the subsidiaries as listed above have share capital consisting solely of ordinary shares, which are held directly by the group, and the proportion of ownership interests held equals to the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 24. Information relating to Incremental Oil and Gas Ltd (the Parent)

	Company 2013 \$	Company 2012 \$
<b>Assets</b>		
Current assets	80,690	1,177,266
Non-current assets	16,577,172	26,770,778
<b>Total assets</b>	<b>16,657,862</b>	<b>27,948,044</b>
<b>Liabilities</b>		
Current liabilities	3,051,387	6,213,648
Non-current liabilities	8,166	395,141
<b>Total Liabilities</b>	<b>3,059,553</b>	<b>6,608,789</b>
<b>Net Assets</b>	<b>13,598,309</b>	<b>21,339,255</b>
<b>Equity</b>		
Issued Capital	22,430,823	22,318,820
Shares reserved for employee share plan	(65,636)	–
Accumulated losses	(9,101,544)	(1,015,334)
Reserves	334,666	35,769
<b>Total Equity</b>	<b>13,598,309</b>	<b>21,339,255</b>
<b>Financial performance</b>		
(Loss)/Profit for the period	(8,086,211)	972,025
<b>Total comprehensive income of the parent entity</b>	<b>(8,086,211)</b>	<b>972,025</b>

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.

## Note 25. Segment Information

The Group has determined that it operates in one operating segment, being oil and gas production 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. Accordingly, the financial results of the segment are equivalent to the financial statements of the Group as a whole.

In reporting periods prior to 2013, the Group reported results for separate geographical segments being Australia and the USA. The Australian head office does not engage in business activities from which it generates or earn revenues. As a result, the Australian head office does not represent an operating segment.

## Note 26. Related Party Disclosures

There were no related party transactions to disclose in 2013 or 2012.

## Note 27. Events after the balance date

There are no significant events subsequent to reporting date.

## Note 28. Financial risk management

The Group's principal financial liabilities, comprise of loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade and other receivables and cash that derive directly from its operations.

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.

The Group holds the following financial instruments by category:

	31 December 2013 US\$	31 December 2012 US\$
<b>Financial assets</b>		
Cash and cash equivalents	541,110	3,970,247
Trade and other receivables	766,243	1,305,468
Other financial assets	10,626	195,000
	<b>1,317,979</b>	<b>5,470,715</b>
<b>Financial liabilities</b>		
Trade and other payables	1,762,541	1,835,247
Borrowings	2,785,057	6,000,000
	<b>4,547,598</b>	<b>7,835,247</b>

### 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 Australian 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 \$47,414, and creditors totalling \$236,128 held in \$A by the parent entity at 31 December 2013. A 10% increase/decrease in exchange rates would have a profit and loss effect of \$(18,872)/\$18,872 (2012: \$10,218) before taxation. The effect on equity would be \$18,872.

#### ii. 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. Pricing of oil produced from the California based oilfields is based off Brent oil prices while the oil produced in Colorado is priced off West Texas Intermediate (WTI) crude oil prices. A 10% increase/decrease in the oil and gas prices during the period would have had a profit and loss effect of \$1,093,959/ (\$1,093,959) (2012: \$1,583,539) before taxation and an equity effect of \$1,093,959.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## Note 28. Financial risk management (continued)

### iii. Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Given that borrowings are all due within 12 months the Group considers that any fair value interest rate risk or cash flow risk will be immaterial.

At the end of the reporting period, the Group had the following variable rate borrowings.

	Weighted average interest rate %	Weighted average interest rate %	31 December 2013 US\$	31 December 2012 US\$
Bank loan	6.28%	6.36%	2,785,057	6,000,000

An analysis by maturities is provided below.

A 10% change in the interest rate for deposit accounts would have a negligible effect on profit before tax or equity. A 10% increase/decrease in the interest rate for loan funds would have had a profit or loss effect of \$(18,840)/\$18,840 (2012: \$19,228) and an equity effect of \$18,840.

### b. Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents 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 has minimal credit risk in relation to its receivables. All sales are normally settled within 30 days of the issue of the invoice and existing customers have no record of default with the company. The maximum exposure to credit risk at the reporting date is the carrying amount of the receivables. Collateral is not held as security.

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

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

### c. Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Group management aims at maintaining flexibility in funding by keeping committed credit lines available. Surplus funds are generally only invested in instruments such as term deposits that are highly liquid.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents. In addition, the Group's liquidity policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and monitoring debt financing plans.

The group had access to borrowings as disclosed in Note 16. Note 16 also discloses the security for these borrowings.

The fair value of bank loans equals their carrying amount, as the impact of discounting is not significant.

Maturities of financial liabilities is shown below. The tables analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.



#### Contractual maturities of financial liabilities

At 31 December 2013	Less than 6 Months US\$	6-12 Months US\$	Between 1 and 2 years	Total contractual cash flows US\$	Carrying amount US\$
Trade payables	1,452,148	–	310,393	1,762,541	1,762,541
Borrowings	1,085,597	2,055,401	–	3,140,998	2,785,057
<b>Total</b>	<b>2,537,745</b>	<b>2,055,401</b>	<b>310,393</b>	<b>4,903,539</b>	<b>4,547,598</b>

#### Contractual maturities of financial liabilities

At 31 December 2012	Less than 6 Months US\$	6-12 Months US\$	Between 1 and 2 years US\$	Total contractual cash flows US\$	Carrying amount US\$
Trade payables	945,564	–	889,683	1,835,247	1,835,247
Borrowings	3,165,447	3,072,138	–	6,237,585	6,000,000
<b>Total</b>	<b>4,111,011</b>	<b>3,072,138</b>	<b>889,683</b>	<b>8,072,832</b>	<b>7,835,247</b>

#### d. Fair value measurements

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

#### Measurement techniques

The carrying value less impairment allowance 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.

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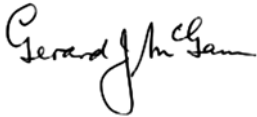
# DIRECTORS' DECLARATION

For the year ended 31 December 2013

In accordance with a resolution of the Directors of Incremental Oil and Gas Ltd I state that:

1. In the opinion of the Directors
  - a. The financial statements, and notes of Incremental Oil and Gas Ltd for the financial year ended 31 December 2013 are 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 2013 and of its performance for the year ended on that date; and
    - ii. complying with Accounting Standards and the Corporations Regulations 2001;
  - b. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(b); and
  - c. There are reasonable 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 year ended 31 December 2013.

On behalf of the Board



**Gerry McGann**  
Managing Director  
Perth  
28 March 2014

# INDEPENDENT AUDIT REPORT

To the Members of Incremental Oil and Gas Ltd



Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

## Independent audit report to the members of Incremental Oil and Gas Ltd

### Report on the financial report

We have audited the accompanying financial report of Incremental Oil and Gas Ltd which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year 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 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 controls 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 controls. 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.

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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

# INDEPENDENT AUDIT REPORT

To the Members of Incremental Oil and Gas Ltd



## Opinion

In our opinion:

- a. the financial report of Incremental Oil and Gas Ltd 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 2013 and of its performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 20 of the directors' report for the year ended 31 December 2013. 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.

## Opinion

In our opinion, the Remuneration Report of Incremental Oil and Gas Ltd for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Gavin Buckingham'.

Gavin Buckingham  
Partner  
Perth  
28 March 2014

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# ADDITIONAL ASX INFORMATION

For the year ended 31 December 2013

The following additional information is required by the Australian Stock Exchange. The information is current as at 6 March 2014.

a. Distribution schedule and number of holders of equity securities of Incremental Oil and Gas Limited as at 6 March 2014 is shown in the table below:

	Fully Paid Ordinary Shares	Unquoted Options – exercisable at A\$0.20 expiring 1 Nov 2014	Unquoted Options – exercisable at A\$0.1485 expiring 27 July 2018
1–1,000	14	–	–
1,001–5,000	32	–	–
5,001–10,000	73	–	–
10,001–100,000	215	1	–
100,001 and over	140	61	1
<b>TOTAL</b>	<b>474</b>	<b>62</b>	<b>1</b>

Total fully paid ordinary shares issued 156,242,680

Total unlisted options issued at A\$0.20 expiring 1 Nov 2014 92,500,000

Total unlisted options issued at A\$0.1485 expiring 27 July 2018 5,000,000

Holders with less than a marketable parcel 80

b. Twenty largest shareholders

The names of the 20 largest holders of quoted equity securities (ASX code – IOG) as at 6 March 2014 are as follows:

Name	No. of Shares	%age
1. MCGANN CONS PL	10,300,004	6.59
2. MCGANN RONA	7,524,364	4.82
3. ASCOT PARK ENTPS PL	7,400,000	4.74
4. UPORA PL	6,500,000	4.16
5. IOOF INV MGNT LTD	6,150,002	3.94
6. LINEAR A PL	5,966,748	3.82
7. MERCHANT HLDGS PL	5,800,002	3.71
8. BRYAN WELCH PL	4,983,700	3.19
9. JOHN ALEXANDER LINDSAY MACDONALD	4,625,001	2.96
10. MCGANN CONS PL	3,750,000	2.40
11. SECOND NAREMI PL	3,133,000	2.01
12. JP MORGAN NOM AUST LTD	2,860,106	1.83
13. MCGANN CONS PL	2,765,636	1.77
14. UBS WEALTH MGNT AUST NOM	2,500,000	1.60
15. RMB RES LTD	2,415,000	1.55
16. ANKAA SPRINGS PL	2,350,000	1.51
17. D N SUPERFUND PL	2,200,000	1.41
18. FITZGERALD JAMES F & O	2,000,000	1.28
19. RIVERGLEN NOM PL	2,000,000	1.28
20. LUBICH CRAIG AND LEANNE	2,000,000	1.28
	<b>87,223,563</b>	<b>55.85</b>

Listing has been granted on the Australian Securities Exchange to all ordinary fully paid shares of the Company on issue.

# ADDITIONAL ASX INFORMATION

For the year ended 31 December 2013

c. Substantial shareholders

Substantial shareholders of 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:

Name	No. of shares held	%age of issued capital
G McGann and related entities	24,340,004	15.58
M Stowell and related entities	13,500,002	8.64

d. Unlisted securities

Details of the unlisted securities issued by Incremental Oil and Gas Ltd as at 6 March 2014 are as follows:

Unlisted options – exercisable at AU\$0.20, expiring 1 November 2014	92,500,000
Unlisted options – exercisable at AU\$0.1485, expiring 27 July 2018	5,000,000

e. Mr G McGann holds 22% of the unlisted options exercisable at A\$0.20 as at 6 March 2014. RMB Resources Ltd holds 100% of the unlisted options exercisable at A\$0.1485. No other holder owns more than 20% of any unlisted securities as at the same date.

f. Restricted securities –

As at 6 March 2014, there were no restricted securities on issue.

g. Voting Rights

All fully paid ordinary shares carry one vote per share without restrictions. Unlisted options have no voting rights.

h. Company Secretary

The Company Secretary of the Company is Mr Simon Adams.

i. Registered Office

The details of the Company's registered office are:

2/16 Phillimore Street  
Fremantle  
W. Australia 6160

Telephone: +61 (0)8 9431 7306  
Facsimile: +61 (0)8 9430 4983

j. Share Registry

The Company's share registry is:  
Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross  
W. Australia 6153

Telephone: +61 (0)8 9315 2333  
Facsimile: +61 (0)8 9315 2233  
Web site: [www.securitytransfer.com.au](http://www.securitytransfer.com.au) (for information on holdings)

k. On-market buyback

The Company is not performing an on-market buyback at the time of this report.

l. Application of funds

During the financial year, the Company has used cash and assets in a manner which is consistent with its business objectives.

# CORPORATE DIRECTORY

For the year ended 31 December 2013

## Directors

Chris Cronin B.Bus (Acc), FAIM  
Non-executive Chairman

Gerry McGann B.Sc (Hons)  
Managing Director

Mark Stowell B.Bus, CA  
Non-executive Director

Hon JAL (Sandy) Macdonald LLB.  
Non-executive Director

## Company Secretary

Simon Adams, B.Bus, M.Acc, ACIS  
(Appointed 18 May 2012)

## Registered office & Principal place of business

Unit 2, 16 Phillimore Street  
Fremantle WA 6160  
Australia

Tel: +61 8 9431 7306

Fax: +61 8 9430 4883

[www.incremental油和gas.com](http://www.incremental油和gas.com)

## Auditor

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000  
Australia

## Solicitors

Johnson Winter & Slattery  
Level 4, 167 St George's Terrace  
Perth WA 6000  
Australia

## Share Registry

Security Transfer Registrars Pty Ltd

PO Box 535  
Applecross WA 6953  
770 Canning Highway  
Applecross WA 6153  
Australia

## Bankers

Bank of Western Australia  
Bankwest Place  
300 Murray Street  
Perth WA 6000  
Australia

## Home Exchange

Australian Securities Exchange Ltd  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000  
Australia



FOREST  
MANAGEMENT



RECYCLED  
CONTENT



ELEMENTAL  
CHLORINE FREE



ENVIRONMENTAL  
MANAGEMENT  
SYSTEMS



CERTIFIED  
CO2  
NEUTRAL  
CARBON  
NEUTRAL

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# incremental

OIL AND GAS LTD

Unit 2, 16 Phillimore Street, Fremantle WA 6160, Australia  
Tel: +61 8 9431 7306 | Fax: +61 8 9430 4883

[www.incremental油和gas.com](http://www.incremental油和gas.com)

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