INCREMENTAL OIL AND GAS LTD

ABN: 66 138 145 114

Interim Financial Report for the half year ended 30 June 2014

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2013 and any public announcements made by Incremental Oil and Gas Ltd during the interim report period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Corporate Information

This half year report is of the group comprising Incremental Oil and Gas Ltd ("the Company" or "Incremental Oil and Gas" or "the Parent") and its wholly owned subsidiaries (collectively "the Group").

The Group's functional and presentation currency is $US.

A description of the Group's operations and its principal activities is included in the review of operations and activities in the directors' report on page 2. The directors' report is not part of the financial report.

Directors
Mark Stowell (Non-Executive Chairman)
Gerry McGann (Managing Director)
John Whisler (Executive Director)
Matthew McCann (Non-Executive Director)

Company Secretary
Simon Adams

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Stock Exchange Listing
Australian Securities Exchange (ASX)
Home Exchange – Perth
Trading Code - IOG

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DIRECTORS' REPORT

The directors of Incremental Oil and Gas Ltd ("Incremental" or "the Company") submit their report for the half year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001 the directors report as follows:

Review of operations

Following the withdrawal from sale of the Californian Oilfields (Sheep Springs and Round Mountain) in January, the Company has focused its efforts on maximising production at all of its oilfields, restructuring its debt to provide a stronger capital base and seeking new projects for growth.

Exploration/Production activities:

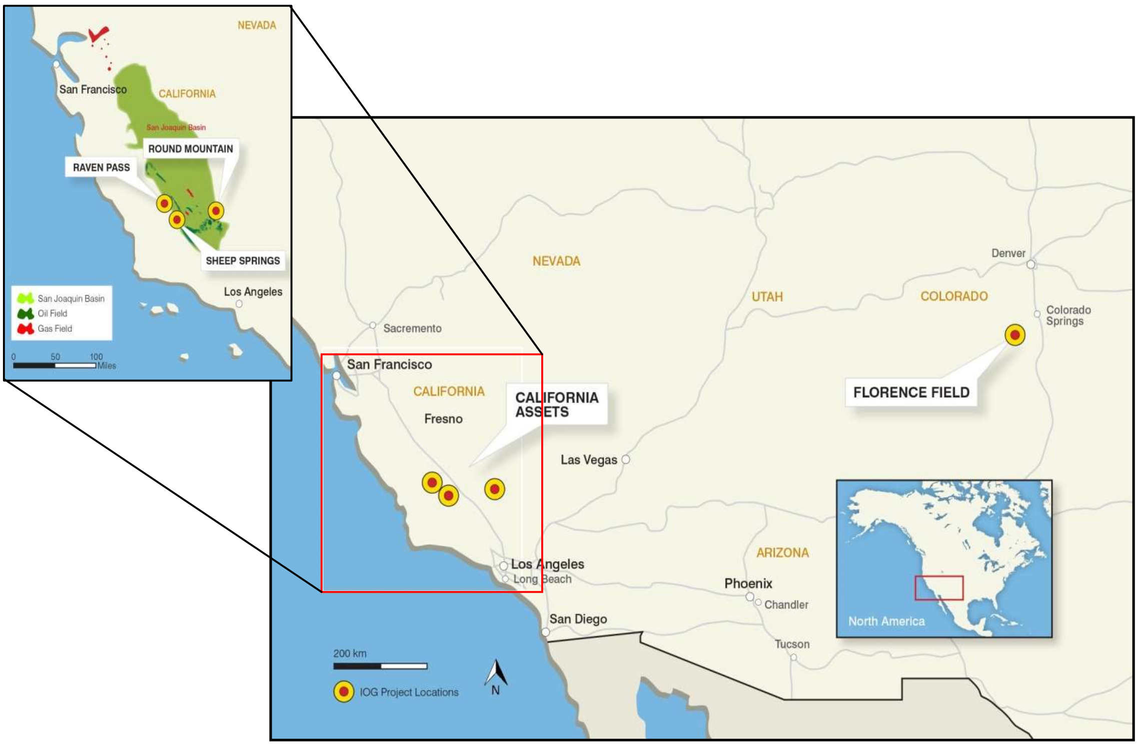

Figure 1. Incremental Oil and Gas Ltd project locations

Work overs were undertaken on a number of wells in all of the fields to restrict production decline and manage water production from the Round Mountain Field. A new larger pump was installed on the C5 well at Sheep Springs to optimize production.

Planning was undertaken to drill a new well into the Walker Formation at Round Mountain. Approvals are now in place to drill this well and scheduling of this will depend on rig availability. The commencement of this program will also depend on whether a new project acquisition is finalised in which case the return on capital will be assessed between the two projects to determine investment priority.

A drilling program continues in the leases adjacent to the Incremental leases at the Florence. Results from this operation continue to be monitored and any commercial success from this will contribute towards the scheduling of any future drilling by Incremental in its Florence leases.

Production was marginally affected in the Florence oilfield in January due to inclement weather. The rate of decline in the Florence Field has decreased significantly since its acquisition in 2012. There was some disruption to production at Sheep Springs in February 2014 due to repair on a damaged pump. The repair of this and the work overs and pump changes at all sites have maintained production at the expected forecast levels.

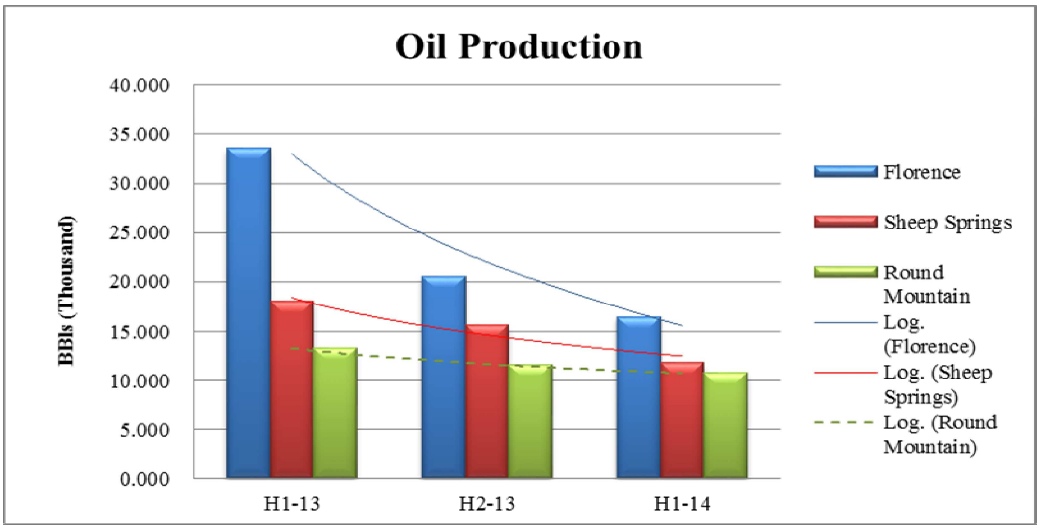

Figure 2. Incremental Oil and Gas Ltd oil production by field

These oilfields continue to meet the Company's asset criteria of low cost, shallow, onshore wells with low decline oil production. Secondary recovery potential of the remaining undeveloped reserves and resources continues to be assessed.

Figure 3. Two wells at the Florence Oilfield

Operating results for the year:

	Change from prior period	2014 US$	2013 US$
Revenues from ordinary activities	38% ↓	3,887,220	6,290,986
Profit/(Loss) from ordinary activities after tax attributable to members	N/A	657,094	(3,476,483)
Earnings before interest, tax, impairment, depreciation and amortization (EBITDA) (i)	20% ↓	1,676,851	2,106,938

EBITDA[(i)] is reconciled to net profit/(loss) after tax as follows:

	2014 US$	2013 US$
EBITDA [(i)]	1,676,851	2,106,938
Impairment	-	(6,428,498)
Interest income/(expense)	(362,510)	-
Depreciation/ (amortisation)	(458,120)	(839,560)
Tax (expense) / benefit	(176,940)	1,907,891
Other non-operating (expenses) / income	(22,187)	(223,254)
Profit / (loss) after income tax	657,094	(3,476,483)

(i) EBITDA is a non-IFRS measure. The information is unaudited but is extracted from the audited financial statements.

The revenue decreased in H1-14 compared to H1-13 by $2,403,766 due mainly to a decrease in production and sales volume decrease (64,521 Bbls sold in H1-13 compared to 39,576 Bbls in H1-14 – 39% . The decrease in volume has resulted from a natural decline in hydrocarbon production within the existing oilfields. The average oil price achieved in H1-14 has increased marginally from $95.72/Bbl in H1-13 to $96.33/Bbl.

Direct costs have decreased by 47% from 2013 to 2014. The average cost per barrel of direct costs has decreased from $50.78 per barrel in H1-13 to $44.29 per barrel in H1-14.. Savings were achieved through mitigating water disposal at Round Mountain and reducing field costs in general at all fields.

Compliance, operating lease (rent) and salary costs decreased from $1,382,786 in H1-13 to $760,670 in H1-14 (45%). These overhead costs were reduced through implementing cost efficiency measures in the USA and Australia. Interest and finance cost has increased in 2014 but this is impacted by the expensing of the remaining RMB Resources loan fees in H1-14 as this facility was refinanced. On a cash basis, interest has decreased in 2014 compared to 2013.

Corporate activities:
In the first half of 2014, there were some changes to the Board. Founding directors Chris Cronin and Sandy Macdonald retired from the Board and were replaced by two US based directors, Matt McCann and John Whisler. Both new directors have extensive experience in operations and corporate activity in the Oil energy sector in the US and internationally. John has been promoted to President of Incremental Oil and Gas USA Holdings Inc.

Incremental renegotiated its debt facility and on 1 May 2014 the remaining loan with RMB Resources Ltd was refinanced by a loan from a US based bank, ANB Bank. These funds were provided as a term loan which is repayable over four years in equal monthly instalments. In addition to the term loan, ANB Bank has provided a line of credit (LOC) of US$5M which can be used for development or acquisition of new projects. This overall facility is secured against the reserves of the existing three oilfields in California and Colorado.

There is an ongoing review of potential acquisition targets by the Company and this has taken up a considerable amount of management resources in the first half of 2014. Incremental is targeting oilfields with existing production that have behind pipe and field development opportunities.

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

Mr M. Stowell	Non-executive Chairman	Appointed Chairman 20 May 2014 Appointed director July 2009 Last re-elected May 2014
Mr C. Cronin	Non-executive Chairman	Appointed director July 2009 Resigned 20 May 2014
Mr G. McGann	Managing director	Appointed director July 2009
Hon J.A.L. Macdonald	Non-executive director	Appointed director July 2009 Resigned 31 March 2014
Mr M. McCann	Non-executive director	Appointed director 4 April 2014 Last re-elected 20 May 2014
Mr J Whisler	Executive director	Appointed director 1 July 2014

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

Section 307C of the Corporations Act 2001 requires our auditors, Ernst and Young, to provide the directors of Incremental Oil and Gas Ltd with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 6 and forms part of the director's report for the half-year ended 30 June 2014.

This report is made out in accordance with a resolution of directors made pursuant to s. 306(3) of the Corporations Act 2001.

On behalf of the directors

Gerard J McGann

Gerard McGann
Managing Director
28 August 2014

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

In relation to our review of the financial report of Incremental Oil and Gas Ltd for the half year ended 30 June 2014, 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

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
28 August 2014

GB:EH:IOG:021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014 AND 31 DECEMBER 2013

	Notes	30 Jun 2014 $US	31 Dec 2013 $US
Current assets			
Cash and cash equivalents	3	1,189,055	541,110
Trade and other receivables	4	665,104	766,243
Inventories	5	334,627	390,675
Total current assets		2,188,786	1,698,028
Non-current assets			
Other financial assets		27,293	10,626
Oil properties	6	15,385,366	15,733,764
Exploration assets	7	10,156	-
Plant and equipment	8	1,600,008	1,614,587
Deferred tax asset		328,214	307,023
Total Non-current assets		17,351,037	17,666,000
Total assets		19,539,823	19,364,028
Current liabilities			
Trade and other payables	9	484,365	1,379,593
Borrowings	10	750,000	2,785,057
Taxes payable		262,493	64,358
Provisions		48,155	84,962
		1,545,013	4,313,970
Non-current liabilities			
Trade and other payables	9	80,770	318,590
Borrowings	10	2,422,686	-
Provisions		1,143,465	1,133,159
Total non-current liabilities		3,646,921	1,451,749
Total liabilities		5,191,934	5,765,719
Net assets		**14,347,889**	**13,598,309**
Equity attributable to equity holders of the parent			
Issued capital	11	22,620,836	22,430,823
Shares reserved for employee share plan	11	(255,649)	(65,636)
Reserves		427,152	334,666
Accumulated losses		(8,444,450)	(9,101,544)
Total equity		**14,347,889**	**13,598,309**

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

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE

	Notes	2014 $US	2013 $US
Oil and Gas Sales		3,887,220	6,290,986
Direct cost of sales:			
Royalty costs		(656,897)	(1,136,431)
Production expenses		(618,572)	(1,287,935)
Amortisation and depreciation		(446,016)	(833,196)
Restoration cost		(10,306)	(32,799)
Gross profit from operations		2,155,429	3,000,625
Other revenue		113	3,016
Compliance costs		(164,457)	(251,088)
Operating lease costs		(49,895)	(132,800)
Salaries, directors' fees and employee benefits		(546,318)	(998,898)
Interest and finance costs		(362,510)	(182,066)
Other costs		(177,637)	(8,177)
Foreign exchange losses		(4,403)	(13,105)
Depreciation		(12,104)	(6,364)
Loss on sale of assets		(4,184)	(367,019)
Impairment of assets	6	-	(6,428,498)
Profit/(loss) before income tax		834,034	(5,384,374)
Income tax (expense) / benefit		(176,940)	1,907,891
Profit/ (loss) after tax		657,094	(3,476,483)
Profit/ (loss) for the period attributable to members of the entity		657,094	(3,476,483)
Other Comprehensive income:			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit and loss		-	-
Other comprehensive income / (loss) for the period , net of tax		-	-
Total comprehensive income/(loss) for the period attributable to members of the entity		657,094	(3,476,483)
Basic earnings /(loss) per share attributable to ordinary equity holders of the entity (cents)	12	0.42	(2.23)
Diluted earnings /(loss) per share attributable to ordinary equity holders of the entity (cents)	12	0.42	(2.23)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDING 30 JUNE 2014

	Issued capital	Shares reserved for employee share plan	Accumulated losses	Share option reserve	Total equity
	$US	$US	$US	$US	$US
At 1 January 2014	22,430,823	(65,636)	(9,101,544)	334,666	13,598,309
Profit attributable to members of the Group	-	-	657,094	-	657,094
Other Comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	657,094	-	657,094
Share based payments	-	-	-	77,492	77,492
Issue of options	-	-	-	14,994	14,994
Issue of share capital	190,013	(190,013)	-	-	-
At 30 June 2014	22,620,836	(255,649)	(8,444,450)	427,152	14,347,889
	$US	**$US**	**$US**	**$US**	**$US**
At 1 January 2013	22,318,820	-	2,368,051	35,769	24,722,640
Loss attributable to members of the Group	-	-	(3,476,483)	-	(3,476,483)
Other Comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	(3,476,483)	-	(3,476,483)
		-			
Issue of share capital	97,304	-	-	-	97,304
At 30 June 2013	22,416,124	-	(1,108,432)	35,769	21,343,461

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 HALF YEAR ENDED 30 JUNE 2014

	2014 $US	2013 $US
Cash flows from operating activities		
Receipts from customers	3,969,134	6,673,897
Payments to suppliers and employees	(3,302,838)	(4,015,616)
Interest received	113	3,016
Interest paid	(82,648)	(99,851)
State tax paid	-	(104,715)
Net cash provided by operating activities	583,761	2,456,731
Cash flows from investing activities		
Proceeds from sale of oil properties	-	125,000
Oil property development expenditure	-	(3,396,220)
Refunds/(Payments) for performance bonds	-	84,274
Payments for purchases of property plant and equipment	(99,325)	(51,250)
Payments for exploration	(10,156)	(639,836)
Net cash used in investing activities	(109,481)	(3,878,032)
Cash flows from financing activities		
Proceeds from issue of shares	-	97,304
Proceeds of borrowings	3,525,000	-
Repayment of borrowings	(3,352,286)	(2,000,000)
Net cash (used in)/provided by financing activities	172,714	(1,902,696)
Net (decrease)/increase in cash and cash equivalents	646,994	(3,323,997)
Exchange differences on cash balances held	951	(18,083)
Cash and cash equivalents at the beginning of the period	541,110	3,970,247
Cash and cash equivalents at end of period	1,189,055	628,167

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated interim financial statements are for the group comprising Incremental Oil and Gas Ltd ("the Company" or "Incremental Oil and Gas" or "the Parent") and its wholly owned subsidiaries (collectively "the Group").

Incremental Oil and Gas Ltd is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

These consolidated interim financial statements were authorised for issue in accordance with a resolution of the Directors on 28 August 2014.

The principal accounting policies adopted in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

These consolidated interim financial statements of the Group for the period ended 30 June 2014 are a general purpose condensed financial report prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting.

These consolidated interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as the full financial report.

It is recommended that these consolidated interim financial statements be read in conjunction with the annual financial report for the year ended 31 December 2013 and any public announcements made by the Company during the half-year in accordance with the continuous disclosure requirements under Corporations Act 2001.

The financial information for the half year ended 30 June 2014 is presented in **US dollars** which is Incremental Oil and Gas Ltd's functional and presentation currency.

Statement of compliance

The consolidated interim financial statements of the Group also comply with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

New and amended standards adopted by the Group

For the half year ended 30 June 2014, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2014. The Directors have determined that there is no change necessary to group accounting policies. These accounting standards do not have a material impact on the financial position or performance of the Group.

Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention.

2. 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:

Significant accounting judgements

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 8.

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.

	30 June 2014 $US	**31 December 2013 $US**
3. Cash and cash equivalents		
For the purposes of the statements of cash flows, cash and cash equivalents comprise the following at 30 June		
Cash at bank and on hand	1,189,055	541,110
	1,189,055	541,110
4. Trade and other receivables		
Oil and gas sales debtors	663,807	735,029
Other receivables	1,297	31,234
	665,104	766,243
Trade and other receivables do not contain impaired assets and are not past due.		
5. Inventories		
Oil inventory	55,757	111,804
Other inventory	278,870	278,871
	334,627	390,675

	30 June 2014 $US	31 December 2013 $US
6. Oil properties		
Cost of acquisition and enhancement of production assets	33,396,704	33,396,704
Accumulated amortisation and impairment provisions	(18,011,338)	(17,662,940)
	15,385,366	15,733,764
Opening balance – 1 January	15,733,764	27,764,750
Additions	-	3,360,898
Transfer from exploration	-	1,458,831
Asset retirement obligation	-	512,958
Disposals	-	(492,018)
Impairment (i)	-	(15,254,724)
Amortisation for the period	(348,398)	(1,616,931)
Closing balance	15,385,366	15,733,764

(i) Impairment charge

At 31 December 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 2013, an offer of US$13M for both fields was received and accepted by the Company. The offer did not close. During the 2013 year, the assets were withdrawn from sale and management decided to retain these assets and focus on improving their profitability and productivity. Accounting standards required 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. In addition, they should be measured at their higher of their recoverable amount and 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 was downgraded. It was 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 a value in use model using a discount rate of 10%, a write-down of $9.046M was 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) was written off.

For the 30 June 2014 half year, management has reviewed the key economic assumptions underpinning their impairment assessment including production profile, recoverable reserves and discount factor, noting these are still appropriate and have not changed significantly from 31 December 2013. Accordingly, management is of the view that the impairment made at 31 December 2013 remains appropriate and thus no reversal of the provision or further impairment of the oil properties is required.

	30 June 2014 $US	31 December 2013 $US
7. Exploration assets		
Exploration and evaluation assets at cost	10,156	-
Opening balance – 1 January	-	760,898
Additions	10,156	1,368,417
Impairment [(i)]	-	(670,484)
Transfer to oil production property	-	(1,458,831)
Closing balance	10,156	-

(i) Impairment charge

In 2013 the Board reviewed its existing exploration and development lease holdings of McDonald Anticline and Raven Pass in California. Efforts were 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, the assets were written down in full, resulting in an impairment of $0.67M.

	30 June 2014 $US	31 December 2013 $US
8. Plant and equipment		
Opening net book value at 1 January	1,614,587	1,765,530
Additions	99,326	127,631
Disposals	(4,184)	(56,583)
Depreciation charges	(109,721)	(221,991)
Closing balance: net of accumulated depreciation and impairment	1,600,008	1,614,587

9. Trade and other payables		
Current -		
Trade payables and accruals	484,365	1,379,593
	484,365	1,379,593
Non-current -		
Production taxes payable	80,770	318,590
Total trade and other payables	565,135	1,698,183

Trade payables are non-interest bearing payables and are normally settled on 30 day terms.
Production taxes are non-interest bearing payables that are owed to the State of Colorado.

10. Borrowings

	30 June 2014 $US	31 December 2013 $US
Current -		
Term loan - secured	750,000	2,785,057
	750,000	2,785,057
Non-current		
Line of credit - secured	299,850	-
Term loan- secured	2,122,836	-
	2,422,686	-

In May 2014 the Company concluded agreements with ANB Bank (ANB) to repay existing bank facilities due to RMB Australia Holdings Ltd (RMB).

The term loan drawn down totalled $3.0M and is repayable monthly over 4 years with a maturity date of 1 May 2018 at 3.75% interest.

ANB has also offered up to $5M in a revolving line of credit to assist with acquiring additional producing oil and gas properties and general working capital purposes. As at 30 June 2014 $0.3M was drawn down.

The loan is secured by mortgages over the Company's producing oilfields in California and Colorado.

11. Issued capital

	30 June 2014 $US	31 December 2013 $US
160,336,680 fully paid ordinary shares (31 December 2013: 156,242,680)	22,620,836	22,430,823

Movement in ordinary shares on issue	**2014**	
	$US	**No**
At 1 January 2014	22,430,823	156,242,680
Issued pursuant to employee share plan	190,013	4,094,000
At 30 June 2014	22,620,836	160,336,680

Share options

At 30 June 2014, there were the following unlisted options over unissued fully paid ordinary shares on issue:

92,500,000 options on issue with an expiry date of 1 November 2014 and an exercise price of A$0.20.
5,000,000 options on issue with an expiry date of 27 July 2018 and an exercise price of A$0.1485.
400,000 options on issue with an expiry date of 26 May 2017 and an exercise price of A$0.07.

	30 June 2014 $US	30 June 2013 $US
12. Earnings/(loss) per share		
Basic earnings per share amounts are calculated by dividing net profit/(loss) for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.		
The following reflects the income and share data used in the basic profit per share computations:		
Net (loss)/profit attributable to equity holders of the parent	657,094	(3,476,483)
	Cents per share ($US - cents)	**Cents per share ($US - cents)**
Basic earnings/(loss) per share (cents)	0.42	(2.23)
	30 June 2014	**30 June 2013**
	No.	**No.**
The weighted average number of ordinary shares on issue during the financial period used in the calculation of basic loss per share	155,870,487	155,943,680
	Cents per share ($US - cents)	**Cents per share ($US - cents)**
Diluted earnings/(loss) per share (cents)	0.42	(2.23)
	No.	**No.**
The weighted average number of ordinary shares on issue during the financial period used in the calculation of diluted earnings per share	155,870,487	155,943,680

13. Segment Reporting

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.

14. Events after the balance sheet date

Since the end of the period and up to the date of this report, no other matter or circumstance has arisen that has materially affected, or may materially affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

15. Contingent Liabilities and Commitments

The Group has no material contingent liabilities or commitments at balance date or date of this report.

16. Financial Instruments

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2014:

	Loans and receivables $US	Fair value through profit and loss $US	Fair value through other comprehensive income $US
Financial Assets:			
Trade and other receivables	665,104	-	-
Total Current	665,104	-	-
Other assets	27,293	-	-
Total Non-current	27,293	-	-
Total	692,397	-	-
Financial Liabilities:			
Trade and other payables	484,365	-	-
Term loan	750,000	-	-
Total Current	1,234,365	-	-
Trade and other payables	80,770	-	-
Line of credit	299,850		
Term Loan	2,122,836	-	-
Total Non-current	2,503,456	-	-
Total	3,737,821	-	-

Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2014:

	Carrying amount $US	Fair value $US
Financial Assets:		
Trade and other receivables	665,104	665,104
Total Current	665,104	665,104
Other assets	27,293	27,293
Total Non-current	27,293	27,293
Total	692,397	692,397
Financial Liabilities:		
Trade and other payables	484,365	484,365
Term loan	750,000	750,000
Total Current	1,234,365	1,234,365
Trade and other payables	80,770	80,770
Line of credit	299,850	299,850
Term loan	2,122,836	2,122,836
Total Non-current	2,503,456	2,503,456
Total	3,737,821	3,737,821

17. Related Party Disclosures

There were no related party transactions to disclose in 2014 or 2013.

DIRECTORS' DECLARATION

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

a. In the opinion of the directors

(a) The financial statements and notes of Incremental Oil and Gas Ltd are in accordance with the Corporations Act 2001, including;

(i) Giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the half year ended on that date, and

(ii) Complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

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

On behalf of the Board

Gerard J McGann

Gerard McGann
Managing Director
Perth

28 August 2014

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Independent review report to the members of Incremental Oil and Gas Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Incremental Oil and Gas Ltd, which comprises the consolidated statement of financial position as at 30 June 2014, 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 half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Incremental Oil and Gas Ltd and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the half-year financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Incremental Oil and Gas Ltd is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
28 August 2014

APPENDIX 4D
ASX INFORMATION

The information that is required by the Australian Stock Exchange Limited Listing Rules is as follows.

1. Details of the results for this reporting period and the corresponding prior year period are provided elsewhere in this report.

2. Results for announcement to the market

		Change from Prior period	US$
2.1.	Revenues from ordinary activities	38% ↓	3,887,220
2.2.	Profit/(Loss) from ordinary activities after tax attributable to members	N/A	657,094
2.3.	Net profit/(loss) for the period attributable to members	N/A	657,094
2.4.	Dividends (distributions)		Nil

The revenue decreased in H1-14 compared to H1-13 by $2,403,766 due mainly from a decrease in production and sales volume (64,521 Bbls sold in H1-13 compared to 39,576 Bbls in H1-14 – 39% decrease). The decrease in volume has resulted from natural decline in hydrocarbon production within the existing oilfields. The average oil price achieved in H1-14 has increased marginally from $95.72/Bbl in H1-13 to $96.33/Bbl.

Direct costs have decreased by 47% from 2013 to 2014. The average cost per barrel of direct costs has decreased from $50.78 per barrel in H1-13 to $44.29 per barrel in H1-14.. Savings were achieved through mitigating water disposal at Round Mountain and reducing field costs in general at all fields.

Compliance, operating lease (rent) and salary costs decreased from $1,382,786 in H1-13 to $760,670 in H1-14 (45%). These overhead costs were reduced through implementing cost efficiency measures in USA and Australia. Interest and finance cost has increased in 2014 but this is impacted in the expensing of the remaining RMB Resources loan fees in H1-14 as this facility was refinanced. On a cash basis, interest has decreased in 2014 compared to 2013.

Dividends were not considered by the Board due to reinvestment requirements for cash reserves into new projects.

	June 2014 US$	December 2013 US$
3. Net tangible assets per security	0.089	0.087

4. Control was neither gained nor lost over any entities during the half year.

5. No dividends were paid during the period

6. The Company does not have a dividend re-investment plan.

7. The Company does not have any Associated Companies or Joint Ventures.