

Preliminary Final Report (Appendix 4E)
for the year ended 31 December 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	%'age Change	US\$ 2016	US\$ 2015
Revenue from ordinary activities	↑ 13%	\$5,335,620	\$4,707,061
Net Loss from ordinary activities after tax attributable to members		(\$1,910,025)	(\$2,726,105)
Net Loss after tax for the period attributable to members		(\$1,910,025)	(\$2,726,105)
Earnings per share		(1.08) cents	(1.68) cents
Diluted earnings per share		(1.08) cents	(1.68) cents
Net tangible assets per share	↓ 42%	1.02 cents	1.75 cents
Earnings before interest, tax, depreciation and amortisation (EBITDA) ¹	↑ 83%	\$415,650	\$226,570
Field operating profit before amortisation and depreciation ¹	↑ 1%	\$2,231,199	\$2,209,113
Production (BOE)	↑ 39%	223,725	161,478

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

This report is based on accounts which have not been audited or reviewed. Oilfield asset values in the financial statements are subject to review by external competent persons and could result in impairment if the estimates are below net book value.

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

¹ EBITDA and Field operating profit before amortisation and depreciation are non-IFRS measures. They excludes impairment, amortisation, depreciation, interest (including finance costs) and tax. These measures used as part of the key performance indicators for management.

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COMMENTARY ON RESULTS

This consolidated financial report of Incremental Oil and Gas Limited ("Incremental" or "the Company") covers the twelve months of operations for the year ended 31 December 2016.

A summary of operating results is as follows:

	2016	2015
Gross volume of oil, gas and NGL sold		
Oil (Barrels)	85,521	87,426
Gas (Mcf)	580,926	293,280
NGL (Barrels)	41,383	25,172
TOTAL – Barrels of oil equivalent (BOE)	223,725	161,478
	US\$M	US\$M
Gross revenue from oil, gas and NGL sales	\$5.336	\$4.707
Royalty Payments	(\$0.931)	(\$0.821)
Production Expenses	(\$2.174)	(\$1.677)
Operating Profit	\$2.231	\$2.209
Other income	\$0.160	\$0.031
Overhead Expenses	(\$1.975)	(\$2.013)
EBITDA	\$0.416	\$0.227
Interest expense & finance costs	(\$0.366)	(\$0.248)
Depreciation/Amortisation	(\$1.960)	(\$1.826)
Tax (expense)/benefit	\$ -	\$ -
Impairment	\$ -	(\$0.879)
Net Profit/(Loss) After Tax	(\$1.910)	(\$2.726)

Revenue was impacted by low oil and gas prices with West Texas Intermediate (WTI) reaching a low of \$26.19/bbl in February 2016 and CIG Rocky Mountains gas prices reaching a low of \$1.21/Mcf in March 2016. In 2016, WTI oil prices averaged \$43.28 compared to \$48.67 in 2015. The average oil price received by the Company after marketing/refinery deductions in 2016 was \$37/bbl (2015 – \$42/bbl).

The Company continued to optimise and reduce overhead costs and field operating costs during the year.

Despite the difficult trading conditions, the Company increased EBITDA by 83% from 2015 to \$415,650 in 2016, and net cash surplus from operating activities for 2016 was \$233,395 (2015 - \$698,130). \$636,218 of cash was invested in field development at Silvertip in 2016 on gas recompletions and other field enhancements. Incremental raised new equity of \$1.074M (net) through a placement of shares in 2016 and net bank debt was reduced by \$495,237.

REVIEW OF OPERATIONS

SILVERTIP, WYOMING:

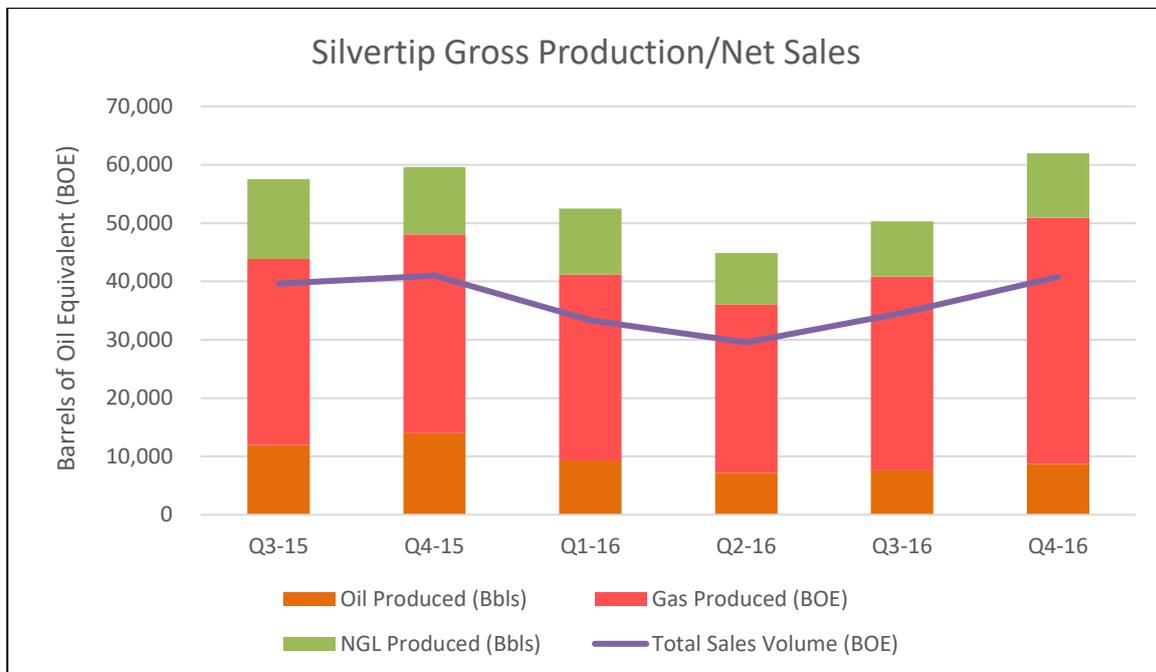
Incremental acquired the Silvertip Field on 30 June 2015. The Field has 4,700 net leasehold acres in the Bighorn Basin, Wyoming. Incremental operates the field with a 100% working interest (WI) and a net revenue interest (NRI) of approximately 82.5%. This field produces oil and high BTU gas which is sold as natural gas and natural gas liquids (NGL's).

Hydrocarbons are produced from a number of formations in the multi stacked reservoir at Silvertip. The field produces from 101 wells. Facilities include a gas processing plant, oil and NGL storage facilities, a field gas pipeline network which connects to two inter-state distribution pipelines, a significant inventory of well equipment and tubulars, a workshop and office building facilities. The field is manned by three staff.

In 2016, the proved developed producing (PDP) reserves at the Silvertip Field were increased from 580,770 BOE (reported at the time of purchase in 2015) to 962,400 BOE. This increase of reserves was the result of workovers and recompletions in the field.

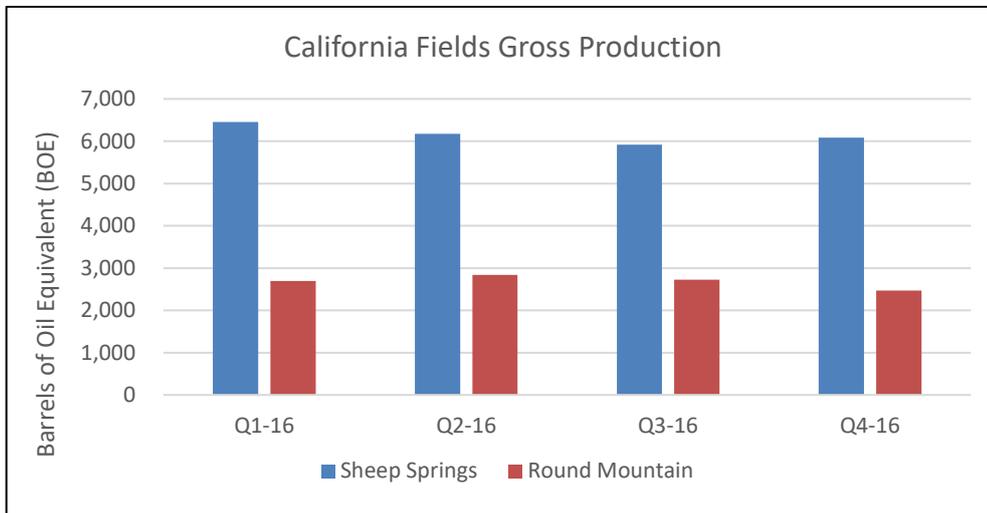
In the second half of 2016, Incremental carried out a development program which increased production. Eleven well recompletions were undertaken, ten of which targeted gas formations. The results of this development program were above expectations and as shown in the Q4-16 in the chart below.

Note – Gross production includes produced gas that is subsequently used in the field as fuel gas to provide power to run the gas processing plant and other infrastructure.



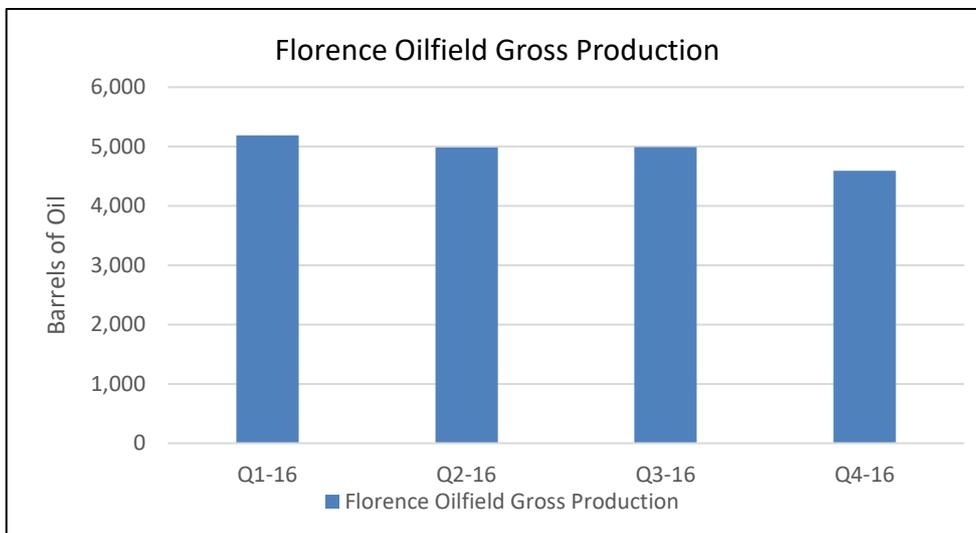
CALIFORNIA OPERATIONS: SHEEP SPRINGS and ROUND MOUNTAIN

The Sheep Springs and Round Mountain Oilfields perform well during 2016 with low production decline. These wells continued to provide consistent cash flow for the Company.



COLORADO OPERATIONS: FLORENCE

The Florence Oilfield performed well throughout 2016 with low decline rates and provided consistent cashflow.



Incremental announced the execution of a term sheet to sell Incremental Oil and Gas USA Holdings, Inc.’s membership interest in Incremental Oil and Gas (Florence) LLC, for \$2M in December 2016. Incremental Oil and Gas (Florence) owns and operates the Florence Oilfield. Negotiation of a purchase and sale agreement are continuing.

AQUISITION OPPORTUNITIES:

During the year, the company reviewed a significant number of oil and gas acquisition opportunities as part of its development strategy. This work will continue into 2017. The Company’s bank is supportive of Incremental growth through parallel acquisition and development strategies.

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

		2016 US\$	2015 US\$
Oil, gas and NGL sales	2a	5,335,620	4,707,061
Direct cost of sales -			
Royalty costs		(930,573)	(821,050)
Production and exploration expenses		(2,173,848)	(1,676,898)
Amortisation and depreciation	2b	(1,939,944)	(1,807,478)
Gross profit from operations		291,255	401,635
Other operating revenue	2a	160,404	30,976
Administrative expenses		(1,122,166)	(1,333,587)
Other operating expenses		(873,778)	(698,933)
Interest and finance expenses	2d	(365,740)	(247,577)
Impairment of assets	2e	-	(878,619)
Profit / (Loss) before income tax		(1,910,025)	(2,726,105)
Income tax (expense) / benefit		-	-
Profit / (Loss) after tax		(1,910,025)	(2,726,105)
Profit / (Loss) for the period attributable to members of the entity		(1,910,025)	(2,726,105)
Other comprehensive income:			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit or loss		-	-
Other comprehensive income / (loss) for the period, net of tax		-	-
Total comprehensive income / (loss) for the period attributable to members of the entity		(1,910,025)	(2,726,105)
Basic (loss) /earnings per share attributable to ordinary equity holders of the entity (cents)	3	(1.08)	(1.68)
Diluted (loss) /earnings per share attributable to ordinary equity holders of the entity (cents)	3	(1.08)	(1.68)

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Consolidated statement of financial position (as at 31 December)

	Note	2016 US\$	2015 US\$
Current assets			
Cash and cash equivalents	4	658,450	445,419
Trade and other receivables	5	650,931	431,197
Inventories	6	75,105	107,191
Assets classified as held for sale	7	1,247,678	-
Total current assets		<u>2,632,164</u>	<u>983,807</u>
Non-current assets			
Other financial assets		322,734	322,229
Oil properties	8	10,143,771	11,738,680
Plant and equipment	9	2,766,722	4,036,280
Total non-current assets		<u>13,233,227</u>	<u>16,097,189</u>
Total assets		<u>15,865,391</u>	<u>17,080,996</u>
Current liabilities			
Trade and other payables	10	1,035,383	911,377
Interest bearing liabilities	11	950,000	950,000
Taxes payable		126,265	126,265
Provisions	12	115,166	89,105
Liabilities directly associated with the assets classified as held for sale	7	477,265	-
Total current liabilities		<u>2,704,079</u>	<u>2,076,747</u>
Non-current liabilities			
Trade and other payables	10	40,158	56,494
Interest bearing liabilities	11	6,817,914	7,291,193
Provisions	12	4,237,683	4,792,830
Total non-current liabilities		<u>11,095,755</u>	<u>12,140,517</u>
Total liabilities		<u>13,799,834</u>	<u>14,217,264</u>
Net assets		<u>2,065,557</u>	<u>2,863,732</u>
Equity			
Issued capital	13	23,796,744	22,717,388
Share reserved for employee share plan	13	4,795	(27,699)
Reserves	15	349,661	349,661
Accumulated losses		(22,085,643)	(20,175,618)
Total equity		<u>2,065,557</u>	<u>2,863,732</u>

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

	Note	<u>2016 US\$</u>	<u>2015 US\$</u>
Cash flows from operating activities			
Receipts from customers		4,900,416	4,336,315
Payments to suppliers and employees		(3,911,629)	(3,187,210)
Interest received		1,319	963
Interest paid		(338,145)	(210,313)
Production tax paid		(418,566)	(241,625)
Net cash provided by operating activities		<u>233,395</u>	<u>698,130</u>
Cash flows from investing activities			
Acquisition of Silvertip, net of cash acquired		-	(6,345,477)
Oil property development expenditure		(636,218)	(613,438)
Refunds/(payments) for performance bonds		-	(321,606)
Proceeds from sale of assets		28,298	6,000
Payments for purchases of property, plant and equipment		(959)	(105,145)
Net cash used in investing activities		<u>(608,879)</u>	<u>(7,379,666)</u>
Cash flows from financing activities			
Proceeds from issues of equity securities		1,147,153	-
Transaction costs for issue of shares		(72,957)	(5,276)
Repayment of borrowings		(995,237)	(881,889)
Proceeds of borrowings		500,000	6,657,160
Net cash provided by/(used in) financing activities		<u>578,959</u>	<u>5,769,995</u>
Cash and cash equivalents at the start of the year/period			
		445,419	1,361,814
Net increase/(decrease) in cash and cash equivalents			
		203,475	(911,541)
Exchange differences on cash balances held			
		9,556	(4,854)
Cash and cash equivalents at the end of the year/period			
		<u>658,450</u>	<u>445,419</u>

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

	Issued capital US\$	Shares reserved for employee share plan US\$	Accumulat ed profits/ (losses) US\$	Share option reserve US\$	Total equity US\$
At 31 December 2015	22,717,388	(27,699)	(20,175,618)	349,661	2,863,732
Loss attributable to members of the Group	-	-	(1,910,025)	-	(1,910,025)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	(1,910,025)	-	(1,910,025)
Issue of employee shares	5,160	(5,160)	-	-	-
Issue of equity	1,147,153	-	-	-	1,147,153
Issue of options	-	-	-	-	-
Share based payment expense	-	37,654	-	-	37,654
Cost of issue of share capital	(72,957)	-	-	-	(72,957)
At 31 December 2016	23,796,744	4,795	(22,085,643)	349,661	2,065,557

	Issued capital US\$	Shares reserved for employee share plan US\$	Accumulat ed profits/ (losses) US\$	Share option reserve US\$	Total equity US\$
At 31 December 2014	22,620,836	(84,189)	(17,449,513)	349,661	5,436,795
Loss attributable to members of the Group	-	-	(2,726,105)	-	(2,726,105)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	(2,726,105)	-	(2,726,105)
Issue of employee shares	101,828	(101,828)	-	-	-
Transaction costs	(5,276)	-	-	-	(5,276)
Issue of options	-	-	-	-	-
Share based payment expense	-	158,318	-	-	158,318
At 31 December 2015	22,717,388	(27,699)	(20,175,618)	349,661	2,863,732

Condensed notes to the financial statements

1. Summary of significant accounting policies

a. Basis of preparation

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

The report does not include all of the notes normally included in an annual financial report. Accordingly this report is to be read in conjunction with the financial report for the year ended 31 December 2015, the Interim Financial Report for the half year ended 30 June 2016 and any public announcements made by Incremental during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

b. Statement of Compliance

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

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

c. Principals of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incremental Oil and Gas Ltd ("Incremental") as at 31 December 2016 and the results of all subsidiaries for the year then ended. Incremental and its subsidiaries together are referred to as the Group. Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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	2016	2015
	US\$	US\$
2. Revenue, other income and expenses		
a) Sales revenue		
Oil and gas	5,319,692	4,686,693
Royalties	15,928	20,368
Oil and gas sales	<u>5,335,620</u>	<u>4,707,061</u>
Other revenue		
Interest Income	1,319	963
Other revenue	159,085	30,013
Total other revenue	<u>160,404</u>	<u>30,976</u>
b) Depreciation and amortisation included in the statement of profit or loss		
Amortisation – oil and gas properties	(1,298,064)	(1,479,614)
Depreciation – oil and gas properties	(641,880)	(327,864)
	<u>(1,939,944)</u>	<u>(1,807,478)</u>
Depreciation – other plant & equipment	(21,311)	(19,963)
	<u>(1,961,255)</u>	<u>(1,827,441)</u>
c) Net gain/(loss) on sale of oil properties and exploration assets		
Equipment sale	<u>(14,922)</u>	<u>(12,772)</u>
d) Finance costs		
Interest on bank loans	(338,145)	(210,313)
Financing charges	(27,595)	(37,264)
	<u>(365,740)</u>	<u>(247,577)</u>
e) Impairment of assets		
Impairment of oil and gas properties		
-Florence	-	(342,997)
-Sheep Springs	-	(325,304)
Impairment of property , plant and equipment	-	(166,784)
Write down of property, plant and equipment	-	(43,534)
	<u>-</u>	<u>(878,619)</u>

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	2016 US\$	2015 US\$
3. Earnings per share		
Earnings used in calculating basic earnings per share	<u>(1,910,025)</u>	<u>(2,726,105)</u>
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	176,461,424	162,061,078
Effect of dilutive securities:		
Share Options	<u>-</u>	<u>-</u>
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>176,461,424</u>	<u>162,061,078</u>
	2016 US\$	2015 US\$
4. Cash and cash equivalents		
Cash at bank and on hand	<u>658,450</u>	<u>445,419</u>
Note –		
Cash of \$322,734 is held on term deposit as security for performance bonds and is classified as non-current other receivables in the balance sheet.		
5. Trade and other receivables		
Current -		
Oil and gas sales debtors	576,758	377,331
Other receivables	<u>74,173</u>	<u>53,866</u>
	<u>650,931</u>	<u>431,197</u>
6. Inventories		
Oil and gas inventory at cost of production	<u>75,105</u>	<u>107,191</u>
7. Assets and liabilities classified as held for sale		
Assets		
Production assets and plant and equipment (net of accumulated amortisation, depreciation and impairment)	1,247,678	-
Liabilities		
Restoration liability associated with production assets classified as held for sale	<u>(477,265)</u>	<u>-</u>
	<u>770,413</u>	<u>-</u>

In December 2016 Incremental entered into a Term Sheet Agreement with Austin Exploration Ltd to divest of the Florence Oilfield. The purchase and sale agreement is in negotiation at the date of this report.

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	2016	2015
	US\$	US\$
8. Oil Properties		
Cost of acquisition and enhancements	27,301,630	40,929,970
Accumulated amortisation and impairment	<u>(17,157,859)</u>	<u>(29,191,290)</u>
	<u>10,143,771</u>	<u>11,738,680</u>
9. Fixed assets		
Cost	3,862,299	5,798,077
Depreciation and impairment	<u>(1,095,577)</u>	<u>(1,761,797)</u>
	<u>2,766,722</u>	<u>4,036,280</u>
10. Trade and other payables		
CURRENT -		
Trade payables and accruals	<u>1,035,383</u>	<u>911,377</u>
NON CURRENT -		
Trade payables and accruals	<u>40,158</u>	<u>56,494</u>
11. Interest Bearing Liabilities		
CURRENT -		
Bank Loan (Secured)	<u>950,000</u>	<u>950,000</u>
NON-CURRENT -		
Bank Loan (Secured)	<u>6,817,914</u>	<u>7,291,193</u>

The secured bank loans are provided by ANB Bank as a US Dollar denominated term loan facility. A loan of \$3 million (balance at Dec 2016 - \$968,830) was provided in May 2014. The loan facility was made available and drawn on for the purpose of acquiring the Silvertip Field in June 2015 (Dec 2016 - \$6,157,160). The loans are made up of two term loans and a line of credit as follows:

Term Loan 1 -

- Initial face value of loan - \$3.0 million (Balance Dec-16 - \$968,830)

Term Loan 2 -

- Initial face value of loan - \$1.0 million (Balance Dec-16 - \$692,110)

Line of Credit -

- Initial loan facility limit - \$7.0 million (facility limit Dec-16 - \$6,444,633)
- Loan balance Dec-16 - \$6,157,160

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12. Provisions

CURRENT -

Employee leave provision	115,166	89,105
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NON CURRENT -

Asset retirement obligation	4,237,683	4,792,830
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13. Issued capital

	Number of shares	Number of shares
At 1 January	163,684,580	160,336,680
New shares issued - placement	38,000,000	-
New shares issued- employee shares	150,000	3,347,900
	201,834,580	163,684,580

	2016 US\$	2015 US\$
At 1 January	22,717,388	22,620,836
New shares issued – placement (net of capital raising costs)	1,074,196	-
New shares issued – employee shares	5,160	96,552
	23,796,744	22,717,388
Shares reserved for employee share plan	4,795	(27,699)

14. Options

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

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

15. Reserves

Share option reserve	349,661	349,661
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