ANNUAL REPORT

INCREMENTAL OIL AND GAS LTD

ABN: 66 138 145 114

Year Ended 31 December 2014

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CORPORATE DIRECTORY

Directors
Mark Stowell B.Bus, CA
Non-executive Chairman

Gerry McGann B.Sc (Hons)
Non-executive Technical Director

Matthew McCann J.D.
Non-executive Director

John Whisler B.Sc.
Managing Director

Company Secretary
Simon Adams, B.Bus, M.Acc, ACIS

Registered office & Principal place of business
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Auditors
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11 Mounts Bay Road
Perth,
W. Australia 6000
Australia

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

Share Registrar
Link Market Services
Level 4, Central Park
152 St. George's Terrace
Perth
W. Australia 6000
Australia

Bankers
Commonwealth bank of Australia
300 Murray Street
Perth
W. Australia 6000
Australia

Home Exchange
Australian Securities Exchange Ltd
Exchange Plaza
Level 40, Central Park
152-158 St George's Terrace
Perth
W. Australia 6000
Australia

This annual report is of the group comprising Incremental Oil and Gas Ltd ("the parent entity") and its subsidiaries (collectively "the Group"). The Group's functional and presentation currency is USD ($). Unless otherwise stated, all amounts in the Annual Report are in US Dollars.

A description of the Group's operations and of its principal activities is included in the review of operations and activities on pages 7 to 11. The Directors' Report is not part of the financial report.

2014 HIGHLIGHTS

CORPORATE-

- Incremental Oil and Gas Ltd ("Incremental" or "the Company") has recorded a fifth successive annual profit/ (loss) before interest, tax, depreciation, amortization and non-cash adjustments (EBITDA).

US$M	2014	2013	2012	2011
Revenue ($M)	$6.47	$10.94	$16.04	$7.75
Profit/(loss) before tax ($M)	$(7.979)	$(14.651)	$4.588	$1.453
EBITDA ($M) (1)	$2.097	$3.542	$6.828	$2.980

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

	2014	2013
	US$M	US$M
EBITDA (1)	$2.083	$ 3.509
Impairment / asset write down	($7.529)	($15.925)
Interest income / (expense)	($0.134)	($ 0.397)
Depreciation / amortisation	($2.399)	($ 1.839)
Tax (expense) / benefit	($0.369)	$ 3.182
Profit / (loss) after income tax	($8.348)	($11.470)

(1) EBITDA is a non-IFRS measure. The information is unaudited but is extracted from the audited financial statements. EBITDA excludes impairment, amortisation, depreciation, interest and tax. EBITDA is used as part of the key performance indicators for the management as it represents a more accurate measure of true cash performance of the company.

RESERVES REPORT-

As at 31 December 2014, the Group held the following oilfield assets:

Field/Tenement name	State & Country	Working Interest	Area of lease – Net acres
Florence Oilfield	Colorado, USA	100%	6,084
Sheep Springs Oilfield	California, USA	100%	200
Round Mountain	California, USA	100%	320

Oil Reserves and Resources held by the Group as at 31 December 2014 are as follows:

(Mboe) (1)	Sheep Springs, California	Round Mountain, California	Florence, Colorado	TOTAL (Mboe)
1P Reserve	**237**	**109**	**121**	**467**
Developed	237	44	121	402
Undeveloped	-	65	-	65
2P Reserve	**-**	**-**	**-**	**-**
Developed	-	-	-	-
Undeveloped	-	-	-	-
Contingent Resource	**2,272**	**1,723**	**275**	**4,270**

Reconciliation of Reserves:

(Mboe)	Year end 2013	Production	Revised Estimates (2)	Reclassification (3)	Year end 2014
1P Reserve (4)	2,090	(73)	23	(1,573)	467
2P Reserve (5)	4,567	(73)	(224)	(4,270)	-
Contingent Resource	-	-	-	4,270	4,270

1. Mboe – Thousands of barrels of oil equivalent at standard oilfield conditions with gas converted to barrels of oil equivalent at a rate of 6:1.
2. Revised Estimate shows changes in previous estimates of reserves, either up or down, resulting from new information normally obtained from development drilling and production history
3. Reclassification shows adjustments to previous estimates of reserves or Contingent resources, either up or down, resulting from new information normally resulting from a change in economic factors
4. 1P – Proved reserves
5. 2P – Proved and probable 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 2014
Round Mountain	MHA Petroleum Consultants	31 December 2014
Florence	MHA Petroleum Consultants	31 December 2014

The Reserves Statement has been compiled by Mr Gerry McGann, Incremental's Technical Director. 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.

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 11% 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 2014 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 Technical Director, Mr Gerry McGann whose qualifications are stated above.

PRODUCTION REPORT-

Production for the Group in 2014 and prior years was as follows:

		2014	**2013**	**2012**	**2011**
Oil (Bbls)	Sheep Springs	24,167	33,665	39,701	48,765
	Round Mountain	18,559	24,884	33,835	24,230
	Florence (1)	30,418	54,065	105,160	-
Gas (Mcf)	Sheep Springs	2,754	4,086	28,509	46,065

1. Florence production from 1 May 2012 (date of acquisition)

LEASEHOLD DIRECTORY

(as at 31 December 2014)

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
Florence, Colorado	100%	6,084 net acres, 21 operating wells 1,768 net acres held by production 195 net acres expiring 2015 if not renewed 3,591 net acres expiring 2016 if not renewed 530 net acres expiring 2017 or later if not renewed

CHAIRMAN'S REPORT

Dear Shareholder

In a year where Incremental has had limited development activity, it has never the less achieved a number of positive objectives that bode well for the future. I would highlight these accomplishments as follows:

- Cash reserves have been increased by $820,000 and debt has been decreased by $510,000 during the year;
- The Company's debt facility was refinanced with ANB Bank based in Denver, at a lower cost of capital, with improved repayment conditions and better covenant terms. The relationship with ANB Bank is strong and they have expressed a desire to support Incremental in its future growth objectives;
- Management undertook considerable due diligence on numerous acquisitions opportunities which has created an extensive knowledge base of the exploration and production (E&P) market in various oil friendly regions of the USA. A disciplined and rigorous approach to project assessment in 2014 ensured that bids were set at levels that would ensure a sound economic return and although none of these bids were successful, management has developed a good network that will attract new business opportunities;
- The operating and overhead costs were reduced which ensured that the Company remained profitable on a cash basis;
- Continued optimisation of existing well production in all fields.

I am pleased to have had the opportunity to oversee these developments after having taken over the role of Chairman from Mr Chris Cronin, our founding Chairman who retired from the Board in the first half of the year. In June 2014, the Board and management met to review and revise the strategic planning for the Company. The outcome was broadly:

- enhancement of shareholder value will be achieved through increased production,
- growth in oil and gas reserves from development activity in acquired projects; and
- profitable operation of fields by controlling costs and ensuring that resources are only allocated to developing economic wells that have been adequately derisked from a technical and operational perspective.

The near term objective is to increase daily average production through the acquisition of multiple small-medium sized oilfields, given the limited low risk drilling targets in our existing fields. In setting this target, consideration was given to the Company's existing scale (June 2014 – production of an average of 209 bopd) and available resources, and funding capabilities.

Mr John Whisler was appointed as the Company's Managing Director in October 2014 after having served as Incremental's VP USA since joining Incremental in April 2013. John has a strong track record in growing E&P companies in the US and has a good broad range of management, engineering and M&A skills that make him well qualified to take on the role of implementing Increment's growth plan.

Between June 2014 and the end of the year, there was a ~50% decrease in the WTI oil price. Incremental continues to generate positive cash flow from its existing operations at a field level at current oil prices. The current market conditions have already resulted in a decrease in field development and operating costs within the oil and gas industry and there has been a noticeable increase in M&A activity, although vendors are still in many cases pricing sales on the basis of a quick rebound in oil prices. Incremental is well positioned to take advantage of the opportunities as the market stabilises and distressed assets come onto the market later in the year, and will be active in pursuing its growth objectives to take advantage of this.

I would like to take this opportunity on behalf of the Board to thank shareholders for their ongoing support of the company through a tough period in the oil industry, which hopefully we can work to our advantage over the medium term.

Yours sincerely

Mark Stowell
Chairman
31 March 2015

REVIEW OF ACTIVITIES

Incremental Oil and Gas Ltd is an oil and gas exploration and production (E&P) company with operation oilfields located in the states of Colorado and California, USA (see Figure 1 below). It has two producing oilfields located in California and one located in Colorado (refer Lease Directory above). The company is actively seeking new projects to expand its production base.

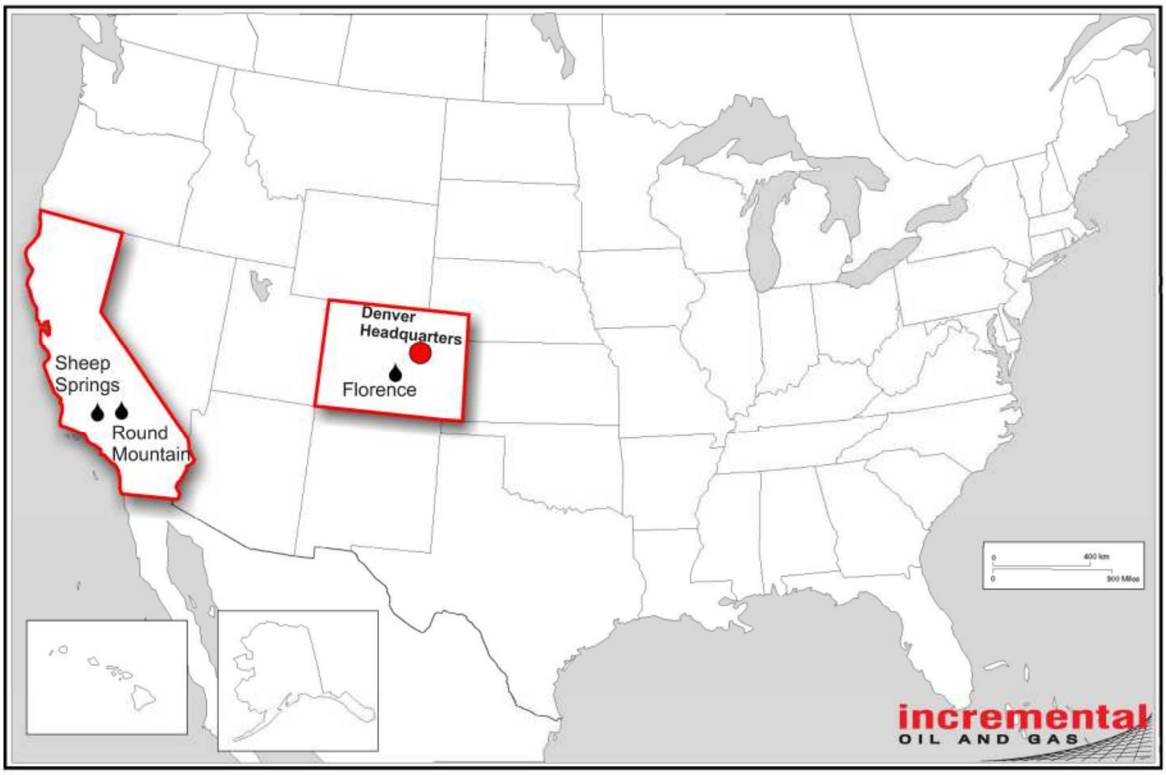

Figure 1 Locations of projects in California and Colorado, USA

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

The Florence Oilfield was discovered in 1876 and has produced over 15 million barrels of oil. The Field is located in the southern portion of the Denver Julesburg basin near Canon City. Oil is produced from the fractured Pierre formation between 1880 ft and 3600 ft. The Niobrara formation is present below the Pierre formation which is an inter-bedded sequence of oily shales and limestones. The Company has undertaken a number of geological and geochemical studies on the prospectivity of the Niobrara in the Florence Oilfield. This work suggests that Niobrara wells are likely to encounter dominantly gas rather than oil as the reservoired hydrocarbon.

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 Aurora well was planned as a deviated well targeting a seismically defined 'ghost' in the Pierre formation. This well was initially drilled to 3260 ft and was subsequently deepened to 3572 ft. Neither of these wells were commercially successful.

Following this drilling campaign, Incremental reviewed all of its potential well locations. Seismic data 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 new well locations were identified as possible future drill targets but none of these targets have been drilled due to geological uncertainty and the risk of incomplete reservoir depletion data from historical drilling activities.

The rapid decline in production from the Pierre shale at Florence has slowed substantially (Figure 2) and is now similar to the decline rate in conventional oilfields. The field operates very efficiently with lift costs below $14/bbl in 2014.

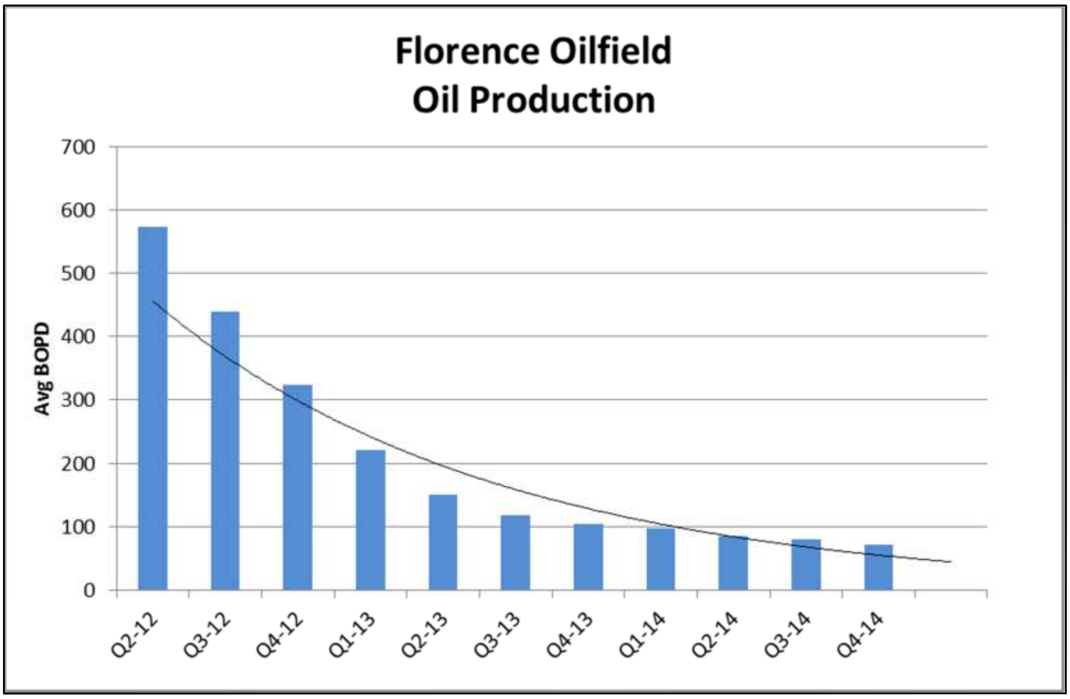

Figure 2: Florence oil production 2012-14 (avg bopd)

2. ROUND MOUNTAIN OILFIELD (100% working interest)

The Round Mountain Oil Field is in the foothills of the Sierra Nevada in the San Joaquin Basin, about 10 miles (16 km) northeast of Bakersfield, California. The field has a cumulative total recovery of more than 110 million barrels of oil and in 2013 it produced over 4 million barrels of oil. The Round Mountain Field produces hydrocarbons from four primary formations, the Freeman-Jewett, Pyramid Hill, Vedder, and Walker (see Figure 3).

Incremental operates a 320 acre lease referred to as the Smoot Lease in the Round Mountain Oilfield and produces oil mainly from the Walker Formation. There are 7 producing wells and one water disposal well in the field.

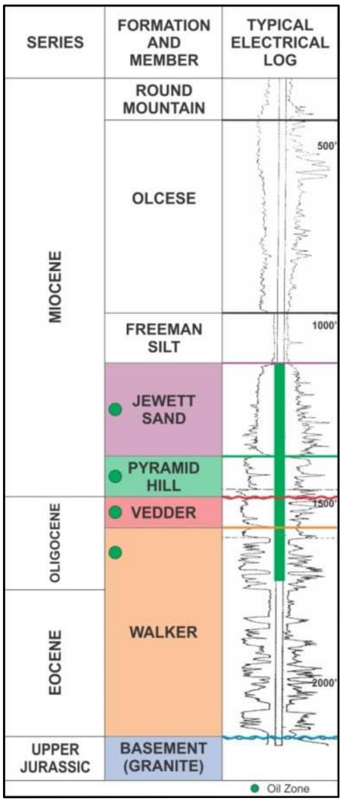

Figure 3: Round Mountain stratigraphic section

During 2014, a number of workovers were undertaken on various wells to improve oil production and increase water disposal capacity (in the water injection well – Smoot 5).

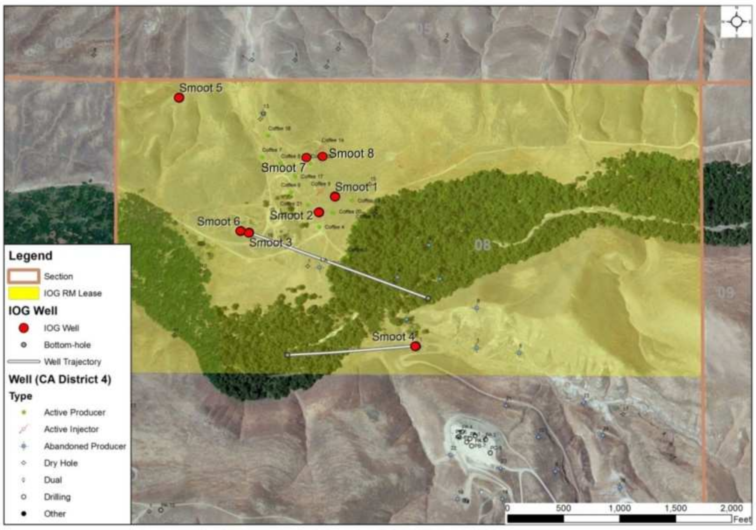

Figure 4: Round Mountain well locations, Smoot Lease

Production increased in Q1-14 as a result of the remedial work undertaken on Smoot 7 and 8 but it has declined subsequently as a result of natural energy decline in the formation (see Figure 5). The lifting cost for the Round Mountain field in 2014 was around $21/bbl compared to lifting costs of $35/bbl in 2013. A large saving was made in improving the efficiency in water disposal which resulted in less excess water being taken off-site for disposal.

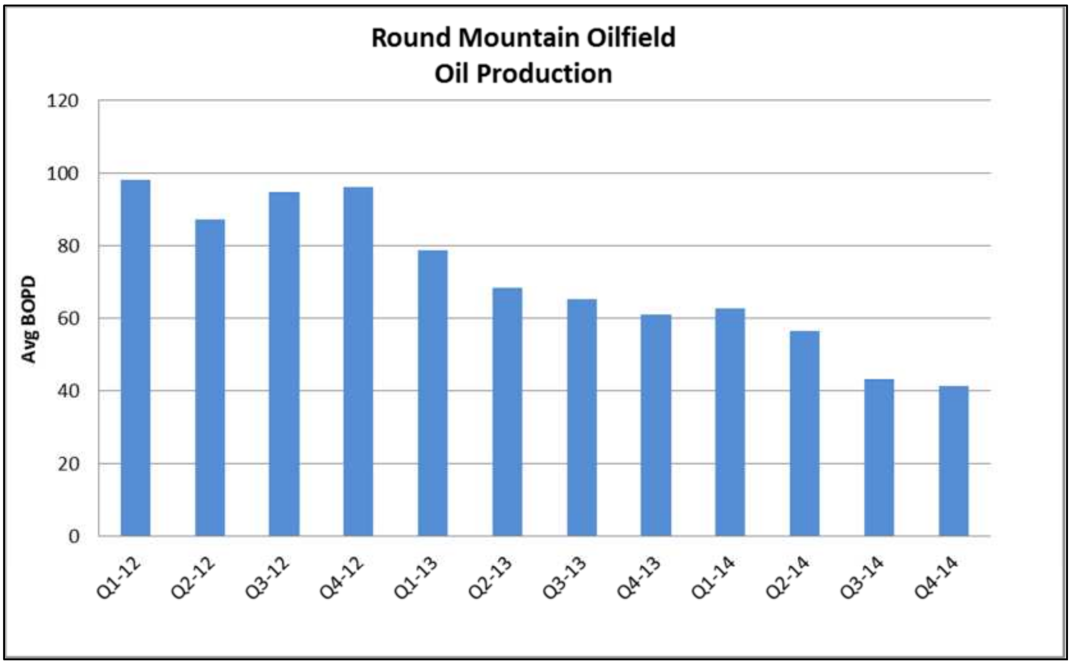

Figure 5: Round Mountain oil production 2012-14 (avg bopd)

3. **SHEEP SPRINGS OILFIELD (100% working interest)**
Incremental has a 200 acre lease in the Sheep Springs Oilfield which is located about 40 miles (64 km) west of Bakersfield in the San Joaquin Basin. Sheep Springs produces hydrocarbons mainly from the Carneros sandstones of the Miocene/Temblor formation at a depth of 3300 ft. There are a number of other reservoirs above and below the Carneros which have been shown to be productive.

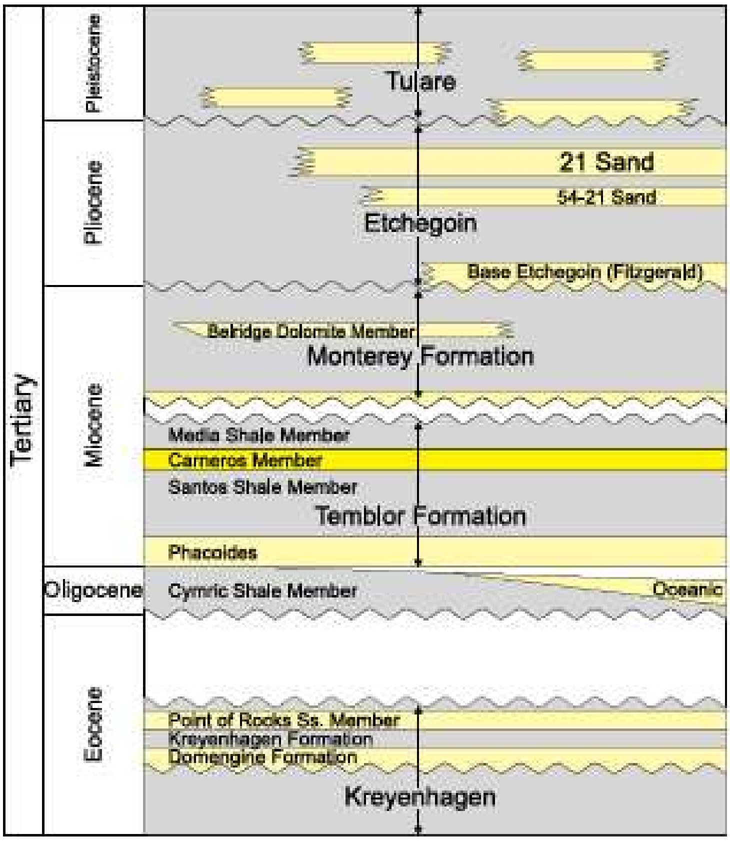

Figure 6: Sheep Springs stratigraphic section

A number of workovers were undertaken in the field during 2014 which helped to stabilise production levels (see Figure 7). The Sheep Springs Oilfield continues to be the most profitable of Incremental's projects with a lifting cost of $16/bbl in 2014.

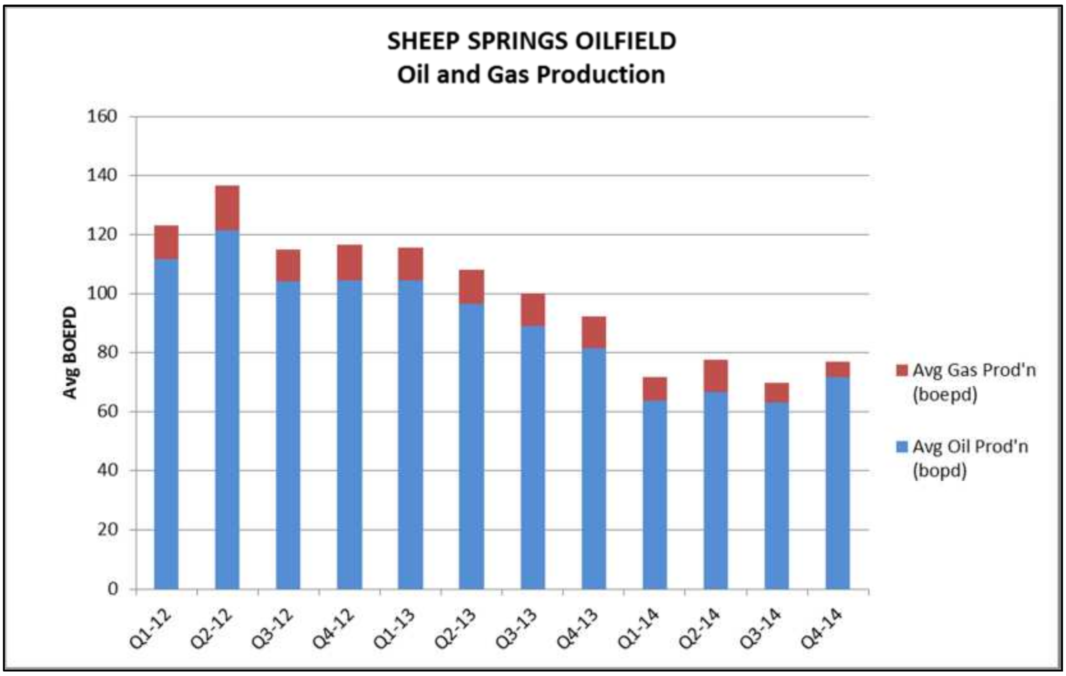

Figure 7: Sheep Springs oil and gas production 2012-14 (Avg boepd)

4. OTHER CALIFORNIA PROJECTS

During the year, Incremental relinquished its interest in the Raven Pass exploration project as it was unable to finalise any farmin arrangements to drill the proposed wells. The Raven Pass project was a large surface anticline with a strike length of over 10 km located in the west of the San Joaquin Basin, close to the North Belridge and Devil Den Fields. Although this prospect had produced oil from a shallow well drilling in the 1940's, the deeper reservoir had not been tested.

All remaining lease interests in the McDonald Anticline development project in California were not renewed as they were deemed to be uneconomic to drill.

5. NEW PROJECTS, USA

Considerable resources were invested by Incremental management in 2014 reviewing multiple acquisition targets in the USA. These projects were predominantly weighted to liquids production from fields that have multi-stacked reservoirs with potential behind pipe and infill drilling opportunities. Existing production from acquisition targets underwrites operating costs while near term PDNP and PUD potential provides the opportunity to uplift project value.

Projects have been assessed and offers made at levels where value could be extracted in the short, medium and long term. Income streams from PDP, PDNP and PUD are risked at different rates to determine the offer price. The company has not as yet been able to secure a new project but a significant database of oilfield characteristics, value matrices and vendors has been built over this time which will assist in future acquisition activities. The Company remains focussed on identifying and securing new opportunities in the coming year. The significant decrease in oil prices in H2-14 is expected to create opportunities to bid on quality assets in 2015.

DIRECTORS' REPORT

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 2014, 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 are as follows. Directors and officers were in office for the entire period unless otherwise stated.

Mr M Stowell, B.Bus CA (Chairman)
Appointed to the Board July 2009
Appointed Chairman 20 May 2014
Age: 51

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 Director of Incremental Petroleum Ltd from inception in 2003, a company that acquired a 1500 bopd oilfield in Turkey, which expanded to 2000 bopd 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 directorships in the last 3 years include:
- None

Mr G. McGann, B.Sc (Hons) (Non-executive Technical Director)
Appointed to the Board July 2009
Age: 66

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 directorships in the last 3 years include:
- None

Mr M McCann, J.D. (Non-executive Director)
Appointed to the Board April 2014
Age: 46

Mr McCann earned a Doctorate of Jurisprudence from the University of Oklahoma--College of Law in 1995 and a B.Sc. in Business Administration from the University of Vermont in 1991.

In 2001, after serving in private practice in the US for 6 years, Mr McCann became General Counsel at Riata Energy, Inc., which later became SandRidge Energy, Inc., a NYSE listed corporation. Before leaving SandRidge in 2007, he ultimately served as Senior Vice President, General Counsel, and Corporate Secretary. In 2007 Matt joined the Riata Corporate Group, a large privately owned group of companies that has substantial oil and gas interests in the US where he currently focuses on business development.

He was Chief Executive Officer at TransAtlantic Petroleum Ltd, a TSX and NYSEMKT listed oil and gas exploration and production company from 2009 until 2011 where he was instrumental in growing TransAtlantic from a junior explorer to a significant international oil and gas producer.

Other current appointments in addition to Incremental Oil and Gas Ltd are:
- None

Additional directorships in the last 3 years include:
- None

Mr J Whisler B.Sc (Managing Director)
Appointed to the Board July 2014
Age: 44

Mr Whisler has more than 25 years of experience in leading, developing, and implementing projects that have created value in the oil and gas industry. 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 personally responsible for the divesture of all the US assets in multiple transactions, in order to assist the parent company in funding the new natural gas discoveries off the coast of Israel with Noble Energy. While at Delek Mr Whisler 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 joined PGC in 2001 and served in various roles from operations engineer to VP of Operations. He engineered, implemented, drilled, completed, developed and managed the San Juan Basin, Piceance Basin and Raton Basin from the ground floor. 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. As well as being responsible for on site supervision Mr Whisler managed the non-brokered divesture, negotiated and closed a $220M divesture for PCG.

Prior to his engagement with PGC, Mr. Whisler served as Operations Engineer for BRG Petroleum where he supervise oil and gas exploration, production, WO, and daily operations from 1994 to 2000 with extensive field operations.

Mr Whisler is a member of the Society of Petroleum Engineers. He has served on several non-profit company boards and advisory teams.

Other current appointments in addition to Incremental Oil and Gas Ltd are:
- None

Additional directorships in the last 3 years include:
- None

Mr C. Cronin, B.Bus (Acc.) FAIM (Non-executive Chairman)
Appointed to the Board July 2009, resigned 20 May 2014
Age: 66

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 directorships 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)

Hon JAL Macdonald, LLB. (Non-executive Director)
Appointed to the Board July 2009, resigned 1 April 2014
Age: 60

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 directorships in the last 3 years include:
- None

Company Secretary
Mr S Adams, B.Bus M.Acc ACIS
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' 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 A$0.07 exercise price, expiring 26/5/17
M Stowell	13,700,002	-
G McGann	24,340,004	-
M McCann	738,000	400,000
J Whisler	4,731,000	-

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 AND FINANCIAL REVIEW

A full review of operations of the consolidated entity during the year ended 31 December 2014 is included in the section entitled "Operations Review" preceding this Directors' Report (pages 7 to 11).

SUMMARY OF FINANCIAL PERFORMANCE

A summary of key financial indicators for the Company, with prior year comparison, is set out in the following table:

	Consolidated 2014	Consolidated 2013
Revenue from the sale of crude oil and gas	$6,466,932	$10,939,590
Gross profit	$1,952,524	$5,217,373
Net loss for the year after tax	($8,347,969)	($11,469,595)
Basic loss per share(cents) from continuing operations	(5.27) cents	(7.35) cents
Net cash from/(used in) operating activities	$1,583,611	$4,009,625
Net cash from/(used in) investing activities	($239,971)	($4,540,372)
Net cash from/(used in) financing activities	($512,437)	($2,887,997)
Net tangible assets per share	3.3 cents	8.7 cents
Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) (1)	$2,097,090	$3,541,290

1. For EBITDA reconciliation, refer to page 2.

The net loss of the Group for the year ended 31 December 2014 of $8.348 million (2013: loss of $11.470 million), was impacted by the following significant items:

- Revenue from oil and gas sales in 2014 ($6,404,490) was lower than the sales revenue from 2013 ($10,805,052) due mainly to the decreased production from the three oilfields (refer Production Report on page 4). No additional wells were drilled to increase production in 2014. Average oil price for 2014 ($88.22/bbl) was 9% lower than the previous year ($97.16/bbl);
- Field operating costs decreased from $1,660,746 in 2013 to $1,070,420 in 2014. Savings of $350,000 were made through the improvements in water disposal at Round Mountain. Labour costs were reduced by 26%;
- Personnel costs were cut by $685,878 during 2014 as a result of lower staff numbers and the suspension of directors fees for the first six months of 2014;
- Financing costs relating to the Groups debt facility for 2014 was $134,517 (2013 - $295,194). Savings were achieved through the refinancing of a loan to RMB that was in place at the end of 2013 with debt at a lower rate of interest. Part of the loan was repaid during the year resulting in lower interest charges.
- Impairment of oilfield asset (including the associated plant and equipment relating to these cash generating units) totalled $7.525 million in 2014 (2013 - $15.925 million). This resulted from the requirements under the accounting standards to test for impairment such that if the carrying amount of an asset is greater than the recoverable amount, the asset will be written down. The impairment resulted from the impact of the fall in oil prices which has made some reserves uneconomic and the remaining reserves less valuable.

SUMMARY OF FINANCIAL POSITION

The Company's cash reserves at the end of 2014 totalled $1.362 million compared to $0.541 million as at 31 December 2013.

The movement in cash reserves was due primarily to:

- Net proceeds from oil production of $6.961 million;

offset by:

- Overheads and other expenditures of $4.284 million;
- State taxes paid of $0.958 million;
- Development expenditure of $0.240 million relating to field workovers and equipment purchases; and
- Debt principal repayments of $0.512 million and interest expense of $0.134 million relating to the current lending facility.

The Company's total assets are $9.728 million (2013 - $19.364 million) and the net assets are $5.437 million (2013 - $13.598 million). The movement in net assets is caused primarily by the impairment of oilfield assets and plant and equipment which has resulted from a decrease in value of the Company's assets relating to oil price decline.

Likely Developments and expected results of Operations

Incremental will continue with its current range of activities in 2015 with a focus on identifying new acquisition targets to expand the business.

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

- Conventional, shallow, light oil production
- Strong cash flow potential from operations
- Ability for production and profitability to be significantly enhanced through exploitation of behind pipe and new well opportunities

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 an increase in cash and cash equivalents in the year of $820,704 (2013 - decrease of $3,429,137) of which operational activities contributed a surplus of $1,583,611 (2013 - $4,009,625). Analyses of the components of the changes are detailed in the consolidated statement of cash flows. $512,437 of debt was repaid during 2014.

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

The number of shares on issue at 31 December 2014 was 160,336,680. 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
27 July 2018	14.85 cents	5,000,000
26 May 2017	7.00 cents	400,000

As at the date of this report no options had been exercised during the year and since the end of the reporting date to the date of this report.

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 Matt McCann (Chair) and Mark Stowell.

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 2014 was $15,157 (2013 - $15,080).

Indemnification of auditors
To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecific amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Remuneration Report (Audited)
This Remuneration Report for the year ended 31 December 2014 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 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 2013 financial year.

Details of directors and key management personnel

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

- Mark Stowell (Chairman)
- Gerry McGann (Non-Executive Technical Director)
- Matthew McCann (Non-Executive Director)
- John Whisler (Managing Director)
- Christopher Cronin (Chairman) – Retired 20 May 2014
- John (Sandy) Macdonald (Non-Executive Director) – Retired 1 April 2014

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

- Simon Adams (Company Secretary and CFO)

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.

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 Company's remuneration policy seeks to encourage alignment between the performance of the Company and total shareholder returns, and the remuneration of Executives. Short term and, in particular, long term 'at risk' incentives only vest when predetermined Company performance objectives are achieved. These performance objectives are operational in nature (production outcomes) but are linked to financial performance and Company value indirectly.

The following table shows the Company's performance over the reporting period and the previous three financial years against overall remuneration for these years:

	2014	**2013**	**2012**	**2011**(1)
Basic EPS (US$)	($0.0527)	($0.0735)	$0.0184	$0.0066
Year end share price (AU$)	$0.034	$0.069	$0.245	$0.240
Market Capitalisation (AU$ million)	$5.451	$10.780	$33.232	$26.514
Total KMP Remuneration (US$)	$800,529	$1,061,714	$1,241,223	$716,127

1. There are no financial results for year 2010 as the Group commenced trading on the ASX on 21January 2011.

The members of the Company's remuneration committee are Mark Stowell (Chair) and Gerry McGann.

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 (AU$ - Australian dollars, US$ - United States dollars):

Chairman	AU$60,000 pa plus superannuation (9.5 %)
Non- Executive Director (Australia)	AU$40,000 pa plus superannuation (9.5 %)
Non- Executive Director (USA)	US$40,000 pa

Non-executive directors' fees were voluntarily waived from payment from 1 April 2013 to 30 June 2014 following a decision by the Board to assist in addressing cost pressures. The fees were reinstated from 1 July 2014.

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. No bonuses have been paid in the financial year 2014 in line with the Boards decision to address cost pressures.

Details of Share Based Payments Compensation

In 2013, an employee share plan was established which entitles the Board of Directors to offer key management personnel within the Group the right to acquire shares in the Company subject to satisfying specific performance hurdles . Shares that the employees will have a right to own are acquired and held in trust for the employees until they have met the service or performance conditions. The shares rank equally with other fully paid ordinary shares.

In 2014, 4,256,000 shares were issued to the employee share trust at a fair value of AU$0.049 per share for the benefit of employees subject to various performance hurdles being met.

A further 1,500,000 shares were approved under the scheme to be issued to the trust at a fair value of AU$0.051 but have yet to be issued by the Company.

The shares do not have an expiry date under the scheme.

In 2013, 360,000 shares were issued to the employee share trust for the benefit of six employees at a fair value of AU$0.25 cents per share, and rights to a further 139,000 shares at a fair value of AU$0.13 cents per share in August 2013. The shares were valued at the market price of an ordinary share on the grant date. Some of these shares have been forfeited by employees that have not met the minimum service thresholds as they are no longer employed by the Company. The rights to these shares have subsequently been re-issued to current employees.

The equity remuneration is subject to service and performance conditions. A summary of the vesting terms for shares that have been issued to employees are set out below:

No. of shares	Grant date	Vesting conditions	Shares vested (as at 31 December 2014)
98,000	21 January 2013	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	58,000
239,000	7 August 2013	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	119,500
256,000	30 June 2014	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	Nil
1,000,000	30 June 2014	On close of a project(s) acquisition(s) (Project A) which is(are) approved by the Board, and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days(2)	Nil

No. of shares	Grant date	Vesting conditions	Shares vested (as at 31 December 2014)
1,000,000	30 June 2014	On production of above new Project A reaching an average of 200 Gross boepd over a continuous 6 month period(2)	Nil
1,000,000	30 June 2014	On close of project(s) acquisition(s) which take place after the project(s) in (i) above (Project B) which are approved by the Board, and which contributes an average of 300 additional Gross boepd for 30 days(2)	Nil
1,000,000	30 June 2014	When total company production reaches an average of 750 Gross boepd over a continuous 6 month period(2)	Nil

1. These shares do not have performance conditions attached to them as this served as part of the retention plan
2. There are service and various performance conditions attached to these awards

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

Name	Date granted	Dates shares may vest	Number of shares granted	Value of shares at grant date US$ (1)	No. of shares forfeited during the year	Value at date of forfeiture	Forfeited %
John Whisler	7 August 2013	7.8.2014 -50% 7.8.2015- 50%	231,000	$27,468	Nil	$Nil	-
John Whisler	30 September 2013	Based on performance	4,000,000	$300,000	Nil	$Nil	-
Simon Adams	17 January 2013	17.1.2014 -50% 17.1.2015- 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	-
Simon Adams	1 July 2014	Based on performance	1,500,000	$72,323	Nil	$Nil	-

1. The value at grant date calculated in accordance with AASB 2 Share-based payment of shares granted during the year as part of remuneration
2. The Group has agreed to issue 1.5 million incentive shares to Simon Adams as part of his employment contract dated 1 July 2014 as discussed on page 25. 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 1 July 2014 was AU$76,500 (US$72,323) based on closing share price of AU$0.051 per share.

Remuneration of each Company Director and key management personnel

		Short Term Benefits			Post-Employment Benefits	Share Based Payments				
Name		**Salary & Fees (1)**	**Other Benefits (2)**	**Cash Bonuses**	**Pension/ Superannuation**	**Shares**	**Termination Benefits**	**Total**	**Portion of Remuneration paid as Options/Rights**	**Portion of Remuneration that is performance related**
		US$	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**%**	**%**
Directors (Non-Executive)										
M Stowell (7)	2014	26,413	3,031	-	2,508	**-**	-	**31,952**	-	-
	2013	18,161	3,770	-	1,633	**-**	-	**23,564**	-	-
G McGann (3,7)	2014	39,038	3,031	-	1,672	-	-	**43,741**		-
	2013	317,882	3,770	-	28,618	-	-	**350,270**	-	-
M McCann (4)	2014	30,000	3,031	-	-	14,995	-	**48,026**	31%	-
	2013	-	-	-	-	-	-	**-**	-	-

Remuneration of each Company Director and key management personnel (Cont.)

		Short Term Benefits			Post-Employment Benefits	Share Based Payments				
Name		**Salary & Fees [1]**	**Other Benefits [2]**	**Cash Bonuses**	**Pension/ Superannuatio n**	**Shares**	**Termination Benefits**	**Total**	**Portion of Remuneration paid as Options/Rights**	**Portion of Remuneration that is performance related**
		US$	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**%**	**%**
Directors (Non-Executive)										
C Cronin [5,7]	2014	-	-	-	-	-	-	**-**	-	-
	2013	23,351	3,770	-	2,102	-	-	**29,223**	-	-
J Macdonald [6,7]	2014	-	-	-	-	-	-	**-**	-	-
	2013	15,567	3,770	-	1,401	-	-	**20,738**	-	-
Directors (Executive)										
J Whisler [8]	2014	300,000	27,325	-	9,900	151,701	-	**488,926**	31%	31%
	2013	246,667	6,892	-	-	5,117	-	**258,676**	2%	2%
Key Management Personnel										
S Adams	2014	141,312	3,031	-	13,253	30,288	-	**187,884**	16%	16%
	2013	154,393	-	-	13,106	6,735	-	**174,234**	4%	4%
J. Hussey [9]	2014	-	-	-	-	-	-	**-**	-	-
	2013	75,000	3,471	-	-	-	126,538	**205,009**	-	-
Total	**2014**	**536,763**	**39,449**	**-**	**27,333**	**196,984**	**-**	**800,529**	**25%**	**25%**
	2013	**851,021**	**25,443**	**-**	**46,860**	**11,852**	**126,538**	**1,061,714**	**1%**	**1%**

1. Included in Salary and Fees are amounts made available to related parties of directors.
2. 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).
3. G McGann retired from his executive role as Managing Director on 14 October 2014.
4. M McCann joined the Board as a non-executive director on 4 April 2014.
5. C Cronin retired on 20 May 2014.
6. J Macdonald retired on 1 April 2014.
7. Australian based Directors' fees were waived from April 2013 to June 2014. Managing Director's salary was reduced from AU$400,000 to AU$300,000 from April 2013 to December 2013 and then waived from January 2014 to June 2014.
8. J Whisler joined the Board as an executive director on 1 July 2014 and was appointed as Managing Director effective from 14 October 2014.
9. J Hussey resigned from the Company on 31 March 2013.

Equity instrument disclosures relating to key management personnel

Options and rights -
The number of options and rights over ordinary shares in the company including incentive shares 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.

2014	Balance at 1 Jan 2014	Granted as Remuneration	Vested and exerciseable during the year (4)	Changed during the year(5)	Balance at 31 Dec 2014(6)
	Number	Number	Number	Number	Number
Directors					
G McGann	20,500,000	-	-	(20,500,000)	-
M Stowell	10,200,000	-	-	(10,200,000)	-
M McCann(7)	-	400,000(1)	-	-	400,000
J Whisler(8)	231,000	4,000,000(2)	(115,500)	-	4,115,500
C Cronin(9)	6,000,000	-	-	(6,000,000)	-
J Macdonald(9)	4,250,000	-	-	(4,250,000)	-
Other key management personnel					
S Adams	60,000	1,500,000(3)	(30,000)	-	1,530,000
Total	**41,241,000**	**5,900,000**	**(145,500)**	**(40,950,000)**	**6,045,500**

1. Options exercisable at A$0.07 expiring 26 May 2017
2. Rights to shares issued at A$0.04927 per share on 30 June 2014 as approved at AGM
3. Rights to shares approved by Board but not yet issued
4. Vesting conditions met, entitlement transferred to shares held
5. Options expired 1 Nov 2014
6. None of the options or rights have vested during the year
7. Appointed 4 April 2014
8. Employment commenced 25 February 2013, appointed as a director 1 July 2014
9. C. Cronin retired 20 May 2014, J Macdonald retired 1 April 2014

No amount was paid or due on the vesting and exercise of these rights.

Options were issued to M McCann as remuneration on 2014. 400,000 options exercisable at A$0.07 per share, expiring 26 May 2017, were issued following shareholder approval at the Company's AGM in May 2014. There are no vesting conditions in relation to these options. No options were issued as remuneration in 2013.

Shares -
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.

	Balance at 1 January 2014	Shares vested[1]	Acquired during the year	Changed during the year	Balance at 31 December 2014
	Number	Number	Number	Number	Number
Directors					
M Stowell	13,500,002	-	200,000	-	13,700,002
G McGann	24,340,004	-	-	-	24,340,004
M McCann	-	-	738,000	-	738,000
J Whisler[1][2]	-	115,500	500,000	-	615,500
C Cronin[3]	7,500,002	-	-	(7,500,002)	-
J Macdonald[3]	5,778,001	-	-	(5,778,001)	-
Other key management personnel					
S Adams	-	30,000	125,000	-	155,000
Total	**51,118,009**	**145,500**	**1,563,000**	**(13,278,003)**	**39,548,506**

1. Vesting conditions of employee shares were met, converted from rights
2. Employment commenced 25 February 2013, appointed as a Director 1 July 2014.
3. C Cronin retired 20 May 2014, J Macdonald retired 1 April 2014

There have been no other transactions with the key management personel since the end of the previous financial year and as at the year end.

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

Mr J Whisler (Vice President USA)

Term of Agreement:	No fixed term
Base Salary:	US$300,000
Pension Plan:	Company to match up to a maximum of the lower of 4% of base salary or $17,500 pa when a contribution is made by the employee
Benefits:	Full use of Company vehicle and health and income/life insurance
Cash bonus:	If half yearly production average > 500 bopd, bonus of 15% of base salary (this milestone has not yet been achieved or paid) If half yearly production average > 1000 bopd, bonus of 30% of base salary (this milestone has not yet been achieved or paid) If half yearly production average > 1500 bopd, bonus of 45% of base salary (this milestone has not yet been achieved or 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.

Service Agreements (Cont.)
Mr J Whisler (Vice President USA) (Cont.)

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(s) acquisition(s) (Project A) which are approved by the Board and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days. ii) Tranche 2: following production of Project A reaching an average of 200 Gross boepd over a continuous 6 month period. iii) Tranche 3: flowing close of project(s) acquisition(s) (Project B), which are approved by the Board and which take place after Project A, contributes an average of 300 Gross boepd for 30 days: and iv) Tranche 4: following total company production reaching an average of 750 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.

Mr S Adams (CFO & Company Secretary)

Term of Agreement:	No fixed term
Base Salary:	AU$165,000
Superannuation:	9.5% of base salary
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 375,000 shares each as follows:

Service Agreements (Cont.)
Mr S Adams (CFO & Company Secretary) (Cont.)

i) Tranche 1: following close of a project(s) acquisition(s) (Project A) which are approved by the Board and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days and where operational cash flow meets the approved criteria of the Board for this Project A.

ii) Tranche 2: following production of Project A reaching an average of 200 Gross boepd over a continuous 6 month period and operational project cashflow meets the approved criteria of the Board for this Project A.

iii) Tranche 3: flowing close of project(s) acquisition(s) (Project B), which are approved by the Board and which take place after Project A, contributes an average of 300 Gross boepd for 30 days and operational project cashflow meets the approved criteria of the Board for this Project A: and

iv) Tranche 4: following total company production reaching an average of 750 Gross boepd over a continuous 6 month period.

The approved criteria of the Board for project cashflow will be set at the time of the acquisition being approved by the Board and will be weighted towards achieving the projected cost control above the projected revenue (which is determined by production rates and commodity price).

Termination: The contract may be terminated by either the Company or Mr Adams with Mr Adams being entitled to 4 months base salary. If the termination of employment is mutual by both parties then no such severance pay will be made.

Mr G McGann (Technical Director)

Term of Agreement: No fixed term
Consultancy Fee: AU$2,000 per day up to a maximum of AU$100,000 per annum
Superannuation: Nil
Activities covered: The consultancy remuneration paid to Mr McGann is for work undertaken in relation to project evaluation, investor relations and other activities that are carried out over and above the normal hours expected and covered by the non-executive director duties.

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**
M Stowell	X	X
G McGann	-	X
M McCann	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 MEETINGS		AUDIT & RISK COMMITTEE		REMUNERATION COMMITTEE	
DIRECTORS	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
M Stowell	9	9	2	2	1	1
G McGann	9	9	-	-	1	1
M McCann	4	4	2	2	-	-
J Whisler	2	2	-	-	-	-
C Cronin	3	3	2	2	-	-
J MacDonald	3	3	-	-	-	-

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.

Auditor Independence Declaration to the Directors of Incremental Oil and Gas Ltd
The auditor's independence declaration for the year ended 31 December 2014 has been received and is to be found on page 30.

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:

	2014	2013
	$	$
Assurance related	2,616	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

John W Whisler

John Whisler
Managing Director
31 March 2015

Ernst & Young
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Perth WA 6000 Australia
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Auditor's independence declaration to the Directors of Incremental Oil and Gas Limited

In relation to our audit of the financial report of Incremental Oil and Gas Limited for the year ended 31 December 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
31 March 2015

GB:EH:IOG:026

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Year ended 31 December 2014 US$	Year ended 31 December 2013 US$
Oil and Gas Sales	3a	6,466,932	10,939,590
Direct cost of sales:			
Royalty costs		(1,107,780)	(1,957,700)
Other Production expenses		(1,033,383)	(1,944,584)
Amortisation and depreciation	3(b)(iii)	(2,373,245)	(1,819,933)
Gross profit from operations		1,952,524	5,217,373
Other operating revenue	3a	8,292	3,047
Administrative expenses	3(b)(iv)	(1,225,478)	(1,904,382)
Other operating expenses	3(c)	(811,007)	(1,645,132)
Interest and finance expenses	3(b)(i)	(378,475)	(396,827)
Impairment of assets	3(b)(vi)	(7,524,896)	(15,925,208)
Profit/(Loss) before income tax		(7,979,040)	(14,651,129)
Income tax (expense) / benefit	4	(368,929)	3,181,534
Profit / (Loss) after tax		(8,347,969)	(11,469,595)
Profit / (Loss) for the period attributable to members of the entity		(8,347,969)	(11,469,595)
Other comprehensive income			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit and loss		-	-
Other comprehensive (loss) / income for the period, net of tax		-	-
Total comprehensive income / (loss) for the period attributable to members of the entity		(8,347,969)	(11,469,595)
Basic (loss)/earnings per share attributable to ordinary equity holders of the entity (cents)	20	(5.27)	(7.35)
Diluted (loss) /earnings per share attributable to ordinary equity holders of the entity (cents)	20	(5.27)	(7.35)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 US$	2013 US$
Current assets			
Cash and cash equivalents	8	1,361,814	541,110
Trade and other receivables	9	275,097	766,243
Inventories	10	439,326	390,675
Total current assets		2,076,237	1,698,028
Non-current assets			
Other financial assets	11	10,626	10,626
Oil properties	12	6,622,315	15,733,764
Exploration assets	13	-	-
Plant and equipment	14	1,019,175	1,614,587
Deferred tax asset	4(a)&(b)	-	307,023
Total Non-current assets		7,652,116	17,666,000
Total assets		9,728,353	19,364,028
Current liabilities			
Trade and other payables	15	443,364	1,379,593
Borrowings	16	727,084	2,785,057
Taxes payable	4	126,273	64,358
Provisions	17	45,852	84,962
Total current liabilities		1,342,573	4,313,970
Non-current liabilities			
Trade and other payables	15	134,410	318,590
Borrowings	16	1,709,826	-
Provisions	17	1,104,749	1,133,159
Deferred tax liabilities	4(b)	-	-
Total non-current liabilities		2,948,985	1,451,749
Total liabilities		4,291,558	5,765,719
Net assets		5,436,795	13,598,309
Equity attributable to equity holders of the parent			
Issued capital	18	22,620,836	22,430,823
Shares reserved for employee share plan	18	(84,189)	(65,636)
Reserves	19	349,661	334,666
Accumulated losses		(17,449,513)	(9,101,544)
Total Equity		5,436,795	13,598,309

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 2014

	Issued capital (Note 18)	Shares reserved for employee share plan	(Accumulated losses)	Share option reserve	Total equity
	US$	US$	US$	US$	US$
At 31 December 2013	**22,430,823**	**(65,636)**	**(9,101,544)**	**334,666**	**13,598,309**
Profit/(loss) attributable to members of the Group	-	-	(8,347,969)	-	(8,347,969)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(8,347,969)	-	(8,347,969)
Issue of employee shares	190,013	(190,013)	-	-	-
Issue of Options	-	-	-	14,995	14,995
Share based payment expense	-	171,460	-	-	171,460
At 31 December 2014	**22,620,836**	**(84,189)**	**(17,449,513)**	**349,661**	**5,436,795**

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

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 2014

	Note	2014 US$	2013 US$
Cash flows from operating activities			
Receipts from customers		6,960,797	11,319,761
Payments to suppliers and employees		(4,284,768)	(6,913,276)
Interest received		436	3,047
Interest paid		(134,517)	(295,194)
Production tax paid		(958,337)	(104,713)
Net cash (used)/provided by operating activities	21	1,583,611	4,009,625
Cash flows from investing activities			
Proceeds from sale of oil properties		-	165,000
Oil property development expenditure		(104,466)	(3,394,834)
Refunds /(payments) for performance bonds		-	184,374
Payments for lease renewals		-	(1,367,281)
Payments for purchases of property plant and equipment	14	(135,505)	(127,631)
Net cash used in investing activities		(239,971)	(4,540,372)
Cash flows from financing activities			
Proceeds from issue of shares		-	112,003
(Repayment)/ proceeds of borrowings		(512,437)	(3,000,000)
Net cash used by financing activities		(512,437)	(2,887,997)
Net increase/(decrease) in cash and cash equivalents		831,203	(3,418,744)
Exchange differences on cash balances held		(10,499)	(10,393)
Cash and cash equivalents at beginning of the year		541,110	3,970,247
Cash and cash equivalents at end of year	8	1,361,814	541,110

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

NOTES TO THE FINANCIAL STATEMENTS

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 2014 were authorised for issue in accordance with a resolution of the directors on 30 March 2015.

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 2014 including:

-AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124)
This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual key management personnel disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions. The adoption of AASB 2011-4 has resulted in reduced disclosure requirements in KMP information for the Group.

-AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
This amendment 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 settlement. The adoption of AASB 2012-3 has had no effect on the financial position or performance of the Group.

-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 adoption of Interpretation 21 has had no effect on the financial position or performance of the Group.

-AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets
AASB 2012-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The adoption of AASB 2013-3 has resulted in additional disclosures for the Group.

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.

The Group's revenues are sensitive to the fluctuations in the oil prices which have declined significantly over the last year. Pertinent facts relating to the assessment of the Group's ability to continue as a going concern are:

(i) Despite the Group recording a loss of $8.348 million (before tax) for the year ended 31 December 2014, which is mainly due to the significant impairment taken on its CGUs, it had a net cash inflow of $0.831 million during the 2014 fiscal year. The Group generate positive operating cash flows from operations during the year of $1.584 million from its 3 producing oil fields.

(ii) The Group restructured its loan facilities and entered into a new Credit Agreement with ANB Bank for a term loan of $3 million with a lower cost of capital, improved repayment terms and better loan covenants.

(iii) Management utilised the term loan to repay its outstanding loan of $2.75 million with RMB.

(iv) Management's cashflow forecasts show that the Group will remain in a positive net cash balance position over the next 12 months to 31 March 2016 assuming an average oil price of $56.35/barrel.

(v) Should the Directors require funding to meet the Group's ongoing financial commitments over the course of the next 12 months, they are satisfied that this can be achieved through the sale of assets.

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 2014.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Application date for the Company
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part C	1 January 2015	I January 2015
AASB 9 'Financial Instruments'	1 January 2018	1 January 2018
AASB 2014-1 ' Amendments to Australian Accounting Standards' – Part A – Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle and Part B Defined Benefit Plans : Employee Contributions (Amendments to AASB 119)	1 January 2015	I January 2015
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations '(AASB 1 and AASB 11)	1 January 2016	1 January 2016
AASB 2014-4 ' Clarification of Acceptable Methods of Depreciation and Amortisation' (Amendments to AASB 116 and AASB 138)	1 January 2016	1 January 2016
AASB 15 ' Revenue from Contracts with Customers'	1 January 2017	1 January 2017
AASB 2014-2 'Amendments to AASB 1053' –Transition to and between Tiers, and related Tier 2 Disclosure Requirements	1 January 2015	I January 2015
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate " Financial Statements'	1 January 2016	1 January 2016
AASB 2014-10 'Amendments to Australian Accounting Standards –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture '	1 January 2016	1 January 2016
Disclosure Initiative – Amendments to IAS 1	1 January 2016	1 January 2016

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.

- AASB 2014-4 : Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)

  AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

  The amendment also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

- AASB 15 : Revenue from Contracts with Customers
  The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. An entity recognises revenue in accordance with that core principle by applying the following steps:
  Step 1: identify the contracts with a customer
  Step 2: Identify the performance obligations in the contract
  Step 3: Determine the transaction price
  Step 4: Allocate the transaction price to the performance obligations in the contract
  Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Where the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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.

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.

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.

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 present value of the estimated cost to restore operating locations. 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.

Treasury shares
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 benefits
Wages, salaries, and other short term benefits are 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.

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 and 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.
(iii) Material stocks are valued at weighted average cost

For inventories and material stocks, cost is determined 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.

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 ("UOP") 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. The calculation of the rate of UOP amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves for future capital expenditure changes. Changes to reserves could arise due to changes in the factors or assumptions used in estimating reserves. 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.

	2014 US$	2013 US$
3) Revenues and Expenses from continuing operations		
(Loss)/Profit from ordinary activities before income tax includes the following items of revenue and expense.		
a) Sales revenue		
Oil and gas sales	6,404,490	10,805,052
Royalties	62,442	134,538
	6,466,932	10,939,590
Other operating revenue		
Interest Income	436	3,047
Other revenue	7,856	-
	8,292	3,047
b) Expenses		
i) Interest and finance expenses		
Interest on bank loans	(134,517)	(293,368)
Other Interest Charges	(4,779)	(1,826)
Financing charges	(239,179)	(101,633)
	(378,475)	(396,827)
ii) Foreign exchange		
Gain	10,177	21,722
Loss	(18,800)	(27,688)
	(8,623)	(5,966)
iii) Depreciation and amortisation included in the statement of profit or loss		
Amortisation – oil and gas properties	(2,173,897)	(1,616,931)
Depreciation – oil and gas properties	(199,348)	(203,002)
	(2,373,245)	(1,819,933)
Depreciation – other plant & equipment (see note 3(b)(iv) below)	(25,963)	(18,989)
	(2,399,208)	(1,838,922)
iv) Administrative expenses		
Salaries, directors fees and employee benefits	(1,199,515)	(1,885,393)
Depreciation – other plant and equipment	(25,963)	(18,989)
	(1,225,478)	(1,904,382)
v) Net gain/(loss) on sale of oil properties and exploration assets		
West Mountain – sold	-	(367,019)
Equipment sale	(4,184)	(17,947)
	(4,184)	(384,966)
vi) Impairment of assets		
Impairment of oil and gas properties		
-Florence – uncommercial new wells	-	(2,734,124)
-Florence –Niobrara Formation downgrade	-	(9,045,777)
-Florence	(852,054)	-
-Sheep Springs and Round Mountain	(6,171,417)	(3,474,823)
Impairment of property , plant and equipment (Note 14)	(501,425)	-
Impairment of exploration and evaluation assets (Note 13)	-	(670,484)
	(7,524,896)	(15,925,208)

Refer note 12 & 13 for details of impairment charges.

	2014 US$	2013 US$
3) Revenues and Expenses (Cont.)		
c) Other operating expenses		
Compliance costs	356,283	411,394
Operating lease costs	140,521	254,575
Foreign exchange	8,623	5,966
Net gain /(loss) on sale of assets	4,184	384,966
Travel expenses	51,708	139,109
Operating taxes	15,168	46,156
Investor relations	35,976	75,515
Insurance	63,630	83,585
IT expenses	29,611	61,026
Miscellaneous	105,303	182,840
	811,007	1,645,132
Employee benefits (i)	157,506	85,411
Operating leases (i)	140,521	254,575

(i) These expenses are contained within 'Administrative expenses' and 'Direct Cost of Sales' in the consolidated statement of comprehensive income

	2014 US$	2013 US$
4) Income tax (benefit)/ expense		
Current income tax		
Current income tax (benefit) /expense	61,904	64,358
	61,904	64,358
Deferred income tax/(revenue) expense included in income tax expense comprises:		
(Decrease)/increase in deferred tax	307,025	(3,245,891)
Adjustment for deferred tax of prior period – Australia	-	-
Adjustment for deferred tax of prior period – USA	-	-
	307,025	(3,245,891)
Total income tax (benefit)/expense	368,929	(3,181,534)
Reconciliation of income tax (benefit)/expense to prima facie tax payable		
Profit/(Loss) from continuing operations before income tax	(7,979,040)	(14,651,129)
Accounting (loss)/profit before income tax	(7,979,040)	(14,651,129)
Prima facie tax (benefit)/payable on profit/(loss) from ordinary activities at 30% (2013 – 30%)	(2,393,712)	(4,395,339)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of different taxation rates of other countries	(405,343)	(742,213)
Deferred tax assets not recognised	3,064,781	1,863,823
Tax effect of amounts which are not deductible in calculating taxable income	41,296	92,195

	2014 US$	2013 US$
4) Income tax (Cont.)		
Benefit of tax losses not previously recognised:		
Temporary differences and tax losses previously not brought to account – Australia	-	-
Prior year adjustments to temporary differences and tax losses – USA	-	-
Prior year under provision	61,907	-
Income tax (benefit)/ expense	368,929	(3,181,534)
Movement in deferred income tax for the year ended 31 December relates to the following:		
Deferred tax liabilities		
Oil production assets	-	(5,697,146)
Depreciable assets	(37,111)	(72,411)
Exploration	-	(89,629)
Receivables	-	(387,461)
Foreign exchange gains	-	(7,680)
Deferred tax assets		
Interest and management fees	266,481	1,323,834
Capital raising costs	42,944	104,558
Provision for expenses	34,711	-
Tax losses	-	1,580,044
Deferred tax (income)/expense	307,025	(3,245,891)
Tax liabilities		
a) Current		
Income tax payable	126,273	64,358
b) Non- Current		
Deferred income tax recognised at 31 December from foreign source income relates to the following:		
Deferred tax assets (at 35%)		
Interest & management fees	527,863	794,344
	527,863	794,344
Deferred tax liabilities (at 35%)		
Depreciable assets	527,863	564,976
	527,863	564,976
Net deferred tax asset/(liability)	-	229,368
Deferred income tax at 31 December from Australian source income relates to the following:		
Deferred tax assets (at 30%)		
Provision for expenses	-	34,711
Capital raising costs	-	42,944
	-	77,655

4) Income tax (Cont.)

	2014 US$	2013 US$
Deferred tax liabilities (at 30%)		
Receivables	-	-
Unrealised foreign exchange gains	-	-
	-	-
Net deferred tax asset	-	77,655
Total deferred tax asset/(liability)	-	307,023

c) Reconciliations

	2014 US$	2013 US$
The overall movement in recognised deferred tax is as follows:		
Opening balance	307,025	(2,938,868)
(Charge) / credit to statement of comprehensive income	(307,025)	3,245,893
Other movements	-	-
Closing balance	-	307,025

d) Unrecognised deferred tax assets (at 30%) from Australian source income

	2014 US$	2013 US$
Deferred tax assets (at 30%)		
Capital raising costs	22,872	-
Provision for expenses	18,920	-
Carry forward tax losses	406,144	9,769
	447,936	9,769

e) Unrecognised deferred tax assets (at 35%) from foreign source income

	2014 US$	2013 US$
Deferred tax assets (at 35%)		
Carry forward revenue tax losses	1,252,980	1,600,050
Other timing differences	5,727,055	4,283,539
	6,980,335	5,883,589

5) Key management personnel disclosure

Key management personnel compensation

	2014 US$	2013 US$
Short-term employee benefits	576,212	876,464
Post-employment benefits	27,333	46,860
Other long term benefits	-	-
Termination Benefits	-	126,538
Share-based Payments	196,984	11,852
Total compensation paid to key management personnel	800,529	1,061,714

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

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 key management personnel within the Group the right to acquire shares in the Company subject to satisfying specific performance hurdles. Shares that the employees will have a right to own are acquired and held in trust for the employees until they have met the service or performance conditions. The shares rank equally with other fully paid ordinary shares. The fair value is determined at the share price at the date of issue.

In 2014, 4,256,000 shares were issued to the employee share trust at a fair value of AU$0.049 per share for the benefit of employees subject to various performance hurdles being met.

A further 1,500,000 shares were approved under the scheme to be issued to the trust at a fair value of AU$0.051 but have yet to be issued by the Company.

The shares do not have an expiry date under the scheme.

In 2013, 360,000 shares were issued to the employee share trust for the benefit of six employees at a price of AU$0.25 cents per share, and a further 139,000 shares at a price of AU$0.13 cents per share in August 2013. The shares were valued at the market price of an ordinary shares on the grant date. Some of these shares have been forfeited by employees that have not met the minimum service thresholds that are no longer employed by the Company. The right to these shares have subsequently been re-issued to current employees.

6. Share-based payments(Cont.)

The equity remuneration is subject to service and performance conditions. A summary of the vesting terms for shares that have been issued to employees are set out below:

No. of shares	Grant date	Vesting conditions	Shares vested (as at 31 December 2014)
98,000	21 January 2013	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	58,000
239,000	7 August 2013	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	119,500
256,000	30 June 2014	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	Nil
1,000,000	30 June 2014	On close of a project(s) acquisition(s) (Project A) which is(are) approved by the Board, and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days (2)	Nil
1,000,000	30 June 2014	On production of above new Project A reaching an average of 200 Gross boepd over a continuous 6 month period(2)	Nil
1,000,000	30 June 2014	On close of project(s) acquisition(s) which take place after the project(s) in (i) above (Project B) which are approved by the Board, and which contributes an average of 300 additional Gross boepd for 30 days(2)	Nil
1,000,000	30 June 2014	When total company production reaches an average of 750 Gross boepd over a continuous 6 month period(2)	Nil

1. These shares do not have performance conditions attached to them as this served as part of the retention plan.
2. There are service and various performance conditions attached to these awards.

6. Share-based payments(Cont.)

(b) Other share based payments

Options in the Company were granted to Mr M McCann at the time that he was appointed as a Director. These options were granted subject to Shareholder approval which was received at the Company's annual general meeting held on 13 May 2014. 400,000 unlisted options were issued on 27 May 2014. The options expire on 26 May 2017 and have an exercise price of AUD$0.07.

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$0.0375 each. 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:

Exercise Price	AUD$0.07
Grant date	27 May 2014
Expiry date	26 May 2017
Share price at grant date	AUD$0.061
Expected price volatility	78%
Expected dividend yield	Nil
Risk – free interest rate	2.90%
Value	$14,995 (AU$16,232)

(c) Expenses arising from share-based payment transactions

Share-based payment transactions recognised during the period were as follows:

	2014 US$	**2013 US$**
Shares issued under employee share scheme recognised in wages and salaries	171,459	38,059
Shares recognised in financing costs[1]	-	298,897
Other share based payments recognised in wages and salaries	14,995	-
	186,454	336,956

1. Relates to transaction costs capitalised against the RMB Loan.

		2014 US$	2013 US$
7)	**Auditors remuneration**		
	The auditor of Incremental Oil and Gas Ltd is Ernst and Young		
	Amounts received or due and receivable by Ernst and Young for:		
	An audit or review of the financial report of the entity and any other entity in the consolidated group	72,110	59,128
	Other services in relation to the entity and any other entity in the consolidated group		
	Tax related	2,616	4,652
		74,726	63,780
	Amounts receivable or due and receivable by non Ernst and Young audit firms for:		
	Audit or review of financial report	-	-
		-	-
8)	**Cash and cash equivalents**		
	For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 December		
	Cash at bank and on hand	1,361,814	541,110
9)	**Trade and other receivables**		
	Oil and gas sales debtors	271,131	735,029
	Other receivables	3,966	31,214
		275,097	766,243

(i) Trade and other receivables are non-interest bearing and generally 30 - 90 day terms. An allowance for doubtful debts is made where there is objective evidence that a trade receivable is impaired.
(ii) For details of credit risk of receivables, refer to Note 28 (b).
(iii) 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 +
2014	275,097	275,097	-	-
2013	766,243	766,243	-	-

		2014 US$	2013 US$
10)	**Inventories**		
	Oil and gas inventory at cost of production	162,073	111,804
	Field inventory	277,253	278,871
		439,326	390,675
11)	**Other financial assets**		
	Non-current		
	Bonds	10,626	10,626
		10,626	10,626
12)	**Oil properties**		
	Cost of acquisition and enhancements	33,482,626	33,396,704
	Accumulated amortisation and impairment	(26,860,311)	(17,662,940)
		6,622,315	15,733,764
	Opening balance	15,733,764	27,764,750
	Additions	104,466	3,360,898
	Transfer from exploration	-	1,458,831
	Asset Retirement Obligation	(18,547)	512,958
	Disposals	-	(492,018)
	Amortisation	(2,173,897)	(1,616,931)
	Impairment (see below)	(7,023,471)	(15,254,724)
	Closing balance	6,622,315	15,733,764

Impairment charge

As at 31 December 2014 the Company assessed each project on a value in use basis to determine whether an indicator of impairment existed, including future selling price, future costs and reserves. As a result, the recoverable amounts of the cash generating units were formally estimated on the basis of value in use calculation using cashflow projections over the life of the oilfields (i.e. 7 to 15 years) resulting in an impairment loss of $7,524,896 being recognised for the year. The following assumptions were used in the assessment of the cash generating units' recoverable amounts:

- Discount rate – the discount rate used for the assessment of operating oilfields with a similar production profile, similar characteristics as all existing oil fields is 10%, which was applied to the pre-tax cash flows, expressed in real terms. The discount rate was derived from the Group's weighted average cost of capital, with appropriate adjustments made to reflect the risks specific to the region and the oilfields.
- Oil price - as a result of oil price volatility experienced in 2014, the oil price for future cash flow generation has been based on the forward curve price at the date of assessment. Prices are adjusted to account for variances in refinery charges and oil quality, WTI crude oil prices in the range of $54.15 per barrel to $70.59 per barrel.

The biggest impact on impairment was from the decrease in oil price. The resulting impairment loss on each field in 2014 was as follows:

12) Oil properties (Cont.)

Cash Generating Unit	Recoverable amount	Description	Impairment
Sheep Springs	$4,348,388	Oil and Gas field	$4,317,484
		Plant and equipment	$113,030
Florence	$2,210,562	Oilfield	$852,053
		Plant and equipment	$328,473
Round Mountain	$910,124	Oilfield	$1,853,934
		Plant and equipment	$59,922
	$7,469,074		$7,524,896

Plant and equipment of $501,425 has been impaired as a part of the relevant CGUs on a pro-rata basis and it is included in the impairment amount in the table above.

A significant portion of undeveloped reserves are considered to be uneconomic at the prevailing price and have been categorised as Contingent Resource as at 31 December 2014.

In 2013, the Company placed 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 hence 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 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 been written off in 2013.

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 in 2013. It was the view of the Board that a significant part of the value that had 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 was made in 2013 leaving a written down value of $3.286M for the Florence Oilfield.

Sensitivity Analysis

Any variation in the key assumptions used to determine value in use would result in a change of the estimated recoverable amount. If the variation in assumption had a negative impact on recoverable amount it could indicate a requirement for additional impairment to non-current assets.

It is estimated that changes in the key assumptions would have the following approximate impact on the recoverable amount of the CGUs in its functional currency.

12) Oil properties (Cont.)

Valuation variable	Estimated change US$'000 Sheep Springs	Estimated change US$'000 Round Mountain	Estimated change US$'000 Florence
$10 change in per barrel oil price	1,017	339	705
1% change in discount rate	(217)	(20)	(87)
10% change in operating costs	(192)	(89)	(112)

It should be noted that each of the sensitivities above assumes that the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions may accompany a change in another assumption which may have an offsetting impact. Action is also usually taken to respond to adverse changes in economic assumptions that may mitigate the impact of any such change.

	2014 US$	2013 US$
13) Exploration and evaluation assets		
Exploration and evaluation assets at cost	-	-
Opening balance	-	760,898
Additions	10,839	1,368,417
Amounts expensed	(10,839)	-
Transfer to Oil Production Property	-	(1,458,831)
Impairment	-	(670,484)
Closing balance	-	-

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. No value has been allocated to Exploration assets in 2014.

Impairment charge

The Board reviewed its existing exploration & development lease holdings of McDonald Anticline and Raven Pass in California in 2013. 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, these assets did not have any value and were written down in full in 2013, resulting in an impairment of $0.67M.

	2014 US$	2013 US$
14) Plant and equipment		
Opening balance: net of accumulated depreciation and impairment	1,614,587	1,765,530
Assets acquired	135,505	127,631
Disposals	(4,184)	(56,583)
Depreciation charge	(225,308)	(221,991)
Impairment charge	(501,425)	-
Closing balance: net of accumulated depreciation and impairment	1,019,175	1,614,587

	2014 US$	2013 US$
14) Plant and equipment (Cont.)		
Balance at beginning of year		
Cost	2,174,675	2,104,991
Accumulated depreciation and impairment	(560,088)	(339,461)
Net carrying amount	1,614,587	1,765,530
Balance at end of year		
Cost	2,290,461	2,174,675
Accumulated depreciation and impairment	(1,271,286)	(560,088)
Net carrying amount	1,019,175	1,614,587

For details of impairment charge see note 12.
For details of assets held for security see note 16.

	2014 US$	2013 US$
15) Trade and other payables		
Current		
Trade payables and accruals	443,364	1,379,593
Trade payables are non-interest bearing payables and are normally settled on 30 day terms.		
Non-Current		
Trade payables and accruals	134,410	318,590
16) Interest Bearing Liabilities		
Current -		
Bank Loan (Secured)	727,084	2,785,057
Non-current -		
Bank Loan (Secured)	1,709,826	-

The secured bank loan is provided by ANB Bank as a US Dollar denominated term loan facility which was provided in May 2014 for the purpose of repaying a loan facility from RMB Australia Holdings Ltd. The RMB Australia Holdings loan was advanced to the Company in 2012 for the purpose of acquiring the Florence Oilfield. The loan balance shown at the end of 2013 was payable to RMB Australia Holdings.

Details of the term loan with ANB Bank are as follows:

16) Interest Bearing Liabilities (Cont.)

Security - mortgages over the Company's producing oilfields in California and Colorado
Interest - paid monthly at a rate of 0.50% above the Prime Rate (2014 – 3.75%)
Term – four (4) years from May 2014
Principal repayments – monthly equal instalments ($62,500)
Initial face value of loan - $3.0 million
Financial covenants – Modified Current Ratio shall not be less than 1:1 (Modified Current Ration means, as of the end of any Fiscal Quarter ending after the Closing Date, the ratio of: (a) the sum of Borrower's current assets (including as a current asset any and all unused availability under the Revolving Loan, but excluding assets resulting from any mark-to-market of unliquidated hedge contracts); to (b) the sum of Borrower's current liabilities (excluding the current portion of long term Debt with the exception of principal that is due within ninety (90) days and liabilities resulting from any mark-to-market of unliquidated hedge contracts), all determined on a consolidated basis pursuant to the most recent financial statements delivered by Borrower to Lender. Oil in inventory, not reported on the most recent financial statement, will be added to the current assets at market price.)

In addition to the Term Loan, ANB Bank approved a line of credit (Revolving Loan) for an amount of $5.0 million which could be used for the purpose of funding of capital expenditures relating to oil and gas properties, drilling and well development and general working capital. At the financial year-end, the amount drawn down from this Revolving Loan facility was $Nil. Following a redetermination of the facility limit for the Revolver Loan by ANB, the limit of this facility has been reduced to $3,642,694.

	2014 US$	2013 US$
17) Provisions		
Current		
Employee entitlements – annual leave	45,852	84,692
Non-current -		
Asset retirement obligation	1,104,749	1,133,159

17) Provisions (Cont.)

	Employee entitlements	Asset retirement obligation
As at 1 January 2014	84,962	1,133,159
Movement during the year	69,326	(18,518)
Utilised/unwinding of discount	(51,176)	(9,892)
Unused amounts reversed	(57,260)	-
As at 31 December 2014	45,852	1,104,749
As at 1 January 2013	75,950	620,201
Movement during the year	125,721	512,958
Utilised	(116,709)	-
As at 31 December 2013	84,962	1,133,159

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. The expected timing of the asset retirement obligation is over the life of the oilfields, ranging from 7 to 15 years.

	2014 US$	2013 US$
18) Issued capital		
160,336,680 Fully paid ordinary shares (2013: 156,242,680)	22,620,836	22,430,823
Shares reserved for employee share plan		
4,593,000 Fully paid ordinary shares (2013: 499,000)	(84,189)	(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 19 for details.

	Year ended 31 December 2014		Year ended 31 December 2013	
Movement in ordinary shares on issue	**US$**	**No.**	**US$**	**No.**
Equity at the start of the year	22,430,823	156,242,680	22,318,820	155,743,680
Placement of new shares	190,013	4,094,000	112,003	499,000
At 31 December	22,620,836	160,336,680	22,430,823	156,242,680

18) Issued capital (Cont.)

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.

	2014 US$	2013 US$
19) Reserves		
Share option reserve	349,661	334,666

Share Options

At 31 December 2014 there were the following unlisted options over unissued fully paid ordinary shares on issue:

5,000,000 (2013: 5,000,000) unlisted options exercisable at AUD0.1485 per option on or before 27 July 2018.

400,000 (2013: nil) unlisted options exercisable at AUD0.07 per option on or before 26 May 2017

92,500,000 unlisted options exercisable at AUD0.20 per option expired on 1 November 2014

Share option reserve

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

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:

	2014 US$	2013 US$
(Loss)/ profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share	(8,347,969)	(11,469,595)
	Cents per share	**Cents per share**
Basic (loss) /earnings per share	(5.27)	(7.35)
	2014 US$	**2013 US$**
	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	158,306,505	156,023,790
Effect of dilution:		
Share options	-	-
The weighted average number of ordinary shares on issue during the financial year used in the calculation of diluted earnings per share	158,306,505	156,023,790
	Cents per share	**Cents per share**
Diluted earnings/(loss) per share	(5.27)	(7.35)

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 2014 11,493,000 potential ordinary shares were not considered dilutive.

	2014 US$	2013 US$
21) Reconciliation of net (loss)/profit after tax to net cash flows from operations		
(Loss) /profit per accounts	(8,347,969)	(11,469,595)
Adjustments for		
Tax expense	307,022	(3,181,534)
Leave provision	5,630	9,012
Impairment of assets	7,524,896	15,925,208
Amortisation	2,173,897	1,616,931
Depreciation	225,310	221,991
Share based payments	342,627	83,954
Loss on disposal of oil properties and exploration assets	4,184	384,966
Restoration costs	(9,866)	32,798
Decrease/(Increase) in current receivables	491,145	539,220
(Decrease)/Increase in current tax payable	61,907	(40,357)
Decrease/(Increase) in inventories	(48,437)	40,157
(Decrease)/Increase in trade and other payables	(1,157,234)	(32,377)
Non cash transactions	-	(129,992)
Exchange differences	10,499	9,243
Cash used in operating activities	1,583,611	4,009,625

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.

	2014 US$	2013 US$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows :		
Within 1 year	180,836	156,786
Later than 1 year but not later than 5 years	209,513	317,513
Later than 5 years	-	-
	390,349	474,299

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.

23) Information relating to subsidiaries

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

Set out above are the Company's subsidiaries as at 31 December 2014. 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.

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

	Company 2014 $	Company 2013 $
Assets		
Current assets	38,809	80,690
Non-current assets	5,607,765	16,577,172
Total assets	5,646,574	16,657,862
Liabilities		
Current liabilities	282,102	3,051,387
Non-current liabilities	-	8,166
Total Liabilities	282,102	3,059,553
Net Assets	5,364,472	13,598,309
Equity		
Issued Capital	22,620,836	22,430,823
Shares reserved for employee share plan	(156,512)	(65,636)
Accumulated losses	(17,449513)	(9,101,544)
Reserves	349,661	334,666
Total Equity	5,364,472	13,598,309
Financial performance		
(Loss) /Profit for the period	(8,347,969)	(8,086,211)
Total comprehensive income of the parent entity	(8,347,969)	(8,086,211)

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.

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.

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.

The following segment disclosure is required:

	Australia	USA	Consolidation elimination	Total
Non-current assets	$21,913,387	$7,650,802	($21,912,074)	$7,652,115
Revenue	$895,511	$6,475,180	($895,467)	$6,475,224

The Company has two major trading counterparties who make up 64% and 36% respectively.

26) Related Party Disclosures

No related party transactions occurred in 2014 or 2013.

27) Events after the balance date

There are no significant events subsequent to reporting date.

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.

28) Financial Risk Management (Cont.)

The Group holds the following financial instruments by category:

	31 December 2014 US$	31 December 2013 US$
Financial assets		
Cash and cash equivalents	1,361,814	541,110
Trade and other receivables	275,097	766,243
Other financial assets	10,626	10,626
	1,647,537	**1,317,979**
Financial liabilities		
Trade and other payables	776,370	1,762,541
Borrowings	2,436,910	2,785,057
	3,213,280	**4,547,598**

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 group does not hedge its currency risk which is mainly an exposure to Australian Dollar expenditure and assets/liabilities.

The financial assets that are exposed to foreign exchange risk are:

	2014 US$	2013 US$
Cash and cash equivalents	30,716	47,414
Trade and other receivables	574	-
Trade and other payables	(255,890)	(236,128)
	(224,600)	(188,714)

The following table demonstrates the sensitivity to a reasonable possible change in AUD exchange rates with all other variables held constant.

	Change in AUD rate	Effect on profit before tax/equity US$
2014	+10%	(22,460)
	-10%	22,460
2013	+10%	(18,872)
	-10%	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 the Group's oil is benchmarked off West Texas Intermediate (WTI) crude oil prices. Market forces on both the physical and non-physical markets cause volatility out of the Group's control. As at the reporting date, the Group had no financial instruments with material exposure to commodity price risk.

28) Financial Risk Management (Cont.)

iii) *Cash flow and fair value interest rate risk*

Interest rate risk in relation to the fair value or future cash flow may arise from interest rate fluctuations. The Group's main interest rate risk arises from borrowings which have a variable rate of interest indexed against the US Prime Rate. The Group's existing bank borrowing is in relation to a term loan that is repayable over four years. No hedging is in place by way of interest rate swaps or any other financial derivatives to limit the interest rate risk exposure.

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

	Weighted average interest rate % 2014	Weighted average interest rate % 2013	31 December 2014	31 December 2013
			US$	US$
Bank loan	3.25%	6.28%	2,436,910	2,785,057

The following table demonstrates the sensitivity to a reasonable possible change in interest rates on the Group's profit before tax based on outstanding debt at the year end, with all other variables held constant.

	Change in interest rate (basis points)	Effect on profit before tax/equity US$
2014	+20	(4,975)
	-20	4,975
2013	+20	(5,570)
	-20	5,570

The assumed movement in basis point volatility for the interest rate sensitivity analysis is based on the observable market movements in interest rates in the recent past which have been relatively stable.

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. The Group has minimal credit risk with regards to its bank held deposits which are all held with reputable institutions. 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.

28) Financial Risk Management (Cont.)

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 2014	Less than 6 Months	6-12 Months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying amount
	US$	**US$**	**US$**	**US$**	**US$**	**US$**
Trade payables	515,687	-	134,410	-	650,097	650,097
Borrowings	404,412	404,412	808,825	1,078,731	2,696,380	2,436,910
Total	**920,099**	**404,412**	**943,141**	**1,078,731**	**3,346,383**	**3,087,007**

28) Financial Risk Management (Cont.)

c) Liquidity Risk (Cont.)

Contractual maturities of financial liabilities At 31 December 2013	Less than 6 Months	6-12 Months	Between 1and 2 years	Total contractual cash flows	Carrying amount
	US$	**US$**	**US$**	**US$**	**US$**
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
Total	**2,537,745**	**2,055,401**	**310,393**	**4,903,539**	**4,547,598**

d) Fair value measurements

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.

DIRECTORS' DECLARATION

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

1. In the opinion of the Directors

   (a) The financial statements, and notes of Incremental Oil and Gas Ltd for the financial year ended 31 December 2014 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 2014 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 2014.

On behalf of the Board

John Whisler
Managing Director
Perth
31 March 2015

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Independent auditor's report to the members of Incremental Oil and Gas Limited

Report on the financial report

We have audited the accompanying financial report of Incremental Oil and Gas Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or 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 period's end or from time to time during the financial period.

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(b), 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.

Opinion

In our opinion:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year then ended; 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(b).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2014. 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 Limited for the year ended 31 December 2014 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
31 March 2015

GB:EH:IOG:025

ADDITIONAL ASX INFORMATION

The following additional information is required by the Australian Stock Exchange. The information is current as at 6 March 2015.

a) Distribution schedule and number of holders of equity securities of Incremental Oil and Gas Limited as at 6 March 2015 is shown in the table below:

	Fully Paid Ordinary Shares	Unquoted Options – exercisable at A$0.1485 expiring 27 July 2018	Unquoted Options – exercisable at A$0.07 expiring 26 May 2017
1-1,000	13	-	-
1,001-5,000	30	-	-
5,001-10,000	63	-	-
10,001-100,000	187	-	-
100,001 and over	139	1	1
TOTAL	**432**	**1**	**1**

Total fully paid ordinary shares issued 160,336,680

Holders with less than a marketable parcel 142

b) Twenty largest shareholders
The names of the 20 largest holders of quoted equity securities (ASX code – IOG) as at 6 March 2015 are as follows:

Name		No. of Shares	%'age
1.	MCGANN CONS PL	10,300,004	6.42
2.	MCGANN PTY LTD	10,265,636	6.40
3.	ASCOT PARK ENTPS PL	7,600,000	4.74
4.	AUSTRALIAN EXECUTOR TRUSTEES LTD	6,020,002	3.75
5.	LINEAR A PL	5,966,748	3.72
6.	MERCHANT HLDGS PL	5,800,002	3.62
7.	UPORA PTY LTD	5,000,000	3.12
8.	BRYAN WELCH PL	4,983,700	3.11
9.	JOHN ALEXANDER LINDSAY MACDONALD	4,625,001	2.88
10.	TRINITY MGNT PL	4,233,000	2.64
11.	MCGANN CONS PL	3,750,000	2.34
12.	JP MORGAN NOM AUST LTD	3,480,106	2.17
13.	SECOND NAREMI PL	3,133,000	1.95
14.	UBS WEALTH MGNT AUST NOM	2,500,000	1.56
15.	D N SUPERFUND PL	2,200,000	1.37
16.	RMB RESOURCES LTD	2,107,000	1.31
17.	RIVERGLEN NOM PL	2,000,000	1.25
18.	LUBICH CRAIG AND LEANNE	2,000,000	1.25
19.	FITZFERALD JAMES AND OLIVE	2,000,000	1.25
20.	DOWLING PETER AND JANET	1,650,000	1.03
		89,614,199	55.88

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

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	15.18
M Stowell and related entities	13,700,002	8.54

d) Unlisted securities
Details of the unlisted securities issued by Incremental Oil and Gas Ltd as at 6 March 2015 are as follows:

Unlisted options – exercisable at AU$0.1485, expiring 27 July 2018	5,000,000
Unlisted options – exercisable at AU$0.07, expiring 26 May 2017	400,000

e) RMB Resources Ltd holds 100% of the unlisted options exercisable at A$0.1485. These options in total would represent 3.02% of the total issued capital if they were exercised in full. Mr M McCann holds 100% of the unlisted options exercisable at A$0.07. These options in total would represent 0.25% if the total issued capital if they were exercised in full. No other holder owns more than 20% of any unlisted securities as at the same date.

f) Restricted securities –
As at 6 March 2015, 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 Link Market Services
L4, Central Park
152 St. George's Terrace
Perth WA 6000
Australia

Telephone: 1300 554 474 or +61 (0)2 9287 0303
Facsimile: +61 (0)2 9287 0309
Web site: https://investorcentre.linkmarketservices.com.au/Login

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 GOVERNANCE STATEMENT

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.incrementaloilandgas.com. A summary of the Group's corporate governance policies and procedures is included in this Statement.

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

Board of Directors - Role of the Board and Management

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

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

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

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

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

- **Leadership of the Organisation**: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- **Strategy Formulation**: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- **Overseeing Planning Activities**: the development of the Company's strategic plan.
- **Shareholder Liaison**: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.

- **Monitoring, Compliance and Risk Management**: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- **Company Finances**: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- **Human Resources**: appointing, and, where appropriate, removing the Chief Executive Officer or Managing Director (CEO / MD), and key executives as well as reviewing their performance in the implementation of the Company's strategy.
- **Ensuring the health, safety and well-being of employees**: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- **Delegation of Authority**: delegating appropriate powers to the CEO / MD to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

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

The Company will undertake 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.

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 Stowell, two non-executive Directors, Mr McGann and Mr McCann and one executive Director, the Managing Director, Mr Whisler.

The role of the Chairman and Managing Director are exercised by different people. Mr McCann (Non-Executive Director) meets the Company's criteria for independence. Mr

Stowell and Mr McGann (by virtue of their controlled shareholding being higher than 5% of the Company's issued capital) and Mr Whisler (by virtue of 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.

It is stipulated under the Company's Constitution that there should be a minimum of three (3) Directors and a maximum of nine (9) Directors on the Board. 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.

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 Stowell (Chairman) and Mr McGann.

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 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 which is paid to Australian based directors).

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

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

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

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

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

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

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

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

Securities Trading Policy
The Securities Trading Policy adopted by the Board prohibits trading in shares by a Director, officer or employee during certain blackout periods (in particular, prior to release of quarterly, half yearly or annual results 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.

Continuous Disclosure
The Company's Board Charter includes a section on Continuous Disclosure. The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

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

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

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

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

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

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

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

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

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

Risk Management
As noted in the Audit and Risk Committee Charter, the Board is responsible for ensuring there is a sound system for overseeing and managing risk. Due to the size and scale of operations of the Company, risk management issues are considered by the Board as a whole.

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

The Board also requires Mr Whisler, in the capacity as Managing Director of the Company, and Mr Adams, in the capacity as Chief Financial Officer 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 from Mr Whisler and Mr Adams prior to the finalisation of the 31 December 2014 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.

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 has 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 Whisler, 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 2014 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	Companies should undertake appropriate ckecks before appointing a person, or putting forward to security holders a candidate for election as a director.	Formal checks in relation to the criminal record or bankruptcy history of a new director have not previously been checked.	When nomination new directors to the Board in the recent past, existing Board members have been able to vouch for the integrity and good standing of new directors from knowing and working with these individuals for a reasonable period of time. The Company will implement a more rigorous and compliant reference check of candidates which will verify their character, experience, education, criminal record and bankruptcy history.
1.3	The directors of a listed entity should have a written agreement with the Company setting out the expectations and responsibilities of the director.	The Company does not currently have written appointment letters with its non-executive directors.	The Company will finalise appointment agreements with all of its non-executive directors setting out the expectations and responsibilities of the director.
1.5	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 2014 financial report.	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. 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.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
1.6	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.
1.7	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.
2.2	A Board skills matrix setting out the mix of skills and diversity that the current Board members have or is being sought by the Board should be disclosed.	A Board skills matrix has not been disclosed by the Company.	The current mix of skills that is available of the Board is diverse and includes geological, engineering, legal, financial and management with a significant amount of senior management experience both individually and collectively. The Board has been selected to ensure that such a range of skills exists for the benefit of the Company. These skills are set out in the Directors' Report above and on the Company's web site.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
2.4	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	Chairman of the Board should be independent	The Chairman is not independent by virtue of the fact that he controls more than 5% of the issued shares of the Company.	The Board considers that the non-independent Chairman possesses the skills and experience suitable for leading the Board and considers a non-independent Chairman to be appropriate in the context of the Company's operations. Mr Stowell brings specific skills and industry experience relevant to the Company. The Board may consider the appointment of an independent director as Chair if deemed appropriate in the future.
4.1	The audit committee should have at least three members, all of whom are non-executive directors and a majority of whom are independent directors	The audit and risk committee is made up of two directors. It is Chaired by a non-executive independent director, Mr McCann.	The Board considers that in the current phase of the Company's growth, it is not appropriate to allocate more resources to include a third independent member of the audit committee. Both members of the audit and risk committee have a strong financial and commercial background with the relevant qualifications to make valid judgements of the financial performance of the Company.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
7.1	The Risk committee should have at least three members, all of whom are non-executive directors and a majority of whom are independent directors	The audit and risk committee is made up of two directors. It is Chaired by a non-executive independent director, Mr McCann.	The Board considers that in the current phase of the Company's growth, it is not appropriate to allocate more resources to include a third independent member of the risk committee. Both members of the audit and risk committee have a strong financial and commercial background and are well qualified to make judgements with regards to the risks of the Company.
7.3	A listed entity should disclose if it has an internal audit function, how the function is structured and what role it performs and if it does not have an internal audit function, the processes it employs for evaluation and continual improvement of its risk management and internal control process.	The Company does not have a specific internal audit role within the organisation.	Given the size of the company and the resources available, the Board relies on the Audit and Risk Committee to review the risk management processes that are proposed and implemented by management. All members of the Audit and Risk committee are experienced at management of companies. Members of the Audit and Risk Committee have regular contact with management through monthly financial and operational reporting, Board meetings and other informal business interaction to ask questions as they see fit.
7.4	The entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.	Sustainability risk of the business is monitored regularly with various key performance indicators, empirical and quantitative, used to make this assessment.	The reporting on economic, environmental and social sustainability is addressed informally through management reporting but is not addressed in the Company's annual report or other public announcements. The Board believes that the disclosure of these risks through management's regular reporting is sufficient to monitor and manage risk.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
8.1	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 Stowell (Chairman) and Mr McGann, both non-executive Directors of the Company. Neither member meets the independence criteria due to the fact that they hold more than 5% of the Company's shares on issue. 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.