

**incremental**  
OIL AND GAS  
LTD

# ANNUAL REPORT 2015



**IOG IS A PRODUCING OIL  
AND GAS COMPANY WITH  
A STRATEGY FOCUSED  
ON ACQUIRING LOW RISK,  
UNDERPERFORMING OIL  
FIELDS AND APPLY MODERN  
TECHNICAL EXPERTISE TO  
INCREASE PRODUCTION AND  
RECOVERIES.**



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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

CFO & Company Secretary  
Simon Adams, B.Bus, M.Acc, AGIA

### Registered office & Principal place of business

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### Corporate office

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Colorado 80202  
USA

Telephone: +1 (720) 763-3183

### Auditors

Ernst and Young  
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 (see Note 24 to Financial Statements) (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.

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## CHAIRMAN'S REPORT

Dear Shareholder

2015 was a pivotal year for Incremental. The Company maintained discipline through a roller-coaster cycle of high asset prices followed by a major downturn in oil and gas price and industry distress.

The company's strategy as outlined in last year's annual report, is to:

- maximise profitability through increased production,
- enhance shareholder value through 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 acquisition of the Silvertip Oil and Gas field in Wyoming in June 2015 crystallised that strategy. Subsequent operational improvements and technical work by our team saw Incremental end the year with record 822 BOEPD production (Q4 average), and proven reserves increased to 780,800 Bbl of oil and 5.7Bcf of natural gas.

The acquisition of further onshore small-medium sized oilfields remains the company's near term objective so as to substantially increase daily production, reserves and profit. Such acquisitions will preferably be in areas where Incremental already operate.

I would like to take this opportunity on behalf of the Board to thank our management, staff, contractors and consultants for their tireless efforts which are now starting to show results and will greatly benefit Incremental shareholders in the future.

Yours sincerely



Mark Stowell  
Chairman  
31 March 2016



## 2015 HIGHLIGHTS

### FINANCIAL RESULTS -

Incremental Oil and Gas Ltd ("Incremental" or "the Company") has recorded more than four successive annual profits before interest, tax, depreciation and amortization (EBITDA). Despite higher volumes of product sold in 2015, profits were impacted by lower commodity prices.

The group recorded its highest ever production in Q4-15 with an average of 822 boepd. The acquisition of the Silvertip field has resulted in a mix of commodity production.

|                                         | 2015      | 2014      | 2013       | 2012    |
|-----------------------------------------|-----------|-----------|------------|---------|
| Sales Volume (BOE)                      | 161,478   | 74,644    | 114,676    | 180,536 |
| Oil                                     | 87,426    | 72,128    | 110,654    | 176,064 |
| Gas                                     | 48,880    | 2,516     | 4,022      | 4,472   |
| NGL                                     | 25,172    | -         | -          | -       |
| Sales Revenue (\$M)                     | \$4.71    | \$6.47    | \$10.94    | \$16.04 |
| Net profit/(loss)after tax (NPAT) (\$M) | (\$2.726) | (\$8.348) | (\$11.469) | \$2.683 |
| EBITDA (\$M)                            | \$0.189   | \$2.079   | \$3.405    | \$6.911 |

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

|                                  | 2015      | 2014      | 2013       | 2012      |
|----------------------------------|-----------|-----------|------------|-----------|
|                                  | US\$M     | US\$M     | US\$M      | US\$m     |
| EBITDA                           | \$0.189   | \$2.079   | \$ 3.405   | \$6.911   |
| Impairment / asset write down    | (\$0.879) | (\$7.525) | (\$15.925) | \$ -      |
| Interest income / (expense)      | (\$0.210) | (\$0.134) | (\$ 0.292) | (\$0.220) |
| Depreciation / amortisation      | (\$1.827) | (\$2.399) | (\$ 1.839) | (\$2.104) |
| Tax (expense) / benefit          | \$ -      | (\$0.369) | \$ 3.182   | (\$1.904) |
| Profit / (loss) after income tax | (\$2.726) | (\$8.348) | (\$11.469) | \$2.683   |

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 2015, the Group held the following oilfield assets:

| Field/Tenement name    | State & Country | Working Interest | Area of lease – Net acres |
|------------------------|-----------------|------------------|---------------------------|
| Silvertip Field        | Wyoming, USA    | 100%             | 4,872                     |
| Florence Oilfield      | Colorado, USA   | 100%             | 5,889                     |
| Sheep Springs Oilfield | California, USA | 100%             | 160                       |
| Round Mountain         | California, USA | 100%             | 320                       |

Oil Reserves and Resources held by the Group as at 31 December 2015 are as follows:

| (Mboe) <sup>(1)</sup>      | Sheep Springs, California | Round Mountain, California | Florence, Colorado | Silvertip, Wyoming | TOTAL (Mboe) |
|----------------------------|---------------------------|----------------------------|--------------------|--------------------|--------------|
| <b>1P Proved Reserve</b>   | <b>246</b>                | <b>90</b>                  | <b>122</b>         | <b>1,271</b>       | <b>1,729</b> |
| Developed Producing        | 246                       | 90                         | 122                | 962                | 1,420        |
| Developed Not Producing    | -                         | -                          | -                  | 309                | 309          |
| <b>Contingent Resource</b> | <b>2,272</b>              | <b>1,723</b>               | <b>275</b>         | <b>-</b>           | <b>4,270</b> |

# Reconciliation of Reserves:

| (Mboe)                             | Year end 2014 | Acquisition | Production | Revised Estimates <sup>(2)</sup> | Extensions and discoveries <sup>(3)</sup> | Year end 2015 |
|------------------------------------|---------------|-------------|------------|----------------------------------|-------------------------------------------|---------------|
| 1P Proved Reserve <sup>(4)</sup>   | 467           | 889         | (156)      | 55                               | 474                                       | 1,729         |
| Contingent Resource <sup>(5)</sup> | 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/assumptions used to determine the economic life of a field eg: decline curves, lease operating expenses, commodity price, etc.
3. Extension and discovery of reserves resulting from redetermination of economic recoverability of hydrocarbons. This will result from in-field activities that can demonstrate that hydrocarbons that did not previously meet the reserves definition are now able to be extracted economically and do meet the reserves criteria.
4. 1P – Proved reserves as defined in the guidelines set forth in the SPE/WPC/AAPG/SPEE Petroleum Resource Management System (2007).
5. 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.

The proved reserve information provided herein is derived from an independent reserve report (Reserve Report), prepared by a third party consultant on behalf of Incremental Oil and Gas ("Incremental"). Ralph E. Davis Associates, LLC has reviewed these estimates and certifies that they meet the criteria for proved reserve volumes in keeping with the directives of the Securities and Exchange Commission. Ralph E. Davis Associates, LLC is a Professional Engineering firm located in Houston, Texas. Mr Allen Barron, P.E., licensed in the State of Texas was the signatory of the reserve report. Mr Barron is President of Ralph E. Davis Associates, LLC and has over forty years of experience in the preparation of evaluation reserve studies in multiple US and international basins. Mr Barron has consented to the inclusion of this information in this report.

The contingent resources statement has been compiled by Mr Gerard 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.

The reserve information provided reflects Incremental's economic or net revenue interest in the various fields that it owns and operates as follows:

- Sheep Springs - 83%
- Round Mountain - 87.5%
- Florence - approx. 78.5%
- Silvertip - approx. 82.5%

Proved reserves were assessed based on a deterministic methodology. The quantities of oil and gas represented in the Reserve Report have been determined using geological and engineering data which demonstrates that the hydrocarbons can be recovered from known reservoirs under current economic conditions with reasonable certainty. The evaluation relates only to recoverable reserves and makes the assumption that existing surface facilities and infrastructure remain sufficient to produce those reserves. Contingent resources have not been estimated for the Silvertip Field as the field has only been held by Incremental for 6 months and more work is required to evaluate these resources.

Incremental is the holder of title to the tenement/leases held covering the fields which are the subject of the Reserve Report. Incremental is the operator and holds a 100% WI in the leases. The Silvertip field has approximately 105 existing wells on leases that are operated covering 4,872 net acres. The Florence field has 21 existing wells on leases covering approximately 5,889 net acres. The Sheep Springs field has 11 operating wells on leases covering approximately 160 acres and the Round Mountain field has 7 operating wells on leases covering approximately 320 net acres. All of these wells were reviewed for the preparation of the Reserve Report.



Ralph E. Davis Associates, LLC and Gerard McGann have completed a review of the available technical data including the geological and engineering interpretation presented by Incremental, publically available production history and other information from relevant nearby wells and analogous reservoirs. For the purpose of the proved reserve estimate, recoverability is primarily based on actual production history or analogy with wells in the area producing from the same or similar formations, and appropriate well test information in conjunction with various engineering and geological data such as reservoir pressure, anticipated producing mechanisms, the number and types of completions and past performance of analogous reservoirs. This evaluation has been prepared in accordance with the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" as proclaimed by the Society of Petroleum Engineers, the SPE Standards.

It is estimated that approximately 29% of gas produced from the gross reserves from the Silvertip Field is used for fuel in-field to produce and process the gas and associated NGLs. This fuel gas is not included in the net reserves stated in the Reserve Report. The reference point for determining the reserves as stated in the Reserve Report is the point of sale of the hydrocarbons.

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.

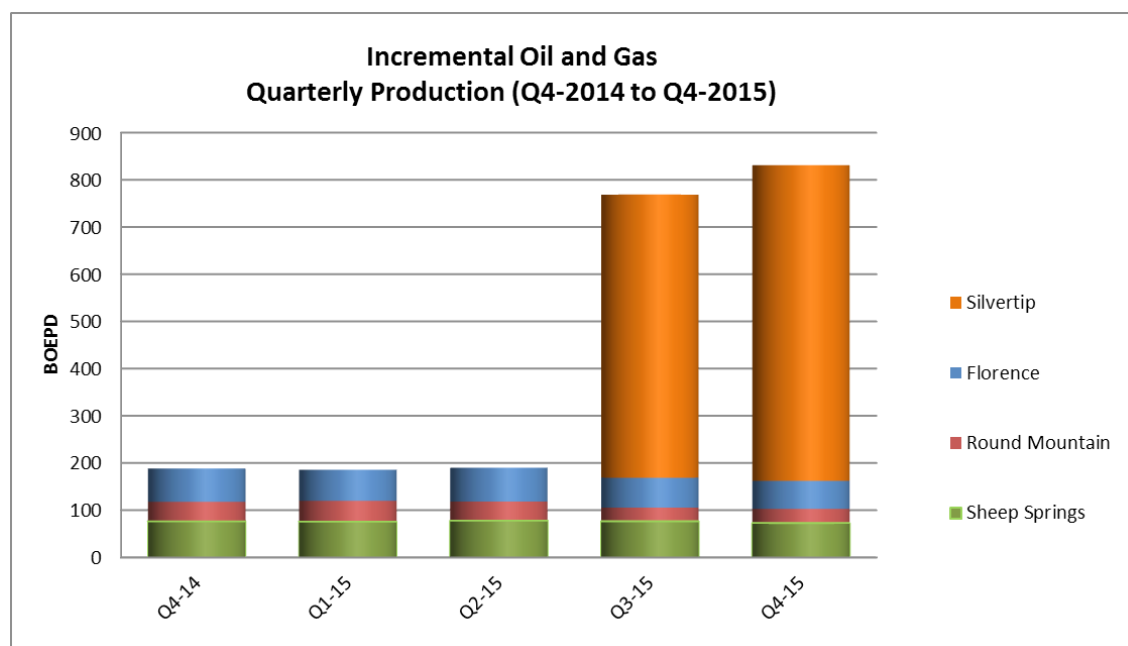
Incremental's reserves have been evaluated as at 31st December 2015 by independent certified engineers (see above). As required under applicable laws, Incremental provides estimates of reserves annually as of the year end and these estimates are evaluated and confirmed by certified engineers or other 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 Gerard McGann whose qualifications are stated above.

## PRODUCTION REPORT-

Production for the Group in 2015 and prior years was as follows:

|               |                          | 2015      | 2014   | 2013   | 2012    |
|---------------|--------------------------|-----------|--------|--------|---------|
| Oil (Bbls)    | Sheep Springs            | 25,105    | 24,167 | 33,665 | 39,701  |
|               | Round Mountain           | 13,016    | 18,559 | 24,884 | 33,835  |
|               | Florence <sup>(1)</sup>  | 23,707    | 30,418 | 54,065 | 105,160 |
|               | Silvertip <sup>(2)</sup> | 25,899    | -      | -      | -       |
| Gas (Mcf)     | Sheep Springs            | 16,287    | 16,524 | 24,516 | 28,509  |
|               | Silvertip <sup>(2)</sup> | 401,263   | -      | -      | -       |
| NGL (Gallons) | Silvertip <sup>(2)</sup> | 1,070,580 | -      | -      | -       |

1. Florence production from 1 May 2012
2. Silvertip production from 1 July 2015



## LEASEHOLD DIRECTORY

(as at 31 December 2015)

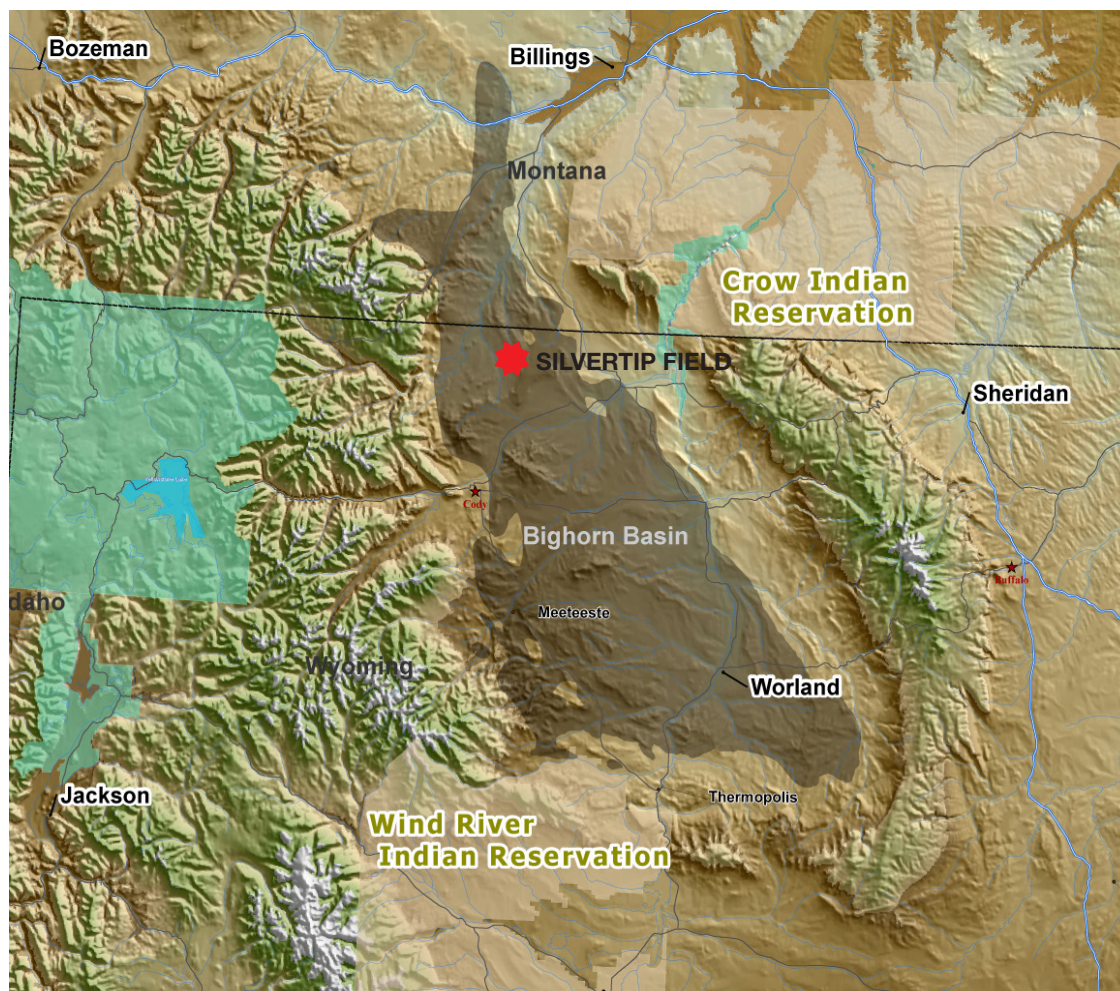
| Prospects                  | Working Interest | Comments                                                                                                                                                                         |
|----------------------------|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sheep Springs, California  | 100%             | 160 net acres, 11 operating wells, held by production                                                                                                                            |
| Round Mountain, California | 100%             | 320 net acres, 7 operating wells, held by production                                                                                                                             |
| Florence, Colorado         | 100%             | 5,889 net acres, 21 operating wells<br>1,768 net acres held by production<br>3,591 net acres expiring 2016 if not renewed<br>530 net acres expiring 2017 or later if not renewed |
| Silvertip, Wyoming         | 100%             | 4,872 net acres, 103 operating wells plus 2 water disposal wells<br>4,437 net acres held by production<br>435 net acres expiring in 2016 if not renewed                          |

## REVIEW OF ACTIVITIES

Incremental Oil and Gas Ltd is an oil and gas exploration and production (E&P) company with operating oilfields located in the states of Wyoming, Colorado and California, USA. The Company has invested in the acquisition of low risk under-performing fields where modern technical expertise to increase production and recoveries, thus building shareholder value.

### 1. WYOMING OPERATIONS

Incremental Oil and Gas purchased a 100% working interest the Silvertip oil and gas field located in the Bighorn Basin and became the operator on 1 July.



The Silvertip Field covers an area of 4,872 net acres and has a long history of oil and gas production. The field has 105 wells, 91 of which were in production at the end of 2015, plus two water disposal wells. Silvertip was purchased with a fully functioning gas processing plant with a capacity of 4.5 MMcf per day.

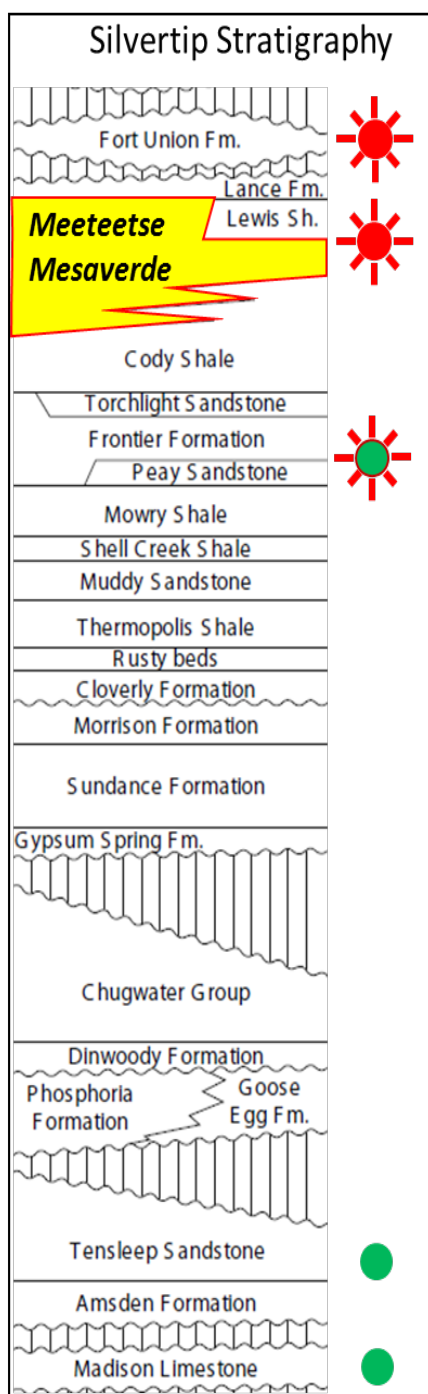
The field was purchased for US\$6.3M with production of 360 boepd and a certified proved developed reserve of 0.58 million BOE. Incremental's objectives for this field were to:

- Increase production;
- Expand proved developed producing (PDP) and proved developed not producing (PDNP) reserves;
- Exploit PDNP reserves through recompletions and drilling new wells; and
- Identify economic prospects within the field for medium term development.

Incremental carried out 25 workovers on existing wells to repair mechanical issues on shut in and inefficiently performing wells. This increased production, mostly from oil wells, to an average of 668 boepd in Q4-15 (86% increase from pre-acquisition production).

Two well recompletions were carried out in wells that had originally targeted the Frontier formation with perforations into the shallower Mesaverde and Meeteetse formations to extract behind pipe gas.

The success of these two recompletions proved the presence of behind-pipe reserves that could be economically produced. This in turn resulted in an increase in PDNP reserves in the field. An independently certified reserve report confirmed the proved developed reserves had increased to 1,272 MBoe. The PV10 estimated value of this reserve as at 31 December 2015 was \$12.6M.



The field has a low lifting cost of \$11.70/boe making it very profitable for the company.

The Silvertip Field has more than 20 additional wells that have been identified as potential candidates for recompletion to access behind-pipe shallow gas. This will form part of the company's work program for 2016.

Work is continuing on identifying additional prospects in the Silvertip Field. 3D seismic that was included with the acquisition is being analysed to identify potentially productive hydrocarbon deposits.

## 2. COLORADO OPERATIONS (100% working interest)

The Florence Field was purchased in May 2012, at which time the field was producing more than 500 bopd from 21 operating wells.

The Florence Field was acquired for its cash flow and to exploit the undeveloped remaining reserves, mainly in the shallow Pierre Shale formation at 1880-3600 ft. A number of anomalies with significant reservoir potential were identified from 3D seismic. Two of these targets were drilled unsuccessfully.

The Niobrara formation is present below the Pierre formation and 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, which indicates that Niobrara wells are likely to encounter predominantly gas rather than oil as the reservoir hydrocarbon.

The initial rapid decline in production from the Pierre formation has slowed substantially and is now similar to the decline rate in conventional oilfields. The field has a very low lifting cost of \$7.20/bbl (2015 average) and continues to produce profitably with low production decline.

## 3. CALIFORNIA OPERATIONS (100% working interest)

Incremental has a 160 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 was purchased in 2010. It produces hydrocarbons mainly from the Carneros sandstones of the Miocene/Temblor formation at a depth of about 3300 ft. There are a number of other reservoirs above and below the Carneros which have been shown to be productive.

This field has very stable production with a low lifting cost of approximately \$8.50/boe (2015 average) and produces stable positive cash flow with low taxes and royalties.

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. The Round Mountain Field produces hydrocarbons from four primary formations, the Freeman-Jewett, Pyramid Hill, Vedder, and Walker. Incremental operates a 320 acre lease and produces oil mainly from the Walker Formation.

The lifting cost for the Round Mountain field in 2015 was around \$12.30/bbl in 2015. Although this is the smallest of the Company's fields, it remains profitable with a low tax and royalty regime in place.

## 4. CORPORATE ACTIVITIES

The Company's debt facility remains in place with ANB Bank and all repayment obligations and covenants have been met. The funding for the purchase of the Silvertip Field came from a combine term loan and line of credit debt package from ANB. The total debt to ANB Bank as at 31 December 2015 was \$8.241 M.

Incremental added one employee in its Denver office to take over responsibility for land and legal issues. The purchase of the Silvertip

Field brings with it considerable reporting obligations with a large portion of the leases being on state and federal lands.

The number of employees within the Group as at 31 December 2015 was:

- |                                                    |                               |
|----------------------------------------------------|-------------------------------|
| • Denver, USA                                      | 4 (full time)                 |
| • Silvertip Field, WY, USA                         | 4 (full time)                 |
| • Florence Field, CO, USA                          | 1 (contractor)                |
| • Sheep Springs and Round Mountain Fields, CA, USA | 1 (contractor)                |
| • Perth, Australia                                 | 1 (full time) + 1 (part time) |



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## GLOSSARY

|                                |                                                                                                                                                                                                                                                       |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Basin                          | A depression in the earth's surface containing relatively thick deposits of sedimentary rocks                                                                                                                                                         |
| Bbl Barrel.                    | A unit of measure commonly used in quoting liquid hydrocarbon volumes. 1 barrel = 42 U.S. gallons, 35 imperial gallons (approx), 159 litres (approx).                                                                                                 |
| Bcf, BCF                       | Billion cubic feet or 28.317 million cubic metres. A unit commonly used in quoting volumes of natural gas.                                                                                                                                            |
| Bcfe, BCFe                     | Billions of cubic feet equivalent. A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.                                           |
| Behind Pipe                    | Behind-pipe reserves are expected to be recovered from zones in existing wells, which require additional recompletion work prior to the start of production                                                                                           |
| BOE Barrels of oil equivalent. | A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.                                                                              |
| BOPD                           | Barrels of Oil per day. A measure of the rate of flow of oil.                                                                                                                                                                                         |
| BOEPD BOE per day.             | A measure of the rate of flow of oil equivalent.                                                                                                                                                                                                      |
| BTU                            | British Thermal Unit. The energy required to raise one pound of water by 1° Fahrenheit. A measure of the richness of natural gas.                                                                                                                     |
| Completion                     | The process in which a well is enabled to produce hydrocarbons.                                                                                                                                                                                       |
| Exploration well               | A well drilled into a previously undrilled or non-commercial trap to test for the presence of a new hydrocarbon accumulation.                                                                                                                         |
| Field                          | A subsurface accumulation of hydrocarbons.                                                                                                                                                                                                            |
| Formation                      | A formal term used to reference a genetically related rock unit.                                                                                                                                                                                      |
| Forward strip                  | A series of sequential prices either for future delivery of a physical asset eg: oil or gas, or expected future settlements of an index eg: oil or gas futures contract.                                                                              |
| Henry Hub                      | Located in Louisiana, the Henry Hub is a major natural gas distribution centre, and is the key focal point of natural gas spot and future trading in the U.S. Henry Hub is a widely quoted index of natural gas prices.                               |
| Hydrocarbons                   | A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.                                                                                                             |
| IP                             | Initial production (rate).                                                                                                                                                                                                                            |
| MBbls                          | Thousands of barrels of oil. A measure of oil flow rates from a producing well.                                                                                                                                                                       |
| MCF, mcf                       | Thousand cubic feet. A widely quoted unit used for natural gas measurement.                                                                                                                                                                           |
| MCFPD, mcfpd                   | Thousands of cubic feet per day. A measure of a volume of gas.                                                                                                                                                                                        |
| MMbbls                         | Million barrels. A measure of a volume of liquid.                                                                                                                                                                                                     |
| MMBO                           | Millions of barrels of oil.                                                                                                                                                                                                                           |
| MMCF                           | Million cubic feet. A widely quoted unit used for natural gas measurement.                                                                                                                                                                            |
| MMCFPD                         | Million cubic feet per day. A measure of gas flow rates from a producing well.                                                                                                                                                                        |
| NGL Natural Gas Liquid         | Naturally occurring elements found in natural gas, and include propane, butane and ethane, among others. The liquids are extracted from the natural gas and sold separately from the gas                                                              |
| Perforate                      | To pierce holes through well casing within an oil or gas-bearing formation by means of a perforating gun lowered down the hole and fired electrically from the surface. The perforations permit production from a formation which has been cased off. |
| Permeability                   | A measure of the ability of liquids to flow through a porous solid.                                                                                                                                                                                   |
| Petroleum                      | (See Hydrocarbons)                                                                                                                                                                                                                                    |
| Porosity                       | The percentage of open pore space in a rock.                                                                                                                                                                                                          |

|                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Possible Reserves                             | Those Unproved Reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves.                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Probable Reserves                             | Those Unproved Reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Prospect                                      | An undrilled, and therefore hypothetical trap whose technical and commercial uncertainties are sufficiently well understood and is of sufficient size and probability of success to justify drilling.                                                                                                                                                                                                                                                                                                                                                                                             |
| Proved Reserves                               | Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.                                                                                                                                                                                                                                                                        |
| Proved developed not producing reserve (PDNP) | Proved Reserves that are subcategorized as non-producing include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future recompletion prior to the start of production. |
| Proved developed producing reserve (PDP)      | Proved Reserves that are subcategorized as Developed Producing reserves which are expected to be recovered from existing wells including reserves behind pipe.                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Proved or Proven Reserves                     | Those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions.                                                                                                                                                                                                                                                                                                                                           |
| PV10                                          | Present value of estimated future net oil and gas revenues (net of royalty burdens, production taxes and estimated direct expenses associated with production), discounted at an annual rate of 10%.                                                                                                                                                                                                                                                                                                                                                                                              |
| Recompletion                                  | After the initial completion of a well, the action and techniques of re-entering the well and redoing or repairing the original completion to restore the well's productivity.                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Recoverable Reserves                          | That portion of the oil and/or gas in a reservoir that can be removed using currently available techniques.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Reserves                                      | The volume of oil and gas that can be recovered at the surface. Generally used in the context of commerciality.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Reservoir                                     | A porous rock unit in which hydrocarbons occur in an oil field.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Risk                                          | A measure of uncertainty relating to the likelihood of finding hydrocarbons, or, the likelihood that any or all of the individual geological elements required for the accumulation of hydrocarbons is met.                                                                                                                                                                                                                                                                                                                                                                                       |
| Seal                                          | An impermeable rock unit that prevents hydrocarbons from escaping from the reservoir.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Seismic reflection                            | An event observed on seismic data that corresponds to a given rock layer in the subsurface                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Source/source rock                            | An organic rich rock (typically shale) capable of generating hydrocarbons under certain conditions of temperature and pressure.                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Structure                                     | A geological feature usually higher in elevation than the surrounding rock, formed by local deformation of the rock layers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| TD Total Depth.                               | The final depth reached in drilling the well.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Unproved Reserves                             | Unproved Reserves are based on geological and/ or engineering data similar to that used for Proven Reserves but technical, contractual, economic or regulatory uncertainties preclude such reserves being classified as Proven – Unproved Reserves can be classified as Probable Reserves and Possible Reserves.                                                                                                                                                                                                                                                                                  |
| Working Interest (WI)                         | Target's percentage interest in a project before royalties and state taxes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Workover                                      | The repair or stimulation of an existing production well for the purpose of restoring, prolonging or enhancing the production of hydrocarbons.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

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## 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 2015, 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: 52

Mr Stowell has been involved in the public company corporate sector for more than 25 years, formerly as a manager in Arthur Andersen 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: 67

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: 47

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. From 2007-2015 Matt worked for 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

Appointed Managing Director 14 October 2014

Age: 45

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 divestiture 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 divestiture, negotiated and closed a \$220M divestiture 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

**Company Secretary/CFO**

**Mr S Adams, B.Bus M.Acc AGIA**

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. Simon is a member of the Governance Institute of Australia.

**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<br>A\$0.07 exercise price,<br>expiring 26/5/17 |
|-----------|-----------------|-----------------------------------------------------------------|
| M Stowell | 13,636,952      | -                                                               |
| G McGann  | 24,340,004      | -                                                               |
| M McCann  | 738,000         | 400,000                                                         |
| J Whisler | 5,615,100       | -                                                               |

## 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 2015 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<br>2015 | Consolidated<br>2014 |
|--------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Revenue from the sale of crude oil and gas                                                       | \$4,707,061          | \$6,466,932          |
| Gross profit                                                                                     | \$401,635            | \$1,952,524          |
| Net loss for the year after tax                                                                  | (\$2,726,105)        | (\$8,347,969)        |
| Basic loss per share(cents) from continuing operations                                           | (1.68) cents         | (5.27) cents         |
| Net cash from/(used in) operating activities                                                     | \$698,130            | \$1,583,611          |
| Net cash from/(used in) investing activities                                                     | (\$7,379,666)        | (\$239,971)          |
| Net cash from/(used in) financing activities                                                     | (\$5,769,995)        | (\$512,437)          |
| Net tangible assets per share                                                                    | 1.75 cents           | 3.3 cents            |
| Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) <sup>(1)</sup> | \$189,306            | \$2,079,145          |

1. For EBITDA reconciliation, refer to page 3. 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.

The net loss of the Group for the year ended 31 December 2015 of \$2.726 million (2014: loss of \$8.348 million), was impacted by the following significant items:

- Revenue from oil and gas sales in 2015 (\$4,707,061) was lower than the sales revenue from 2014 (\$6,466,932) due to the decrease in commodity prices. This was despite there being an increase in the overall volume of product sold as a result of the acquisition of the Silvertip Field. The impact of production increase and price decrease is set out below:

- Price decrease

| Commodity       | 2015<br>Avg Price | 2014<br>Avg Price | Increase/ (Decrease)<br>Value/% |
|-----------------|-------------------|-------------------|---------------------------------|
| Oil - \$/Bbl    | \$41.56           | \$88.22           | (\$46.66)/(53%)                 |
| Gas - \$/Mcf    | \$2.59            | \$2.76            | (\$0.17)/(6%)                   |
| NGL - \$/Gallon | \$0.28            | -                 | N/A                             |

- Sales volume increase

| Commodity     | 2015             |                                                | 2014             |                                                |                               |
|---------------|------------------|------------------------------------------------|------------------|------------------------------------------------|-------------------------------|
|               | Prod'n<br>Volume | Equiv. Bbls (based<br>on price) <sup>(i)</sup> | Prod'n<br>Volume | Equiv. Bbls<br>(based on price) <sup>(i)</sup> | Change<br>Volume (Equiv Bbls) |
| Oil (Bbls)    | 87,426           | 87,426                                         | 72,128           | 72,128                                         | 15,298                        |
| Gas (Mcf)     | 293,280          | 48,880                                         | 15,096           | 2,516                                          | 46,364                        |
| NGL (Gallons) | 1,057,224        | 25,172                                         | -                | -                                              | 25,172                        |
| TOTAL         |                  | 161,478                                        |                  | 74,644                                         | 86,834                        |

- i. Equivalent barrels based on price is determined by converting gas/NGL volumes to equivalent barrels by taking the average oil price (per barrel) divided by the average gas/NGL price per Mcf/Gallon.

- Field operating costs have increased from \$1,070,420 in 2014 to \$1,124,919 in 2015. This takes into account the fact the costs associated with operating the Silvertip Field for the second half of 2015 which had field costs of \$518,186. Therefore there was a saving in field operating costs relating to the Groups California and Colorado operations of \$463,687 in 2015 compared to the prior year.
- Compliance costs have been reduced by around \$233,000 from the prior year.
- Interest charges have increased from \$134,517 in 2014 to \$210,313 in 2015 as a result of the additional debt being drawn down to purchase the Silvertip Field in June 2015.
- Impairment of oilfield asset totalled \$0.835 million in 2015 (2014 - \$7.525 million). The impairment resulted from the impact of the fall in oil price which has made some of the remaining reserves less valuable.

## SUMMARY OF FINANCIAL POSITION

The Company's cash reserves at the end of 2015 totalled \$0.445 million compared to \$1.362 million as at 31 December 2014.

The movement in cash reserves was due primarily to:

- Net proceeds from oil production of \$4.337 million;
- **offset by:**
- Overheads and other expenditures of \$3.187 million;
- State taxes paid of \$0.242 million;
- Acquisition of Silvertip of \$6.345 million, funded by a loan drawdown of \$6.357 million;
- Development expenditure of \$0.6134 million relating to field workovers and \$0.105 million for equipment purchases; and
- Debt principal repayments of \$0.881 million and interest expense of \$0.210 million relating to the current lending facility.

The Company's total assets are \$17.080 million (2014 - \$9.728 million) and the net assets are \$2.864 million (2014 - \$5.437 million). The movement in net assets is caused primarily by the acquisition of the Silvertip oilfield, partly offset by the impairment of oilfield assets relating to oil price decline, which has resulted from a decrease in value of the Company's assets, a decrease in cash balances on hand and an increase in trade payables.

## Likely Developments and expected results of Operations

Incremental will continue with its current range of activities in 2016 with a focus on developing its Silvertip Field. Potential acquisition targets will continue to be investigated if they meet the following criteria:

- Conventional, shallow, light oil and gas production
- Strong cash flow potential from operations
- Ability for production and profitability to be 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 in relation to the Silvertip acquisition.

## Financial condition

The Company has sufficient funds to repay debts as and when they fall due. The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents in the year of \$916,395 (2014 - increase of \$820,704) of which operational activities contributed a surplus of \$698,130 (2014 - \$1,583,611). Analyses of the components of the changes are detailed in the consolidated statement of cash flows. \$881,889 of debt was repaid during 2015 compared to \$512,437 in 2014. Outflows of cash relate to investing activities from Silvertip and development of oil properties as detailed in note 22. The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activity and realization of assets and the settlement of liabilities in the normal course of business (refer Going Concern Note 1(c) on the Financial Statements).

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

The number of shares on issue at 31 December 2015 was 163,684,580. 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.

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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**

On 18 March 2016 a further 150,000 shares were issued at A\$0.045 each in the Company as part of the employee share plan.

There were no other 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 2015 was \$12,877 (2014 - \$15,157).

### **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 unspecified 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 2015 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 2014 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)

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 four financial years against overall remuneration for these years:

|                                      | 2015       | 2014       | 2013        | 2012        | 2011      |
|--------------------------------------|------------|------------|-------------|-------------|-----------|
| Basic EPS (US\$)                     | (\$0.0168) | (\$0.0527) | (\$0.0735)  | \$0.0184    | \$0.0066  |
| Year end share price (AU\$)          | \$0.035    | \$0.034    | \$0.069     | \$0.245     | \$0.240   |
| Market Capitalisation (AU\$ million) | \$5.729    | \$5.451    | \$10.780    | \$33.232    | \$26.514  |
| Total KMP Remuneration (US\$)        | \$807,416  | \$800,529  | \$1,061,714 | \$1,241,223 | \$716,127 |

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                            | From 1 <sup>st</sup> July 2015 US\$60,000 pa plus superannuation (9.5%). From 1 <sup>st</sup> January 2015 to 30 <sup>th</sup> June 2015 and for 2014, AU\$60,000 pa plus superannuation (9.5 %). |
| Non- Executive Director (Australia) | From 1 <sup>st</sup> July 2015 US\$40,000 pa plus superannuation (9.5%). From 1 <sup>st</sup> January 2015 to 30 <sup>th</sup> June 2015 and for 2014, 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.

Non-executive directors' fees were reduced by 15% from 1 February 2016 following a decision by the Board to assist in addressing cost pressures.

#### 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 and co-contribution superannuation and pension contributions where required by regulations or as part of the executive's overall remuneration package.

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 were paid in the financial year 2014 in line with the Boards decision to address cost pressures. In 2015 bonuses were paid in relation to the acquisition of the Silvertip project.

#### 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 June 2015, 1,847,900 shares were issued to the employee share trust for the benefit of employees at a price of A\$0.03cents per share. A further 1,500,000 shares at a price of AU\$0.051cents per share were issued in June 2015 but had been expensed in the prior financial year. The shares were valued at the market price of an ordinary share on the grant date.

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.

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

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 2015) |
|---------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| 98,000        | 21 January 2013 | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         | 98,000                                 |
|               |                 | 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         |                                        |
| 239,000       | 7 August 2013   | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         | 239,000                                |
|               |                 | 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         |                                        |
| 256,000       | 30 June 2014    | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         | 128,000                                |
|               |                 | 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         |                                        |
| 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 <sup>(2)</sup>                            | 1,000,000                              |
| 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 <sup>(2)</sup>                                                                                                     | 1,000,000                              |
| 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 <sup>(2)</sup> | Nil                                    |
| 1,000,000     | 30 June 2014    | When total company production reaches an average of 750 Gross boepd over a continuous 6 month period <sup>(2)</sup>                                                                                                             | Nil                                    |
| 375,000       | 1 July 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 <sup>(2)</sup>                            | 375,000                                |
| 375,000       | 1 July 2014     | On production of above new Project A reaching an average of 200 Gross boepd over a continuous 6 month period <sup>(2)</sup>                                                                                                     | 375,000                                |
| 375,000       | 1 July 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 <sup>(2)</sup> | Nil                                    |
| 375,000       | 1 July 2014     | When total company production reaches an average of 750 Gross boepd over a continuous 6 month period <sup>(2)</sup>                                                                                                             | Nil                                    |

| No. of shares | Grant date   | Vesting conditions                                                                                                                                 | Shares vested (as at 31 December 2015) |
|---------------|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| 1,847,900     | 26 June 2015 | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup><br>50% vest after 24 months of service (from date of issue) <sup>(1)</sup> | 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\$ <sup>(1)</sup> | No. of shares forfeited during the year | Value at date of forfeiture | Forfeited % |
|--------------|-------------------|--------------------------------------|--------------------------|---------------------------------------------------|-----------------------------------------|-----------------------------|-------------|
| John Whisler | 7 August 2013     | 7.8.2014 - 50%<br>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                       | -           |
| John Whisler | 26 June 2015      | 31.12.2015 - 50%<br>31.12.2016 - 50% | 884,100                  | \$20,473                                          | Nil                                     | \$Nil                       | -           |
| Simon Adams  | 17 January 2013   | 17.1.2014 - 50%<br>17.1.2015 - 50%   | 52,000                   | \$13,758                                          | Nil                                     | \$Nil                       | -           |
| Simon Adams  | 7 August 2013     | 7.8.2014 - 50%<br>7.8.2015 - 50%     | 8,000                    | \$951                                             | Nil                                     | \$Nil                       | -           |
| Simon Adams  | 1 July 2014       | Based on performance                 | 1,500,000                | \$72,323                                          | Nil                                     | \$Nil                       | -           |
| Simon Adams  | 26 June 2015      | 31.12.2015 - 50%<br>31.12.2016 - 50% | 398,600                  | \$9,230                                           | 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



| Name                             | Year        | Short Term Benefits          |                               |               | Post-Employment Benefits | Share Based Payments | Termination Benefits | Total          | Portion of Remuneration paid as Options / Rights | Portion of Remuneration that is performance related |
|----------------------------------|-------------|------------------------------|-------------------------------|---------------|--------------------------|----------------------|----------------------|----------------|--------------------------------------------------|-----------------------------------------------------|
|                                  |             | Salary & Fees <sup>(1)</sup> | Other Benefits <sup>(2)</sup> | Cash Bonuses  | Pension/ Superannuation  | Shares/ Options      |                      |                |                                                  |                                                     |
|                                  |             | US\$                         | US\$                          | US\$          | US\$                     | US\$                 | US\$                 | US\$           | %                                                | %                                                   |
| <b>Directors (Non-Executive)</b> |             |                              |                               |               |                          |                      |                      |                |                                                  |                                                     |
| M Stowell <sup>(5)</sup>         | 2015        | 54,477                       | 2,575                         | -             | 5,038                    | -                    | -                    | 62,090         | -                                                | -                                                   |
|                                  | 2014        | 26,413                       | 3,031                         | -             | 2,508                    | -                    | -                    | 31,952         | -                                                | -                                                   |
| G McGann <sup>(3,5)</sup>        | 2015        | 43,216                       | 2,575                         | -             | 3,359                    | -                    | -                    | 49,150         | -                                                | -                                                   |
|                                  | 2014        | 39,038                       | 3,031                         | -             | 1,672                    | -                    | -                    | 43,741         | -                                                | -                                                   |
| M McCann <sup>(4)</sup>          | 2015        | 39,996                       | 2,575                         | -             | -                        | -                    | -                    | 42,571         | -                                                | -                                                   |
|                                  | 2014        | 30,000                       | 3,031                         | -             | -                        | 14,995               | -                    | 48,026         | 31%                                              | -                                                   |
| <b>Directors (Executive)</b>     |             |                              |                               |               |                          |                      |                      |                |                                                  |                                                     |
| J Whisler <sup>(6)</sup>         | 2015        | 300,000                      | 30,661                        | 32,500        | 12,453                   | 96,969               | -                    | 472,583        | 21%                                              | 21%                                                 |
|                                  | 2014        | 300,000                      | 27,325                        | -             | 9,900                    | 151,701              | -                    | 488,926        | 31%                                              | 31%                                                 |
| <b>Key Management Personnel</b>  |             |                              |                               |               |                          |                      |                      |                |                                                  |                                                     |
| S Adams                          | 2015        | 123,211                      | 2,575                         | -             | 11,705                   | 43,531               | -                    | 181,022        | 24%                                              | 24%                                                 |
|                                  | 2014        | 141,312                      | 3,031                         | -             | 13,253                   | 30,288               | -                    | 187,884        | 16%                                              | 16%                                                 |
| <b>Total</b>                     | <b>2015</b> | <b>560,900</b>               | <b>40,961</b>                 | <b>32,500</b> | <b>32,555</b>            | <b>140,500</b>       | <b>-</b>             | <b>807,416</b> | <b>17%</b>                                       | <b>17%</b>                                          |
|                                  | <b>2014</b> | <b>536,763</b>               | <b>39,449</b>                 | <b>-</b>      | <b>27,333</b>            | <b>196,984</b>       | <b>-</b>             | <b>800,529</b> | <b>25%</b>                                       | <b>25%</b>                                          |

1. Included in Salary and Fees are amounts made available to related parties of directors and other KMP.
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 and other KMP).
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. Australian based Directors' fees were waived from April 2013 to June 2014.
6. J Whisler joined the Board as an executive director on 1 July 2014 and was appointed as Managing Director effective from 14 October 2014.

## 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.

| 2015                                  | Balance at 1 Jan 2015    | Granted as Remuneration | Vested and exercisable during the year <sup>(1)</sup> | Changed during the year | Balance at 31 Dec 2015 <sup>(2)</sup> |
|---------------------------------------|--------------------------|-------------------------|-------------------------------------------------------|-------------------------|---------------------------------------|
|                                       | Number                   | Number                  | Number                                                | Number                  | Number                                |
| <b>Directors</b>                      |                          |                         |                                                       |                         |                                       |
| G McGann                              | -                        | -                       | -                                                     | -                       | -                                     |
| M Stowell                             | -                        | -                       | -                                                     | -                       | -                                     |
| M McCann                              | 400,000 <sup>(3)</sup>   | -                       | -                                                     | -                       | 400,000                               |
| J Whisler                             | 4,115,500 <sup>(4)</sup> | 884,100                 | (2,115,500)                                           | -                       | 2,884,100                             |
| <b>Other key management personnel</b> |                          |                         |                                                       |                         |                                       |
| S Adams                               | 1,530,000 <sup>(4)</sup> | 398,600                 | (780,000)                                             | -                       | 1,148,600                             |
| <b>Total</b>                          | <b>6,045,500</b>         | <b>1,282,700</b>        | <b>(2,895,500)</b>                                    | <b>-</b>                | <b>4,432,700</b>                      |

1. Vesting conditions met, entitlement transferred to shares held
2. None of the options or rights have vested during the year
3. Options exercisable at A\$0.07 expiring 26 May 2017

#### 4. Employee shares not yet vested

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

Options were issued to M McCann as remuneration in 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 2015.

#### 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<br>1 January 2015 | Shares vested <sup>(1)</sup> | Changed<br>during the year | Balance at<br>31 December 2015 |
|---------------------------------------|------------------------------|------------------------------|----------------------------|--------------------------------|
|                                       | Number                       | Number                       | Number                     | Number                         |
| <b>Directors</b>                      |                              |                              |                            |                                |
| M Stowell                             | 13,700,002                   | -                            | (63,050) <sup>(2)</sup>    | 13,636,952                     |
| G McGann                              | 24,340,004                   | -                            | -                          | 24,340,004                     |
| M McCann                              | 738,000                      | -                            | -                          | 738,000                        |
| J Whisler <sup>(1)</sup>              | 615,500                      | 2,115,500                    | -                          | 2,731,000                      |
| <b>Other key management personnel</b> |                              |                              |                            |                                |
| S Adams                               | 155,000                      | 780,000                      | 75,000                     | 1,010,000                      |
|                                       |                              |                              |                            |                                |
| <b>Total</b>                          | <b>39,548,506</b>            | <b>2,895,500</b>             | <b>11,950</b>              | <b>42,455,956</b>              |

- Vesting conditions of employee shares were met, converted from rights
- 236,950 shares purchased and 300,000 shares owned by Director's children who have attained adult age and therefore shares are no longer controlled by Mr Stowell.

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

#### Service Agreements

Remuneration arrangements for Managing Director and KMP are formalised in employment contracts. The following outlines the details of these contracts.

##### 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)<br>If half yearly production average > 1000 bopd, bonus of 30% of base salary (this milestone has not yet been achieved or paid)<br>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 up to 10% of base salary may be offered at the discretion of the Board on an annual basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Incentive shares:    | Entitled to incentive shares in Incremental. Shares offered at a price equivalent to the market price or an appropriate weighted average price at the time of issue. The shares will be held in trust and will be subject to vesting terms. The shares shall vest in four tranches of 1.0M shares each as follows: <ol style="list-style-type: none"> <li>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. These conditions were met in the year.</li> <li>Tranche 2: following production of Project A reaching an average of 200 Gross boepd over a continuous 6 month period. These conditions were met in the year.</li> </ol> |

|                    |                                                                                                                                                                                                                                                                                                                                                                                                |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                    | <ul style="list-style-type: none"> <li>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</li> <li>iv) Tranche 4: following total company production reaching an average of 750 Gross boepd over a continuous 6 month period.</li> </ul> |
| 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 can be paid in cash or shares. On purchase of the Silvertip Field, a bonus of \$32,500 was paid to Mr Whisler.                                                                                          |
| 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:    | <p>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:</p> <ul style="list-style-type: none"> <li>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. These conditions were met in the year.</li> <li>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. These conditions were met in the year.</li> <li>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</li> <li>iv) Tranche 4: following total company production reaching an average of 750 Gross boepd over a continuous 6 month period.</li> </ul> <p>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).</p> |
| 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. |

During 2015, A\$11,097 was paid to Mr McGann under this consultancy arrangement.

#### **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

The Board of Incremental Oil and Gas Ltd is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to its Shareholders for the performance of the Company and seeks to communicate extensively with Shareholders. The Board believes that sound Corporate Governance practices will assist in the creation of Shareholder wealth and provide accountability.

In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly information about the Company's Corporate Governance practices is set out on the Company's website at [www.incremental油和gas.com](http://www.incremental油和gas.com).

### Directors' Meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

| DIRECTORS | DIRECTORS MEETINGS |          | AUDIT & RISK COMMITTEE |          | REMUNERATION COMMITTEE |          |
|-----------|--------------------|----------|------------------------|----------|------------------------|----------|
|           | HELD               | ATTENDED | HELD                   | ATTENDED | HELD                   | ATTENDED |
| M Stowell | 6                  | 6        | 2                      | 2        | 1                      | 1        |
| G McGann  | 6                  | 6        | -                      | -        | 1                      | 1        |
| M McCann  | 6                  | 6        | 2                      | 2        | -                      | -        |
| J Whisler | 6                  | 6        | -                      | -        | -                      | -        |

### Directors' benefits

In November 2015, Incremental Oil and Gas Ltd entered into a lease agreement with Ascot Park Enterprises Pty Ltd, a company associated with the Chairman, Mr Mark Stowell, to rent office accommodation at 20 Howard Street, Perth. The rent and outgoings have been set at a rate which is at an arms-length commercial rate for comparable premises. The lease agreement terms are as follows:

Lease term: 1 year plus 3 x one year options  
Rental payment: A\$14,887 per annum

Other than the disclosure above, 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 which is stated in the Remuneration Report above.

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**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 2015 has been received and is to be found on page 25.

**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:

|                   | 2015 | 2014  |
|-------------------|------|-------|
|                   | \$   | \$    |
| Assurance related | -    | 2,616 |

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 Whisler  
Managing Director  
31 March 2016

## AUDITORS'S INDEPENDENCE DECLARATION



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

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

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

As lead auditor for the audit of Incremental Oil and Gas Limited for the financial year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Incremental Oil and Gas Limited and the entities it controlled during the financial year.

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

Ernst & Young

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

Gavin Buckingham  
Partner  
31 March 2016

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

|                                                                                                         |             | Year ended 31<br>December<br>2015<br>US\$ | Year ended 31<br>December<br>2014<br>US\$ |
|---------------------------------------------------------------------------------------------------------|-------------|-------------------------------------------|-------------------------------------------|
|                                                                                                         | <u>Note</u> |                                           |                                           |
| Oil and Gas Sales                                                                                       | 3a          | 4,707,061                                 | 6,466,932                                 |
| Direct cost of sales:                                                                                   |             |                                           |                                           |
| Royalty costs                                                                                           |             | (821,050)                                 | (1,107,780)                               |
| Other Production expenses                                                                               |             | (1,676,898)                               | (1,033,383)                               |
| Amortisation and depreciation                                                                           | 3(b)(iii)   | (1,807,478)                               | (2,373,245)                               |
| Gross profit from operations                                                                            |             | 401,635                                   | 1,952,524                                 |
| Other operating revenue                                                                                 | 3a          | 30,976                                    | 8,292                                     |
| Administrative expenses                                                                                 | 3(b)(iv)    | (1,333,587)                               | (1,225,478)                               |
| Other operating expenses                                                                                | 3(c)        | (698,933)                                 | (811,007)                                 |
| Interest and finance expenses                                                                           | 3(b)(i)     | (247,577)                                 | (378,475)                                 |
| Impairment of assets                                                                                    | 3(b)(vi)    | (878,619)                                 | (7,524,896)                               |
| <b>Profit/(Loss) before income tax</b>                                                                  |             | (2,726,105)                               | (7,979,040)                               |
| Income tax (expense) / benefit                                                                          | 4           | -                                         | (368,929)                                 |
| <b>Profit / (Loss) after tax</b>                                                                        |             | (2,726,105)                               | (8,347,969)                               |
| <b>Profit / (Loss) for the period attributable to members of the entity</b>                             |             | (2,726,105)                               | (8,347,969)                               |
| <b>Other comprehensive income</b>                                                                       |             |                                           |                                           |
| Items that will not be reclassified to profit and loss                                                  |             | -                                         | -                                         |
| Items that may be reclassified to profit and loss                                                       |             | -                                         | -                                         |
| <b>Other comprehensive (loss) / income for the period, net of tax</b>                                   |             | -                                         | -                                         |
| <b>Total comprehensive income / (loss) for the period attributable to members of the entity</b>         |             | (2,726,105)                               | (8,347,969)                               |
| <b>Basic (loss)/earnings per share attributable to ordinary equity holders of the entity (cents)</b>    | 20          | (1.68)                                    | (5.27)                                    |
| <b>Diluted (loss) /earnings per share attributable to ordinary equity holders of the entity (cents)</b> | 20          | (1.68)                                    | (5.27)                                    |

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 2015**

|                                                            | <u>Note</u> | <b>2015</b><br><b>US\$</b> | <b>2014</b><br><b>US\$</b> |
|------------------------------------------------------------|-------------|----------------------------|----------------------------|
| <b>Current assets</b>                                      |             |                            |                            |
| Cash and cash equivalents                                  | 8           | 445,419                    | 1,361,814                  |
| Trade and other receivables                                | 9           | 431,197                    | 275,097                    |
| Inventories                                                | 10          | 107,191                    | 439,326                    |
| <b>Total current assets</b>                                |             | <u>983,807</u>             | <u>2,076,237</u>           |
| <b>Non-current assets</b>                                  |             |                            |                            |
| Other financial assets                                     | 11          | 322,229                    | 10,626                     |
| Oil properties                                             | 12          | 11,738,680                 | 6,622,315                  |
| Exploration assets                                         | 13          | -                          | -                          |
| Plant and equipment                                        | 14          | 4,036,280                  | 1,019,175                  |
| Deferred tax asset                                         | 4(b)        | -                          | -                          |
| <b>Total Non-current assets</b>                            |             | <u>16,097,189</u>          | <u>7,652,116</u>           |
| <b>Total assets</b>                                        |             | <u>17,080,996</u>          | <u>9,728,353</u>           |
| <b>Current liabilities</b>                                 |             |                            |                            |
| Trade and other payables                                   | 15          | 911,377                    | 443,364                    |
| Interest bearing liabilities                               | 16          | 950,000                    | 727,084                    |
| Taxes payable                                              | 4(a)        | 126,265                    | 126,273                    |
| Provisions                                                 | 17          | 89,105                     | 45,852                     |
| <b>Total current liabilities</b>                           |             | <u>2,076,747</u>           | <u>1,342,573</u>           |
| <b>Non-current liabilities</b>                             |             |                            |                            |
| Trade and other payables                                   | 15          | 56,494                     | 134,410                    |
| Interest bearing liabilities                               | 16          | 7,291,193                  | 1,709,826                  |
| Provisions                                                 | 17          | 4,792,830                  | 1,104,749                  |
| Deferred tax liabilities                                   | 4(b)        | -                          | -                          |
| <b>Total non-current liabilities</b>                       |             | <u>12,140,517</u>          | <u>2,948,985</u>           |
| <b>Total liabilities</b>                                   |             | <u>14,217,264</u>          | <u>4,291,558</u>           |
| <b>Net assets</b>                                          |             | <u>2,863,732</u>           | <u>5,436,795</u>           |
| <b>Equity attributable to equity holders of the parent</b> |             |                            |                            |
| Issued capital                                             | 18          | 22,717,388                 | 22,620,836                 |
| Shares reserved for employee share plan                    | 18          | (27,699)                   | (84,189)                   |
| Reserves                                                   | 19          | 349,661                    | 349,661                    |
| Accumulated losses                                         |             | <u>(20,175,618)</u>        | <u>(17,449,513)</u>        |
| <b>Total Equity</b>                                        |             | <u>2,863,732</u>           | <u>5,436,795</u>           |

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 2015**

|                                                    | <b>Issued capital<br/>(Note 18)<br/>US\$</b> | <b>Shares reserved<br/>for employee<br/>share plan<br/>US\$</b> | <b>Accumulated<br/>losses<br/>US\$</b> | <b>Share option<br/>reserve<br/>US\$</b> | <b>Total equity<br/>US\$</b> |
|----------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------|----------------------------------------|------------------------------------------|------------------------------|
| <b>At 31 December 2014</b>                         | <b>22,620,836</b>                            | <b>(84,189)</b>                                                 | <b>(17,449,513)</b>                    | <b>349,661</b>                           | <b>5,436,795</b>             |
| Profit/(loss) attributable to members of the Group | -                                            | -                                                               | (2,726,105)                            | -                                        | (2,726,105)                  |
| Other comprehensive income                         | -                                            | -                                                               | -                                      | -                                        | -                            |
| Total comprehensive income for the period          | -                                            | -                                                               | (2,726,105)                            | -                                        | (2,726,105)                  |
| Issue of employee shares                           | 101,828                                      | (101,828)                                                       | -                                      | -                                        | -                            |
| Transaction costs                                  | (5,276)                                      | -                                                               | -                                      | -                                        | (5,276)                      |
| Issue of Options                                   | -                                            | -                                                               | -                                      | -                                        | -                            |
| Share based payment expense                        | -                                            | 158,318                                                         | -                                      | -                                        | 158,318                      |
| <b>At 31 December 2015</b>                         | <b>22,717,388</b>                            | <b>(27,699)</b>                                                 | <b>(20,175,618)</b>                    | <b>349,661</b>                           | <b>2,863,732</b>             |
|                                                    | <b>Issued capital<br/>US\$</b>               | <b>Shares reserved for employee share plan<br/>US\$</b>         | <b>Accumulated losses<br/>US\$</b>     | <b>Share option reserve<br/>US\$</b>     | <b>Total equity<br/>US\$</b> |
| <b>At 31 December 2013</b>                         | <b>22,430,823</b>                            | <b>(65,636)</b>                                                 | <b>(9,101,544)</b>                     | <b>334,666</b>                           | <b>13,598,309</b>            |
| 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                       |
| Placement of Shares                                | -                                            | 171,460                                                         | -                                      | -                                        | 171,460                      |
| <b>At 31 December 2014</b>                         | <b>22,620,836</b>                            | <b>(84,189)</b>                                                 | <b>(17,449,513)</b>                    | <b>349,661</b>                           | <b>5,436,795</b>             |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

|                                                             | <u>Note</u> | <b>2015</b><br>US\$ | <b>2014</b><br>US\$ |
|-------------------------------------------------------------|-------------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                 |             |                     |                     |
| Receipts from customers                                     |             | 4,336,315           | 6,960,797           |
| Payments to suppliers and employees                         |             | (3,187,210)         | (4,284,768)         |
| Interest received                                           |             | 963                 | 436                 |
| Interest paid                                               |             | (210,313)           | (134,517)           |
| Production tax paid                                         |             | <u>(241,625)</u>    | <u>(958,337)</u>    |
| <b>Net cash (used)/provided by operating activities</b>     | 21          | <u>698,130</u>      | <u>1,583,611</u>    |
| <b>Cash flows from investing activities</b>                 |             |                     |                     |
| Acquisition of Silvertip, net of cash acquired              | 22          | (6,345,477)         | -                   |
| Oil property development expenditure                        |             | (613,438)           | (104,466)           |
| Refunds /(payments) for performance bonds                   |             | (321,606)           | -                   |
| Proceeds from sale of assets                                |             | 6,000               | -                   |
| Payments for purchases of property plant and equipment      | 14          | <u>(105,145)</u>    | <u>(135,505)</u>    |
| <b>Net cash used in investing activities</b>                |             | <u>(7,379,666)</u>  | <u>(239,971)</u>    |
| <b>Cash flows from financing activities</b>                 |             |                     |                     |
| Transaction costs for issue of shares                       |             | (5,276)             | -                   |
| Repayment of borrowings                                     |             | (881,889)           | (4,037,437)         |
| Proceeds of borrowings                                      |             | <u>6,657,160</u>    | <u>3,525,000</u>    |
| <b>Net cash (used in)/ provided by financing activities</b> |             | <u>5,769,995</u>    | <u>(512,437)</u>    |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |             | (911,541)           | 831,203             |
| <b>Exchange differences on cash balances held</b>           |             | (4,854)             | (10,499)            |
| <b>Cash and cash equivalents at beginning of the year</b>   |             | 1,361,814           | 541,110             |
| <b>Cash and cash equivalents at end of year</b>             | 8           | <u>445,419</u>      | <u>1,361,814</u>    |

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 2015 were authorised for issue in accordance with a resolution of the directors on 30 March 2016.

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 2015 including:

#### *-AASB 2013-9 Amendments to Australian accounting Standards – Conceptual Framework, Materiality and Financial Instruments*

The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential changes arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial changes to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting into AASB 9 Financial Instruments*. The adoption of AASB 2013-9 has had no effect on the financial position or performance of the Company.

#### *-AASB 2014-1 Part A – Annual Improvements 2010-2012 Cycle*

AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting standards Board (IASB) of International Financial Reporting Standards (IFRSs) *Annual Improvements to IFRSs 2010-2012 Cycle* and *Annual improvements to IFRSs 2011-2013 Cycle*. Annual Improvements to IFRSs 2010-2012 Cycle addresses the following items:

- AASB 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition';
- AASB 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing references to AASB 137;
- AASB 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets;
- AASB 116 and AASB 138 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts;
- AASB 124 – Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 Related party Disclosures for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

The adoption of AASB 2014-1 has had no effect on the financial position or performance of the Company or disclosures made by the Company.

#### *-Amendments to Australian Accounting Standards – Part B Defined benefit Plans: Employee Contributions (Amendments to AASB 119)*

AASB 2014- Part B makes amendments in relation to the requirements for contributions from employees or third parties that are set out in the formal terms of the benefit plan and linked to service. The amendments clarify that if the amount of contributions is

independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. The adoption of this standard has had no effect on the financial position or performance of the Company.

### c) Going Concern

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activity and realization of assets and the settlement of liabilities in the normal course of business. At 31 December 2015, the Group has the following going concern indicators:

- (i) A working capital deficiency of \$1.093million with cash on hand of \$0.445 million;
- (ii) The Group incurred a loss after tax of \$2.726 million for the year ended 31 December 2015;
- (iii) The Group has outstanding loans of \$8.241 million and trade creditors and accruals of \$0.911 million which is current;
- (iv) The Group's revenues are sensitive to the fluctuations in oil prices which have been at a declining trend over the last year

Notwithstanding the above the directors consider they have a reasonable basis to prepare the financial statements on a going concern basis after having regards to the following:

- (i) Despite the Group recording a loss of \$2.726 million (before tax) for the year ended 31 December 2015 which is mainly due to the significant impairment taken on its CGUs the Group generated positive operating cash flows from operations during the year of \$0.698 million from its producing oil fields.
- (ii) The Company has drawn \$500,000 from its line of credit facility with ANB in March 2016. A further \$0.250 million is available on this facility if required.
- (iii) 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 2017.
- (iv) 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 and/or equity raising from the issue of new shares.

Should the Group not be able to execute the strategies set out above, there would be significant uncertainty as to whether the Group would be able to meet its debts as and when they fall due and thus continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount and classification of liabilities that might be required should the Group not be able to achieve the matters set out above, and thus be able to continue as a going concern.

### 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 2015.

| Standard/Interpretation                                                                                                                         | Effective for annual reporting periods beginning on or after | Application date for the Company |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------|
| AASB 9 'Financial Instruments'                                                                                                                  | 1 January 2018                                               | 1 January 2018                   |
| 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 2018                                               | 1 January 2018                   |
| AASB 2015-1 'Amendments to Australian Accounting Standards' – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle            | 1 January 2016                                               | 1 January 2016                   |
| IFRS 16 Leases                                                                                                                                  | 1 January 2019                                               | 1 January 2019                   |

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

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 irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income
- Introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specially, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
- 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.
- 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  
AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). 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
- AASB 16: Leases  
The key features are as follows:  
**Lessee Accounting**
  - Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
  - A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities
  - Assets and liabilities arising from a lease are initially measured on a present value basis
  - AASB 16 contains disclosure requirements for lessees**Lessor accounting**
  - AASB 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently
  - AASB 16 also required enhanced disclosures

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 24) 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.

#### **k) 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.

#### **l) 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.

#### **m) 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.



|                                                                                                               | 2015<br>US\$       | 2014<br>US\$       |
|---------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>1) Revenues and Expenses from continuing operations</b>                                                    |                    |                    |
| (Loss)/Profit from ordinary activities before income tax includes the following items of revenue and expense. |                    |                    |
| <b>a) Sales revenue</b>                                                                                       |                    |                    |
| Oil and gas sales                                                                                             | 4,686,693          | 6,404,490          |
| Royalties                                                                                                     | 20,368             | 62,442             |
|                                                                                                               | <u>4,707,061</u>   | <u>6,466,932</u>   |
| <b>Other operating revenue</b>                                                                                |                    |                    |
| Interest Income                                                                                               | 963                | 436                |
| Other revenue                                                                                                 | 30,013             | 7,856              |
|                                                                                                               | <u>30,976</u>      | <u>8,292</u>       |
| <b>b) Expenses</b>                                                                                            |                    |                    |
| i) Interest and finance expenses                                                                              |                    |                    |
| Interest on bank loans                                                                                        | (210,313)          | (134,517)          |
| Other Interest Charges                                                                                        | -                  | (4,779)            |
| Financing charges                                                                                             | (37,264)           | (239,179)          |
|                                                                                                               | <u>(247,577)</u>   | <u>(378,475)</u>   |
| ii) Foreign exchange                                                                                          |                    |                    |
| Gain                                                                                                          | 11,524             | 10,177             |
| Loss                                                                                                          | (8,669)            | (18,800)           |
|                                                                                                               | <u>2,855</u>       | <u>(8,623)</u>     |
| iii) Depreciation and amortisation included in the statement of profit or loss                                |                    |                    |
| Amortisation – oil and gas properties                                                                         | (1,479,614)        | (2,173,897)        |
| Depreciation – oil and gas properties                                                                         | (327,864)          | (199,348)          |
|                                                                                                               | <u>(1,807,478)</u> | <u>(2,373,245)</u> |
| Depreciation – other plant & equipment (see note 3(b)(iv) below)                                              | (19,963)           | (25,963)           |
|                                                                                                               | <u>(1,827,441)</u> | <u>(2,399,208)</u> |
| iv) Administrative expenses                                                                                   |                    |                    |
| Salaries, directors fees and employee benefits                                                                | (1,313,624)        | (1,199,515)        |
| Depreciation – other plant and equipment                                                                      | (19,963)           | (25,963)           |
|                                                                                                               | <u>(1,333,587)</u> | <u>(1,225,478)</u> |
| v) Net gain/(loss) on sale of oil properties and exploration assets                                           |                    |                    |
| Equipment sale                                                                                                | (12,772)           | (4,184)            |
|                                                                                                               | <u>(12,772)</u>    | <u>(4,184)</u>     |
| vi) Impairment of assets                                                                                      |                    |                    |
| Impairment of oil and gas properties                                                                          |                    |                    |
| -Florence                                                                                                     | (342,997)          | (852,054)          |
| -Sheep Springs                                                                                                | (325,304)          | (6,171,417)        |
| Impairment of property , plant and equipment (Note 14)                                                        | (166,784)          | (501,425)          |
| Write down of property , plant and equipment ( Note 14)                                                       | (43,534)           | -                  |
| Impairment of exploration and evaluation assets (Note 13)                                                     | -                  | -                  |
|                                                                                                               | <u>(878,619)</u>   | <u>(7,524,896)</u> |

Refer note 12 & 14 for details of impairment charges.

|                                                                                                                                                    | 2015<br>US\$       | 2014<br>US\$       |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>3) Revenues and Expenses (Cont.)</b>                                                                                                            |                    |                    |
| <b>c) Other operating expenses</b>                                                                                                                 |                    |                    |
| Compliance costs                                                                                                                                   | 123,351            | 356,283            |
| Operating lease costs                                                                                                                              | 185,157            | 140,521            |
| Foreign exchange                                                                                                                                   | (2,855)            | 8,623              |
| Net (gain) /loss on sale of assets                                                                                                                 | 12,772             | 4,184              |
| Travel expenses                                                                                                                                    | 35,180             | 51,708             |
| Operating taxes                                                                                                                                    | (53,630)           | 15,168             |
| Investor relations                                                                                                                                 | 10,691             | 35,976             |
| Insurance                                                                                                                                          | 50,782             | 63,630             |
| IT expenses                                                                                                                                        | 80,182             | 29,611             |
| Miscellaneous                                                                                                                                      | 257,303            | 105,303            |
|                                                                                                                                                    | <u>698,933</u>     | <u>811,007</u>     |
| Employee benefits <sup>(i)</sup>                                                                                                                   | 220,226            | 157,506            |
| Operating leases <sup>(i)</sup>                                                                                                                    | 185,157            | 140,521            |
| (i) These expenses are contained within 'Administrative expenses' and 'Direct Cost of Sales' in the consolidated statement of comprehensive income |                    |                    |
| <b>2) Income tax (benefit)/ expense</b>                                                                                                            |                    |                    |
| <b>Current income tax</b>                                                                                                                          |                    |                    |
| Current income tax (benefit ) /expense                                                                                                             | -                  | 61,904             |
|                                                                                                                                                    | <u>-</u>           | <u>61,904</u>      |
| <b>Deferred income tax/(revenue) expense included in income tax expense comprises:</b>                                                             |                    |                    |
| (Decrease)/increase in deferred tax                                                                                                                | -                  | 307,025            |
| Adjustment for deferred tax of prior period – Australia                                                                                            | -                  | -                  |
| Adjustment for deferred tax of prior period – USA                                                                                                  | -                  | -                  |
|                                                                                                                                                    | <u>-</u>           | <u>307,025</u>     |
| Total income tax (benefit)/expense                                                                                                                 | <u>-</u>           | <u>368,929</u>     |
| <b>Reconciliation of income tax (benefit)/expense to prima facie tax payable</b>                                                                   |                    |                    |
| Profit/(Loss) from continuing operations before income tax                                                                                         | (2,726,105)        | (7,979,040)        |
| <b>Accounting (loss)/profit before income tax</b>                                                                                                  | <u>(2,726,105)</u> | <u>(7,979,040)</u> |
| Prima facie tax (benefit)/payable on profit/(loss) from ordinary activities at 30% (2014 – 30%)                                                    | (817,831)          | (2,393,712)        |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income:                                                            |                    |                    |
| Effect of different taxation rates of other countries                                                                                              | (165,992)          | (405,340)          |
| Deferred tax assets not recognised                                                                                                                 | 1,117,962          | 3,064,781          |
| Tax effect of amounts which are not deductible in calculating taxable income                                                                       | 51,461             | 41,296             |

|                                                                                                    | 2015<br>US\$ | 2014<br>US\$ |
|----------------------------------------------------------------------------------------------------|--------------|--------------|
| <b>4) Income tax (Cont.)</b>                                                                       |              |              |
| Benefit of tax losses not previously recognised                                                    |              | -            |
| Temporary differences and tax losses previously not brought to account – Australia                 | (185,600)    | -            |
| Prior year underprovision                                                                          | -            | 61,904       |
| Income tax (benefit)/ expense                                                                      | -            | 368,929      |
| <b>Movement in deferred income tax for the year ended 31 December relates to the following:</b>    |              |              |
| <b>Deferred tax liabilities</b>                                                                    |              |              |
| Depreciable assets                                                                                 | (82,231)     | (37,111)     |
| <b>Deferred tax assets</b>                                                                         |              |              |
| Interest and management fees                                                                       | 82,231       | 266,481      |
| Capital raising costs                                                                              | -            | 42,944       |
| Provision for expenses                                                                             | -            | 34,711       |
| <b>Deferred tax (income )/expense</b>                                                              | -            | 307,025      |
| <b>Tax liabilities</b>                                                                             |              |              |
| <b>a) Current</b>                                                                                  |              |              |
| Income tax payable                                                                                 | 126,265      | 126,273      |
| <b>b) Non- Current</b>                                                                             |              |              |
| Deferred income tax recognised at 31 December from foreign source income relates to the following: |              |              |
| <b>Deferred tax assets (at 35%)</b>                                                                |              |              |
| Interest & management fees                                                                         | 445,632      | 527,863      |
|                                                                                                    | 445,632      | 527,863      |
| <b>Deferred tax liabilities (at 35%)</b>                                                           |              |              |
| Depreciable assets                                                                                 | 445,632      | 527,863      |
|                                                                                                    | 445,632      | 527,863      |
| Net deferred tax asset/(liability)                                                                 | -            | -            |
| Deferred income tax at 31 December from Australian source income relates to the following:         |              |              |
| <b>Deferred tax assets (at 30%)</b>                                                                |              |              |
| Provision for expenses                                                                             | -            | -            |
| Capital raising costs                                                                              | -            | -            |
|                                                                                                    | -            | -            |

|                                                                                   | 2015<br>US\$ | 2014<br>US\$ |
|-----------------------------------------------------------------------------------|--------------|--------------|
| <b>4) Income tax (Cont.)</b>                                                      |              |              |
| <b>Deferred tax liabilities (at 30%)</b>                                          |              |              |
| Receivables                                                                       | -            | -            |
| Unrealised foreign exchange gains                                                 | -            | -            |
|                                                                                   | -            | -            |
|                                                                                   | -            | -            |
| Net deferred tax asset                                                            | -            | -            |
|                                                                                   | -            | -            |
| Total deferred tax asset/(liability)                                              | -            | -            |
| <b>c) Reconciliations</b>                                                         |              |              |
| The overall movement in recognised deferred tax is as follows:                    |              |              |
| Opening balance                                                                   | -            | 307,025      |
| (Charge) / credit to statement of comprehensive income                            | -            | (307,025)    |
| Other movements                                                                   | -            | -            |
| Closing balance                                                                   | -            | -            |
| <b>d) Unrecognised deferred tax assets (at 30%) from Australian source income</b> |              |              |
| <b>Deferred tax assets (at 30%)</b>                                               |              |              |
| Capital raising costs                                                             | 21,060       | 22,872       |
| Provision for expenses                                                            | 9,499        | 18,920       |
| Carry forward tax losses                                                          | 16,072       | 406,144      |
|                                                                                   | 46,631       | 447,936      |
| <b>e) Unrecognised deferred tax assets (at 35%) from foreign source income</b>    |              |              |
| <b>Deferred tax assets (at 35%)</b>                                               |              |              |
| Carry forward revenue tax losses                                                  | 2,083,714    | 1,252,980    |
| Other timing differences                                                          | 8,170,367    | 5,727,055    |
|                                                                                   | 10,254,081   | 6,980,035    |
| <b>5) Key management personnel disclosure</b>                                     |              |              |

## Key management personnel compensation

|                                                            | 2015           | 2014           |
|------------------------------------------------------------|----------------|----------------|
|                                                            | US\$           | US\$           |
| Short-term employee benefits                               | 634,361        | 576,212        |
| Post-employment benefits                                   | 32,555         | 27,333         |
| Other long term benefits                                   | -              | -              |
| Termination Benefits                                       | -              | -              |
| Share-based Payments                                       | 140,500        | 196,984        |
| <b>Total compensation paid to key management personnel</b> | <b>807,416</b> | <b>800,529</b> |

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 June 2015, 1,847,900 shares were issued to the employee share trust for the benefit of employees at a price of A\$0.03cents per share. A further 1,500,000 shares at a price of AU\$0.051cents per share were issued in June 2015 but had been expensed in the prior financial year. The shares were valued at the market price of an ordinary share on the grant date.

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.

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

## 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 2015) |
|---------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| 98,000        | 21 January 2013 | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         | 98,000                                 |
|               |                 | 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         |                                        |
| 239,000       | 7 August 2013   | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         | 239,000                                |
|               |                 | 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         |                                        |
| 256,000       | 30 June 2014    | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         | 128,000                                |
|               |                 | 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>                                                                                                                                                         |                                        |
| 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 <sup>(2)</sup>                            | 1,000,000                              |
| 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 <sup>(2)</sup>                                                                                                     | 1,000,000                              |
| 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 <sup>(2)</sup> | Nil                                    |
| 1,000,000     | 30 June 2014    | When total company production reaches an average of 750 Gross boepd over a continuous 6 month period <sup>(2)</sup>                                                                                                             | Nil                                    |
| 375,000       | 1 July 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 <sup>(2)</sup>                            | 375,000                                |
| 375,000       | 1 July 2014     | On production of above new Project A reaching an average of 200 Gross boepd over a continuous 6 month period <sup>(2)</sup>                                                                                                     | 375,000                                |
| 375,000       | 1 July 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 <sup>(2)</sup> | Nil                                    |
| 375,000       | 1 July 2014     | When total company production reaches an average of 750 Gross boepd over a continuous 6 month period <sup>(2)</sup>                                                                                                             | Nil                                    |
| 1,847,000     | 21 May 2015     | 50% vest after 12 months of service (from date of issue) <sup>(1)</sup><br>50% vest after 24 months of service (from date of issue) <sup>(1)</sup>                                                                              | 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

### (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 in 2014. 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. There were no options issued in the 2015 financial year.

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

## 6. Share-based payments (Cont.)

The assessed fair value at grant date of options granted during 2014 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 2014 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:

|                                                                            | 2015<br>US\$   | 2014<br>US\$   |
|----------------------------------------------------------------------------|----------------|----------------|
| Shares issued under employee share scheme recognised in wages and salaries | 158,318        | 171,459        |
| Other share based payments recognised in wages and salaries                | -              | 14,995         |
|                                                                            | <u>158,318</u> | <u>186,454</u> |

## 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 | 57,226        | 72,110        |
| Other services in relation to the entity and any other entity in the consolidated group                 |               |               |
| Tax related                                                                                             | -             | 2,616         |
|                                                                                                         | <u>57,226</u> | <u>74,726</u> |

Amounts receivable or due and receivable by non Ernst and Young audit firms for:

|                                     |          |          |
|-------------------------------------|----------|----------|
| Audit or review of financial report | -        | -        |
|                                     | <u>-</u> | <u>-</u> |

## 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 | <u>445,419</u> | <u>1,361,814</u> |
|--------------------------|----------------|------------------|

Cash of \$321,606 is held on term deposit as security for performance bonds and is classified as non-current other receivables in the balance sheet (refer Note 11).

|                                       | 2015<br>US\$   | 2014<br>US\$   |
|---------------------------------------|----------------|----------------|
| <b>9) Trade and other receivables</b> |                |                |
| Oil and gas sales debtors             | 377,331        | 271,131        |
| Other receivables                     | 53,866         | 3,966          |
|                                       | <u>431,197</u> | <u>275,097</u> |

- (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 29 (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 +   |
|-------------|---------|-----------|-------------|-------------|
| <b>2015</b> | 431,197 | 384,806   | 7,475       | 38,916      |
| <b>2014</b> | 275,097 | 275,097   | -           | -           |
|             |         |           | <b>2015</b> | <b>2014</b> |
|             |         |           | <b>US\$</b> | <b>US\$</b> |

**10) Inventories**

|                                             |                |                |
|---------------------------------------------|----------------|----------------|
| Oil and gas inventory at cost of production | 107,191        | 162,073        |
| Field inventory                             | -              | 277,253        |
|                                             | <u>107,191</u> | <u>439,326</u> |

**11) Other financial assets**

**Non-current**

|       |                |               |
|-------|----------------|---------------|
| Bonds | 322,229        | 10,626        |
|       | <u>322,229</u> | <u>10,626</u> |

**12) Oil and gas properties**

|                                         |                   |                  |
|-----------------------------------------|-------------------|------------------|
| Cost of acquisition and enhancements    | 40,929,970        | 33,482,626       |
| Accumulated amortisation and impairment | (29,191,290)      | (26,860,311)     |
|                                         | <u>11,738,680</u> | <u>6,622,315</u> |
| Opening balance                         | 6,622,315         | 15,733,764       |
| Acquisition of Silvertip (note 22)      | 6,802,404         | -                |
| Transfer from exploration               | -                 | -                |
| Additions                               | 613,436           | 104,466          |
| Asset Retirement Obligation             | (151,561)         | (18,547)         |
| Disposals                               | -                 | -                |
| Amortisation                            | (1,479,614)       | (2,173,897)      |
| Impairment (see below)                  | (668,300)         | (7,023,471)      |
| Closing balance                         | <u>11,738,680</u> | <u>6,622,315</u> |

## 12) Oil properties (Cont.)

### Impairment charge

As at 31 December 2015 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. 15 to 24 years) resulting in an impairment loss of \$835,085 (2014 - \$7,524,896 split between oil and gas properties and plant and equipment) 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 2015, the oil price for future cash flow generation has been based on the forward curve price at the date of assessment. Oil prices are adjusted to account for variances in refinery/transportation charges with a range of \$40.97 per barrel to \$56.16 per barrel. Gas charges are adjusted to account for the market into which the product is delivered with prices ranging from \$2.49 per Mmbtu to \$4.01 per Mmbtu.

The resulting impairment assessment on each field in 2015 was as follows:

| Cash Generating Unit (CGU) | Description         | Net Recoverable amount | Net book value | Impairment |
|----------------------------|---------------------|------------------------|----------------|------------|
| Sheep Springs              | Oil and Gas field   | \$3,506,020            | \$3,747,570    | \$325,304  |
|                            | Plant and equipment |                        | \$83,754       | \$Nil      |
| Round Mountain             | Oilfield            | \$1,173,535            | \$764,256      | \$Nil      |
|                            | Plant and equipment |                        | \$30,225       | \$Nil      |
| Florence                   | Oilfield            | \$1,261,359            | \$1,191,678    | \$342,996  |
|                            | Plant and equipment |                        | \$579,462      | \$166,785  |
| Silvertip                  | Oil and Gas field   | \$8,880,238            | \$6,757,278    | \$Nil      |
|                            | Plant and equipment |                        | \$2,060,241    | \$Nil      |
|                            |                     | \$14,821,152           | \$15,214,464   | \$835,085  |

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 2015 with no value ascribed to them.

The determination of value in use (VIU) for each CGU are considered to be Level 3 fair value measurements in both years, as they are derived from valuation techniques that include inputs that are not based on observable market data. The Group considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

### 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<br>US\$'000<br><b>Sheep Springs</b> | Estimated change<br>US\$'000<br><b>Round Mountain</b> | Estimated change<br>US\$'000<br><b>Florence</b> | Estimated change<br>US\$'000<br><b>Silvertip</b> |
|-------------------------------|---------|------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------|--------------------------------------------------|
| Change in oil price (per Bbl) | +\$5    | 553                                                  | 262                                                   | 332                                             | 887                                              |
|                               | -\$5    | (553)                                                | (262)                                                 | (332)                                           | (887)                                            |
| Change in gas price (per Mcf) | +\$0.50 | 36                                                   | -                                                     | -                                               | 1,171                                            |
|                               | -\$0.50 | (36)                                                 | -                                                     | -                                               | (1,171)                                          |
| Change in discount rate       | +1%     | (180)                                                | (53)                                                  | (56)                                            | (357)                                            |
|                               | -1%     | 197                                                  | 57                                                    | 61                                              | 384                                              |
| Change in operating costs pa  | +10%    | (183)                                                | (85)                                                  | (103)                                           | (782)                                            |
|                               | -10%    | 183                                                  | 85                                                    | 103                                             | 782                                              |

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.

|                                              | 2015<br>US\$ | 2014<br>US\$ |
|----------------------------------------------|--------------|--------------|
| <b>13) Exploration and evaluation assets</b> |              |              |
| Exploration and evaluation assets at cost    | -            | -            |
| Opening balance                              | -            | -            |
| Additions                                    | 35,297       | 10,839       |
| Amounts expensed                             | (35,297)     | (10,839)     |
| Transfer to Oil Production Property          | -            | -            |
| Impairment                                   | -            | -            |
| 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 and 2015.

|                                                                                            | 2015<br>US\$     | 2014<br>US\$     |
|--------------------------------------------------------------------------------------------|------------------|------------------|
| <b>14) Plant and equipment</b>                                                             |                  |                  |
| <b>Balance at beginning of year</b>                                                        |                  |                  |
| Cost                                                                                       | 2,290,461        | 2,174,675        |
| Accumulated depreciation and impairment                                                    | (1,271,286)      | (560,088)        |
| Net carrying amount                                                                        | <u>1,019,175</u> | <u>1,614,587</u> |
| <b>Balance at end of year</b>                                                              |                  |                  |
| Cost                                                                                       | 5,798,077        | 2,290,461        |
| Accumulated depreciation and impairment                                                    | (1,761,797)      | (1,271,286)      |
| Net carrying amount                                                                        | <u>4,036,280</u> | <u>1,019,175</u> |
| For details of impairment charge see note 12.                                              |                  |                  |
| For details of assets held for security see note 16.                                       |                  |                  |
| Opening balance: net of accumulated depreciation and impairment                            | 1,019,175        | 1,614,587        |
| Acquisition of Silvertip                                                                   | 3,247,010        | -                |
| Additions                                                                                  | 105,145          | 135,505          |
| Transfers from inventory                                                                   | 277,253          | -                |
| Disposals/ write downs                                                                     | (54,158)         | (4,184)          |
| Write downs                                                                                | (43,534)         | -                |
| Depreciation charge                                                                        | (347,827)        | (225,308)        |
| Impairment charge                                                                          | (166,784)        | (501,425)        |
| Closing balance: net of accumulated depreciation and impairment                            | <u>4,036,280</u> | <u>1,019,175</u> |
| <b>15) Trade and other payables</b>                                                        |                  |                  |
| Current                                                                                    |                  |                  |
| Trade payables and accruals                                                                | <u>911,377</u>   | <u>443,364</u>   |
| Trade payables are non-interest bearing payables and are normally settled on 30 day terms. |                  |                  |
| Non-Current                                                                                |                  |                  |
| Trade payables and accruals                                                                | <u>56,494</u>    | <u>134,410</u>   |

|                                         | 2015<br>US\$ | 2014<br>US\$ |
|-----------------------------------------|--------------|--------------|
| <b>16) Interest Bearing Liabilities</b> |              |              |
| Current -                               |              |              |
| Bank Loan (Secured)                     | 950,000      | 727,084      |
| Non-current -                           |              |              |
| Bank Loan (Secured)                     | 7,291,193    | 1,709,826    |

The secured bank loans are provided by ANB Bank as a US Dollar denominated term loan facility. A loan of \$3 million (balance at Dec 2015 - \$1,724,444) was provided in May 2014 for the purpose of repaying a loan facility from RMB Australia Holdings Ltd. A new loan facility was made available and drawn on for the purpose of acquiring the Silvertip Field in June 2015 (Dec-15 - \$6,533,643). The loans are made up of two term loans and a line of credit as follows:

**Term Loan 1 -**

- 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 (2015 - 3.75%)
- Term - four years from May 2014
- Principal repayments - monthly equal instalments (\$62,500)
- Initial face value of loan - \$3.0 million (Balance Dec-15 - \$1,724,444)

**Term Loan 2 -**

- Security - mortgages over the Company's gas processing plant and spare well equipment at Silvertip Field
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (2015 - 3.75%)
- Term - five years from July 2015
- Principal repayments - monthly equal instalments (\$16,667)
- Initial face value of loan - \$1.0 million (Balance Dec-15 - \$896,483)

**Line of Credit -**

- Security - mortgages over the Company's producing oilfield in Wyoming
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (2015 - 3.75%)
- Term - two years from July 2015
- Principal repayments - interest only repayments on a monthly basis. Principal due to be repaid on or before maturity. Any part of the principal that is repaid before the maturity date may be redrawn up until the maturity date of the loan.
- Initial loan facility limit - \$7.0 million (facility limit Dec-15 - \$6,408,141)

Loan balance Dec-15 - \$5,657,160 (Refer Note 28 regarding drawdown of \$500,000 in March 2016)

Financial covenants for above loan facilities -

- Modified Current Ratio shall not be less than 1:1

Modified Current Ratio 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.)

|                                      | 2015<br>US\$                 | 2014<br>US\$                       |
|--------------------------------------|------------------------------|------------------------------------|
| <b>17) Provisions</b>                |                              |                                    |
| Current                              |                              |                                    |
| Employee entitlements – annual leave | 89,105                       | 45,852                             |
| Non-current -                        |                              |                                    |
| Asset retirement obligation          | 4,792,830                    | 1,104,749                          |
|                                      | <b>Employee entitlements</b> | <b>Asset retirement obligation</b> |
| <b>As at 1 January 2015</b>          | 45,852                       | 1,104,749                          |
| Movement during the year             | 94,113                       | (151,561)                          |
| Acquisition of Silvertip (note 22)   | -                            | 3,686,052                          |
| Utilised/unwinding of discount       | (50,860)                     | 153,590                            |
| <b>As at 31 December 2015</b>        | 89,105                       | 4,792,830                          |
| <b>As at 1 January 2014</b>          | 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)                     | -                                  |
| <b>As at 31 December 2014</b>        | 45,852                       | 1,104,749                          |

#### Asset retirement obligation

The asset retirement obligation provision 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 15 to 24 years.

|                                                               | 2015<br>US\$ | 2014<br>US\$ |
|---------------------------------------------------------------|--------------|--------------|
| <b>18) Issued capital</b>                                     |              |              |
| 163,684,580 Fully paid ordinary shares<br>(2014: 160,336,680) | 22,717,388   | 22,620,836   |

**Shares reserved for employee share plan**

|                                                        |          |          |
|--------------------------------------------------------|----------|----------|
| 7,940,900 Fully paid ordinary shares (2014: 4,593,000) | (27,699) | (84,189) |
|--------------------------------------------------------|----------|----------|

**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 18 for details.

|                                             | Year ended 31 December<br>2015 |             | Year ended 31 December<br>2014 |             |
|---------------------------------------------|--------------------------------|-------------|--------------------------------|-------------|
|                                             | US\$                           | No.         | US\$                           | No.         |
| <b>Movement in ordinary shares on issue</b> |                                |             |                                |             |
| Equity at the start of the year             | 22,620,836                     | 160,336,680 | 22,430,823                     | 156,242,680 |
| Placement of new shares                     | 96,552                         | 3,347,900   | 190,013                        | 4,094,000   |
| At 31 December                              | 22,717,388                     | 163,684,580 | 22,620,836                     | 160,336,680 |

**Capital management**

When managing capital, the Board's objective is to ensure the Consolidated Entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board may in the future adjust the capital structure to take advantage of favourable costs of capital and issue further shares in the market.

The Consolidated Entity is not subject to any externally imposed capital requirements.

Management monitor capital by reviewing the level of cash on hand, future revenue streams from oil and gas reserves and assessing the impact of possible future commitments in respect of the potential capital structure that would be required to meet those potential commitments.

|                      | 2015<br>US\$ | 2014<br>US\$ |
|----------------------|--------------|--------------|
| <b>19) Reserves</b>  |              |              |
| Share option reserve | 349,661      | 349,661      |

**Share Options**

At 31 December 2015 there were the following unlisted options over unissued fully paid ordinary shares on issue:  
5,000,000 (2014: 5,000,000) unlisted options exercisable at AUD0.1485 per option on or before 27 July 2018.  
400,000 (2014: 400,000) 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:

|                                                                                                                                         | <b>2015</b>            | <b>2014</b>            |
|-----------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                                                                         | <b>US\$</b>            | <b>US\$</b>            |
| (Loss)/ profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share                           | <u>(2,726,105)</u>     | <u>(8,347,969)</u>     |
|                                                                                                                                         | <b>Cents per share</b> | <b>Cents per share</b> |
| Basic (loss) /earnings per share                                                                                                        | (1.68)                 | (5.27)                 |
|                                                                                                                                         | <b>2015</b>            | <b>2014</b>            |
|                                                                                                                                         | <b>US\$</b>            | <b>US\$</b>            |
|                                                                                                                                         | <b>No. of shares</b>   | <b>No. of shares</b>   |
| The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share   | 162,061,078            | 158,306,505            |
| Effect of dilution:                                                                                                                     |                        |                        |
| Share options                                                                                                                           | <u>-</u>               | <u>-</u>               |
| The weighted average number of ordinary shares on issue during the financial year used in the calculation of diluted earnings per share | <u>162,061,078</u>     | <u>158,306,505</u>     |
|                                                                                                                                         | <b>Cents per share</b> | <b>Cents per share</b> |
| Diluted earnings/(loss) per share                                                                                                       | (1.68)                 | (5.27)                 |

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 2015 10,125,900 potential ordinary shares were not considered dilutive.

|                                                                                            | 2015<br>US\$ | 2014<br>US\$ |
|--------------------------------------------------------------------------------------------|--------------|--------------|
| <b>21) Reconciliation of net (loss)/profit after tax to net cash flows from operations</b> |              |              |
| (Loss) /profit per accounts                                                                | (2,726,105)  | (8,347,969)  |
| Adjustments for                                                                            |              |              |
| Tax expense                                                                                | -            | 307,022      |
| Leave provision                                                                            | 43,253       | 5,630        |
| Impairment of assets ( note 12 and14)                                                      | 835,085      | 7,524,896    |
| Amortisation                                                                               | 1,479,614    | 2,173,897    |
| Depreciation                                                                               | 347,827      | 225,310      |
| Share based payments                                                                       | 158,318      | 342,627      |
| Loss on disposal of oil properties and exploration assets                                  | 12,772       | 4,184        |
| Writedown of assets                                                                        | 78,918       | -            |
| (Decrease)/Increase in provisions                                                          | 209,128      | (9,866)      |
| Decrease/(Increase) in current receivables                                                 | (170,548)    | 491,145      |
| (Decrease)/Increase in current tax payable                                                 | -            | 61,907       |
| Decrease/(Increase) in inventories                                                         | 54,882       | (48,437)     |
| (Decrease)/Increase in trade and other payables                                            | 370,132      | (1,157,234)  |
| Exchange differences                                                                       | 4,854        | 10,499       |
| Cash used in operating activities                                                          | 698,130      | 1,583,611    |

## 22) Business Combinations

### Acquisitions in 2015

#### Acquisition of Silvertip Oil and Gas Field

On 30 June 2015, the Company completed the acquisition of a 100% working interest in the Silvertip Oil and Gas Field ("Silvertip"), which is located in the Bighorn Basin in Wyoming. Silvertip is made up of leases covering approximately 4,870 acres. At the time of acquisition, there were 105 wells in the Field along with a gas processing plant, pumping and piping equipment for oil and gas, storage for oil and natural gas liquids (NGL's) and workshop facilities. The acquisition of Silvertip increases the oil and gas production and reserves and forms part of the Company's growth strategy.

#### Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the Group as at the date of acquisition were:

|                                                   | Fair value recognised on<br>acquisition<br>US\$ |
|---------------------------------------------------|-------------------------------------------------|
| <b>Assets</b>                                     |                                                 |
| Property, plant and equipment (Note 14)           | 3,247,010                                       |
| Inventories (Note 10)                             | 41,683                                          |
| Oil Properties (Note 12)                          | 6,802,404                                       |
|                                                   | 10,091,097                                      |
| <b>Liabilities</b>                                |                                                 |
| Asset retirement obligation (Note 17)             | (3,686,052)                                     |
| <b>Total identifiable net asset at fair value</b> | <b>6,405,045</b>                                |
| Amount accrued not yet paid                       | (17,885)                                        |
| Purchase consideration transferred                | 6,387,160                                       |

No gain or goodwill has arisen from the above acquisition.

## 22) Business Combinations(Cont.)

The cash consideration was funded through a drawdown from the Company's debt facility provided by ANB Bank and existing cash reserves. The details of ANB Bank loan facilities are as follows:

Cash from bank loan provided by ANB Bank as follows:

|             |                              |
|-------------|------------------------------|
| \$1,000,000 | Term Loan (See note 16)      |
| \$5,387,160 | Line of Credit (See note 16) |

The fair value of the property, plant and equipment is based in part on an estimate of the replacement cost for items of plant and equipment relating to the gas processing plant, LNG storage and equipment including pumps and tubulars that are available for new wells from independent suppliers. An internal estimate of the salvage value of in-field surface equipment was been used for the fair value of remaining plant and equipment.

The fair value of inventory is based on the market price of oil and the time of purchase.

The fair value of oil properties is based on the estimated net present value of proved developed producing reserves as provided by an independent certified engineer.

A asset retirement obligation of \$3,686,052 was determined based on the NPV of the estimated plug and abandonment cost of the wells in the Silvertip Field as follows:

- Life of field – based on certified reserve report
- Discount rate – based on US Government bond rate determined by life of field
- Inflation rate – the median of an inflation projection from a range of qualified banking and NGO institutions

From the date of acquisition, Silvertip contributed \$1,982,770 of gross revenue and \$857,108 to profit before tax from continuing operations of the Group. The Silvertip Field was partially shut in for the first six months of 2015 by the previous owner while repairs were undertaken on the gas processing equipment and as such, it is impractical to estimate the revenue and profit or loss that would have been contributed by Silvertip if the acquisition had occurred on 1 January 2015.

### Analysis of cash flows on acquisition:

|                                                                                       | US\$             |
|---------------------------------------------------------------------------------------|------------------|
| Net cash acquired with Silvertip ( included in cash flows from operating activities ) | (41,683)         |
| Cash paid                                                                             | 6,387,160        |
| Net cash flow on acquisition                                                          | <b>6,345,477</b> |

Transaction costs of \$55,953 were expensed and are included in other operating expenses in the statement of comprehensive income. The borrowing costs of \$40,250 are capitalised and offset against the loan liability (see note 16).

## 23) Commitments and contingencies

The Company has entered into a lease agreement for office and parking facilities in Australia for one year commencing 1 December 2015. The Company has entered into a lease agreement for offices in Denver for the United States operations for 39 months commencing 20 November 2013.

|                                                                                                                 | 2015           | 2014           |
|-----------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                 | US\$           | US\$           |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows : |                |                |
| Within 1 year                                                                                                   | 189,153        | 180,836        |
| Later than 1 year but not later than 5 years                                                                    | 29,142         | 209,513        |
| Later than 5 years                                                                                              | -              | -              |
|                                                                                                                 | <u>218,295</u> | <u>390,349</u> |

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.

## 24) Information relating to subsidiaries

| Name of entity                               | Country of<br>Incorporation | Ownership<br>Interest |
|----------------------------------------------|-----------------------------|-----------------------|
| <b>Parent entity</b>                         |                             |                       |
| Incremental Oil and Gas Ltd                  | Australia                   |                       |
| <b>Controlled entity</b>                     |                             |                       |
| 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%                  |
| Incremental Oil and Gas (Silvertip) LLC      | United States               | 100%                  |

Set out above are the Company's subsidiaries as at 31 December 2015. 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.

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

|                                                 | <b>Company<br/>2015</b> | <b>Company<br/>2014</b> |
|-------------------------------------------------|-------------------------|-------------------------|
|                                                 | <b>\$</b>               | <b>\$</b>               |
| <b>Assets</b>                                   |                         |                         |
| Current assets                                  | 13,855                  | 38,809                  |
| Non-current assets                              | 3,063,656               | 5,607,765               |
| Total assets                                    | 3,077,511               | 5,646,574               |
| <b>Liabilities</b>                              |                         |                         |
| Current liabilities                             | 213,779                 | 282,102                 |
| Non-current liabilities                         | -                       | -                       |
| Total Liabilities                               | 213,779                 | 282,102                 |
| Net Assets                                      | 2,863,732               | 5,364,472               |
| <b>Equity</b>                                   |                         |                         |
| Issued Capital                                  | 22,717,388              | 22,620,836              |
| Shares reserved for employee share plan         | (27,699)                | (156,512)               |
| Accumulated losses                              | (20,175,618)            | (17,449,513)            |
| Reserves                                        | 349,661                 | 349,661                 |
| Total Equity                                    | 2,863,732               | 5,364,472               |
| <b>Financial performance</b>                    |                         |                         |
| (Loss) /Profit for the period                   | (2,726,105)             | (8,347,969)             |
| Total comprehensive income of the parent entity | (2,726,105)             | (8,347,969)             |

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.

**26) 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          | Total        |
|--------------------|-----------|--------------|--------------|
| Non-current assets | \$1,344   | \$16,095,845 | \$16,097,189 |
| Revenue            | \$106     | \$4,707,917  | \$4,708,023  |

The Company has three major trading counterparties who make up 38%, 20% and 19% of sales respectively.

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## 27) Related Party Disclosures

In November 2015, Incremental Oil and Gas Ltd entered into a lease agreement with Ascot Park Enterprises Pty Ltd, a company associated with the Chairman, Mr Mark Stowell, to rent office accommodation at 20 Howard Street, Perth. The rent and outgoings have been set at a rate which is at an arms-length commercial rate for comparable premises. The lease agreement terms are as follows:

|                 |                                  |
|-----------------|----------------------------------|
| Lease term:     | 1 year plus 3 x one year options |
| Rental payment: | A\$14,887 per annum              |

No related party transactions occurred in 2014.

## 28) Events after the balance date

On 18 March 2016 a further 150,000 shares were issued at A\$0.045 each in the Company as part of the employee share plan.

There has been a drawdown of \$500,000 from the ANB Line of Credit loan facility in March 2016.

There are no other significant events subsequent to reporting date.

## 29) 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.

## 29) Financial Risk Management (Cont.)

### Fair values

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2015:

|                                                | Loans and<br>receivables<br>US\$ | Fair value through<br>profit and loss<br>US\$ | Fair value through other<br>comprehensive income<br>US\$ |
|------------------------------------------------|----------------------------------|-----------------------------------------------|----------------------------------------------------------|
| <b>Financial assets</b>                        |                                  |                                               |                                                          |
| Trade and other receivables                    | 431,197                          | -                                             | -                                                        |
| <b>Total current financial assets</b>          | <b>431,197</b>                   | <b>-</b>                                      | <b>-</b>                                                 |
| Other receivables                              | 321,604                          | -                                             | -                                                        |
| Other assets                                   | 625                              | -                                             | -                                                        |
| <b>Total non-current financial assets</b>      | <b>322,229</b>                   | <b>-</b>                                      | <b>-</b>                                                 |
| <b>Total financial assets</b>                  | <b>753,426</b>                   | <b>-</b>                                      | <b>-</b>                                                 |
| <b>Financial liabilities</b>                   |                                  |                                               |                                                          |
| Trade and other payables                       | 1,037,642                        | -                                             | -                                                        |
| Term loan                                      | 200,000                          | -                                             | -                                                        |
| Term loan                                      | 750,000                          | -                                             | -                                                        |
| <b>Total current financial liabilities</b>     | <b>1,987,642</b>                 | <b>-</b>                                      | <b>-</b>                                                 |
| Trade and other payables                       | 56,494                           | -                                             | -                                                        |
| Line of credit                                 | 5,642,037                        | -                                             | -                                                        |
| Term loan                                      | 1,649,156                        | -                                             | -                                                        |
| <b>Total non-current financial liabilities</b> | <b>7,347,687</b>                 | <b>-</b>                                      | <b>-</b>                                                 |
| <b>Total financial liabilities</b>             | <b>9,335,329</b>                 | <b>-</b>                                      | <b>-</b>                                                 |

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2015:

|                                                | Carrying amount<br>US\$ | Fair value<br>US\$ |
|------------------------------------------------|-------------------------|--------------------|
| <b>Financial assets</b>                        |                         |                    |
| Trade and other receivables                    | 431,197                 | 431,197            |
| <b>Total current financial assets</b>          | <b>431,197</b>          | <b>431,197</b>     |
| Other receivables                              | 321,604                 | 321,604            |
| Other assets                                   | 625                     | 625                |
| <b>Total non-current financial assets</b>      | <b>322,229</b>          | <b>322,229</b>     |
| <b>Total financial assets</b>                  | <b>753,426</b>          | <b>753,426</b>     |
| <b>Financial liabilities</b>                   |                         |                    |
| Trade and other payables                       | 1,037,642               | 1,037,642          |
| Term loan                                      | 200,000                 | 200,000            |
| Term loan                                      | 750,000                 | 750,000            |
| <b>Total current financial liabilities</b>     | <b>1,987,642</b>        | <b>1,987,642</b>   |
| Trade and other payables                       | 56,494                  | 56,494             |
| Line of credit                                 | 5,642,037               | 5,657,162          |
| Term loan                                      | 1,649,156               | 1,670,927          |
| <b>Total non-current financial liabilities</b> | <b>7,347,687</b>        | <b>7,384,583</b>   |
| <b>Total financial liabilities</b>             | <b>9,335,329</b>        | <b>9,372,225</b>   |

The carrying value of the financial assets and financial liabilities approximate their fair value.

## 29) Financial Risk Management (Cont.)

### a) Market Risk

#### i) Foreign Exchange Risk

The Group operates internationally and are exposed to foreign exchange risk arising from currency exposures 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:

|                             | 2015<br>US\$     | 2014<br>US\$     |
|-----------------------------|------------------|------------------|
| Cash and cash equivalents   | 9,625            | 30,716           |
| Trade and other receivables | 801              | 574              |
| Trade and other payables    | (170,195)        | (255,890)        |
|                             | <u>(159,769)</u> | <u>(224,600)</u> |

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

|      | Change in AUD<br>rate | Effect on profit before<br>tax/equity<br>US\$ |
|------|-----------------------|-----------------------------------------------|
| 2015 | +10%                  | (15,976)                                      |
|      | -10%                  | 15,976                                        |
| 2014 | +10%                  | (22,460)                                      |
|      | -10%                  | 22,460                                        |

#### 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. The Group's gas sales revenue is benchmarked off the CIG Rocky Mountain Natural Gas price. Market forces on both the physical and non-physical markets cause volatility to be out of the Group's control. As at the reporting date, the Group had no financial instruments with material exposure to commodity price risk.

#### 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. 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<br>interest rate % 2015 | Weighted average<br>interest rate % 2014 | 31 December<br>2015<br>US\$ | 31 December<br>2014<br>US\$ |
|-----------|------------------------------------------|------------------------------------------|-----------------------------|-----------------------------|
| Bank loan | 3.75%                                    | 3.75%                                    | <u>8,241,193</u>            | <u>2,436,910</u>            |

## 29) Financial Risk Management (Cont.)

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.

|      | <b>Change in<br/>interest rate<br/>(basis points)</b> | <b>Effect on profit before<br/>tax/equity<br/>US\$</b> |
|------|-------------------------------------------------------|--------------------------------------------------------|
| 2015 | +20                                                   | (16,482)                                               |
|      | -20                                                   | 16,482                                                 |
| 2014 | +20                                                   | (4,975)                                                |
|      | -20                                                   | 4,975                                                  |

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.

### 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.

## 29) Financial Risk Management (Cont.)

| <b>Contractual maturities of financial liabilities<br/>At 31 December 2015</b> | 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                                                                 | 1,037,642          | -              | 56,494                | -                     | 1,094,136                    | 1,094,136        |
| Borrowings                                                                     | 636,051            | 630,358        | 7,270,145             | 746,747               | 9,283,301                    | 8,241,193        |
| <b>Total</b>                                                                   | <b>1,673,693</b>   | <b>630,358</b> | <b>7,326,639</b>      | <b>746,747</b>        | <b>10,377,437</b>            | <b>9,335,329</b> |
| <b>Contractual maturities of financial liabilities<br/>At 31 December 2014</b> | 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        |
| <b>Total</b>                                                                   | <b>920,099</b>     | <b>404,412</b> | <b>943,235</b>        | <b>1,078,731</b>      | <b>3,346,477</b>             | <b>3,087,007</b> |

### d) Fair value measurements

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following method and assumption was used to estimate the fair values:

Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash flow models that use discount rates to reflect the issuer's borrowing rate as at the end of the reporting period. The Group's own non-performance risk as at 31 December 2015 was assessed to be insignificant.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

All financial instruments measured at fair value use Level 2 valuation techniques in both years.

There have been no transfers between fair value levels during the reporting period.

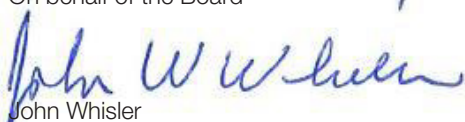
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## DIRECTORS' DECLARATION

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 2015 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 2015 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 having regard to the matters disclosed in Note 1(c).
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 2015.

On behalf of the Board



John Whisler  
Managing Director  
Perth  
31 March 2016

## **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 2015, 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 2015 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).

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1(c) in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Gavin Buckingham  
Partner  
Perth  
31 March 2016

## ADDITIONAL ASX INFORMATION

The following additional information is required by the Australian Stock Exchange. The information is current as at 22 March 2016.

- a) Distribution schedule and number of holders of equity securities of Incremental Oil and Gas Limited as at 22 March 2016 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      | 28                         | -                                                                 | -                                                              |
| 5,001-10,000     | 58                         | -                                                                 | -                                                              |
| 10,001-100,000   | 179                        | -                                                                 | -                                                              |
| 100,001 and over | 132                        | 1                                                                 | 1                                                              |
| <b>TOTAL</b>     | <b>410</b>                 | <b>1</b>                                                          | <b>1</b>                                                       |

Total fully paid ordinary shares issued 163,834,580

Holders with less than a marketable parcel 36

- b) Twenty largest shareholders  
The names of the 20 largest holders of quoted equity securities (ASX code – IOG) as at 22 March 2016 are as follows:

| Name                                 | No. of Shares     | %age       |
|--------------------------------------|-------------------|------------|
| 1. MCGANN PTY LTD                    | 20,565,640        | 12.55      |
| 2. ASCOT PARK ENTPS PL               | 7,610,000         | 4.64       |
| 3. TRINITY MGNT PL                   | 7,580,000         | 4.63       |
| 4. MERCHANT HLDGS PL                 | 6,026,952         | 3.68       |
| 5. AUSTRALIAN EXECUTOR TRUSTEES LTD  | 6,020,002         | 3.67       |
| 6. LINEAR A PL                       | 5,966,748         | 3.64       |
| 7. UPORA PTY LTD                     | 5,000,000         | 3.05       |
| 8. BRYAN WELCH PL                    | 4,983,700         | 3.04       |
| 9. JOHN ALEXANDER LINDSAY MACDONALD  | 4,625,001         | 2.82       |
| 10. D N SUPERFUND PL                 | 4,000,000         | 2.44       |
| 11. MCGANN CONS PL                   | 3,750,000         | 2.29       |
| 12. JP MORGAN NOM AUST LTD           | 3,480,106         | 2.12       |
| 13. SECOND NAREMI PL                 | 3,133,000         | 1.91       |
| 14. MRS DANIELLE SUSAN BORGAS        | 2,047,049         | 1.25       |
| 15. RIVERGLEN NOM PL                 | 2,000,000         | 1.22       |
| 16. LUBICH CRAIG AND LEANNE          | 2,000,000         | 1.22       |
| 17. DOWLING PETER AND JANET          | 2,000,000         | 1.22       |
| 18. FITZGERALD JAMES AND OLIVE       | 2,000,000         | 1.22       |
| 19. UBS WEALTH MNGT AUST NOMINEES PL | 1,904,388         | 1.16       |
| 20. FAST LANE AUST PTY LTD           | 1,761,336         | 1.08       |
|                                      | <b>96,453,922</b> | <b>59%</b> |

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         | 14.85                    |
| M Stowell and related entities | 13,636,952         | 8.32                     |

- d) Unlisted securities  
Details of the unlisted securities issued by Incremental Oil and Gas Ltd as at 22 March 2016 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 2.96% 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 0.24% 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 22 March 2016, 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:  
Level 1, 20 Howard Street  
Perth  
W. Australia 6000

Telephone: +61 (0)8 6144 0590  
Facsimile: +61 (0)8 6144 0593

- 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.



# incremental

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LTD

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