incremental OIL AND GAS LTD

ANNUAL REPORT 2016

INCREMENTAL OIL AND GAS OWNS AND OPERATES ONSHORE PRODUCING FIELDS IN USA. ITS GROWTH STRATEGY IS FOCUSED ON ACQUIRING UNDER-PERFORMING ASSETS THAT OFFER DEVELOPMENT POTENTIAL TO INCREASE VALUE THROUGH IMPROVED PRODUCTION AND RECOVERIES.

TABLE OF CONTENTS


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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 and CEO

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

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Solicitors
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W. Australia 6000
Australia

Share Registrar
Link Market Services
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152 St George's Terrace
Perth
W. Australia 6000
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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 US Dollars ($). 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 6 to 10. The Directors' Report is not part of the financial report.

CHAIRMAN'S REPORT

Dear Shareholder

This year was one of consolidation of the Silvertip Field in Wyoming which was purchased in 2015, and evaluation of numerous USA onshore producing oil and gas fields for the next acquisition.

Incremental submitted bids on a number of oilfields that met our investment criteria, but the ultimate sale prices for these assets were above Incremental's assessed price range where there was value add to shareholders.

The Company's strategy continues to be:

- enhance 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 de-risked from a technical and operational perspective.

The acquisition of further USA 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 states where Incremental already operates but will include other oil-friendly areas of onshore USA.

On behalf of the Board I thank our management, staff, contractors and consultants for their diligent work during the year and look forward to the next phase of growth in 2017.

Mark Stowell
Chairman
2 April 2017

2016 HIGHLIGHTS

2016 FINANCIAL RESULTS

Incremental Oil and Gas Ltd ("Incremental" or "the Company") has recorded more than four successive years of profits before interest, tax, depreciation, amortization and impairment ("EBITDA"). In 2016, Incremental achieved its highest ever production but revenue and profits were impacted by lower commodity prices during the year.

Incremental strategically acquired the Silvertip Field in June 2015 to diversify its portfolio of assets and commodities. This purchase has added significant value to the Company through increased reserves and production. A redevelopment program in the Silvertip Field in the second half of 2016, in conjunction with improved commodity prices, improved the Group's cash flow and profitability in the last quarter of 2016.

	2016	2015	2014	2013
Sales Volume (BOE) (Gross)	223,725	161,478	74,644	114,676
Oil	85,521	87,426	72,128	110,654
Gas	96,821	48,880	2,516	4,022
NGL	41,383	25,172	-	-
Sales Revenue	$5,335,620	$4,707,061	$6,466,932	$10,939,590
Net profit/(loss)after tax (NPAT)	($575,771)	($2,726,105)	($8,347,969)	($11,469,595)
EBITDA	$426,116	$226,569	$2,108,159	$3,506,781

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

	2016 US$	2015 US$	2014 US$	2013 US$
EBITDA*	$ 426,116	$ 226,569	$ 2,108,159	$ 3,506,781
Impairment reversal / (impairment) / (asset write down)	$ 1,171,713	($878,619)	($7,524,896)	($15,925,208)
Interest income / (expense)	($ 364,421)	($ 246,614)	($ 163,095)	($ 393,780)
Depreciation / amortisation	($1,809,179)	($1,827,441)	($2,399,208)	($ 1,838,922)
Tax (expense) / benefit	$ -	$ -	($ 368,929)	$ 3,181,534
Profit / (loss) after income tax	($575,771)	($2,726,105)	($8,347,969)	($11,469,595)

* EBITDA is a non-IFRS measure. The information above 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 aligned with operational performance of the Company.

RESERVES REPORT

Reserves are defined as those quantities of hydrocarbons which are anticipated to be commercially recovered from known accumulations from a given date forward. Reserves estimates are necessary to determine appropriate development strategies and for accounting purposes.

Incremental has had its reserves independently determined by a qualified engineer as reported below.

Net oil reserves and resources held by the Group as at 31 December 2016 are as follows:

NET (Mboe) [1]	Sheep Springs, California		Round Mountain, California	Florence, Colorado[2]	Silvertip, Wyoming		TOTAL (Mboe)
	Liquids	Gas			Liquids	Gas	
1P Proved Reserve	**222**	**20**	**80**	**151**	**285**	**939**	**1,697**
Developed – producing (PDP)	222	20	80	151	274	725	1,472
Developed - not producing (PDNP)	-	-	-	-	11	214	225

Reconciliation of Reserves:

NET (Mboe) [1]	Year end 2015	Acquisition	Production[3]	Revised Estimates [4]	Extensions and Discoveries [5]	Year end 2016
1P Proved Reserve [6]	1,729	-	(153)	(32)	153	1,697
Contingent Resource [7]	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. On December 9, 2016, the Company announced that it had entered into an agreement to divest of its interest in the Florence Oilfield. The Company has subsequently signed a Purchase and Sale Agreement for this divestment which is anticipated to close in Q2-17.
3. Net production of oil and natural gas only.
4. Revised Estimate shows changes to the previous reserve estimates, either increased or decreased, resulting from new information and/or assumptions used to determine the economic life of a field, for example: decline curves, lease operating expenses, commodity prices, etc.
5. Extension and discovery of reserves resulting from redetermination of economic recoverability of hydrocarbons. This results from in-field activities which demonstrate that hydrocarbons which did not previously meet the reserves definition can now be extracted economically meeting the criteria for reserves (see above).
6. 1P Proved reserves is defined in the guidelines set forth in the SPE/WPC/AAPG/SPEE Petroleum Resource Management System (2007).
7. Contingent Resources are quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations but the applied projects are not yet considered sufficiently mature for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality.

The Company previously reported Contingent Resources in its Sheep Springs, Round Mountain and Florence Fields. Due to the sustained decline in oil prices since 2014, a reclassification of the previously reported Contingent Resources has been undertaken because it is likely that such development would be uneconomic in the foreseeable future. It has now been determined that Contingent Resources have be removed from this report (see 2015 Annual Report for details).

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. Mr Kent Lina 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. Mr Lina is a professional engineer licensed in the state of Texas and located in Denver, Colorado. Mr Lina has over 25 years of experience in the preparation of evaluation reserve studies in multiple US basins and he has consented to the inclusion of this information in this report.

Incremental, 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 and natural gas price forecasts and, where applicable, individual project production sales contract terms or other financial products for the purpose of reserves estimation.

The reserve information 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 are assessed utilizing a deterministic methodology. The quantities of oil and gas represented in the Reserve Report were established 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.

Incremental has current rights to leases covering the fields which are the subject of the Reserve Report. Incremental holds a 100% working interest in the leases and operates all of the fields.

Mr Lina reviewed technical data including geological and engineering interpretations presented by Incremental, publicly 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 was prepared in accordance with the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" as detailed by the Society of Petroleum Engineers, the SPE Standards.

Incremental estimates that approximately 23% of gas produced from the gross reserves in 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 to determine the reserves as stated in the Reserve Report is the point of sale of the hydrocarbons.

Incremental's reserves were evaluated as at 31st December 2016 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 reserve estimates at interim periods where such disclosure is deemed necessary or desirable given the change in reserve estimates from prior independent evaluation. 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 who 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.

PRODUCTION REPORT
Gross production for the Group in 2016 and prior years is as follows:

		2016	2015	2014	2013
Oil (Bbls)	Sheep Springs	22,396	25,105	24,167	33,665
	Round Mountain	10,720	13,016	18,559	24,884
	Florence	19,747	23,707	30,418	54,065
	Silvertip (1)	32,812	25,899	-	-
Gas (Mcf)	Sheep Springs	13,458	16,287	16,524	24,516
	Silvertip (1)	822,306	401,263	-	-
NGL (Gallons)	Silvertip (1)	1,624,392	1,070,580	-	-

1. Silvertip production from 1 July 2015

LEASEHOLD DIRECTORY
(as at 31 December 2016)

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%	2,436 net acres, 21 operating wells
Silvertip, Wyoming	100%	4,700 net acres, 105 operating wells plus 2 water disposal wells 4,437 net acres held by production

REVIEW OF ACTIVITIES

Incremental Oil and Gas Ltd is an oil and gas exploration and production company that operates oilfields in the states of Wyoming, Colorado and California, USA. The Company has a successful track record of acquiring low risk, under-performing fields and utilizing modern technical expertise to increase production and recoveries, which increases shareholder value.

1. WYOMING OPERATIONS

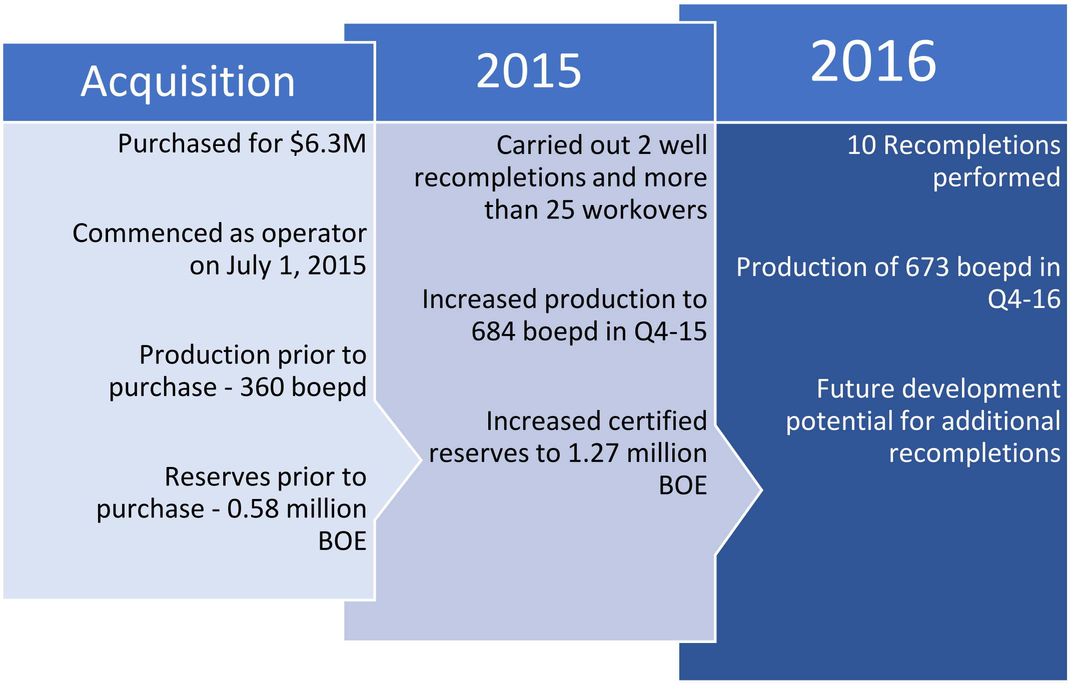
Incremental Oil and Gas purchased a 100% working interest the Silvertip Field located in the Bighorn Basin, WY and became the operator on 30 June 2015.

The Silvertip Field covers an area of 4,700 net acres and has a long history of oil and gas production. The field includes 105 wells, 101 of which were in production in 2016, plus two water disposal wells. The field has significant infrastructure including a fully functioning gas processing plant with a capacity of 4.5 MMcf per day, oil and NGL storage tanks, a field gas pipeline network which connects to two interstate gas transportation pipelines, a significant inventory of equipment and tubulars, a workshop and an office building.

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 when it was acquired were to:

- Optimize 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.

These objectives have been delivered as follows:



(Information above relates to Silvertip Field Only)

Within six months of acquisition, Incremental repaired mechanical issues on wells that had been shut in and which were performing inefficiently. These workovers increased production, mostly from oil wells, to an average of 684 boepd in Q4-15 (90% increase from pre-acquisition production).

In addition, Incremental performed two successful well recompletions that targeted gas production from formations above the original target formation. The success of these first two recompletions in 2015 proved the presence of behind-pipe reserves that could be economically produced. As a result, the PDNP reserves in the field increased to 1,272 MBOE as reported in March 2016.

In the second half of 2016, Incremental completed an additional ten well recompletions continuing to target gas production. One well was recompleted to test the potential of a deeper oil bearing formation. Incremental estimated that the well recompletions would result in initial production (IP) rates between 100-150 Mcfd. In total, the well recompletions performed better with the best three well recompletions having a 30-day IP of 1,068 Mcfd (well number 42-4F), 479 Mcfd (well number 55-28F) and 292 Mcfd (well number 53-28F). The average 30 day IP of all of the recompletions was 220 Mcfd. The average recompletion cost was $33,500 per well.

Incremental initially identified 24 wells for recompletion in 2016. Due to regulations imposed by the state authorities which would adversely impact near term production and based on results from the first ten well recompletions, some of these targets were discontinued and some wells deferred into future periods.

Production from Silvertip was optimised in 2016 and field operating costs have remained low with a cash lifting costs of less than $5/boe. Despite low commodity prices through much of the year, the field remained profitable.

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.

Incremental acquired the Florence Field for its cash flow potential and intended to exploit the undeveloped remaining reserves, mainly in the shallow Pierre Shale Formation. The initial rapid decline in production from the Pierre Formation has slowed substantially and is now similar to the decline rate in conventional oilfields.

With low lifting cost of $9/bbl, the field produced profitably in 2016.

In December 2016, the Company entered into an agreement with Austin Exploration (ASX: AKK) to dispose of the Florence Oilfield assets through the sale of its membership interest in the subsidiary company that owns and operates the assets. The sale price is US$2 million. A purchase and sale agreement was executed, with closing expected to occur in Q2-17.

Proceeds from this sale will be used to pay down debt and provide capital for further acquisitions targeted by the Company.

Incremental retains a 2.5% overriding royalty interest in the prospective Niobrara Formation which underlies the Pierre.

3. CALIFORNIA OPERATIONS (100% working interest)

Incremental has a 160 acre lease in the Sheep Springs Oilfield located about 40 miles (64 km) west of Bakersfield in the San Joaquin Basin. Incremental purchased the Sheep Springs Oilfield 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 may be productive.

This field's stable production comes with a low lifting cost of around $9/boepd. The Sheep Springs Field 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 with production of oil mainly from the Walker Formation.

The lifting cost for the Round Mountain field in 2016 was around $13.60/bbl. 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 made a successful placement of shares in July 2016 which raised A$1.52 million (before costs). 38 million shares were issued at a price of A$0.04 per share. Capital raised was applied to working capital including the funding of development work in the Silvertip Field.

The Company's debt facility remains in place with ANB Bank and all repayment obligations and covenants were met. The term loans were extended a further year to July 1, 2018. The total debt to ANB Bank as at 31 December 2016 was $7,818,099 (including amortized fees).

The number of employees within the Company as at 31 December 2016 was:

- Denver, USA — 4 (full time)
- Silvertip Field, WY, USA — 3 (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)

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° Farenheit. 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.
MMbls	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.

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 2016 and the independent auditor's report thereon.

Director information
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: 53

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 its inception in 2003 until its sale in 2009. Originally acquiring a 1500 bopd oilfield in Turkey, Incremental Petroleum Ltd expanded production to 2000 bopd by the time it was sold.

Other current appointments in addition to Incremental Oil and Gas Ltd are:
- Non-executive Director of Kula Gold Ltd

Additional directorships in the last 3 years include:
- Non-executive Director of Nvoi Ltd – formally Orrex Resources Ltd– resigned 28 June 2016
- Non-executive Director of Mawson West Ltd – resigned 31 October 2016

Mr G. McGann, B.Sc (Hons) (Non-executive Technical Director)
Appointed to the Board July 2009
Age: 68

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 substantial 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 at Occidental Petroleum, and one of only four Chief Scientists at 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 with the American Association of Petroleum Geologists.

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: 48

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 focused 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:
- Blue Ridge Mountain Resources (previously Magnum Hunter Resources)

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: 46

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 and project management, financial and economic analysis, field operations, production and extensive experience in drilling and completions.

Mr Whisler joined Delek Energy US and Elk Companies in July 2008 as the Vice President of Operations, was promoted to Chief Operating Officer in January of 2009, and was then promoted to Chief Executive Officer in May 2010. He served as Chief Executive Officer until 2011 when he was personally responsible for the divesture of all the US assets in multiple transactions, in order to assist the parent company in funding the new natural gas discoveries off the coast of Israel with Noble Energy. While at Delek, Mr Whisler was responsible for acquiring multiple assets in the USA, designing and implementing work-over plans and re-completions, and optimizing production in multiple mature fields.

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 and optimized production through well intervention completions. As well as being responsible for onsite supervision, Mr Whisler managed the non-brokered divesture where he negotiated and closed a $220M divesture for PCG.

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

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 served 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 or related entities in the shares and options of Incremental Oil and Gas Ltd were:

Director	Ordinary Shares	Unlisted Options A$0.1485 exercise price, expiring 27/7/18	Unlisted Options A$0.07 exercise price, expiring 26/5/17
M Stowell	16,236,952	5,000,000	-
G McGann	24,715,004	-	-
M McCann	1,238,000	-	400,000
J Whisler [1]	6,365,100	-	-

1. The number of shares shown above includes shares that are not yet vested under the employee share plan that is in place.

Principal activities
The principal activity during the year of entities within the Group is 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 2016 is included in the section entitled "Operations Review" preceding this Directors' Report (pages 6 to 10).

Summary of financial performance

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

	Consolidated 2016	Consolidated 2015
Revenue from the sale of crude oil and gas	$5,335,620	$4,707,061
Gross profit	$449,456	$401,635
Net loss for the year after tax	($575,771)	($2,726,105)
Basic loss per share(cents) from continuing operations	(0.33) cents	(1.68) cents
Net cash from operating activities	$183,396	$698,130
Net cash used in investing activities	($558,879)	($7,379,666)
Net cash from/(used in) financing activities	$578,958	$5,769,995
Net tangible assets per share	1.68 cents	1.75 cents
Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) [1]	$426,116	$226,569

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 aligned with operational performance of the Company.

The net loss of the Group for the year ended 31 December 2016 of $575,771 (2015: loss of $2,726,105), was impacted by the following significant items:

- Revenue from oil and gas sales in 2016 ($5,335,620) was higher than the sales revenue from 2015 ($4,707,061). Although there was an increase in volume produced and sold during 2016, commodity prices on average were lower in 2016 than 2015:

Commodity	2016 Avg Price	2015 Avg Price	Increase/ (Decrease) Price/%	2016 Volume Sold	2015 Volume Sold	Increase/ (Decrease) Volume/%
Oil (Bbl)	$37.33/Bbl	$41.56/Bbl	($4.23)/(10%)	85,675	87,727	(2,052)/ (2%)
Gas (Mcf)	$2.54/Mcf	$2.59/Mcf	($0.05)/(2%)	835,764	417,550	418,214/ 100%
NGL (Gal)	$0.37/Gal	$0.28/Gal	$0.09/(32%)	1,624,392	1,070,580	553,812/ 52%

- Field operating costs have increased from $1,124,919 in 2015 to $1,585,887 in 2016. This increase in operating costs is accounted for by costs associated with operating the Silvertip Field for the full year in 2016 where the field was only operated by the company for only six months in 2015.

  An analysis of the change in field operating costs based on value equivalent barrels of oil shows that the cost per equivalent barrel has decreased.

	2016	2015	% Increase/ (Decrease)
Lease operating expense (LOE)	$1,585,887	$1,124,919	41%
Barrels of oil equivalent (BOE) [1] sold	266,645	182,808	46%
Lease operating expense per BOE	$5.95	$6.15	(3%)

1. Equivalent barrels based on energy where one barrel of oil is equivalent to six Mcf of gas or 42 gallons of NGL.

- Overall operating expenses in 2016 decreased by approximately $111,000 compared to 2015, mainly due to lower employee costs from a voluntary sacrifice of salaries for part of the year.
- Interest charges have increased from $210,313 in 2015 to $338,145 in 2016 as a result of the additional debt drawn down to purchase the Silvertip Field in June 2015, an additional $0.5million drawn down in March 2016 for field workovers and recompletions and an increase in the interest rate from 3.75% to 4.00% in December 2015.
- There was an impairment reversal in 2016 of $1,171,713 which occurred because objective evidence of the fair value of the Florence Oilfield disposal group became available from negotiations for its sale. At December 2016 this was higher than the written down book value of these assets. In 2015, there was an impairment of oilfield asset of $878,619. The impairment in 2015 resulted from the impact of a decrease in the oil price which reduced the value of reserves below their book value at that time.

Summary of financial position
The Company's cash reserves at the end of 2016 totalled $658,450 compared to $445,419 as at 31 December 2015.

The increase in cash reserves was due to:
- Net proceeds from oil production of $4,851,100 (2015 - $4,336,315);
- Net proceeds from share placements after transaction costs of $1,147,152 (2015 - $nil);
- Draw down of the loan facility of $500,000 (2015 - $6,657,160 used to purchase Silvertip Field);

offset by:
- Overheads and other expenditures of $3,912,311 million (2015 - $3,187,210);
- State production and other taxes paid of $418,566 (2015 - $241,625);
- Development expenditure of $636,218 relating to field workovers and recompletions (2015 - $613,438); and
- Debt principal repayments of $995,237 (2015 - $881,889) and interest expense of $338,145 (2015 - $210,313) relating to the current loan facility with ANB Bank.

The Company's total assets are $17,289,698 (2015 - $17,080,996) and the net assets are $3,399,811 (2015 - $2,863,732). The movement in net assets is primarily caused by the reversal of an impairment of the oilfield properties and fixed assets relating to the Florence Field in the year.

Likely Developments and expected results of Operations
Incremental will continue with its current range of activities in 2017 with a focus on developing the Silvertip Field in addition to acquiring new assets. Incremental will review potential acquisition targets that 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 sale of the Florence Field.

Financial condition
The Company has sufficient funds to repay debts as and when they fall due. The consolidated cash flow statement illustrates that there was an increase in cash and cash equivalents in 2016 of $203,475 (2015 - decrease of $911,541) of which operational activities contributed a surplus of $183,396 (2015 - $698,130). Analyses of the components of the changes are detailed in the consolidated statement of cash flows. Incremental repaid $995,237 of debt during 2016 compared to $881,889 in 2015. Outflows of cash relate to investing activities for the development of oil properties. 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 2016 was 201,834,580. 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

No options have been exercised during 2016 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 opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

An Audit and Risk Committee is in place to review the financial affairs of the Company and monitor the risks associated with business operations to determine whether those risks will adversely impact financial performance of the Company. 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 laws and regulations depending on the region 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 a breach of those environmental requirements as they apply to the Group.

Subsequent events
On 31 January 2017, 360,000 shares were issued at A$0.044 each as part of the employee share plan.

On 6 March 2017 the Company announced it had executed a purchase and sale agreement (PSA) with a US subsidiary of Austin Exploration Ltd for the sale of its membership interest in Incremental Oil and Gas (Florence) LLC which owns a 100% working interest in the Florence Oilfield located in Colorado.

The agreed sale price is US$2 million. A non-refundable deposit of $50,000 was paid in December at the time of signing the term sheet for the sole purpose of reviewing the transaction. A $150,000 deposit was paid at the time of signing the PSA. The balance of the sale price will be paid at closing.

The effective date of this transaction is December 31, 2016 with a closing date expected within 50 days of signing the PSA.

Incremental retains a 2.5% overriding royalty interest in the prospective Niobrara Formation which underlies the Pierre Formation.

There were no other significant events after the reporting date.

Indemnification and insurance of Directors and officer
The Company has entered into a Deed 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 for Directors and Officers Indemnity insurance in 2016 was $11,994 (2015 - $12,877).

Indemnification of auditors

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

Remuneration report (Audited)

This Remuneration Report for the year ended 31 December 2016 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 2015 financial year at the annual general meeting held on May 31, 2016.

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 personnel and other employees. 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 currently 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:

	2016	2015	2014	2013	2012
Basic EPS (US$)	($0.033)	($0.0168)	($0.0527)	($0.0735)	$0.0184
Year end share price (A$)	$0.048	$0.035	$0.034	$0.069	$0.245
Market Capitalisation (A$ million)	$9.705	$5.729	$5.451	$10.780	$33.232
Total KMP Remuneration (US$)	$672,446	$807,416	$800,529	$1,061,714	$1,241,223

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

Chairman	From 1st July 2015 US$60,000 pa plus superannuation (9.5%). From 1st January 2015 - 30th June 2015 A$60,000 pa plus superannuation (9.5%)
Non-Executive Director (Australia)	From 1st July 2015 US$40,000 pa plus superannuation (9.5%). From 1st January 2015 - 30th June 2015 A$40,000 pa plus superannuation (9.5%)
Non-Executive Director (USA)	US$40,000 pa

Non-executive Directors' fees were reduced by 15% from 1 February 2016 following a decision by the Board to assist in addressing cost pressures. These fees were reinstated to the full values from 1 August 2016.

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 improvement of 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, the increase of average daily gross production of oil, acquisition of projects and business opportunities, and the growth of reserves by development drilling and acquisitions. These factors are basis of the performance and incentives for senior executives as set out in their service agreements. In 2015, bonuses were paid in relation to the acquisition of the Silvertip project. In 2016, bonuses were paid to management and staff in relation to the improved production performance of the Company.

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 March 2016, 150,000 shares were issued to the employee share trust for the benefit of employees at a price of A$0.045cents per share.

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 A$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.

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

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 vested	Number of shares granted	Value of shares at grant date US$(1)	No. of shares forfeited during the year	Value at date of forfeiture	Forf-eited %
John Whisler	7 Aug 2013	7.8.2014-50% 7.8.2015-50%	231,000	$27,468	Nil	$Nil	-
John Whisler	30 Sep 2013	Based on performance	4,000,000	$300,000	Nil	$Nil	-
John Whisler	26 Jun 2015	31.12.2015-50% 31.12.2016-50%	884,100	$20,473	Nil	$Nil	-
Simon Adams	17 Jan 2013	17.1.2014-50% 17.1.2015-50%	52,000	$13,758	Nil	$Nil	-
Simon Adams	7 Aug 2013	7.8.2014-50% 7.8.2015-50%	8,000	$951	Nil	$Nil	-
Simon Adams	1 Jul 2014	Based on performance	1,500,000	$72,323	Nil	$Nil	-
Simon Adams	26 Jun 2015	31.12.2015-50% 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

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

			Short Term Benefits		Post-Employment Bene-fits	Share Based Payments				
Name	Year	Salary & Fees [1]	Other Bene-fits[3]	Cash Bon-uses	Pension/ Supera-nnuation	Shares/ Options	Termination Bene-fits	TOTAL	Portion of Remuneration paid as Options/ Rights	Portion of Remuneration that is perfor-mance related
		US$	US$	US$	US$	US$	US$	US$	%	%
Directors (Non-Executive)										
M Stowell	2016	55,699	2,399	-	2,499	-	-	**60,597**	-	-
	2015	54,477	2,575	-	5,038	-	-	**62,090**	-	-
G McGann	2016	37,061	2,399	-	3,521	-	-	**42,981**	-	-
	2015	43,216	2,575	-	3,359	-	-	**49,150**	-	-
M McCann	2016	36,496	2,399	-	-			**38,895**	-	-
	2015	39,996	2,575	-	-	-	-	**42,571**	-	-
Directors (Executive)										
J Whisler	2016	280,308	30,281	45,000	11,193	26,557	-	**393,339**	7%	7%
	2015	300,000	30,661	32,500	12,453	96,969	-	**472,583**	21%	21%
Key Management Personnel										
S Adams	2016	113,409	2,399	6,393	11,381	3,052	-	**136,634**	2%	2%
	2015	123,211	2,575	-	11,705	43,531	-	**181,022**	24%	24%
Total	**2016**	**522,973**	**39,877**	**51,393**	**28,594**	**29,609**	**-**	**672,446**	4%	4%
	2015	**560,900**	**40,961**	**32,500**	**32,555**	**140,500**	**-**	**807,416**	**17%**	**17%**

1. Directors and management remuneration was reduced by 15% from 1 February 2016 following a decision by the Board to assist in addressing cost pressures. These fees were reinstated to the full values from 1 August 2016.
2. Included in fees paid to related parties are amounts made available to related parties of Directors and the KMP.
3. 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).

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.

2016	Balance at 1 Jan 2016	Granted as Remuner-ation	Vested during the year (1)	Exercised during the year	Changed during the year	Balance at 31 Dec 2016(2)
	Number	Number	Number	Number	Number	Number
Directors						
G McGann	-	-	-	-	-	-
M Stowell	-	-	-	-	5,000,000(4)	5,000,000
M McCann	400,000(3)	-	-	-	-	400,000
J Whisler	2,884,100	-	(884,100)	-	-	2,000,000 (5)
Other key management personnel						
S Adams	1,148,600	-	(398,600)	-	-	750,000
Total	**4,432,700**	**-**	**(1,282,700)**	**-**	**5,000,000**	**8,150,000** (5)

1. Vesting conditions met (refer Details of Share Based Compensation, page 20), entitlement transferred to shares held
2. None of the options or rights have vested during the year
3. 400,000 options exercisable at A$0.07 expiring 26 May 2017.
4. 5,000,000 options exercisable at A$0.1485 expiring 27 July 2018. M Stowell purchased these options during the year from RMB
5. Employee shares not yet vested

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

No options were issued as remuneration in 2015 or 2016.

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

	Balance at 1 January 2016	Shares vested(1)	Changed during the year(2)	Balance at 31 December 2016
	Number	Number	Number	Number
Directors				
M Stowell	13,736,952	-	2,500,000	16,236,952
G McGann	24,340,004	-	375,000	24,715,004
M McCann	738,000	-	500,000	1,238,000
J Whisler(1)	2,731,000	884,100	750,000	4,365,100
Other key management personnel				
S Adams	1,010,000	398,600	(50,000)	1,358,600
Total	**42,555,956**	**1,282,700**	**4,075,000**	**47,913,656**

1. Vesting conditions of employee shares were met, converted from rights
2. Shares issued in the year to Directors were the result of the share placement announced in July 2016 and disclosed in Note 18

There have been no other transactions with the KMP 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 (Managing Director)

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 been achieved and a $45,000 bonus was paid in the 2016 year) If half yearly production average > 1000 bopd, bonus of 30% of base salary (this milestone has not yet been achieved or paid) If half yearly production average > 1500 bopd, bonus of 45% of base salary (this milestone has not yet been achieved or paid)
Employee Share Plan:	Entitled to participate in the Incremental Employee Share Participation Program. Shares in Incremental equivalent in value 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: 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. These conditions were met in 2015. ii) 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 2015. iii) Tranche 3: following close of project(s) acquisition(s) (Project B), which are approved by the Board and which take place after Project A, and which contributes an average of 300 Gross boepd for 30 days; and iv) Tranche 4: following total Company production reaching an average of 750 Gross boepd over a continuous 6 month period.
New Project Bonus:	Entitled to an introduction bonus of 0.5% of the ultimate purchase price of each new acquisition- capped at one years' base salary. At the election of the Managing Director this bonus can be paid in cash or shares. On purchase of the Silvertip Field, a bonus of $32,500 was paid to Mr Whisler in the 2015 year.
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:	A$165,000
Superannuation:	9.5% of base salary
Employee Share Plan:	Entitled to participate in the Incremental Employee Share Participation Program. Shares in Incremental equivalent in value to 10% of base salary may be offered at the discretion of the Board on an annual basis.

Incentive shares:	Entitled to incentive shares in Incremental. Shares offered at a price equivalent to the market price or an appropriate weighted average price at the time of issue. The shares will be held in trust and will be subject to vesting terms. The shares shall vest in four tranches of 375,000 shares each as follows:

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 2015 year.

ii) Tranche 2: following production of Project A reaching an average of 200 Gross boepd over a continuous 6 month period and operational project cash flow meets the approved criteria of the Board for this Project A. These conditions were met in the 2015 year.

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 cash flow meets the approved criteria of the Board for this Project A: and

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

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

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

Mr G McGann (Technical Director)

Term of Agreement:	No fixed term
Consultancy Fee:	A$2,000 per day up to a maximum of A$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.

No consultancy fees were paid to Mr McGann in 2016. During 2015, A$11,097 was paid to Mr McGann under this consultancy arrangement.

Directors' benefits

In November 2015, Incremental Oil and Gas Ltd entered into a lease agreement with Ascot Park Enterprises Pty Ltd, a company which the Chairman, Mr Mark Stowell is a director of, to rent office accommodation space at 20 Howard Street, Perth. The rent and outgoings have been set at a rate which is 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

This rental arrangement continued in 2016. The rent paid to Ascot Park Enterprises Pty Ltd in 2016 was $20,249 (2015 - $Nil).

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 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 in addition to providing 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.incrementaloilandgas.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	7	7	2	2	1	1
G McGann	7	5	-	-	1	1
M McCann	7	7	2	2	-	-
J Whisler	7	7	-	-	-	-

Directors' benefits
Other than the disclosure above (Remuneration Report), no Director of the Company has received or become entitled to receive a benefit because of 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.

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 2016 has been received and is to be found on page 27.

Non-Audit Services
There were no non-audit services provided by the entity's auditor, Ernst and Young Australia in 2016 and 2015.

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
2 April 2017

Building a better
working world

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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 2016, 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 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 year.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
2 April 2017

GB:EH:IOG:045

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
Oil and Gas Sales	3a	5,335,620	4,707,061
Cost of sales:			
Royalty costs		(930,573)	(821,050)
Other Production expenses		(2,167,713)	(1,676,898)
Amortisation and depreciation	3(b)(iii)	(1,787,878)	(1,807,478)
Gross profit from operations		449,456	401,635
Other operating revenue	3a	74,790	30,976
Administrative expenses	3(b)(iv)	(1,221,664)	(1,333,587)
Other operating expenses	3(c)	(684,326)	(698,933)
Interest and finance expenses	3(b)(i)	(365,740)	(247,577)
Impairment reversal/ (Impairment) of assets	3(b)(vi)	1,171,713	(878,619)
Profit/(Loss) before income tax		(575,771)	(2,726,105)
Income tax (expense) / benefit	4	-	-
Profit / (Loss) after tax		(575,771)	(2,726,105)
Profit / (Loss) for the period attributable to members of the entity		(575,771)	(2,726,105)
Other comprehensive income			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit and loss		-	-
Other comprehensive (loss) / income for the period, net of tax		-	-
Total comprehensive income / (loss) for the period attributable to members of the entity		(575,771)	(2,726,105)
Basic (loss)/earnings per share attributable to ordinary equity holders of the entity (cents)	20	(0.33)	(1.68)
Diluted (loss) /earnings per share attributable to ordinary equity holders of the entity (cents)	20	(0.33)	(1.68)

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 2016

	Note	2016 US$	2015 US$
Current assets			
Cash and cash equivalents	8	658,450	445,419
Trade and other receivables	9	654,587	431,197
Inventories	10	75,343	107,191
Assets held for sale	11	2,430,988	-
Total current assets		3,819,368	983,807
Non-current assets			
Other financial assets	12	322,734	322,229
Oil properties	13	10,218,971	11,738,680
Plant and equipment	14	2,928,625	4,036,280
Deferred tax asset	4(b)	-	-
Total Non-current assets		13,470,330	16,097,189
Total assets		17,289,698	17,080,996
Current liabilities			
Trade and other payables	15	1,034,699	911,377
Interest bearing liabilities	16	950,000	950,000
Taxes payable	4(a)	126,265	126,265
Provisions	17	115,166	89,105
Liabilities held for sale	11	488,190	-
Total current liabilities		2,714,320	2,076,747
Non-current liabilities			
Trade and other payables	15	40,159	56,494
Interest bearing liabilities	16	6,817,914	7,291,193
Provisions	17	4,317,494	4,792,830
Deferred tax liabilities	4(b)	-	-
Total non-current liabilities		11,175,567	12,140,517
Total liabilities		13,889,887	14,217,264
Net assets		3,399,811	2,863,732
Equity attributable to equity holders of the parent			
Issued capital	18	23,796,744	22,717,388
Shares reserved for employee share plan	18	4,795	(27,699)
Reserves	19	349,661	349,661
Accumulated losses		(20,751,389)	(20,175,618)
Total Equity		3,399,811	2,863,732

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 2016

	Issued capital (Note 18) US$	Shares reserved for employee share plan US$	Accumulated losses US$	Share option reserve US$	Total equity US$
At 31 December 2015	**22,717,388**	**(27,699)**	**(20,175,618)**	**349,661**	**2,863,732**
Profit/(loss) attributable to members of the Group	-	-	(575,771)	-	(575,771)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(575,771)	-	(575,771)
Issue of shares	1,147,153		-	-	1,147,153
Issue of employee shares	5,160	(5,160)	-	-	-
Transaction costs	(72,957)	-	-	-	(72,957)
Issue of Options	-	-	-	-	-
Share based payment expense	-	37,654	-	-	37,654
At 31 December 2016	**23,796,744**	**4,795**	**(20,751,389)**	**349,661**	**3,399,811**

	Issued capital US$	Shares reserved for employee share plan US$	Accumulated losses US$	Share option reserve US$	Total equity US$
At 31 December 2014	**22,620,836**	**(84,189)**	**(17,449,513)**	**349,661**	**5,436,795**
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
At 31 December 2015	**22,717,388**	**(27,699)**	**(20,175,618)**	**349,661**	**2,863,732**

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 2016

	Note	2016 US$	2015 US$
Cash flows from operating activities			
Receipts from customers		4,851,100	4,336,315
Payments to suppliers and employees		(3,912,312)	(3,187,210)
Interest received		1,319	963
Interest paid		(338,145)	(210,313)
Production tax paid		(418,566)	(241,625)
Net cash (used)/provided by operating activities	21	183,396	698,130
Cash flows from investing activities			
Acquisition of Silvertip, net of cash acquired	22	-	(6,345,477)
Oil property development expenditure		(636,218)	(613,438)
Refunds /(payments) for performance bonds		-	(321,606)
Proceeds from sale of oilfield properties		50,000	-
Proceeds from sale of assets		28,298	6,000
Payments for purchases of property plant and equipment	14	(959)	(105,145)
Net cash used in investing activities		(558,879)	(7,379,666)
Cash flows from financing activities			
Proceeds from issue of shares		1,147,152	-
Transaction costs for issue of shares		(72,957)	(5,276)
Repayment of borrowings		(995,237)	(881,889)
Proceeds of borrowings		500,000	6,657,160
Net cash (used in)/ provided by financing activities		578,958	5,769,995
Net increase/(decrease) in cash and cash equivalents		203,475	(911,541)
Exchange differences on cash balances held		9,556	(4,854)
Cash and cash equivalents at beginning of the year		445,419	1,361,814
Cash and cash equivalents at end of year	8	658,450	445,419

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

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 2016 were authorised for issue in accordance with a resolution of the Directors on 31 March 2017.

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 principal activities activity during the year of entities within the Group is oil and gas exploration and production in North America. There has been no significant change in the nature of these activities during the year.

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 2016 including:

-*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 2015-1: Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

- AASB 5 Non-Current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
- AASB 7 Financial Instruments: Disclosures
- AASB 119 Employee Benefits
- AASB 134 Interim Financial Reporting

AASB 2015-2 Amendments to Australian Accounting Standards- Disclosure Initiative: Amendments to AASB 101

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

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 2016, the Group has the following going concern indicators:

(i) The Group incurred a loss after tax of $575,771 for the year ended 31 December 2016 and had a cash outflow from operating and investing activities of $375,483 prior to mandatory debt repayments for the year of $995,237. The group's cash on hand at 31 December 2016 was $658,450.

(ii) The Group's mandatory debt repayments for the 12 month period ended 31 December 2017 are $950,000.

Notwithstanding the above the Directors believe they have a reasonable basis to prepare the financial statements on a going concern basis after consideration of the following:

(i) On 6 March 2017 the Company announced it had executed a purchase and sale agreement (PSA) with a US subsidiary of Austin Exploration Ltd for the sale of its membership interest in Incremental Oil and Gas (Florence) LLC which owns a 100% working interest in the Florence Oilfield located in Colorado for an amount of US$2,000,000. Closing of the sale is expected within 50 days of signing the PSA. It is expected that the sale proceeds will be utilised to partially reduce the Groups debt facilities and partially as working capital as determined by the Company's bank.

(ii) The Company has an additional $287,000 available for draw down on its current line of credit facility if required.

(iii) Management's cashflow forecasts show that the Group will remain in a positive net cash balance position over the period to 31 March 2018. The cash flow forecasts do however assume that the above sale will proceed, and that the group will be able to utilize a portion of the sale proceeds as working capital. Further, the forecasts are sensitive to production and price assumptions.

(iv) Should the Company require funding to meet the Group's ongoing financial commitments over the course of the next 12 months, the Directors 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 2016.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Application date for the Company
AASB 9 'Financial Instruments'	1 Jan 2018	1 Jan 2018
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 Jan 2018	1 Jan 2018
AASB 15 ' Revenue from Contracts with Customers'	1 Jan 2018	1 Jan 2018
AASB 2016-1 'Amendments to Australian Accounting Standards ' – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)	1 Jan 2017	I Jan 2017
AASB 2016-2 'Amendments to Australian Accounting Standards ' – Disclosure Initiative: Amendments to AASB 107	1 Jan 2017	I Jan 2017
AASB 2016-5 'Amendments to Australian Accounting Standards ' – Classification and Measurement of Share-Based Payment Transactions (AASB 2)	1 Jan 2018	I Jan 2018
AASB 16 Leases	1 Jan 2019	1 Jan 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.

  The Company does not expect that there will be any material impact on its financial statements as a result of AASB 9.

- 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

  The Company does not believe that AASB15 will have a significant impact on the revenue recognition profile and practices of the company under its current structure and business model and so it does not believe that there will be any impact on its financial statements as a result of AASB 15.

- AASB 2016-6: Amendments to Australian Accounting Standards – Classification and Measurement of Share-based payment Transactions (AASB 2)

  This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:
    - The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
    - Share-based payment transactions with a net settlement feature for withholding tax obligations
    - A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity- settled.

- 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 AASB 2016-6 and AASB 16 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 2016.

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

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

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

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

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

All intercompany balances and transactions have been eliminated in full.

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

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

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

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

f) Taxation

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

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

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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

g) Financial instruments

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

Financial assets
Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale assets. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the Market place.

Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category generally applies to trade and other receivables.

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

- The rights to receive cash flows from the asset have expired ; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement: and either (a) the Group has transferred substantially all the risks

and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

Plant and equipment - 5 to 10 years.

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

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

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

Costs of acquisition of exploration areas of interest are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future. Once an area of interest enters the development phase, all capitalised acquisition, exploration and evaluation expenditures are transferred to oil and gas properties.

j) Oil and Gas Assets
Assets in development
The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface

plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and production commences, these costs are subject to amortisation. Once the required statutory documentation for a production licence is lodged the accumulated costs are transferred to oil and gas assets – producing assets.

Producing assets

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation.

Where asset costs incurred in relation to a producing field are under evaluation and appraisal, those costs will be continually reviewed for recoupment of those costs by future exploitation. When a determination has been made that those expenditures will not be recouped and/or further appraisal will be undertaken, they will be written off.

Amortisation of oil and gas assets

Costs in relation to producing assets are amortised on a production output basis. Non-producing assets under evaluation and appraisal are not subject to amortisation until such time as the evaluation and appraisal stage is complete.

Restoration costs

Site restoration costs are capitalised within costs of the associated assets and the provision is included in the statement of financial position at total present value of the estimated cost to restore operating locations. These costs are estimated and based on judgements and assumptions regarding removal dates, environmental legislation and technologies. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the profit and loss through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

k) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise of 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, at 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 only 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.

In determining the amount of an impairment reversal, the Company considers evidence of the fair values of assets, either through calculating their recoverable amount based on the above estimates or from evidence that becomes available upon negotiations for its sale.

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. The normal trading terms of the Company with all of its purchasers is determined by their individual contracts. In the event that a customer did not settle its outstanding payments within 90 days of the due date, an impairment review would be considered.

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.

Assets and Disposal Groups Held for Sale
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use and operations. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribute will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for distribution.

		2016 US$	2015 US$
3)	**Revenues and Expenses from continuing operations**		
	(Loss)/Profit from ordinary activities before income tax includes the following items of revenue and expense.		
a)	**Sales revenue**		
	Oil and gas sales	5,319,692	4,686,693
	Royalties	15,928	20,368
		5,335,620	4,707,061
	Other operating revenue		
	Interest Income	1,319	963
	Other revenue	73,471	30,013
		74,790	30,976
b)	**Expenses**		
i)	Interest and finance expenses		
	Interest on bank loans	(338,145)	(210,313)
	Financing charges	(27,595)	(37,264)
		(365,740)	(247,577)
ii)	Foreign exchange		
	Gain	13,610	11,524
	Loss	(6,637)	(8,669)
		6,973	2,855
iii)	Depreciation and amortisation included in the statement of profit or loss		
	Amortisation – oil and gas properties	(1,307,899)	(1,479,614)
	Depreciation – oil and gas properties	(479,979)	(327,864)
		(1,787,878)	(1,807,478)
	Depreciation – other plant & equipment (see note 3(b)(iv) below)	(21,311)	(19,963)
		(1,809,189)	(1,827,441)
iv)	Administrative expenses		
	Salaries, Directors fees and employee benefits	(1,200,353)	(1,313,624)
	Depreciation – other plant and equipment	(21,311)	(19,963)
		(1,221,664)	(1,333,587)
v)	Net gain/(loss) on sale of oil properties and exploration assets	-	-
	Equipment sale	(14,922)	(12,772)
		(14,922)	(12,772)
vi)	Impairment of assets		
	Impairment of oil and gas properties		
	-Florence	828,403	(342,997)
	-Sheep Springs	-	(325,304)
	Impairment of property, plant and equipment (Note 14)	343,310	(166,784)
	Write down of property, plant and equipment (Note 14)	-	(43,534)
		1,171,713	(878,619)

Refer note 11,13 & 14 for details of impairment charges.

	2016 US$	2015 US$
3) Revenues and Expenses (Cont.)		
c) Other operating expenses		
Compliance costs	172,464	123,351
Operating lease costs	195,577	185,157
Foreign exchange	(6,973)	(2,855)
Net (gain) /loss on sale of assets	14,922	12,772
Travel expenses	43,825	35,180
Operating taxes	11,810	(53,630)
Investor relations	51,171	10,691
Insurance	113,896	50,782
IT expenses	34,148	80,182
Miscellaneous	53,486	257,303
	684,326	698,933

4) Income tax (benefit)/ expense

	2016 US$	2015 US$
Current income tax		
Current income tax (benefit) /expense	-	-
	-	-
Deferred income tax/(revenue) expense included in income tax expense comprises:		
(Decrease)/increase in deferred tax	-	-
Adjustment for deferred tax of prior period – Australia	-	-
Adjustment for deferred tax of prior period – USA	-	-
	-	-
Total income tax (benefit)/expense	-	-
Reconciliation of income tax (benefit)/expense to prima facie tax payable		
Profit/(Loss) from continuing operations before income tax	(575,771)	(2,726,105)
Accounting (loss)/profit before income tax	(575,771)	(2,726,105)
Prima facie tax (benefit)/payable on profit/(loss) from ordinary activities at 30% (2015 – 30%)	(172,732)	(817,831)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of different taxation rates of other countries	(44,058)	(165,992)
Deferred tax assets not recognised	254,954	1,117,962
Tax effect of amounts which are not deductible in calculating taxable income	30,061	51,461

	2016 US$	2015 US$
4) Income tax (Cont.)		
Benefit of tax losses not previously recognised	-	-
Temporary differences and tax losses previously not brought to account – Australia	(68,225)	(185,600)
Prior year under-provision	-	-
Income tax (benefit)/ expense	-	-
Movement in deferred income tax for the year ended 31 December relates to the following:		
Deferred tax liabilities		
Depreciable assets	147,624	(82,231)
Deferred tax assets		
Interest and management fees	(147,624)	82,231
Capital raising costs	-	-
Provision for expenses	-	-
Deferred tax (income)/expense	-	-
Tax liabilities		
a) Current		
Income tax payable	126,265	126,265
b) Non- Current		
Deferred income tax recognised at 31 December from foreign source income relates to the following:		
Deferred tax assets (at 35%)		
Interest & management fees	593,256	445,632
	593,256	445,632
Deferred tax liabilities (at 35%)		
Depreciable assets	593,256	445,632
	593,256	445,632
Net deferred tax asset/(liability)	-	-
Deferred income tax at 31 December from Australian source income relates to the following:		
Deferred tax assets (at 30%)		
Provision for expenses	-	-
Capital raising costs	-	-
	-	-

	2016 US$	2015 US$
4) Income tax (Cont.)		
Deferred tax liabilities (at 30%)		
Receivables	-	-
Unrealised foreign exchange gains	-	-
	-	-
Net deferred tax asset	-	-
Total deferred tax asset/(liability)	-	-

c) Reconciliations

The overall movement in recognised deferred tax is as follows:		
Opening balance	-	-
(Charge) / credit to statement of comprehensive income	-	-
Other movements	-	-
Closing balance	-	-

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

Deferred tax assets (at 30%)		
Capital raising costs	21,976	21,060
Provision for expenses	19,886	9,499
Carry forward tax losses	69,328	16,072
	111,190	46,631

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

Deferred tax assets (at 35%)		
Carry forward revenue tax losses	2,387,087	2,083,714
Other timing differences	7,506,185	8,170,367
	9,893,272	10,254,081

5) Key management personnel disclosure

Key management personnel compensation

	2016 US$	2015 US$
Short-term employee benefits	614,243	634,361
Post-employment benefits	28,594	32,555
Other long term benefits	-	-
Termination Benefits	-	-
Share-based Payments	29,609	140,500
Total compensation paid to key management personnel	672,446	807,416

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 employees 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 March 2016, 150,000 shares were issued to the employee share trust for the benefit of employees at a price of A$0.045cents per share.

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 A$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.

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 2016)
98,000	21 January 2013	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	98,000
239,000	7 August 2013	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	239,000
256,000	30 June 2014	50% vest after 12 months of service (from date of issue) (1) 50% vest after 24 months of service (from date of issue) (1)	256,000
1,000,000	30 June 2014	On close of a project(s) acquisition(s) (Project A) which is(are) approved by the Board, and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days (2)	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(2)	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(2)	Nil
1,000,000	30 June 2014	When total Company production reaches an average of 750 Gross boepd over a continuous 6 month period(2)	Nil

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

No. of shares	Grant date	Vesting conditions	Shares vested (as at 31 December 2016)
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 [(2)]	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[(2)]	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[(2)]	Nil
375,000	1 July 2014	When total Company production reaches an average of 750 Gross boepd over a continuous 6 month period[(2)]	Nil
1,847,900	26 June 2015	50% vest after 12 months of service (from date of issue) [(1)] 50% vest after 24 months of service (from date of issue) [(1)]	1,847,900
150,000	18 March 2016	50% vest after 12 months of service (from date of issue) [(1)] 50% vest after 24 months of service (from date of issue) [(1)]	Nil

1. 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

There were no options issued in the 2016 and 2015 financial year.

(c) Expenses arising from share-based payment transactions

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

	2016 US$	2015 US$
Shares issued under employee share scheme recognised in wages and salaries	37,654	158,318
	37,654	158,318

		2016 US$	2015 US$
7)	**Auditors remuneration**		
	The auditor of Incremental Oil and Gas Ltd is Ernst and Young		
	Amounts received or due and receivable by Ernst and Young for:		
	An audit or review of the financial report of the entity and any other entity in the consolidated group	66,820	57,226
	Other services in relation to the entity and any other entity in the consolidated group		
	Tax related	-	-
		66,820	57,226
	Amounts receivable or due and receivable by non Ernst and Young audit firms for:		
	Audit or review of financial report	-	-
		-	-
8)	**Cash and cash equivalents**		
	For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 December		
	Cash at bank and on hand	658,450	445,419

Cash of $322,734 is held on term deposit as security for performance bonds and is classified as non-current other receivables in the balance sheet (refer Note 12).

		2016 US$	2015 US$
9)	**Trade and other receivables**		
	Oil and gas sales debtors	580,414	377,331
	Other receivables	74,173	53,866
		654,587	431,197

(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 eg: non-payment of receivable for more than 90 days from the date due.
(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 US$	0-30 Days US$	31-60 days US$	60 -90 days US$	90 days + US$
2016	654,587	590,856	5,412	5,412	52,907
2015	431,197	384,806	7,475	7,475	31,441

The receivables shown in the 90 days + category are prepayments which fall due at that time. These prepayments are not subject to impairment unless the party providing the service relating to the prepayment defaults on their obligation.

		2016 US$	2015 US$
10)	**Inventories**		
	Oil and gas inventory at cost of production	75,343	107,191

		2016 US$	2015 US$
11)	**Assets and liabilities classified as held for sale**		
	Assets		
	Production assets and plant and equipment (net of accumulated amortisation, depreciation and impairment)	2,430,988	-
	Liabilities		
	Restoration liability associated with production assets classified as held for sale	(488,190)	-
		1,942,798	-

In December 2016 Incremental entered into a Term Sheet Agreement with Austin Exploration Ltd to divest of the Florence Oilfield. The purchase and sale agreement (PSA) was executed in March 2017 for the sale of Incremental's membership interest in Incremental Oil and Gas (Florence) LLC which owns a 100% working interest in the Florence Field.

The agreed sale price is $2 million. A deposit of $150,000 was received at the time of the PSA execution. The balance will be paid at closing.

The effective date of the transaction is December 31, 2016 with a closing date expected within 50 days of executing the PSA.

Incremental retains a 2.5% overriding royalty interest in the prospective Niobrara Formation.

A reversal of impairment on the Florence Oilfield of $1,171,713 was booked in 2016 to reflect the fair value of the assets held for sale. Refer to Note 13 for further details.

		2016 US$	2015 US$
12)	**Other financial assets**		
	Non-current		
	Cash held as security	322,734	322,229

Cash held as security by ANB bank for issuance of performance bonds.

13)	**Oil and gas properties**		
	Cost of acquisition and enhancements	36,625,507	40,929,970
	Accumulated amortisation and impairment	(26,406,536)	(29,191,290)
		10,218,971	11,738,680
	Opening balance	11,738,680	6,622,315
	Acquisition of Silvertip (note 22)	-	6,802,404
	Reclassified as assets held for sale	(1,523,573)	-
	Additions	636,218	613,436
	Asset Retirement Obligation	(152,858)	(151,561)
	Disposals	-	-
	Amortisation	(1,307,899)	(1,479,614)
	Impairment reversal/(Impairment) (see below)	828,403	(668,300)
	Closing balance	10,218,971	11,738,680

13) Oil and gas 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 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.

As at 31 December 2016 the Company assessed each project on a value in use basis to determine whether an indicator of impairment existed. It was determined that a reversal of impairment of the Florence Field of $1,171,713 should be recognised. The trigger for this review was the agreement by the Company to sell the membership interest in the subsidiary company that owned and operated the Florence Field at a price that was higher than the net book value of the assets. The assets that are to be sold as part of this cash-generating unit are the Florence Field which consists of 22 operating oil wells, storage tanks and an inventory of spare parts located near the town of Florence, Colorado. The recoverable amount used to determine the impairment reversal value is determined by using its fair value (based on the agreed selling price) less costs to sell.

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

The determination of value in use 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.

13) Oil and gas properties (Cont.)

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.

Valuation variable		Estimated change US$'000 **Sheep Springs**	Estimated change US$'000 **Round Mountain**	Estimated change US$'000 **Florence**	Estimated change US$'000 **Silvertip**
Change in oil price (per Bbl)	+$5	517	228	356	587
	-$5	(517)	(228)	(356)	(587)
Change in gas price (per Mcf)	+$0.50	36	-	-	1,221
	-$0.50	(36)	-	-	(1,221)
Change in discount rate	+1%	(205)	(43)	(121)	(366)
	-1%	186	40	113	340
Change in operating costs pa	+10%	(155)	(100)	(111)	(717)
	-10%	155	100	111	717

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.

14) Plant and equipment

	2016 US$	**2015 US$**
Balance at beginning of year		
Cost	5,798,077	2,290,461
Accumulated depreciation and impairment	(1,761,797)	(1,271,286)
Net carrying amount	4,036,280	1,019,175
Balance at end of year		
Cost	3,862,299	5,798,077
Accumulated depreciation and impairment	(933,674)	(1,761,797)
Net carrying amount	2,928,625	4,036,280

For details of impairment charge see note 13.
For details of assets held for security see note 16.

Opening balance: net of accumulated depreciation and impairment	4,036,280	1,019,175
Acquisition of Silvertip	-	3,247,010
Additions	959	105,145
Transfers from inventory	-	277,253
Disposals/ write downs	(43,220)	(54,158)
Write downs	-	(43,534)
Depreciation charge	(501,290)	(347,827)
Impairment reversal/(Impairment charge)	343,310	(166,784)
Assets reclassified as held for sale	(907,414)	-
Closing balance: net of accumulated depreciation and impairment	2,928,625	4,036,280

		2016 US$	2015 US$
15)	**Trade and other payables**		
	Current		
	Trade payables and accruals	1,034,699	911,377

Trade payables are non-interest bearing payables and are normally settled on 30 day terms.

	Non-Current		
	Trade payables and accruals	40,159	56,494
16)	**Interest Bearing Liabilities**		
	Current -		
	Bank Loan (Secured)	950,000	950,000
	Non-current -		
	Bank Loan (Secured)	6,817,914	7,291,193

The secured bank loans are provided by ANB Bank as a US Dollar denominated term loan facility. A loan of $3 million (balance at Dec 2016 - $968,830) was provided in May 2014. The loan facility was made available and drawn on for the purpose of acquiring the Silvertip Field in June 2015 (Dec 2016 - $6,849,269). 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 (2016 – 4.25%)
- Term - four years from May 2014
- Principal repayments - monthly equal instalments ($62,500)
- Initial face value of loan - $3.0 million (Balance Dec-16 - $968,830)

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 (2016 – 4.25%)
- Term - five years from July 2015
- Principal repayments - monthly equal instalments ($16,667)
- Initial face value of loan - $1.0 million (Balance Dec-16 - $692,109)

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 (2016 – 4.25%)
- Term - two years from July 2015. Prior to the end of the reporting period this loan was renegotiated to a maturity date of 1 July 2018
- 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-16 - $6,444,633)
- Loan balance Dec-16 - $6,157,160

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.)

17) Provisions

	2016 US$	2015 US$
Current		
Employee entitlements – annual leave	115,166	89,105
Non-current -		
Asset retirement obligation	4,317,494	4,792,830

	Employee entitlements	Asset retirement obligation
As at 1 January 2016	89,105	4,792,830
Movement during the year	108,641	(152,859)
Utilised/unwinding of discount	(82,580)	165,713
Reclassified as liabilities held for sale	-	(488,190)
As at 31 December 2016	115,166	4,317,494
As at 1 January 2015	45,852	1,104,749
Movement during the year	94,113	(151,561)
Utilised/unwinding of discount	(50,860)	153,590
Acquisition of Silvertip (note 22)	-	3,686,052
As at 31 December 2015	89,105	4,792,830

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.

18) Issued capital

	2016 US$	2015 US$
201,834,580 Fully paid ordinary shares (2015: 163,684,580)	23,796,744	22,717,388
Shares reserved for employee share plan		
2,900,000 Fully paid ordinary shares (2015: 7,940,900)	4,795	(27,699)

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 20 for details.

18) Issued capital (Cont.)

Movement in ordinary shares on issue	Year ended 31 December 2016 US$	Year ended 31 December 2016 No.	Year ended 31 December 2015 US$	Year ended 31 December 2015 No.
Equity at the start of the year	22,717,388	163,684,580	22,620,836	160,336,680
Placement of new shares	1,152,313	38,150,000	101,829	3,347,900
Transaction costs	(72,957)	-	(5,277)	-
At 31 December	23,796,744	201,834,580	22,717,388	163,684,580

In July 2016 the Company completed a placement of new shares to sophisticated investors to raise A$1.52 million, before costs and fees. The placement consisted of 38 million ordinary shares priced at A$0.04 each representing a 20% discount to the 22 July 2016 closing price.

In March 2016 there were 150,000 employee shares issued at A$0.045 per share.

In June 2015 there were 3,347,900 employee shares issued at A$0.04 per share.

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 monitors 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.

	2016 US$	2015 US$
19) Reserves		
Share option reserve	349,661	349,661

Share Options

At 31 December 2016 there were the following unlisted options over unissued fully paid ordinary shares on issue:
5,000,000 (2015: 5,000,000) unlisted options exercisable at A$0.1485 per option on or before 27 July 2018.
400,000 (2015: 400,000) unlisted options exercisable at A$0.07 per option on or before 26 May 2017

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.

20) Earnings per share (Cont.)

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

	2016 US$	2015 US$
(Loss)/ profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share	(575,771)	(2,726,105)
	Cents per share	**Cents per share**
Basic (loss) /earnings per share	(0.33)	(1.68)
	No. of shares	**No. of shares**
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share	176,461,424	162,061,078
Effect of dilution: Share options	-	-
The weighted average number of ordinary shares on issue during the financial year used in the calculation of diluted earnings per share	176,461,424	162,061,078
	Cents per share	**Cents per share**
Diluted earnings/(loss) per share	(0.33)	(1.68)

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 2016, 5,400,000 potential ordinary shares were not considered dilutive.

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

	2016 US$	2015 US$
(Loss) /profit per accounts	(575,771)	(2,726,105)
Adjustments for		
Leave provision	26,060	43,253
(Impairment reversal)/Impairment of assets (note 11,13 and14)	(1,171,713)	835,085
Amortisation	1,307,899	1,479,614
Depreciation	501,290	347,827
Share based payments	37,654	158,318
Loss on disposal of assets	14,922	12,772
Writedown of assets	-	78,918
(Decrease)/Increase in provisions	165,713	209,128
Decrease/(Increase) in current receivables	(254,008)	(170,548)
Decrease/(Increase) in inventories	31,848	54,882
(Decrease)/Increase in trade and other payables	109,058	370,132
Exchange differences	(9,556)	4,854
Cash used in operating activities	183,396	698,130

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 acquisition US$
Assets	
Property, plant and equipment (Note 14)	3,247,010
Inventories	41,683
Oil Properties (Note 13)	6,802,404
	10,091,097
Liabilities	
Asset retirement obligation (Note 17)	(3,686,052)
Total identifiable net asset at fair value	**6,405,045**
Amount accrued not yet paid	(17,885)
Purchase consideration transferred	6,387,160

No gain or goodwill has arisen from the above acquisition.

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.

An 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

22) Business Combinations(Cont.)

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	**6,345,477**

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 on a year by year basis 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. This lease expires 31 March 2017. The Company has entered into a new lease agreement for offices in Denver to commence 1 April 2017 for 40 months.

	2016 US$	**2015 US$**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	58,757	189,153
Later than 1 year but not later than 5 years	307,301	29,142
Later than 5 years	-	-
	366,058	218,295

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

Set out above are the Company's subsidiaries as at 31 December 2016. 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)

	Company 2016 $	Company 2015 $
Assets		
Current assets	25,602	13,855
Non-current assets	3,595,609	3,063,656
Total assets	3,621,211	3,077,511
Liabilities		
Current liabilities	221,400	213,779
Non-current liabilities	-	-
Total Liabilities	221,400	213,779
Net Assets	3,399,811	2,863,732
Equity		
Issued Capital	23,796,744	22,717,388
Shares reserved for employee share plan	4,795	(27,699)
Accumulated losses	(20,751,389)	(20,175,618)
Reserves	349,661	349,661
Total Equity	3,399,811	2,863,732
Financial performance		
(Loss) /Profit for the period	(575,771)	(2,726,105)
Total comprehensive income of the parent entity	(575,771)	(2,726,105)

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	$1,222	$13,469,108	$13,470,330
Revenue	$55	$5,410,355	$5,410,410

The Company has four major trading counterparties who make up 37%, 24%, 13% and 12% of sales respectively.

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 space 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

28) Events after the balance date

On 31 January 2017 a further 360,000 shares were issued at A$0.044 each in the Company as part of the employee share plan.

On 6 March 2017 the Company announced it had executed a purchase and sale agreement (PSA) with a US subsidiary of Austin Exploration Ltd for the sale of its membership interest in Incremental Oil and Gas (Florence) LLC which owns a 100% working interest in the Florence Oilfield located in Colorado.

The agreed sale price is US$2 million. A deposit of $150,000 was paid in March when the PSA was executed. The balance of the sale price is to be paid at closing.

The effective date of this transaction is December 31, 2016 with a closing date expected within 50 days of signing the PSA.

Incremental retains a 2.5% overriding royalty interest in the prospective Niobrara Formation which underlies the Pierre Formation.

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 2016:

	Loans and receivables US$	Fair value through profit and loss US$	Fair value through other comprehensive income US$
Financial assets			
Trade and other receivables	654,587	-	-
Total current financial assets	**654,587**	**-**	**-**
Other receivables	322,734	-	-
Other assets	-	-	-
Total non-current financial assets	**322,734**	**-**	**-**
Total financial assets	**977,321**	**-**	**-**
Financial liabilities			
Trade and other payables	1,160,964	-	-
Term loan	200,000	-	-
Term loan	750,000	-	-
Total current financial liabilities	**2,110,964**	**-**	**-**
Trade and other payables	40,159	-	-
Line of credit	6,116,868	-	-
Term loan	701,046	-	-
Total non-current financial liabilities	**6,858,073**	**-**	**-**
Total financial liabilities	**8,969,037**	**-**	**-**

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2016:

	Carrying amount US$	Fair value US$
Financial assets		
Trade and other receivables	654,587	654,587
Total current financial assets	**654,587**	**654,587**
Other receivables	322,734	322,734
Other assets	-	-
Total non-current financial assets	**322,734**	**322,734**
Total financial assets	**977,321**	**977,321**
Financial liabilities		
Trade and other payables	1,160,964	1,160,964
Term loan	200,000	200,000
Term loan	750,000	750,000
Total current financial liabilities	**2,110,964**	**2,110,964**
Trade and other payables	40,159	40,159
Line of credit	6,116,868	6,157,160
Term loan	701,046	710,939
Total non-current financial liabilities	**6,858,073**	**6,908,258**
Total financial liabilities	**8,969,037**	**9,019,222**

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:

	2016 US$	2015 US$
Cash and cash equivalents	20,085	9,625
Trade and other receivables	706	801
Trade and other payables	(169,162)	(170,195)
	(148,371)	(159,769)

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

	Change in AUD rate	Effect on profit before tax/equity US$
2016	+10%	(14,837)
	-10%	14,837
2015	+10%	(15,976)
	-10%	15,976

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 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 interest rate % 2016	Weighted average interest rate % 2015	31 December 2016	31 December 2015
			US$	US$
Bank loan	4.25%	3.75%	7,767,914	8,241,193

29) Financial Risk Management (Cont.)

a) Market Risk (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.

	Change in interest rate (basis points)	**Effect on profit before tax/equity US$**
2016	+25	(19,545)
	-25	19,545
2015	+20	(16,482)
	-20	16,482

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.

The Group relies on six customers to generate its sales revenue. The ability for these customers to continue to buy the Group's production in the medium to long term is unclear but there are no indications that the demand for the Company's products are likely to create a risk of a demand shortfall. There is no evidence that any of the Company's customers would not be in a position to make payments in relation to the purchase of the products that are sold. Most of these customers are large companies and there has been no experience that would suggest that there is an enhanced credit risk.

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.

29) Financial Risk Management (Cont.)

c) Liquidity Risk (Cont.)

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

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

Contractual maturities of financial liabilities at 31 December 2016	Less than 6 Months **US$**	6-12 Months **US$**	Between 1 and 2 years **US$**	Between 2 and 5 years **US$**	Total contractual cash flows **US$**	Carrying amount **US$**
Trade payables	1,034,699		40,159		1,074,858	1,074,858
Borrowings	637,814	630,219	6,726,565	301,812	8,296,410	7,767,914
Total	**1,672,513**	**630,219**	**6,766,724**	**301,812**	**9,371,268**	**8,842,772**

Contractual maturities of financial liabilities at 31 December 2015	Less than 6 Months **US$**	6-12 Months **US$**	Between 1and 2 years **US$**	Between 2 and 5 years **US$**	Total contractual cash flows **US$**	Carrying amount **US$**
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
Total	**1,673,693**	**630,358**	**7,326,639**	**746,747**	**10,377,437**	**9,335,329**

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 2016 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.

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 2016 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 2016 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 2016.

On behalf of the Board

John Whisler
Managing Director
Perth
2 April 2017

Building a better
working world

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Incremental Oil and Gas Limited (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, 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.

In our opinion:

a. the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

Without qualifying our opinion, we draw attention to Note 1(c) in the financial report. The matters as set forth in Note 1(c) 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 its assets and discharge its liabilities in the normal course of business.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* above, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Impairment assessment of non-current assets

Why significant	How our audit addressed the key audit matter
The Group assessed during the reporting period whether there is any indication that an asset may be impaired or previously recognised impairment charges should be reversed. If any such indication exists, the entity shall estimate the recoverable amount of the asset. At year end, the Group has concluded: ► The execution on 6 March 2017 of the purchase and sale agreement to sell the Group's interest in Florence Oilfields for US$2,000,000 indicates that impairment charges of US$1,171,713 previously recognised for this Cash Generating Unit should be reversed. The recorded impairment reversal is disclosed in notes 11 and 13 to the financial report. ► There was no impairment required in relation to the Group's other Cash Generating Units. The assessment of indicators of impairment and reversal of impairment is complex and highly judgmental, and includes modelling a range of assumptions and estimates that are affected by expected future performance and market conditions. Key assumptions, judgments and estimates used in the Group's assessment of impairment and reversal of impairment of non-current assets are set out in the financial report in notes 2 and 13.	We performed the following procedures: ► evaluated the Group's future cash flow forecasts included in the value in use impairment models and the process by which they were prepared. We assessed the underlying assumptions including the expected cash inflows from oil sales, cash outflows from the production process and other operating expenses; ► involved our valuation specialists to assess the key assumptions including those relating to oil prices and discount rates, and performed sensitivity analyses to ascertain the extent changes could lead to alternative conclusions; ► assessed the independence and competence of the Group's external expert compiling the pricing, resources and costing data utilised in the model which formed the basis for the impairment models; ► reviewed the purchase and sale agreement and assessed whether the agreed price of US$2,000,000 represents the fair value of the Cash Generating Unit; and ► assessed the Board of Director's meeting minutes and various operational reports and plans in order to understand the future plans of the Group and whether there was any potential contradictory information compared to the assumptions applied in the impairment model.

Building a better working world

2. Recognition and measurement of rehabilitation provisions

Why significant	How our audit addressed the key audit matter
As disclosed in note 17 to the financial report, the Group held a rehabilitation provision of $4,317,494 as at 31 December 2016 relating to the oilfields and processing facilities in the United States of America. As disclosed in note 2 the calculation of this provision requires judgment in estimating the future costs, the timing as to when the future costs will be incurred and the determination of an appropriate rate to discount the future costs to their net present value. The Group reviews rehabilitation obligations that have arisen annually, or as new information becomes available, including an assessment of the underlying assumptions used, effects of any changes in local regulations, and the expected approach to rehabilitation.	We assessed the Group's process for determining the rehabilitation provision, and enquired about material movements in the provision during the year. We evaluated the legal and/or constructive obligations with respect to the rehabilitation for all oilfields and processing facilities, the intended method of rehabilitation and the associated cost estimates. We assessed the accuracy of the calculations used to determine the rehabilitation provision and the reasonableness of the cost assumptions and the discount rate applied.

Information other than the financial statements and auditor's report

The Directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities 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 control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 28 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Incremental Oil and Gas Ltd for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
2 April 2017

GB:EH:IOG:046

ADDITIONAL ASX INFORMATION

The following additional information is required by the Australian Stock Exchange. The information is current as at 15 March 2017.

a) Distribution schedule and number of holders of equity securities of Incremental Oil and Gas Limited as at 15 March 2017 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	21	-	-
1,001-5,000	31	-	-
5,001-10,000	82	-	-
10,001-100,000	210	-	-
100,001 and over	167	1	1
TOTAL	**511**	**1**	**1**

Total fully paid ordinary shares issued 202,194,580

Holders with less than a marketable parcel 138

b) Twenty largest shareholders
The names of the 20 largest holders of quoted equity securities (ASX code – IOG) as at 15 March 2017 are as follows:

Name		No. of Shares	%'age
1.	McGANN PTY LTD	20,940,640	10.36
2.	FAST LANE AUSTRALIA PTY LTD	10,000,000	4.95
3.	MERCHANT HOLDINGS PTY LTD	8,526,952	4.22
4.	ASCOT PARK ENTPS PL	7,610,000	3.76
5.	TRINITY MGNT PL	7,580,900	3.75
6.	UPORA PTY LTD	6,250,000	3.09
7.	AUSTRALIAN EXECUTOR TRUSTEES LTD	6,020,002	2.98
8.	LINEAR A PL	5,400,067	2.67
9.	JOHN ALEXANDER LINDSAY MACDONALD	4,625,001	2.29
10.	MRS DANIELLE SUSAN BORGAS	4,497,049	2.22
11.	BRYAN WELCH PTY LTD	4,083,700	2.02
12.	D N SUPERFUND PL	4,000,000	1.98
13.	A N SUPERANNUATION PTY LTD	4,000,000	1.98
14.	MCGANN CONSULTING PTY LTD	3,750,000	1.85
15.	MR BRIAN MCCUBBING	3,139,134	1.55
16.	SECOND NAREMI PL	3,133,000	1.55
17.	MR PETER JOHN DOWLING	2,700,000	1.34
18.	ANDERBY QLD PTY LTD	2,589,000	1.28
19.	CM SUPER FUND PTY LTD	2,500,000	1.24
20.	GWYNVILL TRADING PTY LIMITED	2,250,000	1.11
21.	MR CA LUBICH AND MRS LK LUBICH	2,000,000	0.99
22.	RIVERGLEN NOMINEES PTY LTD	2,000,000	0.99
		117,595,445	58.17%

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	24,715,004	12.22
M Stowell and related entities	16,236,952	8.03

d) Unlisted securities
Details of the unlisted securities issued by Incremental Oil and Gas Ltd as at 15 March 2017 are as follows:

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

e) Mr Stowell holds 100% of the unlisted options exercisable at A$0.1485. These options in total would represent 2.47% 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 0.20% 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 15 March 2017, 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 WA 6000
Australia

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.

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