

Incremental Oil and Gas Ltd

A.B.N. 66 138 145 114

Preliminary Final Report for the period from
7 July 2009 to 31 December 2010

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	2010	There are no prior comparative amounts		
	\$			
Revenue	6,057,792			
Net profit after tax	588,870			

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

	2010
Earnings per share	0.91 Cents
Net tangible assets per share	10.2 Cents

This report is based on accounts which have not yet been audited or reviewed.

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COMMENTARY ON RESULTS

This consolidated financial report of Incremental Oil and Gas Limited covers the first twelve months of operations at Sheep Springs and the operations in Australia from the formation of the Company on 7 July 2009.

Incremental acquired 100% of the Sheep Springs oilfield effective from 1 January 2010. Production from the Sheep Springs oilfield has been continuous throughout the year. Total production of oil and gas was 85,195 barrels of oil equivalent.

Profit before tax amortisation and depreciation for the year was \$2,402,038.

Since the date of incorporation the company raised funds from founders, seed capital providers and convertible note holders. The company made an Initial Public Offer in December 2010 and listed on the Australian Securities Exchange in January 2011.

Development of production at the Sheep Springs oilfield continues. In February 2011 the Company completed its first well in the Round Mountain oilfield.

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Condensed consolidated statement of comprehensive income for the period from 7 July 2009 to 31 December 2010

	2010 \$
Oil and Gas income	6,057,792
Interest income	23,473
Royalties	(939,640)
Depreciation	(69,787)
Amortisation	(688,468)
Exploration	(105,554)
Lease operating expenses	(833,180)
General Administration and other costs	(925,230)
Employee benefits expense	(719,501)
Share based payments	(156,123)
Interest paid	(536,279)
Profit before income tax	1,107,503
Income tax expense	(518,633)
Profit for the period	588,870
Other comprehensive income/(loss) for the period	
Foreign currency translation differences	(1,686,559)
Total comprehensive income/(loss)	(1,097,689)
Profit for the period attributable to members of the entity	588,870
Total comprehensive loss for the period attributable to members of the entity	(1,097,689)
 Basic earnings per share attributable to ordinary equity holders of the entity (cents)	 0.91

Diluted earnings per share is not shown as no options were dilutive during the year

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**Condensed consolidated statement of financial position
at 31 December 2010**

	Note	2010 \$
Current assets		
Cash assets	1	5,117,919
Receivables	2	518,864
Total current assets		<u>5,636,783</u>
Non-current assets		
Cash assets		98,193
Oil properties	3	10,851,476
Exploration and evaluation		381,772
Fixed assets	4	571,170
Total non-current assets		<u>11,902,611</u>
Total assets		<u>17,539,394</u>
Current liabilities		
Trade and other payables	5	751,539
Convertible notes	6	2,750,000
Total current liabilities		<u>3,501,539</u>
Non-current liabilities		
Convertible notes	6	2,250,000
Deferred tax liabilities		518,633
Total non-current liabilities		<u>2,768,633</u>
Total liabilities		<u>6,270,172</u>
Net assets		<u>11,269,222</u>
Equity		
Issued capital	7	12,366,911
Reserves	9	(1,686,559)
Retained earnings	10	588,870
Total equity		<u>11,269,222</u>

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**Condensed consolidated statement of cash flows
for the period from 7 July 2009 to 31 December 2010**

	Note	2010 \$
Cash flows from operating activities		
Receipts from customers		5,472,034
Payments to suppliers and employees		(3,602,600)
Interest received		21,841
Interest paid		(164,996)
Net cash provided by operating activities	11	1,726,279
Cash flows from investing activities		
Payments for bonds		(108,719)
Payments for property, plant and equipment		(700,808)
Payments for oilfield and enhancements		(12,900,428)
Payments for exploration		(422,696)
Net cash used in investing activities		(14,132,651)
Cash flows from financing activities		
Proceeds from issues of equity securities		12,377,093
Proceeds from issue of convertible notes		5,000,000
Proceeds of borrowings		6,330,860
Repayment of borrowings		(6,183,662)
Net cash provided by/(used in) financing activities		17,524,291
Net increase in cash and cash equivalents		5,117,919
Cash and cash equivalents at the end of the period		5,117,919

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**Condensed consolidated statement of changes in equity for
the period from 7 July 2009 to 31 December 2010**

	Issued capital \$	Retained Earnings \$	Other reserves \$	Total equity \$
Profit attributable to members of the entity	-	588,870	-	588,870
Share option reserve	-	-	35,123	35,123
Other comprehensive income	-	-	(1,721,682)	(1,721,682)
Total income/expense for the period	-	588,870	(1,686,559)	(1,097,689)
Issue of share capital	12,784,365	-	-	12,784,365
Cost of issue of share capital	(417,454)	-	-	(417,454)
At 30 June 2010	12,366,911	588,870	(1,686,559)	11,269,222

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Notes to the financial statements

1.Cash and cash equivalents

for the purposes of the statement of cash flows,
cash and cash equivalents comprise the following:

	\$
Cash at bank and on hand	5,117,919

2.Trade and other receivables

Oil and gas sales debtors	518,864
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3.Oil properties

Cost of acquisition and enhancements	11,473,288
Accumulated amortisation	(621,812)
	10,851,476

4.Fixed assets

Cost	634,200
Depreciation	(63,030)
	571,170

5.Trade and other payables

Trade payables and accruals	385,415
Interest on convertible notes	366,124
	751,539

6.Convertible notes

Current	2,750,000
Non-current	2,250,000
	5,000,000

Unless redemption is requested or notes are converted earlier all the secured convertible notes will convert to ordinary shares on the maturity date of 2 July 2011. If the holders of \$2,250,000 of the secured convertible notes request redemption of the notes before 2 July 2011, the repayment date for these notes will be extended to 2 July 2012. These amounts are treated as non-current liabilities. The interest rate on the secured convertible notes is 10% per annum.

7.Issued capital

110,470,004 ordinary shares	12,366,911
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8.Options

The company has issued 92,766,670 options exercisable at 20 cents per option on or before 1 November 2014

9.Reserves

Foreign currency translation reserve	1,721,682
Share option reserve	(35,123)
	1,686,559

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10.Retained earnings	\$
Profit for the period	<u>588,870</u>

11. Reconciliation of net profit after tax to net cash flows from operations

Profit per accounts	588,870
Adjustments for	
Amortisation	688,468
Depreciation	69,787
Foreign currency translation differences	(371,781)
Share based payments	35,123
(Increase)/decrease in assets:	
Current receivables	(585,758)
Increase/(decrease) in liabilities:	
Current payables	782,937
Deferred taxation	<u>518,633</u>
Cash used in operating activities	<u>1,726,279</u>

12.Segment information

The consolidated entity operates in one business segment being oil production and exploration in USA and one geographic segment being USA.

13.Entities over which control has been gained during the period

Name: Incremental Oil and Gas USA inc
Holding :100%
Net profit after tax for the period: \$856,739