

28 February 2012

The Manager Companies
Company Announcements
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

By: e-lodgement (ASX code: IOG)

Dear Sir/Madam

Preliminary Final Report for the Year Ended 31 December 2011

Please find attached Incremental Oil and Gas Ltd's Preliminary Final Report for the Year Ended 31 December 2011.

Yours sincerely



Susan Hunter
Company Secretary

Incremental Oil and Gas Ltd

A.B.N. 66 138 145 114

Preliminary Final Report for the year ended 31 December 2011

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Up/down	%	\$US 2011	\$US 2010
Revenue	Up	24.8%	7,704,018	6,169,254
Net profit after tax	Up	29.7%	814,672	628,016
Earnings per share	Down	31.2%	0.66 cents	0.96 cents
Diluted earnings per share	Down	43.8%	0.54 cents	0.96 cents
Net tangible assets per share	Up	25.0%	13.0 cents	10.4 cents
Earnings before income tax, amortisation, interest paid, depreciation and foreign exchange adjustments	Up	21.5%	2,981,917	2,497,768

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

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

Incremental Oil and Gas Ltd
Preliminary Final Report for the year ended
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COMMENTARY ON RESULTS

This consolidated financial report of Incremental Oil and Gas Limited covers the twelve months of operations for the year ended 31 December 2011.

The results include a full year of production in California USA from the Sheep Springs oilfield and the production from the Round Mountain oilfield which commenced in March 2011.

Profit before interest, tax, amortisation, depreciation and foreign exchange differences for the year was \$US2,981,917 (2010:\$US 2,497,768)

The company made an Initial Public Offer in December 2010 and listed on the Australian Securities Exchange in January 2011. Holders of convertible notes to the value of \$A5,000,000 all converted their notes to shares on 2 July 2011.

Development and production at the Sheep Springs and Round Mountain oilfields continues. The company anticipates drilling further wells at these and other projects during 2012 and increasing production.

	2011	2010
Production bbls	71,651	71,021
Average bbls per day	196	195
Realised oil price	\$109	\$72

Gerry McGann, Incremental's Managing Director said that he was very happy with the results of the year with the new Round Mountain project being successfully brought onto production progressively during the year and now more than compensating for the natural decline of the Sheep springs Field. The company is now debt free and poised for a new and exciting phase of growth.

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures. Until 31 December 2010, both the functional and presentation currency of Incremental Oil and Gas Ltd was Australian dollars. At 1 January 2011 all companies in the group adopted the US Dollar as the functional and presentation currency. All amounts included in the financial statements are in US Dollars unless otherwise indicated. To give effect to the change in functional currency and presentation currency all balances of entities with an Australian dollar functional currency at 31 December 2011 were converted into US dollars at a fixed exchange rate on 1 January 2011 of US\$1:A\$1.0184, and comparative financial information has been translated at this rate.

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Condensed consolidated statement of comprehensive income

	Year ended 31 December 2011 \$US	Period from 7 July 2009 to 31 December 2011 \$US
Oil and Gas income	7,704,018	6,169,254
Interest income	46,476	31,848
Royalties	(1,157,910)	(956,929)
Depreciation	(68,402)	(67,807)
Amortisation	(993,442)	(705,842)
Exploration	(64,081)	(107,496)
Lease operating expenses	(1,472,946)	(799,217)
General administration and other costs	(1,343,095)	(958,504)
Employee benefits expense	(730,545)	(722,191)
Share based payments	-	(158,996)
Interest paid	(324,799)	(492,122)
Foreign exchange differences	(142,074)	(102,852)
Profit before income tax	1,453,200	1,129,146
Income tax expense	(638,528)	(501,130)
Profit for the period	814,672	628,016
Other comprehensive income/(loss) for the period		
Foreign currency translation differences	-	(1,758,472)
Total comprehensive income/(loss)	814,672	(1,130,456)
Profit for the period attributable to members of the entity	814,672	628,016
Total comprehensive income/(loss) for the period attributable to members of the entity	814,672	(1,130,456)
 Basic earnings per share attributable to ordinary equity holders of the entity (cents)	 0.66	 0.96
Diluted earnings per share attributable to ordinary equity holders of the entity (cents)	0.54	0.96
 Number of shares on issue at year end	 135,643,680	 110,477,010

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Condensed consolidated statement of financial position

	Note	31 December 2011 \$US	31 December 2010 \$US
Current assets			
Cash assets	1	1,456,780	5,114,421
Receivables	2	704,372	538,780
Inventories	3	91,046	44,521
Total current assets		<u>2,252,198</u>	<u>5,697,722</u>
Non-current assets			
Cash assets		100,000	100,000
Oil properties	4	15,747,741	11,120,893
Exploration and evaluation		739,700	388,797
Fixed assets	5	472,588	510,149
Total non-current assets		<u>17,060,029</u>	<u>12,119,839</u>
Total assets		<u>19,312,227</u>	<u>17,817,561</u>
Current liabilities			
Trade and other payables	6	516,805	688,826
Convertible notes	7	-	2,800,600
Provisions		30,769	25,460
Total current liabilities		<u>547,574</u>	<u>3,514,886</u>
Non-current liabilities			
Convertible notes	7	-	2,291,400
Deferred tax liabilities		1,139,658	501,130
Total non-current liabilities		<u>1,139,658</u>	<u>2,792,530</u>
Total liabilities		<u>1,687,232</u>	<u>6,307,416</u>
Net assets		<u>17,624,995</u>	<u>11,510,145</u>
Equity			
Issued capital	8	17,905,010	12,604,832
Reserves	10	35,769	35,769
Accumulated losses		(315,784)	(1,130,456)
Total equity		<u>17,624,995</u>	<u>11,510,145</u>

Incremental Oil and Gas Ltd
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Condensed consolidated statement of cash flows

	Note	2011 \$US	2010 \$US
Cash flows from operating activities			
Receipts from customers		7,474,345	5,630,475
Payments to suppliers and employees		(4,860,891)	(3,675,203)
Net cash provided by operating activities	11	<u>2,613,454</u>	<u>1,955,272</u>
Cash flows from investing activities			
Interest received		46,476	31,848
Interest paid		(324,799)	(171,225)
Payments for development of oil properties		(5,620,290)	(13,185,447)
Payments for property, plant and equipment		(30,841)	(645,714)
Payments for exploration		(350,902)	(430,475)
Net cash used in investing activities		<u>(6,280,356)</u>	<u>(14,401,013)</u>
Cash flows from financing activities			
Proceeds from issues of equity securities		32,927	12,882,928
Cost of share issue		(23,666)	(414,766)
Proceeds of borrowings		-	5,438,256
Repayment of borrowings		-	(346,256)
Net cash provided by financing activities		<u>9,261</u>	<u>17,560,162</u>
Net increase/(decrease) in cash and cash equivalents		<u>(3,657,641)</u>	<u>5,114,421</u>
Cash and cash equivalents at the start of the year/period		<u>5,114,421</u>	<u>-</u>
Cash and cash equivalents at the end of the year/period	1	<u>1,456,780</u>	<u>5,114,421</u>

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Condensed consolidated statement of changes in equity

	Issued capital \$US	Accumulated losses \$US	Other reserves \$US	Total equity \$US
At 31 December 2010	12,604,832	(1,130,456)	35,769	11,510,145
Profit attributable to members of the entity	-	814,672	-	814,672
Other comprehensive income				
Total income/expense for the period		814,672		814,672
Exercise of options	32,927	-	-	32,927
Cost of issue of share capital	(31,373)	-	-	(31,373)
Conversion of convertible notes	5,298,624	-	-	5,298,624
At 31 December 2011	17,905,010	(315,784)	35,769	17,624,995

	Issued capital \$US	Accumulated losses \$US	Other reserves \$US	Total equity \$US
At date of incorporation	-	-	-	-
Profit attributable to members of the entity	-	628,016	-	628,016
Other comprehensive income	-	-	(1,758,472)	(1,758,472)
Total income/expense for the period	-	628,016	(1,758,472)	(1,130,456)
Share option reserve	-	-	35,769	35,769
Issue of share capital	13,019,598	-	-	13,019,598
Cost of issue of share capital	(414,766)	-	-	(414,766)
Effect of change of functional currency	-	(1,758,472)	1,758,472	-
At 31 December 2010	12,604,832	(1,130,456)	35,769	11,510,145

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Notes to the financial statements

	2011 \$US	2010 \$US
1.Cash and cash equivalents		
Cash at bank and on hand	<u>1,456,780</u>	<u>5,114,421</u>
2.Trade and other receivables		
Oil and gas sales debtors	<u>704,372</u>	<u>538,780</u>
3.Inventories		
Oil and gas inventory at cost of production	<u>91,046</u>	<u>44,521</u>
4.Oil properties		
Cost of acquisition and enhancements	17,378,686	11,758,396
Accumulated amortisation	<u>(1,630,945)</u>	<u>(637,503)</u>
	<u>15,747,741</u>	<u>11,120,893</u>
5.Fixed assets		
Cost	594,072	571,868
Depreciation	<u>(121,484)</u>	<u>(61,719)</u>
	<u>516,805</u>	<u>510,149</u>
6.Trade and other payables		
Trade payables and accruals	<u>516,805</u>	<u>688,826</u>
7.Convertible notes		
Current	-	2,800,600
Non-current	<u>-</u>	<u>2,291,400</u>
	<u>-</u>	<u>5,092,000</u>
All the convertible loan notes were converted to equity on 2 July 2011		
8.Issued capital		
	Number of shares	US\$
At 1 January 2011	110,477,010	12,604,832
Exercise of options	166,670	32,927
Conversion of convertible loan notes	<u>25,000,000</u>	<u>5,267,251</u>
At 31 December 2011	<u>135,643,680</u>	<u>17,905,010</u>
9.Options		
The company has issued 92,600,000 options exercisable at 20 cents per option on or before 1 November 2014		
10.Reserves		
Share option reserve	<u>35,769</u>	<u>35,769</u>

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	2011 \$US	2010 \$US
11. Reconciliation of net profit after tax to net cash flows from operations		
Profit per accounts	814,672	628,016
Adjustments for		
Interest received	(46,476)	(31,848)
Interest paid	324,799	171,225
Tax expense	638,528	501,130
Amortisation	993,442	705,842
Depreciation	68,402	67,807
Consultancy fees (non-cash)	-	13,442
Forex	142,074	(390,323)
Share based payments	-	158,996
(Increase)/decrease in assets:		
Inventories	(46,525)	(44,521)
Current receivables	(165,592)	(538,780)
Increase/(decrease) in liabilities:		
Current payables	(109,870)	714,286
Cash used in operating activities	<u>2,613,454</u>	<u>1,955,272</u>

12. Segment information
Year ended 31 December 2011

	Australia \$US	United States \$US	Adjustments \$US	Consolidated \$US
Revenue				
Income	<u>1,626,744</u>	<u>7,700,209</u>	<u>(1,576,459)</u>	<u>7,750,494</u>
Total segment revenue	<u>1,626,744</u>	<u>7,700,209</u>	<u>(1,576,459)</u>	<u>7,750,494</u>
Segment Profit/(Loss)	(143,120)	1,596,320		1,453,200
Income tax expense	<u>-</u>	<u>(638,528)</u>	<u>-</u>	<u>(638,528)</u>
Segment loss after income tax expense	<u>(143,120)</u>	<u>957,792</u>	<u>-</u>	<u>814,672</u>
Assets				
Segment assets	1,288,801	18,023,426	-	19,312,227
Liabilities				
Segment liabilities	91,742	1,595,490	-	1,687,232
Other				
Depreciation and amortisation	5,856	1,055,988	-	1,061,844