

incremental

OIL AND GAS
LTD



HALF YEARLY REPORT

30 June 2017



INCREMENTAL OIL AND GAS
ABN: 66 138 145 114

CORPORATE INFORMATION

This half year report is of the group comprising Incremental Oil and Gas Limited ("the Company" or "Incremental Oil and Gas" or "the Parent") and its wholly owned subsidiaries (collectively "the Group").

The Group's functional and presentation currency is \$US.

A description of the Group's operations and its principal activities is included in the review of operations and activities in the directors' report on page 1. The directors' report is not part of the financial report.

Directors

Mark Stowell (Chairman)
John Whisler (Managing Director)
Gerry McGann (Non-Executive Technical Director)
Matthew McCann (Non-Executive Director)

Company Secretary

Simon Adams

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Australia

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Auditors

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Spectrum Offices
100 Railway Road
Subiaco WA 6008

Share Registry

Link Market Services Limited
Level 12 QV1 Building
250 St Georges Terrace
Perth WA 6000

Stock Exchange Listing

Australian Securities Exchange (ASX)
Home Exchange – Perth
Trading Code - IOG

DIRECTORS' REPORT

The directors of Incremental Oil and Gas Limited ("Incremental" or "the Company") submit their report, together with the financial statements for the half year ended 30 June 2017 as follows:

Directors

The names of the Company's directors in office during the period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mark Stowell	Chairman
John Whisler	Managing Director
Gerrard McGann	Non-Executive Technical Director
Matthew McCann	Non-Executive Director

Principal Activities

Incremental is an exploration and production company focused on the exploitation of existing onshore oil and gas fields in the USA. During the half year, the Company's principal activity was operating oil and gas fields in Wyoming and California while it completed the sale of an oilfield in Colorado. There has been no significant change in the nature of these activities during the year.

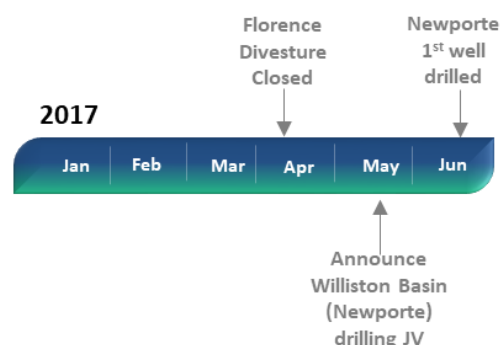
Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Review of Operations

The first half of 2017 has been a period of consolidation for the Company. It continued to optimize its existing production base. A recompletion development program that was carried out at the Silvertip Field during Fall of 2016 saw increased production of gas during a period of significantly improved gas prices resulting from winter demand. Mechanical issues in the gas compressor plant and some shut-in wells saw the production drop slightly in Q1-17 from its highs in Q4-16.

The sale of the Company's Florence Oilfield in Colorado was completed in April 2017. Incremental Oil and Gas has retained a 2.5% overriding royalty interest in the prospective Niobrara Formation in the Florence Field which underlies the productive Pierre Formation.

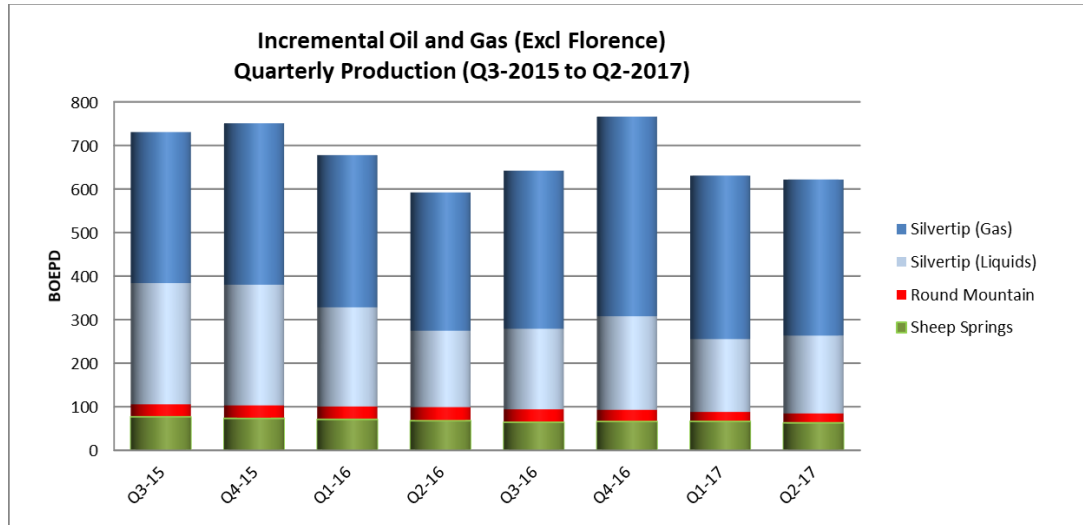


The Company participated as a 10% joint venture partner in a drilling prospect in the Williston Basin. The Hanson 33-43 well (Newporte Field) was spudded in June. Despite this well not being productive, the Company sees long term value of participation in future drilling campaigns with the operator of this syndicate who has extensive experience in the Williston Basin.

The Company's management focus continued to identify new business growth opportunities with a focus on assets which provide optimization upside, recompletion potential, and exploration prospects.



Production



Incremental produced and sold oil, gas and Natural gas liquids (NGL's) from all of its fields namely, Silvertip (WY), Sheep Springs (CA) and Round Mountain (CA) in the first six months of 2017.

The production from the Silvertip Field, owned (100% Working Interest) and operated since July 2015, continued to account for the majority of production in the first half of 2017.

Silvertip

A decrease in production in the first half of 2017 compared to the last six months of 2016 resulted from natural decline in production and from wells that have been

shut in due to mechanical issues. Some of the shut-in oil wells are undergoing workovers and will be returned to production in Q3-17.

Recompletions were carried out on 10 wells in Q4-16 to target behind pipe gas that was in the Meeteetse and Mesaverde Formations which lie above the original Frontier Formation which is the primary oil bearing zone within the field.

This field development was successful and saw gas production increase by 26% in Q4-16. Production from these recompleted wells paid out their capital cost within six months.



Recompletion – Silvertip 2016

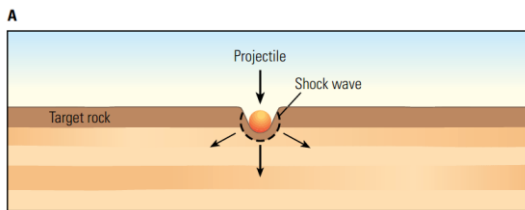
Exploration and development

Newporte Exploration Well

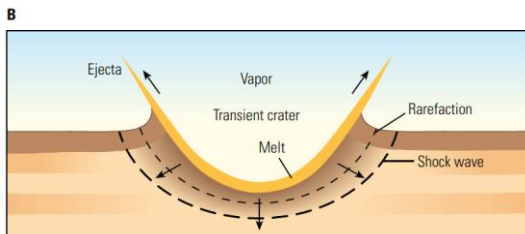
In May 2017, the Company announced its entry in to the Williston Basin. The spud of the Hanson 33-43 located within the Newporte Field was in June. This opportunity provided the Company with a low-cost entry into a highly prospective drilling program with an experienced Williston Basin operator. Incremental Oil and Gas has a 10% working interest (WI) in the drilling joint venture with the potential to drill up to four additional wells.

The Newporte Field is a documented meteor-impact feature (astrobleme), created by an asteroid collision which formed natural hydrocarbon traps and fracture systems which increase production deliverability (see diagrams below).

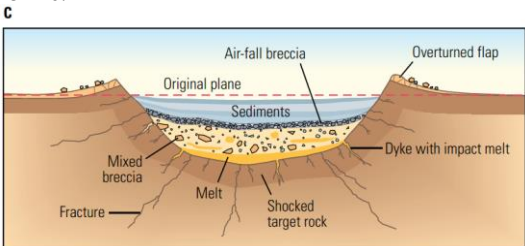
ASTROBLEME STRUCTURE FORMATION



(A) Asteroid hits the Earth's surface.



(B) In the excavation stage, the crater forms.



(C) Following impact, the crater walls have collapsed slightly and debris has fallen back into the crater.

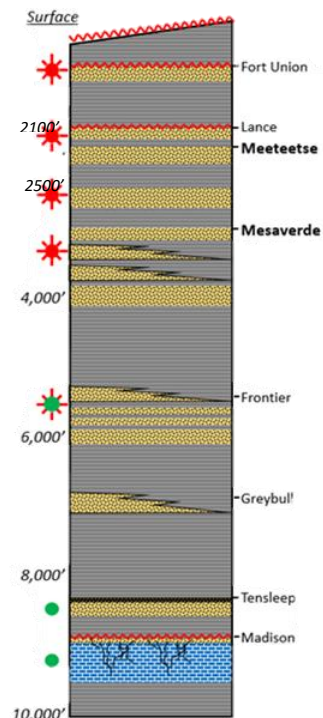
The prospect target is the Cambrian-aged Deadwood Formation sandstones along the rim of the feature at 9,400'.

The Hanson 33-43 well was drilled on-time and on budget, but unfortunately it did not test positive for hydrocarbon production at an economic rate and so the well was plugged and abandoned. The Company's share of the cost of the

drilling and abandonment was \$96,500. A further \$55,900 was paid for the Company's share of the lease costs. A detailed analysis of the drilling results is being undertaken to determine whether there is any merit in drilling any of the remaining four prospects in this lease area.

Silvertip Recompletion Program

Following the success of the ten well recompletion program that was carried out at the Silvertip Field in 2016, a further eight wells have been identified as being suitable for recompletion. Seven of these will target gas from the Meeteetse Formation at 2,500 feet (~760 meters) and one recompletion will target the Lance Formation at 2,100 feet (~640 meters) below surface.



Stratigraphic column of formations in the Silvertip Field

The recompletions will be performed in existing wellbores within the Silvertip Field. Incremental expects that the cost of each recompletion will be approximately US\$35,000.

The recompletions are scheduled to be carried out in Q4 2017 with increase in gas production to coincide with seasonally higher winter gas prices.

Incremental expects that these recompletions will perform as well as or better than the recompletions performed in 2016. The 2016 recompletions had a 30-day average IP of 245 MCFD.

Business Strategies and Prospects

The Company continued to focus on cost management at a corporate and field level and field operating efficiency.

Although the average prices for oil, natural gas and natural gas liquids in the first half of 2017 are higher on average than for the same period in 2016, volatility remains as global supply issues continue to gain more attention than the growing global demand for hydrocarbons.

Incremental continues its strategy of growth through acquisition. The Company is targeting oil and gas fields which have existing or near term profitable production and which are under-developed. The opportunity to acquire such assets is heightened in periods of low commodity prices and the Company's management team has dedicated considerable resources into reviewing numerous acquisition opportunities in onshore US basins in the first half of 2017.



Drill rig used to drill the Hanson 33-43 well, Newporte Field, Williston Basin

REVIEW OF FINANCIAL RESULTS

Assets

Total assets have decreased from \$17.29M at 31 December 2016 to \$14.32M at 30 June 2017. This was due mainly to the sale of the Florence Oilfield.

Cash at bank as at 30 June 2017 was \$864,713. This compares to a total of \$658,450 of cash held at 31 December 2016.

As at 30 June 2017, \$372,734 of cash was held as a term deposit which is secured against performance bonds for the Silvertip project. This is reported as a non-current financial asset in the balance sheet, not as cash at bank.

In 2017 cash proceeds of \$1,945,682 were received for the sale of the Florence assets. \$1M of these proceeds was used to repay bank debt.

Receivables and inventory of \$456,520 at 30 June 2017 has decreased since 31 December 2016 (\$729,930).

Assets available for sale at 30 June 2017 of \$3.66m is made up of Sheep Spring and Round Mountain Fields which the Company is open to offers at the right price, or would be happy to hold and continue their low cost production and net cash flow.

The Florence Oilfield was reflected as an asset held for sale as at 31 December 2016.

Net Oilfield Properties and Plant have decreased from \$13.15M at 31 December 2016 to \$8.92M as a result of the transfer of the California assets to current assets held for sale and amortisation.

Liabilities

Current liabilities have decreased from \$2.71M at 31 December 2016 to \$1.57M at 30 June 2017 due mainly to the repayment of current loans (\$750,000) from the proceeds of the Florence sale

and a reduction in trade and other payables.

Bank Loans (current and non-current) have decreased by \$1.268M from \$7.768M at 31 December 2016 to \$6.499M at 30 June 2017. The bank loans include a Revolving Line of Credit Facility which matures on 1st July 2018.

Equity

Total equity has decreased by \$0.75M from \$3.40M at 31 December 2016 to \$2.65M at 30 June 2017. This is due to accumulated losses (see Financial Performance table below).

Financial Performance

		H1-2017	H1-2016
Sales Volume (Net) ¹			
Oil	Bbls	22,386	35,969
Gas	Boe	34,007	33,945
NGL	Boe	17,184	16,447
TOTAL	Boe	73,577	86,361
Sales Revenue (Net) ¹			
Oil		\$1,040,794	\$1,201,005
Gas		\$591,068	\$457,703
NGL		\$421,995	\$188,369
TOTAL		\$2,053,857	\$1,847,077
Average Price			
Oil	\$/Bbl	\$46.49	\$33.39
Gas	\$/MMBTU	\$2.90	\$2.25
NGL	\$/Gallon	\$0.58	\$0.27
Gross Profit		\$344,620	\$68,227
Operating Cash in/(Out) Flow		\$65,727	(\$246,076)
Reported NPAT ² (Loss)		(\$761,272)	(\$1,096,837)
Underlying EBITDA ³ Profit/(Loss)		\$138,974	(\$35,000)

1. Net **sales volume** excludes any royalty interests i.e.: sales that are attributable ONLY to the Company. Net **sales revenue** excludes royalty interests and refinery deductions made for transportation and treatment of oil and gas.
2. **NPAT** - Net profit/(loss) after tax
3. **Earnings before interest, tax, depreciation and, amortisation** -this is a non-IFRS measure. The information is unaudited but is extracted from the audited financial statements. EBITDA excludes impairment, amortisation, depreciation, interest and tax. EBITDA is used as part of the key performance indicators for the management as it represents a more accurate measure of true cash performance of the company.

An increase in the average prices of hydrocarbons sold in H1-2017 compared to H1-2016 offset the lower sales volumes of hydrocarbons, to improve the financial performance in H1-2017 compared to the corresponding period last year:

- The average price achieved for oil sold in H1-17 of \$46.51/Bbl was 39% above the prior year which had seen the lowest oil prices for more than eight years. Sales volume of 22,386 Bbl was 38% below the prior year mainly due to the sale of the Florence Field which accounted for 7,793 Bbls of oil sold in H1-16. The net result was a \$160,000 reduction in oil revenue;
- Gas prices increased by 29% in H1-17 which was the main contributor to the increase in gas revenue of \$133,365;

- A 115% increase in the price of NGL sold in H1-17, along with a small increase in the of NGL volume sold of 737Boe resulted in an increase in NGL revenue of \$233,626;
- Field operating expenses in the first half of 2017 (\$896,538) were in line with the corresponding prior year period (\$846,529);
- Amortisation and depreciation of field assets was \$178,428 lower in H1-17 than the prior year corresponding period mainly as a result of the sale of the Florence asset at the end of 2016;
- The company's corporate overhead in H1-2017 was \$900,382 (H1-2016 \$1,016,668). This reduction resulted from lower insurance costs and a decrease in rent expenses for the US office;
- Exploration expenditure of \$152,405 related to costs associated with the drilling of the Newporte Field well in June 2017. These costs were expensed due to the well being plugged and abandoned;
- A reconciliation of EBITDA to NPAT is as follows:

	H1-2017	H1-2016
EBITDA	\$138,974	(\$35,000)
Interest income/(expense)	(\$185,181)	(\$175,418)
Depreciation and amortisation	(\$715,065)	(\$886,419)
Tax (expense) / benefit	\$ -	\$ -
NPAT	(\$761,272)	(\$1,096,837)

Auditor Independence Declaration to the Directors of Incremental Oil and Gas Ltd

Section 307C of the Corporations Act 2001 requires our auditors, Butler Settineri (Audit) Pty Ltd, to provide the directors of Incremental Oil and Gas Limited with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 7 and forms part of the director's report for the half-year ended 30 June 2017.

This report is made out in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the directors



John Whisler
Managing Director
31 August 2017

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Incremental Oil and Gas Limited for the half year ended 30 June 2017, I declare that, 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 review; and
- b) No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect to Incremental Oil and Gas Limited and the entities it controlled during the half year ended 30 June 2017.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA
Director

Perth
Date: 31 August 2017

FINANCIAL STATEMENTS

AS AT 30 JUNE 2017

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General Information

The financial statements cover Incremental Oil Gas Ltd as a Group consisting of Incremental Oil and Gas Ltd and the entities that it controlled at the end of, or during, the half year. The financial statements are presented in **United States Dollars** (USD or US\$), which is Incremental Oil and Gas Ltd's functional and reporting currency.

This interim financial report does not include all the notes of the type that are normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2016 and any public announcements made by Incremental Oil and Gas Limited during the interim report period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE

	Notes	2017 \$US	2016 \$US
Oil and Gas Sales		2,481,449	2,269,999
Direct cost of sales:			
Royalty costs		(427,592)	(393,891)
Other production expenses		(1,011,799)	(932,015)
Amortisation and depreciation		<u>(697,438)</u>	<u>(875,866)</u>
Gross profit from operations		344,620	68,227
Other operating revenue		49,164	653
Administrative expenses		(633,560)	(605,280)
Other operating expenses		(182,780)	(369,143)
Exploration expenditure		(152,405)	-
Interest and finance expenses		<u>(186,311)</u>	<u>(191,294)</u>
Loss before income tax		(761,272)	(1,096,837)
Income tax (expense) / benefit		<u>-</u>	<u>-</u>
Loss after tax		<u>(761,272)</u>	<u>(1,096,837)</u>
Loss for the period attributable to members of the entity		<u>(761,272)</u>	<u>(1,096,837)</u>
Other Comprehensive income:			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit and loss		-	-
Other comprehensive income / (loss) for the period, net of tax		<u>-</u>	<u>-</u>
Total comprehensive loss for the period attributable to members of the entity		<u>(761,272)</u>	<u>(1,096,837)</u>
Basic earnings /(loss) per share attributable to ordinary equity holders of the entity (US cents)	13	<u>(0.38)</u>	<u>(0.67)</u>
Diluted earnings /(loss) per share attributable to ordinary equity holders of the entity (US cents)	13	<u>(0.38)</u>	<u>(0.67)</u>

The above Consolidated 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 30 JUNE 2017

	Notes	30 Jun 2017 \$US	31 Dec 2016 \$US
Current assets			
Cash and cash equivalents	2	864,713	658,450
Trade and other receivables	3	410,093	654,587
Inventories	4	46,427	75,343
Assets held for sale	5	3,664,086	2,430,988
Total current assets		<u>4,985,319</u>	<u>3,819,368</u>
Non-current assets			
Other financial assets	6	388,480	322,734
Oil properties	7	6,226,740	10,218,971
Plant and equipment	8	2,697,676	2,928,625
Deferred tax asset		20,910	-
Total Non-current assets		<u>9,333,806</u>	<u>13,470,330</u>
Total assets		<u>14,319,125</u>	<u>17,289,698</u>
Current liabilities			
Trade and other payables	9	657,157	1,034,699
Interest bearing liabilities	10	200,000	950,000
Taxes payable		147,176	126,265
Provisions	11	131,343	115,166
Liabilities held for sale	5	439,139	488,190
Total current liabilities		<u>1,574,815</u>	<u>2,714,320</u>
Non-current liabilities			
Trade and other payables	9	-	40,159
Interest bearing liabilities	10	6,299,173	6,817,914
Provisions	11	3,795,471	4,317,494
Total non-current liabilities		<u>10,094,644</u>	<u>11,175,567</u>
Total liabilities		<u>11,669,459</u>	<u>13,889,887</u>
Net assets		<u>2,649,666</u>	<u>3,399,811</u>
Equity attributable to equity holders of the parent			
Issued capital	12	23,807,156	23,796,744
Shares reserved for employee share plan		5,511	4,795
Reserves		349,661	349,661
Accumulated losses		(21,512,662)	(20,751,389)
Total equity		<u>2,649,666</u>	<u>3,399,811</u>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2017

	Issued capital	Shares reserved for employee share plan	Accumulated losses	Share option reserve	Total equity
	\$US	\$US	\$US	\$US	\$US
At 1 January 2017	23,796,744	4,795	(20,751,389)	349,661	3,399,811
Loss attributable to members of the Group			(761,272)		(761,272)
Other Comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	(761,272)	-	(761,272)
Share based payments	-	12,674	-	-	12,674
Transaction costs	(1,546)	-	-	-	(1,546)
Issue of share capital	11,958	(11,958)	-	-	-
At 30 June 2017	23,807,156	5,511	(21,512,661)	349,661	2,649,667
At 1 January 2016	22,717,388	(27,699)	(20,175,618)	349,661	2,863,732
Loss attributable to members of the Group	-	-	(1,096,837)	-	(1,096,837)
Other Comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	(1,096,837)	-	(1,096,837)
Share based payments	-	28,187	-	-	28,187
Transaction costs	(1,255)	-	-	-	(1,255)
Issue of share capital	5,160	(5,160)	-	-	-
At 30 June 2016	22,721,293	(4,672)	(21,272,455)	349,661	1,793,827

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 HALF YEAR ENDED 30 JUNE 2017

	2017 \$US	2016 \$US
Cash flows from operating activities		
Receipts from customers	2,787,228	2,178,443
Payments to suppliers and employees	(2,559,999)	(2,249,101)
Interest received	1,130	653
Interest paid	(162,631)	(176,071)
Net cash provided by/(used in) operating activities	65,727	(246,076)
Cash flows from investing activities		
Oil property development expenditure	(287,379)	(24,825)
Payments for performance bonds	(65,747)	-
Proceeds from sale of Florence asset	1,945,683	-
Purchases of property, plant and equipment	(40,530)	-
Sale of property, plant and equipment	20,924	-
Payments for exploration	(152,405)	-
Net cash provided by/(used in) investing activities	1,420,546	(24,825)
Cash flows from financing activities		
Costs from issue of shares	(1,547)	(1,255)
Proceeds from issue of employee shares	11,959	-
Proceeds of borrowings	-	500,000
Repayment of borrowings	(1,288,533)	(480,155)
Net cash provided by/(used in) financing activities	(1,278,121)	18,590
Net increase/(decrease) in cash and cash equivalents	208,152	(252,311)
Exchange differences on cash balances held	(1,889)	(797)
Cash and cash equivalents at the beginning of the period	658,450	445,419
Cash and cash equivalents at end of period	864,713	192,311

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 JUNE 2017

1. Summary of significant accounting policies

The consolidated interim financial statements are for the group comprising Incremental Oil and Gas Limited ("the Company" or "Incremental Oil and Gas" or "the Parent") and its wholly owned subsidiaries (collectively "the Group").

Incremental Oil and Gas Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

These consolidated interim financial statements were authorised for issue in accordance with a resolution of the Directors on 31 August 2017.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Basis of preparation

These consolidated interim financial statements of the Group for the period ended 30 June 2017 are a general purpose condensed financial report prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting.

These consolidated interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as the full financial report.

It is recommended that these consolidated interim financial statements be read in conjunction with the annual financial report for the year ended 31 December 2016 and any public announcements made by the Company during the half-year in accordance with the continuous disclosure requirements under Corporations Act 2001.

The financial information for the half year ended 30 June 2017 is presented in **US dollars** which is Incremental Oil and Gas Ltd's functional and presentation currency.

Statement of compliance

The consolidated interim financial statements of the Group also comply with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

Going concern

As at 30 June 2017, the Group has a working capital surplus of \$3.4M, it has made an operating loss for the six months ended 30 June 2017 of \$0.76M and has had a net increase in cash and cash equivalents of \$0.21M for the six month period from 31 December 2016.

The financial report has been prepared on a going concern basis as the Directors are satisfied that the Group will have access to sufficient working capital to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

Pertinent facts relating to the assessment of the Group's ability to continue as a going concern are:

- i. The Company has access to undrawn loan facility in its Line of Credit with ANB Bank of approximately \$840,000 if additional funding is required.
- ii. The directors have no reason to believe at this time that the term of the existing Revolving Line of Credit facility with ANB Bank of \$6.157M, which currently has a maturity date of 1 July 2018, will not be extended in accordance with the facility terms.
- iii. The Company intends to carry out a recompletion program on eight wells within the Silvertip Field in Q-4 2017. The results that have been projected from this initiative aligns with the average results achieved in the ten well recompletion program that the Company carried out in Q4-16.
- iv. The Group's cashflow forecasts through to 31 December 2018 reflect that the Group will produce positive cash flows from its ongoing operations to enable the Group to meet its other financial commitments as and when they fall due.

The Company has placed its California assets on the market for sale. In the event that the Company experiences any cash flow difficulties due to unforeseen circumstances, the proceeds from the sale of these assets will be applied to reduce debt to ANB Bank and provide additional working capital.

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.

Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention.

**INCREMENTAL
OIL AND GAS LIMITED**

Half Year Report | 30 June 2017

	30 June 2017 \$US	31 December 2016 \$US
2. Cash and cash equivalents		
For the purposes of the statements of cash flows, cash and cash equivalents comprise the following:		
Cash at bank and on hand	864,713	658,450
3. Trade and other receivables		
Oil and gas sales debtors	343,068	580,414
Other receivables	67,025	74,173
	<u>410,093</u>	<u>654,587</u>
Trade and other receivables do not contain impaired assets and are not past due		
4. Inventories		
Oil and gas inventory at cost of production	46,427	75,343
5. Assets and liabilities classified as held for sale		
Assets		
Production assets and plant and equipment (net of accumulated amortisation, depreciation and impairment)	3,664,086	2,430,988
Liabilities		
Restoration liability associated with production assets classified as held for sale	(439,139)	(488,190)
	<u>3,224,947</u>	<u>1,942,798</u>
In December 2016, Incremental entered into a Term Sheet Agreement with Austin Exploration to divest of the Florence Oilfield. The Purchase and Sale Agreement was executed in March 2017 and the transaction was closed in April. These assets were shown in the 2016 year-end financial statements as available for sale as at 31 December 2016 and were moved off the balance sheet in April 2017 at the sale close date. In May 2017, Incremental decided to place its two Californian assets, Sheep Springs and Round Mountain on the market for sale, and these have been presented in the financial statements as at 30 June 2017 as assets available for sale.		
6. Other financial assets		
Term deposit used as security for performance bonds	372,734	322,734
Other deposits	15,746	-
	<u>388,480</u>	<u>322,734</u>

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	30 June 2017 \$US	31 December 2016 \$US
7. Oil properties		
Cost of acquisition and enhancement of production assets	8,050,349	36,625,507
Accumulated amortisation and impairment provisions	(1,823,609)	(26,406,536)
	<u>6,226,740</u>	<u>10,218,971</u>
Opening balance – 1 January	10,218,971	11,738,680
Reclassified as assets held for sale	(3,609,306)	(1,523,573)
Additions	285,741	636,218
Asset retirement obligation	(141,151)	(152,858)
Impairment reversal	-	828,403
Amortisation for the period	(527,514)	(1,307,899)
Closing balance	<u>6,226,740</u>	<u>10,218,971</u>

For the 30 June 2017 half year, the key economic assumptions underpinning the impairment assessment including production profile, recoverable reserves and discount factor, have been reviewed. Accordingly, management is of the view there are no triggers that would require a reversal of the provision or further impairment of the oil properties at this time.

	30 June 2017 \$US	31 December 2016 \$US
8. Plant and equipment		
Cost	3,440,736	3,862,299
Accumulated depreciation and impairment	(743,060)	(933,674)
Net carrying amount	<u>2,697,676</u>	<u>2,928,625</u>
Opening net book value at 1 January	2,928,625	4,036,280
Additions	40,517	959
Transfer	-	-
Disposals	(30,138)	(43,220)
Write-downs	-	-
Depreciation charges	(187,549)	(501,290)
Impairment reversal -see Note 6	-	343,310
Assets classified as held for sale	(53,779)	(907,414)
Closing balance: net of accumulated depreciation and impairment	<u>2,697,676</u>	<u>2,928,625</u>
9. Trade and other payables		
Current -		
Trade payables and accruals	<u>657,157</u>	<u>1,034,699</u>
Trade payables are non-interest bearing payables and are normally settled on 30 day terms.		
Non-current -		
Trade payables and accruals	<u>-</u>	<u>40,159</u>
Total trade and other payables	<u>657,157</u>	<u>1,074,858</u>
Production taxes are non-interest bearing payables that are owed to the State of Colorado.		

	30 June 2017 \$US	31 December 2016 \$US
10. Interest Bearing Liabilities		
Current -		
Bank loan - secured	200,000	950,000
Non-current		
Bank loan - secured	6,299,173	6,817,914
Total interest bearing liabilities	6,499,173	7,767,914

The secured bank loans are provided by ANB Bank as a US Dollar denominated loan facility. A loan of \$3 million (balance at June 2017 - \$Nil) 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 (June 2017 - \$6,499,173). 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 (2017 – 4.75%)
- Term - four years from May 2014
- Principal repayments - monthly equal instalments (\$62,500)
- Initial face value of loan - \$3.0 million (Balance June-17 - \$Nil)

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 (2017 – 4.75%)
- Term - five years from July 2015
- Principal repayments - monthly equal instalments (\$16,667)
- Initial face value of loan - \$1.0 million (Balance Dec-16 - \$372,407)

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 (2017 – 4.75%)
- Maturity date - 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 June-17 - \$7,000,000)
- Loan balance Jun-17 - \$6,126,765

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.)

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	30 June 2017 \$US	31 December 2016 \$US
11. Provisions		
Current		
Employee entitlements – annual leave	131,343	115,166
Non-current		
Asset retirement obligation	3,795,471	4,317,494
	Employee entitlements \$US	Asset retirement obligation \$US
As at 1 January 2017	115,166	4,317,494
Movement during the year	23,252	(141,152)
Utilised/ unwinding of discount	(7,075)	58,268
Reclassified as liabilities held for sale	-	(439,139)
As at 30 June 2017	131,343	3,795,471
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
	30 June 2017 \$US	31 December 2016 \$US
12. Issued capital		
202,194,580 fully paid ordinary shares (31 December 2016: 201,834,580)	23,807,156	23,796,744
Shares reserved for employee share plan		
2,825,000 fully paid ordinary shares (31 December 2016: 2,900,000)	5,511	4,795
Movement in ordinary shares on issue	2017	2016
	\$US	No
At 1 January 2016	23,796,744	201,834,580
Issued pursuant to employee share plan	11,959	360,000
Transaction costs	(1,546)	-
At 30 June 2017	23,807,156	202,194,580
Movement in ordinary shares on issue	2016	
	\$US	No
At 1 January 2016	22,717,388	163,684,580
Placement of new shares	1,152,313	38,150,000
Transaction costs	(72,957)	-
At 31 December 2016	23,796,744	201,834,580

12. Issued capital (Cont.)

Share options

At 30 June 2017, there were the following unlisted options over unissued fully paid ordinary shares on issue:

5,000,000 options on issue with an expiry date of 27 July 2018 and an exercise price of A\$0.1485.

On 26 May 2017 400,000 options expired (exercise price A\$0.07).

Share-based payments

In January 2017, 360,000 shares were issued to the employee share trust for the benefit of employees at a price of A\$0.044 cents per share.

The equity remuneration is subject to service and performance conditions as set out below:

No. of shares	Grant date	Vesting conditions	Shares vested (as at 30 June 2017)
360,000	30 January 2017	These shares do not have performance conditions attached to them as this served as part of the retention plan.	100%

For the six months ended 30 June 2017, the Group has recognized \$12,674 of share based payment expense in the statement of comprehensive income (30 June 2016: \$28,187).

13. Earnings/(loss) per share

Basic earnings per share amounts are calculated by dividing net profit/(loss) for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

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

Net (loss)/profit attributable to equity holders of the parent

	30 June 2017 \$US	30 June 2016 \$US
	(761,272)	(1,096,837)

13. Earnings/(loss) per share (Cont.)

	30 June 2017	30 June 2016
	Cents per share (\$US - cents)	Cents per share (\$US - cents)
Basic earnings/(loss) per share (cents)	<u>(0.38)</u>	<u>(0.67)</u>
	No.	No.
The weighted average number of ordinary shares on issue during the financial period used in the calculation of basic loss per share	<u>202,132,923</u>	<u>163,770,294</u>
	Cents per share (\$US - cents)	Cents per share (\$US - cents)
Diluted earnings/(loss) per share (cents)	<u>(0.38)</u>	<u>(0.67)</u>
	No.	No.
The weighted average number of ordinary shares on issue during the financial period used in the calculation of diluted earnings per share	<u>202,132,923</u>	<u>163,770,294</u>

14. Segment reporting

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 direct business activities and as a result, it does not represent an operating segment.

The following segment disclosure is required:

	Australia	USA	Total
Non-current assets	\$21,812	\$9,311,994	\$9,333,806
Revenue	\$700	\$2,529,913	\$2,530,613

15. Events after the reporting date

There are no significant events subsequent to the reporting date

16. Contingent liabilities and commitments

The Group has no material contingent liabilities or commitments at balance date or date of this report.

17. Related party disclosures

In June 2017, Incremental Oil and Gas Ltd entered into a lease agreement with Ascot Park Enterprises Pty Ltd, a company associated with the Chairman, Mr Mark Stowell, to rent office accommodation at 20 Howard Street, Perth. The rent has 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\$16,260 per annum

18. Financial instruments

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2017:

	30 June 2017 \$US	31 December 2016 \$US
Financial assets held at amortized cost:		
Trade and other receivables	410,093	654,587
Total current financial assets	410,093	654,587
Other receivables	388,480	322,734
Other assets	-	-
Total non-current financial assets	388,480	322,734
Total financial assets	798,573	977,321
Financial liabilities held at amortized cost:		
Trade and other payables	804,333	1,160,964
Line of credit	-	-
Term loan	200,000	950,000
Total Current financial liabilities	1,004,333	2,110,964
Trade and other payables	-	40,159
Line of credit	6,126,766	6,116,868
Term Loan	172,407	701,046
Total non-current financial liabilities	6,299,173	6,858,073
Total financial liabilities	7,303,506	8,969,037

17. Financial instruments (Cont.)

Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2017:

	Carrying amount \$US	Fair value \$US
Financial assets:		
Trade and other receivables	410,093	410,093
Total current financial assets	410,093	410,093
Other receivables	388,480	388,480
Total non-current financial assets	388,480	388,480
Total financial assets	798,573	798,573
Financial liabilities:		
Trade and other payables	804,333	804,333
Term loan	200,000	200,000
Line of credit	-	-
Total current financial liabilities	1,004,333	1,004,333
Trade and other payables	-	-
Line of credit	6,126,766	6,126,766
Term loan	172,407	172,407
Total non-current financial liabilities	6,299,173	6,299,173
Total financial liabilities	7,303,506	7,303,506

Trade and other receivables and trade and other payables are short term in nature, therefore carrying amounts approximate their fair values. Term loan and line of credit liabilities are identified as Level 2 in the fair value hierarchy.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Incremental Oil and Gas Limited, I state that:

In the opinion of the directors

- (a) The financial statements and notes of Incremental Oil and Gas Limited are in accordance with the Corporations Act 2001, including;
 - (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the half year ended on that date, and
 - (ii) Complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) Subject to achieving the matters set out in note 1 to the financial report, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



John Whisler
Managing Director
Perth

31 August 2017

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF INCREMENTAL OIL AND GAS LIMITED

Report on the half year financial report

We have reviewed the accompanying half year financial report of Incremental Oil and Gas Limited ("the Company") and its controlled entities ("the Group") which comprises the consolidated statement of financial position as at 30 June 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half year ended on that date, notes comprising a statement of significant accounting policies and other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half year financial report

The directors are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the consolidated financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 30 June 2017 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Incremental Oil and Gas Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year consolidated financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain the assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year consolidated financial report of Incremental Oil and Gas Limited and its controlled entities is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the group's financial position as at 30 June 2017 and of its performance for the half year ended on that date; and
- b) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Going Concern

Without qualifying our conclusion above, we wish to draw your attention to Note 1 of the financial statements "Going Concern". The matters as set forth in Note 1 "Going Concern" indicates 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.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA
Director

Perth
Date: 31 August 2017

APPENDIX 4D ASX INFORMATION

The information that is required by the Australian Stock Exchange Limited Listing Rules is as follows.

1. Details of the results for this reporting period and the corresponding prior year period are provided elsewhere in this report.
2. Results for announcement to the market

	Change from prior period	US\$
2.1. Revenues from ordinary activities	9% ↑	2,481,449
2.2. Profit/(Loss) from ordinary activities after tax attributable to members	31% ↑	(761,272)
2.3. Net profit/(loss) for the period attributable to members	31% ↑	(761,272)
2.4. Dividends (distributions)	Nil	Nil

3. Net tangible assets per security

	June 2017 US\$	December 2016 US\$
	0.013	0.017

4. Control was neither gained nor lost over any entities during the half year.
5. No dividends were paid during the period
6. The Company does not have a dividend re-investment plan.
7. The Company does not have any Associated Companies. It has participated in a Drilling Joint Venture but has a non-controlling interest and is not the designated operator of the drilling program.