

31st January 2013

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

QUARTERLY ACTIVITIES REPORT
For the quarter ended 31 December 2012

HIGHLIGHTS

Production 234% up year on year

Revenue 222% up year on year

Installed permanent facilities at Round Mountain

Another successful Round Mountain well drilled

Began drilling on IOG's Ventura Project

Planning four well drilling programme at Florence

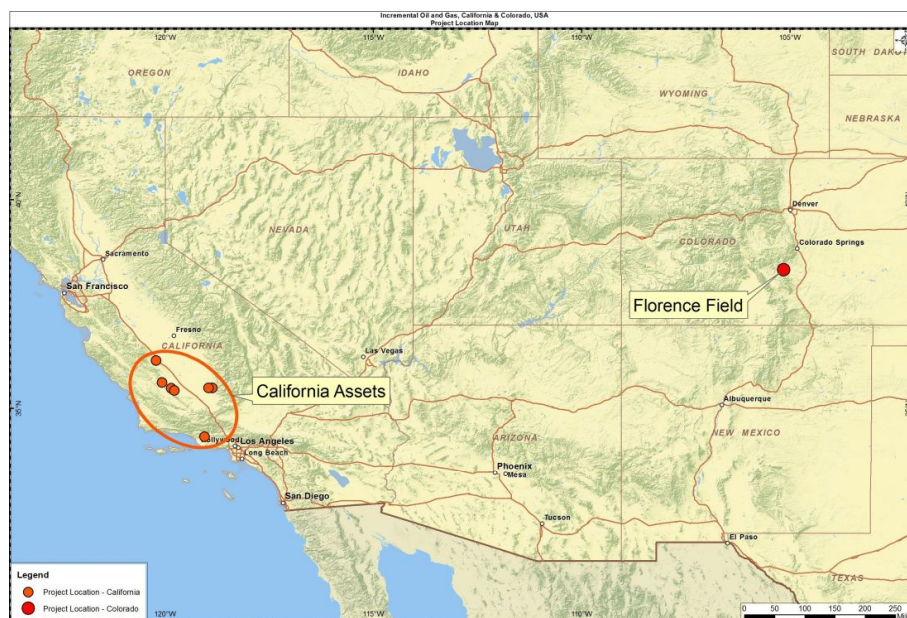


Figure 1. Incremental's project locations

DRILLING

ROUND MOUNTAIN, California:

Smoot 8 was drilled in Incremental's 100% owned Round Mountain Field in the quarter. A rig became available at short notice and it appeared that it was the only small rig available for a number of months. The well was spudded on October 31 and drilled without incident to a total depth of 1,600' the next day. It intersected the Top Walker reservoir 45' high to Smoot 7 as planned with excellent reservoir characteristics. The well was perforated at 1367-84', 1412-24' and 1470-76'. It commenced production at an average of 56 bopd and 226 bwpd over the first 6 days.

VENTURA PROJECT, California (IOG 25% WI):

C & H 18 was spudded on 13th December with the Ensign 515 Rig. 10 ¾" casing was set at 992' and drilled out with an 8 ½" bit. The well was drilled directionally (to the east, at a max angle of about 9 degrees) to the total depth of 6800', which was reached at 3am on January 1st. Moderate to poor shows in porous sandstone were observed in multiple intervals below 3900', with good shows observed in the following intervals:

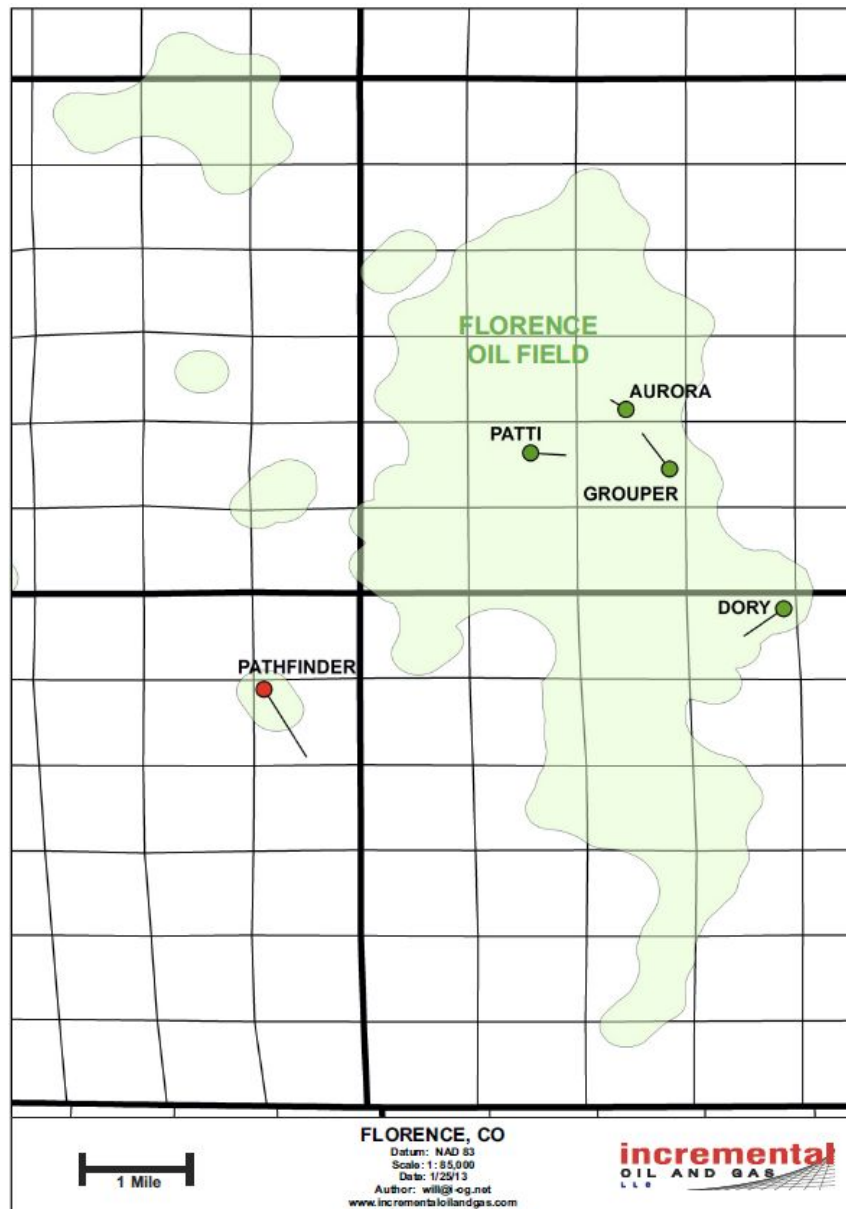
4825-4905'	80'
5250-5310'	60'
5340-5350'	10'
5910-6020'	110'
6060-6200'	140'

At the end of the report period, the operator was preparing to run wireline logs, which will better determine the potential producibility of prospective reservoirs.

FLORENCE, Colorado (IOG 100% WI):

A four well drilling programme is now planned for Florence in early 2013. Previously the company had planned to drill only two wells. A rig and all services have been contacted and the spud date of the first well is anticipated in mid-January. As smaller rigs are scarce in the Denver-Julesberg basin, the rig is being mobilize from over 800 km away. The location of the four planed wells is shown in the accompanying map.

Incremental gathered a group of world class scientists and engineers in Denver in October to identify, high-grade and plan potential drilling locations in Florence. The study group identified 22 Pierre locations as potential targets, of which eight have been high-graded for probable drilling in 2013.



Planned drilling locations, Florence Oilfield, Q1 2013.

(Note – Pathfinder well was drilled by Austin Exploration Ltd – outside IOG Lease area)

WORKOVERS

Smoot 7 tested 300 bwpd and 29 bopd in early November. It was decided to move the bridge plug higher to seal off the bottom sand. It was moved to 1444' (from 1510'). After the bridge plug was moved, oil production increased to 58 bopd and water was reduced to 205 bwpd.

SEISMIC

Incremental invited bids from four seismic companies to shoot of a 3D seismic survey over our Round Mountain leases in California. This survey may better identify future drilling targets, especially in the Walker Formation.

PRODUCTION

FLORENCE, Colorado

The average Field production for the quarter was 328 bopd. In the absence of new wells drilled in the quarter, the Field continues to decline as expected. New wells to be drilled in the first quarter of 2013 should hopefully increase production to more substantial levels.

ROUND MOUNTAIN, California

With the additional production from Smoot 8 for part of the quarter, production from Round Mountain averaged 95 bopd, an increase of 5% on the previous quarter. Water production is not insignificant and although about 500 bwpd are disposed of in Smoot 5 water disposal well, some water had to be disposed of during the quarter with nearby commercial operators.

Difficulties in accessing tanker transport from the field curtailed production on several occasions during the quarter as all production tanks were full. We are investigating using a different trucking company for shipment of oil in the future.

Incremental purchased five fiberglass production tanks at 400 barrels each during the quarter. They are surprisingly innovative in California, as nearly all tanks there are made of steel, which is more expensive, corrodes and takes longer to manufacture and erect. A 1500 barrel wash tank (right on photos below) was also installed. This new facility replaces rental equipment and will significantly reduce the operating costs of this already very profitable oilfield.





SHEEP SPRINGS, California

All of the wells in Sheep Springs continue to produce as expected at an average of 105 boepd. The 7% decrease from the previous quarter is due to natural decline.

Details of production for the quarter and reference quarters are:

	Q4 2012	Q3 2012	Q4 2011
Production (Av barrels oil per day)	516	629	209
Gas production (Av 000's cubic ft/day)	74	72	95
Average daily production (barrels oil equivalent)	528	641	225
Average price of oil sold (US\$/barrel)	89.7	88.9	110.7
Average price of gas sold (US\$/mcf)	1.8	1.84	2.05
Quarterly revenue (US\$),	4,514,972	5,061,896	2,028,078

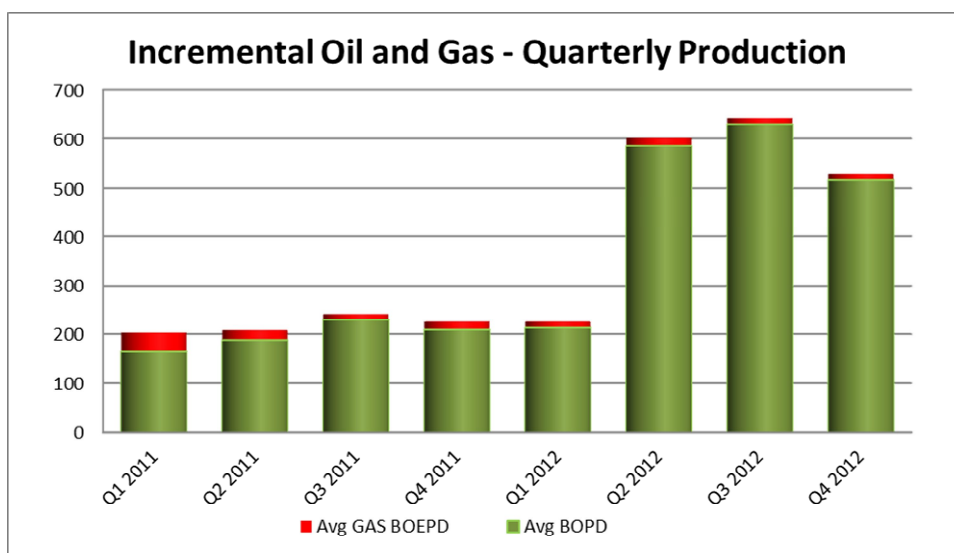


Figure 2. Average daily production by quarter

Oil production in the first quarter of 2013 was 222.6% higher than the corresponding quarter in 2012 and 10.8% below the preceeding quarter. The decrease from the previous quarter is due to the natural decline of the Florence Oilfield.

RESERVES:

The first independent reserves and resources report undertaken by Incremental was announced on 22nd January 2013. The reported values are shown in the two tables below:

Florence Oil Field	Gross (100%) License Basis Oil Mbbls		
Developed Reserves Mbbls (Thousand bbls)			
	1P	2P	3P
Pierre Shale	128	183	415
Undeveloped Reserves Pierre Shales Mbbls			
	1P	2P	3P
Pierre Shale	147	213	316
Total Developed and Undeveloped Reserves	276	396	731
Contingent Resources Pierre Shales Mbbls			
	1C	2C	3C
Pierre Shale	99	135	234

Table 1 - Summary of Reserves and Contingent Resources for the Pierre Shales, Florence Field as of October 31st 2012

Florence Oil Field	Gross (100%) License Basis Oil Million bbls		
Contingent Resources (Million bbls)			
Niobrara Formation	1C	2C	3C
	5	10	17
Prospective Resources (Million bbls)			
Niobrara Formation	Low	Best	High
	6	13	22

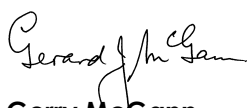
Table 2 - Contingent and Prospective Resources (Niobrara Sections)

OTHER PROJECTS

All leases and future obligations on the **Guijaral Project** were sold on 30th October for \$150,000 and a 2% Overriding Royalty. After careful review, other projects were deemed to better fit the strategic objectives of the company, and the divestiture has freed up some capital and manpower.

Incremental began actively marketing the **Raven Pass** Project in California, sending a farmout brochure to some 3,000 contacts globally. At the end of the reporting period, two companies had expressed considerable interest in participating in drilling of an exploration well on this high reward project, with Incremental being at least partly carried through the drilling of one well to 7000'. An independent expert has identified the reserve potential of Raven Pass of possibly 200 million barrels (as stated in the Company's IPO prospectus).

Austin Exploration drilled two wells adjacent to IOG's **Florence** operations, just 300m to the west of IOG leases (see map - page 3). They reported that the vertical pilot hole intersected 95 ft of net pay in the Niobrara Formation, which underlies the present main zone of interest for Incremental. They then drilled a 4100ft horizontal well into the same formation. At the end of the report period, the well was still cleaning up, producing unreported volumes of oil and gas.



Gerry McGann
Managing Director

The estimate of oil reserves and resources for the Florence Oilfield were prepared for Incremental Oil and Gas Ltd by Mr David Guise of RPS Energy Services Pty Ltd. The report in relation to the prospective resources has been prepared in accordance with the guidelines set forth in the SPE/WPC/AAPG/SPEE Petroleum Resource Management System (2007). Mr Guise has in excess of 35 years of petroleum engineering experience. He is a Registered Professional Engineer and member of the Society of Petroleum Engineers.

This reserve estimate report has been reviewed by Mr Gerry McGann, Managing Director of Incremental Oil and Gas Ltd. Mr. McGann has over 40 years of industry experience and is a Certified Petroleum Geologist (#5702) with the professional Division of American Association of Petroleum Geologists.