

30 August 2013

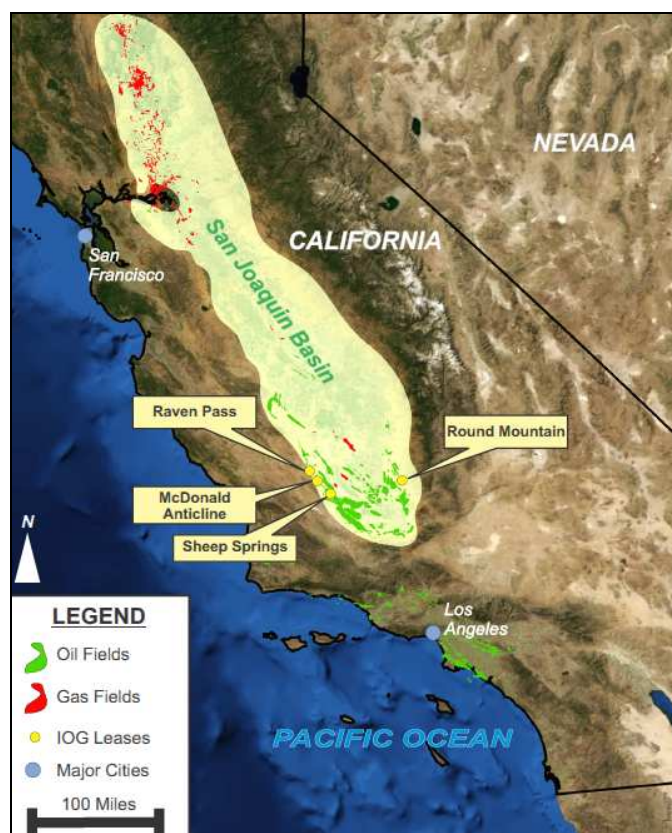
The Manager Companies  
Company Announcements  
Australian Securities Exchange  
2 The Esplanade  
PERTH WA 6000

By: e-lodgement (ASX code: IOG)

Dear Sir/Madam

### **Sale of Two California Oilfields**

Incremental Oil and Gas Ltd is pleased to announce that it has negotiated with a private US investor to sell its two producing Fields in California, Sheep Springs and Round Mountain, for US\$13M.



Incremental's California oilfield locations

The sale process was via a competitive bidding process involving more than 20 companies to ascertain the market value of each of the Fields. In the opinion of the Board, the bids that were received represented fair value and PSA's for the two properties

totalling US\$13m are expected to be executed subject to finalisation of financing arrangements within the first weeks of September. Settlement is expected by the end of September.

Incremental has successfully developed and enhanced production and reserves from both Sheep Springs and Round Mountain Fields over the last three years. The acquisition of underdeveloped oilfields and extraction of low cost remnant oil via field development is the cornerstone of Incremental's business model. The sale of these projects (520 acres) will allow the Company to focus its resources on larger company-making projects such as the Niobrara formation in the Florence Oilfield (21,000 acres).

The Sheep Springs Oilfield was bought by Incremental in January 2010 for \$12m and a further US\$2.9M of capex was invested for new wells. The field has generated net operating cash flow of \$9.8M. The Round Mountain Field was discovered by Incremental in March 2011 and eight successful shallow wells costing \$5.1M were drilled into the Field with production increasing to 109 bopd in October 2011. Combined, these fields have produced an average of 169 bopd in 2013. The financial return of these oilfields, at a project level, following their sale will be in excess of 33%. These fields have allowed Incremental to establish a strong financial and operating foundation for the Company in the USA.

The proceeds from the sale are proposed to be invested as follows:

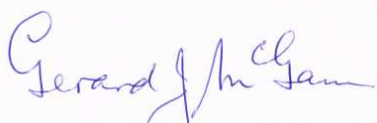
1. Accelerate the drilling and development of the Florence Field, especially the undeveloped deeper Niobrara reservoir;
2. Acquire a long life, low decline conventional oilfield property with development potential;
3. Retire existing debt of US\$4m; and
4. Working capital.

No tax is expected to be paid from the sales proceeds.

After completion of the California asset sales, Incremental expects to hold more than US\$10M in cash available for future development. The Florence Field in Colorado continues to perform as expected and revenue from this operation is expected to fund all of the company's operating costs in the short to medium term.

On completion of the sale, Incremental will be in a strong position to accelerate the development of the Florence Field through the continuation of its Pierre drilling program, which will benefit from the shooting of further 3D seismic in 2013, and the implementation of plans for the deeper Niobrara play. Permitting is under way for four Niobrara wells which will be ready to drill by Q1-14.

Incremental still holds the McDonald Anticline acreage and the Raven Pass exploration project in California.



**Gerry McGann**  
**Managing Director**