

28 October 2014

The Manager Companies
Company Announcements
Australian Securities Exchange
Level 40, Central Park 152-158 St George's Terrace
Perth WA 6000

QUARTERLY ACTIVITIES REPORT For the quarter ended 30 September 2014

HIGHLIGHTS

- Round Mountain Smoot #1 recompleted in the Upper Walker Sand for an additional 11 BOPD
- Additional perforations were added to Sheep Springs C5 in an attempt to increase production and reserves.
- Positive net cash flow of US\$140,000 for the quarter saw net cash on hand increase to US\$1.328M (Q2-14 – US\$1.183M) and debt reduced by US\$0.49M
- Average daily production of 193 BOE
- The decline rate in the Florence field has decreased significantly. It is anticipated that this stabilisation of production will continue.
- Nine projects reviewed for acquisition

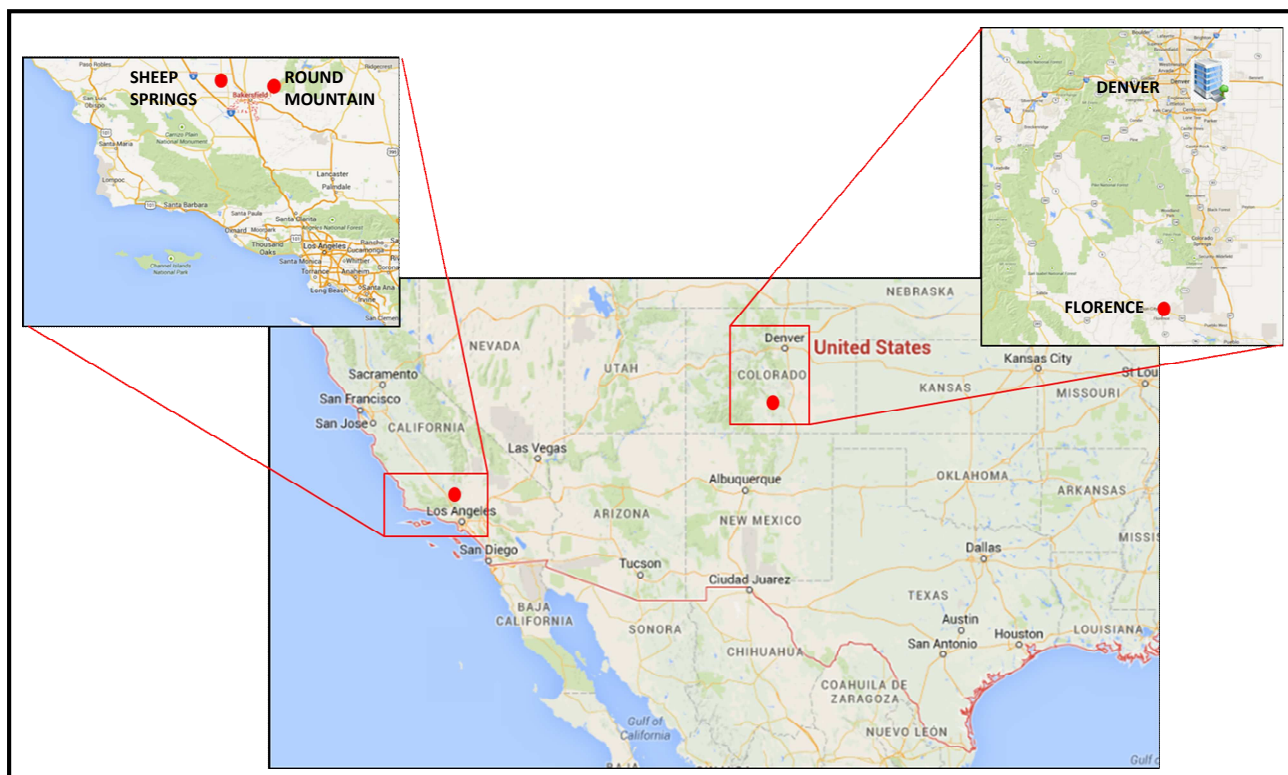


Figure 1: Location Map

1 BUSINESS DEVELOPMENT

The Company remains focused on increasing value by acquiring existing fields that have a strong production history and have potential for increased production and reserves through additional drilling and bypassed behind pipe reservoirs. The Company's growth strategy is focussed on incremental production growth with only minimal exposure to higher risk exploration drilling.

The size of transactions that have been investigated have mostly been determined by the availability of capital to the Company from existing cash, debt and potential reserve based lending. Projects that are considered for acquisition have existing cash flow with the potential for increased economic production, which can be majority owned (preferably 100% WI) and operated by Incremental Oil and Gas. Potential acquisition targets are identified through internal industry contacts, brokers and direct contact with landowners, mineral rights owners and operators in targeted geographical areas where potential has been identified from due diligence on previously reviewed opportunities.

The M&A market for oil and gas assets in the USA in the last twelve months has been very competitive. The current correction to oil prices may create opportunities to acquire assets at prices that represent better value than what has been experienced recently. In the last quarter, the company has reviewed nine projects for acquisition. Due diligence on some of these is ongoing and offers have been submitted on several. The search for new acquisition targets will continue diligently.

2 PRODUCTION

Details of cumulative production from Incremental's Oilfields in the last quarter and reference quarters are as follows:

	Q3 2014	Q2 2014	Q3 2013
Oil Production (Av barrels per day)	187	209	273
Gas production that is sold (Av 000's cubic ft/day)	39	63	66
Average daily production (barrels of oil equivalent - BOE)	193	219	284

Production from the Sheep Springs and Round Mountain Oilfields in the last quarter decreased from the previous quarter due to natural decline and the shut-in of a number of wells while workovers were undertaken. A small increase in production is expected from this remediation work in Q4-14.

Water production from the Round Mountain Oilfield has been controlled with virtually no water having to be disposed of off site.

The decline rate in the Florence Field has decreased significantly as shown in the chart below. This decrease in decline rate is typical of oil production from shale formations. It is anticipated that this stabilisation of production will continue.

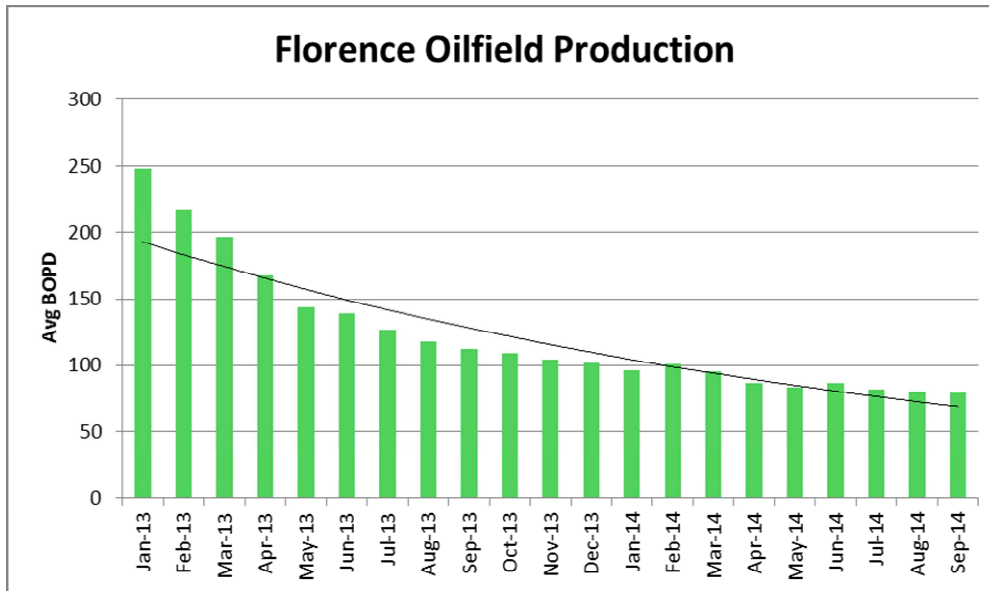


Figure 2: Average daily oil production from Florence Oilfield

3 FLORENCE OILFIELD, COLORADO: (100% working interest)

There is ongoing drilling activity on the leases adjacent to IOG's Florence Oilfield. The outcome of drilling that has been undertaken to date and new wells that are expected to be drilled in adjacent leases will be used to determine the potential for drilling economic Pierre or Niobrara wells in the Florence Oilfield by the Company in the future.

A Pierre well is being assessed as a potential drilling target in the northern part of the Florence Oilfield. Technical reviews using existing 3D seismic and historical production data is ongoing. Capital will be allocated to this development if it can be proven to be economically viable. IOG remains open to mitigating the risk of development of this field with a potential farm-out of part of IOG's interest in the future.



Figure 3: Florence Oilfield, Colorado

4 SHEEP SPRINGS AND ROUND MOUNTAIN, CALIFORNIA: (100% working Interest)

The Round Mountain Smoot 1 well was recompleted in the First Walker Sand which resulted in an additional 11 BOPD over a 30 day period. The drilling of the Smoot 9 well in the Walker Formation (the deepest reservoir) has been delayed as it may not be economic at the present time. Smoot 9 is planned as an up-dip well to Smoot 1, which has a projected ultimate recovery of over 60,000 barrels of oil.

Additional perforations were added in the Sheep Springs C-5 well in late Q3-14. The perforated zone had a strong inflow of gas creating down hole pumping issues. It will take some time for the gas volume to decline and it is expected that oil production will increase as gas volumes decreases and water draws down.

Investigation is ongoing to determine the feasibility of some secondary recovery projects at both Californian oilfields. This is a long term project but has the potential to increase production from large undeveloped reserves.

5 FINANCIAL RESULTS AND CASH FLOW

Cash on hand at the end of Q3-14 was US\$1.328M (Q2-14 – US\$1.183M). Cash movement for the quarter (including comparison of previous quarter and prior year) is summarised as follows:

	Q2-14 US\$ '000	Q2-14 US\$ '000	2013 US\$ '000
Net proceeds from sales (after royalty interest payments)	\$1,410	\$1,511	\$9,521
Payments for production & administration	(\$752)	(\$1,260)	(\$4,877)
Leases & capital expenditure	-	(\$39)	(\$4,890)
Proceeds from issue of shares	-	-	\$112
Proceeds from ANB Bank	-	\$3,000	-
Payments to ANB & RMB – principal and interest	(\$518)	(\$2,913)	(\$3,295)
Net cash increase/(decrease) for the period	\$140	\$299	(\$3,429)
Opening cash balance	\$1,183	\$884	\$3,970
Closing cash balance	\$1,323	\$1,183	\$541

Gross sales for the September 2014 quarter were \$1.470 million (2014 YTD - \$5.308 million). There have been no significant development costs during the quarter and operating costs have remained within budget. Management remains focused on cost control and maximising field efficiency and output.

Positive operating net cash flow of US\$658,000 (Q2-14 – US\$212,000) resulted from lower operating and administration costs for the quarter. In addition to the required monthly term loan repayment of US\$62,500 to ANB, IOG repaid an extra US\$300,000 to reduce the loan balance.

The Company's average lifting costs are less than \$25/Bbl for the year to date. Royalties and production taxes are less than 20% on average across the fields that are operated. Based on these metrics these are cost effective fields compared to industry benchmarks.

6 CORPORATE UPDATE

ANB Bank Facility –

The loan facility with ANB Bank continues to be repaid and all covenants are in order. The outstanding loan balance on the term loan as at the end of the quarter was US\$2.682M. A line of credit for an amount of US\$5.0M remains in place to be used for future project acquisitions. Incremental has been working with ANB Bank on a number of potential acquisitions where debt funding can be used.

Board changes –

Mr Gerry McGann retired as Managing Director on 14 October 2014 and has been replaced by Mr John Whisler. Mr McGann remains on the Board as a non-executive Technical director and is responsible for technical oversight of new and existing projects. His extensive experience in the oil industry internationally ensures that a valuable resource is retained for the Company.

Mr Whisler, who is based in Denver, will continue to focus on business development and field optimisation of the California and Colorado assets. He has more than 25 years' experience in leading, developing and implementing projects that have created value in the US oil and gas industry. He has a successful-track record of managing and growing both public and private exploration and production companies. His diverse and extensive background in the US oil and gas industry covers all aspects of operations, including exploration, business development, acquisitions and divestures, corporate & project management, financial & economics, field operations, production and extensive experience in drilling and completions.