

21 January 2011
Australian Stock Exchange
By ASX online

QUARTERLY ACTIVITIES REPORT **For the quarter ended 31 December 2010**

HIGHLIGHTS

- 20% increase in production over Q3 2010
- Revenues up 24% for quarter
- Re-negotiated increased gas sales price
- Preparations to drill at Sheep Springs
- Preparations to drill at Round Mountain



Incremental Oil and Gas project locations

SHEEP SPRINGS OILFIELD (IOG 100%)

Details of production for the quarter and the preceding quarter from the Sheep Springs field are:

| | Q4 2010 | Q3 2010 |
|---|----------------------|----------------|
| Production (Av barrels oil per day) | 192 | 191 |
| Gas production (Av thousands cubic ft/day) | 414 | 163 |
| Average daily production (barrels oil equivalent) | 261 | 218 |
| Average price of oil sold (US\$/barrel) | \$83.66 | \$74.30 |
| Average price of gas sold (US\$/Mcf) | \$3.21 | \$2.08 |
| Quarterly revenue (US\$) | US\$1,548,094 | US\$1,250,855 |

The 2010 fourth quarter production was 20% higher than the preceding quarter in barrels equivalent. This increase was largely due to the gas production from well C-7 which was drilled in July 2010. Revenues were up 23% in US\$ due to a combination of increased production and better oil and gas prices. The quarterly revenues were a record for Incremental Oil and Gas since we purchased the Sheep Springs Oilfield in January 2010.

Due to the increased capacity to produce gas from the C-7 well, the gas sales price was re-negotiated during the quarter from 50% to 85% of the California price border price.

Plans are well in hand to drill a new well H & P #2 in the coming weeks. The well is designed to penetrate and ideally produce from the Oceanic reservoir. This reservoir is anticipated to be intersected at about 4700 feet. The Oceanic has produced at rates exceeding 200 bopd of light oil in offset wells but has never been systematically produced in Sheep Springs.

ROUND MOUNTAIN (IOG 100%)

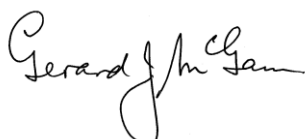
Work on drilling our initial well in Round Mountain has been delayed somewhat by the La Nina weather in the area. One year's average rainfall fell on the Round Mountain area on 18 December 2010 with some follow up rains. The access road is now waterlogged and we are reviewing options of re-routing this road to provide reliable heavy-vehicle access.

HEALTH AND SAFETY

At the end of the reporting period, Sheep Springs has operated under the ownership of Incremental Oil and Gas for 365 days without a lost time accident, a tribute to Incremental's management and staff in California.

CORPORATE

The IPO was closed oversubscribed on 16th December 2010. We thank all existing and new shareholders for their support.



Gerry McGann
Managing Director