

17th October 2012

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

By: e-lodgement (ASX code: IOG)

Dear Sir/Madam

Operations Update

Incremental Oil and Gas (IOG) is pleased to provide the following operational update:

ROUND MOUNTAIN, CALIFORNIA

SMOOT 8 is expected to spud in the next few weeks. The well is planned as a development well and should intersect the prospective Walker Formation about 70' high to Smoot 7, which is still producing in excess of 50 bopd after six weeks production. Smoot 7 has been an outstanding result for a well that was completed for only \$370k. Incremental has a 100% working interest in the Round Mountain project.

VENTURA, CALIFORNIA

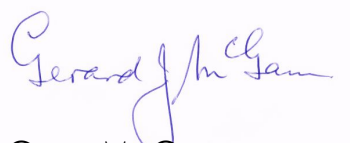
C & H 18 is IOG's first well in the West Mountain Field, near Ventura in California. It is expected to spud shortly. This well is planned to a measured depth of 6900', making it the deepest IOG has drilled to date. It is expected to take 17 days to drill and cost \$1.04million with an additional \$462k completion cost. The West Mountain Field is characterized by an original hydrocarbon column as thick as 1500'.

C & H 18 will be the first well drilled in the IOG lease since the 1940's. Many of the earlier wells had initial production rates in excess of 200 bopd. Incremental now holds a 25% working interest in this well and the West Mountain Project, having sold down from its initial 75% interest which decreased the companies risk exposure to this project.

FLORENCE, COLORADO

As previously announced, a two well drilling programme is expected to start in Florence in mid November. Both wells will be planned as inclined wells targeting the naturally fractured Pierre Shale, with total measured depths between 3530' and 4486'. IOG holds a 100% working interest in the Florence project in Colorado.

Yours sincerely



Gerry McGann
Managing Director