

30<sup>th</sup> April 2013

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

**QUARTERLY ACTIVITIES REPORT**  
**For the quarter ended 31 March 2013**

**HIGHLIGHTS**

**Successful Niobrara test adjacent to IOG's Florence Field**

**Production 89% up year on year**

**Revenue 56% up year on year**

**739 new acres leased at McDonald Anticline in California**

**Management team in USA strengthened**

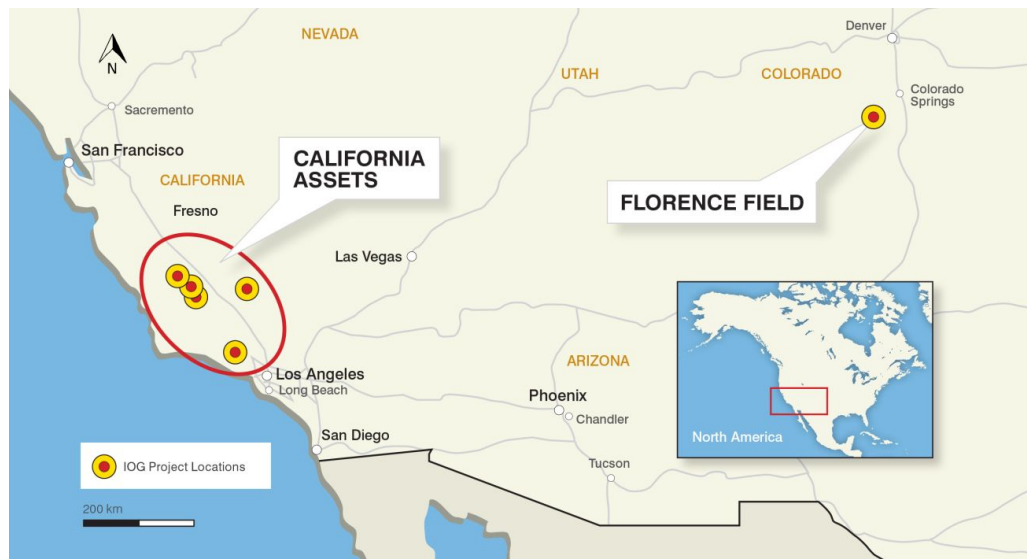


Figure 1. Incremental's project locations

# 1. FLORENCE OILFIELD: (100% working interest)

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## 1.1 DRILLING

### 1.1.1 PATTI 32-29 SIDETRACK:

The Patti sidetrack well was designed to penetrate and drain oil that was encountered by the original Patti well, drilled in June 2010, but left unproduced oil in the Pierre Formation.

The Capstar 311 rig moved onto the Patti location on 17<sup>th</sup> January and a window was cut in the casing. The hole was then drilled as per plan to a total depth of 4376 ft, building angle gradually to the horizontal. Only minor gas and oil shows were observed throughout. After reaching total depth, the drill pipe became stuck while cleaning and reaming the hole. Efforts to work the drill string free were unsuccessful. Part of the stuck drill pipe assembly was subsequently recovered.



*Capstar rig at Patti Sidetrack well*

The Patti sidetrack was drilled as planned and encountered the seismically defined ‘ghost’ (see Figure 2) that represents the part of the target reservoir that is naturally fractured and thus potentially productive. The lack of producible hydrocarbons encountered in the well suggests that the reservoir connectivity within the ‘ghosts’ is significantly greater than anticipated pre-drill, and that the previously identified oil in the Patti area had been drained and produced by earlier wells.

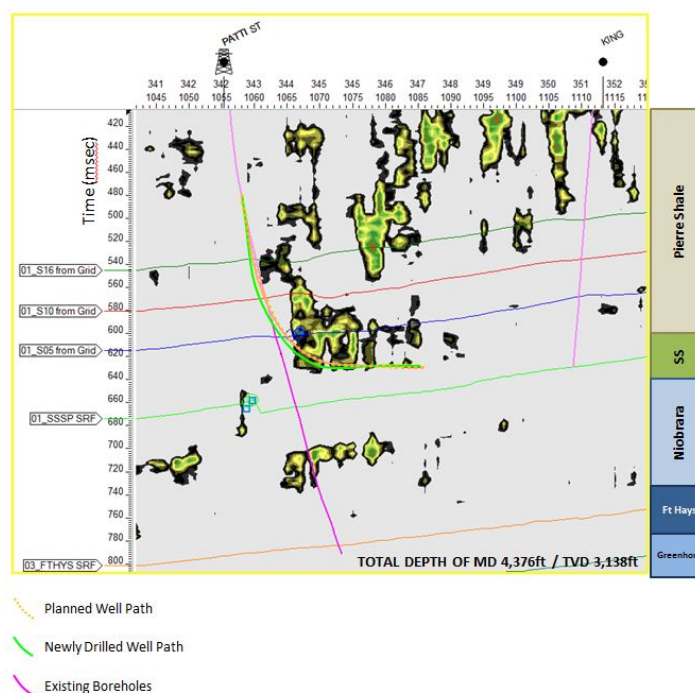


Figure 2. Seismic section through the Patti Sidetrack well showing well trajectory and location of “seismic ghost”

### 1.1.2 AURORA 24-21

The Aurora well was spudded on 28<sup>th</sup> January and was planned as a deviated well targetting a seismically defined ‘ghost’ in the Pierre Formation. Excellent shows with free oil to surface were encountered in the following intervals:

- 2910-2980 ft
- 2980-3050 ft
- 3080-3095 ft
- 3150-3210 ft
- 3225-3250 ft

The well was drilled to 3260 ft as per programme and a pre-perforated liner was run. The rig was released and the well swabbed with a workover rig. The production rate was disappointing, compared to the good shows, at less than 5 barrels per day. On 14<sup>th</sup> February, the drilling rig was re-mobilised and the well was deepened to 3572 ft. Good shows were encountered from 3500 to 3540 ft. 4 ½” perforated casing was then run to 3557 ft. The lower section of the well has not yet been comprehensively tested, and we believe that the pre-perforated casing may be plugged by shale particles. The current plan is to use an innovative tool in early May in an attempt to unblock these perforations and hopefully initiate some significant oil flow into the well.

## 1.2 GEOLOGY

The prospectivity of the Niobrara Formation at Florence was significantly enhanced by the successful testing of this unit in the first horizontal Niobrara well drilled at Florence. This was the Pathfinder well drilled by Austin Exploration Ltd (“Austin”) (Figure 3). This well is only 400m from the nearest Incremental lease, and substantially upgrades the potential of the Niobrara at Florence. Austin reported that the well had flowed at 403 boepd and that

they were in a position to progress towards the commercialization of its assets in Colorado. Incremental is actively seeking partners to develop the Niobrara section at Florence.

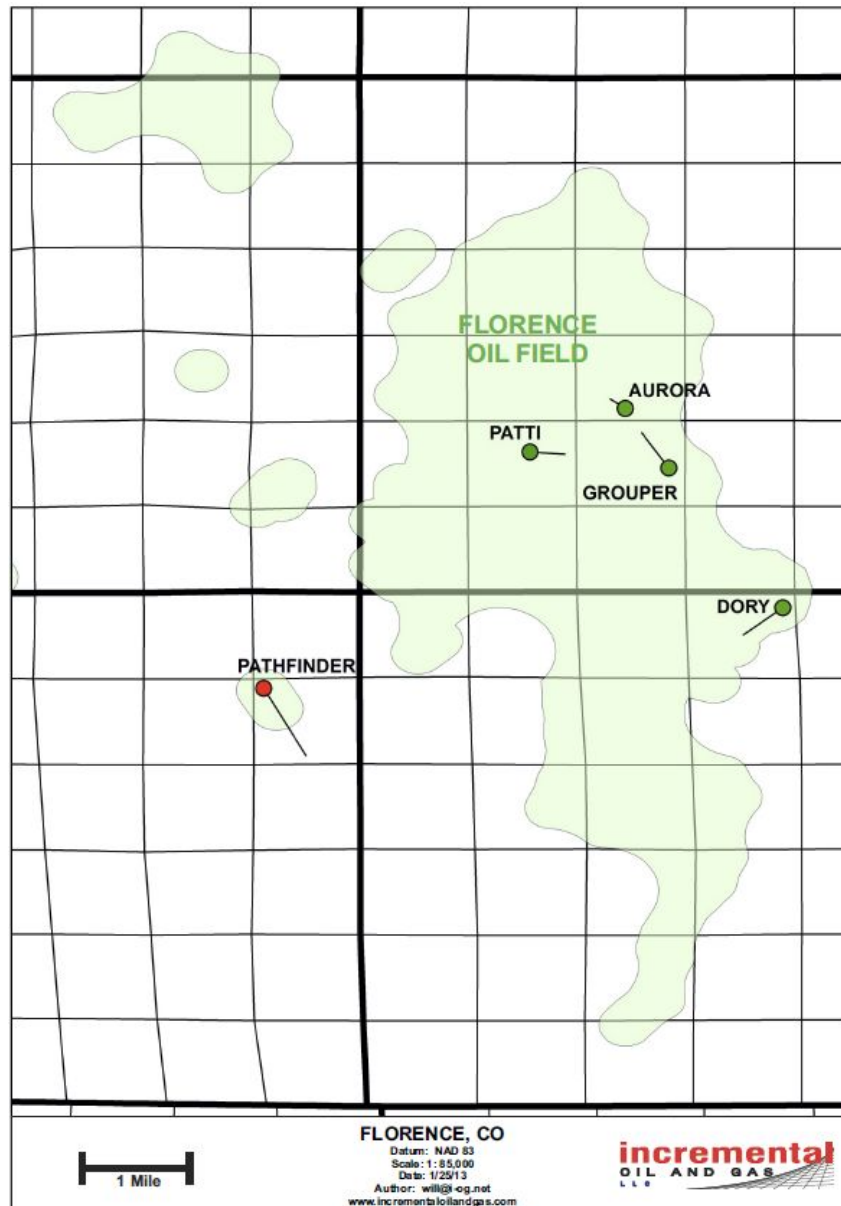


Figure 3. Planned drilling locations, Florence Oilfield, Q1 2013.  
(Note – Pathfinder is outside the Incremental lease boundary and was drilled by Austin Exploration Ltd in Q4 2012 – see 1.2 below)

The acquisition of additional 3D seismic data over the western portion of the Florence field has been initiated. This area had not previously had 3D acquired by earlier operators. This seismic data will be used to more accurately define drillable locations in the Pierre Formation. It is anticipated that the permitting, planning and capture of data for this seismic program would take at least 6 months.



A significant field mapping project was undertaken, specifically to investigate the nature of fracturing towards the base of the productive Pierre, the nature of fracturing in the Niobrara and the different structural regimes within the Florence basin. Although results from this were encouraging, they need to be supported by the more definitive seismic results to increase confidence in identifying further suitable drilling targets.

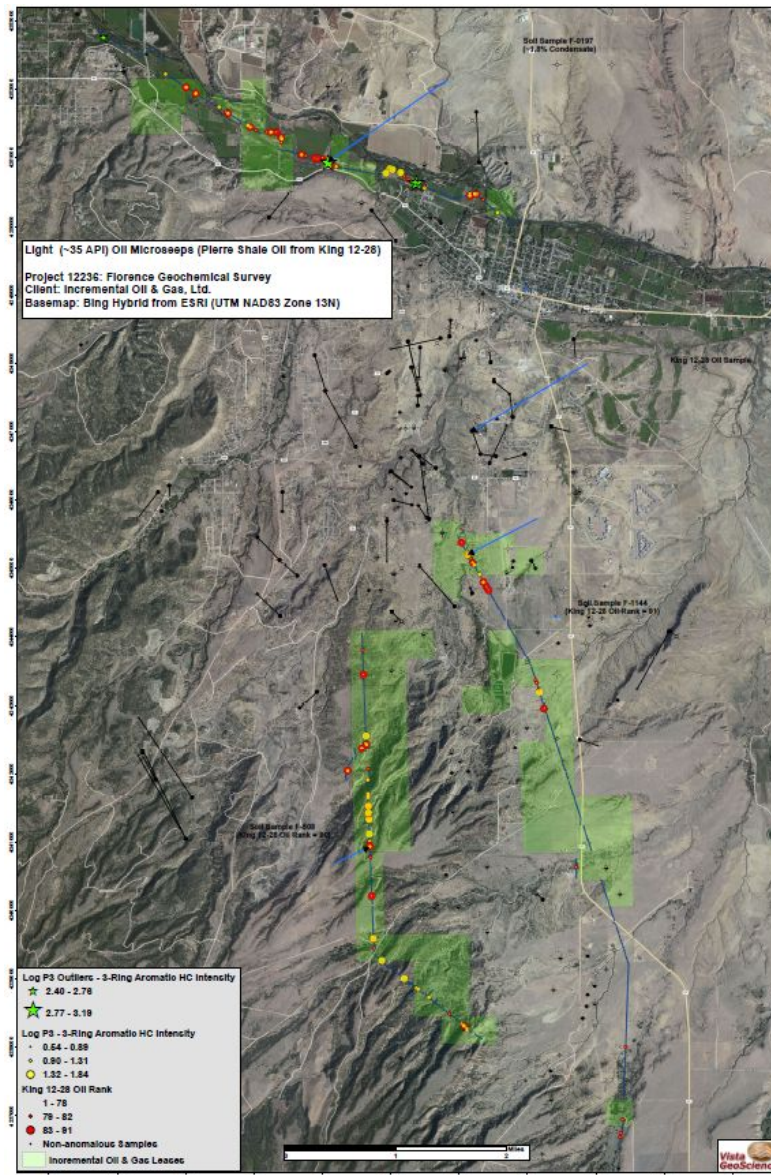


Figure 4. Location of geochemical anomalies

Incremental undertook a pilot surface geochemistry project to see if this relatively inexpensive method of analysis could be relied upon as a secondary indicator of hydrocarbon deposits in the Florence area. The three lines (Figure 4) did not identify subsurface accumulations of hydrocarbons with sufficient precision to be useful in identifying well locations.

### 1.3 OPERATIONS

During the first quarter of 2013, the large pump jacks on four wells in the Florence Oilfield that had declined to low production values were replaced with smaller units (see photo below). By installing smaller pump jacks, the units are better utilizing as so they are now operating continually and premature rod failures is thus minimised. The larger units that have been removed will be used on new wells where high production rates are common in the first six months of production.



### 1.4 ENVIRONMENTAL/REGULATORY

Regulatory authorities in Colorado announced a raft of new regulations for oilfield operators.

Detailed environmental studies were undertaken to establish base level water quality in water wells adjacent to future drilling locations.

## 2. CALIFORNIA PRODUCING OILFIELDS:

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No further drilling or other development work was undertaken at the Sheep Springs and Round Mountain Oilfields (both 100% working interest). Work continued to address the cost of water disposal from Round Mountain and subject to finalisation of negotiation with the land-owner, reinjection of excess water should commence through an existing well that has become uneconomic as a producer.

### 3. PRODUCTION

#### 3.1 FLORENCE, Colorado

The average Field production for the quarter was 224 bopd. The Field continues to decline as expected. From 1 May 2012 until the end of the first quarter of this year, the Florence Oilfield has produced 125,000 barrels of oil and generated US\$12.35M of gross revenue for the Company.

#### 3.2 ROUND MOUNTAIN, California

The Round Mountain Field produced an average of 78 bopd over the quarter. This was 18% less than the preceding quarter, as the most recently drilled Smoot 8 declined.

#### 3.3 SHEEP SPRINGS, California

All of the wells in Sheep Springs continue to produce as expected, at an average of 113 boepd. This represents an increase in production of 10% on the previous quarter. The increase is mainly due to judicious day to day management of this profitable oilfield.

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

	Q1 2013	Q4 2012	Q1 2012
Production (Av barrels oil per day)	404	516	213
Gas production (Av 000's cubic ft/day)	67	74	72
Average daily production (barrels oil equivalent)	415	528	225
Average price of oil sold (US\$/barrel)	\$97.40	\$89.70	\$111.70
Average price of gas sold (US\$/mcf)	\$2.2	\$1.8	\$1.43
Quarterly revenue US\$K,	\$3,285	\$4,514	\$2,108

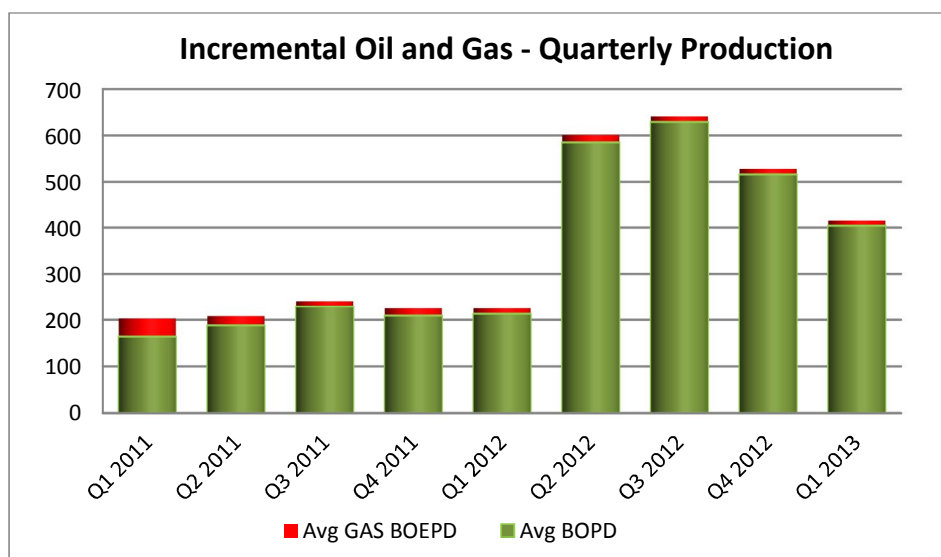


Figure 5. Average daily production by quarter

Oil production in the first quarter of 2013 was 89% higher than the corresponding quarter in 2012 and 22% below the preceding quarter. The decrease from the previous quarter is due to the natural decline of the all producing oilfields but primarily the Florence Oilfield.

## **4. OTHER PROJECTS**

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### **4.1 McDONALD ANTICLINE, CALIFORNIA (75-100% WI)**

An additional 739 acres was added throughout the quarter to Incremental's leasehold position in the prospective McDonald Anticline area. This Field has produced more than 22 million barrels of oil throughout its lifetime and substantial hydrocarbons remain in the undrained flanks of the structure where the new Incremental leases are located.

### **4.2 RAVEN PASS, CALIFORNIA (100% WI)**

Incremental continues to market the Raven Pass Project in California, with a number of potential parties have expressed interest in participating in drilling a 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.

### **4.3 WEST MOUNTAIN, CALIFORNIA (25% WI)**

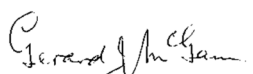
Logs were run in the C & H 18 well, indicating substantial oil pay over a wide interval. The well was placed on production on 26<sup>th</sup> February. Production from 86' of perforations between 4247 ft and 5347 ft had an initial production of 20 bopd. Additional perforations totaling 396 ft were added, with production increasing slightly. Although shows and logs suggest a thick oil pay interval, the reservoir pressure was significantly reduced by previous nearby wells. Even with the possibility of increased production with stimulation of the wellbore, this project was thought to be immaterial to Incremental and our remaining 25% interest was sold to the operator for \$125,000 plus the forgiveness of remaining well completion costs of \$170,000.

## **5. PERSONNEL**

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Incremental recruited a new Vice President (Operations) during the quarter. John Whisler brings a wealth of knowledge and experience to the US management team and with the focus of the company moving to Colorado, an increase in management capacity was required.

With the Company's focus moving to Colorado, the contract with the Company's California based VP, Jim Hussey, concluded in March. Mr Hussey was integral in establishing the Company's operations in California and his contribution to the business since incorporation were much appreciated.

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