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QUARTERLY ACTIVITIES REPORT **For the quarter ended 30 June 2012**

HIGHLIGHTS

- Florence Oilfield acquisition in Colorado was finalised
- Production up 267% on the previous quarter
- Successful equity raising of \$4.6m for working capital/Florence acquisition
- California Oilfields continue to produce satisfactorily

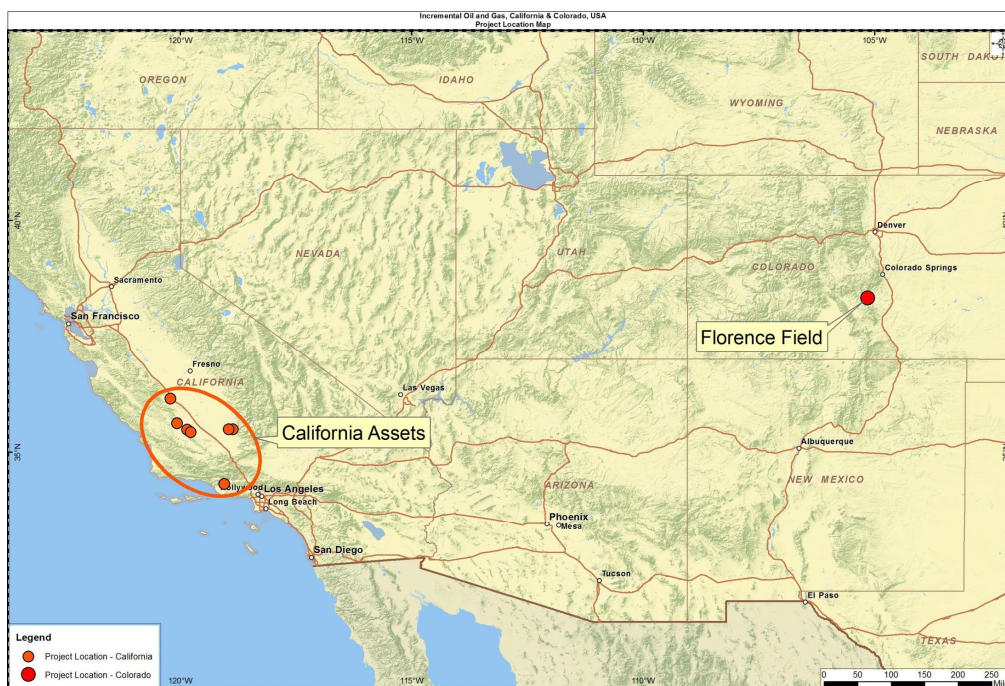


Figure 1. Incremental's project locations

ACQUISITION of FLORENCE OILFIELD

The Florence Oilfield, located at the southern end of the Denver Julesburg Basin, was discovered in 1876 and has produced over 15 million barrels of oil over its lifetime. The field produces from the fractured Pierre Formation from between 1880' and 3600'. Florence has gone through two major phases of development, the first in the late 1800's and the most recent in the last four years. Recent wells have an average initial production of about 225 barrels of oil per day ("bopd") with no water. The average field production over the 12 months to March 2012 was 707 bopd from 21 wells.

Twenty seven additional drillable Pierre prospects have been identified on 3D seismic. The seismic covers most of the 22,672 gross acres leased. There is also significant untapped potential in regionally productive reservoirs below the Pierre Formation (Figure 2), including the Niobrara Formation which is actively being pursued by a number of nearby operators.

The Niobrara Formation is an inter-bedded sequence of source rocks and limestones. It has produced for many decades from vertical wells at modest rates in some oilfields north of Florence. In the last three years, the application of horizontal drilling and multi-stage fracture stimulation have resulted in a number of wells producing in excess of 1000 bopd, with a prognosed ultimate recovery per well in excess of 300 thousand barrels. Fracted horizontal wells have not yet been drilled at Florence, but the geology appears very similar to areas that have been drilled successfully.

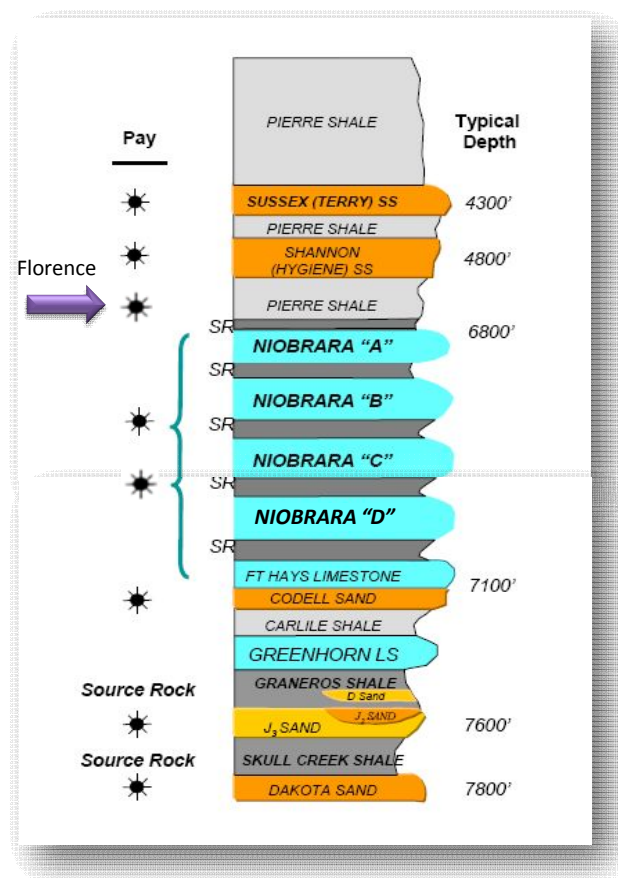


Figure 2. Stratigraphic column, Florence Oilfield.

The agreed purchase price for the Florence oilfield was US\$12.25m with net revenue from 1 May to Incremental's account. Gross revenue from Florence in this two month period was \$2.65m, illustrating the substantial cash generative capacity of this project. The transaction was largely funded by an US\$8m debt facility from RMB bank (only US\$6m drawn down to date) plus cash reserves. A \$4.6m capital raising was also undertaken during the quarter, with 20 million new IOG shares issued at 23 cents. These funds will mainly be allocated to drilling new wells at Florence and our California projects.

The Florence acquisition is a significant step in Incremental's growth, substantially increasing the company's production and cash flow. Incremental's technical team has extensive experience in optimizing fractured reservoirs and are actively building on the excellent knowledge base of the company that has sold the asset.

Incremental's first wells at Florence are anticipated to be drilled in the third quarter.

DRILLING

No new wells were drilled by Incremental in the Quarter. A new well is planned in Round Mountain in the coming weeks.

WORKOVERS

No workovers were undertaken on any wells in the company's oilfields in the quarter.

PRODUCTION

ROUND MOUNTAIN, California

The five producing wells at Round Mountain continue to produce satisfactorily, with average daily production of 85 bopd.

SHEEP SPRINGS, California

All of the wells in Sheep Springs continue to produce as expected at an average of 116 bopd and 132 boepd.

FLORENCE, Colorado

The average Field production for the months of May and June was 573 bopd.

Details of production for the quarter and reference quarters are:

	Q2 2012	Q1 2012	Q2 2011
Production (Av barrels oil per day)	585	213	188
Gas production (Av 000's cubic ft/day)	953	72	117
Average daily production (barrels oil equivalent)	601	225	208
Average price of oil sold (US\$/barrel)	103.3	111.7	109.6
Average price of gas sold (US\$/mcf)	1.55	1.43	2.45
Quarterly revenue (US\$), NOTE - Sheep Springs and Round Mountain only	\$1,937,200	\$2,108,645	\$1,828,190

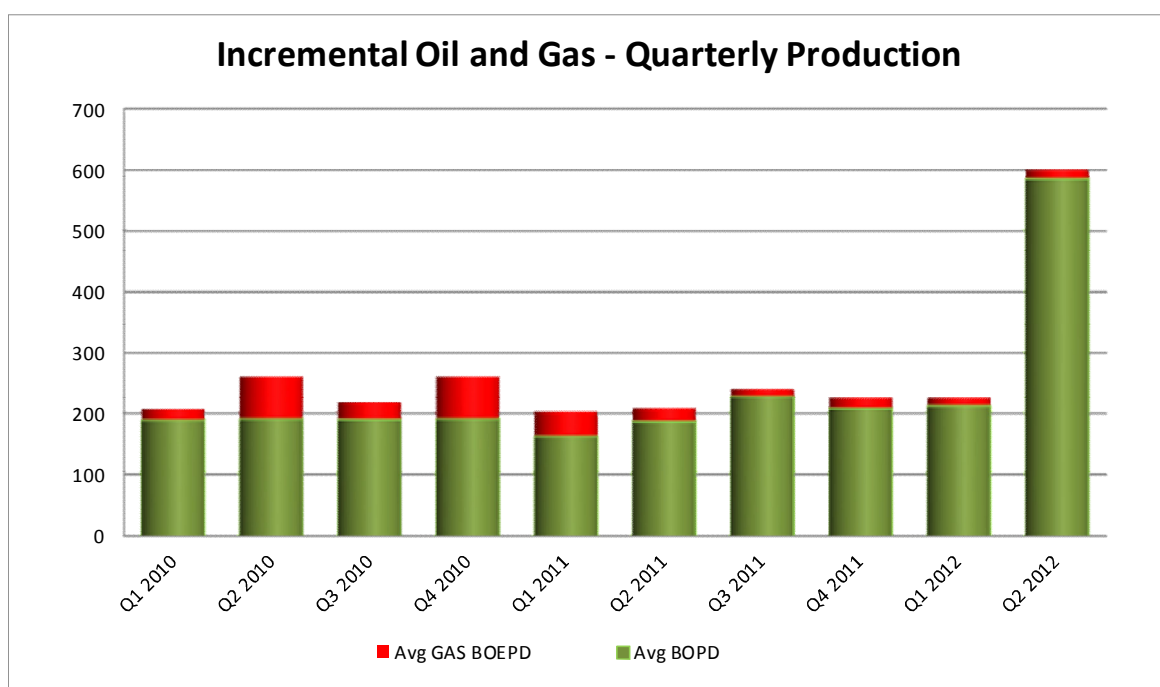


Figure 3. Average daily production by quarter.

The second quarter of 2012 saw oil production 289% higher than the corresponding quarter last year and 267% above the preceeding quarter. The increase is due to the contribution for the period from May 1 to June 30 from the Florence Oilfield. The production at Florence and net revenue from this field for this period was attributable to Incremental and the net revenue was deducted from the purchase price of the Florence asset.

Revenue from Sheep Springs and Round Mountain was down 8% on the previous quarter, due to lower oil prices. Gas prices recovered slightly in the quarter.

The average realized oil prices in the table above is only for the Sheep Springs and Round Mountain production and is only \$8 below the previous quarter. Average prices decreased from \$116/bbl in April to \$92/bbl in June in line with deteriorating international oil prices.

There is a large discrepancy between oil prices in California, which closely tracks the international Brent pricing and in Florence where the crude price is linked to West Texas Intermediate (WTI). The graph below shows that there is presently about a \$14 differential between the two benchmark prices. This is mainly due to surplus supply of crude and the limited storage capability at the central refinery at Cushing Oklahoma, where WTI is priced.

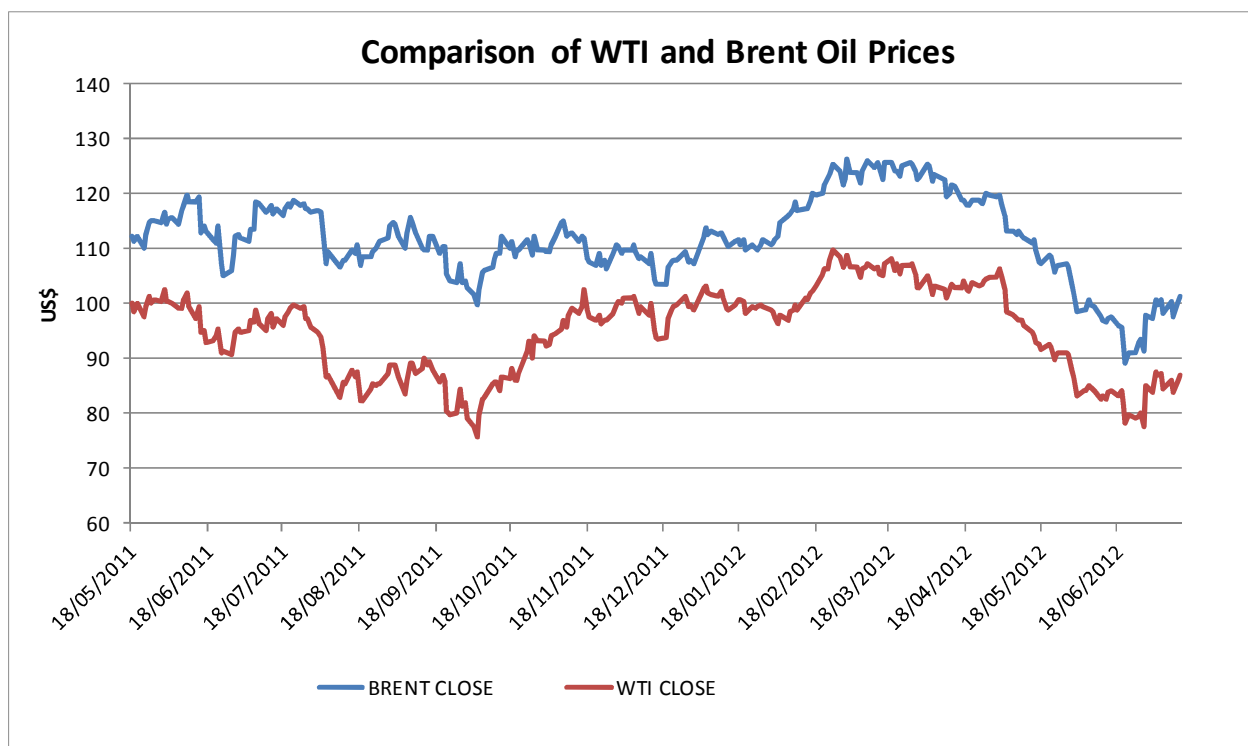


Figure 4. Comparison of Brent and WTI prices

OTHER PROJECTS

The previously reported projects at Ventura and McDonald Anticline are expected to both be drilled in the coming months.

Gerry McGann
Managing Director