

18 July 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 June 2014

HIGHLIGHTS

- Term loan (US\$3M) repays existing debt and additional line of credit (US\$5M) made available from ANB Bank
- John Whisler appointment as Director and promoted to President of US Operations
- Drilling approval in place for new well in Round Mountain Oilfield
- US\$251,000 positive net operating cash flow for the quarter



Figure 1. Incremental's project locations

1 CALIFORNIA PROPERTIES (100% working Interest)

NEW DRILLING and WORKOVERS

Drilling approval is in place for a new vertical Walker Formation (the deepest reservoir) well in the Round Mountain Oilfield. This well is planned as an up-dip well to Smoot #1, which has a projected ultimate recovery of over 60,000 barrels of oil. The priority and timing of drilling this well will be ranked against other well opportunities and acquisitions in this half.

Some remedial work is to be undertaken in Q3-14 at the Round Mountain Fields to further abate water inflow which has recently increased.

The installation of the new pumping unit on well C-5 in Sheep Springs during Q2-14 has been successful with production having been restored to close to its previous levels. Further workovers and remedial actions are planned for this field in coming months.

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

Pump replacements were undertaken on three wells in the Florence Oilfield. The new heater treater unit was delivered to site and was used effectively during the quarter to assist with water separation during the colder months.

Austin Exploration Ltd (ASX: AKK), the operator of adjacent leases to Incremental's Florence Field, reported in June that it had discovered oil at its C-18#1 well and that they had intersected a large, naturally fractured oil reservoir. The results of this well are being monitored by Incremental to ascertain if there are any offset drilling opportunities within the IOG leases.

3 PRODUCTION

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

	Q2 2014	Q1 2014	Q2 2013
Oil Production (Av barrels per day)	209	223	315
Gas production that is sold (Av 000's cubic ft/day)	63	47	69
Average daily production (barrels of oil equivalent - BOE)	219	231	327

Production and sales were lower than the previous quarter due to natural decline. Figure 3 shows the contribution to production volume from each field since Q3-13.

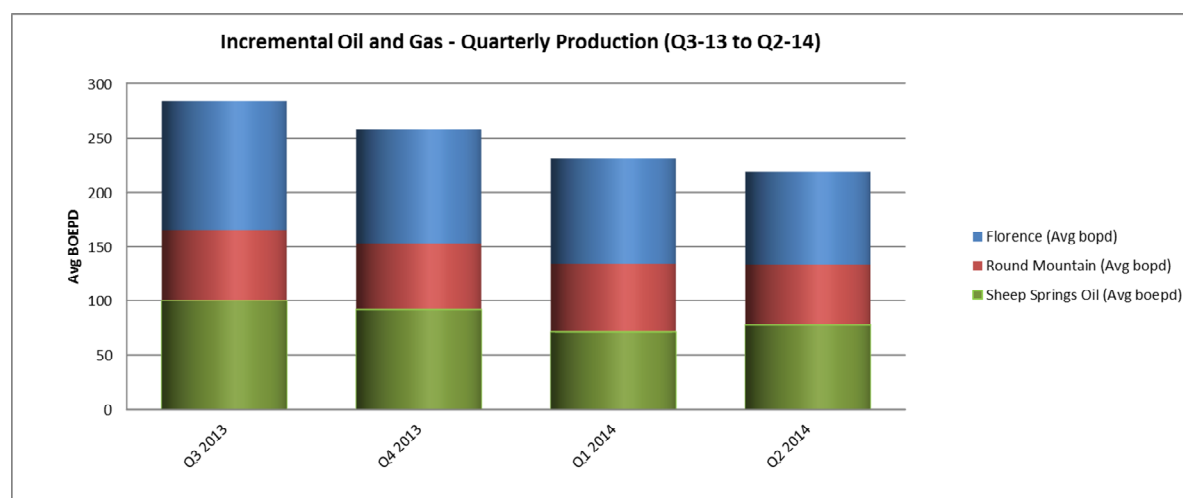


Figure 2: Average daily production by quarter

4 FINANCIAL RESULTS AND CASH FLOW

Cash on hand at the end of Q2-14 was US\$1.183M (Mar-14 – US\$0.884M). Cash movement for the quarter (including comparison of previous quarter and prior year) is summarised as follows:

	Q2-14 US\$ '000	Q1-14 US\$ '000	2013 US\$ '000
Net proceeds from sales (after royalty interest payments)	\$1,511	\$1,755	\$9,521
Payments for production & administration	(\$1,260)	(\$1,072)	(\$4,877)
Leases & capital expenditure	(\$39)	(\$43)	(\$4,890)
Proceeds from issue of shares	-	-	\$112
Proceeds from ANB Bank	\$3,000	-	-
Payments to ANB & RMB – principal and interest	(\$2,913)	(\$297)	(\$3,295)
Net cash increase/(decrease) for the period	\$299	\$343	(\$3,429)
Opening cash balance	\$884	\$541	\$3,970
Closing cash balance	\$1,183	\$884	\$541

Gross sales for the June 2014 quarter were \$1.924 million (2014 YTD - \$3.862 million). There have been no significant development costs during the quarter and operating costs have remained within budget and in line with prior periods.

5 CORPORATE UPDATE

In May, Incremental completed the refinancing of its debt facilities with a US financial institution, ANB Bank. ANB Bank is a large, independently owned US bank with over 30 banking centres in Colorado, Wyoming and Kansas. Its parent company, Sturm Financial Group, Inc. is headquartered in Denver, Colorado and has over \$2 billion in assets. ANB Bank provides banking and loan facilities for a number of emerging energy sector companies in the USA.

A term loan of US\$3M was used to repay the remaining debt that had been provided by RMB Resources. This facility is repayable to ANB Bank over a term of four (4) years and interest is charged at a variable competitive rate. In addition to the term loan, ANB has provided a line of credit (LOC) of up to US\$5M which may be used for project development and acquisition. This is a reserve based loan facility and so the amount of the LOC will vary depending on the value of reserves at each review period. The approval and implementation of this facility is an endorsement of the quality of the Company's underlying production assets and shows a level of confidence by the bank in Incremental's ability to deliver growth.

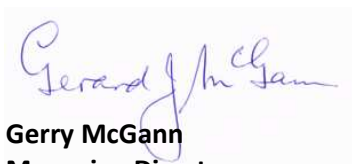
During the second quarter, management continued to review a number of project acquisition opportunities. Over the last twelve months, the Company has undertaken significant due diligence on 13 projects in the Rockies and Mid-Continent regions of the US (See Figure 3). A number of these projects have passed the Company's selection criteria and are in negotiation. With the new facility from ANB, Incremental is now in a position to negotiate more aggressively on projects knowing that it has the financial capacity to close the transaction quickly.



Figure 3 – Existing projects and areas of interest for new projects

In June, John Whisler was promoted to the position of President of Incremental Oil and Gas USA Holdings Inc after having been in the role as VP USA for 16 months. He also accepted an invitation to join the Board as an executive director of Incremental Oil and Gas Ltd. John has more than 25 years of experience in the oil and gas industry across a range of management roles. He has a strong track record of growing value in exploration and production companies. John's diverse and extensive background has included operations, business development, acquisitions and divestures, corporate & project management, finance & economics, field operations, production with extensive experience in drilling and completions.

During the quarter, the Board and senior management met in Denver. A clear strategic direction has been laid out for management to deliver sustainable growth for the company in the medium term with a comprehensive 5 year plan. The fundamental objective of the forward growth strategy is to increase production, largely via acquisition, with a focus on increasing positive cash flow.



Gerry McGann
Managing Director