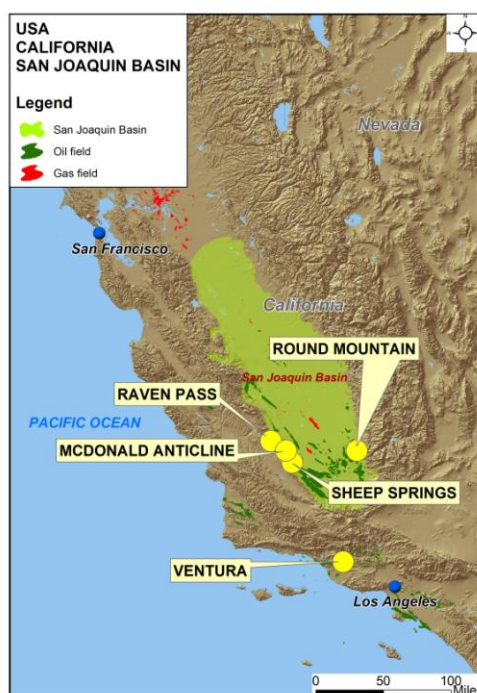


30 January 2012  
Australian Securities Exchange  
By ASX online

## QUARTERLY ACTIVITIES REPORT For the quarter ended 31 December 2011

### HIGHLIGHTS

- Revenue up 42% year on year
- New Ventura oilfield acquired
- Two new Round Mountain wells successfully drilled and fraced
- McDonald Anticline project expands
- Round Mountain water disposal licence granted
- Total California leaseholdings now 3848 acres



Incremental Oil and Gas project locations

## **DRILLING**

### **ROUND MOUNTAIN**

Two new vertical wells were drilled and fracture stimulated in Incremental's Round Mountain project in the Quarter. Geological and engineering studies now suggest that stimulated vertical wells will more effectively drain the oil reserves of the field than horizontal wells.

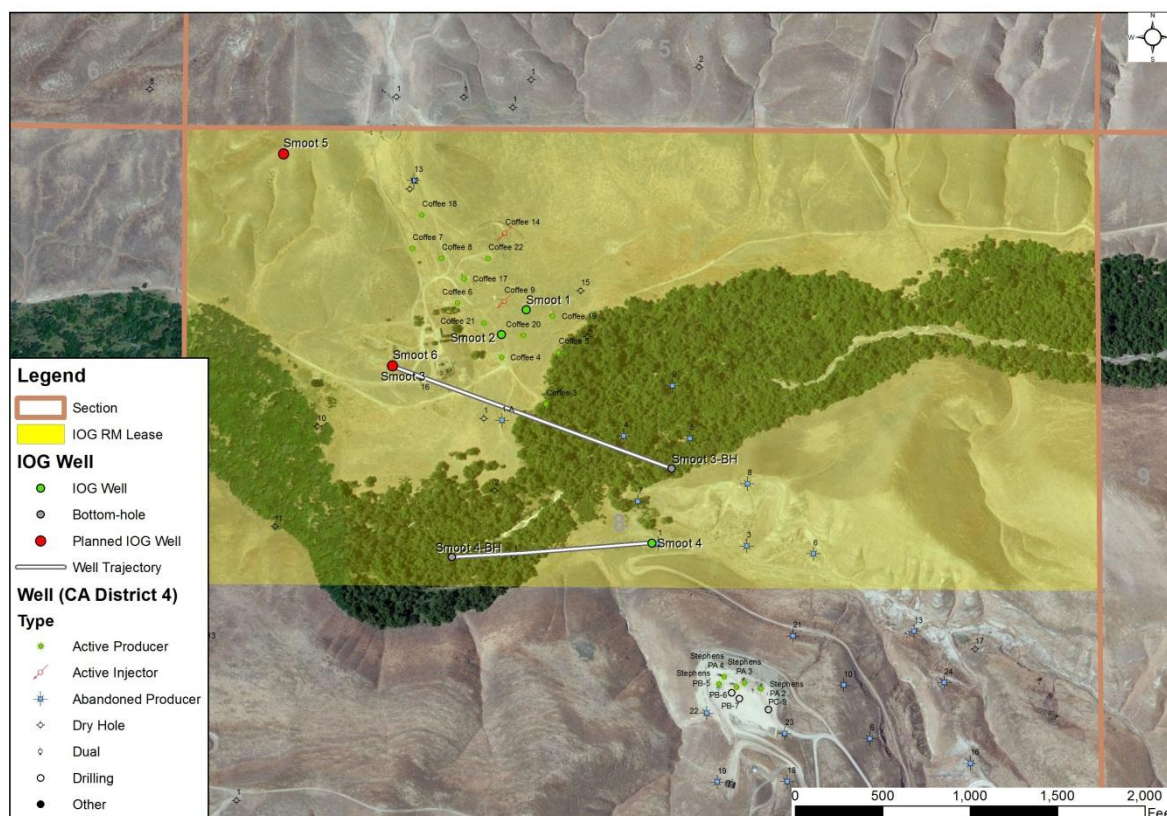
**Smoot 5** was planned as an aggressive stepout to determine the lateral extent of the productive oil zones in Round Mountain. It is 1600' Northwest of Smoot 1 and was spudded on 19<sup>th</sup> November. It was drilled without incident to the planned total depth of 2300' which was reached on 22<sup>nd</sup>. Good to excellent mudlog shows were observed between 1360' and 1545'. 7" casing was run to 1810' and a slotted 5 ½" liner from 1810' to total depth.

**Smoot 6** was drilled as a vertical well from the same surface location as the horizontal well Smoot 3. It was spudded on 27<sup>th</sup> November and was drilled to 2000' without incident. Good to excellent mudlog shows with visible oil on the mud and strong petroleum odour and elevated gas readings were encountered in the objective sections between 1210' and 1495'. The interval 1498' to 1542' was perforated and this interval has been fracture stimulated. At the time of writing, the well is being brought onto production.

Wireline log responses of Smoot 5 and 6 are virtually identical. Log analysis suggests as much as 200' of net oil pay in the combined Jewett and Pyramid Hill Formations in each well with an average porosity of 36%. The calculated net pay needs to be calibrated and confirmed by long term production. As both Smoot 5 and 6 appear similar, it was decided to stimulate only Smoot 6 at this time.

At present the produced water from Incremental's Round Mountain project is disposed of with a third party. This adds considerable expense to the operation. On 24<sup>th</sup> January, Incremental gained approval to dispose of produced water into Incremental's own well. Produced water from the Round Mountain wells will now be disposed of in a water bearing interval in Smoot 5, immediately saving Incremental as much as \$50,000 per month. A replacement production well at the Smoot 5 location will be drilled in the coming months.

Smoot 5 and 6 add significant productive area and potential reserves to the Jewett and Pyramid Hill intervals in the field. Reserve estimates will be calculated once sustained production is observed from Smoot 6.



## **WORKOVERS**

In Smoot 4, the Jewett section which had produced oil at low rates was fracture stimulated on January 20<sup>th</sup>. This fracking of the section is expected to increase production from the well, with Jewett oil to be produced co-mingled with the underlying Pyramid Hill oil.

## **PRODUCTION**

### **ROUND MOUNTAIN**

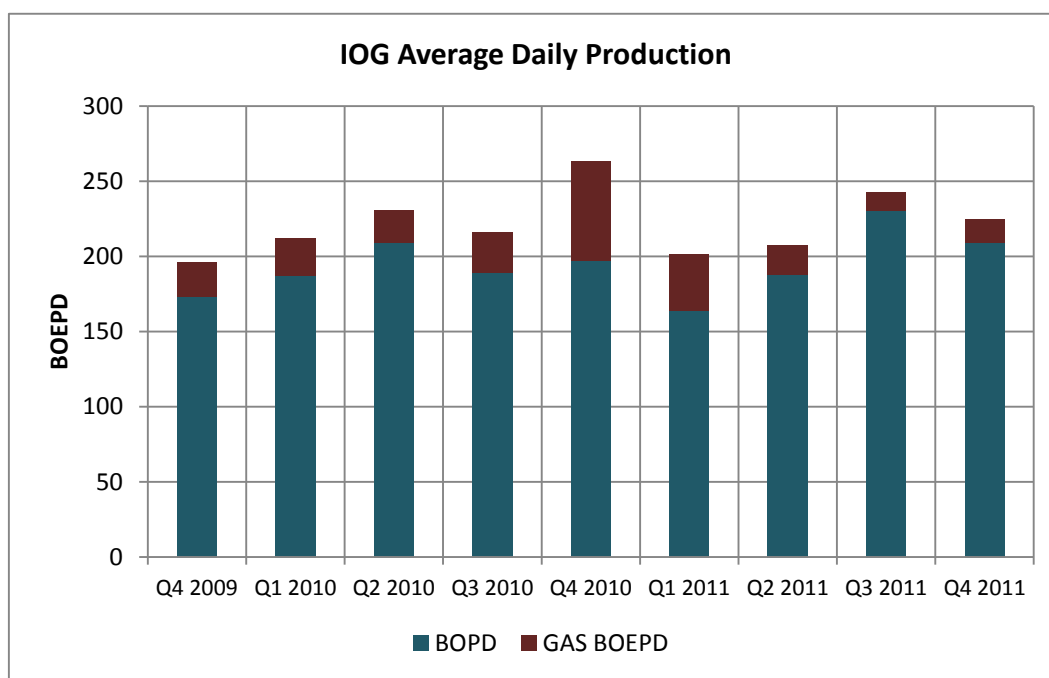
The four producing wells at Round Mountain continue to produce at satisfactory levels. The facilities have been upgraded throughout the quarter with an improved power distribution system and additional production and testing tankage.

### **SHEEP SPRINGS**

Sheep Springs continues to produce normally. Although the field is on long term decline from the main Carneros reservoir, the shallower section contains about 1.41 million barrels of booked reserves. This oil is heavier than the Carneros oil and Incremental continues to explore ways to exploit this resource in the medium to longer term.

Details of production for the quarter and reference quarters are:

	Q4 2011	Q3 2011	Q4 2010
Production (Av barrels oil per day)	209	229	192
Gas production (Av 000's cubic ft/day)	95	72	415
Average daily production (barrels oil equivalent)	225	241	261
Average price of oil sold (US\$/barrel)	110.71	104.40	83.7
Average price of gas sold (US\$/mcf)	2.05	2.62	3.21
Quarterly revenue (US\$)	2,028,078	2,279,529	1,424,996



Average daily production graph by quarter

The 2011 fourth quarter oil production was 9% higher than the corresponding quarter last year and 10% below the preceeding quarter. This decrease from Q3 2011 is mainly due to the natural decline from the Sheep Springs field and the delay caused by contractor constraints in bringing the new Round Mountain wells onto production. Revenues were 42% higher than the corresponding quarter last year. Realized oil prices increased slightly in the present quarter to an average of US\$110.71.

## **OTHER PROJECTS**

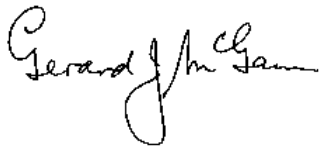
### **VENTURA BASIN PROJECT**

In November, Incremental signed an agreement to acquire a 100% working interest in 300 acres within the prolific Oak Ridge Anticline, a large regional anticlinal structure near the city of Ventura on the California coast. The lease is adjacent to the South Mountain field which has produced over 158 million barrels of oil. Peak oil production from the Incremental lease was about 1000 bopd in 1948 with a cumulative production of about 4 million barrels. There has been no drilling in Incremental's acreage since 1948.

There are multiple stacked reservoirs between about 3200' to below 8000' within the area and oil production is typically accompanied by minimal water. Oil is light to moderate gravity. Incremental believes that the field was inadequately drained by the early operators and that there is substantial scope to drill infill wells. The first well is planned for mid-year when the drier conditions make access to the hilly drilling locations easier.

**McDONALD ANTICLINE**

Incremental continues to acquire significant mineral leases in the McDonald Anticline Field on the western margin of the San Joaquin Basin. This field has produced more than 22 million barrels of light oil from shallow, stacked sandstone reservoirs. A number of potential targets have already been identified for drilling in 2012.

A handwritten signature in black ink, appearing to read "Gerry McGann". The signature is fluid and cursive, with the first name "Gerry" and last name "McGann" clearly distinguishable.

Gerry McGann, Managing Director