

31 January 2011

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

By: e-lodgement (ASX code: IOG)

Dear Sir/Madam

APPROVAL TO SPUD H & P #2 GRANTED

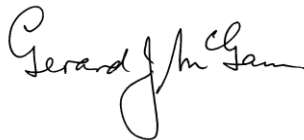
The Division of Oil, Gas and Geothermal Resources (DOGGR) in California has granted approval to Incremental Oil and Gas to drill a new well on its Sheep Springs Leases.

The H & P #2 well is programmed to drill to a total depth of 4850' (1478 m). The main target is the Oceanic reservoir prognosed at 4580' (1396 m). The Oceanic has produced up to 94,000 barrels of light (42° API) oil in a nearby well but has never been systematically produced in the Incremental Sheep Springs leases. The Oceanic reservoir is anticipated to be about 50' (15m) thick, with an average porosity of about 18%. RPS Energy (September 2010) assign undeveloped reserves of 130,000 barrels to the Oceanic reservoir in Sheep Springs.

The well is expected to take 8-10 days to drill and should spud during the coming week. The anticipated cost of the well is US\$735,000.

There are a number of secondary targets above the Oceanic reservoir that the company intends to investigate to assess their commercial viability.

Yours sincerely



Gerry McGann
Managing Director

ABOUT INCREMENTAL OIL and GAS

Incremental Oil and Gas Ltd (IOG) is a producing oil and gas company. Our strategy is to identify and acquire underperforming oil fields and to increase production and recoveries. IOG's primary focus is production rather than high risk exploration, with a strong emphasis on positive cashflow.

The Board and Executive of IOG have a proven track record. They are the same team that acquired and substantially increased oil production in the Selmo oilfield in Turkey through the formerly ASX-listed Incremental Petroleum. This company was subsequently sold in March 2009 to TransAtlantic Petroleum in an \$86.5 million transaction.

IOG was launched in mid-2009 and has been profitable over its first year of operations.

IOG's focus is onshore California. The company has four current projects which are detailed on the website (incrementaloiilandgas.com). These projects range from the producing Sheep Springs Oilfield to low risk development projects at Round Mountain and Gujarral Hills and an exploration project at Raven Pass. IOG's strategy is to develop these and other new and yet to be secured projects into a substantial production base.



Incremental Oil and Gas project locations