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29th October 2012

Australian Stock Exchange
By: e-lodgement (**ASX code – IOG**)

QUARTERLY ACTIVITIES REPORT
For the quarter ended 30 September 2012

HIGHLIGHTS

- Quarterly revenue exceeds $5 million for the first time
- Revenue up 222% on same quarter last year
- Florence Oilfield revenue brought to account for the first time
- Production up 7% on previous quarter and 275% up on same quarter last year
- Successful well drilled in Round Mountain Field
- New staff hired in USA

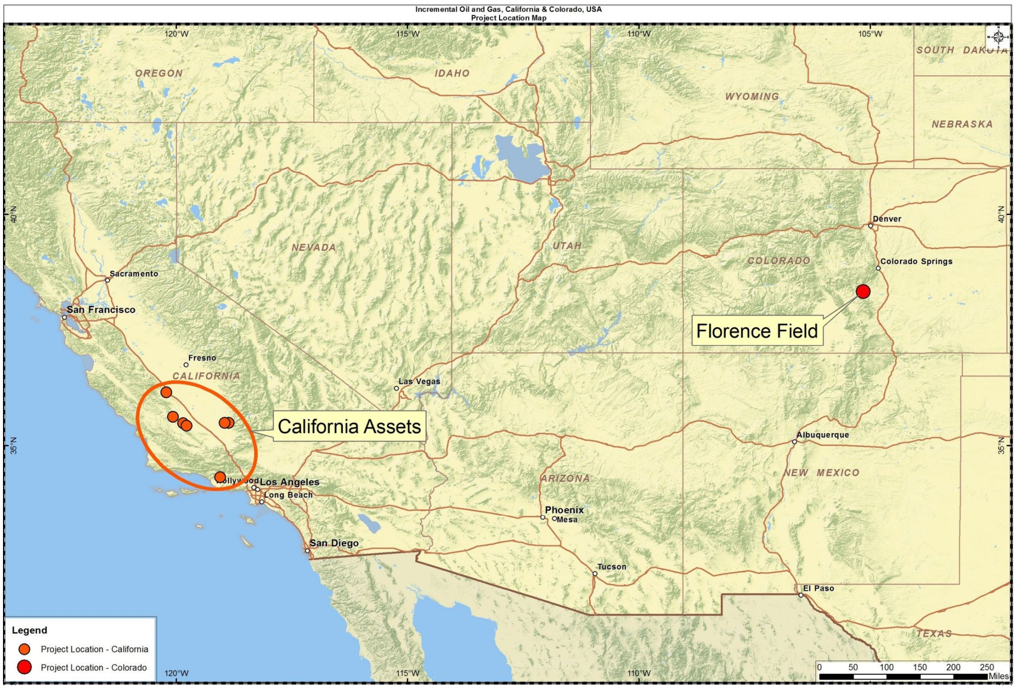

Figure 1. Project locations

DRILLING

ROUND MOUNTAIN: Smoot 7 was drilled in Incremental's 100% owned Round Mountain Field in the quarter. It was spudded on 11th August and took less than three days to drill and complete. At least 102 ft of net oil pay was intersected over three formations. The well began production from the interval 1415 ft to 1465 ft at 89 bopd with 80-90 bwpd. The total cost for the drilled and completed well was $364k, more than $100k below budget. Smoot 7 has produced more than 3000 barrels of oil in just seven weeks, a gross revenue to date of some $310k. The well continues to produce at about 50 bopd.

FLORENCE: Two new drilling locations, the Patti Sidetrack and Aurora have been permitted for drilling in the Florence Oilfield in November. These wells are designed to capture the drilling and operational knowledge acquired by the previous operator of the asset. A larger drilling programme is planned for Florence in early 2013.

Austin Exploration has drilled two wells adjacent to IOG's Florence operations, just 300m to the west of IOG's leases. On October 15th they reported that the vertical pilot hole had intersected 95 ft of net pay in the Niobrara Formation, which underlies the present main zone of interest for Incremental. Austin report an average porosity on 9.8% in the Niobrara and are planning a 16 stage frac job on the second, horizontal well drilled from the same surface location. Any success in this horizontal well will substantially upgrade the deeper prospectivity of the Incremental leases at Florence.

PRODUCTION

FLORENCE, Colorado

The average Field production for the quarter was 438 bopd. In the absence of new wells in the quarter, the Field continues to decline as expected, but the rate of decline is much lower than predicted, with the Field about 150 bopd above forecast production rates. The Field has generated gross revenue in excess of $5.9m since May.

ROUND MOUNTAIN, California

With the additional production from Smoot 7 for part of the quarter, production from Round Mountain averaged 91 bopd, an increase of 7% on the previous quarter.

SHEEP SPRINGS, California

All of the wells in Sheep Springs continue to produce as expected at an average of 101 bopd and 113 boepd.

Details of production for the quarter and reference quarters are:

	Q3 2012	Q2 2012	Q3 2011
Production (Av barrels oil per day)	**629**	**585**	**229**
Gas production (Av 000's cubic ft/day)	**72**	**95**	**72**
Average daily production (barrels oil equivalent)	**641**	**601**	**241**
Average price of oil sold (US$/barrel)	**88.9**	**103.3**	**104.4**
Average price of gas sold (US$/mcf)	**1.84**	**1.55**	**2.62**
Quarterly revenue (US$),	**$5,051,555**	**$1,937,200**	**$2,279,529**

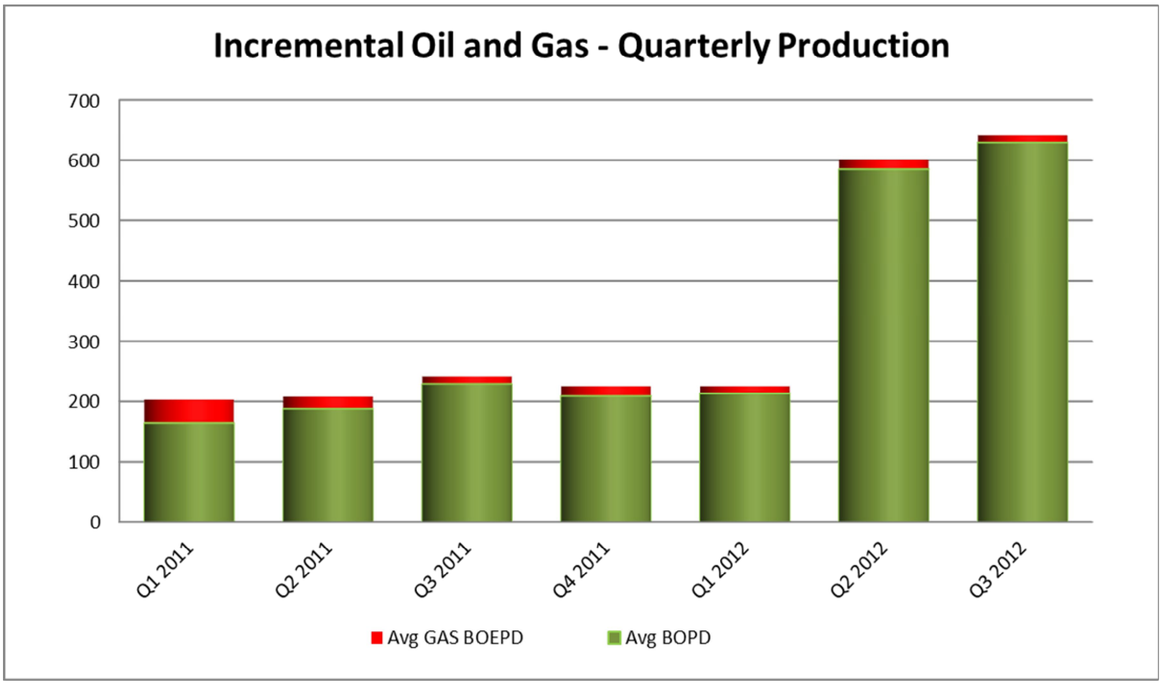

Figure 2. Average daily production by quarter

Oil production in the third quarter of 2012 was 275% higher than the corresponding quarter in 2011 and 7% above the preceeding quarter. The increase is due to the contribution from the Florence Oilfield. Production from Florence has been to the credit of Incremental since May 2012 but the revenue for Q2 2012 from this field was only brought to account in July 2012, after settlement of the acquisition.

The previously 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) has increased over the quarter, as shown in the graph below. There is presently about a $20 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.

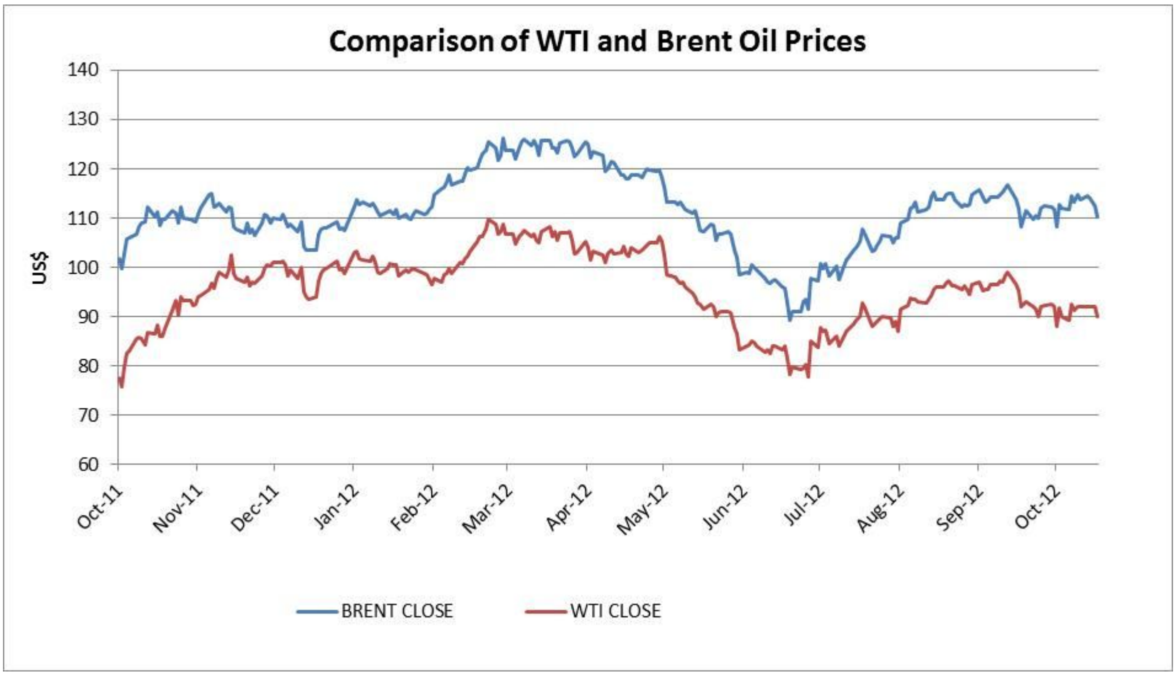

Figure 3. Comparison of Brent and WTI prices

OTHER PROJECTS

At the **West Mountain** project in Ventura, California, Incremental has decreased its working interest from 75% to 25%. The farmin party paid Incremental the bulk of past costs and will now operate the project. The farmdown of this project in no way diminishes Incremental's enthusiasm for West Mountain, but allows the company to better balance its risk profile. The first well to be drilled on the West Mountain project is expected to spud early in the fourth quarter.

Incremental has increased its acreage in the **McDonald Anticline** project in the western San Joaquin Basin over the last Quarter, and plans to drill a well in this area as soon as it can be permitted. The area is attractive as it has multiple shallow objective reservoirs, has light oil and has been lightly developed in the past.

In the **Round Mountain** Oilfield, the rented production tanks are being demobilized and replace with permanent facilities. This will significantly reduce the operating costs of this already very profitable oilfield. Additional pipe infrastructure to move oil to storage has been developed to reduce trucking costs at this site.

PERSONNEL

The death in late June, through a hiking accident in California, of Ertug Ergun, Petroleum Engineer was tragic and our condolences go to his family and friends. It placed a significant strain and workload on all company personnel and I would like to take this opportunity to thank them all for their support of the company during this difficult period. Two new professionals have been hired in the USA in the last month to provide Incremental with more labour flexibility.

Gerry McGann
Managing Director