

29th April 2014

The Manager Companies
Company Announcements
Australian Securities Exchange
2 The Esplanade
PERTH WA 6000

QUARTERLY ACTIVITIES REPORT For the quarter ended 31 March 2014

HIGHLIGHTS

- Production average 231 BOEPD for the quarter
- US\$660k of positive net operating cash flow for the quarter
- Repaid \$250,000 of debt reducing loan to \$2.75M
- Appointment of a new director, Mr Matt McCann to the Board



Figure 1. Incremental's project locations

1 CALIFORNIA PROPERTIES (100% working Interest)

NEW DRILLING and WORKOVERS

No new wells were drilled by the Company in the quarter. Work continues on the planning of a new vertical Walker Formation (the deepest reservoir) well in Round Mountain Oilfield. This well is planned as an up-dip well to Smoot #1, which has a projected ultimate recovery of over 60 thousand barrels of oil.

A number of low cost remedial workovers were undertaken in the Round Mountain Field to improve production and profitability and a pump replacement was undertaken at Sheep Springs.

In 2013, an increase in the volume of water produced from the Round Mountain field added to operating costs. A number of solutions were identified but due to the field being under contract for sale, remedial action could not be undertaken. In February 2014, a bridge plug was run in Smoot 8 to reduce the associated water production. This action was successful and resulted in an increase in oil production from 8 to 20 bopd and water decreased from 350 bwpd to zero (Figure 2). In the adjacent Smoot 7, the bridge plug that was set in 2012 had failed, allowing the bottom set of perforations to produce water. A new plug was set and the well returned to production and immediately began to produce about 15 bopd and 70 bwpd (prior to intervention: 8 bopd, 330 bwpd). The large reduction in field water production from the Smoot 7 and 8 workovers (from about 1,050 bwpd to 420 bwpd) has resulted in there being no need to truck water to the disposal facility since mid-March with significant cost savings.

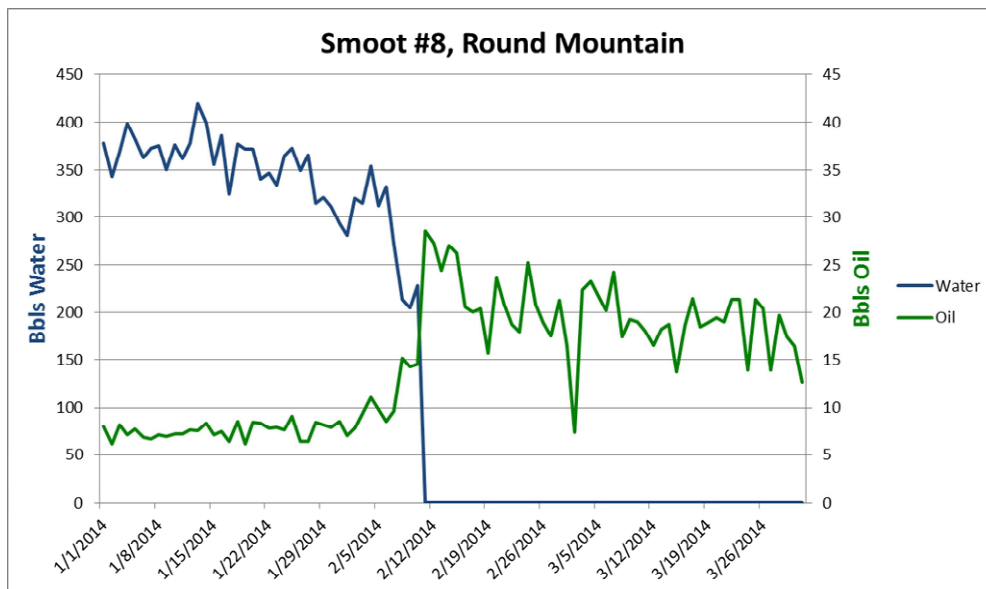


Figure 2. Smoot 8 oil and water production

In Sheep Springs, a bearing seizure in a surface pumping unit on well C-5 (the largest producer in the field, with a cumulative production of over 209 thousand barrels of oil) allowed Incremental the opportunity to install a new larger pumping unit to move more fluid and optimize oil production. Further workovers and remedial actions are planned for this field in coming months.

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

Due to extreme cold temperatures, the Florence Field was shut in during the first week of January and again in the first week of February, with temperatures falling to -24°C overnight and -5°C high for the day. Several frozen flow lines and wellheads resulted in reduced oil production, but no oil was spilled or equipment damaged and the field was quickly returned to production.

Austin Exploration Ltd (ASX: AKK), the operator of adjacent leases to Incremental's Florence Field, announced in March that it had signed a gas processing agreement for the development of infrastructure to enable sale of gas produced from its Pathfinder well (Niobrara). The development of this infrastructure will enhance the future viability of the Company's Florence holdings for potential future investment.

3 PRODUCTION

The average Field production from Florence for the quarter was 97 bopd, being somewhat impacted by severe weather conditions. In California, production from Sheep Springs was lower than expected because of the C-5 well having been shut in to replace a pump.

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

	Q1 2014	Q4 2013	Q1 2013
Oil Production (Av barrels per day)	223	247	401
Gas production that is sold (Av 000's cubic ft/day)	47	47	67
Average daily production (barrels of oil equivalent - BOE)	231	258	412
Average price of oil sold (US\$/barrel)	\$94.47	\$94.93	\$96.63
Average price of gas sold (US\$/mcf)	\$2.20	\$2.17	\$2.09

Production and sales were lower than the previous quarter due to natural decline and the lower production resulting from field shutdowns (weather) and pump replacement (Sheep Springs). It is clear from Figure 3 that production from Incremental's existing fields continues to decline generally as predicted for these producing oilfields.

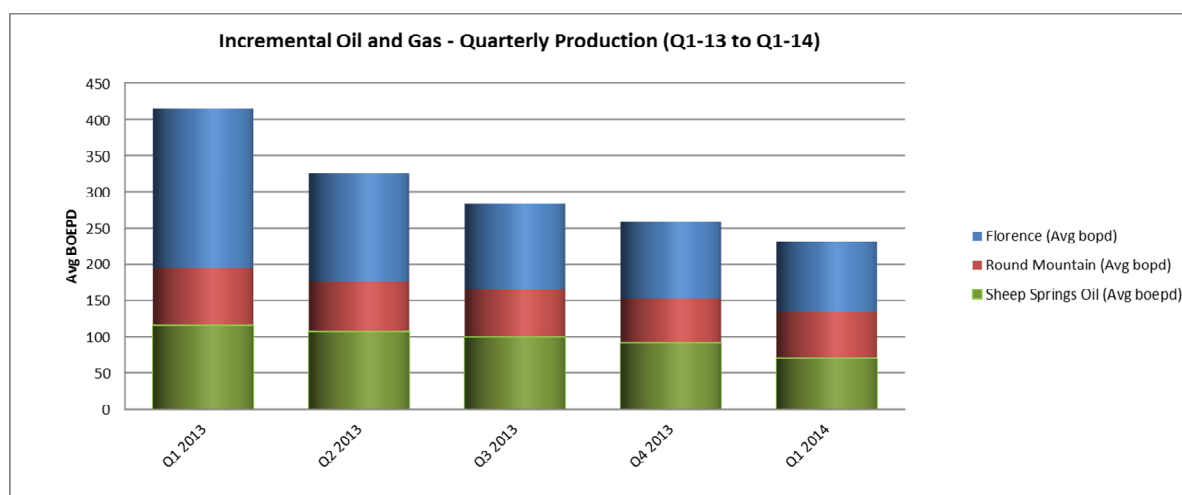


Figure 3: Daily production by quarter

Most of the decline is from the Florence Oilfield, where the rate of decline from the existing wells has decreased significantly since acquisition in 2012 and performance exceeds expectation (Figure 4).

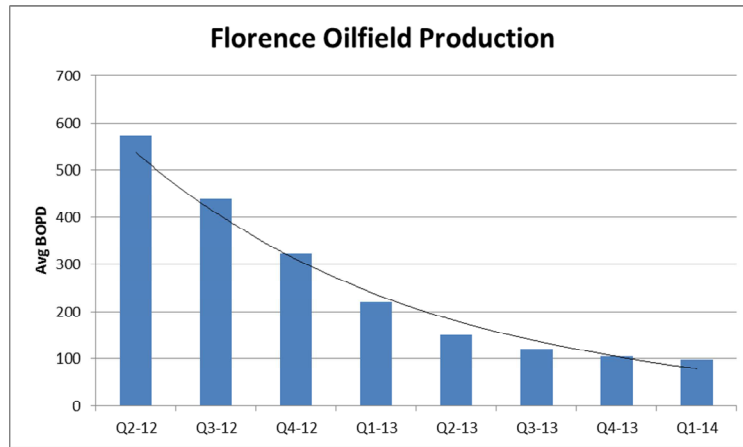


Figure 4. Florence Oilfield production

4 FINANCIAL RESULTS AND CASH FLOW

Gross revenue from oil sales in the first quarter of 2014 was US\$1.744 million (Q4-13: \$2.096 million). There was a further US\$33,500 of income from gas sales and royalties received in the quarter. The average gross oil price received over the quarter declined very slightly from the previous quarter, to US\$94.47 per bbl.

Cash on hand at the end of Q1-14 was US\$884k (Dec-2013 – US\$541k). Cash movement for the quarter is summarised as follows:

	Q1-14 US\$ '000
Net proceeds from sales (after royalty interest payments)	\$1,755
Payments for production & administration	(\$1,115)
Payments to RMB – loan repayment and interest	(\$297)
Net cash increase for the quarter	\$343
Opening cash balance	\$541
Closing cash balance	\$884

5 CORPORATE UPDATE

During the quarter, management undertook evaluation of a number of potential new acquisitions. These projects were located in California and Oklahoma and had existing shallow oil production with potential for increasing production from new low cost wells or behind pipe development opportunities. The evaluated projects did not meet the company's rigorous yardsticks for various reasons, but substantial ongoing effort is being extended in the search for the appropriate new project. The decline in the Company's production noted above highlights the need for such a new acquisition.

Mr Matt McCann was appointed to the board of Incremental Oil and Gas in April. Matt is based in Texas and brings substantial USA oil industry knowledge and experience to Incremental and a background of building significant shareholder returns. The Honourable John Alexander (Sandy) Macdonald who was a founding director of Incremental has retired from the board to pursue his private farming and business interests.

Gerry McGann
Managing Director