

8 January 2014

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

By: e-lodgement (ASX code: IOG)

Dear Sir/Madam

Asset Sale and Operations update

Incremental Oil and Gas Ltd ("IOG" or "Incremental") advises that the sale of all or part of the Company's California assets is ongoing. The Sheep Springs Oilfield is currently being assessed by a number of US based production companies. As previously noted, Sheep Springs is a highly profitable oilfield, but Incremental believes that the sale of this Field will allow it to focus on larger company-making projects. It is the Boards intention to create increased shareholder value through the acquisition of long life producing assets that have a high potential for an increase in production. Incremental continues to vigorously pursue such opportunities.

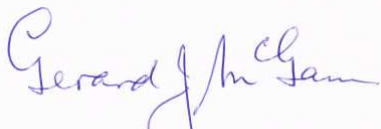
The party that was negotiating to buy both of its producing California assets has been unable to secure sufficient finance to close the sale. As a result, the purchase and sale agreement (PSA) has been terminated by IOG. A working interest in a producing oilfield in Wyoming was provided to Incremental by the purchaser as collateral under the PSA and IOG is in the process of claiming its interest as a result of the purchaser's default. Incremental will seek to monetize this asset in the short term.

Throughout the sale process, Incremental has continued to operate and receive the revenue from both of the California Oilfields that were being sold. In 2013, Sheep Springs and Round Mountain have produced 58,548 barrels of oil with gross revenue for the 12 months to November 2013 of US\$6.246M.

No significant workovers have been undertaken on IOG's California Oilfields in the last six months while the sale process has been under way and a number of low cost remedial jobs will now be undertaken on both fields to improve production and profitability.

The Florence Oilfield in Colorado has also been a subject of management focus and our analysis has identified several seismically defined, viable shallow Pierre well targets that will be the priority for operational activity in the near term. These low cost targets, and possibly additional drilling in the Round Mountain Field in California, will be the priority for operational activity in the next two quarters.

New production opportunities will also continue to be assessed to facilitate further growth of the Company.

A handwritten signature in blue ink, reading "Gerry McGann". The signature is written in a cursive, flowing style.

Gerry McGann
Managing Director