

31st January 2014

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

QUARTERLY ACTIVITIES REPORT For the quarter ended 31 December 2013

HIGHLIGHTS:

- **FURTHER POTENTIAL FOR UPSIDE TO CURRENT PRODUCTION IDENTIFIED AT ROUND MOUNTAIN, CALIFORNIA**
- **NEW TARGETS IDENTIFIED AND BEING EVALUATED AT FLORENCE, COLORADO**

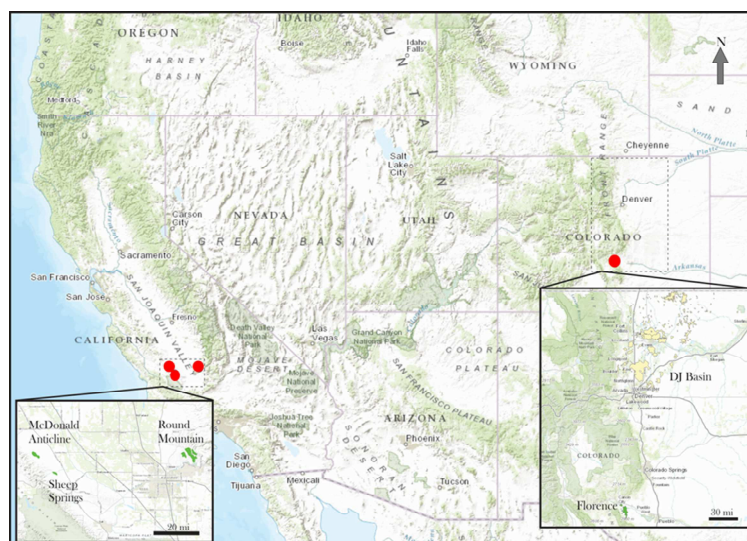


Figure 1. Incremental's project locations

1 CALIFORNIA PROPERTIES (100% working Interest)

ASSET SALE PROCESS

The party that was negotiating to buy all of Incremental's producing Californian assets was unable to secure sufficient finance to close the transaction. As a result, the purchase and sale agreement (PSA) was terminated by Incremental. A working interest in a producing oilfield in Wyoming was forfeited to Incremental as a result of the purchaser's default. The company will seek to monetize this asset in the short term.

The possible sale of all or part of the Company's California assets is ongoing. Several bids have been received for the Sheep Springs Oilfield and are currently being assessed.

A review of the undeveloped potential of the Round Mountain Field from recently released drilling and production results from adjacent leases indicates that further material upside may exist in the Field.

NEW DRILLING and WORKOVERS

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

- At Round Mountain, an inexpensive workover on Smoot #3 well resulted in a production increase of over 130% from 6 bopd to an average of 14 bopd. A follow-up workover in the coming weeks is expected to further enhance production from this well.
- Bridge plugs will be installed to Smoot #7 and #8 to substantially reduce water ingress in the coming weeks. These two wells produce the bulk of the water in Round Mountain and water disposal costs are significant in this Field. If these water shutoff strategies are successful they could reduce the lease operating costs by as much as US\$23k/month.
- In the Sheep Springs Field, a larger surface pumping unit has been installed on well #C-5, the most productive in the Field. With the ability to pump higher fluid volumes, the production decline of the Field should be further curtailed and profitability increased.

2 FLORENCE OILFIELD (100% working interest)

An extensive geological and geophysical review was undertaken throughout the quarter on the remaining prospectivity of the shallow Pierre and deeper Niobrara reservoirs in Florence.

PIERRE POTENTIAL

Incremental's technical team has analysed the recently reprocessed seismic data, especially in the northern part of the Florence leases over the quarter. Five areas were identified in this initial work. The reprocessed data gives better imaging of seismic 'ghosts' than the previously available data. A number of anomalies with potential to reservoir have been identified. Current work on the project is assessing the fragmented historical records to ascertain whether or not these seismic anomalies may have been drained by wells drilled as long as 100 years ago.

NIOBRARA POTENTIAL

The prospectivity of the Niobrara has been a primary focus for Incremental over the past 18 months. To this end, a number of geological and geochemical studies have been completed. All of the data suggests that any Niobrara well that Incremental could drill on its extensive leaseholding in Florence is more likely to encounter predominantly gas rather than oil as the reservoir hydrocarbon. No gas gathering system is presently available at Florence, suggesting that any gas discovery at Florence would be stranded for some time. The subdued gas prices in the US in recent years have also made exploration for gas less attractive.

OPERATIONAL ISSUES

A portable oil heater/treater has been acquired for the Florence Oilfield. This is necessary because the local refinery have decreased their water tolerance on delivered crude from 3% to 0.3%. Currently a hot-oil truck is required to treat the tanked oil on site at Florence during the cold winter months to create separation of the water down to these new specifications.

The unit will be gas powered (using produced gas where the well produces enough gas, otherwise LPG) and will be moved from one tank battery to another in the field as it is required. Figure 2 is a photo of a similar unit.



Figure 2. A similar heater/treater to one being constructed for Florence.

3 PRODUCTION

Total average production over the quarter was 258 boepd comprising 96% liquids. The average gross oil price received over the quarter was \$94.90 per Bbl.

The average Field production from Florence for the quarter was 105 bopd. Some infield roads were washed out by significant regional floods in mid-October but repairs were quickly undertaken and no production was lost.

In California, both Fields continue to operate normally. Throughout the sale process, Incremental has continued to operate and receive the revenue and cash flow from both of the California Oilfields. Over the course of 2013, Sheep Springs and Round Mountain have produced 58,548 barrels of oil with gross revenue for the 12 months to December 2013 of US\$5.98M.

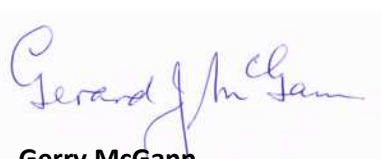
Details of production for the cumulative production from all of Incremental's Oilfields in the last quarter and reference quarters are as follows:

	Q4 2013	Q3 2013	Q4 2012
Production (Av barrels oil per day)	247	273	516
Gas production that is sold (Av 000's cubic ft/day)	66	66	74
Average daily production (barrels oil equivalent)	258	284	528
Average price of oil sold (US\$/barrel)	\$94.9	\$105	\$89.7
Average price of gas sold (US\$/mcf)	\$2.17	\$2.19	\$1.8
Quarterly revenue US\$MM	\$2.115	\$2.514	\$4.515

4 OPERATIONS

During the quarter, the US head office was relocated in Denver to a more spacious yet more cost effective location, still within the downtown business district. Measures were taken to reduce overhead costs during the quarter, both in Australia and USA.

Substantial resources were allocated over the quarter to the evaluation of new development projects and the acquisition of existing production with significant expansion upside. The company is aggressively looking for new transactions that will meet its growth objectives. This evaluation process generated a deep knowledge base and will be a strong platform for evaluating other potential acquisition targets in the coming months. There is a substantial deal flow in the US energy sector and the Board believes that North America continues to offer strong potential for the company's future.



Gerry McGann
Managing Director