



TRANSATLANTIC
Australia Pty Ltd.

ABN 59 134 230 336
Level 7, 28 The Esplanade
Perth Western Australia 6000

9 January 2009

Dear Incremental Shareholder,

TransAtlantic Australia Pty Ltd ("TransAtlantic") cash takeover offer for Incremental Petroleum Limited ("Incremental")

You will, by now, have received both our bidder's statement (containing an offer of \$1.05 in cash for each of your Incremental shares), and Incremental's target's statement (recommending that Incremental shareholders reject our offer).

The purpose of this letter is to remind you that (unless extended in accordance with the Corporations Act) **our offer will close at 7.00pm (Sydney time) on 30 January 2008**. With that in mind, we ask that you consider, and urge you to accept, our offer. We again point out that our offer price (of \$1.05 in cash) per Incremental share remains a premium to both the pre-announcement Incremental share price, and the price at which Incremental shares have recently traded on ASX.


Because our offer is subject to a minimum acceptance condition, it is important that you accept the offer (if you have not already done so) to give the offer the best chance of succeeding and to allow you to receive \$1.05 in cash for each of your Incremental shares¹. If you accept the offer, and the offer subsequently lapses (for any reason), then you will still hold your Incremental shares.

We urge you to consider all information that has been sent to you and to **ACCEPT** our offer today. If you have any questions about the offer, or require assistance with your acceptance, please call the TransAtlantic offer information line on 1300 539 987 (callers in Australia) or +61 3 9415 4371 (callers outside Australia).

Instructions in relation to accepting our offer are set out on the personalised acceptance form that accompanied the copy of the bidder's statement recently sent to you, and are also set out in the bidder's statement itself (see page 12). If you require a further copy of the bidder's statement or acceptance form, please contact the offer information line referred to above.

We also attach, for your information, an ASX release (of today's date) which sets out a more detailed summary of the key points that we believe highlight the merits of our offer.

Yours sincerely,



Matthew McCann
Director
TransAtlantic Australia Pty Ltd and TransAtlantic Petroleum Corp.

¹ As previously indicated, TransAtlantic may consider waiving this condition if acceptances reach a lower threshold. This will be determined by TransAtlantic at that time (and subject to the consent of Dalea Partners as described in section 6 of the bidder's statement).



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Companies Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000
By fax: 1300 135 638

TRANSATLANTIC OFFER UPDATE AND RESPONSE TO INCREMENTAL'S TARGET'S STATEMENT

The Offer

On 15 December 2008, TransAtlantic Australia Pty Ltd ("TransAtlantic") dispatched its bidder's statement which contained an offer to acquire each share in Incremental Petroleum Limited ("Incremental") for **\$1.05 in cash**.

TransAtlantic currently has an interest in 19.47% of the Incremental shares. Of this, 15,025,528 shares (18.84%) have been purchased on market by Malone Mitchell, the Chairman of TransAtlantic's parent company, which indicates his strong commitment to TransAtlantic's offer.

"We believe our offer of \$1.05 per share represents a great opportunity for any shareholder to sell at a premium to the current trading price. We also believe that our offered price is at a substantial premium to where the Incremental shares would likely trade in the absence of our bid and my purchases" Mr. Mitchell said.

The Incremental response and KPMG report

In its recent Target's Statement, the Incremental board has recommended that its shareholders reject TransAtlantic's \$1.05 all cash offer. It appears that the Incremental board relied, in large part, on the report of its independent expert, KPMG Corporate Finance (Aust) Pty Ltd ("KPMG"), which report accompanied the Target's Statement. TransAtlantic notes that KPMG's report is based on a number of assumptions. TransAtlantic believes it is important to bear in mind that any changes to these assumptions could potentially lead to a significant change in the assessed value of an Incremental share, and highlights the following:

- (a) *In less than 3 months, KPMG has reduced its assessed value of an Incremental share by 35.8%*

KPMG prepared an evaluation for Incremental (in its independent expert's report dated 7 October 2008) in which it assessed the value of each Incremental share to be between \$3.39 to \$4.18, with a best estimate of \$3.77. KPMG's 18 December 2008 report now assesses the value of each Incremental share at between \$2.14 to \$2.70, with a best estimate of \$2.42. This represents a 35.8% decline in KPMG's best estimate value in less than three months.

(b) *KPMG assumes no dilution*

KPMG's assessed value does not anticipate any dilution that may result from any future share issues (other than from the exercise of existing options). If Incremental issues further shares to facilitate the development of its Selmo, Edirne and McFlurrey assets, these additional shares would have the effect of diluting the assessed value per Incremental share.

(c) *Other assumptions relied upon may not be appropriate in today's marketplace*

KPMG has valued each of Incremental's assets at Selmo, Edirne, and McFlurrey using a discounted cash flow approach. For this purpose, KPMG has applied a discount rate of 9.75%. TransAtlantic believes that this rate may not appropriately reflect the risks associated with Incremental's future cash flows for the following reasons:

- At Selmo 23.8% of future production is anticipated to come from workovers and sidetracks of existing wells. There is no guarantee that the workovers and sidetracks will all be successful.
- 32.8% of future production at Selmo is anticipated to come from wells that have yet to be drilled.
- At Edirne, while some wells have been drilled and are expected to be productive, there has not yet been any production and further wells will need to be drilled to achieve projected projection levels.
- At McFlurrey, all future revenue is expected to come from wells that have not been drilled (and which are classified as contingent resources, which are less certain to be recovered than reserves).
- To develop its reserves and contingent resources over its projected timeframes, Incremental may have cash needs greater than its anticipated cash flow, and Incremental may not be able to access required capital on terms that are attractive.

The use of a higher discount rate, to reflect any greater uncertainty of future cash flows, would result in a lower NPV for assets and, consequently, a lower assessed value per Incremental share.

Summary

TransAtlantic believes that, against this backdrop, the certainty of its **\$1.05 cash offer**, which could be reinvested by selling shareholders, compares favourably with the uncertainties associated with the future value of retention of Incremental shares. TransAtlantic also notes that KPMG have stated that the trading price of Incremental shares may fall if TransAtlantic's offer fails.

TransAtlantic's offer (unless extended in accordance with the Corporations Act) **will close at 7.00pm (Sydney time) on 30 January 2008**. TransAtlantic urges Incremental shareholders to read all information that has been sent to them, and to **ACCEPT** TransAtlantic's offer today.

If Incremental shareholders have any questions, or require assistance with their acceptances, they should call the TransAtlantic offer information line on 1300 539 987 (from within Australia) or +61 3 9415 4371 (from outside Australia).