InterOil Corp.

(IOC:NYSE) **Strong Buy 1**

InterOil Corp. (www.interoil.com) is an oil and gas company with operations in Papua New Guinea (PNG). InterOil is building a fully integrated energy business with four distinct components: upstream, refining, liquefied natural gas (LNG), and downstream. The company operates PNG's only commercial refinery and owns a network of retail and wholesale distribution outlets while pursuing an exploration program.

IOC: Back in Black in 1Q09; Ongoing Testing Targets Black Gold

- InterOil reported 1Q09 EPS per diluted share of $0.07, beating our estimate of a loss of $0.07. The Refining and Downstream segments drove companywide EBITDA of $10.9 million, a return to the positive trend exhibited throughout much of 2008 and exceeding our estimate of $10.5 million. The company also posted better-than-expected SG&A, exploration, and interest costs. Carrying forward reduced overhead cost assumptions, we are raising our EPS estimates and notably projecting sustained profitability in future quarters (shown below).
- Operational highlights from the upstream business since year-end include: (1) the completion of its first-ever independent reserve report, with the "best guess" net resource estimate of 1.9 Tcf of gas and 33 MMBbls of condensate (2.1 Tcfe); (2) a record flow test at Antelope-1, totaling 382 MMcf of gas and 5,000 barrels of condensate per day; and (3) the recovery of oil (44 API gravity vs. condensate levels closer to 58) from the initial side-track at Antelope-1. Following the recovery of higher condensate yields from its second side-track last week, InterOil plans to continue testing the lower section of the reservoir, which should provide further clarity not only on the oil potential but also define the approach regarding the potential liquids stripping facility.
- Turning to the balance sheet, InterOil exited 1Q09 with cash-on-hand totaling $60.0 million ($17.4 million restricted), while operating cash flow came in at $23.2 million, substantially funding capital spending of $23.6 million. While the company remains focused on asset monetization to provide cash for accelerating the drilling program with multiple rigs, the current liquidity position remains in solid shape. On a related note, a Reuters article published this morning (see page 2) added to the list of the potential voices sitting at the LNG project negotiating table.
- InterOil's return to profitability this quarter lends further support to our view of the value within its Refinery and Downstream business segments. As testing at Antelope-1 continues amid ongoing LNG discussions, we are looking toward a number of catalysts over the next three to six months. Our price target of $45.00 is based on a valuation of ~80% our risked net asset value estimate of $56.57 per share shown on page 2. We reiterate our **Strong Buy** rating.

Non-GAAP EPS FY=	Dec	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	GAAP EPS Full Year
	2008A	$(0.08)	$0.14	$0.20	$(0.96)	$(0.63)	$(0.32)
Old	2009E	(0.07)	0.00	0.01	(0.04)	(0.10)	(0.10)
New	**2009E**	**0.07A**	**0.04**	**0.05**	**0.01**	**0.18**	**0.18**
Old	2010E	(0.04)	0.03	0.04	(0.01)	0.04	0.04
New	**2010E**	**0.01**	**0.08**	**0.09**	**0.04**	**0.22**	**0.22**

Rows may not add due to rounding and changes in share count. Non-GAAP EPS excludes unrealized hedging losses, property impairments, and other extraordinary items. NAV/Share represents our risked NAV estimate.

EQUITY RESEARCH

May 13, 2009

Exploration and Production
Company Comment

Pavel Molchanov
(713) 278-5270
Pavel.Molchanov@RaymondJames.com

Cory Garcia
Senior Research Associate
(713) 278-5240

Current Price
(5/13/2009 2:20 p.m.) $34.67
Projected 12-Month Target Price: $45.00

52-Week Range	$41.62-$8.90
Dividend/Yield	$0.00/0.0%
Book Value (03/09)	$6.42
Suitability	High Risk
Shares Out. (mil.)	44.1
Market Cap. (mil.)	$1529
Avg. Daily Vol. (10 day)	565,320
Proj. 3-Yr EPS Growth Rate	NM
NAV/Share	$56.57
LT Debt (mil.)/% Cap.	$171/43%

P/E Ratios (Non-GAAP)

2009E	NM
2010E	NM

Revenues (mil.)

	Old	New
2008A	$920	$920
2009E	$491	$560
2010E	$712	$712

EBITDA (mil.)

	Old	New
2008A	$(9)	$(9)
2009E	$49	$59
2010E	$59	$63

Cash Flow/Share

	Old	New
2008A	$(0.20)	$(0.20)
2009E	$0.58	$1.12
2010E	$0.72	$0.83

Please read disclosure/risk information on page 5 and Analyst Certification on page 7.

The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716
Institutional clients may call for additional information:
Research 800-237-5643 • Trading 800-237-8426

RAYMOND JAMES®
& ASSOCIATES, INC.
Member New York Stock Exchange/SIPC

Strategic Partner Discussions Ongoing

InterOil is continuing discussions with a wide range of prospective industry partners – oil and gas companies and utilities from both the Asia-Pacific region and further afield – about a multi-phased strategic transaction covering the Elk/Antelope field, the LNG project, and LNG offtake agreements. In a Reuters article published this morning from Australia, investors were given a further glimpse into the various international companies that are reportedly in discussions regarding the potential LNG partnership. The article quotes an unnamed banking source, citing the following companies: French integrated supermajor Total (TOT/$56.38); Italian major ENI (E/$47.35), a name that has come up before in regard to investing in PNG; U.S.-based major Marathon Oil (MRO/$30.91); PTT, a state-owned oil company in Thailand; Japanese conglomerate Mitsui; and large Japanese utility Osaka Gas. This list of companies builds upon earlier reports of active discussions with Chinese state-owned oil firm CNOOC (CEO/$124.96), as well as India's state-owned Petronet LNG.

To the frequently asked question of how long it will take to get a deal done, our response is: It is far better from InterOil's perspective for it to take longer in order to get the right transaction with the right valuation multiples, as opposed to speeding up the process and ending up with a sub-optimal deal. In particular, the company is not inclined to do any deal until the completion of the full suite of testing at Antelope-1, since the result could influence valuation. All that said, we think the process (ultimately involving multiple partners) should wrap up by year-end, with initial announcements made as early as this summer. The low cost structure of InterOil's underlying gas assets, along with the ability of partners to gain exposure to the entire LNG value chain, boosts the appeal of the opportunity.

In terms of valuation, our risked NAV calculation takes into account the following assumptions:

- 2.32 Tcf of recoverable gas and 36.7 MMBbls of recoverable condensate (the "low end" of the estimated resource range), unrisked
- 1.11 Tcf of recoverable gas and 22.6 MMBbls of recoverable condensate (the difference between the "low end" and "best guess" cases of the estimated resource range), risked at 50%
- $1.00/Mcf reserve valuation for gas and $10.00/Bbl reserve valuation for condensate
- 56% working interest attributable to InterOil

While it is too early to quantify the financial impact of the higher condensate ratio observed during the company's latest DST on its second sidetrack at Antelope-1, it is intuitive that the higher ratio bodes well for asset value, particularly within the context of the ongoing strategic partnership discussions. In fact, our risked NAV calculation (based on the midpoint of the reserve range) utilizes a condensate ratio of only 17 Bbls/MMcf. This ratio is below even the low end of the 25-100 Bbls/MMcf encountered by the latest test, implying upside to our current NAV.

InterOil Corp.
Risked Net Asset Value
($ millions)

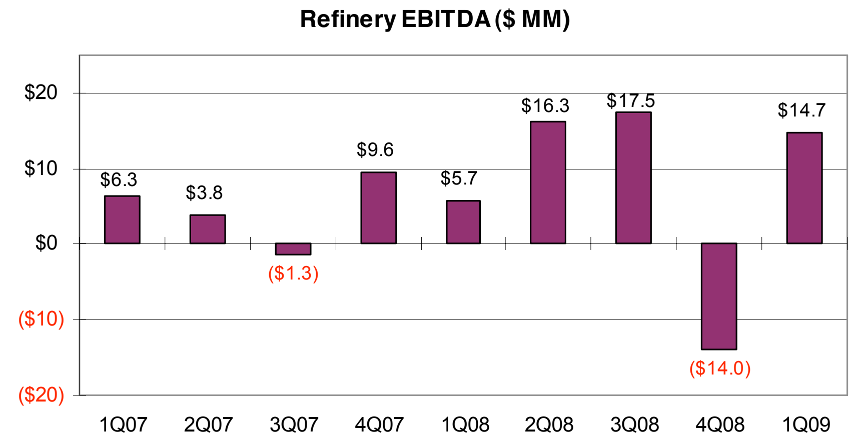
Midstream DCF	576
Downstream DCF	173
Resource Potential (Risked)	1,868
Working Capital	61
Net Worth of Assets	**2,678**
Less: Long-Term Debt	118
Less: Other Liabilities	86
NAV of Common, $MM	**2,473**
NAV/Share	**$56.57**
FD Shares Outstanding, MM	43.7

Assumptions: RJ's latest long-term oil and gas price forecasts; "best guess" net resource potential of 1.9 Tcf and 33 MMBbls based on 2008 reserve report, partially risked and valued at $1.00/Mcf and $10.00/Bbl; cash flow discounted at 10%

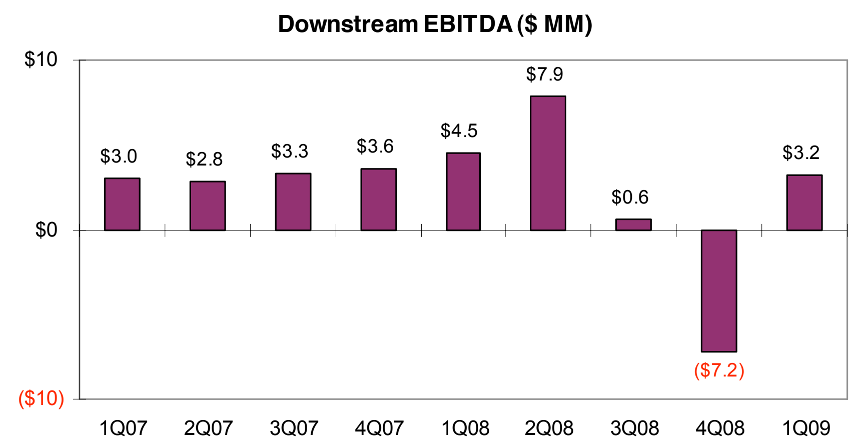
Source: Company reports, RJ est.

Midstream and Downstream Update

While our investment thesis on InterOil has never been focused on the company's refinery and downstream network, we believe that these two segments are well positioned for future profitability. Other than the 4Q08 blip, in which the net loss was driven by non-cash inventory charges related to the sharp decline in crude oil prices, the cost reduction steps taken by InterOil over the past few years have transformed the refinery and downstream network into sustainable cash-generating business segments (as shown by the positive EBITDA trends in the charts below, with 4Q08 being an obvious outlier). Furthermore, we believe the company has the capabilities to carry forward the positive earnings trend (not just EBITDA) – albeit recognizing, of course, the volatile nature of refining margins. One important recent development disclosed on the conference call was InterOil's access to a tanker that allows it to begin exporting refined products to smaller island markets in the South Pacific. This has the potential of meaningfully boosting refinery utilization above and beyond levels of PNG's domestic consumption. A glance at a map of the South Pacific shows numerous islands to the north and east of PNG, practically none of which have their own refineries – including Solomon Islands, Fiji, Palau, Vanuatu, Tuvalu, Tonga, and Kiribati.



Source: InterOil Corp.



Source: InterOil Corp.

InterOil Corp.

QUARTERLY INCOME AND CASH FLOW (MILLIONS)

Earnings & Cash Flow	2004 A	2005 A	2006 A	2007 A	2008 A	Q1 A	Q2 E	Q3 E	Q4 E	2009 E	Q1 E	Q2 E	Q3 E	Q4 E	2010 E
Midstream Revenue	$26.3	$356.3	$315.2	$233.9	$358.9	$82.5	$45.2	$46.9	$50.9	$225.5	$50.3	$56.0	$65.8	$72.1	$244.1
Downstream Revenue	62.4	124.9	195.9	391.7	556.7	78.4	79.4	82.6	91.1	331.4	98.0	107.3	123.0	136.4	464.7
Investment Income and Other	0.6	2.4	7.0	4.8	4.1	0.8	0.8	0.8	0.8	3.1	0.8	0.8	0.8	0.8	3.0
Total Operating Revenues	$89.3	$483.5	$518.1	$630.4	$919.7	$161.7	$125.3	$130.2	$142.8	$559.9	$149.0	$164.0	$189.5	$209.2	$711.8
Midstream Cost of Goods Sold	$30.5	$356.4	$316.0	$204.8	$351.7	$62.8	$28.5	$29.7	$35.6	$156.6	$33.8	$36.6	$45.8	$54.2	$170.3
Downstream Cost of Goods Sold	$47.2	$110.9	$183.5	$368.8	$536.9	$73.6	$73.1	$76.1	$84.4	$307.2	$91.0	$100.1	$115.5	$128.7	$435.2
Gross Income	11.5	16.3	18.6	56.8	31.1	25.3	23.7	24.5	22.8	96.2	24.3	27.4	28.2	26.4	106.3
Depr., Depl., & Amortization	0.0	11.0	12.4	13.0	14.1	3.4	3.7	3.7	3.7	14.5	3.7	3.8	3.8	3.8	15.0
Selling, G & A Expenses	13.7	14.7	20.7	39.3	42.8	8.4	10.3	10.5	10.8	39.9	11.0	11.3	11.5	11.8	45.5
Exploration	38.5	11.0	6.2	13.3	1.0	0.2	1.0	1.0	1.0	3.2	2.0	2.0	2.0	2.0	8.0
Operating Income	(40.6)	(20.4)	(20.7)	(8.8)	(26.8)	13.3	8.8	9.3	7.4	38.6	7.5	10.4	11.0	8.9	37.7
Total Interest Expense	4.9	15.2	20.3	22.7	24.0	4.6	6.0	6.0	6.0	22.6	6.0	6.0	6.0	6.0	24.0
Foreign Exchange and Other	3.6	24.0	2.7	(3.9)	(39.0)	5.1	0.0	0.0	0.0	5.1	0.0	0.0	0.0	0.0	0.0
Income Tax Expense	2.5	2.8	2.3	1.2	0.1	0.9	0.8	0.9	0.9	3.5	1.0	1.0	1.0	1.1	4.0
Non-Controlling Interest	(0.0)	(0.4)	(0.3)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Income	(51.6)	(62.1)	(45.8)	(28.9)	(11.8)	2.6	1.9	2.4	0.4	7.4	0.6	3.4	3.9	1.8	9.7
Adjustments for Nonrecurring Items	0.0	0.0	1.9	(4.1)	(11.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted Net Income	($51.6)	($62.1)	($43.9)	($33.0)	($23.3)	$2.6	$1.9	$2.4	$0.4	$7.4	$0.6	$3.4	$3.9	$1.8	$9.7
Reported Fully Diluted EPS	($2.03)	($2.15)	($1.55)	($0.96)	($0.32)	$0.07	$0.04	$0.05	$0.01	$0.18	$0.01	$0.08	$0.09	$0.04	$0.22
Adjusted Fully Diluted EPS	($2.03)	($2.15)	($1.48)	($1.10)	($0.63)	$0.07	$0.04	$0.05	$0.01	$0.18	$0.01	$0.08	$0.09	$0.04	$0.22
Primary Shares Outstanding, Mil.	25.4	28.8	29.6	30.0	33.6	35.8	36.2	36.2	36.2	36.1	36.2	36.2	36.2	36.2	36.2
Fully Diluted Shares Outstanding, Mil.	25.4	28.8	29.6	30.0	36.7	36.0	43.7	43.7	43.7	41.8	43.7	43.7	43.7	43.7	43.7
Cash Flow	**2004 A**	**2005 A**	**2006 A**	**2007 A**	**2008 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**	**2009 E**	**Q1 E**	**Q2 E**	**Q3 E**	**Q4 E**	**2010 E**
Net Income	($51.6)	($62.1)	($45.8)	($28.9)	($11.8)	$2.6	$1.9	$2.4	$0.4	$7.4	$0.6	$3.4	$3.9	$1.8	$9.7
Depl., Depr. & Amort.	0.0	11.0	12.4	13.0	14.1	3.4	3.7	3.7	3.7	14.5	3.7	3.8	3.8	3.8	15.0
Deferred Income Tax	0.0	0.0	1.3	(1.6)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Non-Cash & Adjustments	43.2	33.4	9.5	22.5	(9.4)	17.2	2.6	2.6	2.7	25.0	2.8	2.8	2.9	2.9	11.4
Operating Cash Flow	($8.4)	($17.6)	($22.3)	$5.0	($7.2)	$23.2	$8.1	$8.7	$6.8	$46.9	$7.1	$10.0	$10.6	$8.5	$36.1
Fully Diluted Cash Flow/Share	($0.33)	($0.61)	($0.75)	$0.17	($0.20)	$0.64	$0.19	$0.20	$0.16	$1.12	$0.16	$0.23	$0.24	$0.19	$0.83

Important Investor Disclosures

The common stock of InterOil Corp. currently has a **Strong Buy** rating within our four-tiered rating system. Definitions of our ratings follow:

Strong Buy (SB1)................. Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

Outperform (MO2)................ Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.

Market Perform (MP3).......... Expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities.

Underperform (MU4)............ Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Out of approximately 702 rated stocks in the Raymond James coverage universe, 44% have Strong Buy or Outperform ratings (Buy), 46% are rated Market Perform (Hold) and 10% are rated Underperform (Sell). Within those rating categories, 28% of the Strong Buy- or Outperform (Buy) rated companies either currently are or have been Raymond James Investment Banking clients within the past three years; 14% of the Market Perform (Hold) rated companies are or have been clients and 7% of the Underperform (Sell) rated companies are or have been clients.

Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

Suitability Categories (SR)

Total Return (TR) .... Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

Growth (G)............................ Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

Aggressive Growth (AG)..... Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

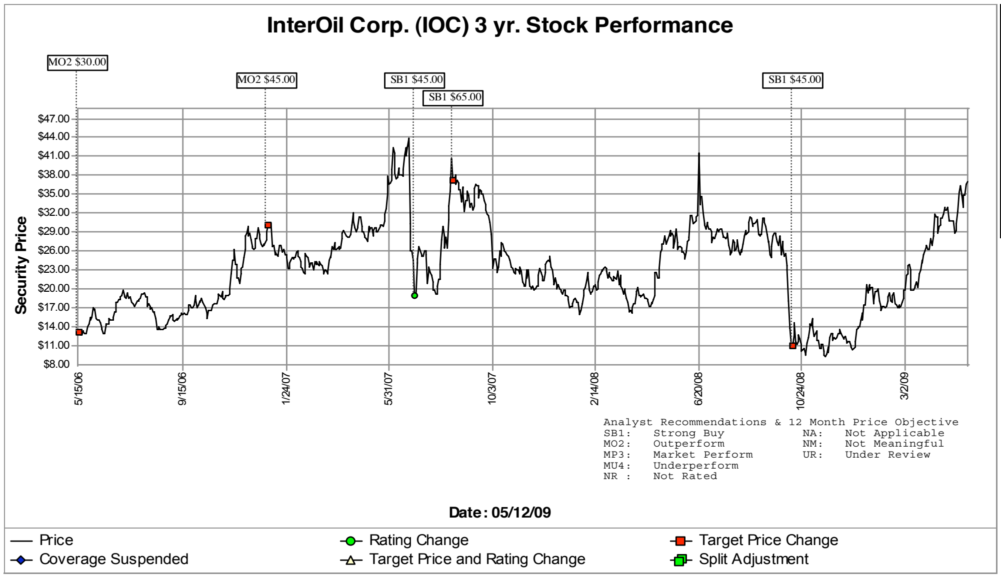
High Risk (HR)...................... Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) .... Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

Analyst Holdings and Compensation: Equity analysts and their staffs at Raymond James are compensated based on a salary and bonus system. Several factors enter into the bonus determination including quality and performance of research product, the analyst's success in rating stocks versus an industry index, and support effectiveness to trading and the retail and institutional sales forces. Other factors may include but are not limited to: overall ratings from internal (other than investment banking) or external parties and the general productivity and revenue generated in covered stocks.

Raymond James Relationships: RJA expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Target Prices: The information below indicates our target price and rating changes for IOC stock over the past three years.



Update Date	Closing Price	Target Price	Rating
10/13/08	11.05	45.00	1
8/15/07	37.20	65.00	1
7/2/07	18.94	45.00	1
12/29/06	30.16	45.00	2
5/15/06	13.05	30.00	2

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Our valuation methodology for InterOil is centered on our estimate of the company's net asset value (NAV) per share.

General Risk Factors: Following are some general risk factors that pertain to the projected 12-month target prices included on our research for stocks rated Strong Buy or Outperform: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects.

Specific Investment Risks Related to the Industry or Issuer

Oil and Gas Price Volatility

Profitability of companies producing crude oil and natural gas is directly affected by changes in oil and gas prices. These prices are influenced by a multitude of regional, national and global factors, many of which are outside the control of companies in the industry. Supply-related factors include industrywide levels of capital spending and production decisions by OPEC. Demand-related factors include macroeconomic conditions.

Risks for InterOil Corp.

Refining Margin Risk

A refiner's profitability is largely determined by the margin between refined product prices and crude oil feedstock prices. Both of these sets of prices are influenced by numerous factors that affect supply and demand, many of them outside a refiner's control. These include macroeconomic activity, the level of domestic and international refining capacity, and geopolitical conditions. Refining margins have historically been, and are likely to continue to be, highly volatile.

International Risk

All of InterOil's operations are located in Papua New Guinea, which exposes the company to risks associated with doing business in a foreign market. This includes the potential for unfavorable changes in taxes, regulations, exchange rates, and macroeconomic fundamentals.

Exploration Risk

InterOil does not currently have any proved oil and gas reserves. The success of its upstream exploration program in Papua New Guinea is dependent on finding commercial quantities of oil and gas on its exploration acreage and on having sufficient funds, whether from internal cash flow or external sources, to fund the drilling program.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at www.rjcapitalmarkets.com/SearchForDisclosures_main.asp. Copies of research or Raymond James' summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see www.raymondjames.com for office locations) or by calling (727) 567-1000, toll free (800) 237-5643 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6th Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. In addition, said analyst has not received compensation from any subject company in the last 12 months.

Investors should consider this report as only a single factor in making their investment decision.

For clients in the United Kingdom:

For clients of Raymond James & Associates (RJA) and Raymond James Financial International, Ltd. (RJFI): This report is for distribution only to persons who fall within Articles 19 or Article 49(2) of the Financial Services and Markets Act (Financial Promotion) Order 2000 as investment professionals and may not be distributed to, or relied upon, by any other person.

For clients of Raymond James Investment Services, Ltd.: This report is intended only for clients in receipt of Raymond James Investment Services, Ltd.'s Terms of Business or others to whom it may be lawfully submitted.

For purposes of the Financial Services Authority requirements, this research report is classified as objective with respect to conflict of interest management. RJA, Raymond James Financial International, Ltd., and Raymond James Investment Services, Ltd. are authorized and regulated in the U.K. by the Financial Services Authority.

For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

Additional information is available on request.