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Stock Rating
Overweight

Industry View
Attractive

InterOil Corporation

Major Transformation to Continue in 2010, Raising Target Price to $115

We are raising our price target on IOC to $115 from $80. We are increasing several assumptions in our valuation model based upon recent results and our 2010 outlook. In the past three months IOC has delivered record well results, exceeding even bullish expectations; the market for resource acquisitions has improved; IOC's planned LNG facility was approved by PNG; and IOC signed a "key terms" agreement for its planned liquid stripping facility with Mitsui. The latest evidence of the transformation is in today's drill stem test in the condensate zone of Antelope-2, that reported flow rates of 20.7 bbls of condensate per 1mmcfd of gas (+15% from prior tests). Overall, we see further upside in share price as the company transforms from an early stage frontier exploration story to a global hydrocarbon producer continues in 2010.

Two primary changes in our assumptions cause us to raise our target: (1) an increase in the assumed price per mmcfe in the upstream sell-down process (we are assuming a sale price of $1.63 per mcfe for 6.7Tcfe, still bellow the $1.74 per mmcfe for comparable regional gas transactions) and (2) a reduction in our risk estimates for both the upstream assets and our target price discount to our NAV. We are also increasing our base, bull ($165), and bear ($55) cases.

Attractive risk/reward for 2010: We see 40% upside in our base case and almost 3:1 risk/reward in our bear-to-bull cases. Our bull case includes value for an oil discovery, where we expect results in 30+ days.

Material 2010 catalysts should drive commodity-independent share price outperformance: (1) test of the oil leg in mid-February, (2) potential signing of liquids stripping facility agreement in 1Q10, (3) resource upgrade in the year end reserve report (1Q10), (4) successful completion of the upstream sell-down and LNG partnership process in 1H10, and (5) exploration results in new target structures (2H10).

Key Ratios and Statistics

Reuters: IOC.N Bloomberg: IOC US
Integrated Oil / United States of America

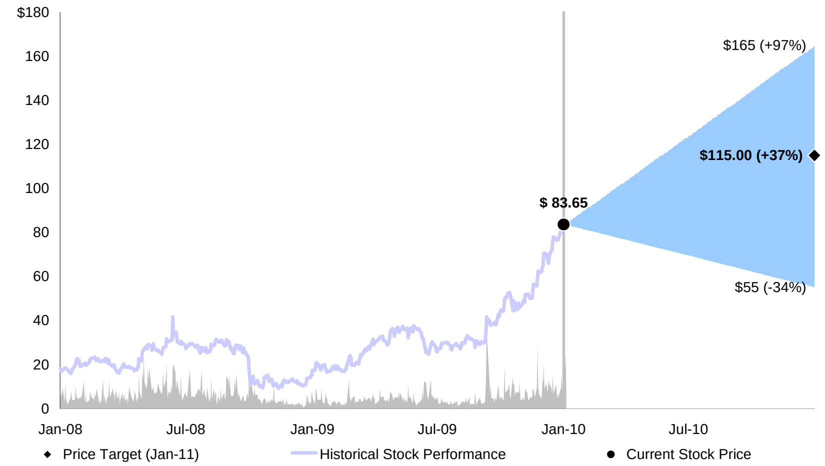
Price target	**$115.00**
Shr price, close (Jan 8, 2010)	$83.65
Mkt cap, curr (mm)	$3,565
52-Week Range	$84.05-14.75

Recent Reports

Title	Date
InterOil Corporation: Another Well, Another Record; Raising PT to $80 Evan Calio / Ryan Todd / Ben Hur	Dec 1, 2009
InterOil Corporation: Great Rocks: Antelope-2 Results Continue to Impress Evan Calio / Ryan Todd / Ben Hur	Nov 13, 2009
InterOil Corporation: Antelope-2 Results Modestly Delayed yet Tenor on Call and 3Q09 E Evan Calio / Ben Hur / Ryan Todd	Nov 5, 2009
InterOil Corporation: Management road show and Antelope-2 well data support improved r Evan Calio / Ryan Todd / Ben Hur	Oct 26, 2009
InterOil Corporation: Antelope-2 Leaps Over First Drilling Hurdle Evan Calio / Ryan Todd / Ben Hur	Oct 14, 2009
InterOil Corporation: October Drilling Catalysts & PNG Non-Approval Misunderstood Evan Calio / Ryan Todd / Ben Hur	Oct 6, 2009
InterOil Corporation: Major Transformation Going Unnoticed; Overweight Evan Calio / Ryan Todd / Ben Hur	Sep 18, 2009

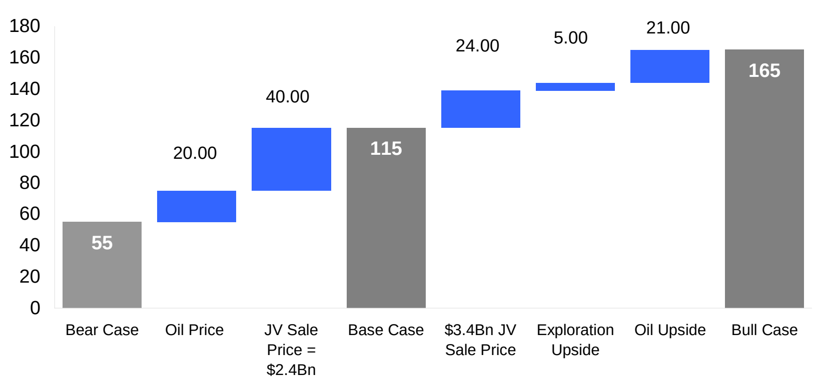
InterOil Corp. (IOC, $84, Overweight, Price Target $115)

Risk-Reward View: Strong Risk/Reward Skew



Price Target $115	Derived from our base case.
Bull Case $165 Assumes $85 oil price (perpetuity)	**Exploration Upside; Oil in Antelope** Oil discovered in Antelope-2 and higher year-end resource estimate (gas to 8tcfe and condensate to 160mmbbls), 100MMbbls of recoverable oil (gross); $3.6 billion sale price of IOC's interest (includes value for oil), 90% risk factor on upstream, 15% NAV discount; $6 per
Base Case $115 Assumes $85 oil price (perpetuity)	**Joint Venture Partnership is Signed** Assumes 120MMbbls of condensate, $2.35 billion sale price of IOC's interest. Upstream gas risked at 85% and condensate at 90%; shares targeted to trade at an additional 15% discount to risked NAV.
Bear Case $55 Assumes $75 oil price	**No LNG JV Signed, Resource Estimate Lower** Assumes no LNG development JV; a lower resource estimate (5tcfe gas); no commercial oil found at Antelope-2; a $75 oil price; a condensate stripping facility is built ($8.50 per share); and IOC exploration resource and stranded gas is sold at $46/sh ($.6 per mmcfe).

Bear to Bull



Source: Morgan Stanley Research
The probability we assign to a successful LNG project in our base case is only illustrative. It does not forecast a precise series of events and does not account for all possible outcomes but instead illustrates our sense of the relative plausibility of the outcome, based on current industry dynamics.

Why Overweight?

- Strong value proposition as market overlooks and discounts resource and potential monetization.
- We expect IOC to enter a partnership in next 6 months to develop LNG facility/ monetize its natural gas and associated liquids.
- Trading at 38% discount to NAV (NAV omits any value for oil resource or exploration acreage).
- Largest exploration land position in PNG with over a decade of drilling experience.
- Niche refining exposure levered to substantial economic growth forecasted in PNG.

Potential Catalysts/Key Value Drivers

- **Antelope-2 DST #3** in potential oil leg due late-January/early-February.
- **Liquid stripping** commercialization agreement (~$450m credit facility) probable during early 1Q10.
- **Antelope-2** horizontal drilling (higher flow rate potential) February/March 2010.
- **GLJ/Knowledge Reservoir** Resource improvement due in February/March 2010.
- **Antelope-3** results expected second quarter 2010.
- **LNG Partnership/upstream** sell down expected in 1H10 (fully fund development and future exploration).
- **Additional Exploration** as we believe IOC will likely test another structure within its exploration portfolio by year-end.

Where We Could Be Wrong

- Exploration failure. IOC is proving its resource base and any exploration failure will likely delay development and impact price.
- Failure to enter LNG JV. IOC is unlikely to be able to finance LNG development and its continued exploration program w/o partners.
- PNG risks. 100% of IOC's operating assets are located in PNG.
- Failure to enter JV (LNG or liquid stripping) before potential 2H10 liquidity shortage forces additional capital raise.

Further Upside in 2010

Why a new price target and scenarios outlook? When we initiated on IOC, due to some of the historical controversy, we used very conservative assumptions in our price target. Since our initiation: IOC has delivered record well results that exceeded even our bull case expectations; IOC has advanced a potential liquids stripping facility agreement (MOU with Mitsui Group) providing potential medium-term cash flows and de-risking the upstream sell-down process; our understanding of IOC's value and resource proposition has improved; PNG has approved IOC's planned LNG facility; and global acquisition markets for resources and our outlook have improved. As such, we are revising our NAV assumptions.

There are 2 primary changes to our assumptions that drive our $115 price target: (1) an increase in the assumed price per mmcfe in the upstream sell-down process that is closer (yet remains below) comparable regional transactions, and (2) a reduction in our risk estimates on the upstream assets and our target discount to our NAV. In our revised base case, we are assuming a sale price of $1.63 per mcfe for 6.7Tcfe which compares to $1.74mmcfe for regional gas comparable transactions (see Exhibit 1). We believe this higher price is appropriate given the higher condensate ratio (excess of 20bbls per 1mmcfe), the world class well results in a high porosity, significant net pay reservoir reported near both ends of the Antelope structure; the liquids stripping agreement that we expect in 1Q10 (faster source of cash flow); improved macro commodity outlook (global economic recovery led by neighborhood countries), and the likelihood that IOC will include some exploration upside exposure in the sell-down interest. We believe these factors imply a higher sale price, likely still at a discount to high-water mark deals, and also de-risks IOC's assets (to 85% in our base with an additional 15% price target discount to our NAV vs. 90% and 20%, respectively, in our prior NAV).

Exhibit 1
Precedent Transactions

Announced Date	Buyers	Sellers	Asset	Total transaction Value ($mm)	$/Mcfe	2P Reserve Basis / Contingent (P50)	Comments
30-Oct-08	Nippon Oil Corporation	AGL Energy Ltd	Nippon Oil acquired AGL Energy's Papua New Guiena Assets for US$ 800MM pursuant to its exercise of pre-emptive rights.	800	$2.16	371	Conventional Gas play, Wet gas with high liquid content 24%, logistically favorable and experienced partners, financed and further along in project
28-Oct-08	BG Group plc	Queensland Gas Company Ltd.	BG acquires Queensland Gas [Australia] in a US $3 BN cash transaction	3,046	$1.28	2,371	Coal Seam Gas Deal with dry gas, in a capital intensive, logistically challenging and unconventional play
8-Sep-08	Conoco Phillips	Origin Energy Ltd	ConocoPhillips acquires 50% stake in Origin Energy's Australia CBM-to-LNG joint venture for US$5.9 BN plus contingent payments of US$2 BN	5,852	$2.46	2,376	
2-Jun-08	Shell	Arrow	Shell acquires 30% interest from Arrow to jointly develop Australian Intl CSG projects.	413	$1.74	237	
29-May-08	Petronas	Santos	Petronas acquires 40% interest in Queensland Australia Gladstone LNG Project from Santos for US$2BN	2,008	$3.73	538	
31-Jan-08	Tokyo Gas Co Ltd. Kansai Electric Power Co.	Woodside Petroleum Ltd.	10% of its interest in Pluto LNG project [South Pacific-Australia]	159	$0.42	374	Selldown of Upstream Assets for Buyer incentive upstream economics
28-Jan-08	Talisman Energy Incorporated	CNOOC Ltd	100% of CNOOC Wiriagar Overseas Ltd., which holds a 3.06% interest in Tangguh LNG Project [SE Asia-Indonesia]	213	$0.38	560	Legal Settlement
			Mean Price Per Mcfe		**$1.74**		

Source: Company data, Morgan Stanley Research

No change in our IOC resource estimate at this time. We are not increasing the resource estimate in our base case (6.7Tcfe gas and 120mmbbls of condensate) even though we believe there is an upside skew to both of these estimates since there is not yet enough public data to model gas reserve/resource estimates.

Three data points support an upward skew to the 6.7Tcfe estimate: (1) Greater well control on, and reducing risking of southern portion of Antelope structure where Antelope-2 was drilled, (2) Antelope-2 hit the reservoir 345 feet higher (adding significant volume to the size of the reservoir), and (3) it is highly unlikely that a reservoir engineer modeled the porosity improvement from 8.8% in Antelope-1 to 14% in over 1,100 feet of net pay in the top of Antelope-2.

We believe reducing our upstream risk factor of the upstream resource estimate captures some of the resource upside. Our fully de-risked base-case NAV is $154 (assuming no asset or NAV discounts) yet at this stage we still believe some risking is appropriate. We believe as IOC continues to deliver on upstream monetization and moves its resource into production, the market will remove these risks (i.e., the stock price will reflect more of the NAV). The circular reference in the sale price to the resource estimate is also noteworthy. For instance, our $1.60 per mcfe sell-down assumption would imply $1.37 per mcfe if the resource is 8Tcfe rather than 6.7Tcfe: or examined another way, at $1.60 per mcfe, the sell-down would net an additional $450mm (or $10 per share) if the resource was 8Tcfe.

Today's DST is positive, although likely below Street expectations. This is the first definitive test IOC has conducted for the condensate ratio at the base of the natural gas column in the Antelope structure. In Antelope-1, due to the high porosity of the reservoir, IOC was unable to isolate this section. All the Antelope-1 tests were entire open hole tests. To address this testing issue in Antelope-2, IOC cased the gas column to isolate and test the base or condensate rich zone of the reservoir. Casing problems caused by an impassable ledge resulted in a larger open hole section than expected (338 feet vs. 150–200 foot expectations), which the company will attempt to remedy with a second test possibly later this week isolating a lower section of the current open hole. Despite the improvement from earlier tests, the number likely falls short of Street expectations, and given the long wait for the data and the strong performance of the stock, may result in some consolidation in the stock, an excellent buying opportunity, in our view.

Despite the larger section, the resulting ratio of 20.7 bbls/mmcf was still over 15% higher than the condensate ratio from DST #1 the top of the reservoir. Because of the higher efficiency of the stripping facility vs. the testing equipment, **today's data point is likely the equivalent of ~26 bbls/mmcfd through the condensate plant, supporting a 10,400 bpd train vs. the current base case of 9,000 bpd (or an additional $2.50/share pre-sell down or $1.50/share post-selldown).** We do not expect the company to raise its estimates, but the number is supportive of a future increase in facility train size.

The impact of a higher condensate ratio reported today is twofold: (1) it increases the amount of condensate in the structure (have to wait for GLJ estimate to get the amount), and (2) could increase the producible rate in the condensate stripping facility. The planned facility cost is $450MM for a 1 train stripping facility (approximately $220MM for facility, $100MM pipelines, and $120MM for drilling capex). The train is designed to strip condensate associated with 400mmcf/d of natural gas flow, so improvement in the condensate ratio, will also improve facility flow rate, cash flows, and the associated NPV. We assume 22.4 bbls per 1mmcfe to yield 9mmbpd from the facility and the condensate ratio from today's test at an adjusted 26 bbls per 1mmcfd represents potential upside to 10–11 mbpd. **Each incremental 1 mbpd of processed condensate improves the NAV by approximately $1.50 per share (pre-sell down) on the same resource amount.** Additional trains could be added at a cost of $220MM per train, so economics improve for each additional condensate train added.

Liquids stripping /off-take agreement expected before 1Q10 end. We believe IOC will enter a liquids stripping financing and off-take agreement by 1Q10. Petromin press released that IOC and Mitsui have entered into a non-binding MOU outlining key terms to finance the condensate stripping facility on January 5, 2010. The MOU provides the structure for the deal under which Mitsui will provide a lending facility for up to $450MM to finance drilling and construction of a condensate stripping facility and associated pipelines. The agreement will likely also provide an off-take agreement for naphtha, a product of the condensate refined at IOC's refinery. We believe the MOU is an important first step and a binding agreement will be executed in 1Q10. The key terms to be negotiated are likely the off-take agreement and whether and how the facility could be converted into an upstream interest when the LNG sell-down closes. We believe signing a liquid stripping facility financing and off-take agreement would have the following positive value implications: (a) it would de-risk the liquid stripping value; (b) it would support our increased price assumption on the upstream sell-down as the more immediate cash flow stream and liquids drive higher value in the sale, (c) it would mitigate 2010 funding issues as the credit facility could fund associated Antelope drilling which preserves IOC's $80MM cash for other exploration (effectively improving IOC's leverage in its sell-down process), and (d) it will improve the refinery profitability by increasing throughput by 9–12mmbpd without any additional working capital requirements (condensate production rate).

Oil is the next potential catalyst. IOC should be testing the potential oil leg of Antelope-2 by late January-early February. After today's DST, IOC intends to core and drill the potential oil zone (another ~600ft to well TD) and conduct another flow test of this zone. Flowing oil in excess of 100bpd (through smaller choke in an open hole test) will be a game changer for IOC as it will prove the Antelope structure has a producible oil resource. This will be a vertical well test, after which IOC will drill horizontally, and, ultimately, if successful, IOC will produce from horizontal sections flowing at materially higher rates than the vertical well test. **It will be challenging to extrapolate oil in place or recoverable oil resource from the initial flow rate as additional data will be required.** However, this is a large structure (approximately 30k acres under closure assuming a 12x4 mile reservoir), and if we assume: (1) 20% of the total acres under closure are productive (a rough estimate of area in the mid-point of Antelope-1 and Antelope-2 and to the edge of the structure), (2) a 15-20% recovery factor, (3) 5% average porosity, and (4) 80% saturation, Antelope could hold **85–115MMbbls of recoverable oil which is up to $42 per share of additional value in our NAV model for IOC (pre-sell down at $85 oil).** In our base case, we currently assume $0 value for oil and in our bull case ($165 target), we assume $35 for oil (in our upstream oil and increased sell-down price assumptions combined). An oil discovery is the primary difference between our base and bull cases. In our view an oil discovery will also further de-risk the LNG/sell-down process and also force the Street to begin to assign some value for IOC's exploration portfolio.

PNG's approval of IOC's LNG Project and XOM's final investment decision on its PNGLNG project also increase the likelihood of an upstream sell-down by IOC, in our view. XOM reached final investment decision for PNGLNG on December 8 and PNG approved IOC's LNG project agreement on December 10. We believe both of these events improve the likelihood that IOC will be successful in its upstream sell-down and partnership process as: (1) XOM proceeding on its project helps legitimize PNG as an investable and emerging upstream location, and (2) PNG's approval removes that pre-condition which may have been viewed as important to other state parties who are potential upstream purchasers. The project agreement signed on December 23, 2009 with PNG was also positive in that it did not include any profit sharing provision (as PNGLNG had such provision) and we also assume that some undisclosed terms included some tax credit ($150MM is our assumption which is less than XOM's $750MM credit). We viewed PNG's decision to opt into a full 22.5% of an LNG project (via Petromin) as a modest negative as it may raise financing concerns by a potential partner for the required equity contribution for this interest (up to $340MM assuming 75% of the facility is project financed with debt).

Phases of IOC stock performance. In our opinion there are 5 general phases to the IOC story over time: (1) frontier exploration (characterized by stock volatility and turnover), (2) material hydrocarbon discovery (rapid share-price outperformance), (3) discovery monetization (share price outperformance into net asset value), (4) full funding of the exploration program and execution of monetization plan (next potential leg upward on new discoveries), and (5) maturation of the business (or sale) as production and cash flow stream. We believe phase 1 was the most volatile in the 1997-early 2009 and that we have entered phase 2 in 2009 (Antelope discovery). In 2010, we expect to experience elements of phase 2 (oil or no oil discovery), phase 3 (path towards monetization with an LNG partnership and liquids stripping agreement), and phase 4 (a fully funded exploration program accelerates new discovery potential). We believe that 2010 sets up for material outperformance (supported by our valuation work), despite recent gains, as IOC development path continues in these various phases.

Exhibit 2
2010 Catalyst Time-Table

	Event	Expected Date	Potential Impact
1	Antelope-2, Potential Oil Zone Test	Late Jan-mid Feb. 2010	Oil potential - game changer
2	GLJ Reources resource update	Feb. 2010/Mar. 2010	Expect raise estimate from 3.8Tcfe
3	Knowledge Reources Resource Update	Feb. 2010/Mar. 2010	Expect raise estimate from 6.7Tcfe
4	NGL Stripping JV	1Q2010	Reserve booking, cash flow potential
5	Antelope-3 spud	Mar-April 2010	
6	Antelope-3 results	2Q 2010	Inform resource estimate (size of container)
7	LNG JV - Upstream selldown	1H 2010	Monitize standed gas, fully fund exploration
8	Acquisition of second (and or 3rd) drilling rig	1H 2010	Accelerate valuation of other prospects
9	Drilling of new exploration prospect	2H2010	Accelerate valuation of other prospects

Source: Company data, Morgan Stanley Research

Exhibit 3
NAV Model Outputs

NAV Assumptions				
Scenario		**Bear**	**Base**	**Bull**
Commodity Price, post 2011				
Oil WTI		75.00	85.00	90.00
Gas Slope		13%	14%	14%
Discount to crude (%)		26%	20%	20%
Upstream Assumptions				
NGLs Resource (MMbls)(gross)		100.0	120.0	160.0
	Risk Factor	85%	90%	90%
	Gross Amount, Risked (MMbbls)	85.00	108.00	144.00
Gas Resource (Tcfe)(gross)		5.5	6.7	8.0
	Risk Factor	100% [1]	85%	90%
	Gross Amount, Risked (Tcfe)	5.50	5.70	7.20
Oil Resource (MMbbls)(gross OIP)		0.00	0.00	500
Oil Resource (MMbbls)(gross recoverable)		0.0	0.0	100.0
	Oil Production (mpd)	0	0	25
	Recovery Factor	0%	0	20%
	Risk Factor	80%	80%	90%
	Gross Amount, Risked (MMbbls)	0.00	0.00	90.00
Sale Price of Upstream Interest ($mcfe)				
	Value of 24% Interest Sale ($ per share)	0.00	63.17	86.69
	Total Value of Deal (excess of capex)	0	2350	3350
	Total Value of Deal (including of capex)		2624	3624
	Implied Price per mcfe	0.60 [1]	1.63	1.89
Exploration Acreage ($MM)		0.00	500.00	500.00
	Risk Factor	0%	25%	50%
	Net Amount, Risked	0.00	125.00	250.00
	Exploration Acreage ($ per share)	0.00	2.94	5.88
Risked Upstream Value ($MM)(post-sell-down)				
Upstream Gas + LNG Value ($ per share)		$46.01 [1]	$55.16	$67.19
Upstream NGL Value ($ per share)		$6.15	$8.02	$8.67
Upstream Oil Value ($ per share)		$0.00	$0.00	$20.33
Total Upstream Value ($ per share)		52.17	63.18	96.19
Total Downstream Value ($MM)		200.00	200.00	200.00
Downstream Value ($ per share)		4.70	4.70	4.70
Net Debt ($ per share)		0.95	0.95	0.95
Total NAV Value ($ per share)		57.82	134.94	194.41
Target Price Discount to NAV (%)		5%	15%	15%
Target Price ($ per share)		**55**	**115**	**165**
Premium/discount to current		*-34%*	*37%*	*97%*

Note 1- The Bear case assumes no LNG deal where 100% of IOC's stranded gas is sold at $0.50Mcfe

Source: Company data, Morgan Stanley Research estimates

Exhibit 4

InterOil Income Statement (2006-2011E)

Income Statement (Clean $MM)	2006	2007	2008	2009E	2010E	2011E
Segment Earnings						
E&P	**(9.70)**	**(19.16)**	**2.15**	**(10.35)**	**(11.10)**	**(11.10)**
Refining	(23.95)	(8.81)	4.72	23.03	26.96	26.85
Liquefaction	(0.69)	(5.80)	(7.91)	(8.43)	(8.22)	(8.38)
Total Midstream	**(24.65)**	**(14.62)**	**(3.20)**	**14.59**	**18.73**	**18.47**
Downstream	**2.99**	**4.71**	**(1.21)**	**2.82**	**0.66**	**1.20**
Corporate and adjustments	**(14.45)**	**0.16**	**(9.55)**	**(3.14)**	**(1.88)**	**(2.15)**
Specials and non continuing business	0.00	0.00	0.00	0.00	0.00	0.00
Clean Post Tax Net Income	**(45.80)**	**(28.91)**	**(11.80)**	**3.92**	**6.41**	**6.43**
Net income to shareholders	**(45.80)**	**(28.91)**	**(11.80)**	**3.92**	**6.41**	**6.43**
Shares (m)	29.60	30.00	36.70	40.40	44.04	44.04
Reported EPS	(1.55)	(0.96)	(0.32)	0.10	0.15	0.15
Clean EPS	**(1.55)**	**(0.96)**	**(0.32)**	**0.10**	**0.15**	**0.15**
Sales and operating revenues	511.09	625.53	915.58	712.38	1,045.94	1,368.79
Interest	3.22	2.18	0.93	6.74	13.06	13.26
Other	3.75	2.67	3.22	3.17	3.27	3.31
Revenue	**518.06**	**630.37**	**919.73**	**722.29**	**1,062.27**	**1,385.36**
Cost of sales and operating expenses	499.49	573.61	888.62	628.54	949.71	1,271.81
Administrative and general expenses	26.52	38.53	42.75	50.83	63.35	63.97
Derivative losses/(gains)	0.00	7.27	(24.04)	(0.93)	0.00	0.00
Exploration costs, excluding exploration impairment	6.18	13.31	1.00	1.00	1.13	1.13
Exploration impairment	1.65	1.24	0.11	0.00	0.00	0.00
Interest Expense	20.34	22.75	23.97	22.23	27.24	27.24
Depreciation and amortization	12.35	13.02	14.14	14.33	14.32	14.37
Gain on LNG shareholder agreement	0.00	(6.55)	0.00	0.00	0.00	0.00
Gain on sale of oil and gas properties	0.00	0.00	(11.24)	(1.09)	0.00	0.00
Foreign exchange (gain)/loss	(4.74)	(5.08)	(3.88)	1.11	0.00	0.00
Accretion expense	0.00	0.00	0.00	0.00	0.00	0.00
Total cost and Expense	**561.78**	**658.10**	**931.44**	**716.01**	**1,055.75**	**1,378.52**
Profit before Income Tax	(43.72)	(27.73)	(11.71)	6.28	6.52	6.83
Income taxes (recoveries)						
Current and future	(2.34)	(1.21)	(0.08)	(2.35)	(0.10)	(0.40)
Tax Rate	5.4%	4.4%	0.7%	-37.5%	-1.5%	-5.9%
Income/(loss) before non controlling interest	(46.06)	(28.94)	(11.80)	3.93	6.42	6.43
Non-controlling interest	0.26	0.02	(0.00)	(0.00)	(0.00)	(0.00)
Net earnings	(45.80)	(28.91)	(11.80)	3.92	6.41	6.43
Other comprehensive income						
Cumulative foreign currency translation adjustment	0.00	0.00	0.00	0.00	0.00	0.00
Hedge of net investment, net of tax	0.00	0.00	0.00	0.00	0.00	0.00
Derivatives designated as cash flow hedges, net of tax	0.00	0.00	0.00	0.00	0.00	0.00
Comprehensive income	(45.80)	(28.91)	(11.80)	3.92	6.41	6.43
Special items	0.00	0.00	0.00	0.00	0.00	0.00
Net earning Reported	(45.80)	(28.91)	(11.80)	3.92	6.41	6.43
Basic EPS	(1.55)	(0.96)	(0.35)	0.10	0.15	0.15
Diluted EPS - Recurring	(1.55)	(0.96)	(0.32)	0.10	0.15	0.15
Diluted EPS	(1.55)	(0.96)	(0.32)	0.10	0.15	0.15

Source: Company data, Morgan Stanley Research estimates

Exhibit 5

InterOil Statement of Cash Flows (2006-2011E)

Cash Flow Statement $MM	2006	2007	2008	2009E	2010E	2011E
Operating activities						
Net income	(45.80)	(28.91)	(11.80)	3.92	6.41	6.43
Adjustments for non-cash and non-operating transactions						
Non-controlling interest	(0.26)	(0.02)	0.00	0.00	0.00	0.00
Depreciation and amortization	12.35	13.02	14.14	14.33	14.32	14.37
Future income tax asset	1.33	(1.60)	(0.20)	1.01	0.00	0.00
Fair value adjustment on IPL PNG Ltd. Acquisition	0.00	(0.37)	0.00	0.00	0.00	0.00
(Gain) / Loss on sale of plant and equipment	0.26	0.27	(0.02)	0.00	0.00	0.00
Gain on sale of exploration assets	0.00	0.00	(11.24)	(1.09)	0.00	0.00
Amortization of discount on debentures liability	0.03	0.00	1.92	1.21	0.00	0.00
Amortization of deferred financing costs	0.22	0.42	0.26	0.11	0.00	0.00
Gain on unsettled hedge contracts	(0.07)	(0.05)	0.85	(0.21)	0.00	0.00
Timing difference between derivatives recognised and settle	(1.22)	3.77	(17.03)	15.07	0.00	0.00
Stock compensation expense	1.98	6.06	5.74	3.32	0.00	0.00
Inventory revaluation	0.00	0.00	8.38	0.00	0.00	0.00
Non-cash interest on secured loan facility	2.93	6.14	2.19	0.00	0.00	0.00
Non-cash interest settlement on preference shares	0.00	0.00	0.37	0.00	0.00	0.00
Non-cash interest settlement on debentures	0.00	0.00	2.62	2.35	0.00	0.00
Oil and gas properties expensed	7.82	14.55	1.10	0.25	0.00	0.00
Loss/(gain) on proportionate consolidation of LNG project	1.85	(4.18)	(0.81)	0.72	0.00	0.00
Unrealized foreign exchange gain	(4.74)	(5.08)	(3.73)	(3.90)	0.00	0.00
Other	0.76	0.57	0.00	0.00	0.00	0.00
Preference share transaction costs	0.00	0.39	0.00	0.00	0.00	0.00
Change in operating working capital						
Decrease/(increase) in trade receivables	(6.66)	6.66	18.68	(43.46)	35.45	(24.92)
(Decrease)/increase in unrealised hedge gains	0.00	0.00	0.90	6.27	0.00	0.00
Decrease/(increase) in other assets and prepaid expenses	0.00	(2.70)	0.59	0.18	(0.65)	(1.37)
(Increase)/decrease in inventories	2.64	(6.03)	(3.19)	1.21	22.93	(31.15)
Increase/(decrease) in accounts payable, accrued liabilities	28.77	(34.53)	5.85	81.73	26.85	27.28
Cash flow - operating activities	**2.19**	**(31.62)**	**15.59**	**83.04**	**105.32**	**(9.36)**
Investing activities						
Expenditure on oil and gas properties	(49.66)	(69.09)	(63.89)	(43.68)	0.00	0.00
Proceeds from IPI cash calls	0.00	21.78	18.32	5.58	0.00	0.00
Expenditure on plant and equipment	(13.59)	(7.29)	(5.17)	(4.86)	0.00	0.00
Proceeds received on sale of assets	3.77	0.07	0.31	0.00	0.00	0.00
Proceeds received on sale of exploration assets	0.00	0.00	6.50	0.00	0.00	0.00
Acquisition of subsidiary	(25.82)	(3.33)	0.00	0.00	0.00	0.00
(Increase)/decrease in restricted cash held as security on borı	(15.86)	10.13	(3.90)	4.92	0.00	0.00
(Decrease)/increase in accounts payable and accrued liabilitie	2.41	6.35	0.44	(5.89)	0.00	0.00
Other	0.00	7.00	0.00	0.00	0.00	0.00
Allocation of oil and gas properties expenditure applied agains	1.67	0.00	0.00	0.00	0.00	0.00
Cash flow - investing activities	**(97.07)**	**(34.37)**	**(47.39)**	**(43.93)**	**0.00**	**0.00**
Financing activities						
Proceed /Repayments of secured loan	(4.50)	(4.50)	(9.00)	(4.50)	0.00	0.00
Borrowings / Repayments of bridging facility, net of transactioı	103.84	(0.10)	(70.00)	0.00	0.00	0.00
Proceeds from PNG LNG cash call	0.00	9.45	9.45	0.00	0.00	0.00
Repayment of deferred financing fees	0.00	(0.36)	0.00	0.00	0.00	0.00
Proceeds from Clarion Finanz for Elk option agreement	0.00	5.92	5.50	3.58	0.00	0.00
Proceeds from Petromin for Elk participation agreement	0.00	0.00	4.00	4.44	0.00	0.00
(Repayments of)/proceeds from working capital facility	(33.85)	29.63	2.29	(64.83)	0.00	0.00
Proceeds from issue of common shares/conversion of debt, n	1.47	23.82	(0.10)	83.91	0.00	0.00
Proceeds from issue of debentures, net of transaction costs	0.00	0.00	94.78	0.00	0.00	0.00
Proceeds from preference shares, net of transaction costs	0.00	14.25	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from conversion of warrants	0.00	0.07	0.00	0.00	0.00	0.00
Cash flow - financing activities	**66.96**	**78.17**	**36.91**	**22.59**	**0.00**	**0.00**
Foreign exchange gain/(loss) / Adjustment for restatement	(0.00)	0.00	0.00	0.00	0.00	0.00
Increase in cash and cash equivalents	(27.92)	12.18	5.11	61.69	105.32	(9.36)
Beginning cash	59.60	31.68	43.86	48.97	110.66	215.98
Ending cash	**31.68**	**43.86**	**48.97**	**110.66**	**215.98**	**206.63**

Source: Company data, Morgan Stanley Research estimates

Exhibit 6

InterOil Balance Sheet (2006-2011E)

Balance Sheet Statement $MM	2006	2007	2008	2009E	2010E	2011E
Assets						
Current Assets						
Cash and Cash equivalents	31.68	43.86	48.97	110.66	215.98	206.63
Cash restricted	29.30	22.00	25.99	14.52	14.52	14.52
Trade / other receivables	67.54	63.15	42.89	85.53	50.08	75.00
Commodity derivative contracts	1.76	0.00	31.34	0.00	0.00	0.00
Other assets	2.95	0.15	0.17	0.70	0.70	0.70
Inventories	67.59	82.59	83.04	85.53	62.60	93.75
Prepaid Expenses	0.88	5.10	4.49	3.78	4.42	5.79
Total Current Assets	201.71	216.85	236.88	300.72	348.30	396.39
Non-current						
Cash restricted	3.22	0.38	0.29	6.84	6.84	6.84
Deferred financing cost	1.72	0.00	0.00	0.00	0.00	0.00
Goodwill	0.00	0.00	0.00	5.76	5.76	5.76
PP&E, Net	242.64	232.85	223.59	214.12	199.80	185.43
Oil and gas properties	54.52	84.87	128.01	157.88	157.88	157.88
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Future income tax benefit	1.42	2.87	3.07	2.06	2.06	2.06
Total Assets	505.24	537.82	591.84	687.38	720.65	754.36
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	76.10	60.43	78.15	154.94	181.78	209.06
Commodity derivative contracts	0.00	1.96	0.00	0.00	0.00	0.00
Working capital facility	36.87	66.50	68.79	3.96	3.96	3.96
Deferred hedge gain	0.00	0.00	0.00	0.00	0.00	0.00
Current portion of secured loan	13.50	136.78	9.00	9.00	9.00	9.00
Current portion of indirect participation interest	0.73	1.08	0.54	0.54	0.54	0.54
Other	6.55	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	133.75	266.75	156.48	168.44	195.29	222.57
Accrued financing costs	1.09	0.00	0.00	0.00	0.00	0.00
Secured loan	184.17	61.14	52.37	47.98	47.98	47.98
8% subordinated debenture liability	0.00	0.00	65.04	0.00	0.00	0.00
Preference share liability	0.00	7.80	0.00	0.00	0.00	0.00
Deferred gain on contributions to LNG project	0.00	9.10	17.50	13.08	13.08	13.08
Indirect participation interest	96.86	96.09	72.48	70.05	70.05	70.05
Indirect participation interest - PNGDV	1.19	0.84	0.84	0.84	0.84	0.84
Other	0.00	0.00	0.00	0.00	0.00	0.00
Total Long Term Liabilities	283.31	174.97	208.22	131.95	131.95	131.95
Non controlling interest	5.76	0.00	0.01	0.01	0.01	0.02
Stockholders' Equity						
Share capital	233.89	259.32	373.90	550.08	550.08	550.08
Preference shares	0.00	6.84	0.00	0.00	0.00	0.00
8% subordinated debentures	0.00	0.00	10.84	0.00	0.00	0.00
Contributed surplus	4.38	10.34	15.62	17.36	17.36	17.36
Warrants	2.14	2.12	2.12	2.12	2.12	2.12
Accumulated Other Comprehensive Income	1.49	6.03	27.70	16.55	16.55	16.55
Conversion options	20.00	19.84	17.14	17.14	17.14	17.14
Accumulated deficit	(179.48)	(208.39)	(220.19)	(216.26)	(209.85)	(203.42)
Total Shareholder Equity	82.42	96.10	227.13	386.99	393.40	399.83
Total liabilities and Stockholders' Equity	505.24	537.82	591.84	687.38	720.65	754.36

Source: Company data, Morgan Stanley Research estimates

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Total	**2,445**		**693**		

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Industry Coverage:Integrated Oil

Company (Ticker)	Rating (as of)	Price* (01/08/2010)
Evan Calio		
Chevron Corporation (CVX.N)	O (07/14/2009)	$79.47
ConocoPhillips (COP.N)	E (07/14/2009)	$53.26
Exxon Mobil Corporation (XOM.N)	E (07/14/2009)	$69.52
Hess Corporation (HES.N)	O (11/20/2009)	$65.83
InterOil Corporation (IOC.N)	O (01/06/2010)	$83.65
Marathon Oil Corporation (MRO.N)	U (07/14/2009)	$32.7
Murphy Oil Corporation (MUR.N)	E (07/14/2009)	$59.71

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.