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InterOil Corp.

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(IOC:NYSE)

Company Comment

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Exploration and Production

2Q11: More Offtakes and Perhaps Resource Selldown on Tap by Year-End

Recommendation. Our positive stance on InterOil is predicated on its long-term cash flow potential and the expectation of near-term catalysts. That's balanced by the operational, cost, and timing risks as the upstream assets, condensate plant, and LNG plants are developed over the next three-plus years. Currently, we see multiple near-term catalysts within six months, including the final investment decision (FID), additional offtake deals, and the spudding of the Triceratops-2 well. We reiterate our **Outperform** rating.

- **Forex gain drives 2Q results.** While we'd reiterate that at the current stage, quarterly earnings are essentially irrelevant, InterOil reported 2Q11 EPS of $0.48. That's well above our $0.01 estimate, with the upside driven by a $13 million foreign exchange gain along with lower than expected SG&A and exploration expense. Together, they more than offset refinery utilization of 51%, which was below our 86% assumption.

- **More offtake agreements coming up.** Our biggest takeaway from today's call? More offtakes, apparently including at least one with a resource monetization. InterOil signed its first LNG offtake agreement earlier this month, a heads of agreement with Noble Clean Fuels for 1.0 million tons/year (mtpa). Today, management reiterated that they are "actively trading paper" with several more prospective buyers and expects another two to three deals by year-end. The company plans to contract for 75% of the initial 5 mtpa capacity (with the balance available for the spot market), or about 3.8 mtpa. Management noted that potential partners are expressing enough interest to cover the projects' expected output 10-15x over. As to whether any of the prospective buyers have indicated interest in taking a stake in the underlying Elk/Antelope resource, the answer was "yes." Thus, management expects at least of portion of the offtakes to include a monetization component. Management is targeting deal multiples in the $5-7/Mcf range for in-ground resource; for some perspective, the stock is currently trading just below $0.50/Mcfe. To be crystal-clear, we do not think that the selldown needs to be anywhere near $5-7/Mcf for the stock to move meaningfully higher.

- **Bwata folded into Triceratops.** With additional seismic and interpretation of phases 2 and 3, it was determined that the Bwata and Triceratops fields are one structure, and thus the planned Bwata-2 well is now Triceratops-2. The rig site is currently being prepped, with 4Q still the targeted spud date.

Valuation. IOC is currently trading at 50% of our "de facto" proved NAV estimate of ~$109 per share. While recognizing that valuation is not very meaningful until FID and/or a resource sell-down, the 50% figure can be loosely compared to medians near 150% for traditional, mid and small-cap production-stage E&P companies. Our $80.00 target price is based on a ~25% discount to NAV, which comprises a sum of the parts valuation of each of the business segments, as detailed on the following page.

Non-GAAP EPS	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	**GAAP EPS** Full Year	**Revenues (mil.)**
2010A	$(0.07)	$0.17	$0.10	$(0.32)	$(0.11)	$(1.03)	$807
Old2011E	0.01A	0.01	(0.04)	(0.07)	(0.08)	(0.08)	1,186
New2011E	**0.01A**	**0.48A**	**0.01**	**(0.07)**	**0.44**	**0.44**	**1,162**
Old2012E	(0.07)	0.02	(0.03)	(0.06)	(0.14)	(0.14)	1,392
New2012E	**(0.07)**	**0.03**	**(0.03)**	**(0.06)**	**(0.12)**	**(0.12)**	**1,391**

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.

Rating

Outperform 2

Current and Target Price

Current Price (8/11/2011 12:00 p.m.)	$52.49
Target Price:	$80.00
52-Week Range	$81.98 - $47.29
Suitability	High Risk

Market Data

Shares Out. (mil.)	48.8
Market Cap. (mil.)	$2,562
Avg. Daily Vol. (10 day)	609,300
Dividend/Yield	$0.00/0.0%
Book Value (06/11)	$15.05
LT Debt (mil.)/% Cap.	$104/12%
NAV/Share	$109.37

Earnings & Valuation Metrics

	2010A	2011E	2012E
P/E Ratios (Non-GAAP)	NM	NM	NM
EBITDA (mil.)			
Old	$60	$71	$69
New	$60	$80	$69
Cash Flow/Share			
Old	$0.96	$1.00	$0.66
New	$0.96	$1.74	$0.66

Company Description

InterOil Corp., based in Australia, 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 refinery and owns a network of retail and wholesale distribution outlets, while also pursuing an exploration program.

Please read domestic and foreign disclosure/risk information beginning on page 3 and Analyst Certification on page 3.

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InterOil Corp. Net Asset Value ($ millions)	
1P Condensate Resource	617
1P Natural Gas Resource	3,791
Midstream DCF	749
Downstream DCF	133
Investments & Other Assets	0
Working Capital	304
Net Worth of Assets	**5,594**
Less: Long-Term Debt	84
Less: Other Liabilities	46
De Facto Proved NAV of Common	**5,463**
De Facto Proved NAV/ Share	**$109.37**
2P Condensate, Risked	$1.38
2P Natural Gas, Risked	$12.43
Total NAV/ Share	**$123.19**
FD Shares Outstanding, MM	50.0

Assumptions: RJ's latest long-term oil and gas price forecasts; 1P resource is from year-end 2010 resource report; 2P resource is from year-end 2010 resource report, risked at 50%; gas valued at $1.00/Mcf, condensate at $10.00/Bbl; cash flow discounted at 10%

Source: Company reports, RJ est.

InterOil Corp.

QUARTERLY INCOME AND CASH FLOW (MILLIONS)

Earnings & Cash Flow	2006 A	2007 A	2008 A	2009 A	2010 A	Q1 A	Q2 A	Q3 E	Q4 E	2011 E	Q1 E	Q2 E	Q3 E	Q4 E	2012 E
Upstream Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Midstream Revenue	315.2	233.9	358.9	299.7	298.1	66.6	81.2	137.8	138.4	423.9	140.4	154.4	158.2	166.2	619.2
Downstream Revenue	195.9	391.7	556.7	388.8	504.3	157.7	191.4	167.5	169.0	685.6	179.8	192.4	193.2	202.9	768.3
Investment Income and Other	7.0	4.8	4.1	4.6	4.6	19.3	31.2	1.0	1.0	52.5	1.0	1.0	1.0	1.0	4.0
Total Operating Revenues	$518.1	$630.4	$919.7	$693.1	$807.0	$243.7	$303.8	$306.3	$308.3	$1,162.1	$321.1	$347.8	$352.4	$370.2	$1,391.5
Upstream Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Midstream Cost of Goods Sold	316.0	204.8	351.7	242.4	230.8	59.8	87.9	113.3	115.1	376.1	115.9	124.9	131.2	140.6	512.6
Downstream Cost of Goods Sold	183.5	368.8	536.9	359.6	470.8	143.2	182.4	159.9	161.2	646.7	171.9	184.4	185.2	194.8	736.3
Gross Income	18.6	56.8	31.1	91.1	105.4	40.6	33.5	33.1	32.0	139.3	33.4	38.4	36.0	34.8	142.6
Depr., Depl., & Amortization	12.4	13.0	14.1	14.3	14.3	4.6	4.2	4.5	4.6	17.9	4.7	4.8	4.9	5.0	19.4
Selling, G & A Expenses	20.7	39.3	42.8	42.3	48.0	17.2	7.1	17.5	17.8	59.5	18.0	18.3	18.5	18.8	73.5
Exploration	6.2	13.3	1.0	0.2	17.0	7.3	2.7	5.0	7.0	22.1	8.0	8.0	8.0	8.0	32.0
Operating Income	(20.7)	(8.8)	(26.8)	34.2	26.2	11.5	19.5	6.1	2.7	39.8	2.7	7.4	4.6	3.1	17.7
Total Interest Expense	20.3	22.7	24.0	12.6	12.1	3.9	4.8	4.0	4.0	16.7	4.0	4.0	4.0	4.0	16.0
Foreign Exchange and Other	2.7	(3.9)	(39.0)	26.6	52.3	(3.0)	(16.6)	0.0	0.0	(19.6)	0.0	0.0	0.0	0.0	0.0
Income Tax Expense	2.3	1.2	0.1	(11.1)	7.4	9.9	7.8	1.8	1.8	21.1	1.8	1.8	1.9	1.9	7.4
Non-Controlling Interest	(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	0.0	0.0
Reported Net Income	(45.8)	(28.9)	(11.8)	6.1	(45.5)	0.7	23.5	0.4	(3.1)	21.5	(3.1)	1.5	(1.2)	(2.8)	(5.6)
Adjustments for Nonrecurring Items	1.9	(4.1)	(11.5)	13.2	40.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted Net Income	($43.9)	($33.0)	($23.3)	$19.2	($5.1)	$0.7	$23.5	$0.4	($3.1)	$21.5	($3.1)	$1.5	($1.2)	($2.8)	($5.6)
Reported Fully Diluted EPS	($1.55)	($0.96)	($0.32)	$0.15	($1.03)	$0.01	$0.48	$0.01	($0.07)	$0.44	($0.07)	$0.03	($0.03)	($0.06)	($0.12)
Adjusted Fully Diluted EPS	($1.48)	($1.10)	($0.63)	$0.47	($0.11)	$0.01	$0.48	$0.01	($0.07)	$0.44	($0.07)	$0.03	($0.03)	($0.06)	($0.12)
Primary Shares Outstanding, Mil.	29.6	30.0	33.6	39.9	43.9	47.9	48.0	48.0	48.0	47.9	48.0	48.0	48.0	48.0	48.0
Fully Diluted Shares Outstanding, Mil.	29.6	30.0	36.7	40.7	44.3	48.9	48.8	50.0	48.0	48.9	48.0	50.0	48.0	48.0	48.5
Cash Flow	**2006 A**	**2007 A**	**2008 A**	**2009 A**	**2010 A**	**Q1 A**	**Q2 A**	**Q3 E**	**Q4 E**	**2011 E**	**Q1 E**	**Q2 E**	**Q3 E**	**Q4 E**	**2012 E**
Net Income	($45.8)	($28.9)	($11.8)	$6.1	($45.5)	$0.7	$23.5	$0.4	($3.1)	$21.5	($3.1)	$1.5	($1.2)	($2.8)	($5.6)
Depl., Depr. & Amort.	12.4	13.0	14.1	14.3	14.3	4.6	4.2	4.5	4.6	17.9	4.7	4.8	4.9	5.0	19.4
Deferred Income Tax	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	0.0	0.0
Other Non-Cash & Adjustments	9.5	22.5	(9.4)	37.3	73.8	20.3	16.8	4.4	4.4	45.9	4.5	4.6	4.6	4.7	18.4
Operating Cash Flow	($22.3)	$5.0	($7.2)	$57.7	$42.6	$25.6	$44.5	$9.3	$5.9	$85.3	$6.1	$10.9	$8.3	$6.9	$32.1
Fully Diluted Cash Flow/Share	($0.75)	$0.17	($0.20)	$1.42	$0.96	$0.52	$0.91	$0.19	$0.12	$1.74	$0.13	$0.22	$0.17	$0.14	$0.66

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

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	Coverage Universe Rating Distribution		Investment Banking Distribution	
	RJA	**RJL**	**RJA**	**RJL**
Strong Buy and Outperform (Buy)	57%	76%	15%	58%
Market Perform (Hold)	38%	23%	5%	37%
Underperform (Sell)	5%	2%	2%	0%

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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.

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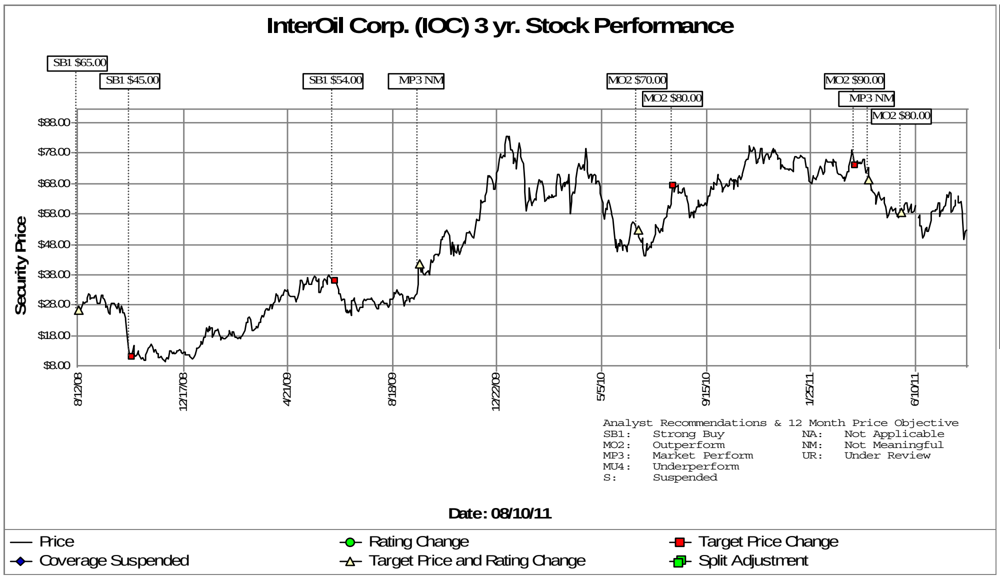
Target Prices: The information below indicates our target price and rating changes for IOC stock over the past three years.



Update Date	Closing Price	Target Price	Rating
5/24/11	58.65	80.00	2
4/12/11	69.21	NM	3
3/23/11	74.37	90.00	2
8/4/10	67.60	80.00	2
6/22/10	52.57	70.00	2
9/21/09	41.69	NM	3
6/12/09	36.35	54.00	1
10/13/08	11.05	45.00	1
8/12/08	26.30	65.00	1

Valuation Methodology: Our valuation methodology for InterOil is centered on our estimate of the company's net asset value (NAV) per share.

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General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (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. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

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.

Company-Specific Risks for InterOil Corp.

Project Execution Risk

InterOil does not currently have any proved oil and gas reserves. For the company to begin to book its estimated contingent resources as proved reserves, there must be one or more formal plans of development. The timeline for developing the proposed condensate stripping

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plant and both of the proposed LNG plants extends to 2014. Historically, large-scale energy infrastructure projects such as these have tended to come in above budget and take longer than expected to complete.

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.

Clarion Finanz Risk
InterOil's proposed LNG development is a joint venture with Clarion Finanz, a financial institution based in Switzerland. Clarion is a privately held firm, without a website, so there is minimal visibility into its operations, corporate governance, funding, and financial condition.

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