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June 18, 2012

Stock Rating

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Industry View

Attractive

InterOil Corporation

Annual Meeting Takeaways: Confirming JV Bids

IOC held its annual general meeting Friday and released an updated investor presentation confirming that the ongoing sell-down process is nearing completion with multiple conforming and nonconforming JV bids.

Sell-down nearing completion, multiple conforming bids considered: At Friday's annual general meeting management provided key updates on the ongoing sell-down process (the key investment debate) and 2H12 operational plans. Per management's published comments, the sell-down process is: (1) "nearing completion", (2) all "bidders are capable of satisfying the 2009 LNG project agreement," (3) "top bids [are] at a multiple to share value," (4) "ideal balance to maximize IOC shareholder value is a sale of 24% to 32.5% [Elk/Antelope]," (5) "[m]ulti-billion dollar arrangements with significant upfront payments," and (6) "minimum precondition and PNG government acknowledgement." Transaction timing was not disclosed and remains uncertain with PNG elections commencing June 23rd. We note that IOC has one of the highest short interest among all US equities (19% of TSOs).

What's new: IOC announced that its "sell-down process is nearing completion" with top bids at a "multiple" to share value and that all bids are able to satisfy the 2009 LNG project agreement with the PNG government. IOC also announced T-2 flow rate (28mmcf/d), a potential larger area under closure for T-2 discovery (2x Antelope which is a 9.2tcf 2C resource). IOC also announced the completion of geotechnical work on Tuna/Wahoo/Mako as well as identifying drilling locations for appraisal wells in Elk/Antelope.

What's next: While it is unclear whether IOC will meet the guided June 30 announcement target on the upstream sell-down due to PNG politics, the process is advancing with new PM likely in office in August.

Key Ratios and Statistics

Reuters: IOC.N Bloomberg: IOC US

Integrated Oil / United States of America

Price target	++
Shr price, close (Jun 14, 2012)	\$58.72
Mkt cap, curr (mm)	\$2,886
52-Week Range	\$75.85-31.19

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS (\$)	0.36	0.24	0.16	0.16
Prior ModelWare EPS (\$)	-	-	-	-
P/E	142.5	248.6	358.6	358.6
Consensus EPS (\$)	0.13	0.28	0.16	1.12
Div yld (%)	0.0	0.0	0.0	0.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.

e = Morgan Stanley Research estimates

++ = Stock Rating, Price Target or Estimates are not available or have been removed due to applicable law and/or Morgan Stanley policy.

Recent Reports

Title	Date
InterOil Corporation: Another Step Forward and Another Unexpected Turn Evan Calio / Marko Lazarevic	May 14, 2012
InterOil Corporation: Positive Sell-down: Key Milestones in 2Q12 Evan Calio / Todd Firestone / Marko Lazarevic / Jacob Dweck	Apr 30, 2012
InterOil Corporation: Table Set for Early 2012 Evan Calio / Todd Firestone / Marko Lazarevic / Jacob Dweck	Dec 22, 2011

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Annual General Meeting Highlights

Updated Investor Presentation at Friday's Annual General Meeting:

Management provided key updates on the ongoing sell-down process (the key investment debate) and 2H12 operational plans. Per management's published comments, the sell-down process is: (1) "nearing completion", (2) all "bidders are capable of satisfying the 2009 LNG project agreement," (3) "top bids [are] at a multiple to share value," (4) "ideal balance to maximize IOC shareholder value is a sale of 24% to 32.5% [Elk/Antelope]," (5) "[m]ulti-billion dollar arrangements with significant upfront payments," and (6) "minimum precondition and PNG government acknowledgement."

Exhibit 1

JV Process Is Nearing Completion

LNG Partnering and Elk and Antelope Sell Down Process Nearing Completion

Working with a short list of qualified bidders

- All bidders capable of satisfying the 2009 LNG project agreement
- Financing and other requirements for closure include:
 - ✓ Funding for purchase of interest in E/A
 - ✓ Funding and approvals for development plan
 - ✓ Off-take commitments
 - ✓ Board Approvals

Advisors improving competitive bids

- Significant interest in InterOil's LNG project by internationally recognized LNG partners
- Competitive tension maximizes the value of the resource to all stakeholders
- Bids values today are multiples higher than first offers

Advancing binding agreements on conforming bids

- Require detailed binding agreements
- Multi-Billion dollar arrangements with significant upfront payments
- The ideal balance to maximize IOC shareholder value is a sale of 25% to 32.5%
- Minimal preconditions and PNG government acknowledgement

Bids accretive to shareholders

- Minimum bid price under discussion is substantially accretive to the implied current market value of the company's certified resources
- Upper range is multiple times higher than the current valuation

Management's highest priority

- Completing a transaction and achieving final investment decision (FID) as soon as possible
- PNG government acknowledgement is required and should be a priority after the election

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Source: IOC

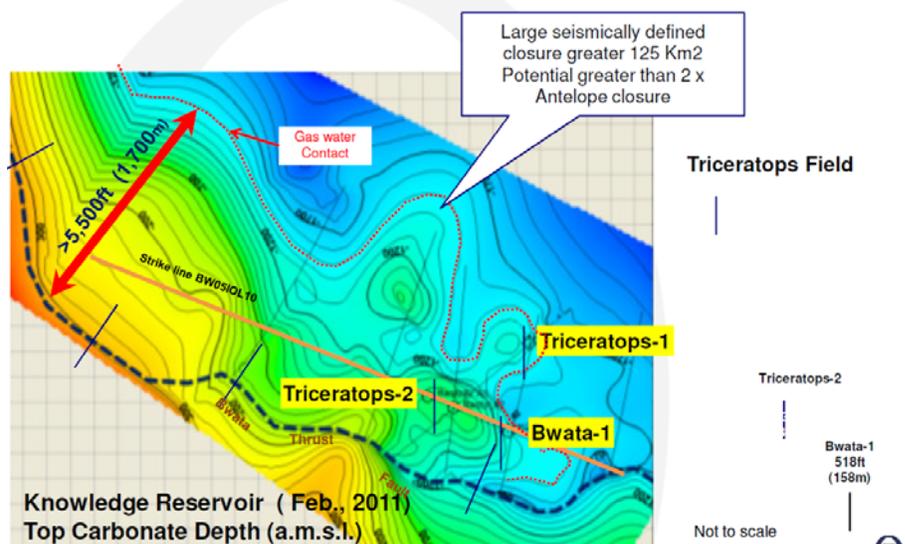
Exhibit 2

T-2 Results Improving...

T-2 drill stem test results. IOC

updated the results of the latest DST at T-2 with a flow rate of 28 MMcf/d through a 56/64" choke which is an improvement over the previous DST which flowed at 17.6 MMcf/d on a 48/64" choke. IOC believes this flow rate compares favorably with results from equivalent DST intervals at Antelope-1 and Antelope-2 which were a rate of 12.4 to 18 MMcf/d and a rate of 11.2 to 17.4 MMcf/d respectively.

Potential Tall Hydrocarbon Column Under Large Area Of Closure



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Source: IOC

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(as of May 31, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1133	38%	471	43%	42%
Equal-weight/Hold	1250	42%	472	43%	38%
Not-Rated/Hold	99	3%	27	2%	27%
Underweight/Sell	461	16%	121	11%	26%
Total	2,943		1091		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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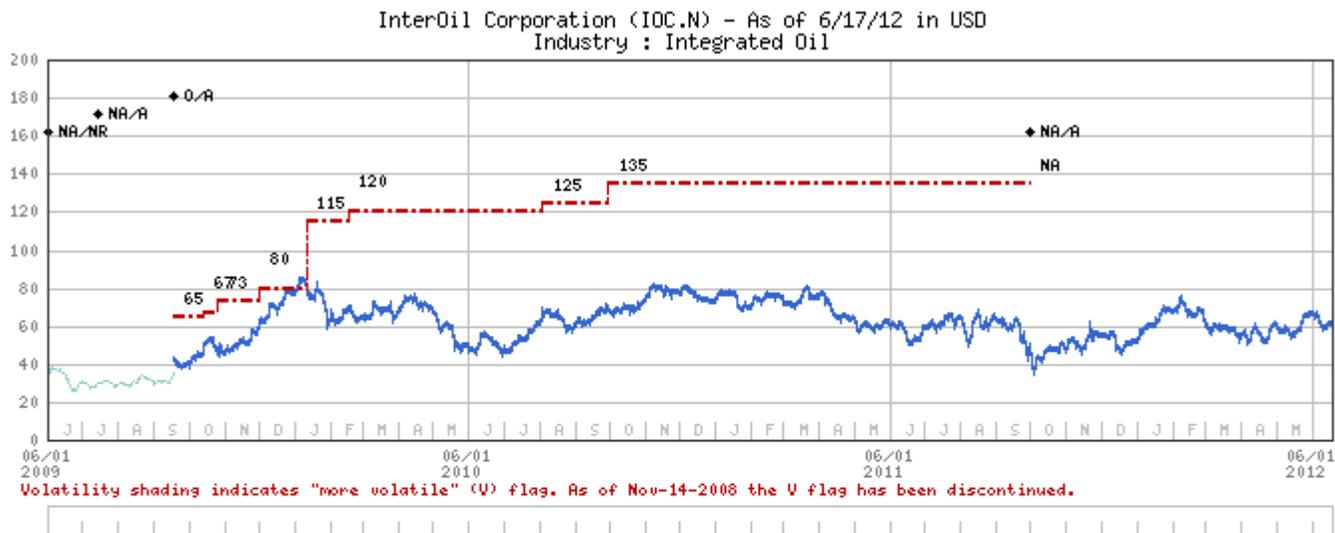
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Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 6/1/09 : NA/NR; 7/14/09 : NA/A; 9/18/09 : O/A; 9/30/11 : NA/A

Price Target History: 9/18/09 : 65; 10/14/09 : 67; 10/26/09 : 73; 12/1/09 : 80; 1/11/10 : 115; 2/16/10 : 120; 8/4/10 : 125; 9/30/10 : 135; 9/30/11 : NA

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

June 18, 2012
InterOil Corporation

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InterOil Corporation

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Industry Coverage: Integrated Oil

Company (Ticker)	Rating (as of)	Price* (06/15/2012)
Evan Calio		
Chevron Corporation (CVX.N)	O (07/14/2009)	\$104.33
Cobalt International Energy Inc (CIE.N)	O (12/02/2010)	\$21.99
ConocoPhillips (COP.N)	U (10/01/2010)	\$55.46
Exxon Mobil Corporation (XOM.N)	E (07/14/2009)	\$83.22
Hess Corporation (HES.N)	O (05/06/2011)	\$44.8
InterOil Corporation (IOC.N)	++	\$60.86
Marathon Oil Corporation (MRO.N)	E (07/08/2011)	\$24.87
Murphy Oil Corporation (MUR.N)	E (11/04/2011)	\$45.67
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