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Stock Rating
Overweight

Industry View
Attractive

Initiation

InterOil Corporation

Major Transformation Going Unnoticed; Overweight

Initiating coverage of InterOil at Overweight with a 12-month price target of $65. IOC's business model has matured as interest in the story has waned. We see compelling risk/reward and believe IOC is poised for a major transformation — from a volatile, and often controversial, exploration-focused integrated oil company to a global LNG player with significant exploration upside in Papua New Guinea (PNG). We see $5/share of value for existing downstream operations, with a call option on successful LNG development worth $60/share ($30 upside from current share price). Our price target offers 88% upside, and we see upside potential to our target as elements of the story derisk over time.

We think capital markets do not fully value:

1) *Potential of IOC's discovered resource.* We estimate in excess of 6Tcfe gas and 75MMbbls liquid.
2) *Potential for resource monetization.* IOC is in the final phases of due diligence with several companies on an upstream partnership and LNG venture;
3) *Exploration upside.* We have a favorable view of current drilling potential of the Antelope-2 well and exploration potential in PNG.
4) *Refining upside.* We see refining upside for IOC as a niche refiner levered to economic growth in PNG.

Unnoticed positive exploration and development story creates a buying opportunity. We expect the gap between improving fundamentals and the stock price to close as the new story is understood. We have investigated alleged negative claims, visited every IOC well-site in PNG, conducted due diligence, and analyzed the financials. We expect significant share price appreciation once the market begins to see evidence of transformation led by potential 2009 catalysts: success at Antelope-2 and a sell-down of IOC's project interest.

Binary outcomes highlight risk. Realized valuation hinges on a sell-down of project interest. Failure to secure a deal may meaningfully impact the stock, while a dry hole at Antelope-2 would weaken IOC's position.

Key Ratios and Statistics

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

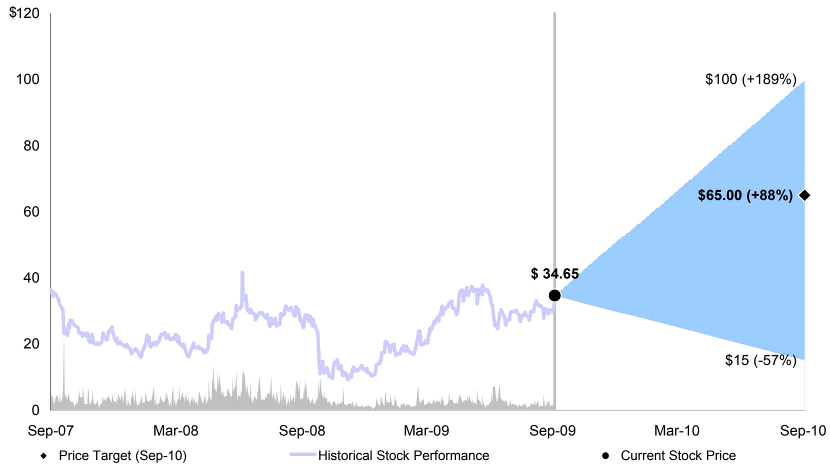
Price target	**$65.00**
Shr price, close (Sep 17, 2009)	$34.65
Mkt cap, curr (mm)	$1,477
52-Week Range	$38.10-8.90

Fiscal Year ending	**12/08**	**12/09e**	**12/10e**	**12/11e**
ModelWare EPS ($)	**(0.32)**	**0.10**	**0.15**	**0.15**
P/E	**NM**	**356.6**	**238.0**	**237.4**
Consensus EPS ($)§	**(0.35)**	**0.34**	**0.25**	**-**
EBITDA ($mm)	23	44	48	48
EV/EBITDA	29.7	32.2	27.3	27.2
EBITDA margin (%)	2.4	6.1	4.5	3.5
Net debt ($mm)	131	(71)	(176)	(167)
Net debt/EBITDA	5.8	NM	NM	NM
FCFfY ($mm)	(54)	30	105	(9)
Return on avg eqty (%)	(7.7)	1.3	1.6	1.6
ROE (%)	(13.2)	1.8	1.7	1.6
Div per shr ($)	0.00	0.00	0.00	0.00
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 FactSet Estimates.
e = Morgan Stanley Research estimates

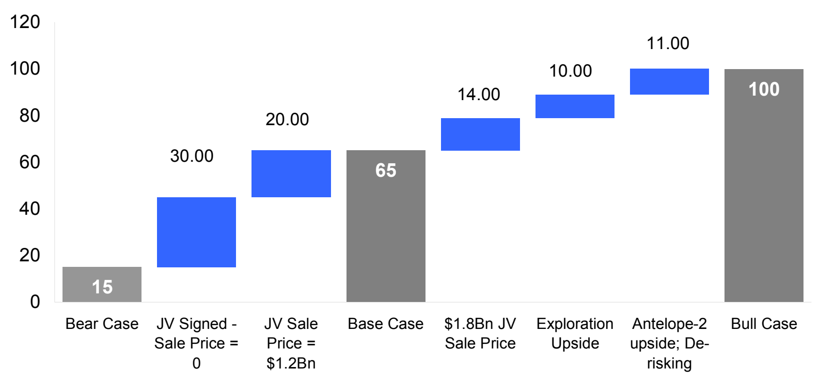
InterOil Corp. (IOC, $34.65, Overweight, Price Target $65)

Risk-Reward View: Strong Risk/reward Skew



Price Target $65	Derived from our base case.
Bull Case $100 Assumes $95 oil price (perpetuity)	**Exploration Upside; Higher liquids in Antelope** Antelope-2 well successful improving resource estimate and liquid stripping economics,150MMbbls of liquids; $1.8 billion sale price of IOC's interest and $10 per share for exploration upside and liquids/gas resource upside at Antelope-2.
Base Case $65 Assumes $85 oil price (perpetuity)	**Joint Venture Partnership is Signed** Assumes 75MMbbls of liquids (liquids stripping financed on unlevered basis), $1.2 billion sale price of IOC's interest. Upstream NAV risked at 80% chance of success on LNG project development, with shares targeted to trade at an additional 23% discount to risked NAV.
Bear Case $15 Assumes $55 oil price	**No Joint Venture Signed and Antelope-2 Disappoints** Assumes IOC is unable to enter a LNG development JV, assumes Antelope-2 well is unsuccessful and, in $55 oil price environment, IOC exploration resource and undeveloped acreage is worth $10 per share with the refining at $5 per share.

Bear to Bull



Source: FactSet, 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.
- Catalyst-loaded story over the next 12-months.
- 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 drilling results** are due late Oct 2009. High likelihood for well success in confirming IOC's natural gas resource with liquids potential
- **Upstream partnership** signed before year-end. We believe IOC's offering is relatively compelling in terms of well-economics, liquids content, and upstream interest offered to attract a JV partner on strong terms.
- **Resource upgrade and reserve booking potential.** We expect a resource update after Antelope-2 and reserve booking potential in 2010 when IOC and partners FID any LNG facility.
- **Other exploration wells.** IOC has identified several other structures and we expect results in 2010.
- **Acquisition of a second drilling rig** to accelerate drilling and potential development.

Where We Could Be Wrong

- Exploration failure. IOC is proving its resource base and any exploration failure will likely delay development and, as historically, materially impact share 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 before potential 1H10 liquidity shortage forces additional capital raise (see page 9).

Well Positioned, with Multiple Catalysts, Over the Next 6 Months

Prospective Exploration and Delineation Drilling (4Q09 into 2010)

Antelope-2: We see a strong likelihood of success. IOC is drilling the Antelope-2 prospect to delineate the Antelope reef structure, and complete drilling results are due by the end of October 2009, with intermittent results while drilling. The well is approximately 2.2 miles to the South of Antelope-1 and targets the southern portion of the reef structure.

The well will: (1) inform the extent of the natural gas resource estimate from Antelope-1, and (2) determine whether the dolomitized zone extends into a potential liquids leg discovered at the base of the Antelope-1 reservoir. Based on seismic interpretations, the dolomitized zone appears to extend down-dip in the southern portion, raising the liquids potential (either an oil leg or condensates). We believe there is a strong likelihood of success for the well extending and confirming natural gas resources and represents a potential upside opportunity for liquids. A failure at Antelope-2 will certainly not preclude development, as there appears to be sufficient resource right now for at least one train, but would weaken IOC's position for the asset sell-down and may result in delays.

Other Elk/Antelope delineation and development wells. From late 2009 into 2010, IOC intends to drill additional wells in the Elk/Antelope structure. IOC has begun to prepare drilling locations for Antelope-3 and Antelope-4 wells.

We believe IOC is poised for a major transformation — from a volatile, and often controversial, exploration-focused integrated oil company to a global LNG player.

Other exploration wells. IOC is exploring the acquisition of a second drilling rig and expects a purchase in 4Q09. The second rig will accelerate drilling and potential development and will also reduce the dependence on a single rig. This will allow IOC to drill 2+ prospects per year, accelerating resource exploration and establishment, and increasing future catalysts.

As IOC drills additional wells, we note two important points: (1) its ownership interests will increase as IOC has sold interests in various prospects (see ownership table, Exhibit 15), and (2) its exploration portfolio will become another potential leg to the story. Other exploration targets have been identified (another prospective reef structure) and we expect new exploration drilling outside Elk/Antelope to begin in 2010. IOC has over 4 million acres (6-year extension on original leases) with over 40 other targets identified. IOC is also increasing its seismic acquisition program to further inform future drilling.

We currently assign no value for additional exploration nor any resource expansion from Antelope-2.

Exhibit 1

IOC Is Better Positioned Than at Any Point in Its 15 Year History

Year	2002	2004	2006	2007	2008	2009	Relative Positioning
Gas Resource Estimate (Tcf)	0	0	0	0	3.4	6.7	**Highest**
Liquid Resource Estimate (mmbls)	0	0	0	0	59.3	100	**Highest**
Highest gas flow rates (mmcf/d)	N/A	N/A	102(Elk-1)	102(Elk-1)	105 (Elk-4)	382 (Antelope-1)	**Highest**
Highest liquids flow rates (bcpd)	N/A	N/A	510 (Elk-1)	510 (Elk-1)	1,890 (Elk-4)	5,000 (Antelope-1)	**Highest**
Viable Monitization Options	None	None	None	Merrill Lynch JV	Ended Merrill Lynch JV	Bankers Running a Process	**Highest Probability**
Wells Drilled to Date (operator)	2	5	8	9	10	12	**Highest (includes wells drilling)**
Rig Operating	Mining Rig	Mining Rig	Single	Double (heliportable)	Double (heliportable)	Double (heliportable)	
						Expecting 2nd Rig	**Potential Addition**
Net Exploration Acreas (MM)	8.0	7.6	8.2	8.2	8.0	4.0	**Lower, yet highgraded**
G&G							
Airborne gravity data (linear mls)	513	3,813	10,044	10,044	10,044	10,044	
2-D Seismic shot (miles)	-	24	1,000	1,144	1,144	1,144	**Highest**
Exploration acrease owned							
Catalysts: **1**	Exploration (coring)	Exploration (coring)	Exploration (Elk-1)	Exploration (Elk-2)	Exploration (Elk-4)	**1** Exploration (Antelope-1)	
2	Refinery Start-up	Refinery Start-up		LNG Agreement	LNG Agreement	**2** Exploration (Antelope-2)	
					Resource Estimate	**3** Form LNG partnership	**Highest Number of Catalysts**
						4 Implied valuation from upstream sell-down	
						5 Resource Upgrade	

Source: Company data, Morgan Stanley Research

Gas Monetization Strategy Progressing (next six months)

IOC is in the final phases of due diligence with various international oil companies (IOCs), national oil companies (NOCs), LNG companies, and utilities (for an off-take agreement) on formation of an upstream partnership and LNG development venture.

We expect an upstream partnership with LNG development designs to be signed over the next six months. Some 70 parties made initial contact to enter the data room, which began in March 2009. We expect a venture to be announced after Antelope-2 results, as Antelope-2 will likely provide additional support for the resource and likely improve IOC's negotiating positioning in a potential deal. Conversely, unsuccessful results will weaken IOC's negotiating position. Any LNG development could include an early stage liquids stripping and recovery project.

We assume an LNG development venture is formed yet risk our natural gas and liquids values at 80% to reflect execution risk.

Resource Estimates Improving (next six months)

IOC intends to get a resource update after Antelope-2 is drilled. Reserve booking is a potential after an upstream partnership is entered and proceeds to FID on liquids and/or LNG facility (likely a 2010 event). An open hole flow test of Antelope-1 over the next 3–6 months will also provide better resource estimate and support development.

Improved Downstream Profitability

IOC's downstream refining represents another growth opportunity, defines floor value support, and provides unique strategic advantages.

Differentiated position. Most hydro-skimming refiners with less than 100kbpd capacity are poorly positioned in today's global downstream environment; however, IOC's position is differentiated by four primary factors:

- It is a niche refinery and protected in two important aspects: (1) refined product prices are set by PNG to include Singapore cracks plus transportation, and (2) domestic product production has preference in PNG.

- It is levered to PNG economic growth and, based upon planned resource development country-wide, PNG's GDP ($8.1 billion in 2008) is set for period of tremendous growth: all of which requires distillate and petroleum products.

- The refinery is sited on the only deep-water port in PNG and provides strategic value for an LNG project.

- The construction and operation of the refinery over the past five years (local employment), in our view, has created political goodwill which should ensure benefits to IOC and its partners in any LNG facility. We believe PNG's decision to opt into IOC's upstream before the PNG LNG project represents evidence of such goodwill. The refinery has been profitable in only 3 of the last 4 quarters, yet it is running at an average of 44% utilization. We believe profitability will improve as utilization improves and we expect demand (i.e., utilization) to improve as seven material infrastructure projects commence into 2010 (see Exhibit 2).

Exhibit 2

Significant Resource Projects Advancing in PNG Will Drive Refined Products Consumption

Company(ies)	Resource	Estimated Costs ($)	Estimated Completion	Comments
Exxon/Oil Search	LNG	$10.3 Bn	2014	Expected to double PNG GDP alone by 2014.
IOC/Partners TBD	LNG/Liquids	$5-7 Bn	2014	Earlier liquids stripping facility potential.
Lihir Gold	Gold	$500MM	2012	Largest investment in PNG's history outside LNG to increase mine's gold production to 1.1MM tons per annum.
Xstrata/Highlands Pacific/OMRD	Copper/Gold	N/A	2015	Started drilling in 2008 and resource estimated 7.5MMtons copper and 14.3MMozs of gold.
Harmony Gold/Newcrest Mining	Gold	$550MM	2010	First open-pit mine in PNG in last 15 years. Expected to produce 225m oz of gold and 4mm ozs of silver per annum. Harmony acquired 2 more exploration projects in PNG in August 2009.
Talisman	Gas/Liquids	N/A	N/A	Acquired Rift Oil, PNG E&P company for $188MM. Increases TLM's PNG exposure where TLM was expecting to drill offshore in 2010.

Source: Company data, Morgan Stanley Research

IOC Can Convert Its PNG Upstream Position into Producing Assets

Debate 1:
Is IOC a legitimate integrated oil company?

Market's view: IOC does not merit investment due to:
1) Exploration disappointments (dry holes)
2) Stock volatility and Shareholder turnover
3) Recent negative media coverage

Our view: IOC is a different story today, and unlikely to repeat its historical performance:
1) Dry holes are a function of frontier exploration and IOC has drilled successful wells in 3 of its last 4 wells.
2) IOC is better positioned for success than at any time in its history: It has the most resource, best well results, and the highest probability of monetizing its natural gas (via LNG partnership).
3) Historical stock volatility and shareholder turnover is attributable to earlier stages of frontier exploration; this has jaundiced the Street's view of the story.
4) Negative media coverage will change over the next 6–12 months.

IOC's business model has matured as interest in the story has waned. In our view, this has created a disconnect between the fundamentals and the stock price.

The Street views IOC as a controversial story. We believe the controversy emanates from several factors: (1) IOC's earlier exploration failures in 2005 and 2007 into high expectations, (2) the stock volatility and shareholder turnover around those events (essentially reflecting the turnover of three separate groups of shareholders (2004, 2006/2007, and late 2008/2009 investors), (3) numerous rounds of financing from 1997–2009 leaving many investors with stale versions of the story, and (4) negative media claims, most recently FDI's claims.

We see compelling risk/reward, and believe IOC is poised to become an LNG player. After investigating alleged negative claims, visiting every IOC well-site in PNG, conducting due diligence, and performing our financial analysis, and we believe that IOC represents a strong risk/reward for investment.

Better Positioned Today

IOC appears to be better positioned for success than at any time in its 15-year history. As an early-stage exploration company with only 3 quarters of positive net income (and zero fiscal years), IOC has raised numerous financings from various parties since its inception in 1997 to fund operations and exploration.

- IOC's resource estimate has risen from 0 in 2007 to 3.4Tcfe in 2008 to 6.7Tcfe post Antelope-1 in March of 2009.
- Its well results have been incrementally better from 2006 to most recent well in 2009.
- It is currently drilling another well into the Antelope structure that should be lower risk than its prior wells; it has the most visible catalysts in its history.
- It has a high probability of executing an LNG partnership to monetize its gas, we think.

Yet its stock is 35–40% off its 2005, 2007, and 2008 highs. We believe many investors may be associating earlier versions of IOC's story with the stock while IOC's position has materially improved. Our primary interest is the future and not IOC's past.

We believe the current opportunity results from 15 years of progress in upstream and downstream operations in Papua New Guinea (PNG). Understanding the evolution of IOC informs the current investment decision and places historical volatility in perspective. We see three distinct timelines — Early Days in a Frontier Region (1997–2006), Material Discoveries (2006–present), and Resource Monetization and Development (Future); see details later in this section. In our view, IOC's stock volatility comports with these distinct periods.

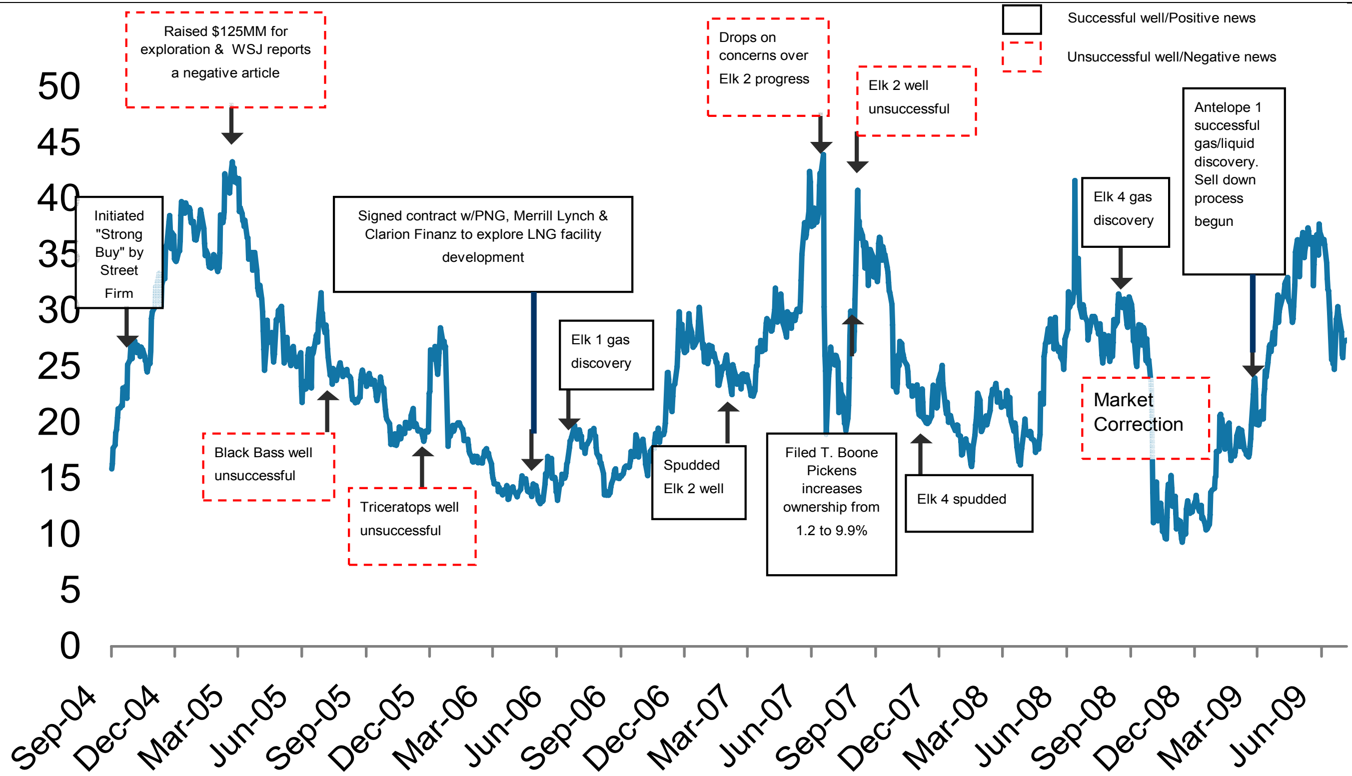
Past Volatility Due to Early Stage Frontier Drilling

Historical volatility has overshadowed positive developments and we expect this will decrease as IOC drills additional wells and begins development, assuming the company monetizes upstream assets and enters into an LNG partnership. We expect this to occur in the next 6 months.

In our opinion, historical stock volatility and shareholder turnover is attributable to earlier stages of frontier exploration drilling (see Exhibit 3). IOC first attracted high short interest in early 2004, due to its significant outperformance in late 2003 and lack of exploration success at that time. After a further string of disappointing well results (2004–05), the stock traded lower until its Elk discovery in 2006. Volatility around Elk-2 (2006), and IOC's performance into the broader market sell-off in late 2008, compounded questions regarding the company. We believe IOC is a very different story today and is unlikely to repeat its historical performance.

Exhibit 3

Historical Stock Volatility Relates to Early Stage Frontier Exploration Drilling



Source: FactSet, Public data, Morgan Stanley Research

We Discount Recent Negative Media Coverage

Recent negative claims about IOC come from a questionable source… Recent negative media coverage of IOC has resulted from claims by the Fraud Discovery Institute (FDI), a for-profit entity founded by Barry Minkow and Sam Antar. FDI's stated purpose is to detect and prevent fraud; according to the FDI website, Mr. Minkow "almost always holds a position in securities reported on, or profiled by, FDI." Mr. Minkow, the founder of ZZZZ Best, has been convicted in a financial fraud; Mr. Antar, the former CFO of Crazy Eddie, pleaded guilty to fraud. FDI claims IOC is a "Ponzi scheme."

…yet we think it is important to spell out why we discount the claims regardless of the source. The thrust of FDI's claim is twofold: (1): stock hyping and potential securities law violations highlighted by a secretly recorded meeting with the head of investor relations and a potential investor (released May 15, 2009) and (2) questions regarding IOC's resource potential based upon a review of public data by a geological firm (Thompson & Knight).

Regarding the taped meeting, we do not believe the statements disprove IOC's resource or positioning, and the discussion appears to be factual and to comport with disclosures on the company's quarterly conference calls.

On the geological claims, we don't believe the general conclusions are meaningful. The primary conclusion of the geologist's report, "It is simply premature to claim that after the Antelope-1 well that results confirm that the reservoirs will have sufficient sustainable flow rates to justify the development of either a LNG plant or a liquid stripping plant." IOC's has been classified as a P50 resource claim (of 3.5Tcfe and then 6.7Tcfe) by two respectable geological firms. All discoveries require further exploration, and IOC is conducting that drilling today. Lack of proved resources (under SEC definitions) isn't dispositive of resource potential as most LNG-related gas reserves cannot, by definition, be booked as reserves until a company FID's construction of an LNG facility (i.e., can monetize the resource). For instance, XOM has booked only minimal reserves relating to the PNG LNG facility on which it hopes to break ground in early 2010. Finally, after 70 different companies entered IOC's data room, it appears that other energy companies agree.

The Evolution of IOC

Foundation and vision. In 1995, Phil Mulacek, founder and CEO of IOC, acquired a 32mbpd Alaskan refinery, intent on relocating it to Papua New Guinea, where there was no refining capacity. Mr. Mulacek, who had founded and operated other successful upstream exploration companies, believed a refinery would facilitate entering PNG for oil exploration and provide strategic value by providing for production off-take and lowering the reserve threshold for marginal fields: valid strategies in the late-1990s oil price environment. PNG includes the Eastern Papuan Basin, which IOC believed represented a highly prospective and accessible, yet underexplored, basin. Other companies have recently followed IOC's lead in PNG; exploration licenses are up more than 100% in the past four years.

Timeline — Early days in a frontier region:

1997: IOC formed

1997–2001: IOC completed the refinery unit upgrade in Texas, secured construction permits in PNG, obtained OPIC financing, and secured exploration rights on an 8MM net acreage position in PNG.

2001–04: IOC drilled five wells in PNG with a mining rig, reprocessed existing seismic, acquired limited airborne gravity surveys, and conducted fieldwork to identify drilling targets. IOC believed these first wells, while not commercial and limited in drilling depth by the rig, confirmed reservoir quality sandstones, the presence of hydrocarbons and elements of hydrocarbon sources and a petroleum system.

2004: IOC acquired its first oil drilling rig (a single) and commenced refinery operations in PNG.

2004–05: IOC drilled three exploration wells that were not commercial yet provided additional information on geology.

2005: IOC upgraded its drilling rig to a double (13,000 foot depth capabilities) that was heli-portable allowing for faster mobilization and more remote access in the oil and gas prospective, yet remote, jungle environment.

2005–06: IOC underwent a seismic acquisition program and began to acquire its first 2D seismic.

Timeline — Material discoveries:

2006: IOC made its first large natural gas discovery with Elk-1 that recorded flow rates of 102mmcfd with liquid content of 510bcpd in 88 feet of net reservoir. After the Elk-1 discovery, IOC entered agreement with Merrill Lynch Commodities and Clarion Finanz for development of an LNG facility and invested $40 million in FEED ("Front End Engineering and Design") for the construction of an LNG facility.

2007: IOC drilled a larger step-out well to test the extent of the Elk structure (Elk-2) which resulted in an unsuccessful well (yet enhanced knowledge of the structure).

2008: IOC obtained results from Elk-4, a well down-dip in formation, which was successful and recorded higher flow rates than Elk-1.

2009: IOC obtained results from its most successful well to-date in Antelope-1, a dolomitized reef structure that recorded 2,277 feet of net pay and flowed at 382mmcf/d and 5,000bcpd.

Antelope-1 is notable in several aspects: (1) recording one of the highest on-shore flow rates (not dispositive yet clearly supportive), (2) discovering high liquids content which is very supportive of field and development economics, and (3) recorded excellent reservoir characteristics (large dolomite cap with high porosity and permeability). All tests on three successful wells indicated high pressure, strong deliverability and pressure maintenance yet longer-term tests (scheduled into late 2009/2010) will ultimately be required to support early resource estimates.

After Antelope-1 well, IOC obtained a resources estimate of 6.7Tcf (gross) from Knowledge Reservoirs. This is an increase of the resource estimate received before the Antelope-1 results of 3.4Tcf of gas (gross) (1.9Tcf net) and 59MMbbls of condensate by GLJ Petroleum Consultants. Both engineering firms are established and respected engineering and geological consulting firms. These are the first resource estimates IOC has received since inception. Resource estimates are not proved or probable reserves (under SEC classifications) as any monetization strategy (i.e., LNG facility) is not finalized.

IOC's LNG Project Has Advantaged Economics

Debate 2: Can IOC monetize its potential natural gas and liquids resources?

Market's view: IOC is unlikely to develop an LNG facility due to its smaller market cap and balance sheet and lack of experience in LNG development. There are a large number of LNG projects in the Australia/PNG region, and supply may ultimately exceed demand. This should cause certain projects to be delayed or canceled; many observers expect IOC's to be among them.

Our view: This is the gating issue for investment, but IOC's project will be a winner based upon advantaged project economics. IOC is engaged in a process to form a strategic LNG partnership; we believe such a partnership will be formed on attractive terms to IOC.

IOC's Project Economics Better Than Competitors'

We have high conviction that IOC will succeed in monetizing its resource based on a combination of best-in-class project economics and an attractively sized offering (up to 35% in upstream). High well productivity (Elk-1, Elk-4, and Antelope-1 all flowed in excess of 100 mmcfd), significant liquid content, and favorable geography in the relative lowlands should keep upstream capital outlay to a minimum, driving favorable upstream economics — in sharp contrast to the capital-intensive CSG (Coal Seam Gas) LNG process in Australia.

Physical position of IOC's site offers infrastructure cost advantages. Capex for the liquefaction trains should be comparable to other projects in the region (we are skeptical of recent company claims of 8 mmtpa for $6 billion, and use higher estimates in our model), but related infrastructure costs should prove advantageous. The gas transport line to the liquefaction facilities is nearly half the length of ExxonMobil's pipe from the highlands, and IOC's site next to the existing refinery with an existing deepwater access port should save costs on siting and infrastructure build-out.

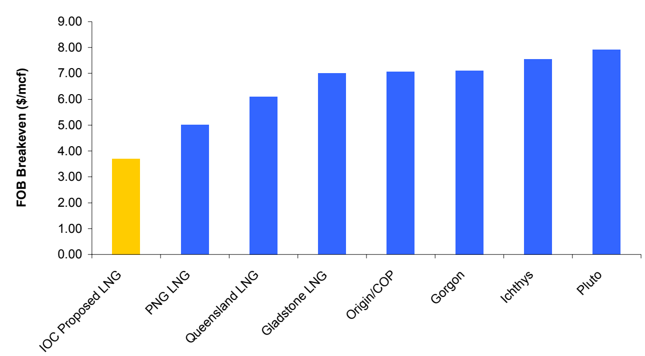
Fiscal terms are equally advantageous, with a 30% corporate tax rate and 2% royalty. There will likely be some type of post-return, profits-based tax similar to that on XOM's PNG LNG project, but the estimated 7–10% tax is much better than the 40% rate offshore Australia.

We believe that despite the risks associated with a relatively lesser-known IOC, the project has clear advantages over other projects or available opportunities for investors and, therefore, will attract capital and partnership interest.

Finally, we believe the larger interest offered by IOC (up to 35%) is attractive as it provides buyers significant reserves bookings potential and operational LNG facility control: both unique and sought after characteristics, in our view.

Exhibit 4

IOC LNG Lowest Breakeven Economics in Region



Source: Company Data, Wood Mackenzie, Morgan Stanley Research

Exhibit 5

Advantaged Geography, Cost Structure, and Fiscal Regime Drive Lowest Regional Breakeven Economics

Project	Location	Capacity (mmtpa)	Trains	Gas Reserves (Tcf)	Liquid Reserves (mmbbls)	Total Capex ($ Billions)	Field Opex ($/mcfe)	FOB Breakeven ($/mcf)	Corporate Tax (%)	Royalty (%)	Additional Tax (%)
IOC Proposed LNG	PNG	6.5	2	6.7	75	7.8	0.40	3.70	30%	2%	TBD
PNG LNG	PNG	6.3	2	9.5	324	12.5	0.45	5.01	30%	2%	7.5%-10%
Gorgon	Australia	15.0	3	47.8	295	36.5	0.26	7.11	30%	0%	40%
Pluto	Australia	4.8	1	5.0	58	10.6	0.41	7.91	30%	0%	40%
Gladstone LNG	Australia	3.5	1	3.5	0	10.0	1.50	7.00	30%	10%	0%
Ichthys	Australia	8.0	2	12.2	527	29.0	0.37	7.55	30%	0%	40%
Wheatstone	Australia	10.0	2	9.0	37	17.5	0.40	NA	30%	0%	40%
Queensland LNG	Australia	7.4	2	3.2	0	14.8	1.50	6.10	30%	10%	0%
Origin/COP	Australia	14.0	4	15.0	0	34.0	1.50	7.05	30%	10%	0%

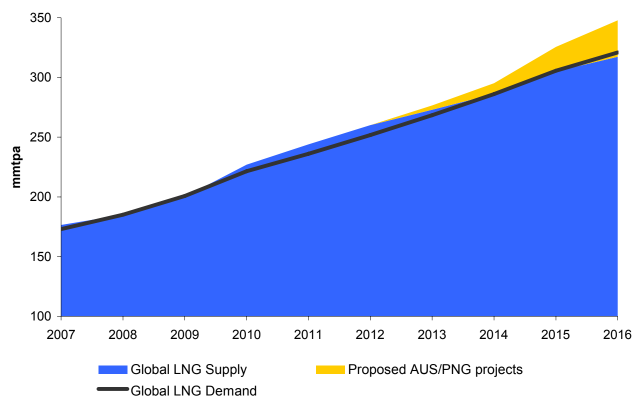
Source: Company data, Morgan Stanley Research, Wood Mackenzie

Risks to Our Thesis

Asset interest sale fails to materialize. This is by far the dominant risk to the story. Without the combination of capital, LNG development experience and gas sales contracts provided by a consortium of experienced buyers, IOC's PNG gas will remain stranded, as the company lacks both the technical capability and financial resources to develop the project on its own. Furthermore, the window to develop the project is under pressure, as the proposed queue of Australasian LNG projects exceed forecast demand from 2014 onward, ensuring that many projects will be significantly delayed or cancelled. Failure to secure financing and a gas sales contract ahead of much of its competition would critically damage IOC's prospects.

Exhibit 6

Proposed AUS/PNG Projects Far Exceed Demand



Source: Company data, Morgan Stanley Research, Wood Mackenzie

Purchase price in sell down disappoints. Although we have assumed a sale price of $1.2 billion, which we view as reasonable, the value of IOC's interest in the project post-sell-down, even without additional excess cash from the sale, is worth nearly $70/share (higher than our target because our target risks any formation of an LNG partnership). We believe that *any* asset deal, even if the price disappoints, will be viewed as a positive by a market that frankly discounts the possibility.

Antelope-2 well results disappoint. Exploration is inherently risky, and although the prospects for Antelope-2 appear promising, a dry hole would be particularly damaging to a story attempting to convince the market on resource estimates and involved in selling an upstream interest. Disappointing flow rates, reservoir compartmentalization or diminished reservoir extent has the potential to challenge reserve expectations or materially increase cost to develop. An unsuccessful well is not fatal to the story as IOC has capital to drill other wells in the structure.

Liquidity shortage and/or equity dilution. At $30 million/well (gross), essentially flat operating cash flow, and $106 million in cash on hand, IOC could run out of liquidity in early-to-mid 2010 in the absence of a deal on the interest sell-down or other financing. Additional equity issuance, resulting in the dilution of existing shareholders, would be the likely result.

Exhibit 7

Liquidity May Become an Issue in Late 2010

($MM)	Q209	Q309E	Q409E	Q110E	Q210E	Q310E	Q410E
Starting Cash Balance	43	96	88	70	52	34	16
Operating cash generation (burn) - ex-Upstream Investment	13	2	2	2	2	2	2
Upstream cash investment	(25)	(20)	(20)	(20)	(20)	(20)	(20)
Other cash change	66	10	-	-	-	-	-
Final Cash Balance	96	88	70	52	34	16	(2)

Source: Company data, Morgan Stanley Research

Cost overruns and project delay. Realization of a deal with partners on project interest should ensure that the project proceeds in a reasonable time frame. However, given the history of the industry, potential for significant cost overruns and/or project delays would destroy project, and shareholder value. This risk assumes a partnership is entered and an LNG facility is being developed, so in our view, this is a risk at a much higher stock price.

Valuation: Very Attractive Risk-Reward

Net Asset Value (NAV) Indicates 3:1 Risk:Reward

The value of IOC is nearly entirely based on the potential asset value of the LNG project and accompanying exploration acreage, though IOC does have existing midstream and downstream operations in PNG. We use asset-level cash flow models to estimate the potential value of the proposed condensate stripping operations, the upstream natural gas development and the accompanying LNG plant.

We have a $65 price target, based on an $85/bbl long-term oil price, 14% S-curve slope for LNG pricing, two LNG trains with a combined 6.5 mmtpa capacity (smaller than 8mmtpa company estimates), and $8.25 billion of total project capex (15% excess of IOC estimates). We assume condensate stripping start-up in 2012 and LNG start-up in 2014. We assume that IOC completes a sell-down of 24% upstream interest and 58% LNG Plant interest for a price of $1.2 billion (including a carry on the remaining $530 million in equity capex net to IOC post-sell-down). Cash flow is discounted at a WACC-based 12.4%. For a detailed list of assumptions and model, please see Exhibits 16-19.

Project value is concentrated in the upstream (liquids + gas), which accounts for $2.9 billion, a cost of capital return at the LNG plant and $200 million in value for the refinery. After adjusting for the approximately $-40 million in current net debt and $1.2 billion for the potential asset sale, we arrive at a company risked value of $84/share, to which we apply a 23% discount, which we believe is consistent with the average trading discount to NAV of emerging markets E&Ps.

Risking project outcomes. Due to the binary nature of many of the valuation drivers, particularly the realization of an asset sell-down/joint venture, we have assigned probabilistic risk weightings to the calculated NAVs to arrive at our price target. Using an 80% probability that an LNG deal will be completed, we arrive at a price target of $65/share. We see the potential for significant additional upside value in the share price, and expect opportunities to continue derisking company value as the catalyst-driven story unfolds.

To arrive at our price target, we have assumed that the stock will trade at a 20–25% discount to NAV. Share price sensitivity to this discount, as well as various oil prices, is shown below in Exhibit 8.

Exhibit 8

Sensitivity to NAV Discount and Oil Price

Oil Price	Discount to NAV				
($/bbl)	0%	20%	40%	60%	80%
70.00	87	70	52	35	17
85.00	105	84	63	42	21
100.00	124	99	74	49	25

Source: Company data, Morgan Stanley Research

Exhibit 9

IOC Segment Net Asset Valuation (NAV)

	Unrisked Value ($ MM)	Risk Factor (%)	Risked Value ($ MM)	Comment
Upstream Liquids	$234	80%	$187.29	Assume sufficient liquid for one stripping facility. 20% chance of second facility.
Upstream Gas	$2,878	80%	$2,302.21	80% chance of success at Antelope-2. No assumption of additional resource
LNG Plant	($58)	80%	($46.59)	
Refining and Marketing	$200	75%	150	Risked value equivalent to 2010 EBITDA to perpetuity
Total Operations	$3,254		$2,593	
Exploration Acreage (4 million acres)	$0	50%	$0	We assume no value for additional exploration prospects/acreage
Current Cash Balance (includes recent press release 9/16/09)	$106	100%	$106	
Current Debt	($66)	100%	($66)	
Cash from Sale (Including carried capex)	$1,200	80%	$960.0	
Total Value	$4,494		$3,593	
Shares Outstanding	42.52		42.52	
Value/share	$105.70		$84.51	
Share price discount to NAV	-20%		-23%	
Target Price ($/share)	**85**		**65**	Risked valuation leaves additional upside de-risking potential as catalysts unfold

Source: Company data, Morgan Stanley Research

Value of Existing Downstream Assets

Although the lion's share of the potential company value is found in the upstream LNG development, existing operations represent an ultimate floor on valuation with an opportunity for steady future growth. Refining and marketing earnings and cash flow have been lumpy since the commencement of operations in 2004 due to large swings in inventories. In 2007–09, operations have averaged just under $40 million/year of EBITDA. Our EBITDA forecast for 2009–12 is $55 million/year, which assumes 9% throughput growth/year, a reasonable outlook given the forecast slate of economic development. Our unrisked value of $200 million assumes a 4x EBITDA multiple of $50 million/year average EBITDA, in line with North American refining multiples. Our risked value of $150 million assumes no growth and 4x average 2007–09 EBITDA, which equates to approximately $3.50 a share. The reported net book value of the refinery as of June 30, 2009, is $198 million, which equates to $4.67 a share.

Precedent Values for Sale of Interest

The largest uncertainty in valuing IOC is the likelihood, and value, of a potential sale of the company's interest in the upstream and LNG Plant projects. Our $1.2 billion assumption is based on an attractive return on investment (>45%) for the purchasing company/consortium based on our forecast NPV of the project. This is at a 50% discount with precedent LNG transactions in the Asia-Pacific region over the past four years, which have averaged $1.75/mcf on a 2P or Contingent (P50) basis, with the most comparable transaction of AGL's sale of 3.6% stake in the XOM-led PNG LNG project netting $800 million, or $2.20/mcf. Our $1.2 billion purchase price equates to $0.75/mcf, based on Knowledge Reservoirs' resource estimate of 6.7Tcf of recoverable gas.

We analyzed recent precedent transactions (Exhibit 10), separating our findings in three general tranches: AGL LNG, coal seam gas, and other LNG transactions. In our opinion, the AGL Nippon Gas is the best comparable due to similar conventional wet gas and logistically favorable characteristics. Furthermore, we believe that the current value we place $0.75 Mcfe is conservative when compared to: (1) AGL price of $2.22, (2) coal seam gas prices of $2.31 for assets that dry gas, logistically challenged, unconventional that were priced at the top of the market, and (3) other LNG projects of $0.40 that were selling down upstream assets to give incentive economics to buyers of the end products and to provide legal settlements.

To further illustrate our valuation we looked at Oil Search, Santos, and Woodside Petroleum, which are all established producing companies that trade at an enterprise value-to-2P reserve of $1.20, $1.14, and $3.00 per mfce, respectively, compared to our $0.22/mcfe estimate for InterOil. We see significant discount to these companies and use this comparison as a illustrative metric in the current time frame.

Bull Case: $100

Our bull case assumes a long-term oil price of $95/bbl (vs. $85/bbl in our base case), with LNG pricing consistent with the oil linkage set forth in the base case. We further assume better than expected results at the Antelope-2 well, raising both the gas resource number as well as the liquid reserves to 150MMbbls. We assume a sale price of $1.8 billion in an interest sell-down, and we give $10/share credit for exploration upside. Our risking levels remain the same as the Base case.

Bear Case: $15

Our bear case assumes an oil price of $55/bbl and that the company is unable to secure a partnership for the development of the LNG project. In this scenario, we see $10/share of value in the undeveloped acreage and $5/share for the existing refining assets.

Exhibit 10

Price Per Mcfe for IOC Is Conservative (Precedent Transactions)

Announced Date	Buyers	Sellers	Target	Total transaction Value ($mm)	$/Mcfe	2P Reserve Basis / Contigent (P50)	Comments
30-Oct-08	Nippon Oil Corporation	AGL Energy Ltd	Nippon Oil acquired AGL Energy's Papua New Guiena Assets for US$ 800MM pursuant to its exercise of pre-emptive rights.	800	$2.22	360	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	
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	Coal Seam Gas Deal with dry gas, in a capital intensive, logistically challenging and unconventional play
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		**$1.75**		

Source: Company data, Morgan Stanley Research

PNG Is an Emerging Exploration Basin

We believe the E&P industry is rediscovering PNG. As discussed recently by our Australian energy analyst, Stuart Baker, PNG is undergoing an upstream renaissance. IOC has an early mover advantage and is offering an upstream interest at the right time, in our view. The Eastern Papuan Basin is very remote region of the world consisting of dense jungle that is largely inaccessible by road. IOC has a substantial head start on PNG exploration having explored in PNG for over 10 years, having drilled 11 exploration wells, and acquired and interpreted significant seismic data.

Reproduced from *More to PNG than LNG,* by Stuart Baker, September 4, 2009:

Activity is resurgent in anticipation of the PNG LNG project, and the infrastructure, rigs, contractors and equipment that will be mobilised in its wake. Other factors are a combination of attractive fiscal terms, and attractive geology particularly for gas.

The land boom is underway and is a leading indicator of future drilling activity, discoveries and asset deals

Since 2002, land under lease has risen from 93,600km2 to 397,000 km2, **an approximate 5-fold increase**. A further 118,000 km2 is under application. The biggest increase has occurred in offshore waters, which are considered more prospective for gas. The majority of these permits have only been issued in the past 2-3 years and the drilling phase has yet to materialize.

Apart from Exxon, Santos & Oil Search, small companies dominate the acreage ownership and global E&P and integrated majors are absent. With much of the land under lease now, the next step we anticipate would be rising deal flow as those that have missed out on ground floor entry seek to buy-in.

The implications for incumbents are all positive. More licenses leads to more drilling and hopefully discoveries. Increased deal activity should lead to rising asset values and more opportunities to trade.

Papua New Guinea government/risk description. PNG is governed by a constitutional parliamentary democracy and Commonwealth realm which consists of an English common law judicial system, an executive branch, and unicameral National Parliament legislative branch. PNG has as a B Sovereign rating, which means it has the capacity and commitment to honor obligations currently but very susceptible to changes in the economic climate with a Stable Outlook according to *The Economist* Country Risk Service.

Exhibit 11

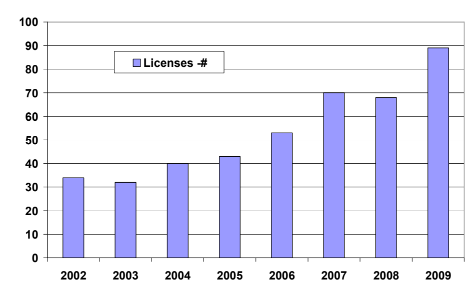
PNG Gas Reserve & Resources (Bcf)

Field	Year Discovered	Field Type	Gas Resources 2P bscf	3P bscf
Angore	1990	gas-cond	4,089	8,185
Hides	1987	gas-cond	6,700	7,800
Elk / Antelope	2008	gas	6,100	7,100
Pnyang	1990	gas-cond	1,078	1,863
Pandora	1988	gas	514	1,493
Kutubu	1986	oil/gas	1,366	1,366
Juha	1983	gas-cond	452	1,344
Kimu	1999	gas	684	684
Elevala	1990	gas-cond	433	523
Gobe	1992	oil/gas	476	476
Ketu	1991	gas-cond	18	453
PukPuk	2008	gas-cond	450	450
Moran	1996	oil/gas	197	426
Douglas	2008	gas	270	270
Stanley		gas-cond	260	260
Kuru	1956	gas	54	252
SE Madanda	1991	oil/gas		226
SE Hedinia	1987	gas	157	157
Uramu	1968	gas	32	122
Barilewa	1958	gas	69	86
Bwata	1960	gas	41	77
Iehi	1960	gas	11	72
Pasca	1968	gas		
TOTAL			23,451	33,686

Source: PNG Department of Petroleum and Energy, Company data, Morgan Stanley Research

Exhibit 12

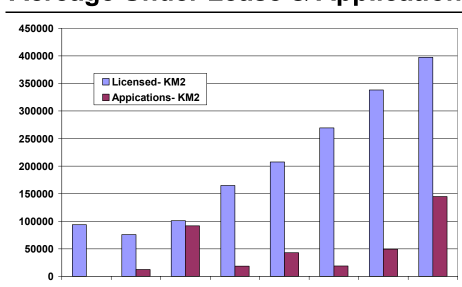
Number of Licenses



Source: Morgan Stanley Research

Exhibit 13

Acreage Under Lease & Applications



Source: Morgan Stanley Research

IOC Summary of Assets

Company Description

InterOil Corporation (InterOil) is an integrated energy company operating in Papua New Guinea. The company operates in four business segments: upstream, midstream, downstream and corporate. Upstream includes exploration and production, which explores oil and natural gas in PNG. Midstream refining produces refined petroleum products at Napa Napa in Port Moresby, PNG, for the domestic market and for exports, and midstream liquefaction includes developing an onshore liquefied natural gas (LNG) processing facility in PNG. Downstream includes wholesale and retail distribution, which markets and distributes refined petroleum products domestically in PNG. Corporate engages in business development and improvement activities, and providing general and administrative services and management, undertakes financing and treasury activities, and is responsible for government and investor relations.

Upstream Assets

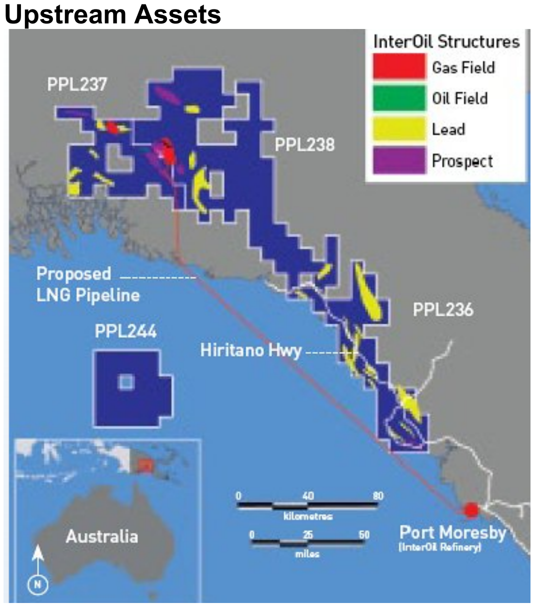


Exhibit 14

Summary of IOC's Exploration Interests

License	Location	Operator	IOC Working Interest	Gross Acreage	Net Acreage	License Expiry
PPL 236	Onshore	InterOil	100%	1,122,225	1,122,225	March 2014
PPL 237	Onshore	InterOil	100%	809,267	809,267	March 2014
PPL 238	Onshore	InterOil	100%	2,084,326	2,084,326	March 2014
PPL 244	Offshore	Talisman	15%	675,400	101,310	March 2011
Total				4,691,217	4,117,127	

Source: Company data, Morgan Stanley Research

Refining and Marketing

IOC is the sole refiner in PNG. It operates a simple topping refinery with reformer that can process 32,500 barrels a day. The operation is well positioned for the high PNG distillate demand and can run up to 60% distillate and sell its Naphtha to Australian markets. The refinery includes a jetty with two berths for loading and off-loading vessel and tank farm that has the ability to store 750,000 barrels of crude feedstock and 1.1 million barrels of refined product.

IOC's retail and wholesale distribution supplies approximately 77% of PNG's total refined product needs. IOC owns and operates 6 terminals and 11 depots to supply product throughout PNG. Refined products are sold through their extensive network of owned/leased/ independent 51 InterOil branded service stations and 12 aviation refueling stations.

LNG Potential

IOC current objective to deliver a fast track LNG project to sell its stranded gas looks promising. The Elk and Antelope resources look promising with a resource estimates up to 6–7Tcf of gas. The project is strategically located in the heart of the largest LNG market that can supply all of Asia and India. Management is engaged with financial advisors for the sale of working interests, operations in the LNG plant and LNG offtake agreements. The process is underway with an established timeline and it has created high interest from major oil companies, national oil companies and international utilities.

The company has attractive LNG economics with: (1) its ease of logistic deliverability to Port Moresby harbor, (2) low cost of supply, (3) rich in condensate, (4) low in contaminates, and (5) protected geographic region that is onshore and near the coast.

Exhibit 15

IOC Ownership Structure

Assets Included in NAV

	Pre Gov't Opt-in	Post Gov't Opt-in	Post LNG/Upstream Financing Selldown
		Government Opt-in (%) 20.50%	Assumed IOC Sell-down 24.00%
Upstream Well Interest (Elk/Antelope structure)			
IOC Shareholders	73.66%	58.56%	34.56%
PNG (States Rights)	0.00%	20.50%	20.50%
PNGDV Partners	6.75%	5.37%	2.95%
IPWI Partners	17.09%	13.59%	7.47%
ClarionFinanz A.G.	2.50%	1.99%	1.99%
PNGEI	0.00%	0.00%	0.00%
New Partners	0.00%	0.00%	32.53%
Total	100.00%	100.00%	100.00%
		Government Opt-in (%) 10.00%	Assumed Sell-down 58.00%
LNG Facility (Economic i% via Class B below)			
IOC Shareholders	87.00%	78.30%	20.30%
PNG (States Rights)	0.00%	10.00%	10.00%
ClarionFinanz A.G.	13.00%	11.70%	11.70%
IPWI Partners	0.00%	0.00%	0.00%
PNGEI	0.00%	0.00%	0.00%
New Partners	0.00%	0.00%	58.00%
Total	100.00%	100.00%	100.00%

Other Exploration

		Government Opt-in (%) 20.50%	Assumed Sell-down 0.00%
Exploration Wells 4-8			
IOC Shareholders	73.66%	58.56%	58.56%
PNG (States Rights)	0.00%	20.50%	20.50%
PNGDV Partners	6.75%	5.37%	5.37%
ClarionFinanz A.G.	2.50%	1.99%	1.99%
IPWI Partners	17.09%	13.59%	13.59%
PNGEI	0.00%	0.00%	0.00%
New Partners	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%
Exploration Wells 9-20			
IOC Shareholders	90.00%	71.55%	71.55%
PNG (States Rights)	0.00%	20.50%	20.50%
PNGDV Partners	5.75%	4.57%	4.57%
IPWI Partners	0.00%	0.00%	0.00%
PNGEI	4.25%	3.38%	3.38%
New Partners	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%
Exploration Wells 20-24			
IOC Shareholders	90.00%	71.55%	71.55%
PNG (States Rights)	0.00%	20.50%	20.50%
PNGDV Partners	5.75%	4.57%	4.57%
IPWI Partners	0.00%	0.00%	0.00%
PNGEI	4.25%	3.38%	3.38%
New Partners	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%
Exploration Wells after 24			
IOC Shareholders	100.00%	79.50%	79.50%
PNG (States Rights)	0.00%	20.50%	20.50%
PNGDV Partners	0.00%	0.00%	0.00%
IPWI Partners	0.00%	0.00%	0.00%
PNGEI	0.00%	0.00%	0.00%
New Partners	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%

Source: Company data, Morgan Stanley Research

Exhibit 16

Assumptions Used in the Net Asset Value Model of IOC Assets

InterOil Corp. (IOC)
Net Asset Value

Date	16-Sep-09	
NAV Assumptions		**Comments**
Antelope/Elk Structure Liquids Total Recoverables (MMbbls)	75.00	Assumes 10.71 bbls of liquids per 1mmfce flowing, less than expected.
Antelope/Elk Structure Natural Gas Total Recoverables (Tcfe)	7.00	Kowledge Resevoir resource at 6.7Tcfe (P50 resource) **before** Antelope-2. GLJ at 3.43Tcfe (P50 resource) when Antelope-1 was at top of structure.
Cost of LNG Facility (2 trains, 6.5MMtpa)($MM)	7,000.00	Cost per tonne $ 1,077 which is cheaper than in region yet understandable.
Company Estimate ($MM)	6,000.00	From 2007, Bechtel estimate $5-7BN ($6Bn for 6tpa, including 15% cost escalators from 2007 cost levels). Trains could be 8tpa.
Excess of IOC estimate (%)	*16.67%*	Assume modest cost overage even with conservative estimates.
Cost of Condensate Stripping Facility (10-15mmbpd)($MM)	350.00	Assume modest cost overage from $320MM IOC estimate.
Company Estimate ($MM)	320.00	
Excess of IOC estimate (%)	*9.38%*	
Number of Additional Wells to Support Liquids Stripping Facility	4.00	In addition to Antelope 1 (estimate includes costs for Antelope 2).
Incremental Number of Wells to Support LNG Facility	4.00	In addition to Elk 1 & 4 and Antelope 1 & 2. Makes 12 wells and relative to flow rates from existing well appears reasonable.
Cost Per Well ($MM)	30.00	
Total Drilling Capex ($MM)	240.00	
Liquids Drilling Capex ($MM)	120.00	
Gas Drilling Capex ($MM)	120.00	
OPEX liquids wells (LOE)($ per bbl)	7.50	
OPEX gas wells (LOE)($ per mcfe)	0.40	
OPEX LNG Facility ($ per mcfe)	0.30	
LNG Tolling Fee (per mcfe)	2.65	Estimated to generate reasonable levered return on LNG facility investment.
LNG Maintaince capex ($MM per yr)	1.00	
IOC Sell-down of Upstream economics (for Elk/Antelope Structure)(%)	24.00%	Stated objective.
IOC Sell-down of LNG Facility (%)	58.00%	Assume sell-down of Class B economic interest shares.
Estimated Price in Sell-down ($MM)	1,329.89	Solve to finance IOC capex + reasonabe IRR for interest buyer and conmpare to comparative transactions.
Government Opt-in Option (%)	20.50%	PNG law
Royalty (%)	2.00%	Paid to landholder. Company includes in Gov't interest calculation, we separate (same net result)
Leverage at LNG Facility Level (% debt/equity)	75.00%	Based on prior transactions (ranges from 75%-85%), assume low end to be conservative.
Leverage at LNG Facility Level ($MM)	5,250.00	
Interest Rate on LNG Debt Project Financing (%)	4.50%	Estimate based on discussions with project finance team (blended rate from various tranches).
Excess Cash from LNG/Upstream Selldown (excludes IOC capex)($MM)	750.00	Estimated value in sale - includes cash to cary IOC capex and incremental to reflect value of interest (used to finance exploration)
IOC portion of capex, post sell-down ($MM)(assumed carried in sale)	579.89	
Total sale price of IOC interest sold	1,329.89	
Tax Holiday on LNG Facility (yrs)	10 years	Refinery was granted 10 year holiday, PNGLNG was granted tax relief in a $ amount (amount unknown).
Tax Rate (%)	30.00%	PNG level.
Discount Rate for NAV (%)	12.43%	IOC WACC (Ke=12.77%, Kd=3.75%).
IOC Shares Outstanding (MM)	42.52	As per 9/16/2009 based on company info and 3Q09E share count

Source: Company data, Morgan Stanley Research estimates

Exhibit 17

Financial Model Output (Discounted Cash Flow)

Year		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2039[1]
Commodity Price Assumption																	
Liquids																	
WTI ($/bbl)		85.00	95.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00
Brent ($bbl)		85.00	95.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00
JCC ($/bbl)		81.00	91.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00	81.00
Differential ($/bbl)		3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40
Condensate Realization ($/bbl)		88.40	98.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40	88.40
Natural Gas																	
Natural Gas Realization ("S curve")($/mcfe)		11.18	12.50	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18
Natural Gas Realization ("S curve")($/bbl)		67.11	75.00	67.11	67.11	67.11	67.11	67.11	67.11	67.11	67.11	67.11	67.11	67.11	67.11	67.11	67.11
Discount to crude (%)		*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*	*21.05%*
Antelope/Elk Structure Liquids DCF																	
Total Condensate Recoverable (MM/bbls)	75.00																
Liquids Flowing per MMcfd (bbls per MM)	10.71																
Total Capex ($MM)																	
Drilling capex	(150.00)																
Facility capex	(350.00)																
Production/Day (mbpd)		-	-	-	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Production/Year (MMbbls)		-	-	-	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29
Cumultive Production		-	-	-	3.29	6.57	9.86	13.14	16.43	19.71	23.00	26.28	29.57	32.85	36.14	39.42	75.00
Production/Year Recoverable (MMbbls)		-	-	-	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29	-
Revenues ($MM)		-	-	-	290.39	290.39	290.39	290.39	290.39	290.39	290.39	290.39	290.39	290.39	290.39	290.39	-
Royalty($MM)	2.00%	-	-	-	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	(5.81)	-
Operating Costs (LOE)($MM)	$7.50	-	-	-	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	(24.64)	-
G&A ($MM)(allocation)	$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT		-	-	-	259.95	259.95	259.95	259.95	259.95	259.95	259.95	259.95	259.95	259.95	259.95	259.95	-
Total Capex ($MM)		(40.00)	(215.00)	(215.00)	-	(10.00)	-	-	(10.00)	-	-	(10.00)	-	-	-	-	-
Facility Capex ($MM)		-	(175.00)	(175.00)	-	-	-	-	-	-	-	-	-	-	-	-	-
Drilling Capex ($MM)		(40.00)	(40.00)	(40.00)	-	(10.00)	-	-	(10.00)	-	-	(10.00)	-	-	-	-	-
EBIT less capex ($MM)		(40.00)	(215.00)	(215.00)	259.95	249.95	259.95	259.95	249.95	259.95	259.95	249.95	259.95	259.95	259.95	259.95	-
NOLs (at YE)		(40.00)	(255.00)	(470.00)	(210.05)	-	-	-	-	-	-	-	-	-	-	-	-
Taxable post NOLs		(40.00)	(255.00)	(470.00)	(210.05)	39.90	259.95	259.95	249.95	259.95	259.95	249.95	259.95	259.95	259.95	259.95	-
Taxes ($MM)	30.00%	-	-	-	-	(11.97)	(77.98)	(77.98)	(74.98)	(77.98)	(77.98)	(74.98)	(77.98)	(77.98)	(77.98)	(77.98)	-
Total Free Cash Flow $MM)		(40.00)	(215.00)	(215.00)	259.95	237.98	181.96	181.96	174.96	181.96	181.96	174.96	181.96	181.96	181.96	181.96	-
IOC FCF ($MM)	58.56%	(23.42)	(125.91)	(125.91)	152.23	139.36	106.56	106.56	102.46	106.56	106.56	102.46	106.56	106.56	106.56	106.56	-
IOC FCF (post sell-down)($MM)	34.56%	(13.82)	(74.31)	(74.31)	89.84	82.25	62.89	62.89	60.47	62.89	62.89	60.47	62.89	62.89	62.89	62.89	-

NPV-10 Total ($MM)	$918.61
NPV IOC (pre-selldown)($MM)	$396.68
NPV IOC (post-selldown)($MM)	$234.11
Total Shares Outstanding (MM)	42.52
NPV/share (pre-selldown)($ per shares)	$9.33
NPV/share (post-selldown)($ per shares)	$5.51

Source: Company data, Morgan Stanley Research estimates

Footnote: (1) 2039 is the last year in our DCF

Exhibit 18

Financial Model Outputs (Discounted Cash Flow Continued)

Antelope/Elk Structure Natural Gas DCF		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2039[1]
Total Gas Recoverable (Bcf)	7,000.00																
Gas Pocessed/Day (MMcf/d)		-	-	-	-	-	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00
Gas Processed/ Year (Bcf)		-	-	-	-	-	390.55	390.55	390.55	390.55	390.55	390.55	390.55	390.55	390.55	390.55	390.55
Cumultive Production (Bcf)		-	-	-	-	-	390.55	781.10	1,171.65	1,562.20	1,952.75	2,343.30	2,733.85	3,124.40	3,514.95	3,905.50	7,000.00
Production/Year Recoverable (Bfc)		-	-	-	-	-	390.55	390.55	390.55	390.55	390.55	390.55	390.55	390.55	390.55	390.55	-
Revenues ($MM)		-	-	-	-	-	4,367.99	4,367.99	4,367.99	4,367.99	4,367.99	4,367.99	4,367.99	4,367.99	4,367.99	4,367.99	-
Total Capex ($MM)	(150.00)	(30.00)	-	(30.00)	(30.00)	(30.00)	-	-	-	-	-	-	-	-	-	-	-
LNG Facility Capex ($MM)(covered in LNG Portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drilling Capex ($MM)		(30.00)	-	(30.00)	(30.00)	(30.00)	-	-	-	-	-	-	-	-	-	-	-
Royalty ($MM)	2.00%	-	-	-	-	-	(87.36)	(87.36)	(87.36)	(87.36)	(87.36)	(87.36)	(87.36)	(87.36)	(87.36)	(87.36)	-
LNG tarriff ($MM)	$2.65	-	-	-	-	-	(1,034.96)	(1,034.96)	(1,034.96)	(1,034.96)	(1,034.96)	(1,034.96)	(1,034.96)	(1,034.96)	(1,034.96)	(1,034.96)	-
Operating Costs (LOE)($MM)	$0.40	-	-	-	-	-	(156.22)	(156.22)	(156.22)	(156.22)	(156.22)	(156.22)	(156.22)	(156.22)	(156.22)	(156.22)	-
G&A ($MM)(allocation)	$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT ($MM)		(60.00)	-	(60.00)	(60.00)	(60.00)	3,089.46	3,089.46	3,089.46	3,089.46	3,089.46	3,089.46	3,089.46	3,089.46	3,089.46	3,089.46	-
Taxes ($MM)	30.00%	-	-	-	-	-	(926.84)	(926.84)	(926.84)	(926.84)	(926.84)	(926.84)	(926.84)	(926.84)	(926.84)	(926.84)	-
Total Free Cash Flow ($MM)		(60.00)	-	(60.00)	(60.00)	(60.00)	2,162.62	2,162.62	2,162.62	2,162.62	2,162.62	2,162.62	2,162.62	2,162.62	2,162.62	2,162.62	-
IOC FCF ($MM)	58.56%	(35.14)	-	(35.14)	(35.14)	(35.14)	1,266.45	1,266.45	1,266.45	1,266.45	1,266.45	1,266.45	1,266.45	1,266.45	1,266.45	1,266.45	-
IOC FCF (post sell-down)($MM)	34.56%	(20.74)	-	(20.74)	(20.74)	(20.74)	747.42	747.42	747.42	747.42	747.42	747.42	747.42	747.42	747.42	747.42	-

NPV-10 Total ($MM)	$10,809.09
NPV IOC (pre-selldown)($MM)	$4,876.16
NPV IOC (post-selldown)($MM)	$2,877.76
Total Shares Outstanding (MM)	42.52
NPV/share (pre-selldown)($ per shares)	$114.69
NPV/share (post-selldown)($ per shares)	$67.69

LNG Facility		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2039[1]
Amount of Gas Pocessed/Day (MMcf/d)		-	-	-	-	-	909.50	909.50	909.50	909.50	909.50	909.50	909.50	909.50	909.50	909.50	909.50
Amount of Gas Pocessed/Year (Bcf)		-	-	-	-	-	331.97	331.97	331.97	331.97	331.97	331.97	331.97	331.97	331.97	331.97	-
Price per Mcfe		$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65
Revenues ($MM)		-	-	-	-	-	879.71	879.71	879.71	879.71	879.71	879.71	879.71	879.71	879.71	879.71	-
Operating Costs ($MM)	0.30	-	-	-	-	-	(99.59)	(99.59)	(99.59)	(99.59)	(99.59)	(99.59)	(99.59)	(99.59)	(99.59)	(99.59)	-
EBIT ($MM)		-	-	-	-	-	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	-
Total Capex (equity financed)($MM)		-	(350.00)	(525.00)	(525.00)	(350.00)	-	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	-
Facility Capex Total ($MM)	(7000.00)	-	(1400.00)	(2100.00)	(2100.00)	(1400.00)	-	-	-	-	-	-	-	-	-	-	-
Facility Capex (Equity financed)($MM)	(1750.00)	-	(350.00)	(525.00)	(525.00)	(350.00)	-	-	-	-	-	-	-	-	-	-	-
Facility Capex (Debt financed)($MM)	(5250.00)		(1,050.00)	(1,575.00)	(1,575.00)	(1,050.00)											
Facility Maintance Capex ($MM)	1.00	-	-	-	-	-	-	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	-
EBIT less Capex ($MM)		-	(350.00)	(525.00)	(525.00)	(350.00)	780.12	779.12	779.12	779.12	779.12	779.12	779.12	779.12	779.12	779.12	-
Interest ($MM)			(23.63)	(82.69)	(153.56)	(212.63)	(230.34)	(218.53)	(206.72)	(194.91)	(183.09)	(171.28)	(159.47)	(147.66)	(135.84)	(124.03)	-
Taxes ($MM)	30.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Paydown			-	-	-	-	(262.50)	(262.50)	(262.50)	(262.50)	(262.50)	(262.50)	(262.50)	(262.50)	(262.50)	(262.50)	-
Free Cash Flow ($MM)		-	(373.63)	(607.69)	(678.56)	(562.63)	287.28	298.09	309.90	321.72	333.53	345.34	357.15	368.97	380.78	392.59	-
IOC FCF ($MM)	87.00%	-	(325.05)	(528.69)	(590.35)	(489.48)	249.93	259.34	269.62	279.89	290.17	300.45	310.72	321.00	331.28	341.56	-
IOC FCF (post sell-down)($MM)	20.30%	-	(75.85)	(123.36)	(137.75)	(114.21)	58.32	60.51	62.91	65.31	67.71	70.10	72.50	74.90	77.30	79.70	-
Debt Balance (beginning period)($MM)		-	(1,050.00)	(2,625.00)	(4,200.00)	(5,250.00)	(5,250.00)	(4,987.50)	(4,725.00)	(4,462.50)	(4,200.00)	(3,937.50)	(3,675.00)	(3,412.50)	(3,150.00)	(2,887.50)	-
Debt paydown ($MM)		-	-	-	-	-	262.50	262.50	262.50	262.50	262.50	262.50	262.50	262.50	262.50	262.50	-
Debt Balance (ending period)($MM)		-	(1,050.00)	(2,625.00)	(4,200.00)	(5,250.00)	(4,987.50)	(4,725.00)	(4,462.50)	(4,200.00)	(3,937.50)	(3,675.00)	(3,412.50)	(3,150.00)	(2,887.50)	(2,625.00)	-
Unlevered Return																	
EBIT ($MM)		-	-	-	-	-	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	-
Total Capex		-	(1,400.00)	(2,100.00)	(2,100.00)	(1,400.00)	-	-	-	-	-	-	-	-	-	-	-
Interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unlevered FCF		-	(1,400.00)	(2,100.00)	(2,100.00)	(1,400.00)	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	780.12	-

NPV-10 Total ($MM)	($81.95)
NPV IOC (pre-selldown)($MM)	($249.58)
NPV IOC (post-selldown)($MM)	($58.24)
Total Shares Outstanding (MM)	42.52
NPV/share (pre-selldown)($ per shares)	($5.87)
NPV/share (post-selldown)($ per shares)	($1.37)
Unlevered Returns from LNG Facility (%)	5.95%
Levered Returns from LNG Facility (%)	9.25%

Source: Company data, Morgan Stanley Research estimates

Footnote: (1) 2039 is the last year in our DCF

Exhibit 19

R&M Valuation

Refining & Marketing	2009	2010	2011	2012	2013	2014
Crude Capacity (mbpd)	36500	36500	36500	36500	36500	36500
Throughput	22454	23999	27375	29200	31025	32850
Utilization	61.52%	65.75%	75.00%	80.00%	85.00%	90.00%
Singapore Crack	4.27	4.48	4.99	5.44	5.44	5.44
Gross Margin	6.36	6.24	5.49	5.98	5.98	5.98
Production Cost ($/bb;)	3.17	2.83	2.60	2.40	2.40	2.40
Gross Margin Capture Rate	148.94%	139.53%	110.00%	110.00%	110.00%	110.00%
EBITDA	40.79	44.69	44.65	53.52	57.12	60.89
EBITDA Multiple	3.00	4.00	5.00			
NAV Valuation $MM (Based on 2010E Multiple)	134	179	268			
$ Price Per Share	3.15	4.20	6.29			

Source: Company data, Morgan Stanley Research estimates

Exhibit 20

Financial Statements

Income Statement (Clean $MM)	2008	2009E	2010E	2011E	2012E	2013E	2014E
Segment Earnings							
E&P	**2.15**	**(10.35)**	**(11.10)**	**(11.10)**	**(11.10)**	**(11.10)**	**(11.10)**
Refining	4.72	23.03	26.96	26.85	35.67	39.22	42.93
Liquefaction	(7.91)	(8.43)	(8.22)	(8.38)	(8.45)	(8.53)	(8.61)
Total Midstream	**(3.20)**	**14.59**	**18.73**	**18.47**	**27.22**	**30.69**	**34.33**
Downstream	**(1.21)**	**2.82**	**0.66**	**1.20**	**1.77**	**2.35**	**2.97**
Corporate and adjustments	**(9.55)**	**(3.14)**	**(1.88)**	**(2.15)**	**(2.42)**	**(2.69)**	**(2.97)**
Specials and non continuing business	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Clean Post Tax Net Income	**(11.80)**	**3.92**	**6.41**	**6.43**	**15.47**	**19.25**	**23.23**
Net income to shareholders	**(11.80)**	**3.92**	**6.41**	**6.43**	**15.47**	**19.25**	**23.23**
Shares (m)	36.70	40.40	44.04	44.04	44.04	44.04	44.04
Reported EPS	(0.32)	0.10	0.15	0.15	0.35	0.44	0.53
Clean EPS	**(0.32)**	**0.10**	**0.15**	**0.15**	**0.35**	**0.44**	**0.53**
Sales and operating revenues	915.58	712.38	1,045.94	1,368.79	1,537.31	1,618.79	1,703.90
Interest	0.93	6.74	13.06	13.26	13.36	13.40	13.45
Other	3.22	3.17	3.27	3.31	3.34	3.38	3.42
Revenue	**919.73**	**722.29**	**1,062.27**	**1,385.36**	**1,554.02**	**1,635.58**	**1,720.77**
Cost of sales and operating expenses	888.62	628.54	949.71	1,271.81	1,430.53	1,507.37	1,587.64
Administrative and general expenses	42.75	50.83	63.35	63.97	64.59	65.23	65.87
Derivative losses/(gains)	(24.04)	(0.93)	0.00	0.00	0.00	0.00	0.00
Exploration costs, excluding exploration impairment	1.00	1.00	1.13	1.13	1.13	1.13	1.13
Exploration impairment	0.11	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expense	23.97	22.23	27.24	27.24	27.24	27.24	27.24
Depreciation and amortization	14.14	14.33	14.32	14.37	14.43	14.48	14.54
Gain on LNG shareholder agreement	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gain on sale of oil and gas properties	(11.24)	(1.09)	0.00	0.00	0.00	0.00	0.00
Foreign exchange (gain)/loss	(3.88)	1.11	0.00	0.00	0.00	0.00	0.00
Accretion expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total cost and Expense	**931.44**	**716.01**	**1,055.75**	**1,378.52**	**1,537.92**	**1,615.45**	**1,696.42**
Profit before Income Tax	(11.71)	6.28	6.52	6.83	16.10	20.12	24.35
Income taxes (recoveries)							
Current and future	(0.08)	(2.35)	(0.10)	(0.40)	(0.63)	(0.87)	(1.12)
Tax Rate	0.7%	-37.5%	-1.5%	-5.9%	-3.9%	-4.3%	-4.6%
Income/(loss) before non controlling interest	(11.80)	3.93	6.42	6.43	15.47	19.26	23.23
Non-controlling interest	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Net earnings	(11.80)	3.92	6.41	6.43	15.47	19.25	23.23
Other comprehensive income							
Cumulative foreign currency translation adjustment	0.00	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	0.00
Derivatives designated as cash flow hedges, net of tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Comprehensive income	(11.80)	3.92	6.41	6.43	15.47	19.25	23.23
Special items	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net earning Reported	(11.80)	3.92	6.41	6.43	15.47	19.25	23.23
Basic EPS	(0.35)	0.10	0.15	0.15	0.36	0.45	0.54
Diluted EPS - Recurring	(0.32)	0.10	0.15	0.15	0.35	0.44	0.53
Diluted EPS	(0.32)	0.10	0.15	0.15	0.35	0.44	0.53

Source: Company data, Morgan Stanley Research estimates

Exhibit 21

Financial Statements

Cash Flow Statement $MM	2008	2009E	2010E	2011E	2012E	2013E	2014E
Operating activities							
Net income	(11.80)	3.92	6.41	6.43	15.47	19.25	23.23
Adjustments for non-cash and non-operating transactions							
Non-controlling interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation and amortization	14.14	14.33	14.32	14.37	14.43	14.48	14.54
Future income tax asset	(0.20)	1.01	0.00	0.00	0.00	0.00	0.00
Fair value adjustment on IPL PNG Ltd. Acquisition	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(Gain) / Loss on sale of plant and equipment	(0.02)	0.00	0.00	0.00	0.00	0.00	0.00
Gain on sale of exploration assets	(11.24)	(1.09)	0.00	0.00	0.00	0.00	0.00
Amortization of discount on debentures liability	1.92	1.21	0.00	0.00	0.00	0.00	0.00
Amortization of deferred financing costs	0.26	0.11	0.00	0.00	0.00	0.00	0.00
Gain on unsettled hedge contracts	0.85	(0.21)	0.00	0.00	0.00	0.00	0.00
Timing difference between derivatives recognised and sett	(17.03)	15.07	0.00	0.00	0.00	0.00	0.00
Stock compensation expense	5.74	3.32	0.00	0.00	0.00	0.00	0.00
Inventory revaluation	8.38	0.00	0.00	0.00	0.00	0.00	0.00
Non-cash interest on secured loan facility	2.19	0.00	0.00	0.00	0.00	0.00	0.00
Non-cash interest settlement on preference shares	0.37	0.00	0.00	0.00	0.00	0.00	0.00
Non-cash interest settlement on debentures	2.62	2.35	0.00	0.00	0.00	0.00	0.00
Oil and gas properties expensed	1.10	0.25	0.00	0.00	0.00	0.00	0.00
Loss/(gain) on proportionate consolidation of LNG project	(0.81)	0.72	0.00	0.00	0.00	0.00	0.00
Unrealized foreign exchange gain	(3.73)	(3.90)	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Preference share transaction costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in operating working capital							
Decrease/(increase) in trade receivables	18.68	(43.46)	35.45	(24.92)	(9.00)	(4.69)	(4.66)
(Decrease)/increase in unrealised hedge gains	0.90	6.27	0.00	0.00	0.00	0.00	0.00
Decrease/(increase) in other assets and prepaid expenses	0.59	0.18	(0.65)	(1.37)	(0.71)	(0.34)	(0.36)
(Increase)/decrease in inventories	(3.19)	1.21	22.93	(31.15)	(11.26)	(5.87)	(5.83)
Increase/(decrease) in accounts payable, accrued liabilities	5.85	81.73	26.85	27.28	25.45	13.27	13.19
Cash flow - operating activities	**15.59**	**83.04**	**105.32**	**(9.36)**	**34.37**	**36.11**	**40.11**
Investing activities							
Expenditure on oil and gas properties	(63.89)	(43.68)	0.00	0.00	0.00	0.00	0.00
Proceeds from IPI cash calls	18.32	5.58	0.00	0.00	0.00	0.00	0.00
Expenditure on plant and equipment	(5.17)	(4.86)	0.00	0.00	0.00	0.00	0.00
Proceeds received on sale of assets	0.31	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds received on sale of exploration assets	6.50	0.00	0.00	0.00	0.00	0.00	0.00
Acquisition of subsidiary	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(Increase)/decrease in restricted cash held as security on bo	(3.90)	4.92	0.00	0.00	0.00	0.00	0.00
(Decrease)/increase in accounts payable and accrued liabilit	0.44	(5.89)	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Allocation of oil and gas properties expenditure applied agair	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flow - investing activities	**(47.39)**	**(43.93)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Financing activities							
Proceed /Repayments of secured loan	(9.00)	(4.50)	0.00	0.00	0.00	0.00	0.00
Borrowings / Repayments of bridging facility, net of transacti	(70.00)	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from PNG LNG cash call	9.45	0.00	0.00	0.00	0.00	0.00	0.00
Repayment of deferred financing fees	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from Clarion Finanz for Elk option agreement	5.50	3.58	0.00	0.00	0.00	0.00	0.00
Proceeds from Petromin for Elk participation agreement	4.00	4.44	0.00	0.00	0.00	0.00	0.00
(Repayments of)/proceeds from working capital facility	2.29	(64.83)	0.00	0.00	0.00	0.00	0.00
Proceeds from issue of common shares/conversion of debt,	(0.10)	83.91	0.00	0.00	0.00	0.00	0.00
Proceeds from issue of debentures, net of transaction costs	94.78	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from preference shares, net of transaction costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from conversion of warrants	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flow - financing activities	**36.91**	**22.59**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Foreign exchange gain/(loss) / Adjustment for restatement	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Increase in cash and cash equivalents	5.11	61.69	105.32	(9.36)	34.37	36.11	40.11
Beginning cash	43.86	48.97	110.66	215.98	206.63	241.00	277.10
Ending cash	**48.97**	**110.66**	**215.98**	**206.63**	**241.00**	**277.10**	**317.22**

Source: Company data, Morgan Stanley Research estimates

Exhibit 22

Financial Statements

Balance Sheet Statement $MM	2008	2009E	2010E	2011E	2012E	2013E	2014E
Assets							
Current Assets							
Cash and Cash equivalents	48.97	110.66	215.98	206.63	241.00	277.10	317.22
Cash restricted	25.99	14.52	14.52	14.52	14.52	14.52	14.52
Trade / other receivables	42.89	85.53	50.08	75.00	84.01	88.70	93.36
Commodity derivative contracts	31.34	0.00	0.00	0.00	0.00	0.00	0.00
Other assets	0.17	0.70	0.70	0.70	0.70	0.70	0.70
Inventories	83.04	85.53	62.60	93.75	105.01	110.88	116.71
Prepaid Expenses	4.49	3.78	4.42	5.79	6.50	6.85	7.21
Total Current Assets	236.88	300.72	348.30	396.39	451.73	498.75	549.71
Non-current							
Cash restricted	0.29	6.84	6.84	6.84	6.84	6.84	6.84
Deferred financing cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Goodwill	0.00	5.76	5.76	5.76	5.76	5.76	5.76
PP&E, Net	223.59	214.12	199.80	185.43	171.00	156.52	141.98
Oil and gas properties	128.01	157.88	157.88	157.88	157.88	157.88	157.88
Other assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Future income tax benefit	3.07	2.06	2.06	2.06	2.06	2.06	2.06
Total Assets	591.84	687.38	720.65	754.36	795.28	827.81	864.24
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	78.15	154.94	181.78	209.06	234.51	247.79	260.98
Commodity derivative contracts	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Working capital facility	68.79	3.96	3.96	3.96	3.96	3.96	3.96
Deferred hedge gain	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current portion of secured loan	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Current portion of indirect participation interest	0.54	0.54	0.54	0.54	0.54	0.54	0.54
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	156.48	168.44	195.29	222.57	248.01	261.29	274.48
Accrued financing costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Secured loan	52.37	47.98	47.98	47.98	47.98	47.98	47.98
8% subordinated debenture liability	65.04	0.00	0.00	0.00	0.00	0.00	0.00
Preference share liability	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred gain on contributions to LNG project	17.50	13.08	13.08	13.08	13.08	13.08	13.08
Indirect participation interest	72.48	70.05	70.05	70.05	70.05	70.05	70.05
Indirect participation interest - PNGDV	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Long Term Liabilities	208.22	131.95	131.95	131.95	131.95	131.95	131.95
Non controlling interest	0.01	0.01	0.01	0.02	0.02	0.02	0.02
Stockholders' Equity							
Share capital	373.90	550.08	550.08	550.08	550.08	550.08	550.08
Preference shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8% subordinated debentures	10.84	0.00	0.00	0.00	0.00	0.00	0.00
Contributed surplus	15.62	17.36	17.36	17.36	17.36	17.36	17.36
Warrants	2.12	2.12	2.12	2.12	2.12	2.12	2.12
Accumulated Other Comprehensive Income	27.70	16.55	16.55	16.55	16.55	16.55	16.55
Conversion options	17.14	17.14	17.14	17.14	17.14	17.14	17.14
Accumulated deficit	(220.19)	(216.26)	(209.85)	(203.42)	(187.95)	(168.70)	(145.47)
Total Shareholder Equity	227.13	386.99	393.40	399.83	415.30	434.55	457.79
Total liabilities and Stockholders' Equity	591.84	687.38	720.65	754.36	795.28	827.81	864.24
Check	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
ROCE (GAAP)	1.2%	4.6%	5.4%	5.3%	7.1%	7.7%	8.1%
ROCE (Clean)	1.2%	4.6%	5.4%	5.3%	7.1%	7.7%	8.1%
Debt adjusted cash flow	**31.17**	**97.49**	**123.03**	**8.35**	**52.08**	**53.81**	**57.82**

Source: Company data, Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Not-Rated/Hold	**26**	**1%**	**3**	**0%**	**12%**
Underweight/Sell	**434**	**19%**	**88**	**14%**	**20%**
Total	**2,305**		**645**		

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Industry Coverage:Integrated Oil

Company (Ticker)	Rating (as of)	Price (09/17/2009)
Evan Calio		
InterOil Corporation (IOC.N)	O (09/18/2009)	$34.65
Chevron Corporation (CVX.N)	O (07/14/2009)	$71.97
ConocoPhillips (COP.N)	E (07/14/2009)	$46.79
Exxon Mobil Corporation (XOM.N)	E (07/14/2009)	$69.84
Hess Corporation (HES.N)	E (07/14/2009)	$56.38
Marathon Oil Corporation (MRO.N)	U (07/14/2009)	$33.88
Murphy Oil Corporation (MUR.N)	E (07/14/2009)	$60.97

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