Morgan Stanley

MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. Incorporated

Evan Calio
Evan.Calio@morganstanley.com
+1 212 761 6472

Ryan Todd
Ryan.Todd@morganstanley.com
+1 (1)212 761 3023

Ben Hur
Ben.Hur@morganstanley.com
+1 212 761 7827

October 26, 2009

Stock Rating
Overweight

Industry View
Attractive

InterOil Corporation

Management road show and Antelope-2 well data support improved risk/reward profile

What's Changed	
Price Target	**$67.00 to $73.00**

Improved Risk/Reward: We are raising our scenario outlook and see 5:1 reward-to-risk (Bull-to-Bear) supporting investment at current levels, particularly given the recent pullback. We believe the Antelope-2 well data supports:

1) *Higher Base Case* ($73) primarily driven by higher condensate flow rates at the top of structure (increasing NGLs to120mmbbls of NGLs and assuming facility is project financed).
2) *Higher Bear Case* ($30) derived by value assumptions on stranded gas (PNG comps), more appropriate post-Antelope-2;
3) *Higher Bull Case ($142)* derived by increasing our gas estimate (to 8Tcfe after Antelope-2 well was 345' higher in structure), a higher sale price for upstream interest ($1.79 per mmcfe, still a discount to recent comps), a risked estimate for oil, and value for IOC's exploration position. We need additional drilling data to support our Bull case, yet believe this outcome remains a reasonable possibility and informs an investment decision.

What's new: Our 3-day, non-deal road show with management highlighted: (1) higher condensate yields (NGLs) and oil upside potential in the Antelope structure, (2) NGL stripping monetization could precede an upstream sell-down and LNG partnership, (3) valuation of IOC's exploration position could come to the forefront either via inclusion in an upstream sell-down or as positive drilling results in Antelope-2 continue, and (4) overall, the transformation of IOC is continuing on-track with material drilling catalysts into mid-December.

Key Ratios and Statistics

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

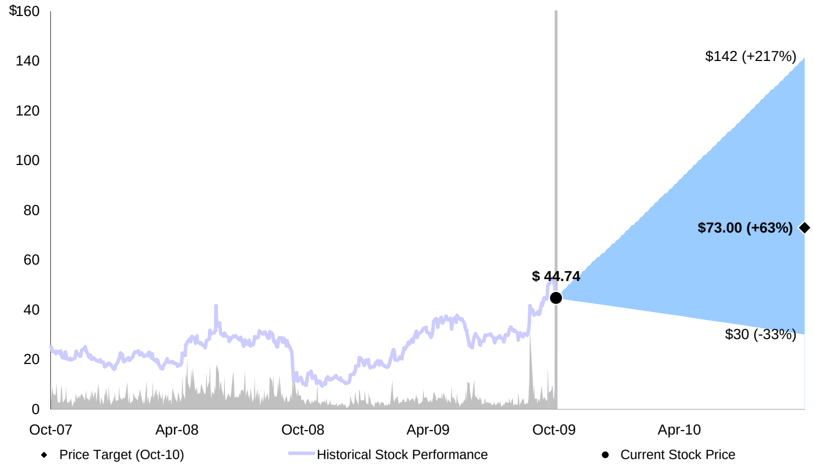
Price target	**$73.00**
Shr price, close (Oct 26, 2009)	$44.74
Mkt cap, curr (mm)	$1,907
52-Week Range	$53.75-8.90

Recent Reports

Title	Date
InterOil Corporation: Antelope-2 Leaps Over First Drilling Hurdle Evan Calio / Ryan Todd / Ben Hur	Oct 14, 2009
InterOil Corporation: October Drilling Catalysts & PNG Non-Approval Misunderstood Evan Calio / Ryan Todd / Ben Hur	Oct 6, 2009
InterOil Corporation: Major Transformation Going Unnoticed; Overweight Evan Calio / Ryan Todd / Ben Hur	Sep 18, 2009

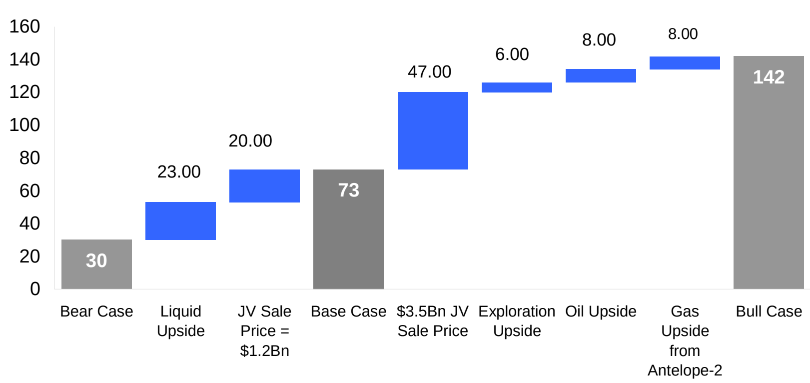
InterOil Corp. (IOC, $44.74, Overweight, Price Target $73)

Risk-Reward View: Strong Risk/reward Skew



Price Target $65	Derived from our base case.
Bull Case $142 Assumes $85 oil price (perpetuity)	**Exploration Upside; Higher liquids in Antelope** Antelope-2 well successful improving resource estimate and liquid stripping economics,220MMbbls of liquids; $3.5 billion sale price of IOC's interest and $6 per share for exploration upside
Base Case $73 Assumes $85 oil price (perpetuity)	**Joint Venture Partnership is Signed** Assumes 120MMbbls 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 20% discount to risked NAV.
Bear Case $30 Assumes $75 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 $75 oil price environment, IOC exploration resource and undeveloped acreage is worth $21/sh and gas is worth $12/sh with the refining at $5/sh at a 20% discount to risked NAV.

Bear to Bull



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

Why Overweight?

- Strong value proposition as market overlooks and discounts resource and potential monetization.
- We expect IOC to enter a partnership in next 6 months to develop LNG facility/ monetize its natural gas and associated liquids.
- 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** full well test results due in Mid-November
- **Antelope-2 DST** liquid rich gas zone due late-November
- **Antelope-2** horizontal drilling (oil potential) due mid-December
- **GLJ/Knowledge Resource** update due in January 2010.
- **Liquid stripping** venture due early 2010
- **Antelope-3** results expected first quarter 2010
- **LNG Partnership/upstream** sell down expected in 1H 2010

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.

Notes from the Road and Updating Our Risk-Reward Calculation

Notes from the Road: Following our 3-day, non-deal road show with management, we have the following conclusions: (1) the overall transformation of IOC is continuing on-track with materially drilling catalysts into mid-December (full well test in Mid-November, a test of NGL zone in late November, and results from horizontal drilling (oil) in mid-December, (2) the story had a stronger liquids focus due to higher condensate yields (NGLs) in Antelope-2, (3) the NGL stripping monetization could precede an upstream interest sell-down and LNG partnership. An NGL stripping project could commence before the upstream interest is sold and would enhance the value of that interest. A facility could be financed via a 3rd party with an associated off-take agreement. IOC intends to fully understand the extent of the NGL and oil before entering an upstream sale agreement. We believe that strategy will drive a better valuation in the sale, yet will also require additional time as well results (coring, logging, ect.) are moved into the data room and processed by various potential partners. We continue to expect the sell-down in 1H2010. (4) Valuation of IOC's exploration position should come to the forefront faster than expected either via inclusion in an upstream sell-down or as positive drilling results in Antelope-2 continue. Several potential structures, based on preliminary data, appear to be reef structures and post-Antelope 1 and 2, could drive some value, especially if interest buyers seek more upside than just the Elk/Antelope structure.

Our Revised Net Asset Value (NAV) Indicates 5:1 Risk: Reward

The value of IOC is primarily driven by the value of IOC's Upstream Assets, though IOC does have existing midstream and downstream operations in PNG. We use asset-level, cash flow models to estimate: (1) the upstream natural gas development and the accompanying LNG plant (Gas Value), (2) the value of the NGLs and proposed condensate stripping operations (Natural Gas Liquids Value), (3) the potential value for oil (Oil Value), and (4) the value of IOC's exploration position (Exploration Value). We only assume value for Gas and NGLs in both our Base and Bear cases and we assume a risked value for Oil and Exploration in our Bull Case. In other words we assume no value for oil, no value for IOC's other 40 prospects (at least 2 appearing to be reef structures), a 60% discount in sale of the upstream interest vs. a close comparable, a 20% risk factor in upstream value, and a target price with an additional 20% discount to our NAV to reach our Base case target of $73.

What changed in our Bear Case? We believe a successful DST at Antelope 2 at levels comparable to Antelope-1 and core samples from Antelope-2 indicating high porosity in the top of the reservoir, raises the floor valuation level. We believe 3.8Tcfe of gas represents a reasonable bear case and based on a distressed sale at $.50mcfe, we expect a $26 per share distressed value of the gas resource raises the floor valuation level. We believe this is an important change supporting downside valuation level.

What changed in our Base Case? We are increasing the amount of NGLs to 120mmbbls based upon 18bbl per 1mmcfd flow rates witnessed in the top of Antelope-1 and Antelope-2 vs. 10bbls per 1mmcfd in our initial valuation. IOC will drill out the casing in Antelope-2 from the lean gas to liquids-rich gas at the base of the reservoir in 4-5 weeks and could drive this estimate higher. Further, we are assuming this is project financed rather then funded from cash.

What Changed in our Bull Case? We are increasing our Bull case to include 3 changes: (1) an increased estimate of gas potential (to 8Tcfe) based primarily on hitting the reservoir 345 feet higher than expected which increases the volume potential by adding 345feet at the bottom or the structure. We also increase the Bull case to reflect the interpretation from seismic that reef is a barrier rather than an atoll reef improving the potential container size. (2) Adding 100MM bbl oil potential, (3) adding $500MM value for exploration. Oil results should be known by Mid-December and represent a bullish upside and the value of exploration could be driven by (1) the success at Antelope-2, (2) inclusion of exploration in sale of upstream potential. In a bull case, we believe it is reasonable to ascribe value to exploration based on recent success, even if modest at this stage.

Base Case. We have a $73 price target, based on an $85/bbl long-term oil price, 13% 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 $500 million in equity capex net to IOC post-sell-down). Cash flow is discounted at a WACC-based 12.4%.

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 $-60 million in current net debt and $1.2 billion for the potential asset sale, we arrive at a company risked value of $91/share, to which we apply a 20% 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 $73/share. We see the potential for significant additional upside value in the share price, and expect opportunities to continue de-risking company value as the catalyst-driven story unfolds.

Value of Existing Downstream Assets. Athough 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, 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 $0.74 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.

Exhibit 1

NAV Assumptions

Scenario	Bear	Base	Bull
Upstream			
NGLs Resource (MMbls)(gross)	75.0	120.0	120.0
Risk Factor	0%	80%	90%
Gross Amount, Risked (MMbbls)	0.00	96.00	108.00
Gas Resource (Tcfe)(gross)	3.8	6.7	8.0
Risk Factor	80%	80%	90%
Gross Amount, Risked (Tcfe)	3.04	5.36	7.20
Oil Resource (MMbbls)	0.00	0.00	500.00
Oil Resource (MMbbls)(gross recoverable)	0.0	0.0	100.0
Oil Production (mpd)	0	0	25
Recovery Factor	0%	0%	20%
Risk Factor	80%	80%	90%
Gross Amount, Risked (MMbbls)	0.00	0.00	90.00
Sale Price of Upstream Interest ($mcfe)	0.53	0.74	1.79
Value of Entire Interest in Sale ($ per share)	12.83	29.30	82.22
Total Value of Deal (excess of capex)	50	750.00	3000
Exploration Acreage ($MM)	500.00	500.00	500.00
Risk Factor	0%	0%	50%
Net Amount, Risked	0.00	0.00	250.00
Exploration Acreage ($ per share)	0.00	0.00	5.88
Total Upstream Value ($MM)			
Upstream Gas + LNG Value ($ per share)	$18.74	$49.09	$58.19
Upstream NGL Value ($ per share)	$0.00	$7.22	$8.12
Upstream Oil Value ($ per share)	$0.00	$0.00	$17.64
Total Upstream Value ($ per share)	18.74	56.31	83.95
Total Downstream Value ($MM)	200.00	200.00	200.00
Downstream Value ($ per share)	4.70	4.70	4.70
Net Debt ($ per share)	0.95	0.95	0.95
Total Value ($ per share)	37.22	91.26	177.70
Target Price Discount to NAV (%)	20%	20%	20%
Commodity Price, Post 2011			
Oil WTI	75.00	85.00	85.00
Gas Slope	9%	13%	13%
Target Price ($ per share)	**30**	**73**	**142**
Premium/discount to current	*-33%*	*63%*	*218%*

Source: Company data, Morgan Stanley Research

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.

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. Incorporated, and/or Morgan Stanley C.T.V.M. S.A. and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Evan Calio.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

The following analyst or strategist (or a household member) owns securities (or related derivatives) in a company that he or she covers or recommends in Morgan Stanley Research: Ryan Todd - Exxon Mobil Corporation (common or preferred stock). Morgan Stanley policy prohibits research analysts, strategists and research associates from investing in securities in their sub industry as defined by the Global Industry Classification Standard ("GICS," which was developed by and is the exclusive property of MSCI and S&P). Analysts may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

As of September 30, 2009, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: ConocoPhillips, Hess Corporation, Marathon Oil Corporation, Santos.

As of September 30, 2009, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in Morgan Stanley Research (including where guarantor of the securities): Chevron Corporation, ConocoPhillips, Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Murphy Oil Corporation, Woodside Petroleum.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Chevron Corporation, ConocoPhillips, Marathon Oil Corporation, Oil Search Ltd..

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Chevron Corporation, ConocoPhillips, Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Murphy Oil Corporation.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Chevron Corporation, ConocoPhillips, Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Oil Search Ltd., Santos, Woodside Petroleum.

Within the last 12 months, Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from Chevron Corporation, ConocoPhillips, Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Murphy Oil Corporation.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Chevron Corporation, ConocoPhillips, Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Murphy Oil Corporation, Oil Search Ltd., Santos, Woodside Petroleum.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Chevron Corporation, ConocoPhillips, Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Murphy Oil Corporation, Woodside Petroleum.

Morgan Stanley & Co. Incorporated makes a market in the securities of Chevron Corporation, ConocoPhillips, Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Murphy Oil Corporation.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

The fixed income research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of September 30, 2009)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**843**	**36%**	**259**	**39%**	**31%**
Equal-weight/Hold	**1062**	**45%**	**314**	**47%**	**30%**
Not-Rated/Hold	**26**	**1%**	**3**	**0%**	**12%**
Underweight/Sell	**412**	**18%**	**89**	**13%**	**22%**
Total	**2,343**		**665**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

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.
Equal-weight (E). The stock's total return is expected to be in line with 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.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to 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.
Underweight (U). The stock's total return is expected to be below 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.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies or topics that are the subject of Morgan Stanley Research. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports.

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC, Morgan Stanley and Citigroup Global Markets Inc. or any of their affiliates, are available on the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods and the risks related to any price targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by the Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Services Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at wholesale customers only, as defined by the DFSA. This research will only be made available to a wholesale customer who we are satisfied meets the regulatory criteria to be a client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

Morgan Stanley

MORGAN STANLEY RESEARCH

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Integrated Oil

Company (Ticker)	Rating (as of)	Price (10/26/2009)
Evan Calio		
Chevron Corporation (CVX.N)	O (07/14/2009)	$75.45
ConocoPhillips (COP.N)	E (07/14/2009)	$50.74
Exxon Mobil Corporation (XOM.N)	E (07/14/2009)	$73.23
Hess Corporation (HES.N)	E (07/14/2009)	$57.44
InterOil Corporation (IOC.N)	O (09/18/2009)	$44.74
Marathon Oil Corporation (MRO.N)	U (07/14/2009)	$33.48
Murphy Oil Corporation (MUR.N)	E (07/14/2009)	$62.23

Stock Ratings are subject to change. Please see latest research for each company.