

Stock Rating
Overweight
Industry View
Attractive

September 30, 2010

InterOil Corporation

LNG Deal Drives Higher NAV; More Catalysts Coming

What's Changed

Price Target **\$125.00 to \$135.00**

Investment thesis: We believe that Tuesday's announcement represents a **material improvement** in the potential monetized value of IOC's gas resource. Under the new LNG structure outlined Tuesday, assuming full development, our NAV increases to \$225/sh vs. \$151/sh and our target price increases to \$135/sh. The wider discount to the NAV reflects execution risks and time value until material cash flow generation in late 2013. We believe the new model for LNG development will generate higher returns for IOC than our prior assumptions, accelerate EBITDA generation by 3 years, and shift the financing obligation to a partner.

What's new: Tuesday, IOC announced it entered into a Heads of Agreement with Energy World Corporation (EWC) to construct a 2mpta land-based, LNG facility in PNG. After signing the agreement with the Prime Minister of PNG, we met company management to review Tuesday's deal. The key takeaways include: (1) LNG plant cost is guaranteed by EWC at \$455 per ton, less than 50% of our prior cost assumption; (2) EWC is paid a 14.5% royalty, which implies \$3.64 per mcf price for working interest (comparison for price in a sell-down) and removes IOC's financing obligation; (3) EWC is responsible for 2013 facility start-up (penalties thereafter); (4) new citing facility in Gulf Province reduces infrastructure costs; and (5) a final agreement is expected by YE. All-in breakeven costs, we estimate, are at \$0.74per mcf: one of the lowest in the world for LNG.

What's next: we believe catalysts remain. We look for other announcements in 4Q10 that: (1) strengthen the project's credibility (off-take, FLNG, CSP FID and LNG FID); and (2) outline \$500MM-\$1.5Bn of potential capital in a upstream sell-down necessary for exploration and full development costs of Elk/Antelope.

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Key Ratios and Statistics

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

Price target	\$135.00
Shr price, close (Sep 29, 2010)	\$69.36
Mkt cap, curr (mm)	\$3,138
52-Week Range	\$84.05-37.09

Recent Reports

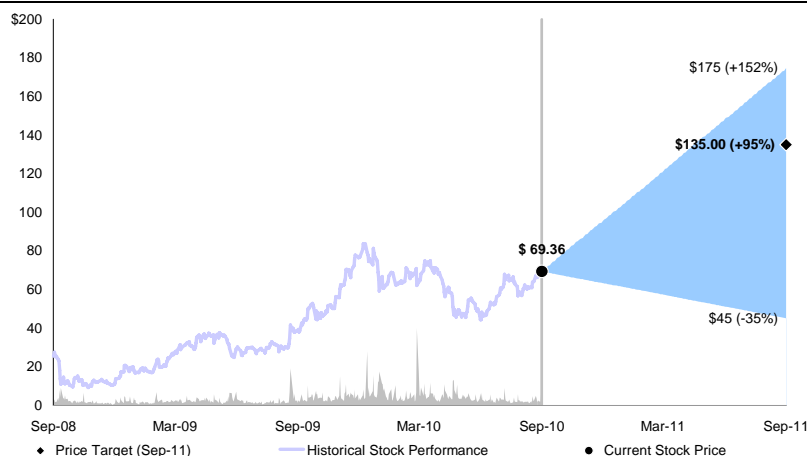
Title	Date
InterOil Corporation: Mitsui Partnership Prices Elk/Antelope Resource Evan Calio / Ryan Todd / Ben Hur	Aug 4, 2010
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InterOil Corp. (IOC, \$69.36, Overweight, Price Target \$135)

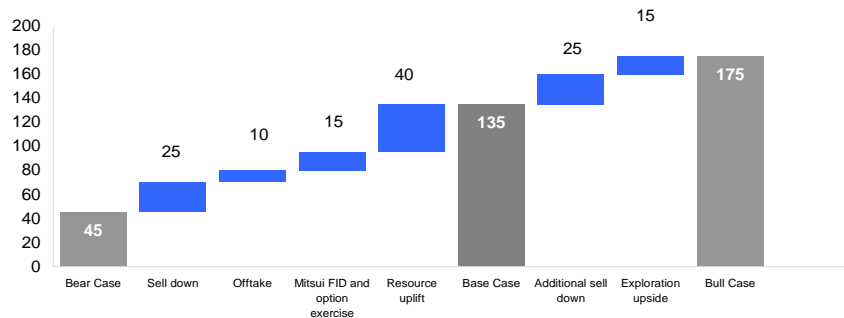
Risk-Reward View: Positive Risk/Reward Skew



Price Target \$135 Derived from our base case.

Case	Description
Bull Case \$175	Exploration Upside; new prospect Full field development by 2017, 12Tcfe of resource at 2010YE; second phase of LNG and CSP trains announced; \$6 per share for exploration, 35% discount to NAV.
Assumes \$85 oil price (perpetuity)	
Base Case \$135	Joint Venture Partnership is Signed Assumes a 5% sell-down at \$2 per mcf, Mitsui and EWC reach FID, Mitsui exercises 2x2.5% options, mid-point of GLJ resource range. And 40% discount to full field NAV (8mtpa LNG, 1.7mtpa FLNG, 3 CSPs).
Assumes \$85 oil price (perpetuity)	
Bear Case \$45	No upstream selldown LNG, Resource Estimate Lower Assumes no sell-down, a \$75 oil price and low end of GLJ resource estimate; a condensate stripping facility is built (\$8.50 per share), IOC exploration resource and stranded gas is valued at \$46/sh and refinery \$5/sh.
Assumes \$75 oil price	

Bear to Bull



Source: Morgan Stanley Research estimates, FactSet
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 we think the market overlooks and discounts resource and potential monetization.
- We expect IOC to enter an LNG sell-down to provide material cash proceeds (\$500-1.5Bn) to value resource and fund new exploration and Antelope resource monetization.
- Trading at over a 69% discount to our NAV (NAV omits any value for oil resource or for exploration acreage).
- EBITDA generation of \$1.2Bn in 2014 with Antelope plateau EBITDA (15+ year plateau) of \$3.0Bn per annum 2017+ on flat \$85 oil price.
- Largest exploration land position in PNG with over 40 identified prospects and over a decade of drilling experience.

Potential Catalysts/Key Value Drivers

- Upstream sell down expected in 2H10 (expect 2.5%-5%, in addition to exercise of Mitsui 5% option). 4Q10.
- FLNG partnership, in 4Q10-1Q11.
- FID of condensate facility with partner, Mitsui. 4Q10-1Q11.
- FID of 2mtpa land based LNG facility with partner, EWC. 4Q10-1Q11.
- Signing an off-take for gas production with oil-linkage. 4 Q10-1Q11.
- Resource Upside. We expect material uplift in 12/30/10 GLJ report (~12Tcfe) based on 2010 drilling results and seismic interpretations and reserve bookings if FID CSP and LNG facilities.
- ID new exploration prospects.

Where We Could Be Wrong

- **Failure to sell down.** IOC has limited cash flow and cash balance. A sell-down or financing may be necessary to fund exploration and development.
- **Exploration failure.** IOC is proving its resource base and any exploration failure will likely delay development and impact price.
- **PNG risks.** 100% of IOC's operating assets are located in PNG.

Investment Case

Summary investment conclusions. We believe the value proposition for IOC's resource continues to improve, supported by newer economics from Tuesday's announced Heads of Agreement with EWC. Based on the EWC agreement, we see breakeven costs at \$.74 per mcf (down from our prior ~\$3 due to LNG tolling cost), which is one of the lowest in the LNG world. These economics should facilitate a sell-down and off-take to fully fund IOC and enable asset monetization of a resource with an NAV of \$225 per share, in our view. Progress has been made on all fronts (discovery and monetization) since we initiated coverage and IOC continues to transform from an exploration company to large-scale LNG producer with potential exploration upside.

The new LNG model: breaking down Tuesday's announcement. Tuesday, IOC announced it entered into a Heads of Agreement with EWC to construct a 2mtpa land-based, LNG facility in PNG. Several key elements drive our views on value: (1) the LNG plant cost is guaranteed by EWC at \$455 per ton, less than 50% of our prior cost estimate; (2) EWC is paid a 14.5% royalty, which implies \$3.64 per mcf working interest value ($(\$455 \times 2) / (1,500 \times .145) - .34$) and removes IOC's financing obligation; (3) EWC is responsible for 2013 delivery (penalties thereafter); (4) new citing in the Gulf Province reduces infrastructure costs; and (5) a final agreement is expected by year-end. We believe that Tuesday's announcement represents a material improvement in the potential value of the Elk/Antelope resource.

Impact on Valuation. We have revised our NAV to reflect the newly planned LNG structure and included the full development of Elk/Antelope, increasing our NAV from \$151 to \$225 per share. We have rebuilt our NAV to account for a fully developed modular and coastal LNG structure for Elk/Antelope. **Major assumptions:** (1) we assume 4x2mtpa trains for same capacity of previous 2x4mtpa model using the EWC as a template; (2) we model 3 CSPs at 12,500bpd, which is based off latest flow tests (25bls per 1mcfpd x 1.20% (for efficiency gains) x 400mcf capacity); (3) we model a 1x1.7mtpa FLNG vessel (see our June 22, 2010 note for FLNG model); (4) we assume 1 train per annum comes onstream beginning in 2014; (5) we assume no LNG financing is required, which removes what was a -\$10 per share of NAV as the LNG facility was the lowest return business for IOC; and (6) we assume \$85 flat oil price and a 14% slope for gas. We raised our target to \$135, a 40% discount to our NAV, reflecting increased execution risk, inexperience of EWC as an operating partner and time value until material cash flow generation.

Exhibit 1

NAV summary valuation

	Unrisked Value (\$ MM)
Train 1 Module LNG Segment	\$1,868
Train 2 Module LNG Segment	\$1,961
Train 3 Module LNG Segment	\$1,782
Train 4 Module LNG Segment	\$1,632
Floating LNG Segment	\$1,227
Train 1 CSP Segment	\$981
Train 2 CSP Segment	\$409
Train 3 CSP Segment	\$374
Refining & Marketing	\$223
Total Operations	\$10,457
Exploration Acreage (4 million acres)	\$0
Current Cash Balance (6/30/2010)	\$32
Current Debt (6/30/2010)	(\$49)
Total Value	\$10,439
Shares Outstanding	46.49
IOC % ownership	59%
Value/share	\$224.55
Share price discount to NAV	40%
Target Price (\$/share)	\$135

Source: Morgan Stanley Research estimates

Tuesday's deal is another step forward: we expect more.

The import of Tuesday's announcement was the **value improvement** in the resource monetization based on the smaller, modular-based structure and LNG technology application. We expect additional announcements into year-end will cover remaining concerns regarding: (a) project credibility by bringing known partners to final agreements (construction, capital commitments, off-take and upstream partners); and (b) balance sheet requirements (sell-down). We believe, in totality, these events will drive convergence on our new \$135/sh target price. The serial approach to announcing transactions (vs. one complete deal) is likely a function of complexity relating to various, multi-party negotiations, management and documentation capacity constraints, and a desire to maximize value.

Catalyst loaded into year-end. In 4Q10-1Q11, we expect the following material catalysts, which should continue to de-risk the value: (in order of materiality): **(1) upstream sell-down** of 2.5-5% of Elk/Antelope field. Under the model of partner-financed LNG facilities, we believe the sell-down needs have been reduced to a total of \$1Bn, with ~\$550MM for a non-partner-financed full field and infrastructure development (8mtpa+3mtpa FLNG+3 condensate trains if 2CSPs project financed) and up to \$500MM for accelerated exploration of prospect inventory (3 rigs). **(2) FID and finalized condensate agreement with partner Mitsui** (with potential options for additional facilities and a trigger of both Mitsui's 2.5% upstream

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options). **(3) FLNG partnership** (dovetails perfectly with EWC deal and shares infrastructure). **(4) EWC FID**, and **(5) Resource uplift in connection 12/31/10 resource update** (1Q11) as 2010 drilling and seismic should drive resource upside (~12Tcfe) and CSP FID or LNG FID by year-end should drive **reserve bookings**. **(6) delineation of several new exploration prospects** once fully financed, post-sell down (4Q10/1Q11). We believe the lack of a sell-down to provide necessary capital has weighed on IOC's stock YTD and we believe execution of various potential deals for IOC will drive material convergence on our \$135/sh 12-month target price.

How NAV values for resource companies converge to traditional cash flow valuation metrics. In our view criticism of cash flow or P/E multiples on resource companies is misplaced (see e.g. CIE, OGX, AOP, MEG, etc). We believe Tuesday's accelerated development begins to close that valuation bridge as material EBITDA generation should now commence in 2014 full year and reach 15+ year plateau production by 2017. See Exhibit 2.

Exhibit 2

EBITDA (\$MM) generation

	2010	2011	2012	2013	2014	2015	2016	2017
Train 1 Module LNG Segment	-	(280)	-	-	852	852	852	852
Train 2 Module LNG Segment	-	-	(90)	-	-	852	852	852
Train 3 Module LNG Segment	-	-	-	(90)	-	-	852	852
Train 4 Module LNG Segment	-	-	-	-	(60)	-	-	852
Floating LNG Segment	-	-	-	-	428	428	428	428
Train 1 CSP Segment	-	-	-	381	381	381	381	381
Train 2 CSP Segment	-	-	-	-	381	381	381	381
Train 3 CSP Segment	-	-	-	-	-	381	381	381
Refining & Marketing	41	45	45	54	57	61	61	61
Total EBITDA	41	(235)	(45)	344	2,039	3,335	4,187	5,039
IOC EBITDA	24	(139)	(27)	203	1,202	1,966	2,469	2,971

Source: Morgan Stanley Research estimates

Our revised \$135/sh price target is based on a 40% discount to net asset valuation of \$225/sh. Based upon our projections, the NAV valuation will converge on an EV/EBITDA valuation as the project de-risks and we approach a material step-up in cash flow generation in 2014 (paying one year forward 2015 production). Based on this method, we believe that IOC's 2014 FY1 EV/EBITDA (5.5x) is the approximately equal value to our current NAV. Value accretes at 22% returns year on year from our \$135/sh price target for the next 3 years to achieve full EV/EBITDA valuation in FY1 2014 of \$233/sh. All exploration represents additional upside.

Exhibit 3

EV/EBITDA converges to NAV

	EBITDA Multiples			
	4.5x	5.0x	5.5x	6.0x
2014 EBITDA	116	129	142	155
2015 EBITDA	190	211	233	254
2016 EBITDA	239	266	292	319
2017 EBITDA	288	320	351	383

Source: Morgan Stanley Research estimates

Who is EWC? Energy World Corporation Limited (AX: EWC) is a \$660MM integrated energy company based in Hong Kong and listed in Australia and New Zealand. The company is focused on the development of Asia-Pacific gas and power markets, both on the supply side (gas production, LNG supply) and end user demand (LNG regasification, power generation). Current operations are focused in Australia and Indonesia. In Australia, the company operates an 8.7 MW gas-fired power station in Alice Springs in the Northwest Territory, as well as an interest in a number of small natural gas fields. In Indonesia, the company operates the Sengkang Power Plant, a 135 MW power plant in South Sulawesi, as well as holding an interest in a number of small natural gas fields. Energy World is a pioneer in modular LNG application, which employs a standard design and smaller trains to provide redundancy, cost effective fabrication, reduced installation times and lower cost capacity. EWC is partnered with Siemens and Chart Industries where Siemens is vested in the success of this newer LNG application.

Why we think EWC is a Credible Partner? We think EWC is able to meet a tighter time line for facility start-time in the IOC agreement because many facility materials were ordered and constructed in connection with the 2mtpa Sengkang, Indonesia LNG export project (due to start in 2011). Indonesia canceled the agreement with EWC in January 2009 due to concerns on its natural gas resources. Hence, IOC and EWC are able to cut the start time of the project to 2013.

Mitsui covered by Tomokazu Soejima, Siemens by Ben Uglow, Chart Industries by Ole Slorer.

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Exhibit 4

NAV model output

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2033	2034	2035	2036	2037
Commodity Price Assumption														
Liquids														
WTI (\$/bbl)	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	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)	80.75	80.75	80.75	80.75	80.75	80.75	80.75	80.75	80.75	80.75	80.75	80.75	80.75	80.75
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
Condensate Realization (\$/bbl)	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")(\$/mcf)	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31
Natural Gas Realization ("S curve")(\$/bbl)	67.83	67.83	67.83	67.83	67.83	67.83	67.83	67.83	67.83	67.83	67.83	67.83	67.83	67.83
Discount to crude (%)	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%	20.20%

Train 1 Module LNG Segment

2 Ton DCF - Antelope/Elk Natural Gas DCF

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2033	2034	2035	2036	2037
Total Gas Recoverable (Bcf)	2,000.00	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas Processed/Day (MMcf/d)	280.00	-	-	-	280.00	280.00	280.00	280.00	280.00	280.00	280.00	280.00	280.00	280.00
Gas Processed/Year (Bcf)	-	-	-	-	102.20	102.20	102.20	102.20	102.20	102.20	102.20	102.20	102.20	102.20
Cumulative Production (Bcf)	-	-	-	-	102.20	204.40	306.60	408.80	511.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Production/Year Recoverable (Bfc)	-	-	-	-	102.20	102.20	102.20	102.20	102.20	58.20	-	-	-	-
Revenues (\$MM)	-	-	-	-	1,155.37	1,155.37	1,155.37	1,155.37	1,155.37	657.95	-	-	-	-
Total Capex (\$MM)	(60.00)	(210.00)	-	-	-	-	-	-	-	-	-	-	-	-
LNG Facility Capex (\$MM)	-	(150.00)	-	-	-	-	-	-	-	-	-	-	-	-
Drilling Capex (\$MM)	-	(60.00)	-	-	-	-	-	-	-	-	-	-	-	-
Royalty (\$MM)	2.00%	-	-	-	(23.11)	(23.11)	(23.11)	(23.11)	(23.11)	(13.16)	-	-	-	-
Operating Costs (LOE)(\$MM)	\$0.10	-	-	-	(10.22)	(10.22)	(10.22)	(10.22)	(10.22)	(5.82)	-	-	-	-
EWC offtake (\$MM)	14.5%	-	-	-	(167.53)	(167.53)	(167.53)	(167.53)	(167.53)	(95.40)	-	-	-	-
G&A (\$MM)(allocation)	\$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT (\$MM)	-	(210.00)	-	-	954.51	954.51	954.51	954.51	954.51	543.57	-	-	-	-
Taxes (\$MM)	30.00%	-	-	-	(286.35)	(286.35)	(286.35)	(286.35)	(286.35)	(163.07)	-	-	-	-
Total Free Cash Flow (\$MM)	-	(210.00)	-	-	668.16	668.16	668.16	668.16	668.16	380.50	-	-	-	-
IOC FCF (\$MM)	58.56%	(122.98)	-	-	391.28	391.28	391.28	391.28	391.28	222.82	-	-	-	-
IOC FCF (post sell-down)(\$MM)	34.56%	(72.58)	-	-	230.92	230.92	230.92	230.92	230.92	131.50	-	-	-	-
NPV-10 Total (\$MM)	\$3,682.51	-	-	-	-	-	-	-	-	-	-	-	-	-
NPV IOC (\$MM)	\$2,156.51	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Shares Outstanding (MM)	46.49	-	-	-	-	-	-	-	-	-	-	-	-	-
NPV/share (\$ per shares)	\$46.39	-	-	-	-	-	-	-	-	-	-	-	-	-

Train 2 Module LNG Segment

2 Ton DCF - Antelope/Elk Natural Gas DCF

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2033	2034	2035	2036	2037
Total Gas Recoverable (Bcf)	2,000.00	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas Processed/Day (MMcf/d)	280.00	-	-	-	-	280.00	280.00	280.00	280.00	280.00	280.00	280.00	280.00	280.00
Gas Processed/Year (Bcf)	-	-	-	-	-	102.20	102.20	102.20	102.20	102.20	102.20	102.20	102.20	102.20
Cumulative Production (Bcf)	-	-	-	-	-	102.20	204.40	306.60	408.80	1,941.80	2,000.00	2,000.00	2,000.00	2,000.00
Production/Year Recoverable (Bfc)	-	-	-	-	-	102.20	102.20	102.20	102.20	58.20	-	-	-	-
Revenues (\$MM)	-	-	-	-	-	1,155.37	1,155.37	1,155.37	1,155.37	1,155.37	657.95	-	-	-
Total Capex (\$MM)	(60.00)	-	(60.00)	-	-	-	-	-	-	-	-	-	-	-
LNG Facility Capex (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drilling Capex (\$MM)	-	(60.00)	-	-	-	-	-	-	-	-	-	-	-	-
Royalty (\$MM)	2.00%	-	-	-	-	(23.11)	(23.11)	(23.11)	(23.11)	(23.11)	(13.16)	-	-	-
Operating Costs (LOE)(\$MM)	\$0.10	-	-	-	-	(10.22)	(10.22)	(10.22)	(10.22)	(10.22)	(5.82)	-	-	-
EWC offtake (\$MM)	14.5%	-	-	-	-	(167.53)	(167.53)	(167.53)	(167.53)	(167.53)	(95.40)	-	-	-
G&A (\$MM)(allocation)	\$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT (\$MM)	-	(210.00)	-	-	954.51	954.51	954.51	954.51	954.51	543.57	-	-	-	-
Taxes (\$MM)	30.00%	-	-	-	-	(286.35)	(286.35)	(286.35)	(286.35)	(286.35)	(163.07)	-	-	-
Total Free Cash Flow (\$MM)	-	(60.00)	-	-	668.16	668.16	668.16	668.16	668.16	380.50	-	-	-	-
IOC FCF (\$MM)	58.56%	(35.14)	-	-	391.28	391.28	391.28	391.28	391.28	222.82	-	-	-	-
IOC FCF (post sell-down)(\$MM)	34.56%	(20.74)	-	-	230.92	230.92	230.92	230.92	230.92	131.50	-	-	-	-
NPV-10 Total (\$MM)	\$3,806.48	-	-	-	-	-	-	-	-	-	-	-	-	-
NPV IOC (\$MM)	\$2,229.11	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Shares Outstanding (MM)	46.49	-	-	-	-	-	-	-	-	-	-	-	-	-
NPV/share (\$ per shares)	\$47.95	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Company data, Morgan Stanley Research estimates, note that 2019-2032 is truncated

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Exhibit 5

NAV model output

Train 3 Module LNG Segment		2010	2011	2012	2013	2014	2015	2016	2017	2018	2033	2034	2035	2036
2 Ton DCF - Antelope/Elk Natural Gas DCF														
Total Gas Recoverable (Bcf)	2,000.00	-	-	-	-	-	-	280.00	280.00	280.00	280.00	280.00	280.00	280.00
Gas Processed/Day (MMcf/d)	280.00	-	-	-	-	-	-	102.20	102.20	102.20	102.20	102.20	102.20	102.20
Gas Processed/ Year (Bcf)	-	-	-	-	-	-	-	102.20	204.40	306.60	1,839.60	1,941.80	2,000.00	2,000.00
Cumulative Production (Bcf)	-	-	-	-	-	-	-	102.20	102.20	102.20	102.20	102.20	58.20	-
Production/Year Recoverable (Bfc)	-	-	-	-	-	-	-	1,155.37	1,155.37	1,155.37	1,155.37	1,155.37	657.95	-
Revenues (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capex (\$MM)	(60.00)	-	-	(60.00)	-	-	-	-	-	-	-	-	-	-
LNG Facility Capex (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drilling Capex (\$MM)	-	-	-	(60.00)	-	-	-	-	-	-	-	-	-	-
Royalty (\$MM)	2.00%	-	-	-	-	-	-	(23.11)	(23.11)	(23.11)	(23.11)	(23.11)	(13.16)	-
Operating Costs (LOE)(\$MM)	\$0.10	-	-	-	-	-	-	(10.22)	(10.22)	(10.22)	(10.22)	(10.22)	(5.82)	-
EWC offtake (\$MM)	14.5%	-	-	-	-	-	-	(167.53)	(167.53)	(167.53)	(167.53)	(167.53)	(95.40)	-
G&A (\$MM)(allocation)	\$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT (\$MM)	-	-	-	(60.00)	-	-	-	954.51	954.51	954.51	954.51	954.51	543.57	-
Taxes (\$MM)	30.00%	-	-	-	-	-	-	(286.35)	(286.35)	(286.35)	(286.35)	(286.35)	(163.07)	-
Total Free Cash Flow (\$MM)	-	-	-	(60.00)	-	-	-	668.16	668.16	668.16	668.16	668.16	380.50	-
IOC FCF (\$MM)	58.56%	-	-	(35.14)	-	-	-	391.28	391.28	391.28	391.28	391.28	222.82	-
IOC FCF (post sell-down)(\$MM)	34.56%	-	-	(20.74)	-	-	-	230.92	230.92	230.92	230.92	230.92	131.50	-
NPV-10 Total (\$MM)	\$3,460.44													
NPV IOC (\$MM)	\$2,026.46													
Total Shares Outstanding (MM)	46.49													
NPV/share (\$ per shares)	\$43.59													
Train 4 Module LNG Segment														
2 Ton DCF - Antelope/Elk Natural Gas DCF														
Total Gas Recoverable (Bcf)	2,000.00	-	-	-	-	-	-	280.00	280.00	280.00	280.00	280.00	280.00	280.00
Gas Processed/Day (MMcf/d)	280.00	-	-	-	-	-	-	102.20	102.20	102.20	102.20	102.20	102.20	102.20
Gas Processed/ Year (Bcf)	-	-	-	-	-	-	-	102.20	204.40	1,737.40	1,839.60	1,941.80	2,000.00	2,000.00
Cumulative Production (Bcf)	-	-	-	-	-	-	-	102.20	102.20	102.20	102.20	102.20	58.20	-
Production/Year Recoverable (Bfc)	-	-	-	-	-	-	-	1,155.37	1,155.37	1,155.37	1,155.37	1,155.37	657.95	-
Revenues (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capex (\$MM)	(60.00)	-	-	-	(60.00)	-	-	-	-	-	-	-	-	-
LNG Facility Capex (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drilling Capex (\$MM)	-	-	-	(60.00)	-	-	-	-	-	-	-	-	-	-
Royalty (\$MM)	2.00%	-	-	-	-	-	-	(23.11)	(23.11)	(23.11)	(23.11)	(23.11)	(13.16)	-
Operating Costs (LOE)(\$MM)	\$0.10	-	-	-	-	-	-	(10.22)	(10.22)	(10.22)	(10.22)	(10.22)	(5.82)	-
EWC offtake (\$MM)	14.5%	-	-	-	-	-	-	(167.53)	(167.53)	(167.53)	(167.53)	(167.53)	(95.40)	-
G&A (\$MM)(allocation)	\$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT (\$MM)	-	-	-	-	(60.00)	-	-	954.51	954.51	954.51	954.51	954.51	543.57	-
Taxes (\$MM)	30.00%	-	-	-	-	-	-	(286.35)	(286.35)	(286.35)	(286.35)	(286.35)	(163.07)	-
Total Free Cash Flow (\$MM)	-	-	-	-	(60.00)	-	-	668.16	668.16	668.16	668.16	668.16	380.50	-
IOC FCF (\$MM)	58.56%	-	-	-	(35.14)	-	-	391.28	391.28	391.28	391.28	391.28	222.82	-
IOC FCF (post sell-down)(\$MM)	34.56%	-	-	-	(20.74)	-	-	230.92	230.92	230.92	230.92	230.92	131.50	-
NPV-10 Total (\$MM)	\$3,145.85													
NPV IOC (\$MM)	\$1,842.24													
Total Shares Outstanding (MM)	46.49													
NPV/share (\$ per shares)	\$39.63													

Source: Company data, Morgan Stanley Research estimates, note that 2019-2032 is truncated

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InterOil Corporation

Exhibit 6

NAV model output

Floating LNG Segment		2010	2011	2012	2013	2014	2015	2016	2017	2018	2033	2034	2035	2036	2037	2038	2039	2040
Sale price gas (mcf)						11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31	11.31
Annual gas production (MTPA)						1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Gas production (daily)(bcf/d)						0.227	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Days						365.00	365.00	365.00	365.00	365.00	365.00	365.00	365.00	365.00	365.00	365.00	365.00	365.00
Gas per annum (bcfe)						82.79	82.79	82.79	82.79	82.79	82.79	82.79	82.79	82.79	82.79	82.79	82.79	82.79
Total revenue (\$MM)						935.94	935.94	935.94	935.94	935.94	935.94	935.94	935.94	935.94	935.94	935.94	935.94	935.94
Floating LNG tolling cost (\$/mmbtu)						3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Operator charge (\$/mcf)						2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Transportation cost (\$/mm)						19.38	19.38	19.38	19.38	19.38	19.38	19.38	19.38	19.38	19.38	19.38	19.38	19.38
Upstream Expenses						476.04	476.04	476.04	476.04	476.04	476.04	476.04	476.04	476.04	476.04	476.04	476.04	476.04
Lifting & Operating Expense (\$mm)	\$0.10					8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28
Total cost & expenses (\$mm)						503.70	503.70	503.70	503.70	503.70	503.70	503.70	503.70	503.70	503.70	503.70	503.70	503.70
Margin per (mcf)						5.22	5.22	5.22	5.22	5.22	5.22	5.22	5.22	5.22	5.22	5.22	5.22	5.22
Net EBITDA						432.24	432.24	432.24	432.24	432.24	432.24	432.24	432.24	432.24	432.24	432.24	432.24	432.24
After tax	30.00%					302.57	302.57	302.57	302.57	302.57	302.57	302.57	302.57	302.57	302.57	302.57	302.57	302.57
% Interest	58.56%																	
% Interest			0	0	0	177.19	177.19	177.19	177.19	177.19	177.19	177.19	177.19	177.19	177.19	177.19	177.19	177.19
Transportation Assumptions																		
Day rate (\$mm)	0.038																	
Days	365																	
Sailing days	18																	
Cargo (m tons)	0.06																	
Total gas (MTPA)	1.70																	
Cargos	28																	
Total days	510																	
Total cost (\$mm)	19.38																	
NPV-10 Total (\$MM)																		
NPV IOC (\$MM)																		
Total Shares Outstanding (MM)																		
NPV/share (\$ per shares)																		

Source: Company data, Morgan Stanley Research estimates, note that 2019-2032 is truncated

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InterOil Corporation

Exhibit 7 NAV model output

Train 1 CSP Segment		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Antelope/Etik NGLs CSP DCF																							
Total Condensate Recoverable (MMbbls)	86.50																						
Liquids Flowing per MMcf/d (bbls per MM)	43.25																						
Total Capex (\$MM)																							
Drilling capex	(30.00)																						
Facility capex	0.00																						
Production/Day (mbpd)	12.50	-	-	-	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	
Production/Year (MMbbls)	-	-	-	-	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	
Cumulative Production	-	-	-	-	4.56	9.13	13.69	18.25	22.81	27.38	31.94	36.50	41.06	45.63	50.19	54.75	59.31	63.88	68.44	73.00	77.56	82.13	
Production/Year Recoverable (MMbbls)	-	-	-	-	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	
Revenues (\$MM)	-	-	-	-	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	
Royalty (\$MM)	2.00%	-	-	-	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	
Operating Costs (LOE)(\$MM)	\$5.00	-	-	-	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	
G&A (\$MM)(allocation)	\$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EBIT	-	-	-	-	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	
Total Equity Capex (\$MM)	-	-	-	-	-	(10.00)	-	-	(10.00)	-	-	(10.00)	-	-	-	-	-	-	-	-	-	-	
Facility Capex (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Drilling Capex (\$MM)	-	-	-	-	-	(10.00)	-	-	(10.00)	-	-	(10.00)	-	-	-	-	-	-	-	-	-	-	
Total Debt Financed Capex (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EBIT less capex (\$MM)	-	-	-	-	372.45	362.45	372.45	372.45	362.45	372.45	372.45	362.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	
Interest (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
NOLs (at YE)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Taxable post NOLs	-	-	-	-	372.45	362.45	372.45	372.45	362.45	372.45	372.45	362.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	
Taxes (\$MM)	30.00%	-	-	-	(111.73)	(108.73)	(111.73)	(111.73)	(108.73)	(111.73)	(111.73)	(108.73)	(111.73)	(111.73)	(111.73)	(111.73)	(111.73)	(111.73)	(111.73)	(111.73)	(111.73)	(111.73)	
Total Free Cash Flow SMM	-	-	-	-	260.71	253.71	260.71	260.71	253.71	260.71	260.71	253.71	260.71	260.71	260.71	260.71	260.71	260.71	260.71	260.71	260.71	260.71	
IOC FCF (\$MM)	58.56%	-	-	-	152.68	148.58	152.68	152.68	148.58	152.68	152.68	148.58	152.68	152.68	152.68	152.68	152.68	152.68	152.68	152.68	152.68	152.68	
IOC FCF (post self-down)(\$MM)	34.56%	-	-	-	90.10	87.68	90.10	90.10	87.68	90.10	90.10	87.68	90.10	90.10	90.10	90.10	90.10	90.10	90.10	90.10	90.10	90.10	
Debt Balance (beginning period)(\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Debt paydown (\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Debt Balance (ending period)(\$MM)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
NPV-10 Total (\$MM)	\$1,627.11																						
NPV IOC (\$MM)	\$962.85																						
Total Shares Outstanding (MM)	46.49																						
NPV/share (\$ per shares)	\$20.50																						

Source: Company data, Morgan Stanley Research estimates

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InterOil Corporation

Exhibit 8

NAV model output

Train 2 CSP Segment		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Antelope/Elk NGLs CSP DCF															
Total Condensate Recoverable (MM/bbls)	36.50														
Liquids Flowing per MMcfd (bbls per MM)	18.25														
Total Capex (\$MM)															
Drilling capex	(30.00)														
Facility capex	(500.00)														
Production/Day (mbpd)	12.50	-	-	-	-	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Production/Year (MMbbls)		-	-	-	-	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56
Cumulative Production		-	-	-	-	4.56	9.13	13.69	18.25	22.81	27.38	31.94	36.50	36.50	36.50
Production/Year Recoverable (MMbbls)		-	-	-	-	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	-	-
Revenues (\$MM)		-	-	-	-	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	-	-
Royalty(\$MM)	2.00%	-	-	-	-	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	-	-
Operating Costs (LOE)(\$MM)	\$5.00	-	-	-	-	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	-	-
G&A (\$MM)(allocation)	\$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT		-	-	-	-	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	-	-
Total Equity Capex (\$MM)		-	-	(250.00)	(250.00)	(10.00)	-	-	(10.00)	-	-	(10.00)	-	-	-
Facility Capex (\$MM)		-	-	(250.00)	(250.00)	-	-	-	-	-	-	-	-	-	-
Drilling Capex (\$MM)		-	-	-	-	(10.00)	-	-	(10.00)	-	-	(10.00)	-	-	-
Total Debt Financed Capex (\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT less capex (\$MM)		-	-	(250.00)	(250.00)	362.45	372.45	372.45	362.45	372.45	372.45	362.45	372.45	-	-
Interest (\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
NOLs (at YE)		-	-	(250.00)	(500.00)	(137.55)	-	-	-	-	-	-	-	-	-
Taxable post NOLs		-	-	(250.00)	(500.00)	(137.55)	234.89	372.45	362.45	372.45	372.45	362.45	372.45	-	-
Taxes (\$MM)	30.00%	-	-	-	-	-	(70.47)	(111.73)	(108.73)	(111.73)	(111.73)	(108.73)	(111.73)	-	-
Total Free Cash Flow (\$MM)		-	-	(250.00)	(250.00)	362.45	301.98	260.71	253.71	260.71	260.71	253.71	260.71	-	-
IOC FCF (\$MM)	58.56%	-	-	(146.40)	(146.40)	212.25	176.84	152.68	148.58	152.68	152.68	148.58	152.68	-	-
IOC FCF (post sell-down)(\$MM)	34.56%	-	-	(86.40)	(86.40)	125.26	104.37	90.10	87.68	90.10	90.10	87.68	90.10	-	-
Debt Balance (beginning period)(\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt paydown (\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Balance (ending period)(\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
NPV-10 Total (\$MM)	\$672.15														
NPV IOC (\$MM)	\$393.62														
Total Shares Outstanding (MM)	46.49														
NPV/share (\$ per shares)	\$8.47														
Train 3 CSP Segment															
Antelope/Elk NGLs CSP DCF															
Total Condensate Recoverable (MM/bbls)	36.50														
Liquids Flowing per MMcfd (bbls per MM)	18.25														
Total Capex (\$MM)															
Drilling capex	(20.00)														
Facility capex	(500.00)														
Production/Day (mbpd)	12.50	-	-	-	-	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Production/Year (MMbbls)		-	-	-	-	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56
Cumulative Production		-	-	-	-	4.56	9.13	13.69	18.25	22.81	27.38	31.94	36.50	36.50	36.50
Production/Year Recoverable (MMbbls)		-	-	-	-	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	-	-
Revenues (\$MM)		-	-	-	-	403.33	403.33	403.33	403.33	403.33	403.33	403.33	403.33	-	-
Royalty(\$MM)	2.00%	-	-	-	-	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	(8.07)	-	-
Operating Costs (LOE)(\$MM)	\$5.00	-	-	-	-	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	(22.81)	-	-
G&A (\$MM)(allocation)	\$0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT		-	-	-	-	372.45	372.45	372.45	372.45	372.45	372.45	372.45	372.45	-	-
Total Equity Capex (\$MM)		-	-	(250.00)	(250.00)	-	-	-	(10.00)	-	-	(10.00)	-	-	-
Facility Capex (\$MM)		-	-	(250.00)	(250.00)	-	-	-	-	-	-	-	-	-	-
Drilling Capex (\$MM)		-	-	-	-	-	-	-	(10.00)	-	-	(10.00)	-	-	-
Total Debt Financed Capex (\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT less capex (\$MM)		-	-	(250.00)	(250.00)	372.45	372.45	362.45	372.45	372.45	372.45	362.45	372.45	-	-
Interest (\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
NOLs (at YE)		-	-	(250.00)	(500.00)	(127.55)	-	-	-	-	-	-	-	-	-
Taxable post NOLs		-	-	(250.00)	(500.00)	(127.55)	244.89	362.45	372.45	372.45	372.45	362.45	372.45	-	-
Taxes (\$MM)	30.00%	-	-	-	-	-	(73.47)	(108.73)	(111.73)	(111.73)	(111.73)	(108.73)	(111.73)	-	-
Total Free Cash Flow (\$MM)		-	-	(250.00)	(250.00)	372.45	298.98	253.71	260.71	260.71	260.71	253.71	260.71	-	-
IOC FCF (\$MM)	58.56%	-	-	(146.40)	(146.40)	218.11	175.08	148.58	152.68	152.68	148.58	152.68	152.68	-	-
IOC FCF (post sell-down)(\$MM)	34.56%	-	-	(86.40)	(86.40)	128.72	103.33	87.68	90.10	90.10	87.68	90.10	90.10	-	-
Debt Balance (beginning period)(\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt paydown (\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Balance (ending period)(\$MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
NPV-10 Total (\$MM)	\$614.63														
NPV IOC (\$MM)	\$359.93														
Total Shares Outstanding (MM)	46.49														
NPV/share (\$ per shares)	\$7.74														

Source: Company data, Morgan Stanley Research estimates



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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(as of August 31, 2010)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1082	42%	381	43%	35%
Equal-weight/Hold	1145	44%	402	46%	35%
Not-Rated/Hold	13	0%	4	0%	31%
Underweight/Sell	364	14%	91	10%	25%
Total	2,604		878		

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September 30, 2010
InterOil Corporation

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Industry Coverage: Integrated Oil

Company (Ticker)	Rating (as of)	Price* (09/28/2010)
Evan Calio		
Chevron Corporation (CVX.N)	O (07/14/2009)	\$80.88
ConocoPhillips (COP.N)	E (07/14/2009)	\$57.09
Exxon Mobil Corporation (XOM.N)	E (07/14/2009)	\$62.06
Hess Corporation (HES.N)	E (07/01/2010)	\$58.19
InterOil Corporation (IOC.N)	O (09/18/2009)	\$69.77
Marathon Oil Corporation (MRO.N)	U (07/14/2009)	\$32.49
Murphy Oil Corporation (MUR.N)	O (07/23/2010)	\$61.54
Occidental Petroleum (OXY.N)	O (01/28/2010)	\$75.51

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