InterOil Corp.

April 30, 2012

(IOC:NYSE)

Company Brief

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Exploration and Production

Triceratops Farm-in; A Nice Deal but NOT the Long-Awaited Selldown

- **Exploration partner for Triceratops.** InterOil has signed a binding agreement with Pacific Rubiales Energy for up to a 10% net (12.9% gross) exploration interest in the PPL237 block, which includes the Triceratops structure. The Triceratops-2 exploration well on this structure has been drilling since January, with initial results expected shortly.

- **Economics.** This is a classic farm-in transaction. The economics of the deal include an initial cash payment of $26 million, additional staged cash payments of $70 million for the Triceratops structure and $26 million for the balance of the block, and finally a 25% carry of the expenditures (including spending on Triceratops-2) – in total, an estimated $345 million. A final resource payment will also be included, to be determined at the conclusion of the drilling program. Another six Triceratops wells are planned, plus four more elsewhere in the block. The multiple to be applied to the resource payment is $3.85/Mcf (for gas) and $36/Bbl (for oil or condensate) for 1P resources, with slightly lower multiples for 2P. For some perspective, our base case NAV for InterOil (which, to be clear, does not ascribe any credit for future exploration optionality) assumes $1.00/Mcf for gas and $10/Bbl for condensate.

- **NOT the strategic partner/resource selldown.** To be clear, this is not the long-awaited resource selldown as part of a strategic partnership with an "internationally recognized LNG operator". The Pacific Rubiales deal applies only to the PPL237 block, **not** the existing Elk/Antelope field or the LNG project associated with that field. This transaction is simply Pacific Rubiales paying for exploration optionality, and it does not in any way replace the LNG partnership talks with multinationals that have been ongoing for about six months. The company has noted that it still aims to reach an LNG partnership in the current quarter.

- **Historical precedent for both Pacific Rubiales and InterOil.** This is an intriguing transaction from Pacific Rubiales (a 250 MBpd producer) standpoint – it is the company's second major partnership announcement within a week and marks the initial foray into Asia for what historically has been a Latin American E&P pure-play. Recall, just last week Pacific Rubiales entered into a $335 million joint venture with BPZ Resources for a stake in a BPZ block offshore Peru. From InterOil's standpoint, there is also a precedent for this type of deal. In 2005, the company brought in several institutional and accredited investors to take a 25% interest in its initial exploration program, which encompassed eight wells, for $125 million. (Of course, that was before InterOil had any confirmed discoveries.)

- **Reaffirming confidence.** While investors continue to await high-impact newsflow on the final investment decision (FID) and Elk/Antelope resource selldown, especially amid heightened political uncertainty in PNG, today's surprise announcement should reaffirm confidence in InterOil's ability to derive value from its underlying assets. We also expect announcements in the near future regarding results from Triceratops-2, though we again caution investors from having overly rigid expectations as to timing.

Rating

	Outperform 2

Current Price

Current Price (4/27/2012)	$58.35
52-Week Range	$75.87 - $31.18
Suitability	High Risk

Market Data

Shares Out. (mil.)	49.2
Market Cap. (mil.)	$2,871
Avg. Daily Vol. (10 day)	850,730
Dividend/Yield	$0.00/0.0%
Book Value (12/11)	$15.44
LT Debt (mil.)/% Cap.	$118/13%
NAV/Share	$103.10

Earnings & Valuation Metrics

	2011A	2012E	2013E
Non-GAAP EPS	$0.36	$(0.65)	$(0.74)
P/E Ratios (Non-GAAP)	NM	NM	NM
GAAP EPS	$0.36	$(0.65)	$(0.74)
Revenues (mil.)	$1,119	$1,204	$1,038
EBITDA (mil.)	$50	$42	$42
Cash Flow/Share	$1.41	$0.63	$0.64

Company Description

InterOil Corp., based in Australia, is an oil and gas company with operations in Papua New Guinea (PNG). InterOil is building a fully integrated energy business with four distinct components: upstream, refining, liquefied natural gas (LNG), and downstream. The company operates PNG's only refinery and owns a network of retail and wholesale distribution outlets, while also pursuing an exploration program.

Footnotes: Rows may not add due to rounding and changes in share count. Non-GAAP EPS excludes unrealized hedging losses, property impairments, and other extraordinary items.

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

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
BPZ Resources Inc.	BPZ	NYSE	$	4.24	1	RJ & Associates
Pacific Rubiales Energy	PRE	TSX	C$	28.68	1	RJ LTD.

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states. NC=not covered.

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
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Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.
Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
Market Perform (MP3) Expected to perform in line with the underlying country index.
Underperform (MU4) Expected to underperform the underlying country index.
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Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
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	Coverage Universe Rating Distribution			Investment Banking Distribution		
	RJA	RJL	RJ LatAm	RJA	RJL	RJ LatAm
Strong Buy and Outperform (Buy)	55%	70%	32%	14%	35%	12%
Market Perform (Hold)	37%	30%	57%	7%	27%	0%
Underperform (Sell)	7%	0%	10%	0%	0%	0%

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Total Return (TR) Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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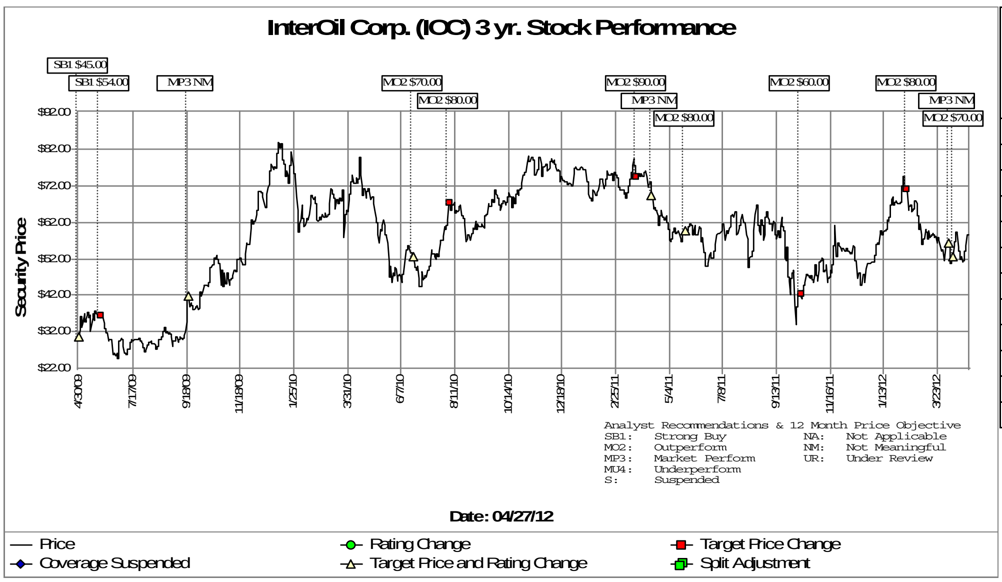
Target Prices: The information below indicates our target price and rating changes for IOC stock over the past three years.



Update Date	Closing Price	Target Price	Rating
4/10/12	52.39	70.00	2
4/5/12	56.33	NM	3
2/13/12	71.17	80.00	2
10/10/11	42.52	60.00	2
5/23/11	59.50	80.00	2
4/12/11	69.21	NM	3
3/23/11	74.37	90.00	2
8/4/10	67.60	80.00	2
6/22/10	52.57	70.00	2
9/21/09	41.69	NM	3
6/12/09	36.35	54.00	1
4/30/09	30.39	45.00	1

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

The information below indicates target price and rating changes for other subject companies included in this research.

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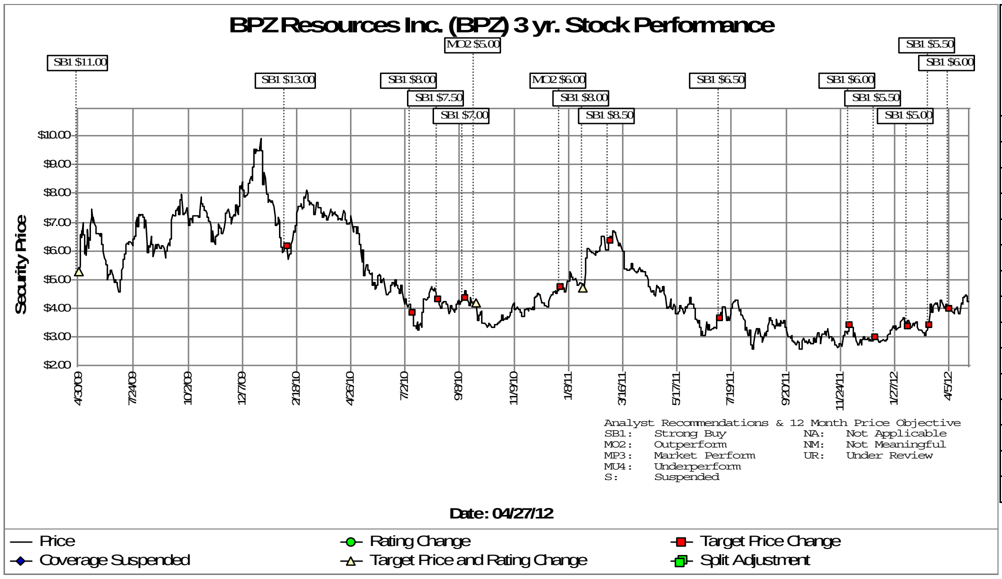
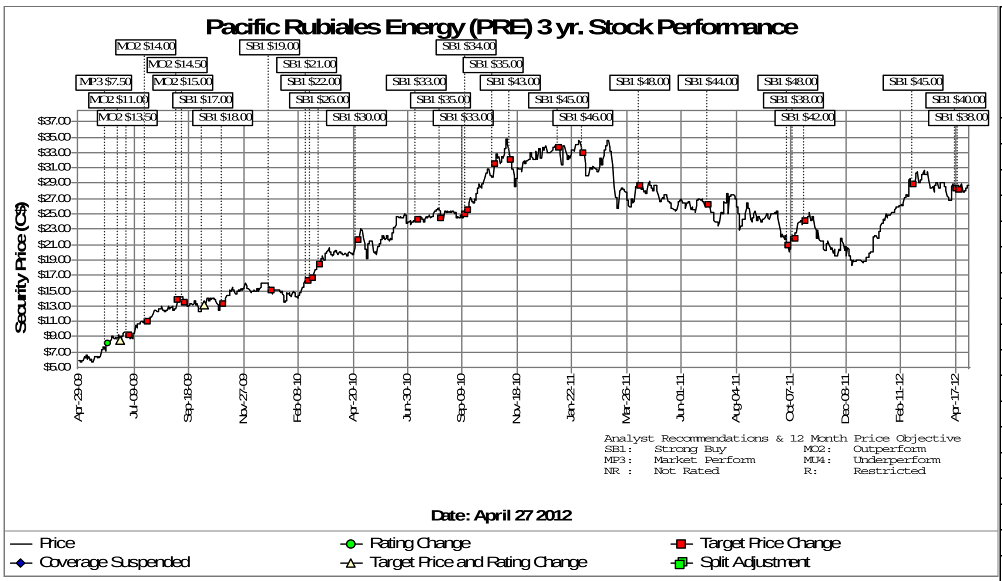


Update Date	Closing Price	Target Price	Rating
4/5/12	4.00	6.00	1
3/12/12	3.40	5.50	1
2/13/12	3.37	5.00	1
1/4/12	3.00	5.50	1
12/6/11	3.43	6.00	1
7/5/11	3.68	6.50	1
2/28/11	6.37	8.50	1
1/28/11	4.72	8.00	1
1/3/11	4.76	6.00	2
9/27/10	4.17	5.00	2
9/13/10	4.36	7.00	1
8/11/10	4.31	7.50	1
7/12/10	3.85	8.00	1
2/4/10	6.19	13.00	1
4/30/09	5.28	11.00	1

Valuation Methodology: For BPZ Resources, our valuation methodology focuses primarily on enterprise value to prior-year proved reserves, enterprise value to forward EBITDA multiple, net asset value (NAV) per share, and price to proved NAV per share. We also consider these valuation metrics in relation to the company's peer group. We believe these valuation metrics are useful when considered in conjunction with the company's debt to book capitalization ratio, reserves to production ratio (i.e., reserve life), and our assessments of the company's risk profile, drilling inventory depth, production growth profile, and forward-looking production growth per debt-adjusted share. Our analysis often requires us to estimate the company's capital structure at certain future dates.



Update Date	Closing Price	Target Price	Rating
Apr-19-12	28.21	38.00	1
Apr-17-12	28.40	40.00	1
Feb-29-12	28.99	45.00	1
Oct-20-11	24.10	42.00	1
Oct-11-11	21.85	38.00	1
Oct-04-11	20.87	48.00	1
Jul-05-11	26.33	44.00	1
Apr-12-11	28.77	48.00	1
Feb-04-11	32.99	46.00	1
Jan-07-11	33.75	45.00	1
Nov-10-10	32.13	43.00	1
Oct-20-10	31.62	35.00	1
Sep-15-10	25.46	34.00	1
Sep-13-10	24.93	33.00	1
Aug-12-10	24.48	35.00	1
Jul-13-10	24.27	33.00	1
Apr-27-10	21.68	30.00	1
Mar-09-10	18.45	26.00	1

Valuation Methodology: Our valuation is based on a blended approach using net asset value and P/CF multiple, which takes into account growth potential and risk profile.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

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Specific Investment Risks Related to the Industry or Issuer

Oil and Gas Price Volatility
Profitability of companies producing crude oil and natural gas is directly affected by changes in oil and gas prices. These prices are influenced by a multitude of regional, national and global factors, many of which are outside the control of companies in the industry. Supply-related factors include industrywide levels of capital spending and production decisions by OPEC. Demand-related factors include macroeconomic conditions.

Company-Specific Risks for InterOil Corp.

Project Execution Risk
InterOil does not currently have any proved oil and gas reserves. For the company to begin to book its estimated contingent resources as proved reserves, there must be one or more formal plans of development. The timeline for developing the proposed condensate stripping plant and both of the proposed LNG plants extends to 2014. Historically, large-scale energy infrastructure projects such as these have tended to come in above budget and take longer than expected to complete.

Refining Margin Risk
A refiner's profitability is largely determined by the margin between refined product prices and crude oil feedstock prices. Both of these sets of prices are influenced by numerous factors that affect supply and demand, many of them outside a refiner's control. These include macroeconomic activity, the level of domestic and international refining capacity, and geopolitical conditions. Refining margins have historically been, and are likely to continue to be, highly volatile.

International Risk
All of InterOil's operations are located in Papua New Guinea, which exposes the company to risks associated with doing business in a foreign market. This includes the potential for unfavorable changes in taxes, regulations, exchange rates, and macroeconomic fundamentals.

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

Company-Specific Risks for BPZ Resources Inc.

Foreign Operations
All of BPZ's oil and gas properties are located in South America, specifically in Peru and Ecuador. The company's operations are, thus, subject to various risks associated with (but not exclusive to) international activities, including economic, labor and social conditions, political instability, and tax laws. The company's strategy to focus on Peru and Ecuador concentrates its foreign operations risk and increases the potential impact to BPZ of the operating, financial, and political risks in those countries.

Drilling Operations Offshore Peru
BPZ's primary operations consist of exploration, exploitation, and production activity off the coast of northwest Peru. These activities are subject to a variety of operating risks particular to both the marine environment and geological landscape of the properties. Such risks include capsizing, collisions, and damage or loss from adverse weather conditions or interference from commercial fishing activities, which can cause substantial damage to facilities, tankers, and barges as well as interrupt operations.

Environmental and Regulatory Risk
The Peruvian oil and gas ministry has adopted, and may continue to adopt, regulatory changes that have an adverse effect on BPZ's operations. The latest change concerning environmentally-sensitive reinjection equipment for Corvina wells caused a temporary loss of production, revenues, and cash flow.

Limited Operating History
BPZ is still in the initial stages of developing its oil and gas reserves and has recently begun producing oil from recent discoveries. Although the management team is experienced in oil and natural gas exploration, the company is subject to all of the risks inherent in attempting to expand a relatively new business venture, including (but not limited to) the possible inability to profitably operate existing or future properties or fully fund the development requirements of its assets.

Dependence on Power Markets in Peru and Ecuador
Much of BPZ's success depends on the existence and growth of markets for natural gas and electricity in Peru and Ecuador. BPZ's immediate business plan is based on the continued stability of the power market in Peru (and gas sales in Ecuador), and longer-term plans depend on further development of the electricity market in Ecuador. The company is subject to risks that affect demand and prices for electricity as well as potential disruptions or changes to regulations of the natural gas or power markets in these countries.

Risks - Pacific Rubiales Energy
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