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News release

Liquid Niugini Gas selects Bechtel and ConocoPhillips Technology

Liquid Niugini Gas has selected leading engineering, construction and project management company Bechtel to undertake the front-end engineering and design (FEED) and engineering procurement and contracting (EPC) work for its planned LNG facility in Papua New Guinea. Liquid Niugini Gas has also chosen ConocoPhillips' *Optimized Cascade*SM Process Technology for the plant design.

Liquid Niugini Gas CEO, Dr Jack Hamilton, said Bechtel was a world-class LNG player with extensive experience in Papua New Guinea. "Bechtel clearly demonstrates the knowledge, capacity and ability to do the job and the Liquid Niugini Gas Project is very pleased to have them on board," he said. "The combination of Bechtel's execution experience, combined with the proven technology of ConocoPhillips will give us a world-class LNG outcome."

"This is another important milestone for Liquid Niugini Gas and Papua New Guinea's entry to the world LNG stage," Dr Hamilton said.

Bechtel **Oil, Gas & Chemicals** global business unit President, Jim Jackson, said "Bechtel is pleased to support Liquid Niugini Gas with their LNG Project in Papua New Guinea. Our integrated Pipeline and LNG delivery capability will add significant value to this fast-track project development."

The selection of ConocoPhillips technology comes on the back of the successful application of the process technology in ten LNG projects world-wide. ConocoPhillips Manager, LNG Technology and Licensing, Jim Rockwell, said, "We are excited about the selection of our proven, reliable technology and look forward to applying ConocoPhillips' more than 40 years of experience with LNG to this project."

Liquid Niugini Gas took an innovative approach toward the FEED process by concurrently negotiating an agreed EPC contract as an option.

“This shaves around 12 months from the traditional timeframe for such projects,” Dr Hamilton said. “It was designed to ensure that in an overheated market, we could secure the services of a leading global player and to meet our ambitious schedule for first gas delivery.”

The planned capacity of the LNG liquefaction plant, to be located at Napa Napa in Port Moresby, is a nominal 5 million tons per annum as a single processing train, with the option to add a second processing train.

Dr Hamilton explained that formal award of the FEED contract was subject to final shareholder approval, which requires the finalization of a Project Agreement with the Papua New Guinea Government.

“While the Project is still aggressively pursuing its 2012 schedule, this timeframe is under pressure until the Project Agreement with the Government is completed,” he said.

A Memorandum of Understanding was signed with the Government in October 2006 and negotiations are progressing on the final agreement. The Government of Papua New Guinea will be provided an opportunity to participate in ownership.

Natural gas in InterOil’s Elk/Antelope structure is expected to underpin the project. Development activity is currently focussed on a third well and seismic analysis to help establish the size of the reserve.

“The detailed FEED schedule will continue to evolve,” Dr Hamilton said, “as more of the factors influencing the project become clear.”

Merrill Lynch Commodities has agreed to off-take at least the first two trains of production, giving Liquid Niugini Gas a guaranteed market to move the project forward and support financing.

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LIQUID NIUGINI GAS BACKGROUND INFORMATION

Liquid Niugini Gas shareholders (each with one-third ownership interest)

- InterOil Corporation (TSX:IOL, AMEX:IOC, POMSoX:IOC).
- Merrill Lynch PNG LNG Corp.: a wholly-owned subsidiary of Merrill Lynch and Co., Inc. (NYSE:MER).
- Pacific LNG Operations Ltd. (an institutional investor specialising in energy related companies and projects).

Benefits to PNG from the Liquid Niugini Gas project

- According to an independent report by Focus Economics, estimates are that by 2020 the Project may contribute 15 to 20 percent of PNG's gross domestic product.
- At its peak of production it could contribute K3.5 billion directly to PNG's GDP.
- A total of K75 billion to K110 billion could be expected in direct in-country benefits, with between K40 billion and K60 billion going direct to Government.
- The Project will not only see jobs flow to local workers during construction and operation, but payments to government can fund public infrastructure and community services such as education and health, and provide income to landowners.

More detail about the proposed plant

- The planned capacity of the plant is nominally 5 million tons per annum as a single processing train, with the option to increase to two processing trains, subject to gas availability.
- To be located at Napa Napa, adjacent to the InterOil refinery in Port Moresby.
- A 36-inch feedgas pipeline will be built from the InterOil Elk gas field to Napa Napa (to transport 1,600 MMSCFD). Gas will be compressed at the ELK field for the transfer.
- An NGL extraction plant will process wet gas feedstock at the Napa Napa site
- LNG to be shipped in all cargo sizes up to and including Qmax vessels.
- Shipping will be controlled but not owned.

Bechtel Corporation

- Bechtel is one of the world's premier engineering, construction and project management companies and a leading contractor to the oil and gas industry. Since the LNG industry's birth, Bechtel has built a third of the world's total liquefaction capacity, more than any other contractor. In addition, Bechtel has extensive project experience in Papua New Guinea.

ConocoPhillips

- ConocoPhillips is a pioneer and global leader in LNG technology with more than four decades of LNG innovation. Past LNG technology advances include building the first LNG carrier for international trade and constructing the first successful commercial liquefaction facility.