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News release

## **Government negotiations brings Liquid Niugini Gas closer to realising PNG plant plan**

Liquid Niugini Gas Ltd, a project backed by Merrill Lynch Global Commodities, InterOil Corporation and Pacific LNG Inc., has entered into formal negotiations to finalise a project agreement with the Papua New Guinea Government, which will lead to the establishment of liquefied natural gas production in Papua New Guinea.

The project agreement is a binding agreement that enshrines the regulatory framework and commitments of the state and Liquid Niugini Gas for building and operating an LNG plant.

The plant will have a capacity of between four and nine million metric tons per year and be located at Napa Napa, adjacent to the InterOil refinery in Port Moresby in the Konebada Petroleum Park. First supply is planned for 2012.

Papua New Guinea Prime Minister Sir Michael Somare welcomed the Liquid Niugini Gas proposal. "The Papua New Guinea Government is focused on accelerating the commercialisation of this country's abundant natural gas reserves," Sir Michael said. "The Liquid Niugini Gas project, located adjacent to InterOil's refinery, is significantly advanced and represents an important step in our plans to enter the world stage as a major LNG producer."

Liquid Niugini Gas CEO, Jack Hamilton, said the project agreement was integral to the project being ready to formally enter the front-end engineering and design stage (FEED) later this year. "Entering FEED will commit us to a path of spending up to US\$300 million of a total planned investment of \$US4-6 billion."

"We have been quietly working since July 2006 to bring together the critical elements in order to begin the front-end engineering and design process in Q3 this year," said Dr Hamilton. "We have made substantial progress and have now completed pre-FEED. Our team of global experts, combined with the access to local supply and experience provided by InterOil, and the reach and marketing power of Merrill Lynch make us confident of success."

Dr Hamilton said the project was currently negotiating with a shortlist of leading engineering contractors to award the engineering and procurement contract. Initial pre-FEED studies have been successful and the project was getting closer to enhancing its base gas supply, he said.

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InterOil will be the foundation gas supplier to the project from its Elk/Antelope fields. InterOil's Elk discovery, announced in October 2006, indicated that recoverable gas could be in the region of 11 trillion cubic feet with strong gas deliverability, according to InterOil Chairman and CEO, Phil Mulacek. "Drilling is currently underway to appraise and confirm the natural gas potential at our ELK-2 well, along with an associated seismic shoot to increase the information available," Mulacek said.

Merrill Lynch will act as the exclusive off-taker for the facility, and structure financing around that off-take agreement. "This is an important step for Merrill Lynch in expanding its extensive existing US and European physical gas presence in LNG" said Merrill Lynch Global Commodities Managing Director Dick Jefferis.

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## **Liquid Niugini Gas: Background information**

### Shareholders

- InterOil Corporation (TSX:IOL) (AMEX:IOC)
  - Built and operates the only refinery in PNG
  - Operates the major downstream wholesale and retail oil products business in PNG, holding approximately 70% market share
  - Largest onshore exploration licence holder in PNG with a fully funded multi-well exploration and appraisal program focussed on obtaining LNG supply
  - Discovery of the largest new gas supply in Papua New Guinea, with a potential of 11 Tcf of Gas with deliverability of over 100 million SCFGPD per well.
  
- Merrill Lynch Global Commodities
  - A major player in physical gas markets
  -
  
- Pacific LNG Operations Ltd
  - Institutional investor specialising in energy related companies and projects
  - Manages capital committed from institutions and high net worth individuals
  - Principals bring over three decades of collective investing experience in the energy sector through a variety of economic conditions

### Scope of Liquid Niugini Gas's planned LNG/LPG condensate plant

- The planned capacity of the plant is 4-5 million tons per annum as a single processing train, with the option to increase to 9 million tons per annum and two processing trains, subject to gas availability
- Interface with InterOil refinery facilities (land, power, water, jetty, tankage, and other key infrastructure)
- To be located at Napa Napa, adjacent to the InterOil refinery in Port Moresby in the Konebada Petroleum Park, to achieve the project timeline and capital goals
- 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, producing ethane, and LPG. These products will be available for export
- LNG to be shipped in all cargo sizes up to and including Qmax vessels
- Integrated jetty operation with the InterOil refinery
- Shipping will be controlled but not owned