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Liquid Niugini Gas achieves new milestone: FEED/EPC shortlist announced

Another milestone was reached this week for Liquid Niugini Gas, a project established to pioneer LNG production in Papua New Guinea and backed by Merrill Lynch Global Commodities, InterOil Corporation and Pacific LNG Inc.

Liquid Niugini Gas CEO Jack Hamilton announced that Bechtel and CB&I were selected as the shortlist for the project's front end engineering and design (FEED) and engineering procurement and contracting (EPC) work.

The current project design consists of a two train liquefaction plant with processing capacity of 9-10 million tons per annum of LNG condensate and gas liquid processing, handling and storage facilities, and a natural gas pipeline from InterOil's Elk field. The project's investment in Papua New Guinea is presently estimated to be US \$5 billion - 6 billion (Kina 12-18 billion) plus the upstream investment it triggers.

"We are very pleased to have reached this stage with two such prominent LNG players, bringing Papua New Guinea's entry to the world LNG stage a step closer," said Dr Hamilton. "Both firms have demonstrated the knowledge and ability to handle the job."

"Once we have reached an acceptable commercial agreement, Liquid Niugini Gas will award the FEED contract with an agreed EPC contract as an option, which shaves around 12 months from the traditional timeframe for such projects," Dr Hamilton said. "The project's innovative approach was designed to meet our schedule of first gas delivery in 2012 and ensure that in an overheated market, we will secure the services of a leading global player."

The final FEED decision is expected later this year and is dependent on two other critical milestones: appraised gas supply from shareholder and preferred supplier InterOil, and the finalisation of a project agreement with the Papua New Guinea government.

The project's shareholders believe there is sufficient natural gas resource in InterOil's Elk structure to underpin the project. Development activity is currently focused on second well technical data and the seismic shoot to help establish the size and gas quality of the reserve. The results of further appraisal wells will be used to enhance the design criteria and multiple train features.

"Securing an agreement with the PNG Government will be the final step in giving us the confidence to award the FEED contract this year," Dr Hamilton said. A memorandum of understanding was signed with the Government in October 2006 and negotiations are progressing on the final agreement.

This step follows on from the shareholders agreement signed last week, which also provides for the Government of Papua New Guinea an opportunity to participate in ownership.

Liquid Niugini Gas already has a guaranteed market off-take, with shareholder Merrill Lynch Commodities committing to purchase 100% of the output from the project for both trains of LNG, for the life of the project.

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Liquid Niugini Gas: BACKGROUND

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

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

Bechtel

- 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 about 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.

CB&I

- CB&I executes more than 500 projects each year and is one of the world's leading engineering, procurement and construction (EPC) companies, specializing in projects for customers that produce, process, store and distribute the world's natural resources. With more than 60 locations and approximately 14,000 employees throughout the world, CB&I capitalizes on its global expertise and local knowledge to safely and reliably deliver projects virtually anywhere. In addition, CB&I also have extensive project experience in Papua New Guinea.

Benefits to PNG from the Liquid Niugini Gas project

- According to an independent report by Focus Economics Liquid Niugini Gas's project could provide over 20 percent of total PNG gross domestic product by 2020.
- 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.

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

- The planned capacity of the plant is nominally 4.5 million tons per annum as a single processing train, with the option to increase to 9-10 million tons per annum and two processing trains, subject to gas availability
- To be located at Napa Napa, adjacent to the InterOil refinery in Port Moresby in the Konebada Petroleum Park
- 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
- Shipping will be controlled but not owned