



## **NEWS RELEASE**

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### **INTEROIL ANNOUNCES FINANCIAL RESULTS FOR THE FIRST QUARTER 2004**

**MAY 14, 2004 – TORONTO, CANADA – InterOil Corporation (IOL:TSX-V) (IOC:ASX/POMSoX)**, a Canadian company with operations in Papua New Guinea today reported results for the three months ended March 31, 2004.

Key Highlights include:

- Assets increased to US\$265.5 million from US\$260.3 million at December 31, 2003.
- Cash and equivalents of approximately US\$24 million compared to US\$34 million at December 31, 2003).
- An amount of US\$9.7 million consisting of drilling and exploration costs has been capitalized.

“The first quarter of 2004 was a milestone period for InterOil as we moved from the developmental stage to a revenue generating organization following our acquisition of BP PNG effective from March 1, 2004” said Mr Phil Mulacek, CEO of InterOil. “With the refinery achieving start-up the first half of June we are poised to continue our growth and strive for additional value through our drilling program.”

InterOil’s Management Discussion and Analysis and the Consolidated Financial Statements are available on our web site at [www.interoil.com](http://www.interoil.com).

An update of InterOil’s recent business activities by segment follows:

#### Corporate

- On April 29, 2004 InterOil was notified by the Toronto Stock Exchange of its conditional acceptance for a main-exchange listing. Subsequent to fulfilling the requirements of the conditional acceptance, InterOil common shares will commence trading on the TSX. InterOil expects the listing to occur in early June 2004.

- InterOil's application for a US-listing on the American Stock Exchange was submitted on May 11, 2004 and included a registration statement filed with the US Securities & Exchange Commission. InterOil expects to complete its US-listing by late July 2004.

### Upstream

- Currently drilling ahead at Sterling Mustang – 1 with a modified drill string at 2,746 meters (9,010 ft), current direct well cost to date is approximately US\$4.7 million and at Moose – 2 drilling ahead at 1,215 meters (3,986 ft), current direct well cost to date is approximately US\$4.9 million plus coring and testing costs of US\$1.3 million.
- The primary and secondary targets at Sterling Mustang – 1 are deeper than InterOil's pre-drill estimate, as the upper zone Miocene Aure Beds were thicker. Well data of formation samples and current log analysis from this past week well logging activities have confirmed that we are still on target geologically. We are encouraged by stable background gas consisting of methane (C1), ethane (C2), and propane (C3) from drilling mud returns at surface. In addition the gas quality is increasing with butane (C4) and pentanes (IC5 and NC5). We believe that the gas content getting heavier as we drill deeper is a positive directional indicator.
- At the Moose – 2, we encountered multiple oil shows in the limestone zone between 514 – 799 meters (1,686 – 2,622 ft). These oil shows are similar to the oil shows encountered in the limestone section of the Moose – 1 exploration well. Once total-depth has been reached, InterOil intends to further test the limestone section for commerciality.

### Midstream

- Currently the refinery project is 97% complete.
- The EPC (Engineering Procurement, & Construction) contractor has confirmed early June for "First Oil in the Refinery" with start-up of the Crude Distillation Unit ready at such time.
- Two crude oil shipments have been ordered for arrival in June 2004.
- InterOil expects revenue from its Midstream business to commence in June 2004.

### Downstream

- On April 29, 2004 InterOil closed the acquisition of BP's PNG subsidiary, BP Papua New Guinea Limited. The company has been renamed InterOil Products Limited.

- This transaction was valued at US\$11.3 million and includes their distribution assets and operations in Papua New Guinea and approximately US\$7.3 million in inventory. A down payment of US\$1.0 million was paid at the transfer date, with the balance of funds payable twelve months from the effective date of March 1, 2004.
- The asset portfolio comprises 3 terminals, 7 depots and over 40 retail sites. InterOil will retain key BP Australia personnel for a period of up to 12 months to assist with the transition of the company into InterOil

InterOil is focused on Papua New Guinea and the surrounding region, and is developing an integrated energy business consisting of an oil refinery, petroleum exploration, and retail assets. The majority of product from the refinery is secured by contracts with Shell Overseas Holdings Ltd. BP Singapore is the exclusive agent for all crude oil supplied to the refinery. In addition to the refinery and retail assets, InterOil has commenced an extensive exploration program in Papua New Guinea.

*InterOil's common shares are traded in Canada in Canadian dollars on the TSX Venture Exchange under the symbol IOL, and on the Australian Stock Exchange, (ASX) in CHESS Depository Interests (CDI), in Australian dollars under the symbol IOC which trade on a 10:1 basis to common shares. InterOil Corporation shares also trade on the Port Moresby Stock Exchange in Papua New Guinea in the local currency (KINA) under the symbol IOC. For more information please see the InterOil website at: [www.interoil.com](http://www.interoil.com).*

The TSX Venture Exchange does not accept responsibility for the adequacy or accuracy of this release.

FOR FURTHER INFORMATION:

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**Cautionary Statement**

This press release contains forward-looking statements. All statements, other than statements of historical facts, included in this release, including without limitation, statements regarding our drilling plans, business strategy, plans and objectives of management for future operations and those statements preceded by, followed by or that otherwise include the words “believe”, “expects”, “anticipates”, “intends”, “estimates” or similar expressions or variations on such expressions are forward-looking statements. The Company can give no assurances that such forward-looking statements will prove to be correct. Risks and uncertainties include, but are not limited to, the

existence of underground deposits of commercial quantities of oil and gas; fluctuations in prices for oil and gas production; curtailments or delays in development due to mechanical, operating, marketing or other problems; capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates; and from the number of exploration and development opportunities being greater or fewer than currently anticipated. InterOil currently has no *reserves* as defined in Canadian National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Any information contained herein regarding resources are references to *undiscovered resources* under NI 51-101, whether stated or not. See the Company's filings with the Canadian securities regulators for additional risks and information about the Company's business.

**FORM 5-901F**

**Quarterly Report**

**Incorporated as part of:**

  X   **Schedule A**  
       **Schedules B & C**  
(Place X in appropriate category)

**ISSUER DETAILS:**

**NAME OF ISSUER:** INTEROIL CORPORATION

**ISSUER ADDRESS:** PO Box 6567 Suite 2, Level 2 Orchid Plaza

79 Abbott Street, Cairns Qld 4870

**ISSUER PHONE NUMBER:** (61) 7 4046 4600

**ISSUER FAX NUMBER:** (61) 7 4031 4565

**CONTACT PERSON:** Anesti Dermedgoglou

**CONTACT'S POSITION:** Vice President Investor & Public Relations

**CONTACT TELEPHONE NUMBER:** (61) 7 4046 4600

**FOR QUARTER ENDED:** March 31, 2004

**DATE OF REPORT:** May 14, 2004

**CERTIFICATE**

**THE ONE/TWO SCHEDULES REQUIRED TO COMPLETE THIS REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT.**

Phil E Mulacek                      ("Phil E. Mulacek")                      May 14, 2004  
NAME OF DIRECTOR                      SIGN (TYPED)                      DATE SIGNED (YY/MM/DD)

# **InterOil Corporation**

**ARBN: 094 136 884**

**Consolidated Financial Statements**  
(Unaudited, Expressed in United States dollars)

Quarters ended March 31, 2004 and 2003



**InterOil**

# InterOil Corporation

## Consolidated Balance Sheets

(Unaudited, Expressed in United States dollars)



	March 31 2004 \$	December 31 2003 \$	March 31 2003 \$
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	6,074,625	5,552,338	6,116,799
Short-term investments (note 2)	17,880,059	28,484,916	4,210,800
Other assets	-	311,093	-
Other receivables	79,413	175,491	78,423
Prepaid expenses	731,784	488,532	162,028
	24,765,881	35,012,370	10,568,050
Capital assets (note 4)	208,022,183	202,309,465	142,203,295
Oil and gas properties (note 5)	32,722,741	23,018,015	4,635,592
	<b>265,510,805</b>	<b>260,339,851</b>	<b>157,406,937</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	9,485,525	5,835,584	9,081,855
Due to related parties (note 3)	1,267,501	1,478,751	1,890,001
Current portion of secured loan (note 6)	9,000,000	9,000,000	-
Foreign currency forward contracts (note 2)	-	-	-
	19,753,026	16,314,335	10,971,856
Secured loan (note 6)	74,000,000	74,000,000	43,500,000
Indirect participation interest (note 7)	19,759,500	16,600,000	-
	113,512,526	106,914,335	54,471,856
Non-controlling interest (note 8)	6,467,129	6,467,496	6,489,885
Shareholders' equity:			
Share capital (note 9)	157,677,259	157,449,200	103,017,992
Additional paid in capital	1,267,870	540,222	769,964
Accumulated deficit	(13,413,979)	(11,031,402)	(7,342,760)
	145,531,150	146,958,020	96,445,196
	<b>265,510,805</b>	<b>260,339,851</b>	<b>157,406,937</b>

See accompanying notes to the consolidated financial statements

# InterOil Corporation

## Consolidated Statements of Operations

(Unaudited, Expressed in United States dollars)

	Quarter ended		3 Month
	March 31 2004 \$	March 31 2003 \$	March 31 2004 \$
<b>Income</b>			
Investment income/expense	51,298	14,250	51,298
Other	104,298	-	104,298
	155,596	14,250	155,596
<b>Expenses</b>			
Administrative and general	1,220,933	978,513	1,220,933
Management fees for prior periods waived	-	(840,000)	-
Exploration costs written off	5,795	82,775	5,795
Legal and professional fees	592,127	168,993	592,127
Foreign exchange loss (gain)	(17,965)	(554,296)	(17,965)
	1,800,889	(164,016)	1,800,890
Income (loss) before income taxes and non-controlling interest	(1,645,294)	178,266	(1,645,294)
Income tax (expense)	-	(7,704)	-
Income (loss) before non-controlling interest	(1,645,294)	170,562	(1,645,294)
Non-controlling interest	367	512	367
<b>Net income (loss)</b>	<b>(1,644,927)</b>	<b>171,073</b>	<b>(1,644,927)</b>
<b>Basic income (loss) per share</b>	<b>(0.07)</b>	<b>0.01</b>	<b>(0.07)</b>
<b>Diluted income (loss) per share</b>	<b>(0.06)</b>	<b>0.01</b>	<b>(0.06)</b>

See accompanying notes to the consolidated financial statements

# InterOil Corporation



## Consolidated Statements of Cash Flows

(Unaudited, Expressed in United States dollars)

	Quarter ended		3 Months ended	
	March 31 2004	March 31 2003	March 31 2004	March 31 2003
	\$	\$	\$	\$
Cash flows provided by (used in):				
<b>Operating activities</b>				
Net income (loss)	(1,644,927)	171,073	(1,644,927)	171,073
Non-controlling interest	(367)	(512)	(367)	(512)
Change in non-cash operating working capital	(162,316)	(1,427,169)	(162,316)	(1,427,169)
	(1,807,610)	(1,256,608)	(1,807,610)	(1,256,608)
<b>Investing activities</b>				
Expenditure on oil and gas properties	(8,777,230)	(1,472,644)	(8,777,230)	(1,472,644)
Expenditure on capital assets	(2,986,958)	(18,790,119)	(2,986,958)	(18,790,119)
Funds received on sale of assets	405,353	0	405,353	0
Redemption of cash on short-term investments	10,604,857	2,894,901	10,604,857	2,894,901
	(753,978)	(17,367,862)	(753,978)	(17,367,862)
<b>Financing activities</b>				
Proceeds from borrowings	-	12,500,000	-	12,500,000
Proceeds from indirect participation interest	3,235,000	-	3,235,000	-
Other net advances (to) related party (note 3)	(211,250)	(365,652)	(211,250)	(365,652)
Proceeds from issue of common shares	60,125	9,318,382	60,125	9,318,382
	3,083,875	21,452,730	3,083,875	21,452,730
Increase in cash and cash equivalents	522,287	2,828,260	522,287	2,828,260
Cash and cash equivalents, beginning of period	5,552,338	3,288,539	5,552,338	3,288,539
<b>Cash and cash equivalents, end of period</b>	<b>6,074,625</b>	<b>6,116,799</b>	<b>6,074,625</b>	<b>6,116,799</b>

See accompanying notes to the consolidated financial statements

# InterOil Corporation

## Consolidated Statements of Shareholders' Equity (Unaudited, Expressed in United States dollars)



	March 31 2004 \$	December 31 2003 \$	March 31 2003 \$
<b>Share capital</b>			
At beginning of year	157,541,634	94,120,609	94,120,609
Issue of capital stock	135,625	63,328,591	8,897,383
At end of year	157,677,259	157,449,200	103,017,992
<b>Additional paid in capital</b>			
At beginning of year	1,185,438	769,964	769,964
Stock compensation	82,432	(229,742)	-
At end of year	1,267,870	540,222	769,964
<b>Accumulated deficit</b>			
At beginning of year	(11,769,052)	(7,513,833)	(7,513,833)
Net earnings (loss) for year	(1,644,927)	(3,517,569)	171,073
At end of year	(13,413,979)	(11,031,402)	(7,342,760)
<b>Shareholders' equity at end of year</b>	<b>145,531,150</b>	<b>146,958,020</b>	<b>96,445,196</b>

See accompanying notes to the consolidated financial statements

# InterOil Corporation

## Notes to Consolidated Financial Statements

(Unaudited, Expressed in United States dollars)



InterOil Corporation's (the "Company" or "InterOil") primary business interests is the development of an oil refinery (the "Project") and Oil and Gas Exploration in Papua New Guinea ("PNG").

### 1. Statement of significant accounting policies

The unaudited consolidated financial statements for the three months ended March 31, 2004 have been prepared in accordance with Canadian generally accepted accounting principles. These statements have not been reviewed by the Company's auditors, but have been reviewed and approved by the Company's Audit Committee on behalf of the Board of Directors. The preparation of the financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2003. These unaudited consolidated financial statements should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Company's 2003 Annual Report except that effective January 1, 2004 the Company adopted the recommendations of CICA 3870, "Stock based compensation and other stock based payments", retroactively without restatement of prior periods. The recommendations require the Company to record a compensation expense over the vesting period based on the fair value of options granted to employees and directors. Stock compensation expense is included in office and administrative e

### 2. Financial instruments

The Company acquired a Managed Trust Investment with Wells Fargo in October 2003. The value of this investment at March 31, 2004 is \$16,654,723.

### 3. Related parties

Amounts due to related parties of \$1,267,501 (December 31, 2003 - \$1,478,751) represents monies owed to Petroleum Independent and Exploration Corporation (PIE) which acts as a sponsor of the Company's oil refinery project. PIE advanced a loan of \$2,900,000 to the InterOil Group in the quarter ended March 31, 2002 and the Company has repaid \$1,632,500 of this loan as at December 31, 2003. This loan has interest charged at a rate of 5.75%.

During the period, \$37,500 was accrued for the sponsor's (PIE) legal, accounting and reporting costs.

### 4. Capital assets

The Company is considered to be in the construction and pre-operating stage of development of an oil refinery in Papua New Guinea. Project costs, net of any recoveries, incurred during this pre-operating stage are being capitalised as part of the capital assets. Administrative and general costs are expensed as incurred. Capital assets are recorded at cost. Development costs and the costs of acquiring or constructing support facilities and equipment are capitalised. Interest costs relating to the construction and pre-operating stage of the development project prior to commencement of commercial operations are capitalised as part of the cost of such capital assets. Capital assets will be depreciated over their useful lives commencing on the date of achieving commercial operations.

Capital assets by business stream:	Mar-31 2004	Dec-31 2003	Mar-31 2003
	\$	\$	\$
Upstream assets	5,647,740	5,650,817	18,296
Refinery assets	201,900,851	196,244,045	141,569,619
Downstream assets	368,646	321,817	223,716
Corporate assets	104,946	92,786	80,570
	208,022,183	202,309,465	141,892,201

### 5. Oil and gas properties

The Company follows the successful efforts method of accounting for oil and gas exploration and development activities. Direct acquisition costs of development properties as well as geological and geophysical costs associated with these properties are capitalised. Costs of development and exploratory wells that result in additions to proven reserves are also capitalised.

### 6. Secured loan

On June 12, 2001, the group entered into a loan agreement with the Overseas Private Investment Corporation (OPIC), an agency of the US Government, to secure a project financing facility of \$85,000,000. The first drawdown of this loan facility for \$31,000,000 occurred on March 28, 2002. During the twelve months ended December 31, 2003, the Company made further loan drawdowns of \$52,000,000. There have been no loan drawdowns thus far in 2004. The loan is secured over the assets of the project.

The loan expires June 30, 2013 and half yearly repayments of \$4,500,000 commence on June 30, 2004.

### 7. Indirect participation interest

The Company provided an indirect interest in the Company's phase 1 exploration program within the area governed by Petroleum Prospecting License 238 in Papua New Guinea to PNG Energy Investors, LLC for \$7,650,000. This interest is subject to the terms of the agreement dated April 3, 2003 between the Company and PNG Energy Investors LLC, under which all or part of \$5,400,000 may be converted to common shares in the Company at a price of C\$15 per share, and an agreement dated April 16, 2003 between the same parties under which all or part of \$2,250,000 may be converted to common shares of the company at a price of C\$17 per share. Alternatively, all or part of the indirect participation interest may be converted to debt due in December 2006. Should neither of these conversion rights be exercised, the indirect participation interest in the drilling program will be maintained and distributions will be paid in accordance with the agreements.

The Company provided an indirect interest in the Company's phase 1 exploration program within the area governed by Petroleum Prospecting Licenses 236, 237 and 238 in Papua New Guinea to PNG Drilling Ventures Limited for \$12,185,000. The Company issued 5,000 common shares of InterOil Corporation in January 2004 to PNG Drilling Ventures for \$75,500 of the indirect interest. This interest is subject to the terms of the agreement dated July 21, 2003 between the Corporation and PNG Drilling Ventures Limited, under which all or part of \$11,620,000 may be converted to common shares in the Company at a price no less than C\$20.85. Alternatively, all or part of \$1,969,000 of the indirect participation interest may be converted to debt due in December 2005 and December 2006. Should neither of these conversion rights be exercised, the indirect participation interest in the drilling program will be maintained and distributions will be paid in accordance with the agreements.

### 8. Non-controlling interest

SP InterOil, LDC ("SPI") is a subsidiary of the Company. On September 11, 1998 Enron Papua New Guinea Ltd (Enron), SPI's former joint venture partner, exercised its option (pursuant to a January 1997 joint venture agreement with SPI) to terminate the joint venture agreement. Consequently, SPI purchased Enron's voting, non-participating shares in its subsidiary EP InterOil Limited ("EPI") for a nominal amount. The capital structure of the joint venture was composed of voting, non-participating shares and non-voting, participating shares. Enron no longer actively participates in the development of the Project but continues to be a non-voting participating shareholder in EPI. SPI now holds all voting non-participating shares issued by EPI and has sole responsibility for managing the Project.

Enron does not hold any transfer or conversion rights into shares of InterOil Corporation

At March 31, 2004 SPI holds 98.68% (December 31, 2003 - 98.66%) of the non-voting participating shares issued from EPI.

# InterOil Corporation



## Notes to Consolidated Financial Statements

(Unaudited, Expressed in United States dollars)

### 9. Share capital

InterOil Corporation has issued shares as at March 31, 2004 of 24,831,461 (December 31, 2003 - 24,815,961). InterOil Corporation securities trade on the Australian Stock Exchange as Chess Depository Interests (CDIs) on the basis of 10 CDIs to one common share. They also trade on the Port Moresby Stock Exchange and the TSXVE in Canada as common shares.

### 10. Stock options

As at March 31, 2004, InterOil Corporation has 1,343,504 (December 31, 2003 - 1,363,265) stock options outstanding.

### 11. Subsequent events

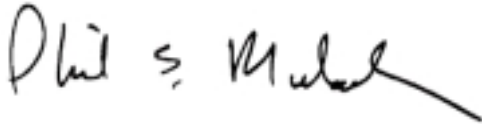
InterOil announced in March 2004 that it had entered into a share sale agreement with BP plc to acquire BP's PNG subsidiary, BP Papua New Guinea Limited, including all its petroleum distribution assets and operations in Papua New Guinea. This transaction is valued at US\$11.3 million for assets and inventory. All necessary PNG Government approvals on the transaction have been received and the transfer of the shares in BP PNG took place on April 28, 2004.

# InterOil Corporation

## Directors' Certificate



The directors of the Company have made reasonable enquiries to ensure that there is no material statement in this document that is misleading and to ensure that there is no material omission from this document. The Board reports, as at 14 May 2004, after due inquiry by them, that they have not become aware of any circumstances that in their opinion materially affect or will materially affect the assets and liabilities, financial position, profits and losses or prospects of the Company.



Phil. E. Mulacek  
Chairman, on behalf of the Board of Directors.

May 14, 2004



## Management Discussion and Analysis

The following discussion and analysis by management of the 1st Quarter 2004 financial condition and financial results for InterOil Corporation should be read in conjunction with the unaudited Consolidated Financial Statements for the three months ended March 31, 2004 in this Interim Report and the audited Consolidated Financial Statements and Management Discussion and Analysis for the year ended December 31, 2003. The financial statements and the financial information herein have been prepared in accordance with generally accepted accounting principles in Canada and are presented in United States dollars.

### Forward Looking Statements

All statements, other than statements of historical facts, included in this release, including without limitation, statements regarding our drilling plans, business strategy, plans and objectives of management for future operations and those statements preceded by, followed by or that otherwise include the words "believe", "expects", "anticipates", "intends", "estimates" or similar expressions or variations on such expressions are forward-looking statements. The Company can give no assurances that such forward-looking statements will prove to be correct. Risks and uncertainties include, but are not limited to, the existence of underground deposits of commercial quantities of oil and gas; fluctuations in prices for oil and gas production; curtailments or delays in development due to mechanical, operating, marketing or other problems; capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates; and from the number of exploration and development opportunities being greater or fewer than currently anticipated. InterOil currently has no reserves as defined in Canadian National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). All information contained herein regarding resources are references to undiscovered resources under NI 51-101, whether stated or not. See the Company's filings with the Canadian securities regulators for additional risks and information about the Company's business.

### Upstream Activities

**During the first quarter of 2004, InterOil's exploration program was focused on drilling, prospect generation, and other exploration activities.**

On December 9, 2003 InterOil spudded its second exploration well the Moose-2 located in Petroleum Prospecting License ("PPL") 238 to appraise the extent of the limestone reservoir that had oil shows in the Moose-1 well and to explore the Late Cretaceous Pale and Subu quartz sandstones primary target. As at May 11, 2004 the Moose -2 has been drilled to a depth of 1,160 meters (3,805 feet). Live oil was confirmed in Moose - 2 in the limestone reservoir, which was estimated to have been sourced from up to four possible oil sources in age. No commercial opinion on the limestone is made until further drilling and development work is undertaken on this potential reservoir.

On January 6, 2004 InterOil spudded the Sterling Mustang-1 exploration well. This will target the Late Cretaceous Pale and Subu quartz sandstones (primary) and Eocene "Mendi" Limestone with fracture porosity (secondary) target. As of May 11, 2004 the Sterling Mustang -1 has been drilled to a depth of 2,708 meters (8,884 feet). The well has encountered drilling breaks in (sandstone and possible limestone) sections above the secondary target with associated gas shows, (concentrations as high as 6.8%) in the drilling mud to surface. The gas samples have reflected a

shift in composition to heavier gas as the well is drilling deeper. The heavier composition is based on the recovery of I-Pentane and N-Pentane from samples returned to surface and recorded by Baker Hughes INTEQ. The gas shows do not confirm a commercial well, just an indication of hydrocarbon potential.

InterOil also undertook two seismic acquisition programs beginning late 2003 and extending into 2004. The seismic acquisition program commenced with the Hadina survey in November 2003 (Rhino to Mastodon) and was concluded with the completion of the Orloli program (Stegosaurus) in January 2004. The Hadina survey in PPL 238 consisted of 29 line-km (17 line-miles) covering the Rhino, Mammoth and Mastodon structures. The Orloli survey across the Stegosaurus structure in PPL 237 consisted of 8 line-kms (5 line-miles). Initial data processing was completed in February 2004, showing good to excellent quality data.

Ground gravity data was acquired along the seismic lines and will be used to complement the seismic interpretation. The gravity results will be examined in conjunction with the seismic data to determine to what extent this method can be used to high-grade prospects for future seismic acquisition or drilling. The benefit of gravity data is that it can be acquired at a fraction of the cost of seismic data. As a result of this effort, work was done on the Marlin prospect in PPL236 to upgrade the prospect to drillable by the company.

Additional drill site locations on two structures located in PPL 238 have been identified for drilling and the preparations of the drill sites have been completed.

### [Midstream Activities](#)

#### **The refinery construction is almost complete.**

As at March 31, 2004 the refinery construction had progressed to overall 95 percent complete, and has progressed to 97 percent complete at May 2004. Progress in pre-commissioning activities continued throughout the quarter and is assessed at 69 percent complete at May 2004. The program to completion currently targets initial start-up in June and the EPC (Engineering Procurement, & Construction) contractor has indicated their preparedness to accept the first shipment of crude oil for the start-up of the Crude Distillation unit in early June.

The first crude oil shipment has been scheduled to arrive at the refinery in early June to meet the contractors schedule and will be PNG sourced Kutubu Blend crude. A second crude oil shipment has also been scheduled for later in June and will subsequently be followed by regular shipments as the refinery moves towards full production.

### [Downstream Activities](#)

#### **InterOil Products Limited (IPL) formed after BP transaction finalized.**

On March 10, 2004 InterOil announced that it had entered into a share sale agreement with BP plc to acquire BP's PNG subsidiary, BP Papua New Guinea Limited, including all its petroleum distribution assets and operations in Papua New Guinea. This transaction is valued at US\$11.3 million for assets and inventory, consisting of US\$4 million in assets and US\$7.3 million in inventory. A down payment of US\$1 million was due upon transfer date (after satisfaction of all statutory approvals), with the balance of funds payable twelve months from the effective date (March 1, 2004). Included in the purchase are the 2003 retained profits of approximately US\$4.3 million (Kina 14 million), and retained profits for the first two months of 2004. These amounts will be repaid to BP, no later than twelve months after the effective date, from proceeds obtained in

collecting the closing accounts receivable balance. The asset portfolio comprises 3 terminals, 7 depots and over 40 retail sites. InterOil will be assisted in assuming management and control of the company by the secondment of existing key BP management to ensure a seamless transfer over the following year.

On April 29, 2004 InterOil announced that, after receiving all necessary PNG Government approvals and completing all other required conditions, it's wholly owned subsidiary, S.P.I. Distribution Limited, has finalized the acquisition of BP Papua New Guinea Limited. The date of transfer of shares was April 28, 2004. The company has been renamed InterOil Products Limited.

BP Papua New Guinea Limited financial information for the current period and year ending December 31, 2003:

	3 months ended March 31, 2004		Year ended December 31, 2003	
	Kina	USD <sup>(1)</sup>	Kina	USD <sup>(1)</sup>
Total Revenue	60,881,504	18,769,768	243,707,206	75,134,932
Income from Operations	60,453,291	18,637,750	242,360,861	74,719,853
Net Income (loss)	4,076,827	1,256,886	30,276,293	9,334,181
Total Assets	88,340,974	27,235,522	82,728,000	25,505,042
Long-term Debt	nil	nil	nil	nil

<sup>(1)</sup>Kina/USD exchange rate at March 31, 2004 is 0.308

### InterOil Corporation Consolidated Results Summary

InterOil is considered to be in the construction and pre-operating stage of development of the refinery in Papua New Guinea. No significant operating activities have been undertaken to date. InterOil's revenue generated to date is primarily interest on investments as the company is presently in the construction and development stage. There was a net loss of \$1,644,927 in the first quarter of 2004 compared to a net gain of \$171,073 for the same period in 2003 which difference was mainly attributable to P.I.E. Corporation, a related party, waiving prior years' management fees totaling US\$840,000 in the first quarter 2003, and the current period not recognizing an adjustment of this nature. Legal and professional fees were \$592,127 in the first quarter of 2004 compared with \$168,993 in the first quarter 2003. The higher costs were associated with expenses related to the equity capital raisings completed in the prior year that matured subsequent to December 31, 2003. The foreign exchange loss was minimal in the first quarter of 2004 due to both the Australian Dollar and the Papua New Guinea Kina exchange rates to the US Dollar at March 31, 2004 being alike the rates at December 31, 2003.

Quarters Ended	31-Mar-04	31-Dec-03	30-Sep-03	30-Jun-03	31-Mar-03	30-Dec-02	30-Sep-02	30-Jun-02
Total Revenue	155,596	203,964	13,349	27,717	14,250	(4,373)	92,922	133,037
Income from Operations	nil	nil	nil	nil	nil	nil	nil	nil
Net Profit (loss)	(1,644,927)	(1,489,036)	(1,510,516)	(689,090)	171,073	(228,404)	(1,148,882)	(40,154)
<b>Net Profit (loss) per Share</b>	<b>(0.07)</b>	<b>(0.06)</b>	<b>(0.06)</b>	<b>(0.03)</b>	<b>0.01</b>	<b>(0.01)</b>	<b>(0.06)</b>	<b>(0.00)</b>

Total assets increased to \$265,510,805 at March 31, 2004 compared to \$260,339,851 at December 31, 2003. The predominant portion of the assets is the capital expenditures related to the refinery development and construction costs along with the capitalized oil and gas exploration expenditures. A total of \$5.7 million of refinery development and construction costs were capitalized in the period compared to \$14 million capitalized in the prior quarter. The level of capitalized construction costs will be lower as the refinery construction nears completion.

InterOil follows the successful efforts method of accounting for expenditures related to oil and gas exploration and development activities, which are capitalized and carried forward where they are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not reached a stage to allow reasonable assessment regarding the existence of economical reserves. The company capitalized \$9.7 million of drilling and exploration costs in the period.

InterOil's long-term debt consists of amounts drawn under the US\$85 million Project Financing Facility obtained in June 2001 from the Overseas Private Investment Corporation ("OPIC"), an agency of the US Government, to support the development of the refinery, and the indirect participation interests in the company's Phase One Exploration Program. OPIC is the primary lender of capital to the refinery project. US\$83 million had been drawn under the facility as at March 31, 2004. Semi-annual interest and principal repayments of US\$4.5 million are currently scheduled to commence on June 30, 2004. The interest rate is equal to the US treasury cost applicable to each promissory note established at time of disbursement plus 3.0% per annum prior to the refinery completion and 3.5% per annum on and after refinery completion. In 2003, two separate indirect participation interests totaling US\$19.8 million were granted to independent investors, PNG Energy Investors LLC and PNG Drilling Ventures Limited, each of which may elect to convert their interests into a working interest in the drilling program, debt or InterOil common shares.

#### Liquidity and Capital Resources

InterOil ended the March 31, 2004 quarter with approximately US\$24.0 million in cash and temporary investments compared to approximately US\$34.0 million in cash at December 31, 2003.

OPIC remains the primary lender of capital to the refinery project. To provide funding for InterOil's ongoing exploration and production activities in PNG and general corporate purposes capital has been raised through three private placements in 2003. In addition to the private placements, capital was raised from indirect participation interests in InterOil's Phase One Exploration Program, of which the balance of \$3.2 million was received in the first quarter of 2004. During the period cash was spent on refinery construction, development costs, oil and gas exploration expenses, and administrative and general costs.

The capital budget of the refinery project is currently:

	US\$ (millions)
Capital Costs	\$197.4
Finance Costs	\$8.0
Funded Debt Service Reserve Account	\$9.0
Total	\$ 214.4

Of the \$214.4 million capital budget, approximately \$202 million in equipment and development costs have been paid as of March 31, 2004.

InterOil remains confident that it has the resources to complete the refinery as well as meet all its requirements associated with the obligations for the refinery and exploration program in the fiscal year of 2004.

In March 2004 InterOil obtained final credit approval to structure and arrange, on an exclusive basis, a US\$60 million revolving crude oil procurement facility with BNP Paribas (Singapore) to

finance the crude feedstock for the refinery, and is currently working on final documentation of the facility.

## Share Capital

The authorized share capital of the company consists of an unlimited number of common shares with no par value. The issued and outstanding shares of InterOil, and reconciled to January 1, 2003, are set out below:

	Number of Shares	\$
<b>Balance, 31 December 2002</b>	<b>20,585,943</b>	\$94,120,609
Shares issued for Cash	3,817,500	<b>\$61,060,640</b>
Shares issued for Debt	31,240	<b>\$316,359</b>
Shares issued on exercise of Options	381,278	<b>\$1,951,592</b>
<b>Balance, 31 December 2003</b>	<b>24,815,961</b>	\$157,449,200
Shares issued for Cash	Nil	<b>Nil</b>
Shares issued for Debt	5,000	<b>75,500</b>
Shares issued on exercise of Options	10,500	<b>60,125</b>
Balance, 31 March 2004	24,831,461	\$157,584,825

## Risks and Uncertainties

Please refer to the 2003 Annual Report for detailed information as the economic and industry factors are substantially unchanged.

## Outlook

The refinery project is now overall 97 percent complete and pre-commissioning activities are well advanced. The first shipment of crude oil supply for the refinery is scheduled for to arrive at the refinery for the start-up of the Crude Distillation unit in early June.

Other oil exploration prospects, such as Rhino and Mastodon, have been confirmed with seismic and field geology. Drilling sites have been prepared at Longhorn and Bison and site work has also begun on Elk. InterOil has established the organization, infrastructure and inventory of materials to support the drilling program. Whilst the early signs are encouraging, the well results will determine the direction of the drilling program and appraisal work will be required to determine the timing of development of any discoveries.

The acquisition of BP Papua New Guinea Limited has been finalized following the date of transfer of shares which was April 28, 2004 and the company has been renamed InterOil Products LTD.

Additional information, including is available on the InterOil website at: [www.interoil.com](http://www.interoil.com) and on SEDAR at: [www.sedar.com](http://www.sedar.com).