InterOil Corporation

Management Discussion and Analysis

For the Quarter ended March 31, 2011
May 11, 2011

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The following Management Discussion and Analysis (“MD&A”) should be read in conjunction with our audited annual consolidated financial statements and accompanying notes for the year ended December 31, 2010, our annual information form for the year ended December 31, 2010 and our unaudited condensed consolidated interim financial statements and accompanying notes for the quarter ended March 31, 2011. The MD&A was prepared by management and provides a review of our performance in the quarter ended March 31, 2011, and of our financial condition and future prospects.

Our financial statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standard 1 – ‘First-time Adoption of International Financial Reporting Standards’, and with International Accounting Standard 34 – ‘Interim Financial Reporting’, as issued by the International Accounting Standards Board and are presented in United States dollars (“USD”) unless otherwise specified. Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles.

References to “we,” “us,” “our,” “Company,” and “InterOil” refer to InterOil Corporation and/or InterOil Corporation and its subsidiaries as the context requires. Information presented in this MD&A is as at and for the quarter ended March 31, 2011, unless otherwise specified. A listing of specific defined terms can be found in the “Glossary of Terms” beginning on page 32.

FORWARD-LOOKING STATEMENTS

This MD&A contains “forward-looking statements” as defined in U.S. federal and Canadian securities laws. Such statements are generally identifiable by the terminology used such as “may,” “plans,” “believes,” “expects,” “anticipates,” “intends,” “estimates,” “forecasts,” “budgets,” “targets” or other similar wording suggesting future outcomes or statements regarding an outlook. We have based these forward-looking statements on our current expectations and projections about future events. All statements, other than statements of historical fact, included in or incorporated by reference in this MD&A are forward-looking statements. Forward-looking statements include, without limitation, plans for our exploration (including drilling plans) and other business activities and results therefrom; the construction of proposed liquefaction facilities and condensate stripping facilities in Papua New Guinea; the development of such liquefaction and condensate stripping facilities; the commercialization and monetization of any resources; estimates of resources; whether sufficient resources will be established; the likelihood of successful exploration for gas and gas condensate; the potential discovery of any commercial quantities of oil; cash flows from operations; sources of capital; operating costs; business strategy; contingent liabilities; environmental matters; and plans and objectives for future operations; the timing, maturity and amount of future capital and other expenditures.

Many risks and uncertainties may affect the matters addressed in these forward-looking statements, including but not limited to:

- *our ability to finance the development of liquefaction and condensate stripping facilities;*
- *our ability to negotiate final definitive agreements contemplated by the conditional Heads of Agreement with Energy World Corporation, Ltd;*
- *our ability to negotiate binding definitive agreements contemplated by the conditional framework agreements with Samsung Heavy Industries and Flex LNG;*
- *our ability to otherwise negotiate and secure arrangements with other entities to assist with the financing and construction of our proposed liquefaction and condensate stripping facilities;*
- *the uncertainty on the availability, terms and deployment of capital;*
- *our ability to construct and commission our liquefaction and condensate stripping facilities together with the construction of the common facilities and pipelines, on time and within budget;*
- *the inherent uncertainty of oil and gas exploration activities;*
- *the availability of crude feedstock at economic rates;*
- *the uncertainty associated with the regulated prices at which our products may be sold;*
- *difficulties with the recruitment and retention of qualified personnel;*
- *losses from our hedging activities;*
- *fluctuations in currency exchange rates;*
- *risks of legal action against us*
- *political, legal and economic risks in Papua New Guinea;*
- *stock price volatility;*
- *landowner claims and disruption;*

- *compliance with and changes in foreign governmental laws and regulations, including environmental laws;*
- *the inability of our refinery to operate at full capacity;*
- *the impact of competition;*
- *the adverse effects from importation of competing products contrary to our legal rights;*
- *the margins for our products;*
- *inherent limitations in all control systems, and misstatements due to errors that may occur and not be detected;*
- *exposure to certain uninsured risks stemming from our operations;*
- *contractual defaults.*
- *interest rate risk;*
- *weather conditions and unforeseen operating hazards;*
- *the impact of legislation regulating emissions of greenhouse gases on current and potential markets for our products;*
- *general economic conditions, including an economic downturn and the availability of credit;*
- *actions by our joint venture partners;*
- *the impact of our current debt on our ability to obtain further financing; and*
- *law enforcement difficulties.*

Forward-looking statements and information are based on our current beliefs as well as assumptions made by, and information currently available to, us concerning anticipated financial conditions and performance, business prospects, strategies, regulatory developments, the ability to attract and secure joint venture partners, future hydrocarbon commodity prices, the ability to obtain equipment in a timely manner to carry out development activities, the ability to market products successfully to current and new customers, the effects from increasing competition, the ability to obtain financing on acceptable terms, and the ability to develop reserves and production through development and exploration activities.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements will occur. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described under the heading “Risk Factors” in our Annual Information Form for the year ended December 31, 2010.

Furthermore, the forward-looking information contained in this MD&A is made as of the date hereof, unless otherwise specified and, except as required by applicable law, we will not update publicly or to revise any of this forward-looking information. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

OIL AND GAS DISCLOSURES

We are required to comply with Canadian Securities Administrators' National Instrument 51-101 Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), which prescribes disclosure of oil and gas reserves and resources. GLJ Petroleum Consultants Ltd., an independent qualified reserve evaluator based in Calgary, Canada, has evaluated our resources data as at December 31, 2010 in accordance with NI 51-101, which evaluation is summarized in our 2010 Annual Information Form available at www.sedar.com. We do not have any production or reserves, including proved reserves, as defined under NI 51-101 or as per the guidelines set by the United States Securities and Exchange Commission ("SEC"), as at March 31, 2011.

The SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved, possible and probable reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We include in this MD&A information that the SEC's guidelines generally prohibit U.S registrants from including in filings with the SEC.

All calculations converting natural gas to crude oil equivalent have been made using a ratio of six thousand cubic feet of natural gas to one barrel of crude equivalent. Barrels of oil equivalent may be misleading, particularly if used in isolation. A barrel of oil equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil equivalent is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Contingent resources are those quantities of natural gas and condensate estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. The economic status of the resources is undetermined and there is no certainty that it will be commercially viable to produce any portion of the resources. The following contingencies must be met before the resources can be classified as reserves: (i) sanctioning of the facilities required to process and transport marketable natural gas to market, (ii) confirmation of a market for the marketable natural gas and condensate, and (iii) determination of economic viability.

The "best" estimate is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. With the probabilistic methods used, there should be at least a 50 percent probability (P50) that the quantities actually recovered will equal or exceed the best estimate.

INTRODUCTION

We are developing a fully integrated energy company operating in Papua New Guinea and its surrounding region. Our operations are organized into four major segments:

Segments	Operations
Upstream	Exploration and Production – Explores, appraises and develops crude oil and natural gas structures in Papua New Guinea. Currently developing the Elk Antelope infrastructure which includes condensate stripping and associated facilities, and the gas gathering and associated common facilities, in connection with commercializing gas discoveries.
Midstream	Refining – Produces refined petroleum products at Napa Napa in Port Moresby, Papua New Guinea for the domestic market and for export. Liquefaction – The LNG Project. Developing liquefaction and associated facilities in Papua New Guinea for the export of LNG.
Downstream	Wholesale and Retail Distribution – Markets and distributes refined products domestically in Papua New Guinea on a wholesale and retail basis.
Corporate	Corporate – Provides support to the other business segments by engaging in business development and improvement activities and providing general and administrative services and management, undertakes financing and treasury activities, and is responsible for government and investor relations. General and administrative and integrated costs are recovered from business segments on an equitable basis. This segment also manages a shipping business which currently operates two vessels transporting petroleum products for our Downstream segment and external customers, both within PNG and for export in the South Pacific region. Our corporate segment results also include consolidation adjustments.

BUSINESS STRATEGY

Our strategy is to develop a vertically integrated energy company in Papua New Guinea and the surrounding region, focusing on niche market opportunities which provide financial rewards for our shareholders, while being environmentally responsible, providing a quality working environment and contributing positively to the communities in which we operate. A significant current element of that strategy is to develop gas liquefaction and condensate stripping facilities in Papua New Guinea and to establish gas and gas condensate reserves.

InterOil plans to achieve this strategy by:

- Developing our position as a prudent and responsible business operator;
- Enhancing the existing refining and distribution business;
- Maximizing the value of our exploration assets; and
- Monetizing our discovered resources through condensate stripping and liquefaction facilities and offtake sales.

Further details of our business strategy can be found under the heading "*Business Strategy*" in our 2010 Annual Information Form available at www.sedar.com.

OPERATIONAL HIGHLIGHTS

Summary of operational highlights

A summary of the key operational matters and events for the quarter, for each of the segments is as follows:

Upstream

- On March 22, 2011 we announced the details of the independent engineering evaluation prepared by GLJ Petroleum Consultants Ltd., which evaluated our contingent resources at the Elk and Antelope fields in Papua New Guinea effective as at December 31, 2010. The 2010 GLJ Petroleum Consultants report provides for a best case estimate of marketable sales gas contingent resources of 8.59 trillion cubic feet of natural gas and 128.9 million barrels of marketable condensate.
- FID for the CS Project is currently targeted before December 31, 2011 which has been changed from the previously disclosed targeted date of June 30, 2011 to be realigned with the targeted FID dates for the proposed land and floating LNG projects. This change is due to the additional design and engineering work being undertaken to expand the proposed capacity of the CS Project to the intended combined capacity of the proposed modular land based LNG and floating LNG projects we are pursuing. Mitsui will be responsible for arranging or providing financing for the capital costs of the CS Project in the event that a positive FID is made.
- During the quarter, further engineering and planning work was undertaken to design the condensate facilities, and appropriate supporting infrastructure, including pipelines for both gas and condensate from the field to the CS Plant.
- The PPL 236 exploratory seismic acquisition program, which included seismic comprising 70 kilometers with 6 dip lines which transect the Whale, Tuna, Barracuda, Wahoo, Mako and Shark leads, was completed during the quarter. The results are currently being evaluated.

Midstream – Refining

- Total refinery throughput for the quarter ended March 31, 2011 was 27,643 barrels per operating day, compared with 25,971 barrels per operating day during quarter ended March 31, 2010.
- Capacity utilization for the quarter ended March 31, 2011, based on 36,500 barrels per day operating capacity, was 58% compared with 54% in same quarter of 2010.
- During the quarters ended March 31, 2011 and 2010, our refinery was shut down for 21 days and 22 days, respectively.
- The catalytic reformer unit which allows the refinery to produce reformate for gasoline remained shut down through the quarter ended March 31, 2011. This shutdown required us to continue to import unleaded gasoline to satisfy PNG domestic needs.

Midstream – Liquefaction

- On February 2, 2011, we signed a Project Funding and Construction Agreement and Shareholder Agreement with EWC governing the parameters in respect of the development, construction, financing and operation of the planned 3 MTPA land based modular LNG plant in the Gulf Province of Papua New Guinea. The agreements with EWC contemplate the negotiation of further definitive agreements and are conditional on reaching FID to proceed with the LNG plant no later than December 31, 2011.
- On March 23, 2011 we signed a non-binding memorandum with EWC to explore taking an ownership interest in and establishing an associated downstream gas sale, purchase, transmission and distribution services company. EWC has a permit to construct a LNG Hub Terminal and a 300 Megawatt combined cycle gas turbine power plant in the Philippines. The gas services company would be established to purchase, transmit, distribute and sell LNG and/or regasified LNG on a wholesale or retail basis to the Philippines.
- Subsequent to the quarter ended March 31, 2011, on April 11, 2011, InterOil together with Pac LNG executed framework agreements with Samsung Heavy Industries and Flex LNG, conditional upon Flex LNG shareholder approval (which has now been obtained) and final FID, relating to the construction and operation of a 2 MTPA floating liquefied natural gas processing vessel. Further definitive agreements are contemplated for negotiation. The project is intended to integrate with and augment proposed infrastructure to liquefy natural gas from the onshore Elk and Antelope fields in the Gulf Province of

Papua New Guinea pursuant to arrangements with EWC and Mitsui. Pursuant to the terms of the agreement, Flex LNG issued options to purchase 11,315,080 shares of their stock to us at an average strike price of 4.5909 Norwegian Kroner. The option expires on May 15, 2011.

Downstream

- Total Downstream sales volumes for the quarter ended March 31, 2011 were 164.6 million liters compared with 144.0 million liters for the quarter ended March 31, 2010. Volume growth in Papua New Guinea is mainly due to increased construction activity since the latter half of 2010 associated with an LNG project being pursued by an Exxon Mobil led joint venture, and strong mining related volumes relating to new mines and expansions of capacity being undertaken in the country.
- During the quarter, we had significant product price increases as a result of the increases in international crude prices, which were passed on to the domestic customers in accordance with the pricing mechanisms mandated in Papua New Guinea. Some price resistance is being felt in retail markets for unleaded petroleum products and kerosene, with kerosene volumes falling, and unleaded petroleum products volumes being relatively flat compared with the same quarter in the prior year.

Corporate

- During 2009, we reviewed and selected Microsoft Dynamics AX ERP system for implementation group-wide. Subsequent to quarter end, in April 2011 we migrated our Downstream operations on to this ERP system. With Downstream now live on this system, all our group operations are using this ERP system and the implementation of this central management system is substantially complete.
- The shipping business, which operates two vessels transporting petroleum products for InterOil and other customers, both within PNG and for export in the South Pacific region, was transferred from our Downstream business segment to Corporate during the quarter.

SELECTED FINANCIAL INFORMATION AND HIGHLIGHTS

Consolidated Results for the Quarter Ended March 31, 2011 compared with the Quarter Ended March 31, 2010

Consolidated – Operating results ($ thousands, except per share data)	Quarter ended March 31, 2011	2010
Sales and operating revenues	242,451	177,450
Interest revenue	230	42
Other non-allocated revenue	974	1,327
Total revenue	**243,655**	**178,819**
Cost of sales and operating expenses	(203,024)	(158,600)
Office and administration and other expenses	(18,223)	(11,330)
Derivative gain/(loss)	172	(946)
Exploration costs	(7,335)	(5)
Foreign exchange gain/(loss)	2,822	(3,079)
EBITDA (1)	**18,067**	**4,859**
Depreciation and amortization	(4,619)	(3,385)
Interest expense	(2,899)	(1,286)
Profit before income taxes	**10,549**	**188**
Income tax expense	(9,850)	(3,331)
Net profit/(loss)	**699**	**(3,143)**
Net profit/(loss) per share (dollars) (basic)	**0.01**	**(0.07)**
Net profit/(loss) per share (dollars) (diluted)	**0.01**	**(0.07)**
Total assets	**1,033,493**	**673,222**
Total liabilities	**336,231**	**229,721**
Total long-term liabilities	**130,827**	**96,362**
Gross margin (2)	**39,427**	**18,850**
Cash flows provided by operating activities (3)	**21,873**	**4,040**

Notes:

(1) EBITDA, is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

(2) Gross Margin is a non-GAAP measure and is "sales and operating revenues" less "cost of sales and operating expenses" and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

(3) Refer to "Liquidity and Capital Resources – Summary of Cash Flows" for detailed cash flow analysis.

Analysis of Financial Condition Comparing Quarters Ended March 31, 2011 and 2010

During the quarter our debt-to-capital ratio (being debt/[shareholders' equity + debt]) was 13% (11% as at March 31, 2010), well below our targeted maximum gearing level of 50%. Gearing targets are based on a number of factors including operating cash flows, future cash needs for development, capital market conditions, economic conditions, and are assessed regularly.

Our current ratio (being current assets/current liabilities), which measures our ability to meet short term obligations, was 2.47 as at March 31, 2011 (1.70 as at March 31, 2010). The quick ratio (or acid test ratio, (being [current assets less inventories]/current liabilities) which is a more conservative measure of our ability to meet short term obligations, was 1.59 as at March 31, 2011 (1.07 as at March 31, 2010). These satisfy our target to be above 1.50 times and 1.0 respectively.

As at March 31, 2011, our total assets amounted to $1,033.5 million, compared with $673.2 million as at March 31, 2010. The increase of $360.3 million or 53.5% from March 31, 2010 was primarily due to increases in our cash, cash equivalents and cash restricted of $198.7 million following the concurrent common share and 2.75% convertible senior notes offerings completed on November 12, 2010, increases in our oil and gas properties of $87.0 million associated with the appraisal and development of the Elk and Antelope fields and furthering of the CS Project and LNG Project, an increase in inventory balances of $94.2 million at our refinery due to the timing of shipments, and a net $6.8 million increase in plant and equipment (after depreciation) mainly due to refurbishment of retail sites, capitalization of the refinery turnaround and ERP implementation costs. These increases have been offset by a $18.3 million reduction in trade receivables, and an $8.8 million reduction in deferred tax losses, mainly on profits generated by our refining operations after the expiry of the tax holiday period on December 31, 2010.

As at March 31, 2011, our total liabilities amounted to $336.2 million, compared with $229.7 million at March 31, 2010. The increase of $106.5 million or 46.4% from March 31, 2010 was primarily due to recognition of a $53.2 million liability relating to the fair value of the debt component of the unsecured 2.75% convertible notes issued in November 2010, an increase in the working capital facility balance of $33.0 million, and an increase in accounts payable and accrued liabilities of $28.8 million. This increase in liabilities has been partly offset by a reduction in the IPI liability by $5.5 million arising from our buy back of certain of those interests during 2010.

Analysis of Consolidated Financial Results Comparing Quarters Ended March 31, 2011 and 2010

The net profit for the quarter ended March 31, 2011 was $0.7 million compared with a loss of $3.1 million for the same quarter of 2010, an increase in profit of $3.8 million. This movement was mainly due to an improvement in gross margins achieved by our Refining and Downstream segments and higher foreign exchange gains due to better rates achieved from banks on conversion of the PGK sales revenue into USD for repayment of our crude purchase working capital facility. These increases were partly offset by exploratory seismic costs expensed in relation to seismic work undertaken in PPL 236, and an increase in future income tax expense relating to the refinery as a result of the end of the tax holiday period.

The operating segments of Corporate, Midstream Refining and Downstream collectively derived a net profit for the quarter of $21.2 million, while the development segments of Upstream and Midstream Liquefaction realized a net loss of $20.5 million, giving rise to an aggregate net profit of $0.7 million.

Total revenues increased by $64.8 million from $178.8 million in the quarter ended March 31, 2010 to $243.6 million in the current quarter.

Variance Analysis

A complete discussion of each of our business segment's results can be found under the section "Quarter in Review". The following analysis outlines the key variances, the net of which are the primary explanations for the changes in the consolidated results between the quarters ended March 31, 2011 and 2010.

Quarterly Variance ($ millions)	
$3.8	***Net profit/(loss) variance for the comparative periods primarily due to:***
➢ $20.6	Increase in gross margins mainly due to increasing volumes due to various development projects being undertaken in Papua New Guinea, impact of the increasing price environment leading to higher margins on inventories sold, revisions to the distribution and retail margins after completion of the ICCC review of pricing for the next five year period, and higher export premiums for our refining segment.
➢ ($6.9)	Higher office and administration and other expenses, mainly resulting from higher salaries, wages and share compensation expenses across the segments. These expenses were also impacted to an extent by the strengthening of the PGK and AUD against the USD.
➢ ($7.3)	Higher exploration costs during current period for seismic activity on PPL 236 comprising of 70 kilometers, with 6 dip lines which transect the Whale, Tuna, Barracuda, Wahoo, Mako and Shark leads. These seismic costs were expensed as incurred under the successful efforts method of accounting.
➢ $1.1	Movement in gains/(losses) from derivative contracts undertaken as part of our risk management strategy that were not accounted for as hedge accounted contracts.
➢ $5.9	Foreign exchange movements mainly of PGK against the USD, and the impact of PGK rates being charged by financial institutions on conversion of the PGK sales revenue into USD for repayment of our crude purchase working capital facility. The rates fluctuate significantly based on the extent to which other PNG participants are looking to convert their foreign currencies. We are unable to undertake PGK currency hedging due to the relatively small size of the PGK foreign exchange market.
➢ ($1.2)	Increase in depreciation expense for the quarter mainly due to the depreciation of construction machinery which was acquired over the last year and the depreciation of the capitalized costs of the new ERP system which was implemented in the second quarter of 2010 in all segments except Downstream.
➢ ($1.6)	Higher interest expense for the quarter primarily due to interest on the 2.75% convertible senior notes issued on November 10, 2010.
➢ ($6.5)	Increase in income tax expense due to the increase in profits for the quarter and the expiry on December 31, 2010 of the five year tax holiday awarded to the refinery under the Refinery Project Agreement.

Analysis of Consolidated Cash Flows Comparing Quarters Ended March 31, 2011 and 2010

At the end of the quarter, we had cash, cash equivalents, and cash restricted of $274.5 million (March 2010 – $75.8 million), of which $42.2 million (March 2010 - $34.6 million) was restricted. Of the total cash restricted, $35.5 million (March 2010 - $27.9 million) was restricted pursuant to the BNP Paribas working capital facility utilization requirements, $6.3 million (March 2010 – $6.4 million) was restricted as a cash deposit on the OPIC secured loan and the balance was made up of cash deposit on office premises and term deposits on our PPL's. The cash held as a deposit for the OPIC secured loan relates to our half yearly instalment of $4.5 million and the related interest that will be payable with the next instalment on June 30, 2011.

Our cash inflows from operations for the quarter ended March 31, 2011 were $21.9 million compared with inflows of $4.0 million for the quarter ended March 31, 2010 (an increase in net cash inflows of $17.9 million). This increase in cash flows is mainly due to a $22.1 million increase in cash generated by operations prior to changes in operating working capital.

Cash outflows for investing activities for the quarter ended March 31, 2011 were $36.8 million compared with $14.9 million for the quarter ended March 31, 2010. These outflows mainly relate to the net cash expenditure on exploration, appraisal and development activities (net of IPI cash calls) of $34.5 million, expenditure on plant and equipment of $4.5 million, and a $2.8 million increase in accounts payable and accruals of development segments relating to the timing of payments which are classified as investing activities. These outflows were partly offset by a decrease of $5.1 million in the restricted cash balance under the BNP Paribas working capital facility.

Cash inflows from financing activities for the quarter ended March 31, 2011 amounted to $13.7 million, compared with a $5.6 million inflow for the quarter ended March 31, 2010. This increase in cash flows includes receipts of cash contributions from Mitsui for the CS Project, receipts of cash from the exercise of stock options, as well as the movement in the working capital facility balance with BNP Paribas. The cash inflows/outflows due to the working capital facility drawdown/repayments are due to the timing of cash flows and the use of working capital.

Summary of Consolidated Quarterly Financial Results for Past Eight Quarters

The following is a table containing the consolidated results for the eight quarters ended March 31, 2011 by business segment, and on a consolidated basis. InterOil's IFRS transition date was January 1, 2010 and as such, the 2010 comparative information has been restated in accordance with IFRS but the 2009 comparative information has not been restated and was prepared in accordance with the previous GAAP.

Quarters ended ($ thousands except per share data)	2011	2010				2009		
	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30
Upstream	668	245	714	1,349	998	1,027	1,011	660
Midstream – Refining	217,743	158,092	173,379	194,016	152,093	173,438	141,295	114,347
Midstream – Liquefaction	0	0	0	0	0	0	1	2
Downstream	157,709	143,364	133,508	119,300	109,687	118,270	107,712	85,472
Corporate	18,659	15,213	18,295	11,321	12,093	10,539	10,087	8,640
Consolidation entries	(151,124)	(122,545)	(117,437)	(100,637)	(96,052)	(93,971)	(86,509)	(60,625)
Total revenues	**243,655**	**194,369**	**208,459**	**225,349**	**178,819**	**209,303**	**173,597**	**148,496**
Upstream	(10,957)	(41,681)	(11,753)	(3,498)	(1,964)	574	(29,097)	(669)
Midstream – Refining	26,632	13,780	15,785	16,962	4,402	8,492	8,199	14,134
Midstream – Liquefaction	(2,375)	(1,959)	(4,588)	(3)	(563)	(1,200)	(2,119)	(1,379)
Downstream	8,744	4,709	1,674	7,060	4,492	4,391	6,542	4,150
Corporate	5,223	4,566	(4,510)	1,751	4,402	1,765	1,980	1,897
Consolidation entries	(9,200)	(7,005)	(5,229)	(7,384)	(5,910)	(4,884)	(4,092)	(278)
EBITDA (1)	**18,067**	**(27,590)**	**(8,621)**	**14,888**	**4,859**	**9,138**	**(18,587)**	**17,855**
Upstream	(17,949)	(47,845)	(16,585)	(7,943)	(6,182)	(3,626)	(31,392)	(2,382)
Midstream – Refining	14,894	8,531	11,998	12,056	(74)	18,070	3,762	9,624
Midstream – Liquefaction	(2,604)	(2,114)	(4,970)	(360)	(911)	(1,591)	(2,481)	(1,765)
Downstream	4,491	2,642	(325)	3,719	671	2,371	3,440	1,742
Corporate	3,463	3,381	(5,398)	1,796	3,544	3,036	1,602	(677)
Consolidation entries	(1,596)	(403)	908	(1,438)	(191)	1,047	(237)	2,894
Net profit/(loss)	**699**	**(35,808)**	**(14,372)**	**7,830**	**(3,143)**	**19,307**	**(25,306)**	**9,436**
Net profit/(loss) per share (dollars)								
Per Share – Basic	0.01	(0.78)	(0.33)	0.18	(0.07)	0.45	(0.60)	0.25
Per Share – Diluted	0.01	(0.78)	(0.33)	0.17	(0.07)	0.43	(0.60)	0.24

(1) EBITDA is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

QUARTER IN REVIEW

The following section provides a review of the quarter ended March 31, 2011 for each of our business segments.

UPSTREAM – QUARTER IN REVIEW

Upstream – Operating results ($ thousands)	Quarter ended March 31, 2011	Quarter ended March 31, 2010
Other non-allocated revenue	668	998
Total revenue	**668**	**998**
Office and administration and other expenses	(4,417)	(2,453)
Exploration costs	(7,335)	(5)
Foreign exchange gain/(loss)	127	(504)
EBITDA (1)	**(10,957)**	**(1,964)**
Depreciation and amortization	(641)	(138)
Interest expense	(6,351)	(4,080)
Loss before income taxes	**(17,949)**	**(6,182)**
Income tax expense	-	-
Net loss	**(17,949)**	**(6,182)**

(1) EBITDA is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

Analysis of Upstream Financial Results Comparing Quarter Ended March 31, 2011 and 2010

The following analysis outlines the key movements, the net of which primarily explains the difference in the results between the quarters ended March 31, 2011 and 2010.

	Quarterly Variance ($ millions)	
	($11.8)	***Net profit/(loss) variance for the comparative periods primarily due to:***
➢	($7.3)	Higher exploration costs during current period for seismic activity on PPL 236 comprising of 70 kilometers, with 6 dip lines which transect the Whale, Tuna, Barracuda, Wahoo, Mako and Shark leads.
➢	($2.0)	Increase in office and administration and other expenses mainly due to expenses relating to the newly created construction department and machinery which were not fully recovered through revenue recharges due to under utilization during the quarter.
➢	($0.5)	Increase in depreciation expense for the quarter mainly related to construction equipment acquired over the last year.
➢	($2.3)	Higher interest expense due to an increase in inter-company loan balances provided to fund exploration and development activities.
➢	$0.6	Increase in foreign exchange gain during the quarter due to the impact of the fluctuation in the exchange rate between PGK and USD.

MIDSTREAM - REFINING – QUARTER IN REVIEW

Midstream Refining – Operating results ($ thousands)	Quarter ended March 31, 2011	Quarter ended March 31, 2010
External sales	85,112	68,074
Inter-segment revenue	132,598	83,912
Interest and other revenue	33	107
Total segment revenue	**217,743**	**152,093**
Cost of sales and operating expenses	(190,186)	(141,413)
Office and administration and other expenses	(3,828)	(3,084)
Derivative gain/(loss)	172	(946)
Foreign exchange gain/(loss)	2,731	(2,248)
EBITDA (1)	**26,632**	**4,402**
Depreciation and amortization	(2,765)	(2,572)
Interest expense	(1,675)	(1,731)
Profit before income taxes	**22,192**	**99**
Income tax expense	(7,298)	(173)
Net profit/(loss)	**14,894**	**(74)**
Gross Margin (2)	**27,524**	**10,573**

(1) EBITDA is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

(2) Gross Margin is a non-GAAP measure and is external sales and inter-segment revenue less cost of sales and operating expenses and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

Midstream - Refining Operating Review

Key Refining Metrics	Quarter ended March 31, 2011	Quarter ended March 31, 2010
Throughput (barrels per day)(1)	27,643	25,971
Capacity utilization (based on 36,500 barrels per day operating capacity)	58%	54%
Cost of production per barrel(2)	$4.19	$2.55(3)
Working capital financing cost per barrel of production(2)	$0.65	$0.44
Distillates as percentage of production	56.8%	53.00%

(1) Throughput per day has been calculated excluding shut down days. During the quarters ended March 31, 2011 and 2010, the refinery was shut down for 21 days and 22 days, respectively.

(2) Our cost of production per barrel and working capital financing cost per barrel have been calculated based on a notional throughput. Our actual throughput has been adjusted to include the throughput that would have been necessary to produce the equivalent amount of finished product that we imported during the quarter.

(3) The variance in the cost of production per barrel for the quarter ended March 31, 2011 as compared to quarter ended March 31, 2010 is due to a combination of factors which includes, the depreciation of the USD against the basket of currencies in which we predominantly incur our operating expenditure (PGK, AUD, PHP), a general cost inflation and also a change to the operatorship of our on site laboratory in fourth quarter 2009 which led to a situation during first quarter 2010 where our existing laboratory consumables (previously supplied by the outgoing operator and expensed within their fees) were drawn down whilst replacement purchases of these consumables became managed by us through our stores inventory and only expensed as consumed, leading to unusually low expense during first quarter 2010 for such consumables.

Analysis of Midstream - Refining Financial Results Comparing the Quarter Ended March 31, 2011 and 2010

The following analysis outlines the key movements, the net of which primarily explains the variance in the results between the quarters ended March 31, 2011 and 2010.

Quarterly Variance ($ millions)	
$15.0	***Net profit/(loss) variance for the comparative periods primarily due to:***
➢ $17.0	Increase in gross margin mainly due to the following contributing factors: + Increases in crude and product prices contributing to increased inventory gains for all products + Improved diesel crack spreads + Increased naphtha premium + Better crude mix resulting in increased distillate yield percentage
➢ ($0.7)	Increase in office and administration costs was driven by higher salaries, wages and share compensation expenses, which were also impacted by the strengthening of PGK against USD.
➢ $5.0	Increase in foreign exchange gain due to movements of PGK against the USD, and PGK rates being charged by financial institutions on conversion of the PGK sales revenue into USD for repayment of our midstream working capital facility. The exchange rates fluctuate significantly based on the extent to which other PNG participants are looking to convert their foreign currencies. We are unable to do any currency hedging due to the relatively small size of the PGK foreign exchange market.
➢ $1.1	Movement in gains/(losses) from derivative contracts undertaken as part of our risk management strategy that were not accounted for as hedge accounted contracts.
➢ $0.1	Reduction in interest expense due to capital repayments of the OPIC loan.
➢ ($7.1)	Increase in income tax expense due to the increase in profits for the quarter and the expiry on December 31, 2010 of the five year tax holiday awarded to the refinery under the Refinery Project Agreement.

MIDSTREAM - LIQUEFACTION – QUARTER IN REVIEW

Midstream Liquefaction – Operating results ($ thousands)	Quarter ended March 31, 2011	2010
Interest and other revenue	-	-
Total segment revenue	**-**	**-**
Office and administration and other expenses	(2,359)	(531)
Foreign exchange loss	(16)	(32)
EBITDA (1)	**(2,375)**	**(563)**
Depreciation and amortization	(6)	(6)
Interest expense	(223)	(342)
Loss before income taxes	**(2,604)**	**(911)**
Income tax benefit/(expense)	-	-
Net loss	**(2,604)**	**(911)**

(1) EBITDA is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled “Non-GAAP Measures and Reconciliation”.

Analysis of Midstream - Liquefaction Financial Results Comparing the Quarters Ended March 31, 2011 and 2010

This segment results include the proportionate consolidation of our interest in the joint venture development of proposed midstream gas liquefaction facilities. The development is being progressed in joint venture with Pac LNG through PNG LNG Inc. We currently have an economic interest of 86.66% in this joint venture entity.

All costs incurred, subsequent to the execution of the shareholders' agreement governing the development of the LNG Project on July 31, 2007, and through the pre-acquisition and feasibility stage were expensed as incurred, unless they were directly identified with the property, plant and equipment of the LNG Project. Since the execution of the LNG Project Agreement by a subsidiary of PNG LNG with the State of Papua New Guinea in December 2009, all project-related direct costs have been capitalized, other than overheads and other costs that are incurred in the normal course of running the business, which are expensed.

The following analysis outlines the key movements, the net of which primarily explains the variance in the results between the quarters ended March 31, 2011 and 2010.

	Quarterly Variance ($ millions)	
	($1.7)	***Net profit/(loss) variance for the comparative periods primarily due to:***
➢	($1.8)	Increase in office, administration and other expenses for the quarter due to higher management expenses and share compensation costs related to the LNG Project development which are not capitalized.

DOWNSTREAM - QUARTER IN REVIEW

Downstream – Operating results ($ thousands)	Quarter ended March 31, 2011	Quarter ended March 31, 2010
External sales	157,339	109,376
Inter-segment revenue	31	60
Interest and other revenue	339	251
Total segment revenue	**157,709**	**109,687**
Cost of sales and operating expenses	(143,208)	(100,875)
Office and administration and other expenses	(5,496)	(4,022)
Foreign exchange loss	(261)	(298)
EBITDA (1)	**8,744**	**4,492**
Depreciation and amortization	(804)	(660)
Interest expense	(826)	(800)
Profit before income taxes	**7,114**	**3,032**
Income tax expense	(2,623)	(2,361)
Net profit	**4,491**	**671**
Gross Margin (2)	**14,162**	**8,561**

(1) EBITDA is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

(2) Gross Margin is a non-GAAP measure and is "external sales" and "inter-segment revenue" less "cost of sales and operating expenses" and is reconciled to IFRS in the section to this document entitled "Non-GAAP Measures and Reconciliation".

Downstream Operating Review

Key Downstream Metrics	Quarter ended March 31, 2011	2010
Sales volumes (millions of liters)	164.6	144.0
Average sales price per liter	$0.96	$0.76

Analysis of Downstream Financial Results Comparing the Quarters Ended March 31, 2011 and 2010

The following analysis outlines the key movements, the net of which primarily explains the variance in the results between the quarters ended March 31, 2011 and 2010.

Quarterly Variance ($ millions)	
$3.8	***Net profit/(loss) variance for the comparative periods primarily due to:***
➢ $5.6	Increase in gross margins mainly due to increasing volumes of various development projects being undertaken in Papua New Guinea, impact of the increasing price environment leading to higher margins on inventories sold and revisions to the distribution and retail margins after completion of the ICCC review of pricing for the next five year period.
➢ ($1.5)	Increase in office and administration and other expenses mainly relating to higher salaries, wages and share compensation expenses, higher recharges from Corporate, and higher lease and utility costs on the relocation to new office premises in Papua New Guinea.

CORPORATE – QUARTER IN REVIEW

Corporate – Operating results ($ thousands)	Quarter ended March 31, 2011	2010
Inter-segment revenue	10,921	6,395
Interest revenue	7,761	5,698
Other non-allocated revenue	(23)	-
Total revenue	**18,659**	**12,093**
Cost of sales and operating expenses	(654)	-
Office and administration and other expenses	(13,024)	(7,694)
Foreign exchange gain	242	3
EBITDA (1)	**5,223**	**4,402**
Depreciation and amortization	(435)	(41)
Interest expense	(1,396)	(20)
Profit before income taxes	**3,392**	**4,341**
Income tax benefit/(expense)	71	(797)
Net profit	**3,463**	**3,544**

(1) EBITDA is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled “Non-GAAP Measures and Reconciliation”.

Analysis of Corporate Financial Results Comparing the Quarters Ended March 31, 2011 and 2010

The following analysis outlines the key movements, the net of which primarily explains the variance in the results between the quarters ended March 31, 2011 and 2010.

	Quarterly Variance ($ millions)	
	($0.1)	***Net profit/(loss) variance for the comparative periods primarily due to:***
➢	$0.7	Reduced interest expenses (net of recharged intercompany interest revenue from other segments) due to higher interest charges to other business segments on increased loan balances.
➢	($1.5)	Increase in net cost of sales and office and administration and other expenses for the quarter after revenue and recharges charged to other segments (included in inter-segment revenue). Higher office and administration and other expenses, mainly resulting from higher salaries, wages and share compensation expenses which were impacted by a strengthening of the AUD against the USD compared with the prior periods and the inclusion of the new InterOil shipping business in this stream.
➢	$0.9	Reduction in income tax expense due partly to lower profits for the quarter, and the movement in relation to timing differences in relation to deferred tax assets and liabilities.

CONSOLIDATION ADJUSTMENTS – QUARTER IN REVIEW

Consolidation adjustments – Operating results ($ thousands)	Quarter ended March 31, 2011	Quarter ended March 31, 2010
Inter-segment revenue (1)	(143,550)	(90,366)
Interest revenue (5)	(7,574)	(5,687)
Total revenue	**(151,124)**	**(96,053)**
Cost of sales and operating expenses (1)	131,024	83,687
Office and administration and other expenses (2)	10,900	6,456
EBITDA (3)	**(9,200)**	**(5,910)**
Depreciation and amortization (4)	32	32
Interest expense (5)	7,572	5,687
Loss before income taxes and non-controlling interest	**(1,596)**	**(191)**
Income tax expense	-	-
Net loss	**(1,596)**	**(191)**
Gross Margin (6)	**(12,526)**	**(6,679)**

(1) Represents the elimination upon consolidation of our refinery sales to other segments and other minor inter-company product sales.

(2) Includes the elimination of inter-segment administration service fees.

(3) EBITDA is a non-GAAP measure and is reconciled to IFRS in the section to this document entitled “Non-GAAP Measures and Reconciliation”.

(4) Represents the amortization of a portion of costs capitalized to assets on consolidation.

(5) Includes the elimination of interest accrued between segments.

(6) Gross Margin is a non-GAAP measure and is “inter-segment revenue elimination” less “cost of sales and operating expenses” and represents elimination upon consolidation of our refinery sales to other segments. This measure is reconciled to IFRS in the section to this document entitled “Non-GAAP Measures and Reconciliation”.

Analysis of Consolidation Adjustments Comparing the Quarters Ended March 31, 2011 and 2010

The following table outlines the key movements, the net of which primarily explains the variance in the results for between the quarters ended March 31, 2011 and 2010.

	Quarterly Variance ($ millions)	
	($1.4)	***Net profit/(loss) variance for the comparative periods primarily due to:***
➢	($1.4)	Decrease in net income due to changes in intra-group profit eliminated on consolidation between Midstream Refining and Downstream segments in the prior periods relating to the Midstream Refining segment's profit component of inventory on hand in the Downstream segment at period ends.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Debt Facilities

Summarized below are the debt facilities available to us and the balances outstanding as at March 31, 2011.

Organization	Facility	Balance outstanding March 31, 2011	Effective interest rate	Maturity date
OPIC secured loan	$44,500,000	$44,500,000	6.83%	December 2015
BNP Paribas working capital facility	$220,000,000 (2)	$49,246,851 (1)	3.34%	January 2012
Westpac PGK working capital facility	$31,160,000	$8,925,599	9.50%	October 2011
BSP PGK working capital facility	$19,475,000	$0	9.20%	October 2011
2.75% convertible notes	$70,000,000	$70,000,000	7.91%(4)	November 2015
Mitsui unsecured loan (3)	$7,884,065	$7,884,065	6.20%	See detail below

(1) Excludes letters of credit totaling $108.0 million, which reduce the available balance of the facility to $62.7 million at March 31, 2011.

(2) The facility was been increased by $30.0 million during the quarter ended March 31, 2011 from $190.0 million to $220.0 million.

(3) Facility is to fund our share of the CS Project costs as they are incurred pursuant to the JVOA.

(4) Effective rate after bifurcating the equity and debt components of the principal amount $70 million 2.75% convertible senior notes issued on November 10, 2010.

OPIC Secured Loan (Midstream Refinery)

On June 12, 2001, one of our subsidiaries entered into a loan agreement with OPIC for provision of an $85.0 million project financing facility for the development of our refinery in PNG. The balance outstanding under the loan as at March 31, 2011 was $44.5 million. The loan is primarily secured by the assets of the refinery and by a parent guarantee from InterOil Corporation, with certain secondary sponsorship security also in place. The interest rate on the loan is equal to the agreed U.S. Government treasury cost applicable to each promissory note that was issued and is outstanding plus 3%, and is payable quarterly in arrears. Principal repayments of $4.5 million each are due on June 30 and December 31 of each year until December 31, 2015. At March 31, 2011, $6.3 million is being held on deposit to secure our June 30, 2011 principal and interest payments on the secured loan.

BNP Paribas Working Capital Facility (Midstream Refinery)

This working capital facility is used to finance purchases of crude feedstock for our refinery. In accordance with the agreement with BNP Paribas, the total facility is split into two components, Facility 1 and Facility 2 which are renewable annually and have been renewed until January 31, 2012. Facility 1 has a limit of $160.0 million and finances the purchases of crude and hydrocarbon products through the issuance of documentary letters of credit and standby letters of credit, short term advances, advances on merchandise, freight loans, and has a sublimit of Euro 18.0 million or the USD equivalent for hedging transactions. Facility 2 allows borrowings of up to $60.0 million and can be used for partly cash-secured short term advances and for discounting of any monetary receivables acceptable to BNP Paribas in order to reduce Facility 1 balances. The facility is secured by sales contracts, purchase contracts, certain cash accounts associated with the refinery, all crude and refined products of the refinery and trade receivables.

As of March 31, 2011, $62.7 million remained available for use under the facility. The facility bears interest at LIBOR plus 3.5% on short term advances. The weighted average interest rate under the working capital facility was 3.34% for quarter ended March 31, 2011 (compared with 2.55% for the same period of 2010), after including the reduction in interest due to the deposit amounts (restricted cash) maintained as security.

Bank South Pacific and Westpac Working Capital Facility (Downstream)

On October 24, 2008, we secured a PGK 150.0 million (approximately $58.4 million) combined revolving working capital facility for our Downstream wholesale and retail petroleum products distribution business from Bank of South Pacific Limited and Westpac Bank PNG Limited. The facility limit as at March 31, 2011 was PGK 130.0 million (approximately $50.6 million).

The Westpac facility limit is PGK 80.0 million (approximately $31.2 million) and the BSP facility limit was initially PGK 70.0 million (approximately $27.3 million). The Westpac facility is for an initial term of three years and is due for renewal in October 2011. The BSP facility is renewable annually and was renewed in October 2010 at a limit of PGK 50.0 million (approximately $19.5 million). As at March 31, 2011, PGK 22.9 million (approximately $8.9 million) of this combined facility had been utilized. The weighted average interest rate under the Westpac facility was 9.50% for the quarter to March 31, 2011 while the weighted average interest rate under the BSP facility was 9.20%.

2.75% Convertible Notes (Corporate)

On November 10, 2010, we completed the issue of $70.0 million unsecured 2.75% convertible notes with a maturity of five years. The convertible notes rank junior to any secured indebtedness and to all existing and future liabilities of our subsidiaries, including the BNP Paribas working capital facility, the OPIC secured loan facility, the Mitsui preliminary financing agreement, trade payables and lease obligations.

We pay interest semi-annually on May 15 and November 15. The notes are convertible into cash or common shares, based on an initial conversion rate of 10.4575 common shares per $1,000 principal amount, which represents an initial conversion price of approximately $95.625 per common share. The initial conversion price is subject to standard anti-dilution provisions designed to maintain the value of the conversion option in the event we take certain actions with respect to our common shares, such as stock splits, reverse stock splits, stock dividends and pay dividends, that affect all of the holders of our common shares equally and that could have a dilutive effect on the value of the conversion rights of the holders of the notes or that confer a benefit upon our current shareholders not otherwise available to the convertible notes. Upon conversion, holders will receive cash, common shares or a combination thereof, at our option. The convertible notes are redeemable at our option if our share price has been at least 125% ($119.53 per share) of the conversion price for at least 15 trading days during any 20 consecutive trading day period. Upon a fundamental change, which would include a change of control, holders may require us to repurchase their convertible notes for cash at a purchase price equal to the principal amount of the notes to be repurchased, plus accrued and unpaid interest.

Mitsui Unsecured Loan (Upstream)

On April 15, 2010, we entered into preliminary joint venture and financing agreements with Mitsui relating to the CS Project. On August 4, 2010, the JVOA for the condensate stripping facilities was entered into. Mitsui and InterOil are to hold equal shares in the joint venture. Mitsui will be responsible for arranging or providing financing for the capital costs of the plant.

The portion of funding that relates to Mitsui's share of the CS Project as at March 31, 2011, amounting to approximately $8.9 million, is held in current liabilities as the agreement requires refund of all funds advanced by Mitsui under the preliminary financing agreement if a positive FID is not reached. The portion of funding that relates to our share of the CS Project (amounting to $7.9 million), funded by Mitsui, is classed as an unsecured loan and interest is accrued daily based on LIBOR plus a margin of 6%.

While cash flows from operations are expected to be sufficient to cover our operating commitments, should there be a major long term deterioration in refining or wholesale and retail margins, our operations may not generate sufficient cash flows to cover all of the interest and principal payments under our debt facilities noted above. Also, our exploration and development activities require funding beyond our operational cash flows and the cash balances we currently hold. As a result, we may be required to raise additional capital and/or refinance these facilities in the future. We can provide no assurances that we will be able to obtain such additional capital or that our lenders will agree to refinance these debt facilities, or, if available, that the terms of any such capital raising or refinancing will be acceptable to us.

Other Sources of Capital

Currently our share of expenditures on exploration wells, appraisal wells and extended well programs is funded from contributions made by IPI investors, capital raising activities, operational cash flows and asset sales.

On October 30, 2008, Petromin, a government entity mandated to invest in resource projects on behalf of the State, entered into an agreement to take a 20.5% direct interest in the Elk and Antelope fields once the State's right to such an interest crystallized under relevant legislation. If certain conditions in the agreement are met, Petromin has agreed to fund 20.5% of the costs of developing the Elk and Antelope fields. The State's right to invest arises under legislation and is exercisable upon issuance of the PDL, which has not yet occurred. The agreement contains certain provisions applicable in the event that the PDL is not applied for or issued within certain timeframes. On grant of a PDL, Petromin has agreed to pay us 20.5% of all other sunk costs incurred by us prior to entering into the agreement. Until the PDL is granted, any payment made by Petromin is to be separately held in a liability account in accordance with the provisions of the agreement. Once the PDL is granted, the conveyance of this interest to the State is expected to occur, and we are obliged to distribute the proceeds received from Petromin between the existing interest holders (currently InterOil, IPI holders and Pac LNG) on a pro-rata basis based on the interest surrendered by each to the State. The State may also elect to participate in a further 2.0% working interest on behalf of the landowners of the licensed areas. As at March 31, 2011, $15.4 million has been received from Petromin.

Cash calls are made to IPI investors, Pac LNG (for its 2.5% direct interest acquired during 2009) and Petromin for their share of amounts spent on appraisal wells and extended well programs pursuant to the relevant agreements in place with them.

In addition to the loan provided by Mitsui, as noted under summary of debt facilities section above, as at March 31, 2011, $6.5 million has been received from Mitsui for their proportion of cash calls and sunk costs in relation to the CS Project.

Summary of Cash Flows

($ thousands)	Quarter ended March 31, 2011	2010
Net cash inflows/(outflows) from:		
Operations	21,873	4,040
Investing	(36,768)	(14,881)
Financing	13,686	5,620
Net cash movement	**(1,209)**	**(5,221)**
Opening cash	233,577	46,449
Closing cash	**232,368**	**41,228**

Analysis of Cash Flows Provided By/(Used In) Operating Activities Comparing the Quarter Ended March 31, 2011 and 2010

The following table outlines the key variances in the cash flows from operating activities between quarters ended March 31, 2011 and 2010:

	Quarterly variance ($ millions)	
	$17.8	***Variance for the comparative periods primarily due to:***
➢	$22.1	Increase in cash generated by operations prior to changes in operating working capital mainly due to oil and gas properties expensed and movements in the future income tax asset.
➢	($4.3)	Increase in cash used by operations due primarily to a $33.6 million increase in inventories due to timing of crude and export shipments, partially offset by an increase in accounts receivable.

Analysis of Cash Flows Provided By/(Used In) Investing Activities Comparing the Quarters Ended March 31, 2011 and 2010

The following table outlines the key variances in the cash flows from investing activities between quarters ended March 31, 2011 and 2010:

	Quarterly variance ($ millions)	
	($21.9)	***Variance for the comparative periods primarily due to:***
➢	($5.1)	Higher cash outflows for the quarter to March 31, 2011 on exploration expenditures compared to the prior quarter. The higher outflows related primarily to the seismic program on PPL 236 and progressing the CS Project.
➢	($14.2)	Lower cash calls and related inflows from IPI investors due to activity being focused on seismic activities rather than drilling activities.
➢	($1.4)	Higher expenditure on acquisition of plant and equipment. This expenditure for the quarter ended March 31, 2011 was mainly associated with refurbishment of retail sites, tank upgrades, capitalized LNG Project costs and ERP implementation for Downstream.
➢	($13.9)	Receipt in 2010 of the final installment of $13.9 million relating to the sale of 2.5% direct working interest in the Elk and Antelope fields to Pac LNG in September 2009.

- $10.4 — Higher cash inflows due to movement in our secured cash restricted balances in line with the usage of the BNP working capital facility.
- $2.3 — Decrease in cash used in our Upstream segment for working capital requirements. This working capital relates to movements in accounts payable and accruals in our Upstream and Midstream Liquefaction operations.

Analysis of Cash Flows Provided By/(Used In) Financing Activities Comparing the Quarters Ended March 31, 2011 and 2010

Following table outlines the key variances in the cash flows from financing activities between quarters ended March 31, 2011 and 2010:

	Quarterly variance ($ millions)	
	$8.1	***Variance for the comparative periods primarily due to:***
➢	$6.4	Higher utilization of the BNP Paribas working capital facility consistent with the higher inventory holding balances and product prices at quarter end.
➢	$4.8	Funding from Mitsui relating to the CS Project.
➢	($1.0)	Proceeds received from Petromin in the prior period for contributions towards cash calls made with respect to development activities for the Elk and Antelope fields.
➢	($2.2)	Reduction in proceeds from issuance of shares due to a lower number of employee stock options being exercised during the current year quarter as compared to the prior year quarter.

Capital Expenditures

Upstream Capital Expenditures

Gross capital expenditures for exploration in Papua New Guinea for the quarter ended March 31, 2011 were $34.5 million compared with $29.4 million during the quarter ended March 31, 2010.

The following table outlines the key expenditures in the quarter ended March 31, 2011:

	Quarterly ($ millions)	
	$34.5	***Expenditures in the quarter ended March 31, 2011 primarily due to:***
➢	$8.3	Completion costs on the Antelope-2 well mainly in relation to an allocation of repairs of our drilling rig necessitated as a result of corrosion caused by the use of drilling mud used to complete the well and conduct the side tracks.
➢	$0.1	Conducting a development seismic program on the Antelope structure.
➢	$1.3	Conducting seismic activity and evaluation in relation to the Bwata field and the Wolverine prospect.
➢	$6.0	Conducting seismic activity in relation to PPL 236
➢	$8.1	Costs for early works in respect of the CS Project.
➢	$10.7	Other expenditures, including purchase of heavy equipment and the construction of a road from our Antelope field to our river-based logistics hub.

IPI investors and Pac LNG (2.5% direct interest in Elk and Antelope fields) are presently required to fund 24.3886% of the Elk and Antelope extended well program costs to maintain their interest in those fields. The amounts capitalized in our books, or expensed as incurred, in relation to the extended well program are the net amounts after adjusting for these interests.

Petromin has agreed to fund 20.5% of ongoing costs for developing the fields. There have been no further contributions from Petromin during the quarter ended March 31, 2011 and therefore the total advance payment received remains at $15.435 million. All funds received are being treated as a deposit until a PDL is granted.

The preliminary financing agreement entered into with Mitsui provides for funding by Mitsui of all the costs relating to the CS Project. 50% of the funding is for Mitsui's share of the CS Project and the other 50% is funding by Mitsui of our share of the CS Project. Mitsui has contributed $4.9 million during the quarter ended March 31, 2011 for both Mitsui's and our share of the project. In the event that a positive FID is not reached or made, we will be required to refund all of Mitsui's contributions (i.e. for our share and Mitsui's) within a specified period.

Midstream Capital Expenditures

Capital expenditures totaled $0.4 million in our Midstream Refining segment for the quarter ended March 31, 2011, mainly associated with motor vehicles and heavy pumper tanker purchases.

Following the signing of the LNG Project Agreement with the State in December 2009, $0.3 million of costs incurred during the quarter in relation to the Midstream - Liquefaction segment have been capitalized.

Downstream Capital Expenditures

Capital expenditures for the Downstream segment totaled $1.6 million for the quarter ended March 31, 2011. These expenditures mainly related to a number of upgrade projects across various terminals and depots, and office refurbishments.

Corporate Capital Expenditures

Capital expenditures for the Corporate segment totaled $0.2 million for the quarter ended March 31, 2011. These expenditures mainly related to project costs in relation to the ERP implementation for the Downstream business.

Capital Requirements

The oil and gas exploration and development, refining and liquefaction industries are capital intensive and our business plans necessarily involve raising additional capital. The availability and cost of such capital is highly dependent on market conditions at the time we raise such capital. No assurance can be given that we will be successful in obtaining new sources of capital on terms that are acceptable to us.

The majority of our "net cash from operating activities" adjusted for "proceeds from/(repayments of) working capital facilities" are used in our appraisal and development programs for the Elk and Antelope fields in PNG. Our net cash from working activities is not sufficient to fund those appraisal and development programs.

Upstream

We are required under our $125.0 million IPI Agreement of 2005 to drill eight exploration wells. We have drilled four wells to date. As at March 31, 2011, we are committed to the State to spend a further $78.5 million as a condition of renewal of our PPL's up to 2014. Of this $78.5 million commitment, as at March 31, 2011, management estimates that satisfying this license commitment would also satisfy our commitments to the IPI investors in relation to drilling the final four wells and satisfy the commitments in relation to the IPI agreement.

In addition, the terms of grant of PRL 15 require us to spend a further $73.0 million on the development of the Elk and Antelope fields by the end of 2014.

We will likely need to raise additional funds in order for us to complete the programs and meet our exploration commitments. Therefore, we must extend or secure sufficient funding through renewed borrowings, equity raising and or asset sales to enable the availability of sufficient cash to meet these obligations over time and complete these long term plans. No assurances can be given that we will be successful in obtaining new sources of capital on terms acceptable to us.

We will also be required to obtain substantial amounts of financing for the development of the Elk and Antelope fields, condensate stripping and associated facilities, liquefaction and associated facilities, pipelines and export terminal facilities, and it would take a number of years to complete these projects. In the event that the commercial viability of these projects is established, we plan to use a combination of debt, equity and/or the partial sale of capitalized properties to raise adequate capital.

The availability and cost of various sources of financing is highly dependent on market conditions at the time and we can provide no assurances that we will be able to obtain such financing or conduct such sales on terms that are acceptable.

Midstream - Refining

We believe that we will have sufficient funds from our operating cash flows to pay our estimated capital expenditures associated with our Midstream Refining segment in 2011. We also believe cash flows from operations will be sufficient to cover the costs of operating our refinery and the financing charges incurred under our crude import facility. Should there be a long term deterioration in refining margins, our refinery may not generate sufficient cash flows to cover all of the interest and principal payments under our secured loan agreements. As a result, we may be required to raise additional capital and/or refinance these facilities in the future.

Midstream - Liquefaction

On September 28, 2010, we and Liquid Niugini Gas Ltd. (a wholly owned subsidiary of PNG LNG) signed a heads of agreement with EWC to construct a three million tonne per annum land based LNG facility in the Gulf Province of Papua New Guinea. Following this agreement, on February 2, 2011, the parties signed certain conditional framework agreements defining certain parameters for the aforementioned development, construction, financing and the operation of the planned land-based modular LNG facilities. These facilities are intended to be developed in phases and further definitive agreements are contemplated.

The LNG facilities are intended to be developed in two phases, 2 MTPA followed by a 1 MTPA expansion. In return for its commitment to fully fund the construction of the LNG facilities, EWC is to be entitled to a fee of 14.5% of the proceeds from LNG revenue, less agreed deductions, and subject to adjustments based on timing and execution.

Subsequent to the end of the quarter, on April 11, 2011, InterOil together with Pac LNG executed framework agreements with Samsung Heavy Industries and Flex LNG, conditional upon Flex LNG shareholder approval (which has now been obtained) and final FID, relating to the construction and operation of a 2 MTPA floating liquefied natural gas processing vessel. Further definitive agreements are contemplated for negotiation. The project is intended to integrate with and augment proposed infrastructure to liquefy natural gas from the onshore Elk and Antelope fields in the Gulf Province of Papua New Guinea pursuant to arrangements with EWC and Mitsui.

Completion of any LNG project will require substantial amounts of financing and construction will take a number of years to complete. As a joint venture partner in the Elk and Antelope fields and the LNG Project, if the project is completed, we would be required to fund our share of certain common facilities of the development. No assurances can be given that we will be able to source sufficient gas, successfully construct such a facility, or as to the timing of such construction. The availability and cost of capital is highly dependent on market conditions and our circumstances at the time we raise such capital.

Downstream

We believe on the basis of current market conditions and the status of our business that our cash flows from operations will be sufficient to meet our estimated capital expenditures for our wholesale and retail distribution business segment for 2011.

Contractual Obligations and Commitments

The following table contains information on payments required to meet contracted obligations due for each of the next five years and thereafter. It should be read in conjunction with our financial statements for the quarter ended March 31, 2011 and the notes thereto:

Contractual obligations ($ thousands)	Payments Due by Period						
	Total	Less than 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years
Petroleum prospecting and retention licenses (a)	151,500	28,750	28,750	34,900	24,750	34,350	0
Secured and unsecured loans (b)	60,979	19,785	11,334	10,749	10,131	8,979	0
Convertible notes obligations	79,625	1,925	1,925	1,925	1,925	71,925	0
Indirect participation interest - PNGDV	1,384	540	844	0	0	0	0
Total	**293,488**	**51,000**	**42,853**	**47,574**	**36,806**	**115,254**	**0**

(a) The amount pertaining to the petroleum prospecting and retention licenses represents the amount hawse have committed as a condition on renewal of these licenses. We are committed to spend a further $78.5 million as a condition of renewal of our petroleum prospecting licenses up to 2014. Of this $78.5 million commitment, as at March 31, 2011, management estimates that satisfying this license commitment would also satisfy our commitments to the IPI investors in relation to drilling the final four wells and satisfy the commitments in relation to the IPI agreement. In addition, the terms of grant of PRL15, requires us to spend a further $73.0 million on the development of the Elk and Antelope fields by the end of 2014.

(b) The effective interest rate on this loan for the three months ended March 31, 2011 was 6.83%.

Off Balance Sheet Arrangements

Neither during the quarter ended, nor as at March 31, 2011, did we have any off balance sheet arrangements or any relationships with unconsolidated entities or financial partnerships.

Transactions with Related Parties

Petroleum Independent and Exploration Corporation, a company owned by Mr. Mulacek, our Chairman and Chief Executive Officer, earned management fees of $37,500 during the quarter ended March 31, 2011 (March 2010 - $37,500). This management fee relates to Petroleum Independent and Exploration Corporation acting as the General Manager of one of our subsidiaries, S.P. InterOil LDC, in compliance with OPIC loan requirements.

Breckland Limited, a company controlled by Mr. Roger Grundy, one of our directors, provides technical and advisory services to us on normal commercial terms. Amounts paid or payable to Breckland for technical services during the quarter ended March 31, 2011 amounted to $nil (March 2010 - $21,923).

Share Capital

Our authorized share capital consists of an unlimited number of common shares and unlimited number of preferred shares, of which 1,035,554 series A preferred shares are authorized (none of which are outstanding). As of March 31, 2011, we had 47,920,552 common shares (50,777,160 common shares on a fully diluted basis) and no preferred shares outstanding. The potential dilutive instruments outstanding as at March 31, 2011 included employee stock options and restricted stock in respect of 1,779,103 common shares, IPI conversion rights to 340,480 common shares, 732,025 common shares relating to the $70 million principal amount 2.75% convertible senior notes due November 15, 2015 and 5,000 common shares which may be issued to Petroleum Independent and Exploration Corporation in exchange for the 5,000 shares it holds in our subsidiary, S.P. InterOil LDC.

Derivative Instruments

Our revenues are derived from the sale of refined products. Prices for refined products and crude feedstocks can be volatile and sometimes experience large fluctuations over short periods of time as a result of relatively small changes in supplies, weather conditions, economic conditions and government actions. Due to the nature of our business, there is always a time difference between the purchase of a crude feedstock and its arrival at the refinery and the supply of finished products to the various markets.

Generally, we purchase crude feedstock two months in advance, whereas the supply/export of finished products will take place after the crude feedstock is discharged and processed. Due to the fluctuation in prices during this period, we use various derivative instruments as a tool to reduce the risks of changes in the relative prices of our crude feedstocks and refined products. These derivatives, which we use to manage our price risk, effectively enable us to lock-in the refinery margin such that we are protected in the event that the difference between our sale price of the refined products and the acquisition price of our crude feedstocks contracts is reduced. Conversely, when we have locked-in the refinery margin and if the difference between our sales price of the refined products and our acquisition price of crude feedstocks expands or increases, then the benefits would be limited to the locked-in margin

The derivative instruments which we generally use are the over-the-counter ("OTC") swaps. The swap transactions are concluded between counterparties in the derivatives swaps market, unlike futures which are transacted on the International Petroleum Exchange ("IPE") and Nymex Exchanges. We believe these hedge counterparties to be credit worthy. It is common place among refiners and trading companies in the Asia Pacific market to use derivatives swaps as a tool to hedge their price exposures and margins. Due to the wide usage of derivatives tools in the Asia Pacific region, the swaps market generally provides sufficient liquidity for the hedging and risk management activities. The derivatives swap instrument covers commodities or products such as jet and kerosene, diesel, naphtha, and also bench-mark crudes such as Tapis and Dubai. By using these tools, we actively engage in hedging activities to lock in margins. Occasionally, there is insufficient liquidity in the crude swaps market and we then use other derivative instruments such as Brent futures on the IPE to hedge our crude costs.

At March 31, 2011, we had a net payable of $136,791 (March 2010 – payable of $534,000) relating to commodity hedge contracts for which hedge accounting was not applied.

A gain of $0.2 million was recognized on the non-hedge accounted derivative contracts for the quarter ended March 31, 2011 (March 2010 – loss of $0.9 million).

In addition to the commodity derivative contracts, we have also entered into foreign exchange derivative contracts to manage our foreign exchange risk in relation to Australian Dollars ("AUD"). As at March 31, 2011, we had no receivables relating to our foreign currency derivatives. No gain or loss has been recognized on foreign exchange derivative contracts for the quarter ended March 31, 2011.

RISK FACTORS

Our business operations and financial position are subject to a range of risks. A summary of the key risks that may impact upon the matters addressed in this document have been included under section "Forward Looking Statements" above. Detailed risk factors can be found under the heading "*Risk Factors*" in our 2010 Annual Information Form available at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires our management to make estimates and assumptions that affect the amounts reported in the condensed consolidated interim financial statements and accompanying notes. For a discussion of those accounting policies, please refer to Note 2 of the notes to our Condensed Consolidated Interim Financial Statements for the quarter ended March 31, 2011, available at www.sedar.com which summarizes our significant accounting policies.

NEW ACCOUNTING STANDARDS

New accounting standards not yet applicable as at March 31, 2011

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not yet effective for the financial year beginning January 1, 2011 and have not been early adopted:

IFRS 9 'Financial Instruments' (effective from January 1, 2013): This addresses the classification and measurement of financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company has not yet decided to early adopt IFRS 9.

Changeover to International Financial Reporting Standards ("IFRS")

The AcSB has adopted IFRS as issued by IASB as Canadian GAAP, effective January 1, 2011. We have adopted IFRS and are now reporting under IFRS for the quarter ended March 31, 2011 with comparative IFRS numbers for 2010.

(i) Application of IFRS 1:

Our financial statements for the year ended December 31, 2011, will be the first annual financial statements that comply with IFRS. We have applied IFRS 1 in preparing these consolidated interim financial statements.

Our transition date to IFRS is January 1, 2010 and we have prepared our opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is March 31, 2011. In preparing these interim consolidated financial statements in accordance with IFRS 1, we have applied the relevant mandatory exceptions and certain optional exemptions from full retrospective application of IFRS.

(ii) Exemptions from full retrospective application – elected by the Company

We have elected to apply the following optional exemptions from full retrospective application.

- ***Business combinations exemption:*** A first-time adopter may elect not to apply IFRS 3 - 'Business Combinations' (as revised in 2008) retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IFRS 3 (as revised in 2008), it shall restate all later business combinations and shall also apply IAS 27 (as amended in 2008) from that same date. We have made the election not to apply IFRS 3 retrospectively to past business combinations.

- ***Fair value as deemed cost exemption:*** An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. We have made the election not to revalue our property, plant and equipment to fair value or deemed cost. Historical cost will be maintained as plant and equipment cost base on transition.

- ***Cumulative translation differences exemption:*** Consistent with the our Canadian GAAP treatment in prior periods, IAS 21 requires an entity: (a) to recognize some translation differences in other comprehensive income and accumulate these in a separate component of equity; and (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal. An election can be made to be exempted from this requirement on transition and start with 'zero' translation differences. We have not made the election to restate our cumulative translation differences balance to zero, and have elected to continue with the current translation differences in comprehensive income as these are already in compliance with IAS 21.

- ***Oil and Gas assets exemption:*** Oil and Gas industry specific accounting under IFRS or superseded Canadian GAAP is currently not as comprehensive as the guidance provided under U.S. GAAP accounting for industry specific oil and gas transactions. Paragraph D1 of IFRS 1 provides an exemption in relation to Oil and Gas assets by allowing companies to continue using the same policies as used under the previous GAAP and carrying forward the carrying amounts of the Oil and Gas assets under Canadian GAAP into IFRS. We have availed this exemption and elected to maintain our Oil and Gas assets at carrying amount under Canadian GAAP treatment in prior periods, which will be the deemed cost under IFRS.

- ***Interests in Joint Ventures entities exemption:*** Superseded CICA Section 3055 differs from IAS 31 as IAS 31 permits the use of either the proportionate consolidation method or the equity method to account for joint venture entities. IAS 31 recommends the use of proportionate consolidation as it better reflects the substance and economic reality, however, it does permit the use of equity method. Superseded CICA Section 3055 only allows the use of proportionate consolidation method to account for joint venture entities. We have elected to maintain our joint venture accounting under the proportionate consolidation model for both our incorporated and unincorporated joint venture interests.

The remaining optional exemptions are not applicable to us.

(iii) Exceptions from full retrospective application followed by the Company

All mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of Canadian GAAP in these areas.

Impact of adoption of IFRS on financial reporting

Following a review of the IFRSs, there was one IFRS adjustment in relation to the deferred gain on contributions to LNG project recorded on our balance sheet. Under IFRS, we were required to offset these deferred gains against any underlying assets that are carried in relation to these deferred gains. Based on this guidance, we have offset the deferred gains against deferred LNG project costs carried within the plant and equipment in the balance sheet under the Midstream – Liquefaction segment. For further details, please refer to Note 3(b) in the Condensed Consolidated Interim Financial Statements for the quarter ended March 31, 2011.

Other than the transition adjustment affecting the consolidated balance sheets as noted above, there were no transition differences noted in relation to the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows.

NON-GAAP MEASURES AND RECONCILIATION

Non-GAAP measures, including gross margin and EBITDA, included in this MD&A are not defined nor have a standardized meaning prescribed by GAAP (i.e., IFRS) or previous GAAP; accordingly, they may not be comparable to similar measures provided by other issuers. Gross Margin is a non-GAAP measure and is "sales and operating revenues" less "cost of sales and operating expenses". The following table reconciles sales and operating revenues, a GAAP measure, to Gross Margin:

Consolidated – Operating results ($ thousands)	Quarter ended March 31,	
	2011	2010
Midstream – Refining	217,710	151,986
Downstream	157,370	109,436
Corporate	10,921	6,395
Consolidation Entries	(143,550)	(90,366)
Sales and operating revenues	**242,451**	**177,451**
Midstream – Refining	(190,186)	(141,413)
Downstream	(143,208)	(100,875)
Corporate (1)	(654)	-
Consolidation Entries	131,024	83,687
Cost of sales and operating expenses	**(203,024)**	**(158,601)**
Midstream – Refining	27,524	10,573
Downstream	14,162	8,561
Corporate (1)	10,267	6,395
Consolidation Entries	(12,526)	(6,679)
Gross Margin	**39,427**	**18,850**

(1) Corporate expenses are classified below the gross margin line and mainly relates to ‘Office and admin and other expenses’ and ‘Interest expense’.

EBITDA represents our net income/(loss) plus total interest expense (excluding amortization of debt issuance costs), income tax expense, depreciation and amortization expense. EBITDA is used by us to analyze operating performance. EBITDA does not have a standardized meaning prescribed by United States or Canadian generally accepted accounting principles and, therefore, may not be comparable with the calculation of similar measures for other companies. The items excluded from EBITDA are significant in assessing our operating results. Therefore, EBITDA should not be considered in isolation or as an alternative to net earnings, operating profit, net cash provided from operating activities and other measures of financial performance prepared in accordance with GAAP. Further, EBITDA is not a measure of cash flow under GAAP and should not be considered as such. For reconciliation of EBITDA to the net income (loss) under GAAP, refer to the following table.

The following table reconciles net income (loss), a GAAP measure, to EBITDA, a non-GAAP measure for each of the last eight quarters. InterOil's IFRS transition date was January 1, 2010 and as such, the 2010 comparative information has been restated in accordance with IFRS but the 2009 comparative information has not been restated and was prepared in accordance with the previous GAAP.

Quarters ended ($ thousands)	2010					2009		
	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30
Upstream	(10,957)	(41,681)	(11,753)	(3,498)	(1,964)	574	(29,097)	(669)
Midstream – Refining	26,632	13,780	15,785	16,962	4,402	8,492	8,199	14,134
Midstream – Liquefaction	(2,375)	(1,959)	(4,588)	(3)	(563)	(1,200)	(2,119)	(1,379)
Downstream	8,744	4,709	1,674	7,060	4,492	4,391	6,542	4,150
Corporate	5,223	4,566	(4,510)	1,751	4,402	1,765	1,980	1,897
Consolidation Entries	(9,200)	(7,005)	(5,229)	(7,384)	(5,910)	(4,884)	(4,092)	(278)
Earnings before interest, taxes, depreciation and amortization	**18,067**	**(27,590)**	**(8,621)**	**14,888**	**4,859**	**9,138**	**(18,587)**	**17,855**
Subtract:								
Upstream	(6,352)	(5,481)	(4,600)	(4,367)	(4,080)	(4,056)	(2,164)	(1,563)
Midstream – Refining	(1,675)	(1,509)	(1,693)	(1,651)	(1,731)	(1,973)	(1,682)	(1,709)
Midstream – Liquefaction	(223)	(184)	(376)	(351)	(342)	(379)	(348)	(333)
Downstream	(826)	(835)	(938)	(1,167)	(800)	(930)	(1,045)	(1,013)
Corporate	(1,395)	(1,158)	(342)	(20)	(20)	(27)	-	(1,600)
Consolidation Entries	7,572	6,571	6,107	5,916	5,687	5,905	3,823	3,141
Interest expense	**(2,899)**	**(2,596)**	**(1,842)**	**(1,640)**	**(1,286)**	**(1,460)**	**(1,416)**	**(3,077)**
Upstream	-	-	-	-	-	-	-	-
Midstream – Refining	(7,298)	(1,040)	101	(366)	(173)	14,316	-	-
Midstream – Liquefaction	-	36	-	-	-	(8)	(3)	(32)
Downstream	(2,623)	(495)	(322)	(1,524)	(2,361)	(411)	(1,398)	(733)
Corporate	71	(11)	(529)	97	(797)	1,340	(339)	(800)
Consolidation Entries	-	(2)	(2)	(2)	-	(3)	(1)	(2)
Income taxes	**(9,850)**	**(1,512)**	**(752)**	**(1,795)**	**(3,331)**	**15,234**	**(1,741)**	**(1,567)**
Upstream	(641)	(683)	(232)	(78)	(138)	(144)	(132)	(150)
Midstream – Refining	(2,765)	(2,700)	(2,195)	(2,888)	(2,572)	(2,765)	(2,755)	(2,801)
Midstream – Liquefaction	(6)	(7)	(6)	(6)	(6)	(7)	(10)	(20)
Downstream	(804)	(737)	(739)	(651)	(660)	(679)	(658)	(662)
Corporate	(435)	(16)	(17)	(32)	(41)	(43)	(40)	(174)
Consolidation Entries	32	33	32	32	32	33	33	32
Depreciation and amortisation	**(4,619)**	**(4,110)**	**(3,157)**	**(3,623)**	**(3,385)**	**(3,605)**	**(3,562)**	**(3,775)**
Upstream	(17,949)	(47,845)	(16,585)	(7,943)	(6,182)	(3,626)	(31,392)	(2,382)
Midstream – Refining	14,894	8,531	11,998	12,056	(74)	18,071	3,762	9,624
Midstream – Liquefaction	(2,604)	(2,114)	(4,970)	(360)	(911)	(1,593)	(2,481)	(1,764)
Downstream	4,491	2,642	(325)	3,718	671	2,371	3,440	1,742
Corporate	3,463	3,381	(5,398)	1,796	3,544	3,034	1,601	(677)
Consolidation Entries	(1,596)	(403)	908	(1,437)	(191)	1,050	(236)	2,893
Net profit/(loss) per segment	**699**	**(35,808)**	**(14,372)**	**7,830**	**(3,143)**	**19,307**	**(25,306)**	**9,436**

PUBLIC SECURITIES FILINGS

You may access additional information about us, including our Annual Information Form for the year ended December 31, 2010, in documents filed with the Canadian Securities Administrators at www.sedar.com, and in documents, including our Form 40-F, filed with the U.S. Securities and Exchange Commission at www.sec.gov. Additional information is also available on our website www.interoil.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's certifying officers have designed disclosure controls and procedures, as such term is defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("National Instrument 52-109"), or caused them to be designed under their supervision, to provide reasonable assurance that all material information required to be disclosed the Company in its interim filings is processed, summarized and reported within the time periods specified in applicable Canadian securities legislation.

The Company's certifying officers are responsible for establishing and maintaining internal control over financing reporting ("ICFR"), as such term is defined in National Instrument 52-109. The control framework the Company's officers used to design the Company's ICFR is the framework established by the Committee of Sponsoring Organizations (COSO) entitled – Internals Controls – Integrated Framework.

For further details on our disclosure controls and procedures, please refer to our Management's Discussion and Analysis for the year ended December 31, 2010 available at www.sedar.com.

GLOSSARY OF TERMS

AUD Australian dollars.

Barrel, Bbl Unit volume measurement used for petroleum and its products.

BNP Paribas BNP Paribas Capital (Singapore) Limited.

BSP Bank of South Pacific Ltd.

CGR Condensate to gas ratio.

Condensate A component of natural gas which is a liquid at surface conditions.

Crude Oil A mixture consisting mainly of pentanes and heavier hydrocarbons that exists in the liquid phase in reservoirs and remains liquid at atmospheric pressure and temperature. Crude oil may contain small amounts of sulfur and other non-hydrocarbons but does not include liquids obtained from the processing of natural gas.

CSP Joint Venture or CSP JV The Joint Venture Operating Agreement ("JVOA") entered into for the proposed condensate stripping facilities with Mitsui or the joint venture formed to develop and operate the proposed condensate stripping facilities as the context requires.

CS Project The proposed condensate stripping facilities, including gathering and condensate pipeline, condensate storage and associated facilities being progressed in joint venture with Mitsui.

DST A drill stem test and is a procedure for isolating and testing the surrounding geological formation through the drill pipe.

EBITDA Earnings before interest, taxes, depreciation and amortization. EBITDA represents net income/(loss) plus total interest expense (excluding amortization of debt issuance costs), income tax expense, depreciation and amortization expense. EBITDA is a non-GAAP measure used to analyze operating performance. See *"Non-GAAP Measures and Reconciliation"*.

Elk Antelope Project The Elk Antelope wells, and the common jetty and loading facilities.

ERP Enterprise Resource Planning System.

EWC Energy World Corporation Limited., a company organized under the laws of Australia.

FEED Front end engineering and design.

Feedstock Raw material used in a refinery or other processing plant.

FID Final investment decision. Such a decision is ordinarily the point at which a decision is made to proceed with a project and it becomes unconditional.

FLEX LNG Flex LNG Ltd., a company registered in British Virgin Islands, and listed on the Oslo Stock Exchange.

GAAP Generally accepted accounting principles.

Gas A mixture of lighter hydrocarbons that exist either in the gaseous phase or in solution in crude oil in reservoirs but are gaseous at atmospheric conditions. Natural gas may contain sulfur or other non-hydrocarbon compounds.

ICCC Independent Consumer and Competition Commission in Papua New Guinea.

IFRS International Financial Reporting Standards.

IPI Indirect Participation Interest. These interests are held by various investors pursuant to participation interest agreements entered into in 2003, 2004 and 2005 and identified more fully in our 2010 Annual Information Form.

IPP Import parity price. For each refined product produced and sold locally in Papua New Guinea, IPP is calculated under agreement with the State by adding the costs that would typically be incurred to import such product to an average posted price for such product in Singapore as reported by Platts. The costs added to the reported Platts price include freight costs, insurance costs, landing charges, losses incurred in the transportation of refined products, demurrage and taxes.

Joint Venture Company or **PNG LNG** PNG LNG, Inc., a joint venture company established in 2007 to construct the proposed liquefaction facilities. Shareholders are InterOil LNG Holdings Inc., a wholly-owned subsidiary of InterOil, and Pac LNG.

JVOA Joint Venture Operating Agreement.

LIBOR Daily reference rate based on the interest rates at which banks borrow unsecured funds from banks in the London wholesale money market.

LNG Liquefied natural gas. Natural gas converted to a liquid state by pressure and severe cooling for transportation purposes, and then returned to a gaseous state to be used as fuel. LNG, which is predominantly artificially liquefied methane, is not to be confused with NGLs, natural gas liquids, which are heavier fractions that occur naturally as liquids.

LNGL Liquid Niugini Gas Limited, a wholly owned subsidiary of PNG LNG formed in Papua New Guinea.

LNG Project The development by us of liquefaction facilities in Papua New Guinea described as our Midstream Liquefaction business segment and being undertaken as a joint venture with Pac LNG through the Joint Venture

Company, presently being pursued with EWC, inter alios, in accordance with certain conditional agreements signed in February 2011.

LSWR Low Sulphur Waxy Residue.

Mitsui Mitsui & Co., Ltd., a company organized under the laws of Japan and/or certain of its wholly-owned subsidiaries (as the context requires).

MTPA Million tonnes per annum.

Naphtha That portion of the distillate obtained from the refinement of petroleum which is an intermediate between the lighter gasoline and the heavier benzene. It is a feedstock destined either for the petrochemical industry or for gasoline production by reforming or isomerisation within a refinery.

Natural Gas A naturally occurring mixture of hydrocarbon and non-hydrocarbon gases found in porous geological formations beneath the earth's surface, often in association with petroleum. The principal constituent is methane.

OPIC Overseas Private Investment Corporation, an agency of the United States Government.

Pac LNG Pacific LNG Operations Ltd., a company incorporated in the Bahamas and affiliated with Clarion Finanz A.G. This company is our joint venture partner in the LNG Project (holding equal voting shares in PNG LNG), holds a 2.5% direct interest in the Elk and Antelope fields and is an IPI holder.

Petromin Petromin PNG Holdings Limited, a company incorporated in PNG by the State.

PDL Petroleum Development License. The right granted by the State to develop a field for commercial production.

PGK the Kina, the currency of Papua New Guinea.

PPL Petroleum Prospecting License. The tenement given by the State to explore for oil and gas.

PRL Petroleum Retention License. The tenement given by the State to allow the licensee holder to evaluate the commercial and technical options for the potential development of an oil and/or gas field.

State or **PNG** means the Independent State of Papua New Guinea.

USD United States Dollars.

Westpac Westpac Bank PNG Limited.