

31 March 2004

Management Discussion and Analysis

The following discussion and analysis by management of the 2003 financial condition and financial results for InterOil should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements"). The financial statements and the financial information herein have been prepared in accordance with generally accepted accounting principles in Canada and are presented in United States dollars.

Purpose and Mission

InterOil's major focus is the development of a vertically integrated oil and energy company that will own and operate assets that extend from the wellhead to the petrol pump. The core asset comprises an oil refinery nearing completion in Papua New Guinea with anticipated "first oil in the refinery" expected in the second quarter 2004. The refinery is expected to process 32,500 barrels of oil per day and will result in PNG becoming an exporter of refined products. Currently, PNG exports all its crude and imports all its refined petroleum products.

Overview

InterOil's operations are organised into three major business segments:

- The upstream segment includes the exploration for crude oil and natural gas;
- The midstream segment includes the refinery; and;
- The downstream segment will include the distribution assets in PNG.

We use the term "upstream" to refer to the exploration for and production of oil and gas and "midstream" to refer to the operations related to our refinery. The term "downstream" is used to refer to the distribution and marketing of refined petroleum products through our distribution network.

Upstream

InterOil has an extensive upstream asset portfolio consisting of approximately 8 million acres of exploration licences. All of these licences are located onshore in the Eastern Papuan Basin in PNG, and have the logistical advantage of moderate terrain, barge access to infrastructure and proximity to the refinery. This logistical advantage should allow for lower cost of development, earlier production, and easier access to a market for oil production in the event of a discovery.

In December 2002 InterOil announced a commitment to an eight well drilling program. On March 28, 2003, the program commenced with the spudding of the first well in the Moose Prospect, the Moose-1 well, which is located in the area covered by Petroleum Prospecting Licence 238 in the Eastern Papuan Basin, of which InterOil is the 100% owner (ownership subject to a reduction of up to 22% by the potential conversion of indirect working interests held by previously disclosed third parties). On-site inspection of the core data from the Moose - 1 well indicated more than fourteen oil shows in 135 metres (443 feet) of continuous core from 673 metres (2,208 feet) to 808 metres (2,651 feet). The oil shows were both in the fractures and from porous sections within the Eocene limestone, which was the secondary target

zone. The limestone section was cased off in order to maintain the integrity of the formation prior to testing the well. The oil shows indicate live oil in the system of marine origin, while the drilling validated the geological model to the depth drilled.

Testing the Moose - 1 well commenced on November 18, 2003. Initial fluid samples recovered from the limestone section were indistinguishable from drilling fluids, confirming the significant volume of fluid lost (approx 50,000 barrels) in the fractured limestone section during drilling operations. This confirmed the need to pump this fluid out of the system. The fastest and most economic means of determining the Moose structure's potential was to suspend operations on the Moose - 1 well and move on to drill and test a step out well, the Moose-2 exploration/appraisal well. The Moose - 2 appraisal well was spudded on December 9, 2003 and is located approximately 4.5 kilometers (2.8 miles) from the Moose-1 well. This well aims to appraise the extent of the Moose limestone reservoir and will also target the deeper exploration target of the Pale Sandstone. InterOil currently has no reserves as per Canadian National Instrument 51-101 reserve definitions.

The Moose-2 appraisal well confirmed the secondary target (Eocene limestone), by coring over 285 metres (935 feet). Fifteen oil shows were identified within the fractures of the core samples. An independent analysis of the core samples by the Australian Government Commonwealth Scientific & Industrial Research Organisation (CSIRO) indicates both Cretaceous/Tertiary and Jurassic age thermally mature crude oils from four possible sources in the cores. The company believes this data supports the potential for a thermally mature source of hydrocarbon in the region.

The drilling program was expanded to 16 wells, each on an independent structure and located in InterOil's wholly owned exploration acreage. Following this announcement an additional heli-portable drilling rig was contracted and mobilized to InterOil's second structure, the Sterling Mustang. The Sterling Mustang exploration well, which is also located in PPL 238, was spudded in early 2004 and will target the Late Cretaceous Pale and Subu quartz sandstones as primary targets at a planned target depth of 2,200 metres (7,218 feet).

Drill site locations on two structures located in PPL 238 have been identified for drilling and the preparation of the drill sites are complete. Seismic has been shot over three possible structures and the data is currently being processed.

Midstream

Construction of the 32,500 barrel per day refinery is nearing completion and "first oil" into the refinery is expected in the second quarter of 2004. The refinery complex is located across the harbour from Port Moresby, the capital of PNG, on the former site of the Australian Naval Base, where InterOil has secured a 99-year lease from the PNG Government.

The refinery is being built under an Engineering, Procurement and Construction contract with Clough Niugini Limited.

The overall project is now at approximately 95 percent complete with the construction portion in excess of 93 percent complete and pre-commissioning and commissioning activities are ongoing.

In August 2003, a facilities management contract was awarded to Petrofac, a leading facilities management company, for the total management of day-to-day refinery operation, maintenance and production. Petrofac commenced mobilisation to site in November 2003 and has been active in pre-commissioning activities in preparation for refinery start-up.

Construction of the on-site refinery laboratory is complete and will be managed by SGS, a global leader in the verification, testing and certification industry. SGS' responsibilities will include the establishment of the required quality assurance programmes, the procurement of all required testing equipment, and provision of laboratory personnel. The laboratory will test and certify all finished products on-site thus ensuring quality control.

Downstream

PNG currently exports all its crude supply and imports all of its refined petroleum products. An agreement with the Government of PNG gives InterOil certain rights to supply the domestic market in PNG with refined petroleum products. InterOil has estimated that approximately 50 to 60 percent of the refinery net output will be used to supply the PNG domestic market. The balance of the refinery's production will be sold into the near regional and export markets. InterOil believes that the refinery will be able to price its products competitively in these markets due to transportation cost advantages and the premium quality of products produced using PNG crude feedstock.

A unit of Royal Dutch/Shell has agreed to purchase and market the vast majority of the export capacity of the refinery for a period of three years at prices ruling at the time of supply.

On March 10, 2004 InterOil announced that it has entered into a share sale agreement with BP plc to acquire BP's PNG subsidiary, BP Papua New Guinea Limited, including all its petroleum distribution assets and operations in Papua New Guinea. This transaction is valued at US\$11.3 million for assets and inventory, consisting of US\$4 million in assets and US\$7.3 million in inventory. The down payment of US\$1 million is due upon transfer date (after satisfaction of all statutory approvals), with the balance of funds payable twelve months from the effective date, which is March 1, 2004. Included in the purchase are the 2003 retained profits of approximately US\$4.3 million (Kina 14 million), and the first two months of 2004. These amounts will be repaid to BP, no later than twelve months after the effective date, from proceeds obtained in collecting the closing accounts receivable balance. The asset portfolio comprises 3 terminals, 7 depots and over 40 retail sites. InterOil will be assisted in assuming management and control of the company by the secondment of existing key BP management to ensure a seamless transfer over the following year. BP Papua New Guinea's total revenue for the year ended December 2003 was approximately US\$75 million (Kina 243 million).

Consolidated Results Summary

Year Ended December 31,	2003	2002	2001
Total revenue	259,280	384,226	1,059,944
Income from operations	nil	nil	nil
Net loss	(3,517,569)	(1,315,887)	(3,279,196)
Net loss per share	(0.14)	(0.06)	(0.16)
Total assets	260,339,850	135,074,861	97,297,583
Long-term debt	90,600,000	31,000,000	nil
Cash dividends declared per share	nil	nil	nil

Quarter ended	31-Dec-03	30-Sept-03	30-Jun-03	31-Mar-03	31-Dec-02	30-Sept-02	30-Jun-02	31-Mar-02
Total revenue	203,964	13,349	27,717	14,250	(4,374)	92,922	133,037	162,641
Income from operations	nil	nil	nil	nil	nil	nil	nil	nil
Net profit (loss)	(1,489,036)	(1,510,516)	(689,090)	171,073	(228,404)	(1,148,882)	(40,154)	101,553
Net profit (loss) per share	(0.06)	(0.06)	(0.03)	0.01	(0.01)	(0.06)	(0.00)	0.01

InterOil is considered to be in the construction and pre-operating stage of development of the refinery in Papua New Guinea. No significant operating activities have been undertaken to date. InterOil's revenue generated to date is primarily interest on investments as the company remains in the construction and development stage. Investment income for 2003 was US\$246,912 (compared to US\$373,015 in 2002) a decrease of US\$126,103. The reason for the decrease was due to the company's net cash and cash equivalents being utilized in capital project funding. There was a net loss of US\$3,517,569 in 2003, an increase of US\$2,201,682 (compared to US\$1,315,887 loss in 2002). This net loss was mainly due to a foreign exchange loss on the adjustment of inter-company loans denominated in US dollars as both the Australian Dollar and the Papua New Guinea Kina strengthened compared to the US Dollar, as well as legal and administrative costs associated with the various equity financings during the year, and additional administrative support added in the year for the company's exploration program that was expensed. These additional expenses were partially offset by P.I.E. Corporation, a related party, waiving prior years' management fees totalling US\$840,000 in the first half of 2003. In the fourth quarter of 2003, the company also expensed approximately US\$160,000 of exploration costs previously capitalised after evaluation of certain oil and gas properties. These losses are to be expected during the construction phase of a major project and management expects these to end once the refinery project commences operations.

Total assets increased 93 percent (or US\$125.3 million) to US\$260,339,850 in 2003 compared to US\$135,074,861 in 2002. Cash and temporary investments represent US\$23.6 million of this increase, whereas the predominant portion of the balance is the year's capital expenditures related to the refinery development and construction

costs along with oil and gas exploration expenditures, which have been capitalised. A total of US\$76.3 million of development and construction costs were capitalised in 2003 compared to US\$45.0 million capitalised in 2002. InterOil follows the successful efforts method of accounting for expenditures related to oil and gas exploration and development activities, which are capitalised and carried forward where they are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not reached a stage to allow reasonable assessment regarding the existence of economical reserves. The company capitalised US\$20.1 million of exploration costs in 2003 as a result of the commencement of its multi-well drilling program in March 2003, compared to US\$0.78 million in 2002. The company has determined that Petroleum Prospecting Licence 200 would be abandoned due to poor results during the evaluation stage, and as such the company has written off all exploration, evaluation and development costs of approximately US\$77,222 in accordance with its accounting policy.

InterOil's long-term debt consists of amounts drawn under the US\$85 million Project Financing Facility obtained in June 2001 from the Overseas Private Investment Corporation ("OPIC"), an agency of the US Government, to support the development of the refinery, and the indirect participation interests in the company's Phase One Exploration Program. OPIC is the primary lender of capital to the refinery project. US\$83 million had been drawn under the facility as at 31 December 2003. The facility is secured by the assets of the refinery and will expire on 30 June 2013. Semi-annual interest and principal repayments of US\$4.5 million commence on 30 June 2004. The interest rate is equal to the US treasury cost applicable to each promissory note established at time of disbursement plus 3.0% per annum prior to the refinery completion and 3.5% per annum on and after refinery completion. In 2003, two separate indirect participation interests totalling US\$19.8 million were granted to independent investors, PNG Energy Investors LLC and PNG Drilling Ventures Limited, each of which may elect to convert their interests into a working interest in the drilling program, debt or InterOil common shares.

Liquidity and Capital Resources

InterOil ended the year 2003 with approximately US\$34.0 million in cash and temporary investments compared to approximately US\$10.4 million in cash at December 31, 2002.

OPIC remains the primary lender of capital to the refinery project, and disbursements of US\$52.0 million were received in 2003. To provide funding for InterOil's ongoing exploration and production activities in PNG and general corporate purposes, net proceeds of approximately US\$61.4 million were raised in 2003 through three private placements totalling 3,817,500 common shares. In addition to the private placements, US\$19.8 million was raised from indirect participation interests in InterOil's Phase One Exploration Program, of which US\$3.2 million remains unpaid as of December 31, 2003, and was receipted in full subsequent to year-end on March 22, 2004. During the year cash was spent on refinery construction, development costs, oil and gas exploration expenses, and administrative and general costs.

In September 2004, InterOil increased the capital budget for the refinery by US\$5.4 million to account for additional construction variation costs, constructional insurance, along with legal expenses and facility management services. Following the January 2004 revised mechanical completion date announcement identifying a May 2004 "first oil in the refinery" date, the company increased the capital budget of the refinery

by an additional US\$5.0 million due to the postponement of offsetting revenues during the commissioning phase of the revised project schedule. The adjusted capital budget of the refinery project is:

Capital Costs	US\$197.4m
Finance Costs	US\$ 8.0m
Funded Debt Service Reserve Account	<u>US\$ 9.0m</u>
Total	US\$214.4m

US\$199 million in equipment and development costs have been paid as of December 31, 2003.

InterOil has Petroleum Prospecting and Retention Licences expenditure commitments of \$2,838,000 for the year ending 2004 (compared to \$4,100,000 in 2003), which relate to various exploration holdings in PNG.

The company has commitments under the EPC Contract of approximately \$1,900,000 as at December 31, 2003 (compared to \$71,000,000 as at December 31, 2002).

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

In March 2004 InterOil obtained final credit approval for a US\$60 million revolving crude oil procurement facility with BNP Paribas (Singapore) to finance the crude feedstock for the refinery, and is currently working on final documentation of the facility.

Share Capital

The authorised share capital of the company consists of an unlimited number of common shares with no par value. The issued and outstanding shares of InterOil, and reconciled to January 1, 2002, are set out below:

	Number of shares	\$
Balance, 1 January 2002	20,186,870	92,808,387
Shares issued for cash	399,073	1,312,222
Balance, 31 December 2002	20,585,943	94,120,609
Shares issued for cash	3,817,500	61,060,640
Shares issued for debt	31,240	316,359
Shares issued on exercise of options	381,278	1,951,592
Balance, 31 December 2003	24,815,961	157,449,200

Transactions with Related Parties

Petroleum Independent and Exploration Corporation ("P.I.E.") is the general manager of SP InterOil, LDC ("SPI"). During 2003, P.I.E. was reimbursed for legal, accounting and reporting costs of \$150,000 relating to SPI. P.I.E. also waived \$840,000 of management fees due to it for prior periods. Amounts due to related parties of \$1,478,751 (2002 - \$2,784,560) are amounts due to P.I.E. An advance of \$2,900,000 was made by P.I.E. to InterOil Corporation in 2002 and the Company has repaid \$1,421,249 of this loan as at 31 December 2003. This loan bears interest at 5.75% per annum and is due for repayment within the next twelve months. During the year, InterOil incurred interest on this loan amounting to \$105,374 (2002 - \$127,639).

Breckland Limited provides technical and advisory services to InterOil and/or subsidiaries on normal commercial terms, and is a related party by virtue of common directorships. Amounts paid to Breckland Limited during the year totalled \$131,250 (2002 - \$204,522).

Critical Accounting Estimates

InterOil's financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies used by InterOil are disclosed in note 1 to the Consolidated Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to estimates and assumptions that affect the assets, liabilities, revenues and expenses reported by the Company. InterOil's management continually reviews its estimates based on new information, which may result in changes to current estimated amounts.

Plant and Equipment

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

Oil and Gas Properties

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

Changes in Accounting Policies

Impairment of Long-Lived Assets

In December 2002 the Accounting Standards Board ("AcSB") issued CICA section 3063, new standards for the recognition, measurement and disclosure of the impairment of long-lived assets by profit-oriented enterprises. Under the new rules, a long-lived asset held for use is tested for impairment whenever an event or change in circumstances indicates its carrying value may not be recovered (i.e. a change in its market price). Once such an event or change occurs, a two-step impairment test is used: the first step determines whether an impairment exists and the second step measures the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset held for use exceeds the sum of the future expected undiscounted cash flows resulting from its use and eventual disposition. An impairment loss is measured as the amount by which that long-lived asset's carrying amount exceeds its fair value. To test for and measure impairment, long-lived assets held for use are grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent. The standards are effective for fiscal years beginning on or after April 1, 2003.

We do not believe the adoption of CICA section 3063 will have a material impact on our results of operations, financial position or liquidity.

Stock Based Compensation Plans

In September 2003, the AcSB released CICA section 3870 that revised transitional provisions to these standards to provide the same alternative methods of transition as is provided in the US for voluntary adoption of the fair value based method of accounting. These provisions permit either retroactive (with or without restatement) or prospective application of the recognition provisions to awards not previously accounted for at fair value. Prospective application is available only to enterprises that elect to apply the fair value based method of accounting to that type of award for fiscal years beginning before January 1, 2004. The AcSB has also amended the standards to require that all transactions whereby goods and services are received in exchange for stock-based compensation and other payments result in expenses that should be recognized in financial statements, and that this requirement would be applicable for financial periods beginning on or after January 1, 2004. The standards require that share-based transactions should be measured on a fair value basis. After January 1, 2004 the fair value of stock-based compensation will be recognized as an expense in the financial statements.

The 2004 stock-based compensation expense cannot be reasonably estimated at this time.

Asset Retirement Obligations

In March 2003, the AcSB issued CICA section 3110, which harmonizes Canadian GAAP with SFAS No. 143, Accounting for Asset Retirement Obligations. The standards were established for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards apply to legal obligations associated with the retirement of a tangible long-lived asset that results from acquisition, construction, development or normal operations. The standards require an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of fair value can be made. The standards describe the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. An entity is subsequently required to allocate that asset

retirement cost to expense using a systematic and rational method over the estimated useful life of the related asset. The standards are effective for fiscal years beginning on or after January 1, 2004. Upon adoption of CICA section 3110, the Company will adjust its existing future removal and site restoration liability retroactively with restatement.

Management estimates there are no legal obligations associated with the retirement of the refinery or with its normal operations relating to future restoration and closure costs. The refinery is being built on land leased from the Independent State of Papua New Guinea. The lease expires on July 26, 2007 and does not outline any terms for restoration or closure costs.

Hedging Relationships

In June 2003, the AcSB issued amendment AcG-13. The amendments neither change the basic principles nor the July 1 2003 effective date of the original guideline. The amendments instead clarify certain of the requirements and provide additional implementation guidance related to the identification, designation and documentation of the hedging relationship, and an assessment of the effectiveness of the hedging relationship. The amendments also eliminate some potential inconsistencies between Canadian and US GAAP and minimize other GAAP differences. The requirements of the guideline are applicable to all hedging relationships in effect for fiscal years beginning on or after July 1, 2003. Retroactive application is not permitted - the entity must assess all hedging relationships as of the beginning of the first year of application to determine whether the hedging criteria in the guideline are met. Hedge accounting is to be discontinued for any hedging relationships that do not meet the requirements of the guideline.

Financial Instruments

Foreign currency forward contracts and put options are used to manage foreign currency exposures on construction contract expenditures. The forward contracts are not recognized in the consolidated financial statements on inception. Gains and losses on foreign currency forward contracts for specific commitments are recognised in the same period as the foreign currency expenditures to which they relate. Gains and losses which relate to forward contracts for general commitments are recognised as they occur.

During the year, InterOil was party to certain derivative financial instruments. The company had no outstanding foreign currency forward contracts at December 31, 2003. At December 31, 2002, the company had contracts valued at \$62,000,000 to acquire Australian dollars to hedge Australian dollar amounts payable pursuant to the refinery construction. These hedging contracts have all matured during 2003. At December 31, 2003, the company has no unrealised gain or loss resulting from hedge contracts (December 31, 2002 – unrealised loss \$4,001,462). An unrealised exchange loss of \$678,648 was recognised on the balance sheet for contracts in excess of specific commitments at December 31, 2002.

As a requirement of the hedging contracts, a collateral arrangement was entered into where at December 31, 2003 an amount of US\$38,040 (2002 - \$7,105,701) was held on deposit, pledged in favour of the provider of the hedge, and recorded as a temporary investment. Funds required to be held on deposit as collateral have reduced over time as project expenditure is undertaken and the foreign currency forward contracts are closed out. These amounts had reduced to nil as at January 31, 2004.

To define a maximum potential amount payable on the outstanding hedge contracts, InterOil acquired Australia dollar put options for total premiums of \$218,530 (year ended December 2002 - \$85,000). The maturity dates and nominal amounts of the put options coincided with the exercise dates and nominal amounts of the outstanding hedge contracts.

Risks and Uncertainties

No Operating History/No Certainty of Future Profit

To date InterOil has encountered certain delays in the development of the refinery. It is possible that unforeseen difficulties may cause other delays during final development, commissioning and/or construction of the refinery. The likelihood of the success of InterOil and its refinery project must be considered in light of inherent risks, and the difficulties, costs, complications and delays frequently encountered in the establishment of new project start-up companies. Accordingly, there can be no assurance of the future profitability of the refinery or InterOil.

Achievement of Project Revenues

The Project Agreement, combined with the Shell marketing and distribution contracts, gives InterOil access to the PNG and near region refined petroleum product markets and access to crude oil produced in PNG. Import Parity Prices, the pricing methodology provided for in the Project Agreement, have historically provided sufficient margins for attainment of the revenues forecast by InterOil. InterOil cannot control the price at which refined petroleum products may be sold in PNG or the other markets targeted by the refinery project. Further, the Project Agreement provides that if there is more than one refinery operating in PNG during the term of the Project Agreement, the right to supply the domestic market will be shared by the refineries in proportion to their refining capacities. The operating revenue to be derived from the BP Papua New Guinea Limited may change over time and no guarantees can be made that it will be profitable.

Projected Refinery Costs

InterOil has estimated the capital, financing and development costs of the refinery. However, the actual costs of completing the required work to bring the refinery to completion may vary from the lump sum EPC Contract as a result of many factors, including changes in market conditions and change orders during construction, and may influence the completion date and the final cost of construction of the refinery.

Political Risk

Future political and economic conditions in PNG could result in the Government adopting different policies than exist presently, or Government bodies could frustrate activities, which might adversely affect the oil exploration and production industry, product distribution, or the oil refining industry. However, InterOil believes these activities are in the long-term best interests of PNG and has no reason to believe it does not have the support of the present Government or will not have that support from future governments.

The construction and operation of the refinery require various permits and licences from various Government authorities. The Project Agreement gives the refinery project certain assurances that the necessary permits and licences will be received.

Existence of Markets

The Project Agreement gives InterOil certain rights to supply the domestic market in PNG with refined petroleum products. InterOil estimates that 50 to 60 percent of the refinery's net output will be used to supply the PNG market, and this market may be subject to various changes associated with the economic growth in PNG. The balance of the refinery's production will be sold into the near regional markets.

InterOil estimates that the refinery will be able to price its products competitively due to transportation cost advantages and the premium quality of products produced using PNG crude feedstock. InterOil has signed contracts for nearly all of the refinery's products destined for the export markets with a unit of Royal Dutch Shell.

Crude Oil Supply

PNG crude oil production rates are expected to satisfy the refinery's requirements for at least five years after commercial start-up. Alternative crude oils that are suitable for use as project feedstock are available in the nearby region. However, crude oil sourced from outside PNG may be more expensive than domestic crude oil and may reduce the margins. Alternatively, imported crude oil may be selected to alter the refinery product mix for changing market conditions.

Outlook

The refinery project is now overall 95 percent complete and the pre-commissioning has commenced with the assistance of Petrofac. Petrofac designs, builds, commissions and operates surface facilities for oil and gas production, gas processing and oil refining both onshore and offshore and it has the ability to integrate design, construction and operability principles to deliver an overall facilities solution. We are confident that their involvement will assist in practical completion on a timely basis, followed by a smooth transition to the daily operation of the refinery. "First oil" in the refinery is scheduled for the second quarter 2004.

InterOil commenced its multi-well exploration program, and following multiple oil shows encountered in the first well, Moose-1, the company is drilling a step-out appraisal well, Moose-2. A second rig has been contracted to accelerate the program and is drilling a second structure, Sterling Mustang. Other prospects, such as Rhino and Mastadon, have been confirmed with seismic and field geology. Drilling sites have been prepared at Longhorn and Bison, and these are the next scheduled wells. InterOil has established the organization, infrastructure and inventory of materials to support the drilling program. Whilst the early signs are encouraging, the well results will determine the direction of the drilling program and appraisal work will be required to determine the timing of development of any discoveries.

Revenue from BP Papua New Guinea Limited will be for the account of InterOil on the effective date of its acquisition.

Additional information, including InterOil's annual information form, is available on the InterOil website at: www.interoil.com and on SEDAR at: www.sedar.com.