Sample issues of Securities Laws concern resulting from undercover operation

Infamous stock swindler Crazy Eddie Antar used to say, “People live on hope. It’s our job to feed their hopes with our spin and lies.”

A comparison of InterOil’s **public disclosures** and the transcript of a **private conversation,** between a licensed private investigator operative posing as an investor and company Vice President of Capital Markets Wayne Andrews, raise troubling questions about the company selling hope to possible investors. Worst yet, Andrews may have violated securities laws.

Wayne Andrews makes predictions about InterOil’s future stock price and market capitalization

In the Roche case, the SEC took the following position:[1]

> “We long have held that ***predictions of specific and substantial increases in the price of a speculative security within a relatively short period of time are fraudulent***. We also have held that ***predictions of specific and substantial increases in the price of any security that are made without a reasonable basis are fraudulent***.”

Let’s examine certain comments made Wayne Andrews about the level he **believes the stock price** and market capitalization for the company will be at in the future.

1. According to the transcript, Andrews changes his hat from InterOil Vice President to analyst in a deliberate attempt to flout securities law by saying,[2] “I’m probably not supposed to tell you what I think the share price can do, but I can tell you when I was an analyst, I covered the stock. I would talk to portfolio managers and used to tell them I believe that this is a several hundred dollar stock in the next three to five years.”

Also on page 6 of the transcript is the following exchange:

> **TERRY GILL**: Well let me ask you this, Wayne. I mean, you obviously have been in the field for quite a few years. If the firm’s expectations

[1] SECURITIES EXCHANGE ACT OF 1934 Rel. No. 38742 \ June 17, 1997 Admin. Proc. File No. 3-8370.
[2] Please see transcript page 6.

were to be realized in the near term, I mean over the next year, two years, where do you think the stock could go? I mean.

WAYNE ANDREWS: You know, if somebody, if the company involved in capital markets today, ***I'm probably not supposed to tell you what I think the share price can do, but I can tell you when I was an analyst, I covered the stock. I would talk to portfolio managers and used to tell them I believe that this is a several hundred dollar stock in the next three to five years.***

TERRY GILL: See, now that I can go back to my clients and sell.

WAYNE ANDREWS: Yeah.

TERRY GILL: Because ***it's a pretty easy sell to say somebody how would you like buy something for 30 and it will be worth 200.***

WAYNE ANDREWS: *Yes, I believe that's very, very possible and, you know, I think we could see a big improvement in the valuation of our company concluding this sale process of interest.*

But it gets worse in our view. Wayne Andrews also predicts that $10 billion future market capitalization for InterOil or $9 billion higher than its $1.3 billion present day market cap.[3]

The entire quote in its context from page 6 states:

WAYNE ANDREWS: That's the game plan. That's why I came to the company because let's try to put some perspective on valuation. Exxon has a project where they also are taking gas, these gas fields, and they're going to build a pipeline all the way down here to an area near Port Moresby where they've already bought land and they want to build an LNG project. There was a partner that owned some of the resources and part of the plant and they sold their interest to Nippon, a Japanese firm in December when oil prices were $35 a barrel and they got $800 million for 3.6% interest. I think our project is better than Exxon's. It's better because we've got all the infrastructure. Our wells here are averaging about one-third the cost. They're drilling wells for $75 to $100 million. Our wells are costing between $25 and $40 million. The initial productivity of our wells is several hundred million cubic feet a day. Up here, they're in the 8 to 15 million cubic foot a

[3] Please see transcript page 6.

day range. So we're 20 times more productive at one-third the cost, 60-fold improvement in economics versus drilling in this sandstone reservoir up here versus the limestone that we've discovered here. So our project is low cost. I told you the gas is low cost. We've got the place to build the plant. Off-the-shelf technology, very simple project and we've had an overwhelming amount of interest in it and if we could achieve, ***you know, if you calculate what the valuation is based on the sale, 3.6%, that values our interest something in the $10 billion range and we're a 1.3 billion market cap company site.***

2. According to InterOil's 05/08 press release, the company discloses that it is "in the early stage"[4] of evaluating Antelope-1 and that it and has not yet determined the final volume, and in particular whether condensate volumes would be sufficient to be "commercially exploitable." The company goes on to say that "No assurances can be given as to whether there will be sufficient volumes, that condensate or oil will ultimately be recoverable or of any future condensate or oil production."

However, in stark contrast in the undercover investigation and behind closed doors, **Wayne Andrews** says,[5] "I'm telling you that I believe that you ought to be considering a very close look fairly quickly. It wouldn't surprise me to have new information very shortly."

He later states and along those same lines relating to Antelope 1:[6]

WAYNE ANDREWS: I'm going to, I'm going to spend a little bit of time with you right now to tell you something that I think is pretty important is that in every gas and condensate reservoir because of gravity, there's typically more condensate ratio, the gas to condensate ratio is higher at the bottom of the reservoir, always.

TERRY GILL: Okay.

WAYNE ANDREWS: I've never seen a gas and condensate reservoir where that was not the case. So we tested 13 barrels per million up at the top, 2000 feet above where we are today. ***We expect there to be much richer condensate and it's not like we're hoping to find that. It's natural that we should find that and that condensate richness or condensate ratio is not factored into our reserve***

[4] Please see http://finance.yahoo.com/news/InterOil-Updates-Antelope1-iw-15181452.html.
[5] Please see transcript page 17.
[6] Please see transcript page 15 bottom, top of page 16.

report. The condensate itself could be worth more than all the gas and if we find that we can actually flow any kind of meaningful barrels of crude oil, that helps as well, but the condensate could drive all the economics for this project without and the gas would kind of get (unintelligible-42:48). So what we're, what I'm suggesting is you said well maybe, you know, you will have an idea that things are going well. ***Well, I can tell you I think things are going well and I think we're going to get a good test here and not just because, not just because I'm wishful or hoping for it. I think it's natural and it should happen and it will be meaningful*** and you should, the best way to test it is doing exactly what we've just done, set casing, announce that that's done and literally you should be growing this any day.

3. Andrews says they aren't detailing the cost of the exploration, but they know it is low cost. How can you promise profitability without knowing what you are spending[7]?

   WAYNE ANDREWS: Proceed with one of these projects, we're looking at, it's the gross amount, our net. We have 55.67% of the gross volumes. You have to have at the C2 estimate, a number that's a little 2.5 to 3 TCS. We crossed that threshold with our year-end report. So now we've got enough gas for a project. **I would tell you that our gas is also very low cost. We have not spent a huge amount of money and we really haven't detailed exactly what it costs us to find it. We are in the process of negotiating with partners and they realize what it's worth, but it's still, you know, you hate to rub it in their face.**

   TERRY GILL: Right.

   WAYNE ANDREWS: Because we did not, you know, if you could look back over our corporate financials and look how much money we've put into oil and gas exploration over the last four or five years, which will pretty much get you to what our cost basis is in these reserves and we've (unintelligible-5:40) less than 10 cents (unintelligible). ***We have very high productivity wells.*** We've got the land ready to go to build the LNG plant. We own, we have a 99-year lease on the former Australian Naval Base in Papua New Guinea because so have no landowner rights issues, nothing that's stopping us. We have a jetty system there. We own the harbor rights. We've got a deep-water forest. We're taking tankers now to bring crude oil into our refinery.

[7] Please see transcript page 3 for Wayne Andrews statement quoted in point three.

All that's ready to go with low-cost gas. We've hired investment bankers, one ABNN Road. It was recently barred by RBS and we also have BNP Paramo unt. We are devising its own transactions. We're finalizing an information memorandum on the project right now. We've, Bill, our CEO, has been meeting with potential investors in this project probably for the last 18 months. Many of them wanted to see this number before we were ready to move ahead.

4. In the transcript[8], Andrews makes reference to "certified" resources when Form 51-101F2 Report on Resources Data by Independent Qualified Reserves Evaluator or Auditor GLJ Petroleum Consultants Ltd calls them "contingent resources estimates that are not classified as reserves." See excerpt from GLJ report below[9]:

"Contingent resources estimates are not classified as reserves at this time, pending further reservoir delineation, project application, facility and reservoir design work. Contingent resources entail commercial risk not applicable to reserves. There is no certainty that it will be commercially viable to produce any portion of the contingent resources."

However, according to the transcript[10], Andrews calls the resources "certified" when they cannot even be classified as reserves.

Andrews "I found InterOil about five years ago. I've been following the stock for the last five years. It's bounced around, but it really never got to this critical mass level, well when I first researched, I said this is an exploration story. I like where they're exploring. I think they might find something. ***Five years later, we've got over 3 trillion cubic feet of natural gas, certified by resources by the number one Canadian engineer and the stock hasn't done much. It hasn't done much recently. I mean, it's in the mid-30's now.***

Both Raymond James[11] (Andrews' former employer) and Nataxis Bleichroeder recently issued research reports saying that InterOil has no proved reserves, contrary to Andrews comment that "we've got over 3 trillion cubic feet of natural gas, certified by resources by the number one Canadian engineer."[12]

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[8] Please see transcript page 5 for Wayne Andrews statement quoted here.
[9] http://www.sec.gov/Archives/edgar/data/1221715/000095012909001048/h66253exv99w1.htm. See pages 50, 51.
[10] Please see transcript page 5 for Wayne Andrews statements quoted here.
[11] http://shareholdersunite.com/shareholdersunite/wp-content/uploads/2009/05/rj-ioc-report-5-13-09.pdf
[12] http://shareholdersunite.com/shareholdersunite/wp-content/uploads/2009/05/nataxis-bleichroeder-may-14-20091.pdf

The Raymond James report states, “InterOil does not currently have any proved oil and gas reserves.” While the Nataxis Bleichroeder states, “InterOil has not booked any oil or gas reserves and does not currently have any oil or gas production.”