

Jasper's Restaurant  
The Woodlands  
Wednesday, May 13, 2009

WAYNE ANDREWS: I apologize. I am sorry to be so late.

TERRY GILL: No problem. That's all right.

WAYNE ANDREWS: I've been driving around here for 20 minutes, trying to find the restaurant and then I find it and there's no place to park. So I parked down at the grocery store. I'm sorry.

TERRY GILL: Yeah, no problem.

WAYNE ANDREWS: I hate being late to anything.

TERRY GILL: Well, it gave me a chance to study the menu if nothing else.

WAYNE ANDREWS: I guess, please, I'm so sorry.

TERRY GILL: No problem. Well I got all kinds of questions for you.

WAYNE ANDREWS: Good, well I have brought a presentation for you.

TERRY GILL: All right.

WAYNE ANDREWS: We did report our earnings this morning.

TERRY GILL: Yes and.

WAYNE ANDREWS: Made a small profit.

TERRY GILL: Okay.

WAYNE ANDREWS: The refinery's working, but the, our major opportunity continues to be in our exploration for opportunities.

TERRY GILL: All right.

WAYNE ANDREWS: And we discussed on a conference call today that we've, that we have set pacing in the well bore now and we've been trying to do drill stem tests. Are you familiar with some of the terms they use?

TERRY GILL: Ah, vaguely.

WAYNE ANDREWS: Well if you're not, stop me and ask and I'm glad to explain it.

TERRY GILL: Okay.

WAYNE ANDREWS: A drill stem test is they have open rock sides on the walls of the wall bore and you try to set a packer so you can isolate what's below. You test just a certain section of the wall bore. That really hasn't worked well for us because the rock is very porous and as soon as you set a packer, the pressure goes around the packer through the pore space and eventually eats away a channel so that you really can't isolate the zone that you're testing, but they do a set casing and we've just done that and we should have more drilling results here probably next week. I think it's the best way to test a wall bore. It's the only way, in fact, to test the wall bore.

TERRY GILL: Excellent. Well, Wayne, first of all, you know, one of the things that I think is a potential and (waiter came and explained specials and took the iced tea order) just to give you a bit of background, my expertise has really been kind of representing these families that we have as clients and we have 31 clients right now that have a very significant aggregate net worth and I'm anxious to find them because the securities and the things has been pretty grim over the last couple of years.

WAYNE ANDREWS: Of course.

TERRY GILL: It would make me a very happy person if we could find them some opportunities where they could perhaps recover some losses, what that had incurred over the last couple of years, because we were at almost a billion under management and that's now woffled to the 700's. My clients would (a) like to recoup that and for my own mercenary reasons because my fee is based on assets under management, it behooves me to have them do well.

WAYNE ANDREWS: Yes.

TERRY GILL: And, of course, they want to set my compensation that way because they want me to have a vested interest as well.

WAYNE ANDREWS: Of course.

TERRY GILL: All right, with that said and done, one of the aspects of those of interest, first of all, with InterOil was the LNG plant. How is that progressing?

WAYNE ANDREWS: Right. I would tell you I think it is progressing very well. One of the first things that we needed to do was have the resources to backstop an LNG project. We crossed that threshold when we announced our year-end results and had our first outside reservoir engineer, Hercardy(?) (4:21) and that information's included in the presentation. It might be worthwhile just to take a quick look at that. I think it's on page 30.

TERRY GILL: Okay.

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. 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 Paramount. 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.

TERRY GILL: Right. How close do you think those investors are to writing a check for this?

WAYNE ANDREWS: Before the end of this year.

TERRY GILL: Okay.

WAYNE ANDREWS: And I would tell you that I think right now what I've heard quoted and I'm trying not to give you any information that we really haven't released yet is that we've talked about maybe having a bid round completed by sort of late June, July timeframe. We'd select the top five bidders at that point and go into a further round of negotiations and maybe close a transaction with a strategic partner by say August, September ought to be a pretty good timeframe.

TERRY GILL: Okay. Now my readings on the cost for the LNG plant is that it's very significant is it not? We're talking billions of dollars.

WAYNE ANDREWS: Several billion, yes.

TERRY GILL: Right.

WAYNE ANDREWS: And I could talk to you about how that works.

(waiter taking order)

TERRY GILL: All right, so I guess I'm trying to determine where my clients would play a role. You know, obviously they would be very content if I could go back to them and of that group, it's never a situation where all 31 say okay, fine, we're in.

WAYNE ANDREWS: Right.

TERRY GILL: You know for reasons, you know, the investment might be inappropriate for some. Some just have no interest in it whatsoever.

WAYNE ANDREWS: Right.

TERRY GILL: It's just not their cup of tea. I probably have six to eight families that are interested. Um, I would surmise that we're probably talking an investment probably of 25 to 50 million and I'll get into one aspect of it. They might be willing to put more in for a short period of time if it behooved everybody here. You know, they're really holders. They're not in there for an afternoon, spike the stock price up, make a couple of bucks and they're out of there, all right? That doesn't help you and doesn't help them in the long term. We're not in this as day-traders and so I'd like them to be able to move into an investment that perhaps let's just take the 25 million as a figure, that they come in and they put in 25 million. Um, you know, we have to perhaps look at that closely because we want it to have a good impact on the stock price and then, you know, if there was some good news that, you know, was coming down the pike, we might very well be interested in having them put in let's say an additional sum of money, benefit from whatever that good news might be and then take that top portion of, but still leave the main place in place and so, um, what do you see as the most likely good news coming out of the whole InterOil situation?

WAYNE ANDREWS: Well maybe I should explain a little bit about my background.

TERRY GILL: Okay.

WAYNE ANDREWS: Why I'm here at this company.

TERRY GILL: All right.

WAYNE ANDREWS: And kind of lay out what the framework is for the next, a short timeframe is a week to months and years.

TERRY GILL: Okay.

WAYNE ANDREWS: Um, I'm a geologist by training. I studied geology in college and graduate school. Went to work in the industry and I worked as an exploration geophysicist Sun Company and Works Energy for a number of years. I studied business while I was there at SMU, Dallas. After I, after working in the industry, I joined the cell side to write research for the (unintelligible-11:29) in Connecticut, John (unintelligible), worked for Schroeder's in New York for a few years and then spent 13 years with Raymond James covering all the gas producers and during that time, I found a couple of companies who did really well and investors made lots of money, but, you know, and I got, I made a good living, but, you know, 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.

TERRY GILL: Yeah, it was 36 today.

WAYNE ANDREWS: Right, it's been as high as the low 40's when Boone Pickens sold out in September and October last year and got 3 million shares, that hurt us and the downturn in the industry and everywhere so we were trading as low as \$9 a share. But the reason I joined the company is because they've got, we've got over and I will flip through a couple of pages, over 9 million acres to explore and we used to be at 9. Now we're at, after we relinquished acreage in March, this is all retained acreage of 4 million acres, but if you look at, this is Elfen Antelope and this is the only place that's counting the resource estimate that we have today. That's a small area right here. We've got this whole fold (?) belt. Hydrocarbon's generated here. They migrate up and are tracked along this fold (?) belt. We've got some of the best acreage, I think, in the country. Exxon operates over here. We're operating in this area and we've, I think we've just begun to explore. So I didn't come to InterOil just to even and I think we're trading at a significant discount to the value of these reserves that we've already found and I literally believe that we're just getting started. And look at this area, we've already identified a number of additional prospects. These lines are seismic data that we shot over the area. That helps us identify this structure. The estimates of resources on these two blocks. This looks like a very good block, another structure off it. These all look very encouraging. We think there's a lot of things to drill around here and we've been operating with a shoestring budget since the company was founded.

TERRY GILL: Okay.

WAYNE ANDREWS: If we sell some interest in this field to strategic partners, we could end up with several hundred million dollars in cash and fund a large exploration program here.

TERRY GILL: Okay.

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 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.

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 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 (unintelligible – 17:38).

TERRY GILL: Okay.

WAYNE ANDREWS: So why, you must, your question should be how could, how could you have a company that's valued in the market at 1.5 billion when there are all these opportunities and these resources been discovered, what is it that the market's missing.

TERRY GILL: What's holding it back?

WAYNE ANDREWS: What's holding it back and I would tell you that the answer to that question is (1) we're not Exxon. We're a very, you know, a fairly small company. We want, we plan to build an LNG plant that's going to cost several billion dollars in investments. Where are you going to several billion dollars to build the plant. So even though you found natural gas, you're still stranded until you have a plan to develop it and some people just don't believe we'll ever get that done.

TERRY GILL: Okay. Let me bring this up. I mean, one of the things that I, I've been doing just getting more familiar with the company, I, I've been poking around through some of the blogs and what not and while there seem to be some proponents of the stock. I mean, there's a very sizable group of short folks in there as well.

WAYNE ANDREWS: Absolutely.

TERRY GILL: And, you know, I think that's holding your stock price back as well.

WAYNE ANDREWS: Uh-huh.

TERRY GILL: And, you know, this is something that I alluded to earlier in the conversation that, for example, let's say I put my six to eight families together and they come in and they buy 25 million. Um, the question is do we spread that out over several weeks so that's it not terribly apparent or do we kind of whack people on the head and talk them in in a day or two type deal and really make a statement. Um, that would likely have the impact of driving the price up. However, it might be relatively short lived. I mean, it would certainly be a squeeze on shorts, but, um, it would be relatively short lived. However, if we could time that where we put in our initial funds and then some good news was coming down the pike, perhaps an analyst was particularly bullish about it or what have you, then our people pumped in another 25 million, that would clear the shorts up big time.

WAYNE ANDREWS: Uh-huh.

TERRY GILL: And then I think that would allow the price of the stock to float upward more easily than it's doing right now.

WAYNE ANDREWS: I, I, I agree with that and we said maybe it's just one or two additional new shareholders and we have some institutional investors now that have been accumulating the shares. That's partly one of the reasons why things have moved up and our short interest is down substantially and I'll tell you why. We have an \$80 million convertible (unintelligible-20:36—sounds like “deventure”) that would and owners of that deventure(?) were naturally brought to the short stock because they're going to be able to convert and very soon because if we traded over \$32.50 for seven more days, we could force convert those deventures(?) into common shares. They would receive the common shares against their current short position and they've been hedged while they

gone to convert. That takes about 3 million of the short interest off the market. If you look on our, the last short interest before (unintelligible-21:15) was about 4.8 million shares down from over 12, right? So I think getting the reservoir engineering reports out, the year-end results were okay considering the meltdown and we had an inventory adjustment that impacted our numbers, but the first quarter looks good and the results on the well, this Antelope well have also been very encouraging. I think that's reduced the short interest.

TERRY GILL: Okay.

WAYNE ANDREWS: Another reason why I know that it's down is that when it was heavily shorted, there was a borrower of the shares to short. Like you have to borrow and they pay you a fee to borrow your shares. That fee on an annual basis got as high as over 40% on an annual basis. They pay every day, borrow your shares to short. I talked to a guy the other day who was loaning his shares at 6% and they just reduced to 3%, which tells me that there's not as much desire anymore for short shares, but there still is. You're absolutely right. There's probably 1.8 million shares that are short on the natural short.

TERRY GILL: Well.

WAYNE ANDREWS: I'd love to see, of course, I'd love to clean that up and be done with it and.

TERRY GILL: Well, you know, this is where I was saying. I think one has to do it as a two-stage affair because, you know, if we were to move in and put in another 25 million into play, the share price will likely go up. However, the short interest will likely increase as well because people are saying, oh wow, it's risen from 36 to 42. It can't last.

WAYNE ANDREWS: Right, that's right.

TERRY GILL: And so the shorts are going to pile in. Now the way to clean them out, I wouldn't say permanently, but to really, really give them some hurt there would be to pump in another 25 million thereafter shortly thereafter and if that could be tied to some bullish news, um, that has a nice, nice effect because, first of all, I can go back to my clients and say okay look, the 25 million's in for the long haul. The 25 million's kind of a pot. It's kind of your signing bonus going in for this pot.

WAYNE ANDREWS: Yep.

TERRY GILL: And, uh, you know, if they can make a little bit of spread on the thing as the stock goes up, uh, for a relatively short period of time, that makes them very, very happy and makes them feel that we really have brought them into a good investment.

WAYNE ANDREWS: Yep.

TERRY GILL: Because if they can make kind of a little signing bonus upfront and then the stock were to drift up over the next year to perhaps \$200 a share like we've discussed, I mean, that would be awesome. That would be a very powerful situation for them and, you know, from all that, you know, you've said today and my reason, I'm sitting there scratching my head saying why is this a \$30 stock?

WAYNE ANDREWS: I agree with you. I agree with you. I mean we had a comparable transaction for \$800 million at 3.6%. We're looking to sell 20% interest in our project from the resources, the LNG plant, sign the LNG offer agreements and we've got China said they're interested probably. India has said they're interested probably. Japanese have been interested. We have Europeans coming to us because Putin shut down the pipeline to Europe this winter so they're all scrambling to secure additional supplies from Italy, Spain and a number of other European countries. The interest level is very high and I'm absolutely convinced that we're going to get a transaction to close this year and then the game is over after that because we'll have more capital than we've ever had in our history that can really get moving on the next five-year term on these licenses.

TERRY GILL: Then you can write some checks to get some things done.

WAYNE ANDREWS: Absolutely. Right now, we have one rig. That one rig is a very capable rig and it's a special purpose rig that's designed.

TERRY GILL: Where is this? At Antelope?

WAYNE ANDREWS: At Antelope.

TERRY GILL: Okay.

WAYNE ANDREWS: And it's being used to do work at Antelope and we could use the workover rig to do. As soon as we're done drilling the well, we should take our special purpose, our portable rig, move it to another exploration prospect and put a workover rig there that can do all the work that we've done since say mid-January. We could have drilled Antelope too already if we had a workover rig. Workover rig's like \$5 million. We're looking at a few. We want to buy one. We looked at a rig a year ago, another rig a year ago, \$30 million (waiter talking—order being delivered.)

TERRY GILL: As far as these folks that have expressed interest, Wayne, you had mentioned China and India and Japan and Europe. Certainly, I can see Europe, as you say, with Russia clamping down on some of the distribution of petroleum and what have you, um, how serious is their interest? I mean, are you folks meeting privately with these folks? Do you think that something's going to happen quickly?

WAYNE ANDREWS: We're meeting privately with them.

TERRY GILL: Okay.

WAYNE ANDREWS: Some of them have expressed interest to sort of skip the bidding process and put in an early bid, but we're not willing to do that because right now, the most important thing that they're doing is testing the lower portion of this reservoir.

TERRY GILL: Uh-huh.

WAYNE ANDREWS: And the reason that's important is, I'm trying not to be too technical, this is the whole well line. At the top is dolomite. This is where all the gas is coming from. It's very porous. That red is red kerr(?), it's the porosity. That tells you how much pore space is in the rock and how quickly it could flow. There is a zone down here. Eventually, you get into water at the base, but this whole column here is over 2,300 feet of hydrocarbons. We think it's the largest hydrocarbon column height in the world.

TERRY GILL: Wow.

WAYNE ANDREWS: That doesn't mean it's the biggest gas field. It just means it's very tall.

TERRY GILL: Right.

WAYNE ANDREWS: But it is a big field. Several, 15 miles long and like 6 miles wide. So it's still a big field, but what's of particular interest to us is what is the composition of the hydrocarbons lower in the reservoir. When we flow the well, all the flow comes from up here because it's so porous. We've been trying to isolate zones in the well bore down here with packers that I told you about, right? Then we just have not been able to get a good test although we've seen encouraging increases in condensate. Condensate is essentially a light sweet crude oil. It's very hot. It's almost like a natural gasoline. Where we are today is we sampled in the first side track that we did, we did a test down in this zone right in through here, that black area, we tested oil there. We tested oil. We were seven feet from the old wall bore that we have cemented in, cemented it, drilled the side track. We're seven feet away. We've pumped a huge amount of water into the well while we're drilling it. So if it was contaminated right near the wall bore. We just drilled another side track. Now we've over, I think we're 100 over 100 feet away from the old wall bore and it should be uncontaminated rock. We tested this zone right here with drill stem tests. We saw surges of condensate as high as 25 and as high as 100 barrels per million cubic feet in our last test. They didn't last very long because, like I said, the channel behind the packer and all that gas from up here came around. So we've cemented a liner, a casing, right down to this point right here and we can perforate this zone and retest it, but what we're doing today and maybe even tomorrow is drilling from outside that liner into this zone where we tested oil a couple weeks ago in the first side track.

TERRY GILL: All right.

WAYNE ANDREWS: We may have results in a week and we might be able to report that we got oil. I mean, that's what we're trying to achieve right here. That would be huge.

TERRY GILL: So, you feel it's a possibility, but oil isn't coming to the surface without stimulation right now.

WAYNE ANDREWS: We got, we did get some oil to the surface.

TERRY GILL: That's the (unintelligible-30:16)?

WAYNE ANDREWS: No, no. We got oil to the surface in the first drill stem test.

TERRY GILL: oh, okay.

WAYNE ANDREWS: On the first side track.

TERRY GILL: Okay.

WAYNE ANDREWS: But it was very tight. It wasn't flowing at a high rate, but we got oil to the surface.

TERRY GILL: Okay.

WAYNE ANDREWS: The next test is now, now instead of what we did is, this is the wall bore, we cemented up to here and we go down with a bit and we drilled like, you know, right off the old wall bore. We're seven feet away. This next test that we did, we side tracked up here, built to angle and came down through way far away from the old wall bore and we pumped cement in here so it's cemented out into the formation and there was a lot of water all around this whole area and we still were able to test there. Now, we're out here. We're right above that oil zone with a steel tube all the way to the surface. We could set a packer and just test that lower section. That's what we're going to do right in the next, probably in the next week.

TERRY GILL: Okay. Now, you know, I know you followed the stock when you were with Raymond James. Are there any other analysts that you feel are comfortable, you're comfortable with that they're bullish on the stock.

WAYNE ANDREWS: Uh-huh.

TERRY GILL: Okay.

WAYNE ANDREWS: We have three other firms, three firms in total and they all have buy or strong buy recommendations on the stock.

TERRY GILL: Okay.

WAYNE ANDREWS: Now (unintelligible—31:41) worked with me at Raymond James. He's continuing to follow the stock. There's a group out of New York, (unintelligible-

Presby), they also follow the stock. The analyst is Sal (unintelligible) and he's an industry veteran. He's been around for many years, really nice guy and then here in Houston, there's a firm the Texas Life Builder, and they're also following the stock and that guy's name is Curtis Trimble. I'd tell you that I think (unintelligible-32:10)'s probably as familiar with the story as anybody.

TERRY GILL: Okay. Well, you know, as far as timing is concerned, um, in order to see the stock take a nice bump up and sustain it for awhile and also take a lot of the short interests out of there that I think is holding the stock price back, would you be privy to, if something was coming down the pike like that we're going to get some good news here and this is where we can do the timing here between the first 25 million and let's say the second 25 million because, as I said, the first 25 million is in for the long haul, but, you know, and I think as I said, that's going to advance the stock price and maybe take some of the short interests out.

WAYNE ANDREWS: Uh-huh.

TERRY GILL: But, you know, that's going to be counterbalanced by the fact that as the stock price goes up, people are going to go be going, ah, it can't be worth that. So they're going to pile in. So some folks are going to be kind of beaten out in their shorts, but then other shorts are suddenly going to pick up at the higher price. I think that, you know, if we knew that some good news was coming down the pike, that would be the time to do the second 25 million and really blow the stock price up, take the shorts out and then this could really trade at a much more realistic price.

WAYNE ANDREWS: Uh-huh. Well, I agree with you that that's, that's an option and a possibility. The one thing I can't tell you is I can't be certain (1) if this test is going to be successful, so I can't guarantee that.

TERRY GILL: Right.

WAYNE ANDREWS: I think the most significant event for the stock will probably be closing the transaction unless, of course, we flow oil.

TERRY GILL: The transaction meaning for the LNP plant?

WAYNE ANDREWS: That's correct.

TERRY GILL: Okay.

WAYNE ANDREWS: That's correct and that's probably several months away, but, you know, I'm just not sure how swiftly you want to move to try to, you know, capture any potential success that occurs in this process that we're in now because I think we'll be done with all the testing here probably within three weeks.

TERRY GILL: Right, well, you know, we may want to move sooner than later for the initial investment, um, but, you know, I'd like to time, as I've said before, the second phase, um. They can't be too far apart though. I mean, they have to relatively close together. So I think that, um, perhaps if we can keep in touch over the next week or two because I'm supposed to have a conference call with most of the families next week, beginning of next week and they know I'm meeting with you today and so they're going to be obviously looking at the upside potential.

WAYNE ANDREWS: Would they like to do a conference call? I mean, I'd be glad to help you with that if you, if you want to do it, you get people on the line or something. This presentation is on our website. I'd be glad to kind of walk through it or answer any questions the people might have, but that's up to you.

TERRY GILL: Well, let me make the initial approach, Wayne, just because, you know, there may be issues that they bring up that, you know, pertain to their individual finances and that may be confidential in nature, but, um, I'd like to give them a feel for what the upside potential is and also to discuss, you know, that I, I conferred with you and I, I think we're in unison that, um, you know, what's holding the company back is the lack of investment capital so if you guys can write some checks and do things and secondly.

WAYNE ANDREWS: Get another rig, yes.

TERRY GILL: You know, you've got short interests out there, which albeit may have decreased over the last while, but it would still be a good thing to get that out of there or at least minimize it so that, you know, it doesn't have an ongoing, you know, drain on what you're trying to do here. I mean, any stock's going to have, you know, a short interest, but I'd rather have people going rah, rah, rah rather than well I can't wait for them to fail, you know?

WAYNE ANDREWS: Exactly. We agree and I think we've accomplished a huge amount and only a small portion of it's really reflecting in the share of my stock.

TERRY GILL: Right.

WAYNE ANDREWS: So I think it's, you know, damaged the credibility. One of the things damaged the credibility is the short story and one of the reasons why, I don't spent a lot of time battling that effort just because it's poorly informed. People that are short in this stock don't have any idea what's actually going on.

TERRY GILL: Right.

WAYNE ANDREWS: Because I read the stuff that they write and I hear the things that they say and I don't argue against them because they do themselves a disservice by not having an understanding of what the company's about and it's clear when you read the stuff that they write, they just have no idea what's really going on here.

TERRY GILL: Well, let me ask you this. Let's say, um, you were to get good news over the next couple weeks with regard to the drilling and testing and the what have you.

WAYNE ANDREWS: Yep.

TERRY GILL: You know, you would like to get this out to the analysts, I'm sure, to, um, you know have a favorable bullish report hit the wires. What timeframe in there could you give us between, you know, knowing that you have a successful situation and it hitting the wires for us to pump in the other 25 million? I mean, we would probably need several days, a week, I would think because if you come in and start pumping in 25 million in a day in a billion cap firm.

WAYNE ANDREWS: Oh yeah, it makes a difference. We know that.

TERRY GILL: Right. So do you feel that, you know, we would have some play there where we could have several days to kind of move stuff in without making too big a wave?

WAYNE ANDREWS: You know, that's hard, you know. One, it's hard because I really can't be definitive on the timing and the information flow that we have here, as soon as we have information that's meaningful and potentially market moving, we release it instantly. We release it instantly because we have to. We can't sit on any information. If something happens out at the well, there's the service hands. There are a lot of people there. We can't contain it. We have to announce it immediately. So we might have results from this testing, now that we've set cases, I really think this is the first time we're really going to get a definitive test on the amount of condensate or NCF (?) (38:52) in the gas at the bottom and whether or not we have oil there. We should know that, we could know that as soon as tomorrow or as late as a week or two.

TERRY GILL: Right.

WAYNE ANDREWS: I just don't know, right? So, I mean, that's, I hate to be telling you this right in the, you know, right, maybe we should have had a discussion last week. It might have given you a little bit more time to prepare for because this is happening literally right now.

TERRY GILL: Okay. Well, you know, I'm going to have this conference call with, you know, the clients at the beginning of the week and, you know, I'm going to study this and continue my research, you know, over the weekend and then perhaps Monday and, you know, if we are comfortable with the fact that this is just an undervalued firm and \$200 a share is possible, goodness knows perhaps even more per share, you know, it's certainly an attractive situation for them.

WAYNE ANDREWS: Yep.

TERRY GILL: Um, you know, it's just a real easy say as I said to say somebody buy it for 36 and it will be worth 200.

WAYNE ANDREWS: Right.

TERRY GILL: That's, that's a no-brainer.

WAYNE ANDREWS: You know, I wouldn't tell you something like that if I didn't believe it myself and I wouldn't have left Raymond James where I had a very nice career to go to work for a company that I didn't believe in. It wouldn't make any sense for me to do that.

TERRY GILL: Certainly I believe, you know, believe that you believe that, you know, this is a great opportunity and wouldn't mind seeing my clients, as I say, they certainly have taken some lumps with the securities over the last couple of years and so this would be perhaps a nice way to recoup some of that.

WAYNE ANDREWS: Right. I have family members trying to accomplish the same thing.

TERRY GILL: Well, that's always good.

WAYNE ANDREWS: Yep.

TERRY GILL: Um, all right, so assuming that they wanted to go ahead and get the initial 25 million in, then the question is do we stream that in, you know, over a period of time or do we do it relatively quickly and, you know, you bring up the point well if you get great news, for example, with the drilling, we don't want to be 5 million in to pumping 25 million in.

WAYNE ANDREWS: Of course.

TERRY GILL: We would like to have our ducks in order before that came down the pike and so, you know, perhaps we could keep in touch next week and, you know, if you get any whispers, wow, this might be looking good here, um, then I would have to really counsel them to move more quickly than slower because we want to get the stock purchases made.

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 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.

TERRY GILL: Right.

WAYNE ANDREWS: So.

TERRY GILL: Well, as I say, we will keep in touch next week and assuming that they would like to proceed, then we'll get them on track to get the investment in place. Then, you know, really the only other issue, I mean, that will give you folks, you know, an immediate investment as far as, you know, where the clients are going. Um, I would like to do something about the shorts, however, because I just feel that that's just the stone around the neck of InterOil here.

WAYNE ANDREWS: Right.

TERRY GILL: And it wouldn't break my heart if it moved from a \$36 stock to a \$46 stock of a \$50 stock by a couple of things. First of all, there would be the, the investment by our group and, you know, if the short interests really took a hit and all but disappear, the stock would just naturally kind of float up and so, um, I think, you know, those are two things that we need to look at and say no that, you know, obviously the client's going to be interested in what's the upside potential. Where's this stock going to go because we don't want to go through all this trouble if it's 36 and it's going to go to 38. The heck with it.

WAYNE ANDREWS: Yeah, of course.

TERRY GILL: There's bigger fish out there for us to latch on to.

WAYNE ANDREWS: Yep.

TERRY GILL: Um, you know, they're looking for a stock that's going to double, triple, quadruple or better, um, and being on the ground floor rather than trying to catch the train as it leaves the station here.

WAYNE ANDREWS: Right.

TERRY GILL: So I think that we need to pump in the first investment and then, you know, I need to kind of keep in touch with you on a real regular basis, perhaps daily.

WAYNE ANDREWS: I'm glad, glad to help you. You know, just need to be aware that, of course, I can't talk to you about anything that's non-public information and I rarely have any non-public material information for more than a few seconds logged right in the press release right? That's it. So, you know, I might not be able to help you in a way, you know, it sounds like you're suggesting. I could just keep you up to date on the progress things that we're doing, but it's really, I'm restricted in what I'm allowed to discuss.

TERRY GILL: I understand, but, you know, if you happen to have some whispers that are getting louder and things are looking better, um, I wouldn't mind if you shared that because.

WAYNE ANDREWS: Of course.

TERRY GILL: Then we could say okay look, instead of next week, you need to be doing this week, you know.

WAYNE ANDREWS: 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.

TERRY GILL: Yeah, no, I think that we're onboard for the first round. It's really the second round that I'm trying to make sure, that's the one that's the timing is more difficult.

WAYNE ANDREWS: Yeah, of course, I agree with that. I appreciate your objective.

TERRY GILL: Right.

WAYNE ANDREWS: And I think it makes some sense and I will do all I can to make sure you're as informed as anybody.

TERRY GILL: Okay.

WAYNE ANDREWS: And I have guys that I talk to almost every day regularly, good long-term shareholders and they're always calling me up just to see what's going on and, you know.

TERRY GILL: They'd like to hear the whispers too right?

WAYNE ANDREWS: Yeah, but they don't get much out of me because I want to stay out of jail, you know, and I'm relatively new on this job so I'm thinking about the best interests of the company for the long term and we do have a number of institutional guys that have been working on and another thing I'm looking for too is new research coverage and I expect to have new research coverage coming out during the course of this year. I've been meeting with my all the guys that my colleagues from the research business that I've known. I know everybody that writes research on oil and gas companies so I get to go visit them and I get a pretty warm reception and to tell the story.

TERRY GILL: Certainly if you can get more of those folks onboard because on the wilderness, they got two or three folks singing the praises of IOC, that's one thing, but if you got dozens.

WAYNE ANDREWS: Yeah and a company of our size, there are other companies that are half our size that might have six or eight (unintelligible—47:53) writing research and a lot of times you find that even though it's not supposed to work this way that research comes to companies that are active in capital markets. It's raising equity. We're just, we don't raise equity very often. Bill Molesek (?) is very, he's personally he's sort of in the 6 or 7 million share range and we've got 40 million adds that are fully diluted and that's assuming that we have people who own interest in the resources converting to shares so that's, I mean, that's everything and that's for a company to come this far and only have 40 million shares outstanding, we've got a big bang for the buck if things go our way.

TERRY GILL: Right. Well, certainly it sounds good. Just let me touch a couple of quick things before we wrap up here.

WAYNE ANDREWS: Yep.

TERRY GILL: When you finalize the financing for the LNG plant, perhaps the folks from Asia or folks from Europe or what have you, you had indicated that you're involved in negotiations with these folks.

WAYNE ANDREWS: Yes.

TERRY GILL: What's the timing on that? I mean, is that something that you, we're talking a month or two out? Are we talking end of the year? Do you have any feel for?

WAYNE ANDREWS: Yeah.

TERRY GILL: Because that's going to have a big impact on the stock price too.

WAYNE ANDREWS: There was an article that was written that I saw today that I'd be glad to forward to you where there was some, I think, our CEO was in a conference last week and somebody was interviewing him after the conference and I think he said something about June and July timeframe for the first round of bidding. In other words,

we're still working on the information done random. It should be out shortly in all their hands, all the people that are interested.

TERRY GILL: Okay.

WAYNE ANDREWS: There will be a timeline with bids, preliminary bids need to be in. We will take the top five winners out of that process probably around the June, July timeframe and enter into final negotiations that I think will be completed during the third quarter, maybe I would expect during the third quarter.

TERRY GILL: Okay.

WAYNE ANDREWS: So that's the timing on that. I think that's a really significant event.

TERRY GILL: Well that, that will be huge.

WAYNE ANDREWS: And the only, yeah, the only other thing that will be significant as far as real news flow is going to be what we find right here. Now we're moving the rig. There will be a hiatus yes of rig well data as we move the rigs to the next location.

TERRY GILL: Right.

WAYNE ANDREWS: Right? So, you're looking at a period of information flow in the next two to three weeks and then like I said, kind of a hiatus for awhile, but then getting the transaction later done in the year.

TERRY GILL: Okay. Well, I guess the other big situation is going to be once you've analyzed exactly what petroleum products or qualities of petroleum products, you can expect to get them these drillings. Just out of idle curiosity, from all that I've read about PNG is boy that's a pretty rugged place. I mean, how are you getting into like the drilling field? I imagine that you must have to copter in, do you not?

WAYNE ANDREWS: Yes.

TERRY GILL: So that's got to be prohibitively expensive I imagine.

WAYNE ANDREWS: You know, yes, it is expensive, but it's a lot cheaper where we're drilling than where the major oil companies are drilling.

TERRY GILL: Well you were showing me where Exxon was. When you start from the port.

WAYNE ANDREWS: Well I'll tell you one thing though. We've got a, we've got some great advantages over our competitors. This river right here that you can barely see is a navigable river.

TERRY GILL: Okay.

WAYNE ANDREWS: So we barge all the equipment up here. We've got a staging area that's somewhere.

TERRY GILL: Does this river go down to like Port Moresby?

WAYNE ANDREWS: Go down into the, into the Gulf of Pompo (?) and then down to Port Moresby.

TERRY GILL: All right.

WAYNE ANDREWS: So we barge equipment up here and then the helicopter flight to the drilling pad is.

TERRY GILL: Is relatively short.

WAYNE ANDREWS: Yes, very short.

TERRY GILL: As opposed to being from over here.

WAYNE ANDREWS: Right, which is, um, that helicopter ride from Port Moresby's probably 2, 2-1/2 hours, but here just, you're a couple minutes away. So we just barge all this equipment up. So if we were to begin in the process of producing liquids early, we would simply build a three-mile pipeline to the river, build a tank and we'd start barging liquids to the refinery and that's something we could do pretty quickly, long before an LNG pipeline is complete.

TERRY GILL: Right. Now wasn't there a group of investors or whatever that were looking at doing a pipeline from PNG to Australia and that went by the wayside?

WAYNE ANDREWS: Yes, that Exxon.

TERRY GILL: Okay.

WAYNE ANDREWS: And they wanted to build a pipeline to Australia which was, I always thought it was crazy.

TERRY GILL: Yeah that's got to be several thousand miles isn't it?

WAYNE ANDREWS: Yes. It was a several billion dollar pipeline and the price of gas in Australia is about \$2 an mcf. You can sell it to the Chinese for 10 or 15.

TERRY GILL: Right, why would you waste.

WAYNE ANDREWS: Why that and I think at the time the LNG market in Asia was not as well developed. It was an Exxon idea. What they believed is they would ship the gas and condensate to Australia, strip the condensate out in Australia and that's where really where they'd make all their money. The net back to the PNG government would be about 25 cents an mcf.

TERRY GILL: Now, again, just an idol curiosity question. What geographic elevation are you at?

WAYNE ANDREWS: A little over 1000 feet. Very pretty simple, moderate, I'd say moderate terrain down to the coastline. We're about I think 90 kilometers from the coast and then pretty central shallow water coastline, very easy pipeline build down to.

TERRY GILL: Down to what this river you were saying.

WAYNE ANDREWS: Well if we, the plan for the LNG project.

TERRY GILL: Oh yes.

WAYNE ANDREWS: The river, oh to barge you mean.

TERRY GILL: Right.

WAYNE ANDREWS: Well that's a very easy pipeline.

TERRY GILL: If it's only 1000 feet of elevation.

WAYNE ANDREWS: No, I meant, yeah, I'm not sure what the river elevation is from where we're drilling, but it's yeah, it's a three-mile very simple pipeline.

TERRY GILL: I was reading.

WAYNE ANDREWS: I was talking about the other pipeline that would go all the way to, here's schematic for the plan.

TERRY GILL: Right.

WAYNE ANDREWS: This one. See, we go down to the water and then.

TERRY GILL: Just follow the.

WAYNE ANDREWS: Shallow water along the coast.

TERRY GILL: Right.

WAYNE ANDREWS: Very easy pipeline project.

TERRY GILL: Okay. Yeah, I had been reading that, you know, you've got some pretty rugged terrain in PNG like 15,000-foot mountains so.

WAYNE ANDREWS: Yes.

TERRY GILL: You don't want to be.

WAYNE ANDREWS: Yeah, see here's where we are. I mean, it's kind of more like foothills, rolling hills. It's not as bad as it looks. There are a few other photographs of the area, of the rig. Now you can see there are some ridges, but it's nothing like the highland where Exxon's operating.

TERRY GILL: Well that's got to add immeasurably to their costs.

WAYNE ANDREWS: Oh, it does.

TERRY GILL: Yep.

WAYNE ANDREWS: And the distance in their pipeline and the fact that they're Exxon. Exxon just spends more money doing everything.

TERRY GILL: If, you know, some contractor knows he's working for Exxon, he gets the.

WAYNE ANDREWS: That's right, that's right.

TERRY GILL: The multiplication key out on his calculator.

WAYNE ANDREWS: It's got, 20-30% markup on everything.

TERRY GILL: Yep. Well, why don't we plan on keeping in touch next week.

WAYNE ANDREWS: Yes.

TERRY GILL: I'll let you know what transpires in my conference call with the clients and thank you for the presentation.

WAYNE ANDREWS: Of course.

TERRY GILL: I'm glad you brought that along. Here's my card by the way.

WAYNE ANDREWS: And I had a card for you as well. I'm sorry.

TERRY GILL: Not a problem.

WAYNE ANDREWS: You had all my info. It's on all emails that I sent back and forth. If you can't reach me and you need to find me, shoot an email is always the best way. I will get back to you and say I'm in a meeting, I can't call you, but I will get right back to you as soon as I can.

TERRY GILL: Well sounds like a plan then, Wayne.  
(THEY ARE VERY FAR AWAY FROM THE MIC—SOUNDS LIKE THEY LEFT THE TABLE WHERE IT WAS.)

WAYNE ANDREWS: (unintelligible) kind of digging around and if you have any other questions that come up or if any of your clients have some questions, (unintelligible) either email or simply give me a call and I'd be glad to talk to them (unintelligible).

TERRY GILL: Sounds like a plan.

WAYNE ANDREWS: Is there any information that I can find out about yourself, your clients, just to get to know you guys better or.

TERRY GILL: Well, why don't I have this conference call with them and assuming that they're a go, then I can tell you that there are a couple (unintelligible-57: 28) in California and there are a couple families in Europe and both groups are (unintelligible) their overall financial planning.

WAYNE ANDREWS: You're from, you just represent your group or you (unintelligible).

TERRY GILL: We do everything, kind of soup to nuts and we pay the electric bills for their homes. We hire companies (58:06).

WAYNE ANDREWS: Full service.

TERRY GILL: Full service. I mean, I really kind of backed into the plan in a wild and wonderful way, but over the years, I was actually hired by a couple of families just to do this type of thing where they would (unintelligible) one of the families (unintelligible) patriarch that passed away and the children who were left with a successful business and showing no interest in running it. They didn't want anything (unintelligible). They certainly didn't want to be worried about the day-to-day (unintelligible). So just by happenchance I got involved in a business where (unintelligible-58:56) we handle all their bill paying. We do finance planning together for them and we work with an awful lot of (unintelligible). For them it makes it easy and as I alluded to earlier in our conversation, since my fees are based on the (unintelligible).

WAYNE ANDREWS: Of course.

TERRY GILL: And like I say, (unintelligible-59:43). So if they hurt then I hurt.

WAYNE ANDREWS: And how about on the upside, do you get an incremental (unintelligible) on the investment side of the business?

TERRY GILL: Not really, that's really not the way our structure. However, for example, if our folks were to put in 25 million here and it were to grow to 150 million, for example, over a couple of years, well (unintelligible).

WAYNE ANDREWS: Very good, well (unintelligible).

TERRY GILL: I do an awful lot of scanning through the wires and what have you and always (unintelligible) upon opportunities (unintelligible-1:00:46) and now it's 36 and then I started poking around and this is interesting.

WAYNE ANDREWS: It's interesting and part of the fact is (unintelligible) a lot of US analysts write research on oil and gas companies, write research on domestic companies like drilling (unintelligible) and it's harder to understand (unintelligible) integrated company (unintelligible) it probably inhibits a number of investors (unintelligible) never going to be able to figure that out (unintelligible).

(NOTE: They are so far away from the mic and there are a lot of people around talking—but from the little bits I heard, it is basically rehashing what they said earlier.)

TERRY GILL: Certainly I'll see if we can't move this thing along perhaps we can even start getting things in place next week.

WAYNE ANDREWS: Like I said, call me if there are any questions (unintelligible) and I apologize once again for being so late.

TERRY GILL: Not a problem.

WAYNE ANDREWS: How long you going to be in Texas? Are you based in California, I take it.

TERRY GILL: I am for the time-being and I shuttle back and forth between California and Europe with great regularity.

WAYNE ANDREWS: I understand. (unintelligible) plane ride.

TERRY GILL: It is (unintelligible) New York and I decompress.

WAYNE ANDREWS: I understand. That's a good idea.

TERRY GILL: It actually works well because we do a lot of work with Merrill Lynch, so I've got some good folks that we deal with in New York at Merrill. So it gives me a perfect excuse to (unintelligible).

WAYNE ANDREWS: We've had some issues with Merrill Lynch.

TERRY GILL: I've read about those.

WAYNE ANDREWS: The things did not go very (unintelligible). They were good partners for us when they were going to guarantee all the (unintelligible) so that we could get the project financed. That's one thing that we didn't talk about is that the market believes or some people think that we need to raise \$6 billion to build a plant. Well, we only own half the plant right? We can build a single train for probably somewhere between 3 and 4 billion. We planned for 2, but once you have signed LNG off-take agreements with reputable parties to take the LNG, we can get the project financed, you can get 70% of the project financed, 30% equity. If we build two, so I use the larger number it's 6 billion 30% equity, 1.8 billion. We'd be 50% of that or 900 million. If we sell half, it's down to 450 million. We're already contributing several hundred million dollars worth of infrastructure to reduce it even less that we sell 5% and get anything like what AGL got when they sold---ends.