

NEWS RELEASE

MERRILL LYNCH COMMODITIES, PACIFIC LNG AND INTEROIL SIGN SHAREHOLDER AGREEMENT FOR LNG PROJECT

HOUSTON, TEXAS, July 31, 2007 – **Merrill Lynch Commodities, Inc.**, a wholly-owned subsidiary of Merrill Lynch & Co., Inc. (NYSE:MER), **Pacific LNG Operations Ltd**, and **InterOil Corporation** (TSX:IOL, AMEX:IOC, POMSoX:IOC) have executed a shareholder agreement for the development of a liquefied natural gas (LNG) project in Papua New Guinea (PNG).

“This is a major step forward in developing the first LNG project in PNG and a result of the vision, determination and dedication of all involved,” said David Sobotka, head of Merrill Lynch Commodities. “With the agreement now finalized, we have a platform to deliver on our goal to build a world-scale LNG facility.”

The shareholders have agreed to establish **PNG LNG Inc.** as the holding company for **Liquid Niugini Gas Ltd.**, the Papua New Guinea-based entity that will own and operate the LNG facility. The shareholders will each have a one-third beneficial ownership interest in PNG LNG Inc. with provisions for the entry of strategic partners to provide additional expertise and capital. An allowance has also been made for inclusion of the Government of Papua New Guinea as a partner in the LNG project.

InterOil Chairman and CEO Phil Mulacek commented, “We have the critical infrastructure in place today and the operating experience in PNG to provide support essential for the project’s success. The project remains on track and we are ready to proceed with contractor selection and the final engineering and design work.”

The current project design consists of a two-train liquefaction plant with processing capacity of nominal 1.6 bcf/d, condensate and gas liquid processing, handling and storage facilities, and a natural gas pipeline from supply sources. First production of LNG is targeted for 2012.

Pacific LNG’s Director Carlo Civelli explained, “Our significant investment in InterOil’s exploration program underpins our confidence in this venture. We are proud to be a party to this agreement, which will benefit both the shareholders and the people of Papua New Guinea.”

InterOil is designated as the preferred natural gas supplier to the LNG project, with its Elk and Antelope structures identified as the key gas resources for the project. As a result, InterOil will continue its upstream activity focusing on adding resource potential, and establishing reserves and deliverability to expand the project.

Under the agreement, Merrill Lynch Commodities and Pacific LNG will fund cash outlays for front-end engineering and design. Merrill Lynch Commodities is designated as the preferred purchaser and marketer of the LNG output and an affiliate of Merrill Lynch Commodities is designated as the preferred provider of structuring advice for the project financing.

InterOil Corporation is developing a vertically integrated energy business whose primary focus is Papua New Guinea and the surrounding region. InterOil's assets consist of petroleum licenses covering about 9 million acres, an oil refinery, and retail and commercial distribution facilities, all located in Papua New Guinea. During 2006, the company announced a gas and condensate discovery, completed an optimization program at the refinery, and doubled the downstream business by acquiring Shell's distribution assets in Papua New Guinea.

Merrill Lynch is one of the world's leading wealth management, capital markets and advisory companies, with offices in 38 countries and territories and total client assets of approximately \$1.7 trillion. As an investment bank, it is a leading global trader and underwriter of securities and derivatives across a broad range of asset classes and serves as a strategic advisor to corporations, governments, institutions and individuals worldwide. Merrill Lynch owns approximately half of BlackRock, one of the world's largest publicly traded investment management companies, with more than \$1 trillion in assets under management. For more information on Merrill Lynch, please visit www.ml.com.

Pacific LNG is an investment vehicle, created and controlled by Clarion Finanz AG, to invest in emerging markets energy projects.

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Cautionary Statements - InterOil Corporation

This news release contains projections and other forward-looking statements within the meaning of United States and Canadian securities laws. These projections and statements reflect the company's current views with respect to future events and financial performance. No assurances can be given, however, that these events will occur or that these projections will be achieved and actual results could differ materially from those projected as a result of certain factors. Some of the factors which could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements include: the ability of our refinery to operate at full capacity and to operate profitably; the success of our exploration activities; political, legal and economic risks related to our operations in Papua New Guinea; our ability to market refinery output; our dependence on exclusive relationships with our suppliers and customers; our ability to obtain necessary licenses; our ability to renew our petroleum licenses with the Papua New Guinea government; adverse weather, explosions, fires, natural disasters and other operating hazards, some of which may not be insured; the impact of competition; the enforceability of legal rights; the volatility of prices for crude oil and the volatility of the difference between our purchase price of oil feedstock and the sales price of our refined products; the uncertainty of our ability to attract capital; uninsured operations; covenants in our financing and other agreements that may limit our ability to engage in business activities, raise additional financing or respond to changes in markets or competition; and the risk factors discussed in our filings with the Securities and Exchange Commission, including but not limited to those in our Annual Report for the year ended December 31, 2006 on Form 40-F.

Any forward-looking statement speaks only as of the date on which such statement is made and the company undertakes no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise.

InterOil currently has no *reserves* as defined in Canadian National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Any information contained herein regarding resources are references to *undiscovered resources* under NI 51-101, whether stated or not.