

21 October 2010  
NSX Announcement

## Expansion of Oil and Gas Portfolio: Acquisition of a 75% interest in four exploration blocks in Western Siberia

### Key Points:

- International Petroleum Limited (NSX: IOP) (**International Petroleum** or the **Company**), through its wholly owned subsidiary, IPL Siberia Limited, has acquired an indirect 75% equity interest in a Russian company, Irtysh-Neft which holds license rights to explore four blocks, located in the Khanty-Mansiisk Region in Western Siberia (**Krasnoleninskiy Blocks**) – the largest oil producing region of Russia.
- The Krasnoleninskiy Blocks cover a total area of 1,467 sq km. To date, 1950km of 2D seismic has been completed. Independent oil and gas consultant Ryder Scott estimates unrisks prospective recoverable resources of the 4 blocks at approximately 260 mln bbls (Best Estimate) and estimated potential cash flow from unrisks prospective resources at US\$1.24 billion.
- Consideration paid by International Petroleum for the 75% interest in Irtysh-Neft was US\$5 million plus an obligation to fund the current work program.
- The current work program requires the drilling of 2 wells on the Krasnoleninskiy Blocks by 30 June 2012 and drilling 2 additional wells by 30 December 2012 (**Current Work Program**).
- International Petroleum (through IPL Siberia Limited) will be the operator of the project and plans to satisfy the Current Work Program by drilling 2 wells in 2010/2011 and 2 additional wells in 2011/2012.

The Company through its wholly owned subsidiary, IPL Siberia Limited (**IPL Siberia**), has acquired from Assuryan Assets Limited (**Assuryan Assets**) a 75% equity interest in Souville Investments Limited (Cyprus) (**Souville**). Souville is the 100% legal and beneficial holder of Irtysh-Neft – a Russian company having exploration rights to the Krasnoleninskiy Blocks. Assuryan Assets retains a 25% interest in Souville and by extension the Krasnoleninskiy Blocks.



The total licensed area of the Krasnoleninskiy Blocks (1,467 sq km) has been extensively explored by 2D seismic (1950 km completed). To assist the Directors in their due diligence to justify an investment in the Krasnoleninskiy Blocks, Ryder Scott, an independent oil and gas consultant was engaged and estimated unrisks prospective recoverable resources of the Krasnoleninskiy Blocks at 169 (Low Estimate), 260 (Best Estimate) and 385 (High Estimate) mln bbls. In addition, Ryder Scott has prepared a financial model dated July 1, 2010, and has estimated the potential cash flow from the unrisks prospective resources, using a 10% discount rate, at US\$ 1.24 billion.<sup>1</sup>

Pursuant to the Share Purchase and Funding Agreement (**SPA**) between Assuryan Assets and IPL Siberia, IPL Siberia, agreed to pay Assuryan Assets US\$ 5 million and is obligated to drill 4 wells on the Krasnoleninskiy Blocks (being the Current Work Program) in consideration for the acquisition of the 75% interest in Souville.

International Petroleum has entered into a Finance Agreement pursuant to which it has agreed to make available to Souville a facility to finance the Current Work Program.

In accordance with the terms and conditions of the SPA, Assuryan Assets, Souville and IPL Siberia have entered into a Shareholders' Agreement for the purposes of regulating the ownership of Souville and management of the project.

Under the Shareholders' Agreement all operatorship issues are determined by a simple majority of votes (of which IPL Siberia holds 75% of the votes).

Past expenses, associated with exploration of the Krasnoleninskiy Blocks have been recorded in the books as loans extended by Assuryan Assets to Souville, totaling US\$ 12.5 million and as loans extended by Souville to Irtysh-Neft totaling US\$14.8 million (together, the **Past Expense Loans**). The Past Expense Loans are repayable only at such time as Irtysh-Neft and/or Souville Investments commence generating positive net cash flow.

Forward expenses, associated with drilling the IPL Siberia funded 4 wells within the Krasnoleninskiy Blocks will be financed by loans from IPL Siberia to Souville and on-loans from Souville to Irtysh-Neft. As with the Past Expense Loans, the forward expense loans will be repayable only at such time as Irtysh-Neft and/or Souville generate positive net cash flows.

Further exploration of the Krasnoleninskiy Blocks (following the drilling of the initial IPL Siberia funded 4 wells) will be financed by shareholders of Souville in the form of cash call loans in proportion to their shareholdings – 75% by IPL Siberia and 25% by Assuryan Assets.

Commenting on the acquisition, Tony Sage, International Petroleum's Chairman said 'We are particularly excited by the acquisition of the 4 Krasnoleninskiy Blocks which provides an exploration opportunity in the largest oil producing area of Russia; in Western Siberia and will compliment the Company's Kazakhstan Project.'

Yours faithfully,

Tony Sage  
Non-Executive Chairman

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<sup>1</sup> It should be noted that the resources prospects evaluated are all seismic features, which have not been penetrated by any wells. It should be clearly understood that the resources are undiscovered and the project is a medium-high risk exploration play. There is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, may not be economically viable or technically feasible to produce any of the resources.

For further information, please contact:

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