



**InterOil Corporation
Elk -1 ST -1 well
Drilling Report No. 8
19 July 2006**

Elk Prospect

Type: Oil / Gas exploration well
Location: PPL 238, Eastern Papua Basin
145° 08' 27.6" E; 007° 06' 0.5" S

Current Status: InterOil is waiting on the last shipment of supplies to continue drilling the limestone formation. Two major shipments have arrived to Elk location, as can be seen on the web site. The high pressures and gas at surface are being dealt with since the arrival of new equipment last week. Currently, at the Elk site we are in final preparations to stabilize the well, pull the drill pipe out of the hole and add additional surface equipment prior to re-commencing the drilling of the target reservoir. Out crop studies and seismic evaluation indicates the thickness of the Puri is approximately 1,968 feet (~ 600 meters).

Activities since last report: The hydrocarbon samples from DST #1 have been analyzed by SGS as an independent lab. Although primarily a gas flow, a small amount of free hydrocarbon liquid was recovered in the test manifold during the test. The lab results of this liquid are as follows*:

- The sample indicates a heavy condensate or light oil with an API gravity of 43.5 degrees under ASTM D86.
- Sample was "sweet" as sulfur content is 0.06%
- Chromatograph of fraction sample is done by SGS under ASTM D6293-Modified

* The hydrocarbon liquids recovered during the test are undergoing further lab evaluation.

Since the flow test, engineering work has been done to determine the best way to drill forward in consideration of:

- a) safety
- b) high pressures down hole and at surface
- c) high flow rates of gas from the formation
- d) significant formation permeability
- e) the gross thickness of the formation to be drilled, estimated at 1,900 feet
- f) Limited logistics and suppliers in Papua New Guinea

Past Data:

The following information is the result of DST #1 as reported earlier:

- Estimated bottom hole pressure of 3,700 psi.
- Wellhead pressure of 3,150 psi.
- Calculated kh (permeability feet) of 3,000 md-ft.
- Estimated Absolute Open Flow (AOF) was calculated at 150MMCFPD
- Significant skin was observed and is primarily attributable to the flow restriction in the drill pipe due to the stuck wireline tool.
- No depletion was observed throughout the test and subsequent build up.

**Note: These results are based on surface pressures only. The well flowed for approximately 25 hours and the well test calculations were based on the measured data obtained over the final 3 hours of flow.

Set 20" conductor at 15 feet (5 meters). Drilled 17 1/2" hole to 1,007 feet (307 meters) and ran 13 3/8" surface casing. Set 9 5/8" casing at 3,478 feet (1,060 meters). Ran 7" liner (casing) to 5,393 feet (1,640 meters) and cemented.

After setting a 7 inch liner at 5,381 feet (1,640 meters) InterOil drilled a 6 1/4 inch hole into the transitional Marl/Puri Limestone formations from 5,381 feet to 5,558 feet (1,640 meters to 1,694 meters). At 5,558 feet (1,694 meters) the well incurred lost circulation which then induced gas into the wellbore. While circulating out the gas kick, the well flowed gas to surface at 2,000 psi at an estimated of 30 - 50MMCFPD. The well flowed gas for approximately 30 minutes before the well was shut in. The shut in casing pressure built to 3,150 psi in a matter of minutes.

Planned Total Depth: Approximately 9,843 feet (3,000 meters).

Operator: InterOil subsidiary, SPI (208) Limited.

Prospect Description: This well is targeting the Puri/Mendi fractured limestone.

FOR FURTHER INFORMATION: Please see the InterOil web site at www.interoil.com

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Cautionary Statements

This press release contains forward-looking statements as defined in U.S. federal and Canadian securities laws. All statements, other than statements of historical facts, included in this release are forward-looking statements. Forward-looking statements include, without limitation, statements regarding our drilling plans, plans for expanding our business segments, business strategy, plans and objectives for future operations, future capital and other expenditures, and those statements preceded by, followed by or that otherwise include the words “may,” “plans” “believe,” “expects,” “anticipates,” “intends,” “estimates” or similar expressions or variations on such expressions. Each forward-looking statement reflects our current view of future events and is subject to risks, uncertainties and other factors that could cause our actual results to differ materially from any results expressed or implied by our forward-looking statements. These risks and uncertainties include, but are not limited to, the ability of our refinery to operate at full capacity and to operate profitably; uncertainty involving the geology of oil and gas deposits and reserve estimates; delays and changes in plans with respect to exploration or development projects or capital expenditures; political, legal and economic risks related to Papua New Guinea; the impact of competition; the volatility of prices for crude oil and the volatility of the difference between our purchase price of crude oil feedstocks and the sales price of our refined products; the uncertainty of our ability to attract capital; and the risks described under the heading “Risk Factors” in our 2005 Annual Information Form dated March 31, 2006.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this MD&A will prove to be accurate. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise. Our forward-looking statements are expressly qualified in their entirety by this cautionary statement.

We currently have no reserves as defined in Canadian National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. All information contained herein regarding resources are references to undiscovered resources under Canadian National Instrument 51-101, whether stated or not.

