



**InterOil Corporation
Elk -1 ST -1 well
Drilling Report No. 9
23 August 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: The well is now secure with zero pressure at the surface. In dealing with the high gas pressure we have experienced during the past few weeks, our goals have been to ensure the safety of our personnel, the integrity of the wellbore and to prevent loss or damage to equipment. Having achieved these goals and with the well now secure, our forward plan is to:

- Run 7" casing with the Downhole Deployment Valve (DDV) down to the top of the 7" liner at 3,258 feet (993 meters) (to control the high gas pressure - subsurface);
- Rig-up the InterOil rig with additional equipment for high gas pressure drilling. This will allow us to drill ahead with the 'Managed Pressure Drilling' (MPD) technique of pressurized mud cap drilling;
- The major additional equipment has been deployed to PNG and operations to assemble them have commenced;
- Drilling ahead to commence following the rig-up of new high pressure drilling, recording and control equipment.

Activities since last report: We are pleased to announce that the well has been successfully killed (controlled) by pumping heavy mud down the well bore while pulling the drill pipe out of the open hole from 5,545 feet (1,690 meters) up into the 9 5/8" casing to a depth of 3,045 feet (928 meters).

The well was then temporarily plugged at the bottom of the hole through the use of a 'gunk pill' (mixture of cement/gel/diesel) in order to isolate and control the high gas bearing formation.

The entire drill string was then pulled out of the well and a drillable bridge plug was then set in the 7" casing to further secure the well.

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 ¼ 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.

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:

A detailed presentation on recent activities is available 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.