



**InterOil Corporation
Elk -1 ST -1 well
Drilling Report No. 10
15 September 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: Drilled the target formation to 5,564 feet (1,696 meters). Successfully drilled out through all the temporary safety plugs (this includes the drilling out of the float shoe, cement plug, cast iron bridge plug and the gunk plug) that were required to hold back the high pressure gas and secure the well. Gas was present while drilling through the bottom of the gunk plug.

Currently preparing to run Gyro surveys to determine 3-D location of well bore which was not possible prior to arrival of new high pressure equipment.

Forward plan:

- Continue drilling through the target zone using conventional and 'Managed Pressure Drilling' (MPD) techniques.
- Log and evaluate the target reservoir.

Activities since last report:

The well was pressure controlled; **See detailed Elk presentation at www.interoil.com**. Activities consisted of:

- Ran and cemented 7" casing with the Weatherford's Downhole Deployment Valve (DDV) to the top of the 7" liner at 3,258 feet (993 meters);
- Rigged-up the new equipment for high gas pressure drilling, including raising the rig and all equipment 2 feet higher to allow for the installation of new high pressure equipment.

Past Data:

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

Wellhead gas pressure of 3,150 psi, Calculated kh (permeability feet) of 3,000 md-ft., Estimated Absolute Open Flow (AOF) was calculated at 150MMCFPD.**

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. Drilled a 6 1/4 inch hole into the transitional Marl/Puri Limestone formations to 5,558 feet (1,694 meters). While circulating out the gas kick, the well flowed gas to surface at 2,000 psi at an estimated of 30 - 50MMCFPD.

**Note: These results are based on surface pressures and gas flow rates 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.

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

Operator: InterOil and affiliates - 68.25% working interest, drilling partners interest at 31.75%, subject to PNG government participation.

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

FOR FURTHER INFORMATION:

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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.