



**InterOil Corporation
Elk -1 ST -1 well
Drilling Report No. 11
10 October 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: Currently performing the second DST - "Drill Stem Test #2", for gas and gas condensate of the ELK #1 well. The well will be flowed to clean up the water and drilling mud that was lost to the formation during drilling operations. After clean up, the open hole section from 5,381 feet - 6,508 feet (1,640 meters - 1,983 meters) will be flowed for an extended time at a steady rate, then shut in for a pressure build up period twice that of the flow period. At report time, the well has flowed for over 24 hours and is currently at 2,000 psi flowing pressure on a 42/64th inch choke at a rate of 19.3 MMCFPD and appears to be continuing to clean up.

**Testing of the Elk well is expected to take approximately 3 weeks. The issuance of the final test results will disseminated to the markets via a News Release that will be followed by an investor conference call.

Activities since last report: Drilled from 5,564 feet (1,696 meters) to 6,506 feet (1,983 meters) where mud cap drilling was stopped to perform a wiper trip. In drilling back to bottom the wellbore was unstable below 6,069 feet (1,850 meters) and could not be completely reamed out. The drill string was pulled from the well and the DST equipment was run in preparation for testing operations.

Past Data: 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.

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

Wellhead gas pressure of 3,150 psi, Calculated kh (permeability feet) of 3,000 md-ft., Estimated Calculated Absolute Open Flow (CAOF) 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.

Total Depth: Total depth reached at 6,506 feet (1,983 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:

The Elk well test photos may be viewed 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 profitability; 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 and our Management's Discussion and Analysis for the Second Quarter of 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.