



## NEWS RELEASE

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### **INTEROIL PROVIDES BLACK BASS AND EXPLORATION UPDATE**

**JULY 18, 2005 – TORONTO, CANADA – InterOil Corporation (IOL:TSX) (IOC:AMEX)**, a Canadian company with operations in Papua New Guinea provides the following drilling and exploration update.

#### Black Bass Prospect

The Black Bass – 1 is the first onshore well in the Eastern most portion of the Papuan Basin to be drilled since the late 1960's and is located in Petroleum Prospecting License ("PPL") 236 in Papua New Guinea. This well was programmed to test as its primary objective a seismic anomaly and the reservoir potential of the Wedge Hill Limestone and the Talama Formation.

The well data confirmed the anomaly encountered at 3,287 feet (1,002 meters) results from a sandstone and shale sequence consistent with a fluvial system. Confirmation of reservoir quality sandstones with liquid-rich natural gas in a more regional play has opened a larger exploration opportunity along the coast. The company is encouraged by the reservoir and hydrocarbons discovered at Black Bass and intends to acquire new seismic data surrounding the well. Drill-stem testing proved inconclusive despite very encouraging gas flows during drilling. The well will be plugged and abandoned pending further seismic and geological work being done. It is anticipated that additional wells will need to be drilled to confirm the structural highs and regional extent of the reservoirs discovered.

The well was drilled to 5,953 feet (1,789 meters) with a 6-1/4" drill bit with several gas shows encountered during drilling from 3,140 feet (957 meters) to 5,660 feet (1,721 meters) which warranted further testing. At 4,908 feet (1,496 meters) the gas increased above background levels to reach a 12% mud cut with methane (C1), ethane (C2), propane (C3) and butane (C4). A second gas show at 5,016 feet (1,529 meters) peaked to a 29% mud cut. At 5,249 feet (1,600 meters) the well encountered a glauconitic sandstone unit with flow to the surface. The well was shut in and the gas

was flared, establishing a discovery in the Eastern Papuan Basin. The mud weight was increased to control the gas and the hole was stabilized.

These positive indications during the drilling phase warranted testing of the well and equipment was then mobilized to the rig site. Partial testing of the well with drill stem tests (“DST’s”) and wireline logs have revealed the following results:

- Although well off the structural high, the Black Bass –1 well penetrated the Wedge Hill Limestone and logs indicated it has significant reservoir potential with log derived porosity of 15% to 18% and a gross thickness of approximately 587 feet (179 meters). The limestone formation covers a large portion of the coastal exploration licence resulting in a number of future drilling opportunities.
- Analysis of the Talama Volcanic Formation has revealed a lower porosity section with several large fracture/fault intervals with unconsolidated sands. Detailed review of the wireline logs strongly suggested that the permeability in this interval is related to fracturing and the unconsolidated zones.
- DST’s were conducted over two zones: 3,100 – 5,150 feet (945 – 1,570 meters) and 5,226 – 5,383 feet (1,593 – 1,641 meters).
- Within the upper zone minimal flow of mud returns was observed during the DST, following the introduction of high mud weights to the formation.
- The DST in the deeper zone flowed formation water with gas (90% C1) cut, confirming elevated gas saturation levels in the Talama Formation. The test was terminated due to collapse of formation solids (sand, silt and gravel) into the test string. The flow was closely correlated to a fracture identified on the wireline logs.

Several features at the structural high near the Black Bass-1 well will be delineated with a seismic program to define locations for offset wells at Black Bass and should be completed while drilling is in progress in PPL237 and PPL238. The rig on Black Bass will be moved to the Triceratops well site for drilling.

### Triceratops Prospect

The Triceratops Prospect is located within our license area PPL 237 and will be the second of our eight structures to be drilled within our current exploration program. Following the activities

at Black Bass, the rig will be moved to the Triceratops – 1 site with an anticipated spud date in late August/early September 2005.

- New seismic data acquired over the Triceratops structure has been processed using three different processing contractors to pre-stack time migration stage to identify a new well location.
- The integration of results from the recent airborne gravity/magnetic survey combined with the current seismic results allow for the extrapolation of the Triceratops structure to a broader structure.
- Interpretation of geophysical results indicate that the Triceratops structure is a dual crested structure – broader in width than originally mapped. The 1960 Bwata – 1 gas discovery with a 42 million SCF per day test is associated with only one of these crests. The second crested structure appears larger on seismic and has not yet been tested by drilling.
- The depth to the top of the primary drilling objective at Triceratops – 1 is estimated to be 5,100 feet (1,540 meters).
- We have identified the well location and have begun site clearing in preparation for drilling, which is located 2.33 miles (3.75 km) to the north of the Bwata - 1 discovery well.
- A secondary zone of interest for the Triceratops structure is a sandstone zone as shown in the seismic data and correlates with a sand encountered in the Bwata – 1 well which had gas shows. The Triceratops seismic indicates that the zone is structurally higher in this larger crest.

### Upstream Exploration Activities

We expect delivery of the new rig (InterOil Rig #2) purchased from Loadmaster Rig Systems of Houston, Texas to arrive in Papua New Guinea in mid-third quarter 2005. This rig will have the capability of drilling to 13,123 feet (4,000 meters) and was designed to be bundled for efficient helicopter transportation over the difficult terrain within Papua New Guinea.

The processing of the airborne gravity and magnetic data from our survey flown from March 2005 through June 2005 is near completion and early interpretation has assisted in the

location and interpretation of seismic on the Triceratops and the Elk structures. The data has highlighted prospective areas for acquiring additional seismic data.

We have also acquired a second seismic line across the Elk Structure located in PPL 238 and have used this data to locate three additional lines to delineate the optimal location to test the Elk structure. The data acquisition over the Elk strike line is expected to be completed in the third quarter 2005. InterOil Rig #2 is scheduled to drill this structure early in the 4<sup>th</sup> quarter 2005.

Phil Mulacek, CEO of InterOil commented, “While the well was not consistent with our original smaller prospect interpretation, we are extremely encouraged by the higher potential of a more regional fluvial sandstone/shale sequence with a mature hydrocarbon system in place. We will follow up aggressively with additional appraisal activity at Black Bass, and continue to test a diverse portfolio of exploration opportunities over our vast exploration licence area.”

InterOil is developing a vertically integrated energy company whose primary focus is Papua New Guinea and the surrounding region. Its assets comprise an oil refinery, upstream petroleum exploration licenses, and retail and commercial distribution assets. The majority of the refined products from InterOil’s refinery are secured by off-take contracts with Shell and InterOil’s wholly-owned subsidiary, InterOil Products Limited. BP Singapore is InterOil’s agent for crude oil supplied to the refinery. InterOil is also undertaking an extensive petroleum exploration program within its eight million acre license area located in Papua New Guinea.

*InterOil’s common shares trade on the Toronto Stock Exchange under the symbol IOL in Canadian dollar and on the American Stock Exchange under the symbol IOC in US dollars. For more information please see the InterOil website at: [www.interoil.com](http://www.interoil.com).*

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**Cautionary Statements**

This press release contains forward-looking statements. All statements, other than statements of historical facts, included in this release, including without limitation, statements regarding our drilling plans, business strategy, plans and objectives of management for future operations and those statements preceded by, followed by or that otherwise include the words “believe”, “expects”, “anticipates”, “intends”, “estimates” or similar expressions or variations on such expressions are forward-looking statements. The Company can give no assurances that such forward-looking statements will prove to be correct. Risks and uncertainties include, but are not limited to, the existence of underground deposits of commercial quantities of oil and gas; fluctuations in prices for oil and gas production; curtailments or delays in development due to mechanical, operating, marketing or other problems; capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates; and from the number of exploration and development opportunities being greater or fewer than currently anticipated.

The Company currently has no reserves as defined under Canadian National Instrument 51-101 reserve definitions. See the Company’s filings with the Canadian securities regulators for additional risks and information about the Company’s business.