



NEWS RELEASE

INTEROIL ANNOUNCES OPTION AGREEMENTS COVERING THE ELK GAS DISCOVERY AND RELATED LNG PROJECT

TORONTO -- May 24, 2007 -- InterOil Corporation (TSX:IOL) (AMEX:IOC) (POMSoX:IOC) today announced that it has signed option agreements with a strategic industry partner and a financial investor covering a combined 7.5% participation interest in the Elk gas discovery (“Elk”) and 5% participation interest in a proposed liquefied natural gas (“LNG”) project, all located in Papua New Guinea. Entry into final agreements is contingent upon confirmation of the Elk gas reservoir through successful drilling and testing of the Elk-2 well that is currently being drilled.

Under the option agreements, the companies have agreed to deposit funds totaling \$57.5 million into escrow accounts as a sign of good faith to secure the right to negotiate definitive agreements for the interest in Elk, the LNG project and LNG supply.

“We have a preliminary understanding with both parties, including terms, and the next step is to negotiate definitive agreements,” InterOil Chairman and CEO Phil Mulacek said. “We expect to conclude the negotiations and have final agreements documenting the terms and conditions over the next several months.”

The industry partner, who has extensive LNG experience, has agreed to deposit \$42.5 million, in escrow, for the option to purchase a 5% interest in Elk, a 5% interest in the LNG project and rights to a portion of the LNG supply. Clarion Finanz A.G., a Swiss investment firm, has agreed to advance \$15.0 million for the option to acquire a 2.5% interest in Elk. In the event that final agreements are not signed, the deposited and escrowed funds will be refunded.

All the dollar amounts in this news release are stated in U.S. dollars.

COMPANY DESCRIPTION

InterOil Corporation is developing a vertically integrated energy business whose primary focus is Papua New Guinea and the surrounding region. InterOil’s assets consist of petroleum

licenses covering about 9 million acres, an oil refinery, and retail and commercial distribution facilities, all located in Papua New Guinea. During 2006, the company announced a gas and condensate discovery, completed an optimization program at the refinery, and doubled the downstream business by acquiring Shell's distribution assets in Papua New Guinea. In addition, InterOil initiated development activity related to a liquefied natural gas (LNG) project

FOR FURTHER INFORMATION

North America

David Larson

david.larson@interoil.com

+1 281 292 1800

Australasia

Anesti Dermedgoglou

anesti@interoil.com

+61 7 4046 4600

CAUTIONARY STATEMENTS

This news release contains projections and other forward-looking statements within the meaning of United States and Canadian securities laws. These projections and statements reflect the company's current views with respect to future events and financial performance. No assurances can be given, however, that these events will occur or that these projections will be achieved and actual results could differ materially from those projected as a result of certain factors. Some of the factors which could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements include: the ability of our refinery to operate at full capacity and to operate profitably; the success of our exploration activities; political, legal and economic risks related to our operations in Papua New Guinea; our ability to market refinery output; our dependence on exclusive relationships with our suppliers and customers; our ability to obtain necessary licenses; our ability to renew our petroleum licenses with the Papua New Guinea government; adverse weather, explosions, fires, natural disasters and other operating hazards, some of which may not be insured; the impact of competition; the enforceability of legal rights; the volatility of prices for crude oil and the volatility of the difference between our purchase price of oil feedstock and the sales price of our refined products; the uncertainty of our ability to attract capital; uninsured operations; covenants in our financing and other agreements that may limit our ability to engage in business activities, raise additional financing or respond to changes in markets or competition; and the risk factors discussed in our filings with the Securities and Exchange Commission, including but not limited to those in our Annual Report for the year ended December 31, 2006 on Form 40-F.

Any forward-looking statement speaks only as of the date on which such statement is made and the company undertakes no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise.

InterOil currently has no reserves as defined in Canadian National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Any information contained herein regarding resources are references to undiscovered resources under NI 51-101, whether stated or not.