



FOR IMMEDIATE RELEASE

25 SEPTEMBER 2006

GULF KEYSTONE PETROLEUM LIMITED

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Gulf Keystone Petroleum Limited (“Gulf Keystone” or the “Company”), an independent oil & gas exploration company operating in the Republic of Algeria, today announces its interim results for the period ending 30 June 2006.

Highlights

- BG joins as strategic partner to the HBH licence
- Adoption of a significantly accelerated exploration and appraisal programme for HBH
- HBH seismic programme to commence in October
- Block 126a licence extension granted for testing of GRJ-2 oil discovery
- Significant progress towards granting of GKN/GKS production licence
- Upstream initiatives accelerated by successful £13.4 million placing

Todd Kozel, CEO of Gulf Keystone said:

“The first half of 2006 witnessed a transformation in the Company’s prospects. The introduction of BG as a strategic partner, both for HBH and for our pursuit of new gas in Algeria, together with the refinancing of the Company and the building of a first rate management team have placed the Company in a strong position going forward. I look forward, with great optimism to the next phase of the Company’s growth”

Enquiries

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Gulf Keystone Petroleum Limited



Chairman's Statement

2006 has, so far, proven to be a pivotal period in Gulf Keystone Petroleum's development. The recent introduction of BG Group plc ("BG") as a partner in our key Hassi Ba Hamou licence has been an important step in the execution of the Company's strategy. In addition, the Company has made significant progress towards securing a Production Licence for its Block 126a oil discoveries and we have completed the building of a highly experienced and capable management team. Finally, we completed a successful funding which has provided us with the resources to immediately accelerate various upstream initiatives.

Hassi Ba Hamou Concession

The 18,380 sq km onshore concession was awarded to Gulf Keystone in April 2005 and includes the HBH gas discovery and a number of significant leads and prospects. On the basis of a subsequent full technical and economic review, Gulf Keystone and SONATRACH identified a significant potential gas resource base within this large licence area and in 2006 RPS Energy Limited ("RPS"), as part of a wider independent assessment of Gulf Keystone's resource base, carried out a review of the concession. RPS estimated that the HBH field contains recoverable gas reserves of 995 bcf with a Low Estimate of 406 bcf and a High Estimate of 1690 bcf (these are classified as "Contingent Resources", pending commercialisation of gas). RPS also confirmed a minimum of four undrilled leads and prospects containing a further potential 1,935 bcf in place (Mean unrisked case) with a Low Estimate of 500 bcf and a High Estimate of 3,758 bcf⁽¹⁾.

As a consequence, it was concluded by the Company that a substantially greater exploration and appraisal work programme would be needed to optimally evaluate the licence area. Consistent with the Company's portfolio management strategy, BG has therefore joined Gulf Keystone and SONATRACH as a strategic partner in the licence to support this expanded and accelerated work programme and to lead the rapid commercialisation of gas from this area.

Under the farm-out agreement, BG will acquire 49% of Gulf Keystone's interest in HBH and assume the role of operator. Following completion of this transaction, which is conditional upon final ratification by the relevant Algerian authorities, Gulf Keystone will hold a 38.25% interest, BG a 36.75% interest and Sonatrach a 25% interest in HBH.

Gulf Keystone and BG have additionally agreed to study the potential for further co-operation with respect to gas exploration, appraisal and development projects within Algeria

This important transaction with BG, the terms of which are required to be kept confidential, not only allows the Company to radically accelerate the exploration and appraisal of this highly prospective area, it also places the Company in a strong position to develop further its upstream business. Of equal significance, bringing this transaction to a successful conclusion will reflect the continuing strong and collaborative relationship that the Company enjoys with its Algerian partners.



The work programme that the HBH partnership now plan to carry out during the remaining two years of the first exploration period includes the acquisition of 2,000kms of 2D seismic data, 500 sq km of 3D seismic data, and the drilling of at least six exploration and appraisal wells. A seismic contract has already been concluded with Global Geophysical Services Limited and the extensive programme of acquisition is expected to begin during October. The tendering process for the provision of drilling services from mid 2007 onwards is well advanced.

Northern Blocks (Constantine Basin)

Significant progress has been made towards the granting of a Production Licence for the GKN and GKS oil discoveries located in block 126a. All documentation relating to the future plans for these two discoveries has now been fully reviewed by and discussed with our partner SONATRACH and their formal recommendation relating to the grant of a Production Licence is now with the Minister of Energy and Mines.

It has been agreed that GKS and GKN will now be the subject of a single Production Licence. The GKN field is already linked by pipeline to the Ras Toumb field and the GKS field discovery well, GKS-2, will be tied into the GKN pipeline as soon as is practicable following the necessary pipeline capacity upgrades. One additional development well will be drilled on each of the discoveries as part of the first phase of development. Subsequent phases of development will depend on production and other information gained during this initial phase.

An oil discovery was made on the GRJ structure in 2005. Data from the discovery well, GRJ-2, indicated that there are three separate potential reservoir intervals which may have the potential to contain hydrocarbons. Testing of the well was deferred pending formulation of an optimal test programme and the granting of a licence extension by the Algerian authorities to facilitate completion of the work.

A licence extension, in relation to the GRJ structure, has now been granted until the end of December 2006 and a testing programme has been prepared. In addition, the Company has now acquired an option to access a drilling rig for the operation.

The full technical review of the Bottena Perimeter, Block 129 in the south of the Constantine Basin adjacent to Block 126a, has now been completed and plans are in place to move forward the evaluation of that block in 2007. With regard to the Ben Guecha blocks, 108 / 128b, the Company looks forward to early ratification of these licences by the Algerian authorities.

Financial Results

The Company reports a loss before tax of \$8.1 million for the period compared to \$1.1 million for the same period last year. This loss is after exploration costs of \$1.8 million and general and administrative costs of \$6.8 million. These exploration costs relate to relinquished acreage. The increased G&A costs over the comparable period reflect a full period of costs for the UK subsidiary, the London office and increased personnel costs.

Capital expenditure on exploration and evaluation activities was \$0.9 million.



At 30 June 2006 the Company had \$39 million in cash of which \$34.7 million was pledged against the issue of bank guarantees to SONATRACH. The Company has \$5 million of short term debt. Post period end the Company raised £13.4million (approximately \$25 million) before expenses via an issue of 21,600,000 common shares.

Outlook

The completion of the transaction with BG will place the Company in a strong position to accelerate the exploration and appraisal of its existing portfolio, and to begin to expand its upstream business.

However, securing a Production Licence for GKN and GKS and achieving early first oil production remains an important priority, not only to secure income but also, of equal importance, to demonstrate the Company's continuing ability to crystallise value from its Algerian portfolio.

The Company has now completed the building of its management team with three recent key appointments; Jon Cooper and Iain Patrick joining in March as, respectively, Finance Director of Gulf Keystone Petroleum Limited and Director of Commercial and Legal Affairs for Gulf Keystone Petroleum (UK) Limited, and David Mackertich joining us in August as Executive Vice President of Exploration and Technical. With this significantly strengthened team, the Company is well placed to not only expand its position in Algeria but also to consider a limited number of selected upstream opportunities elsewhere in the Middle East and North Africa where the Company considers that it has a potential competitive edge at the point of access of such opportunities.

Roger Parsons

Non-executive Chairman
25 September 2006

⁽¹⁾The methodology employed for this present evaluation, and the classification of resources set out below, is in line with the guidelines contained in the "Guidance Note for Mining, Oil and Gas companies" issued by AIM in March 2006.

The information contained in this announcement has been reviewed by Francis Boundy, Valuations Director of RPS Energy Limited, who has 15 years of experience as a Petroleum Engineer.



Consolidated Income Statement

	6 months ended 30 June 2006	6 months ended 30 June 2005	12 months ended 31 December 2005
	\$000	<i>Restated</i> \$000	\$000
	<i>Note</i>		
Continuing Operations			
Revenue	-	-	-
Impairment provision	-	-	(35,145)
Exploration Costs	(1,847)	-	-
General and administration expenses	(6,808)	(2,043)	(7,325)
Share option expense	(370)	(189)	(394)
Loss from operations	(9,025)	(2,232)	(42,864)
Interest receivable	892	1,161	2,213
Loss before tax	(8,133)	(1,071)	(40,651)
Tax expense	(120)	-	(135)
Loss after tax for the period	(8,253)	(1,071)	(40,786)
	<i>3</i>		
Loss per share (cents)			
Basic	(3.25)	(0.42)	(16.08)
Diluted	(3.25)	(0.42)	(16.08)
	<i>4</i>		



Consolidated Balance Sheet

	30 June 2006	30 June 2005	31 December 2005
	\$000	<i>Restated</i> \$000	\$000
Non-current assets			
Property, plant and equipment	27,066	764	25,594
Intangible assets	29,494	48,895	28,651
	56,560	49,659	54,245
Current assets			
Inventories	5,091	3,208	3,472
Trade and other receivables	2,772	1,076	3,386
Cash and cash equivalents	39,208	79,322	51,439
	47,071	83,606	58,297
Total assets	103,631	133,265	112,542
Current liabilities			
Trade and other payables	(19,215)	(3,648)	(20,291)
Tax liabilities	(120)	-	(135)
Provisions	(2,050)	-	(2,050)
Total liabilities	(21,385)	(3,648)	(22,476)
Net assets	82,246	129,617	90,066
Equity			
Share capital	1,638	1,638	1,638
Share premium account	135,349	135,349	135,349
Share option reserve	872	297	502
Exchange translation reserve	6	(16)	(57)
Accumulated losses	(55,619)	(7,651)	(47,366)
Total equity	82,246	129,617	90,066



Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Share option reserve	Accumulated deficit	Cumulative translation reserve	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2005	1,626	135,349	120	(6,580)	-	130,515
Loss for the period as previously reported	-	-	-	(2,910)	-	(2,910)
Prior year adjustment	-	-	-	1,839	-	1,839
-as restated	-	-	-	(1,071)	-	(1,071)
Employee share option expense	-	-	189	-	-	189
Currency translation adjustments	-	-	-	-	(16)	(16)
Warrants subscribed	12	-	(12)	-	-	-
Balance at 30 June 2005	1,638	135,349	297	(7,651)	(16)	129,617
Loss for the period	-	-	-	(39,715)	-	(39,715)
Employee share option expense	-	-	205	-	-	205
Currency translation adjustments	-	-	-	-	(41)	(41)
Balance at 31 December 2005	1,638	135,349	502	(47,366)	(57)	90,066
Loss for the period	-	-	-	(8,253)	-	(8,253)
Employee share option expense	-	-	370	-	-	370
Currency translation adjustments	-	-	-	-	63	63
Balance at 30 June 2006	1,638	135,349	872	(55,619)	6	82,246



Consolidated Cash Flow Statement

	6 months ended	6 months ended	12 months ended
	30 June 2006	30 June 2005	31 December 2005
	\$000	<i>Restated</i> \$000	\$000
Cash flows from operating activities			
Loss from operations	(9,025)	(2,232)	(42,864)
Adjustments for:	-		
Depreciation of property, plant & equipment	110	54	142
Amortisation of intangibles	24	-	27
Impairment of intangibles	-	-	35,145
Share based payment expense	370	189	394
Increase in inventories	(1,619)	(723)	(987)
Increase in provision	-	-	2,050
Decrease/(increase) in receivables	615	(651)	(2,961)
(Decrease)/increase in payables	(6,220)	(420)	6,922
Cash used in operations	(15,745)	(3,783)	(2,132)
Operating Activities			
Cash used in operations	(15,745)	(3,783)	(2,132)
Interest received	892	1,161	2,213
Net cash (used)/generated in operating activities	(14,853)	(2,622)	81
Investing activities			
Purchase of intangible assets	(867)	(7,214)	(37,663)
Purchase of property, plant and equipment	(1,583)	(708)	(804)
Net cash used in investing activities	(2,450)	(7,922)	(38,467)
Financing activities			
Short term loan	5,009	-	-
Net cash generated in financing activities	5,009	-	-
Net decrease in cash and cash equivalents	(12,294)	(10,544)	(38,386)
Cash and cash equivalents at beginning of year	51,439	89,882	89,882
Effect of foreign exchange rate changes	63	(16)	(57)
Cash and cash equivalents at end of period being bank balances and cash	39,208	79,322	51,439



Notes to the interim financial information

1. General Information

Gulf Keystone Petroleum Limited (the “Company”) was incorporated and registered in Bermuda on 29 October 2001 as an exempted company limited by shares. The common shares of the Company were listed on the Alternative Investment Market (“AIM”) on 8 September 2004. The Company maintains its registered office in Bermuda.

This consolidated interim financial information of Gulf Keystone Petroleum Limited for the six months ended 30 June 2006, comprise the Company and its subsidiary (together the “Group”). The interim report was authorised for issue by the directors on 25 September 2005. The financial information is un-audited but has been reviewed by Baker Tilly and their report is set out below.

The figures for the year ended 31 December 2005 have been extracted from the annual accounts which contained an unqualified audit opinion.

2. Principal Accounting Policies of the Group

This interim financial information has been prepared on the basis of existing accounting policies and practices consistent with those adopted in the accounts for the year ended 31 December 2005 and are also consistent with those which will be adopted in the 2006 annual financial statements

In 2003 and 2004, not all attributable administrative and overhead costs were capitalised according to the Group’s policy. The financial statements to June 2005 have been restated to correct this. The impact of this has been to reduce administrative expenses and loss before tax by \$1,839,000 and increase intangible asset by a corresponding amount. The decrease in loss per share is 0.73 cents. The corresponding figures in respect of the full year to 31 December 2005 were included in the annual accounts.

3. Taxation

Under current laws in Bermuda and Algeria, the Group is not required to pay taxes on either income or capital gains. The tax charge relates to the profit of the United Kingdom subsidiary.

4. Loss per share

Loss per share has been calculated in accordance with IAS 33 Earnings per share, by dividing the loss attributable to shareholders by the weighted average number of shares in issue during the financial period. The calculation of basic and diluted loss per share is based on the following losses and number of shares:

	6 months to 30 June 2006	6 months to 30 June 2005 Restated	12 months to 31 December 2005
Loss for the financial period (\$’000)	8,253	1,071	40,786
Weighted average number of shares	253,732,140	253,388,732	253,677,757
Basic loss per share (cents)	3.25	0.42	16.08



5. Subsequent events

Gulf Keystone Petroleum Limited has announced a major expansion of its exploration and appraisal activities, in partnership with SONATRACH, within Algeria and the introduction of BG North Sea Holdings Limited ("BG"), a subsidiary of BG Group Plc, as strategic partner in the Hassi Ba Hamou Perimeter exploration, appraisal and exploitation contract ("HBH").

Gulf Keystone and its partner SONATRACH, the Algerian state oil company, have signed an agreement with BG under which BG will be introduced as a partner in the HBH Perimeter, onshore Algeria. In addition, agreement has been reached by all parties on a significant expansion of the planned exploration and appraisal activities on HBH.

Under the agreement, BG will acquire 49% of Gulf Keystone's interest in HBH and assume the role of Operator. Following completion of this transaction, which is conditional upon the final approval of the relevant Algerian authorities ("Completion"), Gulf Keystone will hold a 38.25% interest, BG a 36.75% interest and SONATRACH a 25% interest in HBH.

On August 17th, Gulf Keystone announced the successful completion of a Placing for a total of 21,600,000 new common shares of US\$0.01 each (the 'Placing Shares'), representing approximately 8.5 percent of Gulf Keystone's existing issued share capital, by Hoare Govett Limited and Tristone Capital Limited with institutions at a price of 62 pence per share, raising approximately £13.4 million before expenses.

The Placing Shares were issued credited as fully paid and rank pari passu in all respects with the existing common shares of Gulf Keystone, including the right to receive all dividends and other distributions declared, made or paid after the date of issue of the Placing Shares. The placing shares were admitted to trading on AIM on 22 August 2006.

6. Bank guarantee

As part of the contractual terms of the Algerian contracts, the Group has given bank guarantees to SONATRACH of \$34.7 million. These are cash backed guarantees which effectively reduce the free cash available that the Group has on its balance sheet. That is \$6 million for the Bottena ("129 Contract") work programme, \$15.6 million for the Ben Guecha ("108/128b Contract") work programme and \$13.1 million for the Hassi Be Hamou (Blocks 317b, 322b3, 347b, 348 and 349b) work programme. These guarantees are against the exploration and evaluation programmes stipulated in the contracts and are reduced as the work programmes are completed.

7. Further information

An electronic version of the Interim Statement has been sent to the London Stock Exchange and posted to the Group's website: www.gulfkeystone.com. Hard copies of the Interim Statement are available c/o Gulf Keystone Petroleum (UK) Limited, 16 Berkeley Street, London 1WJ 8DZ.



INDEPENDENT REVIEW REPORT TO GULF KEYSTONE PETROLEUM LIMITED

Introduction

We have been instructed by the group to review the financial information for the six months ended 30 June 2006 which comprises Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes In Shareholders' Equity and Consolidated Cashflow Statement and the related notes. We have read the other information contained in the interim statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report, including the conclusion, has been prepared for and only for the group for the purpose of their interim statement and for no other purpose. We do not, therefore in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' responsibilities

The interim statement, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Market Rules which require that the accounting policies and presentation applied to the interim figures must be consistent with those adopted in the group's annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom, as if that Bulletin applied. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the disclosed accounting policies have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006

Baker Tilly
Chartered Accountants
2 Bloomsbury Street
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25 September 2006