Celtic Exploration Ltd.

PRESS RELEASE
(Stock Symbol **"CLT"** – TSX)

August 4, 2006
Calgary, Alberta

CELTIC REPORTS INCREASES IN REVENUE AND EARNINGS IN THE SECOND QUARTER OF 2006

Celtic Exploration Ltd. ("Celtic" or the "Company") has released its financial and operating results for the three months and six months ended June 30, 2006. Highlights are as follows:

($ thousands, unless otherwise indicated)	Three months ended June 30,			Six months ended June 30,		
	2006	2005	Change	**2006**	2005	Change
FINANCIAL						
Revenue, net of royalties	**$ 24,632**	$ 13,645	81%	**$ 52,413**	$ 27,744	89%
Funds from operations	**$ 18,008**	$ 10,724	68%	**$ 38,546**	$ 21,213	82%
Funds from operations per share						
Basic ($/share)	**$ 0.60**	$ 0.39	54%	**$ 1.33**	$ 0.79	68%
Diluted ($/share)	**$ 0.59**	$ 0.38	55%	**$ 1.29**	$ 0.77	68%
Net earnings	**$ 5,481**	$ 2,455	123%	**$ 12,782**	$ 5,473	134%
Earnings per share						
Basic ($/share)	**$ 0.18**	$ 0.09	100%	**$ 0.44**	$ 0.20	120%
Diluted ($/share)	**$ 0.18**	$ 0.09	100%	**$ 0.43**	$ 0.20	115%
Capital expenditures, net of dispositions	**$ 41,704**	$ 24,717	69%	**$ 84,058**	$ 48,340	74%
Total assets				**$ 308,890**	$ 178,574	73%
Bank debt				**$ 72,250**	$ 19,550	270%
Working capital deficiency, excluding bank debt				**$ 11,202**	10,039	12%
Bank debt, net of working capital				**$ 83,452**	$ 29,589	182%
Shareholders' equity				**$ 165,178**	$ 112,281	47%
Common shares issued and outstanding (thousands)						
Basic				**31,075**	28,892	8%
Diluted				**33,476**	30,948	8%

	Three months ended June 30,			Six months ended June 30,		
	2006	2005	Change	**2006**	2005	Change
OPERATIONS						
Production						
Oil (bbls/d)	**3,187**	2,067	54%	**3,401**	2,168	57%
Natural gas (mcf/d)	**13,134**	10,101	30%	**13,725**	9,482	45%
Combined (BOE/d)	**5,376**	3,751	43%	**5,689**	3,748	52%
Production per million shares (BOE/d)	**181**	136	33%	**196**	140	40%
Realized sales prices, before financial derivatives						
Oil ($/bbl)	**$ 67.21**	$ 60.38	11%	**$ 64.79**	$ 57.01	14%
Natural gas($/mcf)	**$ 8.15**	$ 7.54	8%	**$ 9.34**	$ 7.91	18%
Combined ($/BOE)	**$ 59.75**	$ 53.57	12%	**$ 61.29**	$ 52.97	16%
Operating netbacks, after financial derivatives						
Oil ($/bbl)	**$ 39.86**	$ 34.99	14%	**$ 38.42**	$ 35.41	9%
Natural gas ($/mcf)	**$ 6.70**	$ 5.26	27%	**$ 7.16**	$ 5.17	38%
Combined ($/BOE)	**$ 39.99**	$ 33.42	20%	**$ 40.27**	$ 33.54	20%
Drilling activity						
Total wells	**22**	21	5%	**54**	43	26%
Working interest wells	**19.5**	13.2	48%	**40.0**	28.7	39%
Success rate on working interest wells	**86%**	96%	-10%	**79%**	78%	1%
Undeveloped land						
Gross acres				**307,942**	231,338	33%
Net acres				**217,555**	138,153	57%

2006 Second Quarter Highlights

- Drilled 22 (19.5 net working interest) wells during the quarter resulting in 7 (6.8 net) oil wells and 12 (10.1 net) natural gas wells, for an overall success rate, based on net wells, of 86%;

- Reported net earnings of $5.5 million (up 123% compared to the second quarter of 2005) and earnings per share (diluted) of $0.18, an increase of 100% compared to $0.09 in the second quarter of 2005;

- Reported funds from operations of $18.0 million (up 68% compared to the second quarter of 2005) and funds from operations per share (diluted) of $0.59, an increase of 55% from $0.38 in the same period of the previous year;

- Generated an average operating netback of $39.99 per BOE, up 20% from $33.42 per BOE in the second quarter of 2005; and

- Increased average daily production by 43% to 5,376 BOE per day, up from 3,751 BOE per day in the second quarter of 2005 and achieved daily average production per million shares of 181 BOE per day, up 33% in the second quarter of 2006 compared to 136 BOE per day in the same period of the previous year.

During the second quarter, Celtic drilled 22 (19.5 net) wells with an overall success rate of 86%. The majority of the Company's drilling activity in the second quarter took place in the deep basin of west central Alberta.

At Swan Hills, three oil wells and one unsuccessful well were drilled at 100% working interest. The Company continues to develop this light oil prospect using horizontal drilling technology. Celtic has retained a third party to evaluate the potential for water-flood development in the Beaverhill Lake light oil formation. Initial indications suggest that the oil pool should respond favorably to water-flood development. Other similar oil pools in the area that are on a water-flood recovery scheme have shown significant increases in reserve recovery rates. The Company expects to have two drilling rigs operating in the area in the third quarter of 2006.

At Fox Creek, Celtic drilled a horizontal well in 2005 confirming an extension of the eastern edge of the Beaverhill Lake pool. In the first quarter of 2006, the Company drilled a second step-out well which also proved successful. Celtic followed-up with a third horizontal well in the second quarter which is currently being tied-in.

At Kaybob South, Celtic acquired five additional sections (3,200 acres) of land at Crown sales in May 2006, bringing the Company's total land holdings in the area to 14 sections (8,960 acres). As a follow-up to the initial two wells drilled in 2005, Celtic drilled two more wells in the first quarter and another five wells in the second quarter. The majority of new production from Kaybob South came on-stream after June 30, 2006. Current production at Kaybob South, based on field estimates, is in excess of 1,500 BOE per day. One additional well is currently being tied-in and five more wells have been surveyed for drilling. The Company expects to maintain production volumes at current levels as production from new wells replace declines on initial flush production, until down-spacing occurs. Regulatory approval for down-spacing is expected to be received by year-end giving Celtic the ability to drill 20 to 30 additional wells.

In west central Alberta, the Company is currently evaluating new exploration prospects that, if successful, could lead to meaningful development activity later in 2006 and in 2007. New exploration wells drilled on these prospects in the second quarter are currently being evaluated. Celtic continues to assemble lands in these new areas and will be in a position to discuss the specifics of these prospects after all of the necessary land positions have been acquired.

In southern Alberta, Celtic drilled four wells during the second quarter of 2006. At Princess, a successful step-out on the Company's existing Pekisko oil pool was cased and has now been completed. At Bantry, an exploration well has been cased and a follow-up well is expected to spud in the third quarter. At Richdale, two wells were drilled resulting in one unsuccessful well and one Glauconite natural gas well which is currently being completed.

In east central Alberta, Celtic drilled six wells in the Ashmont area. Four of these wells were successful and are in various stages of being completed and tested. An additional five wells are planned for this area in the fourth quarter of 2006.

At June 30, 2006, Celtic's undeveloped land holdings increased by 57% compared to the corresponding period of the previous year to over 217,000 net acres. In addition to the increase in its undeveloped land position, the Company continues to add significantly to its development drilling inventory as a result of successful drilling activity.

In May 2006, Celtic completed a equity financing by issuing 2.0 million common shares, by way of private placement, at a price of $13.15 per share. The equity offering resulted in gross proceeds of $26.3 million. Proceeds have initially been used to pay down bank debt and subsequently will be used to fund Celtic's ongoing capital expenditures.

Celtic remains optimistic that the remainder of 2006 will continue to see strong production and cash flow growth. Given the Company's bank credit facility of $100 million and commodity price risk management contracts in place, the Company remains in a solid financial position to carry out its planned capital expenditure program.

Production

Oil and gas production in the second quarter of 2006 increased 43% to average 5,376 BOE per day compared to 3,751 BOE per day in the second quarter of 2005. Production per million shares outstanding in the second quarter of 2006 averaged 181 BOE per day, up 33% from 136 BOE per day in the same period of 2005. Second quarter production in 2006 gives effect to the disposition of approximately 130 BOE/d of natural gas production, with associated liquids, that was completed at the end of the first quarter.

Celtic experienced significant production down-time in the second quarter of 2006 due to wet weather conditions. At Fox Creek, approximately 350 BOE/d (oil and gas) was shut-in for most of the second quarter due to electrical problems with a pump. As a result of poor weather and bad road conditions, Celtic was unable to access the site until late in June. In addition, at Swan Hills, a portion of the Company's oil production that relies on trucking to reach market was interrupted as a result of poor road conditions. At Morse River, approximately 50 BOE/d (gas) was shut-in pending the installation of a gas sweetening unit. At

Utikuma Lake, approximately 280 BOE/d (oil) was shut-in for two weeks as a result of plant maintenance. All of the “down” production mentioned here has now been brought on-stream and after tying-in new production at Kaybob South, production for the week ending August 3, 2006, based on field estimates, averaged approximately 6,600 BOE/d.

For the six months ended June 30, 2006, production averaged 5,689 BOE/d (60% oil and 40% gas), resulting in a 52% increase from 3,748 BOE/d average production for the same period in 2005. Production per million shares outstanding in the first half of 2006 averaged 196 BOE per day, up 40% from 140 BOE per day in the same period of 2005.

With new production recently brought on-stream and with behind pipe volumes currently being tied-in, Celtic expects to show significant production growth in the third quarter of 2006.

Revenue and Royalties

Revenue, after royalties, for the three months ended June 30, 2006 was $24.6 million, an increase of 81% compared to $13.6 million in the same period of the previous year. Royalties in the first quarter of 2006 averaged 17.5% of sales compared to 17.0% in the corresponding period of 2005. Revenue, after royalties, for the six months ended June 30, 2006 was $52.4 million, an increase of 89% compared to $27.7 million in the same period of the previous year. Royalties in the first half of 2006 averaged 19.7% of sales compared to 17.8% in the corresponding period of 2005. Celtic continues to achieve lower royalties than industry standard through its participation in royalty incentive programs available for deep drilling and horizontal re-activation wells.

The combined average product price received for oil and gas sales, before financial derivative contracts, for the quarter ended June 30, 2006 was $59.75 ($60.51 after realized financial derivatives) per BOE, an increase of 12% compared to the second quarter of the previous year. The combined average product price received for oil and gas sales, before financial derivative contracts, for the six months ended June 30, 2006 was $61.29 ($62.66 after realized financial derivatives) per BOE, an increase of 16% compared to the first half of the previous year.

Expenses

For the three month period ended June 30, 2006, production expenses were $4.8 million ($9.74 per BOE), transportation and selling expense was $0.2 million ($0.47 per BOE), general and administrative expenses were $0.4 million ($0.81 per BOE), interest expense was $1.0 million, and depletion, depreciation and amortization expenses were $9.1 million ($18.65 per BOE). In the previous year, for the three month period ended June 30, 2005, production expenses were $3.3 million ($9.75 per BOE), transportation and selling expense was $0.3 million ($0.77 per BOE), general and administrative expenses were $0.4 million ($1.23 per BOE), interest expense was $0.2 million, and depletion, depreciation and amortization expenses were $5.6 million ($16.26 per BOE).

For the six months ended June 30, 2006, production expenses were $10.1 million ($9.78 per BOE), transportation and selling expense was $0.7 million ($0.66 per BOE), general and administrative expenses were $1.0 million ($1.01 per BOE), interest expense was $1.7 million, and depletion, depreciation and amortization expenses were $19.0 million ($18.41 per BOE). In the previous year, for the six months ended June 30, 2005, production expenses were $6.1 million ($8.98 per BOE), transportation and selling expense was $0.5 million ($0.79 per BOE), general and administrative expenses were $1.0 million ($1.48 per BOE), interest expense was $0.5 million, and depletion, depreciation and amortization expenses were $11.2 million ($16.55 per BOE).

Taxes

As at June 30, 2006, Celtic had sufficient tax deductions available, allowing the Company to not record any current income tax expense. For the three months ended June 30, 2006, Celtic provided for a provision of future income taxes in the amount of $2.9 million, compared to a provision of $1.1 million in the same period of 2005. For the six month period ended June 30, 2006, the Company recorded a provision for future income taxes in the amount of $6.1 million. This amount differs from the expected provision for income taxes of $6.8 million based on the statutory combined income tax rate of 35.62% due to the differences between the resource allowance deduction and non-deductible Crown charges and non-taxable Provincial tax credits (“Alberta Royalty Tax Credit” or “ARTC”). Also contributing to the difference is the recognition of a benefit of $0.5 million related to enacted changes to future federal income tax rates and resource related deductions from income. An analysis of the income tax provision is included in the notes to the financial statements.

Net Earnings and Funds from Operations
Net earnings for the three months ended June 30, 2006 was $5.5 million ($0.18 per share, basic and diluted), an increase of 123% from $2.5 million ($0.09 per share, basic and diluted) in the same period of the previous year. For the six months ended June 30, 2006, the Company recorded net earnings of $12.8 million ($0.44 per share, basic and $0.43 per share, diluted), up 134% from $5.5 million ($0.20 per share basic and diluted) recorded for the six months ended June 30, 2005.

Funds from operations were $18.0 million ($0.60 per share, basic and $0.59 per share, diluted) in the second quarter of 2006, an increase of 68% compared to $10.7 million ($0.39 per share, basic and $0.38 per share, diluted) in the second quarter of 2005. For the six months ended June 30, 2006, funds from operations were $38.5 million ($1.33 per share, basic and $1.29 per share, diluted), up 82% from $21.2 million ($0.79 per share, basic and $0.77 per share, diluted) in the same period of 2005.

Capital Expenditures
Capital expenditures in the second quarter of 2006 were $41.7 million, up 69% from $24.7 million spent in the second quarter of 2005. During the six month period ended June 30, 2006, capital expenditures, net of proceeds from dispositions were $84.1 million, an increase of 74% compared to the same period of the previous year. Drilling and completion operations accounted for $55.3 million, equipment and facility expenditures were $21.3 million, $17.1 million was spent on land and seismic and $0.4 million was incurred on property acquisitions. The Company continues to invest in land and seismic in order to build on its inventory of prospects for future drilling. Proceeds from disposition of assets in the first half of 2006 amounted to $10.1 million and includes the disposition of non-operated and low working interest properties at Chime, Alberta for net proceeds of $9.2 million.

Drilling Activity
During the three months ended June 30, 2006, Celtic drilled 22 (19.5 net) wells compared to 21 (13.2 net) wells in the second quarter of the previous year, with an overall success rate of 86% on net wells drilled. The split between development drilling and exploratory drilling was 95% and 5%, respectively. The average vertical depth of net wells drilled was 2,057 metres, 10% shallower than the average drilling depth of 2,298 metres in the second quarter of 2005. For the six months ended June 30, 2006, the Company drilled 54 (40.0 net) wells resulting in 18 (15.6 net) oil wells, 22 (16.0 net) natural gas wells, 1 (0.1 net) coal bed methane well and 13 (8.3 net) unsuccessful wells, resulting in an overall success rate of 79% based on net wells drilled.

Source of Funds
Investment funding for capital expenditures incurred in the first half of 2006 was provided by bank debt, an equity financing and cash provided by operating activities.

The Company has a committed term loan facility whereby the maximum amount available to be drawn is $100.0 million. At June 30, 2006, Celtic had drawn $72.2 million, leaving significant unused credit lines available to fund working capital deficiency and future capital expenditures.

Celtic expects to fund future capital expenditures through the use of a combination of cash provided by operating activities and bank debt, supplemented by new equity share offerings, as required.

Working Capital
The capital intensive nature of Celtic's activities creates a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. At June 30, 2006, the working capital deficiency amount plus outstanding bank debt represented 84% of the Company's maximum authorized bank borrowing credit limit.

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas. This occurs on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. Celtic monitors its revenue counterparty credit positions to mitigate any potential credit losses. To the extent that the Company has joint venture partners in its activities, it must collect the partners' share of capital expenditures and operating expenses on a monthly basis. Exceptions are in the event that the partners' share of a capital project is a significant amount. In this case, Celtic will collect such amounts from its partners in advance of expenditures taking place in accordance with standard industry operating procedures. At June 30, 2006, the Company did not have any material accounts receivable that were deemed uncollectible.

Accounts payable consist of amounts payable to suppliers relating to head office and field operating and investing activities. These invoices are processed within the Company's normal payment period.

Celtic actively manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing capital investment levels.

Share Information
The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at June 30, 2006, there were 31.1 million common shares outstanding. There were no preferred shares outstanding. As at June 30, 2006, directors, employees and consultants have been granted options to purchase 2.4 million common shares of the Company at an average exercise price of $7.24 per share. Detailed information regarding the Company's stock options outstanding is contained in the notes to the financial statements.

Advisory Regarding Forward-Looking Statements
Certain information with respect to Celtic contained herein, including management's assessment of future plans and operations, contains forward-looking statements. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, certain of which are beyond Celtic's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency exchange rate fluctuations, imprecision of reserve estimates, environmental risks, competition from other explorers, stock market volatility and ability to access sufficient capital. As a result, Celtic's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

2006 Forecast
Celtic is optimistic about its future prospects. The Company was successful in establishing a production base during the early months since commencing operations that provides a cash flow stream that can be re-invested in Celtic's ongoing exploration and development activity. Celtic is opportunity driven and is confident that it can continue to grow the Company's production base by building on its current inventory of development prospects and by adding new exploration prospects. Celtic will endeavour to maintain a high quality product stream that on a historical basis receives a superior price with reasonably low production costs. In addition, the Company takes advantage of royalty incentive programs in order to further increase netbacks. Celtic will continue to focus its exploration efforts in areas of multi-zone potential for light gravity crude oil and liquids-rich natural gas.

Celtic's Board of Directors has approved a capital expenditure budget in the amount of $140 million for 2006, of which $84.1 million has been spent in the first half of 2006. The balance of capital spending in 2006 will be financed by funds from operations and unused bank credit lines.

After forecasting risked production discoveries, timing of production on-stream dates resulting from the Company's planned capital expenditures for 2006 and estimated decline rates on existing volumes, Celtic expects production in 2006 to average between 6,800 and 7,200 BOE/d (54% oil and 46% gas). This represents a 54% to 63% increase from average production of 4,423 BOE/d in 2005.

The Company's commodity price assumptions for 2006 are US$68.00 per barrel for WTI oil, US$7.75 per MMBTU for natural gas and a US/Canadian exchange rate of US$0.883.

After giving effect to the aforementioned production and commodity price assumptions and taking into effect commodity risk price management contracts in place (as outlined in detail in the notes to the financial statements), funds from operations for 2006 is forecasted to be approximately $90.5 million or $3.00 per share ($2.88 per share, diluted) and net earnings is forecasted to be approximately $28.8 million or $0.96 per share ($0.92 per share, diluted). Changes in forecasted commodity prices can have a significant affect to estimated funds from operations and net earnings.

Bank debt, net of working capital, is estimated to reach $87.5 million by the end of 2006 or approximately 1.0 times forecasted 2006 funds from operations.

Celtic's capital expenditure budget for 2006 will see the Company participate at high working interests in the drilling of approximately 85 to 95 wells during the year. Celtic continues to pursue property acquisitions that would complement its existing asset base and completion of such acquisitions would be over and above the Company's planned capital expenditure budget.

Celtic is excited about the growth prospects being generated in the Company and remains optimistic about the Company's ability to deliver continued per share growth in production, funds from operations and earnings. Given the Company's strong inventory of drilling locations, we look forward to continued growth in 2006.

For further information, please contact:

CELTIC EXPLORATION LTD., Suite 500, 505 - 3rd Street SW, Calgary, Alberta, Canada T2P 3E6

David J. Wilson, President and Chief Executive Officer (403) 201-5340, or
Sadiq H. Lalani, Vice President, Finance and Chief Financial Officer (403) 215-5310.
Or visit our website site at www.celticex.com.