



PRESS RELEASE

(Stock Symbol "CLT" – TSX)

November 9, 2006

Calgary, Alberta

**CELTIC REPORTS RECORD REVENUE, FUNDS FROM OPERATIONS AND EARNINGS IN
THE THIRD QUARTER OF 2006**

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

(\$ thousands, unless otherwise indicated)	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Change	2006	2005	Change
FINANCIAL						
Revenue, net of royalties	\$ 37,758	\$ 22,186	70%	\$ 90,170	\$ 49,930	81%
Funds from operations	\$ 20,812	\$ 17,082	22%	\$ 59,358	\$ 38,295	55%
Funds from operations per share						
Basic (\$/share)	\$ 0.70	\$ 0.59	19%	\$ 1.98	\$ 1.40	41%
Diluted (\$/share)	\$ 0.68	\$ 0.57	19%	\$ 1.92	\$ 1.35	42%
Net earnings	\$ 15,850	\$ 5,729	177%	\$ 28,632	\$ 11,202	156%
Earnings per share						
Basic (\$/share)	\$ 0.53	\$ 0.20	165%	\$ 0.95	\$ 0.41	132%
Diluted (\$/share)	\$ 0.52	\$ 0.19	174%	\$ 0.92	\$ 0.39	136%
Capital expenditures, net of dispositions	\$ 47,940	\$ 29,400	63%	\$ 131,998	\$ 77,740	70%
Total assets				\$ 354,768	\$ 207,074	71%
Bank debt				\$ 79,450	\$ 36,850	116%
Working capital deficiency, excluding bank debt				\$ 5,801	5,153	13%
Bank debt, net of working capital				\$ 85,251	\$ 42,003	103%
Shareholders' equity				\$ 198,236	\$ 118,393	67%
Common shares issued and outstanding (thousands)						
Basic				32,129	28,923	11%
Diluted				34,486	30,993	11%

	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Change	2006	2005	Change
OPERATIONS						
Production						
Oil (bbls/d)	3,048	2,833	8%	3,282	2,392	37%
Natural gas (mcf/d)	18,759	13,485	39%	15,421	10,831	42%
Combined (BOE/d)	6,175	5,081	22%	5,852	4,197	39%
Production per million shares (BOE/d)	197	176	12%	195	153	27%
Realized sales prices, after financial derivatives						
Oil (\$/bbl)	\$ 70.99	\$ 64.12	11%	\$ 65.49	\$ 59.51	10%
Natural gas (\$/mcf)	\$ 8.31	\$ 9.15	-9%	\$ 9.54	\$ 8.45	13%
Operating netbacks (\$/BOE)						
Oil and gas revenue, after financial derivatives	\$ 60.31	\$ 60.04	0%	\$ 61.87	\$ 55.71	11%
Royalties	(10.05)	(12.19)	-18%	(11.34)	(10.55)	7%
Production expense	(10.38)	(9.19)	13%	(9.99)	(9.07)	10%
Transportation and selling expense	(0.58)	(0.71)	-18%	(0.63)	(0.76)	-17%
Operating netback	\$ 39.30	\$ 37.95	4%	\$ 39.91	\$ 35.33	13%
Drilling activity						
Total wells	19	27	-30%	73	70	4%
Working interest wells	14.4	15.3	-6%	54.4	43.6	25%
Success rate on working interest wells	65%	76%	-14%	75%	75%	0%
Undeveloped land						
Gross acres				312,153	259,170	20%
Net acres				223,107	158,888	40%

Operations Update

Celtic is pleased to report to shareholders the Company's activities for the third quarter of 2006. During the third quarter, Celtic drilled 19 (14.4 net) wells with an overall success rate of 65%. The majority of the Company's drilling activity in the third quarter took place in west central and northern Alberta, testing several new exploration prospects. The average drilling depth was 2,958 meters which is a good indicator of Celtic's focus on the deep basin.

At Kaybob South, two wells were successfully drilled outside of the previously mapped pool boundaries, therefore extending the size of the Company's Montney natural gas pool. These two wells have been tested and will be brought on-stream prior to year-end, bringing the producing well count in this pool to 10 wells. Two additional wells that have winter access are planned to be drilled after freeze-up, on the initial 14 sections of land owned by Celtic. Development drilling on a down spacing basis of three wells per section will commence early in 2007. At a drilling rate of two wells per month, the Company has a current inventory to keep drilling throughout 2007, giving Celtic the ability to add production on a consistent basis during each month of 2007. Tie-ins will be quick since the majority of pipeline infrastructure has already been installed and development wells will be drilled from pads out of existing surface locations. Subsequent to the end of the third quarter, Celtic acquired an additional 10 sections of adjoining land at a Crown land sale in early October, giving the Company 24 sections of contiguous lands at Kaybob South. Celtic has identified on logs, Montney gas pay in two wells that were previously drilled and abandoned on this ten section block and has surveyed a well location that lies between the two old well bores and a producing Celtic well. This location will be drilled prior to year-end and if successful, could lead to a substantial extension to the current producing pool. The Company has a 100% ownership interest in the 24 sections at Kaybob South.

At Swan Hills, Celtic continues to add light oil production. Two successful 100% working interest wells drilled were put on production towards the end of the third quarter with additional drilling planned for the fourth quarter.

At Lator, the Company drilled a successful follow-up well to its original Gething natural gas discovery well. Three prospective zones have been completed in this well and pipeline construction is currently underway. A third development well at Lator is expected to be drilled early in 2007.

At Whitelaw, a new exploration prospect in Northern Alberta, Celtic drilled a second successful natural gas well with a 50% working interest partner. Both wells are expected to come on-stream in the fourth quarter and a third well is expected to be drilled prior to year-end.

At September 30, 2006, Celtic's undeveloped land holdings increased by 40% compared to the corresponding period of the previous year to over 223,000 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 September 2006, Celtic completed an equity financing by issuing 1.0 million flow through common shares, by way of private placement, at a price of \$17.25 per share. The equity offering resulted in gross proceeds of \$17.25 million. Proceeds have initially been used to pay down bank debt and subsequently will be used to fund Celtic's ongoing exploration activity.

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 its comprehensive commodity price risk management contracts in place, the Company remains in a solid financial position to continue to execute its planned capital expenditure program during the balance of 2006. The Company has chosen to defer drilling development natural gas wells to 2007 and instead focus on drilling incremental exploration wells in the fourth quarter of 2006. This will allow Celtic to evaluate longer lead time exploration prospects earlier and at the same time saving the less risky development drilling locations with high initial flush natural gas production rates until 2007, at which time excess natural gas storage levels in North America may subside with winter weather, leading to potentially higher natural gas sales prices in the first quarter of 2007.

2006 Third Quarter Highlights

Highlights for the third quarter of 2006 are as follows:

- Drilled 19 (14.4 net working interest) wells during the quarter resulting in 3 (2.7 net) oil wells, 8 (6.3 net) natural gas wells and 2 (0.3 net) coal bed methane wells, for an overall success rate, based on net wells, of 65%;
- Reported net earnings of \$15.9 million (up 177% compared to the third quarter of 2005) and earnings per share (diluted) of \$0.52, an increase of 174% compared to \$0.19 in the third quarter of 2005;
- Reported funds from operations of \$20.8 million (up 22% compared to the third quarter of 2005) and funds from operations per share (diluted) of \$0.68, an increase of 19% from \$0.57 in the same period of the previous year;
- Generated an average operating netback of \$39.30 per BOE, up 4% from \$37.95 per BOE in the third quarter of 2005;
- Increased average daily production by 22% to 6,175 BOE per day, up from 5,081 BOE per day in the third quarter of 2005 and achieved daily average production per million shares of 197 BOE per day, up 12% in the third quarter of 2006 compared to 176 BOE per day in the same period of the previous year; and
- Completed an equity financing raising gross proceeds of \$17.25 million by issuing 1.0 million flow-through common shares at a price of \$17.25 per share.

Production

Oil and gas production in the third quarter of 2006 increased 22% to average 6,175 BOE per day compared to 5,081 BOE per day in the third quarter of 2005. Production per million shares outstanding in the third quarter of 2006 averaged 197 BOE per day, up 12% from 176 BOE per day in the same period of 2005.

For the nine months ended September 30, 2006, production averaged 5,852 BOE/d (56% oil and 44% gas), resulting in a 39% increase from 4,197 BOE/d average production for the same period in 2005. Production per million shares outstanding in the first nine months of 2006 averaged 195 BOE per day, up 27% from 153 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 continued production growth in the fourth quarter of 2006.

Revenue and Royalties

Revenue, after royalties, for the three months ended September 30, 2006 was \$37.8 million, an increase of 70% compared to \$22.2 million in the same period of the previous year. Royalties in the third quarter of 2006 averaged 16.7% of sales (including financial derivatives) compared to 20.3% in the corresponding period of 2005. Revenue, after royalties, for the nine months ended September 30, 2006 was \$90.2 million, an increase of 81% compared to \$49.9 million in the same period of the previous year. Royalties in the first nine months of 2006 averaged 18.3% of sales (including financial derivatives) compared to 18.9% in the corresponding period of 2005. Celtic continues to achieve lower royalties than industry standard through its participation in royalty incentive programs and by achieving hedging gains that are not subject to royalties.

The combined average product price received for oil and gas sales, after realized financial derivative contracts, for the quarter ended September 30, 2006 was \$60.31 (\$59.71 before financial derivatives) per BOE, remaining essentially unchanged compared to the third quarter of the previous year. The combined average product price received for oil and gas sales, after realized financial derivative contracts, for the nine months ended September 30, 2006 was \$61.87 (\$60.77 before financial derivatives) per BOE, an increase of 11% compared to the first nine months of the previous year.

Expenses

For the three month period ended September 30, 2006, production expenses were \$5.9 million (\$10.38 per BOE), transportation and selling expense was \$0.3 million (\$0.58 per BOE), interest expense was \$1.0 million, general and administrative expenses were \$0.5 million (\$0.80 per BOE), stock based compensation expense was \$0.3 million, and depletion, depreciation and amortization expenses were \$11.4 million (\$20.08 per BOE). In the previous year, for the three month period ended September 30, 2005, production expenses were \$4.3 million (\$9.19 per BOE), transportation and selling expense was \$0.3 million (\$0.71 per BOE), interest expense was \$0.2 million, general and administrative expenses were \$0.4 million (\$0.94 per BOE), stock based compensation expense was \$0.8 million, and depletion, depreciation and amortization expenses were \$8.2 million (\$17.55 per BOE).

For the nine months ended September 30, 2006, production expenses were \$16.0 million (\$9.99 per BOE), transportation and selling expense was \$1.0 million (\$0.63 per BOE), interest expense was \$2.7 million, general and administrative expenses were \$1.5 million (\$0.94 per BOE), stock based compensation expense was \$0.8 million, and depletion, depreciation and amortization expenses were \$30.4 million (\$19.00 per BOE). In the previous year, for the nine months ended September 30, 2005, production expenses were \$10.4 million (\$9.07 per BOE), transportation and selling expense was \$0.9 million (\$0.76 per BOE), interest expense was \$0.7 million, general and administrative expenses were \$1.4 million (\$1.26 per BOE), stock based compensation expense was \$0.6 million, and depletion, depreciation and amortization expenses were \$19.4 million (\$16.96 per BOE).

Taxes

As at September 30, 2006, Celtic had sufficient tax deductions available, allowing the Company to not record any current income tax expense. For the three months ended September 30, 2006, Celtic provided for a provision of future income taxes in the amount of \$2.4 million, compared to a provision of \$2.7 million in the same period of 2005. For the nine month period ended September 30, 2006, the Company recorded a provision for future income taxes in the amount of \$8.5 million. This amount differs from the expected provision for income taxes of \$12.9 million based on the statutory combined income tax rate of 34.50% 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 \$4.0 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 September 30, 2006 was \$15.9 million (\$0.53 per share, basic and \$0.52 per share, diluted), an increase of 177% from \$5.7 million (\$0.20 per share, basic and \$0.19 per share, diluted) in the same period of the previous year. For the nine months ended September 30, 2006, the Company recorded net earnings of \$28.6 million (\$0.95 per share, basic and \$0.92 per share, diluted), up 156% from \$11.2 million (\$0.41 per share, basic and \$0.39 per share, diluted) recorded for the nine months ended June 30, 2005.

Funds from operations were \$20.8 million (\$0.70 per share, basic and \$0.68 per share, diluted) in the third quarter of 2006, an increase of 22% compared to \$17.1 million (\$0.59 per share, basic and \$0.57 per share, diluted) in the third quarter of 2005. For the nine months ended September 30, 2006, funds from operations

were \$59.4 million (\$1.98 per share, basic and \$1.92 per share, diluted), up 55% from \$38.3 million (\$1.40 per share, basic and \$1.35 per share, diluted) in the same period of 2005.

Capital Expenditures

Capital expenditures in the third quarter of 2006 were \$47.9 million, up 63% from \$29.4 million spent in the third quarter of 2005. During the nine month period ended September 30, 2006, capital expenditures, net of proceeds from dispositions were \$132.0 million, an increase of 70% compared to the same period of the previous year. Drilling and completion operations accounted for \$84.8 million, equipment and facility expenditures were \$37.2 million, \$19.5 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 nine months 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 September 30, 2006, Celtic drilled 19 (14.4 net) wells compared to 27 (15.3 net) wells in the third quarter of the previous year, with an overall success rate of 65% on net wells drilled. The average vertical depth of net wells drilled was 2,958 metres, 76% deeper than the average drilling depth of 1,676 metres in the third quarter of 2005. For the nine months ended September 30, 2006, the Company drilled 73 (54.4 net) wells resulting in 21 (18.4 net) oil wells, 30 (22.2 net) natural gas wells, 3 (0.5 net) coal bed methane wells and 19 (13.3 net) unsuccessful wells, resulting in an overall success rate of 75% based on net wells drilled.

Share Information

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at September 30, 2006, there were 32.1 million common shares outstanding. There were no preferred shares outstanding. As at September 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 \$7.32 per share.

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's planned capital expenditures, after proceeds from dispositions, are expected to be \$155.0 million for 2006, of which \$132.0 million has been spent in the first nine months of 2006. The balance of capital spending in 2006 will be financed by funds from operations and unused bank credit lines. Celtic's capital expenditure budget for 2006 will see the Company participate at high working interests in the drilling of approximately 90 to 95 wells during the year.

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 6,000 and 6,400 BOE/d (53% oil and 47% gas). This represents a 36% to 45% increase from average production of 4,423 BOE/d in 2005.

The Company's commodity price assumptions for 2006 are US\$67.00 per barrel for WTI oil, US\$7.15 per MMBTU for natural gas and a US/Canadian exchange rate of US\$0.884.

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 \$82.2 million or \$2.68 per share (\$2.60 per share, diluted) and net earnings is forecasted to be approximately \$32.0 million or \$1.04 per

share (\$1.01 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 \$89.4 million by the end of 2006 or approximately 1.1 times forecasted 2006 funds from operations.

2007 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 on-going 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 an 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's Board of Directors has approved a capital expenditure budget in the amount of \$130 million for 2007. This capital budget is expected to be financed by funds from operations and bank credit lines.

After forecasting risked production discoveries, timing of production on-stream dates resulting from the Company's planned capital expenditures for 2007 and estimated decline rates on existing volumes, Celtic expects production in 2007 to average between 8,300 and 8,700 BOE/d (46% oil and 54% gas).

The Company's commodity price assumptions for 2007 are US\$62.00 per barrel for WTI oil, US\$7.50 per MMBTU for natural gas and a US/Canadian exchange rate of US\$0.877.

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 2007 is forecasted to be approximately \$100.2 million or \$3.12 per share (\$3.00 per share, diluted) and net earnings is forecasted to be approximately \$22.3 million or \$0.69 per share (\$0.67 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 \$124.4 million by the end of 2007 or approximately 1.2 times forecasted 2007 funds from operations.

Celtic's capital expenditure budget for 2007 will see the Company participate at high working interests in the drilling of approximately 70 to 80 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 development drilling locations, we look forward to continued growth in 2007.

Non-GAAP Financial Measurements

This document contains the terms "funds from operations" and "operating netbacks" which do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Funds from operations and operating netbacks are used by Celtic as key measures of performance. Funds from operations and operating netbacks are not intended to represent operating profits nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. The reconciliation between net earnings and funds from operations can be found in the statement of cash flows included in the audited financial statements. Operating netbacks are determined by deducting royalties, production expenses and transportation and selling expenses from oil and gas sales revenue. The Company calculates funds from operations per share using the same method and shares outstanding which are used in the determination of earnings per share.

Other Measurements

All dollar amounts are referenced in Canadian dollars, except when noted otherwise. Where amounts are expressed on a barrel of oil equivalent ("BOE") basis, natural gas volumes have been converted to oil

equivalence at six thousand cubic feet per barrel. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. References to oil in this discussion include crude oil and natural gas liquids ("NGLs"). NGLs include condensate, propane, butane and ethane.

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