

Q2

SECOND INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2003

HIGHLIGHTS

	<i>Three months ended</i>	<i>Six months ended</i>
	<i>June 30, 2003</i>	
Revenue, net of royalties	\$ 4,357,352	\$ 8,901,522
Cash flow from operations	\$ 3,087,162	\$ 6,520,265
Cash flow per share		
Basic	\$ 0.14	\$ 0.33
Diluted	\$ 0.14	\$ 0.32
Net earnings	\$ 825,555	\$ 1,989,051
Earnings per share		
Basic	\$ 0.04	\$ 0.10
Diluted	\$ 0.04	\$ 0.10
Capital expenditures, net of dispositions	\$ 25,382,933	\$ 31,223,702
Bank debt, net of working capital		\$ 11,299,309
Shareholders' equity		\$ 45,295,766
Production		
Oil (bbls/d)	829	718
Natural gas (mcf/d)	4,332	4,377
Combined (BOE/d)	1,551	1,448
Realized prices		
Oil (\$/bbl)	\$ 33.46	\$ 37.25
Natural gas (\$/mcf)	\$ 7.02	\$ 7.74
Combined (\$/BOE)	\$ 37.49	\$ 41.90
Undeveloped land		
Gross acres		92,432
Net acres		52,559

MESSAGE TO SHAREHOLDERS

Celtic Exploration Ltd. ("Celtic" or "the Company") is pleased to report to shareholders on the activities of the Company during the second quarter of 2003.

During the second quarter, Celtic continued with an active exploration and development program. The Company drilled five gross (2.4 net) wells. Two exploration wells were cased in the Kakwa area and are currently being completed. A well in Skaro was cased and completed in a lower zone for oil and will be completed in several upper horizons for natural gas. Natural gas production is expected to commence from this well in September after pipeline construction is completed. In Bashaw, a Nisku test proved unsuccessful.

At the end of June, the Company began a five-well drilling program in southern Alberta. A successful oil well was drilled at Bow Island which has recently been placed on production. A second oil well was drilled at Bow Island early in the third quarter and is also now on production. The third well at Bow Island was dry and abandoned. Additional wells drilled at McGregor and Princess, subsequent to June 30, 2003, have also proved to be successful and are in the process of being completed. Celtic began exploiting acquired properties in the Michichi/Richdale and Ashmont areas towards the end of the second quarter. As a result, increased natural gas production from these areas is expected to impact third quarter results.

For the six month period ended June 30, 2003, Celtic generated \$6.5 million of cash flow from operations and recorded net earnings of \$2.0 million.

Average production for the second quarter was 1,551 BOE per day, up from 1,342 BOE per day in the first quarter of 2003.

Celtic completed its previously announced acquisition of oil and gas assets for approximately \$18.6 million. The properties acquired complement Celtic's existing core producing areas and are located in Alderson, Bow Island and Drumheller in southern Alberta, Ashmont in east central Alberta and Utikuma in northern Alberta.

Estimated current production from the properties acquired is approximately 740 BOE per day (517 bbls/d of light oil and 1.34 mmcf/d of natural gas). Cash flow from operations and production will impact the Company's results for the second half of 2003. After giving effect to this acquisition, Celtic's current production is approximately 2,200 BOE per day and the Company's land inventory is in excess of 50,000 net undeveloped acres.

Celtic continues to remain well positioned financially and operationally to implement its dual prong strategy to acquire assets with exploitation potential and, at the same time, implement its full cycle exploration program. This strategy will provide continued growth to shareholders.

Common shares of the Company trade on the Toronto Stock Exchange under the symbol "CLT". Celtic currently has 22,898,234 common shares issued and outstanding.



David J. Wilson
PRESIDENT & CEO
AUGUST 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results should be read in conjunction with Celtic's unaudited interim financial statements and selected notes for the period ended June 30, 2003.

Certain information provided herein is based on assumptions regarding future events and is subject to risks and uncertainties that may cause actual results to vary materially from estimates. Where amounts are expressed on a barrel of oil equivalent basis (BOE), natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. References to oil in this discussion include crude oil and natural gas liquids ("NGLs"). NGLs include condensate, propane, butane and ethane.

RESULTS OF OPERATIONS

Celtic began active oil and gas operations on September 30, 2002, therefore comparative results for the six months ended June 30, 2002 are not applicable. The Company's head office is based in Calgary, Alberta, Canada.

Production

For the six months ended June 30, 2003, Celtic's production averaged 1,448 BOE/d, comprised of 718 barrels per day of oil and 4,377 thousand cubic feet per day of natural gas. Production for the second quarter of 2003 was 1,551 BOE/d, up 16% from 1,342 BOE/d in the first quarter of 2003. Average prices received during the six month period ended June 30, 2003 were \$37.25 per barrel for oil sales and \$7.74 per thousand cubic feet for natural gas sales.

Revenue and Expenses

During the six month period ended June 30, 2003, oil and gas revenue was \$8.9 million, after royalties of \$2.1 million. Production expenses were \$1.9 million (\$7.29 per BOE), general and administrative expenses were \$337,623 (\$1.29 per BOE), interest expense was \$67,178 and capital taxes were \$67,500. Depletion and depreciation expenses were \$3.6 million (\$13.91 per BOE). A provision for future income taxes was recorded in the amount of \$886,430. As a result, the Company recorded net earnings of \$2.0 million or \$0.10 per share (basic and diluted).

Cash flow from operations for the six months ended June 30, 2003 was \$6.5 million (\$24.89 per BOE) or \$0.33 per share (\$0.32 per share diluted). Weighted average common shares outstanding used to compute per share amounts were 19.7 million basic and 20.1 million diluted.

Capital Expenditures

During the six month period ended June 30, 2003, Celtic incurred \$31.2 million in capital expenditures. Approximately \$19.1 million was spent on property and equipment acquisitions, \$8.3 million was spent on drilling and completing wells, \$2.4 million was spent on well equipment and facilities and the balance was spent on land, seismic and other.

Celtic is committed to future growth through its dual prong strategy to augment strategic oil and gas asset acquisitions with exploration and development drilling activity.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures for the first half of 2003 were funded by cash flow from operations, bank debt and working capital.

The Company currently has a revolving demand loan facility with a Canadian chartered bank, with an authorized borrowing amount of \$20.0 million. At June 30, 2003, Celtic had \$10.4 million outstanding under this facility. Bank debt, including working capital deficiency at June 30, 2003 was \$11.3 million. With significant unutilized bank lines, the Company is on strong financial footing to implement its future growth strategy.

Celtic expects to fund future capital expenditures through the use of a combination of cash flow from operations and bank debt, supplemented by new equity financings.

BALANCE SHEET

(unaudited)

As at June 30, 2003

ASSETS

Current assets

Cash and cash equivalents	\$	2,312
Accounts receivable		5,631,633
Prepaid expenses		82,991
Other		218,033

5,934,969

Property and equipment

68,943,882

\$ 74,878,851

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$	6,799,820
Income taxes payable		34,458
Bank debt		10,400,000

17,234,278

Future site restoration costs

579,795

Future income taxes

11,769,012

29,583,085

SHAREHOLDERS' EQUITY

Share capital [NOTE 2] 43,279,017

Retained earnings 2,016,749

45,295,766

\$ 74,878,851

See accompanying notes to the financial statements.

On behalf of the Board of Directors:



DIRECTOR



DIRECTOR

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
(unaudited)

For the six months ended June 30, 2003

<i>Revenue</i>	
Petroleum and natural gas	\$ 10,988,094
Royalties	(2,115,546)
	8,872,548
Other	28,974
	8,901,522
<i>Expenses</i>	
Production	1,908,956
General and administrative	337,623
Interest	67,178
Capital tax	67,500
Depletion and depreciation	3,644,784
	6,026,041
<i>Earnings before income taxes</i>	2,875,481
Future income taxes	886,430
<i>Net earnings</i>	1,989,051
<i>Retained earnings, beginning of period</i>	27,698
<i>Retained earnings, end of period</i>	\$ 2,016,749

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

(unaudited)

For the six months ended June 30, 2003

Cash provided by (used in):

Operating activities

Net earnings	\$ 1,989,051
Items not affecting cash:	
Depletion and depreciation	3,644,784
Future income taxes	886,430
<i>Cash flow from operations</i>	6,520,265
Change in non-cash operating working capital	(2,013,690)
	4,506,575

Financing activities

Increase in bank debt	8,850,000
Issue of common shares, net of costs	16,815,686
	25,665,686

Investing activities

Property and equipment expenditures	(12,182,101)
Property and equipment acquisitions	(19,059,600)
Property and equipment dispositions	18,000
Site restoration and abandonment expenditures	(12,851)
Change in non-cash investing working capital	106,586
	(31,129,967)

Decrease in cash (957,706)

Cash, beginning of period 960,018

Cash, end of period \$ 2,312

See accompanying notes to the financial statements.

SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENTS

Interim period ended June 30, 2003

(unaudited)

1. BASIS OF PRESENTATION

The interim financial statements of the Company have been prepared by management in accordance with accounting policies generally accepted in Canada.

2. SHARE CAPITAL

Authorized:

Unlimited number of common shares.

Unlimited number of preferred shares.

Issued:

COMMON SHARES	SHARES	AMOUNT
Balance, December 31, 2002	18,378,606	\$ 26,056,052
Issued for cash	19,628	58,884
Balance, March 31, 2003	18,398,234	26,114,936
Issued for cash by way of private placement	4,500,000	17,775,000
Share issue costs, after future income taxes	-	(610,919)
Balance, June 30, 2003	22,898,234	\$ 43,279,017

As at June 30, 2003, 3,700,000 common shares are held in escrow pursuant to escrow agreements and shall be released as to 2,775,000 shares on October 4, 2003 and 925,000 shares on April 4, 2004.

3. STOCK OPTIONS

The following table summarizes the changes in stock options outstanding during the year, up to June 30, 2003:

STOCK OPTIONS	OPTIONS	AVERAGE EXERCISE PRICE
Balance, December 31, 2002	1,010,000	\$ 2.68
Granted	165,000	4.05
Balance, March 31, 2003	1,175,000	2.87
Granted	20,000	4.40
Cancelled	(25,000)	4.05
Balance, June 30, 2003	1,170,000	\$ 2.88

The Company does not record compensation costs for stock options granted to officers, directors and employees. As required by Canadian generally accepted accounting principles, the impact on compensation costs of using the fair value method, whereby compensation costs are included in net earnings, must be disclosed.

If the fair value method had been used for options granted, pro forma net earnings, during the period ended June 30, 2003 would approximate \$1,648,387 and pro forma earnings per share would approximate \$0.08 (basic and diluted). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows: risk-free interest rate of 4.36%, expected life of three years and expected volatility of 107%.

4. PER SHARE AMOUNTS

The Company uses the treasury-stock method to determine the dilutive effect of stock options and other dilutive instruments. Under this method, only “in the money” dilutive instruments impact the calculations in computing diluted earnings and cash flow from operations per share.

In computing diluted earnings and cash flow from operations per share, 412,399 shares were added to the 19,712,493 weighted average number of common shares outstanding during the year for the dilutive effect of stock options.

Earnings and cash flow from operations per common share are summarized below:

For the six months ended June 30, 2003

Earnings per share		
Basic	\$	0.10
Diluted	\$	0.10
Cash flow from operations per share		
Basic	\$	0.33
Diluted	\$	0.32

5. SUPPLEMENTAL CASH FLOW INFORMATION

For the six months ended June 30, 2003

Interest received	\$	28,974
Interest paid	\$	67,178

6. SUBSEQUENT EVENTS

Stock exchange listing

On July 14, 2003, the Company’s shares commenced trading on the Toronto Stock Exchange. As a result, the Company’s shares were delisted from trading on the TSX Venture Exchange, simultaneously. The Company retained its trading symbol “CLT” on the Toronto Stock Exchange.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Robert J. Dales
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William C. Guinan
Partner
Borden Ladner Gervais LLP

Eldon A. McIntyre
President
Jarrod Oils Ltd.

Neil G. Sinclair
President
Sinson Investments Ltd.

David J. Wilson
President & CEO
Celtic Exploration Ltd.

OFFICERS

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STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading symbol “CLT”