



**PRESS RELEASE**

(Stock Symbol "CLT" – TSX)

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Calgary, Alberta

**CELTIC REPORTS INCREASED FUNDS FROM OPERATIONS AND PRODUCTION  
IN THE SECOND QUARTER OF 2007**

Celtic Exploration Ltd. ("Celtic" or the "Company") has released its financial and operating results for the three months and six months ended June 30, 2007. Highlights are as follows:

| (\$ thousands, unless otherwise indicated)          | Three months ended June 30, |           |        | Six months ended June 30, |            |        |
|---|-----------------------------|-----------|--------|---------------------------|------------|--------|
|   | 2007                        | 2006      | Change | 2007                      | 2006       | Change |
| <b>FINANCIAL</b>                                    |                             |           |        |                           |            |        |
| Revenue, before royalties and derivatives           | \$ 34,556                   | \$ 29,308 | 18%    | \$ 65,354                 | \$ 63,184  | 3%     |
| Funds from operations                               | \$ 19,244                   | \$ 18,008 | 7%     | \$ 41,290                 | \$ 38,546  | 7%     |
| Funds from operations per share                     |                             |           |        |                           |            |        |
| Basic (\$/share)                                    | \$ 0.56                     | \$ 0.60   | -7%    | \$ 1.23                   | \$ 1.33    | -8%    |
| Diluted (\$/share)                                  | \$ 0.55                     | \$ 0.59   | -7%    | \$ 1.21                   | \$ 1.29    | -6%    |
| Net earnings  | \$ 2,957                    | \$ 5,481  | -46%   | \$ 107                    | \$ 12,782  | -99%   |
| Earnings per share                                  |                             |           |        |                           |            |        |
| Basic (\$/share)                                    | \$ 0.09                     | \$ 0.18   | -50%   | \$ 0.00                   | \$ 0.44    | -      |
| Diluted (\$/share)                                  | \$ 0.09                     | \$ 0.18   | -50%   | \$ 0.00                   | \$ 0.43    | -      |
| Capital expenditures, net of dispositions           | \$ 66,431                   | \$ 41,704 | 59%    | \$ 122,997                | \$ 84,058  | 46%    |
| Total assets  |                             |           |        | \$ 465,151                | \$ 308,890 | 51%    |
| Debt, net of working capital                        |                             |           |        | \$ 119,367                | \$ 83,452  | 43%    |
| Shareholders' equity                                |                             |           |        | \$ 271,912                | \$ 165,178 | 65%    |
| Common shares outstanding (thousands)               |                             |           |        |                           |            |        |
| Basic   |                             |           |        | 37,402                    | 31,075     | 20%    |
| Diluted   |                             |           |        | 40,155                    | 33,476     | 20%    |
| <b>OPERATIONS</b>                                   |                             |           |        |                           |            |        |
| Production  |                             |           |        |                           |            |        |
| Oil (bbls/d)  | 2,947                       | 3,187     | -8%    | 3,046                     | 3,401      | -10%   |
| Natural gas (mcf/d)                                 | 24,398                      | 13,134    | 86%    | 21,702                    | 13,725     | 58%    |
| Combined (BOE/d)                                    | 7,013                       | 5,376     | 30%    | 6,663                     | 5,689      | 17%    |
| Production per million shares (BOE/d)               | 213                         | 181       | 18%    | 199                       | 196        | 2%     |
| Realized sales prices, after financial derivatives  |                             |           |        |                           |            |        |
| Oil (\$/bbl)  | \$ 66.54                    | \$ 63.98  | 4%     | \$ 66.14                  | \$ 62.99   | 5%     |
| Natural gas (\$/mcf)                                | \$ 7.96                     | \$ 9.31   | -15%   | \$ 9.42                   | \$ 10.39   | -9%    |
| Operating netbacks (\$/BOE)                         |                             |           |        |                           |            |        |
| Oil and gas revenue, before hedging                 | \$ 53.43                    | \$ 55.07  | -3%    | \$ 53.83                  | \$ 55.98   | -4%    |
| Increased price from physical fixed price contracts | 0.70                        | 4.86      | -86%   | 0.37                      | 5.41       | -93%   |
| Realized gain on financial derivatives              | 1.51                        | 0.76      | 99%    | 6.72                      | 1.37       | 391%   |
| Royalties   | (10.36)                     | (10.47)   | -1%    | (10.96)                   | (12.05)    | -9%    |
| Production expense                                  | (10.73)                     | (9.74)    | 10%    | (11.20)                   | (9.78)     | 15%    |
| Transportation and selling expense                  | (0.83)                      | (0.47)    | 77%    | (0.85)                    | (0.66)     | 29%    |
| Operating netback                                   | \$ 33.72                    | \$ 40.01  | -16%   | \$ 37.90                  | \$ 40.27   | -6%    |
| Drilling activity                                   |                             |           |        |                           |            |        |
| Total wells   | 10                          | 22        | -55%   | 39                        | 54         | -28%   |
| Working interest wells                              | 8.3                         | 19.5      | -57%   | 35.4                      | 40.0       | -11%   |
| Success rate on working interest wells              | 70%                         | 86%       | -19%   | 79%                       | 79%        | -      |
| Undeveloped land (acres)                            |                             |           |        |                           |            |        |
| Gross   |                             |           |        | 304,715                   | 307,942    | -1%    |
| Net   |                             |           |        | 234,095                   | 217,555    | 8%     |

**2007 Second Quarter Highlights**

- Acquired assets in the Kaybob South area consisting of 4.4 million BOE of proved plus probable liquids-rich natural gas reserves and 1,040 BOE per day of current production for approximately \$46.0 million;
- Generated gross proceeds of \$45.9 million by completing a common share private placement that resulted in the issuance of 3.2 million common shares at a price of \$14.35 per share;

- Drilled 10 (8.3 net working interest) wells during the quarter resulting in 2 (1.3 net) oil wells, 5 (4.6 net) natural gas wells and 3 (2.4 net) unsuccessful wells, for an overall success rate, based on net wells, of 70%;
- Reported funds from operations of \$19.2 million (\$0.55 per share, diluted), an increase of 7% from \$18.0 million (\$0.59 per share, diluted) in the same period of the previous year;
- Generated an average operating netback of \$33.72 per BOE, down 16% from \$40.01 per BOE in the second quarter of 2006;
- Increased average daily production by 30% to 7,013 BOE per day, up from 5,376 BOE per day in the three months ended June 30, 2006;

## President's Message

Celtic is pleased to report to shareholders the Company's activities in the second quarter of 2007. During the second quarter, Celtic drilled 10 (8.3 net) wells with an overall success rate of 70%. Production during the quarter averaged 7,013 BOE per day, an increase of 30% from the second quarter of 2006. In the second quarter of 2007, Celtic reported funds from operations of \$19.2 million or \$0.55 per share, diluted. Net earnings for the quarter were \$3.0 million or \$0.09 per share, diluted.

In East Central Alberta, Celtic drilled a successful natural gas well which is expected to come on-stream in the third quarter of 2007. The Company has a large drilling inventory in this shallow multi-zone producing area. Celtic expects to drill 10 to 15 wells in this area during 2007.

Celtic drilled four wells in Southern Alberta. At Newell, an oil test proved unsuccessful. Three wells drilled in the Drumheller/Michichi area resulted in two successful natural gas wells which are expected to come on-stream in the third quarter of 2007. In addition, the Company participated in the drilling of a successful Bakken light oil well (50% interest) in Saskatchewan.

In West Central Alberta, drilling activity was slower than anticipated as a result of delays caused by consistent wet weather conditions.

At Willesden Green, the Company re-entered two wells resulting in one successful light oil discovery well. Celtic expects to drill two additional wells targeting light oil in this area during the second half of 2007.

At Kaybob South, Celtic drilled two wells during the quarter. A well on the Company's block of lands to the east of its main producing pool has been cased. Celtic's first Montney horizontal well was drilled in the Company's main liquids-rich natural gas Montney producing block. Celtic is encouraged with the initial production rates from this horizontal well which tested at rates double that of a vertical well. The capital cost of the horizontal well was approximately 50% more than a vertical well. The Company will drill two additional horizontal wells at Kaybob during the third quarter. In addition, Celtic commenced compression in the Kaybob South natural gas field during the second quarter resulting in new wells performing at their productive capacity without interrupting production from older wells and at the same time increasing productivity on all wells. During the third quarter of 2007, the Company expects to install a second compressor at Kaybob South.

At the end of the second quarter, Celtic completed the acquisition of a 49.88% working interest in the Kaybob South Beaverhill Lake Gas Unit #2, as well as certain other non-unit interests in the Kaybob South area. The Company paid approximately \$46.0 million for 1,040 BOE per day of current production and 4.4 million BOE of proved plus probable reserves, resulting in acquisition metrics of approximately \$44,200 per daily flowing BOE and \$10.46 per BOE of reserves. Concurrently, Celtic issued 3.2 million common shares at a price of \$14.35 per share, resulting in gross proceeds of \$45.9 million. During September 2007, for approximately three to four weeks, the unit production acquired will be shut-in, allowing the Company to complete upgrades to the pipeline and related facilities. These upgrades will ensure a more stable production and transportation profile in the future. Production and cash flow from the acquired assets will be reported by Celtic commencing July 1, 2007.

At June 30, 2007, Celtic's undeveloped land holdings increased by 8% compared to the corresponding period of the previous year, to over 234,000 net acres. In addition to the increase in its undeveloped land position, the Company continues to add significantly to its drilling inventory as a result of successful exploration and development activity.

Based on field estimates, Celtic's average production for the week ending July 21, 2007 was approximately 9,000 BOE per day.

## Production

Oil and gas production in the second quarter of 2007 increased 30% to average 7,013 BOE per day compared to 5,376 BOE per day in the second quarter of 2006. Production per million shares outstanding in the second quarter of 2007 averaged 213 BOE per day, up 18% from 181 BOE per day in the same period of 2006.

Celtic was able to show strong growth in production during the second quarter of 2007, even though the Company experienced production down-time during this period. At Kaybob South, approximately 440 BOE/d (average for the quarter) was curtailed due to mechanical disruptions encountered by the operator of the facility and the pipeline through which Celtic's production from its Kaybob South Montney pool is transported. As a result of its acquisition at Kaybob South, Celtic now has ownership and operates the pipeline and facility mentioned above. In addition, completion and pipeline construction operations were delayed during the quarter as a result of consistently wet weather conditions in west central Alberta.

For the six months ended June 30, 2007, production averaged 6,663 BOE/d (46% oil and 54% gas), resulting in a 17% increase from 5,689 BOE/d average production for the same period in 2006. Production per million shares outstanding in the first half of 2007 averaged 199 BOE per day, up 2% from 196 BOE per day in the same period of 2006.

With the recent acquisition, new production recently brought on-stream and with additional behind pipe volumes currently being tied-in, Celtic expects to show significant production growth in the third quarter of 2007.

## Revenue and Royalties

Revenue, before royalties and financial derivatives, for the three months ended June 30, 2007 was \$34.6 million, an increase of 18% compared to \$29.3 million in the same period of the previous year. Royalties in the second quarter of 2007 averaged 19.1% of sales (excluding financial derivatives) compared to 17.5% in the corresponding period of 2006. Revenue for the six months ended June 30, 2007 was \$65.4 million, an increase of 3% compared to \$63.2 million in the same period of the previous year. Royalties in the first half of 2007 averaged 20.2% of sales compared to 19.6% in the corresponding period of 2006.

The combined average product price received for oil and gas sales, before financial derivative contracts, for the quarter ended June 30, 2007 was \$54.13 (\$55.64 after realized financial derivatives) per BOE, a decrease of 10% 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, 2007 was \$54.20 (\$60.92 after realized financial derivatives) per BOE, a decrease of 12% compared to the first half of the previous year.

## Expenses

For the three month period ended June 30, 2007, production expenses were \$6.8 million (\$10.73 per BOE), transportation and selling expense was \$0.5 million (\$0.83 per BOE), general and administrative expenses were \$0.7 million (\$1.12 per BOE), interest expense was \$1.6 million, and depletion, depreciation and amortization expenses were \$13.7 million (\$21.44 per BOE). In the previous year, 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).

For the six months ended June 30, 2007, production expenses were \$13.5 million (\$11.20 per BOE), transportation and selling expense was \$1.0 million (\$0.85 per BOE), general and administrative expenses were \$1.6 million (\$1.33 per BOE), interest expense was \$2.8 million, and depletion, depreciation and amortization expenses were \$26.6 million (\$22.10 per BOE). In the previous year, 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).

## Taxes

For the three months ended June 30, 2007, Celtic provided for a provision of future income taxes in the amount of \$1.3 million, compared to a provision of \$2.9 million in the same period of 2006. For the six month period ended June 30, 2007, the Company recorded a provision for future income taxes in the amount of \$46,000, compared to a provision of \$6.1 million in the six month period ended June 30, 2006.

As at June 30, 2007, Celtic had sufficient tax deductions available, allowing the Company to not record any current income tax expense. Estimated unused income tax deductions available as at June 30, 2007 were approximately \$295.8 million.

### **Net Earnings and Funds from Operations**

Net earnings for the three months ended June 30, 2007 was \$3.0 million (\$0.09 per share, basic and diluted), a decrease of 46% from \$5.5 million (\$0.18 per share, basic and diluted) in the same period of the previous year. For the six months ended June 30, 2007, the Company recorded net earnings of \$0.1 million (nil per share, basic and diluted), compared to \$12.8 million (\$0.44 per share, basic and \$0.43 per share, diluted) recorded for the six months ended June 30, 2006.

Funds from operations were \$19.2 million (\$0.56 per share, basic and \$0.55 per share, diluted) in the second quarter of 2007, an increase of 7% compared to \$18.0 million (\$0.60 per share, basic and \$0.59 per share, diluted) in the second quarter of 2006. For the six months ended June 30, 2007, funds from operations were \$41.3 million (\$1.23 per share, basic and \$1.21 per share, diluted), up 7% from \$38.5 million (\$1.33 per share, basic and \$1.29 per share, diluted) in the same period of 2006.

### **Capital Expenditures**

Capital expenditures in the second quarter of 2007 were \$66.4 million (\$20.6 million excluding acquisitions), up 59% from \$41.7 million spent in the second quarter of 2006. During the six month period ended June 30, 2007, capital expenditures, including acquisitions were \$123.0 million, an increase of 46% compared to the same period of the previous year. Drilling and completion operations accounted for \$53.2 million, equipment and facility expenditures were \$19.8 million, \$4.2 million was spent on land and seismic and \$45.8 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.

### **Drilling Activity**

During the three months ended June 30, 2007, Celtic drilled 10 (8.3 net) wells compared to 22 (19.5 net) wells in the second quarter of the previous year, with an overall success rate of 70% on net wells drilled. The split between development drilling and exploratory drilling was 90% and 10%, respectively. The average vertical depth of net wells drilled was 1,850 metres, 10% shallower than the average drilling depth of 2,057 metres in the second quarter of 2006. For the six months ended June 30, 2007, the Company drilled 39 (35.4 net) wells resulting in 5 (3.8 net) oil wells, 25 (24.3 net) natural gas wells and 9 (7.3 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 six months of 2007 was provided by funds from operations, proceeds from equity offerings and working capital.

In February 2007, the Company issued 1.5 million common shares on a flow-through basis by way of private placement, at a price of \$16.65 per share. The equity offering resulted in gross proceeds of \$25.0 million. In June 2007, Celtic issued 3.2 million common shares by way of private placement, at a price of \$14.35 per share, resulting in gross proceeds of \$45.9 million.

The Company has in place a committed term credit facility with Canadian financial institutions. The maximum amount available to be drawn under this facility is currently \$155.0 million, up from \$135.0 million available at March 31, 2007. At June 30, 2007, Celtic had drawn \$125.4 million, leaving sufficient unused credit lines available to fund on-going capital expenditures. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

### **Working Capital**

The capital intensive nature of Celtic's activities may create 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, 2007, the working capital surplus plus outstanding bank debt represented 77% of the Company's maximum authorized bank borrowing credit limit.

## **Common Share Information**

As at June 30, 2007, there were 37.4 million common shares outstanding. In addition, directors, employees and consultants have been granted options to purchase 2.8 million common shares of the Company at an average exercise price of \$9.82 per share. Detailed information regarding the Company's stock options outstanding is contained in the notes to the financial statements. The Company's common shares trade on the Toronto Stock Exchange under the symbol "CLT".

## **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.

## **2007 Forecast**

Celtic continues to be 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 reasonable 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 \$186 million for 2007. This capital spending will be financed by funds from operations, bank credit lines and equity offerings completed in the first half of 2007.

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 8,200 and 8,500 BOE/d (40% oil and 60% gas). This represents a 38% to 43% increase from average production of 5,963 BOE/d in 2006.

The Company's commodity price assumptions for 2007 are US\$67.75 per barrel for WTI oil, US\$7.10 per mmbtu for NYMEX natural gas and a US/Canadian exchange rate of US\$0.916. These prices compare to 2006 average prices of US\$66.22 per barrel for WTI oil, US\$7.26 per mmbtu for NYMEX natural gas and a US/Canadian exchange rate of US\$0.882.

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 \$90.0 million or \$2.54 per share (\$2.50 per share, diluted) and net earnings is forecasted to be approximately \$5.5 million or \$0.16 per share (\$0.15 per share, diluted). Changes in forecasted commodity prices and variances in production estimates can have a significant impact to estimated funds from operations and net earnings. Please refer to the advisory regarding forward-looking statements shown above.

Bank debt, net of working capital, is estimated to reach \$133.0 million by the end of 2007 or approximately 86% of the Company's existing credit facility.

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 drilling locations, we look forward to continued growth in 2007 and beyond.

### **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 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.

### **Critical Accounting Estimates**

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

Capitalized costs relating to the exploration and development of oil and gas reserves, along with estimated future capital expenditures required in order to develop proved reserves, are depleted and depreciated on a unit-of-production basis using estimated proved reserves.

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Liability recognition for asset retirement obligations associated with oil and gas well sites and facilities are determined using estimated costs discounted based on the estimated life of the asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. Over time, the liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation.

In order to recognize stock based compensation expense, the Company estimates the fair value of stock options granted using assumptions related to interest rates, expected life of the option, volatility of the underlying security and expected dividend yields. These assumptions may vary over time.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded on Celtic's financial statements.

For further information, please contact:

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