



**PRESS RELEASE**  
(Stock Symbol “CLT” – TSX)

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Calgary, Alberta

**CELTIC REPORTS RECORD THIRD QUARTER RESULTS**

Celtic Exploration Ltd. (“Celtic” or the “Company”) has released its financial and operating results for the three months and nine months ended September 30, 2005. Highlights are as follows:

(\$ thousands, unless otherwise indicated)	Three months ended September 30,			Nine months ended September 30,		
	2005	2004	Change	2005	2004	Change
<b>FINANCIAL</b>						
Revenue, net of royalties	\$ 22,186	\$ 13,986	59%	\$ 49,930	\$ 37,174	34%
Funds from operations	\$ 17,082	\$ 10,155	68%	\$ 38,295	\$ 26,821	43%
Funds from operations per share						
Basic (\$/share)	\$ 0.59	\$ 0.39	51%	\$ 1.40	\$ 1.04	35%
Diluted (\$/share)	\$ 0.57	\$ 0.38	50%	\$ 1.35	\$ 1.01	34%
Net earnings	\$ 5,729	\$ 3,594	59%	\$ 11,202	\$ 8,223	36%
Earnings per share						
Basic (\$/share)	\$ 0.20	\$ 0.14	43%	\$ 0.41	\$ 0.32	28%
Diluted (\$/share)	\$ 0.19	\$ 0.14	36%	\$ 0.39	\$ 0.31	26%
Capital expenditures, net of dispositions	\$ 29,400	\$ 11,860	148%	\$ 77,740	\$ 36,784	111%
Total assets				\$ 207,074	\$ 122,416	69%
Bank debt				\$ 36,850	\$ 17,450	111%
Working capital deficiency, excluding bank debt				\$ 5,153	3,122	65%
Bank debt, net of working capital				\$ 42,003	\$ 20,572	104%
<b>Shareholders' equity</b>				\$ 118,393	\$ 72,939	62%

	Three months ended September 30,			Nine months ended September 30,		
	2005	2004	Change	2005	2004	Change
<b>OPERATIONS</b>						
Production						
Oil (bbls/d)	2,833	2,396	18%	2,392	2,331	3%
Natural gas (mcf/d)	13,485	8,086	67%	10,831	7,838	38%
Combined (BOE/d)	5,081	3,744	36%	4,197	3,637	15%
Production per million shares (BOE/d)	176	145	21%	153	141	9%
Realized sales prices, before financial derivatives						
Oil (\$/bbl)	\$ 70.57	\$ 53.06	33%	\$ 62.43	\$ 47.36	32%
Natural gas(\$/mcf)	\$ 9.14	\$ 6.91	32%	\$ 8.42	\$ 6.91	22%
Combined (\$/BOE)	\$ 63.60	\$ 48.86	30%	\$ 57.30	\$ 45.23	27%
Operating netbacks, after financial derivatives						
Oil (\$/bbl)	\$ 40.32	\$ 34.58	17%	\$ 37.37	\$ 31.02	20%
Natural gas (\$/mcf)	\$ 5.83	\$ 4.12	42%	\$ 5.44	\$ 3.96	37%
Combined (\$/BOE)	\$ 37.95	\$ 31.02	22%	\$ 35.33	\$ 28.42	24%
Drilling activity						
Total wells	27	16	69%	70	42	67%
Working interest wells	15.3	9.1	68%	43.6	28.0	56%
Success rate on working interest wells	76%	78%	-3%	75%	88%	-15%
Undeveloped land						
Gross acres				259,170	182,481	42%
Net acres				158,888	103,259	54%

## OPERATING ACTIVITIES

Celtic is pleased to report to shareholders the Company's activities in the third quarter of 2005. During the third quarter, Celtic drilled 27 (15.3 net) wells with an overall success rate of 76%.

In Southern Alberta, the Company continued to develop its Bantry oil pool drilling an additional seven wells and commencing production from three different pads. Further development drilling is planned for the pool in the fourth quarter, along with three new exploration wells in the area. At Drumheller, Celtic drilled and cased a natural gas well which is currently being completed in dual zones. Four coal bed methane wells were also drilled and cased in this area and are awaiting completion and tie-in.

In East Central Alberta, Celtic drilled five wells in the Ashmont area and has commenced a 10 well drilling program for the fourth quarter.

In West Central Alberta, the Company continued to experience wet weather conditions at Swan Hills causing numerous interruptions on drilling and production operations. However, Celtic was able to drill four wells and participated in the drilling of two additional infill wells in the recently acquired Virginia Hills Belloy-Shunda Unit. At Kakwa/Chime, the Company participated in the drilling of two wells that are currently being tested. Both wells are close to pipeline infrastructure. At Fox Creek, Celtic drilled a successful horizontal well in the Beaverhill Lake A Pool and is currently equipping the well for production. This well has set up another step-out location which the Company plans to drill in the fourth quarter. Oil production from this pool is classified as 48° API and receives condensate pricing, a premium to Edmonton light oil posting, during the winter months.

The Company has increased its 2005 capital expenditure budget by 21% to \$115.0 million. In doing so, Celtic will drill an incremental 18 high working interest wells in the fourth quarter of 2005, that were previously planned for early 2006. In addition, eight low working interest coal bed methane wells that were previously planned for 2005 have been deferred to 2006. The majority of the incremental spending of \$20.0 million will be incurred on drilling, completing and equipping these additional wells and the balance will be applied to land and seismic expenditures. The Company has contracted eight rigs in the fourth quarter to drill its expanded capital program. This "head start" on the winter drilling program will contribute towards Celtic's 2006

production targets and as importantly, reduces the number of wells that the Company will have to drill during the first quarter of 2006. As a result, this is expected to be more cost effective given our belief that services will inevitably be more expensive and difficult to obtain in early 2006 given the expectations for a very active drilling period industry wide.

Production additions from the incremental capital spending in 2005 are expected to come on-stream in early 2006. Celtic remains optimistic that it is on track to exit 2005 with production of 6,400 to 6,800 BOE/d. Average production for 2005 is expected to be between 4,600 and 4,800 BOE/d.

### **THIRD QUARTER HIGHLIGHTS**

- Drilled 27 (15.3 net working interest) wells during the quarter resulting in 13 (8.1 net) oil wells, 5 (2.6 net) natural gas wells, 4 (1.0 net) coal bed methane wells and 5 (3.6 net) unsuccessful wells, for an overall success rate, based on net wells, of 76%;
- Incurred capital expenditures of \$29.4 million;
- Reported earnings per share (diluted) of \$0.19, up 36% from the third quarter of 2004;
- Reported funds from operations per share (diluted) of \$0.57, an increase of 50% from the same period in the previous year;
- Generated an average operating netback of \$37.95 per BOE, up 22% from \$31.02 per BOE in the corresponding period of 2004;
- Increased average daily production by 36% to 5,081 BOE per day and achieved daily average production per million shares of 176 BOE per day, up 21% in the third quarter of 2005 compared to the third quarter of the previous year.

### **PRODUCTION**

For the three months ended September 30, 2005, Celtic's production averaged 5,081 BOE/d, comprised of 2,833 barrels per day of oil (56%) and 13.5 million cubic feet per day of natural gas (44%). This represented a 36% improvement from the average production of 3,744 BOE/d in the third quarter of 2004. For the nine months ended September 30, 2005, production averaged 4,197 BOE/d, made up of 2,392 barrels per day of oil and 10.8 million cubic feet per day of natural gas, resulting in a 15% increase from 3,637 BOE/d average production for the same period in 2004. With additional new production coming on-stream as a result of recent drilling success, Celtic expects to show continued production growth in the fourth quarter of 2005.

### **COMMODITY PRICES**

Average prices received during the three month period ended September 30, 2005 were \$70.57 per barrel for oil sales and \$9.14 per thousand cubic feet for natural gas sales. During the same period ended September 30, 2004, average prices received for sales were \$53.06 per barrel for oil and \$6.91 per thousand cubic feet for natural gas. During the nine months ended September 30, 2005, average selling prices were \$62.43 per barrel for oil and \$8.42 per thousand cubic feet for natural gas. In comparison, average selling prices for the same period in the previous year were \$47.36 per barrel for oil and \$6.91 per thousand cubic feet for natural gas.

Realized losses on financial derivative contracts equated to \$3.60 per BOE in the third quarter of 2005 and \$1.69 per BOE for the nine months ended September 30, 2005.

### **REVENUE AND ROYALTIES**

Revenue, after royalties, for the three months ended September 30, 2005 was \$22.2 million, up 59% from \$14.0 million during the same period of the previous year. Royalties during the third quarter of 2005 were \$5.7 million, averaging 19.2% of sales. During the same period of 2004, royalties were \$2.9 million, averaging 17.1% of sales. Revenue, after royalties, for the nine months ended September 30, 2005 was \$49.9 million, up 34% from \$37.2 million during the same period of the previous year. Royalties during the first nine months of 2005 were \$12.1 million, averaging 18.4% of sales. During the same period of 2004, royalties were \$8.0 million, averaging 17.6% of sales. Celtic has been able to achieve lower royalties compared to industry standard through its participation in royalty incentive programs available for deep drilling and horizontal re-activation wells.

## EXPENSES

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 \$0.2 million, and depletion, depreciation and amortization expenses were \$8.2 million (\$17.55 per BOE). In the previous year, for the three month period ended September 30, 2004, production expenses were \$3.1 million (\$8.98 per BOE), transportation and selling expense was \$0.2 million (\$0.60 per BOE), interest expense was \$0.1 million, general and administrative expenses were \$0.5 million (\$1.35 per BOE), stock based compensation expense was \$0.1 million, and depletion, depreciation and amortization expenses were \$4.8 million (\$13.84 per BOE).

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). In the previous year, for the nine months ended September 30, 2004, production expenses were \$8.2 million (\$8.21 per BOE), transportation and selling expense was \$0.7 million (\$0.67 per BOE), interest expense was \$0.3 million, general and administrative expenses were \$1.1 million (\$1.14 per BOE), stock based compensation expense was \$0.4 million, and depletion, depreciation and amortization expenses were \$14.0 million (\$14.03 per BOE).

## TAXES

As at September 30, 2005, Celtic had sufficient tax deductions available allowing the Company not to record any current income tax expense. For the three months ended September 30, 2005, Celtic provided for a provision of future income taxes in the amount of \$2.7 million, compared to a provision of \$1.6 million in the same period of 2004. For the nine month period ended September 30, 2005, the Company recorded a provision for future income taxes in the amount of \$5.1 million. This amount differs from the expected provision for income taxes of \$6.2 million based on the statutory combined income tax rate of 37.62% 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 \$0.4 million related to substantively enacted changes to the federal income tax rate and resource related deductions from income. These changes, which will be phased in over the next two years, will result in a lower corporate income tax rate, provide for the deduction of crown royalties and eliminate the resource allowance deduction. An analysis of the income tax provision is included in the notes to the financial statements.

Capital tax for the three months ended September 30, 2005 was \$15,000. This tax is with respect to the federal Large Corporations Tax ("LCT") or Part I.3 Tax and is calculated based on the Company's taxable capital base including debt and shareholders' equity. The LCT is being phased out over the next three years, with the LCT rate reducing from 0.175% effective January 1, 2005 to 0.125%, 0.0625% and nil effective January 1, 2006, January 1, 2007 and January 1, 2008, respectively.

## FUNDS FROM OPERATIONS AND NET EARNINGS

Funds from operations for the three months ended September 30, 2005 was \$17.1 million (\$36.55 per BOE) or \$0.59 per share (\$0.57 per share diluted). During the same period in the previous year, funds from operations was \$10.2 million (\$29.48 per BOE) or \$0.39 per share (\$0.38 per share diluted). Funds from operations for the nine months ended September 30, 2005 was \$38.3 million (\$33.42 per BOE) or \$1.40 per share (\$1.35 per share diluted). During the same period of 2004, funds from operations was \$26.8 million (\$26.91 per BOE) or \$1.04 per share (\$1.01 per share diluted).

The Company recorded net earnings of \$5.7 million or \$0.20 per share (\$0.19 per share diluted) during the three month period ended September 30, 2005. During the same period in the previous year, net earnings were \$3.6 million or \$0.14 per share (basic and diluted). Net earnings for the nine months ended September 30, 2005 were \$11.2 million or \$0.41 per share (\$0.39 per share diluted), an increase of 36% from \$8.2 million in earnings for the same period in 2004.

Celtic's increases in funds from operations and net earnings in the first nine months of 2005, compared to the same period in 2004, were primarily due to the 15% growth in production and the 27% higher realized price per barrel of oil equivalent for its oil and gas sales.

Weighted average common shares outstanding as at September 30, 2005 used to compute per share amounts were 27.4 million basic and 28.4 million diluted.

## **CAPITAL EXPENDITURES**

Celtic is committed to future growth through its strategy to augment strategic oil and gas acquisitions with exploitation upside, and at the same time, implement a full cycle exploration program. Since the Company began active oil and gas operations in September 2002, Celtic has completed several acquisitions and large area farm-in arrangements in order to establish a cash flow platform and an inventory of exploration and development prospects from which the Company can grow through the drill bit.

During the three month period ended September 30, 2005, Celtic spent \$29.4 million in capital expenditures. Drilling and completion operations accounted for \$16.9 million and equipment and facility expenditures were \$8.2 million. Approximately \$4.2 million was spent on land and seismic, building the Company's inventory of prospects for future drilling.

## **OUTLOOK AND FUTURE GROWTH**

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. The Company continues to add new reserves with long reserve life providing steady growth in net asset value.

Celtic's has planned a capital expenditure budget in the amount of \$120 million for 2006. Capital spending for 2006 will 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 2006 and estimated decline rates on production volumes, Celtic expects production in 2006 to average in the range of 7,200 BOE/d to 7,600 BOE/d (55% oil and 45% gas). This represents a 55% to 65% increase from estimated average production in 2005.

The Company's commodity price assumptions for 2006 are US\$58.50 per barrel for WTI oil, US\$8.75 per MMBTU for NYMEX natural gas and a US/Canadian exchange rate of US\$0.8475. As a result, Celtic's realized oil and gas prices are expected to be \$63.00 per barrel and \$9.75 per thousand cubic feet, respectively.

After giving effect to the aforementioned production and commodity price assumptions, funds from operations for 2006 is forecasted to be approximately \$100.0 million or \$3.46 per share (\$3.28 per share, diluted) and net earnings is forecasted to be approximately \$34.9 million or \$1.21 per share (\$1.14 per share, diluted).

Bank debt, net of working capital, at the end of 2006 is estimated to be approximately 0.8 times 2006 funds from operations.

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 financial position, we look forward to continued growth in 2006.

## **FINANCIAL STATEMENTS**

This press release should be read in conjunction with the Company's unaudited interim financial statements for the six months ended June 30, 2005 and the audited financial statements and related notes for the year ended December 31, 2004. The unaudited interim financial statements of Celtic have been prepared by management and approved by the Company's Audit Committee and Board of Directors. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and have not been reviewed by the Company's external auditors. The Company's financial statements and additional information relating to Celtic can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **CAUTIONARY 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.

## **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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