



**PRESS RELEASE**  
 (Stock Symbol "CLT" – TSX)  
 November 8, 2007  
 Calgary, Alberta

**CELTIC REPORTS RECORD PRODUCTION  
 IN THE THIRD QUARTER OF 2007**

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

(\$ thousands, unless otherwise indicated)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
<b>FINANCIAL</b>						
Revenue, before royalties and derivatives	\$ 40,356	\$ 33,919	19%	\$ 105,710	\$ 97,102	9%
Funds from operations	\$ 18,805	\$ 20,812	-10%	\$ 60,095	\$ 59,358	1%
Funds from operations per share						
Basic (\$/share)	\$ 0.50	\$ 0.70	-29%	\$ 1.73	\$ 1.98	-13%
Diluted (\$/share)	\$ 0.50	\$ 0.68	-26%	\$ 1.70	\$ 1.92	-11%
Net earnings	\$ 4,584	\$ 15,850	-71%	\$ 4,691	\$ 28,632	-84%
Earnings per share						
Basic (\$/share)	\$ 0.12	\$ 0.53	-77%	\$ 0.13	\$ 0.95	-86%
Diluted (\$/share)	\$ 0.12	\$ 0.52	-77%	\$ 0.13	\$ 0.92	-86%
Capital expenditures, net of dispositions	\$ 31,637	\$ 47,940	-34%	\$ 154,633	\$ 131,998	17%
Total assets				\$ 479,026	\$ 354,768	35%
Bank debt, net of working capital				\$ 128,027	\$ 85,251	50%
Shareholders' equity				\$ 277,294	\$ 198,236	40%
Common shares issued and outstanding (thousands)						
Basic				37,529	32,129	17%
Diluted				40,472	34,486	17%
<b>OPERATIONS</b>						
Production						
Oil (bbls/d)	3,102	3,048	2%	3,065	3,282	-7%
Natural gas (mcf/d)	34,871	18,759	86%	26,140	15,421	70%
Combined (BOE/d)	8,914	6,175	44%	7,422	5,852	27%
Production per million shares (BOE/d)	238	197	21%	213	195	9%
Realized sales prices, after financial derivatives						
Oil (\$/bbl)	\$ 69.84	\$ 70.99	-2%	\$ 67.40	\$ 65.49	3%
Natural gas (\$/mcf)	\$ 6.20	\$ 8.31	-25%	\$ 7.97	\$ 9.54	-16%
Operating netbacks (\$/BOE)						
Oil and gas revenue, before hedging	\$ 47.00	\$ 55.46	-15%	\$ 51.06	\$ 55.77	-8%
Increased price from physical fixed price contracts	2.21	4.25		1.12	5.00	
Realized gain (loss) on financial derivatives	(0.66)	0.60		3.73	1.10	
Realized sales price, after hedging	\$ 48.55	\$ 60.31	-19%	\$ 55.91	\$ 61.87	-10%
Royalties	(10.25)	(10.05)	2%	(10.67)	(11.34)	-6%
Production expense	(11.55)	(10.38)	11%	(11.34)	(9.99)	14%
Transportation and selling expense	(0.97)	(0.58)	67%	(0.90)	(0.63)	43%
Operating netback	\$ 25.78	\$ 39.30	-34%	\$ 33.00	\$ 39.91	-17%
Drilling activity						
Total wells	18	19	-5%	57	73	-22%
Working interest wells	12.6	14.4	-13%	48.0	54.4	-12%
Success rate on working interest wells	76%	65%	17%	78%	75%	4%
Undeveloped land (acres)						
Gross				324,002	312,153	4%
Net				245,406	223,107	10%

**2007 Third Quarter Highlights**

- Drilled 18 (12.6 net working interest) wells during the quarter resulting in 1 (1.0 net) oil well, 6 (6.0 net) natural gas wells, 8 (2.6 net) coal bed methane wells and 3 (3.0 net) unsuccessful wells, for an overall success rate, based on net wells drilled, of 76%;

- Increased average daily production by 44% to 8,914 BOE per day, up from 6,175 BOE per day in the three months ended September 30, 2006;
- Reported funds from operations of \$18.8 million (\$0.50 per share, diluted), a decrease of 10% from \$20.8 million (\$0.68 per share, diluted) in the same period of the previous year; and
- Generated an average operating netback of \$25.78 per BOE, down 34% from \$39.30 per BOE in the third quarter of 2006.

## President's Message

Celtic Exploration Ltd. is pleased to report to shareholders the Company's activities in the third quarter of 2007. During the third quarter, Celtic drilled 18 (12.6 net) wells with an overall success rate of 76%. Production during the quarter averaged a record 8,914 BOE per day, an increase of 44% from the third quarter of 2006. In the third quarter of 2006, Celtic reported funds from operations of \$18.8 million or \$0.50 per share, diluted. Net earnings for the quarter were \$4.6 million or \$0.12 per share, diluted.

Lower natural gas prices have plagued the industry in recent months and natural gas storage levels continue to reach record high levels. In order to mitigate the risk of price volatility during the next twelve months, Celtic has entered into financial derivative contracts whereby the Company has fixed the price, at AECO, on future sales of 25,000 GJ (23,706 mcf) per day from November 1, 2007 to October 31, 2008 at a price of \$7.10 per GJ (\$7.49 per mcf). In addition, the Company has a put option at NYMEX for the November 1, 2007 to December 31, 2007 period on 10,000 mmbtu per day at a price of US\$7.50 per mmbtu. Based on third quarter average natural gas production, these contracts represent 97% of production for the November 1, 2007 to December 31, 2007 period and 68% of production for the January 1, 2008 to October 31, 2008 period.

Celtic's syndicate of lenders has completed an interim review in October 2007. As a result of the review, the lenders have agreed to increase the Company's credit facility by \$10.0 million to \$165.0 million. With substantial natural gas forward price contracts in place and an increased borrowing base, Celtic can continue drilling development wells and is well positioned financially to take advantage of strategic acquisitions during this period of commodity price volatility and uncertainty.

In Southern Alberta, Celtic drilled eight coal bed methane ("CBM") wells with 100% success. The Company's average working interest in these wells is 32.5%. These wells tested at gross rates between 155 and 215 mcf per day and are expected to come on-stream in the fourth quarter of 2007.

In West Central Alberta, drilling activity was focused on liquids-rich natural gas prospects at Kaybob South and light oil at Swan Hills.

At Swan Hills, the Company drilled a successful light oil well in the Beaverhill Lake formation. This well is now on production. Celtic expects to drill additional wells targeting light oil in this area during the fourth quarter of 2007.

At Kaybob South, Celtic drilled seven wells during the quarter, two of which were horizontal wells on the main block. Four wells are now on production and the remaining three wells are in the process of being completed and tied-in.

At the end of the third quarter, Celtic temporarily shut-in the recently acquired Kaybob South Beaverhill Lake Gas Unit #2, 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. Facility work has now been completed and production was restored during the third week of October 2007.

At September 30, 2007, Celtic's net undeveloped land holdings increased by 10% compared to the corresponding period of the previous year, to over 245,000 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.

On October 25, 2007, the Government of Alberta released a report entitled *The New Royalty Framework* ("NRF") whereby Crown royalty rates will change effective January 1, 2009. Included in the NRF is a royalty incentive for deep natural gas wells which Celtic is assuming will apply to qualifying wells, regardless of when they were drilled. The Company has re-run its December 31, 2006 reserves evaluation using the new royalty rates proposed in the NRF and using constant commodity prices based on Celtic's forecasted commodity prices provided in its 2008

guidance. As a result, royalties in 2009 are expected to be marginally higher; however, royalties over the life of total reserves is expected to be marginally lower.

The royalty incentive for deep natural gas wells would appear to be positive for Celtic's horizontal drilling plans at Kaybob South. Using the Company's 2008 budgeted commodity prices as a constant, the net present value of each horizontal well, discounted at 10% before tax, would increase by 3.4% under NRF.

## **Production**

Oil and gas production in the third quarter of 2007 increased 44% to average 8,914 BOE per day compared to 6,175 BOE per day in the third quarter of 2006. Production per million shares outstanding in the third quarter of 2007 averaged 238 BOE per day, up 21% from 197 BOE per day in the same period of 2006.

Celtic's strong growth in production during the third quarter of 2007 came from successful drilling results, primarily at Kaybob South coupled with the acquisition of additional assets in the same area completed at the end of the second quarter of 2007. The Company expects to generate continued production growth as a result of its substantial development drilling program inventory at Kaybob South.

For the nine months ended September 30, 2007, production averaged 7,422 BOE per day (41% oil and 59% gas), resulting in a 27% increase from 5,852 BOE per day average production for the same period in 2006. Production per million shares outstanding in the first nine months of 2007 averaged 213 BOE per day, up 9% from 195 BOE per day in the same period of 2006.

## **Revenue and Royalties**

Revenue, before royalties and financial derivatives, for the three months ended September 30, 2007 was \$40.4 million, an increase of 19% compared to \$33.9 million in the same period of the previous year. Royalties in the third quarter of 2007 averaged 20.9% of sales (excluding financial derivatives) compared to 16.8% in the corresponding period of 2006. Revenue for the nine months ended September 30, 2007 was \$105.7 million, an increase of 9% compared to \$97.1 million in the same period of the previous year. Royalties in the first nine months of 2007 averaged 20.5% of sales compared to 18.7% 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 September 30, 2007 was \$49.21 (\$48.55 after realized financial derivatives) per BOE, a decrease of 18% compared to the third quarter of the previous year. The combined average product price received for oil and gas sales, before financial derivative contracts, for the nine months ended September 30, 2007 was \$52.18 (\$55.91 after realized financial derivatives) per BOE, a decrease of 14% compared to the first nine months of the previous year.

## **Expenses**

For the three month period ended September 30, 2007, production expenses were \$9.5 million (\$11.55 per BOE), transportation and selling expense was \$0.8 million (\$0.97 per BOE), general and administrative expenses were \$0.6 million (\$0.76 per BOE), interest expense was \$1.7 million, and depletion, depreciation and amortization expenses were \$17.8 million (\$21.66 per BOE). In the previous year, 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), general and administrative expenses were \$0.5 million (\$0.80 per BOE), interest expense was \$1.0 million, and depletion, depreciation and amortization expenses were \$11.4 million (\$20.08 per BOE).

For the nine months ended September 30, 2007, production expenses were \$23.0 million (\$11.34 per BOE), transportation and selling expense was \$1.8 million (\$0.90 per BOE), general and administrative expenses were \$2.2 million (\$1.10 per BOE), interest expense was \$4.5 million, and depletion, depreciation and amortization expenses were \$44.4 million (\$21.91 per BOE). In the previous year, 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), general and administrative expenses were \$1.5 million (\$0.94 per BOE), interest expense was \$2.7 million, and depletion, depreciation and amortization expenses were \$30.4 million (\$19.00 per BOE).

## **Taxes**

For the three months ended September 30, 2007, Celtic provided for a provision of future income taxes in the amount of \$1.2 million, compared to a provision of \$2.4 million in the same period of 2006. For the nine month period ended September 30, 2007, the Company recorded a provision for future income taxes in the amount of \$1.3 million, compared to a provision of \$8.5 million in the nine month period ended September 30, 2006.

As at September 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 September 30, 2007 were approximately \$313.0 million.

On October 30, 2007, the Government of Canada announced a proposal to reduce future corporate income taxes. Upon enactment into law, these changes would reduce the Company's future income tax obligations.

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

Net earnings for the three months ended September 30, 2007 was \$4.6 million (\$0.12 per share, basic and diluted), a decrease of 71% from \$15.8 million (\$0.53 per share, basic and \$0.52 per share, diluted) in the same period of the previous year. For the nine months ended September 30, 2007, the Company recorded net earnings of \$4.7 million (\$0.13 per share, basic and diluted), compared to \$28.6 million (\$0.95 per share, basic and \$0.92 per share, diluted) recorded for the nine months ended September 30, 2006.

Funds from operations were \$18.8 million (\$0.50 per share, basic and diluted) in the third quarter of 2007, a decrease of 10% compared to \$20.8 million (\$0.70 per share, basic and \$0.68 per share, diluted) in the third quarter of 2006. For the nine months ended September 30, 2007, funds from operations were \$60.1 million (\$1.73 per share, basic and \$1.70 per share, diluted), up 1% from \$59.4 million (\$1.98 per share, basic and \$1.92 per share, diluted) in the same period of 2006.

### **Capital Expenditures**

Capital expenditures in the third quarter of 2007 were \$31.6 million, down 34% from \$47.9 million spent in the third quarter of 2006. During the nine month period ended September 30, 2007, capital expenditures, including acquisitions, were \$154.6 million, an increase of 17% compared to the same period of the previous year. Drilling and completion operations accounted for \$74.1 million, equipment and facility expenditures were \$29.0 million, \$5.6 million was spent on land and seismic and \$45.6 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 September 30, 2007, Celtic drilled 18 (12.6 net) wells compared to 19 (14.4 net) wells in the third quarter of the previous year, with an overall success rate of 76% on net wells drilled. The average vertical depth of net wells drilled was 2,076 metres, 30% shallower than the average drilling depth of 2,958 metres in the third quarter of 2006. For the nine months ended September 30, 2007, the Company drilled 57 (48.0 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 nine months of 2007 was provided by funds from operations, proceeds from equity offerings, working capital and bank debt.

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 \$165.0 million, up from \$155.0 million available at June 30, 2007. At September 30, 2007, Celtic had drawn \$116.1 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 September 30, 2007, the working capital deficiency plus outstanding bank debt represented 83% of the Company's maximum authorized bank borrowing credit limit.

## **Common Share Information**

As at September 30, 2007, there were 37.5 million common shares outstanding. In addition, directors, employees and certain consultants have been granted options to purchase 2.9 million common shares of the Company at an average exercise price of \$10.33 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 ("TSX") 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's Board of Directors has approved a capital expenditure budget in the amount of \$186.0 million for 2007. During the nine month period ended September 30, 2007, the Company had incurred \$154.6 million in capital expenditures. The remaining expenditures in the amount of \$31.4 million to be incurred in the fourth quarter of 2007 will be financed by funds from operations and unused bank credit lines. Celtic's capital expenditure budget for 2007 will see the Company participate at high working interests in the drilling of approximately 70 to 75 wells during the year.

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 7,800 and 8,000 BOE/d (40% oil and 60% gas). This represents a 31% to 34% increase from average production of 5,963 BOE/d in 2006.

The Company's commodity price assumptions for 2007 are US\$68.75 per barrel for WTI oil, US\$7.00 per mmbtu for NYMEX natural gas and a US/Canadian exchange rate of US\$0.9258. 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\$0.8815.

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 \$85.5 million or \$2.39 per share (\$2.34 per share, diluted) and net earnings is forecasted to be approximately \$3.5 million or \$0.10 per share (\$0.10 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 \$141.0 million by the end of 2007 or 85% of current available credit lines.

## **2008 Guidance**

Celtic continues to be optimistic about its future prospects. The Company has successfully established a substantial production base 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 an initial capital expenditure budget in the amount of \$120 million for 2008. This capital spending will be financed by funds from operations and available bank credit lines.

After forecasting risked production discoveries, timing of production on-stream dates resulting from the Company's planned capital expenditures for 2008 and estimated decline rates on existing volumes, Celtic expects production in 2008 to average between 10,500 and 10,700 BOE/d (34% oil and 66% gas).

The Company's commodity price assumptions for 2008 are US\$70.00 per barrel for WTI oil, US\$7.50 per mmbtu for NYMEX natural gas and a US/Canadian exchange rate of US\$1.0000. These prices compare to estimated 2007 average prices of US\$68.75 per barrel for WTI oil, US\$7.00 per mmbtu for NYMEX natural gas and a US/Canadian exchange rate of US\$0.9258.

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 2008 is forecasted to be approximately \$102.5 million or \$2.74 per share (\$2.67 per share, diluted) and net earnings is forecasted to be approximately \$9.5 million or \$0.25 per share (\$0.25 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 \$155.0 million by the end of 2008 or approximately 1.5 times forecasted 2008 funds from operations.

Celtic's capital expenditure budget for 2008 will see the Company participate at high working interests in the drilling of approximately 58 to 62 wells during the year. Celtic continues to pursue property acquisitions that would complement its existing asset base. Depending on actual commodity prices, completion of such acquisitions would be in lieu of drilling operations or 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 2008 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.

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