

**PRESS RELEASE**

(Stock Symbol "CLT" – TSX)

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Calgary, Alberta

**CELTIC REPORTS RECORD FUNDS FROM OPERATIONS OF \$22.0 MILLION IN THE FIRST QUARTER OF 2007**

Celtic Exploration Ltd. ("Celtic" or the "Company") is pleased to release its financial and operating results for the three months ended March 31, 2007. A summary of results are as follows:

(\$ thousands, unless otherwise indicated)	Three months ended March 31,		Change
	2007	2006	
<b>FINANCIAL</b>			
Revenue, net of royalties	\$ 18,518	\$ 27,782	-33%
Funds from operations	\$ 22,045	\$ 20,538	7%
Funds from operations per share			
Basic (\$/share)	\$ 0.67	\$ 0.71	-6%
Diluted (\$/share)	\$ 0.66	\$ 0.69	-4%
Net earnings	\$ (2,850)	\$ 7,301	-
Earnings (loss) per share			
Basic (\$/share)	\$ (0.09)	\$ 0.25	-
Diluted (\$/share)	\$ (0.08)	\$ 0.24	-
Capital expenditures, net of dispositions	\$ 56,565	\$ 42,354	34%
Total assets	\$ 405,249	\$ 288,839	40%
Bank debt	\$ 90,950	\$ 72,000	
Working capital deficiency, excluding bank debt	26,238	13,107	
Bank debt, net of working capital	\$ 117,188	\$ 85,107	38%
Shareholders' equity	\$ 222,145	\$ 133,592	66%
Common shares issued and outstanding (thousands)			
Basic	33,814	29,027	16%
Diluted	36,375	31,384	16%
<b>OPERATIONS</b>			
Production			
Oil (bbls/d)	3,147	3,617	-13%
Natural gas (mcf/d)	18,975	14,322	32%
Combined (BOE/d)	6,310	6,004	5%
Production per million shares (BOE/d)	192	207	-7%
Realized sales prices, after financial derivatives			
Oil (\$/bbl)	\$ 65.77	\$ 62.11	6%
Natural gas (\$/mcf)	\$ 11.31	\$ 11.40	-1%
Operating netbacks (\$/BOE)			
Oil and gas revenue, before hedging	\$ 54.24	\$ 56.79	-4%
Increased price from physical fixed price contracts	-	5.91	-
Realized gain (loss) on financial derivatives	12.57	1.92	-
Royalties	(11.63)	(13.49)	-14%
Production expense	(11.72)	(9.82)	19%
Transportation and selling expense	(0.86)	(0.83)	4%
Operating netback	\$ 42.60	\$ 40.48	5%
Drilling activity			
Total wells	29	32	-9%
Working interest wells	27.1	20.5	32%
Success rate on working interest wells	82%	73%	12%
Undeveloped land			
Gross acres	309,180	318,549	-3%
Net acres	234,573	199,228	18%

## 2007 First Quarter Highlights

- Generated gross proceeds of \$25.0 million by completing a flow-through share private placement that resulted in the issuance of 1.5 million common shares at a price of \$16.65 per share;
- Drilled 29 (27.1 net working interest) wells during the year resulting in 3 (2.5 net) oil wells, 20 (19.7 net) natural gas wells and 6 (4.9 net) unsuccessful wells, for an overall success rate, based on net wells, of 82%;
- Reported funds from operations of \$22.0 million (\$0.67 per share, diluted), an increase of 7% from \$20.5 million (\$0.69 per share, diluted) in the same period of the previous year;
- Realized a \$7.1 million gain on financial derivative contracts by fixing higher oil and gas prices than actual realized prices; notwithstanding this realized gain, the Company reported a net loss of \$2.8 million (\$0.08 per share, diluted) for the first quarter of 2007, primarily due to accounting standards that require fair value adjustments to financial derivative contracts with settlement dates in the future. At March 31, 2007, the fair value of financial derivative contracts was \$0.8 million compared to \$13.6 million at December 31, 2006. The difference of \$12.8 million was reported as an unrealized loss in the first quarter of 2007;
- Generated an average operating netback of \$42.60 per BOE, up 5% from \$40.48 per BOE in the first quarter of 2006; and
- Increased average daily production by 5% to 6,310 BOE per day, up from 6,004 BOE per day in the first three months of 2006;

## Operations

Celtic Exploration Ltd. ("Celtic" or the "Company") is pleased to report to shareholders the Company's activities in the first quarter of 2007. During the first quarter, Celtic drilled 29 (27.1 net) wells with an overall success rate of 82%. Production during the quarter averaged 6,310 BOE per day, an increase of 5% from the first quarter of 2006. The majority of new production from the first quarter's drilling program was brought on-stream towards the end of March and in early April. As a result, Celtic expects to show significant growth in production during the second quarter of 2007.

In the first quarter of 2007, Celtic reported record quarterly funds from operations of \$22.0 million, an increase of 15% from the fourth quarter of 2006. Contributing to this strong financial performance was a realized gain on oil and gas commodity price contracts of \$7.1 million. However, primarily due to accounting standards that require fair value adjustments to financial derivative contracts with settlement dates in the future, the Company reported a net loss of \$2.8 million for the three month period ended March 31, 2007. During this period, mark to market valuations relating to financial derivatives resulted in a reduction of revenue in the amount of \$12.8 million. During 2006, revenue was increased by \$13.6 million due to a mark to market valuations of financial derivative contracts. These mark to market adjustments affect revenue and earnings, but do not affect funds from operations.

In East Central Alberta, Celtic drilled four wells, of which three are now on production and the fourth well is expected to be put on production late in the second quarter. 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 two wells in Southern Alberta and one well in Northern Alberta. At Bantry/Newell, a step-out oil well from the original discovery well was drilled and completed and is currently on production. Three more follow-up step-out wells are planned for the second quarter. At Drumheller/Michichi, a development well was drilled with better than expected results. This well is currently on production at a rate of 2.0 MMCF per day (Celtic's interest is 87.2%). Two more development wells and an exploration test are planned for the second quarter. A well drilled at Whitelaw in Northern Alberta proved to be unsuccessful.

The majority of the Company's drilling activity in the first quarter of 2007 took place in the deep basin of West Central Alberta where 22 (20.9 net) wells were drilled with an overall success rate of 81%.

At Kaybob South, Celtic carried out a very active drilling program with three drilling rigs operating during the quarter. As a result of pad drilling which resulted in substantial capital cost savings to Celtic, production from existing wells had to be shut-in temporarily. However, due to the success of the program, significant amounts

of new production were brought on-stream towards the end of the first quarter and in the beginning of the second quarter. The financial impact of this new production will be reflected in the Company's second quarter results. In addition, Celtic commenced installation of compression in the Kaybob South natural gas field with the delivery of a 1,500 HP compressor at the end of March. This project is expected to be completed in early May 2007 and will result 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 first quarter, 16 wells were drilled in the Kaybob South and greater Kaybob area. Four of these wells were drilled on new prospects in the area resulting in three successful wells. Celtic's working interest in this project is 100%. The Company continues to explore in the greater Kaybob area targeting new pool discoveries. Celtic expects to continue operating three drilling rigs in this area after spring break-up.

At March 31, 2007, Celtic's undeveloped land holdings increased by 18% 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.

## **Production**

Oil and gas production in the first quarter of 2007 increased 5% to average 6,310 BOE per day compared to 6,004 BOE per day in the first quarter of 2006. Average production in the fourth quarter of 2006 was 6,290 BOE per day. Production per million shares outstanding in the first quarter of 2007 averaged 192 BOE per day, down 7% from 207 BOE per day in the same period of 2006.

## **Revenue and Royalties**

Revenue, after royalties, for the three months ended March 31, 2007 was \$18.5 million, a decrease of 33% compared to \$27.8 million in the same period of the previous year. Lower revenue in the first quarter of 2007 reflects a \$12.8 million reduction in revenue as a result of mark to market adjustments to financial derivative contracts. Previously, in 2006, revenue was increased by \$13.6 million as a result of mark to market adjustments to financial derivative contracts. Royalties in the first quarter of 2007 averaged 21.5% of sales (17.4%, after realized financial derivatives) compared to 21.5% (20.9%, after realized financial derivatives) in the corresponding period of 2006. Celtic continues to achieve lower royalties than industry standard through its participation in available royalty incentive programs.

The combined average product price received for oil and gas sales, after financial derivative contracts, for the quarter ended March 31, 2007 was \$66.81 per BOE, 4% higher than \$64.62 per BOE, the price for the first quarter of the previous year.

## **Expenses**

For the three month period ended March 31, 2007, production expenses were \$6.7 million (\$11.72 per BOE), transportation and selling expense was \$0.5 million (\$0.86 per BOE), general and administrative expenses were \$0.9 million (\$1.56 per BOE), interest expense was \$1.3 million, and depletion, depreciation and amortization expenses were \$13.0 million (\$22.83 per BOE). In the previous year, for the three month period ended March 31, 2006, production expenses were \$5.3 million (\$9.82 per BOE), transportation and selling expense was \$0.4 million (\$0.83 per BOE), general and administrative expenses were \$0.6 million (\$1.20 per BOE), interest expense was \$0.7 million, and depletion, depreciation and amortization expenses were \$9.8 million (\$18.20 per BOE).

## **Taxes**

For the three months ended March 31, 2007, Celtic provided for a recovery of future income taxes in the amount of \$1.2 million. During the same period of 2006, the Company recorded a provision of future income taxes in the amount of \$3.2 million. As at March 31, 2007, Celtic is not currently taxable as it has sufficient income tax deductions available to shelter taxable income.

## **Funds from Operations and Earnings**

Funds from operations were \$22.0 million (\$0.68 per share, basic and \$0.67 per share, diluted), an increase of 7% compared to \$20.5 million (\$0.71 per share, basic and \$0.69 per share, diluted) for the three months ended March 31, 2006. Net loss for the three months ended March 31, 2007 was \$2.8 million (\$0.09 per

share, basic and \$0.08 per share, diluted), compared to net earnings of \$7.3 million (\$0.25 per share, basic and \$0.24 per share, diluted) in the same period of the previous year.

### **Capital Expenditures**

During the three month period ended March 31, 2007, Celtic spent \$56.6 million on capital projects. Drilling and completion operations accounted for \$41.2 million, equipment and facility expenditures were \$11.7 million and \$3.6 million was spent on land and seismic. The Company continues to invest in land and seismic in order to build on its inventory of prospects for future drilling. In the first three months of the previous year, capital expenditures were \$52.7 million, prior to dispositions of \$10.3 million.

### **Drilling Activity**

During the three months ended March 31, 2007, Celtic drilled 29 (27.1 net) wells compared to 32 (20.5 net) wells in the first quarter of the previous year, with an overall success rate of 82% on net wells drilled. The split between development drilling and exploratory drilling was 66% and 34%, respectively. The average vertical depth of net wells drilled was 2,107 metres, compared to the average drilling depth of 2,225 metres in the first three months of 2006.

### **Source of Funds**

Investment funding for capital expenditures incurred in the first three months of 2007 was provided by funds from operations, proceeds from an equity financing 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.

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 \$135.0 million. At March 31, 2007, Celtic had drawn \$91.0 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 March 31, 2007, the working capital deficiency plus outstanding bank debt represented 87% of the Company's maximum authorized bank borrowing credit limit.

### **Common Share Information**

As at March 31, 2007, there were 33.8 million common shares outstanding. In addition, directors, employees and consultants have been granted options to purchase 2.6 million common shares of the Company at an average exercise price of \$8.31 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".

### **Financial Derivative Contracts**

On May 8, 2007, Celtic settled the following AECO fixed price financial derivative contracts: 10,000 GJ/d for the period from July 1, 2007 to October 31, 2007 fixed at \$6.91/GJ and 4,000 GJ/d from November 1, 2007 to December 31, 2007 fixed at \$9.06/GJ. Net payment required to settle these contracts was \$112,000. In addition, the Company sold its NYMEX US\$7.50/mmbtu put option on 7,000 mmbtu/d for the period from July 1, 2007 to October 31, 2007 for proceeds of US\$357,000. Celtic also entered into a swaption contract whereby option proceeds of US\$190,000 were received upfront and subsequently, a WTI fixed price contract to sell 500 bbls/d for the period from January 1, 2008 to December 31, 2008 at US\$70.00 per barrel has been put in place. The effect of all the aforementioned transactions resulted in net proceeds to Celtic of approximately \$490,000 and will be reflected in the Company's second quarter results.

## **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 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 a capital expenditure budget in the amount of \$140 million for 2007. This capital spending will be financed by funds from operations, bank credit lines and a flow-through share equity offering completed in February 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 8,100 and 8,400 BOE/d (43% oil and 57% gas). This represents a 36% to 41% increase from average production of 5,963 BOE/d in 2006.

The Company's commodity price assumptions for 2007 are US\$62.00 per barrel for WTI oil, US\$8.00 per mmbtu for NYMEX natural gas and a US/Canadian exchange rate of US\$0.870. 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 \$100.0 million or \$2.97 per share (\$2.90 per share, diluted) and net earnings is forecasted to be approximately \$13.0 million or \$0.39 per share (\$0.38 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 \$125.0 million by the end of 2007 or approximately 1.2 times forecasted 2007 funds from operations.

Celtic's capital expenditure budget for 2007 will see the Company participate at high working interests in the drilling of approximately 70 to 80 wells during the year. Celtic continues to pursue property acquisitions that would complement its existing asset base and completion of such acquisitions would be over and above the Company's planned capital expenditure budget.

Celtic is excited about the growth prospects being generated in the Company and remains optimistic about the Company's ability to deliver continued per share growth in production, funds from operations and earnings. Given the Company's strong inventory of 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 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.

## **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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