



**PRESS RELEASE**

(Stock Symbol "CLT" – TSX)

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Calgary, Alberta

**CELTIC REPORTS RECORD PRODUCTION AND FUNDS FROM OPERATIONS  
IN THE FIRST QUARTER OF 2008**

Celtic Exploration Ltd. ("Celtic" or the "Company") has released its financial and operating results for the three months ended March 31, 2008. Summary of results are as follows:

**HIGHLIGHTS**

	Three months ended March 31,		
	2008	2007	Change
<i>[\$ thousands, unless otherwise indicated]</i>			
<b>FINANCIAL</b>			
Revenue, before royalties and financial derivatives	<b>\$57,371</b>	\$30,798	86%
Funds from operations	<b>\$28,298</b>	\$22,045	28%
Funds from operations per share			
Basic (\$/SHARE)	<b>\$0.75</b>	\$0.67	12%
Diluted (\$/SHARE)	<b>\$0.74</b>	\$0.66	12%
Net loss	<b>(\$7,375)</b>	(\$2,850)	159%
Loss per share			
Basic (\$/SHARE)	<b>(\$0.20)</b>	(\$0.09)	122%
Diluted (\$/SHARE)	<b>(\$0.19)</b>	(\$0.08)	138%
Capital expenditures, net of dispositions	<b>\$32,608</b>	\$56,565	-42%
Total assets	<b>\$511,705</b>	\$405,249	26%
Bank debt, net of working capital	<b>\$157,412</b>	\$117,188	34%
Shareholders' equity	<b>\$268,083</b>	\$222,145	21%
Common shares issued and outstanding (thousands)			
Basic	<b>37,772</b>	33,814	12%
Diluted	<b>40,627</b>	36,375	12%

	Three months ended March 31,		
	2008	2007	Change
<b>OPERATIONS</b>			
Production			
Oil [BBL/D]	3,309	3,147	5%
Natural gas [MCF/D]	38,717	18,975	104%
Combined [BOE/D]	9,762	6,310	55%
Production per million shares [BOE/D]	259	192	35%
Realized sales prices, after financial derivatives			
Oil [\$/BBL]	\$81.17	\$65.77	23%
Natural gas [\$/MCF]	\$8.51	\$11.31	-25%
Operating netbacks [\$/BOE]			
Oil and gas revenue, before hedging	\$64.59	\$54.24	19%
Realized gain (loss) on financial derivatives	(3.33)	12.57	
Realized sales price, after hedging	\$61.26	\$66.81	-8%
Royalties	(15.09)	(11.63)	30%
Production expense	(10.42)	(11.72)	-11%
Transportation and selling expense	(0.73)	(0.86)	-15%
Operating netback	\$35.02	\$42.60	-18%
Drilling activity			
Total wells	15	29	-48%
Working interest wells	12.3	27.1	-55%
Success rate on working interest wells	77%	82%	-6%
Undeveloped land			
Gross acres	310,577	309,180	0%
Net acres	237,725	234,573	1%

## 2008 HIGHLIGHTS

The three months ended March 31, 2008 was another successful quarter in the execution of the Company's growth strategy. Highlights for the first quarter of 2008 are as follows:

- Drilled 15 (12.3 net working interest) wells during the quarter resulting in 4 (2.6 net) oil wells, 7 (6.8 net) natural gas wells and 1 (0.1 net) coal bed methane wells, for an overall success rate, based on net wells, of 77%;
- Generated a record high \$28.3 million in funds from operations for the three month period ended March 31, 2008, up 28% from \$22.0 million in the same period of the previous year;
- Reported funds from operations per share, diluted, of \$0.74, an increase of 12% from \$0.66 per share in the first quarter of the previous year;
- Generated an average operating netback of \$35.02 per BOE, down 18% from \$42.60 per BOE in the same period of 2007;
- Increased average daily production by 55% to 9,762 BOE per day, up from 6,310 BOE per day in the first quarter of 2007 and achieved daily average production per million shares of 259 BOE per day, up 35% in 2008 compared to 192 BOE per day in the corresponding period of the previous year.

## **PRESIDENT'S MESSAGE**

Celtic is pleased to report to shareholders the Company's activities in the first quarter of 2008. During the quarter, Celtic drilled 15 (12.3 net) wells with an overall success rate of 77%. Production during the quarter averaged a record high 9,762 BOE per day, an increase of 55% from the first quarter of 2007. In the first quarter of 2008, Celtic reported funds from operations of \$28.3 million (\$0.74 per share, diluted), an increase of 28% from \$22.0 million (\$0.66 per share, diluted) reported in the same period of the previous year.

In East Central Alberta, Celtic drilled two horizontal oil wells at Edwand. Both wells were put on production and produced until break-up. One well resulted in a new pool discovery where Celtic has extensive land holdings. The Company expects to further delineate this pool in 2008. The second well proved to have higher viscosities delaying further development. In Southern Alberta, the Company drilled three wells in the Michichi area resulting in two oil wells and one coal bed methane (CBM) well. With the recent increase in natural gas prices, Celtic is currently evaluating its inventory of CBM locations and development cretaceous locations in southern Alberta.

The majority of Celtic's drilling activity in the first quarter of 2008 took place in the deep basin of West Central Alberta, where 10 (9.6 net) wells were drilled with an overall success rate of 70%.

At Kaybob, Celtic continues to have success developing the Kaybob South Montney pool. During the quarter, three horizontal wells were drilled and completed. In addition, the Company drilled and completed three wells in the newer Kayfox Montney pool, expanding the extent of the pool. Development of the Kayfox pool is expected to commence in early fall, upon approval of the Company's down-spacing application. Further delineation of Kayfox and two other new pools at Chickadee and Lower Kaybob South will continue throughout 2008.

At March 31, 2008, the Company had 310,577 (237,725 net) acres of undeveloped land. With this inventory of land and with plans to apply for additional well down-spacing in the Kaybob development prospect, Celtic continues to generate numerous drilling locations that will provide continued growth over the next few years.

Subsequent to the quarter-end, Celtic completed the following transactions:

On April 22, 2008, the Company completed an equity financing by way of a short form prospectus, on a bought deal basis, by issuing 2.9 million common shares at a price of \$15.00 per share, for gross proceeds of \$43.1 million.

On April 29, 2008, the Company entered into a term credit agreement on a syndicated basis with four financial institutions whereby the amount available under this new credit facility is \$200.0 million, up from \$165.0 million available under the previous facility. This agreement has a maturity date of June 30, 2009. Celtic has entered into a two-year interest rate swap transaction whereby \$80.0 million of borrowings under its credit facility has been fixed at an all-in cost of approximately 4.4% until maturity on April 22, 2010.

On April 29, 2008, Celtic completed the acquisition of certain natural gas assets located in the Company's core operating and producing area at Kaybob South, Alberta, for a price of \$45.2 million. The acquired assets included interests in certain facilities and proved plus probable reserves of 4.4 million BOE, as evaluated by Celtic's independent engineers, Sproule Associates Limited. As a result, these long-life reserves (10.5 year RLI) were acquired at a very competitive price of \$10.35 per BOE.

## **PRODUCTION**

Oil and gas production in the first quarter of 2008 increased 55% to average 9,762 BOE per day compared to 6,310 BOE per day in the same period of 2007. Production per million shares outstanding in the first three months of 2008 averaged 259 BOE per day, up 35% from 192 BOE per day in the corresponding period of the previous year.

Celtic's production is entirely based in Alberta and is divided into four core areas. In Southern Alberta, the Company's primary natural gas producing properties are located at Drumheller, Michichi and Richdale and its primary oil producing properties are located at Princess and Bantry. In East Central Alberta, the principal producing asset is a shallow natural gas property at Ashmont and Figure Lake. In Northern Alberta, the Company produces mainly light oil from Ogston, Otter and Utikuma Lake. In West Central Alberta, Celtic has both natural gas and light oil production at Kaybob South, Fox Creek and Swan Hills. West Central Alberta will be the Company's most active drilling area in 2008.

## **REVENUE**

Revenue, before royalties, and before realized and unrealized gains or losses on financial derivatives, for the three months ended March 31, 2008 was \$57.4 million, an increase of 86% compared to \$30.8 million in the same period of the previous year.

The combined average product price received for oil and gas sales, adjusted for realized gains or losses on financial derivatives for the three months ended March 31, 2008 was \$61.26 per BOE, a decrease of 8% compared to the first three months of the previous year.

## **OIL OPERATIONS**

Oil production for the three months ended March 31, 2008 averaged 3,309 barrels per day, an increase of 5% compared to the first three months of the previous year.

The average price received for oil sales, after realized financial derivatives, for the quarter ended March 31, 2008 was \$81.17 per barrel, up 23% from the average price received in the first quarter of 2007.

For the quarter ended March 31, 2008, average oil royalties were 27.0% of sales, after financial derivatives (24.8% of sales, before financial derivatives). In the first quarter of the previous year, average oil royalties were 20.6% of sales, after financial derivatives (22.4% of sales, before financial derivatives). Higher royalty rates (before financial derivatives) in 2008 were primarily a result of higher oil prices received compared to the previous year.

Transportation and selling expenses for oil production in the first three months of 2008 averaged \$0.66 per barrel compared to \$0.78 per barrel in 2007.

For the three months ended March 31, 2008, production expenses were \$14.54 per barrel. In the same period of the previous year, production expenses were \$13.78 per barrel. The higher per unit production expense in 2008 reflects the higher costs incurred to operate oil handling facilities.

## **NATURAL GAS OPERATIONS**

Natural gas production for the three months ended March 31, 2008 averaged 38,717 mcf per day, an increase of 104% compared to the corresponding period of the previous year. Increases in natural gas production in 2008 were primarily a result of Celtic's successful drilling results in its resource development prospect located at Kaybob, Alberta.

The average price received for natural gas sales, after realized financial derivatives, for the quarter ended March 31, 2008 was \$8.51 per mcf, down 25% from the average price received in the first quarter of 2007.

For the three month period ended March 31, 2008, average natural gas royalties were 22.7% of sales, after financial derivatives (22.5% of sales, before financial derivatives). In the first quarter of the previous year, average natural gas royalties were 14.3% of sales, after financial derivatives (20.3% of sales, before financial derivatives). Lower royalty rates (after financial derivatives) in 2007 were primarily a result of significant increases in revenue resulting from physical fixed price contracts and realized gains on financial derivatives. Actual Crown natural gas royalties payable are based on an Alberta reference price and not on actual corporate realized prices.

Transportation and selling expenses for the three months ended March 31, 2008 were \$0.13 per mcf, a decrease of 19% compared to \$0.16 per mcf for the same period in the previous year.

For the quarter ended March 31, 2008, production expenses of \$1.38 per mcf were 14% lower than \$1.61 per mcf in the corresponding period of the previous year.

#### **OTHER EXPENSES**

For the three month period ended March 31, 2008, general and administrative expenses were \$1.1 million (\$1.18 per BOE), interest expense was \$1.8 million, and depletion, depreciation and amortization expenses were \$20.0 million (\$22.53 per BOE). In the previous year, for the three month period ended March 31, 2007, 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).

#### **TAXES**

For the three months ended March 31, 2008, Celtic provided for a recovery of future income taxes in the amount of \$2.9 million, compared to a recovery of \$1.2 million in the first quarter of 2007. As at March 31, 2008, Celtic is not currently taxable as it has sufficient income tax deductions available to shelter taxable income.

#### **EARNINGS AND FUNDS FROM OPERATIONS**

Net loss for the three months ended March 31, 2008 was \$7.4 million (\$0.20 per share, basic and \$0.19 per share, diluted). During the same period, funds from operations were \$28.3 million (\$0.75 per share, basic and \$0.74 per share, diluted). On a barrel of oil equivalent basis, funds from operations in the first quarter of 2008 were \$31.86 per BOE, down 18% from \$38.84 per BOE in the same period of 2007. The primary reason for the decrease in 2008 was a result of lower natural gas prices realized during the quarter.

#### **CAPITAL EXPENDITURES**

During the three month period ended March 31, 2008, Celtic spent \$32.6 million on capital projects. Drilling and completion operations accounted for \$24.3 million, equipment and facility expenditures were \$8.0 million and \$0.3 million was spent on land and seismic. The Company continues to build on its inventory of prospects for future drilling. In the first three months of the previous year, capital expenditures were \$56.6 million.

#### **DRILLING ACTIVITY**

During the first quarter of 2008, the Company drilled 15 (12.3 net) wells resulting in 4 (2.6 net) oil wells, 7 (6.8 net) natural gas wells and 1 (0.1 net) coal bed methane wells, for an overall success rate, based on net wells, of 77%. During the three months ended March 31, 2007, Celtic drilled 29 (27.1 net) wells, with an overall success rate of 82%. The average measured depth of net wells drilled was 2,651 metres, compared to the average drilling depth of 2,107 metres in the first three months of 2007.

#### **SOURCE OF FUNDS**

Investment funding for capital expenditures incurred in the first three months of 2008 was provided by bank debt and cash provided by operating activities.

On April 29, 2008, the Company entered into a term credit agreement on a syndicated basis with four financial institutions whereby the amount available under this new credit facility is \$200.0 million, up from \$165.0 million available under the previous facility. This agreement has a maturity date of June 30, 2009.

At March 31, 2008, Celtic had drawn \$128.0 million on its bank facility, 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.

Celtic expects to fund future capital expenditures through the use of a combination of cash provided by operating activities and bank debt, supplemented by new equity share offerings, as required.

#### **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, 2008, the working capital amount plus outstanding bank debt represented 95% of the Company's maximum authorized bank borrowing credit limit and 79% of the Company's new credit limit put in place in April 2008.

#### **SHARE INFORMATION**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at March 31, 2008, there were 37.8 million common shares outstanding (as at May 7, 2008, there were 40.7 million common shares outstanding). There are no preferred shares outstanding.

As at March 31, 2008, directors, employees and consultants have been granted options to purchase 2.9 million common shares of the Company at an average exercise price of \$11.00 per share.

The Company's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "CLT".

#### **ADVISORY REGARDING FORWARD-LOOKING STATEMENTS AND GUIDANCE**

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. Celtic does not intend, and does not assume any obligation, to update or revise these forward-looking statements except as required pursuant to applicable securities laws. The purpose of providing guidance is to disclose management's assessment of the implementation of its future plans and operations. The reader is cautioned that this guidance may not be appropriate for other purposes.

#### **2008 GUIDANCE**

Celtic plans to spend \$180.0 million (net) in 2008, up from \$120.0 million, previously estimated. As a result, the Company expects production in 2008 to average in a range from 11,300 to 11,500 BOE per day, up from the previous estimate of 10,500 to 10,700 BOE per day. Celtic expects to exit 2008 with production of approximately 13,000 BOE per day.

With the recent strength in commodity prices, Celtic has increased its forecasted commodity price assumptions for 2008. Oil prices are estimated to average US\$96.00 (previously US\$84.00) per barrel for WTI and natural gas prices are forecasted to average US\$9.75 (previously US\$8.50) per MMBTU for NYMEX and \$8.76 (previously \$7.50) per MCF for AECO. The Company's forecasted 2008 average US/Canadian exchange rate remains unchanged at US\$1.000.

After giving effect to the new production and commodity price assumptions, funds from operations for 2008 is estimated to be approximately \$138.0 million or \$3.48 per share (\$3.40 per share, diluted); up from the

previous estimate of \$120.0 million or \$3.19 per share (\$3.11 per share, diluted). Net earnings for 2008 are estimated to be approximately \$29.0 million or \$0.73 per share (\$0.71 per share, diluted); up from the previous estimate of \$19.5 million or \$0.52 per share (\$0.51 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 and guidance shown above.

Bank debt, net of working capital, is estimated to be \$137.0 million by the end of 2008 or approximately 0.8 times annualized exit 2008 funds from operations. Using the same commodity price assumptions as 2008, estimated annualized funds from operations based on an exit production rate of 13,000 BOE per day, would be \$176.5 million or \$4.34 per share (\$4.25 per share, diluted).

Celtic's capital expenditure budget for 2008 will see the Company participate at high working interests in the drilling of approximately 64 to 67 wells during the year, of which approximately 40 wells will be horizontals. Celtic continues to pursue property acquisitions that would complement its existing asset base and completion of any future 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, reserves, net asset value, earnings and funds from operations. 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", "operating netbacks" and "production per share" 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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