

Q1

FIRST INTERIM REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2003

HIGHLIGHTS

For the three months ended March 31, 2003

Revenue, net of royalties	\$ 4,544,170
Cash flow from operations	\$ 3,433,103
Cash flow per share	
Basic	\$ 0.19
Diluted	\$ 0.18
Net earnings	\$ 1,163,496
Earnings per share	
Basic	\$ 0.06
Diluted	\$ 0.06
Total assets	\$ 52,696,809
Bank debt, net of working capital	\$ 5,747,489
Shareholders' equity	\$ 27,306,130
Production	
Oil (bbls/d)	605
Natural gas (mcf/d)	4,423
Combined (BOE/d)	1,342
Selling prices	
Oil (\$/bbl)	\$ 42.50
Natural gas (\$/mcf)	\$ 8.45
Combined (\$/BOE)	\$ 47.00

MESSAGE TO SHAREHOLDERS

Celtic Exploration Ltd. (“Celtic” or the “Company”) is pleased to report to shareholders on the activities of the Company during the first quarter of 2003.

Celtic was active during the first quarter on the operational front, drilling eight gross (3.2 net) wells. At Otter, in northern Alberta, five wells were drilled targeting 42" API oil from the Granite Wash and Slave Point formations. Four of these wells are currently on production, adding approximately 120 barrels of oil per day, net to Celtic. A well at Kaybob, in west central Alberta, was cased during the first quarter. Completion of this well is expected to occur in June. An exploratory well at Kakwa/Chime, also in west central Alberta, was cased pending completion. Two additional wells are currently drilling at Kakwa/Chime. A well drilled at Stoughton, in southeast Saskatchewan was dry and abandoned.

During the three months ended March 31, 2003, Celtic generated \$3.4 million of cash flow from operations (\$0.18 per share, diluted) and net earnings of \$1.2 million (\$0.06 per share). This quarter represents a complete reporting period that includes the acquisitions of Dorchester Energy Inc. and Denim Energy Corp., completed in December 2002.

Average production for the first quarter of 2003 was 1,342 BOE per day (55% natural gas and 45% oil). Realized selling prices were at historically high levels. The Company received an average price of \$8.45 per mcf for its natural gas and \$42.50 per barrel for its oil.

Subsequent to the end of the first quarter, Celtic completed an equity issue, by way of private placement, raising \$17.8 million, before issue costs. The Company issued 4.5 million shares at \$3.95 per share.

In addition, the Company announced that it had entered into a letter agreement to acquire oil and gas assets in Alberta for \$20.0 million. This transaction will add 740 BOE per day and 2.2 million BOE proved plus probable reserves. Undeveloped land included in the acquisition comprises approximately 16,400 net acres.

Celtic is well positioned financially and operationally to implement its dual prong strategy to acquire assets with exploitation potential and, at the same time, implement its full cycle exploration program. This strategy will provide continued growth to shareholders. Common shares of the Company trade on the TSX Venture Exchange under the symbol “CLT.”

[signed]

David J. Wilson

PRESIDENT & CEO
MAY 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results should be read in conjunction with Celtic's unaudited interim financial statements and selected notes for the period ended March 31, 2003.

Certain information provided herein is based on assumptions regarding future events and is subject to risks and uncertainties that may cause actual results to vary materially from estimates. Where amounts are expressed on a barrel of oil equivalent basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. References to oil in this discussion include crude oil and natural gas liquids ("NGLs"). NGLs include condensate, propane, butane and ethane.

RESULTS OF OPERATIONS

Celtic was incorporated on April 16, 2002 and therefore comparative results for the three months ended March 31, 2002 are not applicable. The Company's head office is based in Calgary, Alberta, Canada.

Revenue and Expenses

During the interim period ended March 31, 2003, oil and gas revenue was \$4.5 million, after royalties of \$1.1 million. Production expenses were \$937,543 (\$7.76 per BOE), general and administrative expenses were \$123,638 (\$1.02 per BOE), interest expense was \$21,761 and capital tax was \$28,125. Depletion and depreciation expenses were \$1.7 million (\$13.98 per BOE). A provision for future income taxes was recorded in the amount of \$582,438. As a result, the Company recorded net earnings of \$1.2 million or \$0.06 per share (basic and diluted).

Cash flow from operations for the three months ended March 31, 2003 was \$3.4 million (\$28.43 per BOE) or \$0.19 per share (\$0.18 per share diluted). Weighted average common shares outstanding were 18.4 million basic and 18.8 million diluted.

Capital Expenditures

During the three-month period ended March 31, 2003, Celtic incurred \$5.8 million in capital expenditures. Approximately \$3.4 million was spent on drilling and completing wells, \$1.3 million was spent on equipment and facilities and the balance was spent on land, seismic and other.

Celtic is committed to future growth through its dual prong strategy to acquire oil and gas assets with exploitation potential and, at the same time, implement its full-cycle exploration program.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures for the first quarter of 2003 were funded by cash flow from operations, bank debt and working capital.

The Company currently has a revolving demand loan facility with a Canadian chartered bank, with an authorized borrowing amount of \$12.0 million. At March 31, 2003, Celtic had \$2.1 million outstanding under this facility. With \$9.9 million of undrawn bank lines, the Company is on a strong financial footing.

Celtic expects to fund future capital expenditures through the use of a combination of cash flow from operations and bank debt, supplemented by new equity financings.

BALANCE SHEET

(unaudited)

As at March 31, 2003

ASSETS

Current assets

Cash and cash equivalents	\$ 144,644
Accounts receivable	6,879,771
Prepaid expenses	206,770
Other	28,289

7,259,474

Property and equipment

45,437,335

\$ 52,696,809

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$ 10,878,838
Income taxes payable	28,125
Bank debt	2,100,000

13,006,963

Future site restoration costs

511,417

Future income taxes

11,872,299

25,390,679

SHAREHOLDERS' EQUITY

Share capital [NOTE 2] 26,114,936

Retained earnings 1,191,194

27,306,130

\$ 52,696,809

See accompanying notes to the financial statements.

On behalf of the Board of Directors:

[signed]

[signed]

DIRECTOR

DIRECTOR

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

(unaudited)

*For the three months ended March 31, 2003**Revenue*

Petroleum and natural gas	\$ 5,677,368
Royalties	(1,133,198)
	<u>4,544,170</u>

Expenses

Production	937,543
General and administrative	123,638
Interest	21,761
Capital tax	28,125
Depletion and depreciation	1,687,169
	<u>2,798,236</u>

<i>Earnings before income taxes</i>	1,745,934
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Future income taxes	582,438
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<i>Net earnings</i>	1,163,496
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<i>Retained earnings, beginning of period</i>	27,698
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<i>Retained earnings, end of period</i>	<u>\$ 1,191,194</u>
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Earnings per common share

Basic	\$ 0.06
Diluted	\$ 0.06

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

(unaudited)

For the three months ended March 31, 2003

Cash provided by (used in):

Operating activities

Net earnings	\$ 1,163,496
Items not affecting cash:	
Depletion and depreciation	1,687,169
Future income taxes	582,438
<i>Cash flow from operations</i>	<u>3,433,103</u>
Change in non-cash operating working capital	<u>1,539,044</u>
	<u>4,972,147</u>

Financing activities

Increase in bank debt	550,000
Issue of common shares, net of costs	58,884
	<u>608,884</u>

Investing activities

Property and equipment expenditures	(5,840,769)
Change in non-cash investing working capital	(555,636)
	<u>(6,396,405)</u>

Decrease in cash \$ (815,374)

Cash, beginning of period 960,018

Cash, end of period \$ 144,644

See accompanying notes to the financial statements.

SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENTS

Interim period ended March 31, 2003

(unaudited)

1. BASIS OF PRESENTATION

The interim financial statements of the Company have been prepared by management in accordance with accounting policies generally accepted in Canada.

2. SHARE CAPITAL

Authorized:

Unlimited number of common shares.

Unlimited number of preferred shares.

Issued:

COMMON SHARES	SHARES	AMOUNT
Balance, December 31, 2002	18,378,606	\$ 26,056,052
Issued for cash	19,628	58,884
Balance, March 31, 2003	18,398,234	\$ 26,114,936

As at March 31, 2003, 5,550,000 common shares are held in escrow pursuant to an escrow agreement and shall be released as to 1,850,000 shares on April 4, 2003, 2,775,000 shares on October 4, 2003 and 925,000 shares on April 4, 2004.

3. STOCK OPTIONS

The following table summarizes the changes in stock options outstanding during the year, up to March 31, 2003:

STOCK OPTIONS	OPTIONS	AVERAGE EXERCISE PRICE
Balance, December 31, 2002	1,010,000	\$ 2.68
Granted	165,000	4.05
Balance, March 31, 2003	1,175,000	\$ 2.87

The Company does not record compensation costs for stock options granted to officers, directors and employees. As required by Canadian generally accepted accounting principles, the impact on compensation costs of using the fair-value method, whereby compensation costs are included in net earnings, must be disclosed.

If the fair-value method had been used for options granted during the period ended March 31, 2003, pro forma net earnings during this period would approximate \$992,208 and pro forma earnings per share would approximate \$0.05 (basic and diluted). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows: risk-free interest rate of 4.36 percent, expected life of three years and expected volatility of 108 percent.

4. SUBSEQUENT EVENTS

(a) Private placement

On May 8, 2003, the Company completed a private placement equity offering by issuing 4.5 million common shares for gross proceeds of \$17,775,000.

(b) Property acquisition

On April 30, 2003, the Company announced that it had entered into a letter agreement with a third party to acquire certain oil and gas assets in Alberta for consideration of \$20.0 million, subject to certain further adjustments. This agreement must satisfy a number of conditions including the execution of a mutually acceptable purchase and sale agreement.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Robert J. Dales
President
Valhalla Ventures Inc.

William C. Guinan
Partner
Borden Ladner Gervais LLP

Eldon A. McIntyre
President
Jarrod Oils Ltd.

Neil G. Sinclair
President
Sinson Investments Ltd.

David J. Wilson
President & CEO
Celtic Exploration Ltd.

OFFICERS

David J. Wilson
President & CEO

Sadiq H. Lalani
Vice President, Finance &
Chief Financial Officer

Alan G. Franks
Vice President, Operations

Michael R. Shea
Vice President, Land

HEAD OFFICE

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STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading symbol "CLT"

ANNUAL GENERAL AND SPECIAL MEETING

Tuesday, June 3rd, 2003
3:00 p.m.
The Metropolitan Centre –
Grand Lecture Theatre
333 Fourth Avenue SW
Calgary, Alberta
T2P 0H9