Celtic Exploration Ltd.

Q1

INTERIM REPORT FOR THE THREE MONTHS ENDED **March 31, 2004**
(UNAUDITED)

highlights

($ thousands, except per unit amounts)	Three months ended March 31		
	2004	2003	% Change
FINANCIAL			
Revenue, net of royalties	**$ 11,212**	$ 4,617	143
Cash flow from operations	**$ 8,195**	$ 3,433	139
Cash flow per share			
Basic	**$ 0.32**	$ 0.19	68
Diluted	**$ 0.31**	$ 0.18	72
Net earnings	**$ 2,047**	$ 1,165	76
Earnings per share			
Basic	**$ 0.08**	$ 0.06	33
Diluted	**$ 0.08**	$ 0.06	33
Capital expenditures, net of dispositions	**$ 12,780**	$ 5,841	119
Bank debt, net of working capital	**$ 15,372**	$ 5,748	167
Shareholders' equity	**$ 66,310**	$ 27,308	143
OPERATIONS			
Production			
Oil (bbls/d)	**2,281**	605	277
Natural gas (mcf/d)	**8,054**	4,423	82
Combined (BOE/d)	**3,623**	1,342	170
Production per million shares (BOE/d)	**140**	72	94
Realized sales prices			
Oil ($/bbl)	**$ 42.89**	$ 42.38	1
Natural gas ($/mcf)	**$ 6.57**	$ 8.64	-24
Combined ($/BOE)	**$ 41.59**	$ 47.61	-13
Operating netbacks			
Oil ($/bbl)	**$ 28.19**	$ 26.73	5
Natural gas ($/mcf)	**$ 3.77**	$ 5.41	-30
Combined ($/BOE)	**$ 26.13**	$ 28.66	-9
Drilling activity			
Total wells	**17**	8	113
Working interest wells	**12.7**	3.2	297
Success rate on working interest wells	**84%**	54%	

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 2004.

Celtic had its most active quarter since inception, drilling a total of 17 (12.7 net) wells, resulting in five (5.0 net) gas wells, 10 (6.2 net) oil wells, and two (1.5 net) dry holes for an overall success rate of 88 percent.

In northern Alberta, the Company was very active, drilling a total of seven oil wells, all of which have been placed on production. At Otter and Ogston, the Company drilled three wells in each area and one well was drilled at Mcleans Creek. To complement these production additions, a well bore was taken over at Otter which allowed Celtic to complete an additional well which is currently being equipped as an oil producer. At Goodfish, a shallow gas test resulted in a dry hole. Celtic has recently upgraded a Company-owned battery at Ogston to handle the increased production.

At Fox Creek, a horizontal well was drilled and tested and it was determined that the well should be deepened after break-up to increase inflow. This operation is expected to commence again in the first week of May.

At Ashmont, a five-well drilling program resulted in five successful gas wells. Three of the five wells will be tied-in this summer with the other two being tied-in next winter. Further drilling will occur at Ashmont this summer.

In southern Alberta, two wells were drilled resulting in a dry hole at Bantry and an oil well at Grand Forks, which is located in close proximity to the Company's Bow Island oil property. This well will be tied-in during May and a second well is expected to be drilled in the pool prior to the end of the second quarter.

In early April, Celtic closed a property acquisition at Morse River. An 80 percent working interest was purchased in the Morse River, Beaverhill Lake Unit with net production of about 120 barrels per day of 41° API oil. The Company plans to drill two wells on the property in the second quarter of 2004. Morse River is located approximately 50 miles from Celtic's Fox Creek property and is producing out of the same horizon as Fox Creek.

Celtic has started a divestment program where it will divest of up to 200 barrels of oil equivalent per day of non-core properties. This will aid in its ongoing commitment to continue to lower operating expenses.

Celtic has an aggressive drilling program planned for the remainder of the year and continues to be well positioned from a financial perspective in order to take advantage of opportunities as they present themselves. Common shares of the Company trade on the Toronto Stock Exchange under the symbol "CLT."

[signed]

David J. Wilson

President & CEO
April 30, 2004

management's discussion and analysis

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain information with respect to Celtic contained in this interim report, 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, some 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. 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.

INTRODUCTION

The following discussion and analysis of financial results should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three months ended March 31, 2004 and the audited financial statements and related notes for the year ended December 31, 2003. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are referenced in Canadian dollars, except when noted otherwise.

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.

GROWTH STRATEGY

Celtic expects to continue to grow at a rapid pace by implementing its dual-prong strategy to acquire assets with exploitation potential and, at the same time, implement its full-cycle exploration program. To complement this strategy, the Company has assembled a team of experienced and qualified personnel and is well positioned financially to act quickly on new opportunities. Celtic believes that its growth strategy will continue to increase cash flow per share, net asset value per share and production per million shares outstanding.

RESULTS OF OPERATIONS

Production

For the three months ended March 31, 2004, Celtic's production averaged 3,623 BOE/d, comprised of 2,281 barrels per day of oil and 8.1 million cubic feet per day of natural gas. This represented a 170 percent improvement from the average production of 1,342 BOE/d in the first quarter of 2003. Celtic's growth in production volumes in the first quarter reflects the successful drilling program this past winter. With additional new production coming on-stream as a result of recent drilling success, Celtic expects to show further production growth in the second quarter of 2004.

Commodity Prices

Average prices received during the three-month period ended March 31, 2004 were $42.89 per barrel for oil sales and $6.57 per thousand cubic feet for natural gas sales. During the three-month period ended March 31, 2003, average prices received for sales were $42.38 per barrel for oil and $8.64 per thousand cubic feet for natural gas. Celtic is forecasting oil prices to average $41.50 per barrel and natural gas prices to average $5.70 per thousand cubic feet in 2004.

Revenue and Royalties

Oil and gas revenue, before royalties, for the three months ended March 31, 2004 was $13.7 million, up 136 percent from $5.8 million during the same period of the previous year. Royalties during the first quarter of 2004 were $2.5 million, averaging 18.2 percent of sales.

Expenses

For the three-month period ended March 31, 2004, production expenses were $2.4 million ($7.31 per BOE), transportation and selling expense was $0.2 million ($0.55 per BOE), general and administrative expenses were $0.3 million ($0.97 per BOE), interest expense was $0.1 million, and depletion, depreciation and amortization expenses were $4.8 million ($14.44 per BOE).

Income and Capital Taxes

For the first three months of 2004, capital taxes were $0.1 million. A provision for future income taxes in the amount of $1.2 million was recorded for the three-month period ended March 31, 2004. An analysis of the future income tax provision is included in the notes to the interim financial statements.

Cash Flow from Operations and Net Earnings

Cash flow from operations for the three months ended March 31, 2004 was $8.2 million ($24.85 per BOE) or $0.32 per share ($0.31 per share diluted). The Company recorded net earnings of $2.0 million or $0.08 per share (basic and diluted) during the three-month period ended March 31, 2004.

Weighted average common shares outstanding used to compute per share amounts were 25.8 million basic and 26.4 million diluted.

Capital Expenditures

During the three-month period ended March 31, 2004, Celtic incurred $12.8 million in capital expenditures, after proceeds from minor property dispositions. Approximately $8.6 million was spent on drilling and completing wells, $2.6 million was spent on well 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 augment strategic oil and gas asset acquisitions with exploration and development drilling activity.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures for the first three months of 2004 were funded by cash flow from operations and bank debt.

The Company currently has a revolving demand loan facility with a Canadian chartered bank, with an authorized borrowing amount of $20.0 million. At March 31, 2004, Celtic had $11.9 million outstanding under this facility. Bank debt, including working capital deficiency at March 31, 2004 was $15.4 million. The Company expects to have significant unutilized bank lines after the bank completes its review of the authorized borrowing amount available prior to May 1, 2004. As a result, the Company remains on a strong financial footing to implement its future growth strategy.

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.

NOTICE TO READER

The accompanying unaudited interim financial statements of Celtic Exploration Ltd. (the "Corporation") for the quarter ended March 31, 2004 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's external auditors.

Dated: May 13, 2004

[signed]	[signed]
David J. Wilson	Sadiq H. Lalani
President and Chief Executive Officer	*Vice President, Finance and Chief Financial Officer*

balance sheet

($ thousands)		As at March 31
	2004	2003
	Unaudited	*Unaudited (Restated Note 2)*
ASSETS		
Current assets		
Cash and cash equivalents	$ 34	$ 145
Accounts receivable	9,342	6,880
Prepaid expenses	361	206
Other	204	28
	9,941	7,259
Property and equipment	96,225	45,900
	$106,166	$ 53,159
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 13,413	$ 10,907
Bank debt *(Note 3)*	11,900	2,100
	25,313	13,007
Asset retirement obligation *(Note 4)*	2,189	970
Future income taxes	12,354	11,874
	39,856	25,851
SHAREHOLDERS' EQUITY		
Share capital *(Note 5)*	59,209	26,115
Contributed surplus	329	–
Retained earnings	6,772	1,193
	66,310	27,308
	$106,166	$ 53,159

See accompanying notes to the financial statements.

On behalf of the Board of Directors:

[signed] [signed]

Director Director

statement of operations and retained earnings

($ thousands)	Three months ended March 31	
	2004	2003
	Unaudited	*Unaudited (Restated Note 2)*
Revenue		
Petroleum and natural gas	$ 13,726	$ 5,750
Royalties	(2,514)	(1,133)
	11,212	4,617
Expenses		
Production	2,410	938
Transportation and selling	183	72
General and administrative	321	124
Interest	52	22
Depletion and depreciation	4,764	1,684
Stock-based compensation	147	–
Accretion of asset retirement obligation *(Note 4)*	40	–
	7,917	2,840
Earnings before taxes	3,295	1,777
Capital tax	51	28
Future income taxes *(Note 7)*	1,197	584
Net earnings	2,047	1,165
Retained earnings, beginning of period		
As previously reported	4,692	28
Retroactive adjustment for changes in accounting policies	33	–
As restated *(Note 2)*	4,725	28
Retained earnings, end of period	$ 6,772	$ 1,193

See accompanying notes to the financial statements.

statement of cash flows

($ thousands)	Three months ended March 31	
	2004	2003
	Unaudited	*Unaudited (Restated Note 2)*
Cash provided by (used in):		
Operating activities		
Net earnings	$ 2,047	$ 1,165
Items not affecting cash:		
Depletion and depreciation	4,764	1,684
Stock-based compensation	147	–
Accretion of asset retirement obligation *(Note 4)*	40	–
Future income taxes *(Note 7)*	1,197	584
Cash flow from operations	8,195	3,433
Change in non-cash operating working capital *(Note 9)*	(7,046)	1,539
	1,149	4,972
Financing activities		
Increase in bank debt	8,453	550
Issue of common shares, net of costs	(2)	59
	8,451	609
Investing activities		
Property and equipment expenditures	(12,771)	(5,841)
Property and equipment acquisitions	(299)	–
Property and equipment dispositions	290	–
Change in non-cash investing working capital *(Note 9)*	3,177	(555)
	(9,603)	(6,396)
Decrease in cash	(3)	(815)
Cash, beginning of period	37	960
Cash, end of period	$ 34	$ 145

See accompanying notes to the financial statements.

notes to the interim financial statements

Interim period ended March 31, 2004
(Unaudited)

1. BASIS OF PRESENTATION

The interim financial statements of the Company have been prepared following the same accounting policies and methods of computation as the financial statements of the Company for the year ended December 31, 2003. The disclosure provided below is incremental to that included in the annual financial statements. In this regard, these interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2003, included in the Company's annual report.

2. CHANGES IN ACCOUNTING POLICIES AND PRACTICES

(a) Asset retirement obligations

The Company has retroactively adopted the Canadian accounting standard outlined in CICA Handbook Section 3110, "Asset Retirement Obligations." This new section requires liability recognition for retirement obligations associated with oil and gas well sites and facilities, at fair value. The asset retirement cost, equal to the fair value of the retirement obligation, is capitalized as part of the cost of the related asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation.

The Company previously estimated future site restoration and abandonment costs and recorded them into earnings on a unit-of-production basis over the remaining life of proved reserves and accumulated a liability on the Balance Sheet. Prior year financial statements have been restated to reflect the change in accounting treatment. In summary, net earnings for the three months ended March 31, 2003 increased by $0.002 million, property and equipment assets at March 31, 2003 increased by $0.463 million and liabilities increased by $0.461 million.

(b) Transportation and selling expenses

The Company has retroactively adopted the accounting practice to classify transportation and selling expenses incurred to bring petroleum and natural gas production to market as an expense on the Statement of Operations. The Company's previous practice was to reduce petroleum and natural gas revenue. This change does not impact earnings. Information provided for prior periods has been reclassified to conform to the presentation adopted in 2004.

3. BANK DEBT

($ thousands)	March 31, 2004	December 31, 2003
Demand operating loan	$ 11,900	$ 3,447

Celtic has a demand revolving credit facility with a Canadian chartered bank. The authorized borrowing amount under this facility is $20.0 million. Interest is payable monthly for borrowings through direct advances. Borrowings through the use of Bankers' Acceptances is also available under the facility. Repayments of principal are not required provided that the aggregate borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The credit facility revolves until May 1, 2004, at which time the bank will conduct its annual review.

4. ASSET RETIREMENT OBLIGATION

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

($ thousands)	March 31, 2004	December 31, 2003
Asset retirement obligation, beginning of year	$ 2,045	$ 947
Liabilities incurred	104	1,010
Accretion expense	40	88
Asset retirement obligation, end of period	$ 2,189	$ 2,045

5. SHARE CAPITAL

Authorized:

Unlimited number of common shares.

Unlimited number of preferred shares.

Issued:

(thousands)	Common Shares	Amount
Balance, December 31, 2003	25,790	$ 59,211
Share issue costs	–	(2)
Balance, March 31, 2004	25,790	$ 59,209

6. STOCK OPTIONS

The following table summarizes the changes in stock options outstanding during the year, up to March 31, 2004:

(thousands, except per unit amounts)	Stock options	Average exercise price
Balance, December 31, 2003	1,642	$ 4.66
Granted	36	7.15
Balance, March 31, 2004	1,678	$ 4.72

7. INCOME TAXES

The provision for future income taxes differs from the expected amount calculated by applying the combined federal and provincial corporate income tax rate as a result of the following:

($ thousands)	Three months ended March 31, 2004
Earnings before taxes	$ 3,295
Statutory combined federal and provincial income tax rate	38.87%
Expected income taxes	$ 1,281
Increase (decrease) resulting from:	
Non-deductible Crown payments	659
Non-taxable provincial royalty credits (“ARTC”)	(51)
Allowable resource allowance deduction	(693)
Other adjustments	1
Provision for future income taxes	$ 1,197

8. EARNINGS PER SHARE

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under this method, only "in-the-money" dilutive instruments impact the calculations in computing diluted earnings per share.

In computing diluted earnings per share, 0.6 million shares were added to the 25.8 million weighted average number of common shares outstanding during the period for the dilutive effect of stock options.

Earnings per common share are summarized in the table below:

	Three months ended March 31, 2004
Earnings per share	
Basic	$ 0.08
Diluted	$ 0.08

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital, excluding bank debt:

($ thousands)	Three months ended March 31, 2004
Accounts receivable	$ (2,749)
Prepaid expenses	(342)
Other current assets	–
Accounts payable and accruals	(778)
Change in non-cash working capital	$ (3,869)
Relating to:	
Operating activities	$ (7,046)
Investing activities	3,177
Change in non-cash working capital	$ (3,869)

During the three months ended March 31, 2004, the Company made the following cash outlays in respect of interest expense and capital taxes:

($ thousands)	Three months ended March 31, 2004
Interest expense	$ 52
Capital tax	36

corporate information

BOARD OF DIRECTORS

Robert J. Dales (2)(3)(4)(5)
President, Valhalla Ventures Inc.

William C. Guinan (1)(4)(5)
Partner, Borden Ladner Gervais LLP

Eldon A. McIntyre (2)(3)
President, Jarrod Oils Ltd.

Neil G. Sinclair (2)(4)
President, Sinson Investments Ltd.

David J. Wilson (3)(5)
President & CEO, Celtic Exploration Ltd.

(1) Chairman of the Board
(2) Member of the Audit Committee
(3) Member of the Reserves Committee
(4) Member of the Compensation Committee
(5) Member of the Corporate Governance Committee

OFFICERS

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

Alan G. Franks
Vice President, Operations

Michael R. Shea
Vice President, Land

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Trading symbol "CLT"

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