

Our first quarter results are in, and we would like to share them with you. Celtic 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.

INTERIM REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2008



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HIGHLIGHTS

FINANCIAL

| (\$ thousands, unless otherwise indicated) | Three months ended March 31 | | |
|---|-----------------------------|------------|----------|
| | 2008 | 2007 | % Change |
| Revenue, before royalties and financial derivatives | \$ 57,371 | \$ 30,798 | 86% |
| Funds from operations | \$ 28,298 | \$ 22,045 | 28% |
| Funds from operations per share | | | |
| Basic (\$/SHARE) | \$ 0.75 | \$ 0.67 | 12% |
| Diluted (\$/SHARE) | \$ 0.74 | \$ 0.66 | 12% |
| Net earnings (loss) | \$ (7,375) | \$ (2,850) | 159% |
| Earnings (loss) per share | | | |
| Basic (\$/SHARE) | \$ (0.20) | \$ (0.09) | 122% |
| Diluted (\$/SHARE) | \$ (0.19) | \$ (0.08) | 138% |
| Capital expenditures, net of dispositions | \$ 32,608 | \$ 56,565 | -42% |
| Total assets | \$ 511,705 | \$ 405,249 | 26% |
| Bank debt | \$ 128,000 | \$ 90,950 | |
| Working capital deficiency (surplus), excluding bank debt | 29,412 | 26,238 | |
| Bank debt, net of working capital | \$ 157,412 | \$ 117,188 | 34% |
| Shareholders' equity | \$ 268,083 | \$ 222,145 | 21% |
| Common shares issued and outstanding (thousands) | | | |
| Basic | 37,772 | 33,814 | 12% |
| Diluted | 40,627 | 36,375 | 12% |

OPERATIONS

| | | | |
|--|----------|----------|------|
| 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% |

Celtic Exploration Ltd. ("Celtic" or the "Company") 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.

INTRODUCTION

Celtic Exploration Ltd. ("Celtic" or the "Company") was incorporated on April 16, 2002. Celtic's head office is based in Calgary, Alberta, Canada. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "CLT".

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Company's audited financial statements and related notes for the year ended December 31, 2007. This MD&A is effective May 7, 2008. The accompanying financial statements of Celtic have been prepared by management and approved by the Company's Audit Committee and Board of Directors. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to Celtic can be found on the SEDAR website at www.sedar.com.

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.

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 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.

Changes in Accounting Policies and Practices

Effective January 1, 2008, the Company has adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- (i) Section 1535, Capital Disclosures;
- (ii) Section 3862, Financial Instruments – Disclosures; and
- (iii) Section 3863, Financial Instruments – Presentation;

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Future Changes in Accounting Policies

On February 13, 2007, the Accounting Standards Board ("AcSB") confirmed that publicly accountable profit-oriented enterprises will be required to use International Financial Reporting Standards ("IFRS") in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Comparatives must be prepared on the same basis. IFRS will replace Canada's current GAAP for these enterprises. Celtic is currently reviewing the requirements of IFRS and expects to adopt the new standards by the applicable dates.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurances that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis in order that appropriate decisions can be made regarding public disclosure. As at March 31, 2008, the CEO and the CFO have evaluated the effectiveness of Celtic's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and have concluded that such disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

The CEO and CFO are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. As at March 31, 2008, management, including the CEO and the CFO, has designed Celtic's internal controls over financial reporting as required by Multilateral Instrument 52-109 of the Canadian Securities Administrators.

During the review of the design of internal controls over financial reporting for the year ended March 31, 2008, it was noted that, due to the limited number of staff at Celtic, it is not feasible to achieve complete segregation of incompatible duties. However, other internal controls over financial reporting have been designed which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.

Due to its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation relating to the effectiveness in future periods are subject to the risk that controls may become inadequate as a result of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

GROWTH STRATEGY

Celtic growth strategy is dual-pronged. The Company seeks to acquire assets with exploitation potential and, at the same time, implements its full cycle exploration and development program. This strategy has proved successful to date as is evidenced by Celtic's rapid growth since commencing active oil and gas operations in September 2002. 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 funds from operations per share, net asset value per share and production per share.

RESULTS OF OPERATIONS

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;

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.

CAPITAL RESOURCES AND LIQUIDITY

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".

FUTURE COMMITMENTS – FINANCIAL INSTRUMENTS The Company may, from time to time, enter into fixed price contracts and derivative financial instruments with respect to oil and gas sales, in order to secure a certain amount of cash flow to protect a level of capital spending. As at March 31, 2008, Celtic has the following fixed price commitments, in place, to sell oil and gas production:

The following is a summary of oil sales price derivative contracts in effect as at March 31, 2008, that have fixed future sales prices (fixed oil prices are based on the West Texas Intermediate ("WTI") Index):

| Daily quantity | Remaining term of contract | Fixed price per barrel (<i>bbl</i>) |
|----------------|------------------------------|---------------------------------------|
| 500 bbls/d | April 1 to December 31, 2008 | \$89.00 |
| 500 bbls/d | April 1 to December 31, 2008 | \$88.00 |
| 300 bbls/d | April 1 to December 31, 2008 | US\$92.50 |
| 500 bbls/d | April 1 to December 31, 2008 | US\$70.00 |

The following is a summary of natural gas sales price derivative contracts in effect as at March 31, 2008, that have fixed future sales prices (fixed natural gas prices are based on the New York Mercantile Exchange ("NYMEX") Index):

| Daily quantity | Remaining term of contract | Fixed price per mmbtu (<i>NYMEX</i>) |
|--|------------------------------|--|
| 6,500 mmbtu/d (<i>costless collar</i>) | April 1 to December 31, 2008 | US\$8.00 (floor) US\$9.05 (<i>cap</i>) |

The following is a summary of natural gas sales price derivative contracts in effect as at March 31, 2008, that have fixed future sales prices (fixed natural gas prices are based on the AECO Index):

| Daily quantity | Remaining term of contract | Fixed price per GJ (<i>AECO</i>) |
|----------------|-----------------------------|------------------------------------|
| 5,000 GJ/d | April 1 to October 31, 2008 | \$7.43 |
| 20,000 GJ/d | April 1 to October 31, 2008 | \$7.02 |

CONTRACTUAL OBLIGATIONS Celtic has a committed term credit facility with Canadian financial institutions. The authorized borrowing amount under this facility as at March 31, 2008 was \$165.0 million, of which \$128.0 million was outstanding. Interest under this facility is payable monthly.

From time to time, the Company enters into agreements to transport and market oil and gas production. In addition, the Company has entered into agreements with third parties that provides employees with access to specialized computer software and information including production and reserves data, geological data, accounting systems and land management systems.

As a normal course of business, the Company leases office space, vehicles for field personnel and office equipment such as computers, printers and photocopiers.

RELATED PARTY AND OFF-BALANCE SHEET TRANSACTIONS The Company has retained the law firm of Borden Ladner Gervais LLP to provide Celtic with legal services. William C. Guinan, a director, chairman and corporate secretary of Celtic is a partner of this law firm. The Company expects to continue using the services of this law firm from time to time.

Celtic was not involved in any off-balance sheet transactions in the three month periods ended March 31, 2007 and 2008.

SUPPLEMENTAL QUARTERLY INFORMATION

The Company has been successful in providing strong growth in funds from operations and daily average production. The following tables summarize key financial and operating information by quarter:

| <i>(\$ thousands, except per unit amounts)</i> | 2008 | 2007 | 2007 | 2007 | 2007 | 2006 | 2006 | 2006 |
|--|----------------|---------|---------|---------|----------------|---------|---------|---------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue, net of royalties (\$) | 22,988 | 31,113 | 36,664 | 28,077 | 18,518 | 33,091 | 37,758 | 24,632 |
| Funds from operations (\$) | 28,298 | 23,246 | 18,805 | 19,244 | 22,045 | 19,183 | 20,812 | 18,008 |
| Per share – basic (\$/SHARE) | 0.75 | 0.62 | 0.50 | 0.56 | 0.67 | 0.60 | 0.70 | 0.60 |
| Per share – diluted (\$/SHARE) | 0.74 | 0.61 | 0.50 | 0.55 | 0.66 | 0.58 | 0.68 | 0.59 |
| Net earnings (loss) (\$) | (7,375) | 3,507 | 4,584 | 2,957 | (2,850) | 6,599 | 15,850 | 5,481 |
| Per share – basic (\$/SHARE) | (0.20) | 0.09 | 0.12 | 0.09 | (0.09) | 0.21 | 0.53 | 0.18 |
| Per share – diluted (\$/SHARE) | (0.19) | 0.09 | 0.12 | 0.09 | (0.08) | 0.20 | 0.52 | 0.18 |
| Total assets (\$) | 511,705 | 490,431 | 479,026 | 465,151 | 405,249 | 373,882 | 354,768 | 308,890 |
| Bank debt, net of working capital (\$) | 157,412 | 136,249 | 128,027 | 119,367 | 117,188 | 98,236 | 85,251 | 83,452 |
| Production (BOE/D) | 9,762 | 9,213 | 8,914 | 7,013 | 6,310 | 6,290 | 6,175 | 5,376 |
| Production per million shares (BOE/D) | 259 | 245 | 238 | 213 | 192 | 196 | 197 | 181 |
| Sales price, after derivatives (\$/BOE) | 61.26 | 54.13 | 48.55 | 55.64 | 66.81 | 59.59 | 60.31 | 60.69 |
| Operating netback (\$/BOE) | 35.02 | 30.44 | 25.78 | 33.72 | 42.60 | 35.79 | 39.30 | 40.01 |
| Netback as a percentage of sales | 57% | 71% | 53% | 61% | 64% | 60% | 65% | 66% |

BUSINESS RISKS

Celtic's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers, intermediate and senior producers and royalty trust organizations, to the much larger integrated petroleum companies. Celtic is subject to a number of risks which are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs, estimating amounts of recoverable reserves, production of oil and gas in commercial quantities, marketability of oil and gas produced, fluctuations in commodity prices, financial and liquidity risks and environmental and safety risks.

In order to reduce exploration risk, Celtic employs highly qualified and motivated professional employees who have demonstrated the ability to generate quality proprietary geological and geophysical prospects. To maximize drilling success, Celtic explores in areas that afford multi-zone prospect potential, targeting a range of shallower low to moderate risk prospects with some exposure to select deeper high-risk prospects with high-reward opportunities.

Celtic has retained an independent engineering consulting firm that assists the Company in evaluating recoverable amounts of oil and gas reserves. Values of recoverable reserves are based on a number of variable factors and assumptions such as commodity prices, projected production, future production costs and government regulation. Such estimates may vary from actual results.

The Company mitigates its risk related to producing hydrocarbons through the utilization of the most advanced technology and information systems. In addition, Celtic strives to operate the majority of its prospects, thereby maintaining operational control. The Company does rely on its partners in jointly owned properties that Celtic does not operate.

Celtic is exposed to market risk to the extent that the demand for oil and gas produced by the Company exists within Canada and the United States. External factors beyond the Company's control may affect the marketability of oil and gas produced. These factors include commodity prices and variations in the Canada-United States currency exchange rate, which in turn respond to economic and political circumstances throughout the world. Oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. Celtic may periodically use futures and options contracts to hedge its exposure against the potential adverse impact of commodity price volatility.

Exploration and production for oil and gas is very capital intensive. As a result, the Company relies on equity markets as a source of new capital. In addition, Celtic utilizes bank financing to support on-going capital investment. Funds from operations also provide Celtic with capital required to grow its business. Equity and debt capital is subject to market conditions and availability may increase or decrease from time to time. Funds from operations also fluctuate with changing commodity prices.

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Company conducts its operations with high standards in order to protect the environment and the general public. Celtic maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

BUSINESS OUTLOOK

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.

NEW 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.

ADDITIONAL INFORMATION

Additional information relating to Celtic, including the Company's Annual Information Form ("AIF") is filed on SEDAR and can be viewed on their website at www.sedar.com. Copies of the AIF can also be obtained by contacting Sadiq H. Lalani, Vice President, Finance and Chief Financial Officer at Celtic Exploration Ltd., Suite 500, 505 Third Street SW, Calgary, Alberta, Canada, T2P 3E6. Further information relating to the Company is also available on its website at www.celticex.com.

On behalf of the Board of Directors,



DAVID J. WILSON
President and Chief Executive Officer

MAY 7, 2008.

FINANCIAL STATEMENTS

BALANCE SHEET

| <i>(Unaudited) (\$ thousands)</i> | As at March 31, 2008 | As at December 31, 2007 |
|--|-------------------------|----------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,898 | \$ 3,082 |
| Accounts receivable | 26,823 | 25,751 |
| Prepaid expenses | 529 | 646 |
| Financial instruments [NOTE 8] | 0 | 925 |
| Current portion of future income tax asset | 5,043 | 0 |
| | 34,293 | 30,404 |
| Other assets | 8,989 | 4,281 |
| Property, plant and equipment [NOTE 2] | 468,423 | 455,746 |
| | \$ 511,705 | \$ 490,431 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 46,610 | \$ 46,480 |
| Financial instruments [NOTE 8] | 17,095 | 0 |
| Current portion of future income taxes | 0 | 273 |
| Bank debt [NOTE 3] | 128,000 | 119,900 |
| | 191,705 | 166,653 |
| Asset retirement obligation [NOTE 4] | 5,946 | 5,719 |
| Future income taxes | 45,971 | 36,596 |
| | \$ 243,622 | \$ 208,968 |
| SHAREHOLDERS' EQUITY | | |
| Share capital [NOTE 5] | \$ 193,932 | \$ 200,180 |
| Contributed surplus [NOTE 5] | 3,607 | 3,364 |
| Retained earnings and accumulated other comprehensive income | 70,544 | 77,919 |
| | \$ 268,083 | \$ 281,463 |
| | \$ 511,705 | \$ 490,431 |

The accompanying notes form an integral part of these financial statements.

ON BEHALF OF THE BOARD OF DIRECTORS:



Director



Director

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

| <i>(Unaudited) (\$ thousands)</i> | Three months ended March 31 | |
|--|-----------------------------|-------------|
| | 2008 | 2007 |
| OPERATING ACTIVITIES | | |
| Net loss | \$ (7,375) | \$ 92,850 |
| Items not affecting cash: | | |
| Depletion, depreciation and amortization | 20,016 | 12,964 |
| Accretion of asset retirement obligation | 142 | 79 |
| Stock based compensation | 404 | 262 |
| Unrealized loss on financial instruments | 18,019 | 12,813 |
| Future income taxes | (2,908) | (1,223) |
| Funds from operations | \$ 28,298 | \$ 22,045 |
| Change in non-cash operating working capital [NOTE 10] | (7,253) | 593 |
| Cash provided by operating activities | \$ 21,045 | \$ 22,638 |
| FINANCING ACTIVITIES | | |
| Increase (decrease) in bank debt | \$ 8,100 | \$ (10,850) |
| Issue of common shares, net of costs | 557 | 24,294 |
| Cash provided by financing activities | \$ 8,657 | \$ 13,444 |
| INVESTING ACTIVITIES | | |
| Property, plant and equipment expenditures | \$ (32,608) | \$ (56,564) |
| Property, plant and equipment acquisitions | 0 | (4) |
| Property, plant and equipment dispositions | 0 | 3 |
| Change in other assets | (4,707) | 140 |
| Change in non-cash investing working capital [NOTE 10] | 6,429 | 22,535 |
| Cash used in investing activities | \$ (30,886) | \$ (33,890) |
| Net change in cash and cash equivalents | \$ (1,184) | \$ 2,192 |
| Cash and cash equivalents, beginning of period | 3,082 | 824 |
| Cash and cash equivalents, end of period | \$ 1,898 | \$ 3,016 |

The accompanying notes form an integral part of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the interim period ended March 31, 2008 (Unaudited)
 (ALL TABULAR AMOUNTS IN THOUSANDS, UNLESS OTHERWISE STATED)

[NOTE 1] NATURE OF BUSINESS AND BASIS OF PRESENTATION

Celtic Exploration Ltd. ("Celtic" or the "Company") was incorporated under the Business Corporations Act (Alberta) on April 16, 2002. Celtic is an oil and natural gas exploration, development and production company based in Calgary, Alberta, Canada. The Company's operations are focused in Western Canada, primarily in Alberta.

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, 2007. The disclosure herein 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, 2007.

These financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim financial statements have not been reviewed by the Company's external auditors. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues, expenses and cash flows during the period. Actual results could differ from these estimates.

CHANGES IN ACCOUNTING POLICIES AND PRACTICES Effective January 1, 2008, the Company has adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- (i) Section 1535, *Capital Disclosures*;
- (ii) Section 3862, *Financial Instruments – Disclosures*; and
- (iii) Section 3863, *Financial Instruments – Presentation*;

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

[NOTE 2] PROPERTY, PLANT AND EQUIPMENT

| | Cost | Accumulated depletion, depreciation and amortization | Net book value |
|---|------------|--|----------------|
| <i>At December 31, 2007</i> | | | |
| Oil and gas properties, plant and equipment | \$ 652,926 | \$ 185,166 | \$ 467,760 |
| Head office assets | 1,207 | 544 | 663 |
| | \$ 654,133 | \$ 185,710 | \$ 468,423 |
| <i>At December 31, 2007</i> | | | |
| Oil and gas properties, plant and equipment | \$ 620,274 | \$ 165,194 | \$ 455,080 |
| Head office assets | 1,165 | 499 | 666 |
| | \$ 621,439 | \$ 165,693 | \$ 455,746 |

At March 31, 2008, oil and gas properties with a cost of \$34.9 million (December 31, 2007 – \$34.9 million) relating to unproved properties have been excluded from the depletion and depreciation calculation. Future capital costs required to develop proved reserves in the amount of \$37.8 million (2007 – \$15.0 million) are included in the depletion and depreciation calculation.

During the three months ended March 31, 2008, the Company capitalized \$0.1 million (2007 – \$0.1 million) with respect to employee salaries directly relating to exploration and development activities.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the interim period ended March 31, 2008 (Unaudited)
 (ALL TABULAR AMOUNTS IN THOUSANDS, UNLESS OTHERWISE STATED)

[NOTE 3] BANK DEBT

| | March 31, 2008 | December 31, 2007 |
|----------------------|----------------|-------------------|
| Bank loan | \$ 28,000 | \$ 19,900 |
| Bankers' acceptances | 100,000 | 100,000 |
| | \$ 128,000 | \$ 119,900 |

Celtic has a committed term credit facility with Canadian financial institutions. The authorized borrowing amount under this facility is \$165.0 million. Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime to bank prime plus 1.50%, depending upon the Company's then current debt to cash flow ratio of between less than one and a half times to greater than three times. At March 31, 2008, interest was payable at bank prime plus 0.25%. Under the credit facility, borrowings through the use of bankers' acceptances are also available. The Company has a fixed rate bankers' acceptance in the amount of \$100.0 million maturing on April 21, 2008 at an aggregate interest rate of 5.4%. Security is provided for by a floating charge debenture over all assets in the amount of \$250.0 million, general assignment of book debts and a fixed charge on the Company's major producing petroleum and natural gas properties.

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. The maturity date for the credit facility is May 3, 2008, at which time the banks will complete their annual review.

[NOTE 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:

| | March 31, 2008 | December 31, 2007 |
|---|----------------|-------------------|
| Asset retirement obligation, beginning of period | \$ 5,719 | \$ 4,885 |
| Liabilities incurred, net of liabilities disposed | 85 | 864 |
| Liabilities settled | – | (1,021) |
| Revisions to estimated liabilities | – | 671 |
| Accretion expense | 142 | 320 |
| Asset retirement obligation, end of period | \$ 5,946 | \$ 5,719 |

The key assumptions, on which the carrying amount of the asset retirement obligations is based, include a credit-adjusted risk-free rate of 8.5% and an inflation rate of 3.0%. The total undiscounted amount of the estimated cash flows required to settle the obligations is \$25.2 million (December 31, 2007 – \$23.9 million). The inflated value of estimated cash flows required to settle the obligations at a future period at the time the asset is retired is \$68.4 million (December 31, 2007 – \$63.8 million). The expected timing of payment of the cash flows required to settle the obligations ranges from 2 years to 51 years.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the interim period ended March 31, 2008 (Unaudited)
 (ALL TABULAR AMOUNTS IN THOUSANDS, UNLESS OTHERWISE STATED)

[NOTE 5] SHARE CAPITAL

(A) AUTHORIZED

Unlimited number of common shares.
 Unlimited number of preferred shares.

(B) ISSUED The following table summarizes the changes in common shares outstanding for the periods ended December 31, 2007 and March 31, 2008:

| | Common Shares | Amount |
|---|---------------|------------|
| Balance, December 31, 2006 | 32,180 | \$ 127,841 |
| Issued for cash on exercise of stock options | 786 | 3,411 |
| Amount relating to exercised options previously recorded as contributed surplus | – | 556 |
| Issued for cash through private placement | 3,200 | 45,920 |
| Issued for cash through flow-through private placement | 1,500 | 24,975 |
| Share issue costs, after future income taxes | – | (2,523) |
| Balance, December 31, 2007 | 37,666 | \$ 200,180 |
| Issued for cash on exercise of stock options | 106 | 563 |
| Amount relating to exercised options previously recorded as contributed surplus | – | 161 |
| Future income tax benefit transferred on flow-through share issue | – | (6,968) |
| Share issue costs, after future income taxes | – | (4) |
| Balance, March 31, 2008 | 37,772 | \$ 193,932 |

(C) FLOW-THROUGH SHARES On February 27, 2007, Celtic issued 1.5 million common shares on a flow-through basis at an issue price of \$16.65 per share for gross proceeds of \$25.0 million. At March 31, 2008, the Company had an estimated \$9.2 million remaining obligation to incur Canadian Exploration Expenditures (“CEE”), which must be completed by December 31, 2008.

(D) STOCK OPTIONS Celtic has a stock option plan that provides for granting of stock options to directors, officers, employees and consultants. Stock options granted under the stock option plan have a maximum term of five years to expiry. Vesting is determined by the Company’s board of directors. However, the majority of the options granted vest equally over a three year period commencing on the first anniversary date of the grant. The exercise price of each stock option granted is determined as the closing market price of the common shares on the Toronto Stock Exchange on the last business day preceding the date of grant. Each stock option granted permits the holder to purchase one common share of the Company at the stated exercise price.

The following table summarizes the changes in stock options outstanding during the periods ended December 31, 2007 and March 31, 2008:

| | Number of Options | Average Exercise Price |
|----------------------------|-------------------|------------------------|
| Balance, December 31, 2006 | 2,630 | \$ 8.02 |
| Granted | 1,050 | 12.76 |
| Exercised | (786) | 4.34 |
| Forfeited | (68) | 12.94 |
| Balance, December 31 2007 | 2,826 | \$ 10.69 |
| Granted | 135 | 13.13 |
| Exercised | (106) | 5.31 |
| Forfeited | – | – |
| Balance, March 31, 2008 | 2,855 | \$ 11.00 |

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the interim period ended March 31, 2008 (Unaudited)
 (ALL TABULAR AMOUNTS IN THOUSANDS, UNLESS OTHERWISE STATED)

The Company uses the fair-value method to record stock based compensation expense with respect to stock options granted. 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:

| Three months ended March 31 | 2008 | 2007 |
|--|-------|-------|
| Risk free interest rate | 4.08% | 4.50% |
| Expected life (years) | 3.0 | 3.0 |
| Expected volatility | 20% | 20% |
| Expected dividend yield | – | – |
| Fair value of options granted during the period (\$/share) | 2.55 | 2.45 |

The following table summarizes information regarding stock options outstanding at March 31, 2008:

| Range of exercise prices per share | Number of options outstanding | Weighted average remaining term in years | Weighted average exercise price per share for options outstanding | Number of options exercisable | Weighted average exercise price per share for options exercisable |
|------------------------------------|-------------------------------|--|---|-------------------------------|---|
| \$ 4.01 to \$ 6.00 | 377 | 0.6 | \$ 5.80 | 377 | \$ 5.80 |
| \$ 6.01 to \$ 8.00 | 291 | 1.4 | 7.69 | 291 | 7.69 |
| \$ 8.01 to \$10.00 | 28 | 1.6 | 8.65 | 28 | 8.65 |
| \$10.01 to \$12.00 | 526 | 2.6 | 11.20 | 372 | 11.13 |
| \$12.01 to \$14.00 | 1,508 | 3.9 | 12.60 | 256 | 12.43 |
| \$14.01 to \$16.00 | 125 | 4.7 | 14.73 | – | – |
| Total | 2,855 | 3.0 | \$ 11.00 | 1,324 | \$ 9.06 |

[NOTE 6] 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, 0.3 million (2007 – 0.8 million) shares were added to the 37.7 million (2007 – 32.4 million) weighted average number of common shares outstanding during the three month period for the dilutive effect of stock options.

[NOTE 7] COMMITMENTS

The Company is committed to future payments under the following agreements:

| | Apr-Dec 2008 | 2009 | 2010 | 2011 | Total |
|-----------------------------------|--------------|--------|--------|--------|-----------|
| Operating lease – office building | \$ 426 | \$ 568 | \$ 568 | \$ 189 | \$ 1,751 |
| Operating lease – vehicles | 97 | 57 | – | – | 154 |
| Firm transportation agreements | 205 | 92 | – | – | 297 |
| Exploration and development | 9,200 | – | – | – | 9,200 |
| | \$ 9,928 | \$ 717 | \$ 568 | \$ 189 | \$ 11,402 |

Rental leases relating to office space expire on April 30, 2011. Exploration and development commitments relate to the Company’s obligation pursuant to a flow-through share issue (see Note 5(c)).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the interim period ended March 31, 2008 (Unaudited)
 (ALL TABULAR AMOUNTS IN THOUSANDS, UNLESS OTHERWISE STATED)

[NOTE 8] FINANCIAL INSTRUMENTS

(A) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES Financial instruments of the Company consist mainly of receivables, payables, bank debt and financial derivative contracts, all of which are included in these financial statements. At March 31, 2008, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

| Classification | Carrying Amount | Fair Value |
|---|-----------------|--------------|
| Loans and receivables (accounts receivable) | \$ 26,823 | \$ 26,823 |
| Held-to-maturity investments | - | - |
| Held-for-trading instruments (financial derivative contracts) | (17,095) | (17,095) |
| Available-for-sale financial assets | - | - |
| Other financial liabilities (accounts payable and bank debt) | (174,610) | (174,610) |
| Total | \$ (164,882) | \$ (164,882) |

(B) CREDIT RISK The majority of the Company's accounts receivable is in respect of oil and gas operations. Celtic generally extends unsecured credit to these third parties, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Celtic has not experienced any material credit loss in the collection of receivables during the three months ended March 31, 2008.

(C) INTEREST RATE RISK The Company is exposed to fluctuations in interest rates on its bank debt. Interest rate risk is mitigated through short-term fixed rate borrowings using bankers' acceptances.

(D) FOREIGN EXCHANGE RATE RISK The Company is exposed to the risk of changes in the Canadian/U.S. dollar exchange rate on sales of commodities that are denominated in U.S. dollars or directly influenced by U.S. dollar benchmark prices.

(E) COMMODITY PRICE RISK MANAGEMENT The following is a summary of oil sales price derivative contracts in effect as at March 31, 2008, that have fixed future sales prices (fixed oil prices are based on the West Texas Intermediate (WTI) Index):

| Daily quantity | Remaining term of contract | Fixed price per barrel (bbl) |
|----------------|------------------------------|------------------------------|
| 500 bbls/d | April 1 to December 31, 2008 | \$89.00 |
| 500 bbls/d | April 1 to December 31, 2008 | \$88.00 |
| 300 bbls/d | April 1 to December 31, 2008 | US\$92.50 |
| 500 bbls/d | April 1 to December 31, 2008 | US\$70.00 |

The fair value of the above oil contracts, mark-to-market at March 31, 2008 is an unrealized loss of \$8.2 million.

The following is a summary of natural gas sales price derivative contracts in effect as at March 31, 2008, that have fixed future sales prices (fixed natural gas prices are based on the New York Mercantile Exchange ("NYMEX") Index):

| Daily quantity | Remaining term of contract | Fixed price per mmbtu (NYMEX) |
|---------------------------------|------------------------------|---------------------------------|
| 6,500 mmbtu/d (costless collar) | April 1 to December 31, 2008 | US\$8.00 (floor) US\$9.05 (cap) |

The following is a summary of natural gas sales price derivative contracts in effect as at March 31, 2008, that have fixed future sales prices (fixed natural gas prices are based on the AECO Index):

| Daily quantity | Remaining term of contract | Fixed price per GJ (AECO) |
|----------------|-----------------------------|---------------------------|
| 5,000 GJ/d | April 1 to October 31, 2008 | \$7.43 |
| 20,000 GJ/d | April 1 to October 31, 2008 | \$7.02 |

The fair value of the above natural gas contracts, mark-to-market at March 31, 2008 is an unrealized loss of \$8.9 million.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the interim period ended March 31, 2008 (Unaudited)
 (ALL TABULAR AMOUNTS IN THOUSANDS, UNLESS OTHERWISE STATED)

[NOTE 9] CAPITAL STRUCTURE

The Company's capital structure is comprised of shareholders' equity, bank debt and working capital. Celtic's objectives when managing its capital structure is to maintain financial flexibility in order to meet financial obligations, as well as to finance future growth through capital expenditures relating to exploration, development and acquisition activities. The Company monitors its capital structure and short-term financing requirements using a net debt to trailing funds from operations ratio, a non-GAAP financial measure.

| | March 31, 2008 | December 31, 2007 |
|--|----------------|-------------------|
| Bank debt | \$ 128,000 | \$ 119,900 |
| Working capital deficiency ⁽¹⁾ | 17,360 | 17,001 |
| Net debt | \$ 145,360 | \$ 136,901 |
| Trailing funds from operations ⁽²⁾ | \$ 113,192 | \$ 92,984 |
| Net debt to trailing funds from operations ratio | 1.28 | 1.47 |

⁽¹⁾ Working capital excludes unrealized gains or losses on financial instruments and associated income taxes.

⁽²⁾ Trailing funds from operations is annualized based on the most recent quarter's funds from operations which is calculated as cash provided by operating activities before settlement of asset retirement obligations and change in non-cash operating working capital.

Celtic targets a net debt to trailing funds from operations ratio of less than 2.0 times. The Company manages its capital structure and makes adjustments according to market conditions in order to maintain flexibility to achieve its objectives stated above. To adjust its capital structure, the Company may increase or decrease capital expenditures, issue new shares, issue new debt or repay existing debt.

[NOTE 10] SUPPLEMENTAL CASH FLOW INFORMATION

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

| Three months ended March 31, | 2008 | 2007 |
|------------------------------------|------------|-----------|
| Accounts receivable | \$ (1,072) | \$ 1,772 |
| Prepaid expenses | 118 | (11) |
| Accounts payable and accruals | 130 | 21,367 |
| Change in non-cash working capital | \$ (824) | \$ 23,128 |
| Relating to: | | |
| Operating activities | \$ (7,253) | \$ 593 |
| Investing activities | 6,429 | 22,535 |
| Change in non-cash working capital | \$ (824) | \$ 23,128 |

During the reporting period, the Company made the following cash outlays in respect of interest expense and capital taxes:

| Three months ended March 31, | 2008 | 2007 |
|------------------------------|----------|----------|
| Interest | \$ 1,972 | \$ 1,830 |

[NOTE 11] SUBSEQUENT EVENTS

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 22, 2008, Celtic entered into a two-year interest rate swap transaction whereby \$80.0 million of borrowings has been fixed at an all-in cost of approximately 4.4% until maturity on April 22, 2010.

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.

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.

BOARD OF DIRECTORS

ROBERT J. DALES^{2, 3, 4}

President, Valhalla Ventures Inc.

WILLIAM C. GUINAN^{1, 5}

Partner, Borden Ladner Gervais LLP

ELDON A. MCINTYRE^{2, 3, 4}

President, Jarrod Oils Ltd.

NEIL G. SINCLAIR^{2, 4, 5}

President, Sinson Investments Ltd.

DAVID J. WILSON^{3, 5}

President & Chief Executive Officer, Celtic Exploration Ltd.

OFFICERS

DAVID J. WILSON

President & Chief Executive Officer

SADIO H. LALANI

Vice President, Finance & Chief Financial Officer

MICHAEL R. SHEA

Vice President, Land

DAVID C. MORGENSTERN

Vice President, Exploration

ALAN G. FRANKS

Vice President, Operations

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 Disclosure Committee

HEAD OFFICE

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REGISTRAR AND TRANSFER AGENT

VALIANT TRUST COMPANY

Suite 310, 606 Fourth Street S.W. Calgary, Alberta T2P 1T1

LEGAL COUNSEL

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Suite 1000, 400 Third Avenue S.W. Calgary, Alberta T2P 4H2

BANKERS

NATIONAL BANK OF CANADA

Suite 2700, 530 Eighth Avenue S.W. Calgary, Alberta T2P 3S8

AUDITORS

PRICEWATERHOUSECOOPERS LLP

Suite 3100, 111 Fifth Avenue S.W. Calgary, Alberta T2P 5L3

EVALUATION ENGINEERS

SPROULE ASSOCIATES LIMITED

Suite 900, 140 Fourth Avenue S.W. Calgary, Alberta T2P 3N3

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading symbol "CLT"

ABBREVIATIONS

| | |
|--------|--|
| BBLs | barrels |
| MBBLs | thousand barrels |
| BBLs/D | barrels per day |
| BOE | barrels of oil equivalent |
| MBOE | thousand barrels of oil equivalent |
| BOE/D | barrels of oil equivalent per day |
| MCF | thousand cubic feet |
| MMCF | million cubic feet |
| BCF | billion cubic feet |
| MMCF/D | million cubic feet per day |
| MMBTU | million British Thermal Units |
| GJ | gigajoules |
| AECO-C | Alberta Energy Company "C" Meter Station of the Nova Pipeline System |
| API | American Petroleum Institute |
| ARTC | Alberta Royalty Tax Credit |
| CICA | Canadian Institute of Chartered Accountants |
| BIT | before income taxes |
| WTI | West Texas Intermediate |

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 mmbtu = 1.054 GJ

0.949 mmbtu = 1 GJ

Natural gas is equated to oil on the basis of 6 mcf = 1 BOE.



CELTIC EXPLORATION LTD.

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