

First quarter. Celtic achieved record high production during the first quarter of 2009 averaging 13,219 BOE per day, an increase of 35% over the same period last year.



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highlights

	THREE MONTHS ENDED		
	MARCH 31,		CHANGE
	2009	2008	
<i>(\$ thousands, unless otherwise indicated)</i>			
FINANCIAL			
Revenue, before royalties and financial instruments	41,435	57,371	-28%
Funds from operations	28,140	28,298	-1%
Basic (\$/share)	0.68	0.75	-9%
Diluted (\$/share)	0.68	0.74	-8%
Net loss	(5,039)	(7,375)	-32%
Basic (\$/share)	(0.12)	(0.20)	-40%
Diluted (\$/share)	(0.12)	(0.20)	-40%
Capital expenditures, net of dispositions	41,583	32,608	28%
Total assets	658,765	511,705	29%
Bank debt, net of working capital	160,974	157,412	2%
Bank debt, net of working capital, excluding non-cash financial instruments	177,620	145,360	22%
Shareholders' equity	363,376	268,083	36%
Weighted average common shares outstanding (thousands)			
Basic	41,307	37,701	10%
Diluted	41,359	38,050	9%
OPERATIONS			
Production			
Oil (bbls/d)	3,601	3,309	9%
Gas (mcf/d)	57,706	38,717	49%
Combined (BOE/d)	13,219	9,762	35%
Production per million shares (BOE/d)	320	259	24%
Realized sales prices, after financial instruments			
Oil (\$/bbl)	79.01	81.17	-3%
Gas (\$/mcf)	5.36	8.51	-37%
Operating netbacks (\$/BOE)			
Oil and gas revenue, before hedging	34.82	64.59	-46%
Realized gain (loss) on financial instruments	9.72	(3.33)	
Realized sales price, after hedging	44.54	61.26	-27%
Royalties	(8.55)	(15.09)	-43%
Production expense	(10.21)	(10.42)	-2%
Transportation expense	(0.49)	(0.73)	-33%
Operating netback	25.29	35.02	-28%
Drilling activity			
Total wells	15.0	15.0	0%
Working interest wells	12.6	12.3	2%
Success rate on working interest wells	84%	77%	9%
Undeveloped land			
Gross acres	334,152	310,577	8%
Net acres	262,430	237,725	10%

Celtic Exploration Ltd. (“Celtic” or the “Company”) is pleased to report to shareholders the Company’s activities in the first quarter of 2009.

During the quarter, Celtic drilled 15 (12.6 net) wells with an overall success rate of 84%. On March 3, 2009, the Alberta Government announced a new Energy Incentive Program (“EIP”) whereby new wells drilled starting on April 1, 2009 would be eligible for a royalty credit. In addition, new wells that commence commercial production starting on April 1, 2009 will also be eligible for a royalty reduction. As a result of this announcement, Celtic re-scheduled drilling operations by deferring new drills to commence on or after April 1, 2009, in order to take full advantage of the new EIP benefits. Despite the re-scheduling of drilling operations, Celtic achieved record high production during the first quarter of 2009. Production during the quarter averaged 13,219 BOE per day, an increase of 35% from 9,762 BOE per day in the first quarter of 2008. In the first quarter of 2009, Celtic recorded funds from operations of \$28.1 million (\$0.68 per share, diluted), compared to \$28.3 million (\$0.74 per share, diluted) reported in the same quarter of the previous year.

In Southern Alberta, the Company participated in the drilling of two successful natural gas wells in the Drumheller area. Celtic’s working interest in these wells is 25.0%. In Northern Alberta, the Company drilled an unsuccessful well targeting light oil at Utikuma (100% working interest). In East Central Alberta, the Company drilled three wells including a horizontal multi-stage fracture oil well at Edward (100% working interest). The Company expects to confirm production rates on this well after spring break-up. The remaining two drills were vertical wells resulting in one potential natural gas well (100% working interest) and one unsuccessful well (100% working interest).

During the first quarter, Celtic drilled a successful dual oil and gas well at McLeod (100% working interest), south-east of Kaybob in West Central Alberta. The well has been completed and put on production at initial rates of 300 BOE per day. A second well at McLeod is planned for the second quarter.

The remainder of Celtic’s drilling activity in the first quarter of 2009 took place in the Greater Kaybob area of West Central Alberta, where 8 (7.1 net) wells were drilled with an overall success rate of 100%. All eight wells were horizontals with multi-fracture completions.

At Kaybob South, Celtic drilled two horizontal wells including one on its west block of lands. One well was put on-stream and the second well on the west block of lands is expected to be put on production in early June after the KA Gas Plant turnaround is completed.

At KayFox, Celtic drilled four horizontal wells. Three wells were completed in the Montney formation and one well was completed in the Bluesky formation. The Company is encouraged by the results of its first two horizontal Bluesky wells in the Greater Kaybob area and expects to drill additional Bluesky wells during the remainder of 2009.

At Pine Creek, Celtic drilled a Montney horizontal well (36.5% working interest) on farm-in lands. This well was successfully completed and put on production. At Chickadee, the Company drilled and completed a Montney horizontal well (100% working interest) which is expected to be put on production in early June after the KA Gas Plant turnaround is completed.

Celtic processes the majority of its production from the Greater Kaybob area through the KA and K3 Gas Plants, which are operated by SemCAMS ULC. The KA Gas Plant is currently down for plant turnaround maintenance. This occurs every four years. Celtic expects to have approximately 10,000 BOE per day shut-in for four weeks during the plant turnaround. Celtic is currently evaluating the economics and feasibility of building its own gas plant at Kaybob. Based on a preliminary analysis, the Company could add to existing facilities that it owns and operates and build a gas processing plant with throughput capacity of 150 MMCF per day of raw gas, for approximately \$35.0 million. The payout on this type of capital expenditure would be less than two years based on the anticipated savings in operating costs and gas shrinkage loss compared to processing gas through the KA and K3 Gas Plants. If Celtic is satisfied with a final financial evaluation and it meets all regulatory approvals, construction of a gas plant would likely take place in 2010.

Celtic continues to acquire new lands in the Kaybob area. At March 31, 2009, the Company’s undeveloped land holdings in all areas increased to 334,152 (262,430 net) acres. With this inventory of land and with plans to continue developing its Kaybob prospects, Celtic continues to generate numerous drilling locations that will provide continued growth over the next few years.

Oil and gas producers, like Celtic, are continually exposed to fluctuations in commodity prices that are beyond the control of the companies that produce hydrocarbons. In order to mitigate this risk and provide certainty to a portion of its cash flow supporting its capital investment program, Celtic employs an active risk management program. The Company’s outstanding financial derivative contracts relating to its hedged oil production, NYMEX to AECO basis differential and currency exchange is disclosed in detail in the accompanying notes to the financial statements.

management's discussion and analysis

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, 2008. This MD&A is effective May 8, 2009. The accompanying interim 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") and have not been reviewed by the Company's external auditors. 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 netback" 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. Operating netbacks are determined by deducting royalties, production expenses and transportation expenses from oil and gas 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 and sulphur volumes have been converted to oil equivalence at 0.6 long tons 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. References to gas in this discussion include natural gas and sulphur.

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, 2009, the Company has adopted CICA Section 3064, Goodwill and Intangible Assets which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets. The adoption of this standard requires retroactive application to prior period financial statements and does not have a material impact on the Company's financial statements.

Future Changes in Accounting Policies In February 2007, the CICA's 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. The Company has retained the services of a major accounting firm to provide a diagnostic review and advisory services to support the Company's IFRS conversion plan. Celtic 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. 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. 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, 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's 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

Highlights – First Quarter 2009 The three months ended March 31, 2009 was another successful quarter in the execution of the Company's growth strategy. Highlights for the first quarter of 2009 are as follows:

- Drilled 15 (12.6 net working interest) wells during the quarter resulting in 12 (9.6 net) natural gas wells and 1 (1.0 net) oil wells, for an overall success rate, based on net wells, of 84%;
- Increased average daily production by 35% to a Company quarterly record of 13,219 BOE per day, up from 9,762 BOE per day in the first quarter of 2008 and achieved daily average production per million shares outstanding of 320 BOE per day, up 24% in 2009 compared to 259 BOE per day in the corresponding quarter of the previous year;
- Generated \$28.1 million in funds from operations for the three month period ended March 31, 2009, down 1% from \$28.3 million in the same quarter of the previous year. Reported funds from operations per share, diluted, of \$0.68, a decrease of 8% from \$0.74 per share in the first quarter of the previous year;
- Received an average operating netback of \$25.29 per BOE, down 28% from \$35.02 per BOE in the same quarter of 2008.

Production Oil and gas production in the first quarter of 2009 increased 35% to average 13,219 BOE per day compared to 9,762 BOE per day in the same quarter of 2008. Production per million shares outstanding for the three months ended March 31, 2009 averaged 320 BOE per day, up 24% from 259 BOE per day in the corresponding quarter 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 and Michichi 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, with future oil development potential at Edwand/Figure Lake. In Northern Alberta, the Company produces light oil primarily from Utikuma Lake. In West Central Alberta, Celtic has both natural gas and light oil production at Kaybob, Fox Creek and Swan Hills. West Central Alberta was the Company's most active drilling area in the first three months of 2009.

Revenue Revenue, before royalties, and before realized and unrealized gains or losses on financial derivatives, for the three months ended March 31, 2009, was \$41.4 million, a decrease of 28% compared to \$57.4 million in the same quarter of the previous year. Lower revenue in 2009 was due to lower commodity prices that more than offset increased production levels.

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, 2009 was \$44.54 per BOE, a decrease of 27% compared to the corresponding three month period of the previous year.

Oil Operations Oil production for the first quarter ended March 31, 2009 averaged 3,601 barrels per day, an increase of 9% compared to the same quarter of the previous year.

The average price received for oil sales, after realized financial derivatives, for the first quarter ended March 31, 2009 was \$79.01 (\$45.01 before financial derivatives) per barrel, down 3% from the average price of \$81.17 (\$88.61 before financial derivatives) per barrel received in the first quarter of 2008.

For the quarter ended March 31, 2009, average oil royalties were 18.3% of revenue, after financial derivatives (32.3% of sales, before financial derivatives). In the first quarter of the previous year, average oil royalties were 27.0% of revenue, after financial derivatives (24.8% of sales, before financial derivatives). Higher royalty rates in 2009, before financial derivatives, were primarily a result of the new royalty framework implemented by the Alberta government effective January 1, 2009 which uses two month lagging oil prices in order to calculate the applicable royalty rate applied to current oil sales.

Transportation expenses for oil production in the first quarter of 2009 averaged \$0.34 per barrel compared to \$0.66 per barrel in the first quarter of 2008. Lower per unit transportation expenses in 2009 reflect the larger portion of newer NGL production which is mostly pipeline connected and therefore less expensive to transport compared to trucking oil.

For the first quarter ended March 31, 2009, oil production expenses were \$13.87 per barrel. In the same quarter of the previous year, oil production expenses were \$14.54 per barrel. Lower per unit production expenses in 2009 reflect the increasing portion of newer NGL production which is less expensive to produce than oil.

Gas Operations Gas production for the first quarter ended March 31, 2009 averaged 57,706 MCF per day, an increase of 49% compared to the corresponding quarter of the previous year. Increases in gas production in 2009 were primarily a result of Celtic's successful drilling results in its resource development prospect located at Kaybob, Alberta.

The average price received for gas sales, after realized financial derivatives, for the first quarter ended March 31, 2009 was \$5.36 (\$5.17 before financial derivatives) per MCF, down 37% from the average price of \$8.51 (\$8.71 before financial derivatives and physical fixed price contracts) per MCF received in the first quarter of 2008.

For the quarter ended March 31, 2009, average gas royalties were 19.8% of revenue, after financial derivatives (20.7% of sales, before financial derivatives). In the first quarter of the previous year, average gas royalties were 22.7% of revenue, after financial derivatives (22.5% of sales, before financial derivatives). Lower gas royalty rates in 2009, before financial derivatives, were primarily a result of lower natural gas selling prices and longer depth horizontal wells which receive favourable treatment under the new royalty framework program.

Transportation expenses for the first quarter ended March 31, 2009 were \$0.09 per MCF, a decrease of 31% compared to \$0.13 per MCF for the same quarter in the previous year. Lower transportation expenses in 2009 reflect the Company's ownership in the majority of the pipeline infrastructure at its main producing area of Kaybob, Alberta, where the Company has been increasing production.

For the first quarter ended March 31, 2009, production expenses of \$1.47 per MCF were 7% higher than \$1.38 per MCF in the corresponding quarter of the previous year. Higher production expenses in 2009 reflect certain one time expenses that are being incurred at Kaybob as a result of turnaround operations at the KA Gas Plant where the majority of Celtic's gas is processed.

Other Expenses For the quarter ended March 31, 2009, general and administrative expenses were \$1.0 million (\$0.86 per BOE), interest expense was \$0.9 million, and depletion, depreciation and accretion expenses were \$24.7 million (\$20.78 per BOE). In the previous year, for the quarter 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 accretion expenses were \$20.2 million (\$22.69 per BOE). Lower interest expense in 2009 reflect declining interest rates and higher depletion, depreciation and accretion expenses reflect higher production volumes.

Taxes For the quarter ended March 31, 2009, Celtic provided for a recovery of future income taxes in the amount of \$1.9 million, compared to a recovery of \$2.9 million in the first quarter of 2008. For the three months ended March 31, 2009, Celtic is not required to pay current income taxes as it has sufficient income tax deductions available to shelter taxable income for the period.

Earnings and Funds from Operations Net loss for the quarter ended March 31, 2009 was \$5.0 million (\$0.12 per share, basic and diluted). During the same period, funds from operations were \$28.1 million (\$0.68 per share, basic and diluted). On a barrel of oil equivalent basis, funds from operations in the first quarter of 2009 were \$23.65 per BOE, down 26% from \$31.86 per BOE in the same quarter of 2008. The main reason for the decrease in funds from operations per BOE in 2009 was lower commodity prices.

Capital Expenditures During the quarter ended March 31, 2009, Celtic spent \$41.6 million on capital projects. Drilling and completion operations accounted for \$32.8 million, equipment and facility expenditures were \$7.6 million and \$1.2 million was spent on land and seismic. In the first quarter of the previous year, capital expenditures were \$32.6 million.

At March 31, 2009, the Company had 334,152 (262,430 net) acres of undeveloped land. The Company continues to build on its inventory of prospects for future drilling.

Drilling Activity During the first quarter of 2009, the Company drilled 15 (12.6 net) wells resulting in 12 (9.6 net) natural gas wells and 1 (1.0 net) oil wells, for an overall success rate, based on net wells, of 84%. During the first quarter ended March 31, 2008, Celtic drilled 15 (12.3 net) wells, with an overall success rate of 77%. The average measured depth of net wells drilled in the first quarter of 2009 was 2,559 metres, a decrease of 3% compared to the average drilling measured depth of 2,651 metres in the first quarter of 2008.

CAPITAL RESOURCES AND LIQUIDITY

Source of Funds Investment funding for capital expenditures incurred in the first three months of 2009 was provided by bank debt and cash provided by operating activities.

At March 31, 2009, Celtic had drawn \$158.0 million of its \$200.0 million authorized bank credit facility, leaving sufficient unused credit lines available to fund on-going capital expenditures and working capital deficiencies. 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, 2009, the working capital amount, excluding non-cash financial instruments, plus outstanding bank debt represented 89% of the Company's maximum authorized bank borrowing credit limit.

Celtic has a potential financial exposure of approximately \$31.4 million relating to natural gas and associated by-product sales, net of processing costs. During the third quarter of 2008, the Company has expensed \$18.0 million of this amount as a provision for non-recoverable accounts receivable. The amount receivable on the balance sheet at March 31, 2009 is approximately \$13.4 million. The exposure relates to the announcement by SemCAMS ULC ("SemCAMS"), a Canadian subsidiary of U.S. based SemGroup LP ("SemGroup"), whereby SemGroup filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code and SemCAMS filed an application to obtain an order under the Companies' Creditors Arrangement Act (Canada) in the Court of Queen's Bench of Alberta Judicial District of Calgary. The full amount of the potential financial exposure relates to the marketing of a portion of the Company's natural gas and associated by-products production.

Liquidity Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company's financial liabilities are comprised of accounts payable, accrued liabilities and bank debt.

During 2008, many oil and gas companies faced a number of challenges resulting from weakening commodity prices and tight credit markets. With the indications of a continuing global recession in 2009, oil and gas companies will likely continue to face significant challenges relating to credit availability in 2009. Celtic has good relationships with its syndicate of lenders and may add new members to the syndicate in 2009 in order to spread the risk. The Company's existing credit facility matures on June 30, 2009 and Celtic expects to renew the facility for another year.

The Company manages liquidity risk through the prudent use of debt, interest rate, currency and commodity price risk management and through an actively managed production and capital expenditure budget process.

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, 2009, there were 41.3 million common shares outstanding (as at May 8, 2009, there were 44.1 million common shares outstanding). There are no preferred shares outstanding.

As at March 31, 2009, directors, employees and certain consultants have been granted options to purchase 3.2 million common shares of the Company at an average exercise price of \$12.98 per share.

The Company's common shares trade on the 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, currency exchange and interest rates in order to secure a certain amount of cash flow to protect a desired level of capital spending.

The following is a summary of WTI fixed oil sales price derivative contracts in effect as at March 31, 2009:

Quantity	Remaining term of contract	Fixed price per BBL
2,000 BBLs/d (put-call spread)	April 1 to December 31, 2009	CA\$115.00 (floor) CA\$145.00 (cap)

The following is a summary of NYMEX-AECO fixed natural gas basis differential derivative contracts in effect as at March 31, 2009:

Quantity	Remaining term of contract	Fixed price per MMBTU
30,000 MMBTU/d (swap)	April 1 to April 30, 2009	US\$0.69
10,000 MMBTU/d (swap)	May 1 to May 31, 2009	US\$0.69
30,000 MMBTU/d (swap)	June 1 to December 31, 2009	US\$0.69

The following is a summary of U.S. currency average rate forward swap contracts in effect as at March 31, 2009:

Amount	Remaining term of contract	Fixed exchange rate (CAD/USD)
US\$4,000,000	April 1 to April 30, 2009	1.2425
US\$2,000,000	May 1 to May 31, 2009	1.2600
US\$4,000,000/month	June 1 to December 31, 2009	1.2425
US\$4,000,000/month	January 1 to December 31, 2010	1.2106

The following is a summary of interest rate swap contracts that settle based on the floating Canadian Dollar Banker Acceptance CDOR rate, in effect as at March 31, 2009:

Amount	Remaining term of contract	Fixed interest rate
CA\$80,000,000	April 1, 2009 to April 22, 2010	3.30%
CA\$20,000,000	April 1, 2009 to April 22, 2010	2.54%
CA\$100,000,000	April 21, 2010 to April 21, 2011	2.07%

Contractual Obligations Celtic has a committed term credit facility with certain financial institutions. The authorized borrowing amount under this facility as at March 31, 2009 was \$200.0 million, of which \$158.0 million was outstanding. Interest under this facility is payable monthly. Additional disclosure relating to bank debt is provided in the notes to the financial statements.

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

Contractual Obligations

(\$ thousands)	Apr–Dec 2009	2010	2011	Total
Operating lease – office building	\$ 435	\$ 580	\$ 194	\$ 1,354
Operating lease – vehicles	81	47	1	87
Firm transportation agreements	103	53	28	243
Total	\$ 619	\$ 680	\$ 223	\$ 1,684

Office building operating lease relates to rental office space in Calgary, Alberta which expires on April 30, 2011.

Related Party and Off-Balance Sheet Transactions The Company has retained the law firm of Borden Ladner Gervais LLP (“BLG”) to provide Celtic with legal services. William C. Guinan, a director, chairman and corporate secretary of Celtic is a partner of this law firm. During the first quarter of 2009, the Company incurred \$0.1 million in costs with BLG. These amounts have been recorded at the exchange amount. 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 periods ended March 31, 2008 and 2009.

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:

(\$ thousands, except per unit amounts)	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2
Gross oil & gas revenue (\$)	41,435	51,842	73,904	80,220	57,371	45,734	40,356	34,556
Funds from operations (\$)	28,140	32,049	34,227	36,787	28,298	23,246	18,805	19,244
Per share – basic (\$/share)	0.68	0.78	0.83	0.92	0.75	0.62	0.50	0.56
Per share – diluted (\$/share)	0.68	0.78	0.83	0.90	0.74	0.61	0.50	0.55
Net earnings (loss) (\$)	(5,039)	29,585	31,145	(9,116)	(7,375)	3,507	4,584	2,957
Per share – basic (\$/share)	(0.12)	0.72	0.76	(0.23)	(0.20)	0.09	0.12	0.09
Per share – diluted (\$/share)	(0.12)	0.72	0.75	(0.23)	(0.20)	0.09	0.12	0.09
Total assets (\$)	658,765	649,654	594,672	572,691	511,705	490,431	479,026	465,151
Bank debt, net of working capital* (\$)	177,620	160,187	149,588	124,179	145,360	136,901	131,695	119,362
Production (BOE/d)	13,219	12,059	11,604	10,842	9,762	9,213	8,914	7,013
Production per million shares (BOE/d)	320	293	282	270	259	245	238	213
Sales price, after derivatives (\$/BOE)	44.54	51.30	61.51	67.49	61.26	54.13	48.55	55.64
Operating netback (\$/BOE)	25.29	31.03	34.20	39.94	35.02	30.44	25.78	33.72
Netback as a percentage of sales	57%	60%	56%	59%	57%	71%	53%	61%

* Working capital excludes non-cash financial instruments.

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.

Safety and Environment 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.

Climate Change The Federal Government has announced its intention to regulate greenhouse gases ("GHG") and other air pollutants. As these regulations are under development, the Company is unable to predict the total impact of the potential regulations upon its business. The Alberta Government has set targets for GHG emission reductions. In order to comply with the Alberta regulations, companies can make operating improvements to its facilities, purchase carbon offsets or make a monetary contribution to the Alberta Climate Change and Emissions Management Fund. The forecasted cost of complying with these regulations is not material to Celtic at this time.

BUSINESS OUTLOOK

Advisory Regarding Forward-Looking Statements Certain information with respect to Celtic contained herein, including management's assessment of future plans and operations, contains forward-looking statements. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, certain of which are beyond Celtic's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency exchange rate fluctuations, imprecision of reserve estimates, environmental risks, competition from other explorers, stock market volatility and ability to access sufficient capital. As a result, Celtic's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

Current Economic Environment Late in 2008 and early in 2009, the financial community around the world has been rocked with unprecedented losses and business failures. As a result, the current economic environment is challenging and uncertain amidst a global recession, low commodity prices, volatile financial markets and limited access to capital markets.

In this environment, Celtic has maintained financial flexibility through the prudent use of bank debt and through an active risk management strategy whereby cash flow for 2009 has been secured to a certain extent through the use of commodity price, currency and interest rate financial derivative instruments.

Celtic's capital expenditure program for 2009 remains flexible and if the current economic environment continues to deteriorate, the Company has the ability to defer expenditures into the future.

2009 Guidance Despite the current economic environment, Celtic remains optimistic about its future prospects. Celtic is opportunity driven and is confident that it can continue to grow the Company's production base by building on its current inventory of development prospects and by adding new exploration prospects. Celtic will endeavour to maintain a high quality product stream that on a historical basis receives a superior price with reasonably low production costs. In addition, the Company takes advantage of royalty incentive programs in order to further increase netbacks. Celtic will continue to focus its exploration efforts in areas of multi-zone potential.

Celtic's Board of Directors has approved a capital expenditure budget in the amount of \$150 million for 2009. This capital spending will be financed by funds from operations, available bank credit lines and common share issuances. Subsequent to the end of the first quarter, on April 23, 2009, the Company completed an equity financing by way of a short form prospectus, by issuing 2.75 million common shares at a price of \$13.25 per share, for gross proceeds of \$36.4 million.

After forecasting risked production discoveries, timing of production on-stream dates resulting from the Company's planned capital expenditures for 2009, estimated decline rates on existing and new volumes and the planned turnaround at the KA Gas Plant in May 2009, Celtic expects production in 2009 to average between 13,800 and 14,200 BOE/d (25% oil and 75% gas). This represents a 25% to 28% increase from the average production of 11,071 BOE/d in 2008. The KA Gas Plant maintenance is expected to result in approximately 10,000 BOE/d of Celtic production to be shut-in during the month of May 2009. Celtic expects to exit 2009 with production of approximately 16,700 BOE/d.

Financial turmoil and the global recession continue to remain in the headlines and could continue to put pressure on oil and gas prices in the future. The high demand for oil by countries such as India and China, in the past two years, has temporarily slowed down. As a result of these and other factors, Celtic expects oil prices to be significantly lower in 2009 compared to 2008. Industrial demand for natural gas in North America has also been reduced as a result of the weakening economy, at the same time when natural gas supply in the United States was increasing. Both these factors have contributed to lower natural gas prices, despite the increased demand for natural gas that was created by a colder than average winter. Celtic also expects much weaker average natural gas prices in 2009 compared to 2008. However, with the rapid decrease in active rigs drilling for gas in North America and with the expected decline of new "flush" natural gas production recently brought on-stream in the United States, the Company is optimistic that natural gas prices may recover towards the end of 2009 or early in 2010.

The Company's average commodity price assumptions for 2009 is US\$53.50 per barrel for WTI oil (previously US\$35.00 per barrel), US\$5.00 per MMBTU for NYMEX natural gas (previously US\$4.80 per MMBTU), \$4.70 per GJ for AECO natural gas (previously \$4.90 per GJ) and a US/Canadian dollar exchange rate of US\$0.837 (previously US\$0.786). These prices compare to 2008 average prices of US\$99.65 per barrel for WTI oil, US\$8.93 per MMBTU for NYMEX natural gas, \$7.71 per GJ for AECO natural gas and a US/Canadian dollar exchange rate of US\$0.937.

After giving effect to the aforementioned production and commodity price assumptions and taking into effect commodity risk price management contracts in place (as outlined under Future Commitments above), funds from operations for 2009 is forecasted to be approximately \$150.0 million or \$3.46 per share (\$3.41 per share, diluted) and net earnings is forecasted to be approximately \$6.3 million or \$0.15 per share (\$0.14 per share, diluted). Changes in forecasted commodity prices and variances in production estimates can have a significant impact to estimated funds from operations and net earnings. Please refer to the advisory regarding forward-looking statements shown above.

Bank debt, net of working capital, is estimated to be \$127.7 million by the end of 2009 or approximately 0.9 times forecasted 2009 funds from operations.

Celtic's capital expenditure budget for 2009 will see the Company participate at high working interests in the drilling of approximately 45 to 50 wells during the year, of which approximately 80% will be horizontal wells. Celtic continues to evaluate and pursue potential property acquisitions that would complement its existing asset base and completion of such acquisitions would be over and above the Company's planned capital expenditure budget.

Celtic is excited about the growth prospects being generated in the Company and remains optimistic about the Company's ability to deliver continued per share growth in production, 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 2009 and beyond.

The information set out herein under the heading "2009 Guidance" is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Celtic's reasonable expectations as to the anticipated results of its proposed business activities for 2009. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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 8, 2009

financial statements


BALANCE SHEET

<i>(Unaudited) (\$ thousands)</i>	As at March 31, 2009	As at December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 143	\$ 73
Accounts receivable	47,029	50,728
Prepaid expenses and deposits	3,842	4,010
Fair value of financial instruments <i>[Note 8]</i>	27,609	36,154
Future income tax asset	1,208	848
	79,831	91,813
Other assets	7,338	3,282
Property, plant and equipment <i>[Note 2]</i>	571,596	554,559
	\$ 658,765	\$ 649,654
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 70,634	\$ 64,548
Fair value of financial instruments <i>[Note 8]</i>	4,164	2,925
Future income taxes	8,007	10,485
Bank debt <i>[Note 3]</i>	158,000	150,450
	240,805	228,408
Asset retirement obligation <i>[Note 4]</i>	6,005	5,834
Future income taxes	48,579	47,604
	\$ 295,389	\$ 281,846
Shareholders' Equity		
Share capital <i>[Note 5]</i>	\$ 241,753	\$ 241,673
Contributed surplus <i>[Note 5]</i>	4,504	3,977
Retained earnings and accumulated other comprehensive income	117,119	122,158
	\$ 363,376	\$ 367,808
	\$ 658,765	\$ 649,654

Commitments *[Note 7]*

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

On behalf of the Board of Directors:



Director



Director

STATEMENT OF EARNINGS

(Unaudited) (\$ thousands, except per share amounts)
 Three months ended March 31,

	2009	2008
Revenue		
Oil and gas	\$ 41,435	\$ 57,371
Royalties	(10,175)	(13,404)
Realized gain (loss) on financial instruments	11,558	(2,960)
Unrealized loss on financial instruments <i>[Note 8]</i>	(9,785)	(18,019)
	\$ 33,033	\$ 22,988
Expenses		
Production	\$ 12,143	\$ 9,256
Transportation	583	644
Interest and financing	931	1,758
General and administrative	1,021	1,051
Stock based compensation <i>[Note 5]</i>	542	404
Depletion, depreciation and accretion <i>[Note 2]</i>	24,715	20,158
	\$ 39,935	\$ 33,271
Loss before taxes	\$ (6,902)	\$ (10,283)
Recovery of future income taxes	(1,863)	(2,908)
Net loss and comprehensive loss	\$ (5,039)	\$ (7,375)
Loss per share		
Basic	\$ (0.12)	\$ (0.20)
Diluted <i>[Note 6]</i>	(0.12)	(0.20)

STATEMENT OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME

(Unaudited) (\$ thousands)
 Three months ended March 31,

	2009	2008
Retained earnings and accumulated other comprehensive income, beginning of period	\$ 122,158	\$ 77,919
Net loss and comprehensive loss	(5,039)	(7,375)
Retained earnings and accumulated other comprehensive income, end of period	\$ 117,119	\$ 70,544

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

STATEMENT OF CASH FLOWS*(Unaudited) (\$ thousands)**Three months ended March 31,*

	2009	2008
Operating activities		
Net loss	\$ (5,039)	\$ (7,375)
Items not affecting cash:		
Depletion, depreciation and accretion	24,715	20,158
Stock based compensation	542	404
Unrealized loss on financial instruments	9,785	18,019
Future income tax recovery	(1,863)	(2,908)
	\$ 28,140	\$ 28,298
Change in non-cash operating working capital <i>[Note 9]</i>	10,751	(7,253)
Cash provided by operating activities	\$ 38,891	\$ 21,045
Financing activities		
Increase in bank debt	\$ 7,550	\$ 8,100
Issue of common shares, net of costs	65	557
Cash provided by financing activities	\$ 7,615	\$ 8,657
Investing activities		
Property, plant and equipment expenditures	\$ (41,569)	\$ (32,608)
Property, plant and equipment acquisitions	(1)	–
Property, plant and equipment dispositions	(13)	–
Change in other assets	(4,056)	(4,707)
Change in non-cash investing working capital <i>[Note 9]</i>	(797)	6,429
Cash used in investing activities	\$ (46,436)	\$ (30,886)
Net change in cash and cash equivalents	\$ 70	\$ (1,184)
Cash and cash equivalents, beginning of period	73	3,082
Cash and cash equivalents, end of period	\$ 143	\$ 1,898

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

notes to the interim financial statements

For the interim period ended March 31, 2009
(All tabular amounts in thousands, unless otherwise stated)

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, 2008, with the exception of the changes in accounting policies noted below. 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, 2008.

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, 2009, the Company has adopted CICA Section 3064, Goodwill and Intangible Assets which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets. The adoption of this standard requires retroactive application to prior period financial statements and does not have an impact on the Company's financial statements.

Future changes in accounting policies In February 2007, the CICA's 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. The Company has retained the services of a major accounting firm to provide a diagnostic review and advisory services to support the Company's IFRS conversion plan. Celtic expects to adopt the new IFRS standards by the applicable dates.

2. PROPERTY, PLANT AND EQUIPMENT

At March 31, 2009	Cost	Accumulated depletion, depreciation and amortization	Net book value
Oil and gas properties, plant and equipment	\$ 845,539	\$ 274,715	\$ 570,824
Furniture and office equipment	1,501	729	772
Total	\$ 847,040	\$ 275,444	\$ 571,596

At March 31, 2008	Cost	Accumulated depletion, depreciation and amortization	Net book value
Oil and gas properties, plant and equipment	\$ 803,889	\$ 250,126	\$ 553,763
Furniture and office equipment	1,491	695	796
Total	\$ 805,380	\$ 250,821	\$ 554,559

At March 31, 2009, oil and gas properties with a cost of \$36.7 million (December 31, 2008 – \$34.5 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 \$80.0 million (2008 – \$92.0 million) are included in the depletion and depreciation calculation.

During the three months ended March 31, 2009, the Company capitalized \$0.1 million (December 31, 2008 – \$0.4 million) with respect to employee salaries directly relating to exploration and development activities.

3. BANK DEBT

	March 31, 2009	December 31, 2008
Bank loan	\$ 28,000	\$ 30,450
Bankers' acceptances	130,000	120,000
Total	\$ 158,000	\$ 150,450

Celtic has a committed term credit facility with a syndicate of financial institutions, led by National Bank of Canada. The authorized borrowing amount under this facility as at March 31, 2009 is \$200.0 million. The facilities are available for a period of 364 days, maturing on June 30, 2009. 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 authorized borrowing amount is subject to interim reviews by the financial institutions. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of \$500.0 million and general assignment of book debts.

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 1.5%, 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. Under the credit facility, borrowings through the use of bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 0.85% to 2.5%, depending upon the Company's then current debt to cash flow ratio of between less than one times to greater than three times.

The Company has a fixed rate bankers' acceptance in the amount of \$30.0 million maturing on May 12, 2009 at an annual interest rate of 0.95%, before bank stamping fees. In addition, the Company has entered into interest rate swap transactions whereby borrowings through bankers' acceptances in the amount of \$100.0 million maturing on April 22, 2011 has been fixed at an annual interest rate of 3.2% up to April 22, 2010 and 2.1% from April 23, 2010 to April 22, 2011, before bank stamping fees.

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, 2009	December 31, 2008
Asset retirement obligation, beginning of period	\$ 5,834	\$ 5,719
Liabilities incurred, net of liabilities disposed	78	480
Liabilities settled	–	(806)
Revisions to estimated liabilities	–	(17)
Accretion expense	93	458
Asset retirement obligation, end of period	\$ 6,005	\$ 5,834

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 2.7%. The total undiscounted amount of the estimated cash flows required to settle the obligations is \$29.3 million (December 31, 2008 – \$27.2 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 \$78.5 million (December 31, 2008 – \$82.2 million). The expected timing of payment of the cash flows required to settle the obligations ranges from 1 year to 51 years.

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, 2008 and March 31, 2009:

	Common Shares	Amount
Balance, December 31, 2007	37,666	\$ 200,180
Issued for cash on exercise of stock options	765	5,615
Amount relating to exercised options previously recorded as contributed surplus	–	1,245
Issued for cash through public prospectus offering	2,875	43,125
Future income tax benefit transferred on flow-through share issue	–	(6,968)
Share issue costs, after future income taxes	–	(1,524)
Balance, December 31, 2008	41,306	\$ 241,673
Issued for cash on exercise of stock options	8	65
Amount relating to exercised options previously recorded as contributed surplus	–	15
Balance, March 31, 2009	41,314	\$ 241,753

(c) Common share offerings In April 2008, Celtic issued 2.9 million common shares by way of short form prospectus at an issue price of \$15.00 per share for gross proceeds of \$43.1 million.

(d) Stock options Celtic has a stock option plan that provides for granting of stock options to directors, officers, employees and certain 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. 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, 2008 and March 31, 2009:

	Number of Options	Average Exercise Price
Balance, December 31, 2007	2,826	\$ 10.69
Granted	1,190	14.75
Exercised	(765)	7.34
Forfeited	(22)	13.19
Balance, December 31 2008	3,229	\$ 12.96
Granted	–	–
Exercised	(8)	7.75
Forfeited	–	–
Balance, March 31, 2009	3,221	\$ 12.98

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, 2009	Twelve months ended December 31, 2008
Risk free interest rate	–	3.07%
Expected life (years)	–	3.0
Expected volatility	–	22%
Expected dividend yield	–	–
Fair value of options granted during the year (\$/share)	–	2.78

The following table summarizes information regarding stock options outstanding at March 31, 2009:

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
\$ 6.01 to \$ 8.00	172	0.4	\$ 7.75	172	\$ 7.75
\$ 8.01 to \$10.00	25	0.6	8.65	25	8.65
\$10.01 to \$12.00	882	2.2	11.58	392	11.21
\$12.01 to \$14.00	1,425	2.9	12.62	673	12.55
\$14.01 to \$16.00	125	3.7	14.73	42	14.73
\$16.01 to \$18.00	559	4.3	17.04	–	–
\$20.01 to \$22.00	33	4.2	20.65	–	–
Total	3,221	2.3	\$ 12.98	1,304	\$ 11.51

(e) Contributed surplus The following table reconciles the Company's contributed surplus for the periods ended March 31, 2009 and December 31, 2008:

	2009	2008
Contributed surplus, beginning of period	\$ 3,977	\$ 3,364
Stock based compensation expense	542	1,858
Amount relating to exercised options	(15)	(1,245)
Contributed surplus, end of period	\$ 4,504	\$ 3,977

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, 0.1 million (2008 – 0.5 million) shares were added to the 41.3 million (2008 – 39.7 million) weighted average number of common shares outstanding during the three month period for the dilutive effect of stock options.

7. COMMITMENTS

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

	Apr-Dec 2009	2010	2011	Total
Operating lease – office building	\$ 435	\$ 580	\$ 194	\$ 1,209
Operating lease – vehicles	81	47	1	129
Firm transportation agreements	103	53	28	184
	\$ 619	\$ 680	\$ 223	\$ 1,522

Office building operating lease relates to rental office space in Calgary, Alberta which expires on April 30, 2011.

8. FINANCIAL INSTRUMENTS

(a) Fair values of financial assets and liabilities Financial instruments of the Company consist mainly of cash and cash equivalents, deposits, receivables, payables, bank debt and financial derivative contracts, all of which are included in these financial statements.

At March 31, 2009, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 143	\$ 143
Loans and receivables (accounts receivable and deposits)	50,355	50,355
Held-for-trading instruments (financial derivative contracts)	23,445	23,445
Other financial liabilities (accounts payable and bank debt)	(228,634)	(228,634)
Total	\$ (154,691)	\$ (154,691)

(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 in 2008 and during the three months ended March 31, 2009, except as noted below.

Celtic has a potential financial exposure of approximately \$31.4 million relating to natural gas and associated by-product sales, net of processing costs. During 2008, the Company has expensed \$18.0 million of this amount as a provision for non-recoverable accounts receivable. The amount receivable on the balance sheet at March 31, 2009 is approximately \$13.4 million. The exposure relates to the announcement by SemCAMS ULC ("SemCAMS"), a Canadian subsidiary of U.S. based SemGroup LP ("SemGroup"), whereby SemGroup filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code and SemCAMS filed an application to obtain an order under the Companies' Creditors Arrangement Act (Canada) in the Court of Queen's Bench of Alberta Judicial District of Calgary. The full amount of the potential financial exposure relates to the marketing of a portion of the Company's natural gas and associated by-products production. Effective July 22, 2008, the Company began marketing its natural gas through an alternative purchaser, with the agreement of SemCAMS.

(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.

The Company has entered into interest rate swap transactions whereby borrowings through bankers' acceptances in the amount of \$100.0 million maturing on April 22, 2011 has been fixed at an annual interest rate of 3.2% up to April 22, 2010 and 2.1% from April 23, 2010 to April 22, 2011, before bank stamping fees. The fair value of these contracts, mark-to-market at March 31, 2009 is a liability of \$4.2 million. If annual interest rates increase (decrease) by 1%, the fair market value of these contracts would increase (decrease) by \$1.9 million.

(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.

The Company has entered into currency average rate forward swap transactions whereby U.S. dollars have been converted to Canadian dollars as summarized in the following table:

Amount	Remaining term of contract	Fixed exchange rate (CAD/USD)
US \$ 4,000,000	April 1 to April 30, 2009	1.2425
US \$ 2,000,000	May 1 to May 31, 2009	1.2600
US \$ 4,000,000/month	June 1 to December 31, 2009	1.2425
US \$ 4,000,000/month	January 1 to December 31, 2010	1.2106

The fair value of the above currency contracts, mark-to-market at March 31, 2009 is a liability of \$2.0 million. If the CAD/USD exchange rate increases (decreases) by CA\$0.01 per USD, the fair market value of these contracts would increase (decrease) by \$0.8 million.

(e) Commodity price risk management The following is a summary of WTI fixed oil sales price derivative contracts in effect as at March 31, 2009:

Daily quantity	Remaining term of contract	Fixed price per barrel (bbl)
2,000 bbls/d (put-call spread)	April 1 to December 31, 2009	CA\$115.00 (floor) CA\$145.00 (cap)

The fair value of the above oil contracts, mark-to-market at March 31, 2009 is an asset of \$28.8 million. If WTI oil prices increase (decrease) by CA\$1.00 per barrel, the fair market value of these contracts would increase (decrease) by \$0.5 million.

The following is a summary of NYMEX-AECO fixed natural gas basis differential derivative contracts in effect as at March 31, 2009:

Daily quantity	Remaining term of contract	Fixed price per mmbtu
30,000 mmbtu/d	April 1 to April 30, 2009	US\$0.69
10,000 mmbtu/d	May 1 to May 31, 2009	US\$0.69
30,000 mmbtu/d	June 1 to December 31, 2009	US\$0.69

The fair value of the above natural gas contracts, mark-to-market at March 31, 2009 is an asset of \$0.8 million. If the NYMEX-AECO basis differential increases (decreases) by US\$0.10 per mmbtu, the fair market value of these contracts would increase (decrease) by \$1.0 million.

(f) Liquidity risk Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company's financial liabilities are comprised of accounts payable, accrued liabilities and bank debt.

During 2008, many oil and gas companies faced a number of challenges resulting from weakening commodity prices and tight credit markets. With the expectation of a continuing global recession in 2009, oil and gas companies will continue to face significant challenges in 2009.

The Company manages liquidity risk through the prudent use of debt, interest rate and commodity price risk management and through an actively managed production and capital expenditure budget process.

(g) 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, 2009	December 31, 2008
Bank debt	\$ 158,000	\$ 150,450
Working capital deficiency ⁽¹⁾	19,620	9,737
Net debt	\$ 177,620	\$ 160,187
Trailing funds from operations ⁽²⁾	\$ 112,560	\$ 128,196
Net debt to trailing funds from operations ratio	1.58	1.25

(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.

9. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended March 31,	2009	2008
Accounts receivable	\$ 3,699	\$ (1,072)
Prepaid expenses and deposits	168	118
Accounts payable and accruals	6,087	130
Change in non-cash working capital	\$ 9,954	\$ (824)
Relating to:		
Operating activities	\$ 10,751	\$ (7,253)
Investing activities	(797)	6,429
Change in non-cash working capital	\$ 9,954	\$ (824)

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

Three months ended March 31,	2009	2008
Interest	\$ 1,144	\$ 1,972

10. RELATED-PARTY TRANSACTIONS

The Company has retained the law firm of Borden Ladner Gervais LLP ("BLG") to provide Celtic with legal services. William C. Guinan, a director, chairman and corporate secretary of Celtic is a partner of this law firm. During the three months ended March 31, 2009, the Company incurred \$0.1 million to BLG for legal fees and disbursements. These amounts have been recorded at the exchange amount. The Company expects to continue using the services of this law firm from time to time.

11. SUBSEQUENT EVENT

On April 23, 2009, the Company completed an equity financing by way of a short form prospectus, on a bought deal basis, by issuing 2.75 million common shares at a price of \$13.25 per share, for gross proceeds of \$36.4 million.

corporate information

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

Sadiq 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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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
MD&A	Management's Discussion and Analysis
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.



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