


CELTIC EXPLORATION LTD.

Q1 INTERIM REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2010



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

**CELTIC ACHIEVED
RECORD QUARTERLY
PRODUCTION
AVERAGING
17,302 BOE PER DAY,
UP 31% FROM THE
FIRST QUARTER OF
THE PREVIOUS YEAR.**



Since the founding of Celtic Exploration in 2002, we have built a company that will flourish in today's environment of constant change: a company that has been adept at expanding production, maintaining a strong asset base and increasing shareholder value.

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

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".

	Three months ended March 31,		
	2010	2009	Change
HIGHLIGHTS			
<i>(\$ 000's, unless otherwise indicated)</i>			
Financial			
Revenue, before royalties and financial instruments	63,809	41,435	54%
Funds from operations	35,083	28,140	25%
Basic (\$/share)	0.79	0.68	16%
Diluted (\$/share)	0.77	0.68	13%
Net earnings (loss)	5,605	(5,039)	-
Basic (\$/share)	0.13	(0.12)	-
Diluted (\$/share)	0.12	(0.12)	-
Capital expenditures, net of dispositions and drilling credits	(5,994)	41,583	-
Total assets	652,604	658,765	-1%
Bank debt, net of working capital	126,483	160,974	-21%
Bank debt, net of working capital, excluding non-cash financial instruments	126,784	177,620	-29%
Shareholders' equity	395,907	363,376	9%
Weighted average common shares outstanding (<i>thousands</i>)			
Basic	44,680	41,307	8%
Diluted	45,556	41,359	10%
Operations			
Production			
Oil (<i>bbls/d</i>)	4,297	3,601	19%
Gas (<i>mcf/d</i>)	78,031	57,706	35%
Combined (<i>BOE/d</i>)	17,302	13,219	31%
Production per million shares (<i>BOE/d</i>)	387	320	21%
Realized sales prices, after financial instruments			
Oil (\$/ <i>bbl</i>)	70.65	79.01	-11%
Gas (\$/ <i>mcf</i>)	5.19	5.36	-3%
Operating netbacks (\$/ <i>BOE</i>)			
Oil and gas revenue	40.98	34.82	18%
Realized gain (loss) on financial instruments	(0.05)	9.72	
Realized sales price, after financial instruments	40.93	44.54	-8%
Royalties	(6.32)	(8.55)	-26%
Production expense	(9.25)	(10.21)	-9%
Transportation expense	(0.68)	(0.49)	39%
Operating netback	24.68	25.29	-2%
Drilling activity			
Total wells	21	15	40%
Working interest wells	15.2	12.6	21%
Success rate on working interest wells	87%	84%	4%
Undeveloped land			
Gross acres	312,217	334,152	-7%
Net acres	256,689	262,430	-2%

Note: Effective May 6, 2010, the company split its stock on a two-for-one basis. All references to shares in this report are prior to the stock split.

MESSAGE TO SHAREHOLDERS

Celtic Exploration Ltd. ("Celtic" or the "Company") is pleased to report to shareholders the Company's activities in the first quarter of 2010. During the quarter, Celtic drilled 21 (15.2 net) wells with an overall success rate of 87%. Despite the down-time resulting from the KA Gas Plant outage for five days during the quarter, Celtic achieved record quarterly production levels during the first quarter of 2010.

Production during the quarter averaged 17,302 BOE per day, an increase of 31% from 13,219 BOE per day in the first quarter of 2009. In the first quarter of 2010, Celtic recorded funds from operations of \$35.1 million (\$0.77 per share, diluted), compared to \$28.1 million (\$0.68 per share, diluted) reported in the same quarter of the previous year. Higher funds from operations in 2010 were due to increased production volumes, despite lower realized oil and gas prices compared to the previous year.

During the first quarter of 2010, Celtic participated in the drilling of 3 (0.3 net) wells in the non-operated Kaybob BHL Unit #1. These wells were successful in the Devonian Beaverhill Lake formation where wells typically have initial gas production rates of 2.0 MMCF per day with 60 barrels per MMCF of associated liquids. The remaining 18 (14.9 net) wells were all horizontal wells, the majority of which were put on production in March and April 2010.

At Drumheller in southern Alberta, Celtic participated in the drilling of a horizontal well (37.5% working interest) with success in the Viking formation. Initial gas test rates were 3.0 MMCF per day.

In the Greater Kaybob area of Alberta, Celtic drilled 14 (11.5 net) horizontal wells targeting the Triassic Montney and Cretaceous Bluesky formations, with a 91% success rate based on net wells drilled. These wells are liquids rich with NGLs of 26 to 40 barrels per MMCF.

In an environment of low gas prices, the high NGL yields along with the high heat content of gas at Kaybob, Celtic's netbacks are enhanced significantly. In many cases, the liquids that will be produced from these wells are equivalent to many of the horizontal oil wells that industry is currently drilling.

In the case of Kaybob Montney wells, average estimated ultimately recoverable NGL reserves are over 70,000 barrels per well and for Kaybob Bluesky wells, estimated ultimately recoverable NGL reserves are over 140,000 barrels per well. Low royalty rates on horizontal wells at Kaybob and drilling royalty credits earned for depth drilled have also mitigated the effect of low gas prices resulting in short payout periods and high rates of return on capital. As a result, Celtic expects to continue development of its high impact program at Kaybob.

FORWARD LOOKING STATEMENTS

This document contains expectations, beliefs, plans, goals, objectives, assumptions, information and statements about future events, conditions, results of operations or performance that constitute "forward-looking information" or "forward-looking statements" (collectively, "forward-looking statements") under applicable securities laws. Undue reliance should not be placed on forward-looking statements. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements. We caution that the foregoing list of risks and uncertainties is not exhaustive. Events or circumstances could cause actual dates to differ materially from those estimated or projected and expressed in, or implied by,

As previously announced, the Company completed the disposition of its Swan Hills property in the first quarter of 2010 for proceeds of \$53.25 million, prior to adjustments. Production from this property was approximately 500 BOE per day. The disposition strengthens Celtic's financial position and leaves significant unused credit lines available to fund the Company's planned 2010 capital expenditure program in an environment of low natural gas prices. At March 31, 2010, bank debt, net of working capital, was \$126.5 million and the authorized borrowing capacity on the Company's credit facility was \$200.0 million, adjusted for the Swan Hills disposition.

Celtic's successful first quarter drilling results should result in significant production gains in the second quarter as these wells are brought on-stream. The Company is forecasting production during the second quarter to average between 18,500 and 18,700 BOE per day, after taking into consideration the disposition of 500 BOE per day at Swan Hills.

Celtic continues to generate new ideas for continued growth and has been actively acquiring new lands. The Company has accumulated 46,400 acres (72.5 sections) of undeveloped land at 100% working interest in new "exploration" resource plays in west central Alberta, targeting the Montney, Bluesky, Notikewin and Cardium formations in these potential gas reservoirs. With success in these tight gas reservoir plays, the Company would follow-up with a development project utilizing horizontal drilling and multi-stage fracture completions, similar to the program that Celtic has implemented at Kaybob. To date in 2010, Celtic has drilled three wells on these exploration plays and expects to drill six more wells by the end of summer. Results from this exploration program will be made available in the second half of 2010.

In the Kaybob area of Alberta, Celtic owns Devonian Duvernay rights in 93,920 gross (87,476 net) acres of land and expects to drill its first well in this gas shale play by the end of summer in 2010. Celtic believes that this exploration play is similar to the Horn River shale in British Columbia where several companies have had good success.

these forward-looking statements. The forward-looking statements contained in this press release are made as of the date hereof and the Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise unless expressly required by applicable securities laws.

The information set out herein with respect to forecasted 2010 production 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 2010. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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, 2009. This MD&A is effective May 7, 2010. 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 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. Funds from operations are determined by adding back settlement of asset retirement obligations and change in non-cash operating working capital to cash provided by operating activities. 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, future 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.

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 retained the services of an external advisor to provide a diagnostic review and advisory services to support the Company's IFRS conversion plan. Celtic is currently reviewing the diagnostic document that has been prepared and expects to adopt the new IFRS standards by the applicable dates. At the present time, the impact of the adoption of IFRS on the Company's financial statements is not determinable.

Disclosure controls and procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures as defined in National Instrument 52-109 of the Canadian Securities Administrators, to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal controls over financial reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in National Instrument 52-109 of the Canadian Securities Administrators, 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.

The Company is required to disclose any change in the Company's internal controls over financial reporting that occurred during the period from January 1, 2010 to March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes were identified during this period.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2010

The three months ended March 31, 2010 was another successful quarter in the execution of the Company's growth strategy. Highlights for the first quarter of 2010 are as follows:

- Drilled 21 (15.2 net working interest) wells during the quarter resulting in an overall success rate of 87%;
- Increased average daily production by 31% to 17,302 BOE per day, up from 13,219 BOE per day in the first quarter of 2009;
- Received an average price of \$40.93 (\$40.98 before hedging) per BOE, down 8% from \$44.54 (\$34.82 before hedging) per BOE in the first quarter of 2009 and recorded an operating netback of \$24.68 per BOE, down 2% from \$25.29 per BOE in the corresponding quarter of 2009; and
- Generated \$35.1 million in funds from operations for the three month period ended March 31, 2010, up 25% from \$28.1 million in the same quarter of the previous year. Reported funds from operations per share, diluted, of \$0.77, an increase of 13% from \$0.68 per share in the first quarter of the previous year.

Production

Oil and gas production in the first quarter of 2010 increased 31% to average 17,302 BOE per day compared to 13,219 BOE per day in the same quarter of 2009. Production per million shares outstanding for the three months ended March 31, 2010 averaged 387 BOE per day, up 21% from 320 BOE per day in the corresponding quarter of the previous year. Production increases in 2010 reflect the continued successful development program at Kaybob, Alberta.

Revenue

Revenue, before royalties, and before realized and unrealized gains or losses on financial instruments, for the three months ended March 31, 2010, was \$63.8 million, an increase of 54% compared to \$41.4 million in the same quarter of the previous year.

Increase in revenue for 2010 was due to significantly higher production volumes that more than offset lower realized oil and gas prices.

The combined average product price received for oil and gas sales, adjusted for realized gains or losses on financial instruments for the three months ended March 31, 2010 was \$40.93 per BOE, a decrease of 8% compared to the corresponding three month period of the previous year.

Oil Operations

Oil production for the first quarter ended March 31, 2010 averaged 4,297 barrels per day, an increase of 19% compared to the same quarter of the previous year.

The average price received for oil sales, after realized financial instruments, for the first quarter ended March 31, 2010 was \$70.65 (\$70.65 before financial instruments) per barrel, down 11% from the average price of \$79.01 (\$45.01 before financial instruments) per barrel received in the first quarter of 2009. In 2010, the differential from WTI to the Company's realized wellhead oil price narrowed compared to 2009 as Celtic received a premium for its condensate and butane production.

For the quarter ended March 31, 2010, average oil royalties were 20.9% of revenue, after realized financial instruments (20.9% of revenue, before financial instruments). In the first quarter of the previous year, average oil royalties were 18.3% of revenue, after financial instruments (32.3% of revenue, before financial instruments).

Lower oil royalty rates in 2010, before financial instruments, reflect the benefit of the new well royalty reduction incentive that was introduced by the Alberta government effective April 1, 2009.

Transportation expenses for oil production in the first quarter of 2010 averaged \$0.30 per barrel compared to \$0.34 per barrel in the first quarter of 2009.

Lower per unit transportation expenses in 2010 reflect the larger portion of newer NGL production from Kaybob which is mostly pipeline connected and therefore less expensive to transport compared to trucking oil.

For the first quarter ended March 31, 2010, oil production expenses were \$12.56 per barrel. In the same quarter of the previous year, oil production expenses were \$13.87 per barrel.

Lower per unit production expenses in 2010 reflect the larger portion of newer NGL production from Kaybob which is less expensive to produce compared to the Company's older oil production.

Gas Operations

Gas production for the first quarter ended March 31, 2010 averaged 78,031 MCF per day, an increase of 35% compared to the corresponding quarter of the previous year.

Increases in gas production in 2010 were primarily a result of Celtic's successful drilling results in its resource development prospect located in the Greater Kaybob area of Alberta.

The average price received for gas sales, after realized financial instruments, for the first quarter ended March 31, 2010 was \$5.19 (\$5.20 before financial instruments) per MCF, down 3% from the average price of \$5.36 (\$5.17 before financial instruments) per MCF received in the first quarter of 2009.

For the quarter ended March 31, 2010, average gas royalties were 11.4% of revenue, after financial instruments (11.4% of revenue, before financial instruments). In the first quarter of the previous year, average gas royalties were 19.8% of revenue, after financial instruments (20.7% of sales, before financial instruments).

Lower gas royalty rates in 2010, before financial instruments, are a result of lower natural gas selling prices, longer depth horizontal wells which receive favourable treatment under the Alberta royalty framework and new production qualifying for reduced royalty rates under the new well royalty reduction program. In addition, royalties are reduced further as the Company continues to receive gas cost allowance credits which do not fluctuate with gas prices.

Transportation expenses for the first quarter ended March 31, 2010 were \$0.13 per MCF, up from \$0.09 per MCF for the same quarter in the previous year.

Higher transportation expenses in 2010 reflect the higher cost to transport the Company's sulphur production, primarily from Celtic's interests in the Devonian units at Kaybob, Alberta.

For the first quarter ended March 31, 2010, production expenses of \$1.36 per MCF were 7% lower than \$1.47 per MCF in the corresponding quarter of the previous year.

Higher production expenses in 2009 reflect certain one time expenses that were incurred at Kaybob as a result of turnaround operations at the KA Gas Plant where the majority of Celtic's gas is processed. The turnaround operations occur every four years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Expenses

For the quarter ended March 31, 2010, general and administrative expenses were \$1.4 million (\$0.89 per BOE), interest expense was \$1.3 million, and depletion, depreciation and accretion expenses were \$27.3 million (\$17.51 per BOE). In the previous year, 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).

Higher general and administrative expenses in 2010 reflect the Company's increased activities and growth in production year over year. Increase in interest expense in 2010 reflects higher average debt levels and higher bank spreads. Debt levels were reduced as a result of the proceeds from the Swan Hills disposition that was completed on March 31, 2010. Lower depletion, depreciation and accretion expense per BOE reflects the addition of proven reserves at lower than historic average costs.

Taxes

For the quarter ended March 31, 2010, Celtic provided for a provision for future income taxes in the amount of \$2.4 million, compared to a recovery of \$1.9 million in the first quarter of 2009.

For the three months ended March 31, 2010, Celtic is not required to pay current income taxes as it has sufficient income tax deductions available to shelter taxable income for the period. Estimated income tax deductions available at March 31, 2010 are \$371.2 million and are comprised of \$58.2 million of COGPE, \$178.9 million of CDE, \$33.9 million of CEE, \$96.1 million of UCC and \$4.1 million of share issue costs.

Earnings

Net earnings for the quarter ended March 31, 2010 were \$5.6 million (\$0.13 per share basic and \$0.12 per share diluted). On a barrel of oil equivalent basis, net earnings in the first quarter of 2010 were \$3.60 per BOE, compared to a net loss of \$4.24 per BOE in the same quarter of 2009.

During the same period, funds from operations were \$35.1 million (\$0.79 per share basic and \$0.77 per share diluted). On a barrel of oil equivalent basis, funds from operations in the first quarter of 2010 were \$22.53 per BOE, down 5% from \$23.65 per BOE in the same quarter of 2009.

Capital Expenditures

During the quarter ended March 31, 2010, Celtic spent \$59.2 million on capital projects. Drilling and completion operations accounted for \$49.6 million, equipment and facility expenditures were \$8.0 million and \$1.6 million was spent on land and seismic. Drilling royalty credits earned and deemed collectible in the future were \$11.9 million. Proceeds from property dispositions were \$53.3 million. In the first quarter of the previous year, capital expenditures were \$41.6 million.

At March 31, 2010, the Company had 312,217 (256,689 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 2010, the Company drilled 21 (15.2 net) wells resulting in 19 (13.2 net) natural gas wells, for an overall success rate of 87%. During the first quarter ended March 31, 2009, Celtic drilled 15 (12.6 net) wells, with an overall success rate of 84%.

The average measured depth of net wells drilled in the first quarter of 2010 was 3,504 metres, an increase of 37% compared to the average drilling measured depth of 2,559 metres in the first quarter of 2009.

CAPITAL RESOURCES AND LIQUIDITY

Source of Funds

Investment funding for capital expenditures incurred in the first quarter of 2010 was provided by proceeds from property dispositions and by cash provided by operating activities.

The Company has a syndicated bank credit facility in the amount of \$200.0 million. At March 31, 2010, Celtic had drawn \$119.1 million or 60% of its authorized borrowing amount, 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. The credit facility matures on June 29, 2010 and may be extended for an additional 364 days.

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, 2010, the working capital amount, excluding non-cash financial instruments, plus outstanding bank debt represented 63% of the Company's maximum authorized bank borrowing credit limit.

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 and 2009, many oil and gas companies faced a number of challenges resulting from weakening commodity prices and tight credit markets. With a slow start to the recovery from the global recession, oil and gas companies may continue to face significant challenges during 2010. Celtic has good relationships with its syndicate of lenders. The Company's existing credit facility matures on June 29, 2010 and may be extended for an additional 364 days.

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, 2010, there were 44.8 million common shares outstanding (as at May 7, 2010, there were 89.6 million common shares outstanding, after taking into effect the two-for-one stock split that was approved by the shareholders of the Company and became effective May 6, 2010). There are no preferred shares outstanding.

As at March 31, 2010, directors, employees and certain consultants have been granted options to purchase 3.1 million common shares of the Company at an average exercise price of \$14.13 per share.

The Company's common shares trade on the TSX under the symbol "CLT".

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 NYMEX-AECO fixed natural gas basis differential derivative contracts in effect as at March 31, 2010:

Quantity	Remaining term of contract	Fixed price per MMBTU
50,000 MMBTU/day (swap)	April 1 to December 31, 2010	US\$0.68

The following is a summary of U.S. currency average rate forward swap contracts in effect as at March 31, 2010:

Amount	Remaining term of contract	Fixed exchange rate (CAD/USD)
US\$4,000,000/month	April 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, 2010:

Amount	Remaining term of contract	Fixed interest rate
CA\$80,000,000	April 1, 2010 to April 22, 2010	3.30%
CA\$20,000,000	April 1, 2010 to April 22, 2010	2.54%
CA\$100,000,000	April 22, 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, 2010 was \$200.0 million, of which \$119.1 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

(\$ 000's)	2010	2011	2012	Total
Operating lease - office building	\$ 448	\$ 200	\$ -	\$ 648
Operating lease - vehicles	112	93	9	214
Firm transportation agreements	53	28	-	81
Total	\$ 613	\$ 321	\$ 9	\$ 943

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 three months of 2010, 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, 2009 and 2010.

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>(\$ 000's, except per unit amounts)</i>	2010	2009	2009	2009	2009	2009	2009	2008
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Gross oil and gas revenue (\$)	63,809	60,146	40,364	30,668	41,435	51,842	73,904	80,220
Funds from operations (\$)	35,083	42,003	27,874	20,008	28,140	32,049	34,227	36,787
Per share - basic (\$/share)	0.79	0.94	0.63	0.46	0.68	0.78	0.83	0.92
Per share - diluted (\$/share)	0.77	0.93	0.62	0.46	0.68	0.78	0.83	0.90
Net earnings (loss) (\$)	5,605	906	(13,666)	(5,459)	(5,039)	29,585	31,145	(9,116)
Per share - basic (\$/share)	0.13	0.02	(0.31)	(0.13)	(0.12)	0.72	0.76	(0.23)
Per share - diluted (\$/share)	0.12	0.02	(0.31)	(0.13)	(0.12)	0.72	0.75	(0.23)
Total assets (\$)	652,604	678,770	657,919	663,531	658,765	649,654	594,672	572,691
Bank debt, net of								
working capital* (\$)	126,784	168,209	167,279	157,619	177,620	160,187	149,588	124,179
Production (BOE/d)	17,302	17,274	15,307	10,909	13,219	12,059	11,604	10,842
Production per million shares (BOE/d)	387	388	346	251	320	293	282	270
Sales price, after derivatives (\$/BOE)	40.93	42.17	35.11	39.78	44.54	51.30	61.51	67.49
Operating netback (\$/BOE)	24.68	28.42	21.94	23.06	25.29	31.03	34.20	39.94
Netback as a percentage of sales	60%	67%	62%	58%	57%	60%	56%	59%

* Working capital excludes non-cash financial instruments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 was rocked with unprecedented losses and business failures. The recovery has been slow and as a result, the current economic environment is challenging and uncertain. Celtic expects to see an improving economic environment in 2010, with improving commodity prices, less volatile financial markets and better access to capital markets.

In this environment, Celtic has maintained financial flexibility through the prudent use of bank debt and through an active capital management strategy whereby certain assets were sold in the first quarter of 2010 providing the Company with financial flexibility in terms of larger unused credit lines.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

2010 Guidance

Celtic continues to remain 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 hydrocarbon potential.

Celtic's Board of Directors has approved a capital expenditure budget in the amount of \$187.0 million for 2010. Capital expenditures will be reduced by drilling royalty credits earned during 2010 in the amount of approximately \$15.0 million. Capital spending for 2010 is expected to be financed by property dispositions, funds from operations, with access to available bank credit lines and common share issuances, if necessary.

After forecasting risked production discoveries, timing of production on-stream dates resulting from the Company's planned capital expenditures for 2010, estimated decline rates on existing and new volumes, Celtic expects production in 2010 to average between 18,500 and 18,700 BOE/d (23% oil and 77% gas). This represents between a 30% and 32% increase from the average production of 14,192 BOE/d achieved in 2009. Celtic expects to exit 2010 with production in excess of 20,000 BOE/d.

The Company's average commodity price assumptions for 2010 are US\$78.00 (previously US\$72.50) per barrel for WTI oil, US\$4.50 (previously US\$6.50) per MMBTU for NYMEX natural gas, \$3.95 (previously \$5.75) per GJ for AECO natural gas and a US/Canadian dollar exchange rate of US\$0.963 (previously US\$0.952). These prices compare to average 2009 prices of US\$61.63 per barrel for WTI oil, US\$4.01 per MMBTU for NYMEX natural gas, \$3.97 per GJ for AECO natural gas and a US/Canadian dollar exchange rate of US\$0.880.

After giving effect to the aforementioned production and commodity price assumptions and taking into effect risk management contracts in place (as outlined under Future Commitments above), funds from operations for 2010 is forecasted to be approximately \$132.0 million or \$1.48 per share (\$1.46 per share, diluted) and net earnings are forecasted to be approximately \$8.0 million or \$0.09 per share (\$0.09 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 \$154.6 million by the end of 2010 or approximately 1.2 times forecasted 2010 funds from operations.

Celtic's capital expenditure budget for 2010 will see the Company participate at high working interests in the drilling of approximately 55 to 60 wells during the year, of which approximately 85% 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 and funds from operations. Given the Company's strong inventory of drilling locations, we look forward to continued growth in 2010 and beyond.

The information set out herein under the heading "2010 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 2010. 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 7, 2010

FINANCIAL STATEMENTS

BALANCE SHEET

[Unaudited]

(\$ 000's)		As at March 31, 2010	As at December 31, 2009
Assets			
Current assets			
Cash and cash equivalents		143	42
Accounts receivable		46,571	49,252
Drilling royalty credits	[Note 3]	20,876	13,158
Prepaid expenses and deposits		4,591	4,947
Fair value of financial instruments	[Note 9]	1,566	1,463
Future income tax asset		321	510
		74,068	69,372
Other assets		8,326	6,090
Property, plant and equipment	[Note 2]	570,210	603,308
		652,604	678,770
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		79,865	61,708
Fair value of financial instruments	[Note 9]	1,148	1,757
Future income tax liability		438	424
Bank debt	[Note 4]	119,100	173,900
		200,551	237,789
Asset retirement obligation	[Note 5]	6,754	6,588
Future income tax liability		49,392	47,203
		256,697	291,580
Shareholders' Equity			
Share capital	[Note 6]	286,056	282,990
Contributed surplus	[Note 6]	5,346	5,300
Retained earnings and accumulated other comprehensive income		104,505	98,900
		395,907	387,190
		652,604	678,770
Commitments	[Note 8]		
Contingencies	[Note 12]		

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

On behalf of the Board of Directors:



Director



Director

STATEMENT OF OPERATIONS

[Unaudited]

	Three months ended March 31,	
(\$ 000's, except per share amounts)	2010	2009
Revenue		
Oil and gas	63,809	41,435
Royalties	(9,836)	(10,175)
Realized gain (loss) on financial instruments	(761)	11,558
Unrealized gain (loss) on financial instruments	712	(9,785)
	53,924	33,033
Expenses		
Production	14,410	12,143
Transportation	1,052	583
Interest and financing	1,285	931
General and administrative	1,382	1,021
Stock based compensation	527	542
Depletion, depreciation and accretion	27,271	24,715
	45,927	39,935
Earnings (loss) before taxes	7,997	(6,902)
Capital tax	0	0
Provision for (recovery of) future income taxes	2,392	(1,863)
Net earnings (loss) and comprehensive income (loss)	5,605	(5,039)
Earnings (loss) per share		
Basic	0.13	(0.12)
Diluted	0.12	(0.12)

STATEMENT OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME

[Unaudited]

	Three months ended March 31,	
(\$ 000's)	2010	2009
Retained earnings and accumulated other comprehensive income, beginning of period	98,900	122,158
Net earnings (loss) and comprehensive income (loss)	5,605	(5,039)
Retained earnings and accumulated other comprehensive income, end of period	104,505	117,119

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

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

[Unaudited]

(\$ 000's)	Three months ended March 31,	
	2010	2009
Operating activities		
Net earnings (loss)	5,605	(5,039)
Items not affecting cash:		
Depletion, depreciation and accretion	27,271	24,715
Stock based compensation	527	542
Unrealized loss (gain) on financial instruments	(712)	9,785
Provision for (recovery of) future income taxes	2,392	(1,863)
	35,083	28,140
Change in non-cash operating working capital	9,818	10,751
Cash provided by operating activities	44,901	38,891
Financing activities		
Increase (decrease) in bank debt	(54,800)	7,550
Issue of common shares, net of costs	2,584	65
Cash provided by financing activities	(52,216)	7,615
Investing activities		
Property, plant and equipment expenditures	(47,334)	(41,569)
Property, plant and equipment acquisitions	0	(1)
Property, plant and equipment dispositions	53,328	(13)
Change in other assets	(2,236)	(4,056)
Change in non-cash investing working capital	3,658	(797)
Cash used in investing activities	7,416	(46,436)
Net change in cash and cash equivalents	101	70
Cash and cash equivalents, beginning of period	42	73
Cash and cash equivalents, end of period	143	143

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the interim period ended March 31, 2010 (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, 2009, 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, 2009.

These financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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.

2. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depletion, depreciation and amortization	Net book value
At March 31, 2010			
Oil and gas properties, plant and equipment	\$ 947,738	\$ 378,332	\$ 569,406
Furniture and office equipment	1,766	962	804
Total	\$ 949,504	\$ 379,294	\$ 570,210
At December 31, 2009			
Oil and gas properties, plant and equipment	\$ 953,673	\$ 351,200	\$ 602,473
Furniture and office equipment	1,743	908	835
Total	\$ 955,416	\$ 352,108	\$ 603,308

At March 31, 2010, oil and gas properties with a cost of \$33.2 million (December 31, 2009 - \$39.0 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 \$90.5 million (2009 - \$90.5 million) are included in the depletion and depreciation calculation.

During the three months ended March 31, 2010, the Company capitalized \$0.1 million (December 31, 2009 - \$0.4 million) with respect to employee salaries directly relating to exploration and development activities.

3. DRILLING ROYALTY CREDITS

	March 31, 2010	December 31, 2009
Drilling royalty credits, beginning of period	\$ 13,158	\$ -
Credits earned through drilling	11,862	20,619
Credits claimed	(4,144)	(7,461)
Drilling royalty credits, end of period	\$ 20,876	\$ 13,158

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The Drilling Royalty Credit ("DRC") program introduced by the Alberta government in 2009 provides companies with a \$200 per metre credit on wells drilled. These credits can be applied against corporate crown royalties payable during the period from April 1, 2009 to March 31, 2011, subject to a maximum of 50% of corporate crown royalties for Celtic. Credits earned are recorded as a reduction of property, plant and equipment, with reasonable assurance that credits can be claimed in a future period. Since April 1, 2009, Celtic has earned \$32.5 million of credits from its drilling activity. During the three month period ended March 31, 2010, \$4.1 million (December 31, 2009, \$7.5 million) has been claimed against corporate crown royalties and \$20.9 million remains available to be claimed against future crown royalties payable.

4. BANK DEBT

	March 31, 2010	December 31, 2009
Bank loan	\$ 19,100	\$ 23,900
Bankers' acceptances	100,000	150,000
Total bank debt	\$ 119,100	\$ 173,900

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, 2010 is \$200.0 million. The facilities are available for a period of 364 days, maturing on June 29, 2010 and may be extended for an additional 364 days. 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. Covenants include a current ratio test, reporting requirements, permitted indebtedness, permitted dispositions, permitted hedging, permitted encumbrances and other standard business operating covenants. The authorized borrowing amount is subject to interim reviews by the financial institutions. As at March 31, 2010, the Company is in compliance with all covenants. 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 plus 1.5% to bank prime plus 3.5%, depending upon the Company's then current debt to cash flow ratio of between less than one and one tenth 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 2.5% to 4.5%, depending upon the Company's then current debt to cash flow ratio of between less than one and one tenth times to greater than three times.

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 have been fixed at an annual interest rate of 3.2% up to April 22, 2010 and 2.1% from April 22, 2010 to April 21, 2011, before bank stamping fees.

5. 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, 2010	December 31, 2009
Asset retirement obligation, beginning of year	\$ 6,588	\$ 5,834
Liabilities incurred, net of liabilities disposed	80	225
Liabilities settled	-	(1,043)
Revisions to estimated liabilities	-	1,052
Accretion expense	86	520
Asset retirement obligation, end of year	\$ 6,754	\$ 6,588

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% (2009 - 8.5%) and an inflation rate of 2.7% (2009 - 2.7%). The total undiscounted amount of the estimated cash flows required to settle the obligations is \$30.8 million (December 31, 2009 - \$31.0 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 \$81.0 million (December 31, 2009 - \$81.5 million). The expected timing of payment of the cash flows required to settle the obligations ranges from 1 year to 51 years.

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares and preferred shares.

(b) Issued

The following table summarizes the changes in common shares outstanding for the periods ended December 31, 2009 and March 31, 2010:

	Common Shares	Amount
Balance, December 31, 2008	41,307	\$ 241,673
Issued for cash on exercise of stock options	506	5,205
Amount relating to exercised options previously recorded as contributed surplus	-	1,039
Issued for cash through public prospectus offering	2,750	36,437
Share issue costs, after future income taxes	-	(1,364)
Balance, December 31, 2009	44,563	\$ 282,990
Issued for cash on exercise of stock options	215	2,584
Amount relating to exercised options previously recorded as contributed surplus	-	482
Balance, March 31, 2010	44,778	\$ 286,056

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(c) Common share offerings

In April 2009, Celtic issued 2.8 million common shares by way of a short form prospectus at an issue price of \$13.25 per share for gross proceeds of \$36.4 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, 2009 and March 31, 2010:

	Number of Options	Average Exercise Price
Balance, December 31, 2008	3,229	\$ 12.96
Granted	585	15.91
Exercised	(506)	10.28
Forfeited	-	-
Balance, December 31 2009	3,308	\$ 13.90
Granted	50	20.31
Exercised	(215)	12.02
Forfeited	-	-
Balance, March 31, 2010	3,143	\$ 14.13

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:

	March 31, 2010	December 31, 2009
Risk free interest rate	0.50%	0.50%
Expected life (years)	3.0	3.0
Expected volatility	37%	30%
Expected dividend yield	-	-
Fair value of options granted during the year (\$/share)	5.21	3.31

The following table summarizes information regarding stock options outstanding at March 31, 2010:

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
\$10.01 to \$12.00	610	1.6	\$ 11.79	297	\$ 11.69
\$12.01 to \$14.00	1,208	2.0	12.63	900	12.60
\$14.01 to \$16.00	600	4.1	15.10	68	14.74
\$16.01 to \$18.00	547	3.3	17.04	175	17.04
\$18.01 to \$20.00	95	4.6	19.65	-	-
\$20.01 to \$22.00	83	4.2	20.45	11	20.65
Total	3,143	2.9	\$ 14.13	1,451	\$ 13.11

(e) Contributed surplus

The following table reconciles the Company's contributed surplus for the periods ended March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Contributed surplus, beginning of period	\$ 5,300	\$ 3,977
Stock based compensation expense	527	2,362
Amount relating to exercised options	(481)	(1,039)
Contributed surplus, end of period	\$ 5,346	\$ 5,300

7. 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, 0.9 million (2009 - 0.1 million) shares were added to the 44.7 million (2009 - 41.3 million) weighted average number of common shares outstanding during the three month period for the dilutive effect of stock options. For the purpose of calculating the diluted net loss per share for the three months ended March 31, 2009, the incremental shares from assumed exercise of stock options are not included due to their anti-dilutive effect.

8. COMMITMENTS

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

	2010	2011	2012	2013	Total
Operating lease - office building	\$ 448	\$ 200	\$ -	-	\$ 648
Operating lease - vehicles	112	93	9	-	214
Firm transportation agreements	53	28	-	-	81
	\$ 613	\$ 321	\$ 9	-	\$ 943

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

At March 31, 2010, the Company had bank debt outstanding in the amount of \$119.1 million. The Company has a \$200.0 million term credit facility that is available on a revolving basis until June 29, 2010. Commencing on June 29, 2010, the Company may request the facility be available on a non-revolving basis for a period of one year thereafter, subject to approval by lenders with commitments of at least two thirds of the credit facility amount.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

9. FINANCIAL INSTRUMENTS

(a) Fair values of financial assets and liabilities

Financial instruments of the Company consist mainly of cash and cash equivalents, deposits, drilling royalty credits, receivables, payables, bank debt and assets and liabilities arising from the use of financial instrument risk management contracts, all of which are included in these financial statements.

The following table presents the Company's fair value measurements for each hierarchy level pursuant to CICA Handbook Section 3862 as at March 31, 2010:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Cross currency swaps	-	\$ 6,839	-	\$ 6,839
Natural gas basis swaps	-	(5,273)	-	(5,273)
Interest rate swaps	-	(1,148)	-	(1,148)
Net asset (liability)	-	\$ 418	-	\$ 418

At March 31, 2010, 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
Receivables and other financial assets (accounts receivable, drilling royalty credits and deposits)	\$ 71,550	\$ 71,550
Held-for-trading instruments (financial instruments and cash)	561	561
Other financial liabilities (accounts payable and bank debt)	(198,965)	(198,965)
Total	\$ (126,854)	\$ (126,854)

At December 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
Receivables and other financial assets (accounts receivable, drilling royalty credits and deposits)	\$ 66,513	\$ 66,513
Held-for-trading instruments (financial instruments and cash)	(252)	(252)
Other financial liabilities (accounts payable and bank debt)	(235,608)	(235,608)
Total	\$ (169,347)	\$ (169,347)

(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.

The ageing of the Company's accounts receivable as at March 31, 2010 is summarized in the following table:

March 31, 2010	Current	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
Accounts receivable	\$ 40,450	\$ 856	\$ 2,574	\$ 2,691	\$ 46,571

The ageing of the Company's accounts receivable as at December 31, 2009 is summarized in the following table:

December 31, 2009	Current	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
Accounts receivable	\$ 42,814	\$ 2,293	\$ 704	\$ 3,441	\$ 49,252

Celtic has not experienced any material credit loss in the collection of receivables in 2010 and 2009, except as noted below.

Celtic has expensed \$31.2 million (\$13.2 million in 2009 and \$18.0 million in 2008) as a provision for non-recoverable accounts receivable relating to a total financial exposure of approximately \$32.5 million. The exposure was created with 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 ("CCAA") in the Court of Queen's Bench of Alberta Judicial District of Calgary. The total amount of the financial exposure primarily relates to the Company's natural gas and associated by-product sales to SemCAMS during the period from June 1, 2008 to July 21, 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 and interest rate swap transactions.

The Company has entered into interest rate swap transactions whereby the interest rate applicable to borrowings by way of bankers' acceptances has been fixed. Borrowings in the amount of \$100.0 million, maturing on April 21, 2011, has been fixed at an annual interest rate of 3.2% up to April 22, 2010 and at an annual rate of 2.1% from April 22, 2010 to April 21, 2011, before bank stamping fees. The fair value of these contracts, mark-to-market at March 31, 2010 is a liability of \$1.1 million. If annual interest rates increase (decrease) by 1%, the fair market value of these contracts would increase (decrease) by \$1.0 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/month	April 1 to December 31, 2010	1.2106

The fair value of the above currency contracts, mark-to-market at March 31, 2010 is an asset of \$6.8 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 \$0.4 million.

(e) Commodity price risk management

The following is a summary of NYMEX-AECO fixed natural gas basis differential derivative contracts in effect as at March 31, 2010:

Daily quantity	Remaining term of contract	Fixed price per mmbtu
50,000 mmbtu/d	April 1 to December 31, 2010	US\$0.68

The fair value of the above natural gas contracts, mark-to-market at March 31, 2010 is a liability of \$5.3 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 \$1.4 million.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(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 2009, many oil and gas companies faced a number of challenges resulting from weakening commodity prices and tight credit markets. To date in 2010, there has been improvement in the Canadian economy.

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.

(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, 2010	December 31, 2009
Bank debt	\$ 119,100	\$ 173,900
Working capital (surplus) deficiency ⁽¹⁾	7,684	(5,691)
Net debt	\$ 126,784	\$ 168,209
Trailing funds from operations ⁽²⁾	\$ 140,332	\$ 168,012
Net debt to trailing funds from operations ratio	0.90	1.00

⁽¹⁾ Working capital excludes bank debt and 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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended March 31,	2010	2009
Accounts receivable	\$ 2,681	\$ 3,699
Drilling royalty credits	(7,718)	-
Prepaid expenses and deposits	357	168
Accounts payable and accruals	18,156	6,087
Change in non-cash working capital	\$ 13,476	\$ 9,954
Relating to:		
Operating activities	\$ 9,818	\$ 10,751
Investing activities	3,658	(797)
Change in non-cash working capital	\$ 13,476	\$ 9,954

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

Three months ended March 31,	2010	2009
Interest	\$ 1,043	\$ 1,144

11. 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, 2010, 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.

12. CONTINGENCIES

Celtic and SemCAMS are parties to a confidential KA Plant Inlet Gas Purchase Agreement (the "KA Plant Inlet Agreement"). The termination provision in the KA Plant Inlet Agreement requires that the terminating party provide the other party with two years written notice. SemCAMS entered into proceedings under CCAA on July 21, 2008, and to Celtic's knowledge, SemCAMS has not terminated the KA Plant Inlet Agreement in accordance with those proceedings or otherwise.

SemCAMS delivered a draft Agreement to Process Producers Gas at the KA Plant (the "Third-party Agreement") to Celtic under cover of a letter dated August 26, 2008, which purported to be effective July 22, 2008. However, Celtic never executed this agreement and gave immediate notice to SemCAMS that it did not agree to the terms contained in that agreement. Effective July 22, 2008, SemCAMS has continued to take deliveries of Celtic's natural gas with full knowledge that Celtic did not execute the Third-party Agreement. SemCAMS has invoiced Celtic for natural gas processing fees as set out in the un-executed Third-party Agreement. However, Celtic has been paying monthly processing fees as set out in the executed KA Plant Inlet Agreement. Celtic estimates that the difference in fees calculated under the Third-party Agreement compared to the KA Plant Inlet Agreement would result in an incremental expense to Celtic in the amount of \$4.8 million that is not reflected in the financial statements to date.

13. SUBSEQUENT EVENT

The Company's shareholders approved a two-for-one stock split effective May 6, 2010. All references to common shares and stock options in these financial statements are prior to the stock split, unless otherwise indicated.



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

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

Suite 500, 505 Third Street S.W.
Calgary, Alberta T2P 3E6

Phone: 403.201.9153
Fax: 403.201.9163

www.celticex.com

REGISTRAR AND TRANSFER AGENT

VALIANT TRUST COMPANY

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

LEGAL COUNSEL

BORDEN LADNER GERVAIS LLP

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
MD&A	Management's Discussion and Analysis
GJ	gigajoules
T	tonnes
MT	thousand tonnes
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.