

Q3

THIRD INTERIM REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

HIGHLIGHTS

	<i>Three months ended September 30</i>		<i>Nine months ended September 30</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
FINANCIAL				
Revenue, net of royalties	\$ 5,772,203	\$ 1,664	\$ 14,673,725	\$ 1,664
Cash flow from operations	\$ 4,006,618	\$ (12,202)	\$ 10,526,883	\$ (12,202)
Cash flow per share				
Basic	\$ 0.17	\$ (0.01)	\$ 0.50	\$ (0.01)
Diluted	\$ 0.17	\$ (0.01)	\$ 0.49	\$ (0.01)
Net earnings (loss)	\$ 1,809,596	\$ (6,760)	\$ 3,798,647	\$ (6,760)
Earnings per share				
Basic	\$ 0.08	\$ -	\$ 0.18	\$ -
Diluted	\$ 0.08	\$ -	\$ 0.18	\$ -
Capital expenditures, net of dispositions	\$ 11,319,004	\$ 4,216,869	\$ 42,542,706	\$ 4,216,869
Bank debt, net of working capital deficiency (surplus)			\$ 3,878,372	\$ (3,997,320)
Shareholders' equity			\$ 62,212,181	\$ 6,978,573
OPERATIONS				
Production				
Oil (bbls/d)	1,270	-	904	-
Natural gas (mmcf/d)	5.161	-	4.642	-
Combined (BOE/d)	2,130	-	1,678	-
Realized sales prices				
Oil (\$/bbl)	\$ 35.17	\$ -	\$ 36.27	\$ -
Natural gas (\$/mcf)	\$ 5.99	\$ -	\$ 7.09	\$ -
Combined (\$/BOE)	\$ 35.48	\$ -	\$ 39.16	\$ -
Operating netbacks				
Oil (\$/bbl)	\$ 22.48	\$ -	\$ 23.00	\$ -
Natural gas (\$/mcf)	\$ 3.78	\$ -	\$ 4.51	\$ -
Combined (\$/BOE)	\$ 22.56	\$ -	\$ 24.87	\$ -
Undeveloped land				
Gross acres			145,700	-
Net acres			70,736	-

MESSAGE TO SHAREHOLDERS

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

During the quarter, Celtic was active in most of its operating areas, drilling eight new wells and completing two re-entry wells. At Bow Island, Celtic drilled three wells early in the third quarter, followed by two additional wells at the end of the quarter. Results were three oil wells, one water injector, and one dry and abandoned. McGregor saw a 100% owned natural gas well drilled which is now on production as is an oil well which was drilled at the same time at Princess. At Kakwa, the Company continued to be active with a natural gas well being drilled and a re-entry well being completed and put on production. Two wells are currently being tied in and should be on production prior to year-end.

At Joffre, Celtic re-entered and re-completed a well in the Ostracod formation which tested economical natural gas rates. Since the end of the third quarter, the Company remained active in the Joffre area with a second Ostracod well being drilled and a horizontal Leduc test currently drilling. These wells are expected to be put on production by the end of the year.

In the Ashmont area, several re-completions and additional compression resulted in this shallow natural gas area showing increased production rates from approximately 100 BOE/d to over 250 BOE/d. Drilling on this property will commence early in 2004.

On September 1st, Celtic closed the acquisition of a new property at Fox Creek. This Beaverhill Lake property was producing approximately 200 BOE/d of 48° API oil and natural gas. After the re-completion of a suspended well, production was increased to 350 BOE/d. Celtic is currently drilling the first of two horizontal re-entry wells into the pool. The Company has a 100% working interest in the Fox Creek property.

Celtic continues to remain well-positioned financially and operationally and expects to show significant gains in production during the fourth quarter of 2003. Common shares of the Company trade on the Toronto Stock Exchange under the symbol "CLT."



David J. Wilson

PRESIDENT & CEO
NOVEMBER 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results should be read in conjunction with Celtic's unaudited interim financial statements and selected notes for the nine months ended September 30, 2003 and the audited financial statements for the year ended December 31, 2002.

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

RESULTS OF OPERATIONS

Celtic began active oil and gas operations on September 30, 2002. The Company's head office is based in Calgary, Alberta, Canada.

Production

For the nine months ended September 30, 2003, Celtic's production averaged 1,678 BOE/d, comprised of 904 barrels per day of oil and 4,642 thousand cubic feet per day of natural gas. Production for the third quarter of 2003 was 2,130 BOE/d, up 37% from 1,551 BOE/d in the second quarter of 2003. Celtic's growth in production volumes in the third quarter reflects the acquisition of certain assets located in Alderson, Bow Island and Drumheller in southern Alberta, Ashmont in east central Alberta and Utikuma in northern Alberta. With new production coming on-stream as a result of recent drilling success, Celtic expects to show strong production growth in the fourth quarter of 2003.

Commodity Prices

Average prices received during the nine-month period ended September 30, 2003 were \$36.27 per barrel for oil sales and \$7.09 per thousand cubic feet for natural gas sales. During the three-month period ended September 30, 2003, average prices received for sales were \$35.17 per barrel for oil and \$5.99 per thousand cubic feet for natural gas. Celtic expects commodity prices to be lower in the fourth quarter of 2003, but may strengthen in the first quarter of 2004.

Revenue and Royalties

Oil and gas revenue, before royalties, for the nine months ended September 30, 2003 was \$17.9 million. Royalties during this period were \$3.3 million, averaging 18.4% of sales. During the three-month period ended September 30, 2003, oil and gas revenue was \$6.9 million, up 30% from \$5.3 million in the second quarter of 2003.

Expenses

For the nine-month period ended September 30, 2003, production expenses were \$3.3 million (\$7.12 per BOE), general and administrative expenses were \$0.6 million (\$1.25 per BOE), interest expense was \$0.2 million, and depletion and depreciation expenses were \$6.2 million (\$13.62 per BOE). For the three months ended September 30, 2003, production expenses were \$1.4 million (\$6.89 per BOE), general and administrative expenses were \$0.2 million (\$1.19 per BOE), interest expense was \$0.1 million, and depletion and depreciation expenses were \$2.6 million (\$13.24 per BOE).

Income and Capital Taxes

For the first nine months of 2003, capital taxes were \$118,125. A provision for future income taxes in the amount of \$0.5 million was recorded for the nine-month period ended September 30, 2003. Included in this provision is a benefit of \$0.9 million related to substantively enacted changes to the federal income tax rate and resource-related deductions from income. The changes, which will be phased in over a five-year period, will result in a lower corporate income tax rate, provide for the deduction of crown royalties and eliminate the resource allowance deduction.

Cash Flow from Operations and Net Earnings

Cash flow from operations for the nine months ended September 30, 2003 was \$10.5 million (\$22.99 per BOE) or \$0.50 per share (\$0.49 per share diluted). Cash flow from operations for the third quarter of 2003 was \$4.0 million (\$0.17 per share basic and diluted), up 29% from \$3.1 million in the second quarter of this year.

The Company recorded net earnings of \$3.8 million or \$0.18 per share (basic and diluted) during the nine-month period ended September 30, 2003. For the third quarter, net earnings were \$1.8 million (\$0.08 per share).

Weighted average common shares outstanding used to compute per share amounts were 20.9 million basic and 21.4 million diluted.

Capital Expenditures

During the nine-month period ended September 30, 2003, Celtic incurred \$42.5 million in capital expenditures. Approximately \$23.9 million was spent on property and equipment acquisitions, \$13.0 million was spent on drilling and completing wells, \$3.3 million was spent on well equipment and facilities and the balance was spent on land, seismic and other.

Celtic is committed to future growth through its dual-prong strategy to augment strategic oil and gas asset acquisitions with exploration and development drilling activity.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company currently has a revolving demand loan facility with a Canadian chartered bank, with an authorized borrowing amount of \$20.0 million. At September 30, 2003, Celtic had \$2.6 million outstanding under this facility. Bank debt, including working capital deficiency at September 30, 2003, was \$3.9 million. With significant unutilized bank lines, the Company is on a strong financial footing to implement its future growth strategy.

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

BALANCE SHEET

(unaudited)

As at September 30

	2003	2002
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 29,896	\$ 3,904,288
Accounts receivable	5,402,310	161,272
Prepaid expenses	38,777	14,501
Other	218,033	–
	5,689,016	4,080,061
<i>Property and equipment</i>	77,767,768	4,216,869
	\$ 83,456,784	\$ 8,296,930
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	\$ 6,848,826	\$ 82,741
Income taxes payable	68,562	–
Bank debt [NOTE 2]	2,650,000	–
	9,567,388	82,741
<i>Future site restoration costs</i>	675,282	–
<i>Future income taxes</i>	11,001,933	1,235,616
	21,244,603	1,318,357
SHAREHOLDERS' EQUITY		
<i>Share capital</i> [NOTE 3]	58,385,836	6,985,333
<i>Retained earnings (deficit)</i>	3,826,345	(6,760)
	62,212,181	6,978,573
	\$ 83,456,784	\$ 8,296,930

See accompanying notes to the financial statements.

On behalf of the Board of Directors:



DIRECTOR



DIRECTOR

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

(unaudited)

	<i>Three months ended September 30</i>		<i>Nine months ended September 30</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
<i>Revenue</i>				
Petroleum and natural gas	\$ 6,942,453	\$ –	\$ 17,930,547	\$ –
Royalties	(1,170,352)	–	(3,285,898)	–
	5,772,101	–	14,644,649	–
Other	102	1,664	29,076	1,664
	5,772,203	1,664	14,673,725	1,664
<i>Expenses</i>				
Production	1,350,774	–	3,259,730	–
General and administrative	233,591	13,866	571,214	13,866
Interest	130,595	–	197,773	–
Capital tax	50,625	–	118,125	–
Depletion and depreciation	2,594,986	–	6,239,770	–
	4,360,571	13,866	10,386,612	13,866
<i>Earnings (loss) before income taxes</i>	1,411,632	(12,202)	4,287,113	(12,202)
Future income taxes (recovery) (NOTE 5)	(397,964)	(5,442)	488,466	(5,442)
<i>Net earnings (loss)</i>	1,809,596	(6,760)	3,798,647	(6,760)
<i>Retained earnings, beginning of period</i>	2,016,749	–	27,698	–
<i>Retained earnings (deficit), end of period</i>	\$ 3,826,345	\$ (6,760)	\$ 3,826,345	\$ (6,760)

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

(unaudited)

	<i>Three months ended September 30</i>		<i>Nine months ended September 30</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
<i>Cash provided by (used in):</i>				
<i>Operating activities</i>				
Net earnings (loss)	\$ 1,809,596	\$ (6,760)	\$ 3,798,647	\$ (6,760)
Items not affecting cash:				
Depletion and depreciation	2,594,986	–	6,239,770	–
Future income taxes [NOTE 5]	(397,964)	(5,442)	488,466	(5,442)
<i>Cash flow from operations</i>	<i>4,006,618</i>	<i>(12,202)</i>	<i>10,526,883</i>	<i>(12,202)</i>
Change in non-cash operating				
working capital [NOTE 7]	(535,809)	(122,412)	(2,549,499)	(93,032)
	3,470,809	(134,614)	7,977,384	(105,234)
<i>Financing activities</i>				
Increase in bank debt	(7,750,000)	–	1,100,000	–
Issue of common shares, net of costs	14,737,704	7,609,699	31,553,390	8,226,391
	6,987,704	7,609,699	32,653,390	8,226,391
<i>Investing activities</i>				
Property and equipment expenditures	(6,460,206)	–	(18,642,308)	–
Property and equipment acquisitions	(4,858,798)	(4,216,869)	(23,918,398)	(4,216,869)
Property and equipment dispositions	–	–	18,000	–
Site restoration and abandonment expenditures	(4,381)	–	(17,232)	–
Change in non-cash investing				
working capital [NOTE 7]	892,456	–	999,042	–
	(10,430,929)	(4,216,869)	(41,560,896)	(4,216,869)
<i>Decrease (increase) in cash</i>	<i>27,584</i>	<i>3,258,216</i>	<i>(930,122)</i>	<i>3,904,288</i>
<i>Cash, beginning of period</i>	<i>2,312</i>	<i>646,072</i>	<i>960,018</i>	<i>–</i>
<i>Cash, end of period</i>	\$ 29,896	\$ 3,904,288	\$ 29,896	\$ 3,904,288

See accompanying notes to the financial statements.

SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENTS

Interim period ended September 30, 2003

(unaudited)

1. BASIS OF PRESENTATION

The interim financial statements of the Company have been prepared following the same accounting policies and methods of computation as the financial statements of the Company for the year ended December 31, 2002. The disclosure provided below is incremental to that included in the annual financial statements. In this regard, these interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2002, included in the Company's annual report.

2. BANK DEBT

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Demand operating loan	\$ 2,650,000	\$ 1,550,000

Celtic has a demand revolving credit facility with a Canadian chartered bank. The authorized borrowing amount under this facility is \$20.0 million. Interest is payable monthly for borrowings through direct advances. Borrowings through the use of bankers' acceptances is also available under the facility. Repayments of principal are not required provided that the aggregate borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The credit facility revolves until May 1, 2004; however, the bank has the option to conduct a review prior to that date.

3. SHARE CAPITAL

Authorized:

Unlimited number of common shares.

Unlimited number of preferred shares.

Issued:

	COMMON SHARES	AMOUNT
Balance, December 31, 2002	18,378,606	\$ 26,056,052
Issued for cash	19,628	58,884
Balance, March 31, 2003	18,398,234	26,114,936
Issued for cash by way of private placement	4,500,000	17,775,000
Share issue costs, after future income taxes	–	(610,919)
Balance, June 30, 2003	22,898,234	43,279,017
Issued for cash by way of private placement	2,500,000	15,625,000
Share issue costs, after future income taxes	–	(518,181)
Balance, September 30, 2003	25,398,234	\$ 58,385,836

As at September 30, 2003, 3,700,000 common shares are held in escrow pursuant to escrow agreements and shall be released as to 2,775,000 shares on October 4, 2003 and 925,000 shares on April 4, 2004.

4. STOCK OPTIONS

The following table summarizes the changes in stock options outstanding during the year, up to September 30, 2003:

	STOCK OPTIONS	AVERAGE EXERCISE PRICE
Balance, December 31, 2002	1,010,000	\$ 2.68
Granted	165,000	4.05
Balance, March 31, 2003	1,175,000	2.87
Granted	20,000	4.40
Cancelled	(25,000)	4.05
Balance, June 30, 2003	1,170,000	2.88
Granted	220,000	5.32
Cancelled	(10,000)	3.50
Balance, September 30, 2003	1,380,000	\$ 3.26

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

If the fair-value method had been used for options granted, pro forma net earnings for the nine months ended September 30, 2003 would be \$3,239,992 and pro forma earnings per share would be \$0.16 (basic) and \$0.15 (diluted). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows: risk-free interest rate of 4.38%, expected life of three years and expected volatility of 100%.

5. TAXES

The provision for future income taxes includes a benefit of \$0.9 million related to substantively enacted changes to the federal income tax rate and resource-related deductions from income. The changes, which will be phased in over a five-year period, will result in a lower corporate income tax rate, provide for the deduction of crown royalties and eliminate the resource allowance deduction.

6. PER SHARE AMOUNTS

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 and cash flow from operations per share.

In computing diluted earnings per share and cash flow from operations per share, 477,878 shares were added to the 20,895,966 weighted average number of common shares outstanding during the period for the dilutive effect of stock options.

Earnings per common share and cash flow from operations per common share are summarized below:

	THREE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2003
Earnings per share		
Basic	\$ 0.08	\$ 0.18
Diluted	\$ 0.08	\$ 0.18
Cash flow from operations per share		
Basic	\$ 0.17	\$ 0.50
Diluted	\$ 0.17	\$ 0.49

7. SUPPLEMENTAL CASH FLOW INFORMATION

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

	THREE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2003
Accounts receivable	\$ 229,323	\$ (3,371,103)
Prepaid expenses	44,214	17,191
Other current assets	–	(152,033)
Accounts payable and accruals	49,006	1,886,926
Income taxes payable	34,104	68,562
Change in non-cash working capital	356,647	(1,550,457)
Relating to:		
Operating activities	(535,809)	(2,549,499)
Investing activities	892,456	999,042
Change in non-cash working capital	\$ 356,647	\$ (1,550,457)

Cash interest and taxes paid:

	THREE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2003
Interest received	\$ 102	\$ 29,076
Interest paid	130,595	197,773
Capital tax paid	50,625	118,125

CORPORATE INFORMATION

BOARD OF DIRECTORS

Robert J. Dales ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

President

Valhalla Ventures Inc.

William C. Guinan ⁽¹⁾⁽⁴⁾⁽⁵⁾

Partner

Borden Ladner Gervais LLP

Eldon A. McIntyre ⁽²⁾⁽³⁾

President

Jarrold Oils Ltd.

Neil G. Sinclair ⁽²⁾⁽⁴⁾

President

Sinson Investments Ltd.

David J. Wilson ⁽³⁾⁽⁵⁾

President & CEO

Celtic Exploration Ltd.

OFFICERS

David J. Wilson

President & CEO

Sadiq H. Lalani

Vice President, Finance &

Chief Financial Officer

Alan G. Franks

Vice President, Operations

Michael R. Shea

Vice President, Land

HEAD OFFICE

Suite 500

505 Third Street SW

Calgary, Alberta

T2P 3E6

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

Suite 510

550 Sixth Avenue SW

Calgary, Alberta

T2P 0S2

LEGAL COUNSEL

Borden Ladner Gervais LLP

1000 Canterra Tower

400 Third Avenue SW

Calgary, Alberta

T2P 4H2

BANKERS

National Bank of Canada

401 Eighth Avenue SW

Calgary, Alberta

T2P 1E4

AUDITORS

PricewaterhouseCoopers LLP

Suite 3100

111 Fifth Avenue SW

Calgary, Alberta

T2P 5L3

EVALUATION ENGINEERS

Sproule Associates Limited

Suite 900

140 Fourth Avenue SW

Calgary, Alberta

T2P 3N3

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Trading symbol "CLT"

(1) Chairman of the Board

(2) Member of the Audit Committee.

(3) Member of the Reserves Committee.

(4) Member of the Compensation Committee.

(5) Member of the Corporate Governance Committee.



Suite 500, 505 Third Street SW
Calgary, Alberta T2P 3E6