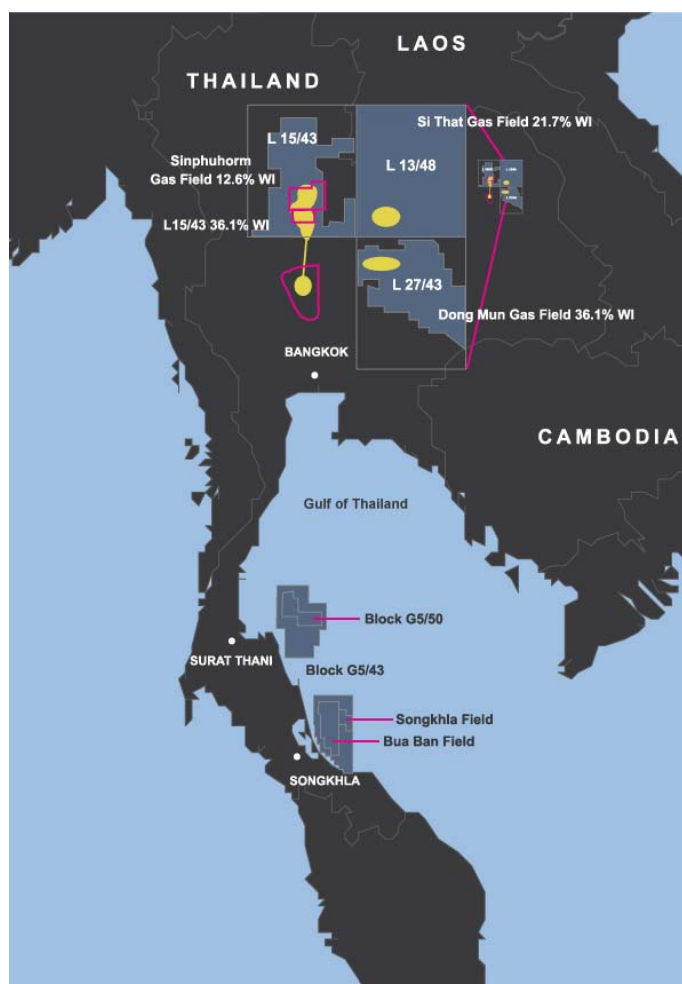


**COASTAL ENERGY COMPANY
QUARTERLY REPORT
JUNE 30, 2010**



COASTAL ENERGY COMPANY

Three and Six Month Periods ended June 30, 2010



Coastal Energy's Oil & Gas Interests

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President's Report to the Shareholders

As we pass the midway point of 2010, I am pleased to report the great strides the Company has made this year. Production at Songkhla A in the second quarter was 18% higher than the year ago period. Our EBITDAX has doubled from the same period a year ago and net income is over seven times what it was in the second quarter of 2009.

During the second quarter we began to develop our second proven offshore field in the Gulf of Thailand. The first three wells were drilled and logged during June. All three encountered oil in the Lower Oligocene reservoir, and one of the wells encountered two additional productive pay zones in the Lower Oligocene reservoir. These reservoirs had not been seen in previous wells. We are planning to drill an appraisal well to determine the extent of these reservoirs later in the third quarter.

To date two additional wells have been drilled in the third quarter and have both encountered oil in the Lower Oligocene reservoir. One of these wells also encountered oil in the Miocene reservoir. This is the first time we've encountered productive Miocene sands on our Gulf of Thailand assets and we are excited about the potential for further appraisal of this Miocene play. All five Bua Ban wells have been completed and tied in to production facilities. Our current offshore production rate is approximately 11,800 bopd and total production is approximately 13,800 boe/d.

There is further potential at Bua Ban that we will be evaluating in the coming months which could bring additional upside for the Company. Following several additional development and exploration wells at Bua Ban, we have exploration prospects at Bua Ban North that we will begin drilling in the fourth quarter. As we move forward through the remainder of 2010, we continue to strive for further success in the development of our offshore assets.

On behalf of the Board of Directors

Randy L. Bartley

President and Chief Executive Officer
August 16, 2010



Financial and Operating Highlights

(US dollars in thousands)

	3 months ended June 30,			6 months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Financial						
Oil Revenue	\$42,164	\$28,017	50%	\$91,674	\$36,217	153%
EBITDAX ⁽¹⁾	\$29,854	\$14,967	99%	\$64,465	\$18,524	248%
Per share – Basic	\$0.27	\$0.16	69%	\$0.60	\$0.20	200%
Per share – Diluted	\$0.27	\$0.15	80%	\$0.58	\$0.20	190%
Net Income	\$8,577	\$1,217	605%	\$18,795	\$(2,012)	1034%
Per share – Basic and diluted	\$0.08	\$0.01	700%	\$0.17	\$(0.02)	950%
Capital expenditures, excluding onshore	\$42,649	\$4,952	761%	\$88,033	\$17,268	410%
Total Assets				\$380,759	\$270,153	41%
Working capital deficit				\$(57,250)	\$(37,833)	51%
Weighted average common shares outstanding						
Basic	109,514,439	95,551,050	15%	109,291,599	94,596,190	16%
Diluted	112,633,874	97,739,424	15%	112,899,135	94,596,190	19%
Operations						
Operating netback (\$/bbl) ^{(1) (2)}						
Crude oil revenue (3)	\$72.80	\$49.86	46%	\$70.93	\$45.91	55%
Royalties	5.45	3.35	63%	5.26	3.07	71%
Production expenses	14.67	17.11	-14%	14.42	16.29	-11%
Operating netback	\$52.68	\$29.40	80%	\$51.25	\$26.55	93%
Average daily crude oil production (bbls) ^{(2) (4)}	7,914	6,702	18%	7,493	5,024	49%

Notes:

- (1) Non-GAAP measure; see “Non-GAAP Measures” section within MD&A.
- (2) Includes offshore crude oil only as onshore is accounted for using the equity method of accounting.
- (3) Net of implied transportation costs.
- (4) Actual Q1 09 production was only 37 days but we used 90 days for comparative purposes.

Second Quarter 2010 Highlights

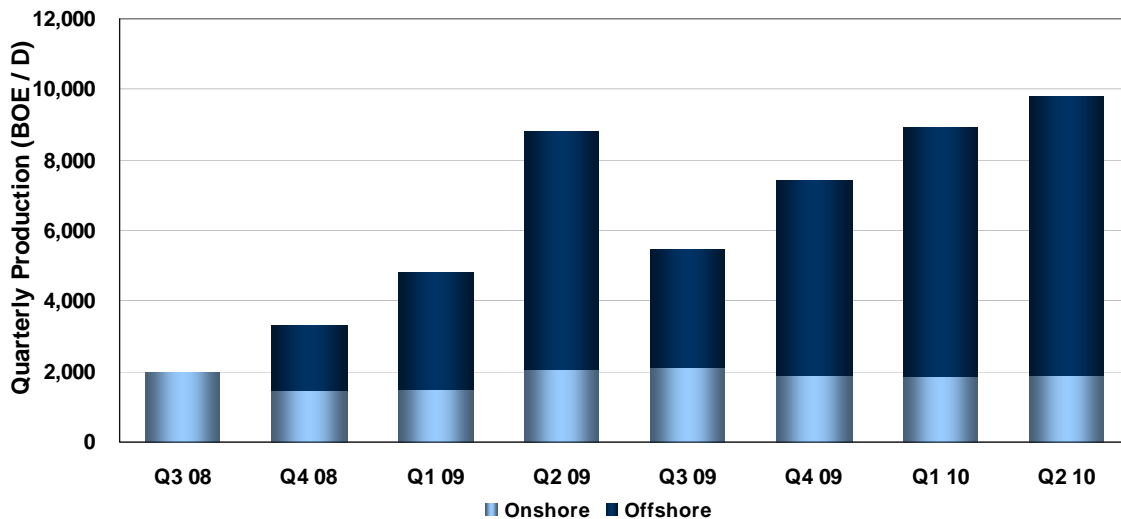
- Offshore average production in the Gulf of Thailand increased to 7,914 bbl/d in Q2 '10, (Q1: 7,068 bbl/d.) The increase in average production was primarily attributable to the completion of workover operations on the Songkhla A-04 well in Q1 which restored production going into Q2. The Company realized average production of 1,900 boe/d in Q2 '10 from its onshore production (Q1: 1,855 boe/d), thus providing total Q2 '10 average production of 9,814 boe/d (Q1: 8,923 boe/d.)
- The Company reported EBITDAX of \$29.9 million (\$0.27 per share) and net income of \$8.6 million (\$0.08 per share).
- The Company began development drilling operations at the Bua Ban field in the Gulf of Thailand in May 2010. Log results of the first three wells were released in late June. The first three Oligocene wells were completed and began producing in July 2010 and a fourth was brought online in August. A fifth well encountered oil in the Miocene reservoir and was completed in August 2010. This is the first time

Three and Six Month Periods ended June 30, 2010

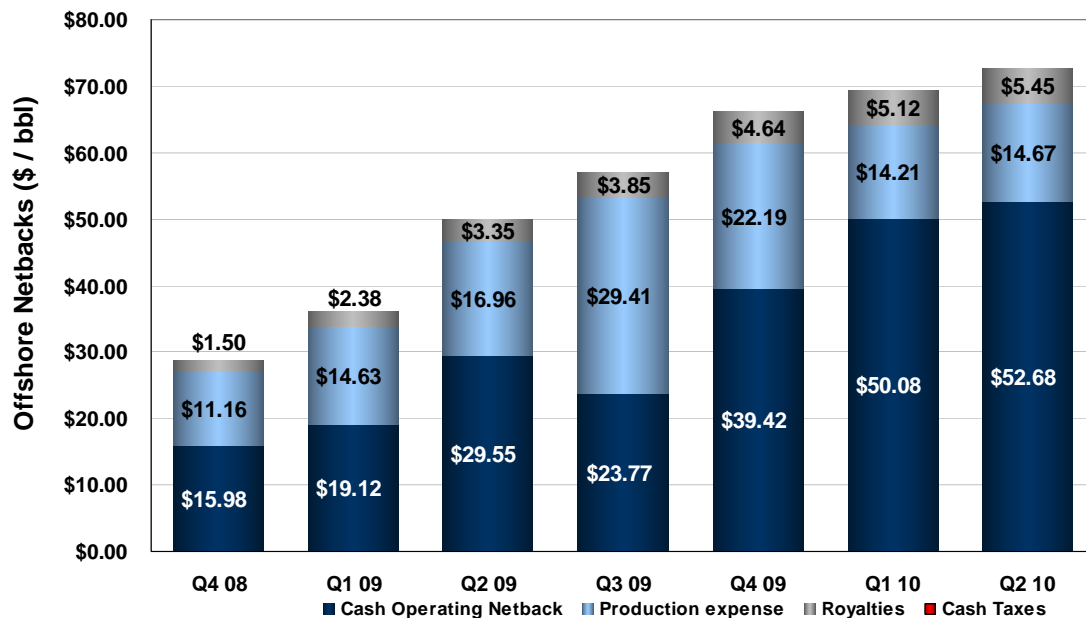
(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

the Company has encountered productive Miocene sands on its offshore acreage. The Company is currently continuing development of the Bua Ban field. Combined production from the Company's two offshore fields is currently approximately 11,800 bbl/d, and total production is approximately 13,800 boe/d.

The following chart represents the Company's average production (boe/d) on a quarterly basis



The following chart represents the Company's cash operating netback (\$/bbl) for its offshore production since it began. Operating netback is based on sales volume and is a non-GAAP measure. See "Non-GAAP Measure" section within the MD&A.



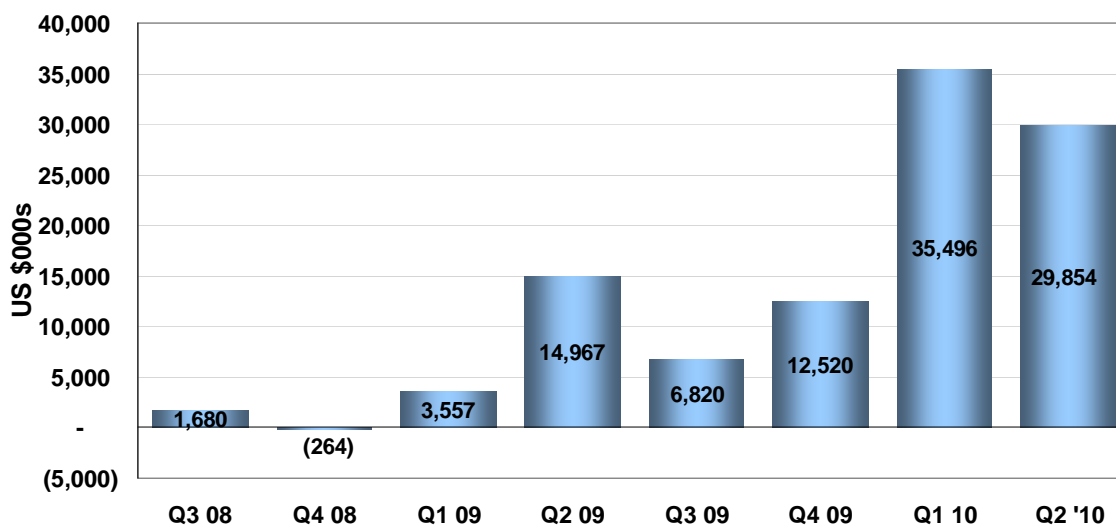
COASTAL ENERGY COMPANY

EBITDAX Computation	2010		2009			2008		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net income (loss) attributable to shareholders	\$8,577	\$10,218	\$2,009	\$(111)	\$1,217	\$(3,229)	\$(413)	\$(476)
Add Back:								
Unrealized (gain) loss on derivative	1	65	(284)	(128)	836	1,526	(1,983)	(13)
Interest income	(1)	(2)	(5)	(6)	(5)	(11)	(151)	(316)
Stock option expense	676	683	567	399	414	576	376	441
Unrealized foreign exchange (gain)/loss	(121)	540	1,008	165	1,069	(382)	(604)	1,482
Interest expense	349	348	677	796	1,347	1,019	843	642
Debt financing fees	119	124	205	323	26	900	-	-
(Gain) loss on sale of assets	-	-	148	-	-	-	(95)	(122)
Depletion, depreciation and accretion	11,612	13,294	7,457	5,382	7,698	3,158	1,763	42
Settlement expense		-	-	-	2,366	-	-	-
Income tax expense	8,642	10,225	738	-	-	-	-	-
EBITDAX	\$29,854	\$35,496	\$12,520	\$6,820	\$14,967	\$3,557	\$(264)	\$1,680

Note (a) The quarterly information for Q1 and Q2 2008 and Q4 2007 was restated to correct an error on recording the future income tax liability and expense and associated foreign exchange loss associated with the outside basis difference between the carrying amount of the investment in Apico LLC and the Company's tax basis.

(b) The unrealized foreign exchange adjustment primarily relates to a tax liability in Thailand.

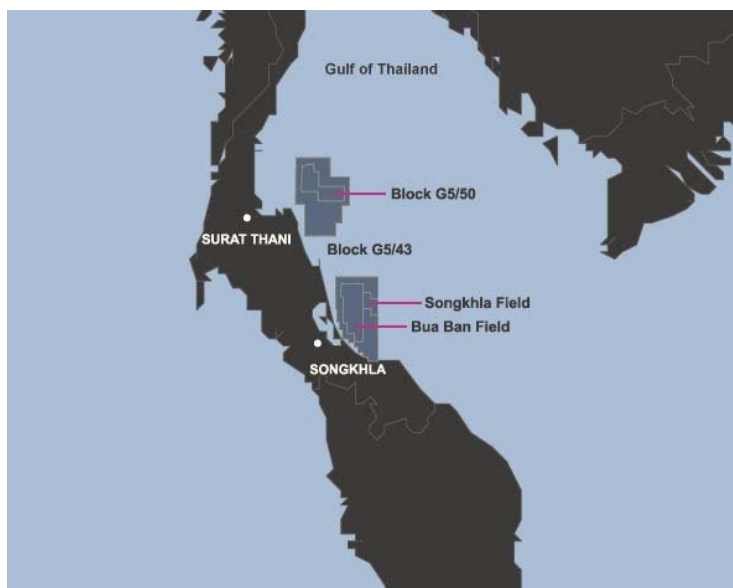
The following chart represents the Company's EBITDAX on a quarterly basis in US\$000s



While production rates in 2Q '10 increased versus 1Q '10, EBITDAX decreased sequentially due to the large volume of inventory in the crude oil storage tanker at quarter end (221,667 bbls) which was not sold until early 3Q '10. The Company doesn't record revenue until the product is lifted from the storage tanker and a bill of lading has been executed.

Operational Review

Gulf of Thailand Properties



The Company holds a 100% working interest in Blocks G5/43 and G5/50 (the "Blocks") in the Gulf of Thailand. The current combined area of the Blocks is approximately 5,021 square kilometres and average water depths are approximately 50 - 100 feet. Block G5/50 contains approximately 554 square kilometers of acreage within the boundaries of Block G5/43.

Songkhla Field

The Company's offshore production from Songkhla averaged 7,914 bbl/d in the second quarter of 2010. The Company has received approval of its Production Area Application ("PAA") and Environmental Impact Assessment ("EIA") for the Songkhla field, which will allow it to proceed developing numerous satellite structures which have been identified within the 75 square kilometre area around Songkhla A without further government approval. As of December 31, 2009, Songkhla A had proven and probable ("2P") reserves of approximately 11 million barrels of oil.

Bua Ban Field

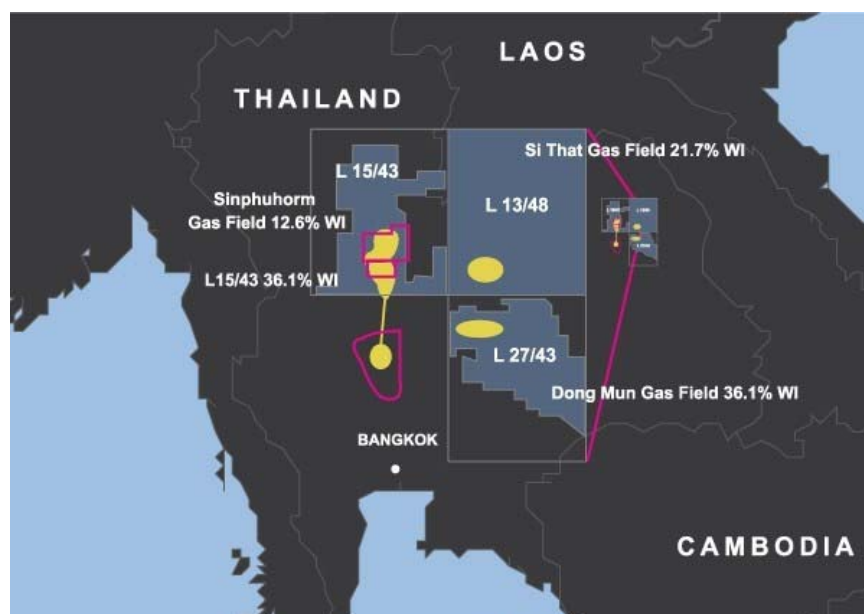
The Company began development drilling operations at the Bua Ban field in the second quarter of 2010. The log results of the first three wells were released in late June. One of the wells, Bua Ban A-05, encountered oil in both the Lower Oligocene and Upper Oligocene sections of the reservoir. The first three Oligocene wells were completed and began producing in July 2010. A fourth Oligocene well was completed and began producing in August 2010. A fifth Bua Ban well encountered net pay in the Miocene reservoir. The Miocene zone has been completed in this well and production testing has commenced. The Company is currently evaluating the prospectivity of the Miocene sands.

Aggregate offshore production is approximately 11,800 bbl/d. The Company has received approval of its Production Area Application and Environmental Impact Assessment for the Bua Ban field. The Bua Ban PAA covers an area of 282 square kilometres, which includes the Bua Ban field and numerous satellite structures. As of December 31, 2009, Bua Ban had proven and probable ("2P") oil reserves of 22 million barrels of oil.

COASTAL ENERGY COMPANY

Summary of Oil & Gas Properties	Thailand Onshore	Gulf of Thailand	Totals
Balance, December 31, 2009	\$55,225	\$187,484	\$242,709
Additions during the period:			
Exploration & development, including ARO	-	79,541	79,541
Equity earnings in Apico, net of distributions	1,578	-	1,578
Amortization	-	(25,840)	(25,840)
Balance June 30, 2010	\$56,803	\$241,185	\$297,988

Thailand Onshore



The Company's Thailand onshore interests are held indirectly through its equity investment in Apico. Apico is considered a significantly influenced investee; as such Apico's results are not consolidated in Coastal's financial statements. Apico's petroleum concessions are located in the Khorat Plateau in north eastern Thailand.

Coastal holds a net working interest of 12.6% in Blocks EU-1 and E-5N onshore Thailand through its 36.1% equity investment in Apico, LLC, which holds a 35% non-operated working interest in the Blocks. Blocks EU-1 and E-5N contain the Sinphuhorm gas field. Production at Sinphuhorm commenced on November 30, 2006 to supply the Nam Phong power plant with over 500 billion cubic feet of gas, plus condensate, under a 15 year Gas Sales Agreement with PTT Public Company Limited. In the second quarter of 2010, the Sinphuhorm field delivered approximately 88 mmcf/d (11 mmcf/d net to Coastal) to Nam Phong. The field also produced approximately 448 bbl/d (56 bbl/d net to Coastal) of condensate. As of December 31, 2009, Sinphuhorm had proven and probable ("2P") reserves of 1,016 billion cubic feet ("bcf") of natural gas (127 bcf net to Coastal) and 5,344 mbbls of oil (668 mbbls net to Coastal), before royalties.

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the results and financial condition of Coastal Energy Company ("Coastal" or the "Company"). This MD&A, dated August 16, 2010, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and six months ended June 30, 2010 and related notes thereto. Additional information related to the Company is available on SEDAR at www.sedar.com.

Overview

The Company was incorporated under the Companies Law of the Cayman Islands on May 26, 2004. The Company is engaged in the acquisition and exploration of petroleum and natural gas properties in South East Asia. The functional and reporting currency of the Company and its subsidiaries is the US dollar. The Company's trading symbols are "CEN" on the TSX-V and "CEO" on the AIM exchange.

The Company's oil and gas properties and assets consist of the following ownership interests in petroleum concessions awarded by the Kingdom of Thailand:

Petroleum Concession	Coastal's Working Interest
Gulf of Thailand	
Block G5/43	100.0%
Block G5/50 (within the boundaries of Block G5/43)	100.0%
Onshore Thailand (via Coastal's 36.1% ownership of Apico LLC ("Apico"))	
Blocks EU-1 and E-5N containing the Sinphuhorm gas field	12.6%
Block L15/43 (surrounding the Sinphuhorm gas field)	36.1%
Block L27/43 (southeast of the Sinphuhorm gas field)	36.1%
Block L13/48 (immediately east of the Sinphuhorm gas field)	21.7%

Non-GAAP Measures

This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, EBITDA, EBITDAX, net debt, operating netback and working capital. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities and repay debt. EBITDA is defined as earnings before interest, taxes, depreciation, amortization and earnings from significantly influenced investee adjusted for non-cash items such as unrealized gains and losses on risk management contracts, unrealized foreign exchange gains or losses and stock-based compensation. EBITDAX is an industry measure equivalent to EBITDA but for the fact that it neutralizes the impact of some companies expensing rather than capitalizing exploration costs. Net debt includes short term and revolving credit facilities less cash and cash equivalents and restricted cash, and is used to evaluate the Company's financial leverage. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Working capital represents current assets less current liabilities.

Funds flow from operations, funds flow per share, EBITDA, EBITDAX, net debt, operating netbacks and working capital are not defined by GAAP, and consequently are referred to as non-GAAP measures. Accordingly, these amounts may not be compatible to those reported by other companies where similar terminology is used, nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with GAAP.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward looking statements are based on current expectations, estimates, and projections that involve various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied.

Financial Review

The following tables are analysis of the line items in the Company's Consolidated Statements of Operations and Comprehensive Loss and are comparisons of the current quarter activities vs. the same quarter in the prior year, unless otherwise noted.

Average Daily Production (boe/d)	3 months ended June 30,			6 months ended June 30,		
	2010	2009	Change	2010	2009	Change
Songkhla	7,914	6,702	17.9%	7,493	3,307	126.6%
Bua Ban	-	-	-	-	-	-
Total Offshore Production	7,914	6,702	17.9%	7,493	3,307	126.6%
Sinphuhorm (via Apico)	1,900	2,080	-8.6%	1,878	1,508	24.5%
Total Company	9,814	8,782	11.8%	9,371	4,815	94.6%

Offshore production increased 12% sequentially in Q2 '10 compared to Q1 '10 as a result of the completion of workover operations on the Songkhla A-04 well. Volumes were significantly higher in the first half of 2010 compared to the first half of 2009 due to stabilized production rates at Songkhla. The following table reconciles the Company's offshore inventory, production and liftings.

Crude Oil Inventory (bbls)	3 months ended June 30,			6 months ended June 30,		
	2010	2009	Change	2010	2009	Change
Inventory Beginning of Period	80,723	100,827	-19.9%	157,883	28,521	453.6%
+ Production	720,156	610,145	18.0%	1,356,259	909,406	49.1%
- Sales / Liftings	579,212	561,941	3.1%	1,292,475	788,896	63.8%
Inventory, End of Period	221,667	149,031	48.7%	221,667	149,031	48.7%

The Company produces continually and the crude oil is stored in a floating storage and offloading vessel ("FSO") moored at the production platform. The inventory represents crude oil produced and loaded in the FSO, but which had not yet been offloaded for sale at the end of the period. The sales price for the Company's offshore oil is based on the Dubai benchmark price.

Oil Revenue, Average Benchmark and Realized Prices (\$/bbl)	3 months ended June 30,			6 months ended June 30,		
	2010	2009	Change	2010	2009	Change
Oil Revenue	\$42,164	\$28,017	50.5%	\$91,674	\$36,217	153.1%
Dubai (Benchmark - \$/bbl)	\$78.18	\$59.12	32.2%	\$76.95	\$51.64	49.0%
Sales Price per bbl Sold (\$/bbl)	\$72.80	\$49.86	46.0%	\$70.93	\$45.91	54.4%
Sales Price as a Percentage of Dubai	93.1%	84.3%	8.8%	92.2%	88.9%	3.3%

Revenue in Q2 '10 declined sequentially from Q1 '10 due to the adjustment for ending crude oil inventory. Revenue is recorded only after the product is lifted out of the storage tanker and title transfer is complete. Revenue and volumes in the three and six month periods ending June 30, 2010 were significantly higher compared to the same periods in 2009 due to higher production rates and improved commodity pricing.

Three and Six Month Periods ended June 30, 2010

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

Royalties	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Royalties	\$3,154	\$1,880	68%	\$6,804	\$2,421	181%
\$ per bbl	\$5.45	\$3.35	63%	\$5.26	\$3.07	71%
Royalties as a percent of revenue	7.5%	6.7%	0.8%	7.4%	6.7%	0.7%

Royalties on the Gulf of Thailand assets are paid to the Kingdom of Thailand as a percentage of revenue calculated on a sliding scale and based on monthly production. Royalties for the three and six months ending June 30, 2010 have increased compared to the same periods of 2009 due to higher production rates and higher commodity pricing.

Loss on Derivative	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Unrealized loss on mark-to-market	\$(1)	\$(270)	-	\$(66)	\$(1,796)	-
Realized loss	-	(566)	-	-	(127)	-
Gain loss on Derivative	(1)	\$(836)	-	(66)	\$(1,923)	-

The Company is required by the lenders of its revolving credit facility to hedge approximately 50% of its onshore gas production. The Company purchased a put option under which the Company has the right to sell 4,000 metric tons per month of Singapore fuel oil at a price of \$290.00 per metric ton. The Company adjusts the fair value of this risk management contract (mark to market) every quarter with the changes in fair value recognized in net earnings.

The Company's original contract ran from July 1, 2007 through June 30, 2009. During Q1 2009, the Company recognized \$439,000 in gains on this contract from sales proceeds and recorded losses on mark-to-market adjustments of \$1,526,000 on this contract.

The Company entered into a new contract beginning June 6, 2009 and expiring June 30, 2010. The put option expired on June 30, 2010 and the Company recorded a \$1,000 lost at expiry.

Interest Income	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Interest income	\$1	\$5	-80%	\$3	\$16	-81%

Interest income is the result of the Company investing cash in highly liquid investments and restricted cash held in interest bearing accounts.

Production Expenses	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Production expenses	\$10,651	\$10,434	2%	\$19,280	\$14,957	29%
Effect of change in inventory	(2,152)	(902)	139%	(644)	(2,105)	-69%
	8,499	9,532	-11%	18,636	12,852	45%
\$ per bbl	\$14.67	\$17.11	-14%	\$14.42	\$16.29	-11%

Overall production expenses in Q2 '10 increased sequentially compared to Q1 '10 due to the preparations for production at Bua Ban. However, production expenses on a per barrel basis remained steady sequentially and declined on a year-over-year basis due to increased production rates.

COASTAL ENERGY COMPANY

General and Administrative Expenses	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Salaries and benefits	\$2,939	\$2,160	36%	\$5,491	\$4,096	34%
Professional fees	540	452	19%	838	786	7%
Office and general	337	210	60%	807	939	-14%
Travel and entertainment	203	237	-14%	532	335	59%
Regulatory and transfer fees	76	151	-50%	224	247	-9%
Total general and administrative expenses	\$4,095	\$3,210	28%	\$7,892	\$6,403	23%

Higher personnel costs relative to the three and six months ended June 30, 2009 are largely driven by the increase in headcount required to support offshore operations – The Company had 48 full-time employees; and 17 full time contractors as of June 30, 2010 (2009: 38 and 16, respectively).

Foreign Exchange Loss	3 Months ended June 30,			6 months ended June 30,		
	2010	2009	Change	2010	2009	Change
Total foreign exchange (gain) loss	\$(11)	\$1,765	-101%	\$453	\$1,397	-68%

The foreign exchange (gain) loss is a result of the Company carrying out transactions and maintaining certain financial assets and liabilities in currencies other than the US Dollar, including the Canadian Dollar, the British Pound, the Euro and the Thai Baht.

The Company's future income tax liability primarily relates to Thai taxes and is denominated in Thai Baht. At each quarter period end this future income tax liability is re-valued and the corresponding non-cash gain/loss is recognized in net earnings.

Interest Expense	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Interest Expense	\$349	\$1,347	-74%	\$697	\$2,366	-71%

Interest expense includes interest on the Company's notes payable, amounts due to shareholder and long-term debt. Interest expense was lower in 2010 compared to 2009 as the Company had lower balances on the notes payable - \$Nil at June 30, 2010 (2009: \$11.3 million), amounts due to shareholder - \$3.4 million at June 30, 2010 (2009: \$7.0 million) and long-term debt - \$28.6 million at June 30, 2010 (2009: \$37.8 million). The Company's average interest rate was 3.98% for the three months ended June 30, 2010 (2009: 7.28%).

Depletion, Depreciation and Accretion	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Oil and gas depreciation & depletion	\$14,171	\$8,278	71%	\$26,132	\$12,819	104%
Effect of change in inventory	(2,755)	(660)	317%	(1,571)	(2,121)	-26%
Accretion	146	23	535%	229	45	409%
Corporate depreciation	50	57	-12%	116	113	3%
Depletion, depreciation and accretion expense	\$11,612	\$7,698	51%	\$24,906	\$10,856	129%
\$ per bbl	\$19.96	\$13.57	47%	\$19.18	\$13.62	41%

DD&A per barrel increased sequentially in Q2 '10 as compared to Q1 '10 and year-over-year due to increased capital expenditures as well as changes in the Company's total proved reserve base at year end 2009.

Three and Six Month Periods ended June 30, 2010

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

Taxes	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Current tax expense (recovery)	\$(946)	\$-	-	\$18	\$-	-
Future income tax expense	9,588	-	-	18,849	-	-
Income tax	\$8,642	\$-	-	\$18,867	\$-	-

The Company accrues income tax expense on its book earnings at a tax rate of 50%, which is the Thai PITA tax rate. This is the predominate rate at which the Company anticipates having to eventually pay taxes based on its current operations.

Earnings from Significantly Influenced Investee, net of taxes	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Coastal's 36.1% of Apico's net income	\$3,207	\$2,158	49%	\$6,284	3,753	67%
Amortization of Coastal's excess basis	(280)	(304)	-8%	(552)	(489)	13%
Earnings from Significantly Influenced Investee, net of taxes	\$2,927	\$1,854	58%	\$5,732	\$3,264	76%
100% Field Production volumes (mmcf/d)	88.6	96.2	-8%	87.5	77.8	11%
12.6% net to Coastal (mmcf/d)	11.1	12.1	-8%	10.9	9.8	11%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on Apico's quarterly reported net income. Apico experienced higher revenue in the three and six months ended June 30, 2010 over the prior comparable period primarily due to higher realized gas sales prices.

On September 25, 2006, the Company acquired an additional interest in Apico for an amount greater than its proportionate share of net assets of Apico ("excess basis"). The excess basis was allocated to Apico's oil & gas properties and is being amortized using the units of production method beginning in Q1 2007.

Net Income (Loss)	3 Months ended June 30,			6 Months ended June 30,		
	2010	2009	Change	2010	2009	Change
Net income (loss) and comprehensive income (loss) attributable to shareholders	\$8,577	\$1,217	605%	\$18,795	\$(2,012)	1034%
Basic and diluted earnings (loss) per share	\$0.08	\$0.01	700%	\$0.17	\$(0.02)	950%

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Summary of Quarterly Results

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil revenues	\$42,164	\$49,510	\$28,926	\$21,205	\$28,017	\$8,200	\$4,098	\$ -
Royalties	(3,154)	(3,650)	(2,027)	(1,430)	(1,880)	(541)	(214)	-
Gain (loss) on derivative	(1)	(65)	(282)	128	(836)	(1,087)	2,415	13
Interest income	1	2	5	6	5	11	151	316
Other income	-	-	110	-	-	-	-	-
Total revenues	39,010	45,797	26,732	19,909	25,306	6,583	6,450	329
Production expenses	8,499	10,137	9,689	10,936	9,532	3,320	1,597	-
General and administrative expenses	4,095	3,797	8,144	5,029	3,210	3,193	4,114	3,053
Foreign exchange (gain) loss	(11)	464	304	240	1,765	(368)	820	1,440
Interest expense	349	348	677	796	1,347	1,019	843	642
Debt financing fees	119	124	205	323	26	900	-	-
(Gain) loss on sale of assets	-	-	148	-	-	-	(95)	(122)
Depletion, depreciation and accretion	11,612	13,294	7,457	5,382	7,698	3,158	1,763	42
Settlement and asset impairment	-	-	-	-	2,365	-	-	-
Total operating expenses	24,663	28,164	26,624	22,706	25,943	11,222	9,042	5,055
Income tax expense	8,642	10,225	738	-	-	-	-	-
Share of earnings of Apico LLC	2,927	2,805	2,577	2,621	1,854	1,410	2,179	4,250
Net income (loss) before non-controlling interest	8,632	10,213	1,947	(176)	1,217	(3,229)	(413)	(476)
Non-controlling interest	(55)	5	62	65	-	-	-	-
Net income (loss) and comprehensive income (loss) attributable to shareholders	8,577	10,218	2,009	(111)	1,217	(3,229)	(413)	(476)
EBITDAX ^(a)	29,854	34,162	12,520	6,820	14,968	3,557	(264)	1,680
Basic and diluted earnings (loss) per share	\$0.08	\$0.09	\$0.02	\$0.00	\$0.01	\$(0.03)	\$(0.01)	\$(0.00)

Note (a) EBITDAX is a non-GAAP measure and is defined as earnings before interest, financing fees, taxes, depreciation, amortization, exploration costs and other one-time items adjusted for non-cash items such as unrealized gains and losses on risk management contracts, unrealized foreign exchange gains or losses and stock-based compensation (see reconciliation below.)

Significant factors influencing Quarterly Results include

- The volatility of global crude oil prices has a direct effect on the Company's revenue as well as unrealized gains or losses on risk management contracts. The Company realized a higher sales price for its crude oil in the first six months of 2010 due to an increase in global oil pricing.
- At the end of Q2 '10 the Company had a larger product inventory (221,667 bbl) than at the end of Q1 '10 (80,723 bbls) due to the timing of the Company's liftings. This resulted in lower revenues, production expenses and EBITDAX for Q2 '10 compared to Q1 '10.
- The Company has incurred higher general and administrative expenses as it has been adding headcount as operations expand.
- The Company transacts business in multiple currencies; therefore the volatility of global currency exchange rates has a direct effect on the Company's foreign exchange (gains) losses.

Three and Six Month Periods ended June 30, 2010

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

Cash Flow Analysis

The Company's cash and cash equivalents at June 30, 2010 were \$4.6 million, a decrease of \$16.6 million from \$21.2 million at December 31, 2009. The Company's primary source of funds came from \$77.8 million from operations, shares issued for cash of \$1.9 million, and \$0.8 million investment from the non-controlling interest partner in the Company's variable interest entity. Cash and cash equivalents were primarily used to purchase property, plant and equipment expenditures of \$89.9 million, repay \$6.0 million of bank debt and \$2.0 million on the note payable to the shareholder.

Capital Expenditures

Capital expenditures (including cash payments and amounts included in accounts payable) amounted to \$42.3 million and \$88.0 million for the three and six months ended June 30, 2010, compared to \$5.0 million and \$17.3 million for the three and six months ended June 30, 2009, respectively. Expenditures during the second quarter were mainly related to the Company's offshore drilling campaign and related facilities installations.

Capital Expenditures	3 Months ended June 30,		6 Months ended June 30,	
	2010	2009	2010	2009
Seismic, geological and geophysical studies	803	658	1,738	1,216
Drilling and completions	22,069	1,550	45,102	9,886
Facilities	17,404		36,903	
Lease and well equipment	2,266	521	3,830	2,791
Construction of assets in progress	63	2,189	299	3,217
Administrative assets	44	34	154	81
Other	-	-	6	77
Total Capital Expenditures	\$42,649	\$4,952	\$88,032	\$17,268

Equity Capital

Share Capital

Authorized 250,000,000 common shares with par value of \$0.04 each;

At June 30, 2010 and as of the date of this report, the Company had 109,537,791 common shares outstanding.

Warrants

During the three and six months ended June 30, 2010, the Company issued no warrants, no warrants were forfeited and 563,867 warrants were exercised for 457,734 shares of the Company's common stock. Subsequent to June 30, 2010, 2,142,378 warrants at GBP 2.80 per share went unexercised and were forfeited. As of the date of this report the Company had 540,000 warrants outstanding at a weighted average exercise price of \$1.07 per share.

Stock Options

During the three and six months ended June 30, 2010, the Company granted no stock options; no options were forfeited and 803,412 options were exercised. The following table summarizes the outstanding and exercisable options as of the date of this report:

COASTAL ENERGY COMPANY

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	1.50 years	\$2.09 (£1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	1,925,000	1.50 years	\$2.07 (Cdn\$2.20)	Dec. 27, 2011	1,925,000
Jun. 15, 2007	6,250	2.00 years	\$2.79 (Cdn\$2.96)	Jun. 16, 2012	6,250
Jan. 25, 2008	558,500	2.50 years	\$3.71 (Cdn\$3.94)	Jan. 26, 2013	401,750
May 05, 2008	162,500	2.75 years	\$4.19 (Cdn\$4.44)	May 06, 2013	112,500
Jul. 14, 2008	85,000	3.00 years	\$3.40 (Cdn\$3.61)	Jul. 15, 2013	42,500
Sep. 16, 2008	100,000	3.25 years	\$2.14 (Cdn\$2.27)	Sep. 16, 2013	50,000
Sep. 23, 2008	1,000,000	2.50 years	\$3.72 (Cdn\$3.94)	Feb. 05, 2013	750,000
Jan. 02, 2009	3,127,338	3.50 years	\$1.27 (Cdn\$1.35)	Jan. 02, 2014	914,997
Dec. 01, 2010	2,616,599	4.50 years	\$4.84 (Cdn\$5.13)	Nov. 30, 2014	-
	9,606,187				4,227,997

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transaction

Effective September 25, 2006, the Company assumed a note payable to O. S. Wyatt, Jr., the shareholder of NuCoastal Thailand Limited ("NuCoastal") for \$4.6 million. The original note was unsecured, accrued interest at 4% and was set to mature on July 20, 2007. The note and its accrued interest have been periodically renegotiated and now matures on September 30, 2010 and bears interest at 12% per annum. The Company has periodically made interest payments against the note. During Q2 2010, the Company paid \$0.25 million on the principal and accrued interest; as a result, the face value of the note is now \$3.4 million.

Commitments and Contingencies

There have been no material changes in the Company's commitments and contingencies as described in the Management's discussion and Analysis for the year ended December 31, 2009 and also as described in Notes 12 to the unaudited interim financial statements for the three and six months ended June 30, 2010.

Subsequent Events

The Company announced production test results from the first five wells at Bua Ban. The Company also announced that it had encountered a pay zone in the Miocene reservoir in one of the Bua Ban wells. This is the first time the Company has encountered productive Miocene sands on its offshore acreage. The Company announced in mid-August 2010 that offshore production was averaging approximately 11,800 bopd and total production was averaging 13,800 boe/d

Critical Accounting Policies, Estimates and New Accounting Pronouncements

A detailed summary of the Company's critical accounting policies and estimates is included in Management's Discussion and Analysis for the year ended December 31, 2009 and also in Note 2 to the annual audited financial statements for the year ended December 31, 2009.

A detailed summary of new accounting pronouncements and their effect on the Company is included in Note 1 to the unaudited interim financial statements as at and for the three and six months ended June 30, 2010.

International Financial Reporting Standards Update

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) will be required for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010 for Canadian profit-oriented publicly accountable entities (“PAE’s”) such as the Company. This also means that all opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited interim financial statements.

Coastal’s IFRS Project Plan

The Company provided a detailed project plan in its MD&A for the year ended December 31, 2009. The key activities of the Company’s project plan include:

- determine appropriate changes to accounting policies and required amendments to financial disclosures;
- identify and implement changes in associated processes and information systems;
- comply with internal controls requirements;
- communicate collateral impact to internal business units; and
- educate and train internal and external stakeholders.

As of June 30, 2010, Coastal has made significant progress on its project plan. The Company has analyzed accounting policy alternatives and is drafting IFRS accounting policies. Process and system changes have been implemented for significant areas of impact, while adhering to existing internal control requirements. Information system changes have been tested and implemented to capture the required 2010 IFRS comparative data. IFRS education and training sessions have been attended by Company personnel and additional training sessions are scheduled throughout 2010.

Coastal is beginning the process of completing its January 1, 2010 IFRS opening balance sheet based on its draft accounting policies. The Company’s external auditors have started reviewing Coastal’s IFRS accounting position papers. Coastal will continue to update its project plan to reflect new and amended accounting standards issued by the International Accounting Standards Board.

Expected Accounting Policy Impacts

Coastal’s significant areas of impact remain unchanged and include property, plant and equipment (“PP&E”), asset retirement obligation (“ARO”), impairment testing, capitalized interest, and share-based payments. The following discussion provides an overview of these areas as well as the exemptions available under IFRS 1, *First-time Adoption of International Financial Reporting Standards*. In general, IFRS 1 requires first time adopters to retroactively apply IFRS, although it does provide optional and mandatory exemptions to these requirements.

Property, Plant and Equipment

Under Canadian GAAP, Coastal follows the CICA’s guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for and the development of natural gas and crude oil reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre are depleted using the units-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, Coastal will be required to adopt new accounting policies for upstream activities, including pre-exploration costs, explorations and evaluation costs and development costs.

Pre-exploration costs are those expenditures incurred prior to obtaining the legal right to explore and must be expensed under IFRS. Currently, Coastal capitalizes and depletes pre-exploration costs within the country cost centre. In 2009, these costs were not material to Coastal.

Exploration and evaluation costs are those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. Under IFRS, Coastal will initially capitalize these

costs as Exploration and Evaluation assets on the balance sheet. When an area or project is determined to be technically feasible and commercially viable, the costs will be transferred to PP&E. Unrecoverable exploration and evaluation costs associated with an area or project will be expensed.

Development costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Under IFRS, Coastal will continue to capitalize these costs within PP&E on the balance sheet. However, these costs will be depleted on a unit-of-production basis over an area level (referred to as a cash generating unit) instead of a country cost centre level currently utilized under Canadian GAAP. Coastal is currently determining its area levels and will be determining the inputs to be used in this new units-of-production depletion calculation.

Under IFRS, upstream divestitures will generally result in a gain or loss recognition in net earnings. Under Canadian GAAP, proceeds of divestitures are normally deducted from the full costs pool without recognition of a gain or loss unless the deduction would result in a change to the depletion rate of twenty percent (20%) or greater, in which case a gain or loss would be recognized.

Coastal will adopt the IFRS 1 exemption, which allows the Company to deem its January 1, 2010 IFRS upstream asset costs to be equal to its Canadian GAAP historical upstream net book value. On January 1, 2010, the IFRS exploration and evaluation costs will be equal to the Canadian GAAP unproved properties balance and the IFRS development costs will be equal to the full cost pool balance. Coastal will allocate this upstream full cost pool over its reserves to establish the area level depletion units.

Asset Retirement Obligation

Under Canadian GAAP, ARO is measured at the estimated fair value of the retirement of decommissioning expenditures expected to be incurred. Existing liabilities are not re-measured using current discount rates. Under IFRS, ARO is measured as the best estimate of the expenditures to be incurred and requires the use of current discount rates at each re-measurement date. Generally, the change in discount rates results in a balance being added to or deducted from PP&E.

As a result of Coastal's use of the IFRS 1 upstream asset exemption, the Company is required to revalue its January 1, 2010 ARO balance recognizing the adjustment in retained earnings.

Impairment Testing

Under Canadian GAAP, Coastal is required to recognize an upstream impairment loss if the carrying amount exceeds the undiscounted cash flows from proved reserves for the country cost centre. If an impairment loss is to be recognized, it is then measured at the amount the carrying value exceeds the sum of the fair value of the proved and probable reserves and the costs of unproved properties. Impairments recognized under Canadian GAAP are not reversed.

Under IFRS, Coastal is required to recognize and measure an upstream impairment loss if the carrying value exceeds the recoverable amount for a cash generating unit. Under IFRS, the recoverable amount is the higher of fair value less cost to sell and value in use. Impairment losses, other than goodwill, are reversed under IFRS where there is an increase in the recoverable amount. Coastal will group its assets into cash generating units based on the independence of cash inflows from other assets or groups of assets.

Capitalized Interest

Under Canadian GAAP, Coastal has elected to expense interest and borrowing costs as incurred. Under IFRS, Coastal is required to capitalize interest and borrowing costs to a qualifying asset. Generally, this change will increase the book value of the qualifying asset and reduce the interest expense to be recognized by the Company.

Coastal will use the IFRS 1 exemption under which will allow interest incurred on or before January 1, 2010 to remain expensed and not capitalized into the book value of the qualifying asset.

Share-based Payments

Share units issued under Coastal's stock based compensation plans are currently accounted for under Canadian GAAP using the fair value method. Under this method, the Company has used the Black-Scholes model to value the cost of compensation attributable to these awards and has recognized these costs over

Three and Six Month Periods ended June 30, 2010

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

the vesting period of such awards. This method is acceptable under IFRS; however, as of January 1, 2010, the fair value of all awards issued will have to be re-calculated.

Coastal will use the IFRS 1 exemption under which share units that are outstanding and fully vested prior to January 1, 2010 are not required to be retrospectively revalued.

Coastal has not yet determined the actual value of these significant accounting policy impacts.

Other IFRS 1 Considerations

Business combinations entered into prior to January 1, 2010 will not be retroactively restated using IFRS principles.

As permitted by IFRS 1, the Company intends to determine at January 1, 2010, based on the facts and circumstances at that date, whether or not an arrangement contains a lease. Leases previously assessed under EIC-150 will not be reassessed.

The Company will review its financial instruments designations under Canadian GAAP and may change these designations as of January 1, 2010 under IFRS.

Risks and Uncertainties

Coastal has published its assessment of its business risks in the Risk Factor section of its Annual Information Form ("AIF") dated April 16, 2010 (available on SEDAR at www.sedar.com.) It is recommended that this document be reviewed for a thorough discussion of risks faced by the Company.

The Company is subject to a number of risk factors due to the nature of the petroleum and gas business in which it is engaged, not the least of which are adverse movements in commodity prices, which are impossible to forecast. The Company is also subject to the oil and gas services sector which, from time to time, may have limited available capacity and therefore may demand premium rates. The Company seeks to counter these risks as far as possible by selecting exploration areas on the basis of their recognized geological potential to host economic returns.

Industry

The Company is engaged in the acquisition of petroleum and natural gas properties, an inherently risky business, and there is no assurance that an additional economic petroleum and natural gas deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially viable petroleum and natural gas deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management.

Petroleum and Gas Prices

In recent years, the petroleum and natural gas exploration industry has seen significant growth, primarily as a result of increased global demand, led by India and China. During this period, prices for petroleum have steadily increased, resulting in multi-year price highs. Prior to this recent surge, large companies found it more feasible to grow their reserves and resources by purchasing companies or existing oilfields. However, with improving prices and increasing demand, a discernible need for the development of exploration projects has arisen. Junior companies have become key participants in identifying properties of merit to explore and develop.

The price of petroleum and natural gas is affected by numerous factors beyond the control of the Company including global consumption and demand for petroleum and natural gas, international economic and political trends, fluctuations in the U.S. dollar and other currencies, interest rates, and inflation. Continued volatility in commodity prices may adversely effect the Company's operating cash flow.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risk normally incidental to exploration, development

and production of natural resources, any of which could result in work stoppages, damages to persons or property and possible environmental damage. Although the Company may obtain liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to the high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Reserve Estimates

Despite the fact that the Company has reviewed the estimates related to potential reserve evaluation and probabilities attached thereto and it is of the opinion that the methods used to appraise its estimates are adequate, these figures remain estimates, even though they have been calculated or validated by independent appraisers. The reserves disclosed by the Company should not be interpreted as assurances of property life or of the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable oil and natural gas reserves.

Disruptions in Production

Other factors affecting the production and sale of oil and natural gas that could result in decrease of profitability include: (i) expiration or termination of leases, permits or licenses, or sales price re-determinations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) worker vacation schedules and related maintenance activities; and (v) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair, fires, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results.

Cash Flows and Additional Funding Requirements

The Company presently has revenue from its Gulf of Thailand production and earnings from its interest in Apico, which is accounted for under the equity method on the consolidated statement of operations. In order to further develop the Gulf of Thailand assets, substantial capital will be required. The sources of capital presently available to the Company for development are cash flow from production or the issuance of debt or equity. The Company has sufficient financial resources to undertake its firm obligations for the next 12 months.

The Company is exposed to fluctuations in short-term interest rates on amounts drawn under its revolving credit facilities. The Company has not hedged these rates given the need to remain flexible in borrowing and repaying the outstanding balances.

Environmental

The Company's exploration activities are subject to extensive laws and regulations governing environmental protection. Although the Company closely follows and believes it is operating in compliance with all applicable environmental regulations, there can be no assurance that all future requirements will be achievable on reasonable terms. Failure to comply may result in enforcement actions causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures.

Laws and Regulations

The Company's exploration activities are subject to local laws and regulations governing prospecting, drilling, development, exports, taxes, labour standards, occupational health and safety, and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly.

The political unrest in Thailand has manifested itself in recent protests and violence in Bangkok. This unrest and its related violence has not affected our Thailand production operations; but there can be no guarantee that operations will not be affected in the future. As a safety precaution for our Bangkok based employees, we have on occasion shut down our Bangkok office and allowed those employees to work from home. We have also reviewed contingency plans for our third country nationals to ensure their safe exit from Thailand should the need arise.

Three and Six Month Periods ended June 30, 2010

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

There are also many risks associated with operations in international markets, including changes in foreign governmental policies relating to crude oil and natural gas taxation, other political, economic or diplomatic developments, changing political conditions and international monetary fluctuations. These risks include: political and economic instability or war; the possibility that a foreign government may seize our property with or without compensation; confiscatory taxation; legal proceedings and claims arising from our foreign investments or operations; a foreign government attempting to renegotiate or revoke existing contractual arrangements, or failing to extend or renew such arrangements; fluctuating currency values and currency controls; and constrained natural gas markets dependent on demand in a single or limited geographical area. The Company applies the expertise of its management, its advisors, its employees and contractors to ensure compliance with current local laws.

Title to Oil and Gas Properties

While the Company has undertaken customary due diligence in the verification of title to its oil and gas properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered Petroleum Agreements or transfers and title may be affected by undetected defects.

Dependence on Management

The Company strongly depends on the business and technical expertise of its senior management team and there is little possibility that this dependence will decrease in the near term. The loss of one or more of these individuals could have a material adverse effect on the Company.

Apico Financial Reporting

The Company accounts for its 36.1% investment in Apico under the equity method whereby it records its share of Apico's earnings as earnings from a significantly influenced investee. Apico is required to provide the partners its financial statements under the Joint Venture Agreement on a timely basis. While the Company has a seat on the Board of Directors of Apico, it does not control the Board or the management of Apico. Therefore, the Company relies heavily on Apico management to provide timely and accurate financial information to the partners.

Risk Management and Financial Instruments

Coastal provides a risk management and financial instruments discussion as required by CICA Handbook section 3862 "Financial Instruments – Disclosures" on its exposure to and management of credit risk, liquidity risk and market risk in Note 11 to the unaudited interim financial statements for the three and six months ended June 30, 2010.

Management's Report on Internal Control over Financial Reporting

In connection with Exemption Orders issued in November 2007 and revised in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate under National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Outlook

The Company plans to continue operating its current Gulf of Thailand properties as well as pursuing additional development and exploration of its current concessions.

Coastal anticipates using the proceeds from its current production at Songkhla and Sinphuhorm to enhance its liquidity position and fund further development and exploration of Blocks G5/43 and G5/50.

COASTAL ENERGY COMPANY

Three and Six Month Periods ended June 30, 2010 and 2009 (Unaudited)

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenues				
Oil and natural gas	42,164	28,017	91,674	36,217
Royalties	(3,154)	(1,880)	(6,804)	(2,421)
Loss on derivative risk management contracts (Note 5)	(1)	(836)	(66)	(1,923)
Interest income	1	5	3	16
	39,010	25,306	84,807	31,889
Expenses				
Production	8,499	9,532	18,636	12,852
General and administrative	4,095	3,210	7,892	6,403
Foreign exchange loss (gain)	(11)	1,765	453	1,397
Interest (Notes 4 and 5)	349	1,347	697	2,366
Debt financing fees	119	26	243	926
Depletion, depreciation and accretion	11,612	7,698	24,906	10,856
Settlement (Note 3)	-	2,365	-	2,365
	24,663	25,943	52,827	37,165
Net income (loss) before taxes, earnings from significantly influenced investee and non-controlling interest	14,347	(637)	31,980	(5,276)
Income tax	8,642	-	18,867	-
Net income (loss) before earnings from significantly influenced investee and non-controlling interest	5,705	(637)	13,113	(5,276)
Earnings from significantly influenced investee (Note 2)	2,927	1,854	5,732	3,264
Net income (loss) before non-controlling interest	8,632	1,217	18,845	(2,012)
Non-controlling interest (Note 9)	(55)	-	(50)	-
Net income (loss) and comprehensive income (loss) attributable to shareholders	8,577	1,217	18,795	(2,012)
Deficit, beginning of period	(6,484)	(19,816)	(16,702)	(16,587)
Retained earnings (deficit), end of period	2,093	(18,599)	2,093	(18,599)
Basic and diluted earnings (loss) per share (Note 8)	0.08	0.01	0.17	(0.02)

COASTAL ENERGY COMPANY
As at June 30, 2010 and December 31, 2009 (Unaudited)
(All amounts are expressed in US\$000's unless otherwise stated)

Consolidated Balance Sheets

	June 30, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	4,647	21,229
Restricted cash	3,037	3,829
Accounts receivable	6,706	6,111
Derivative asset (Note 5)	-	66
Inventory	8,768	5,310
Prepays and other current assets	299	526
	23,457	37,071
Investment in and advances to Apico LLC (Note 2)	56,803	55,225
Property, plant and equipment (Note 3)	300,203	233,014
Deposits and other assets	296	299
Total assets	380,759	325,609
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	51,554	31,325
Deferred income (Note 6)	17,533	23,060
Income taxes payable	49	38
Amounts due to shareholder (Note 4)	3,388	5,164
Current portion of long-term debt (Note 5)	8,183	10,266
	80,707	69,853
Long-term debt (Note 5)	20,388	24,284
Asset retirement obligations (Note 7)	8,442	2,809
Future income tax liability	47,242	27,695
Total Liabilities	156,779	124,641
Commitments and contingencies (Note 12)		
Non-controlling interests (Note 9)	6,418	5,617
Shareholders' equity		
Share capital (Note 8)	200,619	198,121
Contributed surplus (Note 8)	14,771	13,779
Warrants (Note 8)	79	153
Retained earnings (deficit)	2,093	(16,702)
Shareholders' equity	217,562	195,351
Total liabilities, non-controlling interests, and shareholders' equity	380,759	325,609

COASTAL ENERGY COMPANY

Three and Six Month Periods ended June 30, 2010 and 2009 (Unaudited)

(All tabular amounts are expressed in US\$000's unless otherwise stated)

Consolidated Statements of Cash Flows

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Operating activities				
Net income (loss) for the period	8,577	1,217	18,795	(2,012)
Earnings distributions from significantly influenced investee	3,613	1,083	4,154	1,806
Items not involving cash				
Depletion, depreciation and accretion	11,612	7,698	24,906	10,856
Impairment	-	1,765	-	1,765
Future income taxes	9,588	-	18,849	-
Income applicable to non-controlling interest	55	-	50	-
Unrealized foreign exchange loss	167	1,295	842	909
Stock based compensation	1,892	1,570	3,151	2,146
Issuance of warrants with notes payable	-	-	-	294
Share of earnings of significantly influenced investee, net of taxes	(2,927)	(1,854)	(5,732)	(3,264)
Unrealized loss on derivative instrument	1	836	66	2,362
Change in non-cash working capital (Note 13)	19,780	(909)	12,742	3,870
	52,358	12,701	77,823	18,732
Investing activities				
Investment in and advances to Apico LLC	-	(4,516)	-	(4,516)
Decrease in restricted cash	415	(436)	792	670
Purchase of property, plant and equipment	(53,532)	(17,035)	(89,864)	(33,348)
Contributions from non-controlling interest partner	-	-	750	-
Other	-	(694)	(6)	(697)
	(53,117)	(22,681)	(88,328)	(37,891)
Financing activities				
Issuance of shares for cash	46	15,418	1,886	15,418
Borrowings under long-term debt	-	1,620	-	1,620
Repayments of long-term debt	(1,000)	(895)	(5,979)	(7,836)
Borrowings under amounts due to shareholder	-	-	-	1,000
Repayment of amounts due to shareholder	(253)	(1,121)	(2,003)	(1,121)
Proceeds from issuance of notes payable	-	-	-	15,000
Repayments of notes payable	-	(3,072)	-	(4,072)
	(1,207)	11,950	(6,096)	20,009
Net effect of foreign exchange on cash held in foreign currencies	(116)	63	19	15
Change in cash and cash equivalents	(2,082)	2,033	(16,582)	865
Cash and cash equivalents, beginning of period	6,729	5,266	21,229	6,434
Cash and cash equivalents, end of period	4,647	7,299	4,647	7,299
Cash and cash equivalents consists of:				
Cash	4,647	3,823	4,647	3,823
Short term money market instruments	-	3,476	-	3,476
	4,647	7,299	4,647	7,299

Supplemental cash flow information (Note 13)

Note 1. Nature of operations

Coastal Energy Company ("Coastal" or the "Company") was incorporated on May 26, 2004 in the Cayman Islands. Coastal is a public company listed on the TSX Venture Exchange and the London AIM Exchange. The Company is involved in the exploration, development and production of crude oil in Thailand.

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and follow the same accounting policies and methods of their application as the audited consolidated financial statements of the Company as at December 31, 2009. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2009. Certain disclosures that are normally required to be included in the notes to the annual financial statements have been condensed or excluded. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Recent and Pending Accounting Pronouncements

In January 2009, the CICA issued Section 1582, "Business Combinations", which will replace the former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration exchanged at the date of exchange. Currently the purchase price used is based on the fair value of the consideration for a reasonable period before and after the date of acquisition is agreed upon and announced. The new standard generally requires that acquisition costs be expensed, which are currently capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. Section 1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. Once adopted, this standard will impact the accounting treatment of future business combinations.

In January 2009, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. These sections are effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of these standards is not expected to have a material impact on the Company's consolidated financial statements.

The Canadian Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be effective January 1, 2011. The Company has developed a project plan in order to ensure successful implementation within the required timeframe. The impact on the Company's consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

Note 2. Investment in and advances to Apico LLC

The Company holds an interest of approximately 36.1% of Apico, a limited liability company incorporated in the State of Delaware, USA. Apico's primary purpose is the acquisition, exploration and development of onshore petroleum interests in the Kingdom of Thailand. The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference has been allocated to the Company's carrying value of Apico's oil and gas properties and is being amortized using the unit of production method. At June 30, 2010, and December 31, 2009, the remaining unamortized excess basis was \$14.5 million and \$15.1 million, respectively. The following table summarizes the Company's investments in and advances to Apico:

COASTAL ENERGY COMPANY

	June 30, 2010	December 31, 2009
Balance, beginning of period	\$55,225	\$50,376
Advances during the period	-	4,516
Share of earnings of significantly influenced investee, net of taxes	6,284	9,544
Amortization of excess basis in Apico	(552)	(1,082)
Earnings distributions	(4,154)	(8,129)
Balance, end of period	\$56,803	\$55,225

Note 3. Property plant and equipment, net

	June 30, 2010			December 31, 2009		
	Cost	AD&D*	Net	Cost	AD&D*	Net
Oil and gas properties - Gulf of Thailand	\$294,619	\$(53,434)	\$241,185	\$215,078	\$(27,594)	\$187,484
Oil and gas production equipment	47,960	(292)	47,668	34,296	-	34,296
Construction in progress	10,682	-	10,682	10,605	-	10,605
Corporate assets	1,460	(792)	668	1,305	(676)	629
	\$354,721	\$(54,518)	\$300,203	\$261,284	\$(28,270)	\$233,014

* Accumulated depletion and depreciation

At June 30, 2010, oil and gas properties included \$69.0 million of unproved properties which have been excluded from the depletion calculation (2009: \$46.0 million). Future development costs of \$93.2 million at June 30, 2010 (2009: \$137.0 million) are included in the depletion calculation.

Thailand

The Company has a 100% working interest in Block G5/43 in the Gulf of Thailand which includes the Bua Ban and Songkhla oil fields and 100% interest Block G5/50 in the Gulf of Thailand. Management has performed an impairment assessment and there is no impairment of oil and gas properties and equipment as at June 30, 2010.

Oil and gas production equipment

The Company is acquiring equipment to be used in the production of the Company's interests in the Gulf of Thailand. Once these assets are put into service, the Company will commence depreciation using the straight line method over their respective useful lives.

Construction in progress

Construction in progress relates to the acquisition and refurbishment of a mat-based jack-up rig which the Company intends to use in its development of its interests in the Gulf of Thailand. Once this asset is placed in service, the Company will commence depreciation using the straight line method over its useful life.

During the quarter ended June 30, 2009, the Company determined that the most cost effective decision was to halt construction of its CALM buoy mooring system originally planned for the Songkhla field. As a result, the Company incurred a settlement expense of \$2.365 million, composed of the forfeiture of the Company's \$1.765 million deposit with the contractor and a one-time cash payment of \$0.6 million which settled all disputes with the contractor.

Note 4. Amounts due to shareholder

The amounts due to shareholder relates to a note payable. Since Q1 2009, this note has been renewed at each quarter end for the following three months at an interest rate of 12% per annum. For the three and six months ended June 30, 2010 \$0.25 million and \$2.0 million, respectively was repaid.

Note 5. Long-term debt

	June 30, 2010	December 31, 2009
Revolving debt facility	\$28,571	\$34,400
Less: current portion	(8,183)	(10,116)
Long-term debt	\$20,388	\$24,284

This revolving debt facility was arranged by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"). As of June 30, 2010, the amount available under the borrowing base was \$28.6 million, under which the Company had drawn a total of \$28.6 million comprised of a \$25.1 million loan under the senior facility and a \$3.5 million loan drawn under the junior facility.

As a condition of the facility, the Company must maintain a debt service coverage ratio of 1.0. The Company is in compliance with this covenant as of June 30, 2010.

Loans under this Facility bear interest at SMBCs' LIBOR plus an applicable margin between 1.75% and 3.5%. The applicable LIBOR rate is determined by the length of the interest renewal period; and the margin is dependent upon whether the loan is drawn under the senior or junior loan terms and the aggregate amount of loans outstanding. The effective interest rate on the Facility for the three and six months ended June 30, 2010 was 3.05% and 3.12%, respectively (2009: 3.56% and 3.32%, respectively). As part of the Facility, the Company is required to deposit funds into a bank account, which is restricted as to its availability.

As a requirement of the Facility, the Company is required to hedge 50% of its onshore gas production. The Company entered into a derivative risk management contract with an affiliate of SMBC under which the Company has the right to sell 4,000 metric tons per month (up to a total of 96,000 metric tons) of Singapore fuel oil at a price of \$290.00 per metric ton commencing July 1, 2007 and expiring June 30, 2009. The Company paid \$1.2 million for this contract, and hedge accounting is not applied thereto. Risk management contracts are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. During the three and six months ended June 30, 2009, the Company recognized \$nil and \$439,000 of realized gains from sales proceeds, respectively; and unrealized losses on mark-to-market adjustments of \$490,000 and \$2,016,000, respectively on this contract.

On June 5, 2009, the Company entered into a second derivative risk management contract with an affiliate of SMBC under which the Company has the right to sell 4,000 metric tons per month (up to a total of 48,000 metric tons) of Singapore fuel oil at a price of \$290.00 per metric ton commencing July 1, 2009 and expiring June 30, 2010. The Company paid \$566,000 for this contract. During the three and six months ended June 30, 2010, the Company recorded \$1,000 and \$66,000 of realized losses on this risk management contract, respectively (2009 three and six months: Unrealized loss of \$346,000).

Note 6. Deferred income

Deferred income relates to advances received under arrangements for the Company to deliver 257,510 barrels to a third party customer.

Note 7. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interest in oil and gas properties, including well sites, production and processing facilities. The Company's estimates at inception used to calculate the value of the asset retirement obligation have not changed since December 31, 2009 beyond updating certain cost estimates. The following table provides a reconciliation of the asset retirement obligations:

	June 30, 2010	December 31, 2009
Balance, beginning of period	\$2,809	\$ 1,354
Additions to future costs	5,814	1,521
Revisions in estimated cash flows	(410)	(186)
Accretion expense	229	120
Balance, end of period	8,442	\$2,809

Note 8. Share capital

Common Stock

Authorized 250,000,000 common shares with par value of \$0.04 each;

Issued and fully paid common shares

	Share Capital				
	Number of Shares	Par Value	Additional Paid In Capital	Total	Contributed Surplus
Balance, December 31, 2009	108,276,645	\$4,331	\$193,790	\$198,121	\$13,779
Shares issued pursuant to exercise of stock options	803,412	31	2,103	2,134	(533)
Shares issued pursuant to exercise of warrants	457,734	19	345	364	-
Stock-based compensation	-	-	-	-	1,525
Balance, June 30, 2010	109,537,791	\$4,381	\$196,238	\$200,619	\$14,771

Accumulated Other Comprehensive Income

There have been no changes to accumulated other comprehensive income as at and for the six months ended June 30, 2010 and 2009. The Company does not have any accumulated other comprehensive income at June 30, 2010 (2009: \$nil).

Warrants

As of June 30, 2010, the Company had 2,682,378 warrants outstanding and fully exercisable. The changes in warrants were as follows:

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	3,246,245	\$3.42	2,343,745	\$4.09
Warrants issued	-	-	2,000,000	\$1.09
Warrants exercised	(563,867)	\$3.62	(1,097,500)	\$1.52
Balance, end of period	2,682,378	\$3.62	3,246,245	\$3.42

Three and Six Month Periods ended June 30, 2010 (Unaudited)

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

The following table summarizes the outstanding and exercisable warrants at June 30, 2010:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 20, 2005	2,142,378	0.00 years	\$4.18 (£2.80)	Jul. 20, 2010	2,142,378
Jan. 23, 2009	540,000	3.50 years	\$1.07 (Cdn1.136)	Jan. 23, 2014	540,000
	2,682,378				2,682,378

Stock options

	Number of options	Weighted average exercise price
Balance outstanding, December 31, 2009	10,409,599	\$2.85
Options exercised	(803,412)	\$2.04
Balance outstanding, June 30, 2010	9,606,187	\$2.88

The following table summarizes the outstanding and exercisable options at June 30, 2010:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	1.50 years	\$2.09 (£1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	1,925,000	1.50 years	\$2.07 (Cdn\$2.20)	Dec. 27, 2011	1,925,000
Jun. 15, 2007	6,250	2.00 years	\$2.79 (Cdn\$2.96)	Jun. 16, 2012	6,250
Jan. 25, 2008	558,500	2.50 years	\$3.72 (Cdn\$3.94)	Jan. 26, 2013	401,750
May 05, 2008	162,500	3.00 years	\$4.19 (Cdn\$4.44)	May 06, 2013	112,500
Jul. 14, 2008	85,000	3.00 years	\$3.40 (Cdn\$3.61)	Jul. 15, 2013	42,500
Sep. 16, 2008	100,000	3.25 years	\$2.14 (Cdn\$2.27)	Sep. 16, 2013	50,000
Sep. 23, 2008	1,000,000	2.50 years	\$3.72 (Cdn\$3.94)	Feb. 05, 2013	750,000
Jan. 02, 2009	3,127,338	3.50 years	\$1.27 (Cdn\$1.35)	Jan. 02, 2014	914,997
Dec. 01, 2009	2,616,599	4.50 years	\$4.84 (Cdn\$5.13)	Nov. 30, 2014	-
	9,606,187				4,227,997

Stock-based compensation

For the three and six months ended June 30, 2010 the Company recorded stock-based compensation of \$0.76 million and \$1.53 million (2009: \$0.51 million and \$1.18 million), of which \$0.10 million and \$0.20 million was capitalised, respectively (2009: \$0.07 million and \$0.16 million, respectively). For the three and six months ended June 30, 2010, the Company recorded debt financing fees for the warrants of \$nil (2009: \$nil and \$0.29 million, respectively).

In 2009, the Company awarded stock appreciation rights for the equivalent of 2,993,079 shares, of which 398,568 shares are contingent upon the achievement of certain performance goals established by the Company. These awards vest and are cash-settled 33.3% on each of the subsequent anniversaries of the grant date. For the three and six months ended June 30, 2010, the Company incurred a liability of \$1.35 million and \$1.98 million, respectively (2009: \$0.934 million and \$1.525 million, respectively). Of the liability incurred, \$0.14 million and \$0.25 million, respectively (2009: \$0.180 million and \$0.290 million, respectively) was capitalized. The liability as of June 30, 2010 is \$7.39 million (\$6.87 million at December 31, 2009).

Earnings per share

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings (loss) per share. No adjustments were required to net income.

	3 Months ended June 30,		6 Months ended June 30,	
	2010	2009	2010	2009
Weighted average common shares outstanding, basic	109,514,439	95,551,050	109,291,599	94,596,190
Effect of stock options and warrants	3,119,435	2,188,374	3,607,536	-
Weighted average common shares outstanding, diluted	112,633,874	97,739,424	112,899,135	94,596,190

No adjustment made for the effect of stock option and warrants in the six months ended June 30, 2009 since the effect would have been anti-dilutive owing to the loss incurred during this period.

Note 9. Variable interest entity and non-controlling interests

The Company is considered the primary beneficiary in a variable interest entity ("VIE"). The VIE is called Viking Storage Solutions (Mauritius) Limited ("VSS") and was incorporated in August 2009.

The Company contributed the 'Resolution' vessel to VSS, owns 50% of the common stock and is entitled to 50% of the voting rights in VSS. The purpose of VSS is to legally own and charter the 'Resolution' vessel for fixed periods of time, with the current charterer being the Company under a five year lease. The cost of ensuring the vessel is ready for operational use lies with VSS. The day-to-day operational usage will be dictated by the Company. The relative proportion of future financing reflects the fact that the Company transferred the vessel to the entity. It is expected that the Company will experience greater variability in returns and losses than the other shareholder in VSS. Note the maximum loss the Company is exposed to is its investment in the share capital of VSS.

The effect of consolidating VSS has meant that assets of \$35.63 million, liabilities of \$4.6 million and minority interest of \$6.37 million are carried on the Company's balance sheet at June 30, 2010. The loss from VSS is \$0.1 million and \$0.1 million for the three and six months ended June 30, 2010 (2009: \$nil), offset by a credit from the non-controlling interest of \$0.06 million and \$0.05 million, respectively (2009: \$nil). There is no recourse to other entities of the Company for losses and claims made against VSS.

Note 10. Capital management

The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include common share capital, long-term debt and working capital (a non-standardized measure under GAAP defined as current assets less current liabilities.) In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, incur debt, sell assets or adjust its capital spending to manage current and projected debt levels. The Company may also repurchase common shares when the Company believes the market price does not reflect the underlying values of the common shares. The Company's capital structure is comprised as follows:

	June 30, 2010	December, 31, 2009
Shareholders' equity	\$217,562	\$195,351
Non-controlling interests	6,418	5,617
Bank debt	28,571	34,550
Amounts due to shareholder	3,388	5,164
Working capital deficit ⁽¹⁾	45,679	22,516
	\$301,618	\$263,198

Note 1: This amount excludes the current portion of the bank debt and the amounts due to shareholders (which by the definition above would normally be included in this computation) as they are already included above.

The Company is in compliance with its debt covenants; see Note 5.

Note 11. Financial instruments and risk management

Financial risk management objectives

Management co-ordinates access to financial markets and monitors and manages financial risk. These financial risks include fair value risk, market risks (comprising currency, interest rate, commodity price and credit risk) and liquidity risk.

Management seeks to adopt practicable yet effective approaches in a manner consistent with the current nature and scale of operations. This is manifested in procedures such as seeking to match currency inflows with currency outflows in the same currency, and by avoiding the use of derivative instruments where possible. The Company never undertakes derivative transactions for speculative trading purposes.

Given the direct involvement of senior financial personnel in monitoring financial risks, it is not considered necessary at this time for any formalized reporting of financial risk sensitivity models to be prepared. This decision will be reassessed by management on an ongoing basis as part of wider assessments of the ongoing effectiveness of the treasury function.

Fair values

The Company's financial instruments include cash and cash equivalents, derivatives, accounts receivable and other, and accounts payable. The carrying value and fair value of these financial instruments at June 30, 2010 is reported in the following table. The Company classifies the fair value of its financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2- Pricing inputs other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Financial Instrument	Level	Carrying Value	Fair Value	Interest Expense
Assets held for trading:				
Cash and cash equivalents	1	4,647	4,647	
Restricted cash	1	3,037	3,037	
Loans and receivables				
Accounts receivable		6,706	6,706	
Other liabilities				
Accounts payable and accrued liabilities		51,554	51,554	
Amounts due to shareholder		3,388	3,388	103
Long-term debt		28,571	28,571	246

The Company considers its risks in relation to financial instruments in the following categories, of which management considers that no category has significantly worsened in the three and six months ended June 30, 2010 relative to 2009.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will not discharge its obligations, resulting in a financial loss to the Company. The Company has procedures in place to minimize the credit risk it will assume. Coastal personnel evaluate credit risk on an ongoing basis including an evaluation of counterparty credit rating and counterparty concentrations measured by amount and percentage.

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and cash equivalents and restricted cash; and (2) accounts receivable and other. The Company has not had any credit losses in the six months to June 30, 2010. At June 30, 2010, the Company has no financial assets that are past due or impaired due to credit risk related defaults.

The Company's accounts receivable and other consists primarily of Value Added Tax ("VAT") refunds from the governments of Great Britain and Thailand. The Company's maximum exposure to credit risk at the balance sheet date is as follows:

	June 30, 2010	December 31, 2009
Cash and cash equivalents	\$4,647	21,229
Restricted cash	3,037	3,829
Accounts receivable from UK and Thailand government entities	6,288	5,682
Trade receivable	331	-
Other accounts receivable	87	429
Derivative asset	-	66
	\$14,390	\$31,235

The Company's trade receivable at June 30, 2010 was from one customer, was less than 30 days aged and was fully collected after June 30, 2010. All revenues for the quarters ended June 30, 2010 and 2009 were from the same customer. The Company did not write off any receivables in Q2 2010 nor in Q2 2009. No receivables are overdue as of June 30, 2010 and hence no allowance has been made for doubtful debts. The credit rating as of June 30, 2010 for the Company's sole customer was BBB+.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to its financial liabilities. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, long-term debt, obligations under operating leases and future contractual commitments. The Company frequently assesses its liquidity position and obligations under its financial liabilities by preparing financial forecasts. Coastal mitigates liquidity risks by maintaining a sufficient cash balance as well as maintaining a sufficient current and projected liquidity cushion to meet expected future payments.

The Company's liquidity position has improved as a result of increased levels of production in the current year.

The Company's financial liabilities arose primarily from the development of its Thailand properties. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from receipt of invoice and generally do not bear interest. At June 30, 2010, the Company had recorded all of the obligations associated with its financial liabilities. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities and capital expenditures:

June 30, 2010	2010	2011	2012	Thereafter	Total
Accounts payable and accrued liabilities	\$51,554	\$-	\$-	\$-	\$51,554
Income taxes payable	49	-	-	-	49
Amounts due to shareholder	3,388	-	-	-	3,388
Current and long-term debt payments	4,239	8,479	8,353	\$7,500	28,571
	\$59,230	\$8,479	\$8,353	\$7,500	\$83,562

As of June 30, 2010 the Company has fully utilized its available borrowing facilities. Management believes it can re-enter the credit market in the future should circumstances deem that necessary.

Market risk

Market risk is the risk that the fair value (for assets or liabilities considered to be held-for-trading and available-for-sale) or future cash flows (for assets or liabilities considered to be held-to-maturity, other financial liabilities, and loans or receivables) of a financial instrument will fluctuate because of changes in market prices. The Company evaluates market risk on an ongoing basis. Coastal assesses the impact of variability in identified market risk on its various assets and liabilities and has established policies and procedures to mitigate market risk on its foreign exchange, interest rates and derivative contract.

a) Currency risk

Coastal operates internationally and therefore is exposed to the effects of changes in currency exchange rates. Although the functional currency of the Company is United States Dollars, it also transacts business in Thai baht, British Pounds, Canadian Dollars and Euros. The Company is subject to inflation in the countries in which it operates and fluctuations in the rate of currency exchange between the United States and these other countries. The Company does not currently use financial instruments or derivatives to hedge these currency risks.

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's costs are incurred principally in US Dollars, Thai Baht, UK Pounds and Canadian Dollars. The appreciation of non-US Dollar currencies against the US Dollar can increase the costs of operations and capital expenditures in US Dollar terms.

The Company is exposed to currency risk through financial assets and liabilities denominated in currencies other than US Dollars.

Based on the net exposures at June 30, 2010, a 10% depreciation or appreciation of the above currencies against the US dollar would result in a \$0.83 million increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. This movement is attributable to cash, payables and receivables at the respective balance sheet date denominated in currencies other than the US dollar.

b) Interest rate risk

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. Presently the majority of the Company's credit facilities are at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its exposures given the relatively short-term of the interest rates on long-term debt. The terms of the Company's long-term debt obligation is described in Note 5. The Company has met its obligations with respect to this liability. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling \$32.0 million at June 30, 2010 (December 31, 2009: \$39.7 million) (see Notes 4 and 5). A 100 basis point change in interest rates at the balance sheet date would result in a \$0.32 million change in the Company's annual net income as at June 30, 2010. No derivative instruments have been taken out to date by the Company to specifically manage interest rate risk.

The Company paid an average of 3.98% and 4.12% on its borrowings for the three and six months ended June 30, 2010, respectively (2009: 7.28% and 6.9%, respectively.)

The Company earned an average of 0.37% and 0.60% on its short-term investments for the three and six months ended June 30, 2010, respectively (2009: 0.37% and 0.43%, respectively).

c) Commodity price risk

Profitability of the Company depends on market prices for petroleum and natural gas. Petroleum and natural gas prices are affected by numerous factors such as global consumption and demand for petroleum and natural gas, international economic and political trends, fluctuation in the US dollar and other currencies, interest rates, and inflation.

The Company's long-term debt (Note 5) incorporates the reference price in its model to determine the effective borrowing base under which the Company may borrow. Thus a 10% decline in the reference price projection would reduce the availability under the borrowing base by approximately 7.2% or \$2.05 million at June 30, 2010.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 5. The Company realized cash settled proceeds of \$nil under it during the six months ended June 30, 2010 (2009: \$439,000) before it expired on June 30, 2010.

d) Other price risk

The Company is exposed to equity price risk in relation to stock appreciation rights granted to employees. For more detail, see Note 8.

Note 12. Commitments and contingencies

The Company has provided a letter of credit to the Thailand Customs Department for \$0.7 million. This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of June 30, 2010.

The Company has entered into various commitments primarily related to the ongoing development of its Thailand G5/43 property (Note 3). Coastal has secured equipment and work commitments in the Gulf of Thailand. In order to keep this Concession, the Company has various development obligations. The Company also has operating lease agreements for office space in the United Kingdom, Thailand and the United States. The following table summarizes the Company's outstanding contractual obligations:

Year	Drilling & Production	G5/50	Other	Total
2010	20,023	2,850	80	22,953
2011	-	2,450	51	2,501
2012	-	-	31	31
2013	-	-	31	31
2014	-	-	10	10

On July 16, 2010, the Company and its drilling contractor agreed to a contract extension through June 30, 2011 with the same terms as the contract currently in effect. This extension increases the above commitments by \$24.57 million.

The Company is from time to time involved in various claims, legal proceedings, complaints and disputes with governmental authorities arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

Note 13. Supplemental cash flow information

The following table summarizes the changes in non-cash working capital for the three and six months ended June 30, 2010 and 2009:

	3 Months ended June 30,		6 Months ended June 30,	
	2010	2009	2010	2009
Change in:				
Accounts receivable	\$(556)	\$589	\$(595)	\$164
Inventory	(4,891)	(1,448)	(3,458)	(4,225)
Prepays and other current assets	137	226	227	(549)
Accounts payable and accrued liabilities	21,380	(276)	22,084	8,480
Deferred income	4,657	-	(5,527)	-
Income taxes payable	(947)	-	11	-
	\$19,780	(909)	\$ 12,742	\$3,870
Changes relating to:				
Attributable to operating activities	\$19,780	\$(909)	\$12,742	\$3,870

Three and Six Month Periods ended June 30, 2010 (Unaudited)

(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

During the three and six months ended June 30, 2010 and 2009, the Company made cash payments for income taxes and interest on long-term debt as follows:

	3 Months ended June 30,		6 months ended June 30,	
	2010	2009	2010	2009
Interest on debt	\$246	\$75	\$470	\$598
Income taxes	\$-	1,252	\$6	1,252

Note 14. Segmented information

Operating segment

The Company's primary current operations are the acquisition, exploration and development of oil and gas properties in the Gulf of Thailand. The Company also has an indirect operating segment involved in the acquisition, exploration and development of onshore petroleum properties in Thailand. This segment is owned through the Company's 36.1% interest in Apico which is accounted for using the equity method (Note 2). The Company's corporate office is located in the United States of America.

Geographic segments

The Company's oil and gas assets as at June 30, 2010 and December 31, 2009, and revenues and expenses for the three and six months ended June 30, 2010 and 2009 were as follows:

Oil and gas assets as at	June 30, 2010				December 31, 2009			
	Onshore Thailand	Gulf of Thailand	Corporate	Total	Onshore Thailand	Gulf of Thailand	Corporate	Total
Investment in Apico	\$56,803	\$-	\$-	\$56,803	\$55,225	\$-	\$-	\$55,225
Property, plant and equipment, net	-	299,535	668	300,203	-	232,715	299	233,014
Total Assets	\$56,803	\$316,897	\$7,059	\$380,759	\$55,225	\$256,152	\$14,232	\$3254,609

Six months ended	June 30, 2010				June 30, 2009			
	Onshore Thailand	Gulf of Thailand	Corporate	Total	Onshore Thailand	Gulf of Thailand	Corporate	Total
Revenues								
Oil and gas revenues, net	\$-	\$84,870	\$-	\$84,870	-	\$33,796	-	\$33,796
Loss on derivative	-	-	(66)	(66)	-	-	(1,923)	(1,923)
Interest income	-	-	3	3	-	-	16	16
	-	84,870	(63)	84,807	-	33,796	(1,907)	31,889
Expenses								
Production expenses	-	18,636	-	18,636	-	12,852	-	12,852
General and administrative	-	1,273	6,619	7,892	-	-	6,403	6,403
Foreign exchange loss	-	453	-	453	-	-	1,397	1,397
Interest expense	-	-	697	697	-	-	2,366	2,366
Debt financing fees	-	-	243	243	-	-	926	926
Depletion, depreciation & accretion	-	24,843	63	24,906	-	10,807	49	10,856
Settlement	-	-	-	-	-	2,365	-	2,365
Income taxes	-	18,849	18	18,867	-	-	-	-
Share of Apico earnings	5,732	-	-	5,732	3,264	-	-	3,264
Net income (loss) before non-controlling interest	\$5,732	\$20,816	\$(7,703)	\$18,845	\$3,264	\$7,772	\$(13,048)	\$(2,012)
CAPEX	\$-	\$87,892	\$140	\$88,032	\$-	\$17,187	\$81	\$17,268

COASTAL ENERGY COMPANY

Three months ended	June 30, 2010				June 30, 2009			
	Onshore Thailand	Gulf of Thailand	Corporate	Total	Onshore Thailand	Gulf of Thailand	Corporate	Total
Revenues								
Oil and gas revenues, net	\$-	\$39,010	\$-	\$39,010	-	\$26,137	-	\$26,137
Loss on derivative	-	-	(1)	(1)	-	-	(836)	(836)
Interest income	-	-	1	1	-	-	5	5
	-	39,010	-	39,010	-	\$26,137	(831)	25,306
Expenses								
Production expenses	-	8,499	-	8,499	-	9,532	-	9,532
General and administrative	-	552	3,543	4,095	-	-	3,210	3,210
Foreign exchange (gain) loss	-	(11)	-	(11)	-	-	1,765	1,765
Interest expense	-	-	349	349	-	-	1,347	1,347
Debt financing fees	-	-	119	119	-	-	26	26
Depletion, depreciation & accretion	-	11,569	43	11,612	-	7,642	56	7,698
Settlement	-	-	-	-	-	2,365	-	2,365
Income taxes	-	8,624	18	8,642	-	-	-	-
Share of Apico earnings	2,927	-	-	2,927	1,854	-	-	1,854
Net income (loss) before non-controlling interest	\$2,927	\$9,777	\$(4,072)	\$8,632	\$1,854	\$6,598	\$(7,235)	\$1,217
CAPEX								
	\$-	\$42,613	\$36	\$42,649	\$-	\$4,918	\$34	\$4,952

NON-INDEPENDENT DIRECTOR

Randy L. Bartley
President and Chief Executive Officer

INDEPENDENT DIRECTORS

C. Robert Black ^{(1) (2) (4)}
Former Senior Vice President, Office of the Chairman
Texaco, Inc.

Bernard de Combret ^{(1) (2) (3) (4)} Chairman
Former Deputy Chairman Executive Committee
Total Fina Elf, S.A.

Olivier de Montal ⁽²⁾
Administrator, ODM Finance

Lloyd Barnaby Smith ^{(2) (4)}
Former British Ambassador to Thailand

Forrest E. Wylie ^{(1) (3) (4)}
Chairman, CEO & President
Buckeye Partners, L.P.

John B. Zaozirny ^{(1) (3)}
Vice Chairman, Canaccord Capital Corporation

Committees of the Board:
(1) Audit, (2) Compensation,
(3) Corporate Governance and Nominating,
(4) Reserves

SENIOR MANAGEMENT

Bernard de Combret, Chairman

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer

John M. Griffith, Vice President, Operations
Thailand General Manager

TRADING SYMBOLS

CEN on TSX-V Exchange
CEO on AIM Exchange

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ABBREVIATIONS

bbl	barrel
boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 mcf of natural gas
bbl/d	barrels of oil per day
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
TSX-V	TSX Venture Exchange (Canada)
AIM	London AIM Exchange (UK)

THIRD PARTY ADVISORS

Petroleum and Geological Engineers:
Huddleston & Co., Inc.

Corporate Bankers:
Sumitomo Mitsui Banking Corporation

Auditors:
Deloitte & Touche LLP (Calgary, Canada)

Legal Counselors:
Stikeman Elliott LLP (Canada & UK)
Walkers SPV Limited (Cayman Islands)
Mayer Brown JSM (Thailand)

Stock Registrars:
Computershare (TSX-V)
Capita Registrars (LSE-AIM)

Nominated Advisor (NOMAD):
Strand Hanson Limited

London Joint Brokers:
Stifel Nicolaus Weisel
Macquarie Capital (Europe) Limited.

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