

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

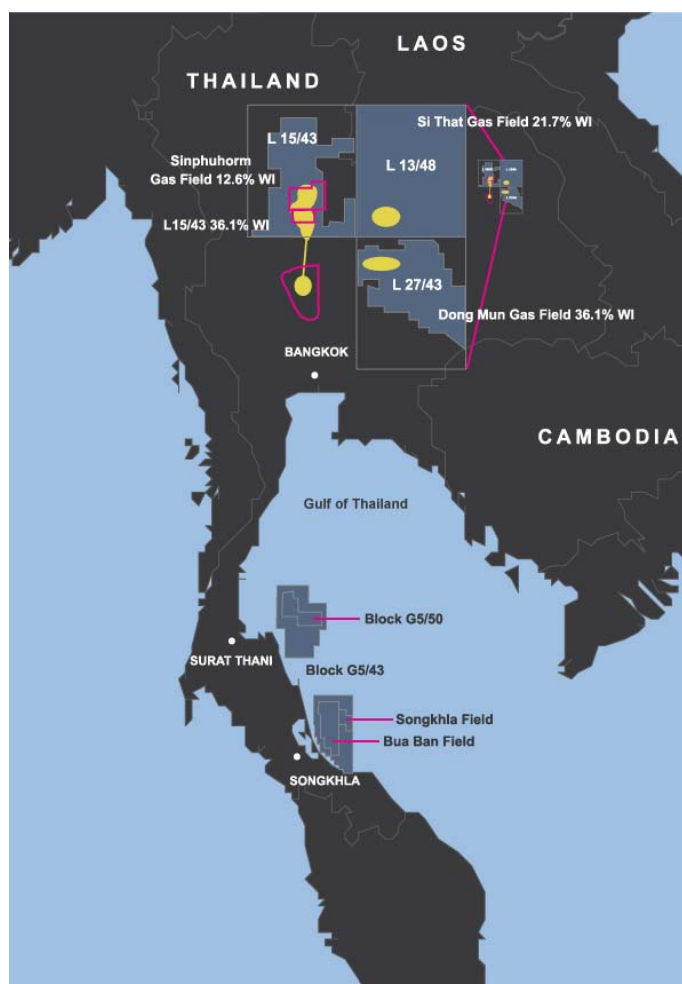




# COASTAL ENERGY COMPANY

Three and Nine Month Periods ended September 30, 2010

---



Coastal Energy's Oil & Gas Interests

## CONTENTS

President's Report to the Shareholders .....	1
Financial and Operating Highlights .....	2
Management's Discussion and Analysis .....	7
Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit .....	22
Consolidated Balance Sheets .....	23
Consolidated Statements of Cash Flows .....	24
Notes to the Consolidated Financial Statements .....	25
Corporate Information .....	IBC



## ***President's Report to the Shareholders***

The third quarter of 2010 brought further success to Coastal Energy Company. Offshore production averaged over 10,000 bopd and the Company's total production averaged nearly 11,800 boepd. EBITDAX for the nine months ended September 30, 2010 was \$110MM, putting the Company on track to have a profitable year from both a net income and cash flow standpoint.

During the third quarter we performed substantial development work at the Bua Ban field in the Gulf of Thailand. We had encouraging results in this first phase of development, including encountering expanded pay zones in the Lower Oligocene reservoir in two of the wells and encountering productive Miocene sands in two of the wells. The discovery of productive Miocene sands opens up a new play at Bua Ban and in other areas of the basin. A significant oil column was also encountered in the Eocene reservoir; however, tight porosity and permeability have rendered low flow rates. The Company is planning a fracture stimulation of the Eocene reservoir in December in an attempt to make the reservoir commercially productive.

Following the finalization of the first stage of development at Bua Ban, we began appraisal work at Songkhla. The first appraisal well has been drilled and encountered a thicker than expected pay zone in the Lower Oligocene Wedge as well as a pay zone in the Eocene reservoir.

All of the reserves associated with the Oligocene Wedge are currently classified as 3P in the Company's most recent reserve report with room for further upside potential. The Company plans further appraisal drilling to prove the productivity of the Oligocene Wedge and Eocene reservoirs at Songkhla.

Looking toward the end of the year, we expect to complete two additional appraisal wells at Songkhla by mid-December. At that time, we plan to begin testing multiple high impact exploration targets in the Bua Ban North area. Our technical team has identified a series of prospects with targets in the Miocene, Lower Oligocene and Eocene reservoirs that could substantially improve our reserve base if successful.

We have a significant portfolio of diverse prospects to explore and appraise using cash flow from existing production.

On behalf of the Board of Directors

**Randy L. Bartley**

President and Chief Executive Officer  
November 18, 2010



## COASTAL ENERGY COMPANY

### Financial and Operating Highlights

(US dollars in thousands)

	3 months ended September 30,			9 months ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>Financial</b>						
Oil Revenue	<b>\$68,688</b>	\$21,205	224%	<b>\$160,362</b>	\$57,422	179%
EBITDAX <sup>(1)</sup>	<b>\$44,508</b>	6,820	553%	<b>\$109,858</b>	25,345	333%
Per share – Basic	<b>\$0.41</b>	\$0.06		<b>\$1.00</b>	\$0.26	
Per share – Diluted	<b>\$0.39</b>	\$0.06		<b>\$0.97</b>	\$0.26	
Net Income	<b>\$9,228</b>	\$(111)		<b>\$28,023</b>	\$(2,123)	
Per share – Basic	<b>\$0.08</b>	\$-		<b>\$0.26</b>	\$(0.02)	
Per share – Diluted	<b>\$0.08</b>	\$-		<b>\$0.25</b>	\$(0.02)	
Capital expenditures, excluding onshore	<b>\$29,092</b>	\$15,991	82%	<b>\$117,124</b>	\$33,265	252%
Total Assets				<b>\$420,549</b>	\$296,149	42%
Working capital deficit				<b>\$(4,342)</b>	\$(46,811)	-91%
Weighted average common shares outstanding						
Basic	<b>109,588,334</b>	99,380,720		<b>109,391,597</b>	96,208,559	
Diluted	<b>113,235,224</b>	99,380,720		<b>112,991,757</b>	96,208,559	
<b>Operations</b>						
Operating netback (\$/bbl) <sup>(1) (2)</sup>						
Crude oil revenue <sup>(3)</sup>	<b>\$67.25</b>	\$57.03	18%	<b>\$69.30</b>	\$49.47	40%
Royalties	<b>6.68</b>	3.85	74%	<b>5.89</b>	3.32	77%
Production expenses	<b>15.99</b>	29.41	-46%	<b>15.11</b>	20.49	-26%
Operating netback	<b>\$44.58</b>	\$23.77	88%	<b>\$48.30</b>	\$25.66	88%
Average daily crude oil production (bbls) <sup>(2) (4)</sup>	<b>10,065</b>	3,373	198%	<b>8,360</b>	4,468	88%

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.

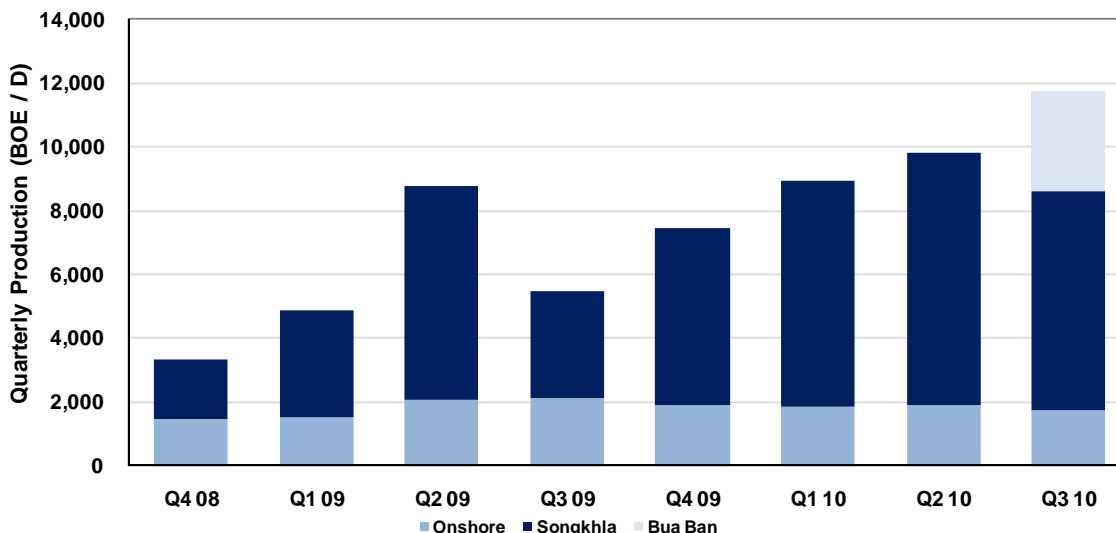
### Third Quarter 2010 Highlights

- Offshore average production in the Gulf of Thailand increased to 10,065 bbl/d in Q3 '10, (Q2: 7,914 bbl/d.) The increase in average production was primarily attributable to the commencement of production from the Bua Ban field. The Company realized average production of 1,730 boe/d in Q3 '10 from its onshore production (Q2: 1,900 boe/d) bringing total Q3 '10 average production of 11,795 boe/d (Q2: 9,814 boe/d.)
- The Company reported EBITDAX of \$44.5 million (\$0.41 per basic share) and net income of \$9.2 million (\$0.08 per basic share) in the third quarter.
- Production from the Company's Bua Ban field in the Gulf of Thailand began in July 2010.
- The Company closed a \$80 million senior secured revolving credit facility with BNP Paribas in September 2010. Proceeds from the initial drawdown were used to refinance the Company's previously outstanding debt and increase working capital.

## Three and Nine Month Periods ended September 30, 2010

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

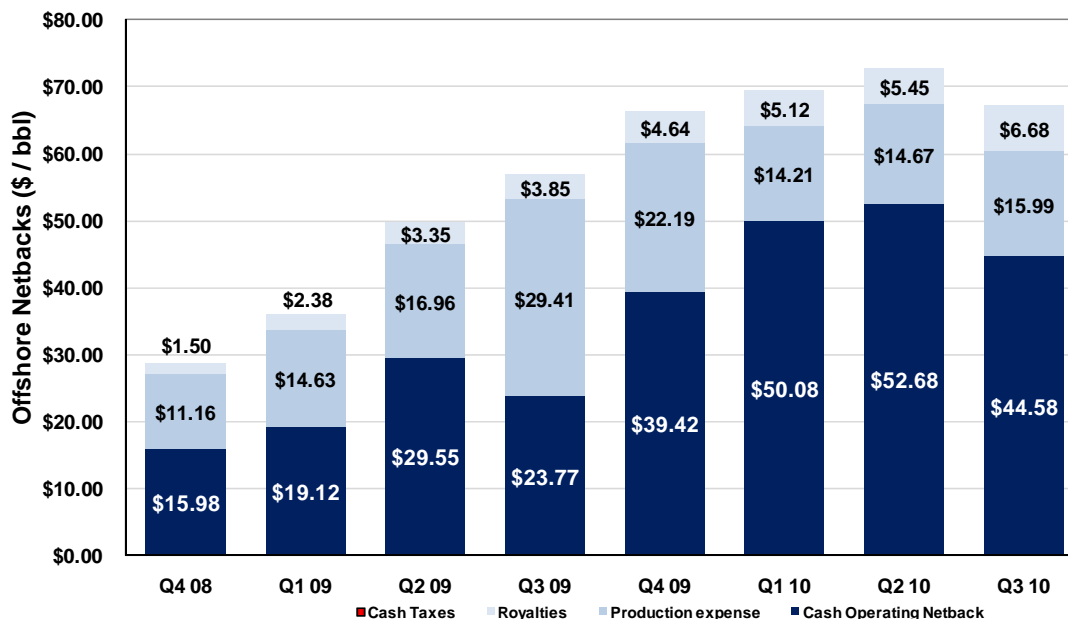
The following chart represents the Company's average production (boe/d) on a quarterly basis



Average production from the Songkhla field decreased to 6,900 bbl/d in the third quarter from approximately 7,900 bbl/d in the second quarter. The decline in production is attributable to increased water production, which constrained the processing capacity and therefore oil production. The Company is planning to upgrade the processing facilities at Songkhla in December to increase total fluid handling capability.

Production from the Bua Ban field averaged approximately 3,100 bbl/d in the third quarter as development wells were being drilled and brought onto production during the quarter. The Company exited the third quarter with approximately 4,000 bbl/d of production from Bua Ban.

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



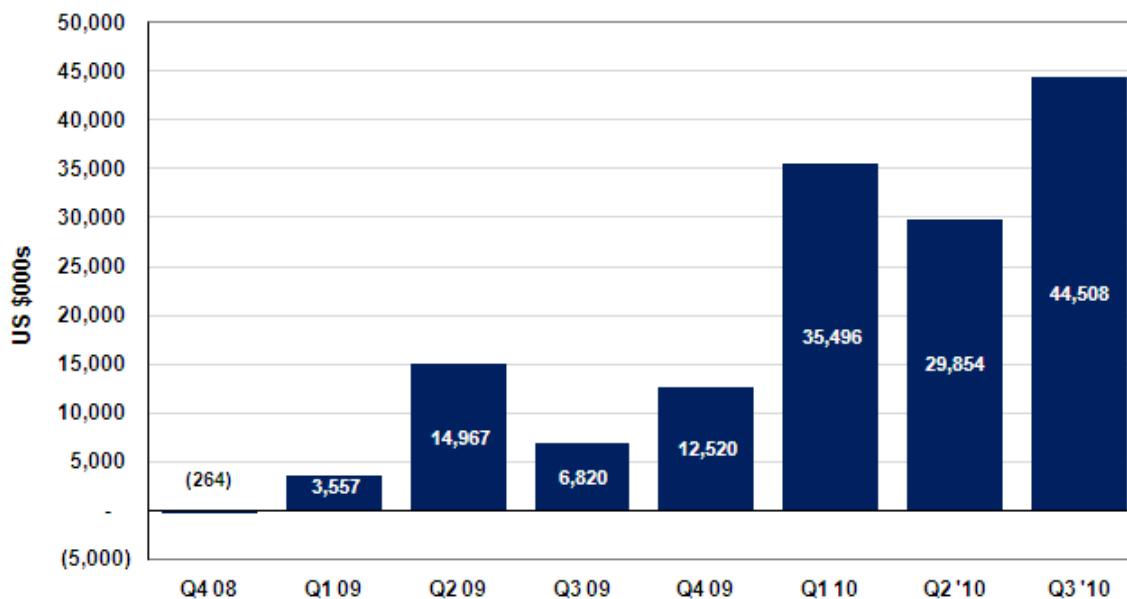
## COASTAL ENERGY COMPANY

Overall revenue per barrel declined sequentially in the third quarter due to slightly lower commodity pricing during the period. Royalties per barrel increased sequentially owing to higher lifting volumes during the period, as royalty rates are dependent upon lifting volumes. Operating expenses increased sequentially on a per barrel basis due to the incurrence of a full quarter of Bua Ban operating costs while production was gradually brought online throughout the period.

EBITDAX Computation (\$000's)	2010				2009		2008	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net income (loss) attributable to shareholders	\$9,228	\$8,577	\$10,218	\$2,009	\$(111)	\$1,217	\$(3,229)	\$(413)
Add Back:								
Unrealized (gain) loss on derivative	-	1	65	(284)	(128)	836	1,526	(1,983)
Interest income	(1)	(1)	(2)	(5)	(6)	(5)	(11)	(151)
Stock option expense	615	676	683	567	399	414	576	376
Unrealized foreign exchange (gain)/loss	2,158	(121)	540	1,008	165	1,069	(382)	(604)
Interest expense	367	349	348	677	796	1,347	1,019	843
Debt financing fees	23	119	124	205	323	26	900	-
(Gain) loss on sale of assets	-	-	-	148	-	-	-	(95)
Depletion, depreciation and accretion	21,410	11,612	13,294	7,457	5,382	7,698	3,158	1,763
Settlement expense	-	-	-	-	-	2,366	-	-
Income tax expense	10,708	8,642	10,225	738	-	-	-	-
<b>EBITDAX</b>	<b>\$44,508</b>	<b>\$29,854</b>	<b>\$35,496</b>	<b>\$12,520</b>	<b>\$6,820</b>	<b>\$14,967</b>	<b>\$3,557</b>	<b>\$(264)</b>

Note (a) 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

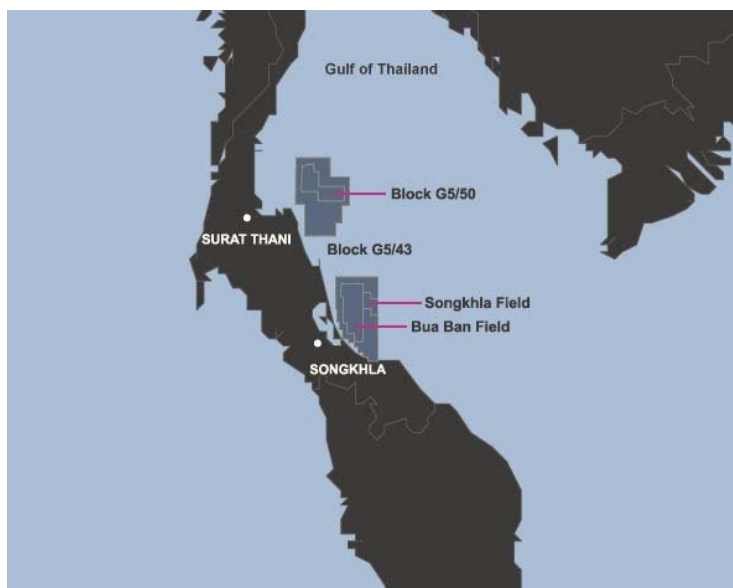


Despite lower commodity pricing in the third quarter, EBITDAX increased sequentially due to increased production and lifting volumes.



## 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 to 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 6,922 bbl/d in the third quarter of 2010. Four wells are currently producing at Songkhla. The Company drilled a further well in November targeting existing 3P reserves in the Lower Oligocene Wedge and Eocene reservoirs at Songkhla. The well encountered 140 feet of pay in the Lower Oligocene and 75 feet of pay in the Eocene. The Company plans to drill two additional wells to further appraise the Lower Oligocene Wedge and Eocene reservoirs. 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 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. Production from the field commenced in July 2010. Two of the wells, the A-05 and A-10, encountered expanded pay zones in the Lower Oligocene reservoir which were not seen in previous wells. The A-03 and A-11 wells both encountered oil in the Miocene reservoir. This is the first time productive Miocene sands have been encountered in the Songkhla basin. The Company will continue exploring the Miocene play in the first quarter of 2011.

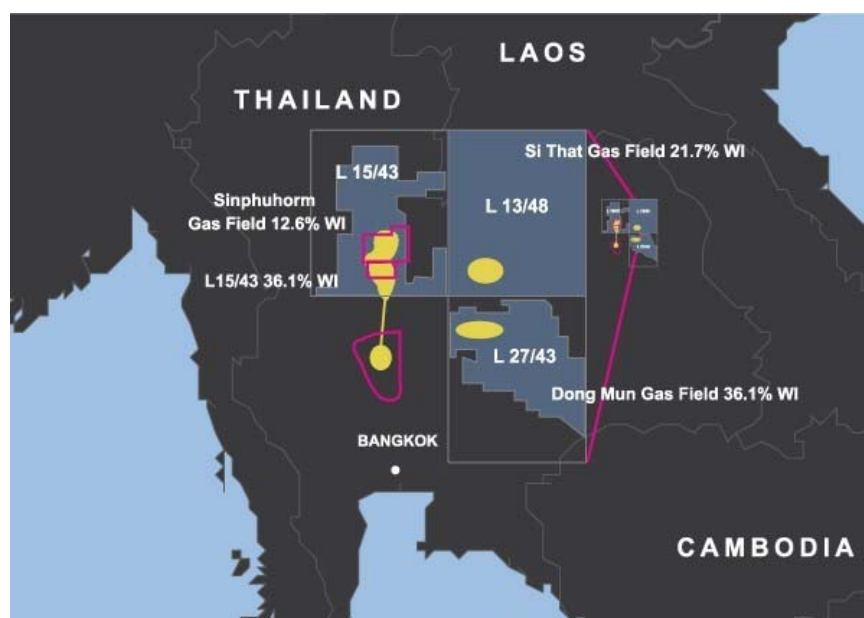
The Company has identified and mapped over 30 prospects at Bua Ban North in the Miocene, Lower Oligocene and Eocene reservoirs. Beginning in December, the Company plans to test a number of these prospects targeting approximately 75 mmbbl of prospective resources.

Production from Bua Ban exited the third quarter at approximately 4,000 bbl/d, bringing aggregate offshore production to approximately 10,500 bbl/d at quarter end. 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
<b>Balance, December 31, 2009</b>	<b>\$55,225</b>	<b>\$187,484</b>	<b>\$242,709</b>
Additions during the period:			
Exploration & development, including ARO	-	111,301	111,301
Equity earnings in Apico, net of distributions	(1,262)	(44,019)	(45,281)
Amortization	(811)	-	(811)
<b>Balance September 30, 2010</b>	<b>\$53,152</b>	<b>\$254,766</b>	<b>\$307,918</b>

### 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 Sinpuhorm gas field. Production at Sinpuhorm 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 third quarter of 2010, the Sinpuhorm field delivered approximately 80 mmcf/d (10 mmcf/d net to Coastal) to Nam Phong. The field also produced approximately 399 bbl/d (50 bbl/d net to Coastal) of condensate. As of December 31, 2009, Sinpuhorm 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 November 18 2010, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and nine months ended September 30, 2010 and related notes thereto. Additional information related to the Company is available on SEDAR at [www.sedar.com](http://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 Income (Loss) and are comparisons of the current quarter activities versus the same quarter in the prior year, unless otherwise noted.

Average Daily Production (boe/d)	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Songkhla	6,922	3,373	105%	7,301	4,468	63%
Bua Ban	3,143	-	-	1,059	-	-
Total Offshore Production	10,065	3,373	198%	8,360	4,468	87%
Sinphuhorm (via Apico)	1,730	2,096	-17%	1,828	1,809	1%
Total Company	11,795	5,469	116%	10,188	6,277	62%

Offshore production increased 27% sequentially in Q3 '10 compared to Q2 '10 as a result of workover operations at the Songkhla field and the commencement of production from the Bua Ban field. Volumes were significantly higher in the 9 months ended September 30, 2010 compared to the 9 months ended September 30, 2009 due to stabilized production rates at Songkhla as well as first production at Bua Ban.

The following table reconciles the Company's offshore inventory, production and liftings.

Crude Oil Inventory (bbls)	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Inventory Beginning of Period	221,667	149,031	49%	157,883	28,521	454%
+ Production	925,938	310,346	198%	2,282,197	1,219,752	87%
- Sales / Liftings	1,021,396	371,799	175%	2,313,871	1,160,695	99%
<b>Inventory, End of Period</b>	<b>126,209</b>	<b>87,578</b>	<b>44%</b>	<b>126,209</b>	<b>87,578</b>	<b>44%</b>

The Company's crude oil production is stored in floating storage and offloading vessels ("FSOs") moored at the production platforms. The inventory represents crude oil produced and loaded in the FSOs, 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 September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Oil Revenue	\$68,688	\$21,205	224%	\$160,362	\$57,422	179%
Dubai (Benchmark - \$/bbl)	\$73.88	\$67.75	90%	\$75.95	\$57.58	31%
Sales Price per bbl Sold (\$/bbl)	\$67.25	\$57.03	18%	\$69.30	\$49.47	40%
Sales Price as a Percentage of Dubai	91.0%	84.2%		91.2%	85.9%	

## Three and Nine Month Periods ended September 30, 2010

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

Revenue in Q3 '10 increased 63% sequentially from Q2 '10 primarily due to the commencement of production at Bua Ban as well as a reduction in crude oil inventory. Revenue and volumes in the three and nine month periods ending September 30, 2010 were significantly higher compared to the same periods in 2009 due to higher production rates and improved commodity pricing.

<b>Royalties</b>	3 months ended September 30,			9 months ended September 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Royalties	<b>\$6,828</b>	\$1,430	377%	<b>\$13,632</b>	\$3,851	254%
\$ per bbl	<b>\$6.68</b>	\$3.85	74%	<b>\$5.89</b>	\$3.32	77%
Royalties as a percent of revenue	<b>9.9%</b>	6.7%		<b>8.5%</b>	6.7%	

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 nine months ended September 30, 2010 have increased compared to the same periods of 2009 due to higher production rates and higher commodity pricing.

<b>(Loss) gain on Derivative</b>	3 months ended September 30,			9 months ended September 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Unrealized (loss) gain on mark-to-market	-	\$128	-	<b>\$(66)</b>	\$(218)	-
Realized loss	-	-	-	-	(1,577)	-
<b>(Loss) gain on Derivative</b>	-	\$128	-	<b>\$(66)</b>	\$(1,795)	-

The Company is required to hedge a portion of its forecasted production (onshore and offshore) as a term of its revolving credit facility agreement. The Company's current hedges cover 1.302 million barrels of net production over a 24 month period at an average price of \$79.03 per barrel and were entered into on September 30 and October 1, 2010. The reference instrument for all of the Company's commodity hedging transactions is currently ICE Brent crude.

In the fourth quarter 2010, the Company entered into a transaction to swap 50% of its expected LIBOR exposure from floating to fixed over a 30 month period commencing January 1, 2011 at 1.10% per annum.

<b>Interest Income</b>	3 months ended September 30,			9 months ended September 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Interest income	<b>\$1</b>	\$6	-83%	<b>\$4</b>	\$22	-82%

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

## COASTAL ENERGY COMPANY

Production Expenses	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Production expenses	\$15,060	\$11,550	30%	\$34,340	\$26,507	30%
Effect of change in inventory	1,269	(614)	-307%	625	(2,719)	-123%
	<b>\$16,329</b>	\$10,936	49%	\$34,965	\$23,788	47%
\$ per bbl	<b>\$15.99</b>	\$29.41		<b>\$15.11</b>	\$20.49	

Overall production expenses increased sequentially in the third quarter owing to the incurrence of operating costs for the Bua Ban field, which began production in July. Workover costs at Songkhla also contributed to the rise in operating expenses. Operating expenses increased sequentially on a per barrel basis due to the incurrence of a full quarter of Bua Ban operating costs while production was gradually brought online throughout the period.

General and Administrative Expenses	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Salaries and benefits	\$3,007	\$3,632	-17%	\$8,498	\$7,728	10%
Professional fees	409	210	95%	1,247	996	25%
Office and general	395	576	-31%	1,202	1,515	-21%
Travel and entertainment	417	521	-20%	949	856	11%
Regulatory and transfer fees	108	90	20%	332	337	1%
Total general and administrative expenses	<b>\$4,336</b>	\$5,029	-14%	<b>\$12,228</b>	\$11,432	7%

Lower personnel expenses in Q3 '10 relative to Q3'09 was a function of lower expense associated with the stock appreciation rights slightly offset by increased headcount. Higher personnel costs relative to the nine months ended September 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 September 30, 2010 (2009: 38 and 16, respectively).

Foreign Exchange Loss	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Total foreign exchange loss	<b>\$2,198</b>	\$240	816%	<b>\$2,651</b>	\$1,637	62%

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.

## Three and Nine Month Periods ended September 30, 2010

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

Interest Expense	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Interest Expense	<b>\$367</b>	\$796	-54%	<b>\$1,064</b>	\$3,162	-66%

Interest expense is comprised of interest on the Company's short and long term debt. The Company incurred lower interest expense during the quarter due to lower debt balances. The Company used a portion of the proceeds of the initial drawdown from the revolving credit facility which was entered into during the quarter to refinance all of its debt which was outstanding. The Company's average interest rate was 3.81% for the three months ended September 30, 2010 (2009: 6.20%). During the fourth quarter 2010 the Company entered into a transaction to hedge 50% of its expected LIBOR exposure over the 30 month period beginning January 1, 2011 at 1.10% per annum.

Depletion, Depreciation and Accretion	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Oil and gas depreciation & depletion	<b>\$19,929</b>	\$4,449	348%	<b>\$46,061</b>	\$17,269	167%
Effect of change in inventory	<b>1,252</b>	859	46%	<b>(319)</b>	(1,263)	-75%
Accretion	<b>170</b>	18	844%	<b>399</b>	63	533%
Corporate depreciation	<b>59</b>	56	5%	<b>175</b>	169	4%
Depletion, depreciation and accretion expense	<b>\$21,410</b>	\$5,382	298%	<b>\$46,316</b>	\$16,238	185%
\$ per bbl	<b>\$20.90</b>	\$14.32		<b>\$19.94</b>	\$13.84	

DD&A per barrel increased in Q3 '10 as compared to Q2 '10 (\$19.96) due to increased capital expenditures.

Taxes	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Current tax expense (recovery)	<b>\$(18)</b>	\$-		-	\$-	
Future income tax expense	<b>10,726</b>	-		<b>29,575</b>	-	
Income tax	<b>\$10,708</b>	\$-		<b>\$29,575</b>	\$-	

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. However, the effective cash tax rate will be lower.

Earnings from Significantly Influenced Investee, net of taxes	3 months ended September 30,			9 months ended September 30,		
	2010	2009	Change	2010	2009	Change
Coastal's 36.1% of Apico's net income	<b>\$2,750</b>	\$2,932	-6%	<b>\$9,034</b>	\$6,686	35%
Amortization of Coastal's excess basis	<b>(259)</b>	(311)	-17%	<b>(811)</b>	(800)	1%
Earnings from Significantly Influenced Investee, net of taxes	<b>\$2,491</b>	\$2,621	-5%	<b>\$8,223</b>	\$5,886	40%
100% Field Production volumes (mmcf/d)	<b>80.7</b>	97.6	-17%	<b>85.2</b>	84.2	1%
12.6% net to Coastal (mmcf/d)	<b>10.1</b>	12.2	-17%	<b>10.7</b>	10.5	1%

## COASTAL ENERGY COMPANY

---

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 lower revenue in the three months ended September 30, 2010 over the prior comparable period primarily due to lower gas volume takes by its customer. Apico experienced higher revenue in the nine months ended September 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.

<b>Net Income (Loss)</b>	3 months ended		9 months ended	
	September 30, <b>2010</b>	2009	September 30, <b>2010</b>	2009
Net income (loss) and comprehensive income (loss) attributable to shareholders	<b>\$9,228</b>	\$(111)	<b>\$28,023</b>	\$(2,123)
Basic earnings (loss) per share	<b>\$0.08</b>	\$0.00	<b>\$0.26</b>	\$(0.02)
Diluted earnings (loss) per share	<b>\$0.08</b>	\$0.00	<b>\$0.25</b>	\$(0.02)

*[The remainder of this page intentionally left blank]*



## Three and Nine Month Periods ended September 30, 2010

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

### Summary of Quarterly Results

	2010				2009			2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Oil revenues	\$68,688	\$42,164	\$49,510	\$28,926	\$21,205	\$28,017	\$8,200	\$4,098
Royalties	(6,828)	(3,154)	(3,650)	(2,027)	(1,430)	(1,880)	(541)	(214)
(Loss) gain on derivative	-	(1)	(65)	(282)	128	(836)	(1,087)	2,415
Interest income	1	1	2	5	6	5	11	151
Other income	-	-	-	110	-	-	-	-
<b>Total revenues</b>	<b>61,861</b>	<b>39,010</b>	<b>45,797</b>	<b>26,732</b>	19,909	25,306	6,583	6,450
Production expenses	16,329	8,499	10,137	9,689	10,936	9,532	3,320	1,597
General and administrative expenses	4,336	4,095	3,797	8,144	5,029	3,210	3,193	4,114
Foreign exchange loss (gain)	2,198	(11)	464	304	240	1,765	(368)	820
Interest expense	367	349	348	677	796	1,347	1,019	843
Debt financing fees	23	119	124	205	323	26	900	-
(Gain) loss on sale of assets	-	-	-	148	-	-	-	(95)
Depletion, depreciation and accretion	21,410	11,612	13,294	7,457	5,382	7,698	3,158	1,763
Settlement and asset impairment	-	-	-	-	-	2,365	-	-
<b>Total operating expenses</b>	<b>44,663</b>	<b>24,663</b>	<b>28,164</b>	<b>26,624</b>	22,706	25,943	11,222	9,042
Income tax expense	10,708	8,642	10,225	738	-	-	-	-
Share of earnings of Apico LLC	2,491	2,927	2,805	2,577	2,621	1,854	1,410	2,179
Net income (loss) before non-controlling interest	8,981	8,632	10,213	1,947	(176)	1,217	(3,229)	(413)
Non-controlling interest	247	(55)	5	62	65	-	-	-
Net income (loss) and comprehensive income (loss) attributable to shareholders	9,228	8,577	10,218	2,009	(111)	1,217	(3,229)	(413)
EBITDAX <sup>(a)</sup>	44,508	29,854	34,162	12,520	6,820	14,968	3,557	(264)
Basic earnings (loss) per share	\$0.08	\$0.08	\$0.09	\$0.02	\$0.00	\$0.01	\$(0.03)	\$(0.01)
Diluted earnings (loss) per share	\$0.08	\$0.08	\$0.09	\$0.02	\$0.00	\$0.01	\$(0.03)	\$(0.01)

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 nine months of 2010 due to an increase in global oil prices.
- Variability in the timing of liftings can cause significant volatility in top line results from quarter to quarter due to the Company's revenue recognition policy. The Company has previously had significant volumes of crude oil in storage at quarter end which is not recognized in revenue until the lifting occurs the following quarter.
- 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 losses (gains).

## Cash Flow Analysis

The Company's cash and cash equivalents at September 30, 2010 were \$19.9 million, a decrease of \$1.3 million from \$21.2 million at December 31, 2009. The Company's primary source of funds came from \$83.7 million of operating cash flows, \$58.8 million of borrowings under the new debt facility and \$2.0 million of shares issued. Cash and cash equivalents were primarily used to purchase \$100.8 million of property, plant and equipment, to repay \$34.6 million of bank debt on the SMBC debt facility and to repay a \$5.2 million loan provided by a shareholder.

## Capital Expenditures

Capital expenditures (including cash payments and amounts included in accounts payable) amounted to \$29.1 million and \$117.1 million for the three and nine months ended September 30, 2010, compared to \$16.0 million and \$33.3 million for the three and nine months ended September 30, 2009, respectively. Expenditures during the third quarter were mainly related to the Company's offshore drilling campaign and related facilities.

Capital Expenditures	3 months ended September 30,		9 months ended September 30,	
	2010	2009	2010	2009
Seismic, geological and geophysical studies	\$1,166	\$4,796	\$2,904	\$5,934
Drilling and completions	24,513	7,807	73,744	17,699
Lease and well equipment	1,296	2,113	5,126	7,619
Facilities	2,111	1,216	35,184	1,796
Administrative assets	6	59	160	140
Other	-	-	6	77
<b>Total Capital Expenditures</b>	<b>\$29,092</b>	<b>\$15,991</b>	<b>\$117,124</b>	<b>\$33,265</b>

## Equity Capital

### Share Capital

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

At September 30, 2010 the Company had 109,612,791 common shares outstanding. As of the date of this report, the Company had 109,626,791 common shares outstanding.

### Warrants

During the three months ended September 30, 2010, the Company issued no warrants, 2,142,378 warrants were forfeited and no warrants were exercised for shares of the Company's common stock. Subsequent to September 30, 2010, no warrants were exercised. As of the date of this report the Company had 540,000 warrants outstanding at a weighted average exercise price of \$1.10 per share.

### Stock Options

During the three months ended September 30, 2010, the Company granted no stock options; 120,879 options were forfeited and 75,000 options were exercised. The following table summarizes the outstanding and exercisable options as of the date of this report:

## Three and Nine Month Periods ended September 30, 2010

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

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	1.25 years	\$2.20 (£1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	1,850,000	1.25 years	\$2.14 (Cdn\$2.20)	Dec. 27, 2011	1,850,000
Jun. 15, 2007	6,250	1.75 years	\$2.87 (Cdn\$2.96)	Jun. 16, 2012	6,250
Jan. 25, 2008	558,500	2.25 years	\$3.83 (Cdn\$3.94)	Jan. 26, 2013	401,750
May 05, 2008	150,000	2.50 years	\$4.31 (Cdn\$4.44)	May 06, 2013	112,500
Jul. 14, 2008	85,000	2.75 years	\$3.51 (Cdn\$3.61)	Jul. 15, 2013	63,750
Sep. 16, 2008	100,000	3.00 years	\$2.20 (Cdn\$2.27)	Sep. 16, 2013	75,000
Sep. 23, 2008	1,000,000	2.25 years	\$3.83 (Cdn\$3.94)	Feb. 05, 2013	750,000
Jan. 02, 2009	3,46,004	3.25 years	\$1.31 (Cdn\$1.35)	Jan. 02, 2014	900,997
Dec. 01, 2010	2,575,554	4.25 years	\$4.98 (Cdn\$5.13)	Nov. 30, 2014	-
	9,396,308				4,185,247

### 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 were periodically renegotiated. The note was fully repaid in Q3 2010.

### 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 nine months ended September 30, 2010.

### Subsequent Events

On October 1, 2010 the Company entered into further crude oil hedging transactions bringing the Company's total commodity hedging position to 1.302 million net barrels of production over a 24 month period at an average price of \$79.03 per barrel.

The Company entered into a transaction hedging 50% of the expected LIBOR exposure from its revolving credit facility over the 30 months commencing January 1, 2011 at 1.10% per annum.

The Company drilled a further well in November targeting existing 3P reserves in the Lower Oligocene Wedge and Eocene reservoirs at Songkhla. The well encountered 140 feet of pay in the Lower Oligocene and 75 feet of pay in the Eocene. The Company plans to drill two additional wells to further appraise the Lower Oligocene Wedge and Eocene reservoirs. Production from the three wells will be tied into existing facilities. The Company is planning to upgrade the processing facilities at Songkhla in early December to handle increased liquids production.

Following drilling at Songkhla, the Company plans to begin drilling its potentially high impact exploration prospects at Bua Ban North targeting recoverable resources of 75 mmbbl.

### 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 nine months ended September 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 September 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

## Three and Nine Month Periods ended September 30, 2010

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

---

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 for qualifying assets. 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 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](http://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.

## Three and Nine Month Periods ended September 30, 2010

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

---

### **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. The Company has hedged part of this risk using commodity derivative contracts as described in Note 5 to its financial statements.

### **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. During the fourth quarter of 2010 the Company entered into a transaction to hedge 50% of its expected LIBOR exposure over the 30 month period beginning January 1, 2011 at 1.10% per annum.

### *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.

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 nine months ended September 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. Cash flow from current production will be used to fund exploration and appraisal activities on Blocks G5/43 and G5/50 as well as pursue business development opportunities outside of the Gulf of Thailand.

**COASTAL ENERGY COMPANY**

Three and Nine Month Periods ended September 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		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
<b>Revenues</b>				
Oil and natural gas	68,688	21,205	160,362	57,422
Royalties	(6,828)	(1,430)	(13,632)	(3,851)
(Loss) gain on derivative risk management contracts (Note 5)	-	128	(66)	(1,795)
Interest income	1	6	4	22
	<b>61,861</b>	<b>19,909</b>	<b>146,668</b>	<b>51,798</b>
<b>Expenses</b>				
Production	16,329	10,936	34,965	23,788
General and administrative	4,336	5,029	12,228	11,432
Foreign exchange loss	2,198	240	2,651	1,637
Interest (Notes 4 and 5)	367	796	1,064	3,162
Debt financing fees	23	323	266	1,249
Depletion, depreciation and accretion	21,410	5,382	46,316	16,238
Settlement (Note 3)	-	-	-	2,366
	<b>44,663</b>	<b>22,706</b>	<b>97,490</b>	<b>59,872</b>
<b>Net income (loss) before taxes, earnings from significantly influenced investee and non-controlling interest</b>	<b>17,198</b>	<b>(2,797)</b>	<b>49,178</b>	<b>(8,074)</b>
Income tax	10,708	-	29,575	-
<b>Net income (loss) before earnings from significantly influenced investee and non-controlling interest</b>	<b>6,490</b>	<b>(2,797)</b>	<b>19,603</b>	<b>(8,074)</b>
Earnings from significantly influenced investee (Note 2)	2,491	2,621	8,223	5,886
<b>Net income (loss) before non-controlling interest</b>	<b>8,981</b>	<b>(176)</b>	<b>27,826</b>	<b>(2,188)</b>
Non-controlling interest (Note 9)	247	65	197	65
<b>Net income (loss) and comprehensive income (loss) attributable to shareholders</b>	<b>9,228</b>	<b>(111)</b>	<b>28,023</b>	<b>(2,123)</b>
Retained earnings (deficit), beginning of period	2,093	(18,599)	(16,702)	(16,587)
<b>Retained earnings (deficit), end of period</b>	<b>11,321</b>	<b>(18,710)</b>	<b>11,321</b>	<b>(18,710)</b>
<b>Basic earnings (loss) per share (Note 8)</b>	<b>0.08</b>	<b>(0.00)</b>	<b>0.26</b>	<b>(0.02)</b>
<b>Diluted earnings (loss) per share (Note 8)</b>	<b>0.08</b>	<b>(0.00)</b>	<b>0.25</b>	<b>(0.02)</b>

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

**Consolidated Balance Sheets**

	September 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	19,865	21,229
Restricted cash	7,379	3,829
Accounts receivable	21,392	6,111
Derivative asset (Note 5)	-	66
Inventory	6,771	5,310
Prepays and other current assets	173	526
	<b>55,580</b>	37,071
Investment in and advances to Apico LLC (Note 2)	53,152	55,225
Property, plant and equipment (Note 3)	311,521	233,014
Deposits and other assets	296	299
<b>Total assets</b>	<b>420,549</b>	<b>325,609</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	59,757	31,325
Deferred income (Note 6)	-	23,060
Income taxes payable	31	38
Amounts due to shareholder (Note 4)	-	5,164
Current portion of long-term debt (Note 5)	134	10,266
	<b>59,922</b>	69,853
Long-term debt (Note 5)	56,113	24,284
Asset retirement obligations (Note 7)	10,827	2,809
Future income tax liability	59,869	27,695
<b>Total Liabilities</b>	<b>186,731</b>	<b>124,641</b>
<b>Commitments and contingencies (Note 12)</b>		
<b>Non-controlling interests (Note 9)</b>	<b>6,170</b>	<b>5,617</b>
<b>Shareholders' equity</b>		
Share capital (Note 8)	200,816	198,121
Contributed surplus (Note 8)	15,432	13,779
Warrants (Note 8)	79	153
Retained earnings (deficit)	11,321	(16,702)
<b>Shareholders' equity</b>	<b>227,648</b>	<b>195,351</b>
<b>Total liabilities, non-controlling interests, and shareholders' equity</b>	<b>420,549</b>	<b>325,609</b>

## COASTAL ENERGY COMPANY

Three and Nine Month Periods ended September 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		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
<b>Operating activities</b>				
Net income (loss) for the period	9,228	(111)	28,023	(2,123)
Distributions from significantly influenced investee	6,142	2,710	10,296	4,516
Items not involving cash				
Depletion, depreciation and accretion	21,410	5,382	46,316	16,238
Impairment	-	-	-	1,765
Future income taxes	10,726	-	29,575	-
Income applicable to non-controlling interest	(247)	(65)	(197)	(65)
Unrealized foreign exchange (gain) loss	1,666	165	2,508	867
Stock based compensation	720	2,809	3,871	4,955
Issuance of warrants with notes payable	-	-	-	294
Earnings from significantly influenced investee, net of taxes	(2,491)	(2,621)	(8,223)	(5,886)
Unrealized loss (gain) on derivative instrument	-	(128)	66	1,668
Change in non-cash working capital (Note 13)	(41,238)	21,600	(28,496)	25,633
	5,916	29,741	83,739	47,862
<b>Investing activities</b>				
Investment in and advances to Apico LLC	-	-	-	(4,516)
(Increase) decrease in restricted cash	(4,342)	(349)	(3,550)	321
Purchase of property, plant and equipment	(10,970)	(12,631)	(100,834)	(45,979)
Contributions from non-controlling interest partner	-	2,635	750	2,635
Other	-	-	(6)	(86)
	(15,312)	(10,345)	(103,640)	(47,625)
<b>Financing activities</b>				
Issuance of shares for cash	166	(49)	2,052	15,369
Borrowings under long-term debt	58,727	-	58,727	1,620
Transaction costs of obtaining credit facility	(2,521)	-	(2,521)	-
Repayments of long-term debt	(28,571)	(2,371)	(34,550)	(10,207)
Borrowings under amounts due to shareholder	-	-	-	1,000
Repayment of amounts due to shareholder	(3,161)	(1,157)	(5,164)	(2,278)
Proceeds from issuance of notes payable	-	-	-	15,000
Repayments of notes payable	-	(2,949)	-	(7,021)
	24,640	(6,526)	18,544	13,483
Net effect of foreign exchange on cash held in foreign currencies	(26)	27	(7)	42
Change in cash and cash equivalents	15,218	12,897	(1,364)	13,762
Cash and cash equivalents, beginning of period	4,647	7,299	21,229	6,434
<b>Cash and cash equivalents, end of period</b>	<b>19,865</b>	<b>20,196</b>	<b>19,865</b>	<b>20,196</b>
Cash and cash equivalents consists of:				
Cash	19,865	20,196	19,865	20,196

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, and its various subsidiaries, 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 nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

### *Change in Accounting Policy*

Under Canadian GAAP, the Company previously expensed debt financing fees as incurred. During the quarter ended September 30, 2010, the Company closed a new loan facility and used proceeds from this loan to repay all existing indebtedness. The Company has decided to change its accounting treatment of debt financing fees. The Company has elected to capitalize its debt financing fees and amortize them over the life of the related loan(s). The effect of this change in accounting policy has been to increase net income by \$2.5 million and reduce liabilities by the same amount. The effect on the prior periods is immaterial.

### *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 September 30, 2010, and December 31, 2009, the remaining unamortized excess basis was \$14.2 million and \$15.1 million, respectively. The following table summarizes the Company's investments in and advances to Apico:

	September 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	9,034	9,544
Amortization of excess basis in Apico	(811)	(1,082)
Earnings distributions	(10,296)	(8,129)
Balance, end of period	<b>\$53,152</b>	<b>\$55,225</b>

**Note 3. Property plant and equipment, net**

	September 30, 2010			December 31, 2009		
	Cost	AD&D*	Net	Cost	AD&D*	Net
Oil and gas properties - Gulf of Thailand	\$326,379	\$(71,613)	\$254,766	\$215,078	\$(27,594)	\$187,484
Oil and gas production equipment	47,501	(2,042)	45,459	34,296	-	34,296
Construction in progress	10,682	-	10,682	10,605	-	10,605
Corporate assets	1,465	(851)	614	1,305	(676)	629
	<b>\$386,027</b>	<b>\$(74,506)</b>	<b>\$311,521</b>	<b>\$261,284</b>	<b>\$(28,270)</b>	<b>\$233,014</b>

\* Accumulated depletion and depreciation

At September 30, 2010, oil and gas properties included \$74.9 million of unproved properties which have been excluded from the depletion calculation (2009: \$46.0 million). Future development costs of \$71.0 million at September 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 September 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. The Company placed these assets in service and commenced depreciation using the straight line method over their respective useful lives in Q3 2010.

*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.

#### Note 4. Amounts due to shareholder

The amounts due to shareholder relates to a note payable. From Q1 2009 through Q2 2010 this note was renewed at each quarter end for the following three months at an interest rate of 12% per annum. This note was fully repaid as of September 30, 2010.

#### Note 5. Long-term debt

	September 30, 2010	December 31, 2009
Revolving debt facility	\$80,000	\$34,400
Unused portion of revolving debt facility	(21,273)	-
Total debt drawn down	58,727	34,400
Less: Deferred loan arrangement fees	(2,521)	-
Add: Accrued loan interest	41	-
Carrying value of long-term debt	56,247	34,400
Less: Current portion	(134)	(10,116)
Non-Current portion of long-term debt	\$56,113	\$24,284

#### *BNP Paribas debt facility*

The Company closed a \$80 million revolving debt facility arranged by BNP Paribas ("BNP") and including Commonwealth Bank of Australia on September 16, 2010. The facility is secured by the Company's interest in certain petroleum assets in Thailand. The facility amortizes over a five year period and matures on June 30, 2015. As of September 30, 2010 the Company had drawn \$58.8 million under this credit facility. This is presented net of deferred loan arrangement fees on the face of the balance sheet. The outstanding loan bears interest at LIBOR plus 4%. The effective interest rate on the facility for the three and nine months ended September 30, 2010 was 4.30% per annum. As a requirement of the facility, the Company is required to hedge a percentage of its projected production over a rolling 18 - 24 month period.

The following represents a summary of the derivative contracts outstanding at September 30, 2010:

	Notional Volumes	Term	Average Strike Price
<b>Long Puts</b>			
Brent	1,860,000	October 2010 – September 2012	\$79.03/bbl
<b>Short Calls</b>			
Brent	1,302,000	October 2010 – September 2012	\$79.03/bbl
<b>Fair value of asset (liability)</b>			

The Company's net hedged position is long 1.302 million puts over a 24 month period beginning October 1, 2010. The Company entered into this hedging transaction on a \$nil premium basis. The transaction was partially entered into on September 30 and finalized on October 1, 2010. At September 30, 2010 the aggregate fair value of open positions was \$nil.

The Company is also required to enter into an interest rate swap on 50% of the expected outstanding loan amount. At September 30, 2010, the Company and BNP were still in negotiation concerning the interest rate derivative contract and no contract was in place. Finally, as part of the facility, the Company is required to deposit funds into bank accounts, which are restricted as to their availability to the Company.

#### *SMBC debt facility*

The Company had a revolving debt facility with Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"), which comprised of junior and senior loan tranches. All amounts under this debt facility were fully repaid in September 2010.

## COASTAL ENERGY COMPANY

Loans under the SMBC facility bore interest at SMBC's LIBOR plus an applicable margin between 1.75% and 3.5%. The applicable LIBOR rate was determined by the length of the interest renewal period, and the margin was dependent upon whether the loan was 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 nine months ended September 30, 2010 was 3.30% and 3.17%, respectively (2009: 6.76% and 6.16%, respectively). As part of the facility, the Company was required to deposit funds into a bank account, which was restricted as to its availability.

As a requirement of the facility, the Company was required to hedge 50% of its onshore gas production. The Company entered into a derivative risk management contracts with an affiliate of SMBC under which the Company had the right to sell 4,000 metric tons per month of Singapore fuel oil at a price of \$290.00 per metric ton commencing July 1, 2007 and expiring June 30, 2010. Realized and unrealized gains and losses on these contracts are summarized on the following table

	3 Months ended September 30,		9 Months ended September 30,	
	2010	2009	2010	2009
Realized gains from sales proceeds	\$-	\$-	\$-	\$439
Unrealized mark-to-market gain (losses)	-	128	(66)	(657)
Realized gain (losses)	-	-	-	(1,577)
	<b>\$-</b>	<b>\$128</b>	<b>\$(66)</b>	<b>\$(1,795)</b>

### Note 6. Deferred income

Deferred income relates to advances received under arrangements whereby the Company would deliver an agreed amount of crude oil to a third party customer. These advances were at a pre determined price which would be adjusted to the actual contract price subsequent to crude oil deliveries. At September 30, 2010, the Company had delivered its entire obligation of crude oil (2009: 400,000 barrels undelivered).

### 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:

	September 30, 2010	December 31, 2009
Balance, beginning of period	<b>\$2,809</b>	\$ 1,354
Additions to future costs	<b>8,029</b>	1,521
Revisions in estimated cash flows	<b>(410)</b>	(186)
Accretion expense	<b>399</b>	120
Balance, end of period	<b>\$10,827</b>	\$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
<b>Balance, December 31, 2009</b>	<b>108,276,645</b>	<b>\$4,331</b>	<b>\$193,790</b>	<b>\$198,121</b>	<b>\$13,779</b>
Shares issued pursuant to exercise of stock options	878,412	34	2,297	2,331	(569)
Shares issued pursuant to exercise of warrants	457,734	19	345	364	-
Stock-based compensation	-	-	-	-	2,222
<b>Balance, September 30, 2010</b>	<b>109,612,791</b>	<b>\$4,384</b>	<b>\$196,432</b>	<b>\$200,816</b>	<b>\$15,432</b>

### Accumulated Other Comprehensive Income

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

### Warrants

As of September 30, 2010, the Company had 540,000 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 expired, unexercised	(2,142,378)	\$4.18	-	-
Warrants exercised	(563,867)	\$3.62	(1,097,500)	\$1.52
Balance, end of period	540,000	\$1.10	3,246,245	\$3.42

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

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 23, 2009	540,000	3.25 years	\$1.10 (Cdn1.136)	Jan. 23, 2014	540,000

### Stock options

	Number of options	Weighted average exercise price
<b>Balance outstanding, December 31, 2009</b>	<b>10,409,599</b>	<b>\$2.85</b>
Options exercised	(878,412)	2.04
Options forfeited	(120,879)	2.87
<b>Balance outstanding, September 30, 2010</b>	<b>9,410,308</b>	<b>\$2.98</b>

## COASTAL ENERGY COMPANY

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

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	1.25 years	\$2.20 (£1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	1,850,000	1.25 years	\$2.14 (Cdn\$2.20)	Dec. 27, 2011	1,850,000
Jun. 15, 2007	6,250	1.75 years	\$2.87 (Cdn\$2.96)	Jun. 16, 2012	6,250
Jan. 25, 2008	558,500	2.25 years	\$3.83 (Cdn\$3.94)	Jan. 26, 2013	401,750
May 05, 2008	150,000	2.75 years	\$4.31 (Cdn\$4.44)	May 06, 2013	112,500
Jul. 14, 2008	85,000	2.75 years	\$3.51 (Cdn\$3.61)	Jul. 15, 2013	63,750
Sep. 16, 2008	100,000	3.00 years	\$2.20 (Cdn\$2.27)	Sep. 16, 2013	75,000
Sep. 23, 2008	1,000,000	2.25 years	\$3.83 (Cdn\$3.94)	Feb. 05, 2013	750,000
Jan. 02, 2009	3,060,004	3.25 years	\$1.31 (Cdn\$1.35)	Jan. 02, 2014	914,997
Dec. 01, 2009	2,575,554	4.25 years	\$4.98 (Cdn\$5.13)	Nov. 30, 2014	-
	<b>9,410,308</b>				<b>4,199,247</b>

### Stock-based compensation

For the three and nine months ended September 30, 2010 the Company recorded stock-based compensation of \$0.69 million and \$2.22 million (2009: \$0.47 million and \$1.64 million, respectively), of which \$0.08 million and \$0.28 million was capitalised, respectively (2009: \$0.32 million and \$1.85 million, respectively). For the three and nine months ended September 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 nine months ended September 30, 2010, the Company incurred a liability of \$0.14 million and \$2.12 million, respectively (2009: \$2.52 million and \$4.04 million, respectively). Of the liability incurred, \$0.03 million and \$0.28 million, respectively (2009: \$0.49 million and \$0.78 million, respectively) was capitalized. The liability as of September 30, 2010 is \$6.83 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 September 30,		9 Months ended September 30,	
	2010	2009	2010	2009
Weighted average common shares outstanding, basic	<b>109,588,334</b>	99,380,720	<b>109,391,597</b>	96,208,559
Effect of stock options and warrants	<b>3,646,890</b>	-	<b>3,600,160</b>	-
Weighted average common shares outstanding, diluted	<b>113,235,224</b>	99,380,720	<b>112,991,757</b>	96,208,559

No adjustment was made for the effect of stock option and warrants for the three and nine months ended September 30, 2009 since the effect would have been anti-dilutive owing to the loss incurred during these periods.

## 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 \$32.18 million, liabilities of \$2.43 million and minority interest of \$6.17million are carried on the Company's balance sheet at September 30, 2010. The loss from VSS is \$0.50 million (2009: \$0.13 million) and \$0.40 million (2009: \$0.13 million) for the three and nine months ended September 30, 2010, offset by a credit from the non-controlling interest of \$0.25 million (2009: \$0.07 million) and \$0.20 million (2009: \$0.07 million), respectively. 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:

	September 30, 2010	December, 31, 2009
Shareholders' equity	\$227,648	\$195,351
Non-controlling interests	6,170	5,617
Bank debt (excluding deferred loan arrangement costs)	58,768	34,550
Amounts due to shareholder	-	5,164
Working capital deficit <sup>(1)</sup>	4,208	22,516
	<b>\$296,794</b>	<b>\$263,198</b>

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 September 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	\$19,865	\$19,865	
Restricted cash	1	7,379	7,379	
Loans and receivables				
Accounts receivable		21,392	21,392	
Other liabilities				
Accounts payable and accrued liabilities		59,757	59,757	
Long-term debt		56,247	56,247	41

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 nine months ended September 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 nine months to September 30, 2010. At September 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:

	September 30, 2010	December 31, 2009
Cash and cash equivalents	\$19,865	\$21,229
Restricted cash	7,379	3,829
Accounts receivable from UK and Thailand government entities	7,306	5,682
Trade receivable	12,064	-
Other accounts receivable	2,022	429
Derivative asset	-	66
	<b>\$48,636</b>	<b>\$31,235</b>

The Company's trade receivable at September 30, 2010 was from one customer, was less than 30 days aged and was fully collected after September 30, 2010. All revenues for the quarters ended September 30, 2010 and 2009 were from the same customer. The Company did not write off any receivables in Q3 2010 nor in Q3 2009. No receivables are overdue as of September 30, 2010 and hence no allowance has been made for doubtful debts. The credit rating as of September 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 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 September 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:

September 30, 2010	Within one year	Within 2 years	Within 3 years	Thereafter	Total
Accounts payable and accrued liabilities	\$59,757	\$-	\$-	\$-	\$59,757
Income taxes payable	31	-	-	-	31
Current and long-term debt payments <sup>(1)</sup>	96	28,858	11,885	17,929	58,768
	<u>\$59,884</u>	<u>\$28,858</u>	<u>\$11,885</u>	<u>\$17,929</u>	<u>\$118,556</u>

Note 1: This amount excludes deferred loan arrangement fees.

As of September 30, 2010 the Company has not fully utilized its available borrowing facilities. Moreover, management believes the Company 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 September 30, 2010, a 10% depreciation or appreciation of the above currencies against the US dollar would result in a \$0.43 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 accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had gross borrowings totaling \$58.8 million at September 30, 2010 (December 31, 2009: \$39.7 million) (see Notes 4 and 5.) A 100 basis point change in interest rates at September 30, 2010 date would result in a \$0.59 million change in the Company's annual net income. As a requirement of the debt facilities, the Company is required to enter into an interest rate swap on 50% of the expected outstanding loan amount. At September 30, 2010, the Company and BNP were still in negotiation concerning the interest rate derivative contract and no contract was in place – see Note 5.

The Company paid an average of 3.81% and 3.97% on its borrowings for the three and nine months ended September 30, 2010, respectively (2009: 6.20% and 6.95%, respectively.)

The Company earned an average of 0.78% and 0.64% on its short-term investments for the three and nine months ended September 30, 2010, respectively (2009: 0.29% and 0.39%, 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 with BNP Paribas (Note 5) incorporates the reference price in its model to determine the effective borrowing base under which the Company may borrow. Based on prices at September 30, 2010 a 10% decline in the reference price projection would not reduce the availability under the borrowing base.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 5.

### *d) Other price risk*

The Company is exposed to equity price risk in relation to stock appreciation rights granted to employees. 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 September 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:

Three and Nine Month Periods ended September 30, 2010 (Unaudited)  
 (All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

Year	Drilling & Production	G5/50	Other	Total
2010	17,574	2,850	42	20,466
2011	30,440	2,450	108	32,998
2012	-	-	92	92
2013	-	-	77	77
2014	-	-	11	11

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 nine months ended September 30, 2010 and 2009:

	3 Months ended September 30,		9 Months ended September 30,	
	2010	2009	2010	2009
Change in:				
Accounts receivable	<b>\$(14,686)</b>	\$(1,262)	<b>\$(15,281)</b>	\$(1,098)
Inventory	<b>2,017</b>	243	<b>(1,461)</b>	(3,982)
Prepays and other current assets	<b>126</b>	145	<b>353</b>	(404)
Accounts payable and accrued liabilities	<b>(11,144)</b>	(232)	<b>10,960</b>	3,867
Deferred income	<b>(17,533)</b>	22,706	<b>(23,060)</b>	28,502
Income taxes payable	<b>(18)</b>	-	<b>(7)</b>	(1,252)
	<b>\$(41,238)</b>	\$21,600	<b>\$(28,496)</b>	\$25,633
Changes relating to:				
Attributable to operating activities	<b>\$(41,238)</b>	\$21,600	<b>\$(28,496)</b>	\$25,633

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

	3 Months ended September 30,		9 months ended September 30,	
	2010	2009	2010	2009
Interest on debt	<b>\$553</b>	\$2,367	<b>\$1,023</b>	\$2,965
Income taxes	<b>\$-</b>	\$-	<b>\$6</b>	\$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.

## COASTAL ENERGY COMPANY

### Geographic segments

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

Oil and gas assets as at	September 30, 2010				December 31, 2009			
	Onshore Thailand	Gulf of Thailand	Corporate	Total	Onshore Thailand	Gulf of Thailand	Corporate	Total
Investment in Apico	\$53,152	\$-	\$-	\$53,512	\$55,225	\$-	\$-	\$55,225
Property, plant and equipment, net	-	311,052	612	311,664	-	232,715	299	233,014
<b>Total Assets</b>	<b>\$53,152</b>	<b>\$355,392</b>	<b>\$12,005</b>	<b>\$420,549</b>	<b>\$55,225</b>	<b>\$256,152</b>	<b>\$14,232</b>	<b>\$325,609</b>

Nine months ended	September 30, 2010				September 30, 2009			
	Onshore Thailand	Gulf of Thailand	Corporate	Total	Onshore Thailand	Gulf of Thailand	Corporate	Total
Revenues								
Oil and gas revenues, net	\$-	\$146,730	\$-	\$146,730	\$-	\$53,571	\$-	\$53,571
(Loss) gain on derivative	-	-	(66)	(66)	-	-	(1,795)	(1,795)
Interest income	-	-	4	4	-	-	22	22
	-	146,730	(62)	146,668	-	53,571	(1,773)	51,798
Expenses								
Production expenses	-	34,965	-	34,965	-	23,788	-	23,788
General and administrative	-	2,339	9,889	12,228	-	-	11,432	11,432
Foreign exchange loss	-	2,573	78	2,651	-	-	1,637	1,637
Interest expense	-	-	1,064	1,064	-	-	3,162	3,162
Debt financing fees	-	-	266	266	-	-	1,249	1,249
Depletion, depreciation & accretion	-	46,141	175	46,316	-	16,133	105	16,238
Settlement	-	-	-	-	-	2,366	-	2,366
Income taxes	-	29,575	-	29,575	-	-	-	-
Share of Apico earnings	8,223	-	-	8,223	5,886	-	-	5,886
Net income (loss) before non-controlling interest	\$8,223	\$31,137	\$(11,534)	\$27,826	\$5,886	\$11,284	\$(19,358)	\$(2,188)
CAPEX	\$-	\$116,964	\$160	\$117,124	\$-	\$33,125	\$140	\$33,265

Three months ended	September 30, 2010				September 30, 2009			
	Onshore Thailand	Gulf of Thailand	Corporate	Total	Onshore Thailand	Gulf of Thailand	Corporate	Total
Revenues								
Oil and gas revenues, net	\$-	\$61,860	\$-	\$61,860	\$-	\$19,775	-	\$19,775
(Loss) gain on derivative	-	-	-	-	-	-	128	128
Interest income	-	-	1	1	-	-	6	6
	-	61,860	1	61,861	-	19,775	134	19,909
Expenses								
Production expenses	-	16,329	-	16,329	-	10,936	-	10,936
General and administrative	-	4,336	-	4,336	-	-	5,029	5,029
Foreign exchange loss	-	2,120	78	2,198	-	-	240	240
Interest expense	-	-	367	367	-	-	796	796
Debt financing fees	-	-	23	23	-	-	323	323
Depletion, depreciation & accretion	-	21,298	112	21,410	-	5,326	56	5,382
Settlement	-	-	-	-	-	-	-	-
Income taxes	-	10,708	-	10,708	-	-	-	-
Share of Apico earnings	2,491	-	-	2,491	2,621	-	-	2,621
Net income (loss) before non-controlling interest	\$2,491	\$7,069	\$(579)	\$8,981	\$2,621	\$3,513	\$(6,310)	\$(176)
CAPEX	\$-	\$29,086	\$6	\$29,092	\$-	\$15,932	\$59	\$15,991



## **NON-INDEPENDENT DIRECTOR**

Randy L. Bartley  
President and Chief Executive Officer

## **INDEPENDENT DIRECTORS**

C. Robert Black<sup>(1) (2) (4)</sup>  
Former Senior Vice President, Office of the Chairman  
Texaco, Inc.

Bernard de Combret<sup>(1) (2) (3) (4)</sup> Chairman  
Former Deputy Chairman Executive Committee  
Total Fina Elf, S.A.

Olivier de Montal<sup>(2)</sup>  
Administrator, ODM Finance

Lloyd Barnaby Smith<sup>(2) (4)</sup>  
Former British Ambassador to Thailand

Forrest E. Wylie<sup>(1) (3) (4)</sup>  
Chairman, CEO & President  
Buckeye Partners, L.P.

John B. Zaozirny<sup>(1) (3)</sup>  
Vice Chairman, Canaccord Capital Corporation

*Standing 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

## **WEBSITE**

[www.CoastalEnergy.com](http://www.CoastalEnergy.com)

## **INVESTOR RELATIONS**

Matthew E. Laterza  
T: +01 713-877-6793  
F: +01 713-877-7128  
Email: [investor@CoastalEnergy.com](mailto:investor@CoastalEnergy.com)

## **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
mmbbls	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:*  
BNP Paribas

*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 Nicolas Weisel  
Macquarie Capital (Europe) Limited

## **COASTAL ENERGY COMPANY**

Walkers House  
87 Mary Street  
George Town, KY1-9001, Grand Cayman  
Cayman Islands, BWI

3355 West Alabama, Suite 500  
Houston, Texas 77098 USA  
T: +01 713 877 7125 F: +01 713 877 7128

24<sup>th</sup> Floor, Unit 2401, 2405  
Two Pacific Place Building  
142 Sukhumvit Road, Klongtoey  
Bangkok 10110 Thailand  
T: +66 2(0) 610 0555 F: +66 2(0) 610 0541

