

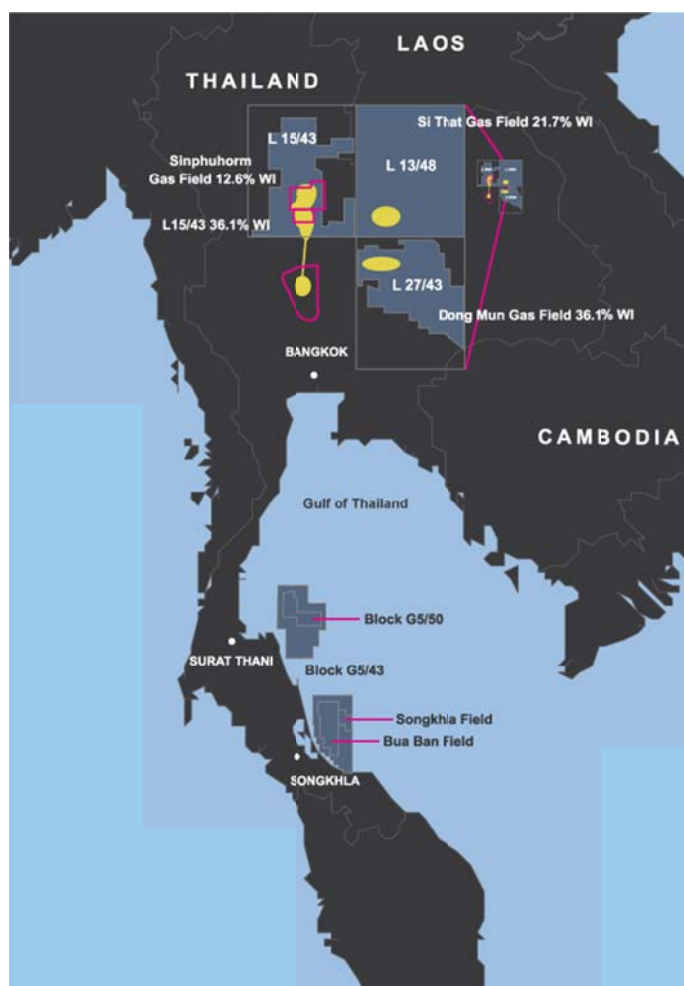
**COASTAL ENERGY COMPANY  
QUARTERLY REPORT  
MARCH 31, 2011**



# COASTAL ENERGY COMPANY

Three Month Period ended March 31, 2010

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Coastal Energy's Oil & Gas Interests

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

Dear Fellow Shareholders:

I'm pleased to report that the first quarter of 2011 brought further success for the Company. Coastal has continued to build upon the progress made in the second half of 2010. We reported increased total company production of approximately 10,125 boe/d, up from the 7,500 boe/d in Q4 2010, despite a number of wells being down for workovers in the first quarter. The Company also delivered over \$40MM in EBITDAX on higher production and commodity prices.

In conjunction with our better operational results, we also had a very successful quarter in terms of exploration. Exploration and appraisal drilling at Songkhla further proved up the eastern fault blocks which were discovered in the fourth quarter of 2010. Production has been tied in from these wells and we are planning to return and drill further development and water injection wells later in 2011, following environmental approval.

After the success at Songkhla, we began our exploration of Bua Ban North A. Three of the four wells at Bua Ban North discovered oil. We saw pay zones in both the Miocene and Upper Oligocene zones. After the end of the quarter, we also drilled four successful exploration wells at Bua Ban North B. Three of the wells have encountered pay zones in the Miocene, with one having 178 feet of net Miocene pay. The fourth well encountered pay in its targeted Oligocene zone. We expect to begin testing Bua Ban North B in late Q2 and Bua Ban North A in mid to late Q3. We are excited about this continued Miocene trend going forward given that the play has the highest porosity and permeability measures we have seen in the Songkhla basin.

We plan to continue building on this success in the coming quarters as we begin testing these discoveries and continue drilling high impact exploration targets from our prospect inventory. 2011 is off to a great start and we plan to continue building Coastal throughout the remainder of the year.

On behalf of the Board of Directors

**Randy L. Bartley**

President and Chief Executive Officer  
June 16, 2011



## COASTAL ENERGY COMPANY

Three Month Period ended March 31, 2011 and 2010

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

### Financial and Operating Highlights

Three months ended March 31,	2011	2010	% Change
<b>Financial</b>			
Crude oil revenue	\$72,556	\$49,510	47%
EBITDAX <sup>(1)</sup>	\$40,079	\$35,496	13%
Per share – Basic	\$0.36	\$0.33	
Per share – Diluted	\$0.35	\$0.31	
Net (loss) income	\$(2,362)	\$11,568	-118%
Per share – Basic	\$(0.02)	\$0.11	-86%
Per share – Diluted	\$(0.02)	\$0.10	-120%
Capital expenditures, excluding onshore	\$27,869	\$45,383	-39%
Total Assets	\$401,997	\$349,056	15%
Working capital surplus (deficit)	\$(51,268)	\$(48,626)	5%
Weighted average common shares outstanding			
Basic	111,336,044	109,066,282	
Diluted	115,297,251	113,365,135	
<b>Operations</b>			
Operating netback (\$/bbl) <sup>(1) (2)</sup>			
Crude oil revenue	\$94.89	\$69.41	37%
Royalties	7.64	5.12	49%
Production expenses	29.06	15.41	89%
Operating netback	\$58.19	\$48.88	19%
Average daily crude oil production (bbls) <sup>(2)</sup>	8,199	7,068	16%

Notes:

(1) Non-IFRS measure; see "Non-IFRS Measures" section within MD&A.

(2) Includes offshore crude oil only as onshore is accounted for using the equity method of accounting.

### First Quarter 2011 Highlights

- Total Company production for the first quarter averaged 10,125 boe/d, up 14% from 8,923 boe/d in the first quarter of 2010.
- The Company's offshore production from its two producing fields in the Gulf of Thailand averaged 8,199 bbl/d in the first quarter. This was 16% above offshore production reported in the first quarter of 2010. The increase is attributable to production from Bua Ban, which came online in mid-2010. Production in Q1'11 was impacted by downtime for pump replacement at Songkhla A.
- The Company's onshore production from its net interest averaged 1,926 boe/d in the first quarter.
- EBITDAX for Q111 was \$40.1 million, 13% above the same period in 2010.
- The sidetrack of the Songkhla A-12 well made a new discovery east of the discovery made by the Songkhla A-09 well, which was drilled in late 2010. The A-12 encountered pay zones in both the Oligocene and Eocene reservoirs. The sidetrack of the A-07 well, which was appraising the discovery in the A-09 well, was also successful and encountered pay zones in the Oligocene and Eocene

## COASTAL ENERGY COMPANY

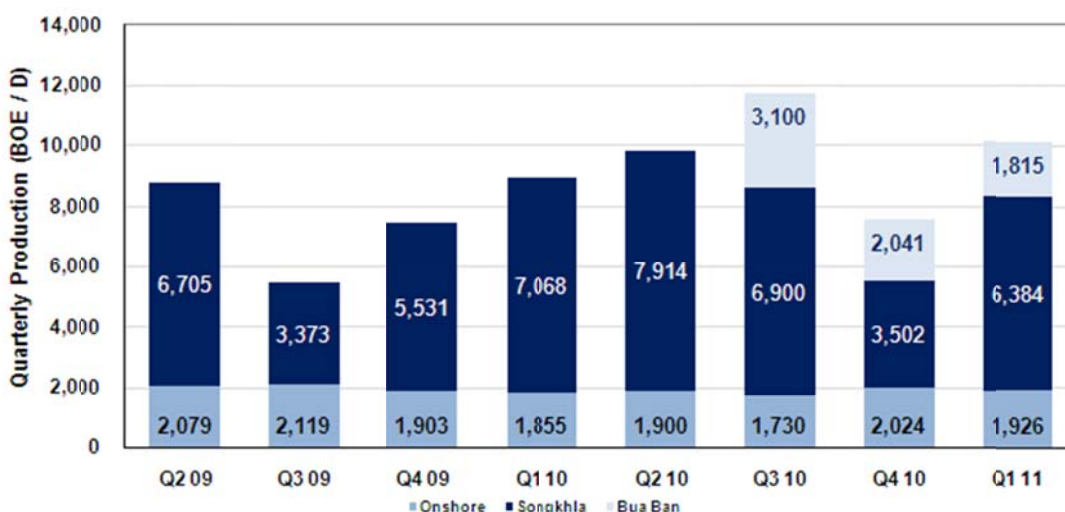
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reservoirs. In aggregate, the drilling campaign at Songkhla A made three new discoveries in the fourth quarter of 2010 and the first quarter of 2011.

- The fracture stimulations of the Bua Ban A-04 and A-07 wells were successful. The Company is evaluating flow test results and plans to pursue a drilling campaign at Bua Ban utilizing horizontal drilling and multi-stage fracturing technology.
- The Company began its exploration program at Bua Ban North A and announced a successful discovery. The Bua Ban North A-01 well drilled in Q111 encountered pay zones in the Miocene and Upper Oligocene intervals. Subsequent to quarter-end, two further successful exploration wells were drilled at Bua Ban North A and four successful exploration wells were drilled at Bua Ban North B. The Company plans to begin testing these discoveries in the second quarter.

The following chart represents the Company's Average BOE/D on a quarterly basis



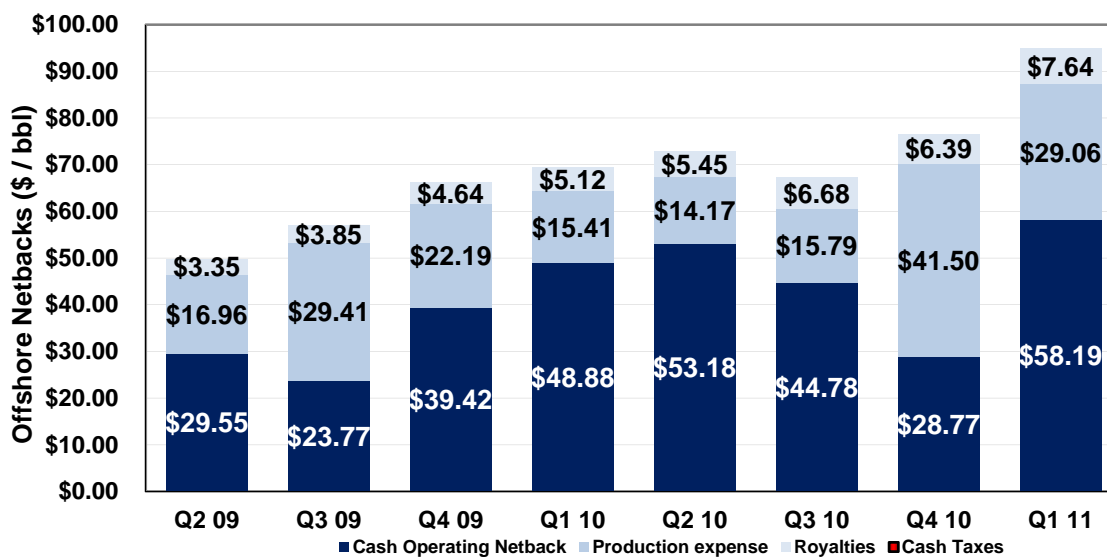
The following chart represents the Company's cash operating netback (\$/bbl) for its offshore production since it began. Operating netback is based on sales volume and is a non-IFRS measure. See "Non-IFRS and Non-GAAP Measure" section within the MD&A.

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## COASTAL ENERGY COMPANY

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EBITDAX Computation	2011		2010			2009		
	Q1	Q4	Q3	Q2	Q1	Q4(a)	Q3(a)	Q2(a)
Net income (loss) attributable to shareholders	\$(2,362)	\$(62,741)	\$25,077	\$12,526	\$11,568	\$2,009	\$(111)	\$1,217
Add Back:								
Unrealized (gain) loss on derivative	18,257	16,614	-	1	65	(284)	(128)	836
Interest income	(1)	(1)	(1)	(1)	(2)	(5)	(6)	(5)
Stock option expense	618	545	615	676	683	567	399	414
Unrealized foreign exchange (gain)/loss (b)	149	297	2,158	(121)	(135)	1,008	165	1,068
Interest expense	1,162	1,272	722	749	732	677	796	1,347
Debt financing fees	234	256	23	119	124	205	323	26
(Gain) loss on sale of assets	-	-	-	-	-	148	-	-
Depletion, depreciation and accretion	13,286	11,658	8,343	3,684	5,973	7,457	5,382	7,698
Taxation	3,183	(40,857)	9,872	12,669	6,541	738	-	-
Impairment and Settlement expense	-	10,706	-	-	-	-	-	2,366
Exploration	5,553	62,786	26	91	9,267	-	-	-
Other – IFRS transition	-	2,311	(2,327)	(539)	680	-	-	-
<b>EBITDAX</b>	<b>\$40,079</b>	<b>\$2,846</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>

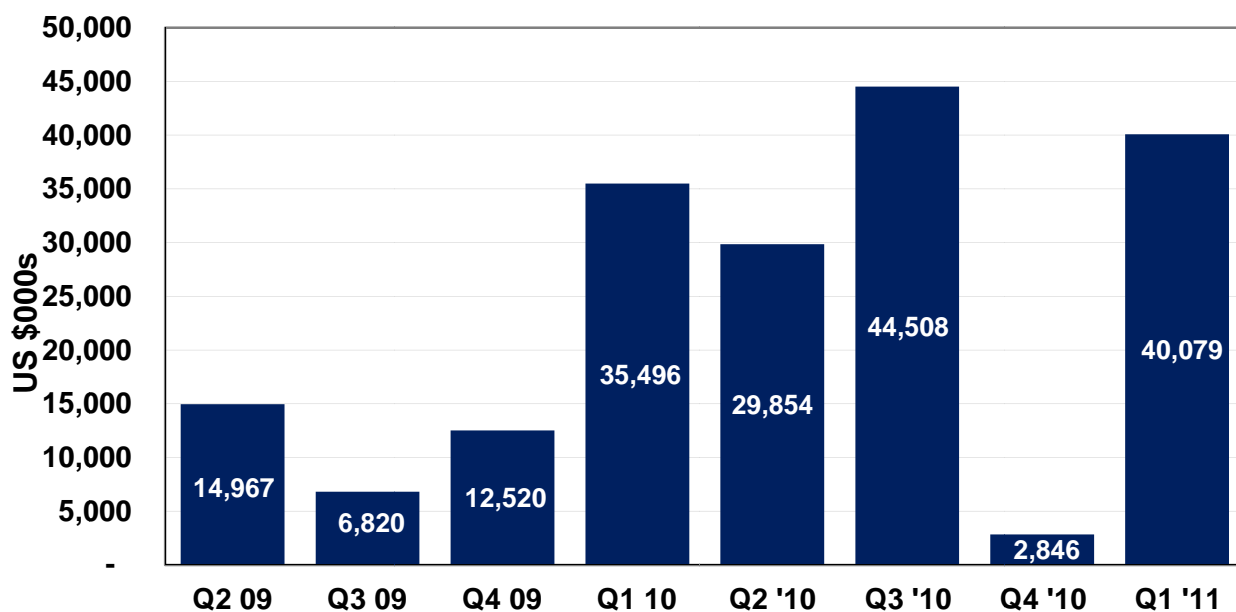
Note (a) The net income numbers for 2009 have not been restated from Canadian GAAP to IFRS  
 (b) The unrealized foreign exchange adjustment primarily relates to a tax liability in Thailand.

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

## COASTAL ENERGY COMPANY

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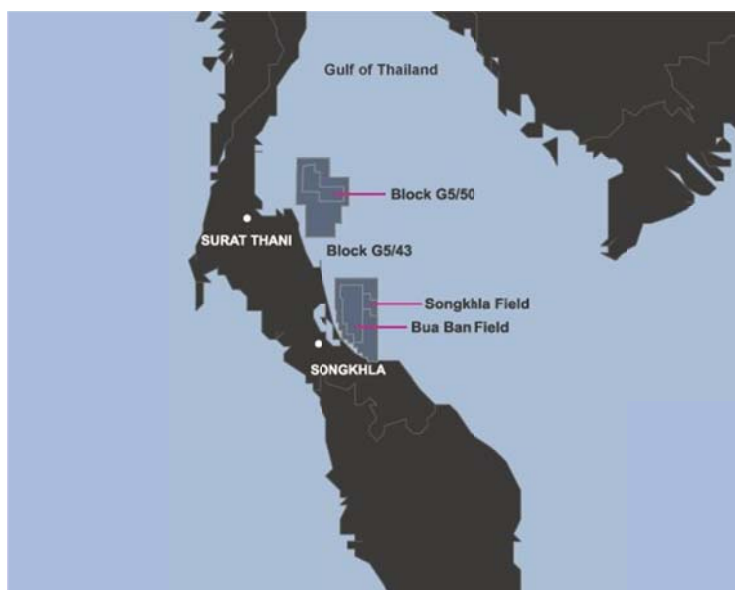
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Note: The net income numbers for 2009 have not been restated from Canadian GAAP to IFRS

## 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 70 feet. Block G5/50 contains approximately 554 square kilometers of acreage within the boundaries of Block G5/43.

## COASTAL ENERGY COMPANY

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### *Songkhla Field*

During the first quarter of 2011, the Company completed drilling two additional exploration wells at Songkhla A. The Songkhla A-07 sidetrack successfully appraised the discovery made by the A-09 well, encountering pay zones in both the Oligocene and Eocene reservoirs. The Songkhla A-12 sidetracks discovered oil in a new fault block east of the discoveries made in Q410. In aggregate, four new wells were drilled and placed on production between Q410 and Q111. Additional development and water injection wells are planned for later in 2011.

The Songkhla field produced 6,384 bbl/d in Q111, an increase from the 5,557 bbl/d average rate in Q410. Workover operations on the four existing wells at Songkhla increased downtime during the first quarter which offset production from the new wells which were placed online during the quarter. .

As of December 31, 2010, Songkhla A had proven and probable ("2P") reserves of approximately 21 mmbbls.

### *Bua Ban Field*

Production from the field commenced on July 1, 2010. Two of the wells, the A-03 and A-11, both encountered oil in the Miocene reservoir. This is the first time productive Miocene sands have been encountered in the Songkhla basin. The Company plans to continue exploring the Miocene play in 2011. Additionally, the Company completed successful fracture stimulations of the Eocene formation in the Bua Ban A-04 and A-07 wells in Q1 2011. The commercial viability of fracturing the tight Eocene and Oligocene sands is presently under evaluation.

Production from Bua Ban averaged 1,815 bbl/d in the first quarter, bringing aggregate offshore production to approximately 8,200 bbl/d. As of December 31, 2010, Bua Ban had proven and probable ("2P") oil reserves of 6 million barrels of oil.

The Company has identified and mapped over 30 prospects at Bua Ban North in the Miocene, Lower Oligocene and Eocene reservoirs. During the first 5 ½ months of 2011, the Company has drilled seven successful exploration wells at Bua Ban North A and B. Production testing is scheduled for later in Q2.

<b>Summary of Oil &amp; Gas Properties</b>	<b>Thailand Onshore</b>	<b>Producing Oil &amp; Gas Properties</b>	<b>Totals</b>
<b>Balance, December 31, 2010</b>	<b>\$47,261</b>	<b>\$245,577</b>	<b>\$292,838</b>
Additions during the period:			
Development, including ARO	-	12,006	12,006
Equity earnings in Apico, net of distributions	2,631	-	2,631
Amortization / depletion	(278)	(14,224)	(14,502)
<b>Balance March 31, 2011</b>	<b>\$49,614</b>	<b>\$243,359</b>	<b>\$292,973</b>

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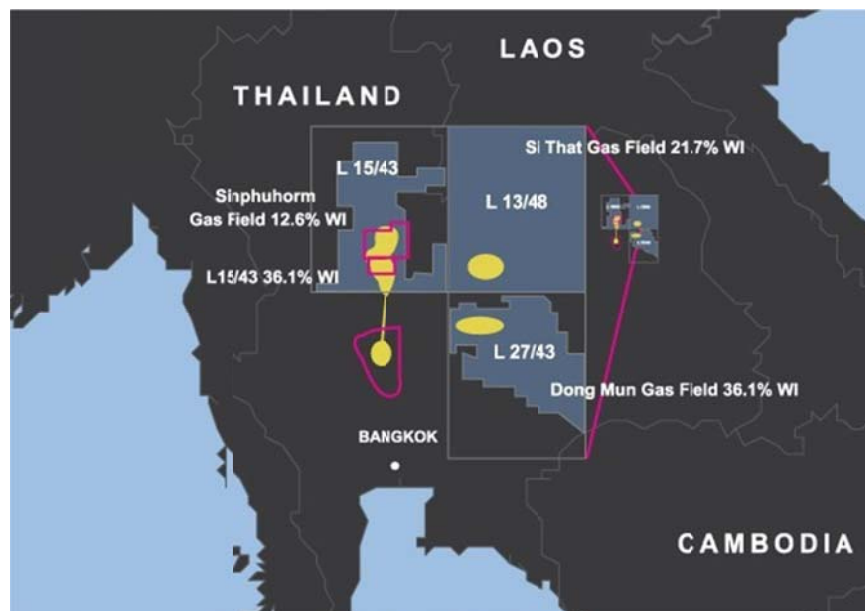


## COASTAL ENERGY COMPANY

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### Thailand Onshore



The Company's Thailand onshore interests are held indirectly through its equity investment in Apico. Apico is considered a significantly influenced investee. Apico's petroleum concessions are located in the Khorat Plateau in north eastern Thailand.

Coastal holds a net working interest of 12.6% in Blocks EU-1 and E-5N onshore Thailand through its 36.1% equity investment in Apico, LLC, which holds a 35% non-operated working interest in the Blocks. Blocks EU-1 and E-5N contain the Sinphuhorm gas field. Production at Sinphuhorm commenced on November 30, 2006 to supply the Nam Phong power plant with over 500 billion cubic feet of gas, plus condensate, under a 15 year Gas Sales Agreement with PTT Public Company Limited. In the first quarter of 2011, the Sinphuhorm field delivered approximately 89 mmcf/d (11.2 mmcf/d net to Coastal) to Nam Phong. The field also produced in excess of 405 bbl/d (51 bbl/d net to Coastal) of condensate. As of December 31, 2010, Sinphuhorm had 2P reserves of 993.1 billion cubic feet ("bcf") of natural gas (139 bcf net to Coastal, 23.2 mmbbl of oil (0.7 mmbbls net to Coastal), before royalties.

Coastal also holds a net 36.1% working interest in Block L27/43 (operated by Apico), which is located southeast of the L15/43 concession. The Phu Kheng-1 exploration well was spudded in July 2009 and encountered Jurassic and Triassic sandstones in the Phu Kradung and Nam Phong formations. Following the hydraulic fracturing tests, no gas flow as seen in either interval and this well was plugged and abandoned.

The Company has a net 36.1% working interest in Block L15/43 (operated by Apico), which surrounds the Sinphuhorm gas field.

Coastal formerly held a 21.7% net working interest in Block L 13/48 (operated by APICO). In Q410, the Board of APICO voted to relinquish its interest in L 13/48 due to the limited prospectivity of the concession.

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## COASTAL ENERGY COMPANY

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### 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 June 16, 2011, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three months ended March 31, 2011 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:

<b>Petroleum Concession</b>	<b>Coastal's Working Interest</b>
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%

#### Non-IFRS and Non-GAAP Measures

This report contains financial terms that are not considered measures under International Financial Reporting Standard principles ("IFRS") or 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 IFRS or GAAP, and consequently are referred to as non-IFRS or 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 IFRS or GAAP.

## COASTAL ENERGY COMPANY

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### Forward Looking Statements

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

### Financial Review

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

#### Average Daily Production (boe/d)

	3 Months ended March 31,		
	2011	2010	Change
Songkhla	6,384	7,068	-10%
Bua Ban	1,815	-	-
Total Offshore Production	8,199	7,068	16%
Sinphuhorm (via Apico)	1,926	1,855	4%
Total Company	10,125	8,923	13%

Offshore production increased 16% year over year due to production from Bua Ban, which began in mid-2010. Production at Songkhla declined year over year as additional production from the recently drilled exploration and appraisal wells was offset by downtime associated with workovers as well as declines in existing wells. The following table reconciles the Company's offshore inventory, production and liftings.

#### Crude Oil Inventory (bbls)

	3 months ended March 31,		
	2011	2010	Change
Inventory Beginning of Period	203,983	157,883	29%
+ Production	737,931	636,103	16%
- Sales / Liftings	764,602	713,278	7%
<b>Inventory, End of Period</b>	<b>177,312</b>	<b>80,708</b>	<b>120%</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 off-loaded for sale at the end of the period. The sales price for the Company's offshore oil is based on the Dubai benchmark price.

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## COASTAL ENERGY COMPANY

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Oil Sales, Average Benchmark and Realized Prices (\$/bbl)	3 Months ended March 31,		
	2011	2010	Change
Oil Sales	<b>\$72,556</b>	\$49,510	47%
Dubai (Benchmark - \$/bbl)	<b>\$100.90</b>	\$75.93	33%
Sales Price per bbl Sold (\$/bbl)	<b>\$94.89</b>	\$69.41	37%
Sales Price as a Percentage of Dubai	<b>94%</b>	91%	

Revenue increased by 47% in Q1 11 over the same period in 2010. This was a function of higher lifting volumes due to higher production as well as increased commodity prices. The Company's realized commodity price increased by 33% year on year. The Company is also receiving a higher percentage of its benchmark crude price as it has pursued an aggressive marketing strategy for its crude. The Company had over 175,000 barrels of crude oil in inventory at the end of Q1 11, the revenue from which will be realized in Q2 11.

Royalties	3 Months ended March 31,		
	2011	2010	Change
Royalties	<b>\$5,845</b>	\$3,650	60%
\$ per bbl	<b>\$7.64</b>	\$5.12	49%
Royalties as a percent of revenue	<b>8%</b>	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 sales. First quarter royalties increased on a per barrel basis owing to an increase in realized oil sales prices as well as higher production rates.

Other income	3 Months ended March 31,		
	2011	2010	Change
Unrealized loss on derivative contracts	<b>(\$18,257)</b>	(\$65)	-
Realized loss on derivative contracts	<b>(2,400)</b>	-	-
Interest income	<b>1</b>	2	-
Foreign exchange (loss) gain	<b>(428)</b>	211	-
Other income	<b>\$(21,084)</b>	\$148	

The Company has risk management contracts outstanding to hedge its exposure to interest rate and commodity price movements. These contracts were entered into as a condition of the Company's revolving credit facility. The Company adjusts the fair value of this risk management contract (mark to market) every quarter with the changes in fair value recognized in net earnings, as required under IFRS. The mark to market loss was significant in the three months ended March 31, 2011 due to the significant increase in crude oil pricing during the quarter. The unrealized loss may never be realized depending upon commodity price movements between March 31, 2011 and expiry of the final contract (September 2012).

The Company has earned negligible income on its cash balances due to the low global interest rate environment for risk-free assets as well as its capital intensive drilling program.

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The foreign exchange 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.

### Production

	3 Months ended March 31,		
	2011	2010	Change
Production expenses	\$19,983	\$9,487	111%
Effect of change in inventory	2,235	1,508	48%
	\$22,218	\$10,995	102%
\$ per bbl	\$29.06	\$15.41	

Production expenses on a per barrel basis increased in Q111 due to the high number of workovers during the quarter. Higher aggregate costs were exacerbated on a per barrel basis due to lower production while workovers were completed.

### General and Administrative Expenses

	3 Months ended March 31,		
	2011	2010	Change
Salaries and benefits	\$3,951	\$2,552	55%
Professional fees	359	298	20%
Office and general	434	470	-8%
Travel and entertainment	342	329	4%
Regulatory and transfer fees	177	148	20%
Total general and administrative expenses	\$5,263	\$3,797	39%

G&A expense increased over the same period last year due to higher headcount required to support offshore operations. The Company had 51 full-time employees; and 15 full time contractors as of March 31, 2011 (2010: 47 and 17, respectively).

### Exploration

	3 Months ended March 31,		
	2011	2010	Change
Unsuccessful exploration costs	\$5,553	\$9,267	-40%

The 2011 charge relates to a write down of costs associated with the frac jobs on Benjarong, the results of which did not lead to commercially acceptable performance.

As a result of the Company's transition to IFRS reporting, it is now expensing dry hole costs on exploration prospects which prove to be unsuccessful.

### Finance costs

	3 Months ended March 31,		
	2011	2010	Change
Finance costs	\$1,162	\$732	59%

Interest expense includes interest on the Company's amounts due to shareholder and long-term debt. Interest expense increased year over year as the Company had higher debt balances. Total debt (excluding interest) at March 31, 2011 was \$80 million versus \$34.4 million at March 31, 2010. The Company's average interest rate was 4.45% for the three months ended March 31, 2011 (2010: 4.25%).

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Depletion and Depreciation	3 Months ended March 31,		
	2011	2010	Change
Oil and gas depreciation & depletion	\$14,224	\$3,672	287%
Effect of change in inventory	(1,014)	2,235	-145%
Corporate depreciation	76	66	15%
Depletion, depreciation, amortization and impairment expense	\$13,286	\$5,973	122%
\$ per bbl	\$17.38	\$8.37	-

DD&A per barrel increased sequentially and year-over-year due to increased exploration capital expenditures as well as changes in the Company's total proved and probable reserve base at year end 2010.

As a result of the Company's transition to IFRS, DD&A costs were reduced sequentially on an aggregate and per barrel basis as the Company's full cost pool is depleted over proved plus probable reserves now instead of just over proved. Year over year DD&A expense increased due to the inclusion of Bua Ban 2P costs and reserves in the Company's full cost pool.

Taxes	3 Months ended March 31,		
	2011	2010	Change
Current taxes	\$-	\$964	-
Deferred income taxes	3,183	5,577	-
Taxes	\$3,183	\$6,541	-51%

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

As a result of the Company's transition to IFRS reporting, changes to certain financial statement line items have resulted in lower deferred tax expense than would have been incurred under Canadian GAAP. Please see Footnote 25 to the Unaudited Financial Statements for details of these changes.

Share of net income from Apico LLC	3 Months ended March 31,		
	2011	2010	Change
Coastal's 36.1% of Apico's net income	\$3,534	\$3,256	9%
Amortization of Coastal's excess basis	(278)	(272)	2%
Earnings from Significantly Influenced Investee, net of taxes	\$3,256	\$2,984	9%
100% Field Production volumes (mmcf/d)	89.30	86.84	3%
12.6% net to Coastal (mmcf/d)	11.3	10.9	3%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on Apico's quarterly reported net income. Apico experienced higher revenue in the three months ended March 31, 2011 over the prior comparable period primarily due to higher realized gas sales prices.

## COASTAL ENERGY COMPANY

Three Month Period ended March 31, 2011 and 2010

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

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As a result of the Company's transition to IFRS reporting, the equity pickup of Apico's net income has been adjusted to reflect differences in IFRS and US GAAP, the GAAP followed in Apico's local books. Consequently, Coastal's share of Apico's net income has been negatively affected by dry hole costs, slightly offset by lower DD&A and income tax expense.

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 loss and income</b>	3 Months ended		
	2011	March 31, 2010	Change
Net (loss) income and comprehensive (loss) income attributable to Coastal Energy	<b>\$(2,362)</b>	\$11,568	-120%
Basic (loss) earnings per share	<b>\$(0.02)</b>	\$0.11	-118%
Diluted (loss) earnings per share	<b>\$(0.02)</b>	\$0.10	-80%

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

## COASTAL ENERGY COMPANY

Three Month Period ended March 31, 2011 and 2010

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

### Summary of Quarterly Results

	2011 Q1	Q4	2010 Q3	Q2	Q1	Q4(a)	2009 Q3(a)	Q2(a)
<b>Revenues and Other Income</b>								
Oil sales	\$72,556	\$33,246	\$68,688	\$42,164	\$49,510	\$28,926	\$21,205	\$28,017
Royalties	(5,845)	(2,769)	(6,828)	(3,154)	(3,650)	(2,027)	(1,430)	(1,880)
(Loss) gain on derivative	(20,657)	(18,181)	-	(1)	(65)	(282)	128	(836)
Interest income	1	1	1	1	2	5	6	5
Other income	(428)	(913)	(296)	33	211	(342)	(240)	(1,765)
	<b>45,627</b>	<b>11,384</b>	<b>61,565</b>	<b>39,043</b>	<b>46,008</b>	<b>26,280</b>	<b>19,669</b>	<b>23,541</b>
<b>Expenses</b>								
Production	22,218	17,996	16,124	8,211	10,995	9,689	10,936	9,532
Depreciation, Depletion, Amortization and Impairment	13,286	22,364	8,343	3,684	5,973	7,457	5,382	10,063
General and Administrative	5,263	8,027	4,334	4,095	3,797	8,144	5,029	3,210
Exploration	5,553	62,786	26	91	9,267	-	-	-
Debt financing fees	234	256	23	119	124	205	323	26
Finance	1,162	1,272	722	749	732	677	796	1,347
	<b>47,716</b>	<b>112,701</b>	<b>29,572</b>	<b>16,949</b>	<b>30,888</b>	<b>26,172</b>	<b>22,466</b>	<b>24,178</b>
<b>Taxes</b>	<b>3,183</b>	<b>(40,857)</b>	<b>9,872</b>	<b>12,669</b>	<b>6,541</b>	<b>738</b>	<b>-</b>	<b>-</b>
<b>Share of net income from Apico LLC</b>	<b>3,256</b>	<b>(917)</b>	<b>2,709</b>	<b>3,156</b>	<b>2,984</b>	<b>2,577</b>	<b>2,621</b>	<b>1,854</b>
<b>Net income before non-controlling interests</b>	<b>(2,016)</b>	<b>(61,377)</b>	<b>24,830</b>	<b>12,581</b>	<b>11,563</b>	<b>1,947</b>	<b>(176)</b>	<b>1,217</b>
Non Controlling interest	(346)	(1,364)	247	(55)	5	62	65	
<b>Net Income Attributable to Coastal Energy Company</b>	<b>(2,362)</b>	<b>(62,741)</b>	<b>25,077</b>	<b>12,526</b>	<b>11,568</b>	<b>2,009</b>	<b>(111)</b>	<b>1,217</b>
EBITDAX <sup>(b)</sup>	\$40,079	\$2,846	\$44,508	\$29,854	\$35,496	\$12,520	\$6,820	\$14,967
Basic earnings (loss)	(\$0.02)	(\$0.57)	\$0.23	\$0.11	\$0.11	\$0.02	\$0.00	\$0.01
Diluted earnings (loss)	(\$0.02)	(\$0.57)	\$0.22	\$0.11	\$0.10	\$0.02	\$0.00	\$0.01

Note (a) The numbers from Q1 2010 onwards are presented in accordance with IFRS. Those prior to this date are presented under Canadian GAAP

Note (b) EBITDAX is a non-IFRS and non-Canadian 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 quarter of 2011 due to an increase in commodity prices.
- The Company has incurred higher lease operating expenses in the previous quarters as workover expenses related to downhole pump replacements on its wells have been increasing.
- The Company has incurred higher general and administrative expenses as it has been adding headcount as operations expand.
- The Company transacts business in multiple currencies; therefore the volatility of global currency exchange rates has a direct effect on the Company's foreign exchange (gains) losses.

### Cash Flow Analysis

The Company's cash and cash equivalents at March 31, 2011 were \$15.9 million, an increase of \$12.0 million from \$3.9 million at December 31, 2010. The Company's primary source of funds came from operations, shares issued for cash of \$4.7 million from one-time option exercises, and \$6.3 million increase in borrowings. Cash and cash equivalents were primarily used to fund property, plant and equipment expenditures of \$36.4 million and to fund working capital.



## COASTAL ENERGY COMPANY

Three Month Period ended March 31, 2011 and 2010

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

### Capital Expenditures

Capital expenditures (including cash payments and amounts included in accounts payable) amounted to \$27.9 million for the three months ended March 31, 2011, compared to \$45.4 million for the three months ended March 31, 2010, respectively. The Q1 2011 expenditures were mainly the result of development drilling at Songkhla A and exploration drilling on the Company's Bua Ban North prospects. The following table sets forth a summary of the Company's capital expenditures incurred:

Capital Expenditures	3 Months ended March 31,	
	2011	2010
Seismic, geological and geophysical studies	\$287	\$935
Drilling and completions	24,920	23,033
Facilities	572	19,735
Lease and well equipment	1,862	1,564
Administrative assets	228	110
Other	-	6
Total Capital Expenditures	\$27,869	\$45,383

### Equity Capital

#### Share Capital

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

At March 31, 2011 and as of the date of this report, the Company had 111,941,894 common shares outstanding.

#### Warrants

During the three months ended March 31, 2011, the Company issued no warrants, no warrants were forfeited and 340,000 warrants were exercised for 286,082 shares of the Company's common stock. Subsequent to March 31, 2011, no warrants were exercised. As of the date of this report the Company had 200,000 warrants outstanding at a weighted average exercise price of \$1.10 per share.

#### Stock Options

During the three months ended March 31, 2011, the Company granted no stock options; no options were forfeited and 1,938,301 options were exercised. The following table summarizes the outstanding and exercisable options as of the date of this report:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	0.75 years	\$2.25 (£1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	712,500	0.75 years	\$2.26 (Cdn\$2.20)	Dec. 27, 2011	712,500
Jan. 25, 2008	367,500	1.75 years	\$4.05 (Cdn\$3.94)	Jan. 26, 2013	367,500
May 05, 2008	37,500	2.08 years	\$4.57 (Cdn\$4.44)	May 06, 2013	-
Jul. 14, 2008	77,500	2.25 years	\$3.71 (Cdn\$3.61)	Jul. 15, 2013	56,250
Sep. 16, 2008	100,000	2.50 years	\$2.34 (Cdn\$2.27)	Sep. 16, 2013	75,000
Sep. 23, 2008	1,000,000	2.75 years	\$4.05 (Cdn\$3.94)	Feb. 05, 2013	1,000,000
Jan. 02, 2009	2,534,005	2.75 years	\$1.39 (Cdn\$1.35)	Jan. 01, 2014	1,510,663
Dec. 01, 2009	2,431,777	3.75 years	\$5.28 (Cdn\$5.13)	Nov. 30, 2014	747,071
Dec. 28, 2010	1,570,904	4.75 years	\$5.92 (Cdn\$5.75)	Dec. 27, 2015	-
	8,856,686				4,493,984

## COASTAL ENERGY COMPANY

Three Month Period ended March 31, 2011 and 2010

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

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### Off-Statement of financial position Arrangements

The Company has no off-statement of financial position 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, 2011 and also as described in Notes 19 to the unaudited condensed interim financial statements for the three months ended March 31, 2011.

### Subsequent Events

The Company announced one successful exploration well at Bua Ban North A and four successful exploration wells at Bua Ban North B. Production is expected to begin at Bua Ban North B in late Q2 2011.

### Critical Accounting Policies, Estimates and New Accounting Pronouncements

A detailed summary of the Company's critical accounting policies and estimates is included in Note 3 to the unaudited financial statements for the quarter ended March 31, 2011. Given the transition to International Financial Reporting Standards we strongly advocate readers of this document read and understand the policies described in that document.

### 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 29, 2011 (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.

#### *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,

## **COASTAL ENERGY COMPANY**

Three Month Period ended March 31, 2011 and 2010

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

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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 affect the Company's operating cash flow.

### ***Operating Hazards and Risks***

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risk normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damages to persons or property and possible environmental damage. Although the Company may obtain liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to the high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

### ***Reserve Estimates***

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

### ***Disruptions in Production***

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

### ***Cash Flows and Additional Funding Requirements***

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

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

### ***Environmental***

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

## **COASTAL ENERGY COMPANY**

Three Month Period ended March 31, 2011 and 2010

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

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### ***Laws and Regulations***

The Company's exploration activities are subject to local laws and regulations governing prospecting, drilling, development, exports, taxes, labor 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 have 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 on its exposure to and management of credit risk, liquidity risk and market risk in Note 24 to the unaudited condensed interim financial statements for the three months ended March 31, 2011.

## **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 condensed interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

## COASTAL ENERGY COMPANY

Three Month Period ended March 31, 2011 and 2010

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

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.

### International Financial Reporting Standards Transition

This reporting period is Coastal's first under International Financial Reporting Standards (IFRS). As such, the accounting policies of the Company have been adjusted to comply with IFRS beginning with the statement of financial position as at January 1, 2010. A comprehensive summary of all of the significant changes, including reconciliations of the Canadian GAAP financial statements to those prepared under IFRS, is presented in Note 25 "First Time Adoption of IFRS" of the Company's unaudited March 31, 2011 condensed interim financial statements.

Adopting IFRS did not impact the cash the Company generated. However, the adoption of IFRS has had an impact on the Company's statement of financial position and statement of income. Previously reported net income for the first quarter of 2010 is \$1.4 million higher under IFRS shown in the following reconciliation:

	Three Months ended March 31, 2010
	\$m
<b>Net Income under Canadian GAAP</b>	<b>10.2</b>
Differences increasing (decreasing) reported net income:	
Unsuccessful exploration costs	(9.3)
Income Taxes	3.7
Foreign exchange	0.7
Depletion	7.4
Finance lease	(0.2)
Property, Plant & Equipment	(1.1)
Share of joint venture's net income	0.2
<b>Total Differences in Net Income</b>	<b>1.4</b>
<b>Net Income under IFRS</b>	<b>11.6</b>

Net loss for the three months ended March 31, 2011 was \$2.4 million under IFRS. These results are very different from what would have been reported under Canadian GAAP. The significant IFRS accounting adjustments to net income include the write off of costs associated with the frac jobs at Benjarong (not commercially viable), and lower depletion due to the way we were required to allocate our property base upon transition to IFRS.

### Outlook

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

**COASTAL ENERGY COMPANY**

## Condensed Interim Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

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

<b>Three Months ended March 31,</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues and Other Income</b>		
Oil sales, net of royalties (Note 15)	66,711	45,860
Other income (Note 16)	(21,084)	148
	<b>45,627</b>	<b>46,008</b>
<b>Expenses</b>		
Production	22,218	10,995
Depreciation and depletion (Note 7)	13,286	5,973
General and administrative	5,263	3,797
Exploration (Note 6)	5,553	9,267
Debt financing fees	234	124
Finance expense (Note 14)	1,162	732
	<b>47,716</b>	<b>30,888</b>
<b>Net (loss) income before income taxes, share of net income from Apico LLC and non-controlling interest</b>	<b>(2,089)</b>	15,120
Share of net income from Apico LLC (Note 8)	3,256	2,984
<b>Net income before income taxes and non-controlling interest</b>	<b>1,167</b>	18,104
<b>Income taxes (Note 20)</b>		
Current	-	964
Deferred	3,183	5,577
	<b>3,183</b>	<b>6,541</b>
Net (loss) income and comprehensive (loss) income	(2,016)	11,563
Net income attributable to non controlling interest	(346)	5
<b>Net (loss) income and comprehensive (loss) income attributable to the shareholders of Coastal Energy Company</b>	<b>(2,362)</b>	<b>11,568</b>
Net income (loss) per share:		
Basic (Note 18)	<b>(\$0.02)</b>	\$0.11
Diluted (Note 18)	<b>(\$0.02)</b>	\$0.10

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## COASTAL ENERGY COMPANY

### Condensed Interim Consolidated Statements of Financial Position (Unaudited)

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

As at	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash	15,912	3,884	21,229
Restricted cash	9,836	16,369	3,829
Accounts receivable (Note 4)	25,220	10,299	6,111
Derivative asset	144	135	66
Inventory (Note 5)	11,953	12,783	5,310
Prepays and other current assets	171	606	526
Total current assets	63,236	44,076	37,071
<b>Non-Current Assets</b>			
Exploration and evaluation assets (Note 6)	42,114	31,068	44,907
Property, plant and equipment (Note 7)	244,182	246,248	189,534
Investment in and advances to Apico LLC (Note 8)	49,614	47,261	55,225
Deposits and other assets	332	289	300
Total non-current assets	336,242	324,866	289,966
<b>Total Assets</b>	<b>399,478</b>	<b>368,942</b>	<b>327,037</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities (Note 9)	51,592	53,550	31,363
Deferred income (Note 10)	-	-	23,060
Current portion of long-term debt (Note 12)	38,172	36,262	10,266
Amounts due to shareholder (Note 11)	-	-	5,164
Obligations under finance leases	755	885	35
Current portion of derivative liabilities (Note 12)	23,985	10,141	-
Total current liabilities	114,504	100,838	69,888
<b>Non-Current Liabilities</b>			
Long-term debt (Note 12)	40,412	35,081	24,284
Obligations under finance leases	709	579	1,439
Non-current portion of derivative liabilities (Note 12)	11,031	6,609	-
Deferred tax liabilities	15,068	11,885	23,653
Decommissioning liabilities (Note 13)	18,250	17,655	4,071
Total Non-Current Liabilities	85,470	71,809	53,447
<b>Shareholders' Equity (Note 18)</b>			
Common shares	207,388	201,303	198,121
Contributed surplus	15,238	15,892	13,779
Warrants	29	79	153
Accumulated deficit	(29,900)	(27,538)	(13,968)
Total Coastal Energy Company Shareholders' Equity	192,755	189,736	198,085
Non-Controlling Interest	6,749	6,559	5,617
<b>Total equity (Note 25)</b>	<b>199,504</b>	<b>196,295</b>	<b>203,702</b>
<b>Total liabilities and equity</b>	<b>399,478</b>	<b>368,942</b>	<b>327,037</b>

Commitments and contingencies (Note 19)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**COASTAL ENERGY COMPANY**

## Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

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

<b>Three Months ended March 31,</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Operating Activities</b>		
Net (loss) income attributable to the shareholders of Coastal Energy Company	(2,362)	11,568
Adjustments:		
Share of net income from Apico LLC	(3,256)	(2,984)
Non controlling interest	346	(5)
Unrealized loss on derivative instruments	18,257	65
Depletion and depreciation	13,286	5,973
Finance expense	946	384
Amortisation of debt financing fees	234	-
Stock-based compensation	2,122	1,259
Deferred income taxes	3,183	5,577
Unrealized foreign exchange (gain) loss	(149)	-
Exploration expense	5,553	9,267
Income Taxes Paid	-	(6)
Interest income	1	2
Interest Paid	(312)	(510)
Earnings distributions from Apico LLC	903	541
Changes in Non-Cash Working Capital (Note 21)	(7,315)	(5,666)
	<b>31,437</b>	<b>25,465</b>
<b>Financing Activities</b>		
Issuance of common shares, net of issuance costs	4,693	1,840
Borrowings under long-term debt	6,275	-
Repayment of long-term debt	-	(4,979)
Repayment of amounts due to shareholder	-	(1,750)
	<b>10,968</b>	<b>(4,889)</b>
<b>Investing Activities</b>		
Increase in restricted cash	6,533	377
Purchase of property, plant and equipment	(36,470)	(36,332)
Deposits and other assets	(43)	(6)
(Payments to) contributions from non-controlling interest	(156)	750
	<b>(30,136)</b>	<b>(35,211)</b>
Effect of exchange rate changes on cash	(241)	135
Increase (decrease) in cash	12,028	(14,500)
Cash - Beginning of period	3,884	21,229
<b>Cash - End of period</b>	<b>15,912</b>	<b>6,729</b>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.



## COASTAL ENERGY COMPANY

### Condensed Interim Consolidated Statement of Changes in Equity (Unaudited)

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

	Note	Common Shares	Contributed Surplus	Warrants	Accumulated Deficit	Non Controlling Interests	Total
		\$	\$	\$	\$	\$	\$
<b>Balance January 1, 2010</b>	18	198,121	13,779	153	(13,968)	5,617	203,702
Net income and comprehensive income		-	-	-	11,568	-	11,568
Exercise of stock options		2,077	(527)	-	-	-	1,550
Exercise of warrants		364	-	(74)	-	-	290
Stock-based compensation		-	766	-	-	-	766
Net loss attributable to non-controlling interests		-	-	-	-	(5)	(5)
Contributions from non-controlling interests		-	-	-	-	750	750
<b>Balance March 31, 2010</b>	18	200,562	14,018	79	(2,400)	6,362	218,621
Net loss and comprehensive loss		-	-	-	(25,138)	-	(25,138)
Exercise of stock options		741	(172)	-	-	-	569
Stock-based compensation		-	2,046	-	-	-	2,046
Net income attributable to non-controlling interests		-	-	-	-	1,172	1,172
Distributions declared to non-controlling interests		-	-	-	-	(975)	(975)
<b>Balance December 31, 2010</b>	18	201,303	15,892	79	(27,538)	6,559	196,295
Net loss and comprehensive loss		-	-	-	(2,362)	-	(2,362)
Exercise of stock options		6,035	(1,342)	-	-	-	4,693
Exercise of warrants		50	-	(50)	-	-	-
Stock-based compensation		-	688	-	-	-	688
Net income attributable to non-controlling interests		-	-	-	-	346	346
Distributions declared to non-controlling interests		-	-	-	-	(156)	(156)
<b>Balance March 31, 2011</b>	18	207,388	15,238	29	(29,900)	6,749	199,504

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

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#### **Note 1. Reporting entity**

Coastal Energy Company (Coastal, The Company) is an independent oil and gas exploration and development company with operations in offshore Thailand, and an interest in a joint venture which operates on the Thai mainland. The Company's shares are publicly traded on both the Toronto Venture Stock Exchange (TSX-V) and the London Alternative Investment Market (AIM). The Company has made application to have its shares listed on the Toronto Stock Exchange (TSX) and has received conditional approval for such listing. It is anticipated that on or about July 5, 2011 the Company's shares will begin trading on the TSX and will cease trading on the TSX-V Exchange.

The Company's head office is at Walkers House, 87 Mary Street, George Town, Grand Cayman, KY1-9001, Cayman Islands.

#### **Note 2. Basis of preparation**

##### **Statement of compliance**

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The Unaudited Condensed Consolidated Financial Statements do not include all of the information required for annual financial statements. Amounts relating to the three months ended March 31, 2010 and as at December 31, 2010 were previously presented in accordance with Canadian GAAP. These amounts have been restated as necessary to be compliant with our accounting policies under IFRS, which are included in Note 3. Reconciliations and descriptions relating to the transition from Canadian GAAP to IFRS are included in Note 25.

In addition, the Company's disclosures included in these financial statements exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Audit Committee on June 16, 2011 under authority from the Company's Board of Directors.

##### **Basis of measurement**

These financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based payment transactions, which are measured at fair value. The comparative figures presented in these consolidated financial statements are in accordance with IFRS and have not been audited.

##### **Functional and presentational currency**

These financial statements are presented in United States dollars which is both the functional and the presentation currency of the Company and its subsidiaries, and all amounts are represented in hundreds of thousand dollars except when otherwise indicated.

##### **Significant use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on a regular basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

Specific amounts and disclosures affected by estimates and assumptions are: (i) amounts recorded for depletion and depreciation expense and amounts used for impairment test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves on a Cash Generating Unit ("CGU") basis; (ii) stock-based compensation is based upon expected volatility and option life estimates; (iii) decommissioning liabilities and the related accretion are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates; (iv) the provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax base of assets and liabilities; and (v) the decision to record (or not record) liabilities and contingencies are based on the estimates of the probability of outcomes and estimates of future cash flows.

### Note 3. Accounting policies

The accounting policies set out below were used to prepare the opening IFRS condensed consolidated statement of financial position at January 1, 2010 for the purposes of transitioning to IFRS, and have been applied consistently for all periods presented in these Unaudited Condensed Consolidated Financial Statements.

#### Consolidation

The Unaudited Condensed Interim Consolidated Financial Statements include the accounts of the Company and its controlled affiliates. All subsidiary companies are wholly owned. All intercompany accounts and transactions are eliminated upon consolidation. In addition, the Company owns 50% of the share capital of Viking Storage Solutions (Mauritius) Limited ("VSS"). This entity is accounted for as a special purpose entity. The impact on financial statements is similar to that of a partially owned subsidiary. Coastal also has a 36.1% interest in Apico LLC, a jointly controlled entity accounted for under the equity method. Apico LLC is involved in the exploration and production of gas in Northeastern Thailand.

The below summarizes the Company's ownership in other entities:

Name	Ownership interest	Type	Country of Incorporation
Coastal Energy Company Nevada	100%	Subsidiary	United States
Coastal Energy (UK) Company Limited	100%	Subsidiary	United Kingdom
NuCoastal (Thailand) Limited	100%	Subsidiary	Thailand
Coastal Energy Company (Khorat) Ltd	100%	Subsidiary	Cayman Islands
CEC Equipment Limited	100%	Subsidiary	Cayman Islands
CEC International Limited	100%	Subsidiary	Cayman Islands
CEC Services (Thailand) Limited	100%	Subsidiary	Thailand
Ocean 66 Limited	100%	Subsidiary	Mauritius
Viking Storage Solutions (Mauritius) Limited	50%	Special Purpose Entity	Mauritius
Apico LLC	36%	Partnership	United States

#### Cash

Cash includes short-term, highly liquid investments that mature within three months of their purchase.

#### Restricted cash

Some cash balances are restricted under the terms of the Company's debt facility with BNP Paribas. The restricted cash represents proceeds from borrowing base assets. Cash may be disbursed from the restricted accounts for approved purposes as designated by the credit agreement.

#### Inventories and supplies

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

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#### *Crude Oil Inventory*

Crude oil inventory consists of crude oil in storage at the statement of financial position date and is valued at the lower of cost, using the weighted average cost method, or net realizable value. Costs include direct and indirect expenses incurred in bringing the crude oil to its existing condition and location.

#### *Marine Fuel Inventory*

Marine fuel inventory consists of marine fuel in storage at the statement of financial position date and is valued at the lower of cost, using the weighted average cost method, or net realizable value. Costs include direct and indirect expenses incurred in bringing the marine fuel to its existing location.

#### **Exploration and evaluation (E&E) Expenditures**

Pre-license expenditures are expensed in the period in which they are incurred.

All costs directly associated with the exploration and evaluation of crude oil and gas reserves are initially capitalized on a prospect-by-prospect basis. Exploration and evaluation costs are those expenditures for a prospect where technical feasibility and commercial viability has not yet been determined.

When a prospect is determined to be technically feasible and commercially viable, the accumulated costs are assessed for impairment and then transferred to property, plant and equipment. When a field is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net income as exploration and evaluation expense.

#### **Property, plant and equipment (PP&E)**

All costs directly associated with the development of crude oil and gas reserves are capitalized on a field-by-field basis. The Oil & Gas Properties' asset includes expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers from exploration and evaluation assets. Included within this caption are capital spares.

Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use. For divestitures of properties, a gain or loss is recognized in net income. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net income.

#### **Maintenance and Repairs**

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

#### **Impairment**

E&E and Producing Oil & Gas Properties are accumulated in cash-generating units ("CGU's") on the basis of geographical fields having regard to the operational infrastructure (such as facilities and sales points) of the area, and are the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company currently has two CGU's for PP&E assets, being onshore and offshore Thailand. E&E assets are assessed for impairment on a field by field basis.

At the end of each reporting period, the Company assesses the CGU's for circumstances that indicate that the assets may be impaired. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU's group exceeds its recoverable amount, the asset or CGU is considered impaired and is written-down.

For impairment losses identified based on a CGU, or group of CGU's, the loss is allocated on a pro rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill allocated to the CGU or group of CGU's and then, reducing the carrying amount of the other assets of the CGU, or group of CGU's, on a pro rata basis. The impairment loss is recognized as an expense in the statement of operations.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

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Where the circumstances that gave rise to an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, so that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations.

#### **Corporate and other property, plant and equipment**

Other tangible non-current assets are stated at historical cost. Depreciation is calculated using the straight-line method over the estimated life of the asset.

For impairment test purposes, corporate assets are allocated to each of the CGU's on the basis of proportionate future net revenue consistent with the recoverable amount.

#### **Investment in and advances to Apico LLC**

The results, assets and liabilities of Apico LLC ('Apico') are incorporated in these financial statements using the equity method of accounting. Under this method, the investment is carried in the statement of financial position at cost, plus post-acquisition changes in the group's share of net assets of Apico LLC, less distributions received and less any impairment in value of the investment. The Company's income statement reflects the group's share of the results after tax of Apico. The financial statements of Apico are prepared for the same reporting period as for the Company. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the group.

#### **Capitalized borrowing costs**

Borrowing costs directly relating to the acquisition, construction or production of a capital project under construction for a substantial period of time (the Company defines this period as being greater than one year) are capitalized and added to the project cost during construction until such time that the assets are substantially ready for their intended use. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred interest income earned. Any income generated from short-term investments reduces the related total capitalized borrowing costs. The Company did not capitalize any borrowing costs in 2010 or during the first quarter of 2011.

#### **Financial instruments and hedging activities**

All financial assets and liabilities are recognized on the statement of financial position initially at fair value when we become a party to the contractual provisions of the instrument. Subsequent measurement of the financial instruments is based on their classification. We classify each financial instrument into one of the following categories: loans or receivables, fair value through profit and loss and other financial liabilities. The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in limited circumstances, the classification of financial instruments is not subsequently changed.

Financial instruments carried at fair value on the Company's statement of financial position include cash, restricted cash and derivatives. Realized and unrealized gains and losses from financial assets and liabilities carried at fair value are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets and liabilities are included in net income when incurred.

Financial instruments carried at cost or amortized cost include the Company's accounts receivable, accounts payable and accrued liabilities, current-portion and non-current portion of long-term debt, amounts due to shareholder and obligations under finance leases. Transaction costs are included in net income when incurred for these types of financial instruments except long-term debt. These transaction costs are included with the initial fair value, and the instrument is carried at amortized cost using the effective interest rate method. Gains and losses on financial assets and liabilities carried at cost or amortized cost is recognized in net income when these assets or liabilities settle.

#### *Derivatives*

Coastal uses puts and call option contracts to manage commodity price risk as required as part of the debt facility with BNP Paribas. The facility also requires interest rate swap contracts to be utilized. The Company records these instruments at fair value at each statement of financial position date and changes in fair value are included in other income during the period of change.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

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#### *Hedge accounting*

The Company has not adopted hedge accounting.

#### **Provisions and Contingencies**

Provisions are recognized when we have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the accretion of the provision due to the passage of time is recognized within finance costs.

Contingent liabilities are possible obligations which will be confirmed by future events that are not necessarily within our control, or are present obligations where the obligation cannot be measured reliably or it is not probable that settlement will be required. Contingent liabilities are disclosed only if the possibility of settlement is greater than remote. Contingent liabilities are not recorded in the financial statements.

#### **Decommissioning liabilities**

The Company recognizes the estimated fair value of decommissioning liabilities associated with Producing Oil and Gas Properties and E&E assets as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim the wells and well sites that are required to be abandoned under the terms of the relevant concession agreements. Wells and well sites that the Company has acquired, constructed, drilled, completed workovers on, or performed enhancements to, are included in the estimate. This estimate is evaluated on a periodic basis and any adjustment to the estimate is applied prospectively. The change in net present value of the future retirement obligation due to the passage of time is expensed as unwinding of the discount. Decommissioning liabilities settled during the period reduce the decommissioning liability.

Liabilities for environmental costs are recognized when a cleanup is probable and the associated costs can be reliably estimated.

#### **Revenue Recognition**

Revenues from the sale of crude oil are recognized when the commodities are delivered and title passes to the customer. Revenues associated with the sale of crude oil are recorded net of royalties.

#### **Earnings Per Share**

The Company computes basic earnings per share using net income divided by the weighted-average number of common shares outstanding.

The Company computes diluted earnings per share using net income divided by the weighted-average number of diluted common shares outstanding. The Company uses the treasury method in computing the weighted-average number of diluted common shares outstanding. This method assumes that the proceeds on exercise of in-the-money stock options and warrants are used to repurchase the Company's common shares at the average market price during the relevant period. The number of diluted common shares outstanding also reflects the potential dilution that would occur if the convertible debentures were converted into common shares at the beginning of the period, or when they were issued.

#### **Foreign Currency Translation**

The United States dollar is the functional currency of the Company and its consolidated entities. Monetary assets and liabilities denominated in currency other than the functional currency are translated at the exchange rate in effect at the statement of financial position date. Non-monetary assets, liabilities, revenues and expenses are translated at transaction date exchange rates. Exchange gains or losses are included in the determination of net income.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

#### Leases

The Company classifies leases entered into as either finance or operating leases. Leases that transfer substantially all of the risks and benefits of ownership are capitalized as finance leases within PP&E and other liabilities. All other leases are recorded as operating leases and expensed as incurred within operating expenses.

#### Stock-Based Compensation

The Company uses the fair value method of accounting for all stock-based awards to non-employees and employees, including those that are direct awards of stock. Under the fair value method, employee compensation expense attributed to direct awards of stock is measured at the fair value of the award at the grant date using the Black-Scholes option-pricing model and is recognized over the vesting period of the award. If and when the stock options are ultimately exercised by the recipient of the awards, the applicable amounts of contributed surplus are credited to share capital.

The Company awards cash-settled stock appreciation rights ("SARs") to its employees. The compensation cost for the granted SARs is accounted for using the fair value method. Under this method, the Company accrues a liability based on the fair value derived from the Black-Scholes option-pricing model of the SARs vested. The accrued liability is adjusted at each statement of financial position date for the effect of SAR grants, vesting of SARs, SARs exercised, as well as the effect of changes in the underlying price of the Company's common shares. The offsetting entry is expensed or capitalized depending on the role performed by the employee.

#### Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

#### Income Taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a deferred tax asset or liability to reflect any difference between the accounting and tax bases of assets, liabilities, unused tax losses and unused tax credits, using substantively enacted income tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs. Deferred tax assets are only recognized to the extent it is more likely than not that sufficient taxable income will be available to allow the deferred tax assets to be realized.

#### Note 4. Accounts receivable

As at	March 31, 2011	December 31, 2010	January 1, 2010
Oil sales	\$13,786	\$47	\$-
Refundable taxes (VAT)	11,114	9,932	5,682
Other	320	320	429
	<b>\$25,220</b>	<b>\$10,299</b>	<b>\$6,111</b>

#### Note 5. Inventories

As at	March 31, 2011	December 31, 2010	January 1, 2010
Marine fuel	\$2,303	\$1,912	\$-
Crude oil inventory	9,650	10,871	5,310
	<b>\$11,953</b>	<b>\$12,783</b>	<b>\$5,310</b>

## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 6. Exploration and evaluation assets

	Exploration and Evaluation
<b>Cost and Net Book Value</b>	
<b>As at January 1, 2010</b>	<b>\$44,907</b>
Additions	58,331
Exploration Expense	(72,170)
<b>As at December 31, 2010</b>	<b>31,068</b>
Additions	16,599
Exploration Expense	(5,553)
<b>As at March 31, 2011</b>	<b>\$42,114</b>

Exploration and evaluation assets ('E&E assets') mainly comprise property, geological survey and capitalized exploration drilling costs in respect of non-commercially assessed fields within our G5/43 concession. Management considers the E&E assets to be of an intangible nature.

#### Exploration expenses

During the three month period ended March 31, 2011, the Company expensed \$5.55 million of costs incurred in the same quarter in respect of non-commercial results at Benjarong (Q1 2010: \$9.27 million). In the year ended December 31, 2010, E&E assets of \$72.17 million were written off in respect of Benjarong and Songkhla B following the unsatisfactory results of production tests.

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## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 7. Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
<b>Cost</b>				
As at January 1, 2010	\$10,605	\$178,300	\$1,305	\$190,210
Additions	101	99,331	279	99,711
Disposals	-	(1,143)	-	(1,143)
As at December 31, 2010	10,706	276,488	1,584	288,778
Additions	-	12,006	228	12,234
As at March 31, 2011	\$10,706	\$288,494	\$1,812	\$301,012

#### Accumulated DD&A

As at January 1, 2010	-	-	676	676
Depletion and depreciation	-	30,911	237	31,148
Impairment	10,706	-	-	10,706
As at December 31, 2010	10,706	30,911	913	42,530
Depletion and depreciation	-	14,224	76	14,300
As at March 31, 2011	\$10,706	\$45,135	\$989	\$56,830

#### Net Book Value

As at January 1, 2010	\$10,605	\$178,300	\$629	\$189,534
As at December 31, 2010	\$-	\$245,577	\$671	\$246,248
As at March 31, 2011	\$-	\$243,359	\$823	\$244,182

Included within Oil & Gas Properties are assets held under finance leases. The net book value of these assets is \$0.83 million (2010: \$1.31 million). The depreciation charged on these assets amounted to \$0.12 million in the first quarter of 2011 (2010: \$0.12 million).

During the three months ended March 31, 2010, \$0.96 million of costs associated with decommissioning liabilities are included within additions (12 months ended December 31, 2010: \$13.30 million)

#### Impairment

During the fourth quarter of 2010, the Company impaired its mat-based jack-up rig held within "Assets under Construction" for \$10.71 million and this asset was written down to \$nil.

## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 8. Investment in and advances to Apico LLC

The Company has a 36.1% interest in Apico LLC ("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. Apico has the following working interests in petroleum concessions located in the Khorat Plateau area in northeastern Thailand:

<b>Petroleum Concession</b>	<b>Apico's interest</b>	<b>net to Coastal</b>
Block EU-1 and E-5N in the Sinphuhorm gas field	35%	12.635%
Block L15/43 - surrounding the Sinphuhorm gas field	100%	36.100%
Block L27/43 – southeast of the Sinphuhorm gas field	100%	36.100%

The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference has been allocated to Apico's oil and gas properties and is being amortized using the units of production method. At March 31, 2011, the remaining unamortized excess basis was \$13.6 million (December 31, 2010: \$13.9 million).

The following table summarizes the Company's investments in and advances to Apico:

	<b>March 31, 2011</b>	December 31, 2010	January 1, 2010
As at			
Balance, beginning of period	<b>\$47,261</b>	\$55,225	\$50,376
Advances during the period	-	-	4,516
Share of earnings of significantly influenced investee, net of taxes	<b>3,534</b>	9,041	9,544
Amortization of excess basis in Apico	<b>(278)</b>	(1,109)	(1,082)
Earnings distributions	<b>(903)</b>	(15,896)	(8,129)
Balance, end of period	<b>\$49,614</b>	\$47,261	\$55,225

The following table summarizes Apico LLC's assets and liabilities:

	<b>March 31, 2011</b>	December 31, 2010	January 1, 2010
As at			
Assets	<b>\$156,234</b>	\$121,931	\$140,622
Liabilities	<b>48,978</b>	30,338	30,052

The following table summarizes Apico LLC's revenue and net income:

	Three Months Ended March 31,	
	<b>2011</b>	2010
Revenue	<b>\$19,969</b>	\$17,364
Net income	<b>9,782</b>	8,898

The Company's share of Apico's commitments relates to geological studies, seismic surveys and exploratory drilling is \$1.13 million due within 1 year and \$2.57 million due in 1 to 3 years.

## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 9. Accounts payable and accrued liabilities

As at	March 31, 2011	December 31, 2010	January 1, 2010
Trade payables	\$26,774	\$41,573	\$21,087
Accrued payables	23,467	10,720	9,671
Income taxes payable	31	31	38
Other	1,320	1,226	567
	<b>\$51,592</b>	<b>\$53,550</b>	<b>\$31,363</b>

Included within accrued payables is an accrual of \$9.53 million for the fair value of vested stock appreciation rights (December 31, 2010: \$7.89 million; January 1, 2010: \$6.87 million). The Company incurred a liability of \$1.63 million for Q1 2011 (2010: \$0.63 million), of which \$0.13 million (2010: \$0.06 million) was capitalised.

The fair value of these instruments was determined using the Black-Scholes model. The full fair value of granted SARs units at March 31, 2011 is \$22.58 million (December 31, 2010: \$20.86 million; and January 1, 2010: \$14.58 million). These awards vest and are cash-settled 33.3% on each of the subsequent anniversaries of the grant date. No grants were made in Q1 2011.

### Note 10. Deferred income

Deferred income at January 1, 2010 relates to cash advances received under arrangements for the Company to deliver 400,000 barrels to a third party customer within the following twelve months. All deliveries were completed in 2010 as required under this agreement.

### Note 11. Amounts due to shareholder

The amounts due to shareholder had an interest rate of 12% per annum, and was fully repaid in 2010.

## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 12. Long term debt

As at	March 31, 2011	December 31, 2010	January 1, 2010
Revolving debt facility	\$80,000	\$80,000	\$34,400
Unused portion of debt facility	-	(6,275)	-
Total debt drawn down	80,000	73,725	34,400
Unamortised debt issue costs	(2,249)	(2,382)	-
Carrying value of long-term	77,751	71,343	34,400
Current portion of long-term debt	(37,339)	(36,262)	(10,116)
Non-Current portion of long-term debt	\$40,412	\$35,081	\$24,284

Current portion of long-term debt shown on the face of the balance sheet comprises:

As at	March 31, 2011	December 31, 2010	January 1, 2010
Principal	\$37,339	\$36,262	\$10,116
Interest	833	-	150
	\$38,172	\$36,262	\$10,266

#### *BNP Paribas debt facility*

The Company has entered into an \$80 million revolving debt facility arranged by BNP Paribas ("BNP") and including Commonwealth Bank of Australia on September 16, 2010. The facility is amortized over a five year period and matures on June 30, 2015.

The effective interest rate for the three months ended March 31, 2011 was 4.45% per annum.

As a requirement of the facility, the Company is required to undertake derivative contracts on a percentage of its projected production over a rolling 18 to 24 month period.

The following is a summary of the crude oil derivative contracts outstanding at March 31, 2011:

	Notional Volumes	Term	Average Strike Price	Fair value of asset (liability)
<b>Long Puts</b>				
Brent	1,362,000	Apr. 2011 – Sep. 2012	\$79.03/bbl	\$2,329
<b>Short Calls</b>				
Brent	1,001,000	Apr. 2011 – Sep. 2012	\$79.03/bbl	(37,345)
Fair value of derivative assets (liabilities)				\$(35,016)

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

The following is a summary of the crude oil derivative contracts outstanding at December 31, 2010:

	<b>Notional Volumes</b>	<b>Term</b>	<b>Average Strike Price</b>	<b>Fair value of asset (liability)</b>
<b>Long Puts</b>				
Brent	1,641,750	Jan. 2011 – Sep. 2012	\$79.03/bbl	\$5,710
<b>Short Calls</b>				
Brent	1,302,000	Jan. 2011 – Sep. 2012	\$79.03/bbl	(22,460)
Fair value of derivative assets (liabilities)				<b>\$(16,750)</b>

The split between the current and non-current portions of these contracts:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Current portion	<b>\$23,985</b>	\$10,141
Non-current portion	<b>11,031</b>	6,609
Total fair value of derivative liabilities	<b>\$35,016</b>	\$16,750

In the fourth quarter 2010, the Company entered into a contract to swap 50% of its expected LIBOR interest rate exposure from floating to fixed over a 30 month period commencing January 1, 2011 at 1.10% per annum. The carrying value of this derivative contract is \$0.14 million [asset] as of March 31, 2011 (2010: \$0.14 million [asset])

Realized and unrealized gains and losses on the crude oil derivative contracts and the interest rate swap are summarized in the following table:

	<b>Three Months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Realized loss on crude oil price derivative contracts	<b>\$(2,400)</b>	\$-
Unrealized mark-to-market losses on oil price derivative contracts	<b>(18,266)</b>	-
Unrealized gain on interest rate swap	<b>9</b>	-
	<b>\$(20,657)</b>	\$-

Changes in fair values associated with derivative contracts are included within Other Income on the face of the consolidated statement of operations and comprehensive income.

#### *SMBC debt facility*

The Company had a revolving debt facility with Sumitomo Mitsui Banking Corporation Europe Limited. All amounts under this debt facility were fully repaid in September 2010. Loans under the SMBC facility bore interest at SMBC's LIBOR plus an applicable margin between 1.75% and 3.5%. The effective interest rate for the three months ended March 31, 2010 was 3.18%.

As a requirement of the facility, the Company was required to enter into derivative financial commodity contracts for the period of the loan. 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. The unrealized loss on this arrangement in 2010 was \$66,000.

## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 13. Decommissioning liabilities

Changes in the carrying amount of decommissioning liabilities are as follows:

	Three Months Ended March 31, 2011	Twelve Months Ended December 31, 2010
Decommissioning liabilities, Beginning of Period	\$17,655	\$4,071
Obligations Incurred with Development Activities	1,738	13,842
Changes in Estimates	(774)	(540)
Obligations Settled	(482)	-
Accretion	113	282
Decommissioning liabilities, End of Period	\$18,250	\$17,655

Decommissioning liabilities represents the present value of estimated remediation and reclamation costs associated with our PP&E. Coastal has discounted the estimated asset retirement obligation using a risk-free rate of 3.1% (December 31, 2010: 3.0%; December 31, 2009: 3.9%). While the provision for abandonment is based on management's best estimates of future costs and the economic lives of the assets involved, there is uncertainty regarding both the amount and timing of incurring these costs. Management anticipates the remedial work will occur approximately 9 years from the statement of financial position date. The Company expects to fund decommissioning liabilities from future cash flows from our operations.

### Note 14. Finance expense

	Three Months Ended March 31,	
	2011	2010
Long-term debt interest expense	\$833	\$348
Accretion related to decommissioning liabilities (Note 13)	113	39
Finance lease interest	216	345
	<b>\$1,162</b>	<b>\$732</b>

### Note 15. Oil sales, net of royalties

	Three Months Ended March 31,	
	2011	2010
Oil sales	\$72,556	\$49,510
Royalties	(5,845)	(3,650)
	<b>\$66,711</b>	<b>\$45,860</b>

### Note 16. Other income

	Three Months Ended March 31,	
	2011	2010
Change in fair value of derivative contracts (Note 11)	(\$20,657)	(\$65)
Interest	1	2
Foreign exchange (losses) and gains	(428)	211
	<b>(\$21,084)</b>	<b>\$148</b>

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

#### Note 17. Related parties

##### Major subsidiaries and Apico LLC

The Condensed Consolidated Financial Statements include the financial statements of Coastal Energy and our affiliated subsidiaries as at March 31, 2011; December 31, 2010 and January 1, 2010. Transactions involving the Company, its subsidiaries, its joint venture or its special purpose entity are eliminated upon consolidation. The Company did not have any material related party transactions with entities outside the consolidated group in the three months ended March 31, 2011 and 2010.

#### Note 18. Equity

##### Common Shares

Authorized share capital consists of 250,000,000 common shares with a par value of \$0.04 each. At March 31, 2011, there were 111,941,894 common shares outstanding (December 31, 2010: 109,717,510 shares).

##### Stock options

The Company has a stock option plan (the "Plan") in compliance with the TSX-V's policy for granting stock options. Under the Plan, the number of shares reserved for issuance may not exceed 15,000,000 shares. At March 31, 2011 there remained available for future issuance 1,762,632 stock options. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The vesting term of options under the Plan is determined by the Company's Board of Directors but options granted typically vest over a period of three years. Prior to the January 2009 grant, the options vested one-quarter on the date of the grant and one-quarter on each subsequent anniversary of the date of the grant. Beginning with the January 2009 grant, the options vest one-third on each subsequent anniversary of the date of grant. The maximum exercise period of options granted under the Plan is five years following the grant date. The changes in stock options were as follows:

	March 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	10,794,987	\$3.47	10,409,599	\$2.85
Options granted	-	-	1,570,904	\$5.72
Options exercised	(1,938,301)	\$2.23	(983,131)	\$2.23
Options forfeited	-	-	(202,385)	\$2.93
Balance, end of period	8,856,686	\$3.47	10,794,987	\$3.47

The following table summarizes the outstanding and exercisable options at March 31, 2011:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	0.75 years	\$2.25 (GBP 1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	712,500	0.75 years	\$2.26 (Cdn\$2.20)	Dec. 27, 2011	712,500
Jan. 25, 2008	367,500	1.75 years	\$4.05 (Cdn\$3.94)	Jan. 26, 2013	367,500
May 05, 2008	37,500	2.08 years	\$4.57 (Cdn\$4.44)	May 06, 2013	-
Jul. 14, 2008	77,500	2.25 years	\$3.71 (Cdn\$3.61)	Jul. 15, 2013	56,250
Sep. 16, 2008	100,000	2.50 years	\$2.34 (Cdn\$2.27)	Sep. 16, 2013	75,000
Sep. 23, 2008	1,000,000	2.75 years	\$4.05 (Cdn\$3.94)	Feb. 05, 2013	1,000,000
Jan. 02, 2009	2,534,005	2.75 years	\$1.39 (Cdn\$1.35)	Jan. 01, 2014	1,510,663
Dec. 01, 2009	2,431,777	3.75 years	\$5.28 (Cdn\$5.13)	Nov. 30, 2014	747,071
Dec. 28, 2010	1,570,904	4.75 years	\$5.92 (Cdn\$5.75)	Dec 27, 2015	-
	8,856,686				4,493,984

The above options are dilutive and, therefore, have been taken into account in the per share calculations detailed below.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. For the three months ended March 31, 2011 the Company recorded stock option expenses of \$0.69 million (2010: \$0.77 million), of which \$0.03 million (2010: \$0.01 million) was capitalized.

#### Warrants

No warrants were issued in 2011 or 2010. The warrants outstanding at the beginning of the period were issued in connection with a debt offering exercisable at Cdn \$1.136 per share equivalent and expiring January 23, 2014. During 2011, 340,000 warrants were exercised in exchange for 291,082 common shares (2010: 563,867 and 457,734, respectively). The changes in warrants were as follows:

	March 31, 2011		December 31, 2010	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	540,000	\$1.13	3,246,245	\$3.42
Warrants issued	-	-	-	-
Warrants exercised	(340,000)	\$1.13	(563,867)	\$4.18
Warrants expired	-	-	(2,142,378)	\$3.62
Balance, end of period	200,000	\$1.13	540,000	\$1.13

#### Earnings per share

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

	Three Months Ended March 31,	
	2011	2010
Weighted average common shares outstanding, basic	111,336,044	109,066,282
Effect of warrants and stock options	3,961,207	4,298,853
Weighted average common shares outstanding, diluted	115,297,251	113,365,135

#### Note 19. Commitments and contingencies

The Company has provided a letter of credit to the Thailand Customs Department for \$0.7 million (December 31, 2010: \$0.7 million; and January 1, 2010: \$0.7 million). This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of March 31, 2011.

The Company has entered into various commitments primarily related to the ongoing development of its Thailand G5/43 property. 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 Thailand and the United States. The following table summarizes the Company's outstanding contractual obligations:

Year	Drilling & Production	G5/50	Other	Total
2011	\$20,412	\$5,300	\$244	\$25,956
2012	225	-	407	632
2013	-	-	330	330
2014	-	-	134	134

The Company's share of Apico's commitments is discussed in Note 8.

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.



## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 20. Income taxes

#### Reconciliation of Effective Tax Rate to the Thai Statutory Tax Rate

	Three Months Ended March 31	
	2011	2010
Net income before income taxes and non-controlling interest	1,167	18,104
Thailand petroleum income tax statutory rate	50%	50%
Expected income tax expense computed at standard rates	584	9,052
Add (deduct) the tax effect of :		
Foreign tax rate differential	2,234	(266)
Non-deductible expenses and other	(195)	212
Benefit of income tax losses not previously recognized	36	35
Tax basis revaluation	524	(2,492)
Provision for Income Taxes	3,183	6,541

At March 31, 2011, the Company had unrecognized deferred tax assets related to its US and UK entities. There is no material change in these losses from year end. These assets will be recognized for accounting purposes as it becomes more likely than not that they will be utilized.

### Note 21. Changes in non-cash working capital

The following table summarizes the changes in non-cash working capital for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Accounts Receivable	(\$14,921)	(\$39)
Inventories and Supplies	830	2,484
Other Current Assets	435	435
Accounts Payable and Accrued Liabilities	6,341	1,640
Deferred income	-	(10,186)
Total	(\$7,315)	(\$5,666)

## COASTAL ENERGY COMPANY

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

### Note 22. Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the executive officers of the Company to allocate resources to the segments and to assess their performance.

The Company's reportable and geographical segments are Onshore Thailand, Offshore Thailand and Other. Other activities include the Company's corporate offices outside of Thailand. The accounting policies used for the reportable segments are the same as the Company's accounting policies.

For the purposes of monitoring segment performance and allocating resources between segments, the Company's executive officers monitor the assets attributable to each segment. All assets are allocated to reportable segments. The following tables show information regarding the Company's reportable segments.

#### Segmented net income for the three months ended March 31, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net Oil sales	\$ -	\$66,711	\$ -	\$66,711
Other Income	-	(21,078)	(6)	(21,084)
	-	45,633	(6)	45,627
Less: Expenses				
Production	-	22,218	-	22,218
Depreciation and depletion	-	13,253	33	13,286
General and administrative	-	983	4,280	5,263
Exploration	-	5,553	-	5,553
Debt financing fees	-	102	132	234
Finance costs	-	329	833	1,162
Add: Net income from Apico LLC	3,256	-	-	3,256
<b>Net Income (Loss) before tax and non-controlling interest</b>	<b>\$3,256</b>	<b>\$3,195</b>	<b>(\$5,284)</b>	<b>\$1,167</b>
<b>Capital Expenditures</b>	<b>\$ -</b>	<b>\$27,641</b>	<b>\$228</b>	<b>\$27,869</b>

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**COASTAL ENERGY COMPANY**

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

*(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)***Segmented net income for the three months ended March 31, 2010**

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	\$ -	\$45,860	\$ -	\$45,860
Other Income	-	225	(77)	148
	-	46,085	(77)	46,008
Less: Expenses				
Production	-	10,995	-	10,995
Depreciation and depletion	-	5,953	20	5,973
General and administrative	-	721	3,076	3,797
Exploration	-	9,267	-	9,267
Debt financing fees	-	-	124	124
Finance costs	-	508	224	732
Add: Net income from Apico LLC	2,984	-	-	2,984
<b>Net Income (Loss) before tax and non-controlling interest</b>	<b>\$2,984</b>	<b>\$18,641</b>	<b>(\$3,521)</b>	<b>\$18,104</b>
<b>Capital Expenditures</b>	<b>\$ -</b>	<b>\$45,273</b>	<b>\$110</b>	<b>\$45,383</b>

**Segmented assets as at March 31, 2011**

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	\$49,614	\$ -	\$ -	\$49,614
PP&E and E&E net book value	-	285,663	633	286,296
<b>Total Assets</b>	<b>\$52,393</b>	<b>\$322,756</b>	<b>\$24,329</b>	<b>\$399,478</b>

**Segmented assets as at December 31, 2010**

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	\$50,288	\$ -	\$ -	\$50,288
PP&E and E&E net book value	-	276,650	666	277,316
<b>Total Assets</b>	<b>\$49,614</b>	<b>\$313,070</b>	<b>\$6,258</b>	<b>\$368,942</b>

**Segmented assets as at January 1, 2010**

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	\$55,225	\$ -	\$ -	\$55,225
PP&E and E&E net book value	-	234,142	299	234,441
<b>Total Assets</b>	<b>\$55,225</b>	<b>\$267,580</b>	<b>\$4,232</b>	<b>\$327,037</b>

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

#### Note 23. 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-IFRS measurement 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:

As at	March 31, 2011	December 31, 2010	January 1, 2010
Total shareholders' equity	\$199,504	\$196,295	\$203,702
Long-term debt	80,000	73,725	34,400
Obligations under finance leases	1,464	1,464	1,474
Amounts due to shareholder	-	-	5,164
Working capital deficit <sup>(1)</sup>	12,823	19,615	22,516
	<b>\$293,791</b>	<b>\$291,099</b>	<b>\$267,256</b>

Note 1: This amount excludes the current portion of the bank debt and obligations under finance leases (which by the definition above would normally be included in this computation) as they are already included above.

As of March 31, 2011 the Company has fully utilized its \$80.0 million borrowing facility. Management believes it can access the equity and credit markets in the future should circumstances deem that necessary.

The Company is in compliance with its debt covenants.

#### Note 24. 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, derivative assets and liabilities, accounts receivable, and accounts payable and accrued liabilities. Cash and derivative assets and liabilities are carried at fair value. The Company considers that all other items have a carrying value that approximates their fair value due to their short-term nature.

The fair value of the Company's long-term debt as at March 31, 2011 was \$77.29 million (December 2010: \$70.89 million) when using the market LIBOR rate.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

The Company classifies the fair value of cash, restricted cash and derivative commodity contracts 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 observables 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.

The Company's cash, restricted cash and derivative commodity contracts have been assessed on the fair value hierarchy described above. Cash is classified as Level 1. Restricted cash is classified as Level 2.

The Company's derivative commodity contracts, as with 2010, are considered fair value through profit and loss and their fair values are marked to market every quarter based on quoted market prices in the futures market on the statement of financial position date. As discussed in Note 12, these derivative instruments are solely required for debt facilities. These contracts are classified as Level 1.

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 2011 relative to 2010.

#### *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 restricted cash; (2) accounts receivable and other; (3) derivative contract. The Company has not had any credit losses in the past beyond that described below. At March 31, 2011 and 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 statement of financial position date is as follows:

December 31,	March 31, 2011	December 31, 2010	January 1, 2009
Cash	\$15,912	\$3,884	\$21,229
Restricted cash	9,836	16,369	3,829
Refundable taxes (UK, Thailand)	11,114	9,932	5,682
Trade receivable	13,786	47	-
Other accounts receivable	320	320	429
Derivative asset	144	135	66
	<b>\$51,112</b>	<b>\$30,687</b>	<b>\$31,235</b>

Revenues in both years relate to a single customer that had a credit rating of BBB+ with Standard and Poors as at March 31, 2011. The Company's trade receivables in at the end of each period were less than 30 days aged and was subsequently fully collected.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

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

Typically, the Company's maximum credit exposure to customers is revenue from one month's commodity sales. The Company's standard credit terms have been (receipt of) payment within 30 days of delivery or prepayment of crude oil sales, although the latter is no longer permitted as part of the new debt facility. The Company's policy to mitigate credit risk associated with commodity sales is to establish relationships with credit worthy customers. The Company has not written off any amounts receivable in either 2011 or 2010.

No receivables are overdue (2010: \$nil) and hence no allowance has been made for doubtful debts (2010: \$nil).

#### 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.

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

The Company's financial liabilities arose primarily from the development of its Thailand properties. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from receipt of invoice and generally do not bear interest. At March 31, 2011 the Company had recorded all of the obligations associated with its financial liabilities. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities and capital expenditures:

	March 31, 2011				Total	December	January
	Within 1	1-2	3-5	There		31, 2010	1, 2010
	year	years	years	after		Total	Total
Accounts payable and accrued liabilities	\$51,592	\$-	\$-	\$-	\$51,592	\$53,550	\$31,363
Long-term debt principal and interest	38,172	21,556	7,110	13,946	80,784	73,725	34,550
Obligations under finance leases	755	709	-	-	1,464	1,464	1,474
Derivative liabilities	23,985	11,031	-	-	35,016	16,750	-
	\$114,504	\$33,296	\$7,110	\$13,946	\$168,856	\$145,489	\$67,387

#### Market risk

Market risk is the risk that the fair value (for assets or liabilities considered to be fair value through profit and loss 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.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

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#### *(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 dollar, 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.

Based on the Company's net foreign currency exposures at March 31, 2011, a 10% depreciation or appreciation of the foreign currencies against the US dollar would result in a \$0.04 million (December 31, 2010: \$0.92 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These movements are attributable to year-end payables and receivables 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 Company's credit facility has an interest rate of LIBOR +4%. 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 16 to the December 31, 2010 Canadian GAAP financial statements. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling \$80.0 million at December 31, 2010 (2010: \$73.7 million). A 100 basis point change in interest rates at the statement of financial position date would result in a \$0.80 million change in the Company's annual net income (2010: \$0.74 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 12.

The Company paid an average of 4.45% on its borrowings for the three months ended March 31, 2011 (2010: 4.25%).

The Company earned an average of 0.06% on its short-term investments for the three months ended March 31, 2011 (2010: 0.08%).

#### *(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.

A 10% decline in the reference price projection would not reduce the availability under the borrowing base at March 31, 2011.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 12. A 10% increase in prices of Brent as of March 31, 2011 would cause an increase in the derivative liability of \$46.85 million (2010: increase in liability of \$15.19 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of March 31, 2011 would cause a decrease in the liability of \$23.86 million (2009: decrease of \$13.89 million).

#### *(d) Other price risk*

The Company is exposed to equity price risk in relation to stock appreciation rights granted to employees. For more detail, see Note 13 in the December 31, 2010 Canadian GAAP financial statements.

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

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#### Note 25. Transition to IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. This note sets out how the transition from Canadian GAAP to IFRS has affected the Company's financial position and comprehensive income.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the periods ended March 31, 2010 and December 31, 2010, and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the "Transition Date").

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the reported financial position and results of operations of the Company. The differences between IFRS and Canadian GAAP that affect Coastal Energy are described in the notes following the reconciliation tables below.

Under IFRS 1 "First Time Adoption of International Financial Reporting Standards", IFRS is applied to all accounts retrospectively at the Transition Date unless a specific exemption was available and taken. The following are the significant exemptions the Company has elected to apply:

- Deemed cost exemption for oil and gas assets – The Company has elected to report items of oil and gas assets on Transition Date at deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of such items may be either its fair value at the Transition Date or an amount determined by a previous revaluation under Canadian GAAP. The exemption can be applied on an asset-by-asset basis. Oil and gas assets that were part of the full cost pool and determined to be developed or producing assets were allocated to Cash Generating Units ("CGU's") on the Transition Date pro rata using reserve values, subject to an impairment test on the Transition Date.
- Share-Based Payments – The Company has elected not to apply IFRS 2 "Share-Based Payments" to equity instruments which vested before the Transition Date. As such, adjustments were made only to Share-Based Payments that were granted before the Transition Date but had not vested.
- Decommissioning liabilities – In accounting for changes in obligations to dismantle, remove and restore items of property, plant and equipment, the guidance under IFRS requires changes in such obligations to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating the effect of all such changes throughout the life of the obligation, the Company has elected to measure the liability and the related depreciation effects at the Transition Date.
- Borrowing Costs – The Company applied an IFRS transitional exemption to prospectively capitalize borrowing costs from the transition date.
- Cumulative Translation Differences – The Company elected to set the cumulative translation account to \$nil at January 1, 2010. This exemption has been applied to all subsidiaries.
- Business Combinations – The Company applied the business combinations exemption to not apply IFRS 3 Business Combinations retrospectively to past business combinations. Accordingly, we have not restated business combinations that took place prior to the Transition Date.

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## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

#### Reconciliation of Shareholders' Equity

	Note	January 1 2010	March 31 2010	December 31 2010
<b>Shareholders' Equity under Canadian GAAP</b>		<b>\$195,351</b>	<b>\$208,175</b>	<b>\$205,426</b>
Non-controlling interest under Canadian GAAP		5,617	6,362	6,559
		200,968	214,537	211,985
Differences increasing (decreasing) reported shareholders' equity:				
Exploration expenses	a	-	(9,267)	(72,170)
Decommissioning liabilities	b	(1,263)	(1,219)	(933)
Deferred taxes	c	3,133	6,817	30,855
Foreign currency	c	909	1,584	4,445
Depletion	d	-	7,355	26,805
Finance lease	e	(45)	(223)	(522)
Property, Plant & Equipment	f	-	(1,143)	(1,143)
Investment in and advances in Apico LLC	g	-	180	(3,027)
<b>Total equity under IFRS</b>		<b>\$203,702</b>	<b>\$218,621</b>	<b>\$196,295</b>

#### Reconciliation of Net Income

<b>For the year to date periods ended</b>	Note	March 31 2010	December 31 2010
<b>Net Income under Canadian GAAP</b>		<b>\$10,218</b>	<b>\$4,854</b>
Differences increasing (decreasing) reported net income:			
Exploration expenses	a	(9,267)	(72,170)
Accretion on decommissioning liabilities	b	44	330
Deferred taxes	c	3,684	27,722
Foreign currency	c	675	3,536
Depletion	d	7,355	26,805
Finance lease	e	(178)	(477)
Property, Plant & Equipment	f	(1,143)	(1,143)
Share of net income in Apico LLC	g	180	(3,027)
<b>Total Differences in Net Income</b>		<b>1,350</b>	<b>(18,424)</b>
<b>Net Income (loss) and comprehensive income (loss) attributable to the shareholders of Coastal Energy Company under IFRS</b>		<b>\$11,568</b>	<b>(\$13,570)</b>

#### Condensed consolidated statement of Cash Flows

The adoption of IFRS did not impact the amounts reported as operating, investing or financing cash flows in the consolidated statements of cash flows.

#### Notes to the IFRS Reconciliations

##### a. Exploration expense

Under Canadian GAAP, dry hole costs associated with the Songkhla B and Benjarong prospects were moved from unproved properties to proved properties, both asset captions on the statement of financial position. Under IFRS the costs incurred on these fields were written off to the statement of operations and comprehensive income.

##### b. Decommissioning liabilities

Under Canadian GAAP, decommissioning liabilities were discounted at a credit adjusted risk fee rate which of nine percent (9%). Under IFRS, the estimated cash flow to abandon and remediate

## COASTAL ENERGY COMPANY

### Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2011 and 2010

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

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the wells and facilities has been risk adjusted therefore the entire decommissioning liability is discounted at a risk free rate of three percent (3%) for all periods presented.

Under Canadian GAAP unwinding of the discount, or accretion, was included in depletion and depreciation. Under IFRS it is included in finance expense.

c. Deferred tax liabilities

The change in the deferred tax liabilities is mainly the result of the change in the accounting basis of the decommissioning liability on transition to IFRS, the change in accounting basis of property, plant and equipment and as a result of decreased depletion and the change in accounting for foreign exchange gains and losses resulting from taxes denominated in foreign currencies.

d. Depletion

Upon transition to IFRS, the Company adopted a policy of depleting oil and gas interests on a unit of production basis over proved plus probable ("2P") reserves. The depletion policy under Canadian GAAP was based on units of production over proved ("1P") reserves. In addition, depletion was calculated on the entire Thailand offshore cost centre under Canadian GAAP; while IFRS requires depletion and depreciation to be calculated based at the individual prospect level.

e. Finance leases

Upon transition to IFRS a contractual arrangement met the standards for treatment as a finance lease. Under Canadian GAAP it had been treated an operating lease.

f. Property, plant and equipment

Certain downhole assets were scrapped as a result of equipment failures. These assets were not removed from the full cost pool under Canadian GAAP. The items were written off to the statement of operations and comprehensive income under IFRS.

g. Investment in and advances to Apico LLC

To converge the accounting of Apico LLC with the IFRS accounting policies of Coastal

h. Statement of financial position reclasses

IFRS requires the closing E&E assets' balance to be separately identified. The Company has adopted to show this split on the face of the statement of financial position. There is no such requirement under Canadian GAAP.

i. Statement of operations and comprehensive income reclasses

Under IFRS, oil sales are presented net of royalties on the face of the statement of operations and comprehensive income. A footnote is then provided to detail the respective components. Under Canadian GAAP, oil revenues and related royalties were presented gross on the statement of operations and comprehensive income.

Under Canadian GAAP unwinding of the discount, or accretion relating to decommissioning liabilities, was included in depletion and depreciation. Under IFRS it is included in finance expense.

## **NON-INDEPENDENT DIRECTOR**

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

## **INDEPENDENT DIRECTORS**

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

Olivier de Montal <sup>(2)</sup>  
Administrator, Olympia Capital Holding

Lloyd Barnaby Smith <sup>(2)</sup> <sup>(3)</sup> <sup>(4)</sup>  
Former British Ambassador to Thailand

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

### *Committees of the Board:*

- (1) Audit,*
- (2) Compensation,*
- (3) Corporate Governance and Nominating,*
- and (4) Reserves*

## **SENIOR MANAGEMENT**

Lloyd Barnaby Smith, Interim Non-Executive  
Chairman

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

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

## **TRADING SYMBOLS**

CEN on TSX-V  
CEO on AIM

## **WEBSITE**

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## **INVESTOR RELATIONS**

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## **ABBREVIATIONS**

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

## **THIRD PARTY ADVISORS**

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

*Corporate Bankers:*  
BNP Paribas

*Auditors:*  
Deloitte & Touche LLP (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:*  
FirstEnergy Capital LLP  
Macquarie Capital (Europe) Limited

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