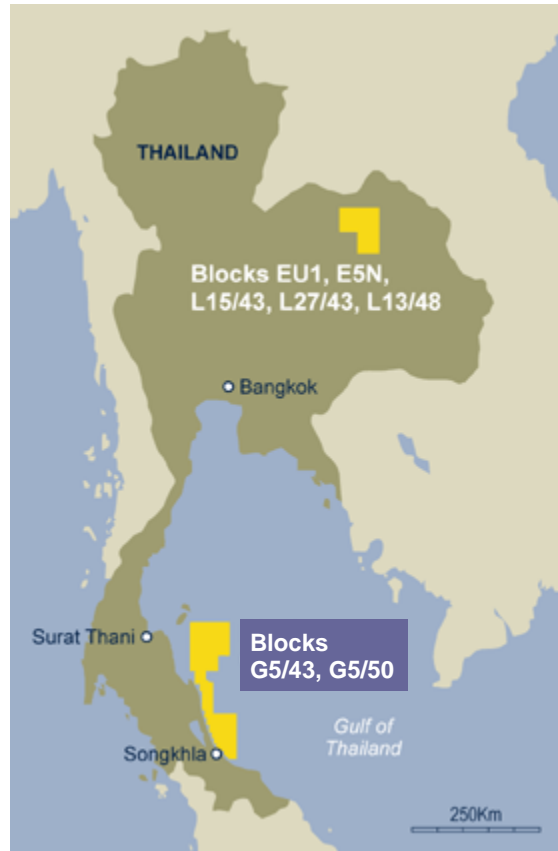


ANNUAL REPORT  
 **COASTAL ENERGY**  
DECEMBER 31, 2008

## COASTAL ENERGY COMPANY

Years Ended December 31, 2008 and 2007



Coastal Energy's Oil & Gas interests

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# COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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## *President's Report to the Shareholders*

Coastal Energy made great progress as a company during the fourth quarter of 2008 and early months of 2009. First oil production from the Songkhla field was a defining moment for the Company. We are now producing approximately 10,000 barrels of oil per day in the Gulf of Thailand, which is above the level we expected following early production testing. This brings Coastal's total daily production, including its share of onshore gas from Phu Horm, to approximately 12,000 barrels of oil equivalent per day.

As we move further into 2009, we remain focused on our stated goal of continuing to develop our concessions in the Gulf of Thailand. Our technical team is highly encouraged by the results of the Q4 '08 Songkhla drilling program and believes that numerous exploration and development opportunities exist beyond Songkhla and Bua Ban. Given the uncertainty in the capital markets and volatility in commodity prices, we plan to approach any further development in a disciplined manner. As of today, Coastal has no commitments for further development capital expenditures. However, we do expect to begin committing capital to further Songkhla and Bua Ban development later this year.

The Phu Horm gas field onshore Thailand is currently producing approximately 83 mmcf/d (10.4 mmcf/d net to Coastal). Two wells are planned this year on the exploration blocks which are adjacent to Phu Horm. Both wells offer the potential to add resources with minimal geological risk.

In the first quarter of 2009, we raised a total of \$18 million to bolster our working capital. In challenging capital markets, this has been achieved with minimal dilution to our current shareholder base.

In spite of an increasingly difficult macroeconomic environment, the Company has been able to make remarkable progress in 2008 and in the start of 2009. Its goals have been met despite the challenges with which it has been presented. The Board has been strongly supportive of the way the management and the operations team have been able to reach targets, while keeping the needed flexibility to face a changing environment. With our continued focus and drive, we are confident 2009 will bring more successes and pave the way for further growth.

On behalf of the Board of Directors

**Randy L. Bartley**

President and Chief Executive Officer  
April 23, 2009

# COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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 April 23, 2009, should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2008 and 2007 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 in the Cayman Islands 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. 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 consists of the following ownerships interests in petroleum concessions awarded by the Kingdom of Thailand:

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

## Fourth Quarter 2008 Highlights

- On November 3, 2008, the Company announced the successful flow test results of the Songkhla A-01 well. The Songkhla A-01 well was drilled to a total measured depth of 9,025 feet (2,750 meters) and logged approximately 125 feet (41 meters) of net pay with 20% porosity in the Lower Oligocene primary reservoir. The well produced in excess of 4,500 barrels of oil per day with no water production using an Electric Submersible Pump ("ESP").
- On November 12, 2008, the Company announced that it had successfully completed drilling the Songkhla A-03 well. The Songkhla A-03 well was drilled to a total measured depth of 9,500 feet (2,895 meters) and logged approximately 110 feet (34 meters) of net pay with 18% porosity in the Lower Oligocene primary reservoir. The well came in approximately 47 feet high compared to the A-01 well. After further evaluation, the Company announced on December 15, 2008 that the A-03 interval contains 152 feet (46 meters) of net pay with 20% porosity.
- On November 13, 2008, the Company announced that it received government approval of its Environmental Impact Assessment ("EIA") for the 75 square kilometre Songkhla production area in the Gulf of Thailand.
- On December 15, 2008, the Company announced that it completed the Songkhla A-03 well and it was producing 5,000 barrels of oil per day with no water using an Electric Submersible Pump ("ESP").
- On December 15, 2008, the Company also announced that it completed the Songkhla A-07 well. The A-07 well was drilled to a total measured depth of approximately 11,385 feet (3,470 meters) and logged approximately 136 feet (41 meters) of net pay with 16.5% porosity in the deeper Eocene reservoir. The entire interval has been tested and produced approximately 1,100 barrels of oil per day with approximately 1,100 barrels of water per day. Prior to the rig demobilization, remedial completion work was performed on the A-07 well to isolate the water production and to fully evaluate the well.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### **Other 2008 Highlights**

- On January 8, 2008, the Company completed a public offering of 16,445,000 common shares (including the over-allotment of 2,145,000 common shares) of the Company, at a price of \$3.50 (Cdn \$3.50) per common share, raising gross proceeds of \$57.6 million (Cdn \$57.6 million). Proceeds of this offering, net of issuance costs of \$3.1 million were \$54.5 million.
- On February 26, 2008, the Company acquired a 24,000 ton vessel for \$8 million to be refurbished and put into service as a floating storage and off-loading unit in connection with the development of the Company's Gulf of Thailand properties.
- On June 6, 2008, the Company announced it had received Thai Government approval on the Production Area Application for the development of its Songkhla field in the Gulf of Thailand. The Approval covers an extended area of 75 square km which includes not only the Songkhla field, but numerous surrounding satellite structures. The extended production area is significant because it enables the Company to fully exploit the prospects without the need to apply for additional Government approvals.
- The Company has reported \$12.9 million as its share of earnings of significantly influenced investee, net of taxes. This represents \$13.96 million (its 36.1% of Apico's audited net income of \$38.65 million) less \$1.06 million for amortization of the Company's excess basis in Apico (see Note 7 to the Consolidated Financial Statements.)
- The Phu Horm gas field, in which the Company has a net 12.6% indirect interest, had an average daily production of 83 mmcf/d for the year ended December 31, 2008.

### **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.

### **Non-GAAP Measures**

This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, EBITDA, net debt and operating netback. 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. 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.

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

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Oil & Gas Reserves

The Company's reserves were evaluated by Huddleston & Co., Inc. effective December 31, 2008 and are all in Thailand. Selected data from their report follows. Their report, dated April 14, 2009, is incorporated in our 2008 Annual Information Form ("AIF") which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Natural gas is converted to equivalent barrels ("BOE") at the energy equivalent conversion rate of six thousand cubic feet (6mcf) to one barrel ("1bbl") of crude oil, reflecting the approximate relative energy content.

The following consolidated reserve figures, before royalties for 2008 and 2007 reflect Coastal Energy's 100% interest in its Gulf of Thailand concessions (Block G5/43 and G5/50) and 36.1% interest in APICO as if the Company directly owned the onshore properties.

Oil and Gas Reserves (Gross)	December 31, 2008			December 31, 2007		
	Oil (Mbbbls)	Gas (MMcf)	BOE (Mbbbls)	Oil (Mbbbls)	Gas (MMcf)	BOE (Mbbbls)
<b>Proved Reserves</b>						
Gulf of Thailand developed producing	6,574	-	6,574	-	-	-
Gulf of Thailand developed non-producing	357	-	357	-	-	-
Gulf of Thailand undeveloped	11,154	-	11,154	8,332	-	8,332
Subtotal Proved Gulf of Thailand	18,085	-	18,085	8,332	-	8,332
Onshore developed producing	264	49,468	8,509	311	56,893	9,793
Onshore undeveloped	-	-	-	30	5,595	963
Subtotal Proved Onshore	264	49,468	8,509	341	62,488	10,756
<b>Total Proved</b>	<b>18,349</b>	<b>49,468</b>	<b>26,594</b>	<b>8,673</b>	<b>62,488</b>	<b>19,088</b>
<b>Probable Reserves</b>						
Gulf of Thailand	23,371	-	23,371	18,368	-	18,368
Onshore	380	71,088	12,228	258	47,104	8,109
<b>Total Probable</b>	<b>23,751</b>	<b>71,088</b>	<b>35,599</b>	<b>18,626</b>	<b>47,104</b>	<b>26,477</b>
<b>Proved Plus Probable Reserves</b>						
Gulf of Thailand	41,456	-	41,456	26,700	-	26,700
Onshore	644	120,556	20,737	599	109,592	18,865
<b>Total Proved Plus Probable</b>	<b>42,100</b>	<b>120,556</b>	<b>62,193</b>	<b>27,299</b>	<b>109,592</b>	<b>45,565</b>

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

The following table summarizes the net present value of future revenues discounted at 10% before income taxes:

US \$ millions based on forecasted prices at December 31,	2008	2007
<b>Proved Reserves</b>		
Gulf of Thailand developed producing	\$195.8	\$ -
Gulf of Thailand developed non-producing	9.2	-
Gulf of Thailand undeveloped	287.9	210.3
Subtotal Proved Gulf of Thailand	492.9	210.3
Onshore developed producing	153.9	154.4
Onshore undeveloped	-	4.3
Subtotal Proved Onshore	153.9	158.7
<b>Total Proved</b>	<b>\$646.8</b>	<b>\$369.0</b>
<b>Probable Reserves</b>		
Gulf of Thailand	680.6	792.5
Onshore	110.9	41.4
<b>Total Probable</b>	<b>791.5</b>	<b>833.9</b>
<b>Proved Plus Probable</b>		
Gulf of Thailand	1,173.5	1,002.8
Onshore	264.8	200.1
<b>Total Proved Plus Probable</b>	<b>\$1,438.3</b>	<b>\$1,202.9</b>

The forecasted prices used by Huddleston & Co., Inc. in their evaluation for December 31, 2008 and 2007 were taken from the Gilbert Lausten Jung ("GLJ") Petroleum Consultants website ([www.glja.com](http://www.glja.com).) GLJ projected prices through 2018, and Huddleston & Co. Inc. then applied a 2% per year escalation for the life of the properties. Forecasted prices as at December 31, 2008 and 2007 are as follows:

Year	As at December 31, 2008			As at December 31, 2007		
	Oil (\$/bbl)	Condensate (\$/bbl)	Gas (\$/Mcf)	Oil (\$/bbl)	Condensate (\$/bbl)	Gas (\$/Mcf)
2008	n/a	n/a	n/a	95.85	85.21	6.930
2009	44.93	45.64	5.040	91.85	81.40	6.600
2010	55.43	55.65	5.930	87.85	77.59	6.270
2011	61.43	61.36	6.440	85.85	75.68	6.100
2012	72.43	71.85	6.570	85.85	75.68	6.100
2013	79.44	78.53	7.100	85.85	75.68	6.100
2014	81.28	80.28	7.230	85.85	75.68	5.440
2015	83.16	82.07	7.380	85.85	75.68	5.440
2016	85.07	83.89	7.380	85.87	75.70	5.440
2017	87.02	85.75	7.520	87.51	77.27	5.560
2018	89.02	87.66	7.670	---	78.04	5.620
thereafter	2.0%	2.0%	2.0%	---	2.0%	2.0%

## COASTAL ENERGY COMPANY

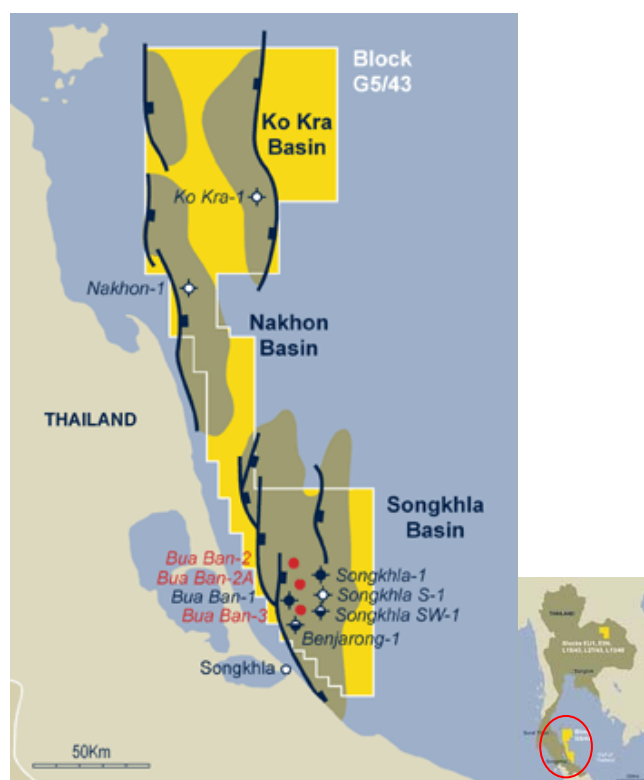
Years ended December 31, 2008 and 2007

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

### Oil & Gas Properties

Summary of Oil & Gas Properties	Thailand Onshore	Gulf of Thailand	Totals
<b>Balance, December 31, 2006</b>	<b>44,046</b>	<b>66,367</b>	<b>110,413</b>
Additions during the period:			
Exploration & development	1,463	9,320	10,783
Equity earnings in Apico	9,212	-	9,212
Amortization of excess basis in Apico	(1,533)	-	(1,533)
<b>Balance, December 31, 2007</b>	<b>53,188</b>	<b>75,687</b>	<b>128,875</b>
Additions during the period:			
Exploration & development	903	76,411	77,314
Equity earnings in Apico, net of distributions	(2,656)	-	(2,656)
Amortization	(1,059)	(1,655)	(2,714)
<b>Balance, December 31, 2008</b>	<b>50,376</b>	<b>150,443</b>	<b>200,819</b>

#### (a) Gulf of Thailand Properties



The Company maintains 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 9,049 square kilometres and average water depths are approximately 70 feet. Block G5/50 contains approximately 554 square kilometres of acreage within the boundaries of Block G5/43.

The Company drilled three wells (two development and one exploration) on the Songkhla field of Block G5/43 in the fourth quarter of 2008. The Songkhla A-01 and A-03 development wells both encountered oil in the Lower Oligocene primary reservoir with net pay zones of 126 feet and 152 feet, respectively, each with



## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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20% porosity. The wells were completed in Q4 2008 and production began in late February 2009. The Songkhla A-07 exploration well was also drilled in Q4 2008. The well encountered oil in the Eocene reservoir with a net pay zone of 136 feet off of the Songkhla Main structure. The A-07 well commenced production in mid April 2009 and is producing approximately 600 bbl/d providing a combined daily production of approximately 10,000 bbl/d as of the date of this report.

The Company has received approval of its Production Area Application ("PAA") and Environmental Impact Assessment ("EIA") for the Songkhla field, which will allow it to proceed developing numerous satellite structures which have been identified within the 75 square kilometre area on Songkhla without further government approval. The PAA and EIA cover the Songkhla Main field as well as numerous satellite structures. The Songkhla field was discovered in 1989 and originally tested 1,500 barrels of production per day from the Songkhla #1 well. As of December 31, 2008, Songkhla Main has proved and probable ("2P") reserves of approximately 19.7 million barrels ("mmbbls").

In August 2005 three successful wells were drilled by the Company on the Bua Ban oil field ("Bua Ban"). The three well program encountered the Lower Oligocene reservoir with estimated net pay ranging from 66-77 feet and a confirmed oil column of 577-724 feet. The Company has received approval of its Production Area Application for the Bua Ban field. The Bua Ban PAA covers an area of 282 square kilometres, which includes the Bua Ban field and numerous satellite structures. As of December 31, 2008, Bua Ban has 2P oil reserves of 21.8 mmbbls.

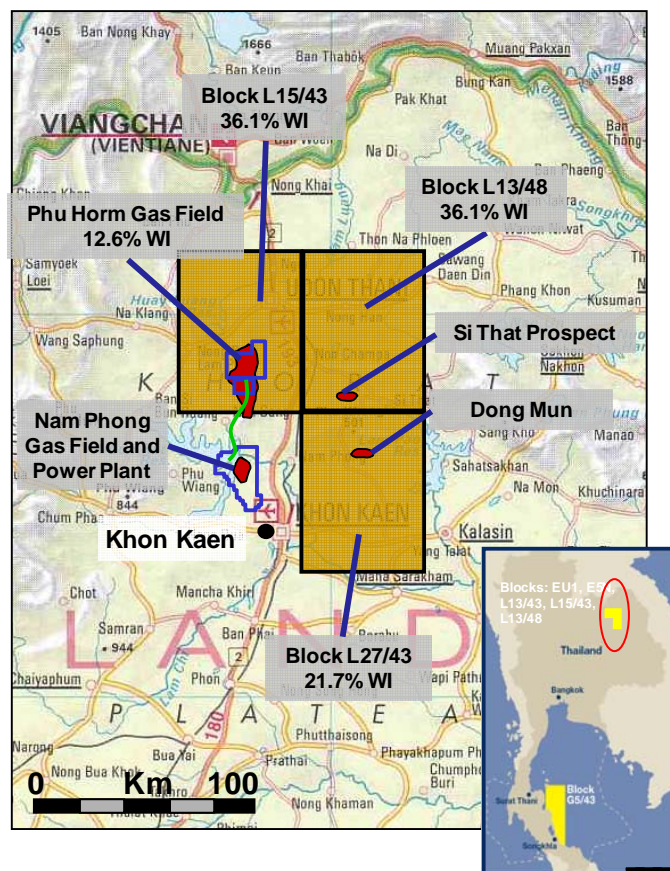
Under the terms of the Concession, the Company relinquished approximately 8,615 square kilometers of Block G5/43 back to the Kingdom of Thailand in July 2007. Following this relinquishment the Company had approximately 8,495 square kilometers of remaining acreage on Block G5/43. Company management used available seismic and technical data to determine the less prospective acreage which was relinquished. As a result, under full cost accounting, the Company incurred no financial impact related to this relinquishment. At December 31, 2008, total Gulf of Thailand (including the Songkhla and Bua Ban fields) 2P reserves are 41.5 mmbbls.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### (b) Thailand Onshore



The Thailand onshore interests are held indirectly through the Company's 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. Apico's results of operations for the years ended December 31 and its financial position are as follows:

<b>Apico Results for the year ended December 31,</b>	<b>2008</b>	<b>2007</b>
Total revenue	\$80,313	\$60,195
Total expenses	14,231	17,940
Income tax expense	27,443	16,757
Net Income	\$38,639	\$25,498

<b>Apico Balance Sheet as of December 31,</b>	<b>2008</b>	<b>2007</b>
Current assets	\$19,823	\$36,414
Property, plant and equipment	105,882	89,884
Other assets	2,743	1,981
Total assets	\$128,448	\$128,279
Current liabilities	\$29,240	\$26,691
Non-current liabilities	5,052	2,571
Members equity	94,156	99,017
Total liabilities and equity	\$128,448	\$128,279

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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% working interest in the Blocks. The other partners in the Blocks include Hess Corporation (Operator - 35%), PTT Exploration & Production (20%) and Exxon Mobil Corp. (10%). Blocks EU-1 and E-5N contain the Phu Horm gas field. Production at Phu Horm 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. During the year, the four wells at Phu Horm had average aggregate production rates of approximately 83 mmcf/day, delivered to Nam Phong. The field was also producing in excess of 430 bbls of condensate per day. As of December 31, 2008, Phu Horm has 2P gas reserves of 120.6 billion cubic feet ("bcf") and 644 mbls of oil net to Coastal (before royalties).

Three development wells were drilled on the Phu Horm field during 2007, PH-6, PH-7, and PH-10. The PH-10 well was completed in September 2007 and commenced production at 10 mmcf/day.

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 Dong Mun 3 ("DM3") appraisal well was spudded on November 8, 2007. The well encountered numerous gas shows in the Jurassic, Triassic and Permian sections, however, no tests were conducted due to the lack of suitable testing equipment. The Phu Kheng well has been approved for drilling in mid 2009 to test shallower Dong Mun shows in an optimum structural position. The appraisal well offers the opportunity to add reserves in close proximity to Phu Horm and Nam Phong infrastructure.

Coastal holds a net 21.7% working interest in Block L13/48 (operated by Apico), which is located 40km east of the Phu Horm gas field. The L13 concession contains holds the Si That discovery which tested gas in both the Si That 1 & 2 wells. Si That offers an opportunity to add significant resources within a known gas basin. The Si That well is planned to be drilled in late 2009.

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

### Summary of Annual Results

Years ended December 31,	2008	2007	2006
		Restated <sup>(a)</sup>	
Revenue, net	\$3,884	\$ -	\$ -
Expenses and other	18,683	12,900	4,425
Share of (earnings) loss of Apico, LLC	(12,904)	(7,679)	(371)
Income taxes	666	1,862	-
Net loss from continuing operations	(2,561)	(7,083)	(4,054)
Net loss from discontinued operations	-	(2,012)	-
Net loss	\$(2,561)	\$(9,095)	\$(4,054)
Basic and diluted loss per share from continuing operations	\$(0.03)	\$(0.10)	\$(0.08)
Basic and diluted loss per share from discontinued operations	-	(0.02)	-
Basic and diluted loss per share	\$(0.03)	\$(0.12)	\$(0.08)
Working capital (deficit)	(43,232)	914	14,020
Capital expenditures	103,982	21,945	9
Total assets	258,463	157,654	132,064
Common shares outstanding, end of year	93,630,720	76,983,220	76,858,220

(a) All 2007 financial information in this MD&A has been restated as described below ("Restatement of Financial Statements") and as described in Note 4 of the 2008 Consolidated Financial Statements.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

The following tables are analysis of the line items in the Company's Consolidated Statements of Operations and Comprehensive Loss

<b>Revenue and Production</b>	3 months ended December 31,			Years ended December 31,		
	<b>2008</b>	2007	Change	<b>2008</b>	2007	Change
Revenue	<b>\$4,098</b>	-		<b>\$4,098</b>	-	
Average Daily Crude Oil Production						
Medium sweet oil (bbls)	<b>3,012</b>	-		<b>3,012</b>	-	
Realized price per bbl (\$/bbl)	<b>\$28.63</b>	-		<b>\$28.63</b>	-	

During Q4 2008, the Company achieved first production from its Gulf of Thailand assets and began producing from Songkhla A-01, A-03 and A-07. The average daily crude oil production is based on 57 days of production in Q4 2008. The Company entered into short term spot price contracts where the Company was providing its crude oil at a discounted price to Dubai crude. This discount took into account the short-term nature of the contracts, payment terms and the relative low volume delivered via the use of smaller tankers used during this production period.

<b>Royalties</b>	3 months ended December 31,			Years ended December 31,		
	<b>2008</b>	2007	Change	<b>2008</b>	2007	Change
Royalties	<b>214</b>	-		<b>214</b>	-	
\$ per bbl	<b>1.49</b>	-		<b>1.49</b>	-	
Royalties as a percent of revenue	<b>5.2%</b>	-		<b>5.2%</b>	-	

Royalties on the Gulf of Thailand assets are paid to the Kingdom of Thailand as a percentage of production based on a sliding scale tied to monthly production.

<b>Production Expenses</b>	3 months ended December 31,			Years ended December 31,		
	<b>2008</b>	2007	Change	<b>2008</b>	2007	Change
Production expenses	<b>1,597</b>	-	-	<b>1,597</b>	-	-
\$ per bbl	<b>11.10</b>	-	-	<b>11.10</b>	-	-

During Q4 2008, the Company achieved first production in the Gulf of Thailand. The initial production during this period took place utilizing the drilling rig as the production platform; and all costs incurred related to drilling were capitalized. Therefore the production expenses do not reflect the cost of a mobile offshore production unit ("MOPU") which results in lower aggregate costs. In 2009, the Company expects significantly increased production to more than offset increased production expenses resulting in a lower cost per bbl in 2009.

<b>Gain (loss) on Derivative</b>	3 months ended December 31,			Years ended December 31,		
	<b>2008</b>	2007	Change	<b>2008</b>	2007	Change
Unrealized gain (loss) on mark-to-market	<b>1,983</b>	(183)	1183.6%	<b>2,015</b>	(1,166)	272.8%
Realized gains	<b>432</b>	-	-	<b>432</b>	-	-
Gain (loss) on Derivative	<b>2,415</b>	(183)	1419.7%	<b>2,447</b>	(1,166)	309.9%

As a requirement of the Company's revolving debt facilities, the Company entered into a derivative hedging agreement with an affiliate of SMBC under which the Company has the right to sell 4,000 metric tons per month (up to a total of 96,000 metric tons) of Singapore fuel oil at a price of \$290.00 per metric ton starting July 1, 2007 and expiring June 30, 2009. The Company paid \$1.2 million for this option. The Company adjusts the fair value of this agreement (mark to market) every quarter with the changes in fair value

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

recognized in net earnings. As a result of declining commodity prices, the Company realized cash-settled gains on this instrument in Q4 2008.

General and Administrative Expenses	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Salaries and benefits	2,685	1,626	65.1%	7,722	3,689	109.3%
Professional fees	503	337	49.3%	1,783	1,080	65.1%
Office and general	716	224	219.6%	1,787	1,192	49.9%
Travel and entertainment	96	336	-71.4%	996	598	66.6%
Regulatory and transfer fees	114	14	714.3%	536	378	41.8%
<b>Total general and administrative expenses</b>	<b>4,114</b>	<b>2,537</b>	<b>62.2%</b>	<b>12,824</b>	<b>6,937</b>	<b>84.9%</b>

In general, the 2008 increase over 2007 is attributable to the growth and increased activities of the Company. The largest driver of general and administrative expenses is personnel costs. Included in the salaries and benefits for 2008 and 2007 is non-cash, stock based compensation of \$1.747 million and \$0.811 million, respectively. In addition, the Company increased its headcount during 2008 in anticipation of drilling and first production. At December 31, 2008 and 2007, the Company had 32 and 24 full-time employees, respectively; and 24 and 4 full time contractors, respectively.

Foreign Exchange Loss	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Net effect of cash held in foreign currencies	114	9	1166.6%	97	42	1.3%
Unrealized (gain) loss on Thai tax liability	(718)	387	-285.5%	(751)	1,744	-143.1%
Realized (gain) loss	1,424	(95)	1598.9%	4,523	13	346.9%
<b>Total foreign exchange loss</b>	<b>820</b>	<b>301</b>	<b>172.4%</b>	<b>3,869</b>	<b>1,799</b>	<b>115.1%</b>

The foreign exchange gain (loss) is a result of the Company carrying out transactions and maintaining certain assets and liabilities in currencies other than the US Dollar, including the Canadian Dollar, the British Pound, the Euro and the Thai Baht. On September 25, 2006, the Company acquired all of the issued and outstanding shares of NuCoastal (Thailand) Limited in a transaction accounted for as a reverse takeover ("RTO"). As part of this RTO, the purchase price allocation included the establishment of a future income tax liability on assets located in Thailand. This liability relates to Thailand and is denominated in Thai Baht. Every quarter it is re-valued and the corresponding gain/loss is recognized in net earnings.

Interest Expense	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Interest Expense	844	649	30.0%	2,146	1,138	88.6%

Interest expense includes interest on the Company's revolving debt facilities and amounts due to shareholder. Interest expense was higher in 2008 as the Company had higher balances on the revolving debt facilities (\$44.0 million vs. \$25.0 million at year-end 2008 vs. 2007, respectively) and amounts due to shareholder (\$6.8 million vs. \$4.9 million at year-end 2008 vs. 2007, respectively.) The Company's average interest rate was 5.12% and 6.83% for the years ended December 31, 2008 and 2007, respectively.

Interest Income	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Interest income	151	142	6.3%	982	430	128.4%

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

## COASTAL ENERGY COMPANY

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

Depletion, Depreciation and Accretion Expense	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Oil and gas depreciation & depletion	1,655	-	-	1,655	-	-
Oil and gas accretion	14	-	-	14	-	-
Corporate depreciation	93	44	111.4%	224	118	89.8%
Depletion, depreciation and accretion expense	1,762	44	3904.5%	1,893	118	1504.2%
\$ per bbl	12.30	-	-	14.02	-	-

Depletion and accretion expenses were realized in 2008 due to the Company achieving first production in Q4 2008. Prior to this, the Company primarily incurred depreciation on corporate assets. Depreciation of corporate assets also increased due to the increase in corporate assets necessary to support increased headcount.

Taxes	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Current taxes	-	-	-	2,484	-	-
Future income taxes	-	613	-100.0%	(1,818)	1,862	-197.6%
Taxes	-	613	-100.0%	666	1,862	-64.2%

The Company's Thai subsidiary accrues income tax expense on its equity pick up of Apico's book earnings at an investment tax rate of 30%. Effective April 1, 2008, it transferred its 25.5% interest in Apico, LLC (Note 8) at its net book value to one the Company's Cayman Island subsidiaries. This transfer triggered the filing of an investment tax return, which turned the cumulative non-current tax liability of \$2.484 million into a current tax liability. In 3Q 2008, the Company made a \$1.232 million estimated tax payment toward this tax liability. The Cayman Island subsidiary is not currently subject to income taxes.

Earnings from Significantly Influenced Investee, net of taxes	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Coastal's 36.1% of Apico's net income	2,398	2,889	-17.0%	13,963	9,212	51.6%
Amortization of Coastal's excess basis	(219)	(465)	-52.9%	(1,059)	(1,533)	-30.9%
Earnings from Significantly Influenced Investee, net of taxes	2,179	2,424	-10.1%	12,904	7,679	68.0%
100% Field Production volumes (mmcf/d)	69.0	88.0	-21.6%	83.3	85.9	-3.0%
12.6% net to Coastal (mmcf/d)	8.7	11.1	-21.6%	10.5	10.8	-3.0%

Under the equity method of accounting, the Company records its share of net income of Apico based on the reported quarterly net income of Apico. Apico experienced higher revenue in the 3 months and the year ended December 31, 2008 over the prior comparable periods due to higher realized commodity pricing partially offset by lower production volumes on the gas sales under contract.

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

Net Income (Loss)	3 months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
Net income (loss)	(413)	(1,841)	77.6%	(2,561)	(9,095)	71.8%
\$ per share, basic and diluted	(0.01)	(0.02)	50.0%	(0.03)	(0.12)	75.0%

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

Coastal's 2008 net income (loss) represents increased operational expenditures incurred ramping up for first production during the year which is partially offset by first production in Q4 2008.

### Restatement of Financial Statements

The annual information for 2007 and the quarterly information for Q1 2007, Q2 2007, Q3 2007, Q4 2007, Q1 2008 and Q2 2008 have been restated to correct an error on under-recording the future income tax liability and expense and associated foreign exchange loss associated with the outside basis difference between the carrying amount of the investment in Apico LLC and the Company's tax basis. The restatement is summarized as follows:

	Q1 2007		Q2 2007		Q3 2007		Q4 2007	
	As reported	Restated	As reported	Restated	As reported	Restated	As reported	Restated
<b>Balance Sheet</b>								
Future income tax liability	25,916	26,213	26,273	27,111	26,489	27,738	26,876	28,738
<b>Statement of Operations</b>								
Income tax expense	-	297	-	541	-	411	-	613
Loss from continuing operations	(739)	(1,298)	324	(217)	(3,578)	(3,989)	(1,228)	(1,841)
Net loss	(739)	(1,298)	(1,688)	(2,229)	(3,578)	(3,989)	(1,228)	(1,841)
Basic and diluted loss per share from								
Continuing operations	(0.01)	(0.02)	0.01	(0.01)	(0.05)	(0.05)	(0.02)	(0.02)
Discontinued operations	-	-	(0.02)	(0.02)	-	-	-	-
	(0.01)	(0.02)	(0.01)	(0.03)	(0.05)	(0.05)	(0.02)	(0.02)

	Q1 2008		Q2 2008	
	As reported	Restated	As reported	Restated
<b>Balance Sheet</b>				
Future income tax liability	28,808	31,336	27,071	27,071
<b>Statement of Operations</b>				
Income tax expense	-	666	2,484	-
Loss from continuing operations	(3,961)	(4,627)	471	2,955
Net loss	(3,961)	(4,627)	471	2,955
Basic and diluted loss per share from				
Continuing operations	(0.04)	(0.05)	-	0.03
Discontinued operations	-	-	-	-
	(0.04)	(0.05)	-	0.03

The annual effect on 2007 is summarized as follows:

	2007	
	As reported	As restated
<b>Balance sheet</b>		
Future income tax liability	\$26,876	\$28,738
<b>Statement of operations</b>		
Income tax expense	-	1,862
Loss from continuing operations	(5,221)	(7,083)
Net loss	(7,233)	(9,095)
Basic and diluted loss per share from		
Continuing operations	(0.07)	(0.10)
Discontinued operations	(0.02)	(0.02)
	(0.09)	(0.12)

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Summary of Quarterly Results

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2 (a)	Q1
Oil and gas revenues, net of royalties	\$3,884	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production expenses	1,597	-	-	-	-	-	-	-
General and administrative expenses	4,114	3,053	2,210	3,447	2,557	1,494	1,557	1,329
(Gain) loss on derivative	(2,415)	(13)	8	(27)	183	983	-	-
Foreign exchange (gain) loss	820	1,440	(1,773)	3,382	301	209	282	1,007
Interest expense	843	642	432	229	649	383	55	51
Interest income	(151)	(316)	(270)	(245)	(142)	(61)	(126)	(101)
Debt financing fees	-	-	-	-	60	2,072	-	-
(Gain) loss on sale of assets	(95)	(122)	-	-	-	-	40	-
Depletion, depreciation and accretion	1,763	42	45	43	44	42	16	16
Total operating expenses and other	6,476	4,726	652	6,829	3,652	5,211	1,824	2,302
Income taxes	-	-	-	666	613	411	541	297
Share of earnings (loss) of Apico LLC	2,179	4,250	3,607	2,868	2,424	1,544	2,148	1,563
Net income (loss) from continuing Operations	(413)	(476)	2,955	(4,627)	(1,841)	(3,989)	(217)	(1,036)
Net income (loss)	(413)	(476)	2,955	(4,627)	(1,841)	(3,989)	(2,229)	(1,036)
Basic and diluted earnings (loss) per share from continuing operations	\$(0.01)	\$(0.00)	\$0.03	\$(0.05)	\$(0.02)	\$(0.05)	\$(0.01)	\$(0.02)
Basic and diluted earnings (loss) per share	\$(0.01)	\$(0.00)	\$0.03	\$(0.05)	\$(0.02)	\$(0.05)	\$(0.03)	\$(0.02)

Note (a) During Q2 2007, the Company took a write-down against its oil and gas investment in Nevada, USA. The total carrying value of this property was \$2.0 million. This event was determined to constitute a discontinuance of the operations of Coastal's United States cost centre. Accordingly, this write-down was classified as a loss from discontinued operations.

#### Significant factors influencing Quarterly Results include

- The Company achieved first production with A-01, A-03 and A-07 wells in the Songkhla field of Block G5/43 in the Gulf of Thailand. Production was intermittent through the latter half of the fourth quarter as the Company was producing oil off the drilling rig while continuing drilling operations. In addition to revenue in Q4 2008, the Company recorded related production expenses and depletion expense for the first time.
- The volatility of global crude oil prices has a direct effect on the Company's unrealized (gain) loss on its derivative instrument. The Company holds a put option on Singapore fuel oil which experienced a gain in the second half of 2008.
- The Company has incurred higher general and administrative costs as it has been adding headcount in an effort to commence first crude oil production.
- 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.



## COASTAL ENERGY COMPANY

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### Cash Flow Analysis

The Company's cash and cash equivalents at December 31, 2008 were \$6.4 million, a decrease of \$6.7 million from \$13.1 million at December 31, 2007. The Company's primary source of funds came from proceeds of \$54.9 million from stock issuance, net borrowings of \$19.0 million under its revolving debt facilities, borrowings of \$2.0 million from its amounts due to shareholder, \$15.7 million net distributions from Apico; \$1.0 million proceeds from sale of assets, increase in accounts payables and accrued liabilities of \$3.3 million. Cash and cash equivalents were primarily used to fund restricted cash of \$2.1 million; increase accounts receivable and other \$2.2 million, increase crude oil inventory of \$0.3 million; invest \$82.6 million in property, plant and equipment; invest \$0.2 million in other long-term assets; pay income taxes of \$1.3 million and pay operating expenses of \$13.9 million.

### Capital Expenditures

Capital expenditures (including cash payments and amounts included in accounts payable) amounted to \$104.0 million in 2008 compared to \$21.9 million in 2007. The increase in expenditures was mainly the result of drilling activity in the Songkhla field in Block G5/43 and related field development work in the Gulf of Thailand. The following table sets forth a summary of the Company's capital expenditures incurred:

Capital Expenditures	2008	2007
Land	\$ -	\$ -
Seismic, geological and geophysical studies	2,295	572
Other	725	9,799
Drilling and completions	46,990	2,570
Lease and well equipment	4,876	328
Construction in progress (platforms, FSO, processing equipment)	48,543	8,295
Administrative assets	553	381
Total Capital Expenditures	\$103,982	\$21,945

### Liquidity and Capital Resources

The current global financial crisis has caused severe illiquidity in capital markets, economic uncertainty and significant volatility in commodity prices. The Company's share price has been adversely affected by the uncertainty of future crude oil and natural gas prices as well as the general negative impact on equity valuations caused by the aforementioned factors. The Company's ability to raise additional capital could be restricted given the current market environment. Notwithstanding these challenges, management strongly believes that the Company is in position to continue producing from its Gulf of Thailand properties and use the related crude oil sales proceeds to improve its liquidity position and continue the development of its Gulf of Thailand properties in 2009.

Lower global oil prices may result in lower per unit revenues and cash flow. It is management's intention to be prudent about the Company's future development commitments to ensure the Company maintains its liquidity position and financial health. Management believes the Company has sufficient liquidity to continue production from the Songkhla field. Management will resume further development of Block G5/43 once the Company has built sufficient cash reserves from the Songkhla production to fund the resumption of the Gulf of Thailand drilling program.

The current financial crisis has also increased the volatility in the exchange rates of various global currencies. This volatility has caused the Company to report an increase in its foreign exchange losses as its expenditures in various currencies other than its reporting currency (United States dollars) have increased with its development activities in Thailand. The Company anticipates using production revenue as a natural hedge for its Thailand related expenditures.

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As at December 31, 2008, the Company had cash and cash equivalents of \$6.4 million, which, in management's opinion, is sufficient combined with additional financing and cash flow from its Songkhla production, to cover ongoing obligations as they become due (see subsequent events in this MD&A for a description of financing obtained in early 2009.) The Company will require substantial capital to further develop its Gulf of Thailand properties. The sources of capital presently available to the Company for development are from existing production or the issuance of equity or debt. In June 2007, the Company secured \$50 million in borrowing base credit facilities, which mature on December 31, 2013. The facilities are secured by the Company's investment in Apico, LLC. At December 31, 2008, the Company had drawn \$44.0 million under this facility. As of the date of this report the borrowing base available under the Facility was \$36.2 million, under which the Company has drawn \$36.2 million. The \$7.8 million principal reduction made in 2009 is approximately 50% of the \$15.3 million shown in the Consolidated Financial Statements as current portion of long term debt.

As a requirement of the revolving credit facilities, the Company entered into a derivative hedging agreement with an affiliate of the lender under which the Company has the right to sell up to 96,000 metric tons of Singapore fuel oil at a price of \$290.00 per metric ton. The Company paid \$1.2 million for this put option and the put option expires on June 30, 2009. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. For the years ended December 31, 2008 and 2007, the Company recorded an unrealized gain on this instrument of \$2.0 million and an unrealized loss of \$1.2 million, respectively. During 2008 the Company also recorded realized gains of \$0.4 million.

### **a) Share Capital**

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

As of the date of this report, the Company had 93,630,720 common shares outstanding.

### **b) Stock Options**

During the year ended December 31, 2008, the Company granted 2.76 million stock options with a weighted average exercise price of \$3.19. In addition, options exercised and forfeited were 202,500 and 676,500, respectively. Subsequent to December 31, 2008, the Company granted 3.5 million stock options with an exercise price of \$1.35 and awarded 2.1 million stock appreciation rights under its plan. 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
Jan. 25, 2005	187,500	1.00 years	\$0.58 (£0.40)	Dec. 31, 2009	187,500
Jul. 06, 2005	112,500	1.50 years	\$2.05 (£1.40)	Jul. 06, 2010	112,500
Dec. 27, 2006	2,575,000	3.00 years	\$1.80 (C\$2.20)	Dec. 27, 2011	2,025,000
Jun. 15, 2007	206,250	3.50 years	\$2.42 (C\$2.96)	Jun. 16, 2012	193,750
Jan. 25, 2008	1,114,750	4.00 years	\$3.22 (C\$3.94)	Jan. 26, 2013	614,500
May 05, 2008	200,000	4.00 years	\$3.63 (C\$4.44)	May 06, 2013	50,000
Jul. 14, 2008	85,000	4.50 years	\$2.95 (C\$3.61)	Jul. 15, 2013	21,250
Sep. 16, 2008	100,000	4.75 years	\$1.85 (C\$2.27)	Sep. 16, 2013	25,000
Sep. 23, 2008	1,000,000	4.75 years	\$3.22 (C\$3.94)	Feb. 05, 2013	250,000
Jan. 02, 2009	3,509,000	5.00 years	\$1.11 (C\$1.35)	Jan. 02, 2014	187,500
	9,090,000				3,667,000

### **c) Warrants**

Effective January 20, 2007, warrants for 281,250 shares with an exercise price of £1.40 expired unexercised. Effective July 20, 2007, warrants for 53,588 shares with an exercise price of £1.40 expired unexercised. As of December 31, 2008, the Company had 2,343,745 warrants outstanding exercisable at \$5.71 (£2.80) per share and expiring on July 20, 2010.

In connection with a public debt offering in January 2009, the Company issued warrants for 2,000,000 shares with an exercise price of Cdn \$1.136. The warrants will expire on January 23, 2014.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Related Party Transaction**

In June 2008, the Company renegotiated its note payable to its shareholder to extend the maturity to December 31, 2008. As part of this renegotiation, in July 2008 the Company paid the shareholder \$410,964 which represented the accrued interest on the note payable through June 30, 2008. As of September 30, 2008, the accrued interest on this note payable was \$54,724 and the principal due was \$4.64 million. Effective November 20, 2008 the note payable balance was renegotiated to mature on March 31, 2009 at an interest rate of 7% per annum.

In December 2008 and January 2009, the Company entered into unsecured loan agreements totaling \$3 million bearing interest at 15% per annum and maturing on June 30, 2009. This debt was funded by related parties of the Company's primary shareholder, O. S. Wyatt, Jr. The debt was issued separately from the Senior Unsecured Note Offering announced on December 22, 2008 due to securities exchange regulations which prohibit insiders from participating in debt offerings which include a warrant issue as consideration.

### **Discontinued Operations**

In August 2007, the Company formally relinquished all its working interest in the Gabbs Valley, Nevada leases to the temporary operator in exchange for the Company's current obligation to pay the operator \$21,000 related to well clean up costs along with all future obligations surrounding this working interest. A former non-executive director of the Company is an officer and director of the temporary operator. The Company wrote off its interest in this property of approximately \$2 million. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### **Commitments and Contingencies**

All the Company's commitments and contingencies are described in Note 19 to the Consolidated Financial Statements for the year ended December 31, 2008.

### **Subsequent Events**

On January 7, 2009, the Company announced that it had entered into an unsecured loan agreement in the amount of US \$3 million bearing interest at 15% per annum and maturing on June 30, 2009. Of this amount, \$2 million was received late in December 2008 and the remaining \$1 million was received early in January 2009. This debt was funded by related parties of the Company's primary shareholder, O. S. Wyatt, Jr. The debt was issued separately from the Senior Unsecured Note Offering announced on December 22, 2008 due to securities exchange regulations which prohibit insiders from participating in debt offerings which include a warrant issue as consideration.

On January 14, 2009, the Company announced that the Mobile Offshore Production Unit ("MOPU") which was scheduled to arrive at the Songkhla field in mid-January incurred damage during a tropical storm and will need to be repaired prior to installation.

On January 21, 2009, the Company announced that it closed a US \$5 million senior secured loan with a private partnership bearing interest at 16% per annum and maturing six months from the date of issue. The loan is secured by the Company's Ocean 66 jackup platform which is currently located in Galveston, Texas. This debt was issued separately from the Company's senior unsecured note offering announced December 22, 2008.

On January 23, 2009, the Company announced that it completed its offering of 100 senior unsecured notes raising gross proceeds of \$10 million. The notes bear interest at 15% per annum and mature on January

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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23, 2010. Each \$100,000 note was issued with a warrant entitling the holder thereof to acquire 20,000 shares of the Company's common shares at a strike price of Cdn \$1.136. The warrants expire on January 23, 2014.

On March 3, 2009, the Company announced that it resumed production at its Songkhla field in the Gulf of Thailand from a Mobile Offshore Production unit ("MOPU") on February 23, 2009. As of March 2, 2009, combined production from the Songkhla A-01 and A-03 wells was approximately 11,000 bbl/d utilizing electric submersible pumps ("ESPs").

On March 5, 2009, the Company entered into a Crude Oil Sales Agreement. Under the terms of the Agreement, the Company will deliver 1,050,000 barrels of crude oil to the buyer from its Songkhla field between April 1, 2009 and July 31, 2009. The Company's counterparty prepaid the Company the entire value of the 1,050,000 bbl load on April 3, 2009 using the Dubai crude price as of the date of the Agreement as the reference price. The parties will adjust the entire load's value to the average Dubai crude price during the delivery period and a settlement payment will be made by the appropriate party. The Company used a portion of the proceeds to reduce its accounts payable balance.

### **Financial Instruments**

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities. The fair values of financial instruments approximate their carrying values due to their short term nature. The Company's derivative contract is considered held-for trading and it is adjusted to fair value every quarter as discussed below. Amounts due to shareholder and long-term debt are considered other financial liabilities and are recorded at amortized cost.

The carrying value of amounts due to shareholder approximates the fair value. This is due to the short term nature of the liability. The fair value of the Company's long term debt as at December 31, 2008 and 2007 was \$42.71 million and \$24.27 million, respectively.

As a condition of the Company's reserve based revolving debt facilities, the Company is required to hedge 50% of its commodity price exposure related to production on the Phu Horm Gas Field. The Company obtains 3rd party quotes in order to mark to market the gains and losses related to the commodity hedge. As of December 31, 2008, the market value of this option was \$2.016 million.

### **Critical Accounting Policies and Estimates**

The Company's financial statements are prepared in accordance with Canadian GAAP, which require management to make judgments, estimates and assumptions which may have a significant impact on the financial statements. A detailed summary of the Company's significant accounting policies is included in Note 2 to the Consolidated Financial Statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

#### **a) Capital Assets – Full Cost Accounting**

The Company follows the full cost method of accounting as described in Note 2 to the Consolidated Financial Statements. Alternatively, the Company could follow the successful efforts method of Accounting whereby all costs related to non-productive wells are expensed in the period in which they are incurred.

Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test. Under the successful efforts method of accounting, the costs are aggregated on a property-by-property basis and the carrying value for each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The Company has elected to follow the full cost method.

Coastal assesses the carrying value of its property, plant and equipment for impairment annually or as circumstances dictate. Impairment is indicated when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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reserves. Cash flows are calculated using expected future product prices and costs and are discounted using a risk-free interest rate. Any impairment is measured as the excess of the carrying amount over the estimated discounted future net cash flows associated with the Company's proved and probable reserves. Reserves are determined pursuant to Canadian Securities Administrators' National Instrument 51-101, "Standards of Disclosure of Oil and Gas Activities". Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to earnings in the period the impairment occurs.

As of December 31, 2008, the Company has one cost centre, Thailand.

### **b) Depletion and Depreciation**

Oil and gas properties and equipment together with the estimated future costs to be incurred (other than future major development items such as production platforms) in developing proved reserves, are depleted or depreciated using the units of production method based on the proved reserves before royalties as estimated by independent engineers. Oil and gas reserves and production are converted into equivalent units based upon estimated relative energy content of six thousand cubic feet of gas to one barrel of oil (6 mcf = 1 bbl). The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs. In addition, certain major components of production equipment (such as a floating storage and off-loading vessel "FSO") have a life that is longer than the specific field to which it is currently assigned. These major production components are depreciated on a straight line basis over the estimated useful life of the asset which approximates the estimated production life of the Company's Gulf of Thailand concessions.

Depreciation of office equipment, furniture and fixtures and leasehold improvements is calculated using the straight-line method over the estimated life of the asset or the life of the lease, if shorter.

### **c) Reserve Estimates**

All of the Company's oil and gas reserves are evaluated and reported on by independent qualified reserve evaluators. Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net earnings through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or negative impact on net income and can impact the carrying amounts of capital assets.

### **d) Asset Retirement Obligations**

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability. The Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership in tangible long-lived assets such as wells and facilities and the estimated timing of the costs to be incurred in future periods. Actual payments to settle the obligations may differ from estimated amounts.

### **e) Revenue recognition**

Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized when the commodities are delivered and title passes to the customer. Revenues associated with the sale of crude oil, natural gas and natural gas liquids are recorded gross of royalties, transportation and marketing charges.

### **f) Stock-based Compensation**

## COASTAL ENERGY COMPANY

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The Company has a share option plan and 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, the applicable amounts of contributed surplus are credited to share capital. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

During 2008, the Company introduces a cash-settled stock appreciation rights plan; no stock appreciation rights ("SARs") were awarded under this plan during the year ended December 31, 2008. The compensation cost for SARs granted to employees under this plan is accounted for using the intrinsic value method. Under this method, the Company accrues a liability for the SARs on the excess of the market price of the Company's common stock over the price of the SARs granted. The accrued liability is adjusted at each balance sheet date for the effect of SARs grants, vesting of SARs, SARs exercised, as well as the effect of changes in the underlying price of the Company's common shares. The net effect of these items is charged or credited to compensation expense.

### **g) Income Taxes**

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

### **New Accounting Pronouncements**

The Company has adopted new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes and their effect on the Company's financial statements are discussed in Note 3 to the Consolidated Financial Statements. Also discussed in Note 3 are new accounting standards which will be adopted in future periods in accordance with the respective standard.

### **International Financial Reporting Standards Update**

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company.

The AcSB requires IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with December 31 year-end, the first unaudited interim financial statements under IFRS will be the quarter ending March 31, 2011, with comparative financial information for the quarter ended March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ending December 31, 2010. This also means that all opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited interim financial statements.

The Company intends to adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. During the remainder of 2009, the Company will continue to evaluate the impact of IFRS on the Company and develop and put in place a plan for the conversion to IFRS. If the Company decides not to early adopt the standards, the actual conversion

## COASTAL ENERGY COMPANY

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work will occur during 2009 and 2010, in anticipation of the preparation of the January 1, 2010 balance sheet which will be required for comparative purposes for all periods ending in 2011.

### ***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 23, 2009 (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, at the present, has 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.

#### ***a) Going Concern***

The accompanying audited consolidated financial statements have been prepared by management in accordance with Canadian GAAP on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has limited operating and production history in the Gulf of Thailand. The Company's ability to continue as a going concern is dependent upon continued production or its ability to obtain additional financing. Although to date the Company has been successful in obtaining financing, there can be no assurance that the Company will be successful in raising additional debt or share capital or generating sufficient cash flows from continuing operations to continue as a going concern.

#### ***b) 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.

#### ***c) Petroleum and Gas Prices***

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

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

## COASTAL ENERGY COMPANY

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### ***d) 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.

### ***e) 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.

### ***f) Laws and Regulations***

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

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.

### ***g) 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.

### ***h) 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 materially adverse effect on the Company.

### ***i) 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



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Years ended December 31, 2008 and 2007

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

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Apico. Therefore, the Company relies heavily on Apico management to provide timely and accurate financial information to the partners.

### ***Risk Management and Financial Instruments***

Coastal provides a risk management and financial instruments discussion as required by CICA handbook section 3862 "Financial Instruments – Disclosures" on its exposure to and management of credit risk, liquidity risk and market risk in Note 16 to the audited financial statements as at and for the period ended December 31, 2008 and 2007.

### ***Management's Report on Internal Control over Financial Reporting***

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

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

### ***Outlook***

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

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

Coastal anticipates Apico will drill the Phu Kheng and Si That wells in the second half of 2009.

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## **Auditors' report**

To the Shareholders of  
Coastal Energy Company

We have audited the consolidated balance sheets of Coastal Energy Company as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

As described in Note 4 to the consolidated financial statements, the accompanying consolidated financial statements of Coastal Energy Company as at December 31, 2007 and for the year then ended have been restated. We therefore withdraw our previous report dated April 21, 2008 on those financial statements, as originally filed.

***[signed] "Deloitte & Touche LLP"***

Chartered Accountants  
April 23, 2009

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	2008	2007
	\$	\$
		(As restated Note 4)
<b>Revenues</b>		
Oil and natural gas	4,098	-
Royalties	(214)	-
	<b>3,884</b>	-
<b>Expenses and other</b>		
Production	1,597	-
General and administrative (Note 14)	12,824	6,937
(Gain) loss on derivative (Note 11)	(2,447)	1,166
Foreign exchange loss	3,869	1,799
Interest expense	2,146	1,138
Interest income	(982)	(430)
Debt financing fees (Note 11)	-	2,132
(Gain) loss on sale of assets	(217)	40
Depletion, depreciation and accretion	1,893	118
	<b>18,683</b>	12,900
<b>Loss from continuing operations before taxes and earnings from significantly influenced investee</b>	<b>(14,799)</b>	(12,900)
Income taxes (Note 17)	666	1,862
<b>Loss from continuing operations before earnings from significantly influenced investee</b>	<b>(15,465)</b>	(14,762)
Earnings from significantly influenced investee (Note 7)	12,904	7,679
<b>Loss from continuing operations</b>	<b>(2,561)</b>	(7,083)
Net loss from discontinued operations (Note 18)	-	(2,012)
<b>Net loss and comprehensive loss</b>	<b>(2,561)</b>	(9,095)
Deficit, beginning of year	(14,026)	(4,931)
<b>Deficit, end of year</b>	<b>(16,587)</b>	(14,026)
Basic and diluted loss per share from		
Continuing operations	(0.03)	(0.10)
Discontinued operations	-	(0.02)
	<b>(0.03)</b>	(0.12)
Weighted average number of common shares outstanding	93,262,551	76,919,352

## COASTAL ENERGY COMPANY

As at December 31, 2008 and 2007

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

### CONSOLIDATED BALANCE SHEETS

	2008	2007
	\$	\$
		(As restated Note 4)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	6,434	13,149
Restricted cash (Note 5)	4,146	2,048
Accounts receivable and other (Note 6)	2,662	450
Derivative asset (Note 11)	2,016	-
Crude oil inventory	308	-
	<b>15,566</b>	15,647
Investment in and advances to Apico LLC (Note 7)	50,376	53,188
Property, plant and equipment, net (Note 8)	192,224	88,762
Other long-term assets	297	57
	<b>258,463</b>	157,654
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	35,536	9,793
Income taxes payable (Note 17)	1,252	-
Amounts due to shareholder (Note 10)	6,761	4,940
Current portion of long-term debt (Note 11)	15,249	-
	<b>58,798</b>	14,733
Long-term debt (Note 11)	28,751	25,000
Asset retirement obligations (Note 12)	1,354	-
Future income tax liability (Note 17)	25,984	28,738
	<b>114,887</b>	68,471
<b>Shareholders' equity</b>		
Share capital (Note 13)	146,938	91,761
Contributed surplus (Note 13)	13,225	11,448
Deficit	(16,587)	(14,026)
	<b>143,576</b>	89,183
	<b>258,463</b>	157,654

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 19)

#### Approved by the Board

/s/ Randy Bartley

Randy L. Bartley, Director

/s/ Benard de Combret

Benard de Combret, Chairman

# COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	2008	2007
	\$	\$
		(As restated Note 4)
<b>Operating activities</b>		
Net loss for the year	(2,561)	(9,095)
Net loss from discontinued operations	-	2,012
Earnings distributions from significantly influenced investee	16,619	-
Items not involving cash		
Depletion, depreciation and accretion	1,893	118
Future income taxes	(1,818)	1,862
Foreign exchange (loss) gain	(751)	1,744
Interest expense	-	510
Stock based compensation	2,080	811
Share of earnings of significantly influenced investee, net of taxes	(12,904)	(7,679)
Unrealized (gain) loss on derivative instrument	(2,015)	1,166
(Gain) loss on sale of assets	(217)	40
Change in non-cash working capital (Note 20)	2,016	(3,035)
Cash provided by (used in) operating activities of continuing operations	2,342	(11,546)
Cash provided by (used in) used in operating activities of discontinued operations	-	-
Cash provided by (used in) operating activities	2,342	(11,546)
<b>Investing activities</b>		
Investment in and advances to Apico LLC	(903)	(1,463)
Increase in restricted cash	(2,098)	(2,048)
Purchase of property, plant and equipment	(82,645)	(14,680)
Proceeds from sale of property and equipment	1,053	849
Acquisition of financial instrument and other	(241)	(1,190)
Cash used in investing activities of continuing operations	(84,834)	(18,532)
Cash used in investing activities of discontinued operations	-	(203)
Cash used in investing activities	(84,834)	(18,735)
<b>Financing activities</b>		
Issuance of shares for cash	54,874	101
Borrowings under long-term debt	45,000	25,000
Repayments under long-term debt	(26,000)	(200)
Borrowings under amounts due to shareholder	2,000	-
Proceeds from issuance of short-term debt	-	200
Cash provided by financing activities of continuing operations	75,874	25,101
Cash provided by financing activities of discontinued operations	-	-
Cash provided by financing activities	75,874	25,101
Net effect of foreign exchange on cash held in foreign currencies	(97)	(21)
Change in cash and cash equivalents	(6,715)	(5,201)
Cash and cash equivalents, beginning of year	13,149	18,350
<b>Cash and cash equivalents, end of year</b>	<b>6,434</b>	<b>13,149</b>
Cash and cash equivalents consists of:		
Cash	5,606	4,793
Short-term money market instruments	828	8,356
	6,434	13,149

Supplemental cash flow information (Note 20)

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### **Note 1. Nature and continuance of operations**

Coastal Energy Company (“Coastal” or the “Company”) was incorporated on May 26, 2004 in the Cayman Islands.

These consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since inception, has a working capital deficiency of \$43.2 million and has an accumulated deficit of \$16.6 million. In addition, as at December 31, 2008, the Company held cash and cash equivalents of \$6.4 million, had current debt obligations of \$22.0 million consisting of (1) amounts due to shareholder and (2) the current portion of long-term debt. Additionally, as at December 31, 2008, the Company has committed to make expenditures (consisting of capital expenditures and rental and lease payments) of \$17.9 million of which \$12.5 million relates to 2009 committed expenditures. Based on the current cash balance, expected cash flows from the Gulf of Thailand operations, cash distributions from the Company's investment in Apico LLC and proceeds from debt and/or equity financings, the Company expects to have sufficient funds to meet its 2009 commitments and continue as a going concern.

Although management is of the opinion that additional financing will be available to continue its planned activities in the normal course there is no certainty that the levels of additional financing required will be obtained (Note 22).

These financial statements do not give effect to adjustments that may be necessary should the Company be unable to continue as a going concern.

### **Note 2. Significant accounting policies**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The principal accounting policies are outlined below:

#### *Basis of consolidation*

These consolidated financial statements include the accounts of the Company and all its subsidiaries. All significant inter-company transactions and balances have been eliminated.

Variable interest entities (“VIE’s”), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 15, Consolidation of Variable Interest Entities, are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The Company does not have any entities that qualify for treatment under this guidance as at December 31, 2008 and 2007.

#### *Measurement uncertainty*

The preparation of financial statements in accordance with Canadian GAAP necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Such estimates are based on informed judgements made by management. Actual results could differ materially from those estimates. Amounts recorded for depletion, depreciation, asset retirement obligations and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves which include estimates of future commodity prices, future costs and other relevant assumptions. The Company's reserves are estimated and evaluated, at a minimum, annually by an independent engineering firm. By their very nature, these estimates of reserves and the related cash flows are subject to measurement uncertainty. Changes in these estimates could materially impact the financial statements of future periods. Derivative instruments classified as held-for-trading are recorded at fair value at each reporting date. These fair value amounts are subject to measurement uncertainty. Income tax balances are based on estimates formulated

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### **Note 2. Significant accounting policies (continued)**

by informed management judgement; actual settlement of taxes may differ from those estimates. Stock-based compensation is based upon volatility and expected life estimates that are also subject to measurement uncertainty.

#### *Cash and cash equivalents*

Cash and cash equivalents consists of cash and highly liquid investments with original maturities of three months or less.

#### *Investments*

Investments in companies where the Company has the ability to exercise significant influence, which are generally where the Company has voting interests of 20% to 50%, are accounted for using the equity method. Under this method, the Company's share of the investees' earnings and losses is included in operations and its investments therein are adjusted by a like amount. Dividends received are credited to the investment accounts.

#### *Inventory*

Crude oil inventory is measured at the lower of weighted average cost of production and net realizable value.

#### *Property, plant and equipment*

##### *(a) Capitalized costs*

The Company follows the full cost method of accounting whereby all costs relating to the exploration, acquisition and development of oil and gas reserves are capitalized. Such costs include land and lease acquisition costs, annual charges on non-producing properties, geological and geophysical costs, and costs of drilling and equipping productive and non-productive wells. The Company does not capitalize indirect general and administrative overhead nor does it capitalize interest costs.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion and depreciation by 20% or more.

##### *Property, plant and equipment (continued)*

##### *(b) Depletion and depreciation*

Capitalized costs are accumulated in cost centres on a country-by-country basis. As of December 31, 2008, the Company has one cost centre, Thailand.

Depletion and depreciation of oil and gas properties and equipment together with the estimated future costs to be incurred (other than future major development items such as production platforms) in developing proved reserves, are depleted or depreciated using the units of production method based on the proved reserves before royalties as estimated by independent engineers. Oil and gas reserves and production are converted into equivalent units based upon estimated relative energy content of six thousand cubic feet of gas to one barrel of oil (6 mcf = 1 bbl). The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

In addition, certain major components of production equipment (such as a floating storage and off-loading vessel "FSO") have a life that is longer than the specific field to which it is currently assigned. These major production components are depreciated on a straight line basis over the estimated useful life of the asset, which approximates the estimated production life of the Company's Gulf of Thailand concessions.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### **Note 2. Significant accounting policies (continued)**

Depreciation of office equipment, furniture and fixtures and leasehold improvements is calculated using the straight-line method over the estimated life of the asset or the life of the lease, if shorter.

#### *(c) Capitalization of costs and construction in progress*

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Assets under construction are not subject to depreciation until they are put into use. Maintenance and repair costs are expensed as incurred.

#### *(d) Impairment*

The Company assesses the carrying value of its property, plant and equipment for impairment annually or as circumstances dictate. Impairment is indicated when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Cash flows are calculated using expected future product prices and costs and are discounted using a risk-free interest rate. Any impairment is measured as the excess of the carrying amount over the estimated discounted future net cash flows associated with the Company's proved and probable reserves. Reserves are determined pursuant to Canadian Securities Administrators' National Instrument 51-101, "Standards of Disclosure of Oil and Gas Activities". Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to earnings in the period the impairment occurs.

#### *Asset retirement obligation*

The Company recognizes the estimated fair value of future retirement obligations associated with property, plant and equipment 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. Only wells and well sites that the Company has 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 accretion. Actual retirement obligations settled during the period reduce the asset retirement liability.

#### *Revenue recognition*

Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized when the commodities are delivered and title passes to the customer. Revenues associated with the sale of crude oil, natural gas and natural gas liquids are recorded gross of royalties, transportation and marketing charges.

#### *Loss per share*

The basic loss per share is computed by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock method" is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. Options and warrants, as disclosed in Note 13, are anti-dilutive and, therefore, have not been taken into account in the per share calculations.



## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### **Note 2. Significant accounting policies (continued)**

#### *Income taxes*

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

#### *Stock-based compensation*

The Company has a share option plan as described in Note 13. 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, the applicable amounts of contributed surplus are credited to share capital.

During 2008, the Company introduced a cash-settled stock appreciation right plan; no stock appreciation rights ("SARs") were awarded under this plan during the year ended December 31, 2008. Subsequent to December 31, 2008, the Company granted SARs under this plan as described in Note 22. The compensation cost for SARs granted to employees under this plan is accounted for using the intrinsic value method. Under this method, the Company accrues a liability for the SARs on the excess of the market price of the Company's common shares over the price of the SARs granted. The accrued liability is adjusted at each balance sheet 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 net effect of these items is charged or credited to compensation expense.

#### *Foreign currency translation*

The Company translates foreign currency denominated monetary assets and liabilities of its integrated foreign subsidiaries at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at estimated transaction date exchange rates except depletion and depreciation expense, which is translated at the same historical rates as the related assets. Exchange gains or losses are included in the determination of net income as other items.

#### *Financial instruments*

Financial instruments are measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans or receivables, or other financial liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents and restricted cash are designated as held-for-trading. Accounts receivable and other are designated as loans and receivables. Accounts payable and accrued liabilities, amounts due to shareholder, and long-term debt are designated as other financial liabilities.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### **Note 2. Significant accounting policies (continued)**

The Company has a derivative hedging agreement (Note 11) which has been classified as held-for-trading and as such is measured at fair value at the balance sheet date with the resulting change in value recognized in net earnings for the related period.

The Company has adopted a policy to expense debt financing costs when they are incurred.

#### *Joint interests*

The Company's exploration activities is conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities. Amounts due from (to) joint interest partners arise from the timing of the receipt of funds from cash calls made by the Company or the joint interest partners together with the timing of exploration activities.

#### *Comparative figures*

Certain of the prior year's figures have been reclassified to conform to the current year presentation. The Company's common shares have a par value of \$0.04 each. Previously, the Company presented the amount of proceeds received in excess of par value within contributed surplus. In the current year the Company has presented these amounts as additional paid-in capital as disclosed in Note 13. There is no impact to shareholder's equity.

### **Note 3. Changes in accounting policies**

Effective January 1, 2008, the Company has adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes are as follows:

#### *Going Concern (CICA Handbook Section 1400)*

In accordance with these new requirements management assesses and discloses the Company's ability to continue as a going concern.

#### *Capital Disclosures (CICA Handbook Section 1535)*

In accordance with this new standard, the Company now discloses its objectives, policies and processes for managing capital. This includes qualitative information regarding the Company's objectives, policies and processes for managing its capital and quantitative data about what the Company manages as capital. These disclosures are based in information used internally by the Company's management. See Note 15.

#### *Inventories (CICA Handbook Section 3031)*

In accordance with this new standard, inventory should be valued on a first-in first out or weighted average basis, which is consistent with the Company's treatment. This new standard also requires, when applicable, for the reversal of previous impairments. The adoption of this standard does not impact the Company's consolidated financial statements.

#### *Financial Instruments - Disclosures (CICA Handbook Section 3862) and Financial Instruments – Presentation (CICA Handbook Section 3863)*

CICA Handbook Sections 3862 and 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation." The effect of this change was to revise financial instrument disclosure requirements and leave the presentation requirements unchanged. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how Coastal manages these risks. See Note 16.

## COASTAL ENERGY COMPANY

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

### Note 3. Changes in accounting policies (continued)

#### Future accounting changes

In February 2008, the CICA issued a new accounting standard Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs." This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial Reporting Standard IAS 38, "Intangible Assets." Emerging Issues Committee (EIC) abstract 27 "Revenues and expenditures during the pre-operating period" is no longer applicable for Coastal once Section 3064 is adopted. Accounting Guideline (AcG) 11 "Enterprises in the development stage" is amended to delete references to deferred costs and to provide guidance on development costs as intangible assets under Section 3064. This section is applicable to financial statements relating to fiscal years on or after October 1, 2008 and is not expected to have a material impact on the Company's financial condition or operating results.

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These new standards are harmonized with International Financial Reporting Standards ("IFRS"). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. If the Company chooses to adopt any of these changes in CICA Section 1582, the other two sections must also be adopted at the same time.

Coastal is currently evaluating the effects that these changes may have on the Company's financial statements in accordance with Canadian GAAP.

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. The conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting policies, financial reporting, IT systems and processes as well as certain business activities. The Company is currently in the process of finalizing an IFRS changeover plan. This process involves assessing the impact of the transition to IFRS and planning to ensure that the appropriate resources are available for a timely conversion.

### Note 4. Restatement of previously issued financial statements

The December 31, 2007 figures have been restated to correct an error on under-recording the future income tax liability and expense associated with the outside basis difference between the carrying amount of the investment in Apico LLC and the Company's tax basis. The restatement is summarized as follows:

	As reported	<u>2007</u> As restated
<i>Balance sheet</i>		
Future income tax liability	\$26,876	\$28,738
<i>Statement of operations</i>		
Income tax expense	-	1,862
Loss from continuing operations	5,221	7,083
Net loss	7,233	9,095
Basic and diluted loss per share from		
Continuing operations	0.07	0.10
Discontinued operations	0.02	0.02
	0.09	0.12

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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### Note 5. Restricted cash

The Company has cash balances which are restricted by the Company's banking institutions. The following table summarizes the restricted cash as of December 31, 2008 and 2007.

December 31,	2008	2007
Collateral in support of Corporate Letter of Credit (Note 19)	\$726	\$667
Restricted in support of Corporate Long-term Debt (Note 11)	3,420	1,381
	<b>\$4,146</b>	<b>\$2,048</b>

### Note 6. Accounts receivable and other

December 31,	2008	2007
Refundable taxes	\$1,389	\$132
Trade receivables	576	-
Other receivables	426	6
Prepays, deposits and other assets	271	312
	<b>\$2,662</b>	<b>\$450</b>

### Note 7. Investment in and advances to Apico LLC

The Company holds approximately 36.1% of Apico, a limited liability company incorporated in the State of Delaware, USA. Apico's primary purpose is the acquisition, exploration and development of onshore petroleum interests in the Kingdom of Thailand. Apico has the following working interests in petroleum concessions located in the Khorat Plateau area in northeastern Thailand:

Petroleum Concession	Apico's interest	net to Coastal
Block EU-1 and E-5N in the Phu Horn gas field	35%	12.635%
Block L15/43 - surrounding the Phu Horm gas field	100%	36.100%
Block L27/43 – southeast of the Phu Horm gas field	100%	36.100%
Block 13/48 – immediately east of the Phu Horm gas field	60%	21.660%

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 December 31, 2008 and 2007, the remaining unamortized excess basis was \$16.1 million and \$17.2 million, respectively.

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

Year ended December 31,	2008	2007
Balance, beginning of year	\$53,188	\$44,046
Advances during the year	903	1,463
Share of earnings of significantly influenced investee, net of taxes	13,963	9,212
Amortization of excess basis in Apico	(1,059)	(1,533)
Earnings distributions	(16,619)	-
Balance, end of year	<b>\$50,376</b>	<b>\$53,188</b>

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 8. Property plant and equipment, net

	December 31, 2008			December 31, 2007		
	Cost	AD&D*	Net	Cost	AD&D*	Net
Oil and gas properties						
Gulf of Thailand	\$152,098	\$(1,655)	\$150,443	\$75,687	\$ -	\$75,687
Oil and gas production equipment	30,558	-	30,558	2,510	-	2,510
Construction in progress	10,462	-	10,462	10,125	-	10,125
Office furniture & computer equipment	971	(279)	692	450	(109)	341
Leasehold improvements	129	(60)	69	125	(26)	99
	<b>\$194,218</b>	<b>\$(1,994)</b>	<b>\$192,224</b>	<b>\$88,897</b>	<b>\$(135)</b>	<b>\$88,762</b>

\* Accumulated depletion and depreciation

#### Thailand

The Company has a 100% working interest in Block G5/43 in the Gulf of Thailand which includes the Bua Ban and Songkhla oil fields and 100% interest Block G5/50 in the Gulf of Thailand.

During the year ended December 31, 2008, following the commencement of production, the Company began depleting its oil and gas properties. At December 31, 2008, oil and gas properties included \$42 million of unproved properties that have been excluded from the depletion calculation.

An impairment (ceiling) test review was performed for the Thailand cost centre at December 31, 2008 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amounts. In determining the undiscounted future net cash flows for this cost centre, the Company utilized benchmark pricing forecasts from its professional reserves evaluator. The benchmark prices used in their forecast at December 31, 2008 are outlined in the following table:

Year	Dubai Crude Oil <sup>(1)</sup> (\$/bbl)	Condensate (\$/bbl)	Natural Gas (\$/Mcf)
2009	44.93	45.64	5.040
2010	55.43	55.65	5.930
2011	61.43	61.36	6.440
2012	72.43	71.85	6.570
2013	79.44	78.53	7.100
Thereafter inflation % change	2%	2%	2%

<sup>(1)</sup> Actual prices used in the impairment tests were adjusted for crude oil quality differentials, natural gas heat content, transportation and marketing costs specific to the Company's operations.

Based on these assumptions, management's assessment is that there is no impairment of oil and gas properties and equipment as at December 31, 2008.

#### Oil and gas production equipment

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

#### Construction in progress

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

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

(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

December 31,	2008	2007
<b>Accounts payable</b>		
Trade payables for capital acquisitions	\$23,199	\$7,681
Other trade payables	8,103	367
	<b>31,302</b>	<b>8,048</b>
<b>Accrued liabilities</b>		
Payroll and other employee related liabilities	2,634	268
Other	1,600	1,477
	<b>4,234</b>	<b>1,745</b>
	<b>\$35,536</b>	<b>\$9,793</b>

### Note 10. Amounts due to shareholder

Effective September 25, 2006, the Company assumed a note payable to 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. In January 2007, the note and its accrued interest were renegotiated to accrue interest at 4.5% per annum and mature on July 20, 2008. In July 2008, the note was renegotiated to mature on December 31, 2008 and the accrued interest through September 30, 2007 of \$411,000 was paid to the shareholder in July 2008. Effective November 20, 2008 the note payable balance was renegotiated to mature on March 31, 2009 at an interest rate of 7% per annum. At December 31, 2008 the accrued interest on this note was \$120,000.

On December 30, 2008 the shareholder loaned the Company \$2.0 million which is set to mature on June 30, 2009 and accrues interest at 15% per annum. Subsequent to December 31, 2008, a related party of this shareholder funded additional amounts (see Note 22.)

### Note 11. Long-term debt

December 31,	2008	2007
Revolving debt facility	\$44,000	\$25,000
Less: current portion	(15,249)	-
Long-term debt	<b>\$28,751</b>	<b>\$25,000</b>

During the year ended December 31, 2007, the Company entered into a \$50 million revolving debt facility (the "Facility"), secured by the Company's investment in Apico, with a final maturity date of December 31, 2013. The Facility, arranged by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"), consists of a \$42.5 million senior loan and a \$7.5 million junior loan. The Facility is in the form of a borrowing base loan and its availability is subject to recalculation every quarter. As of December 31, 2008, the amount available under the borrowing base was \$45.0 million (2007 - \$39.5 million), under which the Company had drawn a total of \$44.0 million (2007 - \$25 million) comprised of \$38.5 million loans (2007 - \$25 million) under the senior loan and \$5.5 million (2007 - \$nil) loan, drawn under the junior loan.

Loans under this Facility bear interest at SMBCs' LIBOR plus an applicable margin between 1.75% and 3.5%. The applicable LIBOR rate is determined by the length of the interest renewal period; and the margin is dependent upon whether the loan is drawn under the senior or junior loan terms and the aggregate amount of loans outstanding. The effective interest rate on the Facility for the years ended December 31, 2008 and 2007 was 5.18% and 8.05%, respectively. As part of the Facility, the Company is required to deposit funds into a bank account, which is considered restricted as to its availability (see Note 5). During the year ended December 31, 2007 the Company recorded \$2.1 million of debt financing costs related to this Facility.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 11. Long-term debt (continued)

As a requirement of the Facility, the Company entered into a derivative hedging agreement with an affiliate of SMBC under which the Company has the right to sell 4,000 metric tons per month (up to a total of 96,000 metric tons) of Singapore fuel oil at a price of \$290.00 per metric ton commencing July 1, 2007 and expiring June 30, 2009. The Company paid \$1.2 million for this option. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. As at December 31, 2008 and 2007 the fair value of the option was \$2.0 million and \$nil, respectively. During 2008 and 2007 the Company recorded \$2.0 million of unrealized gains and \$1.2 million of unrealized losses, respectively on this instrument. Also during 2008 and 2007, the Company realized cash proceeds of \$432,000 and \$nil, respectively on the derivative instrument.

#### Long-term debt repayment

Principal repayments on long-term debt in each of the next five years are as follows:

2009	\$15,249
2010	7,855
2011	8,289
2012	6,307
2013	6,300
	<hr/>
	\$44,000

### Note 12. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interest in oil and gas properties, including well sites, production and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2008 and 2007 to be approximately \$2.2 million and \$nil, respectively which will be incurred approximately 12 years in the future, and are expected to be funded out of the Company's general resources available at the time of settlement. A credit adjusted risk free interest rate of 6.45% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation. The following table provides a reconciliation of the asset retirement obligations:

	2008	2007
Balance, beginning of year	\$ -	\$ -
Additions to future costs	1,340	-
Accretion expense	14	-
Balance end of year	<hr/> <b>\$1,354</b>	<hr/> <b>\$ -</b>

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 13. Share capital

#### Common Stock

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

#### Issued and fully paid common shares

	Share Capital				
	Number of Shares	Par Value	Additional Paid In Capital	Total	Contributed Surplus
<b>Balance, December 31, 2006</b>	<b>76,858,220</b>	<b>\$3,074</b>	<b>\$88,467</b>	<b>\$91,541</b>	<b>\$10,757</b>
Shares issued pursuant to exercise of stock options	125,000	5	215	220	(120)
Stock-based compensation	-	-	-	-	811
<b>Balance, December 31, 2007</b>	<b>76,983,220</b>	<b>\$3,079</b>	<b>\$88,682</b>	<b>\$91,761</b>	<b>\$11,448</b>
Shares issued pursuant to offering, net of issue costs	16,445,000	658	53,791	54,449	-
Shares issued pursuant to exercise of stock options	202,500	8	720	728	(303)
Stock-based compensation	-	-	-	-	2,080
<b>Balance, December 31, 2008</b>	<b>93,630,720</b>	<b>\$3,745</b>	<b>\$143,193</b>	<b>\$146,938</b>	<b>\$13,225</b>

On January 8, 2008, the Company completed a public offering of 16,445,000 common shares (including the over-allotment option of 2,145,000 common shares) of the Company at a price of \$3.50 (Cdn \$3.50) per common share, raising gross proceeds of \$57.6 million (Cdn \$57.6 million). Proceeds of the offering, net of issuance costs of approximately \$3.1 million, were \$54.5 million.

#### Warrants

During the year ended December 31, 2007, warrants for 334,838 common shares expired unexercised. As of December 31, 2008, the Company had 2,343,745 warrants outstanding, exercisable at \$4.09 (£2.80) per share and expiring July 20, 2010. The changes in warrants were as follows:

	Number of warrants	Weighted average exercise price
<b>Balance outstanding, December 31, 2006</b>	<b>2,678,583</b>	<b>\$3.83 (£2.62)</b>
Warrants expired	(334,838)	\$2.05 (£1.40)
<b>Balance outstanding, December 31, 2007 and 2008</b>	<b>2,343,745</b>	<b>\$4.09 (£2.80)</b>

In January 2009, the Company issued additional warrants in connection with a debt offering (see Note 22.)

#### 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 December 31, 2008 there remained for issuance 9,419,000 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 with one-quarter vesting on the date of the grant and one-quarter vesting on each subsequent anniversary of the date of the 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:



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### Note 13. Share capital (continued)

	Number of options	Weighted average exercise price
<b>Balance outstanding, December 31, 2006</b>	<b>3,725,000</b>	<b>\$1.88</b>
Options granted	375,000	\$3.00
Options exercised	(125,000)	\$0.79
Options forfeited	(275,000)	\$2.53
<b>Balance outstanding, December 31, 2007</b>	<b>3,700,000</b>	<b>\$2.25</b>
Options granted	2,760,000	\$3.19
Options exercised	(202,500)	\$1.69
Options forfeited	(676,500)	\$2.52
<b>Balance outstanding, December 31, 2008</b>	<b>5,581,000</b>	<b>\$2.41</b>

The following table summarizes the outstanding and exercisable options at December 31, 2008:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2005	187,500	1.00 years	\$0.58 (£0.40)	Dec. 31, 2009	187,500
Jul. 06, 2005	112,500	1.50 years	\$2.05 (£1.40)	Jul. 06, 2010	112,500
Dec. 27, 2006	2,575,000	3.00 years	\$1.80 (Cdn\$2.20)	Dec. 27, 2011	2,025,000
Jun. 15, 2007	206,250	3.50 years	\$2.42 (Cdn\$2.96)	Jun. 16, 2012	193,750
Jan. 25, 2008	1,114,750	4.00 years	\$3.22 (Cdn\$3.94)	Jan. 26, 2013	614,500
May 05, 2008	200,000	4.00 years	\$3.63 (Cdn\$4.44)	May 06, 2013	50,000
Jul. 14, 2008	85,000	4.50 years	\$2.95 (Cdn\$3.61)	Jul. 15, 2013	21,250
Sep. 16, 2008	100,000	4.75 years	\$1.85 (Cdn\$2.27)	Sep. 16, 2013	25,000
Sep. 23, 2008	1,000,000	4.75 years	\$3.22 (Cdn\$3.94)	Feb. 05, 2013	250,000
	5,581,000				3,479,500

On January 2, 2009, 3,509,000 stock options were granted to directors, officers, employees and consultants with an exercise price of Cdn \$1.35. Of these options, 750,000 were granted as incentives for new hires, 25% of which vest immediately upon the grant date and 25% vesting on each of the three subsequent anniversaries of the grant date. The remaining 2,759,000 options were granted as part of the annual award which vests 33.3% on each of the three subsequent anniversaries of the grant date.

#### Stock-based compensation

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. The weighted average assumptions for grants and the weighted average fair value of option awards granted are as follows:

	2008	2007
Risk-free interest rate	3.00%	4.25%
Expected life	3 years	3 years
Annualized volatility	57%	40%
Dividend rate	0%	0%
Weighted average grant date fair value per option	\$1.18	\$0.92

For the years ended December 31, 2008 and 2007, the Company recorded stock-based compensation of \$2,080,000 and \$811,000, respectively.

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

### Note 14. General and administrative

Year ended December 31,	2008	2007
Salaries and benefits	\$7,722	\$3,689
Professional fees	1,783	1,080
Office and general	1,787	1,192
Travel and entertainment	996	598
Regulatory and transfer agent	536	378
	<b>\$12,824</b>	<b>\$6,937</b>

### Note 15. Capital management

The Company's capital consists of working capital, amounts due to shareholder, long-term debt, and common stock. As the Company achieved first production in the fourth quarter of 2008, the majority of its capital to date has resulted from the issuance of debt and equity. A description of the amounts due to shareholder is identified in Note 10. The Company's long-term debt and related changes during the period are detailed in Note 11. Equity accounts for Coastal are identified in Note 13.

Coastal is a public company and has established access in past transactions to both public and private debt and equity markets. The Company anticipates continuing to access both the debt and equity markets to fund future growth of the business (see Note 22).

### Note 16. Financial instruments and risk management

#### *Fair values*

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable and other, and accounts payable and accrued liabilities of which their carrying value approximates their fair value due to their short-term nature. The Company's derivative contract is considered held-for-trading and its fair value is marked to market every quarter based on quoted market prices in the futures market on the balance sheet date. Amounts due to shareholder and long-term debt are considered other financial liabilities and are recorded at amortized cost.

The carrying value of the amounts due to shareholder approximates the fair value. This is due to the short-term nature of the liability. The fair value of the Company's long-term debt as at December 31, 2008 and 2007 was \$42.71 million and \$24.27 million, respectively.

The Company considers its risks in relation to financial instruments in the following categories:

#### *Credit risk*

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and cash equivalents and restricted cash; (2) accounts receivable and other; (3) derivative contract. The Company has not had any credit losses in the past nor does it anticipate future credit losses. At December 31, 2008, the Company has no financial assets that are past due or impaired due to credit risk related defaults.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 16. Financial instruments and risk management (continued)

The Company's accounts receivable and other consists primarily of Value Added Tax ("VAT") refunds from the governments of Great Britain and Thailand and prepaid insurance. With respect to prepaid insurance, the Company's primary credit risk is on the underwriter(s) of the insurance policies on which the Company has paid annual premiums. In an effort to minimize this credit risk, the Company has chosen global insurance underwriters with an A+ or better credit rating by Moody's and Standard & Poor's. The Company's maximum exposure to credit risk at the balance sheet date is as follows:

December 31,	2008	2007
Cash	\$6,434	\$13,149
Restricted cash	4,146	2,048
Accounts receivable from government entities (UK, Thailand)	1,389	132
Trade receivable	576	-
Other accounts receivable	426	6
	<b>\$12,971</b>	<b>\$15,335</b>

The Company's trade receivable at December 31, 2008 is from one customer and is less than 30 days aged. All revenues for the year ended December 31, 2008 was from sales to two customers with each customer accounting for 71% and 29% of revenues. 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. The Company's policy to mitigate credit risk associated with commodity sales is to establish relationships with credit worthy customers. The Company not experienced any collection issues on its trade receivables.

#### Liquidity risk

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

The Company's liquidity position has deteriorated during the year due to the ongoing development expenditure incurred at the Company's Gulf of Thailand properties. The current global financial crisis has caused severe illiquidity in capital markets, economic uncertainty and significant volatility in commodity prices. The Company's ability to raise additional capital could be restricted given the current market environment (Note 1).

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 December 31, 2008 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:

December 31,	2008				Total	2007 Total
	2009	2010	2012	Thereafter		
Accounts payable and accrued liabilities	\$35,536	\$-	\$-	\$-	\$35,536	\$9,793
Amounts due to shareholder	6,761	-	-	-	6,761	4,940
Long-term debt payment	15,249	7,855	8,289	12,607	44,000	25,000
Future commitments (Note 19)						
Capital expenditures	8,733	2,850	2,450	-	14,033	41,053
Rental and lease payments	3,784	71	-	-	3,855	535
	<b>\$70,063</b>	<b>\$10,776</b>	<b>\$10,739</b>	<b>\$12,607</b>	<b>\$104,185</b>	<b>\$81,321</b>

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 16. Financial instruments and risk management (continued)

#### Market risk

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

#### (a) Currency risk

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

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's costs are incurred principally in US 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. As part of the Company's 2006 acquisition of NuCoastal, which in accordance with Canadian GAAP was accounted for as a reverse takeover ("RTO"), the Company recorded for book purposes a \$24.3 million future tax liability on an oil and gas concession which was valued in the underlying Thai baht currency. This future income tax liability is considered a monetary item; and as such is revalued each period end at the current exchange rate, with the gain or loss recorded in net earnings (loss) for the period.

The Company is exposed to currency risk through the following US dollar equivalent of financial assets and liabilities denominated in currencies other than US dollars:

	Cash and cash equivalents	Accounts receivable	Accounts payable and accrued liabilities	Income taxes payable	Future income tax liabilities
<b>December 31, 2008</b>					
Thai Baht	\$158	\$1,362	\$(13,805)	\$(1,252)	\$(25,984)
UK Pounds	139	27	(282)	-	-
Canadian Dollars	4	-	(123)	-	-
Singapore Dollars	-	-	(2,520)	-	-
Euros	7	-	(70)	-	-
	<b>\$308</b>	<b>\$1,389</b>	<b>\$(16,800)</b>	<b>\$(1,252)</b>	<b>\$(25,984)</b>
					(As restated Note 4)
<b>December 31, 2007</b>					
Thai Baht	\$317	\$95	\$(4,407)	\$-	\$(28,738)
UK Pounds	242	36	(136)	-	-
Canadian Dollars	24	-	(192)	-	-
Euros	-	-	-	-	-
	<b>\$583</b>	<b>\$131</b>	<b>\$(4,735)</b>	<b>\$-</b>	<b>\$(28,738)</b>

Based on the above net exposures at December 31, 2008, a 10% depreciation or appreciation of the above currencies against the US dollar would result in a \$4.236 million increase or decrease in the Company's after-tax earnings.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### Note 16. Financial instruments and risk management (continued)

#### *(b) Interest rate risk*

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. Presently the majority of the Company's credit facilities are at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its exposures given the relatively short-term of the interest rates on long-term debt. The terms of the Company's long-term debt obligation is described in Note 11. The Company has met its obligations with respect to this liability. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling \$50.8 million at December 31, 2008 (see Notes 10 and 11). A 100 basis point change in interest rates would result in a \$508,000 change in the Company's earnings.

#### *(c) Commodity price risk*

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

The Company has onshore Thailand production via its equity ownership of Apico (Note 7.) The pricing of Apico's production under its Gas Sales Agreement ("GSA") is tied to a 6 months moving average of the Singapore Medium Fuel Oil price ("reference price"). A 10% change in the reference price would result in a \$1.2 million change in the Company's annual after tax earnings.

The Company's long-term debt (Note 11) incorporates the reference price in its model to determine the effective borrowing base under which the Company may borrow. This model does not reflect 100% of the reference price. Thus a 10% decline in the reference price projection would reduce the availability under the borrowing base by approximately 4% or \$1.8 million.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 11. Coastal's derivative contract was in place and the Company realized cash settled proceeds of \$0.422 million and \$nil under it during the year ended December 31, 2008 and 2007 respectively.

### Note 17. Income taxes

The Company has taxable operations in Thailand, the United Kingdom and United States.

The Company's provision for income taxes consists of the following:

Year ended December 31,	2008	2007 (As restated Note 4)
Current income taxes	\$2,484	\$-
Future income taxes (recovery) expense	(1,818)	1,862
	<u>\$666</u>	<u>\$1,862</u>

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 17. Income taxes (continued)

The provision for income taxes from continuing operations reported differs from the statutory tax rates in the jurisdictions of operations due to the following:

	2008	2007 (As restated Note 4)
Statutory tax rate	- %	- %
Recovery of income taxes computed at standard rates	\$ -	\$ -
Effect of higher tax rates on losses of operations in foreign jurisdictions	<b>(1,692)</b>	(747)
Benefit of income tax losses not recognized	<b>1,692</b>	747
Outside basis difference on investment in Apico LLC	<b>666</b>	1,862
	<b>\$666</b>	\$1,862

There is presently no taxation imposed by the Government of the Cayman Islands on income or capital gains. If any form of taxation were to be enacted, the Company has been granted an exemption until May 26, 2024. The Company is subject to foreign withholding taxes on dividend and interest income.

In April 2008, the Company's Thai subsidiary transferred its 25.5% interest in Apico, LLC at its net book value to the Company's Cayman Island subsidiary. The Company has recorded a current tax liability and related current tax expense of \$2.484 million related to this transfer during the quarter ended June 30, 2008, based on a corporate rate of 30%. In August, 2008, the Company made a \$1.232 million estimated tax payment toward this tax liability.

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets are as follows:

	2008	2007
	\$	\$
Future income tax assets		
Non-capital loss carryforwards	<b>17,500</b>	1,167
Valuation allowance	<b>(17,500)</b>	(1,167)
Net future income tax asset	\$ -	\$ -
		(As restated Note 4)
Future income tax liability		
Accumulated cost basis differences on assets	<b>25,984</b>	28,738

Under Thailand's Petroleum Income Tax Act ("PITA"), the Company is not required to file an income tax return until after its first production. All costs incurred in Thailand prior to first production are capitalized for income tax purposes and amortized over ten years beginning with first production. The Company has approximately \$32.5 million of Thailand PITA tax losses to offset future taxable income that expire in 2018; approximately \$3.4 million of United States tax losses to offset future taxable income that expire in 2025 through 2027; and approximately \$0.7 million of Mauritius tax losses to offset future taxable income that expire in 2012 through 2013.

The future income tax liability is valued in the underlying currency of the related assets. The change in this account is directly attributable to the currency valuation on this liability and the effect of this change is included in the statement of operations, comprehensive loss and deficit under the foreign exchange loss.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 18. Discontinued operations

In August 2007, the Company formally relinquished all its working interest in the Nevada leases to the temporary operator in exchange for the Company's current obligation to pay the operator \$21,000 related to well clean up costs along with all future obligations surrounding this working interest. The Company wrote off its interest in this property of approximately \$2 million. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Nevada leases were the only property within the United States cost centre. Accordingly, the information related to the Nevada leases is presented as discontinued operations in the Company's consolidated financial statements. There were no assets and liabilities related to discontinued operations as at December 31, 2007.

### Note 19. Commitments and contingencies

The Company has provided a Letter of Credit to the Thailand Customs Department for \$0.6 million. This Letter of Credit is cash collateralized (see Note 5), has not been drawn on and remains outstanding as of December 31, 2008.

The Company has entered into various commitments primarily related to the ongoing development of its Thailand G5/43 property (see Note 8). Coastal has secured equipment and work commitments in the Gulf of Thailand. In December 2007, the Company was awarded the G5/50 Concession in the Gulf of Thailand, within the boundaries of the Company's G5/43 Concession. In order to keep this Concession, the Company has various development obligations. The Company also has operating lease agreements for office space in the United Kingdom, Thailand and the United States. The following table summarizes the Company's outstanding contractual obligations:

Year	G5/43	G5/50	Other	Total
2009	\$11,483	\$850	\$184	\$12,517
2010	-	2,840	71	2,911
2011	-	2,450	-	2,450

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

### Note 20. Supplemental cash flow information

The following table summarizes the changes in non-cash working capital for the years ended December 31, 2008 and 2007:

Year ended December 31,	2008	2007
Accounts receivable and other	<b>\$(2,520)</b>	\$(32)
Accounts payable and accrued liabilities	<b>3,284</b>	(3,003)
Current income taxes payable	<b>1,252</b>	-
	<b>\$2,016</b>	\$(3,035)

During the years ended December 31, 2008 and 2007, the Company made cash payments for income taxes and interest on long-term debt as follows:

Year ended December 31,	2008	2007
Interest on long-term debt	<b>\$2,295</b>	\$600
Income taxes	<b>1,232</b>	-

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 21. Segmented information

#### Operating segment

The Company's primary current operations are the acquisition, exploration and development of oil and gas properties in the Gulf of Thailand. The Company also has an indirect operating segment involved in the acquisition, exploration and development of onshore petroleum properties in Thailand. This segment is owned through the Company's 36.1% interest in Apico which is accounted for using the equity method (Note 7). The Company's corporate office is located in the United States of America.

#### Geographic segments

The Company's revenues and expenses from continuing operations for the years ended December 31, 2008 and 2007 and oil and gas assets supporting continuing operations as at December 31, 2008 and 2007 were as follows:

2008	Onshore Thailand	Gulf of Thailand	Corporate	Total
<b>Oil and gas revenues, net</b>	\$ -	\$3,884	\$ -	\$3,884
<b>Expenses and other</b>				
Production expenses	-	1,597	-	1,597
General and administrative	-	1,961	10,863	12,824
(Gain) loss on derivative	-	-	(2,447)	(2,447)
Foreign exchange (gain) loss	-	393	3,476	3,869
Interest expense	-	431	1,715	2,146
Interest income	-	(6)	(976)	(982)
(Gain) loss on sale of assets	-	-	(217)	(217)
Depletion, depreciation & accretion	-	1,798	95	1,893
Income taxes	666	-	-	666
Share of Apico earnings	(12,904)	-	-	(12,904)
<b>Net income (loss) from continuing operations</b>	<b>12,238</b>	<b>(2,290)</b>	<b>(12,509)</b>	<b>(2,561)</b>
Investment in Apico	50,376	-	-	50,376
Property, plant and equipment, net	-	191,836	388	192,224
Total assets	50,376	202,954	5,133	258,463
Capital expenditures	-	103,429	553	103,982



## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

### Note 21. Segmented information (continued)

*Geographic segments (continued)*

2007 (As restated Note 4)	Onshore Thailand	Gulf of Thailand	Corporate	Total
Oil and gas revenues, net	\$ -	\$ -	\$ -	\$ -
<b>Expenses and other</b>				
General and administrative	-	1,393	5,568	6,961
(Gain) loss on derivative	-	-	1,166	1,166
Foreign exchange (gain) loss	-	(172)	1,971	1,799
Interest expense	-	216	922	1,138
Interest income	-	(1)	(429)	(430)
Debt financing fees	-	-	2,132	2,132
(Gain) loss on sale of assets	-	-	40	40
Depletion, depreciation & accretion	-	51	43	94
Income taxes	1,862	-	-	1,862
Share of Apico earnings	(7,679)	-	-	(7,679)
Net income (loss) from continuing operations	5,817	(1,487)	(11,413)	(7,083)
Investment in Apico	53,188	-	-	53,188
Property, plant and equipment, net	-	88,536	226	88,762
Total assets	53,188	92,282	12,184	157,654
Capital expenditures	-	21,564	381	21,945

### Note 22. Subsequent events

From January 1, 2009 to April 23, 2009, the Company announced that it:

- (a) had entered into an unsecured loan agreement with an individual related to the Company's primary shareholder, O. S. Wyatt, Jr. in the amount of \$1 million bearing interest at 15% per annum and maturing on June 30, 2009.
- (b) had closed a \$5 million senior secured loan with an unrelated private partnership bearing interest at 16% per annum and maturing on July 19, 2009. This loan is secured by the Company's Ocean 66 vessel which is currently located in Galveston, Texas.
- (c) had completed its offering of 100 senior unsecured notes raising \$10 million. These notes bear interest at 15% per annum and will mature on January 23, 2010. Each \$100,000 note was issued with a warrant entitling the holder thereof to acquire 20,000 shares of the Company's common shares at an exercise price of Cdn\$1.136. The warrants will expire on January 23, 2014.
- (d) had awarded stock appreciation rights under its respective plan for the equivalent of approximately 2,075,000 shares, of which approximately 280,000 shares are contingent upon the achievement of certain performance goals established by the Company. These awards vest 33.3% on each of the subsequent anniversaries of the date the award was granted.

## COASTAL ENERGY COMPANY

Years ended December 31, 2008 and 2007

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

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### **Note 22. Subsequent events (continued)**

- (e) had received the Thai Baht equivalent of \$36.2 million as a prepayment for 1,000,000 barrels of crude oil to be delivered through June 2009. The prepayment is based on a discounted price per barrel which takes into account the time value of the prepayment versus the expected delivery schedule for the crude oil production. The price per barrel is tied to a crude oil index and actual deliveries will be adjusted to reflect the current index price per the contract in effect at the date of delivery. This adjustment will be settled within 30 days of the actual delivery.

## **NON-INDEPENDENT DIRECTOR**

Randy L. Bartley, President and CEO <sup>(4)</sup>

## **INDEPENDENT DIRECTORS**

C. Robert Black <sup>(1) (2) (4) (5)</sup>  
Former Senior Vice President, Office of the Chairman  
Texaco, Inc.

Bernard de Combret <sup>(3) (4) (5)</sup> Chairman  
Former Deputy Chairman Executive Committee  
Total Fina Elf, S.A.

Olivier de Montal  
Administrator, Olympia Capital Holding

Lloyd Barnaby Smith <sup>(2) (5)</sup>  
Former British Ambassador to Thailand

Forrest E. Wylie <sup>(1) (3) (4) (5)</sup>  
Chairman, CEO & President  
Buckeye Partners, L.P.

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

### *Committees of the Board:*

- (1) Audit, (2) Compensation,*
- (3) Corporate Governance and Nominating,*
- (4) Executive; and (5) Reserves*

## **SENIOR MANAGEMENT**

Bernard de Combret, Chairman

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer

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

## **TRADING SYMBOLS**

CEN on TSX-V  
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
mmbbls	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
TSX-V	TSX Venture Exchange (Canada)
AIM	London AIM Exchange (UK)

## **THIRD PARTY ADVISORS**

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

*Corporate Bankers:*  
Sumitomo Mitsui Banking Corporation

*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 Partners Limited

*London Joint Brokers:*  
Thomas Weisel Partners  
Tristone Capital Ltd.

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