COASTAL ENERGY COMPANY

QUARTERLY REPORT

September 30, 2012

Three and Nine Months Ended September 30, 2012 and 2011

CONTENTS

President's Report to the Shareholders

Dear Fellow Shareholders:

I'm pleased to report that the third quarter of 2012 has brought further success for the Company. Production and cash flow during the quarter remains at near record highs, while the Company continues to achieve exciting success through the Drill Bit.

During the third quarter, the Company had significant accomplishments in the Songkhla A field. In mid-September, the Company successfully completed drilling operations on the A-10 and discovered 550 feet of gross pay (213 feet net) in the Lower Oligocene with 20% porosity. Notably, the net pay represents a record amount for the Songkhla basin along with some of the best reservoir characteristics we have seen in the Lower Oligocene interval. In late September, the A-10 well commenced production at approximately 4,000 bbl/d. Subsequently, the Company began drilling the A-13 well, a step-out exploration prospect targeting the northeast fault block in the field. Drilling was successfully completed following quarter end and the well encountered 67 feet of net pay in the Lower Oligocene with 18% porosity. In addition to establishing production from a previously untested fault block, the successful results from the A-13 provide the opportunity to drill another well higher up structure and add additional pay thickness.

We are following through on our plans to reinvest free cash flow through the acquisition of production facilities for our offshore operations. In the third quarter, we completed modifications to the Richmond mobile offshore production unit (MOPU). Subsequent to quarter end, the Richmond was installed at the Bua Ban North B field, increasing production capabilities to 55,000 bbl/d. The previous MOPU in the Bua Ban North B field was also purchased by the Company during the quarter and reinstalled at Bua Ban South.

Just following the end of the quarter, the Company announced the signing of the Atwood Manta jack-up drilling rig contract. The Manta will conduct drilling operations in the Gulf of Thailand as well as offshore Malaysia and is expected to be delivered by late November. We are excited about the addition of the Manta and believe that given the active drilling program we have outlined, a two rig program is an appropriate step toward unlocking the value of our highly prospective asset base.

On behalf of the Board of Directors

Randy L. Bartley

President and Chief Executive Officer
November 8, 2012

Financial and Operating Highlights

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

	3 months ended September 30,			9 months ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Financial						
Crude oil revenue	**$170,894**	$81,670	109%	**$554,612**	$218,854	153%
EBITDAX [(1)]	**$114,603**	$44,658	157%	**$373,320**	$126,604	195%
Per share – Basic	**$1.01**	$0.40	153%	**$3.28**	$1.13	190%
Per share – Diluted	**$0.97**	$0.38	155%	**$3.15**	$1.09	189%
Net Income	**$40,100**	$19,013	111%	**$130,385**	$28,467	358%
Per share – Basic	**$0.35**	$0.17	106%	**$1.15**	$0.25	360%
Per share – Diluted	**$0.34**	$0.16	113%	**$1.10**	$0.25	340%
Capital expenditures, excluding onshore	**$151,323**	$46,697	224%	**$264,425**	$108,921	143%
Total Assets				**$793,178**	$455,087	74%
Working capital deficit				**($33,840)**	($41,841)	-19%
Weighted average common shares outstanding						
Basic	**113,049,967**	112,572,270	-%	**113,660,219**	111,966,960	2%
Diluted	**117,707,563**	117,233,280	-%	**118,404,210**	115,745,887	2%
Operations						
Operating netback ($/bbl) [(1) (2)]						
Crude oil revenue	**$101.47**	$103.02	-2%	**$105.87**	$101.60	4%
Royalties	**10.87**	7.94	37%	**11.27**	7.97	41%
Production expenses	**19.43**	34.25	-43%	**21.02**	30.87	-32%
Operating netback	**$71.17**	$60.83	17%	**$73.58**	$62.76	17%
Average daily crude oil production (bbls) [(2)]	**19,626**	10,191	93%	**20,001**	8,539	134%

Notes:
(1) Non-IFRS measure; see "Non-IFRS Measures" section within MD&A.
(2) Includes offshore crude oil only as onshore is accounted for using the equity method of accounting.

Third Quarter 2012 Highlights

- Total Company production increased to 21,798 boe/d in the third quarter from 12,028 boe/d in the same period last year. The Company's offshore production was 19,626 bbl/d compared to 10,191 bbl/d in Q3 2011, with the increase due to the inclusion of production from both platforms at Bua Ban North. Offshore production was impacted by downtime at Bua Ban North and Songkhla during rig moves as well as the MOPU replacement at Bua Ban North. Onshore production of 2,172 boe/d increased from Q3 2011 levels of 1,837 boe/d as natural gas demand continued to recover following the flooding in Thailand in late 2011.

- EBITDAX for Q3 2012 was $114.6 million, 157% higher than the $44.7 million recorded in Q3 2011. Revenue and EBITDAX were driven higher by increased oil liftings and commodity prices. Crude oil inventory was 577,863 barrels at September 30, 2012, the revenue from which will be recognized in the fourth quarter. The Company saw closing inventory increase by 121,445 barrels (approximately 27%) during Q3 2012.

- The Company announced successful drilling results in the Songkhla A field. The A-10 well, drilled in the eastern most fault block of the field, encountered a record amount of net pay for the basin and exhibited very favorable reservoir characteristics in the Lower Oligocene interval. In late September 2012, the well was brought on production at approximately 4,000 bbl/d. Subsequently, the Company drilled the A-13 well in the previously untested northeast fault block and encountered 67 feet of net pay in the Lower Oligocene. Successful results from the A-13 provide the opportunity for an additional well higher up structure to add additional pay thickness.

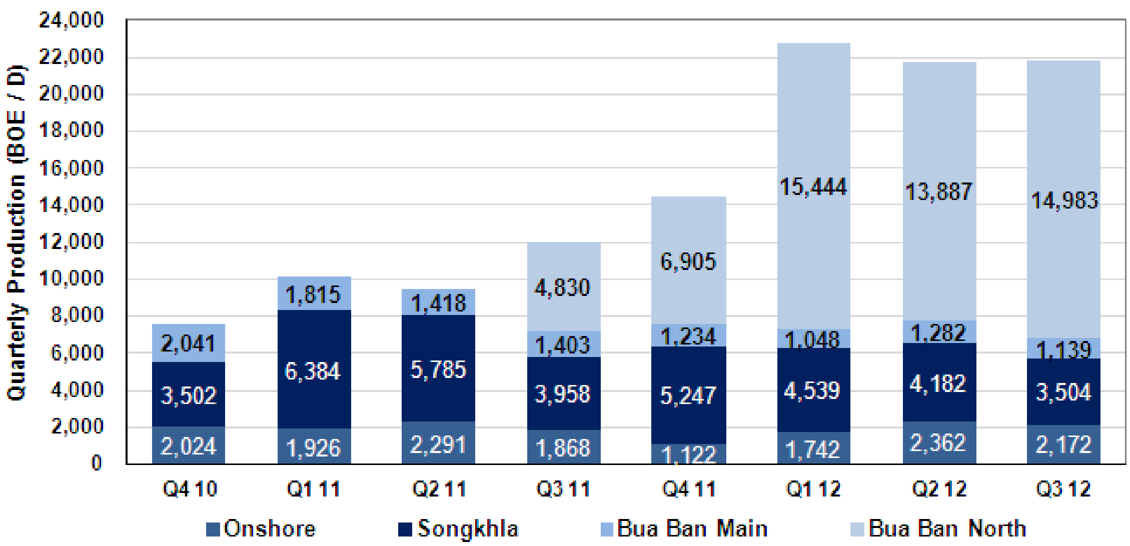
- The Company completed the conversion of the Richmond mobile offshore production unit (MOPU). Subsequently, in October 2012, the Richmond was installed at the Bua Ban North B field, increasing production capabilities to 55,000 bbl/d. The previous MOPU in the Bua Ban North B field was purchased by the Company and reinstalled at Bua Ban South.

- The Company signed a contract with a subsidiary of Atwood Oceanics, Inc. for the Manta jackup drilling rig. The rig is scheduled to be delivered by late November and will conduct drilling operations for the Company in the Gulf of Thailand and offshore Malaysia.

- The Company upsized and amended its senior secured revolving credit facility with BNP Paribas and Commonwealth Bank of Australia. The facility has been increased from $100 million to $200 million and includes two additional banks, Standard Bank and Standard Chartered Bank.

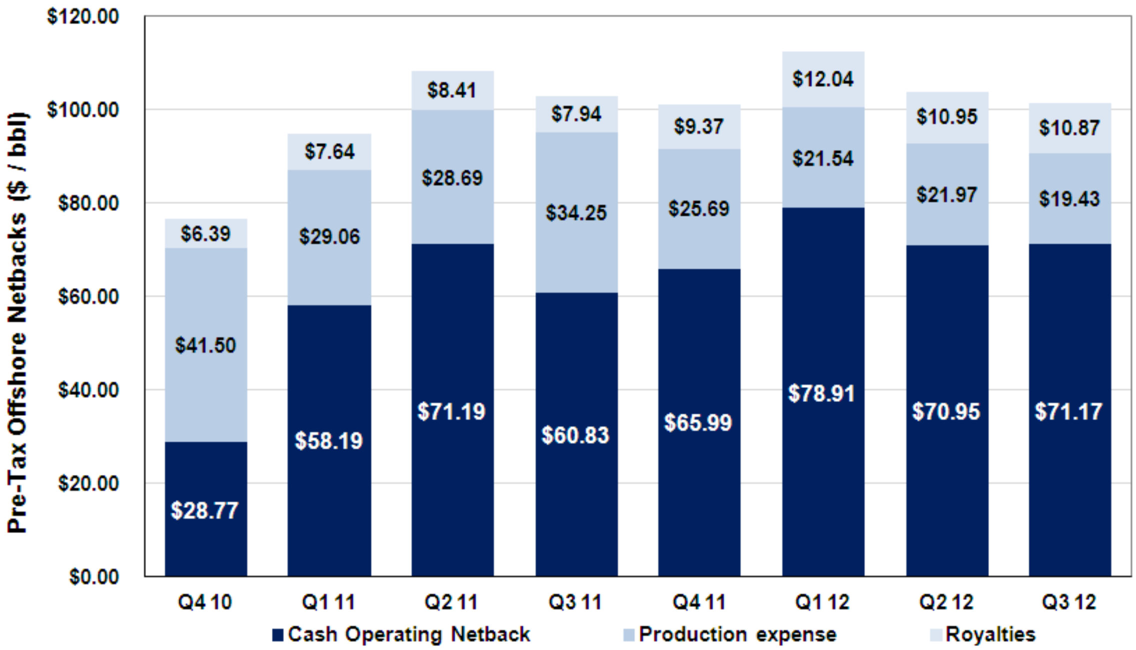
- The Company is approximately 60% complete with the acquisition of new 3D seismic data being shot over the entire Songkhla basin. Current expectations are for delivery of the processed data in Q1 2013.

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



Note: Bua Ban North came onstream starting in August 2011

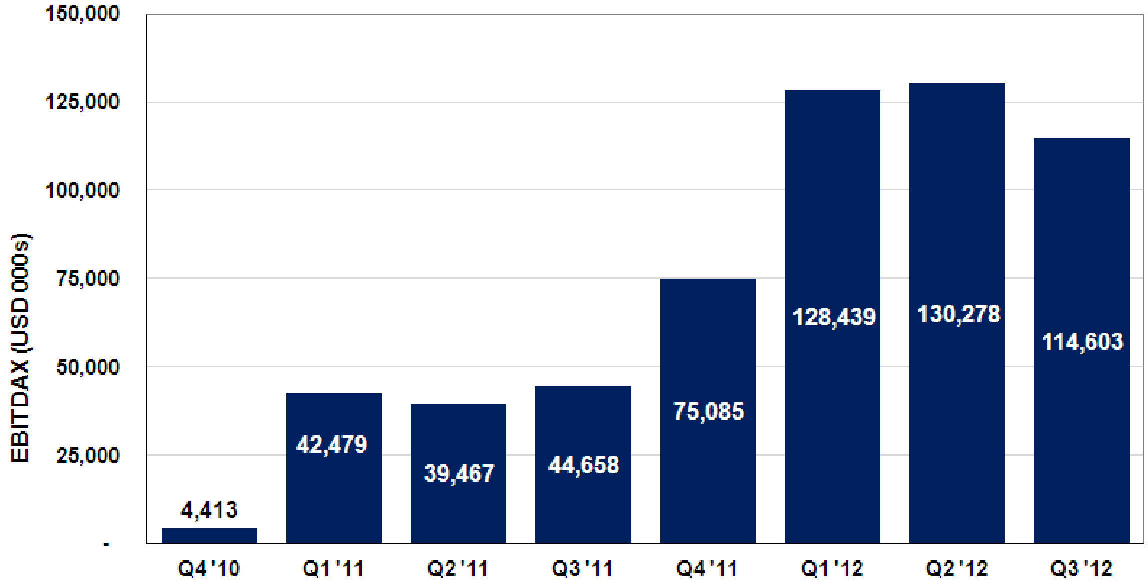
The following chart represents the Company's cash operating netback ($/bbl) for its offshore production over the past eight (8) quarters. Operating netback is based on sales volume and is a non-IFRS measure. See "Non-IFRS Measure" section within the MD&A.



EBITDAX Computation	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4
Net income (loss) attributable to shareholders	$40,100	$42,150	$48,135	$18,892	$19,013	$11,816	$(2,362)	$(62,741)
Add Back:								
Unrealized loss (gain) on derivative	362	(15,892)	4,007	3,663	(15,019)	(7,744)	18,257	16,614
Realized loss on derivative (a)	3,640	5,958	5,152	5,175	3,837	8,615	2,400	1,567
Interest income	(2)	(1)	(2)	(2)	(2)	(1)	(1)	(1)
Equity-based compensation	1,414	1,414	1,414	677	587	607	618	545
Unrealized foreign exchange loss (gain)	18	(157)	91	268	(337)	308	149	297
Finance expenses	1,940	195	1,006	1,549	913	1,201	1,162	1,272
Debt financing fees	501	351	281	273	258	31	234	256
Gain on sale of assets	(252)	-	-	-	(873)	-	-	-
Depletion, depreciation and accretion	14,778	18,590	20,044	22,844	13,308	11,698	13,286	11,658
Taxation	44,913	77,384	48,311	20,201	22,628	12,005	3,183	(40,857)
Impairment and Settlement expense	-	-	-	-	-	-	-	10,706
Exploration	7,191	286	-	1,545	345	931	5,553	62,786
Other – IFRS transition	-	-	-	-	-	-	-	2,311
EBITDAX	$114,603	$130,278	$128,439	$75,085	$44,658	$39,467	$42,479	$4,413

Note (a) The realized loss on the derivative contracts has been added back to net income / loss since these contracts were executed as part of the debt facility with BNP Paribas and therefore considered a financing cost. This has led to a revision of the Q4 2010 and Q1 2011 EBITDAX numbers. EBITDAX is a non-IFRS measure.

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



Operational Review

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

Oil and Gas Properties

Summary of Oil & Gas Properties	**Thailand Onshore**	**Gulf of Thailand**	**Totals**
Balance, December 31, 2009	**$47,261**	**$276,645**	**$323,906**
Additions during the period, net of disposals:			
Exploration & development	1,446	176,655	178,101
Equity earnings in Apico, net of distributions	47	-	47
Depletion	-	(59,447)	(59,447)
Exploration expense		(8,374)	(8,374)
Amortization of excess basis in Apico	(1,056)	-	(1,056)
Balance, December 31, 2011	**$47,698**	**$385,479**	**$433,177**
Additions during the period, net of disposals:			
Increased ownership of Apico LLC	**9,250**	**-**	**9,250**
Exploration & development	**-**	**234,095**	**234,095**
Equity earnings in Apico, net of distributions	**4,565**	**-**	**4,565**
Depletion	**-**	**(52,826)**	**(52,826)**
Amortization of excess basis in Apico	**(467)**	**-**	**(467)**
Exploration expense	**-**	**(7,477)**	**(7,477)**
Balance, September 30, 2012	**$61,046**	**$559,271**	**$620,317**

Management's Discussion and Analysis

(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 November 8, 2012, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and nine months ended September 30, 2012 and related notes thereto. Additional information related to the Company is available on SEDAR at www.sedar.com.

Overview

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

The Company's oil and gas properties and assets consist of the following ownership interests in petroleum concessions awarded by the Kingdom of Thailand as of September 30, 2012:

Petroleum Concession	**Coastal's Working Interest**
Gulf of Thailand	
Block G5/43	100.0%
Block G5/50 (within the boundaries of Block G5/43)	100.0%
Onshore Thailand (via Coastal's 39.0% ownership of Apico LLC ("Apico"))	
Blocks EU-1 and E-5N containing the Sinphuhorm gas field	13.7%
Block L15/43 (surrounding the Sinphuhorm gas field)	39.0%
Block L27/43 (southeast of the Sinphuhorm gas field)	39.0%

Non-IFRS Measures

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

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

Forward Looking Statements

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

Financial Review

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

Average Daily Production (boe/d)	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Songkhla	**3,504**	3,958	89%	**4,073**	5,367	-24%
Bua Ban Main	**1,139**	1,403	-19%	**1,156**	1,544	-25%
Bua Ban North	**14,983**	4,830	210%	**14,772**	1,628	807%
Total Offshore Production	**19,626**	10,191	93%	**20,001**	8,539	134%
Sinphuhorm (via Apico)	**2,172**	1,837	18%	**2,092**	2,001	5%
Total Company	**21,798**	12,028	81%	**22,093**	10,540	110%

Offshore production in the third quarter increased significantly over year ago levels due to continued appraisal and development activities at the Bua Ban North field, which was discovered in early 2011. Compared to Q2 2012, offshore production was modestly higher as the company benefited from wells drilled at Bua Ban North in the prior quarter as well as the late quarter contribution from Songkhla development drilling. These gains were slightly offset by downtime at the Bua Ban North and Songkhla field for rig moves and MOPU replacements at Bua Ban North. The Company expects further improvements in production rates following drilling of additional appraisal, development and water injection wells at Songkhla A and appraisal wells at Bua Ban South throughout Q4 2012.

Onshore production has recovered well from the softness in the latter part of 2011 due to the impact of the flooding in Thailand in Q3 2011. Demand has strengthened significantly and Sinphuhorm production was 18% above year ago levels in the third quarter.

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

Crude Oil Inventory (bbls)	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Inventory Beginning of Period	**456,418**	235,907	93%	**336,334**	203,983	65%
+ Production	**1,805,615**	937,583	93%	**5,480,318**	2,330,920	135%
- Sales / Liftings	**1,684,170**	792,736	112%	**5,238,789**	2,154,149	143%
Inventory, End of Period	**577,863**	380,754	52%	**577,863**	380,754	52%

The Company's crude oil production is stored in floating storage and offloading vessels ("FSOs") moored at the production platforms. The inventory represents crude oil produced and loaded in the FSOs, but which had not yet been off-loaded for sale at the end of the period. The Company ended the quarter with 577,863 bbls in inventory, the revenue and associated expenses of which will be recognized in the fourth quarter.

Oil Sales, Average Benchmark and Realized Prices ($/bbl)	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Oil Sales	**$170,894**	$81,670	109%	**$554,612**	$218,854	153%
Dubai (Benchmark - $/bbl)	**$106.13**	$107.09	-	**$109.55**	$106.24	3%
Sales Price per bbl Sold ($/bbl)	**$101.47**	$103.02	-2%	**$105.87**	$101.60	4%
Sales Price as a Percentage of Dubai	**96%**	96%	97%		96%	

Revenue increased dramatically in Q3 over the same period in 2011, driven by significantly higher production and lifting volumes offsetting a slight decrease in realized pricing. The Company had 577,863 bbls of crude oil inventory at quarter end, the revenue from which will be recognized in the fourth quarter. This was an increase from 456,418 bbls in inventory at the beginning of the quarter.

The sales price for the Company's offshore oil is based on the Dubai benchmark price. In the fourth quarter of 2011, the Company signed a 2-year agreement to sell its crude oil at a fixed $1.75 per bbl discount to Dubai pricing effective January 1, 2012. This price includes transportation costs. The Company's average realized price in any given quarter may be at a greater or lower discount to the average Dubai price for the same quarter depending on the distribution of monthly sales volumes (i.e. a larger portion of the entire quarter's production was offloaded in the month with the lowest average monthly price for the quarter).

Royalties	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Royalties	**$18,305**	$6,295	191%	**$59,062**	$17,158	244%
$ per bbl	**$10.87**	$7.94		**$11.27**	$7.97	
Royalties as a percent of revenue	**10.7%**	7.7%		**10.6%**	7.8%	

Royalties on the Gulf of Thailand assets are paid to the Kingdom of Thailand as a percentage of revenue calculated on a sliding scale and based on monthly sales. Q3 2012 royalty rates decreased relative to Q2 2012 both on a percentage basis and on a per barrel basis due to lower lifting volumes.

Other income	3 Months ended September 30,			9 Months ended September 30,		
	2012	**2011**	Change	**2012**	2011	Change
Unrealized gain (loss) on derivative contracts	**($362)**	$15,019	-	**$11,523**	$4,506	-
Realized loss on derivative contracts	**(3,640)**	(3,837)	-	**(14,750)**	(14,852)	-
Interest income	**2**	2	-	**5**	4	-
Foreign exchange loss	**(1,122)**	(467)	-	**(2,293)**	(2,052)	-
Other income	**($5,122)**	$10,717	-	**($5,515)**	($12,394)	-

The Company has risk management contracts outstanding to hedge its exposure to interest rate and commodity price movements. These contracts were entered into as a condition of the Company's revolving credit facility. The Company adjusts the fair value of this risk management contract (mark to market) every quarter with the changes in fair value recognized in net earnings, as required under IFRS. Volatility in commodity pricing has translated into large swings in the Company's mark to market gains and losses. The Company realized losses of $3.6 million in Q3 2012 quarter, which was down from $6.0m in Q212 as a result of lower Brent oil prices for hedges settled during the quarter.

The net derivative liability at September 30, 2012 may never be realized depending upon commodity price movements between September 30, 2012 and expiry of the final contract (January 2014).

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

The foreign exchange loss is a result of the Company carrying out transactions and maintaining certain financial assets and liabilities in currencies other than the US Dollar. The primary foreign currency in which the Company transacts is Thai Baht. The Company also occasionally has transactions denominated in the Canadian Dollar, Singapore Dollar, Malaysia Ringgit, Australian Dollar, British Pound and Euro. Included within the forex loss for Q3 2012 is unrealised losses associated with cash retranslation of $2.27million.

Production	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Production expenses	**$32,670**	$30,432	7%	**$111,820**	$69,589	61%
Effect of change in inventory	**48**	(3,284)	-101%	**(1,728)**	(3,099)	-44%
	$32,718	$27,148	21%	**$110,092**	$66,490	66%
$ per bbl	**$19.43**	$34.25		**$21.01**	$30.87	

The year over year increase in second quarter production expenses was driven by inclusion of a full quarter of Bua Ban North operating expenses at both the “A” and “B” platforms, and, to a lesser extent, general oilfield price inflation. Since the beginning of 2012 the Company has been actively acquiring its previously leased production facilities to reduce operating expenses. The Company expects to achieve quarterly production expense savings of approximately $8 million as a result of the acquisition of the Songkhla A platform and Bua Ban North A and B facilities. Coastal acquired the Songkhla A platform in Q1 2012 and the facilities in place at Bua Ban North A and B during Q3 2012. Operating expenses are lower on a per barrel basis year over year due to a relatively fixed cost base being spread across higher production volumes as well as the impact of purchasing the facilities.

Depletion and Depreciation	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Oil and gas depreciation & depletion	**$15,332**	$11,860	29%	**$52,826**	$38,479	37%
Effect of change in inventory	**(729)**	1,356	-154%	**70**	(435)	-116%
Corporate depreciation	**175**	92	90%	**516**	248	108%
Depletion, depreciation, amortization and impairment expense	**$14,778**	$13,308	11%	**$53,412**	$38,292	39%
$ per bbl	**$8.77**	$16.79		**$10.20**	$17.78	

Overall depreciation expense increased year-on-year due to higher production rates. Depletion rates decreased on a per barrel basis due to a change in the production mix, namely the commencement of production at Bua Ban North. Bua Ban North has a much lower per barrel depletion rate than the other fields.

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Net profits interest

	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Net profits interest	**$39**	$-	-	**$908**	$-	-

In Q2 2012, two parties reached payout under the terms of a net profits agreement following the recovery of all previously incurred capital and operating expenditures. Under the terms of this arrangement one of these parties is entitled to 2.5% and the other to 1% of net profits (defined as revenue minus all operating and capital expenditures, including royalties and taxes as well as G&A expense) from the Gulf of Thailand Block G5/43 operations for the three months ended June 30, 2012. The net profits agreements were executed in 2005 and have been previously disclosed by the Company.

No payout was achieved in Q3 2012. The Q3 2012 charge is a true up of the Q2 2012 estimate.

General and Administrative Expenses

	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Salaries and benefits	**$7,041**	$5,617	25%	**16,995**	$14,879	14%
Professional fees	**905**	571	58%	**3,598**	1,158	211%
Office and general	**440**	900	-51%	**2,000**	1,798	11%
Travel and entertainment	**620**	393	58%	**1,529**	1,059	44%
Regulatory and transfer fees	**119**	321	-63%	**387**	628	-38%
Total general and administrative expenses	**$9,125**	$7,802	17%	**$24,509**	$19,522	26%

Professional fees increased year over year largely due to higher audit, tax and legal advisory fees. The Company has incurred higher legal fees related to the setup of its Malaysian operations. Also, higher legal and tax advisory fees result from the structuring of tax mitigation strategies. Salaries and benefits were higher in Q3 versus the year ago period due to increased headcount and higher stock based compensation expense.

Exploration

	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Unsuccessful exploration costs	**$7,191**	$345	-	**$7,477**	$6,829	-

The Q3 2012 year-to date charge relates to miscellaneous expenditures associated with previously expensed properties ($0.3 million) and costs associated with drilling the non-commercial well at Songkhla J ($7.2 million). The Q3 2011 charge relates to a write down of costs associated with the fracture jobs on Benjarong, the results of which did not lead to commercially acceptable performance.

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

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Finance expenses	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Finance expenses	**$1,940**	$913	112%	**$3,141**	$3,276	-4%

Interest expense increased in the third quarter due to higher debt balances. Total gross debt (excluding interest) at September 30, 2012 was $100.0 million versus $50.0 million at June 30, 2012. The Company's average interest rate for the quarter was 4.09% (2011: 3.86%). Finance costs also increased by approximately $1.0 million due to a revaluation of the Company's outstanding warrants.

In Q3 2012 the Company increased its debt facility from $100.0 million to $200.0 million.

Taxes	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Current tax expense	**$42,135**	$135	-	**$124,032**	$135	-
Deferred income tax charge	**2,778**	22,493	-	**46,576**	37,681	-
Taxes	**$44,913**	$22,628	98%	**$170,608**	$37,816	351%

The Company's future income tax liability primarily relates to Thai taxes. The Company will be a cash taxpayer in Thailand during the 2012 tax year. Approximately 50% of the estimated full year tax liability was paid during Q3 2012, with the remaining 50% and other tax incurred in the second half of the year payable in May 2013. The Company's deferred tax liability arises due to the accelerated depreciation of capital expenditures under Thai Petroleum Income Tax law relative to the Company's depreciation & depletion as calculated under IFRS. Under IFRS, these taxes are calculated in Thai Baht (the payment currency) and then converted to US dollars.

Share of net income from Apico LLC

Share of net income from Apico LLC	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Coastal's 39.0% (2011: 36.1%) of Apico's net income	**$4,700**	$4,710	-%	**$14,508**	$12,851	13%
Amortization of Coastal's excess basis	**(163)**	(274)	-41%	**(467)**	(887)	-47%
Earnings from Apico LLC, net of taxes	**$4,537**	$4,436	2%	**$14,041**	$11,964	17%
100% Field Production volumes (mmcf/d)	**93.0**	85.9	8%	**89.5**	93.5	-4%
13.6% (2011: 12.6%) net to Coastal (mmcf/d)	**12.7**	10.7	19%	**12.2**	11.7	4%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on Apico's quarterly reported net income. Apico's revenue and net income have decreased in Q3 2012 relative to Q2 2012 as a result of lower demand following the performance of annual maintenance at the power plant that purchases all of Apico LLC's output.

Coastal's share of net income from Apico LLC has remained stable year on year despite Apico LLC achieving slightly lower net income. This is due to the Company's acquisition of an additional 2.9% of Apico in Q1 2012.

The Company has made two acquisitions of additional interests in Apico for amounts greater than its proportionate share of net assets of Apico ("excess basis"). The excess basis is allocated to Apico's oil & gas properties and is amortized using the units of production method.

Net income	3 Months ended September 30,			9 Months ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Net income and comprehensive income attributable to Coastal Energy	**$40,100**	$19,013	111%	**$130,385**	$28,467	358%
Basic earnings per share	**$0.35**	$0.17	106%	**$1.15**	$0.25	360%
Diluted earnings per share	**$0.34**	$0.16	113%	**$1.10**	$0.25	340%

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Summary of Quarterly Results

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

	2012			2011				2010
	Q3	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4
Revenues and Other Income								
Oil sales	**$170,894**	$194,639	$189,079	$128,929	$81,670	$64,628	$72,556	$33,246
Royalties	**(18,305)**	(20,514)	(20,243)	(11,955)	(6,295)	(5,018)	(5,845)	(2,769)
(Loss) gain on derivative	**(4,002)**	9,934	(9,159)	(8,838)	11,182	(871)	(20,657)	(18,181)
Interest income	**2**	1	2	2	2	1	1	1
Other income	**(1,122)**	(157)	(1,014)	(336)	(467)	(1,157)	(428)	(913)
	147,467	183,903	158,665	107,802	86,092	57,583	45,627	11,384
Expenses								
Production	**32,718**	41,164	36,210	32,773	27,148	17,124	22,218	17,996
Depreciation, Depletion, Amortization and Impairment	**14,778**	18,590	20,044	22,844	13,308	11,698	13,286	22,364
Net profits interest	**39**	869	-	-	-	-	-	-
General and Administrative	**9,125**	7,057	8,327	11,931	7,802	6,457	5,263	8,027
Exploration	**7,191**	286	-	1,545	345	931	5,553	62,786
Debt financing fees	**501**	351	281	273	258	31	234	256
Finance expenses	**1,940**	195	1,006	1,549	913	1,201	1,162	92
Gains on disposal of property, plant and equipment	**(252)**	-	-	-	(873)	-	-	-
	66,040	68,512	65,868	70,915	48,901	37,442	47,716	111,521
Taxes	**44,913**	77,384	48,311	20,201	22,628	12,005	3,183	(40,857)
Share of net income (loss) from Apico LLC	**4,537**	5,497	4,007	2,563	4,436	4,272	3,256	(917)
Net income (loss) before non-controlling interests	**41,051**	43,504	48,493	19,249	18,999	12,408	(2,016)	(60,197)
Non Controlling interest	**(951)**	(1,354)	(358)	(357)	14	(592)	(346)	(1,364)
Net income (loss) attributable to Coastal Energy Company	**40,100**	42,150	48,135	18,892	19,013	11,816	(2,362)	(61,561)
EBITDAX[(a)]	**$114,603**	$130,278	$128,439	$75,085	$44,658	$39,467	$42,479	$4,413
Basic earnings (loss)	**$0.35**	**$0.37**	$0.42	$0.17	$0.17	$0.11	($0.02)	($0.56)
Diluted earnings (loss)	**$0.34**	**$0.36**	$0.40	$0.16	$0.16	$0.10	($0.02)	($0.54)

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

Significant factors influencing Quarterly Results include

- The volatility of global crude oil prices has a direct effect on the Company's revenue as well as unrealized gains or losses on risk management contracts. The Company realized a higher sales price year over year, but a lower sales price sequentially.
- The Company has incurred higher overall lease operating expenses in the first nine months of 2012 following a full period of production at the second Bua Ban North platform.
- The Company has incurred higher general and administrative expenses as the substantial increase in the Company's stock price has increased its Share-Based Compensation expense as well as the accrual value of stock-linked cash compensation.
- The Company transacts business in multiple currencies; therefore the volatility of global currency exchange rates has a direct effect on the Company's foreign exchange (gains) losses.

Cash Flow Analysis

The Company's cash and cash equivalents at September 30, 2012 were $29.3 million, an increase of $6.3 million from $23.0 million at December 31, 2011. The Company's primary source of funds came from operations and $50.0 million of borrowings. Cash and cash equivalents were primarily used to fund property, plant and equipment expenditures of $224.8 million, $9.3 million to cover the acquisition of an increased stake in Apico LLC, $30.0 million in prior debt reduction payments and $18.8 million to repurchase the Company's own stock. The residual was used to fund working capital.

Capital Expenditures

Capital expenditures (on an accruals basis) amounted to $151.3 million and $264.4 million for the three and nine months ended September 30, 2012, compared to $46.7 million and $108.9 million for the three and nine months ended September 30, 2011, respectively. The Q312 expenditures almost entirely related to appraisal and development drilling at Songkhla A and Bua Ban North, exploration drilling at Songkhla J, the purchase of mobile production units ("MOPUs") that were previously leased and costs associated with converting the Richmond jack-up rig into a MOPU). The following table sets forth a summary of the Company's capital expenditures incurred:

	3 Months ended September 30,		9 Months ended September 30,	
Capital Expenditures	**2012**	2011	**2012**	2011
Seismic, geological and geophysical studies	**$15,647**	$1,036	**$18,489**	$2,691
Drilling and completions	**33,340**	34,887	**78,031**	83,743
Facilities	**90,247**	3,914	**138,597**	4,858
Lease and well equipment	**11,674**	6,562	**28,523**	16,690
Administrative assets	**415**	298	**785**	939
Total Capital Expenditures	**$151,323**	$46,697	**$264,425**	$108,921

Equity Capital

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 113,270,451 common shares outstanding.

During the second quarter the Company instituted a Normal Course Issuer Bid to repurchase its common shares through the facilities of the Toronto Stock Exchange. The program covers 5% (5,715,972) of outstanding shares. As of the date of this report, the Company has repurchased 1,295450 shares at an average price of C$14.45 per share.

Warrants

As of December 31, 2011, the Company had 200,000 warrants outstanding exercisable at CAD $1.136 per share. During the first nine months of 2012 no warrants were exercised.

Subsequent to September 30, 2012, no warrants were exercised resulting in the issuance of no common shares of the Company.

Stock Options

During the nine months ended September 30, 2012, the Company granted no stock options. Options exercised and forfeited were 1,000,598 and 22,196 respectively. Subsequent to September 30, 2012, 13,123 options were exercised and no options were forfeited.

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2008	132,770	0.25 years	$4.01 (Cdn$3.85)	Jan. 26, 2013	132,770
May 05, 2008	25,000	0.58 years	$4.51 (Cdn$4.34)	May 06, 2013	25,000
Jul. 14, 2008	42,500	0.75 years	$3.67 (Cdn$3.61)	Jul. 15, 2013	42,500
Sep. 16, 2008	100,000	1.00 years	$2.31 (Cdn$2.27)	Sep. 16, 2013	100,000
Sep. 23, 2008	748,000	1.25 years	$4.01 (Cdn$3.94)	Feb. 05, 2013	748,000
Jan. 02, 2009	1,269,929	1.25 years	$1.37 (Cdn$1.35)	Jan. 01, 2014	1,248,595
Dec. 01, 2009	2,211,731	2.25 years	$5.22 (Cdn$5.13)	Nov. 30, 2014	1,424,228
Dec. 28, 2010	1,442,295	3.25 years	$5.85 (Cdn$5.75)	Dec. 27, 2015	446,994
Dec. 14, 2011	1,537,576	4.25 years	$14.27 (Cdn$14.04)	Dec. 13, 2016	-
	7,509,801				4,168,087

Restricted Stock Units

During the nine months ended September 30, 2012, no restricted stock units were granted nor forfeited. The following table summarizes the outstanding RSUs at September 30, 2012 and as of the date of this report:

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	205,628	2.25 years	$12.93	Dec. 14, 2014

Off-Statement of Financial Position Arrangements

The Company has no off-statement of financial position arrangements.

Related Party Transaction

In Q2 2012, a related party of the primary shareholder, O.S. Wyatt, Jr., reached payout under the terms of a net profits agreement following the recovery of all capital and operating expenditures. Under the terms of this arrangement the individual was paid $0.65 million in Q3 2012. This amount is based upon 2.5% of net profits from the Gulf of Thailand Block G5/43 operations for the three months ended June 30, 2012. The net profits agreement was executed in 2005 and has been previously disclosed by the Company.

Commitments and Contingencies

All the Company's commitments and contingencies are described in Note 16 to the Unaudited Condensed Interim Financial Statements for the three and six months ended September 30, 2012.

Subsequent Events

On October 3, 2012, the Company signed a contract with a subsidiary of Atwood Oceanics, Inc. for the Manta jack-up drilling rig. The rig is scheduled to be delivered by late November and will conduct drilling operations for the Company in the Gulf of Thailand and offshore Malaysia.

Critical Accounting Policies, Estimates and New Accounting Pronouncements

A detailed summary of the Company's critical accounting policies and estimates is included in Note 3 to the audited financial statements for the year ended December 31, 2011.

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Risks and Uncertainties

Coastal has published its assessment of its business risks in the Risk Factor section of its Annual Information Form ("AIF") dated March 28, 2012 (available on SEDAR at www.sedar.com.) It is recommended that this document be reviewed for a thorough discussion of risks faced by the Company.

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

Industry

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

Petroleum and Gas Prices

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

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

Operating Hazards and Risks

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

Reserve Estimates

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

Disruptions in Production

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

Cash Flows and Additional Funding Requirements

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

The Company is exposed to fluctuations in short-term interest rates on amounts drawn under its revolving credit facilities. The Company has hedged approximately 50% of its exposure to LIBOR.

Environmental

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

Laws and Regulations

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

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

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

Title to Oil and Gas Properties

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

Dependence on Management

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

Apico Financial Reporting

The Company accounts for its 39.0% (2011: 36.1%) investment in Apico under the equity method whereby it records its share of Apico's earnings as earnings from a significantly influenced investee. Apico is required to provide the partners its financial statements under the Joint Venture Agreement on a timely basis. While the Company has a seat on the Board of Directors of Apico, it does not control the Board or the management of Apico. Therefore, the Company relies heavily on Apico management to provide timely and accurate financial information to the partners.

Risk Management and Financial Instruments

Coastal provides a risk management and financial instruments discussion on its exposure to and management of credit risk, liquidity risk and market risk in Note 18 to the unaudited condensed interim financial statements as at and for the three and nine months ended September 30, 2012.

Certification of Disclosures in Interim Filings

In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") of the CSA, the Company's certifying officers quarterly issues a Certificate of Interim Filings ("Certification"). The Certification requires the certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR").

The Certifications require the certifying officers to state that they designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that (i) material information relating to Coastal Energy is made known to the certifying officers by others; (ii) information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. In addition, the Certifications require the certifying officers to state that they have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements for external purposes. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud.

During the quarter ended September 30, 2012 there has been no change to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has procedures in place relating to DC&P and ICFR and will continue to monitor such procedures as the Company's business evolves.

Outlook

The Vicksburg rig is scheduled to continue drilling operations at the Songkhla A field throughout the rest of 2012 where additional appraisal, development and water injection wells will be drilled.

A hydraulic workover rig at Bua Ban South is currently performing completion activities and will be conducting fracking operations later in 4Q 2012.

The Manta rig is anticipated to be delivered by late November and is set to commence appraisal drilling at Bua Ban South.

The Company has agreements in place for the acquisition of additional facilities for use in Malaysia and Thailand and will be spending capital over the coming quarters to convert the facilities into MOPU's.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income

(Unaudited) US $000's except per share amounts

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Revenues and Other Income				
Oil sales	**170,894**	81,670	**554,612**	218,854
Royalties	**(18,305)**	(6,295)	**(59,062)**	(17,158)
Oil sales, net of royalties	**152,589**	75,375	**495,550**	201,696
Other income (Note 11)	**(5,122)**	10,717	**(5,515)**	(12,394)
	147,467	86,092	**490,035**	189,302
Expenses				
Production	**32,718**	27,148	**110,092**	66,490
Depreciation and depletion (Note 6)	**14,778**	13,308	**53,412**	38,292
Net profits interest (Note 12)	**39**	-	**908**	-
General and administrative	**9,125**	7,802	**24,509**	19,522
Exploration (Note 5)	**7,191**	345	**7,477**	6,829
Debt financing fees	**501**	258	**1,133**	523
Finance expenses	**1,940**	913	**3,141**	3,276
Gains on disposal, property, plant and equipment	**(252)**	(873)	**(252)**	(873)
	66,040	48,901	**200,420**	134,059
Net income before income taxes and share of net income from Apico LLC	**81,427**	37,191	**289,615**	55,243
Share of net income from Apico LLC (Note 7)	**4,537**	4,436	**14,041**	11,964
Net income before income taxes	**85,964**	41,627	**303,656**	67,207
Income taxes (Note 14)				
Current	**42,135**	135	**124,032**	135
Deferred	**2,778**	22,493	**46,576**	37,681
	44,913	22,628	**170,608**	37,816
Net income and comprehensive income	**41,051**	18,999	**133,048**	29,391
Net income and total comprehensive income attributable to:				
Shareholders of Coastal Energy	**40,100**	19,013	**130,385**	28,467
Non-controlling interest	**951**	(14)	**2,663**	924
	41,051	18,999	**133,048**	29,391
Net income per share:				
Basic (Note 13)	0.35	0.17	1.15	0.25
Diluted (Note 13)	0.34	0.16	1.10	0.25

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

Condensed Interim Consolidated Statements of Financial Position

(Unaudited) US $000's

As at	**September 30 2012**	December 31, 2011
	$	$
Assets		
Current Assets		
Cash	**29,267**	22,995
Restricted cash (Note 3)	**6,413**	28,447
Accounts receivable (Note 4)	**77,236**	16,939
Derivative asset (Note 10)	**167**	59
Crude oil inventory	**12,962**	11,304
Marine fuel inventory	**4,416**	2,857
Prepaids and other current assets	**950**	1,094
Total current assets	**131,411**	83,695
Non-Current Assets		
Exploration and evaluation assets (Note 5)	**82,711**	31,881
Property, plant and equipment (Note 6)	**511,736**	355,052
Investment in and advances to Apico LLC (Note 7)	**61,046**	47,698
Deposits and other assets	**6,274**	405
Total non-current assets	**661,767**	435,036
Total Assets	**793,178**	518,731
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**157,513**	59,471
Current portion of long-term debt (Note 10)	**342**	55,662
Current portion of derivative liabilities (Note 10)	**3,910**	14,557
Derivative liability - Warrants (Note 9)	**3,486**	2,853
Total current liabilities	**165,251**	132,543
Non-Current Liabilities		
Long-term debt (Note 10)	**94,714**	22,156
Non-current portion of derivative liabilities (Note 10)	**506**	1,274
Deferred tax liabilities	**116,343**	69,767
Decommissioning liabilities	**46,915**	42,124
Total Non-Current Liabilities	**258,478**	135,321
Shareholders' Equity (Note 13)		
Common shares	**212,500**	211,554
Contributed surplus	**20,116**	16,401
Retained earnings	**131,754**	17,630
Total Shareholders' Equity	**364,370**	245,585
Non-controlling interest	**5,079**	5,282
Total equity	**369,449**	250,867
Total liabilities and equity	**793,178**	518,731

Commitments and contingencies (Note 16)

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

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited) US $000's

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Operating activities				
Net income	**41,051**	18,999	**133,048**	29,391
Adjustments:				
Share of net income from Apico LLC	**(4,537)**	(4,436)	**(14,041)**	(11,964)
Unrealized (gain) loss on derivative instruments	**362**	(15,019)	**(11,523)**	(4,506)
Depletion and depreciation	**14,778**	13,308	**53,412**	38,292
Finance expenses	**1,940**	913	**3,141**	3,276
Amortisation of debt financing fees	**147**	248	**779**	513
Share-based compensation	**5,531**	1,941	**10,167**	7,687
Deferred income taxes	**2,778**	22,493	**46,576**	37,681
Unrealized foreign exchange (gain) loss	**17**	(577)	**(49)**	(120)
Exploration expense	**7,191**	345	**7,477**	6,829
Gains on property, plant and equipment	**(252)**	(873)	**(252)**	(873)
Income taxes paid	**(63,527)**	(86)	**(63,656)**	(86)
Interest received	**2**	2	**5**	4
Interest paid	**(318)**	(405)	**(1,570)**	(2,699)
Earnings Distributions from Apico LLC	**9,943**	7,588	**9,943**	9,756
Change in non-cash working capital:				
Accounts receivable	**(49,066)**	(4,802)	**(60,297)**	(6,595)
Inventory	**(1,325)**	840	**(3,217)**	(3,472)
Prepaids and other current assets	**106**	96	**144**	576
Accounts payable and accrued liabilities	**6,348**	5,421	**(1,885)**	6,311
Current income taxes payable	**45,520**	-	**127,288**	-
Cash flow provided by operating activities	**16,689**	45,996	**235,490**	110,001
Financing Activities				
Issuance of common shares, net of issuance costs	**727**	666	**2,753**	6,108
Repurchase of shares	**(3,712)**	-	**(18,745)**	-
Borrowings under long-term debt	**50,000**	-	**50,000**	6,275
Repayment of long-term debt	**-**	-	**(30,000)**	-
Loan arrangement fees	**(2,915)**	(71)	**(3,883)**	(419)
Distributions to non-controlling interest	**(1,074)**	(450)	**(2,866)**	-
Other	**-**	(131)	**-**	(506)
Cash flow (used in) provided by financing activities	**43,026**	14	**(2,741)**	11,458
Investing Activities				
Decrease (increase) in restricted cash	**(20)**	6,347	**22,034**	1,844
Expenditure on property, plant and equipment	**(140,551)**	(45,576)	**(231,478)**	(115,468)
Acquisition of increased ownership interest in Apico LLC	**-**	-	**-**	(1,446)
Advances to Apico LLC	**-**	-	**(9,250)**	250
Proceeds from disposal of property, plant and equipment	**352**	250	**352**	(125)
Deposits and other assets - Payments	**(6,000)**	(122)	**(6,000)**	(606)
Deposits and other assets - Refunds	**-**	-	**131**	-
Cash flow used in investing activities	**(146,219)**	(39,101)	**(224,211)**	(115,551)
Effect of exchange rate changes on cash	**(875)**	(501)	**(2,266)**	(1,198)
Increase (decrease) in cash	**(87,379)**	6,408	**6,272**	4,710
Cash - Beginning of period	**116,646**	2,186	**22,995**	3,884
Cash - End of period	**29,267**	8,594	**29,267**	8,594

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited) US $000's

	Note	Common Shares	Contributed Surplus	Warrants	Retained earnings / (accumulated deficit)	Attributable to shareholders of Coastal Energy Company	Non Controlling-Interest	Total
		$	$	$	$	$	$	$
Balance as at December 31, 2010	13	201,303	15,971	-	(29,729)	187,545	6,559	194,104
Net income and total comprehensive income		-	-	-	28,467	28,467	924	29,391
Exercise of stock options		7,926	-	-	-	7,926	-	7,926
Exercise of warrants		50	-	(50)	-	-	-	-
Share-based compensation		-	2,018	-	-	2,018	-	2,018
Transfer to contributed surplus		-	(50)	50	-	-	-	-
Distributions to non-controlling interest		-	-	-	-	-	(606)	(606)
Balance at September 30, 2011		209,279	17,939	-	(1,262)	225,956	6,877	232,833
Net income and total comprehensive income		-	-	-	18,892	18,892	357	19,249
Exercise of stock options		2,275	(2,294)	-	-	(19)	-	(19)
Share-based compensation		-	756	-	-	756	-	756
Distributions to non-controlling interest		-	-	-	-	-	(1,952)	(1,952)
Balance as at December 31, 2011	13	211,554	16,401	-	17,630	245,585	5,282	250,867
Net income and total comprehensive income		-	-	-	130,385	130,385	2,663	133,048
Exercise of stock options		3,430	(682)	-	-	2,748	-	2,748
Shares repurchased and cancelled		(2,484)	-	-	(16,261)	(18,745)	-	(18,745)
Share-based compensation		-	4,397	-	-	4,397	-	4,397
Distributions to non-controlling interest		-	-	-	-	-	(2,866)	(2,866)
Balance as at September 30, 2012	13	212,500	20,116	-	131,754	364,370	5,079	369,449

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

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

Note 1. Reporting entity

Coastal Energy Company ("Coastal" or the "Company" or "we") is an international oil and gas exploration and development company with operations in offshore Thailand, and an interest in a joint venture which operates on the Thai mainland. The Company's shares are widely held and publicly traded on the Toronto Stock Exchange (TSX) and the London Alternative Investment Market (AIM).

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

Note 2. Basis of presentation

The condensed interim consolidated financial statements for Coastal Energy Company as at September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 should be read in conjunction with the audited consolidated financial statements as at December 31, 2011, December 31, 2010 and January 1, 2010 and for the years ended December 31, 2011 and December 31, 2010. The interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The condensed interim consolidated financial statements are stated in United States dollars and have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were approved by the Audit Committee of the Company's Board of Directors on November 8, 2012.

Note 3. Restricted cash

The Company has cash balances which are restricted by the Company's banking institutions. The following table summarizes the restricted cash balances:

As at	**September 30, 2012**	December 31, 2011
Collateral in support of corporate letter of credit (Note 16)	**$1,419**	$1,400
Restricted in support of long-term debt	**4,994**	27,047
	$6,413	$28,447

The terms of the debt facility with BNP Paribas require that cash proceeds from borrowing base assets be held in restricted accounts with the Lender. Cash may be disbursed from the restricted accounts for approved purposes as designated in the credit agreement.

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Note 4. Accounts receivable

As at	**September 30, 2012**	December 31, 2011
Oil sales	**$61,262**	$-
Refundable taxes (VAT)	**15,128**	16,115
Other	**846**	824
	$77,236	$16,939

Note 5. Exploration and evaluation assets

	Exploration and Evaluation
Cost and Net Book Value	
As at December 31, 2010	**$31,068**
Additions	145,363
Transfers to Property, plant and equipment	(136,176)
Exploration expense	(8,374)
As at December 31, 2011	**31,881**
Additions	58,307
Exploration expense	(7,477)
As at September 30, 2012	**$82,711**

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

During the three and nine months ended September 30, 2012, the Company expensed $7.19 million and $7.48 million, respectively, of exploration costs, largely in relation to Songkhla J (2011: $0.35 million and $6.83 million respectively, expensed in relation to non-commercial results at Benjarong).

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Note 6. Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
Cost				
As at December 31, 2010	**$10,706**	**$276,488**	**$1,584**	**$288,778**
Additions	-	32,001	1,134	33,135
Disposals	(10,706)	(1,427)	-	(12,133)
Transfers from Exploration and evaluation assets	-	136,176	-	136,176
As at December 31, 2011	**-**	**443,238**	**2,718**	**445,956**
Additions	33,754	175,788	784	210,326
Disposals	(300)	-	-	(300)
As at September 30, 2012	**$33,454**	**$619,026**	**$3,502**	**$655,982**
Accumulated depletion, depreciation and impairment				
As at December 31, 2010	**10,706**	**30,911**	**913**	**42,530**
Depletion and depreciation	-	59,447	351	59,798
Disposals	(10,706)	(718)	-	(11,424)
As at December 31, 2011	**-**	**89,640**	**1,264**	**90,904**
Depletion and depreciation	-	52,826	516	53,342
As at September 30, 2012	**$-**	**$142,466**	**$1,780**	**$144,246**
Carrying amount				
As at December 31, 2011	**$-**	**$353,598**	**$1,454**	**$355,052**
As at September 30, 2012	**$33,454**	**$476,560**	**$1,722**	**$511,736**

During the nine months ended September 30, 2012, $4.21 million of costs associated with decommissioning liabilities are included within additions (year ended December 31, 2011: $24.96 million addition).

Depletion and depreciation expense recognized in property, plant and equipment for the three and nine months ended September 30, 2012 was $15.50 million and $53.34 million respectively (2011: $11.95 million and $38.73 million respectively), whereas the charge for depletion and depreciation expense recognized in the consolidated statements of operations and comprehensive income was $14.78 million and $53.41 million respectively (2011: $13.31 million and $38.29 million respectively). The difference relates to an inventory adjustment for crude oil produced but not yet sold.

Assets under construction

The Company purchased the 'Richmond', a submersible drilling rig in March 2012. As of September 30, 2012, the Company had completed the conversion of the Richmond into a MOPU. In early 4Q 2012, the Richmond was installed at the Bua Ban North field.

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Note 7. Investment in and advances to Associates

Investment in Apico LLC

The Company has a 39.0% (2011: 36.1%) interest in Apico LLC ("Apico"), a limited liability company incorporated in the State of Delaware, USA. Apico's primary purpose is the acquisition, exploration and development of onshore petroleum interests in the Kingdom of Thailand.

Apico has the following working interests in petroleum concessions located in the Khorat Plateau area in northeastern Thailand in 2012 and 2011:

Petroleum Concession	Apico's interest 2012 & 2011	Net to Coastal 2012	2011
Block EU-1 and E-5N in the Sinphuhorm gas field	35%	13.648%	12.635%
Block L15/43 - surrounding the Sinphuhorm gas field	100%	38.994%	36.100%
Block L27/43 – southeast of the Sinphuhorm gas field	100%	38.994%	36.100%

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

As at	**September 30, 2012**	December 31, 2011
Balance, beginning of period	**$47,698**	$47,261
Acquisition of additional ownership interest	**9,250**	-
Advances during the period	**-**	1,446
Share of earnings, net of income taxes	**14,508**	15,583
Amortization of excess basis in Apico	**(467)**	(1,056)
Earnings distributions	**(9,943)**	(15,536)
Balance, end of period	**$61,046**	$47,698

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

As at	**September 30, 2012**	December 31, 2011
Current assets	**$26,989**	$19,419
Non-current assets	**116,617**	109,733
Current liabilities	**33,414**	30,694
Non-current liabilities	**2,569**	2,731

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Revenue	**$23,766**	$24,029	**$73,078**	$71,606
Expenses	**3,837**	2,232	**11,046**	13,559
Income taxes	**8,432**	8,075	**24,812**	21,789
Net income	**11,497**	13,722	**37,220**	36,258

The Company's share of Apico's commitments relating to geological studies, seismic surveys and exploratory drilling for the next 1 year is $7.15 million. There is also a bank guarantee of $0.60 million to cover customs duties.

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Note 8. Accounts payable and accrued liabilities

As at	September 30, 2012	December 31, 2011
Trade payables	**$32,126**	$34,252
Accrued payables	**63,711**	23,084
Income taxes payable	**60,455**	79
Other	**1,221**	2,056
	$157,513	$59,471

Included within accrued payables is an accrual of $11.51 million for the fair value of vested stock appreciation rights (SARs) (December 31, 2011: $6.17 million). The Company incurred a liability of $4.53 million and $6.60 million for the three and nine months ended September 30, 2012 (2011: $1.61 million and $6.55 million, respectively). Of this, $0.41 million and $0.68 million for the three and nine months ended September 30, 2012 (2011: $0.26 million and $0.69 million, respectively) was capitalized to property, plant and equipment.

The fair value of these instruments was determined using the Black-Scholes model based on observable market prices. The full fair value of granted SARs units at September 30, 2012 is $16.70 million (December 31, 2011: $13.17 million). The Company considers the fair value used in valuing these instruments to be Level 2, as defined in Note 18.

In 2012 the Company awarded SARs for the equivalent of 22,716 common shares, none of which are contingent upon the achievement of certain market-based performance goals established by the Company. These awards vest and are cash-settled 33.3% in each of the following three years.

Note 9. Derivative liability - Warrants

The Company had 200,000 warrants outstanding at the beginning of 2012 with an exercise price of $1.113 (Cdn $1.136). No warrants have been granted nor exercised during 2012. The recorded values of the Canadian dollar denominated purchase warrants were calculated using the Black-Scholes pricing model over the remaining term of the warrants. The key inputs are as follows:

As at	September 30, 2012	December 31, 2011
Risk free interest rate as per US Treasury Bonds	**0.23%**	0.25%
Share price (Canadian dollars)	**$18.28**	$14.07
Remaining term of the warrants	**1.33 years**	2.08 years
Volatility	**40%**	40%

Note 10. Long term debt

As at	September 30, 2012	December 31, 2011
Revolving debt facility	**$200,000**	$80,000
Unused portion of debt facility	**(100,000)**	-
Total debt drawn down	**100,000**	80,000
Unamortised debt issue costs	**(5,286)**	(2,191)
Carrying value of long-term	**94,714**	77,809
Current portion of long-term debt	**-**	(55,653)
Non-Current portion of long-term debt	**94,714**	$22,156

Current portion of long-term debt shown on the statement of financial position comprises

As at	**September 30, 2012**	December 31, 2011
Principal	**$-**	$55,653
Interest	**342**	9
	$342	$55,662

BNP Paribas debt facility

In Q2 2012 the Company amended the terms of the revolving debt facility with BNP Paribas ("BNP") and Commonwealth Bank of Australia. This saw the facility increase from $80.0 million to $100.0 million, an extension of the amortization period of the borrowing base, and a significant lessening of the terms required to utilize cash balances held with the lender. In Q3 2012 the facility was further upsized from $100.0 million to $200.0 million. Additionally, Standard Bank and Standard Chartered Bank joined the syndicate. The facility is due to amortize through to the earlier of June 30, 2016 or the reserve tail date.

Borrowings under the facility increased by $50 million in Q3 2012 relative to Q2 2012 due to the acquisition and refurbishment of three MOPU's.

The effective interest rate for the three and nine months ended September 30, 2012 was 4.09% and 3.90% respectively (2011: 3.86% and 4.24%, respectively) per annum.

As a requirement of the facility, the Company is required to undertake derivative contracts on a percentage of its projected production over a rolling 18 to 24 month period. The following is a summary of the crude oil derivative contracts outstanding at September 30, 2012:

	Notional Volumes	**Term**	**Average Strike Price**	**Fair value of asset (liability)**
Long Puts				
Brent	888,987	Oct. 2012 –Jan. 2014	$70.71/bbl	$519
Short Calls				
Brent	867,987	Oct. 2012 –Jan. 2014	$116.75/bbl	(4,717)
Collar				
Brent	91,737	Oct. 2012 –Jan. 2014	-	(218)
Fair value of derivative assets (liabilities)				($4,416)

The collar has a floor of $70 and a cap of $127.

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

	September 30, 2012	December 31, 2011
Current portion	**($3,910)**	($14,557)
Non-current portion	**(506)**	(1,274)
Total fair value of derivative liabilities	**($4,416)**	($15,831)

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

In Q3 2012 the Company entered into a contract to swap 50% of its expected LIBOR interest rate exposure from floating to fixed over a 30 month period commencing July 30, 2012 at 0.98% per annum.

The carrying value of these derivative assets is $0.17 million as of September 30, 2012 (December 31, 2011: $0.06 million derivative asset).

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2012	2011	**2012**	**2011**
Realized losses on crude oil price derivative contracts	**($3,640)**	($3,837)	**($14,750)**	($14,852)
Unrealized gains (losses) on crude oil price derivative contracts	**(481)**	14,991	**11,415**	4,434
Unrealized gains on interest rate swap	**119**	28	**108**	72
	($4,002)	$11,182	**($3,227)**	($10,346)

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

All derivative contracts are considered as held-for-trading using the criteria specified under IFRS.

Note 11. Other income

	Three Months Ended Septemer 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
Change in fair value of derivative contracts (Note 10)	**($4,002)**	$11,182	**($3,227)**	($10,346)
Interest	**2**	2	**5**	4
Foreign exchange losses	**(1,122)**	(467)	**(2,293)**	(2,052)
	($5,122)	$10,717	**($5,515)**	($12,394)

Note 12. Related parties

Major Subsidiaries and Apico LLC

These condensed interim financial statements include the financial statements of Coastal Energy and our affiliated subsidiaries as at September 30, 2012 and December 31, 2011. Transactions involving the Company, its subsidiaries, its joint venture, its special purpose entity and equity investment are eliminated upon consolidation. In the opinion of management there are no material related party transactions with entities outside the consolidated group in the three and nine months ended September 30, 2012 and 2011 except for that described below.

In Q2 2012, a related party of the primary shareholder, O.S. Wyatt, Jr., reached payout under the terms of a net profits agreement following the recovery of all capital and operating expenditures relating to the G5/43 concession. Under the terms of this arrangement we estimate the party is due $0.62 million, which is based upon 2.5% of net profits from the Gulf of Thailand Block G5/43 operations for the three months ended June 30, 2012. The amounts due to this related party was paid during Q3 2012, which resulted in a small true up from the amounts accrued at June 30, 2012. The net profits agreement was executed in 2005 and has been previously disclosed by the Company.

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Note 13. Equity

Common Shares

Authorized share capital consists of 250,000,000 common shares with a par value of $0.04 each. Each share carries equal voting rights, is non-preferential and participates evenly in the event of a dividend payment or in the winding up of the Company. At September 30, 2012, 113,135,045 common shares were issued and fully paid (December 31, 2011: 113,605,881 shares).

During the nine months ended September 30, 2012, the Company repurchased 1,295,450 common shares through the facilities of the TSX and other Canadian market places under a normal course issuer bid ('NCIB') at an average cost of $14.07 per share (Cdn$ 14.48 per share) for a total repurchase cost of $18.23 million. The book value of the common shares repurchased was $1.87 per share for a total book value of $2.42 million that was recorded to share capital. The residual amount of $16.20 million was recorded directly to retained earnings. All of the common shares under the NCIB were cancelled. The NCIB will terminate on the earliest of the purchase of 5,715,972 common shares, Coastal providing a notice of termination, and May 24, 2013. Any common shares purchased pursuant to the Normal Course Issuer Bid will be cancelled by the Company.

In Q1 2012, the Company repurchased 33,395 common shares from directors. The book value of the common shares repurchased was $1.86 per share for a total book value of $0.06 million that was recorded to share capital. The residual amount of $0.47 million was recorded directly to retained earnings. All of the common shares under this arrangement were cancelled.

Stock Options

The Company has a stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the number of shares reserved for issuance of options combined with restricted stock units (discussed below) may not exceed 10% of the total shares issued and outstanding. At September 30, 2012 there remained available for future issuance 3,584,954 stock options, restricted stock units (discussed below) or a combination thereof. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The vesting term of options under the Plan is determined by the Company's Board of Directors but options granted typically vest over a period of three years. Prior to the January 2009 grant, the options vested one-quarter on the date of the grant and one-quarter on each subsequent anniversary of the date of the grant. Beginning with the January 2009 grant, the options vest one-third on each subsequent anniversary of the date of grant. The maximum exercise period of options granted under the Plan is five years following the grant date. The changes in stock options were as follows:

	September 30, 2012		December 31, 2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**8,545,717**	**$5.79**	10,794,987	$3.47
Options granted	**-**	**-**	1,591,947	$13.58
Options exercised	**(1,000,598)**	**$2.99**	(3,602,288)	$2.15
Options forfeited	**(22,196)**	**$5.04**	(238,929)	$4.74
Balance, end of period	**7,522,923**	**$6.14**	8,545,717	$5.79

For share options exercised in the nine months ended September 30, 2012 the weighted average share price at the date of exercise was $16.09 (year ended December 31, 2011: $8.78).

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The following table summarizes the outstanding and exercisable options at September 30, 2012:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2008	132,770	0.25 years	$4.01 (Cdn$3.85)	Jan. 26, 2013	132,770
May 05, 2008	25,000	0.58 years	$4.51 (Cdn$4.34)	May 06, 2013	25,000
Jul. 14, 2008	42,500	0.75 years	$3.67 (Cdn$3.61)	Jul. 15, 2013	42,500
Sep. 16, 2008	100,000	1.00 years	$2.31 (Cdn$2.27)	Sep. 16, 2013	100,000
Sep. 23, 2008	748,000	1.25 years	$4.01 (Cdn$3.94)	Feb. 05, 2013	748,000
Jan. 02, 2009	1,269,929	1.25 years	$1.37 (Cdn$1.35)	Jan. 01, 2014	1,269,929
Dec. 01, 2009	2,211,730	2.25 years	$5.22 (Cdn$5.13)	Nov. 30, 2014	1,424,229
Dec. 28, 2010	1,455,418	3.25 years	$5.85 (Cdn$5.75)	Dec. 27, 2015	460,113
Dec. 14, 2011	1,537,576	4.25 years	$14.27 (Cdn$14.04)	Dec. 13, 2016	-
	7,522,923				4,202,541

The above options are dilutive in 2012 and, therefore, have been taken into account in the per share calculations for that year. The options were also dilutive in 2011.

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. No grants were made in the nine months ended September 30, 2012.

For the three and nine months ended September 30, 2012 the Company recorded stock option expenses of $1.05 million and $3.17 million, respectively (2011: $0.66 million and $2.03 million, respectively), of which $0.04 million and $0.16 million, respectively (2011: $0.07 million and $0.17 million, respectively) was capitalized.

Restricted Stock

The Company has a restricted stock plan (the "RS Plan") in compliance with the TSX's policy for granting restricted stock units ("RSUs"). Under the RS Plan, the number of shares reserved for issuance may, along with other stock plans, not exceed 10% of the total issued and outstanding shares of the Company. At September 30, 2012 there remained available for future issuance 3,584,954 RSUs, stock options or a combination thereof (December 31, 2011: 2,609,243). The vesting term of RSUs under the RS Plan is determined by the Company's Board of Directors. For the RSUs granted on December 14, 2011 one-third vest on each subsequent anniversary of the date of the grant. The changes in RSUs in 2012 were as follows:

	Number of RSUs
Balance, December 31, 2011	**205,628**
RSUs granted	**-**
RSUs settled	**-**
RSUs forfeited	**-**
Balance, September 30, 2012	**205,628**

The following table summarizes the outstanding RSUs at September 30, 2012:

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	205,628	2.25 years	$12.93	Dec. 14, 2014

The above RSUs are dilutive in 2012 and, therefore, have been taken into account in the per share calculations detailed below.

For the three months and nine months ended September 30, 2012 the Company recorded RSU expenses of $0.41 million and $1.23 million, respectively (2011: $nil), of which $0.06 million and $0.18 million, respectively (2011: $nil) was capitalized. No RSU has vested as of September 30, 2012.

Contributed Surplus
This reserve is being used on an ongoing basis to record stock-based compensation expense.

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

	3 Months ended September 30,		9 Months ended September 30,	
	2012	2011	**2012**	2011
Weighted average common shares outstanding, basic	**113,049,967**	112,572,270	**113,660,219**	111,966,960
Effect of stock options and warrants	**4,657,596**	4,661,010	**4,743,991**	3,778,927
Weighted average common shares outstanding, diluted	**117,707,563**	117,233,280	**118,404,210**	115,745,887

The average market price used in the 'effect of stock options and warrants' line in the above table was Cdn$15.85 and Cdn$16.28 for the three and nine months ended September 30, 2012 (2011: Cdn$9.68 and Cdn$7.75, respectively). Upon translation to US dollars these amounts equate to $16.11 and $16.55 for the three and nine months ended September 30, 2012 (2011: $9.32 and $7.46, respectively).

Note 14. Income taxes

Income taxes are comprised of the following amounts relating to current income tax expense and deferred income tax expense:

	3 Months ended		9 Months ended	
	2012	2011	**2012**	2011
Current income tax expense				
Current year income tax expense	**$39,955**	$135	**$121,723**	$135
Adjustment in respect of prior years	**2,180**	0	**2,309**	0
Current income tax expense	**$42,135**	$135	**$124,032**	$135
Deferred tax expense				
Origination and reversal of temporary differences in the current year	**$634**	$22,493	**$31,335**	$37,681
Adjustment in respect of prior years	**2,144**	0	**15,241**	0
Deferred tax expense	**$2,778**	$22,493	**$46,576**	$37,681

The provision for income taxes differs from the amount that would have been expected by applying statutory corporate income tax rates to income before taxes. The principal reasons for this difference are as follows:

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	3 Months ended		9 Months ended	
	2012	2011	**2012**	2011
Net income before income taxes	**$85,964**	$41,627	**$303,656**	$67,207
Thailand petroleum income tax statutory rate	**50%**	50%	**50%**	50%
Expected income tax expense computed at standard rates	**42,982**	20,814	**151,828**	33,604
Add (deduct) the tax effect of :				
Tax differential in other countries	**(923)**	(136)	**(1,571)**	(249)
Non-taxable/deductible expenses	**880**	402	**1,126**	1,361
Share-based compensation	**145**	-	**435**	-
Valuation allowance	**1,162**	(561)	**2,177**	(1,711)
Tax basis revaluation	**(3,875)**	2,109	**(3,102)**	4,811
Special Remuneratory Benefit - Thailand	**89**	-	**2,165**	-
Change in estimate (see note below)	**4,453**	-	**17,550**	-
Income tax expense	**44,913**	22,628	**170,608**	37,816
Consisting of:				
Current income tax expense	**42,135**	135	**124,032**	135
Deferred tax expense	**2,778**	22,493	**46,576**	37,681
Income tax expense	**$44,913**	22,628	**$170,608**	37,816

After filing the Company's 2010 Thai petroleum income taxes and having prepared drafts of the 2011 Thai petroleum income tax returns, the Company began reconciling the components of its income tax accounting accrual with the actual tax pools reported in the tax return. The revisions resulted in an increase of $15.2 million in the Company's deferred income tax charge and an increase of $2.3 million in the current tax charge.

Note 15. Segment reporting

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

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

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

Notes:

(1) The offshore Malaysia business did not commence until Q3 2012.
(2) Under the terms of the RSC relating to offshore Malaysia, capital expenditures are, for the most part, reimbursable. Therefore such numbers are not considered in our capital expenditure analysis below.

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Segmented Income for the Nine Months ended September 30, 2012

	Thailand Onshore	Thailand Offshore	Malaysia Offshore	Corporate and Other	Total
Net oil sales	$-	$495,550	$-	$-	$495,550
Other Income	-	(16,955)	-	11,440	(5,515)
	-	478,595	-	11,440	490,035
Less: Expenses					
Production	-	110,092	-	-	110,092
Depreciation and depletion	-	51,603	-	1,809	53,412
Net profits interest	-	908	-	-	908
General and administrative	-	8,569	57	15,883	24,509
Exploration	-	7,477	-	-	7,477
Debt financing fees	-	160	-	973	1,133
Finance expenses	-	583	-	2,558	3,141
Add: Gains on disposal of property, plant and equipment		-	-	252	252
Add: Net income from Apico LLC	14,041	-	-	-	14,041
Net Income before taxes	$14,041	$299,203	($57)	($9,531)	$303,656

Segmented Capital Expenditure for the Nine Months ended September 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$136,709	$127,716	$264,425

Segmented Income for the Nine Months ended September 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$-	$201,696	$-	$201,696
Other Income	-	(12,417)	23	(12,394)
	-	189,279	23	189,302
Less: Expenses				
Production	-	66,490	-	66,490
Depreciation and depletion	-	38,163	129	38,292
General and administrative	-	4,642	14,880	19,522
Exploration	-	6,829	-	6,829
Debt financing fees	-	-	523	523
Finance expenses	-	760	2,516	3,276
Add: Net income from Apico LLC	11,964	-	-	11,964
Add: Gain on disposal of property, plant and equipment	-	623	250	873
Net Income (Loss) before taxes	$11,964	$73,018	($17,775)	$67,207

Segmented Capital Expenditure for the Nine Months ended September 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$108,789	$132	$108,921

Segmented Income for the Three Months ended September 30, 2012

Net oil sales	$-	$152,589	$-	$-	$152,589
Other Income	-	(4,706)	-	(416)	(5,122)
	-	147,883	-	(416)	147,467
Less: Expenses					
Production	-	32,718	-	-	32,718
Depreciation and depletion	-	13,520	-	1,258	14,778
Net profits interest	-	39	-	-	39
General and administrative	-	2,615	57	6,453	9,125
Exploration	-	7,191	-	-	7,191
Debt financing fees	-	160	-	341	501
Finance expenses	-	189	-	1,751	1,940
Add: Gains on disposal of property, plant and equipment		-	-	252	252
Add: Net income from Apico LLC	4,537	-	-	-	4,537
Net Income before taxes	$4,537	$91,451	($57)	($9,967)	$85,964

Segmented Capital Expenditure for the Three Months ended September 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$69,516	$81,807	$151,323

Segmented Income for the Three Months ended September 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$-	$75,375	$-	$75,375
Other Income	-	10,725	(8)	10,717
	-	86,100	(8)	86,092
Less: Expenses				
Production	-	27,148	-	27,148
Depreciation and depletion	-	13,258	50	13,308
General and administrative	-	2,441	5,361	7,802
Exploration	-	345	-	345
Debt financing fees	-	10	248	258
Finance expenses	-	136	777	913
Add: Net income from Apico LLC	4,436	-	-	4,436
Add: Gain on disposal of property, plant and equipment	-	623	250	873
Net Income (Loss) before taxes	$4,436	$43,385	($6,194)	$41,627

Segmented Capital Expenditure for the Three Months ended September 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$46,599	$98	$46,697

Segmented Assets as at September 30, 2012

Investment in and advances to Apico LLC	$61,046	$-	$-	$-	$61,046
PP&E and E&E carrying amount	-	468,101	1,026	125,320	594,447
Total Assets	$61,046	$581,943	$7,532	$142,657	$793,178

Segmented Assets as at December 31, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	$47,698	$-	$-	$47,698
PP&E and E&E carrying amount	-	386,492	441	386,933
Total Assets	$47,698	$455,748	$15,285	$518,731

Note 16. Commitments and contingencies

Commitments and contingencies

The Company has provided a letter of credit to the Thailand Customs Department for $1.4 million (December 31, 2011: $1.4 million). This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of September 30, 2012.

The Company has entered into various commitments primarily related to the ongoing development of its Thailand G5/43 and G5/50 property concessions, and the Kapal, Banang and Meranti Cluster ('KBM') service contract in Malaysia (see below). Coastal has secured equipment and work commitments in the Gulf of Thailand and Malaysia. In order to keep both the concessions and service contract, the Company has various development obligations. The Company also has operating lease agreements for office space in Thailand, Malaysia and the United States. The following table summarizes the Company's outstanding contractual obligations:

Year	Drilling & Production Thailand	Drilling & Production Malaysia	G5/50	Other	Total
2012	$59,883	$39,000	$5,300	$216	$104,399
2013	9,559	145,000	-	324	154,883
2014	-	100,000	-	131	100,131

The Company's share of Apico's commitments is disclosed in Note 7.

The Company from time to time is involved in various claims, legal proceedings, complaints and disputes with governmental authorities and other stakeholders 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.

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Kapal, Banang, Meranti Cluster

Via its subsidiary, Coastal Energy KBM Sdn. Bhd ('Coastal Malaysia'), the Company has entered into a Small Field Risk Service Contract ("RSC") with Petronas for the development and production of petroleum from the KBM cluster of small fields (the "KBM Cluster") offshore Peninsular Malaysia.

Coastal will be the operator of the KBM Cluster fields and will take a 70% interest in Coastal Malaysia. A third party, Petra Energy, will hold the residual 30%.

Coastal will provide the upfront development capital, undertaking the development drilling and production of the KBM Cluster. PETRONAS will remain the owner of the project. Subject to its performance, Coastal will recover its capital and operating expenditures and will be paid a remuneration fee, which will be adjusted by key performance indicators ("KPIs") based on the timely implementation of the agreed field development plan and budget.

Note 17. Capital management

The Company's management of its capital structure is detailed in Note 27 to the December 31, 2011 financial statements. The Company's capital structure is comprised as follows:

As at	**September 30, 2012**	December 31, 2011
Total shareholders' equity	**$369,449**	$250,867
Long-term debt drawn	**100,000**	80,000
Working capital deficit (asset) excluding long-term debt drawn (1)	**33,496**	(6,814)
	$502,945	$324,053

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

As of September 30, 2012, the Company has drawn $100.00 million of its $200.0 million borrowing facility. Management believes it can access the equity and credit markets in the future should circumstances deem raising additional equity or debt is necessary.

The Company is in compliance with its debt covenants.

Note 18. Financial instruments and financial risk management

Financial Risk Management Objectives

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

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

Fair Values

The Company's financial instruments include cash, restricted cash, derivative assets and liabilities, accounts receivable, and accounts payable and accrued liabilities. Cash and derivative assets and liabilities are carried at fair value. The Company considers that almost all other items (excluding long-term debt and warrants) have a carrying value that approximates their fair value due to their short-term nature.

The fair value of the Company's long-term debt as at September 30, 2012 was $96.06 million (December 2011: $70.70 million) when using the market LIBOR rate.

The Company classifies the fair value of cash, restricted cash, derivative commodity contracts and the derivative liability for warrants according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

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

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

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

The Company's derivative commodity contracts, as with 2011, are considered fair value through profit and loss and their fair values are marked to market every quarter based on inputs from quoted market prices in the futures market on the statement of financial position date. As discussed in Note 10, these derivative instruments are solely required for debt facilities. These contracts as well as the derivative liabilities associated with warrants are classified as Level 2.

The Company considers its risks in relation to financial instruments in the following categories, of which management considers that no category has significantly worsened in 2012 relative to 2011.

Credit Risk

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and restricted cash; (2) accounts receivable; (3) derivative assets. The Company has not had any credit losses in the past beyond that described below. At September 30, 2012 and 2011, the Company has no financial assets that are past due or impaired due to credit risk related defaults.

The Company's accounts receivable and other consists primarily of oil sales receivables and Value Added Tax ("VAT") refunds from the government of Thailand. The Company's maximum exposure to credit risk at the statement of financial position date is as follows:

As at	September 30, 2012	December 31, 2011
Cash	$29,267	$22,995
Restricted cash	6,413	28,447
Refundable taxes (UK, Thailand)	15,128	16,115
Trade receivable	61,262	-
Other accounts receivable	846	824
Derivative asset	167	59
	$113,083	$68,440

Revenues in both years relate to a single customer that had a credit rating of BBB+ with Standard and Poors as at September 30, 2012. The Company's trade receivables at the end of each period were less than 30 days aged and were subsequently fully collected.

Typically, the Company's maximum credit exposure to customers is revenue from one month's commodity sales. The Company's standard credit terms have been (receipt of) payment within 30 days of delivery or prepayment of crude oil sales, although the latter is no longer permitted as part of the new debt facility. The Company's policy to mitigate credit risk associated with commodity sales is to establish relationships with credit worthy customers. The Company has not written off any amounts receivable in either 2012 or 2011.

No receivables are overdue (2011: $nil) and hence no allowance has been made for doubtful accounts receivable (2011: $nil).

Liquidity Risk

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

The Company's financial liabilities arose primarily from the development of its Thailand properties. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from receipt of invoice and generally do not bear interest. At September 30, 2012 the Company had recorded all of the obligations associated with its financial liabilities. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	September 30, 2012					December 31, 2011
	Within 1 year	**1-2 Years**	**3-5 years**	**There after**	**Total**	Total
Accounts payable and accrued liabilities	**$157,513**	**$-**	**$-**	**$-**	**$157,513**	$59,471
Long-term debt principal and interest	**342**	**-**	**-**	**100,000**	**100,342**	80,009
Derivative liabilities	**3,910**	**506**	**-**	**-**	**4,416**	15,831
Derivative liability – warrants	**3,486**	**-**	**-**	**-**	**3,486**	2,853
	$165,521	**$506**	**$-**	**$100,000**	**$265,757**	$158,164

Market Risk

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

(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, Malaysian Ringgit, Singapore Dollars, Australian Dollars, 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 Thai Baht, Malaysian Ringgit, Singapore Dollars, Australian Dollars, British Pounds and Canadian Dollars. The appreciation of non-US Dollar currencies against the US Dollar can increase the costs of operations and capital expenditures in US Dollar terms.

Based on the Company's net foreign currency exposures at September 30, 2012, a 10% depreciation or appreciation of the foreign currencies against the US dollar would result in a $1.83 million (December 31, 2011: $0.90 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These exposures are attributable to year-end payables and receivables denominated in currencies other than the US dollar.

(b) Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. Presently the Company's credit facility has an interest rate of LIBOR plus 350 bps. 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 10. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling $100.0 million at September 30, 2012 (December 31, 2011: $80.0 million). A 100 basis point change in interest rates at the statement of financial position date would result in a $1.00 million change in the Company's annual net income (2011: $0.80 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 10.

The Company paid an average of 7.14% and 6.20%, respectively on its borrowings for the three and nine months ended September 30, 2012 (2011: 5.14% and 5.12% respectively).

The Company earned an average of 0.01% and 0.01%, respectively on its short-term investments for the three and nine months ended September 30, 2012 (2011: 0.05% and 0.05%, respectively).

(c) Commodity Price Risk

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

A 10% decline in the reference price projection would not reduce the availability under the borrowing base at September 30, 2012.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 10. A 10% increase in prices of Brent as of September 30, 2012 would cause an increase in the derivative liability of $9.58 million (2011: increase in liability of $7.31 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of September 30, 2012 would cause a decrease in the liability of $5.43 million (2011: decrease of $5.09 million).

(d) Other Price Risk

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

Note 19. Subsequent events

On October 3, 2012, the Company signed a contract with a subsidiary of Atwood Oceanics, Inc. for the Manta jack-up drilling rig. The rig is scheduled to be delivered by late November and will conduct drilling operations for the Company in the Gulf of Thailand and offshore Malaysia.

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NON-INDEPENDENT DIRECTOR

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

INDEPENDENT DIRECTORS

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

Andrew L. Cochran (1) (2) (4)
Former CEO, Dominion Petroleum Limited

Olivier de Montal (2) (3)
Administrator, Loze &Associés

Lloyd Barnaby Smith (3) (4)
Former British Ambassador to Thailand

John B. Zaozirny (1) (3)
Vice Chairman, Canaccord Genuity Corp.

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

SENIOR MANAGEMENT

Lloyd Barnaby Smith, Non-Executive Chairman

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

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

TRADING SYMBOLS

CEN on TSX
CEO on AIM

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ABBREVIATIONS

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

THIRD PARTY ADVISORS

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RPS Group, Ltd.

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Legal Counselors:
Stikeman Elliott LLP (Canada & UK)
Walkers SPV Limited (Cayman Islands)
Chandler & Thong-Ek (Thailand)

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

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