

**COASTAL ENERGY COMPANY**  
**QUARTERLY REPORT**  
**March 31, 2013**



**Three Months Ended March 31, 2013 and 2012**

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

Dear Fellow Shareholders:

Coastal Energy had another successful quarter in the first three months of 2013. The Company completed its pilot hydraulic fracturing program at Bua Ban South with outstanding results and we began first production from the two wells which were stimulated. The Company also drilled two successful exploration wells at Songkhla A, making discoveries in two previously untested fault blocks on the western side of the platform.

First quarter production was largely flat year over year as we encountered some operational headwinds with pump downtime at Songkhla A as well as longer than expected completion times for the fracture stimulations at Bua Ban South. The Company also had delays associated with initial production at two horizontal wells at Bua Ban North due to the installation of "swelling packers". These packers take longer in terms of first production, however ultimately reduce water production and potentially increase total recovery rates.

We are now realizing the full benefits of our production facilities purchases which were completed in 2012. Operating costs declined 8% on a per barrel basis. We expect per barrel operating costs to continue to decline as we improve our offshore operations.

On behalf of the Board of Directors

**Randy L. Bartley**

President and Chief Executive Officer  
May 7, 2013



## Financial and Operating Highlights

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

	Three Months Ended March 31,		
	2013	2012	% Change
<b>Financial</b>			
Crude oil revenue	\$226,800	\$189,079	20%
EBITDAX <sup>(1)</sup>	\$152,533	\$128,439	19%
Per share – Basic	\$1.34	\$1.13	19%
Per share – Diluted <sup>(2)</sup>	\$1.31	\$1.08	21%
Net Income	\$52,079	\$48,135	8%
Per share – Basic	\$0.46	\$0.42	10%
Per share – Diluted	\$0.45	\$0.40	13%
Capital expenditures, excluding onshore	\$92,844	\$60,272	54%
Total Assets	\$1,012,437	\$584,341	73%
Working capital deficit	\$56,846	\$13,784	312%
Weighted average common shares outstanding			
Basic	113,573,980	113,976,174	-
Diluted	116,473,189	119,055,413	-2%
<b>Operations</b>			
Operating netback (\$/bbl) <sup>(1) (3)</sup>			
Crude oil revenue	\$105.15	\$112.49	-7%
Royalties	12.20	12.04	1%
Production expenses	19.90	21.54	-8%
Operating netback	\$73.05	\$78.91	-7%
Average daily crude oil production (bbls) <sup>(3)</sup>	20,460	21,031	-3%

Notes:

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

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

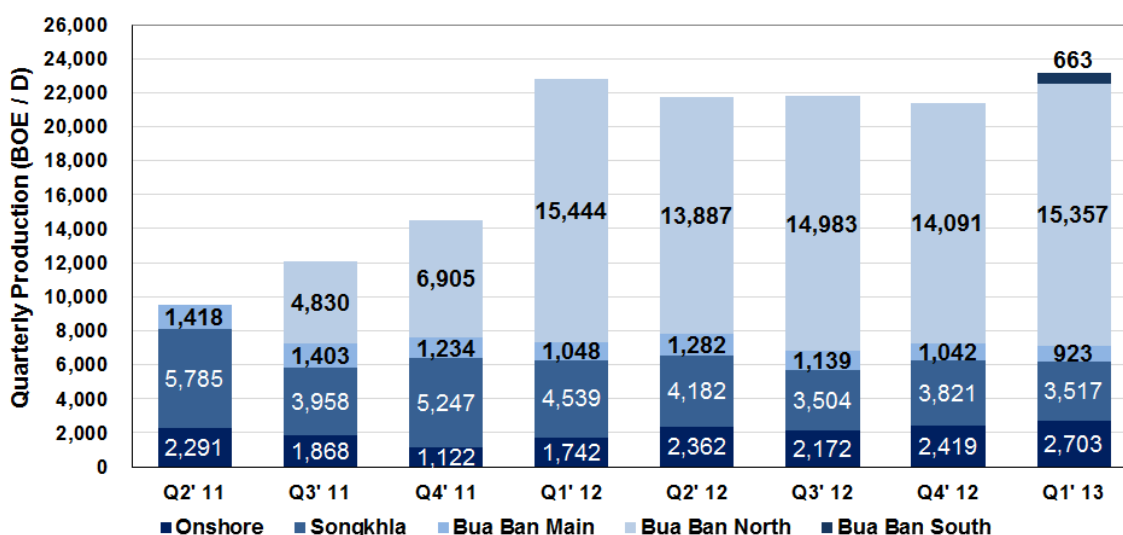
### First Quarter 2013 Highlights

- The Company reported Q1 total production of 23,163 boe/d, up from year ago levels of 22,773 boe/d. Offshore production totaled 20,460 bbl/d, a slight decrease from year ago levels of 21,031 bbl/d. Offshore production was impacted by several factors, including longer than expected completion times for the hydraulic fracturing program at Bua Ban South, delayed production from two horizontal wells at Bua Ban North due to the initial installation of "swelling packers" designed to reduce water production, and the Songkhla A-10 well being down for a majority of quarter awaiting pump replacement. Onshore production was 2,703 boe/d, up from 1,742 boe/d in the same period last year due to stronger gas demand in Thailand.



- The Company completed its pilot hydraulic fracturing program of two wells at Bua Ban South. The Bua Ban South A-01 well was completed with a three stage frac in the Lower Oligocene and produced at an initial rate of 1,200 bopd and a stabilized rate of approximately 450 bopd. The Bua Ban South A-03 well was completed with a six stage frac in the Eocene and produced at a stabilized rate of 1,450 bopd.
- EBITDAX for Q1 2013 was \$152.5 million, 19% higher than the \$128.4 million recorded in Q1 2012. Revenue and EBITDAX were driven higher by increased lifting volumes. Crude oil inventory was approximately 188,115 barrels at March 31, 2013 the revenue from which will be recognized in the second quarter. This is a decline of approximately 312,000 bbl from year end 2012, which contributed to higher revenue and EBITDAX in the first quarter.
- The Company announced successful discoveries at Songkhla A in two exploration wells which were drilled into previously untested fault blocks on the western side of the platform.

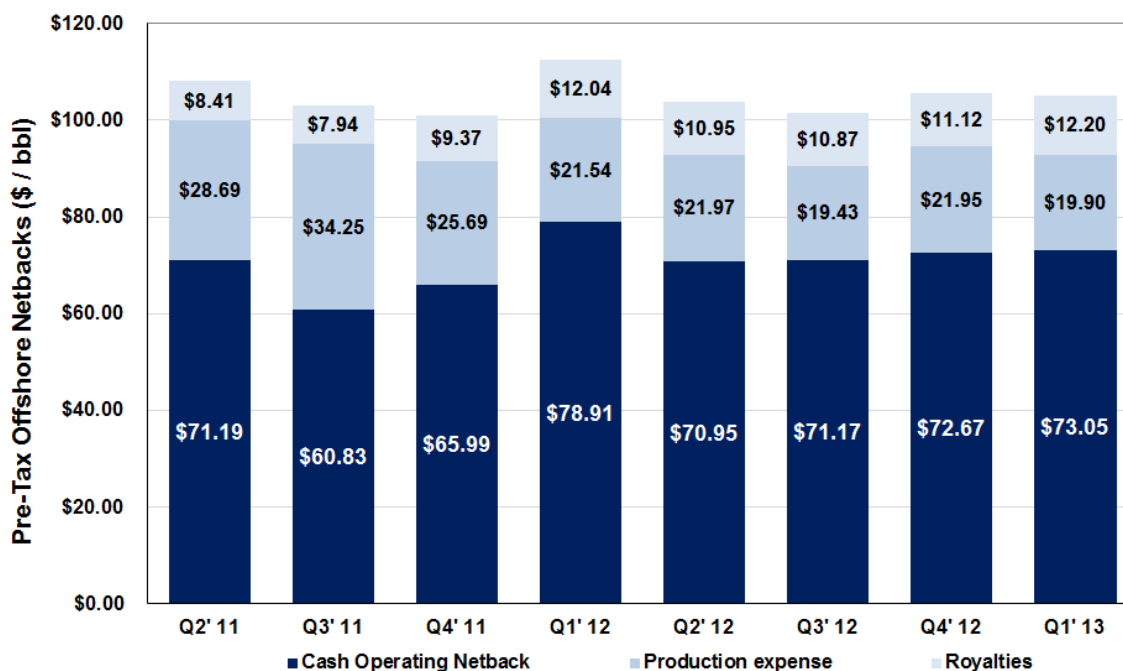
The following chart represents the Company's Average BOE/D on a quarterly basis



Note: Bua Ban North came onstream starting in August 2011. Bua Ban South came onstream in March 2013.

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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.

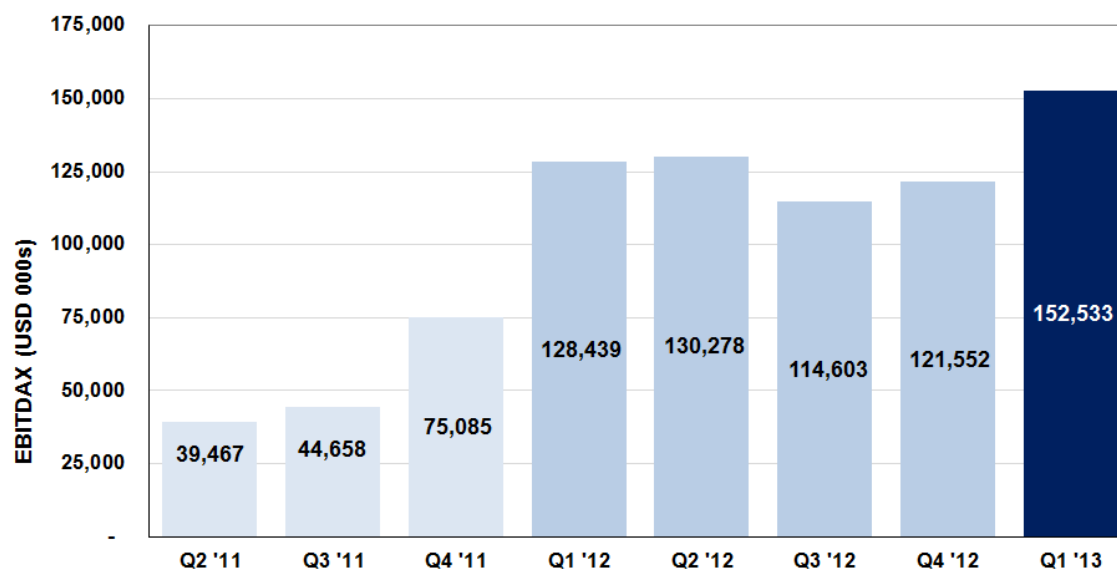


EBITDAX Computation	2013		2012			2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net income attributable to shareholders	\$52,079	\$94,018	\$40,100	\$42,150	\$48,135	\$18,892	\$19,013	\$11,816
Add Back:								
Unrealized (gain) loss on derivative	(217)	(2,507)	362	(15,892)	4,007	3,663	(15,019)	(7,744)
Realized loss on derivative	-	1,749	3,640	5,958	5,152	5,175	3,837	8,615
Interest income	(27)	(34)	(2)	(1)	(2)	(2)	(2)	(1)
Equity-based compensation	2,423	1,453	1,414	1,414	1,414	677	587	607
Unrealized foreign exchange (gain) loss	(2,058)	(837)	18	(157)	91	268	(337)	308
Finance expenses	1,215	1,574	1,940	195	1,006	1,549	913	1,201
Debt financing fees	528	1,032	501	351	281	273	258	31
Gain on sale of assets	(19)	-	(252)	-	-	-	(873)	-
Depletion, depreciation and accretion	23,305	16,727	14,778	18,590	20,044	22,844	13,308	11,698
Taxation	75,304	8,377	44,913	77,384	48,311	20,201	22,628	12,005
Exploration	-	-	7,191	286	-	1,545	345	931
<b>EBITDAX</b>	<b>\$152,533</b>	<b>\$121,552</b>	<b>\$114,603</b>	<b>\$130,278</b>	<b>\$128,439</b>	<b>\$75,085</b>	<b>\$44,658</b>	<b>\$39,467</b>

Note (a) 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
<b>Balance, December 31, 2011</b>	<b>\$47,698</b>	<b>\$385,479</b>	<b>\$433,177</b>
Additions during the period, net of disposals:			
Increase in ownership of Apico LLC	9,250	-	9,250
Exploration & development	-	348,990	348,990
Equity earnings in Apico, net of distributions	3,967	-	3,967
Depletion	-	(71,539)	(71,539)
Exploration expense	-	(7,477)	(7,477)
Amortization of excess basis in Apico	(649)	-	(649)
<b>Balance, December 31, 2012</b>	<b>\$60,266</b>	<b>\$655,453</b>	<b>\$715,719</b>
Additions during the period, net of disposals:			
Exploration & development	-	70,369	70,369
Disposals	-	(514)	(514)
Equity earnings from Apico, net of distributions	5,218	-	5,218
Depletion	-	(20,660)	(20,660)
Amortization of excess basis in Apico	(2,340)	-	(2,340)
<b>Balance, March 31, 2013</b>	<b>\$63,144</b>	<b>\$704,648</b>	<b>\$767,792</b>

## 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 May 7, 2013, should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2013 and related notes thereto. Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Overview

The Company was incorporated under the Companies Law of the Cayman Islands on May 26, 2004. The Company is engaged in the acquisition and exploration of petroleum and natural gas properties in 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 March 31, 2013:

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 or 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 analyses of the line items in the Company's Condensed Interim Consolidated Statements of Operations and Comprehensive Income and are comparisons of the current quarter activities vs. the same quarter in the prior year, unless otherwise noted.

### Average Daily Production (boe/d)

	2013	3 Months ended March 31,	
		2012	Change
Songkhla	3,517	4,539	-23%
Bua Ban Main	923	1,048	-12%
Bua Ban North	15,357	15,444	-1%
Bua Ban South	663	-	-
Total Offshore Production	20,460	21,031	-3%
Sinphuhorm (via Apico)	2,703	1,742	53%
<b>Total Company</b>	<b>23,163</b>	<b>22,773</b>	<b>2%</b>

Offshore production declined slightly in the first quarter from year ago levels largely driven by an approximate 1,000 bbl/d decline at Songkhla A, as the Songkhla A-10 well was down for a large portion of the quarter awaiting pump replacement. This decline was partially offset by the two wells at Bua Ban South which were hydraulically fractured coming onstream in February and March. Production at Bua Ban North was flat as production from two horizontal development wells was delayed due to the initial installation of "swelling packers" designed to reduce water production.

Onshore production increased substantially from year ago levels due to strong gas demand in Thailand.

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

### Crude Oil Inventory (bbls)

	2013	3 Months ended March 31,	
		2012	Change
Inventory Beginning of Period	503,594	336,334	50%
+ Production	1,841,440	1,913,759	-4%
- Sales / Liftings	(2,156,919)	(1,680,835)	28%
<b>Inventory, End of Period</b>	<b>188,115</b>	<b>569,258</b>	<b>-67%</b>

The Company's crude oil production is stored in floating storage and offloading vessels ("FSOs") moored at the production platforms. The inventory represents crude oil produced and loaded in the FSOs, but which has not yet been off-loaded for sale at the end of the period. The Company ended the quarter with 188,115 bbls in inventory, the revenue and associated expenses of which will be recognized in the second quarter.

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**Oil Sales, Average Benchmark and Realized Prices (\$/bbl)**

	3 Months ended March 31,		
	2013	2012	Change
Oil Sales	<b>\$226,800</b>	\$189,079	20%
Dubai (Benchmark - \$/bbl)	<b>\$108.09</b>	\$116.45	-10%
Sales Price per bbl Sold (\$/bbl)	<b>\$105.15</b>	\$112.49	-4%
Sales Price as a Percentage of Dubai	<b>97%</b>	97%	

Revenue increased dramatically in Q1 2013 over the same period in 2012, driven by significantly higher lifting volumes as a result of the large volume of crude oil inventory carried forward into Q1 2013. Increased sales volumes were partially offset by a decline in benchmark crude prices year over year. The Company had 188,115 bbls of crude oil inventory at quarter end, the revenue from which will be recognized in the second quarter.

**Royalties**

	3 Months ended March 31,		
	2013	2012	Change
Royalties	<b>\$26,310</b>	\$20,243	30%
\$ per bbl	<b>\$12.20</b>	\$12.04	1%
Royalties as a percent of revenue	<b>12%</b>	11%	

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. Q1 2013 royalty rates increased both on a percentage basis and on a per barrel basis due to higher lifting volumes.

**Other Income**

	3 Months ended March 31,		
	2013	2012	Change
Unrealized gain (loss) on derivative contracts	<b>\$217</b>	\$(4,007)	
Realized loss on derivative contracts	-	(5,152)	
Interest income	<b>27</b>	2	
Foreign exchange gain (loss)	<b>17</b>	(1,014)	
Other income (loss)	<b>\$261</b>	\$(10,171)	103%

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 net derivative liability at March 31, 2013 may never be realized depending upon commodity price movements between March 31, 2013 and expiry of the final contract (September 2014).

The Company has earned negligible interest 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 gain 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, British Pound and Euro.



## Production

	3 Months ended March 31,		
	2013	2012	Change
Production expenses	\$39,011	\$39,667	-2%
Effect of change in inventory	3,922	(3,457)	-213%
	<b>\$42,933</b>	\$36,210	19%
\$ per bbl	<b>\$19.90</b>	\$21.54	-8%

The Company's production expenses increased quarter over quarter due to substantially higher lifting volumes and first oil at Bua Ban South and the inclusion of associated production costs. Production expenses declined on a per barrel basis as the Company realized the benefits of purchasing previously leased production facilities.

## Depreciation and Depletion

	3 Months ended March 31,		
	2013	2012	Change
Oil and gas depreciation & depletion	\$20,660	\$21,487	-4%
Effect of change in inventory	2,485	(1,615)	-254%
Corporate depreciation	160	172	-7%
Depletion, depreciation, amortization and impairment expense	<b>\$23,305</b>	\$20,044	16%
\$ per bbl	<b>\$10.80</b>	\$11.93	-9%

Overall depreciation and depletion expense increased due to higher lifting volumes and depreciation expense associated with the purchases of previously leased production facilities. Depletion rates decreased on a per barrel basis due to an increase in the Company's 2P reserve base.

## Net profits interest

	3 Months ended March 31,		
	2013	2012	Change
Net profits interest	<b>\$1,926</b>	-	-

In Q1 2013, 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 March 31, 2013. The net profits agreements were executed in 2005 and have been previously disclosed by the Company.

No payout was achieved in Q1 2012.

## General and Administrative Expenses

	3 Months ended March 31,		
	2013	2012	Change
Salaries and benefits	\$5,397	\$5,829	-7%
Professional fees	985	1,065	-7%
Office and general	961	931	3%
Travel and entertainment	438	502	-13%
Total general and administrative expenses	<b>\$7,781</b>	\$8,327	-7%



G&A expense decreased over the same period last year primarily due to lower salaries and benefits. The decrease in salaries and benefits is driven by a decrease in stock-based compensation as a result of a significantly lower charge for Stock Appreciation Rights ('SARs') in Q1 2013 relative to Q1 2012.

#### Finance Costs

	3 Months ended March 31,		
	2013	2012	Change
Finance costs	<b>\$1,215</b>	\$1,006	21%

Interest expense has increased in line with gross debt. Total gross debt (excluding interest) at March 31, 2013 was \$100 million. At March 31, 2012 the balance was \$50 million with a pay down of \$30 million of principal occurring late in that quarter. The Company's average interest rate for the quarter was 5.08% (2012: 5.04%).

#### Taxes

	3 Months ended March 31,		
	2013	2012	Change
Current tax expense	<b>\$45,065</b>	\$36,608	23%
Deferred income tax charge	<b>30,239</b>	11,703	158%
Taxes	<b>\$75,304</b>	\$48,311	56%

The Company's future income tax liability primarily relates to Thai taxes. The Company became a cash taxpayer in Thailand in 2012. The current income tax expense portion reflects the Company's estimated tax liabilities under the Petroleum Income Tax Act (PITA) and the Special Remuneratory Benefit (SRB) associated with the Company's Q1 results. The increase in income tax provisions is driven by the year over year increase in the Company's revenue and pretax income. Under IFRS, these taxes are calculated in Thai Baht (the payment currency) and then converted to US dollars.

#### Share of Earnings From Apico LLC

	3 Months ended March 31,		
	2013	2012	Change
Coastal's 39.0% (2011: 36.1%) of Apico's net income	<b>\$5,416</b>	\$4,136	31%
Amortization of Coastal's excess basis	<b>(198)</b>	(129)	53%
Earnings from Significantly Influenced Investee, net of taxes	<b>\$5,218</b>	\$4,007	30%
100% Field Production volumes (mmcf/d)	<b>114.42</b>	74.38	54%
13.6% net to Coastal (mmcf/d)	<b>15.62</b>	10.15	54%

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 increased in Q1 2013 relative to Q1 2012 due to increased gas demand in Thailand.

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

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**Net Income**

	3 Months ended March 31,		
	2013	2012	Change
Net income and comprehensive income attributable to Coastal Energy	<b>\$52,079</b>	\$48,135	8%
Basic earnings per share	<b>\$0.46</b>	\$0.42	10%
Diluted earnings per share	<b>\$0.45</b>	\$0.40	13%

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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)

	2013		2012		2011			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Revenues and Other Income</b>								
Oil sales	\$226,800	\$192,241	\$170,894	\$194,639	\$189,079	\$128,929	\$81,670	\$64,628
Royalties	(26,310)	(20,218)	(18,305)	(20,514)	(20,243)	(11,955)	(6,295)	(5,018)
Reimbursement of expenses under Malaysia risk service contract	2,285	4,099	-	-	-	-	-	-
Gain (loss) on derivative	217	758	(4,002)	9,934	(9,159)	(8,838)	11,182	(871)
Interest income	27	34	2	1	2	2	2	1
Other income (loss)	17	(47)	(1,122)	(157)	(1,014)	(336)	(467)	(1,157)
	<b>203,036</b>	<b>176,867</b>	<b>147,467</b>	<b>183,903</b>	<b>158,665</b>	<b>107,802</b>	<b>86,092</b>	<b>57,583</b>
<b>Expenses</b>								
Production	42,933	39,907	32,718	41,164	36,210	32,773	27,148	17,124
Malaysia risk service contract	2,285	4,099	-	-	-	-	-	-
Depreciation and Depletion	23,305	16,727	14,778	18,590	20,044	22,844	13,308	11,698
Net profits interest	1,926	133	39	869	-	-	-	-
General and Administrative	7,781	15,187	9,125	7,057	8,327	11,931	7,802	6,457
Exploration	-	-	7,191	286	-	1,545	345	931
Debt financing fees	528	1,032	501	351	281	273	258	31
Finance expenses	1,215	1,574	1,940	195	1,006	1,549	913	1,201
Gains on disposal of property, plant and equipment	(19)	-	(252)	-	-	-	(873)	-
	<b>79,954</b>	<b>78,659</b>	<b>66,040</b>	<b>68,512</b>	<b>65,868</b>	<b>70,915</b>	<b>48,901</b>	<b>37,442</b>
<b>Taxes</b>	<b>75,304</b>	<b>8,377</b>	<b>44,913</b>	<b>77,384</b>	<b>48,311</b>	<b>20,201</b>	<b>22,628</b>	<b>12,005</b>
<b>Share of earnings from Apico LLC</b>	<b>5,218</b>	<b>5,069</b>	<b>4,537</b>	<b>5,497</b>	<b>4,007</b>	<b>2,563</b>	<b>4,436</b>	<b>4,272</b>
<b>Net income (loss) before non-controlling interests</b>	<b>52,996</b>	<b>94,900</b>	<b>41,051</b>	<b>43,504</b>	<b>48,493</b>	<b>19,249</b>	<b>18,999</b>	<b>12,408</b>
Non Controlling interest	(917)	(882)	(951)	(1,354)	(358)	(357)	14	(592)
<b>Net income (loss) attributable to Coastal Energy Company</b>	<b>52,079</b>	<b>94,018</b>	<b>40,100</b>	<b>42,150</b>	<b>48,135</b>	<b>18,892</b>	<b>19,013</b>	<b>11,816</b>
EBITDAX <sup>(a)</sup>	\$152,533	\$121,552	\$114,603	\$130,278	\$128,439	\$75,085	\$44,658	\$39,467
Basic earnings (loss)	\$0.46	\$0.83	\$0.35	\$0.37	\$0.42	\$0.17	\$0.17	\$0.11
Diluted earnings (loss)	\$0.45	\$0.80	\$0.34	\$0.36	\$0.40	\$0.16	\$0.16	\$0.10

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 incurred lower overall lease operating expenses from mid-2012 onwards as a consequence of acquiring previously leased production facilities.
- Volatility in general and administrative expenses is largely due to movements in 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 March 31, 2013 were \$23.5 million, a decrease of \$40.4 million from \$63.9 million at December 31, 2012. The Company's primary source of funds came from operations. Cash and cash equivalents were primarily used to fund property, plant and equipment expenditures of \$96.0 million. The residual was used to fund working capital.

## Capital Expenditures

Capital expenditures (on an accruals basis) amounted to \$92.8 million for the three months ended March 31, 2013, compared to \$60.3 million for the three months ended March 31, 2012, respectively. The Q1 2013 expenditures almost entirely related to exploration, appraisal and development drilling at Songkhla A and Bua Ban North, and costs associated with the conversion of jack-up rigs into mobile production units ("MOPUs"). The following table sets forth a summary of the Company's capital expenditures incurred:

Capital Expenditures	3 Months ended March 31,	
	2013	2012
Seismic, geological and geophysical studies	\$1,521	\$1,194
Drilling and completions	54,205	23,769
Facilities	25,206	28,137
Lease and well equipment	11,791	7,047
Administrative assets	121	125
<b>Total Capital Expenditures</b>	<b>\$92,844</b>	<b>\$60,272</b>

## 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 113,604,820 common shares outstanding.

### Warrants

As of March 31, 2013, the Company had 200,000 warrants outstanding, exercisable at CAD \$1.136 per share. During the first quarter of 2013 no warrants were exercised.

Subsequent to March 31, 2013, no warrants were exercised, resulting in the issuance of no common shares of the Company.

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### Stock Options

During the three months ended March 31, 2013, the Company granted no stock options. 231,594 options were exercised during Q1 2013. No options were forfeited in this period. Subsequent to March 31, 2013, no options were exercised and no options were forfeited.

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Sep. 16, 2008	100,000	0.50 years	\$2.24 (Cdn\$2.27)	Sep. 16, 2013	100,000
Jan. 02, 2009	739,583	0.75 years	\$1.33 (Cdn\$1.35)	Jan. 01, 2014	739,583
Dec. 01, 2009	1,628,885	1.75 years	\$5.05 (Cdn\$5.13)	Nov. 30, 2014	1,628,885
Dec. 28, 2010	1,163,444	2.75 years	\$5.66 (Cdn\$5.75)	Dec. 27, 2015	670,748
Dec. 14, 2011	1,432,713	3.75 years	\$13.82 (Cdn\$14.04)	Dec. 13, 2016	407,662
	5,064,625				3,546,878

### Restricted Stock Units

During the three months ended March 31, 2013, 26,800 restricted stock units ('RSUs') were settled. Over the same period no RSUs were granted nor forfeited. The following table summarizes the outstanding RSUs at March 31, 2013 and as of the date of this report:

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	137,093	1.75 years	\$12.93	Dec. 14, 2014
Dec. 14, 2012	509,963	2.75 years	\$19.87	Dec. 14, 2015
	647,056			

### Off-Statement of Financial Position Arrangements

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

### Related Party Transaction

The Company has no transactions with related parties.

### Commitments and Contingencies

All the Company's commitments and contingencies are described in Note 17 to the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2013.

### Subsequent Events

The Company recently completed the drilling of one exploration well at the Songkhla M prospect and one appraisal/exploration well in the Bua Ban North and Bua Ban Terrace Area.

### 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, 2012.





## 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 26, 2013 (available on SEDAR at [www.sedar.com](http://www.sedar.com)). It is recommended that this document be reviewed for a thorough discussion of risks faced by the Company.

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

### *Industry*

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

### *Petroleum and Gas Prices*

In recent years, the petroleum and natural gas exploration industry has seen significant growth, primarily as a result of increased global demand, led by India and China. During this period, prices for petroleum have steadily increased, resulting in multi-year price highs. Prior to this recent surge, large companies found it more feasible to grow their reserves and resources by purchasing companies or existing oilfields. However, 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 condensed interim consolidated statement of operations and comprehensive income. 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% (2012: 39.0%) 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 19 to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2013.

## **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 March 31, 2013 there have 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 Company plans to continue development and appraisal drilling on its existing assets in the Gulf of Thailand. The Company has development drilling activities planned at Bua Ban North and South and Songkhla H. The Company also plans to drill several exploration wells, including a commitment well on Block G5/50 during 2013.

The Company plans to reach its target of first oil from the Kapal field in Malaysia in Q3 2013.

## Condensed Interim Consolidated Statements of Operations and Comprehensive Income

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

Three Months Ended March 31,	2013	2012
<b>Revenues and Other Income</b>		
Oil sales	226,800	189,079
Royalties	(26,310)	(20,243)
Oil sales, net of royalties	200,490	168,836
Reimbursement of expenses under Malaysia risk service contract	2,285	-
Other income (Note 12)	261	(10,171)
	<b>203,036</b>	<b>158,665</b>
<b>Expenses</b>		
Production	42,933	36,210
Malaysia risk service contract	2,285	-
Depreciation and depletion (Note 7)	23,305	20,044
Net profits interest (Note 13)	1,926	-
General and administrative	7,781	8,327
Debt financing fees	528	281
Finance	1,215	1,006
Gains on disposal of property, plant and equipment	(19)	-
	<b>79,954</b>	<b>65,868</b>
<b>Net income before income taxes and share of earnings from Apico LLC</b>	<b>123,082</b>	<b>92,797</b>
Share of earnings from Apico LLC (Note 8)	5,218	4,007
<b>Net income before income taxes</b>	<b>128,300</b>	<b>96,804</b>
<b>Income taxes (Note 15)</b>		
Current	45,065	36,608
Deferred	30,239	11,703
	<b>75,304</b>	<b>48,311</b>
<b>Net income and comprehensive income</b>	<b>52,996</b>	<b>48,493</b>
<b>Net income and total comprehensive income attributable to:</b>		
Shareholders of Coastal Energy	52,079	48,135
Non-controlling interest	917	358
	<b>52,996</b>	<b>48,493</b>
<b>Net income per share:</b>		
Basic (Note 14)	0.46	0.42
Diluted (Note 14)	0.45	0.40

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	March 31 2013 \$	December 31, 2012 \$
<b>Assets</b>		
<b>Current Assets</b>		
Cash	23,549	63,897
Restricted cash (Note 4)	6,484	6,452
Accounts receivable (Note 5)	145,710	56,848
Derivative asset (Note 11)	131	132
Crude oil inventory	9,204	15,611
Marine fuel inventory	4,742	5,245
Prepays and other current assets	1,557	628
Total current assets	191,377	148,813
<b>Non-Current Assets</b>		
Exploration and evaluation assets (Note 6)	62,921	118,350
Property, plant and equipment (Note 7)	688,724	560,493
Investment in and advances to Apico LLC (Note 8)	63,144	60,266
Deposits and other assets	6,271	6,271
Total non-current assets	821,060	745,380
<b>Total Assets</b>	1,012,437	894,193
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 9)	247,216	217,757
Current portion of long-term debt (Note 11)	34	34
Current portion of derivative liabilities (Note 11)	973	1,372
Total current liabilities	248,223	219,163
<b>Non-Current Liabilities</b>		
Long-term debt (Note 11)	95,594	95,066
Non-current portion of derivative liabilities (Note 11)	683	502
Derivative liability - Warrants (Note 10)	3,596	3,784
Deferred tax liabilities	128,662	98,423
Decommissioning liabilities	48,302	46,726
Total non-current liabilities	276,837	244,501
<b>Shareholders' Equity (Note 14)</b>		
Common shares	215,141	213,260
Contributed surplus	20,269	18,940
Retained earnings	245,902	193,877
Total Shareholders' Equity	481,312	426,077
Non-controlling interest	6,065	4,452
<b>Total equity</b>	487,377	430,529
<b>Total liabilities and equity</b>	1,012,437	894,193

Commitments and contingencies (Note 17)

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 March 31,	2013	2012
<b>Operating activities</b>		
Net income	52,996	48,493
Adjustments:		
Share of earnings from Apico LLC	(5,218)	(4,007)
Unrealized (gain) loss on derivative instruments	(217)	4,007
Depletion and depreciation	23,305	20,044
Finance expenses	1,215	1,006
Amortisation of debt financing fees	528	281
Share-based compensation	2,484	2,991
Deferred income taxes	30,239	11,703
Unrealized foreign exchange (gain) loss	(1,020)	92
Gains on disposal of property, plant and equipment	(19)	-
Income taxes paid	(6,984)	-
Interest received	27	2
Interest paid	(1,118)	(721)
Dividends received from Apico LLC	2,340	-
Change in non-cash working capital:		
Accounts receivable	(88,862)	(15,537)
Inventory	6,910	(5,476)
Prepays and other current assets	(929)	748
Accounts payable and accrued liabilities	(6,846)	(19,357)
Current income taxes payable	44,974	36,608
<b>Cash flow provided by operating activities</b>	<b>53,805</b>	<b>80,877</b>
<b>Financing Activities</b>		
Issuance of common shares, net of issuance costs	1,288	992
Cash settlement of restricted stock units	(156)	-
Borrowings under long-term debt	15,000	-
Repayment of long-term debt	(15,000)	(30,000)
Loan arrangement fees	-	(746)
Distributions to non-controlling interest	(1,293)	-
Contributions from non-controlling interest	1,989	-
<b>Cash flow provided by (used in) financing activities</b>	<b>1,828</b>	<b>(29,754)</b>
<b>Investing Activities</b>		
(Increase) decrease in restricted cash	(32)	22,036
Expenditure on property, plant and equipment	(95,972)	(45,229)
Acquisition of increased ownership interest in Apico LLC	-	(9,250)
Proceeds from disposal of property, plant and equipment	533	-
<b>Cash flow used in investing activities</b>	<b>(95,471)</b>	<b>(32,443)</b>
Effect of exchange rate changes on cash	(510)	(775)
(Decrease) increase in cash	(40,348)	17,905
Cash - Beginning of period	63,897	22,995
<b>Cash - End of period</b>	<b>23,549</b>	<b>40,900</b>

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



## Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited) US \$000's

	Note	Common Shares	Contributed Surplus	Retained earnings	Attributable to shareholders of Coastal Energy Company	Non- Controlling Interest	Total
		\$	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2011</b>	14	211,554	16,401	17,630	245,585	5,282	250,867
Net income and total comprehensive income		-	-	48,135	48,135	358	48,493
Exercise of stock options		1,938	(418)	-	1,520	-	1,520
Shares repurchased and cancelled		(1)	-	(527)	(528)	-	(528)
Share-based compensation		-	1,470	-	1,470	-	1,470
Interest due from non-controlling interest		-	-	-	-	188	188
<b>Balance at March 31, 2011</b>		213,491	17,453	65,238	296,182	5,828	302,010
Net income and total comprehensive income		-	-	176,268	176,268	3,187	179,455
Exercise of stock options		2,252	(458)	-	1,794	-	1,794
Shares repurchased and cancelled		(2,483)	-	(15,742)	(18,225)	-	(18,225)
Stock options purchased and cancelled		-	(2,204)	(31,659)	(33,863)	-	(33,863)
Restricted stock units purchased and cancelled		-	(435)	(228)	(663)	-	(663)
Share-based compensation		-	4,584	-	4,584	-	4,584
Distributions declared to non-controlling interest		-	-	-	-	(4,563)	(4,563)
<b>Balance as at December 31, 2012</b>	14	213,260	18,940	193,877	426,077	4,452	430,529
Net income and total comprehensive income		-	-	52,079	52,079	917	52,996
Exercise of stock options		1,636	(348)	-	1,288	-	1,288
Restricted stock converted to common stock		245	(245)	-	-	-	-
Restricted stock settled in cash		-	(102)	(54)	(156)	-	(156)
Share-based compensation		-	2,024	-	2,024	-	2,024
Contributions from non-controlling interest		-	-	-	-	1,989	1,989
Distributions declared to non-controlling interest		-	-	-	-	(1,293)	(1,293)
<b>Balance as at March 31, 2013</b>	14	215,141	20,269	245,902	481,312	6,065	487,377

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



## **Notes to the Condensed Interim Consolidated Financial Statements**

As at March 31, 2013 and for the three months ended March 31, 2013 and 2012

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

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

Coastal Energy Company (“Coastal” or the “Company” or “we”) is an international oil and gas exploration and development company with operations in offshore Thailand and Malaysia, and an interest in a joint venture which operates in northeastern Thailand. 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. The Company is domiciled in the Cayman Islands.

### **Note 2. Basis of presentation**

The condensed interim consolidated financial statements for Coastal Energy Company as at March 31, 2013 and for the three months ended March 31, 2013 and 2012 should be read in conjunction with the audited consolidated financial statements as at December 31, 2012 and December 31, 2011 and for the years ended December 31, 2012 and December 31, 2011. The condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements with the exception of those new accounting standards disclosed in Note 3.

The 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 May 7, 2013.

### **Note 3. Significant accounting policies**

#### **Significant accounting policies**

The significant accounting policies and IFRS standards followed are unchanged from those applied by Coastal in the audited consolidated financial statements as at December 31, 2012 and December 31, 2011 and for the years ended December 31, 2012 and December 31, 2011 except as follows.

The following standards have been adopted on January 1, 2013:

- IFRS 7, “Financial Instruments: Disclosures”, relates to the requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS.
- IFRS 10 “Consolidated Financial Statements” provides additional guidance to determine whether an investee should be consolidated.
- IFRS 11, “Joint Arrangements” presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method.
- IFRS 12, “Disclosure of Interests in Other Entities” aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured



entities. We are evaluating the impact that this standard may have on our consolidated financial statements.

- IFRS 13, "Fair Value Measurement", provides comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements.
- IAS 19 "Employee Benefits", improves the recognition and disclosure requirements for defined benefit plans.
- IAS 28, "Investments in Associates and Joint Ventures" establishes the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures.

Accounting policy disclosures required as a result of adopting these new standards are detailed below. There has been no resulting impact on the figures previously reported by the Company.

### Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All subsidiary companies are wholly owned with the exception of Viking Storage Solutions (Mauritius) Limited ("VSS") and Coastal Energy KBM Sdn. Bhd. ("KBM"), upon which non-controlling interests arise. All intercompany balances, revenues and expenses are eliminated upon consolidation.

Coastal also has a 39% (2011: 36.1%) interest in Apico LLC, an associate accounted for under the equity method. Apico LLC is involved in the exploration and production of gas in Northeastern Thailand.

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

Name	Ownership interest	Type	Country of Incorporation
Coastal Energy Company Nevada	100%	Subsidiary	United States
Coastal Energy (UK) Company Limited	100%	Subsidiary	United Kingdom
NuCoastal (Thailand) Limited	100%	Subsidiary	Thailand
Coastal Energy Company (Khorat) Ltd	100%	Subsidiary	Cayman Islands
MOPU Holdings Limited	100%	Subsidiary	Cayman Islands
CEC International Limited	100%	Subsidiary	Cayman Islands
MOPU Holdings (Singapore) Pte. Limited	100%	Subsidiary	Singapore
CEC Services (Thailand) Limited	100%	Subsidiary	Thailand
Ocean 66 Limited	100%	Subsidiary	Mauritius
Coastal Energy KBM Sdn. Bhd.	70%	Subsidiary	Malaysia
Viking Storage Solutions (Mauritius) Limited	50%	Subsidiary	Mauritius
Apico LLC	39%	Partnership	United States

The comments below detail facts pertinent to the determination of the appropriate consolidation treatment of the aforementioned entities:

#### *Interests in wholly owned subsidiaries*

For all of the wholly owned entities, the Company can select 100% of the respective board of directors and holds 100% of the voting rights. Therefore, there are no significant restrictions on the Company's ability to control assets or settle the liabilities of those wholly owned subsidiaries beyond those detailed in Note 4.

#### *Interest in Coastal Energy KBM Sdn. Bhd (subsidiary)*

The Company holds 70% of the shares in Coastal Energy KBM Sdn. Bhd. ('KBM'), maintains 70% of the voting rights and is able to elect two-thirds of the board of directors with the residual relating to the non-controlling interest. The incorporation of this entity occurred in 2012 in order to administer the Company's risk service contract in offshore Malaysia.



The non-controlling interest related to KBM was \$nil for the three months ended March 31, 2013 (2012: \$nil). The accumulated non-controlling interest was \$0.08 million receivable at March 31, 2013 (December 31, 2012: \$0.08 million receivable).

The following table summarizes KBM's assets and liabilities:

As at	<b>March 31, 2013</b>	December 31, 2012
Current assets	<b>\$8,650</b>	\$4,461
Non-current assets	<b>7,000</b>	7,000
Current liabilities	<b>1,688</b>	7,121
Non-current liabilities	-	-

The following table summarizes KBM's revenue and net income:

Three months ended March 31,	<b>2013</b>
Revenue	<b>\$2,285</b>
Net income	-

*Interest in Viking Storage Solutions (Mauritius) Limited (subsidiary)*

The Company holds 50% of the shares in Viking Storage Solutions (Mauritius) Limited ('VSS'), maintains 50% of the voting rights and is able to elect 50% of the board of directors, with the residual relating to the non-controlling interest. The incorporation of this entity occurred in 2009 in order to obtain external financing that would enable the construction of a single storage vessel to be used in the Company's offshore Thailand operations. This storage vessel is currently being leased under a bareboat charter to CEC International Limited, the entity which holds the Company's offshore Thailand operations. Given the nature of the bareboat charter, the Company can actively control how the storage vessel is operated.

The non-controlling interest charge related to VSS was \$0.92 million for the three months ended 31 March, 2013 (2012: \$0.36 million), with the March 31, 2013 accumulated non-controlling interest being \$6.09 million credit (December 31, 2012: \$4.52 million credit).

The following table summarizes VSS's assets and liabilities:

As at	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Current assets	<b>\$4</b>	<b>\$5</b>
Non-current assets	<b>20,668</b>	<b>21,091</b>
Current liabilities	<b>3</b>	<b>12</b>

The following table summarizes VSS' revenue and net income:

Three months ended March 31,	<b>2013</b>	2012
Revenue	<b>\$2,955</b>	\$2,838
Net income	<b>2,482</b>	1,091

*Interest in Apico LLC partnership*

The Company owns a 39% interest (2012: 36.1%) in Apico LLC, holds 39% of the voting rights and can nominate one of the three board of director seats. Given that all 'substantial decisions' require 75% of the partners to agree and there are several combinations in which this can be achieved, all of which include the Company, the Company cannot exercise control or joint control. As such, treatment as an associate is appropriate.

For the avoidance of doubt, 'substantial decisions' would amongst other things include those concerning dividend payments, granting of additional shares, approval of budgets and dissolution of the partnership.

Further disclosures relating to information on Apico LLC are presented in Note 8.

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#### Note 4. 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	March 31, 2013	December 31, 2012
Collateral in support of corporate letter of credit (Note 17)	\$1,490	\$1,458
Restricted in support of long-term debt	4,994	4,994
	<b>\$6,484</b>	<b>\$6,452</b>

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.

#### Note 5. Accounts receivable

As at	2013	2012
Oil sales	\$117,547	\$34,854
Receivable under risk service contract	6,384	4,099
Refundable taxes (VAT)	21,030	16,888
Other	749	1,007
	<b>\$145,710</b>	<b>\$56,848</b>

#### Note 6. Exploration and evaluation assets

	Exploration and Evaluation
<b>Cost and Net Book Value</b>	
<b>As at December 31, 2011</b>	<b>\$31,881</b>
Additions	93,946
Exploration expense	(7,477)
<b>As at December 31, 2012</b>	<b>118,350</b>
Additions	5,900
Transfers to property, plant and equipment	(61,329)
<b>As at March 31, 2013</b>	<b>\$62,921</b>

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

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## Note 7. Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
<b>Cost</b>				
<b>As at December 31, 2011</b>	-	<b>443,238</b>	<b>2,718</b>	<b>445,956</b>
Additions	50,576	226,216	1,156	277,948
Assets brought into use	(28,828)	28,828	-	-
Disposals	(300)	-	-	(300)
<b>As at December 31, 2012</b>	<b>\$21,448</b>	<b>\$698,282</b>	<b>\$3,874</b>	<b>\$723,604</b>
Additions	23,646	64,469	121	88,236
Transfers from exploration and evaluation assets	-	61,329	-	61,329
Disposals	-	(514)	-	(514)
<b>As at March 31, 2013</b>	<b>\$45,094</b>	<b>\$823,566</b>	<b>\$3,995</b>	<b>\$872,655</b>

### Accumulated depletion, depreciation and impairment

<b>As at December 31, 2011</b>	-	<b>89,640</b>	<b>1,264</b>	<b>90,904</b>
Depletion and depreciation	-	71,539	668	72,207
<b>As at December 31, 2012</b>	-	<b>161,179</b>	<b>1,932</b>	<b>163,111</b>
Depletion and depreciation	-	20,660	160	20,820
<b>As at March 31, 2013</b>	<b>\$-</b>	<b>\$181,839</b>	<b>\$2,092</b>	<b>\$183,931</b>

### Carrying amount

<b>As at December 31, 2012</b>	<b>\$21,448</b>	<b>\$537,103</b>	<b>\$1,942</b>	<b>\$560,493</b>
<b>As at March 31, 2013</b>	<b>\$45,094</b>	<b>\$641,727</b>	<b>\$1,903</b>	<b>\$688,724</b>

During the three months ended March 31, 2013, \$1.29 million of charges associated with decommissioning liabilities are included within additions (year ended December 31, 2012: \$3.83 million charge).

Depletion and depreciation expense recognized in property, plant and equipment for the three months ended March 31, 2013 was \$20.82 million (2012: \$21.66 million), whereas the charge for depletion and depreciation expense recognized in the condensed interim consolidated statement of operations and comprehensive income was \$23.31 million (2012: \$20.04 million). The difference relates to an inventory adjustment for crude oil produced but not yet sold.

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

The Company has a 39.0% (2012: 39.0%) 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 2013 and 2012:



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

The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference is related to Apico's oil and gas properties, and as a result has been allocated to Apico's oil and gas properties, and is being amortized using the units of production method. At March 31, 2013 the remaining unamortized excess basis was \$19.23 million (December 31, 2012: \$19.43 million).

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

<b>As at</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Balance, beginning of period	\$60,266	\$47,698
Acquisition of additional stake	-	9,250
Advances during the period	-	-
Share of earnings, net of taxes	5,416	19,759
Amortization of excess basis in Apico	(198)	(649)
Dividends received	(2,340)	(15,792)
<b>Balance, end of period</b>	<b>\$63,144</b>	<b>\$60,266</b>

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

<b>As at</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Current assets	\$54,787	\$34,693
Non-current assets	120,950	118,166
Current liabilities	57,675	45,387
Non-current liabilities	5,009	2,306

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

<b>Three months ended March 31,</b>	<b>2013</b>	<b>2012</b>
Revenue	\$27,490	\$21,464
Expenses	4,381	3,966
Income taxes	9,810	6,892
<b>Net income</b>	<b>13,299</b>	<b>10,606</b>

The Company's share of Apico's commitments relating to geological studies, seismic surveys and exploratory drilling for the next 1 year is \$1.37 million. There is also a bank guarantee of \$0.26 million to cover customs duties.

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## Note 9. Accounts payable and accrued liabilities

As at	March 31, 2013	December 31, 2012
Trade payables	\$29,994	\$72,770
Accrued payables	90,308	56,601
Income taxes payable	124,834	86,752
Other	2,080	1,634
	<b>\$247,216</b>	<b>\$217,757</b>

Included within accrued payables is \$4.64 million (December 31, 2012: \$4.24 million) for the fair value of vested stock appreciation rights ("SARs"). The Company incurred a SARs liability of \$0.58 million for Q1 2013 (2012: \$1.78 million). Of this, \$0.07 million for Q1 2013 (2012: \$0.21 million) 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 March 31, 2013 is \$9.19 million (December 31, 2012: \$10.45 million).

No SARs have been granted in 2013.

## Note 10. Derivative liability - Warrants

No warrants were issued in 2013 or 2012. The warrants outstanding at the beginning of the period were issued in connection with a debt offering exercisable at Cdn \$1.136 per share equivalent and expiring January 23, 2014. During 2013 and 2012, no warrants were exercised:

	March 31, 2013		December 31, 2012	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	200,000	\$1.13	200,000	\$1.11
Warrants issued	-	-	-	-
Warrants exercised	-	-	-	-
Warrants expired	-	-	-	-
Balance, end of period	200,000	\$1.12	200,000	\$1.13

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	March 31, 2013	December 31, 2012
Risk free interest rate as per US Treasury Bonds	0.11%	0.16%
Share price (Canadian dollars)	\$19.40	\$19.96
Remaining term of the warrants	0.78 years	1.08 years
Volatility	40%	40%

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## Note 11. Long term debt

As at	March 31, 2013	December 31, 2012
Revolving debt facility	\$200,000	\$200,000
Unused portion of debt facility	(100,000)	(100,000)
Total debt drawn down	100,000	100,000
Unamortised debt issue costs	(4,406)	(4,934)
Carrying value of long-term	95,594	95,066
Current portion of long-term debt	-	-
Non-Current portion of long-term debt	\$95,594	\$95,066

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

As at	March 31, 2013	December 31, 2012
Principal	\$-	\$-
Interest	34	34
	\$34	\$34

### *BNP Paribas debt facility*

In Q1 2013 the Company drew down and repaid \$15.0 million under its revolving debt facility. The revolving debt facility is due to amortize through to the earlier of June 30, 2016 or the reserve tail date.

The effective interest rate for the three months ended March 31, 2013 was 5.08% (2012: 5.04%) per annum.

As a requirement of the terms of the revolving debt facility, the Company is required to undertake commodity derivative contracts that based upon a percentage of its projected production over a rolling 18 to 24 month period.

The following is a summary of the crude oil derivative contracts outstanding at March 31, 2013:

	Notional Volumes	Term	Average Strike Price	Fair value of asset (liability)
<b>Long Puts</b>				
Brent	1,851,918	Apr. 2013 –Sep. 2014	\$70.00/bbl	\$409
<b>Short Calls</b>				
Brent	1,851,918	Apr. 2013 –Sep. 2014	\$125.03/bbl	(1,723)
<b>Collar</b>				
Brent	347,987	Apr. 2013 –Sep. 2014	-	(342)
Fair value of derivative assets (liabilities)				(\$1,656)

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

	March 31, 2013	December 31, 2012
Current portion	(\$973)	(\$1,372)
Non-current portion	(683)	(502)
Total fair value of derivative liabilities	(\$1,656)	(\$1,874)

The Company's crude oil derivative contracts are subject to master netting agreements with each counterparty that create a legally enforceable right to offset the related financial assets and financial liabilities.

The carrying fair value of the Company's interest rate swap derivative asset is \$0.13 million as of March 31, 2013 (December 31, 2012: \$0.13 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 March 31,	2013	2012
Realized losses on crude oil price derivative contracts	-	\$(5,152)
Unrealized gains (losses) on crude oil price derivative contracts	218	(4,031)
Unrealized (loss) gain on interest rate swap	(1)	24
	<b>\$217</b>	<b>\$(9,159)</b>

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

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

## Note 12. Other income

Three Months ended March 31,	2013	2012
Change in fair value of derivative contracts (Note 11)	\$217	(\$9,159)
Interest	27	2
Foreign exchange gains and (losses)	17	(1,014)
	<b>\$261</b>	<b>(\$10,171)</b>

## Note 13. Related parties

### *Major Subsidiaries and Apico LLC*

These condensed interim consolidated financial statements include the financial statements of Coastal Energy and all affiliated subsidiaries as at March 31, 2013 and December 31, 2012. 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 months ended March 31, 2013 and 2012 except for that described below.

In Q1 2013, a related party of the primary shareholder, O.S. Wyatt, Jr., earned a 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 \$1.37 million, which is based upon 2.5% of net profits from the Gulf of Thailand Block G5/43 operations for the three months ended March 31, 2013 (Q1 2012: \$nil). The amounts due to this related party is outstanding at quarter end. The net profits agreement was executed in 2005 and has been previously disclosed by the Company.





## Note 14. 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 March 31, 2013, 113,604,820 common shares were issued and fully paid (December 31, 2012: 113,350,350 shares).

### 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 March 31, 2013 there remained available for future issuance 5,648,801 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:

	March 31, 2013		December 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	5,296,219	\$7.16	8,545,717	\$5.79
Options exercised	(231,594)	\$5.15	(3,234,978)	\$3.78
Options forfeited	-	-	(14,520)	\$8.20
Balance, end of period	5,064,625	\$7.10	5,296,219	\$7.16

For share options exercised in the three months ended March 31, 2013 the weighted average share price at the date of exercise was \$21.52 (year ended December 31, 2012: \$18.78).

The following table summarizes the outstanding and exercisable options at March 31, 2013:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Sep. 16, 2008	100,000	0.50 years	\$2.24 (Cdn\$2.27)	Sep. 16, 2013	100,000
Jan. 02, 2009	739,583	0.75 years	\$1.33 (Cdn\$1.35)	Jan. 01, 2014	739,583
Dec. 01, 2009	1,628,885	1.75 years	\$5.05 (Cdn\$5.13)	Nov. 30, 2014	1,628,885
Dec. 28, 2010	1,163,444	2.75 years	\$5.66 (Cdn\$5.75)	Dec. 27, 2015	670,748
Dec. 14, 2011	1,432,713	3.75 years	\$13.82 (Cdn\$14.04)	Dec. 13, 2016	407,662
	5,064,625				3,546,878

The above options are dilutive in 2013 and 2012 and, therefore, have been taken into account in the per share calculations for those periods.

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 Q1 2013.

For the three months ended March 31, 2013 the Company recorded stock option expenses of \$0.43 million (2012: \$1.06 million), of which \$0.03 million (2012: \$0.06 million) 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 March 31, 2013 there remained available for future issuance 5,648,801 RSUs, stock options or a combination thereof (December 31, 2012: 5,352,732). The vesting term of RSUs under the RS Plan is determined by the Company's Board of Directors. For RSUs, one-third vest on each subsequent



anniversary of the date of the grant. The changes in the number of RSUs for the three months ended March 31, 2013 and for the year ended December 31, 2012 were as follows:

	2013	2012
Balance, beginning of period	673,856	205,628
RSUs granted	-	509,963
RSUs settled	(26,800)	(41,735)
RSUs forfeited	-	-
Balance, end of period	647,056	673,856

The following table summarizes the outstanding RSUs at March 31, 2013:

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	137,093	1.75 years	\$12.93	Dec. 14, 2014
Dec. 14, 2012	509,963	2.75 years	\$19.87	Dec. 14, 2015
	647,056			

The above RSUs are dilutive both in 2013 and 2012 and, therefore, have been taken into account in the per share calculations for these periods.

For the three months ended March 31, 2013 the Company recorded RSU expenses of \$1.59 million (2012: \$0.41 million), of which \$0.14 million (2012: \$0.06 million) was capitalized.

Those RSUs settled in cash during the three months ended March 31, 2013 amounted to \$0.16 million, with \$0.10 million of accumulated stock-based compensation expense being moved from contributed surplus to retained earnings. The residual difference was recorded in retained earnings.

#### *Contributed Surplus*

This reserve is being used on an ongoing basis to record stock option and restricted stock unit 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 income were required.

Three Months ended March 31,	2013	2012
Weighted average common shares outstanding, basic	113,573,980	113,976,174
Effect of stock options and warrants	2,899,209	5,079,239
Weighted average common shares outstanding, diluted	116,473,189	119,055,413

The average market price used in the 'effect of stock options and warrants' line in the above table was Cdn\$20.56 for the three months ended March 31, 2013 (2012: Cdn\$17.60). Upon translation to US dollars this equates to \$20.24 for the three months ended March 31, 2013 (2012: \$17.62).

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## Note 15. Income taxes

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

Three Months ended March 31,	2013	2012
Current income tax expense		
Current period income tax expense	\$44,947	\$36,608
Adjustment in respect of prior years	118	-
Current income tax expense	<u>45,065</u>	<u>36,608</u>
Deferred tax expense		
Origination and reversal of temporary differences in the current period	30,239	11,703
Deferred tax expense	<u>30,239</u>	<u>11,703</u>
Income tax expense	<u>\$75,304</u>	<u>\$48,311</u>

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:

Three Months ended March 31,	2013	2012
Net income before income taxes	\$128,300	\$96,804
Thailand petroleum income tax statutory rate	50%	50%
Expected income tax expense computed at standard rates	64,150	48,402
Add (deduct) the tax effect of :		
Tax differential in other countries	(13,481)	144
Non-taxable/deductible expenses	(1,501)	(721)
Special Remuneratory Benefit ("SRB") tax, net of petroleum income tax deduction benefit	18,375	-
Share-based compensation	1,149	667
Valuation allowance	(437)	(29)
Tax basis revaluation	7,049	(152)
Income tax expense	<u>75,304</u>	<u>48,311</u>
Consisting of:		
Current income tax expense	45,065	36,608
Deferred tax expense	30,239	11,703
Income tax expense	<u>\$75,304</u>	<u>\$48,311</u>

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## Note 16. 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 Offshore Malaysia, Onshore Thailand, Offshore Thailand and Other. Other activities include the Company's corporate offices outside of Thailand. The accounting policies used for the reportable segments are the same as the Company's accounting policies.

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

### Segmented Income for the Three Months ended March 31, 2013:

	Malaysia Offshore	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	\$-	\$-	\$200,490	\$-	\$ 200,490
Reimbursement of expenses under Malaysia risk service contract	2,285	-	-	-	2,285
Other Income	113	-	124	24	261
	2,398	-	200,614	24	203,036
Less: Expenses					
Production	-	-	42,933	-	42,933
Malaysia risk service contract	2,285	-	-	-	2,285
Depreciation and depletion	-	-	21,269	2,036	23,305
Net profits interest	-	-	1,926	-	1,926
General and administrative	-	-	2,513	5,268	7,781
Exploration	-	-	-	-	-
Debt financing fees	-	-	-	528	528
Finance expenses	-	-	285	930	1,215
Add: Gains on disposal of property, plant and equipment	-	-	19	-	19
Add: Net income from Apico LLC	-	5,218	-	-	5,218
<b>Net Income before taxes</b>	<b>\$113</b>	<b>\$5,218</b>	<b>\$131,707</b>	<b>(\$8,738)</b>	<b>\$128,300</b>

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*Segmented Income for the Three Months ended March 31, 2012:*

	<b>Thailand Onshore</b>	<b>Thailand Offshore</b>	<b>Corporate and Other</b>	<b>Total</b>
Net oil sales	\$-	\$168,836	\$-	\$168,836
Other Income	-	(6,187)	(3,984)	(10,171)
	-	162,649	(3,984)	158,665
Less: Expenses				
Production	-	36,210	-	36,210
Depreciation and depletion	-	19,881	163	20,044
General and administrative	-	3,353	4,974	8,327
Debt financing fees	-	-	281	281
Finance costs	-	193	813	1,006
Add: Net income from Apico LLC	4,007	-	-	4,007
<b>Net Income (Loss) before taxes</b>	<b>\$4,007</b>	<b>\$103,012</b>	<b>(\$10,215)</b>	<b>\$96,804</b>

*Segmented Capital Expenditure for the Three Months ended March 31, 2013:*

	<b>Thailand Onshore</b>	<b>Thailand Offshore</b>	<b>Corporate and Other</b>	<b>Total</b>
Capital Expenditures	\$-	\$70,855	\$23,281	\$94,136

*Segmented Capital Expenditure for the Three Months ended March 31, 2012:*

	<b>Thailand Onshore</b>	<b>Thailand Offshore</b>	<b>Corporate and Other</b>	<b>Total</b>
Capital Expenditures	\$-	\$40,002	\$20,270	\$60,272

*Segmented Assets as at March 31, 2013:*

	<b>Malaysia Offshore</b>	<b>Thailand Onshore</b>	<b>Thailand Offshore</b>	<b>Corporate and Other</b>	<b>Total</b>
Investment in and advances to Apico LLC	\$-	\$63,144	\$-	\$-	\$63,144
PP&E and E&E carrying amount	1,000	-	583,299	167,346	751,645
<b>Total Assets</b>	<b>\$15,651</b>	<b>\$63,144</b>	<b>\$741,453</b>	<b>\$192,189</b>	<b>\$1,012,437</b>

*Segmented Assets as at December 31, 2012:*

	<b>Malaysia Offshore</b>	<b>Thailand Onshore</b>	<b>Thailand Offshore</b>	<b>Corporate and Other</b>	<b>Total</b>
Investment in and advances to Apico LLC	\$-	\$60,266	\$-	\$-	\$60,266
PP&E and E&E carrying amount	1,000	-	531,746	146,097	678,843
<b>Total Assets</b>	<b>\$11,315</b>	<b>\$60,266</b>	<b>\$650,001</b>	<b>\$172,611</b>	<b>\$894,193</b>



## Note 17. Commitments and contingencies

### Commitments and contingencies

Year	Drilling & Production Thailand	Drilling & Production Malaysia	G5/50	Other	Total
2013	\$72,110	\$139,298	\$5,300	\$236	\$216,944
2014	6,639	125,580	-	132	132,351
Thereafter	-	52,873	-	-	52,873

Note: The column titled 'Drilling & Production Malaysia' includes obligations of the 30% non-controlling interest in Coastal Energy KBM Sdn. Bhd.

#### Thailand

The Company has provided a letter of credit to the Thailand Customs Department for \$1.49 million as at March 31, 2013 (December 31, 2012: \$1.46 million). This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of March 31, 2013.

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:

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

#### Malaysia - 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.

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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## Note 18. Capital management

The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include common share capital, long-term debt, obligations under finance leases, amounts due to shareholders and adjusted working capital (a measurement defined as current assets less current liabilities, with current liabilities being as per the number on the face of the consolidated statement of financial position). In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, incur debt, sell assets or adjust its capital spending to manage current and projected debt levels. The Company may also repurchase common shares when the Company believes the market price does not reflect the underlying values of the common shares.

The Company's capital structure is comprised as follows:

As at	March 31, 2013	December 31, 2012
Total equity	\$487,377	\$430,529
Derivative liability – Warrants	3,596	3,784
Long-term debt drawn	100,000	100,000
Working capital deficit excluding long-term debt drawn <sup>(1)</sup>	56,846	70,350
	<b>\$647,819</b>	<b>\$604,663</b>

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

As of March 31, 2013, the Company has utilized \$100.0 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 19. 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, derivative assets, derivative liabilities and the derivative liability for warrants are carried at fair value. The Company considers that almost all other items (excluding long-term debt) have a carrying value that approximates their fair value due to their short-term nature. Long-term debt is carried at amortised cost.

The fair value of the Company's long-term debt as at March 31, 2013 was \$96.13 million (December 2012: \$96.11 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 observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

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

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 are classified as 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 11, 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 2013 relative to 2012.

#### *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 March 31, 2013, the Company had \$0.20 million of financial assets that were overdue (December 31, 2012: \$0.20million). This relates to the sale of surplus equipment. Management continues to work with the counterparty to resolve settlement of this balance. No allowance has been made for doubtful accounts receivable (2012: \$nil).

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

As at	<b>March 31, 2013</b>	December 31, 2012
Cash	<b>\$23,549</b>	\$63,897
Restricted cash	<b>6,484</b>	6,452
Refundable taxes (Thailand)	<b>21,030</b>	16,888
Trade receivable	<b>117,547</b>	34,854
Receivable under risk service contract	<b>6,384</b>	4,099
Other accounts receivable	<b>749</b>	1,007
Derivative asset	<b>131</b>	132
	<b>\$175,874</b>	<b>\$127,329</b>





Revenues in both years relate to a single customer that had a credit rating of BBB+ with Standard and Poors as at March 31, 2013. The Company's trade receivables at March 31, 2013 and December 31, 2012 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. 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 2013 or 2012.

The Company has pledged security (Note 11) in relation to its long-term debt.

#### *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 March 31, 2013 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:

	March 31, 2013				Total	December
	Within 1 Year	1-2 Years	3-5 Years	There- after		31, 2012 Total
Accounts payable and accrued liabilities	247,216	-	-	-	247,216	\$217,757
Long-term debt principal and interest	34	-	100,000	-	100,034	100,034
Derivative liabilities	973	683	-	-	1,656	1,874
Derivative liability – warrants	-	3,596	-	-	3,596	3,784
	<b>\$248,223</b>	<b>\$4,279</b>	<b>\$100,000</b>	<b>\$-</b>	<b>\$352,502</b>	<b>\$323,449</b>

#### *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 March 31, 2013, a 10% depreciation or appreciation of the foreign currencies against the US Dollar would result in a \$3.17 million (December 31, 2012: \$1.23 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These exposures are attributable to quarter-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 are described in Note 11. 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 March 31, 2013 (December 31, 2012: \$100.0 million). A 100 basis point change in interest rates at the statement of financial position date would result in a \$1.0 million change in the Company's annual net income (2012: \$1.0 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 11.

The Company paid an average of 5.08% on its borrowings for the three months ended March 31, 2013 (2012: 5.04%).

The Company earned an average of 0.01% on its short-term investments for the three months ended March 31, 2013 (2012: 0.02%).

*(c) Commodity Price Risk*

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

A 10% decline in the reference price projection would not reduce the availability under the borrowing base at March 31, 2013.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 11. A 10% increase in prices of Brent as of March 31, 2013 would cause an increase in the derivative liability of \$5.21 million (2012: increase in liability of \$10.17 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of March 31, 2013 would cause a decrease in the liability of 2.20 million (2012: decrease of \$7.78 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 9.

## Note 20. Subsequent Events

None.

## **NON-INDEPENDENT DIRECTORS**

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

Andrew L. Cochran, Executive Director

## **INDEPENDENT DIRECTORS**

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

Olivier de Montal<sup>(2) (3)</sup>  
Administrator, Loze & Associés

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

Forrest E. Wylie<sup>(1) (2) (4)</sup>  
Non-Executive Chairman, Buckeye Partners LP

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

### *Committees of the Board:*

*(1) Audit,*

*(2) Compensation,*

*(3) Corporate Governance and Nominating,  
and (4) Reserves*

## **SENIOR MANAGEMENT**

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

Andrew L. Cochran, Executive Director

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

## **TRADING SYMBOLS**

CEN on TSX

CEO on AIM

## **WEBSITE**

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

## **INVESTOR RELATIONS**

Matthew E. Laterza

T: +01 (713) 877-6793

F: +01 (713) 877-7144

Email: [investor@CoastalEnergy.com](mailto:investor@CoastalEnergy.com)

## **ABBREVIATIONS**

bbl barrel  
boe barrel of oil equivalent of natural  
gas and crude oil on the basis of  
1 boe for 6 mcf of natural gas

bbl/d barrels of oil per day  
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**

*Petroleum and Geological Engineers:*  
RPS Group, Ltd.

*Auditors:*  
Deloitte LLP (Canada)

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

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

*Nominated Advisor (NOMAD):*  
Strand Hanson Limited

## **COASTAL ENERGY COMPANY**

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

Level 39 Unit 3901-3904 Exchange Tower Building  
338 Sukhumvit Road, Klongtoey  
Bangkok 10110 Thailand

41<sup>st</sup> Floor, Vista Tower, The Intermark  
348 Jalan Tun Razak  
50400 Kuala Lumpur, Malaysia

10 Cavarly Square  
London, SW3 4RB, United Kingdom

3355 West Alabama, Suite 500  
Houston, Texas 77098-1717 USA  
T: +01 713 877 7125 F: +01 713 877 7128