

COASTAL ENERGY COMPANY
QUARTERLY REPORT
JUNE 30, 2012



Three and Six Months Ended June 30, 2012 and 2011

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President's Report to the Shareholders

Dear Fellow Shareholders:

The first half of 2012 has been an exceptional six months for Coastal. On top of record levels of production and cash flow, the Company has continued to deliver increases in reserves both through new exploration discoveries and appraisal drilling as well as core analysis on existing assets.

Following quarter end, the Company released the results of an interim third party reserves evaluation by our reserves auditor, RPS Energy Ltd. Total company 2P reserves increased to 149.1 mmboe from 102.1 mmboe at December 31, 2011. The higher reserves were driven by results of core analyses performed in the first quarter which indicated water saturation levels at Bua Ban North are lower than our previous estimates, increasing the oil in place and reserves estimates. Additional appraisal drilling results from the first quarter also improved the oil in place and reserves estimates. The Company also received 5.3 mmbbl of 2P reserves and 20.0 mmbbl of 3P reserves at Bua Ban South as well as increased reserve estimates at Songkhla A and Bua Ban Main due to better than expected reservoir performance.

We have been reinvesting our free cash flow to purchase some of the production facilities we were previously leasing for our offshore operations. This will reduce our fixed operating costs across all fields.

The Company also announced an exciting expansion of our operations into Malaysia. Coastal has been awarded a Small Field Risk Services Contract by PETRONAS for the development of the Kapal, Banang & Meranti cluster of small fields offshore Peninsular Malaysia. Coastal will operate the fields for PETRONAS and will provide upfront development and operational capital. Coastal will recover 100% of its invested capital and will earn a remuneration fee which will be adjusted based on the timely implementation of the agreed field development plan and budget. This is a low risk way for Coastal to enter a new country and we are very excited for our first new venture outside of Thailand.

The first half of 2012 has paved the way for continued growth for our shareholders.

On behalf of the Board of Directors

Randy L. Bartley

President and Chief Executive Officer
August 9, 2012



Financial and Operating Highlights

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

	3 months ended June 30,			6 months ended June 30,		
	2012	2011	% Change	2012	2011	% Change
Financial						
Crude oil revenue	\$194,639	\$64,628	201%	\$383,718	\$137,184	180%
EBITDAX ⁽¹⁾	\$130,278	\$39,467	230%	\$258,717	\$81,946	216%
Per share – Basic	\$1.14	\$0.35	226%	\$2.27	\$0.73	211%
Per share – Diluted	\$1.10	\$0.34	224%	\$2.18	\$0.71	207%
Net Income	\$42,150	\$11,816	257%	\$90,285	\$9,454	855%
Per share – Basic	\$0.37	\$0.11	236%	\$0.79	\$0.08	888%
Per share – Diluted	\$0.36	\$0.10	260%	\$0.76	\$0.08	850%
Capital expenditures, excluding onshore	\$52,830	\$34,355	54%	\$113,102	\$62,224	82%
Total Assets				\$700,613	\$416,819	68%
Working capital asset (deficit)				\$2,788	(\$48,619)	-
Weighted average common shares outstanding						
Basic	113,953,045	111,978,982	2%	113,968,697	111,659,289	2%
Diluted	118,480,870	115,159,253	3%	118,736,947	115,027,847	3%
Operations						
Operating netback (\$/bbl) ^{(1) (2)}						
Crude oil revenue	\$103.87	\$108.29	-4%	\$107.95	\$100.77	7%
Royalties	10.95	8.41	30%	11.47	7.98	44%
Production expenses	21.97	28.69	23%	21.77	28.90	-25%
Operating netback	\$70.95	\$71.19	-	\$74.71	\$63.89	17%
Average daily crude oil production (bbls) ⁽²⁾	19,351	7,203	169%	20,191	7,698	162%

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.

Second Quarter 2012 Highlights

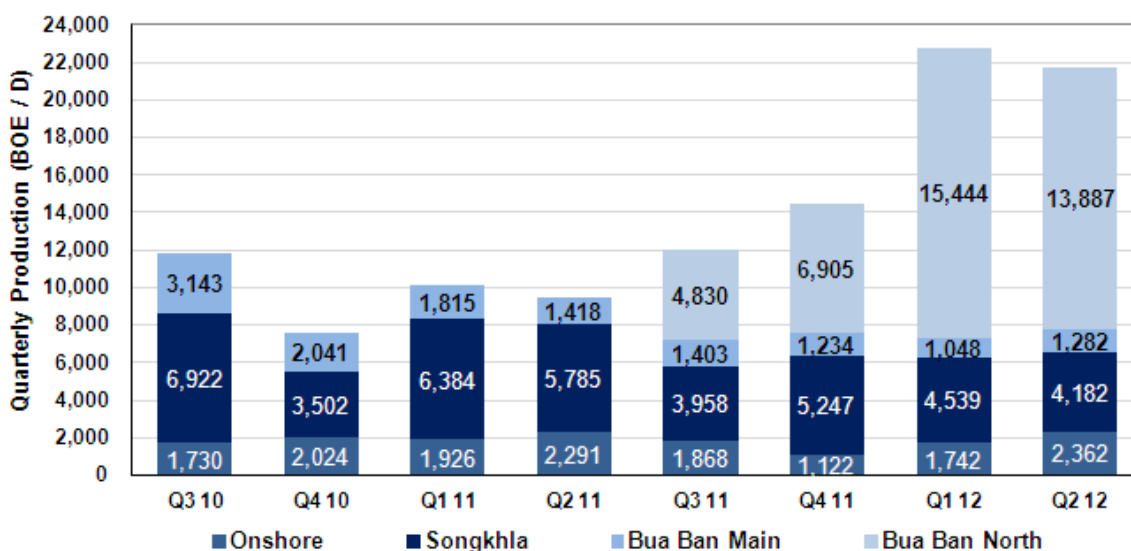
- Total Company production increased to 21,713 boe/d in the second quarter from 9,494 boe/d in the same period last year. The Company's offshore production was 19,351 bbl/d, with the increase due to the inclusion of production from both platforms at Bua Ban North. Production from the "A" platform began coming online in late December and was tied in throughout January and February. Offshore production volumes in the second quarter were impacted by downtime for the replacement of an FSO at Bua Ban North. Onshore production of 2,362 boe/d increased from Q1 12 levels and year ago levels as natural gas demand continued to recover following the flooding in Thailand in late 2011 and was 3% above Q211 levels.
- EBITDAX for Q2 2012 was \$130.3 million, 230% higher than the \$39.5 million recorded in Q2 2011. Revenue and EBITDAX were driven higher by increased oil liftings and commodity prices. Crude oil inventory was approximately 456,418 barrels at June 30, 2012 the revenue from which will be



recognized in the third quarter. The Company reduced closing inventory levels by 112,840 barrels (approximately 20%) during Q2.

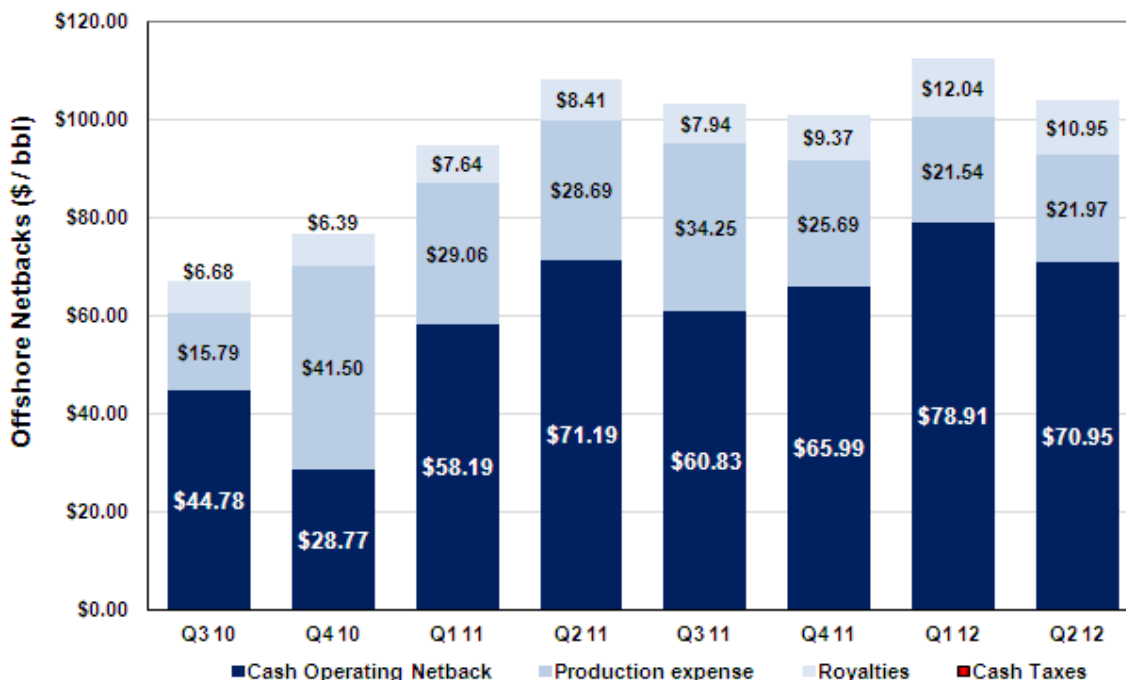
- The Company announced successful discoveries in the Miocene and Oligocene reservoirs at Bua Ban South. The discoveries have been appraised and determined to be commercial. The Company purchased production facilities for Bua Ban South and will continue appraisal drilling once they arrive on location later in the third quarter.
- The Company entered into a contract to purchase the production facilities which were being leased for use at Bua Ban North A. This transaction closed in early Q3 and will reduce the Company's operating expenses going forward. The Company is currently in negotiations to purchase the production facilities at Bua Ban North B and expects that transaction to close by the end of the third quarter.
- The Company announced a Normal Course Issuer Bid to repurchase up to 5% of its outstanding shares (5,715,972 shares). To date, the Company has repurchased approximately 1.25 million common shares on the open market.
- The Company announced that it had been awarded a Small Field Risk Services Contract by PETRONAS for the development of the Kapal, Banang & Meranti cluster of small fields offshore Peninsular Malaysia. Coastal will operate the fields for PETRONAS and will provide upfront development and operational capital. Coastal will recover 100% of its invested capital and will earn a remuneration fee which will be adjusted based on the timely implementation of the agreed field development plan and budget.
- Following quarter end, the Company released the results of an interim third party reserves evaluation by its reserve auditor, RPS Energy Ltd. Total company 2P reserves increased to 149.1 mmboe from 102.1 mmboe at December 31, 2011. The higher reserves were driven by results of core analyses performed in the first quarter which indicated water saturation levels at Bua Ban North are lower than previous estimates, increasing the oil in place and reserves estimates. Additional appraisal drilling results from the first quarter also improved the oil in place and reserves estimates. The Company also received 5.3 mmbbl of 2P reserves at Bua Ban South as well as increased reserve estimates at Songkhla A and Bua Ban Main due to better than expected performance.

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



Note: Bua Ban North came onstream starting in August 2011

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

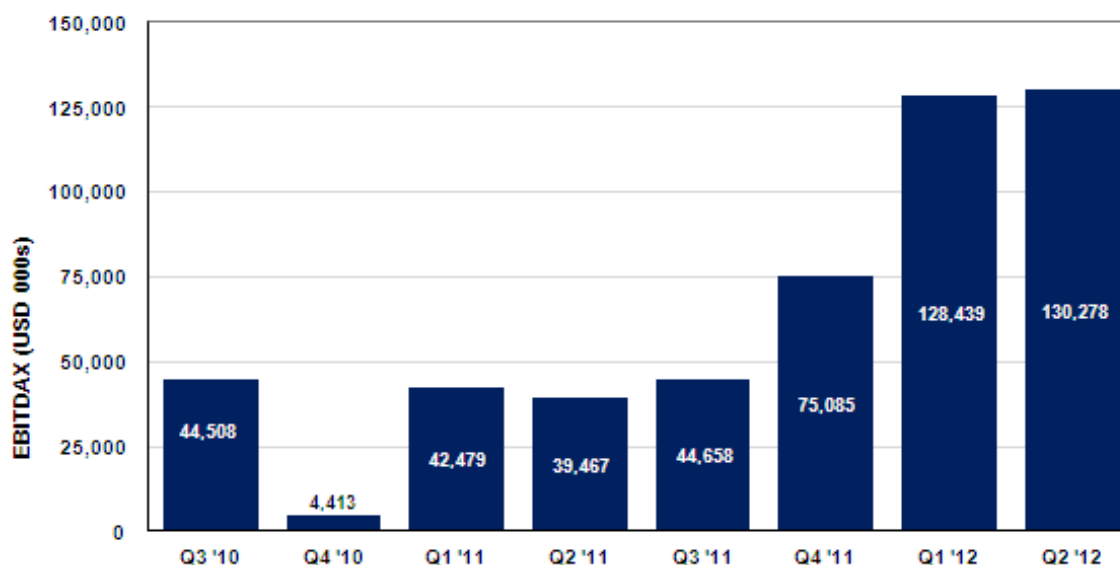


EBITDAX Computation	2012			2011			2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net income (loss) attributable to shareholders	\$42,150	\$48,135	\$18,892	\$19,013	\$11,816	\$(2,362)	\$(62,741)	\$25,077
Add Back:								
Unrealized (gain) loss on derivative	(15,892)	4,007	3,663	(15,019)	(7,744)	18,257	16,614	-
Realized loss on derivative (a)	5,958	5,152	5,175	3,837	8,615	2,400	1,567	-
Interest income	(1)	(2)	(2)	(2)	(1)	(1)	(1)	(1)
Equity-based compensation	1,414	1,414	677	587	607	618	545	615
Unrealized foreign exchange (gain) loss	(157)	91	268	(337)	308	149	297	2,158
Interest expense	195	1,006	1,549	913	1,201	1,162	1,272	722
Debt financing fees	351	281	273	258	31	234	256	23
Gain on sale of assets	-	-	-	(873)	-	-	-	-
Depletion, depreciation and accretion	18,590	20,044	22,844	13,308	11,698	13,286	11,658	8,343
Taxation	77,384	48,311	20,201	22,628	12,005	3,183	(40,857)	9,872
Impairment and Settlement expense	-	-	-	-	-	-	10,706	-
Exploration	286	-	1,545	345	931	5,553	62,786	26
Other – IFRS transition	-	-	-	-	-	-	2,311	(2,327)
EBITDAX	\$130,278	\$128,439	\$75,085	\$44,658	\$39,467	\$42,479	\$4,413	\$44,508

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



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



Operational Review

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

Oil and Gas Properties

Summary of Oil & Gas Properties	Thailand Onshore	Gulf of Thailand	Totals
Balance, December 31, 2009	\$47,261	\$276,645	\$323,906
Additions during the period, net of disposals:			
Exploration & development	1,446	176,655	178,101
Equity earnings in Apico, net of distributions	47	-	47
Depletion	-	(59,447)	(59,447)
Exploration expense	-	(8,374)	(8,374)
Amortization of excess basis in Apico	(1,056)	-	(1,056)
Balance, December 31, 2011	\$47,698	\$385,479	\$433,177
Additions during the period, net of disposals:			
Increased ownership of Apico LLC	9,250	-	9,250
Exploration & development	-	98,552	98,552
Equity earnings in Apico, net of distributions	9,808	-	9,808
Depletion	-	(37,494)	(37,494)
Amortization of excess basis in Apico	(304)	-	(304)
Exploration expense	-	(286)	(286)
Balance, June 30, 2012	\$66,452	\$446,251	\$512,703



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 August 9, 2012, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and six months ended June 30, 2012 and related notes thereto. Additional information related to the Company is available on SEDAR at www.sedar.com.

Overview

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

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

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

Non-IFRS Measures

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

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



Forward Looking Statements

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

Financial Review

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

Average Daily Production (boe/d)	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Songkhla	4,182	5,785	-28%	4,360	6,083	-28%
Bua Ban Main	1,282	1,418	-10%	1,165	1,615	-28%
Bua Ban North	13,887	-	-	14,666	-	-
Total Offshore Production	19,351	7,203	169%	20,191	7,698	162%
Sinphuhorm (via Apico)	2,362	2,291	3%	2,052	2,108	-3%
Total Company	21,713	9,494	129%	22,243	9,806	127%

Offshore production in the second quarter increased significantly over year ago levels due to the inclusion of the Bua Ban North field, which was discovered in 2011. Offshore production was down slightly from Q112 levels due to lack of aquifer support on the western side of Bua Ban North. The Company drilled two water injection wells there late in the second quarter and has begun to see improvement from the subsequent pressure rebuilding in the third quarter. The Company expects further improvement in production rates at from the new water injectors. Two additional horizontal development wells were drilled and placed onstream at Bua Ban North in the third quarter. Further appraisal and development wells are also planned at Songkhla to boost production and appraise some of the areas discovered by the Q4 2010 drilling campaign. The environmental approval to drill the additional wells at Songkhla was granted in early Q2 2012.

Onshore production has recovered well from the softness in the latter part of 2011 due to the impact of the flooding in Thailand in Q311. Demand has strengthened significantly and Sinphuhorm production was 3% above year ago levels in the second quarter.

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

Crude Oil Inventory (bbls)	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Inventory Beginning of Period	569,258	177,312	221%	336,334	203,983	65%
+ Production	1,760,944	655,406	169%	3,674,703	1,393,337	164%
- Sales / Liftings	1,873,784	596,811	214%	3,554,619	1,361,413	161%
Inventory, End of Period	456,418	235,907	93%	456,418	235,907	93%

The Company's crude oil production is stored in floating storage and offloading vessels ("FSOs") moored at the production platforms. The inventory represents crude oil produced and loaded in the FSOs, but which had not yet been off-loaded for sale at the end of the period. The Company ended the quarter with 456,418 bbls in inventory, the revenue and associated expenses of which will be recognized in the third quarter.



Oil Sales, Average Benchmark and Realized Prices (\$/bbl)	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2011	June 30, 2011	Change
Oil Sales	\$194,639	\$64,628	201%	\$383,718	\$137,184	180%
Dubai (Benchmark - \$/bbl)	\$106.19	\$110.62	-4%	\$111.28	\$105.80	5%
Sales Price per bbl Sold (\$/bbl)	\$103.87	\$108.29	-4%	\$107.95	\$100.77	7%
Sales Price as a Percentage of Dubai	98%	98%		97%	95%	

Revenue increased dramatically in Q2 over the same period in 2011, driven by significantly higher production and lifting volumes offsetting a slight decrease in realized pricing. The Company had 456,418 bbls of crude oil inventory at quarter end, the revenue from which will be recognized in the third quarter. This was a decrease from the 569,258 bbl which were in inventory at the beginning of the quarter.

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

Royalties	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Royalties	\$20,514	\$5,018	309%	\$40,757	\$10,863	275%
\$ per bbl	\$10.95	\$8.41		\$11.47	\$7.98	
Royalties as a percent of revenue	11%	8%		11%	8%	

Royalties on the Gulf of Thailand assets are paid to the Kingdom of Thailand as a percentage of revenue calculated on a sliding scale and based on monthly sales. Q2 2012 royalty rates increased both on a percentage basis and on a per barrel basis due to higher lifting volumes and commodity prices, respectively.

Other income	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Unrealized gain (loss) on derivative contracts	\$15,892	\$7,744	-	\$11,885	(\$10,513)	-
Realized loss on derivative contracts	(5,958)	(8,615)	-	(11,110)	(11,015)	-
Interest income	1	1	-	3	2	-
Foreign exchange loss	(157)	(1,157)	-	(1,171)	(1,585)	-
Other income	\$9,778	(\$2,027)	-	(\$393)	(\$23,111)	-

The Company has risk management contracts outstanding to hedge its exposure to interest rate and commodity price movements. These contracts were entered into as a condition of the Company's revolving credit facility. The Company adjusts the fair value of this risk management contract (mark to market) every quarter with the changes in fair value recognized in net earnings, as required under IFRS. Volatility in commodity pricing has translated into large swings in the Company's mark to market gains and losses. The Company realized losses of \$6.0 million in Q2 2012 quarter, which was up from \$5.2m in Q112 as a result of higher Brent oil prices for hedges settled during the quarter.

The net derivative liability at June 30, 2012 may never be realized depending upon commodity price movements between June 30, 2012 and expiry of the final contract (March 2013).



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

The foreign exchange loss is a result of the Company carrying out transactions and maintaining certain financial assets and liabilities in currencies other than the US Dollar. The primary foreign currency in which the Company transacts is Thai Baht. The Company also occasionally has transactions denominated in the Canadian Dollar, Singapore Dollar, British Pound and Euro. Included within the forex loss for Q2 2012 is unrealised losses associated with cash retranslation of \$0.6m.

Production	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Production expenses	\$39,483	\$19,174	106%	\$79,150	\$39,157	102%
Effect of change in inventory	1,681	(2,050)	-	(1,776)	185	-
	\$41,164	\$17,124	140%	\$77,374	\$39,342	97%
\$ per bbl	\$21.97	\$28.69		\$21.77	\$28.90	

The year over year increase in second quarter production expenses was driven by inclusion of a full quarter of Bua Ban North operating expenses at both the "A" and "B" platforms, and, to a lesser extent, general oilfield price inflation. The Company has recently begun the process of acquiring its previously leased production facilities to reduce operating expenses. Q2 production expenses were reduced by approximately \$1.8MM as a result of the acquisition of the Songkhla A platform. This was offset by \$2.4MM of higher repair & maintenance expense incurred as a result of replacing one of the storage tankers at Bua Ban North, and an increased number of workovers during the period. Coastal acquired the platform in place at Bua Ban North A in the third quarter and is in negotiations to acquire the platform at Bua Ban North B. Both acquisitions are expected to further reduce production costs in coming quarters. Operating expenses are lower on a per barrel basis year over year due to a relatively fixed cost base being spread across higher production volumes.

General and Administrative Expenses	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Salaries and benefits	\$4,125	\$5,311	-22%	\$9,954	\$9,262	7%
Professional fees	1,730	228	659%	2,693	587	359%
Office and general	629	464	36%	1,560	898	74%
Travel and entertainment	407	324	26%	909	666	36%
Regulatory and transfer fees	166	130	28%	268	307	-13%
Total general and administrative expenses	\$7,057	\$6,457	9%	\$15,384	\$11,720	31%

Professional fees have increased year over year largely due to higher audit and tax advisory fees. The higher reserve audit fees reflect the additional 2012 audit work that needs to be performed as a result of the Company's recent discoveries. Salaries and benefits were lower in Q2 versus the year ago period due lower stock based compensation expense.



Exploration	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Unsuccessful exploration costs	\$286	\$931	-69%	\$286	\$6,484	-96%

The Q2 2012 charge relates to miscellaneous expenditures associated with previously expensed properties. The Q2 2011 charge relates to a write down of costs associated with the fracture jobs on Benjarong, the results of which did not lead to commercially acceptable performance.

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

Net profits interest	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Net profits interest	\$869	\$-	-	\$869	\$-	-

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

Finance costs	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Finance costs	\$195	\$1,201	-84%	\$1,201	\$2,363	-49%

Interest expense declined in the second quarter due to lower debt balances. Total gross debt (excluding interest) at June 30, 2012 was \$50.0 million versus \$80.0 million at December 31, 2011, with the pay down of \$30.0 million of principal occurring late in Q1 2012. The Company's average interest rate for the quarter was 3.77% (2011: 4.42%). Finance costs were reduced by approximately \$0.5 million due to a revaluation of the Company's outstanding warrants.

Depletion and Depreciation	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Oil and gas depreciation & depletion	\$16,007	\$12,395	29%	\$37,494	\$26,619	41%
Effect of change in inventory	2,414	(777)	-411%	799	(1,791)	-145%
Corporate depreciation	169	80	111%	341	156	119%
Depletion, depreciation, amortization and impairment expense	\$18,590	\$11,698	59%	\$38,634	\$24,984	55%
\$ per bbl	\$9.92	\$19.60		\$10.87	\$18.35	-

Overall depreciation expense increased year-on-year due to higher production rates. Depletion rates decreased on a per barrel basis due to a change in the production mix, namely the commencement of production at Bua Ban North. Bua Ban North has a much lower per barrel depletion rate than the other fields. The per barrel depletion rate also declined due to the increased reserve volumes from the RPS report effective March 31, 2012 with offshore 2P reserves of 127.7 mmbbl vs 80.0 mmbbl at December 31, 2011.



Taxes	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Current tax expense	\$45,289	\$-	-%	\$81,897	\$-	-%
Deferred income tax charge	32,095	\$12,005	167%	43,798	15,188	188%
Taxes	\$77,384	\$12,005	545%	\$125,695	\$15,188	728%

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

Share of net income from Apico LLC	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Coastal's 39.0% (2011: 36.1%) of Apico's net income	\$5,672	\$4,607	23%	\$9,808	\$8,141	20%
Amortization of Coastal's excess basis	(175)	(335)	-48%	(304)	(613)	-50%
Earnings from Significantly Influenced Investee, net of taxes	\$5,497	\$4,272	29%	\$9,504	\$7,528	26%
100% Field Production volumes (mmcf/d)	101.0	105.7	-4%	87.7	97.3	-10%
13.6% (2011: 12.6%) net to Coastal (mmcf/d)	13.8	13.3	4%	12.0	12.3	-2%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on Apico's quarterly reported net income. Apico's revenue and net income have increased in Q2 2012 relative both to Q1 2012 and year ago levels due to increased natural gas demand in Thailand as well as stronger commodity pricing.

The increase in net income earned from Apico LLC has also been a result of the Company's acquisition of an additional 2.9% of Apico in Q1 2012.

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

Net income	3 Months ended			6 Months ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
Net income and comprehensive income attributable to Coastal Energy	\$42,150	\$11,816	257%	\$90,285	\$9,454	855%
Basic earnings per share	\$0.37	\$0.11	236%	\$0.79	\$0.08	888%
Diluted earnings per share	\$0.36	\$0.10	260%	\$0.76	\$0.08	850%

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Summary of Quarterly Results

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

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues and Other Income								
Oil sales	\$194,639	\$189,079	\$128,929	\$81,670	\$64,628	\$72,556	\$33,246	\$68,688
Royalties	(20,514)	(20,243)	(11,955)	(6,295)	(5,018)	(5,845)	(2,769)	(6,828)
Gain (loss) on derivative	9,934	(9,159)	(8,838)	11,182	(871)	(20,657)	(18,181)	-
Interest income	1	2	2	2	1	1	1	1
Other income	(157)	(1,014)	(336)	(467)	(1,157)	(428)	(913)	(296)
	183,903	158,665	107,802	86,092	57,583	45,627	11,384	61,565
Expenses								
Production	41,164	36,210	32,773	27,148	17,124	22,218	17,996	16,124
Depreciation, Depletion, Amortization and Impairment	18,590	20,044	22,844	13,308	11,698	13,286	22,364	8,343
Net profits interest	869	-	-	-	-	-	-	-
General and Administrative	7,057	8,327	11,931	7,802	6,457	5,263	8,027	4,334
Exploration	286	-	1,545	345	931	5,553	62,786	26
Debt financing fees	351	281	273	258	31	234	256	23
Finance expenses	195	1,006	1,549	913	1,201	1,162	92	722
Gains on disposal of property, plant and equipment	-	-	-	(873)	-	-	-	-
	68,512	65,868	70,915	48,901	37,442	47,716	111,521	29,572
Taxes	77,384	48,311	20,201	22,628	12,005	3,183	(40,857)	9,872
Share of net income (loss) from Apico LLC	5,497	4,007	2,563	4,436	4,272	3,256	(917)	2,709
Net income (loss) before non-controlling interests	43,504	48,493	19,249	18,999	12,408	(2,016)	(60,197)	24,830
Non Controlling interest	(1,354)	(358)	(357)	14	(592)	(346)	(1,364)	247
Net income (loss) attributable to Coastal Energy Company	42,150	48,135	18,892	19,013	11,816	(2,362)	(61,561)	25,077
EBITDAX ^(a)	\$130,278	\$128,439	\$75,085	\$44,658	\$39,467	\$42,479	\$4,413	\$44,508
Basic earnings (loss)	\$0.37	\$0.42	\$0.17	\$0.17	\$0.11	(\$0.02)	(\$0.56)	\$0.23
Diluted earnings (loss)	\$0.36	\$0.40	\$0.16	\$0.16	\$0.10	(\$0.02)	(\$0.54)	\$0.22

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

Significant factors influencing Quarterly Results include

- The volatility of global crude oil prices has a direct effect on the Company's revenue as well as unrealized gains or losses on risk management contracts. The Company realized a higher sales price year over year, but a lower sales price sequentially.
- The Company has incurred higher overall lease operating expenses from Q1 2012 following a full quarter of production at the second Bua Ban North platform.
- The Company has incurred higher general and administrative expenses as the substantial increase in the Company's stock price has increased its Share-Based Compensation expense as well as the accrual value of stock-linked cash compensation.
- The Company transacts business in multiple currencies; therefore the volatility of global currency exchange rates has a direct effect on the Company's foreign exchange (gains) losses.

Cash Flow Analysis



The Company's cash and cash equivalents at June 30, 2012 were \$116.7 million, an increase of \$93.7 million from \$23.0 million at December 31, 2011. 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 \$90.9 million, \$9.25 million to cover the acquisition of an increased stake in Apico LLC, \$30.0 million to repay long-term debt and \$15.0 million to repurchase the Company's own stock. The residual was used to fund working capital.

Capital Expenditures

Capital expenditures (on an accruals basis) amounted to \$52.8 million and \$113.1 million for the three and six months ended June 30, 2012, compared to \$34.4 million and \$62.2 million for the three and six months ended June 30, 2011, respectively. The Q212 expenditures almost entirely related to exploration, appraisal and development drilling at Bua Ban South, development drilling at Bua Ban North, the acquisition of processing equipment, and costs associated with converting the Richmond jack-up rig into a mobile production unit ("MOPU"). The following table sets forth a summary of the Company's capital expenditures incurred:

Capital Expenditures	3 Months ended June 30,		6 Months ended June 30,	
	2012	2011	2012	2011
Seismic, geological and geophysical studies	\$1,648	\$1,368	\$2,842	\$1,655
Drilling and completions	20,922	23,936	44,691	48,856
Facilities	20,213	372	48,350	944
Lease and well equipment	9,802	8,266	16,849	10,128
Administrative assets	245	413	370	641
Total Capital Expenditures	\$52,830	\$34,355	\$113,102	\$62,224

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 113,109,328 common shares outstanding.

During the second quarter the Company instituted a Normal Course Issuer Bid to repurchase its common shares through the facilities of the Toronto Stock Exchange. The program covers 5% (5,715,972) of outstanding shares. As of the date of this report, the Company has repurchased 1,258,450 shares at an average price of C\$14.44 per share.

Warrants

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

Subsequent to June 30, 2012, 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 June 30, 2012, the Company granted no stock options. Options exercised and forfeited were 142,301 and nil respectively. Subsequent to June 30, 2012, no options were exercised and no options were forfeited.

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2008	167,770	0.50 years	\$3.76 (Cdn\$3.85)	Jan. 26, 2013	167,770
May 05, 2008	25,000	0.83 years	\$4.23 (Cdn\$4.34)	May 06, 2013	25,000
Jul. 14, 2008	42,500	1.00 years	\$3.52 (Cdn\$3.61)	Jul. 15, 2013	42,500
Sep. 16, 2008	100,000	1.25 years	\$2.21 (Cdn\$2.27)	Sep. 16, 2013	100,000
Sep. 23, 2008	898,000	1.50 years	\$3.84 (Cdn\$3.94)	Feb. 05, 2013	898,000
Jan. 02, 2009	1,269,929	1.50 years	\$1.32 (Cdn\$1.35)	Jan. 01, 2014	1,269,929
Dec. 01, 2009	2,217,950	2.50 years	\$5.00 (Cdn\$5.13)	Nov. 30, 2014	1,424,229
Dec. 28, 2010	1,463,292	3.50 years	\$5.61 (Cdn\$5.75)	Dec. 27, 2015	460,113
Dec. 14, 2011	1,541,947	4.50 years	\$13.70 (Cdn\$14.04)	Dec. 13, 2016	-
	7,726,388				4,387,541

Restricted Stock Units

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

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	205,628	2.50 years	\$12.93	Dec. 14, 2014

Off-Statement of Financial Position Arrangements

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

Related Party Transaction

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

Commitments and Contingencies

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

Subsequent Events

The Company signed an agreement on July 9, 2012 to extend use of the Atwood Vicksburg drilling rig through to December 31, 2013. Under this agreement the Company will incur an average cost of \$110,000 per day.

In early July the Company purchased the production facilities which are in place at Bua Ban North A. The Company currently has a letter of intent in place to purchase the production facilities at Bua Ban North B.

Following quarter end, the Company released the results of an interim third party reserves evaluation by its reserve auditor, RPS Energy Ltd. Total company 2P reserves increased to 149.1 mmbob from 102.1 mmbob at December 31, 2011. The higher reserves were driven by results of core analyses performed in



the first quarter which indicated water saturation levels at Bua Ban North are lower than previous estimates, increasing the oil in place and reserves estimates. Additional appraisal drilling results from the first quarter also improved the oil in place and reserves estimates. The Company also received 5.3 mmbbl of 2P reserves at Bua Ban South as well as increased reserve estimates at Songkhla A and Bua Ban Main due to better than expected performance.

Critical Accounting Policies, Estimates and New Accounting Pronouncements

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

Risks and Uncertainties

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

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

Industry

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

Petroleum and Gas Prices

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

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

Operating Hazards and Risks

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



Reserve Estimates

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

Disruptions in Production

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

Cash Flows and Additional Funding Requirements

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

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

Environmental

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

Laws and Regulations

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

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

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



Title to Oil and Gas Properties

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

Dependence on Management

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

Apico Financial Reporting

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

Risk Management and Financial Instruments

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

Certification of Disclosures in Interim Filings

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

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

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

Outlook

Following drilling at the Buried Hill prospect (Songkhla J), the rig is going to mobilize to Songkhla A and then to Bua Ban South to drill additional appraisal and development wells for the remainder of the year.

Coastal is currently working to secure an additional drilling rig to accelerate its exploration program.

The Company is also continuing to evaluate production facilities to purchase to reduce operating costs and serve as a tax shield.



Condensed Interim Consolidated Statements of Operations and Comprehensive Income

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues and Other Income				
Oil sales	194,639	64,628	383,718	137,184
Royalties	(20,514)	(5,018)	(40,757)	(10,863)
Oil sales, net of royalties	174,125	59,610	342,961	126,321
Other income (Note 11)	9,778	(2,027)	(393)	(23,111)
	183,903	57,583	342,568	103,210
Expenses				
Production	41,164	17,124	77,374	39,342
Depreciation and depletion (Note 6)	18,590	11,698	38,634	24,984
Net profits interest (Note 12)	869	-	869	-
General and administrative	7,057	6,457	15,384	11,720
Exploration (Note 5)	286	931	286	6,484
Debt financing fees	195	31	632	265
Finance	351	1,201	1,201	2,363
	68,512	37,442	134,380	85,158
Net income before income taxes, share of net income from Apico LLC				
	115,391	20,141	208,188	18,052
Share of net income from Apico LLC (Note 7)	5,497	4,272	9,504	7,528
Net income before income taxes	120,888	24,413	217,692	25,580
Income taxes (Note 14)				
Current	45,289	-	81,897	-
Deferred	32,095	12,005	43,798	15,188
	77,384	12,005	125,695	15,188
Net income and comprehensive income	43,504	12,408	91,997	10,392
Net income and total comprehensive income attributable to:				
Shareholders of Coastal Energy	42,150	11,816	90,285	9,454
Non-controlling interest	1,354	592	1,712	938
	43,504	12,408	91,997	10,392
Net income per share:				
Basic (Note 13)	0.37	0.11	0.79	0.08
Diluted (Note 13)	0.36	0.10	0.76	0.08

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	June 30 2012	December 31, 2011
	\$	\$
Assets		
Current Assets		
Cash	116,646	22,995
Restricted cash (Note 3)	6,393	28,447
Accounts receivable (Note 4)	28,170	16,939
Derivative asset (Note 10)	48	59
Crude oil inventory	12,281	11,304
Marine fuel inventory	3,772	2,857
Prepays and other current assets	1,056	1,094
Total current assets	<u>168,366</u>	<u>83,695</u>
Non-Current Assets		
Exploration and evaluation assets (Note 5)	55,101	31,881
Property, plant and equipment (Note 6)	410,420	355,052
Investment in and advances to Apico LLC (Note 7)	66,452	47,698
Deposits and other assets	274	405
Total non-current assets	<u>532,247</u>	<u>435,036</u>
Total Assets	<u><u>700,613</u></u>	<u><u>518,731</u></u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	159,218	59,471
Current portion of long-term debt (Note 10)	17	55,662
Current portion of derivative liabilities (Note 10)	3,935	14,557
Derivative liability - Warrants (Note 9)	2,408	2,853
Total current liabilities	<u>165,578</u>	<u>132,543</u>
Non-Current Liabilities		
Long-term debt (Note 10)	47,482	22,156
Non-current portion of derivative liabilities (Note 10)	-	1,274
Deferred tax liabilities	113,565	69,767
Decommissioning liabilities	46,124	42,124
Total Non-Current Liabilities	<u>207,171</u>	<u>135,321</u>
Shareholders' Equity (Note 13)		
Common shares	211,702	211,554
Contributed surplus	18,804	16,401
Retained earnings	92,156	17,630
Total Shareholders' Equity	<u>322,662</u>	<u>245,585</u>
Non-controlling interest	5,202	5,282
Total equity	<u>327,864</u>	<u>250,867</u>
Total liabilities and equity	<u><u>700,613</u></u>	<u><u>518,731</u></u>

Commitments and contingencies (Note 16)

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



Condensed Interim Consolidated Statements of Cash Flows

(Unaudited) US \$000's

	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Operating activities				
Net income	43,504	12,408	91,997	10,392
Adjustments:				
Share of net income from Apico LLC	(5,497)	(4,272)	(9,504)	(7,528)
Unrealized (gain) loss on derivative instruments	(15,892)	(7,674)	(11,885)	10,513
Depletion and depreciation	18,590	11,698	38,634	24,984
Finance expense	195	1,417	1,201	2,363
Amortisation of debt financing fees	351	31	632	265
Share-based compensation	1,645	3,624	4,636	5,746
Deferred income taxes	32,095	12,005	43,798	15,188
Unrealized foreign exchange (gain) loss	(158)	308	(66)	457
Exploration expense	286	931	286	6,484
Income taxes paid	(129)	-	(129)	-
Interest received	1	1	3	2
Interest paid	(531)	(1,982)	(1,252)	(2,294)
Earnings Distributions from Apico LLC	-	1,265	-	2,168
	74,460	29,760	158,351	68,740
Change in non-cash working capital:				
Accounts receivable	4,306	13,128	(11,231)	(1,793)
Inventory	3,584	(5,142)	(1,892)	(4,312)
Prepays and other current assets	(710)	45	38	480
Accounts payable and accrued liabilities	11,124	(5,223)	(8,233)	890
Current income taxes payable	45,160	-	81,768	-
Cash flow provided by operating activities	137,924	32,568	218,801	64,005
Financing Activities				
Issuance of common shares, net of issuance costs	1,034	749	2,026	5,442
Repurchase of shares	(15,033)	-	(15,033)	-
Borrowings under long-term debt	-	-	-	6,275
Repayment of long-term debt	-	-	(30,000)	-
Loan arrangement fees	(222)	(348)	(968)	(348)
Distributions to non-controlling interest	(1,792)	-	(1,792)	(156)
Other	-	(375)	-	(375)
Cash flow (used in) provided by financing activities	(16,013)	26	(45,767)	10,838
Investing Activities				
Decrease (increase) in restricted cash	18	(11,036)	22,054	(4,503)
Expenditure on property, plant and equipment	(45,698)	(33,422)	(90,927)	(69,892)
Acquisition of increased ownership interest in Apico LLC	-	-	(9,250)	-
Advances to Apico LLC	-	(1,446)	-	(1,446)
Deposits and other assets	131	40	131	(3)
Cash flow used in investing activities	(45,549)	(45,864)	(77,992)	(75,844)
Effect of exchange rate changes on cash	(616)	(456)	(1,391)	(697)
Increase (decrease) in cash	75,746	(13,726)	93,651	(1,698)
Cash - Beginning of period	40,900	15,912	22,995	3,884
Cash - End of period	116,646	2,186	116,646	2,186

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 \$	Warrants \$	Retained earnings / (accumulated deficit) \$	Attributable to shareholders of Coastal Energy Company \$	Non Controlling- Interest \$	Total \$
Balance as at December 31, 2010	13	201,303	15,971	-	(29,729)	187,545	6,559	194,104
Net income and total comprehensive income		-	-	-	9,454	9,454	938	10,392
Exercise of stock options		7,036	(1,594)	-	-	5,442	-	5,442
Exercise of warrants		50	-	(50)	-	-	-	-
Share-based compensation		-	1,363	-	-	1,363	-	1,363
Transfer to contributed surplus		-	(50)	50	-	-	-	-
Distributions to non-controlling interest		-	-	-	-	-	(156)	(156)
Balance at June 30, 2011		208,389	15,690	-	(20,275)	203,804	7,341	211,145
Net income and total comprehensive income		-	-	-	37,905	37,905	343	38,248
Exercise of stock options		3,165	(700)	-	-	2,465	-	2,465
Share-based compensation		-	1,411	-	-	1,411	-	1,411
Distributions to non-controlling interest		-	-	-	-	-	(2,402)	(2,402)
Balance as at December 31, 2011	13	211,554	16,401	-	17,630	245,585	5,282	250,867
Net income and total comprehensive income		-	-	-	90,285	90,285	1,712	91,997
Exercise of stock options		2,563	(537)	-	-	2,026	-	2,026
Shares repurchased and cancelled		(2,415)	-	-	(15,759)	(18,174)	-	(18,174)
Share-based compensation		-	2,940	-	-	2,940	-	2,940
Distributions to non-controlling interest		-	-	-	-	-	(1,792)	(1,792)
Balance as at June 30, 2012	13	211,702	18,804	-	92,156	322,662	5,202	327,864

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



Notes to the Condensed Interim Consolidated Financial Statements

As at June 30, 2012 and for the three and six months ended June 30, 2012 and 2011
(All tabular amounts are expressed in US\$000's unless otherwise stated except share and per share amounts)

Note 1. Reporting entity

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

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

Note 2. Basis of presentation

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

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

The interim consolidated financial statements were approved by the Audit Committee of the Company's Board of Directors on August 9, 2012.

Note 3. Restricted cash

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

As at	June 30, 2012	December 31, 2011
Collateral in support of corporate letter of credit (Note 16)	\$1,399	\$1,400
Restricted in support of long-term debt	4,994	27,047
	\$6,393	\$28,447

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

Note 4. Accounts receivable

As at	June 30, 2012	December 31, 2011
Oil sales	\$7,545	\$-
Refundable taxes (VAT)	19,079	16,115
Other	1,546	824
	\$28,170	\$16,939

Note 5. Exploration and evaluation assets

	Exploration and Evaluation
Cost and Net Book Value	
As at December 31, 2010	\$31,068
Additions	145,363
Transfers to Property, plant and equipment	(136,176)
Exploration expense	(8,374)
As at December 31, 2011	31,881
Additions	23,506
Exploration expense	(286)
As at June 30, 2012	\$55,101

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

During the three and six months ended June 30, 2012, the Company expensed \$0.29 million of exploration costs (2011: \$0.93 million and \$6.48 million respectively, expensed in relation to non-commercial results at Benjarong).

Note 6. Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
Cost				
As at December 31, 2010	\$10,706	\$276,488	\$1,584	\$288,778
Additions	-	32,001	1,134	33,135
Disposals	(10,706)	(1,427)	-	(12,133)
Transfers from Exploration and evaluation assets	-	136,176	-	136,176
As at December 31, 2011	-	443,238	2,718	445,956
Additions	17,788	75,046	369	93,203
As at June 30, 2012	\$17,788	\$518,284	\$3,087	\$539,159

Accumulated depletion, depreciation and impairment

As at December 31, 2010	10,706	30,911	913	42,530
Depletion and depreciation	-	59,447	351	59,798
Disposals	(10,706)	(718)	-	(11,424)
As at December 31, 2011	-	89,640	1,264	90,904
Depletion and depreciation	-	37,494	341	37,835
As at June 30, 2012	\$-	\$127,134	\$1,605	\$128,739

Carrying amount

As at December 31, 2011	\$-	\$353,598	\$1,454	\$355,052
As at June 30, 2012	\$17,778	\$391,150	\$1,482	\$410,420

During the six months ended June 30, 2012, \$3.61 million of costs associated with decommissioning liabilities are included within additions (year ended December 31, 2011: \$24.96 million addition).

Depletion and depreciation expense recognized in property, plant and equipment for the three and six months ended June 30, 2012 was \$16.18 million and \$37.84 million respectively (2011: \$12.48 million and \$26.78 million respectively), whereas the charge for depletion and depreciation expense recognized in the consolidated statement of operations and comprehensive income was \$18.59 million and \$38.63 million respectively (2011: \$11.70 million and \$24.98 million respectively). The difference relates to an inventory adjustment for crude oil produced but not yet sold.

Assets under construction

The Company purchased the 'Richmond', a submersible drilling rig in March 2012. As of June 30, 2012 the rig was in the process of being transported from Texas to the Far East, where refurbishment activities are due to commence early in the third quarter.

Note 7. Investment in and advances to Apico LLC

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

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

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

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

As at	June 30, 2012	December 31, 2011
Balance, beginning of period	\$47,698	\$47,261
Acquisition of additional ownership interest	9,250	-
Advances during the period	-	1,446
Share of earnings, net of income taxes	9,808	15,583
Amortization of excess basis in Apico	(304)	(1,056)
Earnings distributions	-	(15,536)
Balance, end of period	\$66,452	\$47,698

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

As at	June 30, 2012	December 31, 2011
Current assets	\$32,218	\$19,419
Non-current assets	116,309	109,733
Current liabilities	24,801	30,694
Non-current liabilities	2,661	2,731

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

	Three months ended		Six months ended	
	June 30, 2012	2011	June 30, 2012	2011
Revenue	\$27,848	\$27,618	\$49,312	\$47,587
Expenses	3,693	6,766	7,659	11,526
Income taxes	9,488	8,098	16,380	13,525
Net income	14,667	12,754	25,273	22,536

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

Note 8. Accounts payable and accrued liabilities

As at	June 30, 2012	December 31, 2011
Trade payables	\$33,779	\$34,252
Accrued payables	42,452	23,084
Income taxes payable	81,847	79
Other	1,140	2,056
	\$159,218	\$59,471

Included within accrued payables is an accrual of \$7.05 million for the fair value of vested stock appreciation rights (SARs) (December 31, 2011: \$6.17 million). The Company incurred a liability of \$0.29 million and \$2.07 million for the three and six months ended June 30, 2012 (2011: \$3.31 million and \$4.94 million, respectively). Of this, \$0.06 million and \$0.27 million for the three and six months ended June 30, 2012 (2011: \$0.13 and \$0.43 million, respectively) was capitalized to property, plant and equipment.

The fair value of these instruments was determined using the Black-Scholes model based on observable market prices. The full fair value of granted SARs units at June 30, 2012 is \$11.68 million (December 31, 2011: \$13.17 million). The Company considers the fair value used in valuing these instruments to be Level 2, as defined in Note 18.

No SARs have been granted in 2012.



Note 9. Derivative liability - Warrants

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

As at	June 30, 2012	December 31, 2011
Risk free interest rate as per US Treasury Bonds	0.33%	0.25%
Share price (Canadian dollars)	\$13.40	\$14.07
Remaining term of the warrants	1.58 years	2.08 years
Volatility	40%	40%

Note 10. Long term debt

As at	June 30, 2012	December 31, 2011
Revolving debt facility	\$100,000	\$80,000
Unused portion of debt facility	(50,000)	-
Total debt drawn down	50,000	80,000
Unamortised debt issue costs	(2,518)	(2,191)
Carrying value of long-term	47,482	77,809
Current portion of long-term debt	-	(55,653)
Non-Current portion of long-term debt	47,482	\$22,156

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

As at	June 30, 2012	December 31, 2011
Principal	\$-	\$55,653
Interest	17	9
	\$17	\$55,662

BNP Paribas debt facility

In Q1 2012 the Company has amended the terms of the revolving debt facility with BNP Paribas ("BNP") and including Commonwealth Bank of Australia. This has seen the facility increase from \$80.0 million to \$100.0 million, an extension of the amortization period of the borrowing base, and a significant lessening of the terms required to utilize cash balances held with the lender. The facility is due to amortize through to the earlier of June 30, 2016 or the reserve tail date. As part of this revision the Bua Ban North field was added to the borrowing base.

The effective interest rate for the three and six months ended June 30, 2012 was 3.77% and 3.81% respectively (2011: 4.42% and 4.44%, respectively) per annum.

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

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	Notional Volumes	Term	Average Strike Price	Fair value of asset (liability)
Long Puts				
Brent	886,000	Jul. 2012 – Sep. 2013	\$72.85/bbl	\$651
Short Calls				
Brent	802,000	Jul. 2012 – Sep. 2013	\$109.31/bbl	(4,586)
Fair value of derivative assets (liabilities)				\$(3,935)

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

	June 30, 2012	December 31, 2011
Current portion	(\$3,935)	(\$14,557)
Non-current portion	-	(1,274)
Total fair value of derivative liabilities	(\$3,935)	(\$15,831)

In the fourth quarter 2010, the Company entered into a contract to swap 50% of its expected LIBOR interest rate exposure from floating to fixed over a 30 month period commencing January 1, 2011 at 1.10% per annum. The carrying value of this derivative asset is \$0.06 million as of June 30, 2012 (December 31, 2011: \$0.06 million derivative asset).

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

	Three Months ended June 30,		Six Months ended June 30,	
	2012	2011	2012	2011
Realized losses on crude oil price derivative contracts	\$(5,958)	\$(8,615)	\$(11,110)	\$(11,015)
Unrealized gains (losses) on crude oil price derivative contracts	15,927	7,709	11,896	(10,557)
Unrealized (losses) gains on interest rate swap	(35)	35	(11)	44
	\$9,934	\$(871)	\$775	\$(21,528)

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 11. Other income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Change in fair value of derivative contracts (Note 10)	\$9,934	(\$871)	\$775	(\$21,528)
Interest	1	1	3	2
Foreign exchange losses	(157)	(1,157)	(1,171)	(1,585)
	\$9,778	(\$2,027)	(\$393)	(\$23,111)

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Note 12. Related parties

Major Subsidiaries and Apico LLC

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

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

Note 13. Equity

Common Shares

Authorized share capital consists of 250,000,000 common shares with a par value of \$0.04 each. Each share carries equal voting rights, is non-preferential and participates evenly in the event of a dividend payment or in the winding up of the Company. At June 30, 2012, 112,987,045 common shares were issued and fully paid (December 31, 2011: 113,605,881 shares).

During Q2 2012, the Company repurchased 1,258,450 common shares through the facilities of the TSX and other Canadian market places under a normal course issuer bid ('NCIB') at an average cost of \$14.02 per share (Cdn\$ 14.44 per share) for a total repurchase cost of \$17.65 million. The book value of the common shares repurchased was \$1.83 per share for a total book value of \$2.35 million that was recorded to share capital. The residual amount of \$15.29 million was recorded directly to retained earnings. All of the common shares under the NCIB were cancelled. The NCIB will terminate on the earliest of the purchase of 5,715,972 common shares, Coastal providing a notice of termination, and May 24, 2013. Any common shares purchased pursuant to the Normal Course Issuer Bid will be cancelled by the Company.

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

Stock Options

The Company has a stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the number of shares reserved for issuance of options combined with restricted stock units (discussed below) may not exceed 10% of the total shares issued and outstanding. At June 30, 2012 there remained available for future issuance 3,366,689 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:

	June 30, 2012		December 31, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	8,545,717	\$5.79	10,794,987	\$3.47
Options granted	-	-	1,591,947	\$13.58
Options exercised	(815,597)	\$2.97	(3,602,288)	\$2.15
Options forfeited	(3,732)	\$5.04	(238,929)	\$4.74
Balance, end of period	7,726,388	\$6.08	8,545,717	\$5.79

For share options exercised in the six months ended June 30, 2012 the weighted average share price at the date of exercise was \$16.17 (year ended December 31, 2011: \$8.78).

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

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2008	167,770	0.50 years	\$3.76 (Cdn\$3.85)	Jan. 26, 2013	167,770
May 05, 2008	25,000	0.83 years	\$4.23 (Cdn\$4.34)	May 06, 2013	25,000
Jul. 14, 2008	42,500	1.00 years	\$3.52 (Cdn\$3.61)	Jul. 15, 2013	42,500
Sep. 16, 2008	100,000	1.25 years	\$2.21 (Cdn\$2.27)	Sep. 16, 2013	100,000
Sep. 23, 2008	898,000	1.50 years	\$3.84 (Cdn\$3.94)	Feb. 05, 2013	898,000
Jan. 02, 2009	1,269,929	1.50 years	\$1.32 (Cdn\$1.35)	Jan. 01, 2014	1,269,929
Dec. 01, 2009	2,217,950	2.50 years	\$5.00 (Cdn\$5.13)	Nov. 30, 2014	1,424,229
Dec. 28, 2010	1,463,292	3.50 years	\$5.61 (Cdn\$5.75)	Dec. 27, 2015	460,113
Dec. 14, 2011	1,541,947	4.50 years	\$13.70 (Cdn\$14.04)	Dec. 13, 2016	-
	7,726,388				4,387,541

The above options are dilutive in 2012 and, therefore, have been taken into account in the per share calculations for that year. The options are anti-dilutive in 2011 and as such have been excluded from the comparative numbers.

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

For the three and six months ended June 30, 2012 the Company recorded stock option expenses of \$1.06 million and \$2.12 million, respectively (2011: \$0.68 million and \$1.37 million, respectively), of which \$0.06 million and \$0.12 million, respectively (2011: \$0.07 million and \$0.10 million, respectively) was capitalized.

Restricted Stock

The Company has a restricted stock plan (the "RS Plan") in compliance with the TSX's policy for granting restricted stock units ("RSUs"). Under the RS Plan, the number of shares reserved for issuance may, along with other stock plans, not exceed 10% of the total issued and outstanding shares of the Company. At June 30, 2012 there remained available for future issuance 3,366,689 RSUs, stock options or a combination thereof (December 31, 2011: 2,609,243). The vesting term of RSUs under the RS Plan is determined by the Company's Board of Directors. For the RSUs granted on December 14, 2011 one-third vest on each subsequent anniversary of the date of the grant. The changes in RSUs in 2012 were as follows:

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



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

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	205,628	2.5 years	\$12.93	Dec. 14, 2014

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

For the three months and six months ended June 30, 2012 the Company recorded RSU expenses of \$0.41 million and \$0.82 million, respectively (2011: \$nil), of which \$0.06 million and \$0.12 million, respectively (2011: \$nil) was capitalized. No RSU has vested as of June 30, 2012.

Contributed Surplus

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

Net Income per Share

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

	3 Months ended June 30,		6 Months ended June 30,	
	2012	2011	2012	2011
Weighted average common shares outstanding, basic	113,953,045	111,978,982	113,968,697	111,659,289
Effect of stock options and warrants	4,527,825	3,180,271	4,768,250	3,368,558
Weighted average common shares outstanding, diluted	118,480,870	115,159,253	118,736,947	115,027,847

The average market price used in the 'Effect of stock options and warrants' line in the above table was Cdn\$15.39 and Cdn\$16.49 for the three and six months ended June 30, 2012 (2011: Cdn\$6.53 and Cdn\$6.77, respectively). Upon translation to US dollars these amounts equate to \$15.10 and \$16.18 for the three and six months ended June 30, 2012 (2011: \$6.77 and \$7.02, respectively).

Note 14. Income taxes

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

	3 Months ended		6 Months ended	
	2012	2011	2012	2011
Current income tax expense				
Current year income tax expense	45,160	\$-	81,768	\$-
Adjustment in respect of prior years	129	-	129	-
Current income tax expense	45,289	-	81,897	-
Deferred tax expense				
Origination and reversal of temporary differences in the current year	18,998	12,005	30,701	15,188
Adjustment in respect of prior years	13,097	-	13,097	-
Deferred tax expense	32,095	12,005	43,798	15,188

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:



	3 Months ended		6 Months ended	
	2012	2011	2012	2011
Net income before income taxes	\$120,888	\$24,413	\$217,692	\$25,580
Thailand petroleum income tax statutory rate	50%	50%	50%	50%
Expected income tax expense computed at standard rates	60,444	12,207	108,846	12,790
Add (deduct) the tax effect of:				
Tax differential in other countries	(792)	(2,347)	(648)	(113)
Non-taxable/deductible expenses	1,112	1,200	246	959
Share-based compensation	145	-	290	-
Valuation allowance	377	(1,233)	1,015	(1,150)
Tax basis revaluation	925	2,178	773	2,702
Special Remuneratory Benefit - Thailand	2,076	-	2,076	-
Change in estimate (see note below)	13,097	-	13,097	-
Income tax expense	77,384	12,005	125,695	15,188
Consisting of:				
Current income tax expense	45,289	-	81,897	-
Deferred tax expense	32,095	12,005	43,798	15,188
Income tax expense	\$77,384	\$12,005	\$125,695	\$15,188

After filing the Company's 2010 Thai petroleum income taxes, the Company began reconciling the components of its income tax accounting accrual with the actual tax pools reported in the tax return. The revisions were completed in the current quarter resulting in an increase of \$13.1 million in the Company's deferred income tax charge.

Note 15. Segment reporting

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

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

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

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Segmented Income for the Six Months ended June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	\$-	\$342,961	\$-	\$342,961
Other Income	-	(12,249)	11,856	(393)
	-	330,712	11,856	342,568
Less: Expenses				
Production	-	77,374	-	77,374
Depreciation and depletion	-	38,083	551	38,634
Net profits interest	-	869	-	869
General and administrative	-	5,954	9,430	15,384
Exploration	-	286	-	286
Debt financing fees	-	-	632	632
Finance costs	-	394	807	1,201
Add: Net income from Apico LLC	9,504	-	-	9,504
Net Income before taxes	\$9,504	\$207,752	\$436	\$217,692

Segmented Capital Expenditure for the Six Months ended June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	\$-	\$67,173	\$45,909	\$113,082

Segmented Income for the Six Months ended June 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	\$-	\$126,321	\$-	\$126,321
Other Income	-	(23,124)	13	(23,111)
	-	103,197	13	103,210
Less: Expenses				
Production	-	39,342	-	39,342
Depreciation and depletion	-	24,906	78	24,984
General and administrative	-	1,904	9,816	11,720
Exploration	-	6,484	-	6,484
Debt financing fees	-	-	265	265
Finance costs	-	623	1,740	2,363
Add: Net income from Apico LLC	7,528	-	-	7,528
Net Income (Loss) before taxes	\$7,528	\$29,938	(\$11,886)	\$25,580

Segmented Capital Expenditure for the Six Months ended June 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	\$-	\$62,090	\$134	\$62,224

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Segmented Income for the Three Months ended June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	\$-	\$174,125	\$-	\$174,125
Other Income	-	(6,062)	15,840	9,778
	-	168,063	15,840	183,903
Less: Expenses				
Production	-	41,164	-	41,164
Depreciation and depletion	-	18,202	388	18,590
Net profits interest	-	869	-	869
General and administrative	-	2,601	4,456	7,057
Exploration	-	286	-	286
Debt financing fees	-	(156)	351	195
Finance costs	-	357	(6)	351
Add: Net income from Apico LLC	5,497	-	-	5,497
Net Income (Loss) before taxes	\$5,497	\$104,740	\$10,651	\$120,888

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

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	\$-	\$27,191	\$25,639	\$52,830

Segmented Income for the Three Months ended June 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	\$-	\$59,610	\$-	\$59,610
Other Income	-	(2,046)	19	(2,027)
	-	57,564	19	57,583
Less: Expenses				
Production	-	17,124	-	17,124
Depreciation and depletion	-	11,653	45	11,698
General and administrative	-	921	5,536	6,457
Exploration	-	-	931	931
Debt financing fees	-	-	31	31
Finance costs	-	294	907	1,201
Add: Net income from Apico LLC	4,272	-	-	4,272
Net Income (Loss) before taxes	\$4,272	\$27,572	(\$7,431)	\$24,413

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

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	\$-	\$34,250	\$105	\$34,355



Segmented Assets as at June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	\$66,452	\$-	\$-	\$66,452
PP&E and E&E carrying amount	-	411,877	53,644	465,521
Total Assets	\$66,452	\$574,770	\$59,391	\$700,613

Segmented Assets as at December 31, 2011

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

Note 16. Commitments and contingencies

Commitments and contingencies

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

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

Year	Drilling & Production Thailand	Drilling & Production Malaysia	G5/50	Other	Total
2012	\$31,145	\$39,000	\$5,300	\$216	\$75,661
2013	-	\$145,000	-	324	145,324
2014	-	\$100,000	-	131	100,131

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

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

Kapal, Banang, Meranti Cluster

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 (with 100% equity interest under the Small Field RSC) will be the operator of the KBM Cluster fields. As at June 30, 2012, in accordance with the Small Field RSC, Coastal was finalising an arrangement for a Malaysian company to participate in the Small Field RSC for a 30% equity interest.



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

Note 17. Capital management

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

As at	June 30, 2012	December 31, 2011
Total shareholders' equity	\$327,864	\$250,867
Long-term debt drawn	50,000	80,000
Working capital deficit (asset) excluding long-term debt drawn ⁽¹⁾	(2,805)	(6,814)
	\$375,059	\$324,053

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

As of June 30, 2012, the Company has utilized \$50.0 million of its \$100.0 million borrowing facility. Management believes it can access the equity and credit markets in the future should circumstances deem raising additional equity or debt is necessary.

The Company is in compliance with its debt covenants.

Note 18. Financial instruments and financial risk management

Financial Risk Management Objectives

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

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

Fair Values

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

The fair value of the Company's long-term debt as at June 30, 2012 was \$47.77 million (December 2011: \$70.70 million) when using the market LIBOR rate.

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

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



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

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

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

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

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

Credit Risk

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

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

The Company's accounts receivable and other consists primarily of 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	June 30, 2012	December 31, 2011
Cash	\$116,646	\$22,995
Restricted cash	6,393	28,447
Refundable taxes (UK, Thailand)	19,079	16,115
Trade receivable	7,545	-
Other accounts receivable	1,546	824
Derivative asset	48	59
	\$151,257	\$68,440

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

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

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

Liquidity Risk

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

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

	June 30, 2012				Total	December
	Within 1 year	1-2 Years	3-5 years	There after		31, 2011
Accounts payable and accrued liabilities	\$159,218	\$-	\$-	\$-	\$159,218	\$59,471
Long-term debt principal and interest	17	-	-	50,000	50,017	80,009
Derivative liabilities	3,935	-	-	-	3,935	15,831
Derivative liability – warrants	2,408	-	-	-	2,408	2,853
	\$165,578	\$-	\$-	\$50,000	\$215,578	\$158,164

Market Risk

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

(a) Currency Risk

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

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's costs are incurred principally in US dollar, Thai baht, UK Pounds and Canadian Dollars. The appreciation of non-US Dollar currencies against the US Dollar can increase the costs of operations and capital expenditures in US Dollar terms.

Based on the Company's net foreign currency exposures at June 30, 2012, a 10% depreciation or appreciation of the foreign currencies against the US dollar would result in a \$2.27 million (December 31, 2011: \$0.90 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These exposures are attributable to year-end payables and receivables denominated in currencies other than the US dollar.

(b) Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. Presently the Company's credit facility has an interest rate of LIBOR plus 350 bps. The Company monitors



its exposure to interest rates and is comfortable with its exposures given the relatively short-term of the interest rates on long-term debt. The terms of the Company's long-term debt obligation is described in Note 10. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling \$50.0 million at June 30, 2012 (December 31, 2011: \$80.0 million). A 100 basis point change in interest rates at the statement of financial position date would result in a \$0.50 million change in the Company's annual net income (2011: \$0.80 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 10.

The Company paid an average of 3.77% and 3.81%, respectively on its borrowings for the three and six months ended June 30, 2012 (2011: 4.42% and 4.44% respectively).

The Company earned an average of 0.01% and 0.01%, respectively on its short-term investments for the three and six months ended June 30, 2012 (2011: 0.04% and 0.05%, respectively).

(c) Commodity Price Risk

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

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

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 10. A 10% increase in prices of Brent as of June 30, 2012 would cause an increase in the derivative liability of \$2.96 million (2011: increase in liability of \$7.31 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of June 30, 2012 would cause a decrease in the liability of \$1.65million (2011: decrease of \$5.09 million).

(d) Other Price Risk

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

Note 19. Subsequent events

The Company signed an agreement on July 9, 2012 to extend use of the Atwood Vicksburg drilling rig through to December 31, 2013. Under this agreement the Company will incur an average cost of \$110,000 per day.

In early July the Company purchased the production facilities which are in place at Bua Ban North A. The Company currently has a letter of intent in place to purchase the production facilities at Bua Ban North B.

Following quarter end, the Company released the results of an interim third party reserves evaluation by its reserve auditor, RPS Energy Ltd. Total company 2P reserves increased to 149.1 mmbob from 102.1 mmbob at December 31, 2011.

NON-INDEPENDENT DIRECTOR

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

INDEPENDENT DIRECTORS

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

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

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

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

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

Committees of the Board:

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

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Lloyd Barnaby Smith, Non-Executive Chairman

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

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

TRADING SYMBOLS

CEN on TSX
CEO on AIM

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ABBREVIATIONS

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

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Commonwealth Bank of Australia

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