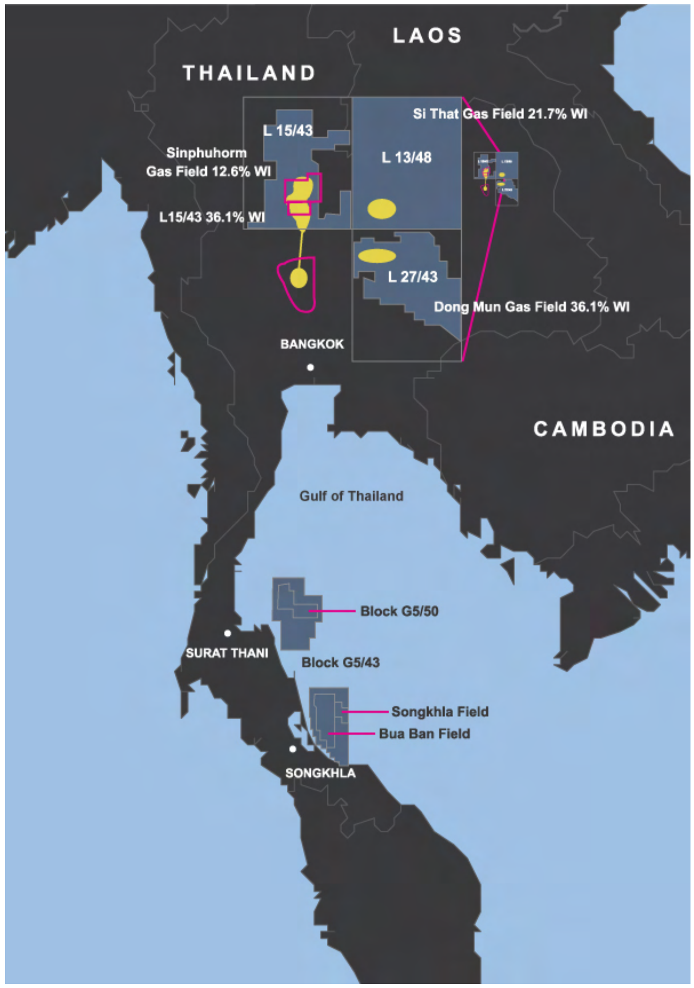
COASTAL ENERGY COMPANY
QUARTERLY REPORT
September 30, 2011

COASTAL ENERGY

COASTAL ENERGY COMPANY

Three and Nine Month Periods ended September 30, 2011



Coastal Energy's Oil & Gas Interests

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President's Report to the Shareholders

Dear Fellow Shareholders:

I'm pleased to report that the third quarter built further on the progress that Coastal has made year to date. We have continued to experience success with our exploration and appraisal program at Bua Ban North A & B. Most recently, the wells that have been drilled at Bua Ban North A have confirmed our thesis that the two fields are connected on the western side of the closure. This has proven a field stretching across over 6,000 acres with the best reservoir quality we have seen in the Songkhla basin.

We began production at Bua Ban North B in August and had the field fully online by early September. Production has outperformed our expectations thus far. We expect to begin production at Bua Ban North A later this month and fully expect to exit 2011 with over 20,000 bbl/d in offshore oil production.

In addition to the exploration success, Coastal has enjoyed further financial success in 2011. We have delivered EBITDAX that is 15% greater than in the first nine months of 2010. Third quarter EBITDAX was lower than it could have been due to significant crude oil inventory at the end of the quarter. This inventory will be realized in the fourth quarter and further bolster our financial results. We expect to continue to post significant production and EBITDAX increases in the coming quarters driven by our recent discoveries.

As we move closer to 2012, we continue to be excited by the Company's prospects. The success we have enjoyed with the Miocene at Bua Ban North has opened up multiple Miocene prospects in other parts of the basin. We plan to begin exploration at one of these, Bua Ban South, in late 2011/early 2012. Following exploration of Bua Ban South, we will continue exploring this prolific Miocene trend.

On behalf of the Board of Directors

Randy L. Bartley

President and Chief Executive Officer
November 11, 2011

COASTAL ENERGY

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

Financial and Operating Highlights

	3 months ended September 30,			9 months ended September 30,		
	2011	2010	% Change	**2011**	2010	% Change
Financial						
Crude oil revenue	**$81,670**	$68,688	19%	**$218,854**	$160,362	36%
EBITDAX [(1)]						
Per share – Basic	**$0.40**	$0.41	-2%	**$1.13**	$1.00	13%
Per share – Diluted	**$0.38**	$0.39	-3%	**$1.09**	$0.97	12%
Net Income						
Per share – Basic	**$0.17**	$0.23	-26%	**$0.25**	$0.45	-44%
Per share – Diluted	**$0.16**	$0.22	-27%	**$0.25**	$0.44	-43%
Capital expenditures, excluding onshore	**$46,697**	$29,092	61%	**$108,921**	$117,124	-7%
Total Assets				**$455,087**	$444,784	2%
Working capital deficit				**$41,841**	$6,446	549%
Weighted average common shares outstanding						
Basic	**112,572,270**	109,588,334	3%	**111,966,960**	109,391,597	2%
Diluted	**117,233,280**	113,235,224	4%	**115,745,887**	112,991,757	2%
Operations						
Operating netback ($/bbl) [(1) (2)]						
Crude oil revenue	**$103.02**	$67.25	**53%**	**$101.60**	$69.30	47%
Royalties	**7.94**	6.68	**19%**	**7.97**	5.89	35%
Production expenses	**34.25**	15.79	**117%**	**30.87**	15.27	102%
Operating netback	**$60.83**	$44.78	**36%**	**$62.76**	$48.14	30%
Average daily crude oil production (bbls) [(2)]	**10,191**	10,065	**1%**	**8,539**	8,360	2%

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

Third Quarter 2011 Highlights

- Total Company production increased slightly in Q3 to 12,028 boe/d from 11,795 boe/d in the same period last year. The Company's offshore production was bolstered by the discovery at Bua Ban North B, which came onstream throughout the third quarter. Production at Bua Ban North B exited Q3 at over 8,000 bbl/d. Production gains at Bua Ban North B were slightly offset by lower rates at Songkhla A due to temperature restrictions. Production at Songkhla A was restored to 6,000 bbl/d by the end of Q3 following installation of additional cooling units. Q3 average offshore production was 10,191 bbl/d and average onshore production was 1,837 boe/d.

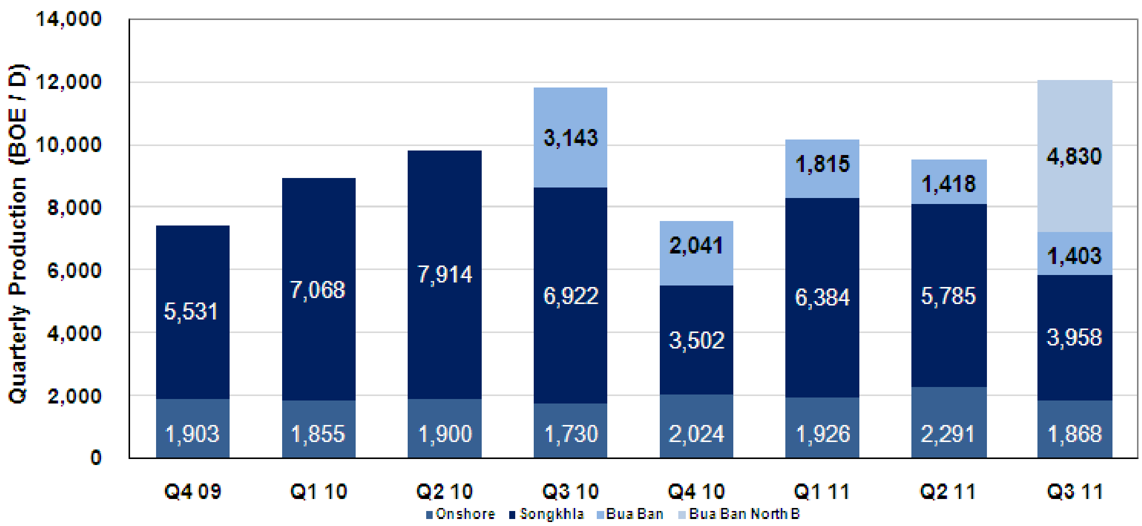
- EBITDAX for the nine months ending September 30, 2011 was $126.6 million, 15% above the same period in 2010. Revenue and EBITDAX were negatively impacted by lower lifting volumes during the period, which resulted in inventory of approximately 380,000 barrels at the end of Q3. Crude oil inventory was approximately 255,000 barrels higher than in the same period in 2010. This invesntory balance will be recognized in Q4.

- The Company announced several successful exploration and appraisal wells at Bua Ban North A. The Company now believes that Bua Ban North A & B are in communication on the western side of the structure. Completion and flow testing is expected to begin at Bua Ban North A in mid-Q4 2011.

- The Company announced successful exploration results at Songkhla H. The discovery well flow tested 1,000 bbl/d of oil without an electric submersible pump. The prospect is further evaluated and is expected to undergo further appraisal drilling in mid 2012.

- The Company received approval to list its shares on the main board of the Toronto Stock Exchange. Its Common Shares began trading on the TSX on July 5, 2011 under the ticker symbol "CEN".

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



Note: Bua Ban North B came onstream starting in August 2011

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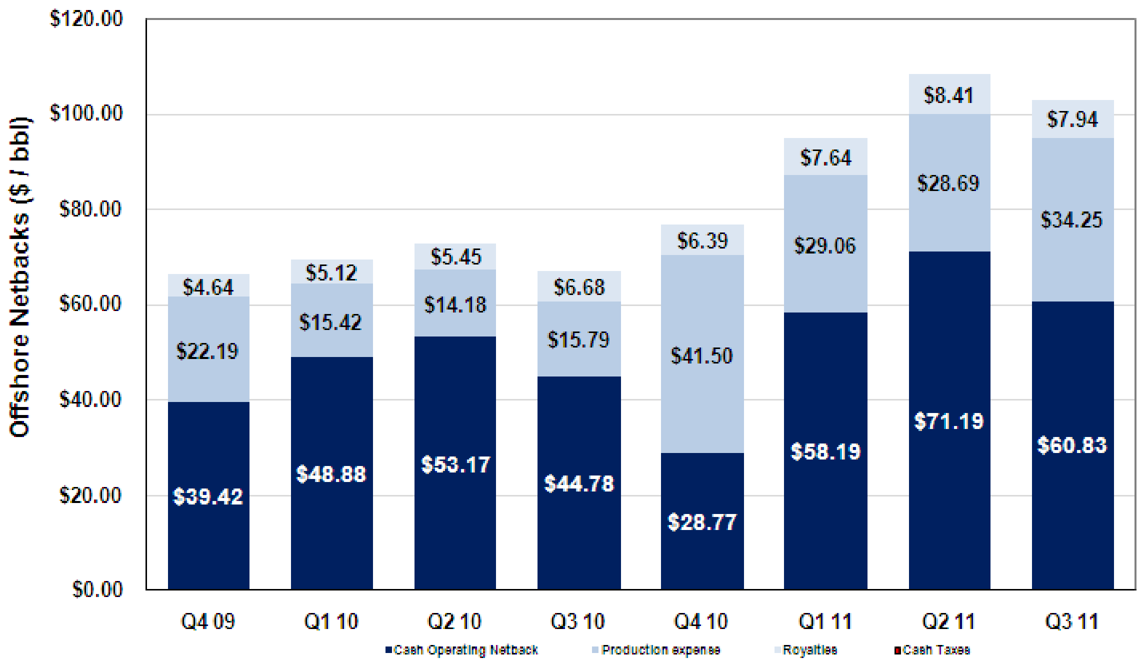
The following chart represents the Company's cash operating netback ($/bbl) for its offshore production since it began. Operating netback is based on sales volume and is a non-IFRS measure. See "Non-IFRS and Non-GAAP Measure" section within the MD&A.

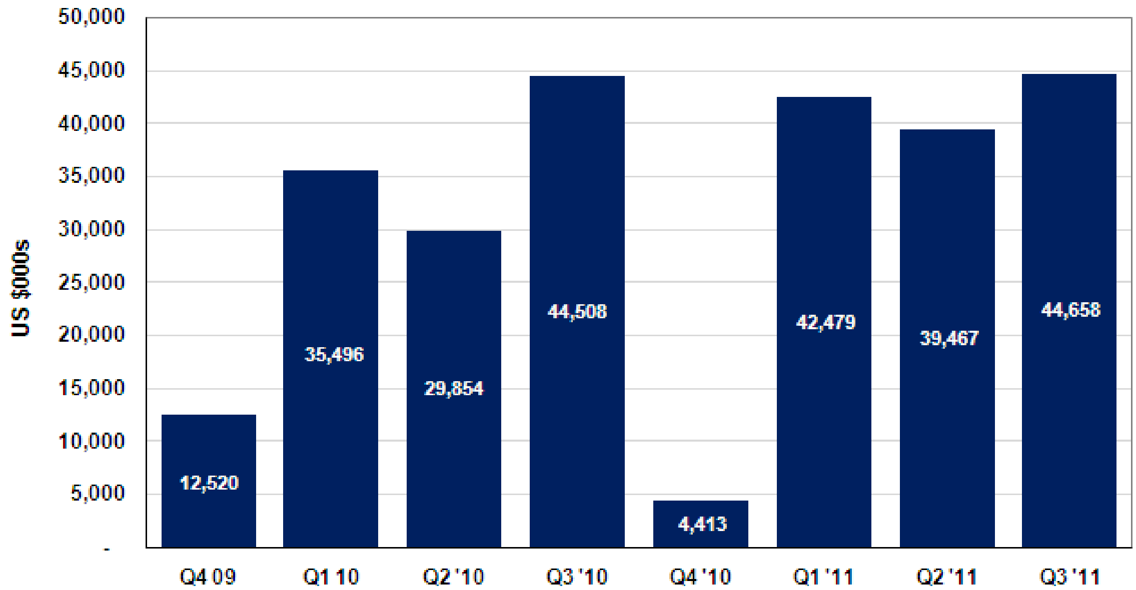


EBITDAX Computation	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4(a)
Net income (loss) attributable to shareholders	**$19,013**	**$11,816**	**$(2,362)**	**$(62,741)**	**$25,077**	**$12,526**	**$11,568**	**$2,009**
Add Back:								
Unrealized (gain) loss on derivative	**(15,019)**	**(7,744)**	**18,257**	**16,614**	**-**	**1**	**65**	**(284)**
Realized loss on derivative (c)	**3,837**	**8,615**	**2,400**	**1,567**	**-**	**-**	**-**	**-**
Interest income	**(2)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(2)**	**(5)**
Stock option expense	**587**	**607**	**618**	**545**	**615**	**676**	**683**	**567**
Unrealized foreign exchange (gain) / loss (b)	**(337)**	**308**	**149**	**297**	**2,158**	**(121)**	**(135)**	**1,008**
Interest expense	**913**	**1,201**	**1,162**	**1,272**	**722**	**749**	**732**	**677**
Debt financing fees	**258**	**31**	**234**	**256**	**23**	**119**	**124**	**205**
(Gain) loss on sale of assets	**(873)**	**-**	**-**	**-**	**-**	**-**	**-**	**148**
Depletion, depreciation and accretion	**13,308**	**11,698**	**13,286**	**11,658**	**8,343**	**3,684**	**5,973**	**7,457**
Taxation	**22,628**	**12,005**	**3,183**	**(40,857)**	**9,872**	**12,669**	**6,541**	**738**
Impairment and Settlement expense	**-**	**-**	**-**	**10,706**	**-**	**-**	**-**	**-**
Exploration	**345**	**931**	**5,553**	**62,786**	**26**	**91**	**9,267**	**-**
Other – IFRS transition	**-**	**-**	**-**	**2,311**	**(2,327)**	**(539)**	**680**	**-**
EBITDAX	**$44,658**	**$39,467**	**$42,479**	**$4,413**	**$44,508**	**$29,854**	**$35,496**	**$12,520**

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

(c) 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 lead to a revision of the Q4 2010 and Q1 2011 EBITDAX numbers. EBITDAX is a non-GAAP/non-IFRS measure.

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



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

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Operational Review

Gulf of Thailand Properties

Block G5/43 – Songkhla Basin

The Company holds a 100% working interest in Blocks G5/43 and G5/50 (the "Blocks") in the Gulf of Thailand. The current combined area of the Blocks is approximately 5,021 square kilometres and average water depths are approximately 70 feet. Block G5/50 contains approximately 554 square kilometers of acreage within the boundaries of Block G5/43.

Bua Ban North Field
The Bua Ban North A & B fields were discovered in 2011. Both fields discovered significant amounts of oil in the Miocene interval. These two discoveries have proven the commercial viability of the Miocene trend in the Songkhla basin.

Bua Ban North A is the southern field and was the first to be drilled. Following the initial discovery at Bua Ba North A, Bua Ban North B was discovered and the first phase of appraisal and development was completed during Q2 and Q3. Facilities were installed in Q3 and the Company began tying in the wells for production in August 2011. Bua Ban North B exited Q3 with approximately 8,000 bbl/d of oil production from seven wells.

Further appraisal and development drilling was then performed at Bua Ban North A. To date, a total of 10 wells have been drilled. Results of this appraisal drilling suggest that the two Bua Ban North fields are likely connected to one another on the western half of the structure. Production facilities are scheduled to arrive at Bua Ban North A in November and production will begin coming onstream at that time. The Company plans to continue appraisal and development drilling at both fields in Q4.

Bua Ban Main Field
Production from the field commenced in July 2010. Two of the wells, the A-03 and A-11, both encountered oil in the Miocene reservoir. This was the first time productive Miocene sands had been encountered in the Songkhla basin and laid the foundation for the successful Miocene exploration at Bua Ban North in 2011. Production from Bua Ban is currently averaging approximately 1,400 bbl/d. As of December 31, 2010, Bua Ban had proven and probable ("2P") oil reserves of 6 million barrels of oil.

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Songkhla Field

The Songkhla A field was the first field developed by the Company beginning in 2008. The Company is currently producing approximately 6,000 bbl/d at the Songkhla A field. Further appraisal and development drilling is scheduled for 2012. The Company plans to drill five to seven appraisal/development wells to exploit areas of the reservoir which were discovered in 2010. Two to three water injection wells will also be drilled to help maintain aquifer support. The Company expects to receive environmental approval for these wells in the fourth quarter of 2011.

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

Summary of Oil & Gas Properties	**Thailand Onshore**	**Producing Oil & Gas Properties**	**Totals**
Balance, December 31, 2010	**$47,261**	**$245,577**	**$292,838**
Additions during the period:			
Development, including ARO	1,446	71,815	73,261
Disposals	-	(710)	(710)
Equity earnings in Apico, net of distributions	3,095	-	3,095
Amortization / depletion	(887)	(38,479)	(39,366)
Balance September 30, 2011	**$50,915**	**$278,203**	**$329,118**

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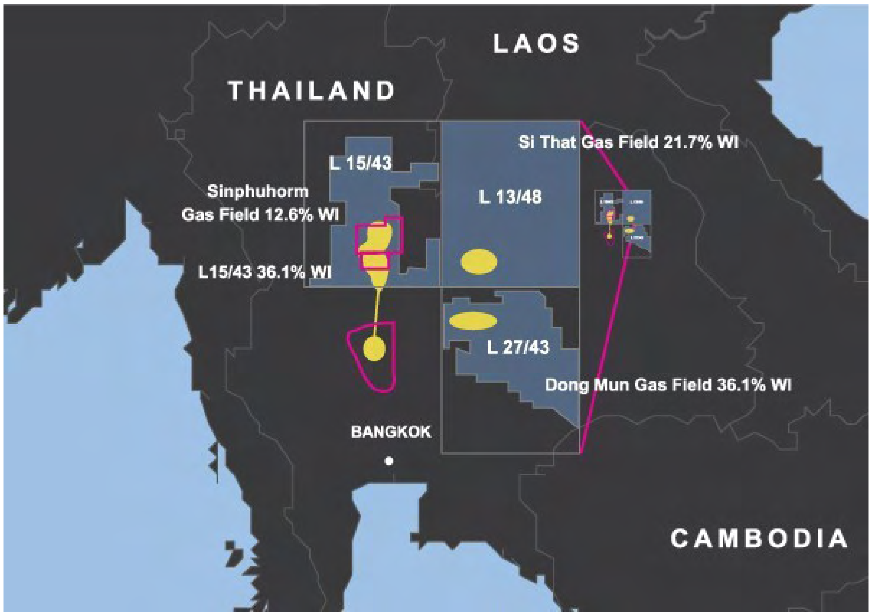
Thailand Onshore



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

Coastal holds a net working interest of 12.6% in Blocks EU-1 and E-5N onshore Thailand through its 36.1% equity investment in Apico, LLC, which holds a 35% non-operated working interest in the Blocks. Blocks EU-1 and E-5N contain the Sinphuhorm gas field. Production at Sinphuhorm commenced on November 30, 2006 to supply the Nam Phong power plant with over 500 billion cubic feet of gas, plus condensate, under a 15 year Gas Sales Agreement with PTT Public Company Limited. In the third quarter of 2011, the Sinphuhorm field delivered approximately 85.9 mmcf/d (10.9 mmcf/d net to Coastal) to Nam Phong. The field also produced 400 bbl/d (50 bbl/d net to Coastal) of condensate. As of December 31, 2010, Sinphuhorm had 2P reserves of 993.1 billion cubic feet ("bcf") of natural gas (139 bcf net to Coastal, 23.2 mmboe) and 5 mmbbls of oil (0.7 mmbbls net to Coastal), before royalties.

Coastal also holds a net 36.1% working interest in Block L27/43 (operated by Apico), which is located southeast of the L15/43 concession.

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

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Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the results and financial condition of Coastal Energy Company ("Coastal" or the **"**Company**"**). This MD&A, dated November 11, 2011, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and nine months ended September 30, 2011 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:

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 36.1% ownership of Apico LLC ("Apico"))	
Blocks EU-1 and E-5N containing the Sinphuhorm gas field	12.6%
Block L15/43 (surrounding the Sinphuhorm gas field)	36.1%
Block L27/43 (southeast of the Sinphuhorm gas field)	36.1%

Non-IFRS and Non-GAAP Measures

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

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

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Forward Looking Statements

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

Financial Review

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

Average Daily Production (boe/d)	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Songkhla	**3,958**	6,922	-43%	**5,367**	7,301	-26%
Bua Ban Main	**1,403**	3,143	-55%	**1,544**	1,059	46%
Bua Ban North B	**4,830**	-	-	**1,628**	-	-
Total Offshore Production	**10,191**	10,065	1%	**8,539**	8,360	2%
Sinphuhorm (via Apico)	**1,837**	1,730	6%	**2,001**	1,828	9%
Total Company	**12,028**	11,795	2%	**10,540**	10,188	3%

Offshore production increased from the prior year period as production from the Bua Ban North B field (which began coming onstream in August and exited the quarter at a rate of over 8,000 bbl/d) offset declines at Songkhla A and Bua Ban Main. Songkhla A production has since been restored to approximately 6,000 bbl/d following the installation of additional cooling equipment. Production from Bua Ban North A is expected to begin coming online in November. The Company expects further gains in production at Songkhla A following the drilling of additional development and water injection wells in 2012. Onshore production has continued to increase due to increasing gas demand in Thailand.

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

Crude Oil Inventory (bbls)	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Inventory Beginning of Period	**235,907**	221,667	6%	**203,983**	157,883	29%
+ Production	**937,583**	925,938	1%	**2,330,920**	2,282,197	2%
- Sales / Liftings	**792,736**	1,021,396	-22%	**2,154,149**	2,313,871	-7%
Inventory, End of Period	**380,754**	126,209	202%	**380,754**	126,209	202%

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. There was an inventory build up of 144,847 bbl during Q311.

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

Oil Sales, Average Benchmark and Realized Prices ($/bbl)	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Oil Sales	**$81,670**	$68,688	19%	**$218,854**	$160,362	36%
Dubai (Benchmark - $/bbl)	**$107.09**	$73.88	45%	**$106.24**	$75.95	40%
Sales Price per bbl Sold ($/bbl)	**$103.02**	$67.25	53%	**$101.60**	$69.30	47%
Sales Price as a Percentage of Dubai	**96%**	91%		**96%**	91%	

Revenue increased by 19% in Q311 over the same period in 2010, driven by a 53% increase in realized pricing. Revenue in quarter was negatively impacted due to the significant level of inventory at the end of Q3. The Company had over 380,000 bbl of crude oil inventory at quarter end, the revenue from which will be recognized in the fourth quarter. This is an increase from the 236,000 bbl which were in inventory at the beginning of the quarter and the 126,000 bbl which were in inventory at the end of Q3 2010.

The sales price for the Company's offshore oil is based on the Dubai benchmark price. The Company is receiving a higher percentage of its benchmark crude price as it has pursued an aggressive marketing strategy for its crude.

Royalties	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Royalties	**$6,295**	$6,828	-8%	**$17,158**	$13,632	26%
$ per bbl	**$7.94**	$6.68	19%	**$7.97**	$5.89	35%
Royalties as a percent of revenue	**7.7%**	9.9%		**7.8%**	8.5%	

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. Third quarter royalties increased on a per barrel basis owing to an increase in realized oil sales prices. Royalties as a percentage of revenue declined due to lower lifting volumes than the same period last year.

Other income	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Unrealized gain (loss) on derivative contracts	**$15,019**	$-	**-**	**$4,506**	($66)	**-**
Realized loss on derivative contracts	**(3,837)**	-	-	**(14,852)**	-	-
Interest income	**2**	1	-	**4**	4	-
Foreign exchange loss	**(467)**	(296)	-	**(2,052)**	(52)	-
Other income	**$10,717**	($295)	-	**($12,394)**	($114)	-

The Company has risk management contracts outstanding to hedge its exposure to interest rate and commodity price movements. These contracts were entered into as a condition of the Company's revolving credit facility. The Company adjusts the fair value of this risk management contract (mark to market) every quarter with the changes in fair value recognized in net earnings, as required under IFRS. Volatility in commodity pricing has translated into large swings in the Company's mark to market gains and losses. The Company realized losses of $3.8 million in the third quarter, which was lower than losses realized in either of the preceding quarters due to a decline in commodity pricing.

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The net derivative liability at September 30, 2011 may never be realized depending upon commodity price movements between September 30, 2011 and expiry of the final contract (September 2012).

Following the end of the quarter, the Company extended its hedging contracts in accordance with the debt facility agreement by adding approximately 800,000 bbl of production hedged via a $70.00 / bbl purchased put and a $119.10 / bbl sold call. This was a zero cost transaction for the Company. The collar runs from October 2011 through March 2013. The reference instrument is ICE Brent crude.

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 funds 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 the three and nine months ended September 30, 2011 is unrealised losses associated with cash retranslation of $0.5m and $1.2m, respectively.

Production	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Production expenses	**$30,432**	$14,855	105%	**$69,589**	$34,705	101%
Effect of change in inventory	**(3,284)**	1,269	-359%	**(3,099)**	625	-596%
	$27,148	$16,124	68%	**$66,490**	$35,330	88%
$ per bbl	**$34.25**	$15.79	117%	**$30.87**	$15.27	102%

The year over year increase in third quarter production expenses was driven by inclusion of Bua Ban North B operating expenses of approximately $4.8 million, increased repair and maintenance costs of $2 million due to storm damage, increased workover costs of $3.8 million and general oilfield price inflation.

The Company has experienced an increased in operating costs on a per barrel basis due to increased overall costs as well as production declines at Songkhla and Bua Ban Main throughout the first nine months of the year. Production at Songkhla was restored to back above 6,000 bbl/d at the end of Q3 after a new cooling unit was installed. The Company expects costs to decline on a per barrel basis going forward due to increased production levels from Bua Ban North B and the fact that a large portion of the Company's operating expenses are fixed.

Production expenses have increased in the first nine months of 2011 due to a number of factors, including the inclusion of a full nine months of Bua Ban Main operating costs versus only three months last year as well as the inclusion of two months of Bua Ban North B opex in 2011. Workover expense has increased to $11 million in the first nine months of 2011 versus $0.5 million in the same period last year. Repair and maintenance costs have also increased to approximately $2.5 million.

General and Administrative Expenses	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Salaries and benefits	**$5,617**	$3,007	87%	**$14,879**	$8,498	75%
Professional fees	**571**	409	40%	**1,158**	1,247	-7%
Office and general	**900**	395	128%	**1,798**	1,202	50%
Travel and entertainment	**393**	417	-6%	**1,059**	949	12%
Regulatory and transfer fees	**321**	106	203%	**628**	330	90%
Total general and administrative expenses	**$7,802**	$4,334	80%	**$19,522**	$12,226	60%

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

G&A expense increased over the same period last year due to higher overhead costs and higher stock based compensation expenses. Salaries & Benefits and Office & General expense has increased due to increased headcount. A significant driver of the Salaries & Benefit increase is related to the amount required to be accrued for Stock Appreciation Rights ("SARs") increased to $4.6 million from $1.5 million. SARs expense is tied to the Company's share price, which has seen a dramatic increase from C$4.00 to C$9.60 since September 30, 2010. Regulatory & Transfer fees are higher for the quarter and full year due to the Company's costs incurred in the required transition to IFRS standards as well as costs related to the Company's graduation to the main board of the Toronto Stock Exchange.

Exploration	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Unsuccessful exploration costs	**$345**	$26	-	**$6,829**	$9,384	-

The 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.

Finance costs	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Finance costs	**$913**	$722	26%	**$3,276**	$2,203	49%

Interest expense increased year over year as the Company had higher debt balances. Total debt (excluding interest) at September 30, 2011 was $80 million versus $56.2 million at September 30, 2010. The Company's average interest rate was 3.86% for the three months ended September 30, 2011 (2010: 3.81%). Interest expense includes interest on the Company's amounts due to shareholder (which were repaid in Q310) and long-term debt.

Depletion and Depreciation	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Oil and gas depreciation & depletion	**$11,860**	$9,103	30%	**$38,479**	$17,222	123%
Effect of change in inventory	**1,356**	(819)	-266%	**(435)**	603	-172%
Corporate depreciation	**92**	59	56%	**248**	175	42%
Depletion, depreciation, amortization and impairment expense	**$13,308**	$8,343	60%	**$38,292**	$18,000	113%
$ per bbl	**$16.79**	$8.17	-	**$17.78**	$7.78	-

In line with IFRS guidance, the depletion rate for Bua Ban Main was increased in 2011 due to the reduced reserves at December 31, 2010, which is the primary driver of the increase year on year. Depletion per barrel declined from $19.60 in Q2 2011 to $16.79 in Q3 2011. This is a result of production commencing at Bua Ban North B and using internally generated 2P reserve numbers to determine the depletion rate for this field.

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

Gains on disposal of property, plant and equipment	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Gains on disposal of property, plant and equipment	**$873**	-	-	**$873**	-	-

In Q3 2011, the Company disposed of the Ocean 66 drilling platform, which was undergoing refurbishment. After review, it was determined that the costs to complete the project far outweighed comparable costs to purchase an already refurbished unit. The sale of the unit resulted in a one-time gain of $0.2 million.

The remainder of the gain is attributable to the derecognition of finance lease obligations in Q3 2011 following the termination of a lease contract for production equipment.

Taxes	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Current tax expense (recovery)	**$135**	$(18)	-	**$135**	$-	-
Deferred income taxes	**22,493**	9,890	127%	**37,681**	29,082	30%
Taxes	**$22,628**	$9,872	129%	**$37,816**	$29,082	30%

The Company's future income tax liability primarily relates to Thai taxes and is denominated in Thai Baht.

Share of net income from Apico LLC	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Coastal's 36.1% of Apico's net income	**$4,710**	$2,968	59%	**$12,851**	$9,660	33%
Amortization of Coastal's excess basis	**(274)**	(259)	6%	**(887)**	(811)	9%
Earnings from Significantly Influenced Investee, net of taxes	**$4,436**	$2,709	64%	**$11,964**	$8,849	35%
100% Field Production volumes (mmcf/d)	**85.9**	80.7	7%	**93.5**	85.2	10%
12.6% net to Coastal (mmcf/d)	**10.7**	10.1	6%	**11.7**	10.7	9%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on Apico's quarterly reported net income. Apico experienced higher revenue in the three and nine months ended September 30, 2011 over the prior comparable periods due to increased natural gas demand in Thailand and higher realized gas pricing.

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

Net income	3 Months ended September 30,			9 Months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Net income and comprehensive income attributable to Coastal Energy	**$19,013**	$25,077	-24%	**$28,467**	$49,171	-42%
Basic earnings per share	**$0.17**	$0.23	-26%	**$0.25**	$0.45	-44%
Diluted earnings per share	**$0.16**	$0.22	-27%	**$0.25**	$0.44	-43%

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

Summary of Quarterly Results

	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4(a)
Revenues and Other Income								
Oil sales	**$81,670**	**$64,628**	**$72,556**	**$33,246**	**$68,688**	**$42,164**	$49,510	$28,926
Royalties	**(6,295)**	**(5,018)**	**(5,845)**	**(2,769)**	**(6,828)**	**(3,154)**	(3,650)	(2,027)
Gain (loss) on derivative	**11,182**	**(871)**	**(20,657)**	**(18,181)**	**-**	**(1)**	(65)	(282)
Interest income	**2**	**1**	**1**	**1**	**1**	**1**	2	5
Other income	**(467)**	**(1,157)**	**(428)**	**(913)**	**(296)**	**33**	211	(342)
	86,092	**57,583**	**45,627**	**11,384**	**61,565**	**39,043**	**46,008**	**26,280**
Expenses								
Production	**27,148**	**17,124**	**22,218**	**17,996**	**16,124**	**8,211**	10,995	9,689
Depreciation, Depletion, Amortization and Impairment	**13,308**	**11,698**	**13,286**	**22,364**	**8,343**	**3,684**	5,973	7,457
General and Administrative	**7,802**	**6,457**	**5,263**	**8,027**	**4,334**	**4,095**	3,797	8,144
Exploration	**345**	**931**	**5,553**	**62,786**	**26**	**91**	9,267	-
Debt financing fees	**258**	**31**	**234**	**256**	**23**	**119**	124	205
Finance expenses	**913**	**1,201**	**1,162**	**1,272**	**722**	**749**	732	677
Gains on disposal of property, plant and equipment	**(873)**	**-**	**-**	**-**	**-**	**-**	-	-
	48,901	**37,442**	**47,716**	**112,701**	**29,572**	**16,949**	30,888	26,172
Taxes	**22,628**	**12,005**	**3,183**	**(40,857)**	**9,872**	**12,669**	6,541	738
Share of net income (loss) from Apico LLC	**4,436**	**4,272**	**3,256**	**(917)**	**2,709**	**3,156**	2,984	2,577
Net income (loss) before non-controlling interests	**18,999**	**12,408**	**(2,016)**	**(61,377)**	**24,830**	**12,581**	11,563	1,947
Non Controlling interest	**14**	**(592)**	**(346)**	**(1,364)**	**247**	**(55)**	5	62
Net income (loss) attributable to Coastal Energy Company	**19,013**	**11,816**	**(2,362)**	**(62,741)**	**25,077**	**12,526**	**11,568**	**2,009**
EBITDAX(b)	$44,658	$39,467	$42,479	$4,413	$44,508	$29,854	$35,496	$12,520
Basic earnings (loss)	$0.17	$0.11	($0.02)	($0.57)	$0.23	$0.11	$0.11	$0.02
Diluted earnings (loss)	$0.16	$0.10	($0.02)	($0.57)	$0.22	$0.11	$0.10	$0.02

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

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

Significant factors influencing Quarterly Results include

- The volatility of global crude oil prices has a direct effect on the Company's revenue as well as unrealized gains or losses on risk management contracts. The Company realized a higher sales price year over year, but a lower sales price sequentially.
- The Company has incurred higher lease operating expenses 2011 due to a full nine months of Bua Ban Main operating expenses, the addition of production and associated expenses at Bua Ban North B as well as increased repair and maintenance expense related to storm damage.
- The Company has incurred higher general and administrative expenses as the substantial increase in the Company's stock price has increased its stock-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.

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Cash Flow Analysis

The Company's cash and cash equivalents at September 30, 2011 were $8.6 million, an increase of $4.7 million from $3.9 million at December 31, 2010. The Company's primary source of funds came from operations, shares issued for cash of $6.1 million from one-time option exercises, and $6.3 million increase in borrowings. Cash and cash equivalents were primarily used to fund property, plant and equipment expenditures of $115.5 million and to fund working capital.

Capital Expenditures

Capital expenditures (on an accruals basis) amounted to $46.7 million and $108.9 million for the three and nine months ended September 30, 2011, compared to $29.1 million and $117.1 million for the three and nine months ended September 30, 2010, respectively. The Q311 expenditures were almost entirely related to exploration drilling at Bua Ban North. The following table sets forth a summary of the Company's capital expenditures incurred:

	3 Months ended September 30,		9 Months ended September 30,	
Capital Expenditures	**2011**	2010	**2011**	2010
Seismic, geological and geophysical studies	**$1,036**	$1,166	**$2,691**	$2,904
Drilling and completions	**34,887**	24,513	**83,743**	73,744
Facilities	**3,914**	2,111	**4,858**	35,184
Lease and well equipment	**6,562**	1,296	**16,690**	5,126
Administrative assets	**298**	6	**939**	160
Other	**-**	-	**-**	6
Total Capital Expenditures	**$46,697**	$29,092	**$108,921**	$117,124

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 112,835,154 common shares outstanding.

Warrants

During the three months ended September 30, 2011, the Company issued no warrants, no warrants were forfeited and no warrants were exercised. Subsequent to September 30, 2011, no warrants were exercised. As of the date of this report the Company had 200,000 warrants outstanding at a weighted average exercise price of $1.10 per share.

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Stock Options

During the three months ended September 30, 2011, the Company granted no stock options; 53,324 options were forfeited and 285,261 options were exercised. Subsequent to September 30, 2011, 139,218 options were exercised and 62,137 options were forfeited. The following table summarizes the outstanding and exercisable options as of the date of this report:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	0.25 years	$2.19 (GBP 1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	447,000	0.25 years	$2.12 (Cdn$2.20)	Dec. 27, 2011	447,000
Jan. 25, 2008	307,500	1.25 years	$3.79 (Cdn$3.94)	Jan. 26, 2013	307,500
May 05, 2008	31,250	1.58 years	$4.27 (Cdn$4.44)	May 06, 2013	31,250
Jul. 14, 2008	77,500	1.75 years	$3.47 (Cdn$3.61)	Jul. 15, 2013	77,500
Sep. 16, 2008	100,000	2.00 years	$2.19 (Cdn$2.27)	Sep. 16, 2013	100,000
Sep. 23, 2008	1,000,000	2.25 years	$3.79 (Cdn$3.94)	Feb. 05, 2013	1,000,000
Jan. 02, 2009	1,933,246	2.25 years	$1.30 (Cdn$1.35)	Jan. 01, 2014	1,086,496
Dec. 01, 2009	2,353,915	3.25 years	$4.94 (Cdn$5.13)	Nov. 30, 2014	724,683
Dec. 28, 2010	1,526,284	4.25 years	$5.53 (Cdn$5.75)	Dec. 27, 2015	-
	7,801,695				3,799,429

Off-Statement of financial position Arrangements

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

Related Party Transaction

Effective September 25, 2006, the Company assumed a note payable to O. S. Wyatt, Jr., the shareholder of NuCoastal Thailand Limited ("NuCoastal") for $4.6 million. The original note was unsecured, accrued interest at 4% and was set to mature on July 20, 2007. The note and its accrued interest were periodically renegotiated. The note was fully repaid in Q3 2010.

Commitments and Contingencies

There have been no material changes in the Company's commitments and contingencies as described in the Management's discussion and Analysis for the year ended December 31, 2010 and also as described in Notes 20 to the unaudited condensed interim financial statements for the three and nine months ended September 30, 2011.

Subsequent Events

The Company drilled several successful appraisal wells at Bua Ban North A in the fourth quarter. The drilling results support the thesis that Bua Ban North A & B are likely connected on the western side of the structure. Further evaluation drilling is scheduled in Q4.

The Company extended its hedging program as a requirement of it credit facility. The Company entered into a costless collar transaction with a ceiling of $119 / bbl and a floor of $70 / bbl. The hedging agreement covers approximately 800,000 bbl of production over the period from October 2011 through March 2013.

Critical Accounting Policies, Estimates and New Accounting Pronouncements

A detailed summary of the Company's critical accounting policies and estimates is included in Note 3 to the unaudited financial statements for the three and nine months ended September 30, 2011. Given the transition to International Financial Reporting Standards we strongly advocate readers of this document read and understand the policies described in that document.

Risks and Uncertainties

Coastal has published its assessment of its business risks in the Risk Factor section of its Annual Information Form ("AIF") dated April 29, 2011 (available on SEDAR at www.sedar.com.) 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 to elect to insure itself against such liabilities due to the high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Reserve Estimates

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

Disruptions in Production

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

Cash Flows and Additional Funding Requirements

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

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

Environmental

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

Laws and Regulations

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

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

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

Title to Oil and Gas Properties

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

Dependence on Management

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

Apico Financial Reporting

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

Risk Management and Financial Instruments

Coastal provides a risk management and financial instruments discussion on its exposure to and management of credit risk, liquidity risk and market risk in Note 25 to the unaudited condensed interim financial statements for the three and nine months ended September 30, 2011.

Management's Report on Internal Control over Financial Reporting

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

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

As of June 30, 2011, the Company's common stock was listed and traded on the TSX-Venture exchange. Effective July 5, 2011, the Company's common stock was listed and began trading on the Toronto Stock Exchange and was simultaneously de-listed on the TSX-Venture exchange. With future financial filings, the Company's officers will be required to file their respective certificates under NI 52-109.

International Financial Reporting Standards Transition

Effective January 1, 2011, the Company began preparing its financial statements under International Financial Reporting Standards (IFRS). As such, the accounting policies of the Company have been adjusted to comply with IFRS beginning with the statement of financial position as at January 1, 2010. A comprehensive summary of all of the significant changes, including reconciliations of the Canadian GAAP financial statements to those prepared under IFRS, is presented in Note 26 "First Time Adoption of IFRS" of the Company's unaudited September 30, 2011 condensed interim financial statements.

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

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

	Three Months ended September 30, 2010	Nine Months ended September 30,2010
	$m	$m
Net Income under Canadian GAAP	9.2	28.0
Differences increasing (decreasing) reported net income:		
Unsuccessful exploration costs	-	(9.4)
Income Taxes	0.8	0.5
Foreign exchange	1.9	2.6
Depletion	13.1	28.3
Finance lease	(0.2)	(0.5)
Accretion	0.1	0.2
Property, Plant & Equipment	-	(1.1)
Share of joint venture's net income	0.2	0.6
Total Differences in Net Income	15.9	21.2
Net Income under IFRS	25.1	49.2

Net income for the three and nine months ended September 30, 2011 was $19.0 million and $28.5 million, respectively under IFRS. The significant IFRS accounting adjustments to net income include the write off of costs associated with the frac jobs at Benjarong (not commercially viable), and lower depletion due to the way we were required to allocate our property base upon transition to IFRS.

Outlook

Coastal anticipates further evaluation drilling at Bua Ban North A & B in the coming quarters. Production facilities are expected to arrive in early November at Bua Ban North A and production will begin coming onstream shortly thereafter.

Following the completion of drilling at Bua Ban North, the Company plans to continue exploration of its prospect inventory.

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COASTAL ENERGY COMPANY

Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Revenues and Other Income				
Oil sales, net of royalties (Note 16)	**75,375**	61,860	**201,696**	146,730
Other income (Note 17)	**10,717**	(295)	**(12,394)**	(114)
	86,092	61,565	**189,302**	146,616
Expenses				
Production	**27,148**	16,124	**66,490**	35,330
Depreciation and depletion (Note 7)	**13,308**	8,343	**38,292**	18,000
General and administrative	**7,802**	4,334	**19,522**	12,226
Exploration (Note 6)	**345**	26	**6,829**	9,384
Debt financing fees	**258**	23	**523**	266
Finance (Note 15)	**913**	722	**3,276**	2,203
Gains on disposal of property, plant and equipment	**(873)**	-	**(873)**	-
	48,901	29,572	**134,059**	77,409
Net income before income taxes, share of net income from Apico LLC and non-controlling interest	**37,191**	31,993	**55,243**	69,207
Share of net income from Apico LLC (Note 8)	**4,436**	2,709	**11,964**	8,849
Net income before income taxes and non-controlling interest	**41,627**	34,702	**67,207**	78,056
Income taxes (Note 21)				
Current	**135**	-	**135**	-
Deferred	**22,493**	9,872	**37,681**	29,082
	22,628	9,872	**37,816**	29,082
Net income and comprehensive income	**18,999**	24,830	**29,391**	48,974
Net (income) loss and comprehensive (income) loss attributable to non-controlling interest	**14**	247	**(924)**	197
Net income and comprehensive income attributable to the shareholders of Coastal Energy Company	**19,013**	25,077	**28,467**	49,171
Net income per share:				
Basic (Note 19)	0.17	0.23	0.25	0.45
Diluted (Note 19)	0.16	0.22	0.25	0.44

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

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

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
	$	$	$
Assets			
Current Assets			
Cash	**8,594**	3,884	21,229
Restricted cash	**14,525**	16,369	3,829
Accounts receivable (Note 4)	**16,894**	10,299	6,111
Derivative asset (Note 12)	**207**	135	66
Inventory (Note 5)	**16,255**	12,783	5,310
Prepaids and other current assets	**30**	606	526
Total current assets	**56,505**	44,076	37,071
Non-Current Assets			
Exploration and evaluation assets (Note 6)	**67,689**	31,068	44,907
Property, plant and equipment (Note 7)	**279,564**	246,248	189,534
Investment in and advances to Apico LLC (Note 8)	**50,915**	47,261	55,225
Deposits and other assets	**414**	289	300
Total non-current assets	**398,582**	324,866	289,966
Total Assets	**455,087**	368,942	327,037
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities (Note 9)	**57,526**	53,550	31,363
Deferred income (Note 10)	**-**	-	23,060
Current portion of long-term debt (Note 12)	**29,208**	36,262	10,266
Amounts due to shareholder (Note 11)	**-**	-	5,164
Obligations under finance leases	**-**	885	35
Current portion of derivative liabilities (Note 12)	**11,612**	10,141	-
Total current liabilities	**98,346**	100,838	69,888
Non-Current Liabilities			
Long-term debt (Note 12)	**48,918**	35,081	24,284
Obligations under finance leases	**-**	579	1,439
Non-current portion of derivative liabilities (Note 12)	**704**	6,609	-
Deferred tax liabilities	**49,566**	11,885	23,653
Decommissioning liabilities (Note 13)	**24,347**	17,655	4,071
Total Non-Current Liabilities	**123,535**	71,809	53,447
Shareholders' Equity (Note 19)			
Common shares	**209,279**	201,303	198,121
Contributed surplus	**16,092**	15,892	13,779
Warrants	**29**	79	153
Retained earnings (accumulated deficit)	**929**	(27,538)	(13,968)
Total Coastal Energy Company Shareholders' Equity	**226,329**	189,736	198,085
Non-Controlling Interest	**6,877**	6,559	5,617
Total equity	**233,206**	196,295	203,702
Total liabilities and equity	**455,087**	368,942	327,037

Commitments and contingencies (Note 20)

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Operating activities				
Net income attributable to the shareholders of Coastal Energy Company	**19,013**	25,077	**28,467**	49,171
Adjustments:				
Share of net income from Apico LLC	**(4,436)**	(2,709)	**(11,964)**	(8,849)
Non controlling interest	**(14)**	(247)	**924**	(197)
Unrealized (gain) loss on derivative instruments	**(15,019)**	-	**(4,506)**	66
Depletion and depreciation	**13,308**	8,343	**38,292**	18,000
Finance expense	**913**	722	**3,276**	2,203
Amortisation of debt financing fees	**248**	-	**513**	-
Stock-based compensation	**1,941**	720	**7,687**	3,871
Deferred income taxes	**22,493**	9,872	**37,681**	29,082
Unrealized foreign exchange loss	**(577)**	-	**(120)**	144
Exploration expense	**345**	26	**6,829**	9,384
Gains on disposal of property, plant and equipment	**(873)**	-	**(873)**	-
Income taxes paid	**(86)**	-	**(86)**	(6)
Interest income	**2**	1	**4**	4
Interest paid	**(405)**	(864)	**(2,699)**	(1,907)
Earnings distributions from Apico LLC	**7,588**	6,142	**9,756**	10,296
Change in non-cash working capital (Note 22)	**1,555**	(41,167)	**(3,180)**	(27,523)
	45,996	5,916	**110,001**	83,739
Financing Activities				
Issuance of common shares, net of issuance costs	**666**	166	**6,108**	2,052
Borrowings under long-term debt	**-**	58,727	**6,275**	58,727
Repayment of long-term debt	**-**	(28,571)	**-**	(34,550)
Loan arrangement fees	**(71)**	(2,521)	**(419)**	(2,521)
Repayment of amounts due to shareholder	**-**	(3,161)	**-**	(5,164)
Other	**(131)**	-	**(506)**	-
	464	24,640	**11,458**	18,544
Investing Activities				
Decrease (increase) in restricted cash	**6,347**	(4,342)	**1,844**	(3,550)
Purchase of property, plant and equipment	**(45,576)**	(10,970)	**(115,468)**	(100,834)
Advances to Apico LLC	**-**	-	**(1,446)**	-
Proceeds from disposal of property, plant and equipment	**250**	-	**250**	-
Deposits and other assets	**(122)**	-	**(125)**	(6)
(Payments to) deposits from non-controlling interest	**(450)**	-	**(606)**	750
	(39,551)	(15,312)	**(115,551)**	(103,640)
Effect of exchange rate changes on cash	**(501)**	(26)	**(1,198)**	(7)
Increase (decrease) in cash	**6,408**	15,218	**4,710**	(1,364)
Cash - Beginning of period	**2,186**	4,647	**3,884**	21,229
Cash - End of period	**8,594**	19,865	**8,594**	19,865

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

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

	Note	Common Shares	Contributed Surplus	Warrants	Retained earnings / (accumulated deficit)	Non Controlling Interest	Total
		$	$	$	$	$	$
Balance as at January 1, 2010	19	198,121	13,779	153	(13,968)	5,617	203,702
Net income and comprehensive income		-	-	-	49,171	-	49,171
Exercise of stock options		2,331	(569)	-	-	-	1,762
Exercise of warrants		364	-	(74)	-	-	290
Stock-based compensation		-	2,222	-	-	-	2,222
Net loss attributable to non-controlling							
interest		-	-	-	-	(197)	(197)
Contributions from non-controlling							
interest		-	-	-	-	750	750
Balance as at September 30, 2010	19	200,816	15,432	79	35,203	6,170	257,700
Net loss and comprehensive loss		-	-	-	(62,741)	-	(62,741)
Exercise of stock options		487	(130)	-	-	-	357
Stock-based compensation		-	590	-	-	-	590
Net income attributable to non-controlling							
interest		-	-	-	-	1,364	1,364
Distributions declared to non-controlling							
interest		-	-	-	-	(975)	(975)
Balance as at December 31, 2010	19	201,303	15,892	79	(27,538)	6,559	196,295
Net income and comprehensive income		-	-	-	28,467	-	28,467
Exercise of stock options		7,926	-	-	-	-	7,926
Exercise of warrants		50	(1,818)	(50)	-	-	(1,818)
Stock-based compensation		-	2,018	-	-	-	2,018
Net income attributable to non-controlling							-
interest		-	-	-	-	924	924
Distributions declared to non-controlling							-
interest		-	-	-	-	(606)	(606)
Balance as at September 30, 2011	19	209,279	16,092	29	929	6,877	233,206

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

Note 1. Reporting entity

Coastal Energy Company (Coastal, The Company) is an independent oil and gas exploration and development company with operations in offshore Thailand, and an interest in a joint venture which operates on the Thai mainland. The Company's shares are publicly traded on 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 preparation

Statement of compliance

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The Unaudited Condensed Interim Consolidated Financial Statements do not include all of the information required for annual financial statements. Amounts relating to the three and nine months ended September 30, 2010 and as at December 31, 2010 were previously presented in accordance with Canadian GAAP. These amounts have been restated as necessary to be compliant with the accounting policies under IFRS, which are included in Note 3. Reconciliations and descriptions relating to the transition from Canadian GAAP to IFRS are included in Note 26.

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

The unaudited condensed interim consolidated financial statements were approved for issue by the Audit Committee of the Board of Directors on November 11, 2011 under authority from the Company's Board of Directors.

Basis of measurement

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

Functional and presentational currency

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

Significant use of estimates and judgments

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

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

The key judgments adopted by management include (i) the selection of Thailand Offshore as being one CGU, (ii) the interpretation of production and drilling data in forming reserve estimates which form the basis for our depletion calculations and impairment reviews, (iii) the development plans to be adopted at each field, which will drive the future development cost component of the depletion calculation, (iv) the likely cost estimates and timing for development and abandonment activities, (v) the inflation rate used in the decommissioning liability calculation and (iv) assessment of the merits of individual matters when recognizing whether or not a liability should be recorded.

Note 3. Accounting policies

Significant accounting policies

These condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in Note 3 of the condensed interim consolidated financial statements as at and for the three month period ended March 31, 2011. Management does not consider there to be any seasonality associated with the Company's operations.

Changes in accounting policies

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". In October 2010, the standard was revised. The new and revised standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities, which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

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

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 27, "Separate Financial Statements", to establish the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements and replaces the current IAS 27 Consolidated and Separate Financial Statements as the consolidation guidance is included in IFRS 10 Consolidated Financial Statements. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 28, "Investments in Associates and Joint Ventures", to establish the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In June 2011, the IASB issued amendments to IAS 1, "Presentation of Items of Other Comprehensive Income", to split items of other comprehensive income (OCI) between those that are reclassed to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. We are evaluating the impact that this standard may have on our statements of operations and financial position.

Note 4. Accounts receivable

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Oil sales	**$8**	$47	$-
Refundable taxes (VAT)	**15,605**	**9,932**	**5,682**
Other	**1,281**	**320**	**429**
	$16,894	$10,299	$6,111

Note 5. Inventories

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Marine fuel	**$1,851**	$1,912	$-
Crude oil inventory	**14,404**	10,871	5,310
	$16,255	$12,783	$5,310

The crude oil inventory balance includes $6.71 million of inventory (December 31, 2010: $2.59 million; January 1, 2010: $nil) which is pledged is pledged as security under the debt arrangement with BNP Paribas.

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Note 6. Exploration and evaluation assets

	Exploration and Evaluation
Cost and Net Book Value	
As at January 1, 2010	**$44,907**
Additions	58,331
Exploration expense	(72,170)
As at December 31, 2010	**31,068**
Additions	90,465
Transfers to Property, plant and equipment	(47,015)
Exploration expense	(6,829)
As at September 30, 2011	**$67,689**

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

During the three and nine month period ended September 30, 2011, the Company expensed $0.35 million and $6.83 million, respectively, in relation to non-commercial results at Benjarong (2010: $0.02 million and $9.38 million was written off related to Songkhla B, respectively). In the year ended December 31, 2010, E&E assets of $72.17 million were expensed in respect of Benjarong and Songkhla B following the unsatisfactory results of production tests.

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

Note 7. Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
Cost				
As at January 1, 2010	**$10,605**	**$178,300**	**$1,305**	**$190,210**
Additions	101	99,331	279	99,711
Disposals	-	(1,143)	-	(1,143)
As at December 31, 2010	**10,706**	**276,488**	**1,584**	**288,778**
Additions	-	24,800	938	25,738
Disposals	(10,706)	(1,427)	-	(12,133)
Transfers from Exploration and evaluation assets	-	47,015	-	47,015
As at September 30, 2011	**$-**	**$346,876**	**$2,522**	**$349,398**
Accumulated depletion, depreciation and impairment				
As at January 1, 2010	**-**	**-**	**676**	**676**
Depletion and depreciation	-	30,911	237	31,148
Impairment	10,706	-	-	10,706
As at December 31, 2010	**10,706**	**30,911**	**913**	**42,530**
Depletion and depreciation	-	38,479	248	38,727
Disposals	(10,706)	(717)	-	(11,423)
As at September 30, 2011	**$-**	**$68,673**	**$1,161**	**$69,834**
Net Book Value				
As at January 1, 2010	**$10,605**	**$178,300**	**$629**	**$189,534**
As at December 31, 2010	**$-**	**$245,577**	**$671**	**$246,248**
As at September 30, 2011	**$-**	**$278,203**	**$1,361**	**$279,564**

Included within Oil & Gas Properties at December 31, 2010 are assets held under finance leases, which have a net book value of $1.31 million. The depreciation charged on these assets amounted to $nil million and $0.24 million in the three and nine months ended September 30, 2011 (2010: $0.12 million and $0.36 million, respectively). The Company terminated these finance leases during Q3 2011 (Note 14).

During the three and nine months ended September 30, 2011, $3.65 million and $7.28 million of costs associated with decommissioning liabilities are included within additions (12 months ended December 31, 2010: $13.30 million)

Impairment

During the fourth quarter of 2010, the Company impaired its mat-based jack-up rig, which was undergoing conversion to a production platform. This asset was held within "Assets under Construction" with a carrying value of $10.71 million before being written down to $nil. This treatment was adopted as management determined it to be more cost effective to lease production platforms rather than refurbish this particular unit.

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This asset was ultimately disposed of during Q3 2011, resulting in a gain of $0.25m for the three and nine months ended September 30, 2011.

Note 8. Investment in and advances to Apico LLC

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

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

The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference has been allocated to Apico's oil and gas properties and is being amortized using the units of production method. At September 30, 2011, the remaining unamortized excess basis was $13.1 million (December 31, 2010: $13.9 million).

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

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Balance, beginning of period	**$47,261**	$55,225	$50,376
Advances during the period	**1,446**	-	4,516
Share of earnings of significantly influenced investee, net of taxes	**12,851**	9,041	9,544
Amortization of excess basis in Apico	**(887)**	(1,109)	(1,082)
Earnings distributions	**(9,756)**	(15,896)	(8,129)
Balance, end of period	**$50,915**	$47,261	$55,225

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

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Assets	**$134,989**	$121,931	$140,622
Liabilities	**29,137**	30,338	30,052

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Revenue	**$24,029**	$16,338	**$71,606**	$52,200
Expenses	**10,307**	8,127	**35,348**	25,462
Net income	**13,722**	8,211	**36,258**	26,738

The Company's share of Apico's commitments relating to geological studies, seismic surveys and exploratory drilling is $1.13 million within the next 1 year and $2.57 million in the next 2 to 3 years.

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

Note 9. Accounts payable and accrued liabilities

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Trade payables	**$29,703**	$41,573	$21,087
Accrued payables	**26,735**	10,720	9,671
Income taxes payable	**79**	31	38
Other	**1,009**	1,226	567
	$57,526	$53,550	$31,363

Included within accrued payables is an accrual of $10.87 million for the fair value of vested stock appreciation rights (December 31, 2010: $7.89 million; January 1, 2010: $6.87 million). The Company incurred a liability of $1.61 million and $6.55 million for the three and nine months ended September 30, 2011 respectively (2010: $1.35 million and $1.98 million, respectively). Of this, $0.26 million and $0.69 million for the three and nine months ended September 30, 2011 respectively (2010: $0.14 million and $0.25 million, respectively) was capitalised to Property, plant and equipment.

The fair value of these instruments was determined using the Black-Scholes model based on observable market prices. The full fair value of granted SARs units at September 30, 2011 is $14.18 million (December 31, 2010: $20.86 million; and January 1, 2010: $14.58 million). These awards vest and are cash-settled 33.3% on each of the subsequent anniversaries of the grant date. No material grants were made in the three and nine month periods ended September 30, 2011.

Note 10. Deferred income

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

Note 11. Amounts due to shareholder

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

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

Note 12. Long term debt

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Revolving debt facility	**$80,000**	$80,000	$34,400
Unused portion of debt facility	**-**	(6,275)	-
Total debt drawn down	**80,000**	73,725	34,400
Unamortised debt issue costs	**(2,414)**	(2,382)	-
Carrying value of long-term	**77,586**	71,343	34,400
Current portion of long-term debt	**(28,668)**	(36,262)	(10,116)
Non-Current portion of long-term debt	**$48,918**	$35,081	$24,284

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

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Principal	**$28,668**	$36,262	$10,116
Interest	**540**	-	150
	$29,208	$36,262	$10,266

BNP Paribas debt facility

The Company entered into an $80 million syndicated revolving debt facility arranged by BNP Paribas ("BNP") and Commonwealth Bank of Australia on September 16, 2010. The facility is amortized over a five year period and matures on June 30, 2015. The security associated with this facility is described in Note 13 of the December 31, 2010 financial statements.

The effective interest rate for the three and nine months ended September 30, 2011 was 3.86% and 4.24%, respectively, per annum.

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

The following is a summary of the crude oil derivative contracts outstanding at September 30, 2011:

	Notional Volumes	**Term**	**Average Strike Price**	**Fair value of asset (liability)**
Long Puts				
Brent	500,250	Oct 2011 – Sep. 2012	$79.03/bbl	$4,145
Short Calls				
Brent	382,375	Oct 2011 – Sep. 2012	$79.03/bbl	(16,461)
Fair value of derivative assets (liabilities)				$(12,316)

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

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

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

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

	September 30, 2011	December 31, 2010
Current portion	**($11,612)**	($10,141)
Non-current portion	**(704)**	(6,609)
Total fair value of derivative liabilities	**($12,316)**	($16,750)

In the fourth quarter 2010, the Company entered into a contract to swap 50% of its expected LIBOR interest rate exposure from floating to fixed over a 30 month period commencing January 1, 2011 at 1.10% per annum. The carrying value of this derivative asset is $0.21 million as of September 30, 2011 (2010: $0.14 million derivative asset).

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2011	2010	**2011**	**2010**
Realized loss on crude oil price derivative contracts	**$(3,837)**	$-	**$(14,852)**	$-
Unrealized gains on crude oil price derivative contracts	**14,991**	-	**4,434**	-
Unrealized gain on interest rate swap	**28**	-	**72**	-
	$11,182	$-	**$(10,346)**	$-

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.

SMBC debt facility

The Company had a revolving debt facility with Sumitomo Mitsui Banking Corporation Europe Limited. All amounts under this debt facility were fully repaid in September 2010. Loans under the SMBC facility bore interest at SMBC's LIBOR plus an applicable margin between 1.75% and 3.5%. The effective interest rate for the three and nine months ended September 30, 2010 was 3.05% and 3.12%, respectively.

As a requirement of the facility, the Company was required to enter into derivative financial commodity contracts for the period of the loan. The Company entered into a derivative risk management contracts with an affiliate of SMBC under which the Company had the right to sell 4,000 metric tons per month of

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Singapore fuel oil at a price of $290.00 per metric ton commencing July 1, 2007 and expiring June 30, 2010. The unrealized loss on this arrangement in 2010 was $66,000.

Note 13. Decommissioning liabilities

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

	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010
Decommissioning liabilities, Beginning of Period	**$17,655**	$4,071
Obligations Incurred with development activities	**6,982**	13,842
Changes in estimates	**299**	(540)
Obligations settled	**(964)**	-
Unwinding of discount	**375**	282
Decommissioning liabilities, End of Period	**$24,347**	$17,655

Decommissioning liabilities represents the present value of estimated remediation and reclamation costs associated with our PP&E. Coastal has discounted the estimated asset retirement obligation using a risk-free rate of 1.7% (December 31, 2010: 3.0%; December 31, 2009: 3.9%). While the provision for abandonment is based on management's best estimates of future costs and the economic lives of the assets involved, there is uncertainty regarding both the amount and timing of incurring these costs. Management anticipates the remedial work will occur approximately 9 years from the statement of financial position date. The Company expects to fund decommissioning liabilities from future cash flows from our operations.

Note 14. Leases

Obligations under finance leases

The split between the current and non-current portions of obligations under finance leases is as follows:

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Current portion	**$-**	$885	$35
Non-current portion	**$-**	579	1,439
	$-	$1,464	$1,474

The relationship between the total of future minimum lease payments and their carrying value is:

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Amounts payable under finance lease:			
Within one year	**$-**	$1,248	$1,248
Within two to five years	**-**	416	2,288
	-	1,664	3,536
Less: Future finance expense	**-**	(200)	(2,065)
	$-	$1,464	$1,471

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

In Q3 2011 the Company terminated all of its finance leases. As a result, the Company has recorded a gain of $0.62 million as a result of derecognizing the assets and the related finance lease obligations

Operating leases

The Company incurred $10.30 million of expenses under operating leases for the three months ended September 30, 2011 (2010: $5.42 million). The equivalent number for the nine months ended September 30, 2011 was $23.12 million (2010: $15.97 million).

Note 15. Finance expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Long-term debt interest expense	**$776**	$367	**$2,516**	$1,064
Unwinding discount related to decommissioning liabilities (Note 13)	**137**	75	**375**	201
Finance lease interest	**-**	280	**385**	938
	$913	$722	**$3,276**	$2,203

Note 16. Oil sales, net of royalties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Oil sales	**$81,670**	$68,688	**$218,854**	$160,362
Royalties	**(6,295)**	(6,828)	**(17,158)**	(13,632)
	$75,375	$61,860	**$201,696**	$146,730

Note 17. Other income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Change in fair value of derivative contracts (Note 12)	**$11,182**	$-	**($10,346)**	($66)
Interest	**2**	1	**4**	4
Foreign exchange (losses) and gains	**(467)**	(296)	**(2,052)**	(52)
	$10,717	($295)	**($12,394)**	($114)

Note 18. Related parties

Major subsidiaries and Apico LLC

The Condensed Interim Consolidated Financial Statements include the financial statements of Coastal Energy and our affiliated subsidiaries as at September 30, 2011; December 31, 2010 and January 1, 2010. Transactions involving the Company, its subsidiaries, its joint venture or its special purpose entity are eliminated upon consolidation. In the opinion of management there are no material related party transactions with entities outside the consolidated group in the three and nine months ended September 30, 2011 and 2010.

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

Note 19. Equity

Common Shares

Authorized share capital consists of 250,000,000 common shares with a par value of $0.04 each. Each share carries equal voting rights, is non-preferential and participates evenly in the event of a dividend payment or in the winding up of the Company. At September 30, 2011, 112,702,155 common shares were issued and fully paid (December 31, 2010: 109,717,510 shares).

Stock options

The Company has a stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the number of shares reserved for issuance may not exceed 15,000,000 shares. At September 30, 2011 there remained available for future issuance 3,267,165 stock options. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The vesting term of options under the Plan is determined by the Company's Board of Directors but options granted typically vest over a period of three years. Prior to the January 2009 grant, the options vested one-quarter on the date of the grant and one-quarter on each subsequent anniversary of the date of the grant. Beginning with the January 2009 grant, the options vest one-third on each subsequent anniversary of the date of grant. The maximum exercise period of options granted under the Plan is five years following the grant date. The changes in stock options were as follows:

	September 30, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**10,794,987**	**$3.47**	10,409,599	$2.85
Options granted	**50,000**	**$6.56**	1,570,904	$5.72
Options exercised	**(2,698,562)**	**$2.27**	(983,131)	$2.23
Options forfeited	**(143,374)**	**$6.45**	(202,385)	$2.93
Balance, end of period	**8,003,051**	**$3.15**	10,794,987	$3.47

For share options exercised in the nine months ended September 30, 2011 the weighted average share price at the date of exercise was $7.30 (2010: $5.22).

The following table summarizes the outstanding and exercisable options at September 30, 2011:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	0.25 years	$2.19 (GBP 1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	580,000	0.25 years	$2.12 (Cdn$2.20)	Dec. 27, 2011	580,000
Jan. 25, 2008	320,000	1.25 years	$3.79 (Cdn$3.94)	Jan. 26, 2013	320,000
May 05, 2008	37,500	1.58 years	$4.27 (Cdn$4.44)	May 06, 2013	37,500
Jul. 14, 2008	77,500	1.75 years	$3.47 (Cdn$3.61)	Jul. 15, 2013	77,500
Sep. 16, 2008	100,000	2.00 years	$2.19 (Cdn$2.27)	Sep. 16, 2013	100,000
Sep. 23, 2008	1,000,000	2.25 years	$3.79 (Cdn$3.94)	Feb. 05, 2013	1,000,000
Jan. 02, 2009	1,933,246	2.25 years	$1.30 (Cdn$1.35)	Jan. 01, 2014	1,086,496
Dec. 01, 2009	2,382,523	3.25 years	$4.94 (Cdn$5.13)	Nov. 30, 2014	730,902
Dec. 28, 2010	1,547,282	4.25 years	$5.53 (Cdn$5.75)	Dec 27, 2015	-
	8,003,051				3,957,398

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

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

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

	2011	2010
Risk-free interest rate	**1.75%**	1.75%
Expected life	**3 years**	3 years
Annualized volatility	**38%**	38%
Dividend rate	**0%**	0%
Weighted average grant date fair value per option	**$1.23**	$1.58

Annualized volatility was determined based upon historic movements in the Company's share price.

For the three months ended September 30, 2011 the Company recorded stock option expenses of $0.66 million (2010: $0.69 million), of which $0.07 million (2010: $0.08 million) was capitalized. For the nine months ended September 30, 2011 the Company recorded stock option expenses of $2.03 million (2010: $2.22 million), of which $0.17 million (2010: $0.28 million) was capitalized.

Contributed surplus
This reserve is being used on an ongoing basis to record stock option expense.

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

	September 30, 2011		December 31, 2010	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
Balance, beginning of period	**540,000**	**$1.13**	3,246,245	$3.42
Warrants issued	**-**	**-**	-	-
Warrants exercised	**(340,000)**	**1.13**	(563,867)	$4.18
Warrants expired	**-**	**-**	(2,142,378)	$3.62
Balance, end of period	**200,000**	**$1.13**	540,000	$1.13

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

	3 Months ended September 30,		9 Months ended September 30,	
	2011	2010	**2011**	2010
Weighted average common shares outstanding, basic	**112,572,270**	109,588,334	**111,966,960**	109,391,597
Effect of stock options and warrants	**4,661,010**	3,646,890	**3,778,927**	3,600,160
Weighted average common shares outstanding, diluted	**117,233,280**	113,235,224	**115,745,887**	112,991,757

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

Note 20. Commitments and contingencies

The Company has provided a letter of credit to the Thailand Customs Department for $0.6 million (December 31, 2010: $0.7 million; and January 1, 2010: $0.7 million). This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of September 30, 2011.

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

Year	Drilling & Production	G5/50	Other	Total
2011	$29,815	$5,300	$100	$35,215
2012	66,973	-	399	67,372
2013	-	-	323	323
2014	-	-	131	131

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

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.

Note 21. Income taxes

Reconciliation of Effective Tax Rate to the Thai Statutory Tax Rate

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Net income before income taxes and non-controlling interest	**$41,627**	$34,702	**$67,207**	$78,056
Thailand petroleum income tax statutory rate	**50%**	50%	**50%**	50%
Expected income tax expense computed at standard rates	**20,814**	17,351	**33,604**	39,028
Add (deduct) the tax effect of :				
Tax differential in other countries	**(136)**	127	**(249)**	(279)
Non-deductible expenses and other	**402**	186	**1,361**	(198)
Valuation allowance	**(561)**	(417)	**(1,711)**	52
Tax basis revaluation	**2,109**	(7,375)	**4,811**	(9,521)
Income tax expense	**22,628**	9,872	**37,816**	29,082
Consisting of:				
Current income tax expense	**135**	-	**135**	-
Deferred tax expense	**22,493**	9,872	**37,681**	29,082
Income tax expense	**$22,628**	$9,872	**$37,816**	$29,082

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

Note 22. Changes in non-cash working capital

The following table summarizes the changes in non-cash working capital for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Accounts Receivable	**($4,802)**	($14,686)	**($6,595)**	($15,281)
Inventory	**840**	(74)	**(3,472)**	(539)
Prepaids and Other Current Assets	**96**	126	**576**	353
Accounts Payable and Accrued Liabilities	**5,421**	(9,000)	**6,311**	11,004
Deferred income	**-**	(17,533)	**-**	(23,060)
Total	**$1,555**	($41,167)	**($3,180)**	($27,523)

Note 23. 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.

Segmented net income for the nine months ended September 30, 2011

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

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

Segmented net income for the nine months ended September 30, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$ -	$146,730	$ -	$146,730
Other Income	-	26	(140)	(114)
	-	146,756	(140)	146,616
Less: Expenses				
Production	-	35,330	-	35,330
Depreciation and depletion	-	17,825	175	18,000
General and administrative	-	2,337	9,889	12,226
Exploration	-	9,384	-	9,384
Debt financing fees	-	-	266	266
Finance costs	-	1,139	1,064	2,203
Add: Net income from Apico LLC	8,849	-	-	8,849
Net Income (Loss) before tax and non-controlling interest	$8,849	$80,741	($11,534)	$78,056

Segmented net income for the three months ended September 30, 2011

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

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

Segmented net income for the three months ended September 30, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$ -	$61,860	$ -	$61,860
Other Income	-	(218)	(77)	(295)
	-	61,642	(77)	61,565
Less: Expenses				
Production	-	16,124	-	16,124
Depreciation and depletion	-	8,231	112	8,343
General and administrative	-	1,064	3,270	4,334
Exploration	-	26	-	26
Debt financing fees	-	-	23	23
Finance costs	-	355	367	722
Add: Net income from Apico LLC	2,709	-	-	2,709
Net Income (Loss) before tax and non-controlling interest	$2,709	$35,842	($3,849)	$34,702

Segmented capital expenditure for the nine months ended September 30, 2011

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

Segmented capital expenditure for the nine months ended September 30, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$ -	$116,964	$160	$117,124

Segmented capital expenditure for the three months ended September 30, 2011

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

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

Segmented capital expenditure for the three months ended September 30, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$29,086	$6	$29,092

Segmented assets as at September 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	**$50,915**	**$-**	**$-**	**$50,915**
PP&E and E&E net book value	**-**	**346,221**	**1,032**	**347,253**
Total Assets	**$50,915**	**$397,030**	**$7,142**	**$455,087**

Segmented assets as at December 31, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	**$47,261**	**$ -**	**$ -**	**$47,261**
PP&E and E&E net book value	**-**	**276,650**	**666**	**277,316**
Total Assets	**$47,261**	**$315,423**	**$6,258**	**$368,942**

Segmented assets as at January 1, 2010

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

Note 24. Capital management

The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include common share capital, long-term debt and working capital (a non-IFRS measurement defined as current assets less current liabilities). In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, incur debt, sell assets or adjust its capital spending to manage current and projected debt levels. The Company may also repurchase common shares when the Company believes the market price does not reflect the underlying values of the common shares.

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

The Company's capital structure is comprised as follows:

As at	**September 30, 2011**	December 31, 2010	January 1, 2010
Total shareholders' equity	**$233,206**	$196,295	$203,702
Long-term debt	**80,540**	73,725	34,400
Obligations under finance leases	**-**	1,464	1,474
Amounts due to shareholder	**-**	-	5,164
Working capital deficit (1)	**12,633**	19,615	22,516
	$326,379	$291,099	$267,256

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

As of September 30, 2011, the Company has fully utilized its $80.0 million borrowing facility. Management believes it can access the equity and credit markets in the future should circumstances deem raising additional equity or debt is necessary.

The Company is in compliance with its debt covenants.

Note 25. Financial instruments and risk management

Financial risk management objectives

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

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

Given the direct involvement of senior financial personnel in monitoring financial risks, it is not considered necessary at this time for any formalized reporting of financial risk sensitivity models to be prepared. This decision will be reassessed by management on an ongoing basis as part of wider assessments of the ongoing effectiveness of the treasury function.

Fair values

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

The fair value of the Company's long-term debt as at September 30, 2011 was $77.29 million (December 2010: $70.89 million) when using the market LIBOR rate.

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

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

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

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

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

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

The Company considers its risks in relation to financial instruments in the following categories, of which management considers that no category has significantly worsened in 2011 relative to 2010.

Credit risk

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and restricted cash; (2) accounts receivable and other; (3) derivative contract. The Company has not had any credit losses in the past beyond that described below. At September 30, 2011 and 2010, the Company has no financial assets that are past due or impaired due to credit risk related defaults.

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

	September 30, 2011	December 31, 2010	January 1, 2009
Cash	**$8,594**	$3,884	$21,229
Restricted cash	**14,525**	16,369	3,829
Refundable taxes (UK, Thailand)	**15,605**	9,932	5,682
Trade receivable	**8**	47	-
Other accounts receivable	**1,281**	320	429
Derivative asset	**207**	135	66
	$40,220	$30,687	$31,235

Revenues in both years relate to a single customer that had a credit rating of BBB+ with Standard and Poors as at September 30, 2011. The Company's trade receivables in at the end of each period were less than 30 days aged and was 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 2011 or 2010.

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

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

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.

Coastal's liquidity position has improved as can be seen in the fall in the working capital deficit from Q2 2011. This improvement is driven by higher operating cash inflows as a result of increased levels of production.

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

			September 30, 2011			December 31, 2010	January 1, 2010
	Within 1 year	**1-2 Years**	**3-5 years**	**There after**	**Total**	Total	Total
Accounts payable and accrued liabilities	**$57,526**	**$-**	**$-**	**$-**	**$57,526**	$53,550	$31,363
Long-term debt principal and interest	**29,208**	**32,407**	**11,410**	**7,515**	**80,540**	73,725	34,550
Obligations under finance leases	**-**	**-**	**-**	**-**	**-**	1,464	1,474
Derivative liabilities	**11,612**	**704**	**-**	**-**	**12,316**	16,750	-
	$98,346	**$33,111**	**$11,410**	**$7,515**	**$150,382**	$145,489	$67,387

Market risk

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

(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 September 30, 2011, a 10% depreciation or appreciation of the foreign currencies against the US dollar would result in a $0.09 million (December 31, 2010: $0.92 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These 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 +4%. The Company monitors its exposure to interest rates and is comfortable with its exposures given the relatively short-term of the interest rates on long-term debt. The terms of the Company's long-term debt obligation is described in Note 16 to the December 31, 2010 Canadian GAAP financial statements. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling $80.0 million at September 30, 2011 (December 31, 2010: $73.7 million). A 100 basis point change in interest rates at the statement of financial position date would result in a $0.80 million change in the Company's annual net income (2010: $0.74 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 12.

The Company paid an average of 3.86% and 4.24% on its borrowings for the three and nine months ended September 30, 2011, respectively (2010: 3.30% and 3.17%, respectively).

The Company earned an average of 0.05% and 0.05% on its short-term investments for the three and nine months ended September 30, 2011 respectively (2010: 0.78% and 0.64%, respectively).

(c) Commodity price risk

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

A 10% decline in the reference price projection would not reduce the availability under the borrowing base at September 30, 2011.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 12. A 10% increase in prices of Brent as of September 30, 2011 would cause an increase in the derivative liability of $24.06 million (2010: increase in liability of $15.19 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of September 30, 2011 would cause a decrease in the liability of $5.60 million (2010: decrease of $13.89 million).

(d) Other price risk

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

Note 26. Transition to IFRS

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

The accounting policies described in Note 3 to the March 31, 2011 interim condensed consolidated financial statements have been applied in preparing the financial statements for the period ended September 30, 2011, the comparative information presented in these financial statements for the periods ended September 30, 2010 and December 31, 2010, and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the "Transition Date").

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

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

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

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

Reconciliation of Shareholders' Equity

	Note	January 1 2010	September 30 2010	December 31 2010
Shareholders' Equity under Canadian GAAP		**$195,351**	**$227,648**	**$205,426**
Non-controlling interest under Canadian GAAP		5,617	6,170	6,559
		200,968	233,818	211,985
Differences increasing (decreasing) reported shareholders' equity:				
Exploration expenses	a	-	(9,384)	(72,170)
Decommissioning liabilities	b	(1,263)	(1,065)	(933)
Deferred taxes	c	3,133	3,627	30,855
Foreign currency	c	909	3,507	4,445
Depletion	d	-	28,273	26,805
Finance lease	e	(45)	(559)	(522)
Property, plant & equipment	f	-	(1,143)	(1,143)
Investment in and advances in Apico LLC	g	-	626	(3,027)
Total equity under IFRS		**$203,702**	**$257,700**	**$196,295**

Reconciliation of Net Income

For the year to date periods ended	Note	September 30 2010 (3 months)	September 30 2010 (9 months)	December 31 2010 (12 months)
Net Income under Canadian GAAP		**$9,228**	**$28,023**	**$4,854**
Differences increasing (decreasing) reported net income:				
Exploration expenses	a	(26)	(9,384)	(72,170)
Accretion on decommissioning liabilities	b	95	198	330
Deferred taxes	c	836	494	27,722
Foreign currency	c	1,901	2,598	3,536
Depletion	d	13,016	28,273	26,805
Finance lease	e	(190)	(514)	(477)
Property, plant & equipment	f	-	(1,143)	(1,143)
Share of net income in Apico LLC	g	217	626	(3,027)
Total Differences in Net Income		**15,849**	**21,148**	**(18,424)**
Net Income (loss) and comprehensive income (loss) attributable to the shareholders of Coastal Energy Company under IFRS		**$25,077**	**$49,171**	**($13,570)**

Condensed consolidated statement of Cash Flows

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

Notes to the IFRS Reconciliations

a. Exploration expense

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

b. Decommissioning liabilities

Under Canadian GAAP, decommissioning liabilities were discounted at a credit adjusted risk fee rate which of nine percent (9%). Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted therefore the entire decommissioning liability is discounted at a risk free rate of three percent (3%) for all periods presented.

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

c. Deferred tax liabilities

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

d. Depletion

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

e. Finance leases

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

f. Property, plant and equipment

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

g. Investment in and advances to Apico LLC

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

h. Statement of financial position reclasses

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

i. Statement of operations and comprehensive income reclasses

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

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

NON-INDEPENDENT DIRECTOR

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

INDEPENDENT DIRECTORS

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

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

Olivier de Montal (2) (3)
Administrator, Olympia Capital Holding

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

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

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

SENIOR MANAGEMENT

Lloyd Barnaby Smith, Non-Executive Chairman

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

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

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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	TSX Exchange (Canada)
AIM	London AIM Exchange (UK)

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BNP Paribas

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Computershare (TSX)
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