COASTAL ENERGY COMPANY
QUARTERLY REPORT
SEPTEMBER 30, 2013

Three and Nine Months Ended September 30, 2013 and 2012

CONTENTS

President's Report to the Shareholders

Dear Fellow Shareholders:

The Company continued to make progress in the third quarter of 2013. The first wells at the Kapal field were drilled and we expect first production in Malaysia very shortly. Offshore Thailand production increased slightly from year ago levels and we expect gains to offshore production once the development drilling program at Bua Ban North resumes.

Regarding our frac progam, the original Bua Ban South frac wells continue to perform in line with expectations after ten months of production. In our latest campaign at Bua Ban Main, the first two wells, which fracced much deeper into the Eocene, have been disappointing. However, the early results of the third and fourth wells in the Eocene and Lower Oligocene sandstone are encouraging. We are still early on the learning curve and are applying multiple fracture technologies to the various prospective reservoirs in the Bua Ban and Songkhla Main fields in order to determine the optimum method for producing these reservoirs. There is a significant amount of oil in place in these tighter reservoirs and we continue to be excited about the application of fracture technology in the Songkhla Basin.

Onshore, we are very pleased with our second discovery drilled using the 3D seismic data acquired in 2011 and expect to continue to grow our onshore business. Onshore production was lower than previous levels due to increased maintenance at the Nam Phong power plant. However, year-to-date onshore production is still well above 2012 levels.

We plan to move the rig to the Meranti field in Malaysia following completion of the work at Kapal, which will serve to increase production in Malaysia in late 2013 to early 2014.

On behalf of the Board of Directors

Randy L. Bartley

President and Chief Executive Officer
November 6, 2013

Financial and Operating Highlights

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

	3 months ended September 30, 2013	2012	% Change	9 months ended September 30, 2013	2012	% Change
Financial						
Crude oil revenue	**$201,762**	$170,894	18%	**$565,466**	$554,612	2%
EBITDAX [1]	**$134,645**	$114,603	17%	**$370,495**	$373,320	-1%
Per share – Basic	**$1.19**	$1.01	18%	**$3.26**	$3.28	1-%
Per share – Diluted	**$1.16**	$0.97	19%	**$3.17**	$3.15	1%
Net Income	**$50,720**	$40,100	26%	**$121,704**	$130,385	-7%
Per share – Basic	**$0.45**	$0.35	29%	**$1.07**	$1.15	-7%
Per share – Diluted	**$0.44**	$0.34	29%	**$1.04**	$1.10	-5%
Capital expenditures, excluding onshore	**$101,822**	$151,323	-33%	**$256,176**	$264,425	-3%
Total Assets				**$1,100,076**	$793,178	39%
Working capital deficit				**$24,045**	$33,840	-29%
Weighted average common shares outstanding						
Basic	**113,331,884**	113,049,967	-%	**113,502,675**	113,660,219	-%
Diluted	**116,412,056**	117,707,563	-1%	**116,875,417**	118,404,210	-1%
Operations						
Operating netback ($/bbl) [1] [2]						
Crude oil revenue	**$103.30**	$101.47	2%	**$102.74**	$105.87	-3%
Royalties	**11.59**	10.87	7%	**11.44**	11.27	2%
Production expenses	**19.68**	19.43	1%	**21.26**	21.02	1%
Operating netback	**$72.03**	$71.17	1%	**$70.04**	$73.58	-5%
Average daily crude oil production (bbls) [2]	**20,388**	19,626	4%	**20,648**	20,001	3%

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

Third Quarter 2013 Highlights

- The Company's offshore production increased to 20,388 bbl/d in the third quarter from 19,626 bbl/d in the same period last year due to increases from further development drilling at Bua Ban North as well as the inclusion of production at Bua Ban South. Total Company production increased slightly to 21,832 boe/d from 21,798 boe/d in the same quarter last year as onshore production declined to 1,444 boe/d from 2,172 boe/d due to extended seasonal maintenance at the Nam Phong power plant. Total Company production for the nine month period increased slightly to 22,942 boe/d from 22,093 boe/d in the same period last year due to increases in both offshore and onshore production levels on a full year basis.

- EBITDAX for Q3 2013 was $134.6 million, 18% higher than the $114.6 million recorded in Q3 2012 due to higher production and lifting volumes. The Company's inventory levels decreased by 77,437 barrels in Q3 2013 whereas 121,445 barrels were added to inventory during Q3 2012. The Company's

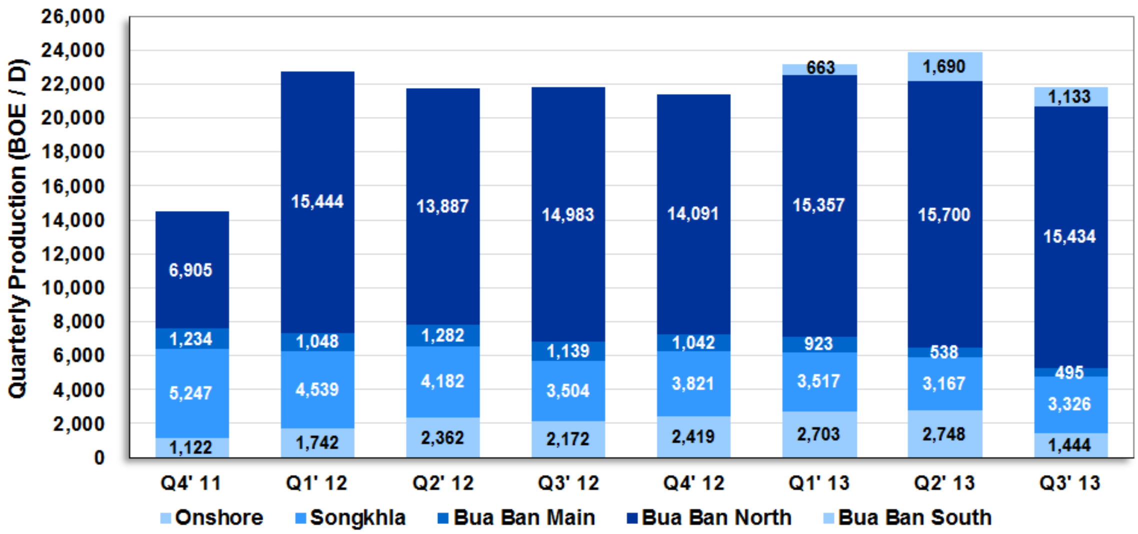
EBITDAX for the nine month period is in line with 2012 levels despite a modest decline in realized crude pricing due to higher production and lifting volumes.

- The Company began appraisal and development drilling at the Kapal field offshore Malaysia.

- The Company upsized its revolving credit facility from $200 million to $350 million during the quarter.

- The Company extended its contract for the Atwood Manta drilling rig for two years. The Manta is drilling in Malaysia currently.

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



Note: Bua Ban South came onstream in March 2013.

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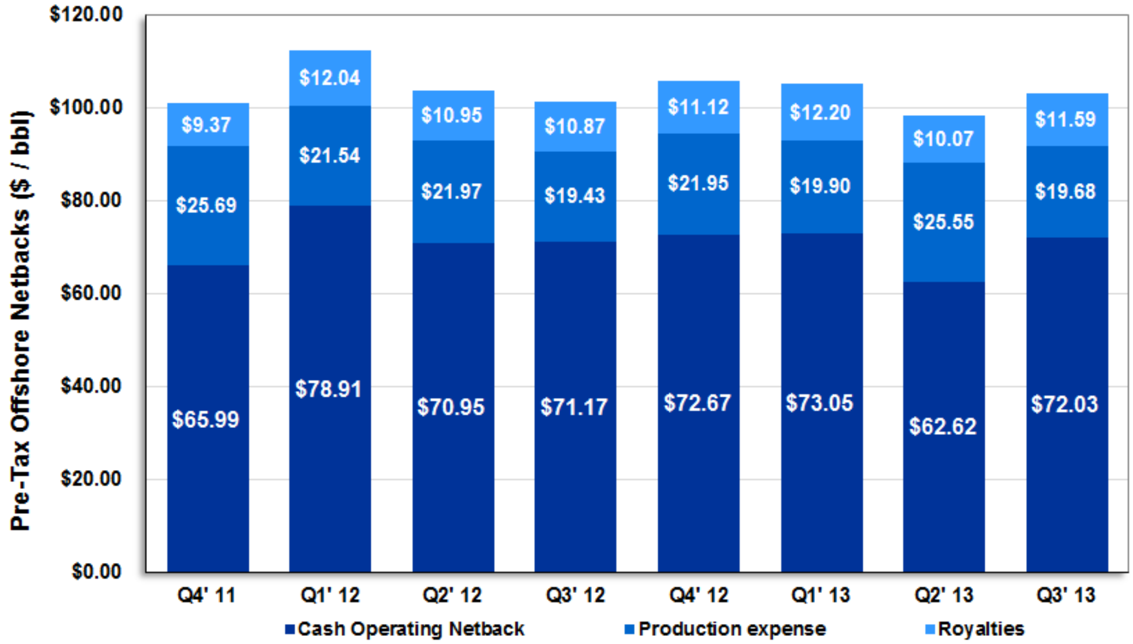
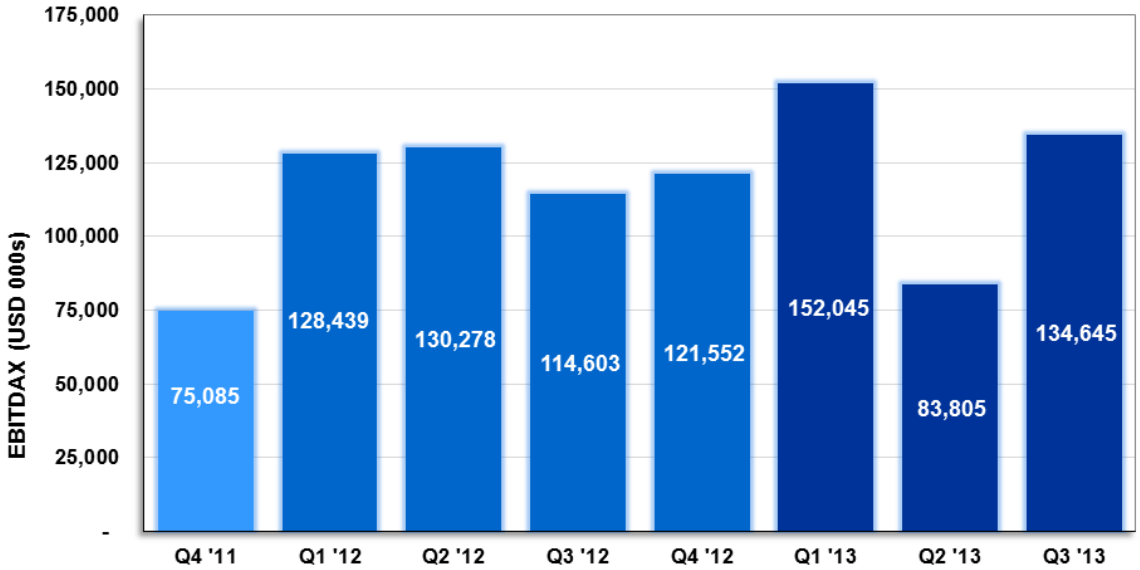
The following chart represents the Company's cash operating netback ($/bbl) for its offshore production over the past eight (8) quarters. Operating netback is based on sales volume and is a non-IFRS measure. See "Non-IFRS Measure" section within the MD&A.



	2013			2012				2011
EBITDAX Computation	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Net income attributable to shareholders	**$50,720**	**$18,905**	**$52,079**	$94,018	$40,100	$42,150	$48,135	$18,892
Add Back:								
Unrealized loss (gain) on derivative	**1,965**	**(1,414)**	**(217)**	(2,507)	362	(15,892)	4,007	3,663
Realized loss on derivative	**94**	**17**	**-**	1,749	3,640	5,958	5,152	5,175
Interest income	**(133)**	**(4)**	**(27)**	(34)	(2)	(1)	(2)	(2)
Equity-based compensation	**1,931**	**1,935**	**1,935**	1,453	1,414	1,414	1,414	677
Unrealized foreign exchange loss (gain)	**1,146**	**943**	**(2,058)**	(837)	18	(157)	91	268
Finance expenses	**2,579**	**132**	**1,215**	1,574	1,940	195	1,006	1,549
Debt financing fees	**4,228**	**1,045**	**528**	1,032	501	351	281	273
Loss (gain) on sale of assets	**-**	**15**	**(19)**	-	(252)	-	-	-
Depletion, depreciation and accretion	**17,298**	**13,878**	**23,305**	16,727	14,778	18,590	20,044	22,844
Taxation	**54,152**	**35,123**	**75,304**	8,377	44,913	77,384	48,311	20,201
Exploration	**665**	**13,230**	**-**	-	7,191	286	-	1,545
EBITDAX	**$134,645**	**$83,805**	**$152,045**	$121,552	$114,603	$130,278	$128,439	$75,085

Note (a)   EBITDAX is a non-IFRS measure.

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



Note: Q2 2013 EBITDAX was impacted by a large increase in crude oil inventory during the quarter. The Company ended the quarter with 714,132 bbl in inventory, the revenue and associated expense from which was recognized in Q3 2013.

Operational Review

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

Oil and Gas Properties

Summary of Oil & Gas Properties	Thailand Onshore	Gulf of Thailand	Totals
Balance, December 31, 2011	**$47,698**	**$385,479**	**$433,177**
Additions during the period, net of disposals:			
Increase in ownership of Apico LLC	**9,250**	**-**	**9,250**
Exploration & development	**-**	**348,990**	**348,990**
Equity earnings in Apico, net of distributions	**3,967**	**-**	**3,967**
Depletion	**-**	**(71,539)**	**(71,539)**
Exploration expense	**-**	**(7,477)**	**(7,477)**
Amortization of excess basis in Apico	**(649)**	**-**	**(649)**
Balance, December 31, 2012	**$60,266**	**$655,453**	**$715,719**
Additions during the period, net of disposals:			
Exploration & development	**-**	**184,337**	**184,337**
Disposals	**-**	**(529)**	**(529)**
Equity earnings from Apico, net of distributions	**13,917**	**-**	**13,917**
Depletion	**-**	**(55,866)**	**(55,866)**
Exploration expense	**-**	**(13,895)**	**(13,895)**
Amortization of excess basis in Apico	**(510)**	**-**	**(510)**
Dividends received	**(8,773)**	**-**	**(8,773)**
Balance, September 30, 2013	**64,900**	**769,500**	**834,400**

Management's Discussion and Analysis

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

The following is Management's Discussion and Analysis ("MD&A") of the results and financial condition of Coastal Energy Company ("Coastal" or the **"**Company**"**). This MD&A, dated November 6, 2013, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and nine months ended September 30, 2013 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 exploration and production of petroleum and natural gas properties in Southeast Asia. The functional and reporting currency of the Company and its subsidiaries is the US dollar. The Company's trading symbols are "CEN" on the TSX and "CEO" on the AIM exchange.

The Company's oil and gas properties and assets consist of the following ownership interests in petroleum concessions awarded by the Kingdom of Thailand as of September 30, 2013:

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

The Company's ownership interests in a risk service contract awarded by Petronas, the national oil company of Malaysia, as of September 30, 2013 is as follows:

Malaysia Risk Service Contract	**Coastal's Working Interest**
Kapal, Benang, Meranti RSC	70%

Non-IFRS Measures

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

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

Forward Looking Statements

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

Financial Review

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

Average Daily Production (boe/d)	3 Months ended September 30,			9 Months ended September 30,		
	2013	2012	Change	**2013**	2012	Change
Songkhla	**3,326**	3,504	-5%	**3,336**	4,073	-18%
Bua Ban Main	**495**	1,139	-57%	**651**	1,156	-44%
Bua Ban North	**15,434**	14,983	3%	**15,497**	14,772	5%
Bua Ban South	**1,133**	-	-%	**1,164**	-	-%
Total Offshore Production	**20,388**	19,626	4%	**20,648**	20,001	3%
Sinphuhorm (via Apico)	**1,444**	2,172	-34%	**2,294**	2,092	10%
Total Company	**21,832**	21,798	-%	**22,942**	22,093	4%

Third quarter offshore production increased 4% over the prior year following the addition of production from Bua Ban South and Bua Ban North having increased production 3% year over year driven by ongoing development drilling at the field. Production from the Songkhla field declined in line with expectations. Production at the Bua Ban Main field was impacted by downtime as a result of fracking activities on existing wells.

Onshore production decreased 34% from year ago levels due to extended seasonal maintenance at the Nam Phong power plant. Onshore production levels year to date are 10% above 2012 levels.

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

Crude Oil Inventory (bbls)	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Inventory Beginning of Period	**714,132**	456,418	56%	**503,594**	336,334	50%
+ Production	**1,875,731**	1,805,615	4%	**5,636,796**	5,480,318	3%
- Sales / Liftings	**1,953,168**	1,684,170	16%	**5,503,695**	5,238,789	5%
Inventory, End of Period	**636,695**	577,863	10%	**636,695**	577,863	10%

The Company's crude oil production is stored in floating storage and offloading vessels ("FSOs") moored at the production platforms. The inventory represents crude oil produced and loaded in the FSOs, but which had not yet been off-loaded for sale at the end of the period. The Company ended the quarter with 636,695 bbls in inventory, the revenue and associated expenses of which will be recognized in the fourth quarter. The Q3 ending inventory has decreased by 77,437 bbls from that in storage at the beginning of the quarter.

Oil Sales, Average Benchmark and Realized Prices ($/bbl)	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Oil Sales	**$201,762**	$170,894	18%	**$565,466**	$554,612	2%
Dubai (Benchmark - $/bbl)	**$106.20**	$106.13	-%	**$104.99**	$109.55	-4%
Sales Price per bbl Sold ($/bbl)	**$103.30**	$101.47	2%	**$102.74**	$105.87	-3%
Sales Price as a Percentage of Dubai	**97%**	96%		**98%**	97%	

Revenue in the third quarter increased 18% year over year primarily driven by a 16% increase in lifting volumes and slightly higher commodity prices. For the first nine months of the year, revenues increased 2% year on year as a result of a 5% increase in lifting volumes which was slightly offset by a 4% fall in commodity prices.

Malaysia risk service contract	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Reimbursement of expenses	**$30,967**	$-	-	**$37,738**	$-	-
Expenses	**(30,967)**	-	-	**(37,738)**	-	-
Net expense associated with Malaysia risk service contract	**$-**	$-	-	**$-**	$-	-

The Company recognizes reimbursable expenses under its Malaysia Small Field Risk Services Contract ("SFRSC") as revenue when the expense is incurred. Reimbursable expenses and the associated revenue increased in the third quarter from the second quarter following the Company mobilizing a drilling rig to Malaysia in August and spudding the initial appraisal wells at Kapal in September.

Royalties	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Royalties	**$22,632**	$18,305	24%	**$62,979**	$59,062	7%
$ per bbl	**$11.59**	$10.87	7%	**$11.44**	$11.27	2%
Royalties as a percent of revenue	**11.2%**	10.7%		**11.1%**	10.6%	

Royalties on the Gulf of Thailand assets are paid to the Kingdom of Thailand as a percentage of revenue calculated on a sliding scale and based on monthly sales. Q3 2013 royalty rates increased from Q3 2012 both as a percentage of revenue and on an absolute basis due to higher lifting volumes and higher realized commodity pricing.

Other income	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Unrealized (loss) gain on derivative contracts	**($1,965)**	($362)	-	**($334)**	$11,523	-
Realized loss on derivative contracts	**(94)**	(3,640)	-	**(111)**	(14,750)	-
Interest income	**133**	2	-	**164**	5	-
Foreign exchange (loss) gain	**522**	(1,122)	-	**(1,877)**	(2,293)	-
Other	**43**	-	-	**43**	-	-
Other income	**($1,361)**	($5,122)	-	**($2,115)**	($5,515)	-

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

The net derivative liability at September, 2013 may never be realized depending upon commodity price movements between September, 2013 and expiry of the final contract (April 2015).

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

The foreign exchange loss is a result of the Company carrying out transactions and maintaining certain financial assets and liabilities in currencies other than the US Dollar. The primary foreign currency in which the Company transacts is Thai Baht. The Company also occasionally has transactions denominated in the Canadian Dollar, Singapore Dollar, British Pound, Malaysian Ringgit and Euro. Included within the forex loss for Q3 2013 YTD are unrealised losses associated with cash retranslation of $2.93 million.

Production Expenses	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Production expenses	**$40,507**	$32,670	24%	**$123,003**	$111,820	10%
Effect of change in inventory	**(2,059)**	48	-	**(6,021)**	(1,728)	-
	38,448	$32,718	18%	**116,982**	$110,092	6%
$ per bbl	**$19.68**	$19.43	1%	**$21.26**	$21.01	1%

Production expenses for the third quarter increased year over year due to the inclusion of production from Bua Ban South. Production expenses for the nine month period have risen slightly year over year on an absolute basis due to the inclusion of production at Bua Ban South. Production expenses on a per barrel basis are in line with year ago levels.

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General and Administrative Expenses	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Salaries and benefits	**$8,745**	$7,041	24%	**$19,056**	$16,995	12%
Professional fees	**1,282**	1,024	25%	**3,643**	3,985	-9%
Office and general	**900**	440	105%	**3,023**	2,000	51%
Travel and entertainment	**431**	620	-30%	**1,686**	1,529	10%
Total general and administrative expenses	**$11,358**	$9,125	24%	**$27,408**	$24,509	12%

Total General and Administrative expenses have increased year over year on both a three month and nine month basis largely due to higher salary & benefit and office & general expenses due to higher headcount and the opening of a UK business development office during 2013.

Exploration	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Unsuccessful exploration costs	**$665**	$7,191	-	**$13,895**	$7,477	-

The Q2 2013 charge related to the write off of specific well costs associated with Songkhla M and G5/50 the results of which are deemed sub-commercial at this time. The Q3 2013 charge relates to activities at Songkhla M and G5/50 which were incurred after June 30.

Net profits interest	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Net profits interest	**$-**	$39	-	**$1,919**	$908	111%

The Company has Net Profits Agreements with two parties totaling 3.5% of net profits (defined as revenue minus all operating and capital expenditures, including royalties and taxes as well as G&A expense) from the Gulf of Thailand Block G5/43 operations as determined on a quarterly basis. In Q3 2013 income, as defined under the net profits agreement, was not achieved and thus no net profit interest expense was incurred.

Finance costs	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Finance costs	**$2,579**	$1,940	33%	**$3,926**	$3,141	25%

Q3 2013 finance costs increased due to a $1.1 million charge in relation to the IFRS mark-to-market adjustment of the Company's outstanding warrants as the Company's share price rose to C$18.97 from C$13.73 during the quarter. After allowing for this and accretion expense, the underlying debt interest expense increased 20% from $1.0 million in Q2 2013 to $1.2 million in Q3 2013. Total gross debt (excluding interest) at September, 2013 was $115.0 million (June 30, 2013: $100.0 million). The Company's average interest rate (excluding debt financing fees) for the quarter was 4.02% (2012: 3.90%).

The Company upsized its revolving credit facility from $200.0 million to $350.0 million in Q3 2013.

Debt financing fees	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Debt financing fees	**$4,228**	$501	-	**$5,801**	$1,133	-

Immediately prior to the upsize of the debt facility in September 2013 the Company was carrying $3.8 million of unamortised debt issue costs. Following this upsize and in accordance with IFRS, these costs were expensed.

Depletion and Depreciation	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Oil and gas depreciation & depletion	**$16,820**	$15,332	10%	**$55,866**	$52,826	6%
Effect of change in inventory	**319**	(729)	-	**(1,862)**	70	-
Corporate depreciation	**159**	175	-9%	**477**	516	8%
Depletion, depreciation, amortization and impairment expense	**$17,298**	$14,778	17%	**$54,481**	$53,412	2%
$ per bbl	**$8.86**	$8.77	1%	**$9.90**	$10.20	-3%

Depletion and Depreciation expenses are in line with last year's levels on a per barrel basis for both the three and nine month periods. The increase in total DD&A expense for both the quarter and year to date reflects the higher lifting volumes realized this year.

Taxes	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Current tax expense	**$32,774**	$42,135	-	**$75,777**	$124,032	-
Deferred income tax charge	**21,378**	2,778	-	**88,802**	46,576	-
Taxes	**$54,152**	$44,913	21%	**$164,579**	$170,608	-4%

The Company's future income tax liability primarily relates to Thai taxes. The Company became a cash taxpayer in Thailand in 2012. The current income tax expense portion reflects the Company's estimated tax liabilities under the Petroleum Income Tax Act (PITA) and the Special Remuneratory Benefit (SRB) associated with the Company's year to date results. The Company pays taxes in Thailand twice per year. An estimated payment equal to 50% of the forecasted PITA tax due for the full year is paid in Q3 of that year. The remaining PITA balance and 100% of the SRB balance are due in Q2 of the following year.

Total income tax provisions recognized in the nine months year to date are largely in line with 2012 levels. The decline in current tax expense on a year over year basis is due to an overestimation of 2012 SRB expense.

Under IFRS, these taxes are calculated in Thai Baht (the payment currency) and then converted to US dollars.

Share of net income from Apico LLC	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Coastal's 39.0% (2012: 39.0%) of Apico's net income	**$2,906**	$4,700	-38%	**$13,917**	$14,508	-4%
Amortization of Coastal's excess basis	**(108)**	(163)	-34%	**(510)**	(467)	9%
Earnings from Significantly Influenced Investee, net of taxes	**$2,798**	$4,537	-38%	**$13,407**	$14,041	-5%
100% Field Production volumes (mmcf/d)	**61.9**	93.0	-33%	**98.2**	89.5	10%
13.6% net to Coastal (mmcf/d)	**8.5**	12.7	-33%	**13.4**	12.2	10%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on Apico's quarterly reported net income. Apico's revenue and net income have decreased in Q3 2013 relative to Q2 2013 due to lower production levels at Sinphuhorm due to extended seasonal maintenance downtime at the Nam Phong power plant.

The Company acquired additional interests in Apico for amounts 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.

Net income	3 Months ended September,			9 Months ended September,		
	2013	2012	Change	**2013**	2012	Change
Net income and comprehensive income attributable to Coastal Energy	**$50,720**	$40,100	26%	**$121,704**	$130,385	-7%
Basic earnings per share	**$0.45**	$0.35	29%	**$1.07**	$1.15	-7%
Diluted earnings per share	**$0.44**	$0.34	29%	**$1.04**	$1.10	-5%

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Summary of Quarterly Results

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

	2013			2012				2011
	Q3	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4
Revenues and Other Income								
Oil sales	**$201,762**	$136,904	$226,800	$192,241	$170,894	$194,639	$189,079	$128,929
Royalties	**(22,632)**	(14,037)	(26,310)	(20,218)	(18,305)	(20,514)	(20,243)	(11,955)
Reimbursement of expenses under Malaysia risk service contract	**30,967**	4,486	2,285	4,099	-	-	-	-
Gain (loss) on derivative	**(2,059)**	1,397	217	758	(4,002)	9,934	(9,159)	(8,838)
Interest income	**133**	4	27	34	2	1	2	2
Other income (loss)	**565**	(2,416)	17	(47)	(1,122)	(157)	(1,014)	(336)
	208,736	126,338	203,036	176,867	147,467	183,903	158,665	107,802
Expenses								
Production	**38,448**	35,601	42,933	39,907	32,718	41,164	36,210	32,773
Malaysia risk service contract	**30,967**	4,486	2,285	4,099	-	-	-	-
Depreciation and Depletion	**17,298**	13,878	23,305	16,727	14,778	18,590	20,044	22,844
Net profits interest	**-**	(7)	1,926	133	39	869	-	-
General and Administrative	**11,358**	8,269	7,781	15,187	9,125	7,057	8,327	11,931
Exploration	**665**	13,230	-	-	7,191	286	-	1,545
Debt financing fees	**4,228**	1,045	528	1,032	501	351	281	273
Finance expenses	**2,579**	132	1,215	1,574	1,940	195	1,006	1,549
Loss (gains) on disposal of property, plant and equipment	**-**	15	(19)	-	(252)	-	-	-
	105,543	76,649	79,954	78,659	66,040	68,512	65,868	70,915
Taxes	**54,152**	35,123	75,304	8,377	44,913	77,384	48,311	20,201
Share of earnings from Apico LLC	**2,798**	5,391	5,218	5,069	4,537	5,497	4,007	2,563
Net income (loss) before non-controlling interests	**51,839**	19,957	52,996	94,900	41,051	43,504	48,493	19,249
Non Controlling interest	**(1,119)**	(1,052)	(917)	(882)	(951)	(1,354)	(358)	(357)
Net income (loss) attributable to Coastal Energy Company	**50,720**	18,905	52,079	94,018	40,100	42,150	48,135	18,892
EBITDAX[(a)]	$134,645	$83,805	$152,045	$121,552	$114,603	$130,278	$128,439	$75,085
Basic earnings (loss)	$0.45	$0.17	$0.46	$0.83	$0.35	$0.37	$0.42	$0.17
Diluted earnings (loss)	$0.44	$0.16	$0.45	$0.80	$0.34	$0.36	$0.40	$0.16

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

Significant factors influencing Quarterly Results include

- The volatility of global crude oil prices has a direct effect on the Company's revenue as well as unrealized gains or losses on risk management contracts.
- The Company incurred lower overall lease operating expenses from mid-2012 onwards as a consequence of acquiring previously leased production facilities.
- The Company transacts business in multiple currencies; therefore the volatility of global currency exchange rates has a direct effect on the Company's foreign exchange (gains) losses.

Cash Flow Analysis

The Company's cash and cash equivalents at September 30, 2013 were $66.2 million, an increase of $2.3 million from $63.9 million at December 31, 2012. The Company's primary source of funds came from operations and a net $15.0 million drawdown of debt. Cash and cash equivalents were primarily used to fund property, plant and equipment expenditures of $245.4 million and income tax payments of $100.6 million. The residual was used to fund working capital.

Capital Expenditures

Capital expenditures (on an accruals basis) amounted to $101.8 million and $256.2 million for the three and nine months ended September 30, 2013, compared to $151.3 million and $264.4 million for the three and nine months ended September 30, 2012, respectively. The Q3 2013 expenditures relate to field development at Bua Ban North, frac jobs at Bua Ban Main and costs associated with converting two drilling rigs into mobile production units ("MOPUs"). 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	**2013**	2012	**2013**	2012
Seismic, geological and geophysical studies	**$1,548**	$15,647	**$4,605**	$18,489
Drilling and completions	**41,367**	33,340	**130,978**	78,031
Facilities	**36,744**	90,247	**72,903**	138,597
Lease and well equipment	**21,740**	11,674	**46,273**	28,523
Administrative assets	**423**	415	**1,417**	785
Total Capital Expenditures	**$101,822**	$151,323	**$256,176**	$264,425

Equity Capital

Share Capital

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

As of the date of this report, the Company had 113,293,628 common shares outstanding.

On June 11, 2013, the Company announced that the TSX had accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("NCIB") to purchase some of its common shares through the TSX. The NCIB commenced on June 14, 2013 and will terminate on the earliest of the purchase of 5,680,241 common shares (5% of the common shares issued and outstanding as of May 31, 2013), the Company providing notice of termination, or June 13, 2014. Any common shares purchased pursuant to this NCIB will be cancelled by the Company.

Through to the date of this report, the Company has purchased 431,800 common shares under this NCIB at an average price of Cdn$15.24 per share.

Warrants

As of December 31, 2012, the Company had 200,000 warrants outstanding exercisable at CAD $1.136 per share. During the first nine months of 2013 no warrants were exercised.

Subsequent to September 30, 2013, no warrants were exercised resulting in the issuance of no common shares of the Company.

Stock Options

During the nine months ended September 30, 2013, the Company granted no stock options, had 352,202 options exercised and had no forfeitures. Subsequent to September 30, 2013, no options were exercised and no options were forfeited.

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 02, 2009	739,583	0.25 years	$1.31 (Cdn$1.35)	Jan. 01, 2014	739,583
Dec. 01, 2009	1,608,277	1.25 years	$4.99 (Cdn$5.13)	Nov. 30, 2014	1,608,277
Dec. 28, 2010	1,163,444	2.25 years	$5.59 (Cdn$5.75)	Dec. 27, 2015	670,748
Dec. 14, 2011	1,432,713	3.25 years	$13.65 (Cdn$14.04)	Dec. 13, 2016	407,662
	4,944,017				3,426,270

Restricted Stock Units

During the nine months ended September 30, 2013, 6,686 restricted stock units ('RSUs') were granted and 26,800 RSUs were settled. Over the same period no RSUs were forfeited. The following table summarizes the outstanding RSUs at September 30, 2013 and as of the date of this report:

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	137,093	1.25 years	$12.93	Dec. 14, 2014
Dec. 14, 2012	509,963	2.25 years	$19.87	Dec. 14, 2015
Aug. 27, 2013	6,686	2.25 years	$14.96	Dec. 14, 2015
	653,742			

Off-Statement of Financial Position Arrangements

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

Related Party Transaction

In Q1 2013, a related party of the primary shareholder, O.S. Wyatt, Jr., reached payout under the terms of a net profits agreement following the recovery of all capital and operating expenditures. Under the terms of this arrangement he was entitled to $1.36 million, which is based upon 2.5% of net profits from the Gulf of Thailand Block G5/43 operations for the three months ended March 31, 2013. The amounts due to this related party were paid during Q2 2013. No net profits, as defined under this agreement, were achieved in Q2 2013 nor in Q3 2013 and as such no payout was earned by the related party. The net profits agreement was executed in 2005 and has been previously disclosed by the Company.

Commitments and Contingencies

All the Company's commitments and contingencies are described in Note 17 to the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2013.

Subsequent Events

None

Critical Accounting Policies, Estimates and New Accounting Pronouncements

A detailed summary of the Company's critical accounting policies and estimates is included in Note 3 to the audited financial statements for the year ended December 31, 2012.

Risks and Uncertainties

Coastal has published its assessment of its business risks in the Risk Factor section of its Annual Information Form ("AIF") dated March 26, 2013 (available on SEDAR at www.sedar.com). It is recommended that this document be reviewed for a thorough discussion of risks faced by the Company.

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

Industry

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

Petroleum and Gas Prices

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

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

Operating Hazards and Risks

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

Reserve Estimates

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

Disruptions in Production

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

Cash Flows and Additional Funding Requirements

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

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

Environmental

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

Laws and Regulations

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

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

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

Title to Oil and Gas Properties

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

Dependence on Management

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

Apico Financial Reporting

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

Risk Management and Financial Instruments

Coastal provides a risk management and financial instruments discussion on its exposure to and management of credit risk, liquidity risk and market risk in Note 19 to the unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2013.

Certification of Disclosures in Interim Filings

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

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

During the quarter ended September 30, 2013 there have been no change to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has procedures in place relating to DC&P and ICFR and will continue to monitor such procedures as the Company's business evolves.

Outlook

The Company plans to continue its two rig drilling program with one rig currently in Thailand and the other in Malaysia. The Company plans for the Manta drilling rig to return to Thailand once the Vicksburg rig falls off contract at year end 2013 and continue the exploration and development drilling programs offshore Thailand.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Revenues and Other Income				
Oil sales	**201,762**	170,894	**565,466**	554,612
Royalties	**(22,632)**	(18,305)	**(62,979)**	(59,062)
Oil sales, net of royalties	**179,130**	152,589	**502,487**	495,550
Reimbursement of expenses under Malaysia risk service contract	**30,967**	-	**37,738**	-
Other income (Note 12)	**(1,361)**	(5,122)	**(2,115)**	(5,515)
	208,736	147,467	**538,110**	490,035
Expenses				
Production	**38,448**	32,718	**116,982**	110,092
Malaysia risk service contract	**30,967**	-	**37,738**	-
Depreciation and depletion (Note 7)	**17,298**	14,778	**54,481**	53,412
Net profits interest (Note 13)	**-**	39	**1,919**	908
General and administrative	**11,358**	9,125	**27,408**	24,509
Exploration (Note 6)	**665**	7,191	**13,895**	7,477
Debt financing fees	**4,228**	501	**5,801**	1,133
Finance	**2,579**	1,940	**3,926**	3,141
Gain on property, plant and equipment	**-**	(252)	**(4)**	(252)
	105,543	66,040	**262,146**	200,420
Net income before income taxes, share of earnings from Apico LLC	**103,193**	81,427	**275,964**	289,615
Share of earnings from Apico LLC (Note 8)	**2,798**	4,537	**13,407**	14,041
Net income before income taxes	**105,991**	85,964	**289,371**	303,656
Income taxes (Note 15)				
Current	**32,774**	42,135	**75,777**	124,032
Deferred	**21,378**	2,778	**88,802**	46,576
	54,152	44,913	**164,579**	170,608
Net income and comprehensive income	**51,839**	41,051	**124,792**	133,048
Net income and total comprehensive income attributable to:				
Shareholders of Coastal Energy	**50,720**	40,100	**121,704**	130,385
Non-controlling interest	**1,119**	951	**3,088**	2,663
	51,839	41,051	**124,792**	133,048
Net income per share:				
Basic (Note 14)	0.45	0.35	1.07	1.15
Diluted (Note 14)	0.44	0.34	1.04	1.10

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

Condensed Interim Consolidated Statements of Financial Position

(Unaudited) US $000's

As at	**September 30 2013**	December 31, 2012
	$	$
Assets		
Current Assets		
Cash	**66,213**	63,897
Restricted cash (Note 4)	**4,434**	6,452
Accounts receivable (Note 5)	**66,889**	56,848
Derivative asset (Note 11)	**101**	132
Crude oil inventory	**23,494**	15,611
Marine fuel inventory	**4,951**	5,245
Prepaids and other current assets	**2,297**	628
Total current assets	**168,379**	148,813
Non-Current Assets		
Exploration and evaluation assets (Note 6)	**69,545**	118,350
Property, plant and equipment (Note 7)	**790,987**	560,493
Investment in Apico LLC (Note 8)	**64,900**	60,266
Deposits and other assets	**6,265**	6,271
Total non-current assets	**931,697**	745,380
Total Assets	**1,100,076**	894,193
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	**190,725**	217,757
Current portion of long-term debt (Note 11)	**37**	34
Current portion of derivative liabilities (Note 11)	**1,662**	1,372
Total current liabilities	**192,424**	219,163
Non-Current Liabilities		
Long-term debt (Note 11)	**110,800**	95,066
Non-current portion of derivative liabilities (Note 11)	**515**	502
Derivative liability - warrants (Note 10)	**3,468**	3,784
Deferred tax liabilities	**187,225**	98,423
Decommissioning liabilities	**43,955**	46,726
Total non-current liabilities	**345,963**	244,501
Shareholders' Equity (Note 14)		
Common shares	**214,754**	213,260
Contributed surplus	**24,215**	18,940
Retained earnings	**310,068**	193,877
Total Shareholders' Equity	**549,037**	426,077
Non-controlling interest	**12,652**	4,452
Total equity	**561,689**	430,529
Total liabilities and equity	**1,100,076**	894,193

Commitments and contingencies (Note 17)

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

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited) US $000's

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Operating activities				
Net income	**51,839**	41,051	**124,792**	133,048
Adjustments:				
Share of earnings from Apico LLC	**(2,798)**	(4,537)	**(13,407)**	(14,041)
Unrealized loss (gain) on derivative instruments	**1,965**	362	**334**	(11,523)
Depletion and depreciation	**17,298**	14,778	**54,481**	53,412
Finance expense	**2,579**	1,940	**3,926**	3,141
Amortisation of debt financing fees	**4,079**	147	**4,946**	779
Share-based compensation	**5,453**	5,531	**9,320**	10,167
Deferred income taxes	**21,378**	2,778	**88,802**	46,576
Unrealized foreign exchange loss (gain)	**826**	17	**422**	(49)
Gains on disposal of property, plant and equipment	**-**	(252)	**(4)**	(252)
Exploration expense	**665**	7,191	**13,895**	7,477
Income taxes paid	**(21,880)**	(63,527)	**(100,597)**	(63,656)
Interest received	**133**	2	**168**	5
Interest paid	**(1,140)**	(318)	**(3,301)**	(1,570)
Dividends received from Apico LLC	**3,704**	9,943	**8,773**	9,943
	84,101	15,106	**192,550**	173,457
Change in non-cash working capital:				
Accounts receivable	**(32,992)**	(49,066)	**(10,041)**	(60,297)
Inventory	**(1,009)**	(1,325)	**(7,589)**	(3,217)
Prepaids and other current assets	**1,672**	106	**(1,669)**	144
Accounts payable and accrued liabilities	**18,925**	6,348	**4,360**	(1,885)
Current income taxes payable	**18,931**	45,520	**61,934**	127,288
Cash flow provided by operating activities	**89,628**	16,689	**239,545**	235,490
Financing Activities				
Issuance of common shares, net of issuance costs	**317**	727	**1,605**	2,753
Cash settlement of restricted stock units	**(6,275)**	-	**(156)**	-
Repurchase of shares	**-**	(3,712)	**(6,275)**	(18,745)
Borrowings under long-term debt	**15,000**	50,000	**30,000**	50,000
Repayment of long-term debt	**-**	-	**(15,000)**	(30,000)
Loan arrangement fees	**(4,200)**	(2,915)	**(4,212)**	(3,883)
Distributions to non-controlling interest	**(1,335)**	(1,074)	**(3,954)**	(2,866)
Contributions from non-controlling interest	**3,626**	-	**9,066**	-
Cash flow provided by (used in) financing activities	**7,133**	43,026	**11,074**	(2,741)
Investing Activities				
Decrease in restricted cash	**2,008**	(20)	**2,018**	22,034
Expenditure on property, plant and equipment	**(70,953)**	(140,551)	**(247,922)**	(231,478)
Acquisition of increased ownership interest in Apico LLC	**-**	-	**-**	(9,250)
Proceeds from disposal of property, plant and equipment	**-**	352	**533**	352
Deposits and other assets - Payments	**-**	(6,000)	**-**	(6,000)
Deposits and other assets - Refunds	**-**	-	**-**	131
Cash flow used in investing activities	**(68,945)**	(146,219)	**(245,371)**	(224,211)
Effect of exchange rate changes on cash	**(625)**	(875)	**(2,932)**	(2,266)
Increase (decrease) in cash	**27,191**	(87,379)	**2,316**	6,272
Cash - Beginning of period	**39,022**	116,646	**63,897**	22,995
Cash - End of period	**66,213**	29,267	**66,213**	29,267

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

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited) US $000's

	Note	Common Shares	Contributed Surplus	Retained earnings	Attributable to shareholders of Coastal Energy Company	Non-Controlling Interest	Total
		$	$	$	$	$	$
Balance as at December 31, 2011	15	211,554	16,401	17,630	245,585	5,282	250,867
Net income and total comprehensive income		-	-	130,385	130,385	2,663	133,048
Exercise of stock options		3,430	(682)	-	2,748		2,748
Shares repurchased and cancelled		(2,484)	-	(16,261)	(18,745)	-	(18,745)
Share-based compensation		-	4,397	-	4,397	-	4,397
Distributions declared to non-controlling interest		-	-	-	-	(2,866)	(2,866)
Balance at September 30, 2012		212,500	20,116	131,754	364,370	5,079	369,449
Net income and total comprehensive income		-	-	94,018	94,018	882	94,900
Exercise of stock options		760	(194)		566	-	566
Shares repurchased and cancelled		-	-	(8)	(8)	-	(8)
Stock options purchased and cancelled		-	(2,204)	(31,659)	(33,863)	-	(33,863)
Restricted stock units purchased and cancelled		-	(435)	(228)	(663)	-	(663)
Share-based compensation		-	1,657	-	1,657	-	1,657
Distributions declared to non-controlling interest		-	-	-	-	(1,509)	(1,509)
Balance as at December 31, 2012	15	213,260	18,940	193,877	426,077	4,452	430,529
Net income and total comprehensive income		-	-	70,984	70,984	1,969	72,953
Exercise of stock options		1,636	(348)	-	1,288	-	1,288
Shares repurchased and cancelled		-	-	-	-	-	-
Restricted stock converted to common stock		245	(245)	-	-	-	-
Restricted stock settled in cash		-	(102)	(54)	(156)	-	(156)
Share-based compensation		-	4,047	-	4,047	-	4,047
Contributions from non-controlling interest		-	-	-	-	5,440	5,440
Distributions declared to non-controlling							-
interest		-	-	-	-	(2,619)	(2,619)
Balance as at June 30, 2013	15	215,141	22,292	264,807	502,240	9,242	511,482
Net income and total comprehensive income		-	-	50,720	50,720	1,119	51,839
Exercise of stock options		429	(109)	-	320	-	320
Shares repurchased and cancelled		(816)	-	(5,459)	(6,275)	-	(6,275)
Restricted stock converted to common stock		-	-	-	-	-	-
Restricted stock settled in cash		-	-	-	-	-	-
Share-based compensation		-	2,032	-	2,032	-	2,032
Contributions from non-controlling interest		-	-	-	-	3,626	3,626
Distributions declared to non-controlling interest		-	-	-	-	(1,335)	(1,335)
Balance as at September 30, 2013	15	214,754	24,215	310,068	549,037	12,652	561,689

Note 1. Reporting entity

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

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

Note 2. Basis of presentation

The condensed interim consolidated financial statements for Coastal Energy Company as at September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012 should be read in conjunction with the audited consolidated financial statements as at December 31, 2012 and December 31, 2011 and for the years ended December 31, 2012 and December 31, 2011. The condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements with the exception of those new accounting standards disclosed in Note 3.

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

The interim consolidated financial statements were approved by the Audit Committee of the Company's Board of Directors on November 6, 2013.

Note 3. Significant accounting policies

Significant accounting policies

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

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

- IFRS 7, "Financial Instruments: Disclosures", relates to the requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS.

- IFRS 10 "Consolidated Financial Statements" provides additional guidance to determine whether an investee should be consolidated.

- IFRS 11, "Joint Arrangements" presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method.

- IFRS 12, "Disclosure of Interests in Other Entities" aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- IFRS 13, "Fair Value Measurement", provides comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements.

- IAS 19 "Employee Benefits", improves the recognition and disclosure requirements for defined benefit plans.

- IAS 28, "Investments in Associates and Joint Ventures" establishes the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures.

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

Consolidation

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

Coastal also has a 39% (2012: 39%) interest in Apico LLC, an associate accounted for under the equity method. Apico LLC is involved in the exploration and production of gas in Northeastern Thailand.

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

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

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

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

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

The non-controlling interest related to KBM for the three and nine months ended September 30, 2013 was $nil and $nil, respectively (2012: $nil). The accumulated non-controlling interest was $9.06 million credit at September 30, 2013 (December 31, 2012: $0.08 million receivable).

The following table summarizes KBM's assets and liabilities:

As at	**September 30, 2013**	December 31, 2012
Current assets	**$7,487**	$4,461
Non-current assets	**48,861**	7,000
Current liabilities	**24,958**	7,121
Non-current liabilities	**-**	-

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

	Three months ended September 30,		Six months ended September 30,	
	2013	2012	**2013**	2012
Revenue	**$30,967**	$ -	**$37,738**	$ -
Net income	**-**	-	**-**	-

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

The non-controlling interest charge related to VSS for the three and nine months ended September 30, 2013 was $1.12 million and $3.09 million, respectively (2012: $0.95 million and $2.66 million respectively). The September 30, 2013 accumulated non-controlling interest is $3.59 million credit (December 31, 2012: $4.52 million credit).

The following table summarizes VSS's assets and liabilities:

As at	**September 30, 2013**	December 31, 2012
Current assets	**$446**	$5
Non-current assets	**19,821**	21,091
Current liabilities	**453**	12

The following table summarizes VSS' revenue and net income:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Revenue	**$2,680**	$2,976	**$8,401**	$8,710
Net income	**2,163**	2,499	**6,997**	5,906

Interest in Apico LLC partnership
The Company owns a 39% interest (December 31, 2012: 39%) in Apico LLC, holds 39% of the voting rights and can nominate one of the three board of director seats. Given that all 'substantial decisions' require 75% of the partners to agree and there are several combinations in which this can be achieved, all of which include the Company, the Company cannot exercise control or joint control.

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

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

Note 4. Restricted cash

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

As at	**September 30, 2013**	December 31, 2012
Collateral in support of corporate letter of credit (Note 17)	**$1,441**	$1,458
Restricted in support of long-term debt	**2,993**	4,994
	$4,434	$6,452

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

Note 5. Accounts receivable

As at	**September 30, 2013**	December 31, 2012
Oil sales	**$237**	$34,854
Receivable under risk service contract	**41,837**	4,099
Refundable taxes (VAT)	**23,832**	16,888
Other	**983**	1,007
	$66,889	$56,848

Note 6. Exploration and evaluation assets

	Exploration and Evaluation
As at December 31, 2011	**$31,881**
Additions	93,946
Exploration expense	(7,477)
As at December 31, 2012	**118,350**
Additions	22,211
Transfers to property, plant and equipment	(57,121)
Exploration expense	(13,895)
As at September 30, 2013	**$69,545**

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

During the three and nine months ended September 30, 2013, the Company expensed $0.67 million and $13.90 million, respectively, of exploration costs associated with the non-commercial results arising from the wells drilled at Songkhla M and G5/50 (2012: $7.19 million and $7.48 million respectively, expensed in relation to non-commercial results at Benjarong).

Note 7. Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
Cost				
As at December 31, 2011	**-**	**443,238**	**2,718**	**445,956**
Additions	50,576	226,216	1,156	277,948
Assets brought into use	(28,828)	28,828		-
Disposals	(300)	-	-	(300)
As at December 31, 2012	**$21,448**	**$698,282**	**$3,874**	**$723,604**
Additions	66,703	162,126	1,416	230,245
Transfers from exploration and evaluation assets	-	57,121	-	57,121
Disposals	-	(529)	-	(529)
As at September 30, 2013	**$88,151**	**$917,000**	**$5,290**	**$1,010,441**
Accumulated depletion, depreciation and impairment				
As at December 31, 2011	**-**	**89,640**	**1,264**	**90,904**
Depletion and depreciation	-	71,539	668	72,207
As at December 31, 2012	**-**	**161,179**	**1,932**	**163,111**
Depletion and depreciation	-	55,866	477	56,343
As at September 30, 2013	**$-**	**$217,045**	**$2,409**	**$219,454**
Carrying amount				
As at December 31, 2012	**$21,448**	**$537,103**	**$1,942**	**$560,493**
As at September 30, 2013	**$88,151**	**$699,955**	**$2,881**	**$790,987**

During the three and nine months ended September 30, 2013, $2.00 million and $3.72 million of credits, respectively, associated with decommissioning liabilities are included within additions (year ended December 31, 2012: $3.83 million charge). The credit for the three and nine months ended September 30, 2013 is largely due to the increase in treasury rates.

Depletion and depreciation expense recognized in property, plant and equipment for the three and nine months ended September 30, 2013 was $16.98 million and $56.34 million respectively (2012: $15.50 million and $53.34 million respectively), whereas the charge for depletion and depreciation expense recognized in the consolidated statement of operations and comprehensive income was $17.30 million and $54.48 million respectively (2012: $14.78 million and $53.41 million respectively). The difference relates to an inventory adjustment for crude oil produced but not yet sold.

Assets under construction

Assets under construction relate to activities associated with converting two drilling rigs into production platforms.

Note 8. Investment in and advances to Apico LLC

The Company has a 39.0% (December 31, 2012: 39.0%) interest in Apico LLC ("Apico"), a limited liability company incorporated in the State of Delaware, USA. Apico's primary purpose is the acquisition, exploration and development of onshore petroleum interests in the Kingdom of Thailand.

Apico has the following working interests in petroleum concessions located in the Khorat Plateau area in northeastern Thailand in 2013 and 2012:

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

The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference is related to Apico's oil and gas properties, and as a result has been allocated to Apico's oil and gas properties, and is being amortized using the units of production method. At September 30, 2013 the remaining unamortized excess basis was $18.92 million (December 31, 2012: $19.43 million).

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

As at	**September 30, 2013**	December 31, 2012
Balance, beginning of period	**$60,266**	$47,698
Acquisition of additional interest	**-**	9,250
Share of earnings, net of taxes	**13,917**	19,759
Amortization of excess basis in Apico	**(510)**	(649)
Dividends received	**(8,773)**	(15,792)
Balance, end of period	**$64,900**	$60,266

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

As at	**September 30, 2013**	December 31, 2012
Current assets	**$24,020**	$34,693
Non-current assets	**137,344**	118,166
Current liabilities	**36,508**	45,387
Non-current liabilities	**6,501**	2,306

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Revenue	**$14,899**	$23,766	**$70,766**	$73,078
Expenses	**1,710**	3,837	**11,282**	11,046
Income taxes	**4,395**	8,432	**23,796**	24,812
Net income	**8,794**	11,497	**35,688**	37,220

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

Note 9. Accounts payable and accrued liabilities

As at	September 30, 2013	December 31, 2012
Trade payables	**$33,119**	$72,770
Accrued payables	**94,462**	56,601
Income taxes payable	**61,932**	86,752
Other	**1,212**	1,634
	$190,725	$217,757

Included within accrued payables is an accrual of $8.39 million for the fair value of vested stock appreciation rights ("SARs") (December 31, 2012: $4.24 million). The Company increased the liability by $4.26 million and $4.33 million for the three and nine months ended September 30, 2013, respectively (2012: increase of $4.53 million and $6.60 million, respectively). Of this, $0.68 million and $0.72 million was capitalized to property, plant and equipment for the three and nine months ended September 30, 2013, respectively (2012: $0.41 million and $0.68 million, respectively).

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, 2013 is $12.88 million (December 31, 2012: $10.45 million).

In 2013 the Company awarded stock appreciation rights for the equivalent of approximately 185,435 (2012: 168,691) common shares, none of which are contingent upon the achievement of certain market-based performance goals established by the Company. These awards vest and are cash-settled 33.3% on each of the subsequent anniversaries of the grant date.

Note 10. Derivative liability - warrants

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

	September 30, 2013		December 31, 2012	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
Balance, beginning of period	**200,000**	**$1.13**	200,000	$1.11
Warrants issued	**-**	**-**	-	-
Warrants exercised	**-**	**-**	-	-
Warrants expired	**-**		-	-
Balance, end of period	**200,000**	**$1.08**	200,000	$1.13

The recorded values of the Canadian dollar denominated purchase warrants were calculated using the Black-Scholes pricing model over the remaining term of the warrants. The key inputs are as follows:

As at	September 30, 2013	December 31, 2012
Risk free interest rate as per US Treasury Bonds	**0.04%**	0.16%
Share price (Canadian dollars)	**$18.97**	$19.96
Remaining term of the warrants	**0.33 years**	1.08 years
Volatility	**40%**	40%

Note 11. Long term debt

As at	**September 30, 2013**	December 31, 2012
Revolving debt facility	**$350,000**	$200,000
Unused portion of debt facility	**(235,000)**	(100,000)
Total debt drawn down	**115,000**	100,000
Unamortised debt issue costs	**(4,200)**	(4,934)
Carrying value of long-term	**110,800**	95,066
Current portion of long-term debt	**-**	-
Non-Current portion of long-term debt	**$110,800**	$95,066

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

As at	**September 30, 2013**	December 31, 2012
Principal	**$-**	$-
Interest	**37**	34
	$37	$34

BNP Paribas debt facility

The facility is a borrowing base facility secured by certain of the Company's petroleum assets as designated during each semiannual redetermination period. The facility is secured by pledges of the Company's interest in the borrowing base assets and associated facilities, pledges of the bank accounts into which revenue from the borrowing base assets is received, a floating charge over certain of the Company's other assets and a general security assignment consistent with standard project finance arrangements. The terms of the agreement require cash to be placed in restricted accounts, as described in Note 4.

On September 17, 2013 the Company amended the terms of the revolving debt facility with BNP Paribas and Commonwealth Bank of Australia. This saw the facility increase from $200.0 million to $350.0 million and an an extension of the amortization period of the borrowing base. From September 17, 2013, Credit Agricole, HSBC and Standard Chartered Bank are also part of the syndicate. The facility amount begins amortizing on 29 June 2015 at the rate of $43.75 million every six months through to the earlier of June 30, 2018 or the reserve tail date (defined as the date at which less than 25% of the Company's current 1P reserve base remains).

In the nine months ended September 30, 2013 the Company drew down $30.0 million and repaid $15.0 million under its revolving debt facility.

The effective interest rate for the three and nine months ended September 30, 2013 was 18.74% and 11.15% respectively (2012: 7.14% and 6.20%, respectively) per annum. The increase in the effective interest rate in 2013 was due to writing off unamortised debt issue costs in Q3 2013 in accordance with IFRS.

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

The following is a summary of the crude oil derivative contracts outstanding at September 30, 2013:

	Notional Volumes (bbl)	Term	Average Strike Price	Fair value of asset (liability)
Long Puts				
Brent	1,677,958	Oct. 2013 –Apr. 2015	$70.00/bbl	$473
Short Calls				
Brent	1,677,958	Oct. 2013 –Apr. 2015	$120.60/bbl	(2,034)
Collar				
Brent	432,692	Oct. 2013 –Apr. 2015	-	(616)
Fair value of derivative assets (liabilities)				($2,177)

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

	September 30, 2013	December 31, 2012
Current portion	**($1,662)**	($1,372)
Non-current portion	**(515)**	(502)
Total fair value of derivative liabilities	**($2,177)**	($1,874)

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

The carrying fair value of the Company's interest rate swap derivative asset is $0.10 million as of September 30, 2013 (December 31, 2012: $0.13 million derivative asset).

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2013	2012	**2013**	2012
Realized losses on crude oil price derivative contracts	**($94)**	($3,640)	**($111)**	($14,750)
Unrealized (losses) gains on crude oil price derivative contracts	**(1,982)**	(481)	**(303)**	11,415
Unrealized (losses) gains on interest rate swap	**17**	119	**(31)**	108
	($2,059)	($4,002)	**($445)**	($3,227)

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

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

Note 12. Other income

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Change in fair value of derivative contracts (Note 11)	**($2,059)**	($4,002)	**($445)**	($3,227)
Interest	**133**	2	**164**	5
Foreign exchange losses	**522**	(1,122)	**(1,877)**	(2,293)
Other	**43**	-	**43**	-
	($1,361)	($5,122)	**($2,115)**	($5,515)

Note 13. Related parties

Major Subsidiaries and Apico LLC

These condensed interim consolidated financial statements include the financial statements of Coastal Energy and all affiliated subsidiaries as at September 30, 2013 and December 31, 2012. Transactions involving the Company, its subsidiaries, its joint venture, its special purpose entity and equity investment are eliminated upon consolidation. In the opinion of management there are no material related party transactions with entities outside the consolidated group in the three and nine months ended September 30, 2013 and 2012 except for that described below.

In the quarter ended March 31, 2013, a related party of the primary shareholder, O.S. Wyatt, Jr., reached payout under the terms of a net profits agreement following the recovery of all capital and operating expenditures. Under the terms of this arrangement he was entitled to $1.36 million, which is based upon 2.5% of net profits from the Gulf of Thailand Block G5/43 operations for the three months ended March 31, 2013. The amounts due to this related party were paid during Q2 2013. No net profits, as defined under this agreement, were achieved in Q2 2013 nor in Q3 2013. The net profits agreement was executed in 2005 and has been previously disclosed by the Company.

Note 14. Equity

Common Shares

Authorized share capital consists of 250,000,000 common shares with a par value of $0.04 each. Each share carries equal voting rights, is non-preferential and participates evenly in the event of a dividend payment or in the winding up of the Company. At September 30, 2013, 113,293,628 common shares were issued and fully paid (December 31, 2012: 113,350,350 shares).

During the nine months ended September 30, 2013, the Company repurchased 431,800 common shares through the facilities of the TSX and other Canadian market places under a normal course issuer bid ('NCIB') at an average cost of $14.54 per share (Cdn$15.24 per share) for a total repurchase cost of $6.28 million. The book value of the common shares repurchased was $1.89 per share for a total book value of $0.82 million that was recorded to share capital. The residual amount of $5.46 million was recorded directly to retained earnings. All of the common shares under the NCIB were cancelled. The NCIB will terminate on the earliest of the purchase of 5,680,241 common shares, Coastal providing a notice of termination or June 13, 2014. Any common shares purchased pursuant to the Normal Course Issuer Bid will be cancelled by the Company.

Stock Options

The Company has a stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the number of shares reserved for issuance of options combined with restricted stock units (discussed below) may not exceed 10% of the total shares issued and outstanding. At September 30, 2013 there remained available for future issuance 5,731,604 stock options, restricted stock units (discussed below) or a combination thereof. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The vesting term of options under the Plan is determined by the Company's Board of Directors but options granted typically vest over a period of three years. Prior to the January 2009 grant, the options vested one-quarter on the date of the grant and one-quarter on each subsequent anniversary of the date of the grant. Beginning with the January 2009 grant, the options vest one-third on each subsequent anniversary of the date of grant. The maximum exercise period of options granted under the Plan is five years following the grant date. The changes in stock options were as follows:

	September 30, 2013		December 31, 2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**5,296,219**	**$7.16**	8,545,717	$5.79
Options exercised	**(352,202)**	**$4.29**	(3,234,978)	$3.78
Options forfeited	**-**	**-**	(14,520)	$8.20
Balance, end of period	**4,944,017**	**$7.10**	5,296,219	$7.16

For share options exercised in the nine months ended September 30, 2013 the weighted average share price at the date of exercise was $19.61 (year ended December 31, 2012: $18.78).

The following table summarizes the outstanding and exercisable options at September 30, 2013:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 02, 2009	739,583	0.25 years	$1.31 (Cdn$1.35)	Jan. 01, 2014	739,583
Dec. 01, 2009	1,608,277	1.25 years	$4.99 (Cdn$5.13)	Nov. 30, 2014	1,608,277
Dec. 28, 2010	1,163,444	2.25 years	$5.59 (Cdn$5.75)	Dec. 27, 2015	670,748
Dec. 14, 2011	1,432,713	3.25 years	$13.65 (Cdn$14.04)	Dec. 13, 2016	407,662
	4,944,017				3,426,270

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

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. No grants were made in the nine months ended September 30, 2013.

For the three and nine months ended September 30, 2013 the Company recorded stock option expenses of $0.43 million and $1.29 million, respectively (2012: $1.05 million and $3.17 million, respectively), of which $0.03 million and $0.29 million, respectively (2012: $0.04 million and $0.16 million, respectively) was capitalized.

Restricted Stock

The Company has a restricted stock plan (the "RS Plan") in compliance with the TSX's policy for granting restricted stock units ("RSUs"). Under the RS Plan, the number of shares reserved for issuance may, along with other stock plans, not exceed 10% of the total issued and outstanding shares of the Company. At September 30, 2013 there remained available for future issuance 5,731,604 RSUs, stock options or a combination thereof (December 31, 2012: 5,352,732). The vesting term of RSUs under the RS Plan is determined by the Company's Board of Directors. For RSUs, one-third vest on each subsequent anniversary of the date of the grant. The changes in the number of RSUs for the nine months ended September 30, 2013 and for the year ended December 31, 2012 were as follows:

	2013	2012
Balance, beginning of period	**673,856**	205,628
RSUs granted	**6,686**	509,963
RSUs settled	**(26,800)**	(41,735)
RSUs forfeited	**-**	-
Balance, end of period	**653,742**	673,856

The following table summarizes the outstanding RSUs at September 30, 2013:

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	137,093	1.25 years	$12.93	Dec. 14, 2014
Dec. 14, 2012	509,963	2.25 years	$19.87	Dec. 14, 2015
Aug. 27, 2013	6,686	2.25 years	$14.96	Dec. 14, 2015
	653,742			

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

The fair value of each RSU granted is estimated at the time of the grant using the Black-Scholes pricing model. The grant date fair value for the RSU's granted in 2013 is $14.96 per unit (2012: $19.87). The assumptions used in valuing the RSUs are as follows:

	2013	2012
Risk-free interest rate	**0.77%**	0.34%
Expected life	**3 years**	3 years
Annualized volatility	**40%**	40%
Dividend rate	**0%**	0%

For the three months and nine months ended September 30, 2013 the Company recorded RSU expenses of $1.60 million and $4.79 million, respectively (2012: $0.41 million and $1.23 million, respectively), of which $0.14 million and $0.42 million, respectively (2012: $0.06 million and $0.18 million, respectively) was capitalized.

Those RSUs settled in cash during the nine months ended September 30, 2013 amounted to $0.16 million, with $0.10 million of accumulated stock-based compensation expense being moved from contributed surplus to retained earnings. The residual difference was recorded in retained earnings.

Contributed Surplus

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

Net Income per Share

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

	3 Months ended September 30,		9 Months ended September 30,	
	2013	2012	**2013**	2012
Weighted average common shares outstanding, basic	**113,331,884**	113,049,967	**113,502,675**	113,660,219
Effect of stock options and warrants	**3,080,172**	4,657,596	**3,372,742**	4,743,991
Weighted average common shares outstanding, diluted	**116,412,056**	117,707,563	**116,875,417**	118,404,210

The average market price used in the 'Effect of stock options and warrants' line in the above table was Cdn$16.08 and Cdn$18.02 for the three and nine months ended September 30, 2013 (2012: Cdn$15.85 and Cdn$16.28, respectively). Upon translation to US dollars these amounts equate to $15.63 and $17.52 for the three and nine months ended September 30, 2013 (2012: $16.11 and $16.55, respectively).

Note 15. Income taxes

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

	Three Months ended		Nine Months ended	
	2013	2012	**2013**	2012
Current income tax expense (recovery)				
Current year income tax expense	**32,774**	39,955	**83,468**	121,723
Adjustment in respect of prior years	**-**	2,180	**(7,691)**	2,309
Current income tax expense	**32,774**	42,135	**75,777**	124,032
Deferred tax expense				
Origination and reversal of temporary differences in the current year	**21,378**	634	**78,241**	31,335
Adjustment in respect of prior years	**-**	2,144	**10,561**	15,241
Deferred tax expense	**21,378**	2,778	**88,802**	46,576
Income tax expense	**$54,152**	$44,913	**$164,579**	$170,608

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

	Three Months ended		Nine Months ended	
	2013	2012	**2013**	2012
Net income before income taxes	**$105,991**	$85,964	**$289,371**	$303,656
Thailand petroleum income tax statutory rate	**50%**	50%	**50%**	50%
Expected income tax expense computed at standard rates	**52,996**	42,982	**144,686**	151,828
Add (deduct) the tax effect of :				
Tax rate differential in other countries	**(7,173)**	(923)	**(28,770)**	(1,571)
Non-taxable/deductible expenses	**(730)**	880	**(2,206)**	1,126
Share-based compensation	**2,753**	145	**4,624**	435
Valuation allowance	**(2,751)**	1,162	**(3,159)**	2,177
Tax basis revaluation	**(1,252)**	(3,875)	**1,322**	(3,102)
Special Remuneratory Benefit - Thailand	**10,309**	89	**45,212**	2,165
Change in estimate	**-**	4,453	**2,870**	17,550
Income tax expense	**54,152**	44,913	**164,579**	170,608
Consisting of:				
Current income tax expense	**32,774**	42,135	**75,777**	124,032
Deferred tax expense	**21,378**	2,778	**88,802**	46,576
Income tax expense	**$54,152**	$44,913	**$164,579**	$170,608

Note 16. Segment reporting

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

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

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

Segmented Income for the Nine Months ended September 30, 2013

	Thailand Onshore	**Thailand Offshore**	**Malaysia Offshore**	**Corporate and Other**	**Total**
Net oil sales	$-	$502,487	$-	$-	$502,487
Reimbursement of expenses under Malaysia risk service contract	-	-	37,738	-	37,738
Other Income	-	(1,421)	-	(694)	(2,115)
	-	501,066	37,738	(694)	538,110
Less: Expenses					
Production	-	116,982	-	-	116,982
Malaysia risk service contract	-	-	37,738	-	37,738
Depreciation and depletion	-	48,368	-	6,113	54,481
Net profits interest	-	1,919	-	-	1,919
General and administrative	-	7,849	-	19,559	27,408
Exploration	-	13,895	-	-	13,895
Debt financing fees	-	-	-	5,801	5,801
Finance expenses	-	949	-	2,977	3,926
Add: Gains on disposal of property, plant and equipment	-	4	-	-	4
Add: Net income from Apico LLC	13,407	-	-	-	13,407
Net income (loss) before taxes	$13,407	$311,108	$-	($35,144)	$289,371

Segmented Capital Expenditures for the Nine Months ended September 30, 2013

	Thailand Onshore	**Thailand Offshore**	**Corporate and Other**	**Total**
Capital expenditures	$-	$189,316	$66,860	$256,176

Segmented Income for the Nine Months ended September 30, 2012

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

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

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

Segmented Income for the Three Months ended September 30, 2013

	Thailand Onshore	Thailand Offshore	Malaysia Offshore	Corporate and Other	Total
Net oil sales	$-	$179,130	$-	$-	$179,130
Reimbursement of expenses under Malaysia risk service contract	-	-	30,967	-	30,967
Other Income	-	726	-	(2,087)	(1,361)
	-	179,856	30,967	(2,087)	208,736
Less: Expenses					
Production	-	38,448	-	-	38,448
Malaysia risk service contract	-	-	30,967	-	30,967
Depreciation and depletion	-	15,262	-	2,036	17,298
General and administrative	-	2,626	-	8,732	11,358
Exploration	-	665	-	-	665
Debt financing fees	-	-	-	4,228	4,228
Finance expenses	-	353	-	2,226	2,579
Add: Net income from Apico LLC	2,798	-	-	-	2,798
Net income (loss) before taxes	$2,798	122,502	$-	($19,309)	$105,991

Segmented Capital Expenditure for the Three Months ended September 30, 2013

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital expenditures	$-	$64,346	$37,476	$101,822

Segmented Income for the Three Months ended September 30, 2012

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

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

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

Segmented Assets as at September 30, 2013:

	Thailand Onshore	Thailand Offshore	Malaysia Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	$64,900	$-	$-	$-	$64,900
PP&E and E&E carrying amount	-	652,689	1,000	206,843	860,532
Total assets	$64,900	$764,499	$42,837	$227,840	$1,100,076

Segmented Assets as at December 31, 2012:

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

Note 17. Commitments and contingencies

Commitments and contingencies

Year	Drilling & Production Thailand	Drilling & Production Malaysia	Other	Total
2013	$32,172	$97,838	$369	$130,379
2014	67,681	125,580	417	193,678
2015	53,273	52,873	285	106,431
Thereafter	-	-	245	245

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

Thailand

The Company has provided a letter of credit to the Thailand Customs Department for $1.44 million as at September 30, 2013 (December 31, 2012: $1.46 million). This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of September 30, 2013.

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

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

Malaysia - Kapal, Banang, Meranti Cluster

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

The Company holds a 70% interest in Coastal Malaysia, with the remaining 30% being held by Petra Energy, an unrelated third party. Coastal Malaysia is the operator of the KBM cluster fields.

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

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

Note 18. Capital management

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

The Company's capital structure is comprised as follows:

As at	**September 30, 2013**	December 31, 2012
Total equity	**$561,689**	$430,529
Derivative liability – Warrants	**3,468**	3,784
Long-term debt drawn	**115,000**	100,000
Working capital deficit excluding long-term debt drawn	**24,045**	70,350
	$704,202	$604,663

As of September 30, 2013, the Company has utilized $115.0 million of its $350.0 million borrowing facility. Management believes it can access the equity and credit markets in the future should circumstances deem raising additional equity or debt is necessary.

The Company is in compliance with its debt covenants.

Note 19. Financial instruments and financial risk management

Financial Risk Management Objectives

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

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

Fair Values

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

The fair value of the Company's long-term debt as at September 30, 2013 was $109.27 million (December 2012: $96.11 million) when using the market LIBOR rate.

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

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

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

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

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

The Company's derivative commodity contracts are classified as fair value through profit and loss, and their fair values are marked to market every quarter based on inputs from quoted market prices in the futures market on the statement of financial position date. As discussed in Note 11, these derivative instruments are solely required for debt facilities. These contracts as well as the derivative liabilities associated with warrants are classified as Level 2.

The Company considers its risks in relation to financial instruments in the following categories, of which management considers that no category has significantly worsened in 2013 relative to 2012.

Credit Risk

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and restricted cash; (2) accounts receivable; (3) derivative assets. The Company has not had any credit losses in the past beyond that described below.

At September 30, 2013, the Company had $0.14 million of financial assets that were overdue (December 31, 2012: $0.20 million). This relates to the sale of surplus equipment. Management continues to work with the counterparty to resolve settlement of this balance and saw $0.06 million recouped in Q3 2013. No allowance has been made for doubtful accounts receivable (2012: $nil).

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

As at	**September 30, 2013**	December 31, 2012
Cash	**$66,213**	$63,897
Restricted cash	**4,434**	6,452
Refundable taxes (Thailand)	**23,832**	16,888
Trade receivable	**237**	34,854
Receivable under risk service contract	**41,837**	4,099
Other accounts receivable	**983**	1,007
Derivative asset	**101**	132
	$137,637	$127,329

Revenues in both years relate to a single customer that had a credit rating of BBB+ with Standard and Poors as at September 30, 2013. The Company's trade receivables at September 30, 2013 and December 31, 2012 were less than 30 days aged and were subsequently fully collected.

Typically, the Company's maximum credit exposure to customers is revenue from one month's commodity sales. The Company's standard credit terms have been (receipt of) payment within 30 days. The Company's policy to mitigate credit risk associated with commodity sales is to establish relationships with credit worthy customers. The Company has not written off any amounts receivable in either 2013 or 2012.

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

Liquidity Risk

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

The Company's financial liabilities arose primarily from the development of its Thailand properties. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from receipt of invoice and generally do not bear interest. At September 30, 2013 the Company had recorded all of the obligations associated with its financial liabilities. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	September 30, 2013					December 31, 2012
	Within 1 Year	**1-2 Years**	**3-5 Years**	**There-after**	**Total**	Total
Accounts payable and accrued liabilities	**$190,725**	**$-**	**$-**	**$-**	**$190,725**	$217,757
Long-term debt principal and interest	**37**	**-**	**-**	**115,000**	**$115,037**	100,034
Derivative liabilities	**1,662**	**515**	**-**	**-**	**$2,177**	1,874
Derivative liability – warrants	**-**	**3,468**	**-**	**-**	**3,468**	3,784
	$192,424	**$3,983**	**$-**	**$115,000**	**$311,407**	$323,449

Market Risk

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

(a) Currency Risk

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

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's costs are incurred principally in Thai Baht, Malaysian Ringgit, Singapore Dollars, Australian Dollars, British

Pounds and Canadian Dollars. The appreciation of non-US Dollar currencies against the US Dollar can increase the costs of operations and capital expenditures in US Dollar terms.

Based on the Company's net foreign currency exposures at September 30, 2013, a 10% depreciation or appreciation of the foreign currencies against the US Dollar would result in a $3.47 million (December 31, 2012: $1.23 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These exposures are attributable to quarter-end payables and receivables denominated in currencies other than the US Dollar.

(b) Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. Presently the Company's credit facility has an interest rate of LIBOR plus 350 bps. The Company monitors its exposure to interest rates and is comfortable with its exposures, given the relatively short-term of the interest rates on long-term debt. The terms of the Company's long-term debt obligation are described in Note 11. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling $115.0 million at September 30, 2013 (December 31, 2012: $100.0 million). A 100 basis point change in interest rates at the statement of financial position date would result in a $1.15 million change in the Company's annual net income (2012: $1.0 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 11.

The Company paid an average of 18.74% and 11.15%, respectively on its borrowings for the three and nine months ended September 30, 2013 (2012: 7.14% and 6.20% respectively). The spike in 2013 arises from having to write off unamortised debt issue costs in Q3 2013 in accordance with IFRS.

The Company earned an average of 0.02% and 0.02%, respectively on its short-term investments for the three and nine months ended September 30, 2013 (2012: 0.01% and 0.01%, 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, 2013.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 11. A 10% increase in prices of Brent as of September 30, 2013 would cause an increase in the derivative liability of $1.08 million (2012: increase in liability of $10.17 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of September 30, 2013 would cause a decrease in the liability of $0.24 million (2012: decrease of $7.78 million).

(d) Other Price Risk

The Company is exposed to equity price risk in relation to stock appreciation rights granted to employees. For more detail, see Note 9.

Note 20. Subsequent event

None

NON-INDEPENDENT DIRECTORS

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

Andrew L. Cochran, Executive Director

INDEPENDENT DIRECTORS

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

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

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

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

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

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

Andrew L. Cochran, Executive Director

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

TRADING SYMBOLS

CEN on TSX
CEO on AIM

WEBSITE

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INVESTOR RELATIONS

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ABBREVIATIONS

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

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

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