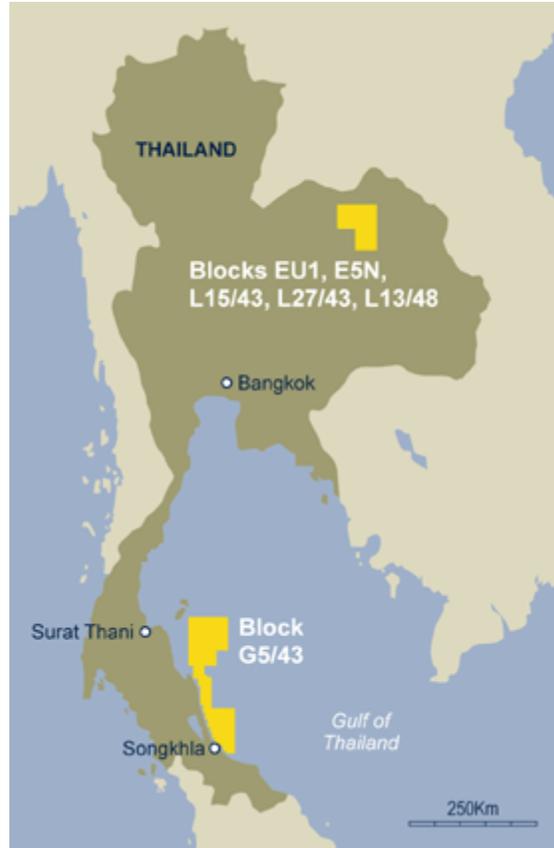


QUARTERLY REPORT  
 **COASTAL ENERGY**  
JUNE 30, 2008

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008



Coastal Energy's Oil & Gas interests

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## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

During the second quarter of 2008, Coastal has continued to make strides in pursuit of achieving first oil production from our offshore Gulf of Thailand assets in the fourth quarter 2008. In order to achieve production in the fourth quarter of this year, the Company has undertaken several critical path items. The Company received Thai Government approval on the Production Area Application for the development of its Songkhla field in the Gulf of Thailand. The Approval covers an extended area of 75 square km which includes not only the Songkhla field, but numerous surrounding satellite structures. The extended production area is significant because it enables the Company to fully exploit the prospects without the need to apply for additional Government approvals. On the facilities front, we have continued to progress with our well head and processing platform construction, as well as the refurbishment and conversion of a 24,000 ton vessel to an FSO. Current delivery for the platforms and FSO are on schedule to meet our fourth quarter production target. Finally, our Songkhla warehouse is fully stocked with long lead items for the offshore drilling program which we expect to commence in the end of the third quarter.

The Phu Horm gas field, located in north east Thailand, in which Coastal has a 12.6% indirect interest, was producing in excess of 100 mmcf/d at June 30, 2008. Later this year, Coastal will participate in the drilling of the Phu Keng prospect in block 27, operated by Apico. The well is located in Block L27/43 in north east Thailand. While drilling the Dong Mun 3 well earlier this year, the "Jurassic" interval had multiple zones with gas shows. Apico will drill a high structural well to test these shallower potential targets. Coastal will have a 36.1% working interest in the well. This well will have the potential to add significant additional gas reserves to our quality onshore Thailand assets. There are also numerous follow-up opportunities elsewhere in this basin.

Our recently installed technical team in Thailand has done an excellent job in getting ready for our upcoming offshore development program and has established numerous new prospects in the Gulf of Thailand G5/43 Block. In addition, our business development team is constantly evaluating prospects and searching for properties that would meet our investment criteria once we achieve our offshore production targets.

I continue to be excited about the near term development program as well as the longer term appraisal and exploration upside within the Company's existing asset portfolio.

On behalf of the Board of Directors

**Randy L. Bartley**

President and Chief Executive Officer  
August 28, 2008

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

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The following is Management's Discussion and Analysis ("MD&A") of the results and financial condition of Coastal Energy Company (the "Company"). This MD&A, dated August 28, 2008, should be read in conjunction with the accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2008 and related notes thereto. Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Overview

The Company was incorporated under the Companies Law of the Cayman Islands on May 26, 2004 and is engaged in the acquisition and exploration of petroleum and natural gas properties. The Company was listed on the Alternative Investment Market ("AIM") of the London Stock Exchange in January 2005 and on the TSX Venture Exchange ("TSX-V") in September 2005. The functional and reporting currency of the Company and its subsidiaries is the US dollar ("USD").

The Company's oil and gas properties and assets consists of the following ownerships interests in petroleum concessions awarded by the Kingdom of Thailand:

<b>Petroleum Concession</b>	<b>Coastal</b>
Offshore Thailand	
Block G5/43 in the Gulf of Thailand	100.0%
Block G5/50 in the Gulf of Thailand (within the boundaries of G5/43)	100.0%
Onshore Thailand (via the Company's 36.1% ownership of Apico LLC ("Apico"))	
Block EU-1 and E-5N containing the Phu Horm gas field	12.6%
Block L15/43 (surrounding the Phu Horm gas field)	36.1%
Block L27/43 (southeast of the Phu Horm gas field)	36.1%
Block L13/48 (immediately east of the Phu Horm gas field)	21.7%

### Second Quarter 2008 Highlights

- The Company has reported \$3.607 million as its share of earnings of a significantly influenced investee. This represents \$3.9 million (its 36.1% of Apico's unaudited second quarter net income of \$10.796 million) less \$0.293 million for amortization of the Company's excess basis in Apico (see Note 4 to the Financial Statements.)
- On June 6, the Company announced it had received Thai Government approval on the Production Area Application for the development of its Songkhla field in the Gulf of Thailand. The Approval covers an extended area of 75 square km which includes not only the Songkhla field, but numerous surrounding satellite structures. The extended production area is significant because it enable the Company to fully exploit the prospects without the need to apply for additional Government approvals.
- The Phu Horm gas field, in which the Company has a net 12.6% indirect interest, was producing in excess of 100 mmcf/d at June 30, 2008.

### 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.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

### Oil & Gas Properties

Summary of Oil & Gas Properties	Thailand Onshore	Thailand Offshore	Totals
<b>Balance, December 31, 2006</b>	<b>\$44,046</b>	<b>\$66,367</b>	<b>\$110,413</b>
Additions during the period:			
Exploration & development	-	9,320	9,320
Equity contributions in Apico	1,463	-	1,463
Equity earnings in Apico	9,212	-	9,212
Amortization of excess basis in Apico	(1,533)	-	(1,533)
<b>Balance, December 31, 2007</b>	<b>53,188</b>	<b>75,687</b>	<b>128,875</b>
Additions during the period:			
Exploration & development	-	12,306	12,306
Equity contributions in Apico	903	-	903
Cash Distribution from Apico	(5,239)	-	(5,239)
Equity earnings in Apico	7,023	-	7,023
Amortization of excess basis in Apico	(548)	-	(548)
<b>Balance, June 30, 2008</b>	<b>\$55,327</b>	<b>\$87,993</b>	<b>\$143,320</b>

#### (a) Thailand Offshore Properties



The Company maintains a 100% working interest in Block G5/43 (the “Block”) in the Gulf of Thailand. The Block is approximately 8,500 square kilometres and average water depths are approximately 70 feet. Under the terms of the Concession, the Company relinquished approximately 8,600 square kilometres of G5/43 back to the Kingdom of Thailand in July 2007. Company management used available seismic and technical data to determine the less prospective acreage which was relinquished. As a result, under full cost accounting, the Company incurred no financial impact related to this relinquishment.

## COASTAL ENERGY COMPANY

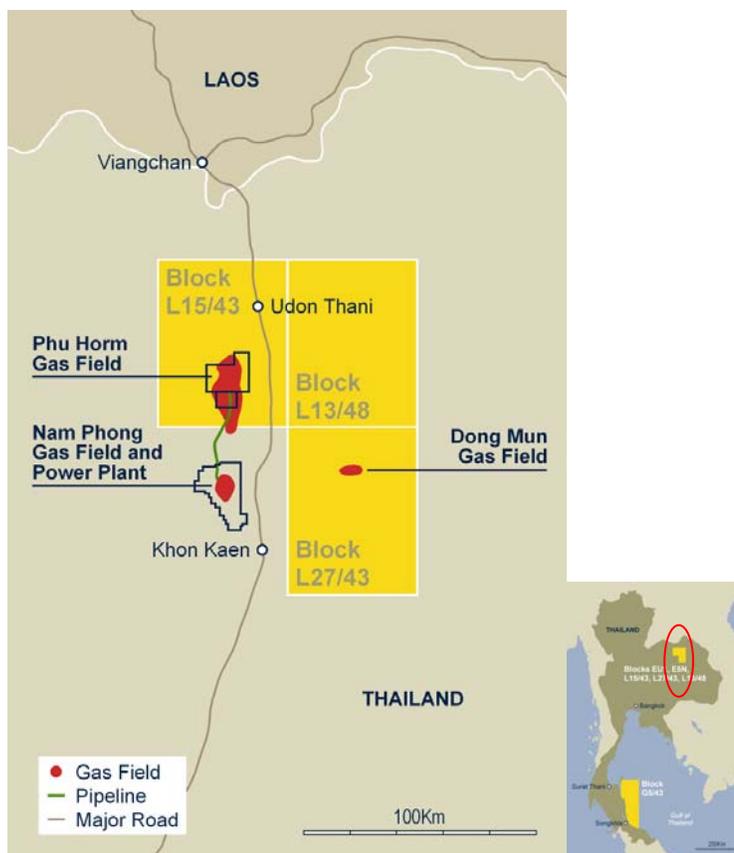
Three and six months periods ended June 30, 2008

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

Three successful wells were drilled by NuCoastal and PetroWorld on the Bua Ban oil field ("Bua Ban") in August 2005 which confirmed the existence of oil reserves. The three well program encountered the Lower Oligocene reservoir with estimated net pay ranging from 66-77 feet and a confirmed oil column of 577-724 feet. As of December 31, 2007, Bua Ban has proved and probable ("2P") oil reserves of 19.2 million barrels ("mmbbls"). The Songkhla oil field, which is smaller than Bua Ban, was discovered in 1989 and originally tested 1,500 barrels of production per day. As of December 31, 2007, it has 2P oil reserves of approximately 4.5 mmbbls. As part of a fast track development plan, environmental impact assessment and production area applications are under way for both the Songkhla and Bua Ban fields. The Company has begun contracting services for the Songkhla development and expects to be in production by the end of the year.

In December 2007, the Company was awarded the petroleum concession to Block G5/50 in the Gulf of Thailand in the Ko Kra Basin within the boundaries of Block G5/43.

### **(b) Thailand Onshore**



The Thailand onshore interests are held indirectly through the Company's equity investment in Apico. Apico is considered a significant equity investee. Apico's petroleum concessions are located in the Khorat Plateau in north eastern Thailand. Apico's results of operations for the six months ended June 30 and its financial position are as follows:

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

	3 Months ended June 30		6 Months ended June 30	
	2008	2007	2008	2007
Total revenue	\$21,853	\$16,191	\$39,573	\$30,375
Total expenses	3,589	4,128	6,777	7,966
Income tax expense	7,468	5,096	13,358	9,881
Net Income	\$10,796	\$6,967	\$19,438	\$12,528

	June 30, 2008	December 31, 2007
Current assets	\$25,997	\$36,414
Property, plant and equipment	105,100	89,884
Other assets	2,575	1,981
Total assets	\$133,672	\$128,279
Current liabilities	\$23,516	\$26,691
Non-current liabilities	3,701	2,571
Members equity	106,455	99,017
Total liabilities and equity	\$133,672	\$128,279

Production at the Phu Horm gas field commenced on November 30, 2006 and will supply the Nam Phong power plant with over 500 billion cubic feet of gas, plus condensate, under a 15 year Gas Sales Agreement with PTT Public Company Limited. Coastal's net interest of 12.6% is held through its equity investment in Apico which holds a 35% interest in Block EU-1 and E-5N. The other partners in the Block include Hess Corporation (Operator - 35%), PTT Exploration & Production (20%) and Exxon Mobil Corp. (10%). At June 30, 2008, four wells (PH-3, 4, 5 & 10) at Phu Horm were producing in excess of 100 mmcf/d.

Block L15/43 surrounds the Phu Horm gas field. Drilling of the South Phu Horm-1 ("SPH-1") appraisal well on the southern extension of the Phu Horm gas field commenced February 15, 2008. The SPH-1 well was drilled to a total depth of approximately 3,229 meters (-2,640 meters sub-sea) and encountered gas shows in both the Hua Hin Lat and Pha Nok Khao (PNK) formations. In April 2008, a full suite of logs were run and an open hole test conducted across the PNK primary target interval. The SPH-1 well tested gas at rates, after acid stimulation, that would not support commercial production from this location. The drilling, log and test data suggest the fracturing necessary to provide effective deliverability in the PNK carbonates is not present at the SPH-1 location and the well has been suspended pending further evaluation for a side track.

Block L27/43 is located 50 km southeast of the L15 concession. Seismic operations were conducted and evaluated over the Dong Mun structure in 2006. The Dong Mun 3 ("DM3") appraisal well was spudded on November 8, 2007 reaching a total depth of 3,127 meters. The well encountered numerous gas shows in the Jurassic, Triassic and Permian sections. Although gas was recorded over these intervals, no tests were conducted due to the lack of suitable testing equipment. Testing is anticipated in the third quarter of 2008. The appraisal well offers the opportunity to add reserves in close proximity to Phu Horn and Nam Phong infrastructure.

Block L13/48 is located 40km east of the Phu Horm gas field. The L13 concession holds the Si That discovery which tested gas in the Si That-2 well. Similar to Dong Mun, Si That offers an appraisal opportunity for additional reserves with low geological and technical risk. The Si That appraisal well is expected to be drilled in 2008.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

### Detailed Financial Analysis

Selected Information	3 Months ended June 30		6 Months ended June 30	
	2008	2007	2008	2007
Operating Expenses	<b>\$(2,687)</b>	\$(1,628)	<b>\$(6,406)</b>	\$(3,024)
Other items:	<b>5,642</b>	1,952	<b>5,400</b>	2,609
Income tax expense	<b>(2,484)</b>	-	<b>(2,484)</b>	-
Net income (loss) from continuing operations	<b>\$471</b>	\$324	<b>\$(3,490)</b>	\$(415)
Net loss from discontinued operations	-	(2,012)	-	(2,012)
Net income (loss)	<b>\$471</b>	\$(1,688)	<b>\$(3,490)</b>	\$(2,427)
Basic and diluted earnings (loss) per share from continuing operations	<b>\$0.00</b>	\$0.01	<b>\$(0.04)</b>	\$0.00
Basic and diluted earnings (loss) per share	<b>\$0.00</b>	\$(0.01)	<b>\$(0.04)</b>	\$(0.02)
Working capital			<b>\$20,473</b>	\$4,320
Total assets			<b>\$210,306</b>	\$130,312

The increase in the net income for the three months ended June 30, 2008 is primarily the result of increased income from the Company's investment in Apico and the foreign exchange gain from the weakening of the Thai baht against the US dollar offset by the income tax expense from the transfer of the Company's 25.5% interest in Apico (see Note 13 to the unaudited financial statements for the period ended June 30, 2008.)

#### Operating Expenses

	3 Months ended June 30		6 Months ended June 30	
	2008	2007	2008	2007
Salaries and benefits	<b>\$1,017</b>	\$744	<b>\$3,334</b>	\$1,342
Professional fees	<b>414</b>	232	<b>850</b>	525
Office and general	<b>382</b>	393	<b>655</b>	659
Travel and entertainment	<b>256</b>	60	<b>530</b>	160
Regulatory and transfer agent	<b>140</b>	128	<b>287</b>	200
Interest expense	<b>433</b>	55	<b>662</b>	106
Depreciation and amortization	<b>45</b>	16	<b>88</b>	32
	<b>\$2,687</b>	\$1,628	<b>\$6,406</b>	\$3,024

- Salaries and benefits include gross salaries, employee benefits and stock based compensation. Coastal had 14 employees in Q2 2007 compared to 27 in Q2 2008. Employee benefits have also increased in the area of stock based compensation. This increase is the result of compensation expense related to several grants (see Note 9 to the unaudited interim financial statements for the period ended June 30, 2008.)
- Professional fees have increased due to increased usage of consultants.
- Office and general expenses have decreased slightly due to increased monitoring of expenses.
- Travel and entertainment has increased due to increased activity in preparation for first production of our offshore Thailand properties, which has required more people to make more trips. In addition, our Board of Directors have held more physical meetings as opposed to teleconferences.
- Regulatory and transfer agent fees have increased due to Coastal's increase in market capitalization and fees that are based thereon.
- In Q2 2007 the Company only incurred interest expense on amounts due to shareholder (see Note 7 to the unaudited financial statements for the period ended June 30, 2008.) In Q2 2008 the Company incurred interest expense on amounts due to shareholder and long-term debt (see Note 8 to the unaudited financial statements for the period ended June 30, 2008.)
- Depreciation and amortization expense is only being incurred on corporate assets (see Note 5 to the unaudited financial statements for the period ended June 30, 2008.)

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

### Other Items

	3 Months ended June 30		6 Months ended June 30	
	2008	2007	2008	2007
Share of earnings (loss) of Apico:				
36.1% of Apico's unaudited net income	\$3,900	\$2,497	\$7,023	\$4,526
Amortization of Coastal's excess basis	(293)	(349)	(548)	(815)
Total share of earnings (loss) of Apico	3,607	2,148	6,475	3,711
Unrealized gain (loss) on derivative	(8)	-	19	-
Interest Income	270	126	515	227
Loss on sale of assets	-	(40)	-	(40)
Foreign exchange gain (loss):				
Unrealized on Thai tax liability	1,737	(357)	(195)	(1,120)
Net effect of cash held in foreign currencies	299	55	299	55
Realized	(263)	20	(1,713)	(224)
Total foreign exchange gain (loss)	1,773	(282)	(1,609)	(1,289)
	\$5,642	\$1,952	\$5,400	\$2,609

- Under the equity method of accounting, the Company records its share of net income of Apico based on the reported quarterly net income of Apico. Apico recorded its first quarter of profitability in Q4 2006, when the Phu Horm gas field began production. Q1 2007 was the first full quarter of production for the Phu Horm gas field. On September 25, 2006, the Company acquired an additional interest in Apico for an amount greater than its proportionate share of net assets of Apico ("excess basis"). The excess basis has been allocated to Apico's oil & gas properties and is being amortized using the units of production method beginning in Q1 2007.
- As a condition of the Company's reserve based revolving debt facility, the Company purchased a derivative agreement effective July 1, 2007. The Company adjusts the fair value of this agreement (mark to market) every quarter with the changes in fair value recognized in net earnings.
- Interest income is the result of the Company investing excess cash in highly liquid investments and restricted cash held in interest bearing accounts.
- The foreign exchange gain (loss) is a result of the Company carrying out transactions and maintaining certain assets and liabilities in currencies other than the US Dollar, including the Canadian Dollar, the British Pound, the Euro and the Thai Baht.
  - On September 25, 2006, the Company acquired all of the issued and outstanding shares of NuCoastal Thailand Limited in a transaction accounted for as a reverse takeover ("RTO"). As part of this RTO, the purchase price allocation included the establishment of a future income tax liability on assets located in Thailand. This liability relates to Thailand and is denominated in Thai Baht. Every quarter it is re-valued and the corresponding gain/loss is recognized in net earnings.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

### Summary of Quarterly Results

	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2 (a)	Q1	Q4	Q3
Operating expenses	<b>\$(2,687)</b>	<b>\$(3,719)</b>	<b>\$(3,310)</b>	<b>\$(3,991)</b>	\$(1,628)	\$(1,396)	\$(2,600)	\$(140)
Share of earnings (loss) of Apico LLC	<b>3,607</b>	<b>2,868</b>	<b>2,424</b>	<b>1,544</b>	2,148	1,563	583	(123)
Unrealized gain (loss) on derivative	<b>(8)</b>	<b>27</b>	<b>(183)</b>	<b>(983)</b>	-	-	-	-
Interest income	<b>270</b>	<b>245</b>	<b>142</b>	<b>61</b>	126	101	12	-
Loss on sale of assets	-	-	-	-	(40)	-	-	-
Foreign exchange gain (loss)	<b>1,773</b>	<b>(3,382)</b>	<b>(301)</b>	<b>(209)</b>	(282)	(1,007)	(1,763)	38
Foreign income tax expense	<b>(2,484)</b>	-	-	-	-	-	-	-
Net income (loss) from continuing operations	<b>\$471</b>	<b>\$(3,961)</b>	<b>\$(1,228)</b>	<b>\$(3,578)</b>	\$324	\$(739)	\$(3,768)	\$(225)
Net income (loss)	<b>\$471</b>	<b>\$(3,961)</b>	<b>\$(1,228)</b>	<b>\$(3,578)</b>	\$(1,688)	\$(739)	\$(3,768)	\$(225)
Basic and diluted earnings (loss) per share from continuing operations	<b>\$0.00</b>	<b>\$(0.04)</b>	<b>\$(0.02)</b>	<b>\$(0.05)</b>	\$0.01	\$(0.01)	\$(0.05)	\$(0.01)
Basic and diluted earnings (loss) per share	<b>\$0.00</b>	<b>\$(0.04)</b>	<b>\$(0.02)</b>	<b>\$(0.05)</b>	\$(0.02)	\$(0.01)	\$(0.05)	\$(0.01)

Note (a) During Q2 2007, the Company took a write-down against its oil and gas investment in Nevada, USA. The total carrying value of this property was \$2.0 million. This balance was expensed in Q2 as a period operating cost. Upon further review, the event has been determined to constitute a discontinuance of the operations of Coastal's United States cost centre. Accordingly, this write-down has now been reclassified from operating expenses to a loss from discontinued operations.

The amounts reported prior to September 25, 2006 are the historical information of NuCoastal Thailand Limited. Subsequent to September 25, 2006 the amounts reported include the results of PetroWorld.

### Cash Flow Analysis

The Company's cash and cash equivalents increased by \$19.2 million from \$13.1 million at December 31, 2007 to \$32.3 million at June 30, 2008. The Company's primary source of funds came from net proceeds of \$54.9 million from its public stock offering. The Company also received \$5.2 million from Apico and paid to Apico \$0.9 million resulting in net proceeds of \$4.3 million. The Company repaid its borrowings under its credit facility of \$25 million and later borrowed \$25 million under this same credit facility for a zero net effect on cash flow. Additional proceeds of \$0.5 million were made available from restricted cash which reduced from \$2.0 million at December 31, 2007 to \$1.5 million at June 30, 2008. Coastal used \$35.6 million of its funds to invest in property plant and equipment and \$4.3 million to pay operating expenses.

### Liquidity and Capital Resources

At June 30, 2008, the Company had cash and cash equivalents of \$32.4 million. After current borrowings of \$25 million, the Company had available credit of \$17.3 million under its revolving credit facility at June 30, 2008. In management's opinion, the Company's cash and available credit is sufficient to cover ongoing obligations as they become due.

Since December 2006, Apico has been largely self-funding as a result of production from its Phu Horn interest. The Company received a cash distribution from Apico of \$5.2 million in April 2008. The Company presently has earnings from its interest in Apico, which is accounted for under the equity method on the Statement of Operations.

In order to put the offshore Gulf of Thailand property into commercial production, substantial capital will be required. The additional sources of capital presently available to the Company for development are from its cash and cash equivalents, borrowings under the Company's revolving credit facility or the sale of equity.

As a requirement of the credit facilities, the Company entered into a derivative hedging agreement with an affiliate of the lender under which the Company has the right to sell up to 96,000 metric tons of Singapore

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

fuel oil at a price of \$290.00 per metric ton. The Company paid \$1.166 million for this option and the option expires on June 30, 2009. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit.

### **a) Share Capital**

250,000,000 common shares with par value of \$0.04 each; as of the date of this report, the Company had 93,630,720 common shares outstanding.

### **b) Stock Options**

On January 24, 2008, options for 62,500 shares were exercised. The Company granted stock options for 1,375,000 shares on January 25, 2008. On May 5, 2008 options for 125,000 shares were exercised and stock options for 200,000 shares were granted. On May 6, 2008 options for 125,000 shares expired. On May 22, 2008 options for 15,000 shares were exercised. The following table summarizes the outstanding and exercisable options as of the date of this report:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2005	187,500	0.50 years	\$0.79 (£0.40)	Jan. 25, 2009	187,500
Jul. 06, 2005	175,000	2.00 years	\$2.78 (£1.40)	Jul. 06, 2010	175,000
Dec. 27, 2006	2,635,000	3.50 years	\$2.23 (C\$2.20)	Dec. 27, 2011	1,310,000
Jun. 15, 2007	375,000	4.00 years	\$3.00 (C\$2.96)	Jun. 16, 2012	187,500
Jan. 25, 2008	1,375,000	4.50 years	\$3.99 (C\$3.94)	Jan. 26, 2013	343,750
May 05, 2008	200,000	4.50 years	\$4.49 (C\$4.44)	May 06, 2013	50,000
	4,947,500				2,253,750

On February 5, 2008, the Company granted options for 1,000,000 shares with terms which were determined during this quarter to be contrary to the Company's approved incentive stock option plan. These options have been voided. In the three months ended June 30, the Company reversed \$523,000 of stock based compensation which it had expensed in three months ended March 31 directly related to these options.

### **c) Warrants**

As of the date of this report, the Company had 2,343,745 warrants outstanding exercisable at \$5.56 (£2.80) per share and expiring on July 20, 2010.

## **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **Transactions with Related Parties**

In June 2008, the Company renegotiated its note payable to its shareholder to extend the maturity to December 31, 2008. As part of this renegotiation, in July 2008 the Company paid the shareholder \$410,964 which represented the accrued interest on the note payable through June 30, 2008.

## **Discontinued Operations**

In August 2007, the Company formally relinquished all its working interest in the Nevada leases to the operator in exchange for the Company's current obligation to pay the operator \$21,000 related to well clean up costs along with all future obligations surrounding this working interest. The Company wrote off its interest in this property of approximately \$2 million. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The operator was considered a related party because a director of the Company is also an officer and director of the Operator.

## **COASTAL ENERGY COMPANY**

Three and six months periods ended June 30, 2008

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

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### ***Commitments and Contingencies***

There have been no material changes in the Company's commitments and contingencies as described in the Management's Discussion and Analysis for the year ended December 31, 2007 and also in Note 12 to the annual audited financial statements for the year ended December 31, 2007.

### ***Critical Accounting Policies and Estimates***

A detailed summary of the company's critical accounting policies and estimates is included in Management's discussion and analysis for the year ended December 31, 2007 and also in Note 2 to the annual audited financial statements for the year ended December 31, 2007.

### ***New Accounting Pronouncements***

A detailed summary of new accounting pronouncements and their effect on the Company is included in Note 1 to the unaudited interim financial statements for the period ended June 30, 2008.

### ***International Financial Reporting Standards Update***

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company.

The AcSB requires IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with December 31 year-end, the first unaudited interim financial statements under IFRS will be the quarter ending March 31, 2011, with comparative financial information for the quarter ended March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ending December 31, 2010. This also means that all opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited interim financial statements.

The Company intends to adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. During the remainder of 2008, the Company will continue to evaluate the impact of IFRS on the Company and develop and put in place a plan for the conversion to IFRS. If the Company decides not to early adopt the standards, the actual conversion work will occur during 2009 and 2010, in anticipation of the preparation of the January 1, 2010 balance sheet which will be required for comparative purposes for all periods ending in 2011.

### ***Risks and Uncertainties***

Coastal has published its assessment of its business risks in the Risk Factor section of its Annual Information Form ("AIF") dated April 28, 2008 (available on SEDAR at [www.sedar.com](http://www.sedar.com).) It is recommended that this document be reviewed for a thorough discussion of risks faced by the Company.

The Company is subject to a number of risk factors due to the nature of the petroleum and gas business in which it is engaged, not the least of which are adverse movements in commodity prices, which are impossible to forecast. The Company is also subject to the oil and gas services sector which, at the present, has 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.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

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### **a) Going Concern**

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian GAAP on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company is currently a development stage entity and has no direct revenue from production; however, the Company has earnings from its interest in Apico, which is accounted for under the equity method on the consolidated statement of operations. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing or bring one of its resource properties into commercial production and ultimately achieve profitable operations. Although to date the Company has been successful in obtaining financing, there can be no assurance that the Company will be successful in raising additional share capital or generating revenue to generate sufficient cash flows from continuing operations to continue as a going concern.

### **b) 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 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.

### **c) 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. While prices for petroleum and natural gas have increased significantly since the start of 2003, there is no assurance that this trend will continue or that current prices will be sustained.

### **d) Cash Flows and Additional Funding Requirements**

The Company presently has earnings from its interest in Apico, which is accounted for under the equity method on the consolidated statement of operations. In order to put the offshore Gulf of Thailand property into commercial production, substantial capital will be required. The sources of capital presently available to the Company for development are from borrowings under the Company's revolving credit facility or the sale of 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 facility. The Company has not hedged these rates given the need to remain flexible in borrowing and repaying the outstanding balances.

### **e) 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.

## **COASTAL ENERGY COMPANY**

Three and six months periods ended June 30, 2008

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

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### ***f) Laws and Regulations***

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

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.

### ***g) Title to Oil & Gas Properties***

While the Company has undertaken customary due diligence in the verification of title to its oil & 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.

### ***h) 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 materially adverse effect on the Company.

### ***i) Apico Financial Reporting***

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

## ***Risk Management and Financial Instruments***

Coastal provides a risk management and financial instruments discussion as required by CICA handbook section 3862 "Financial Instruments – Disclosures" on its exposure to and management of credit risk, liquidity risk and market risk in Note 11 to the unaudited interim financial statements as at and for the period ended June 30, 2008.

## ***Disclosure Controls and Procedures and Internal Control over Financial Reporting***

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2007, that the Company's disclosure controls and procedures as of December 31, 2007 are effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008

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

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In addition, the certifying officers of the Company are responsible for designing or causing internal controls over financial reporting to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The certifying officers have concluded that the Company's internal control over financial reporting, as defined in 52-109, is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended December 31, 2007, in accordance with Canadian GAAP.

There has been no change in the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the most recently completed quarter that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls or internal control over financial reporting.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures and internal controls over financial reporting can only provide reasonable assurance, and not absolute assurance.

### **Outlook**

Coastal anticipates drilling up to 5 wells in the Songkhla oil field and up to 3 wells on an adjacent structure in the Gulf of Thailand during 2008. As a result of the drilling, the Company anticipates bringing oil production on stream in the Songkhla oil field in the fourth quarter of 2008 and production on stream in the Bua Ban field by mid 2009. In addition, the Company anticipates acquiring 2-D seismic in the northern part of its G5/43 Block in the Gulf of Thailand in late 2008.

Coastal anticipates Apico will drill the onshore Thailand Phu Keng well to test the shallower Dong Mung gas shows in Block L27 in late 2008.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Expenses</b>				
Salaries and benefits	1,017	744	3,334	1,342
Professional fees	414	232	850	525
Office and general	382	393	655	659
Travel and entertainment	256	60	530	160
Regulatory and transfer agent	140	128	287	200
Interest expense	433	55	662	106
Depreciation and amortization	45	16	88	32
	<b>2,687</b>	<b>1,628</b>	<b>6,406</b>	<b>3,024</b>
<b>Other (income) expense items</b>				
Share of earnings of significantly influenced investee, net of taxes	(3,607)	(2,148)	(6,475)	(3,711)
Unrealized (gain) loss on derivative (Note 8)	8	-	(19)	-
Interest income	(270)	(126)	(515)	(227)
Loss on sale of assets	-	40	-	40
Foreign exchange (gain) loss	(1,773)	282	1,609	1,289
	<b>(5,642)</b>	<b>(1,952)</b>	<b>(5,400)</b>	<b>(2,609)</b>
<b>Earnings (loss) before income taxes</b>	<b>2,955</b>	<b>324</b>	<b>(1,006)</b>	<b>(415)</b>
Income tax expense (Note 13)	2,484	-	2,484	-
<b>Net income (loss) from continuing operations</b>	<b>471</b>	<b>324</b>	<b>(3,490)</b>	<b>(415)</b>
<b>Net loss from discontinued operations (Note 12)</b>	<b>-</b>	<b>(2,012)</b>	<b>-</b>	<b>(2,012)</b>
<b>Net income (loss) and comprehensive income (loss)</b>	<b>471</b>	<b>(1,688)</b>	<b>(3,490)</b>	<b>(2,427)</b>
Deficit, beginning of period	(16,125)	(5,670)	(12,164)	(4,931)
<b>Deficit, end of period</b>	<b>(15,654)</b>	<b>(7,358)</b>	<b>(15,654)</b>	<b>(7,358)</b>
Basic and diluted loss per share:				
From continuing operations	-	0.01	(0.04)	-
From discontinued operations	-	(0.03)	-	(0.03)
	-	(0.02)	(0.04)	(0.03)
Weighted average number of common shares outstanding	93,573,249	76,858,909	92,888,277	76,858,567

## COASTAL ENERGY COMPANY

As of June 30, 2008 and December 31, 2007 (Unaudited)

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

### CONSOLIDATED BALANCE SHEETS

	June 30 2008	December 31, 2007
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	32,355	13,149
Restricted cash (Note 2)	1,535	2,048
Accounts receivable and other (Note 3)	1,126	450
	<b>35,016</b>	15,647
Investment in and advances to Apico LLC (Note 4)	55,327	53,188
Property, plant and equipment, net (Note 5)	119,888	88,762
Other long-term assets	75	57
	<b>210,306</b>	157,654
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	7,007	9,793
Current income taxes payable (Note 13)	2,484	-
Amounts due to shareholder (Note 7)	5,052	4,940
	<b>14,543</b>	14,733
Long-term debt (Note 8)	25,000	25,000
Future income tax liability	27,071	26,876
	<b>66,614</b>	66,609
<b>Shareholders' equity</b>		
Share capital (Note 9)	3,746	3,079
Contributed surplus (Note 9)	155,600	100,130
Deficit	(15,654)	(12,164)
	<b>143,692</b>	91,045
	<b>210,306</b>	157,654

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### CONSOLIDATED STATEMENTS OF CASH FLOW

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
<b>Operating activities</b>	\$	\$	\$	\$
Net income (loss) for the period	471	(1,688)	(3,490)	(2,427)
Net loss from discontinued operations	-	2,012	-	2,012
Items not involving cash (Note 14)	52	(1,399)	361	(1,937)
Change in non-cash working capital				
Accounts receivable and other	(630)	(204)	(676)	(468)
Accounts payable and accrued liabilities	1,746	(1,180)	1,627	(4,085)
Current income taxes payable	2,484	-	2,484	-
Cash provided by (used in) operating activities of continuing operations	4,123	(2,459)	306	(6,905)
Cash used in operating activities of discontinued operations	-	-	-	-
Cash provided by (used in) operating activities	4,123	(2,459)	306	(6,905)
<b>Investing activities</b>				
Investment in and advances to Apico LLC	(903)	-	(903)	(482)
(Increase) decrease in restricted cash	(8)	-	513	-
Purchase of property, plant and equipment, net	(16,651)	(2,080)	(35,627)	(3,183)
Proceeds from disposal of property, plant and equipment	-	849	-	849
Acquisition of financial instrument and other	(5)	(1,163)	1	(1,201)
Cash used in investing activities of continuing operations	(17,567)	(2,394)	(36,016)	(4,017)
Cash used in investing activities of discontinued operations	-	(199)	-	(203)
Cash used in investing activities	(17,567)	(2,593)	(36,016)	(4,220)
<b>Financing activities</b>				
Issuance of shares for cash	317	51	54,875	51
Borrowings under long-term debt	25,000	-	25,000	-
Repayments under long-term debt	-	-	(25,000)	-
Cash provided by financing activities of continuing operations	25,317	51	54,875	51
Cash provided by financing activities of discontinued operations	-	-	-	-
Cash provided by financing activities	25,317	51	54,875	51
Net effect of foreign exchange on cash held in a foreign currencies	16	(25)	41	(50)
Change in cash and cash equivalents	11,889	(5,026)	19,206	(11,124)
Cash and cash equivalents, beginning of period	20,466	12,252	13,149	18,350
<b>Cash and cash equivalents, end of period</b>	<b>32,355</b>	<b>7,226</b>	<b>32,355</b>	<b>7,226</b>
Cash and cash equivalents consists of:				
Cash	7,005	1,687	7,005	1,687
Short-term money market instruments	25,350	5,539	25,350	5,539
	32,355	7,226	32,355	7,226
Supplemental cash flow information (Note 14)				

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

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### Note 1. Basis of presentation

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and follow the same accounting policies and methods of their application as the audited consolidated financial statements of the Company as at December 31, 2007, except as described below. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2007. Certain disclosures that are normally required to be included in the notes to the annual financial statements have been condensed or excluded. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

#### *Comparative Figures*

As described below, certain of the prior year's figures have been reclassified to conform to the current year presentation.

The Company previously presented stock based compensation expense as a separate line item within the expenses section of the statement of operations, comprehensive loss and deficit. The Company now presents stock based compensation expense within the same financial statement line item as salaries and benefits and has reclassified the prior year figures to conform to this presentation.

#### *Changes in Accounting Policies*

Effective January 1, 2008, the Company has adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

#### *Capital Disclosures (CICA Handbook Section 1535)*

In accordance with this new standard, the Company now discloses its objectives, policies and processes for managing capital. This includes qualitative information regarding Coastal's objectives, policies and processes for managing its capital and quantitative data about what Coastal manages as capital. These disclosures are based in information used internally by Coastal's management. See Note 10.

#### *Financial Instruments (CICA Handbook Section 3862) and Financial Instruments – Presentation (CICA Handbook Section 3863)*

CICA Handbook Sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation." The effect of this change was to revise financial instrument disclosure requirements and leave the presentation requirements unchanged. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how Coastal manages these risks. See Note 11.

#### *Future Accounting Changes*

The CICA issued a new accounting standard section 3064 "Goodwill and intangible assets" which is effective for Coastal in the first quarter 2009. This standard replaces section 3062 "Goodwill and other intangible assets" and section 3450 "Research and development costs." This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial reporting Standard IAS 38, "Intangible Assets." Emerging Issues Committee (EIC) abstract 27 "Revenues and expenditures during the pre-operating period" is no longer applicable for Coastal once section 3064 is adopted. Accounting Guideline (AcG) 11 "Enterprises in the development stage" is amended to delete references to deferred costs and to provide guidance on development costs as intangible assets under section 3064.

Coastal is currently evaluating the effects that these changes may have on Coastal's financial statements in accordance with Canadian GAAP.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 2. Restricted Cash

The Company has cash, the use of which is restricted by the Company's banking institutions. The following table summarizes the restricted cash as of June 30, 2008 and December 31, 2007.

	June 30, 2008	December 31, 2007
Collateral in support of Corporate Letter of Credit	\$728	\$667
Restricted in support of Corporate Long-term Debt	807	1,381
	<b>\$1,535</b>	<b>\$2,048</b>

### Note 3. Accounts receivable and other

	June 30, 2008	December 31, 2007
Prepays, deposits and other assets	\$231	\$312
Refundable taxes	891	132
Other receivables	4	6
	<b>\$1,126</b>	<b>\$450</b>

### Note 4. Investment in and advances to Apico LLC

The Company holds approximately 36.1% of 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:

- 35% in Blocks EU-1 and E-5N in the Phu Horm gas field (net 12.635% to the Company);
- 100% in Block L15/43 surrounding the Phu Horm gas field (net 36.1% to the Company);
- 100% in Block L27/43 located southeast of the Phu Horm gas field (net 36.1% to the Company);
- and
- 60% in Block L13/48 located immediately east of the Phu Horm gas field (net 21.66% to the Company.)

The Company's September 2006 additional investment in Apico exceeded its proportionate share of net assets of Apico by \$18.7 million ("excess basis"). This difference has been allocated to Apico's oil and gas properties and is being amortized using the units of production method in accordance with the Company's accounting policy. At June 30, 2008, the remaining unamortized excess basis is \$16.6 million.

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

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	\$53,188	\$44,046
Equity contributions in Apico	903	1,463
Revenue distributions from Apico	(5,239)	-
Share of earnings of significant investee	7,023	9,212
Amortization of excess basis in Apico	(548)	(1,533)
Balance, end of period	<b>\$55,327</b>	<b>\$53,188</b>

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 5. Property plant and equipment, net

	June 30, 2008			December 31, 2007		
	Cost	AD&A*	Net	Cost	AD&A*	Net
Oil and gas properties						
Thailand	\$87,993	\$ -	\$87,993	\$75,687	\$ -	\$75,687
Oil and gas production equipment	19,433	-	19,433	2,510	-	2,510
Construction in progress	11,909	-	11,909	10,125	-	10,125
Office furniture & computer equipment	629	(161)	468	450	(109)	341
Leasehold improvements	128	(43)	85	125	(26)	99
	<b>\$120,092</b>	<b>\$(204)</b>	<b>\$119,888</b>	<b>\$88,897</b>	<b>\$(135)</b>	<b>\$88,762</b>

\* Accumulated depreciation and amortization

During the six months ended June 30, 2008 and 2007 the Company did not capitalize any general and administrative overhead into oil and gas properties.

#### Thailand

The Company has a 100% working interest in Block G5/43 in the Gulf of Thailand which includes the Bua Ban and Songkhla oil fields and 100% interest in Block G5/50 in the Gulf of Thailand.

#### Oil and gas production equipment

The Company is acquiring equipment to be used in the production of the Company's interests in the Gulf of Thailand. Once these assets are put into service, the Company will start depreciating them using the straight line method over their respective useful lives in accordance with the Company's accounting policy.

#### Construction in progress

Construction in progress relates to the acquisition and refurbishment of a mat-based jack-up rig which the Company intends to use in its development of its interests in the Gulf of Thailand. Once this asset is placed in service, it will be depreciated using the straight line method over its useful life in accordance with the Company's accounting policy.

### Note 6. Accounts payable and accrued liabilities

	June 30, 2008	December 31, 2007
Accounts payable	\$5,141	\$2,497
Accrued expenses	1,866	7,296
	<b>\$7,007</b>	<b>\$9,793</b>

### Note 7. Amounts due to shareholder

Effective September 25, 2006, the Company assumed a note payable to NuCoastal's shareholder for \$4,640,563. The original note was unsecured, accrued interest at 4% and was set to mature on July 20, 2007. In January 2007, the note and its accrued interest were renegotiated to accrue interest at 4.5% per annum and mature on July 20, 2008. In July 2008, the note was renegotiated to mature on December 31, 2008 and the accrued interest through June 30, 2008 of \$410,964 was paid to the shareholder in July 2008.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 8. Long-term Debt

During the year ended December 31, 2007, the Company entered into a \$50 million revolving debt facility (the "Facility") secured by the Company's investment in Apico and with a final maturity date of December 31, 2013. The Facility, arranged and managed by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"), consists of a \$42.5 million senior loan and a \$7.5 million junior loan. The Facility is in the form of a borrowing base loan and its availability is subject to recalculation every quarter. As of June 30, 2008, the amount available under the borrowing base was \$49.4 million, under which the Company had drawn a total of \$25.0 million.

Loans under this Facility bear interest at SMBCs' LIBOR plus an applicable margin between 1.75% and 3.5%. The applicable LIBOR rate is determined by the length of the interest renewal period; and the margin is dependent upon whether the loan is drawn under the senior or junior terms and the aggregate amount of loans outstanding. The effective interest rate on the Facility for the six months ended June 30, 2008 was 5.70%. As part of the Facility, the Company is required to deposit funds into a bank account, which is considered restricted as to its availability (see Note 2).

As a requirement of the Facility, the Company entered into a derivative hedging agreement with an affiliate of SMBC under which the Company has the right to sell 4,000 metric tons per month (up to a total of 96,000 metric tons) of Singapore fuel oil at a price of \$290.00 per metric ton starting July 1, 2007 and expiring June 30, 2009. The Company paid \$1.2 million for this option. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. As at June 30, 2008 the fair value of the option was \$19,566, during the six months ended June 30, 2008 the Company recorded \$19,566 of unrealized gains on this instrument.

### Note 9. Share capital

#### *Common Stock*

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

#### *Issued and fully paid common shares*

	<b>Common Stock</b>		<b>Contributed</b>
	<b>Shares</b>	<b>Amount</b>	<b>Surplus</b>
Balance, December 31, 2006	76,858,220	\$3,074	\$99,224
Shares issued pursuant to exercise of stock options	125,000	5	95
Stock-based compensation	-	-	811
<b>Balance, December 31, 2007</b>	<b>76,983,220</b>	<b>\$3,079</b>	<b>\$100,130</b>
Shares issued pursuant to the offering, net of issuance costs	16,445,000	658	53,791
Shares issued pursuant to exercise of stock options	202,500	9	417
Stock-based compensation	-	-	1,262
<b>Balance, June 30, 2008</b>	<b>93,630,720</b>	<b>\$3,746</b>	<b>\$155,600</b>

On January 8, 2008, the Company completed a public offering of 16,445,000 common shares (including the over-allotment option of 2,145,000 common shares) of the Company at a price of \$3.50 (Cdn \$3.50) per common share, raising gross proceeds of \$57.6 million (Cdn \$57.6 million). Proceeds of the offering, net of issuance costs of approximately \$3.1 million, were \$54.5 million.

#### *Stock Options*

During the six months ended June 30, 2008, options for 202,500 common shares were exercised, 125,000 options expired unexercised and 1,575,000 options were granted. The following table summarizes the outstanding and exercisable options at June 30, 2008:

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 9. Share capital (continued)

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2005	187,500	0.50 years	\$0.79 (£0.40)	Jan. 25, 2009	187,500
Jul. 06, 2005	175,000	2.00 years	\$2.78 (£1.40)	Jul. 06, 2010	175,000
Dec. 27, 2006	2,635,000	3.50 years	\$2.23 (C\$2.20)	Dec. 27, 2011	1,310,000
Jun. 15, 2007	375,000	4.00 years	\$3.00 (C\$2.96)	Jun. 16, 2012	187,500
Jan. 25, 2008	1,375,000	4.50 years	\$3.99 (C\$3.94)	Jan. 26, 2013	343,750
May 05, 2008	200,000	5.00 years	\$4.49 (C\$4.44)	May 06, 2013	50,000
	4,947,500				2,253,750

On February 5, 2008, the Company granted options for 1,000,000 shares with terms which were determined during this quarter to be contrary to the Company's approved incentive stock option plan. These options have been voided. In the three months ended June 30, the Company reversed \$523,000 of stock based compensation which it had expensed in three months ended March 31 directly related to these options.

#### Warrants

As of June 30, 2008, the Company had 2,343,745 warrants outstanding, exercisable at \$5.56 (£2.80) per share and expiring July 20, 2010.

#### Stock-based compensation

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

	2008	2007
Risk-free interest rate	3.00%	4.25%
Expected life	3 years	3 years
Annualized volatility	56.9%	40%
Dividend rate	0%	0%
Weighted average grant date fair value per option	\$1.56	\$0.92

### Note 10. Capital management

Coastal's capital consists of amounts due to shareholder, long-term debt, and common stock. As the Company does not have commercial operations, the majority of its capital to date has resulted from the issuance of debt and equity. A description of the amounts due to shareholder is identified in Note 7. The Company's long term debt and related changes during the period are detailed in Note 8. Equity accounts for Coastal are identified in Note 9.

Coastal is a public company and has established access in past transactions to both public and private debt and equity markets. Coastal anticipates continuing to access both the debt and equity markets to fund future growth of the business.

### Note 11. Financial instruments and risk management

#### Fair values

Coastal's financial instruments include cash and cash equivalents, restricted cash, accounts receivable and other, and accounts payable and accrued liabilities of which their carrying value approximate their fair value due to their short-term nature. The Company's derivative contract is considered held-for-trading and its fair value is marked-to-market every quarter. Amounts due to shareholder and long term debt are considered other financial liabilities and are recorded at amortized cost.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 11. Financial instruments and risk management (continued)

Coastal considers its risks in relation to financial instruments in the following categories:

#### 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 cash equivalents and restricted cash; (2) accounts receivable and other; (3) derivative contract. The Company has not had any credit losses in the past and nor does it anticipate future credit losses. At June 30, 2008, the Company has no financial assets that are past due or impaired due to credit risk related defaults.

The Company's accounts receivable and other consists primarily of Value Added Tax ("VAT") refunds from the governments of Great Britain and Thailand and prepaid insurance. With respect to prepaid insurance, the Company's primary credit risk is on the underwriter(s) of the insurance policies on which the Company has paid annual premiums. In an effort to minimize this credit risk, the Company has chosen global insurance underwriters with an A+ or better credit rating by Moody's and Standard & Poor's. The Company's maximum exposure to credit risk at the balance sheet date is as follows:

	June 30, 2008	December 31, 2007
Accounts receivable from government entities (UK, Thailand)	\$891	\$132
Other accounts receivable	4	6
	<b>\$895</b>	<b>\$138</b>

#### 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, 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, both offshore and onshore. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from receipt of invoice and generally do not bear interest. At June 30, 2008 the Company had met all of the obligations associated with its financial liabilities. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	June 30, 2008				December 31, 2007	
	Remainder of 2008	2009 - 2010	2011 - 2012	There- after	Total	Total
Accounts payable and accrued liabilities	\$7,007	\$-	\$-	\$-	\$7,007	\$9,793
Amounts due to shareholder	5,052	-	-	-	-	4,940
Long-term debt payment	-	25,000	-	-	30,052	25,000
Capital expenditures	16,749	21,854	2,450	-	41,053	41,053
Rental and lease payments	113	309	-	-	422	535
	<b>\$28,921</b>	<b>\$47,163</b>	<b>\$2,450</b>	<b>\$-</b>	<b>\$78,534</b>	<b>\$81,320</b>

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 11. Financial instruments and risk management (continued)

#### Market Risk

Market risk is the risk that the fair value (for assets or liabilities considered to be held-for-trading 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 assess the impact of variability in identified market risk on its various assets and liabilities and has established policies and procedures to mitigate market risk on its foreign exchange, interest rates and derivative contract.

#### (a) Currency Risk

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

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's costs are incurred principally in US dollar, Thai baht, UK pounds and Canadian dollars. The appreciation of non-US dollar currencies against the US dollar can increase the costs of operations and capital expenditures in US dollar terms. As part of the 2006 merger and in accordance with Canadian GAAP for reverse takeovers, the Company recorded for book purposes a \$24.3 million future tax liability on an oil and gas concession which was valued in the underlying Thai baht currency. This future income tax liability is considered a monetary item; and as such is revalued each period end at the current exchange rate, with the gain or loss recorded in net earnings (loss) for the period.

The Company is exposed to currency risk through the following US dollar equivalent of financial assets and liabilities denominated in currencies other than US dollars:

	Cash and cash equivalents	Accounts receivable	Accounts payable and accrued liabilities	Current income taxes payable	Future income tax liabilities
<b>June 30, 2008</b>					
Thai Baht	\$65	\$863	\$(4,558)	\$(2,484)	\$(27,071)
UK Pounds	146	27	(106)	-	-
Canadian Dollars	21	-	(187)	-	-
Euros	20,633	-	-	-	-
	<b>\$20,865</b>	<b>\$890</b>	<b>\$(4,851)</b>	<b>\$(2,484)</b>	<b>\$(27,071)</b>
<b>December 31, 2007</b>					
Thai Baht	\$317	\$95	\$(4,407)	\$-	\$(26,876)
UK Pounds	242	36	(136)	-	-
Canadian Dollars	24	-	(192)	-	-
Euros	-	-	-	-	-
	<b>\$583</b>	<b>\$131</b>	<b>\$(4,735)</b>	<b>\$-</b>	<b>\$(26,876)</b>

Based on the above net exposures at June 30, 2008, a 10% depreciation or appreciation of the above currencies against the US dollar would result in a \$1.265 million increase or decrease in the Company's after-tax earnings.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

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### Note 11. Financial instruments and risk management (continued)

#### *(b) Interest Rate Risk*

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. Presently the majority of the Company's credit facilities are at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its exposures given the relatively short-term US dollar rates. The terms of the Company's long term debt obligation are described in Note 8. The Company has met its obligations with respect to this liability. The Company accounts for its borrowings under the long term debt on an amortized cost basis. The Company had borrowings totaling \$30 million at June 30, 2008 (see Notes 7 and 8). A 10% fluctuation in interest rates would result in a \$159,000 change in the Company's earnings.

#### *(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.

The Company has onshore Thailand production via its equity ownership of Apico (Note 4.) The pricing of Apico's production under its Gas Sales Agreement ("GSA") is tied to a 6 months moving average of the Singapore Medium Fuel Oil price ("reference price"). A 10% change in the reference price would result in a \$1.2 million change in the Company's annual after tax earnings.

The Company's revolving debt facility (Note 8) incorporates the reference price in its model to determine the effective borrowing base under which the Company may borrow. This model is conservative and therefore does not reflect 100% of the reference price. Thus a 10% decline in the reference price projection would reduce the availability under the borrowing base by approximately 8% or \$3.9 million.

As a requirement of the debt facility, the Company entered into a derivative hedging agreement described in Note 8. Coastal's derivative contract was in place and the Company executed no sales under it during the six months ended June 30, 2008.

### Note 12. Discontinued Operations

In August 2007, the Company formally relinquished all its working interest in the Nevada leases to the temporary operator in exchange for the Company's current obligation to pay the operator \$21,000 related to well clean up costs along with all future obligations surrounding this working interest. The Company wrote off its interest in this property of approximately \$2 million. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The operator was considered a related party because a director of the Company is also an officer and director of the Operator.

The Nevada leases were the only property within the United States cost centre. Accordingly, the information related to the Nevada leases is presented as discontinued operations in the Company's consolidated financial statements.

### Note 13. Income tax expense

The Company has taxable operations in the Cayman Islands, Thailand, Mauritius, the United Kingdom and the United States. There is presently no taxation imposed by the Government of the Cayman Islands on income or capital gains. If any form of taxation were to be enacted, the Company has been granted an exemption there until May 26, 2024. The Company is subject to foreign withholding taxes on dividend and interest income.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 13. Income tax expense (continued)

Under the tax laws applicable to oil and gas exploration and production companies in Thailand, the Company is not required to file an oil and gas related income tax return until its first production. All costs incurred in Thailand prior to first production are capitalized for income tax purposes and amortized over the life of the first production property. However, the Company is subject to corporate taxation on non-oil and gas related income and required to file a corporate income tax return when the Company receives income not related to oil and gas exploration and production.

In April 2008, the Company's Thai subsidiary transferred its 25.5% interest in Apico, LLC (Note 4) at its net book value to the Company's Cayman Island subsidiary. The Company has recorded a current tax liability and related tax expense of \$2.484 million related to this transfer during the quarter ended June 30, 2008, based on a corporate rate of 30%.

The Company has tax losses in Mauritius, the United Kingdom and the United States which may be used to offset future taxable income. However, due to uncertainty of future income in these tax jurisdictions, no benefit of these losses is being recognized.

### Note 14. Supplemental cash flow information

The following table summarizes items not involving cash for the periods ended June 30, 2008 and 2007.

Periods ended June 30,	Three months ended		Six months ended	
	2008	2007	2008	2007
Depreciation and amortization	\$45	\$16	\$88	\$32
Unrealized foreign exchange (gain) loss	(1,753)	379	154	1,169
Interest expense	57	55	112	106
Stock based compensation	63	259	1,262	427
Share of earnings of significantly influenced investee	1,632	(2,148)	(1,236)	(3,711)
Unrealized (gain) loss on derivative instrument	8	-	(19)	-
Loss on sale of assets	-	40	-	40
	\$52	\$(1,399)	\$361	\$(1,937)

Other cash flow information.

Periods ended June 30,	Three months ended		Six months ended	
	2008	2007	2008	2007
Interest paid	\$-	\$-	\$180	\$-
Income taxes paid	\$-	\$-	\$-	\$-

### Note 15. Segmented information

#### Operating segment

The Company's current operations are in one business segment, being the acquisition, exploration and development of oil and gas properties, primarily in Thailand.

## COASTAL ENERGY COMPANY

Three and six months periods ended June 30, 2008 (Unaudited)

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

### Note 15. Segmented information (continued)

#### Geographic segments

The Company's oil and gas assets supporting continuing operations as at June 30, 2008 and December 31, 2007 and revenues and expenses from continuing operations for the six months ended June 30, 2008 and 2007 were as follows:

	<u>Corporate</u>		<u>Thailand</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
<u>Oil and gas assets</u>						
Investment in Apico	\$ -	\$ -	\$55,327	\$48,239	\$55,327	\$48,239
Property, plant & equipment, net	23,783	4,113	96,105	68,614	119,888	72,727
Subtotal	\$23,783	\$4,113	\$151,432	\$116,853	\$175,215	\$120,966
Operating expenses	\$(5,222)	\$(2,601)	\$(1,184)	\$(423)	\$(6,406)	\$(3,024)
Share of Apico's earnings	-	-	6,475	3,711	6,475	3,711
Unrealized gain (loss) on derivative	19	-	-	-	19	-
Interest income	515	227	-	-	515	227
Loss on sale of assets	-	(40)	-	-	-	(40)
Foreign exchange gain (loss)	(1,352)	(1,341)	(257)	52	(1,609)	(1,289)
Net income (loss) before taxes	(6,040)	(3,755)	5,034	3,340	(1,006)	(415)
Income tax expense	-	-	2,484	-	2,484	-
Net income (loss) for the period	\$(6,040)	\$(3,755)	\$2,550	\$3,340	\$(3,490)	\$(415)

## **NON-INDEPENDENT DIRECTORS**

Frank A. Inouye, Chairman<sup>(4)</sup>

Randy L. Bartley, President and CEO<sup>(4)</sup>

## **INDEPENDENT DIRECTORS**

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

Bernard de Combret<sup>(3)(4)</sup>  
Former Deputy Chairman Executive Committee  
Total Fina Elf, S.A.

Olivier de Montal  
Administrator, Olympia Capital Holding

John J. Murphy<sup>(2)(3)</sup>  
Former Chairman & CEO, Dresser Industries, Inc.

Lloyd Barnaby Smith<sup>(2)</sup>  
Former British Ambassador to Thailand

Forrest E. Wylie<sup>(1)(3)(4)</sup>  
Chairman, CEO & President  
Buckeye Partners, L.P.

John B. Zaozirny<sup>(1)</sup>  
Counsel to McCarthy Tetrault LLP

*Committees of the Board: (1) Audit, (2) Compensation,  
(3) Corp. Governance and (4) Executive*

## **EXECUTIVE MANAGEMENT**

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer

Jerry Moon, Vice President, Technical & Business Dev

John M. Griffith, Vice President, Thailand Operations

Stephen M. Holder, Vice President, Controller

Allan H. Armitage, General Manager, Thailand

Kim R. Landon, General Counsel, Corporate Secretary

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Trading Symbols: CEO on AIM / CEN on TSX-V

## **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
bbls/d	barrels of oil per day
mmbbls	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-V	TSX Venture Exchange (Canada)
AIM	London AIM Exchange (UK)

## **THIRD PARTY ADVISORS**

*Petroleum and Geological Engineers:*  
Huddleston & Co., Inc.

*Corporate Bankers:*  
Sumitomo Mitsui Banking Corporation  
Hongkong and Shanghai Banking Corporation

*Auditors:*  
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*Legal Counselors:*  
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Walkers SPV Limited (Cayman Islands)  
Johnson Stokes & Masters (Thailand)  
CK (Corporate Services) (Mauritius)

*Stock Registrars:*  
Pacific Corporate Trust Company (TSX-V)  
Capita Registrars (LSE-AIM)

*Nominated Advisor (NOMAD):*  
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*Public Relations Firm:*  
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