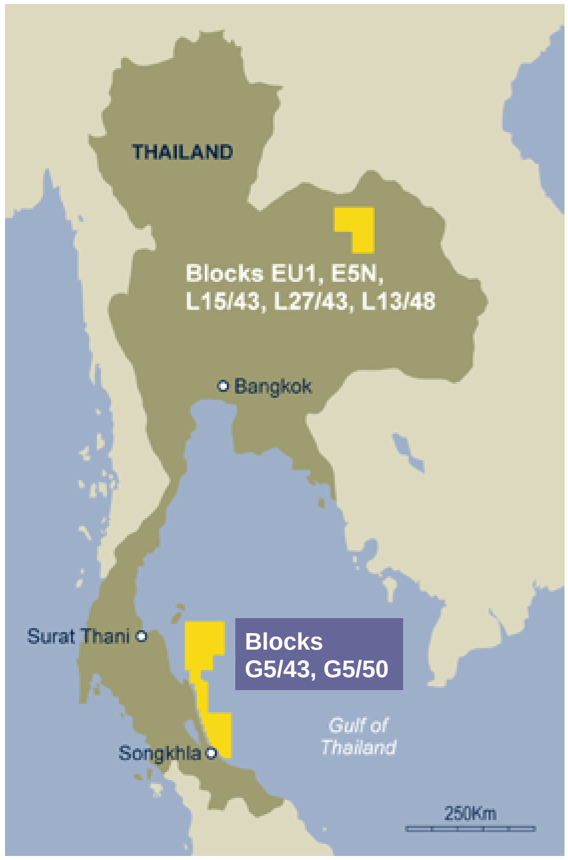
Quarterly Report

Coastal Energy

June 30, 2009

Coastal Energy Company

Three and Six Month Periods ended June 30, 2009



Coastal Energy's Oil & Gas interests

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President's Report to the Shareholders

The second quarter of 2009 was a milestone for Coastal Energy as it marked the first full quarter of production from the Company's Songkhla field in the Gulf of Thailand. Offshore production for the quarter averaged approximately 6,700 bopd. Onshore production from Phu Horm was approximately 2,080 boe/d, bringing total average production for the quarter to 8,780 boe/d.

Approximately halfway through the second quarter, the wells at Songkhla began to experience increased water production. The water production is indicative of a strong water drive which will require further development work to fully develop the reservoir. We have secured a jackup rig to undertake this development work.

The rig is expected to arrive on location at Songkhla Main in early September. Two development wells and two water injectors are planned to be drilled. The water injectors will help to repressurize the reservoir and maintain the strong water drive, which will bolster ultimate recovery factors. The injectors will also eliminate water disposal costs. Following its development program at Songkhla Main, the rig will commence drilling the Songkhla B (Lower Oligocene) prospect. If successful, two to four wells will be drilled at Songkhla B. We also plan to mobilize a unit to workover the Songkhla A-1 and A-3 (Lower Oligocene) and A-7 (Eocene) wells in mid-October. The A-7 well has been shut-in since early June.

The Company is in a financial position to pursue this development program given the significant deleveraging through the first half of 2009 and following the equity and crude prepayment financing activities of the past few months. In early August, we settled the prepayment contract we entered into in March and then entered into a new 400,000 barrel prepayment agreement. The pricing under the new agreement is a significant improvement relative to the pricing under the previous contract. This prepayment further improves our liquidity position ahead of the upcoming drilling campaign.

We have also received environmental approval for a 4,000 km 2-D seismic acquisition project on the Ko Kra and Nakhon basins covering the northern part of Block G5/43 and all of Block G5/50. The terms of our concession agreement require that we drill one exploration well on Block G5/50 in 2010. The interpreted results of this 2-D seismic project will help to identify attractive exploration prospects.

Coastal Energy is entering an exciting period and we are optimistic about our offshore development program and the potential value it could add to the Company. We expect the second half of the year to bring further progress in the development of our offshore assets and further success for Coastal.

On behalf of the Board of Directors

Randy L. Bartley

President and Chief Executive Officer
August 25, 2009

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

The following is Management's Discussion and Analysis ("MD&A") of the results and financial condition of Coastal Energy Company ("Coastal" or the **"**Company**"**). This MD&A, dated August 25, 2009, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and six months ended June 30, 2009 and related notes thereto. Additional information related to the Company is available on SEDAR at www.sedar.com.

Overview

The Company was incorporated under the Companies Law of the Cayman Islands on May 26, 2004. The Company is engaged in the acquisition and exploration of petroleum and natural gas properties in South East 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-V and "CEO" on the AIM exchange.

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

Petroleum Concession	**Coastal**
Gulf of Thailand	
Block G5/43	100.0%
Block G5/50 (within the boundaries of Block G5/43)	100.0%
Onshore Thailand (via the Company's 36.1% ownership of Apico LLC ("Apico"))	
Blocks 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 2009 Highlights

- On April 28, 2009, the Company announced a significant increase to the reserve and resource base in its Competent Person's Report prepared by Huddleston & Co. as of December 31, 2008. Offshore 1P reserves increased by 117% to 18.1 mmbbl, and Offshore 2P reserves increased by 55% to 41.5 mmbbl. Total 1P reserves increased 40% to 26.6 mmboe and Total 2P reserves were up 37% to 62.2 mmboe.

- On May 6, 2009, the Company announced that it had entered into an agreement with a syndicate of underwriters co-led by Thomas Weisel Partners Canada Inc. and Paradigm Capital Inc. to sell 5,000,000 common shares of the Company on a bought-deal basis. The fully subscribed offering closed on May 28, 2009 at a price of Cdn$3.20 per share, raising gross proceeds of Cdn$16,000,000.

- On June 17, 2009, the Company announced that the syndicate which underwrote the May 28, 2009 equity offering fully exercised the over-allotment option granted to it in connection with the May 28, 2009 offering. The underwriters purchased all 750,000 common shares available under the over-allotment option at a price of Cdn$3.20 per share, raising gross proceeds of Cdn$2,400,000.

- Production from the Company's Songkhla field in the Gulf of Thailand averaged approximately 6,702 bopd in the second quarter of 2009. Onshore production from the Phu Horm gas field averaged approximately 95.7 mmcf/d of gas and 510 bbl/d of condensate (12 mmcf/d and 64 bbl/d net to Coastal). Total production for the second quarter of 2009 averaged approximately 8,782 boepd.

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Forward Looking Statements

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

Non-GAAP Measures

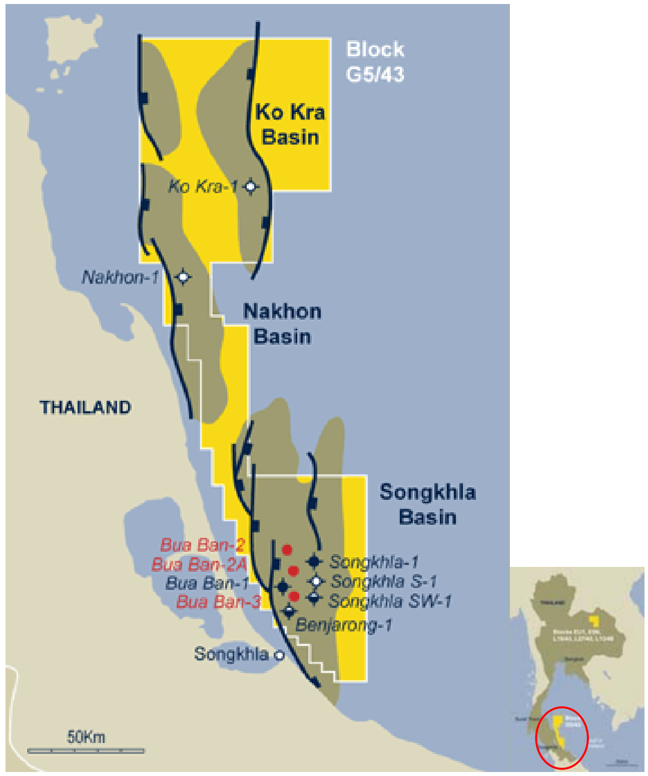
This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, EBITDAX, net debt and operating netback. These measures are commonly utilized in the oil and gas industry and 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. EBITDAX is defined as earnings before interest, financing fees, taxes, depreciation, amortization, exploration costs, and other one-time expenses adjusted for non-cash items such as unrealized gains and losses on risk management contracts, unrealized foreign exchange gains or losses and stock-based compensation. 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.

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

Oil & Gas Properties

Summary of Oil & Gas Properties	**Thailand Onshore**	**Gulf of Thailand**	**Totals**
Balance, December 31, 2008	**50,376**	**150,443**	**200,819**
Additions during the period:			
Exploration & development	-	11,694	11,694
Equity earnings in Apico, net of distributions	872	-	872
Amortization	(185)	(4,654)	(4,839)
Balance, March 31, 2009	**51,063**	**157,483**	**208,546**
Additions during the period:			
Exploration & development	4,516	4,843	9,359
Equity earnings in Apico, net of distributions	1,075		1,075
Amortization	(304)	(8,166)	(8,470)
Balance, June 30, 2009	**56,350**	**154,160**	**210,510**

(a) Gulf of Thailand Properties



The Company maintains a 100% working interest in Blocks G5/43 and G5/50 (the "Blocks") in the Gulf of Thailand. The current combined area of the Blocks is approximately 9,049 square kilometres and average water depths are approximately 70 feet. Block G5/50 contains approximately 554 square kilometres of acreage within the boundaries of Block G5/43.

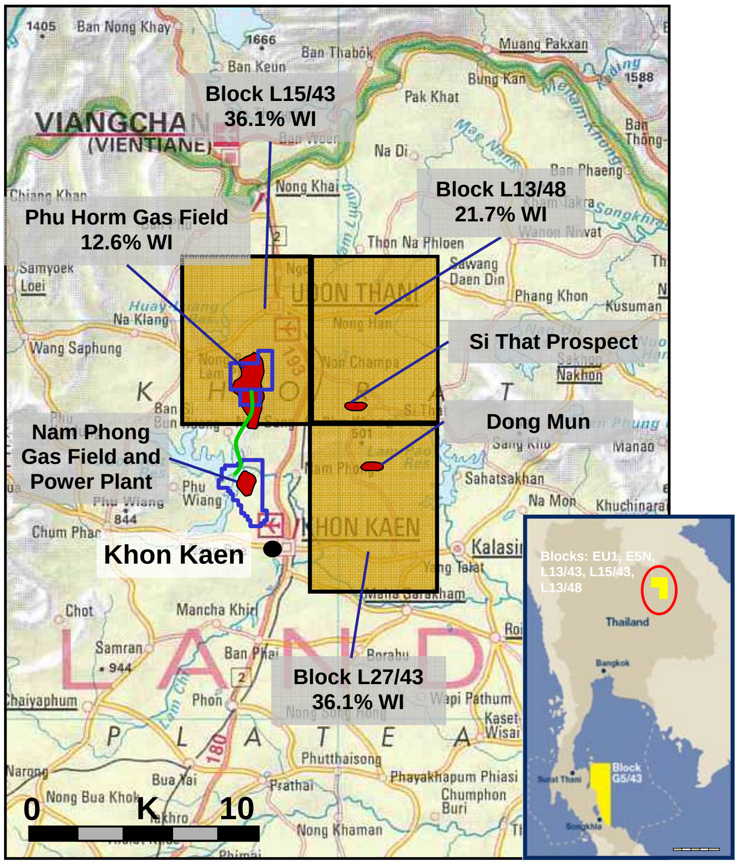
The Company drilled three wells (two development and one exploration) on the Songkhla field of Block G5/43 in the fourth quarter of 2008. The Songkhla A-01 and A-03 development wells both encountered oil in the Lower Oligocene primary reservoir with net pay zones of 126 feet and 152 feet, respectively, each with 20% porosity. The wells were completed in Q4 2008 and production began in late February 2009. The Songkhla A-07 exploration well was also drilled in Q4 2008. The well encountered oil in the Eocene reservoir with a net pay zone of 136 feet off of the Songkhla Main structure. The A-07 well commenced production in mid-April 2009. The Company's offshore production from Songkhla averaged approximately 6,700 bopd in the second quarter of 2009.

The Company has received approval of its Production Area Application ("PAA") and Environmental Impact Assessment ("EIA") for the Songkhla field, which will allow it to proceed developing numerous satellite structures which have been identified within the 75 square kilometre area on Songkhla without further government approval. The Songkhla field was discovered in 1989 and originally tested 1,500 barrels of production per day from the Songkhla #1 well. As of December 31, 2008, Songkhla Main has proved and probable ("2P") reserves of approximately 19.7 million barrels ("mmbbls").

In August 2005 three successful wells were drilled by the Company on the Bua Ban oil field ("Bua Ban"). 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. The Company has received approval of its Production Area Application for the Bua Ban field. The Bua Ban PAA covers an area of 282 square kilometres, which includes the Bua Ban field and numerous satellite structures. As of December 31, 2008, Bua Ban had 2P oil reserves of 21.8 mmbbls.

Under the terms of the concession agreement, the Company relinquished approximately 8,615 square kilometers of Block G5/43 back to the Kingdom of Thailand in July 2007. Following this relinquishment the Company had approximately 8,495 square kilometers of remaining acreage on Block G5/43. 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. At December 31, 2008, total Gulf of Thailand (including the Songkhla and Bua Ban fields) 2P reserves are 41.5 mmbbls.

(b) Thailand Onshore



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

Coastal holds a 12.6% net working interest in Blocks EU-1 and E-5N onshore Thailand through its 36.1% equity investment in Apico, LLC, which holds a 35% working interest in the Blocks. The other partners in the Blocks include Hess Corporation (Operator - 35%), PTT Exploration & Production (20%) and Exxon Mobil Corp. (10%). Blocks EU-1 and E-5N contain the Phu Horm gas field. Production at Phu Horm commenced on November 30, 2006 to supply the Nam Phong power plant with over 500 billion cubic feet of gas, plus condensate, under a 15 year Gas Sales Agreement with PTT Public Company Limited. During the three months ended June 30, 2009, the three wells at Phu Horm had average aggregate production rates of approximately 12 mmcf per day, net to Coastal. The field was also producing in excess of 64 bbls of condensate per day net to Coastal. As of December 31, 2008, Phu Horm has 2P gas reserves of 120.6 billion cubic feet ("bcf") and 644 mbbls of oil net to Coastal (before royalties).

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Coastal also holds a net 36.1% working interest in Block L27/43 (operated by Apico), which is located southeast of the L15/43 concession. The Dong Mun 3 ("DM3") appraisal well was spudded on November 8, 2007. The well encountered numerous gas shows in the Jurassic, Triassic and Permian sections; however, no tests were conducted due to the lack of suitable testing equipment. The Phu Kheng well, spudded in July, will test shallower Dong Mun shows in an optimum structural position. The appraisal well offers the opportunity to add resources in close proximity to Phu Horm and Nam Phong infrastructure.

Coastal holds a net 21.7% working interest in Block L13/48 (operated by Apico), which is located 40km east of the Phu Horm gas field. The L13 concession contains holds the Si That discovery which tested gas in both the Si That 1 & 2 wells. Si That offers an opportunity to add significant resources within a known gas basin. The Si That B well is planned to spud in late 2009.

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

Restatement of Financial Statements

The annual and quarterly information for 2007 and the quarterly information for Q1 2008 and Q2 2008 have been restated to correct an error on recording the future income tax liability and expense associated with the outside basis difference between the carrying amount of the investment in Apico LLC and the Company's tax basis. The 2008 quarterly restatement is summarized as follows:

	Q1 2008		Q2 2008	
	As reported	As restated	As reported	As restated
Balance sheet				
Future income tax liability	$28,808	$31,336	$27,071	$27,071
Deficit	(16,125)	(18,653)	(15,654)	(15,698)
Statement of operations				
Income tax expense	-	666	2,484	-
Net income (loss)	(3,961)	(4,627)	471	2,955
Basic and diluted income (loss) per share	(0.04)	(0.05)	0.00	0.03

Summary of Quarterly Information

Selected Information	3 Months ended June 30,		Six Months ended June 30,	
	2009	2008	**2009**	2008
Revenues	**$25,306**	$262	**$31,889**	$534
Expenses	**25,943**	914	**37,165**	8,015
Share of (earnings) loss of Apico, LLC	**(1,854)**	(3,607)	**(3,264)**	(6,475)
Income taxes	**-**	-	**-**	666
Net income (loss)	**1,217**	2,955	**(2,012)**	(1,672)
Basic and diluted earnings (loss) per share	**$0.01**	$0.03	**$(0.02)**	$(0.02)
Working capital (deficit)			**$(37,833)**	$20,473
Capital expenditures, excluding onshore	**$4,952**	$12,230	**$17,268**	$31,619
Total assets			**$270,153**	$210,306
Common shares outstanding, end of period			**99,380,720**	93,630,720

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The following tables are analysis of the line items in the Company's Consolidated Statements of Operations and Comprehensive Loss

Revenue and Production	3 months ended June 30, **2009**	2008	Change	6 months ended June 30, **2009**	2008	Change
Revenue	**$28,017**	-	-	**$36,217**	-	-
Average Daily Crude Oil Production Medium sweet oil (bbls)	**6,702**	-	-	**7,102**	-	-
Realized price per bbl ($/bbl)	**$49.86**	-	-	**$45.91**	-	-

Production from the Company's Songkhla field in the Gulf of Thailand commenced February 23, 2009. Average production for the three and six month periods ended June 30, 2009 was 6,702 bopd and 7,102 bopd, respectively. Production volumes were affected by approximately 14 days of downtime during the six-month period for maintenance and mechanical reasons. Also impacting production in Q2 was the shut-in of the Songkhla A-07 Eocene well. The well has been offline since early June due to mechanical pump issues.

During the second quarter of 2009, the Company sold its crude under a Crude Oil Sales Agreement which it entered into in March 2009. Under the sales agreement, the Company received a $9.00/bbl fixed discount to the Dubai crude benchmark price in return for a prepayment on the crude to be delivered under the agreement at the date of inception. The agreement also required a pricing adjustment payment to be made at the end of the contract's term. Total production for Q2 2009 was 609,845 bbls.

Royalties	3 Months ended June 30, **2009**	2008	Change	6 Months ended June 30, **2009**	2008	Change
Royalties	**$1,880**	-	-	**$2,421**	-	-
$ per bbl	**$3.35**	-	-	**$3.07**	-	-
Royalties as a percent of revenue	**6.7%**	-	-	**6.7%**	-	-

Royalties on the Gulf of Thailand assets are paid to the Kingdom of Thailand as a percentage of revenue based on a sliding scale tied to monthly production.

Gain (loss) on Derivative Risk Management Contract	3 Months ended June 30, **2009**	2008	Change	6 Months ended June 30, **2009**	2008	Change
Unrealized gain (loss) on mark-to-market	**$(270)**	$(8)	-	**$(1,796)**	$19	-
Realized gains (loss)	**(566)**	-	-	**(127)**	-	-
Gain (loss) on Derivative	**$(836)**	$(8)	-	**$(1,923)**	$19	-

As a requirement of the Company's revolving debt facilities, the Company entered into a derivative risk management contract 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.

On June 5, 2009, the Company entered into another risk management contract with an affiliate of SMBC. Under this contract the Company has the right to sell 4,000 metric tons per month of Singapore fuel oil at a price of $290.00 per metric ton beginning July 1, 2009 and expiring June 30, 2010.

The Company adjusts the fair value of the risk management contracts (mark to market) every quarter with the changes in fair value recognized in net earnings.

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Interest Income	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Interest income	**$5**	$270	-98%	**$16**	$515	-97%

Interest income is the result of the Company investing cash in highly liquid investments and restricted cash held in interest bearing accounts. During the six months ended June 30, 2008, the Company had higher cash balances as a result of its stock issuance in January 2008, which was held in interest bearing accounts. This cash was subsequently used to fund development activity.

Production Expenses	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Production expenses	**$10,434**	-		**$14,957**	-	-
Less amounts in inventory	**(902)**	-		**(2,105)**	-	
	9,532	-		**12,852**	-	
$ per bbl	**$17.11**	-	-	**$16.29**	-	-

Production expenses for the second quarter increased on a per barrel basis owing to several factors. The Company's Songkhla wells began to produce water during the second quarter and consequently the Company began to incur water disposal expenses (at approximately $5.00 per bbl of water). Lower production rates also contributed to an increase in per barrel operating expenses.

General and Administrative Expenses	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Salaries and benefits	**$2,160**	$1,017	112%	**$4,096**	$3,334	23%
Professional fees	**452**	414	9%	**786**	850	-8%
Office and general	**210**	382	-45%	**939**	655	43%
Travel and entertainment	**237**	256	-7%	**335**	530	-37%
Regulatory and transfer fees	**151**	140	8%	**247**	287	-14%
Total general and administrative expenses	**$3,210**	$2,209	45%	**$6,403**	$5,656	13%

In general, the 2009 increase over 2008 is attributable to increased personnel costs. Included in the salaries and benefits for 2009 and 2008 is non-cash, stock based compensation of $0.9 million and $1.3 million, respectively. In addition, the Company incurred $1.2 million in 2009 (2008: $Nil) of salary expense related to Stock Appreciation Rights which were granted in Q1 2009. Increased personnel costs have been slightly offset by cost control activities on other G&A expense categories. At June 30, 2009, the Company had 38 (2008: 30) full-time employees; and 16 (2008: 26) full time contractors.

Foreign Exchange Loss	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Net effect of cash held in foreign currencies	**$(63)**	$(21)	-200	**$(15)**	$(6)	-150%
Unrealized (gain) loss on Thai tax liability	**1,132**	(1,737)	-165%	**702**	195	260%
Unrealized (gain) loss other	**222**	-	-	**222**	-	-
Realized (gain) loss	**474**	(15)	-	**488**	1,420	-66%
Total foreign exchange (gain) loss	**$1,765**	$(1,773)	-200%	**$1,397**	$1,609	-13%

The foreign exchange (gain) loss is a result of the Company carrying out transactions and maintaining certain financial 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

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Thailand. This liability relates to Thailand and is denominated in Thai Baht. Every quarter this future income tax liability is re-valued and the corresponding gain/loss is recognized in net earnings.

Interest Expense	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Interest Expense	**$1,347**	$433	211%	**$2,366**	$662	257%

Interest expense includes interest on the Company's notes payable, amounts due to shareholder and long-term debt. Interest expense was higher in 2009 as the Company had higher balances on the notes payable ($11.2 million at June 30, 2009 versus $nil at June 30, 2008), amounts due to shareholder ($7.0 million at June 30, 2009 versus $5.1 million at June 30, 2008) and long-term debt ($37.8 million at June 30, 2009 versus $25.0 million at June 30, 2008.) The Company's average interest rate was 7.28% and 5.45% for the three months ended June 30, 2009 and 2008, respectively.

Depletion, Depreciation and Accretion Expense	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Oil and gas depreciation & depletion	**$8,278**	$-	-	**$12,819**	$-	-
Less amounts in inventory	**(660)**			**(2,121)**		
Accretion	**23**	-	-	**45**	-	-
Corporate depreciation	**57**	45	27%	**113**	88	28%
Depletion, depreciation and accretion expense	**$7,698**	$45	-	**$10,856**	$88	-
$ per bbl	**$13.57**	$-	-	**$13.62**	$-	-

Depletion and accretion expenses were recorded in 2009 due to the Company achieving first production in Q4 2008. Prior to this, the Company primarily incurred depreciation on corporate assets. Depreciation of corporate assets also increased due to the increase in corporate assets necessary to support increased headcount.

Taxes	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Current taxes	**$-**	$-	-	**$-**	$666	-
Future income taxes	**-**	-	-	**-**	-	-
Taxes	**$-**	$-	-	**$-**	$666	-

The Company's Thai subsidiary accrues income tax expense on its equity pick up of Apico's book earnings at an investment tax rate of 30%. Effective April 1, 2008, it transferred its 25.5% interest in Apico, LLC at its net book value to one the Company's Cayman Island subsidiaries. The Company's Cayman Island subsidiary is not subject to income tax on Apico, LLC's earnings.

Earnings from Significantly Influenced Investee, net of taxes	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Coastal's 36.1% of Apico's net income	**$2,158**	$3,900	-45%	**$3,753**	$7,023	-47%
Amortization of Coastal's excess basis	**(304)**	(293)	4%	**(489)**	(548)	-11%
Earnings from Significantly Influenced Investee, net of taxes	**$1,854**	$3,607	-49%	**$3,264**	$6,475	-50%
100% Field Production volumes (mmcf/d)	**96.2**	92.2	8%	**77.8**	86.7	6%
12.6% net to Coastal (mmcf/d)	**12.1**	11.6	8%	**9.8**	10.9	6%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on the reported quarterly net income of Apico. Apico experienced lower revenue in the three and six months ended June 30, 2009 over the prior comparable period primarily due to lower realized gas sales prices.

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

Net Income (Loss)	3 Months ended June 30,			6 Months ended June 30,		
	2009	2008	Change	**2009**	2008	Change
Net income (loss)	**$1,217**	$2,955	-59%	**$(2,012)**	$(1,672)	20%
Basic and diluted earnings (loss) per share	**$0.01**	$0.03	-	**$(0.02)**	$(0.02)	-

Summary of Quarterly Results

	2009		**2008**				2007(a)	
	Q2	**Q1**	**Q4**	**Q3**	Q2(a)	Q1(a)	Q4	Q3
Oil revenues, net of royalties	**$26,137**	**$7,659**	**$3,884**	**$ -**	$ -	$ -	**$ -**	**$ -**
Gain (loss) on derivative	**(836)**	**(1,087)**	**2,415**	**13**	(8)	27	(183)	(983)
Interest income	**5**	**11**	**151**	**316**	270	245	142	61
Total revenues	**25,306**	**6,583**	**6,450**	**329**	262	272	(41)	(922)
Production expenses	**9,532**	**3,320**	**1,597**	**-**	-	-	-	-
General and administrative expenses	**3,210**	**3,193**	**4,114**	**3,053**	2,209	3,447	2,557	1,494
Foreign exchange (gain) loss	**1,765**	**(368)**	**820**	**1,440**	(1,773)	3,382	301	209
Interest expense	**1,347**	**1,019**	**843**	**642**	433	229	649	383
Debt financing fees	**26**	**900**	**-**	**-**	-	-	60	2,072
(Gain) loss on sale of assets	**-**	**-**	**(95)**	**(122)**	-	-	-	-
Depletion, depreciation and accretion	**7,698**	**3,158**	**1,763**	**42**	45	43	44	42
Settlement and asset impairment	**2,365**	**-**	**-**	**-**	-	-	-	-
Total operating expenses	**25,943**	**11,222**	**9,042**	**5,055**	914	7,101	3,611	4,200
Income taxes	**-**	**-**	**-**	**-**	-	666	613	411
Share of earnings (loss) of Apico LLC	**1,854**	**1,410**	**2,179**	**4,250**	3,607	2,868	2,424	1,544
Net income (loss)	**1,217**	**(3,229)**	**(413)**	**(476)**	2,955	(4,627)	(1,841)	(3,989)
EBITDAX[(b)]	**14,967**	**3,557**	**(264)**	**1,680**	5,664	(1,155)	64	236
Basic and diluted earnings (loss) per share	**$0.01**	**$(0.03)**	**$(0.01)**	**$(0.00)**	$0.03	$(0.05)	$(0.02)	$(0.05)

Note (a) The quarterly information for Q1 and Q2 2008 and Q3 and Q4 2007 was restated to correct an error on recording the future income tax liability and expense and associated foreign exchange loss associated with the outside basis difference between the carrying amount of the investment in Apico LLC and the Company's tax basis.

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

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

Significant factors influencing Quarterly Results include

- The Company experienced its first full quarter of production from its Songkhla field in the Gulf of Thailand during the second quarter of 2009. This was also the Company's first full quarter in which it has incurred production expenses.
- The volatility of global crude oil prices has a direct effect on the Company's revenue as well as unrealized gains or losses on risk management contracts. The Company realized a higher sales price for its crude oil in the second quarter of 2009 due to an increase in commodity prices. This increase was slightly offset by mark-to-market losses on its put options during the same period.
- The Company has incurred higher general and administrative expenses as it has been adding headcount in an effort to further develop the offshore assets and has incurred higher interest expense due to additional borrowings in a tight credit market.
- 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.

	2009		**2008**				2007(a)	
EBITDAX Computation	**Q2**	**Q1**	**Q4**	**Q3**	Q2(a)	Q1(a)	Q4	Q3
Net income (loss)	**1,217**	**(3,229)**	**(413)**	**(476)**	2,955	(4,627)	(1,841)	(3,989)
Add Back:								
Unrealized (gain) loss on derivative	**836**	**1,526**	**(1,983)**	**(13)**	8	(27)	183	983
Interest (income)	**(5)**	**(11)**	**(151)**	**(316)**	(270)	(245)	(142)	(61)
Stock based compensation	**414**	**576**	**376**	**441**	457	806	197	186
Unrealized Foreign exchange (gain) loss	**1,069**	**(382)**	**(604)**	**1,482**	2,036	2,000	301	209
Interest expense	**1,347**	**1,019**	**843**	**642**	433	229	649	383
Debt financing fees	**26**	**900**	**-**	**-**	-	-	60	2,072
(Gain) loss on sale of assets	**-**	**-**	**(95)**	**(122)**	-	-	-	-
Depletion, depreciation and accretion	**7,698**	**3,158**	**1,763**	**42**	45	43	44	42
Settlement expense	**2,365**	**-**	**-**	**-**	-	-	-	-
Income taxes	**-**	**-**	**-**	**-**	-	666	613	411
EBITDAX	**14,967**	**3,557**	**(264)**	**1,680**	5,664	(1,155)	64	236

Note (a) The quarterly information for Q1 and Q2 2008 and Q3 and Q4 2007 was restated to correct an error on recording the future income tax liability and expense and associated foreign exchange loss associated with the outside basis difference between the carrying amount of the investment in Apico LLC and the Company's tax basis.

Cash Flow Analysis

The Company's cash and cash equivalents at June 30, 2009 were $7.3 million, an increase of $0.9 million from $6.4 million at December 31, 2008. The Company's primary source of funds came from shares issued for cash of $15.4 million, proceeds of $15.0 million from the issuance of notes payable, borrowings of $1.0 million from its amounts due to shareholder, $0.7 million decrease in restricted cash, and increase in accounts payables and accrued liabilities of $8.5 million. Cash and cash equivalents were primarily used / absorbed by an increase in prepaids and other current assets of $0.5 million, increase in crude oil inventory of $4.2 million; investment of $33.3 million in property, plant and equipment; reduction of long-term debt by $7.8 million; reduction of notes payable of $4.1 million; and payments on general and administrative expenses.

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

Capital Expenditures

Capital expenditures (including cash payments and amounts included in accounts payable) amounted to $4.9 million and $17.3 million for the three and six months ended June 30, 2009, respectively, compared to $12.3 million and $31.6 million for the three and six months ended June 30, 2008, respectively. The Q2 2009 expenditures were mainly the result of field development work on Songkhla. The following table sets forth a summary of the Company's capital expenditures incurred:

	3 Months ended June 30,		6 Months ended June 30,	
Capital Expenditures	**2009**	2008	**2009**	2008
	$-	$-	**$-**	$-
Seismic, geological and geophysical studies	**658**	284	**1,216**	761
Other	**-**		**77**	933
Drilling and completions	**1,550**	1,855	**9,886**	3,414
Lease and well equipment	**521**	8,699	**2,791**	10,794
Construction of assets in progress (platforms, FSO, processing equipment)	**2,189**	1,277	**3,217**	15,535
Administrative assets	**34**	115	**81**	182
Total Capital Expenditures	**$4,952**	$12,230	**$17,268**	$31,619

Equity Capital

a) Share Capital

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

At June 30, 2009, the Company had 99,380,720 common shares outstanding.

b) Warrants

Effective January 1, 2008, the Company had 2,343,745 warrants outstanding exercisable at $4.61 (£2.80) per share and expiring on July 20, 2010. There have been no warrants exercised in respect to this issue. In connection with a public debt offering, on January 23, 2009, the Company issued warrants for 2,000,000 shares exercisable at $0.98 (Cdn $1.136) per share and expiring on January 23, 2014.

c) Stock Options

During the three months ended June 30, 2009, the Company granted no stock options; and 54,500 options were forfeited. The following table summarizes the outstanding and exercisable options as of the date of this report:.

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2005	187,500	0.50 years	$0.66 (£0.40)	Dec. 31, 2009	187,500
Jul. 06, 2005	112,500	1.00 years	$2.30 (£1.40)	Jul. 06, 2010	112,500
Dec. 27, 2006	2,575,000	2.50 years	$1.89 (Cdn$2.20)	Dec. 27, 2011	2,087,500
Jun. 15, 2007	162,500	3.00 years	$2.55 (Cdn$2.96)	Jun. 16, 2012	156,250
Jan. 25, 2008	1,104,000	3.50 years	$3.39 (Cdn$3.94)	Jan. 26, 2013	770,500
May 05, 2008	200,000	3.50 years	$3.82 (Cdn$4.44)	May 06, 2013	100,000
Jul. 14, 2008	85,000	4.00 years	$3.11 (Cdn$3.61)	Jul. 15, 2013	21,250
Sep. 16, 2008	100,000	4.25 years	$1.95 (Cdn$2.27)	Sep. 16, 2013	25,000
Sep. 23, 2008	1,000,000	4.25 years	$3.39 (Cdn$3.94)	Feb. 05, 2013	500,000
Jan. 02, 2009	3,506,000	4.50 years	$1.17 (Cdn$1.35)	Jan. 02, 2014	184,500
	9,032,500				4,145,500

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transaction

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 $411,000 which represented the accrued interest on the note payable through June 30, 2008. As of September 30, 2008, the accrued interest on this note payable was $196,000 and the principal due was $4.67 million. Effective November 20, 2008 the note payable balance was renegotiated to mature on March 31, 2009 at an interest rate of 7% per annum. Effective March 31, 2009 the note payable balance was renegotiated to mature on June 30, 2009 at an interest rate of 12% per annum. Effective June 30, 2009, the maturity of this note was extended until September 30, 2009.

In December 2008 and January 2009, the Company entered into unsecured loan agreements totaling $3 million bearing interest at 15% per annum and maturing on June 30, 2009. This debt was funded by related parties of the Company's primary shareholder, O. S. Wyatt, Jr. The debt was issued separately from the Senior Unsecured Note Offering announced on December 22, 2008 due to securities exchange regulations which prohibit insiders from participating in debt offerings which include a warrant issue as consideration. The Company repaid $1 million of this debt on April 15, 2009 and interest of $48,107 on April 30, 2009. Effective June 30, 2009, the maturities of these agreements were extended until September 30, 2009 and interest of $34,918 was paid.

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, 2008 and also as described in Note 5 and 15 to the unaudited interim financial statements for the three and six months ended March 31 and June 30, 2009, respectively.

Subsequent Events

On July 3, 2009, the Company announced that APICO spudded the Phu Kheng exploration well in Block L27/43 located in the Khorat Basin in Northeast Thailand. The well will test shallower Jurassic and Triassic gas shows seen in the Dong Mun 3 appraisal well. Testing will be completed immediately if the well is successful. Coastal holds a net 36.1% working interest in Block L27/43.

On July 16, 2009, the Company announced that its wholly-owned subsidiary, NuCoastal (Thailand) Limited had entered into a three month contract with Atwood Oceanics Pacific Limited for the charter of the Atwood Vicksburg jackup rig. The Company plans to utilize the Vicksburg for further development of Block G5/43 in the Gulf of Thailand.

On August 5, 2009, the Company settled the Crude Oil Sales Agreement which was entered into in March 2009. On August 5, the Company received a price adjustment payment from its counterparty and has no further obligation under the original prepayment liability. Simultaneously, the Company entered into a new Crude Oil Sales Agreement for 1,300,000 with the same counterparty. Under this agreement, the Company will receive prepayment for 400,000 barrels and will be paid for the remaining volumes on an as-delivered basis. The fixed discount to Dubai crude under the August 5^{th} agreement is significantly reduced relative to the discount the Company received under the original sales agreement.

On August 26, 2009, the Company announced that it has received environmental approval for its 2-D seismic acquisition program covering the Ko Kra and Nakhon basins in northern part of Block G5/43 and all of Block G5/50. The 4,000 km program is expected to begin in mid-September. Processing and interpretation should be complete in the first quarter of 2010. The results of the program will assist the

Company in evaluating and identifying an exploration prospect to be drilled on G5/50 in 2010, which is required under the concession agreement.

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, 2008 and also in Note 2 to the annual audited financial statements for the year ended December 31, 2008.

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 as at and for the three and six months ended June 30, 2009.

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 2009, 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. The 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 23, 2009 (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.

a) Going Concern

The accompanying unaudited 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 has limited operating and production history in the Gulf of Thailand. The Company's ability to continue as a going concern is dependent upon continued production or its ability to obtain additional financing. 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 debt or share capital or generating 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 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.

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. Continued volatility in commodity prices may adversely effect the Company's operating cash flow.

d) Operating Hazards and Risks

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

e) 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.

f) Disruptions in Production

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

g) Cash Flows and Additional Funding Requirements

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

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

h) 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.

i) 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.

j) 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.

k) 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.

l) 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 13 to the unaudited interim financial statements for the three and six months ended June 30, 2009.

Management's Report on Internal Control over Financial Reporting

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

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

Outlook

The Company plans to pursue further development of its offshore properties in the Gulf of Thailand beginning late in the third quarter of 2009. Coastal believes that its offshore properties have significant development and exploration potential and it plans to keep its near-term focus on developing and exploiting its current portfolio.

Coastal expects results from the onshore Phu Kheng exploration well late in the third quarter 2009. The onshore Si That B well will be spudded shortly after the Phu Kheng well is completed. Both wells have the potential to add significant resources on blocks adjacent to the Phu Horm gas field.

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

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

	June 30,		June 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
		(As restated Note 2)		(As restated Note 2)
Revenues				
Crude oil	**28,017**	-	**36,217**	-
Royalties	**(1,880)**	-	**(2,421)**	-
(Loss) gain on derivative risk management contract (Note 8)	**(836)**	(8)	**(1,923)**	19
Interest income	**5**	270	**16**	515
	25,306	262	**31,889**	534
Expenses				
Production	**9,532**	-	**12,852**	-
General and administrative	**3,210**	2,209	**6,403**	5,656
Foreign exchange (gain) loss	**1,765**	(1,773)	**1,397**	1,609
Interest (Note 11)	**1,347**	433	**2,366**	662
Debt financing fees (Note 11)	**26**	-	**926**	-
Depletion, depreciation and accretion	**7,698**	45	**10,856**	88
Settlement (Note 5)	**2,365**	-	**2,365**	-
	25,943	914	**37,165**	8,015
Net income (loss) before taxes and earnings from significantly influenced investee	**(637)**	(652)	**(5,276)**	(7,481)
Income taxes (Note 14)	**-**	-	**-**	666
Net income (loss) before earnings from significantly influenced investee	**(637)**	(652)	**(5,276)**	(8,147)
Earnings from significantly influenced investee (Note 4)	**1,854**	3,607	**3,264**	6,475
Net income (loss) and comprehensive income (loss)	**1,217**	2,955	**(2,012)**	(1,672)
Deficit, beginning of period	**(19,816)**	(18,653)	**(16,587)**	(14,026)
Deficit, end of period	**(18,599)**	(15,698)	**(18,599)**	(15,698)
Earnings (loss) per share Basic and Diluted	**0.01**	0.03	**(0.02)**	(0.02)
Weighted average number of common shares outstanding (Note 10)	**95,551,050**	93,573,249	**94,596,190**	92,888,277

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

CONSOLIDATED BALANCE SHEETS

	June 30, 2009	December 31, 2008
	$	$
Assets		
Current assets		
Cash and cash equivalents	**7,299**	6,434
Restricted cash (Note 3)	**3,476**	4,146
Accounts receivable	**2,227**	2,391
Derivative risk management contract (Note 8)	**220**	2,016
Crude oil inventory	**4,533**	308
Prepaids and other current assets (Note 7)	**820**	271
	18,575	15,566
Investment in and advances to Apico LLC (Note 4)	**56,350**	50,376
Property, plant and equipment, net (Note 5)	**194,800**	192,224
Deposits and other assets	**428**	297
Total assets	**270,153**	258,463
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**27,608**	35,536
Income taxes payable (Note 14)	**-**	1,252
Amounts due to shareholder (Note 6)	**6,978**	6,761
Notes payable (Note 7)	**11,248**	-
Current portion of long-term debt (Note 8)	**10,574**	15,249
	56,408	58,798
Long-term debt (Note 8)	**27,210**	28,751
Asset retirement obligations (Note 9)	**1,398**	1,354
Future income tax liability (Note 14)	**26,686**	25,984
	111,702	114,887
Commitments and contingencies (Note 15)		
Shareholders' equity		
Share capital (Note 10)	**162,356**	146,938
Contributed surplus (Note 10)	**14,400**	13,225
Warrants (Note 10)	**294**	-
Deficit	**(18,599)**	(16,587)
	158,451	143,576
Total liabilities and shareholders' equity	**270,153**	258,463

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
	$	$ (As restated Note 2)	**$**	$ (As restated Note 2)
Operating activities				
Net income (loss) for the period	**1,217**	2,955	**(2,012)**	(1,672)
Distributions from significantly influenced investee	**1,083**	-	**1,806**	-
Items not involving cash				
Depletion, depreciation and accretion	**7,698**	45	**10,856**	88
Impairment	**1,765**	-	**1,765**	-
Interest expense	**-**	57	**-**	112
Unrealized foreign exchange (gain) loss	**1,295**	(1,758)	**909**	189
Stock based compensation	**1,570**	63	**2,146**	1,262
Issuance of warrants with notes payable	**-**	-	**294**	-
Share of earnings of significantly influenced investee, net of taxes	**(1,854)**	1,632	**(3,264)**	(1,236)
Unrealized (gain) loss on risk management contract	**270**	8	**1,796**	(19)
Change in non-cash working capital (Note 16)	**(909)**	1,116	**3,870**	1,618
	12,135	4,118	**18,166**	342
Investing activities				
Investment in and advances to Apico LLC	**(4,516)**	(903)	**(4,516)**	(903)
Decrease (increase) in restricted cash	**(436)**	(8)	**670**	513
Purchase of property, plant and equipment	**(17,035)**	(16,651)	**(33,348)**	(35,627)
Other	**(128)**	(5)	**(131)**	-
	(22,115)	(17,567)	**(37,325)**	(36,017)
Financing activities				
Issuance of shares for cash	**15,418**	317	**15,418**	54,875
Borrowings under long-term debt	**1,620**	25,000	**1,620**	25,000
Repayments of long-term debt	**(895)**	-	**(7,836)**	(25,000)
Borrowings under amounts due to shareholder	**-**	-	**1,000**	-
Repayment of amounts due to shareholder	**(1,121)**	-	**(1,121)**	-
Proceeds from issuance of notes payable	**-**	-	**15,000**	-
Repayments of notes payable	**(3,072)**	-	**(4,072)**	-
	11,950	25,317	**20,009**	54,875
Net effect of foreign exchange on cash held in foreign currencies	**63**	21	**15**	6
Change in cash and cash equivalents	**2,033**	11,889	**865**	19,206
Cash and cash equivalents, beginning of period	**5,266**	20,466	**6,434**	13,149
Cash and cash equivalents, end of period	**7,299**	32,355	**7,299**	32,355
Cash and cash equivalents consists of:				
Cash	**3,823**	7,005	**3,823**	7,005
Short-term money market instruments	**3,476**	25,350	**3,476**	25,350
	7,299	32,355	**7,299**	32,355

Supplemental cash flow information (Note 16)

Note 1. Nature and continuance of operations

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, 2008, 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, 2008. 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 considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

These interim consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since inception, has a working capital deficiency of $37.8 million and has an accumulated deficit of $18.6 million. In addition, as at June 30, 2009, the Company held cash and cash equivalents of $7.3 million, had current debt obligations of $28.8 million consisting of (1) amounts due to shareholder, (2) notes payable and (3) the current portion of long-term debt. Additionally, as at June 30, 2009, the Company has committed to make expenditures (consisting of capital expenditures and rental and lease payments) of $12.9 million of which $7.5 million relates to 2009 committed expenditures. Based on the current cash balance, expected cash flows from the Gulf of Thailand operations, cash distributions expected from the Company's investment in Apico LLC and proceeds from debt and/or equity financings, the Company expects to have sufficient funds to meet its 2009 commitments and continue as a going concern.

Although management is of the opinion that additional financing will be available to continue its planned activities in the normal course there is no certainty that the levels of additional financing required will be obtained.

These financial statements do not give effect to adjustments that may be necessary should the Company be unable to continue as a going concern, and these adjustments could be material.

Changes in accounting policies

Goodwill and Other Intangibles (CICA Handbook Section 3064)

On January 1, 2009 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities (CICA EIC-173)

On January 1, 2009, the Company adopted the CICA's EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no significant impact on the Company's consolidated financial statements.

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

Note 1. Nature and continuance of operations (continued)

Recent and Pending Accounting Pronouncements

In January 2009, the CICA issued Section 1582, "Business Combinations", which will replace the former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration exchanged at the date of exchange. Currently the purchase price used is based on the fair value of the consideration for a reasonable period before and after the date of acquisition is agreed upon and announced. The new standard general generally requires all acquisition costs be expensed, which are currently capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. Section 1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. Once adopted, this standard will impact the accounting treatment of future business combinations.

In January 2009, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. These sections are effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of these standards is not expected to have a material impact on the Company's consolidated financial statements.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, 'Financial Instruments — Disclosures'. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Company has established a preliminary timeline for the execution and completion of its IFRS conversion project. The Company is beginning its high-level IFRS impact study. The impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

Note 2. Restatement of previously issued financial statements

The three and six months ended June 30, 2008 have been restated to correct an error on recording the future income tax liability and expense associated with the outside basis difference between the carrying amount of the investment in Apico LLC and the Company's tax basis. The restatement is summarized as follows:

	3 months ended June 30, 2008		6 months ended June 30, 2008	
	As reported	As restated	As reported	As restated
Balance sheet				
Future income tax liability	$27,071	$27,071	$27,071	$27,071
Deficit	(15,654)	(15,698)	(15,654)	(15,698)
Statement of operations				
Income tax expense	2,484	-	2,484	666
Net income (loss)	471	2,955	(3,490)	(1,672)
Basic and diluted earnings (loss) per share	0.00	0.03	(0.04)	(0.02)

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

Note 3. Restricted cash

The Company has cash balances which are restricted by the Company's banking institutions in connection with its revolving credit facility and trade credit. The following table summarizes the restricted cash as of June 30, 2009 and December 31, 2008.

	June 30, 2009	December 31, 2008
Collateral in support of Corporate Letter of Credit (Note 15)	**$665**	$726
Restricted in support of Corporate Long-term Debt (Note 8)	**2,811**	3,420
	$3,476	$4,146

Note 4. Investment in and advances to Apico LLC

The Company holds approximately 36.1% of 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. The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference has been allocated to the Company's carrying value of Apico's oil and gas properties and is being amortized using the unit of production method. At June 30, 2009 and December 31, 2008, the remaining unamortized excess basis was $15.6 million and $16.1 million, respectively. The following table summarizes the Company's investments in and advances to Apico:

	June 30, 2009	December 31, 2008
Balance, beginning of period	**$50,376**	$53,188
Advances during the period	**4,516**	903
Share of earnings of significantly influenced investee, net of taxes	**3,753**	13,963
Amortization of excess basis in Apico	**(489)**	(1,059)
Earnings distributions	**(1,806)**	(16,619)
Balance, end of period	**$56,350**	$50,376

Note 5. Property plant and equipment, net

	June 30, 2009			December 31, 2008		
	Cost	**AD&D***	**Net**	Cost	AD&D*	Net
Oil and gas properties - Gulf of Thailand	**$168,635**	**$(14,475)**	**$154,160**	$152,098	$(1,655)	$150,443
Oil and gas production equipment	**29,426**	**-**	**29,426**	30,558	-	30,558
Construction in progress	**10,485**	**-**	**10,485**	10,462	-	10,462
Corporate assets	**1,181**	**(452)**	**729**	1,100	(339)	761
	$209,727	**$(14,927)**	**$194,800**	$194,218	$(1,994)	$192,224

* Accumulated depletion and depreciation

During the six months ended June 30, 2009 and 2008 the Company capitalized $1.4 million and $1.7 million, respectively of general and administrative expenditures into oil and gas properties. At June 30, 2009, oil and gas properties included $46.8 million of unproved properties that have been excluded from the depletion calculation. Future development costs of $137 million at June 30, 2009 are included in the depletion calculation.

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 Block G5/50 in the Gulf of Thailand. Management has performed an impairment assessment and there is no impairment of oil and gas properties and equipment as at June 30, 2009.

(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 (continued)

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 commence depreciation using the straight line method over their respective useful lives.

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, the Company will commence depreciation using the straight line method over its useful life.

During the quarter ended June 30, 2009, the Company elected to halt construction of the CALM buoy mooring system which it had ordered for the Songkhla field. Following a reevaluation study and taking into account the sharp decline in the pricing of marine assets, it was determined that halting construction and proceeding with an alternative mooring system would be the most cost effective decision. The decision to stop construction resulted in the Company forfeiting its $1.765 million deposit with the Contractor, and consequently required the Company to impair the asset by that amount. The Company also entered into an agreement to settle all disputes with the contractor for a one-time $600,000 payment. The total settlement expense to the Company was $2.365 million.

Note 6. Amounts due to shareholder

	June 30, 2009	December 31, 2008
Renewal of original note to the shareholder	**$4,863**	$4,760
Additional note from the shareholder	**1,077**	2,001
Additional note from a party related to the shareholder	**1,038**	-
	$6,978	$6,761

Effective September 25, 2006, the Company assumed a note payable to the shareholder of NuCoastal Thailand Limited ("NuCoastal") for $4.6 million. The original note was unsecured, accrued interest at 4% and was set to mature on July 20, 2007. 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 September 30, 2007 of $411,000 was paid to the shareholder in July 2008. Effective November 20, 2008 the note payable balance was renegotiated to mature on March 31, 2009 at an interest rate of 7% per annum. Effective March 31, 2009, the note and its accrued interest were renegotiated to accrue interest at 12% per annum and mature on June 30, 2009. Effective June 30, 2009, the note and its accrued interest were renegotiated to accrue interest at 12% per annum and mature on September 30, 2009. At June 30, 2009, the accrued interest on the renewed note was $196,000.

On December 30, 2008, the shareholder loaned the Company $2.0 million which is set to mature on June 30, 2009 and accrues interest at 15% per annum. The Company repaid $1.0 million of principal on this loan on April 15, 2009. Effective June 29, 2009, the maturity of the remaining $1.0 million of principal was renegotiated to mature on September 30, 2009. At June 30, 2009, the accrued interest on the renewed note was $77,000.

On January 6, 2009, the Company entered into an unsecured loan agreement with an individual related to the Company's primary shareholder in the amount of $1 million bearing interest at 15% per annum and maturing on June 30, 2009. Effective June 29, 2009, the note was renegotiated to accrue interest at 15% per annum and mature on September 30, 2009. At June 30, 2009, the accrued interest on the renewed note was $38,000.

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

Note 7. Notes payable

	June 30, 2009	December 31, 2008
Senior secured note	**$3,748**	$ -
Senior unsecured notes	**7,500**	-
	$11,248	$ -

On January 20, 2009, the Company closed a $5 million senior secured note with an unrelated private partnership bearing interest at 16% per annum and maturing on July 19, 2009. The Company is required to make monthly payments of $500,000 plus accrued interest up to the payment date, starting on February 28, 2009 though April 30, 2009 and a final principal payment of $2.5 million plus accrued interest on July 19, 2009. This note is secured by the Company's oil and gas production equipment, which is currently located in Galveston, Texas. The Company repaid $1.5 million to the Lender in the first and second quarters of 2009. The Company amended this agreement with the Lender on June 24, 2009 to extend the maturity of the remaining $3.5 million loan through September 30, 2009 in on the same terms as the original agreement. The Company agreed to pay the Lender an amendment fee equal to 2% of the outstanding balance. The agreement was further amended on July 31, 2009 to extend the maturity until December 31, 2009. The Company agreed to pay the Lender all accrued interest through June 30, 2009 and pay future interest quarterly in arrears.

On January 23, 2009, the Company completed its offering of senior unsecured notes raising $10 million. These notes bear interest at 15% per annum and will mature on January 23, 2010 with the following payment terms: 25% of the principal and all accrued interest through the payment date are to be paid on April 23, 2009, July 23, 2009, October 23, 2009 and January 23, 2010. At closing, interest applicable to the first two quarterly payments was escrowed with the underwriter; $89,000 of this interest is included in prepaids at June 30, 2009. Under the terms of the Note Indenture, the Company is required to maintain a debt service coverage ratio. In addition, the Company is not allowed to encumber Block G5/43 and net indebtedness is capped at $100 million.

Each $100,000 note was issued with a warrant entitling the holder thereof to acquire 20,000 common shares of the Company at an exercise price of Cdn$1.136. The warrants expire on January 23, 2014 (Note 10.)

Note 8. Long-term debt

	June 30, 2009	December 31, 2008
Revolving debt facility	**$37,784**	$44,000
Less: current portion	**(10,574)**	(15,249)
Long-term debt	**$27,210**	$28,751

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, with a maturity date of December 31, 2013. The Facility, arranged by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"), consists of a $42.5 million senior loan and a $7.5 million junior loan. The borrowing base of the facility and its availability are subject to recalculation every quarter. As of June 30, 2009, the amount available under the borrowing base was $37.8 million, under which the Company had drawn a total of $37.8 million comprised of $32.3 million loans under the senior loan and $5.5 million loan, drawn under the junior loan.

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 loan terms and the aggregate amount of loans outstanding. The effective interest rate on the Facility for the six months ended June 30, 2009 and 2008 were 5.43% and 5.70%, respectively. As part of the Facility, the Company is required to deposit funds into a bank account, which is restricted as to its availability (Note 3**)**.

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

Note 8. Long-term debt (continued)

As a requirement of the Facility, the Company entered into a derivative risk management contract 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 commencing July 1, 2007 and expiring June 30, 2009. The Company paid $1.2 million for this contract. Risk management contracts are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. During the six months ended June 30, 2009, the Company recorded $2.016 million of unrealized losses (2008: $19,000 unrealized gains) and $439,000 of realized gains (2008: $Nil realized) on this risk management contract.

On June 5, 2009, the Company entered into another derivative risk management contract 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 48,000 metric tons) of Singapore fuel oil at a price of $290.00 per metric ton commencing July 1, 2009 and expiring June 30, 2010. The Company paid $566,000 for this contract. As at June 30, 2009, the fair value of the risk management contract was $220,000. During the six months ended June 30, 2009, the Company recorded $220,000 of unrealized gains on this risk management contract.

Note 9. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interest in oil and gas properties, including well sites, production and processing facilities. The Company's estimates used to calculate the fair value of the asset retirement obligation have not changed since December 31, 2008. The following table provides a reconciliation of the asset retirement obligations:

	June 30, 2009	December 31, 2008
Balance, beginning of period	**$1,354**	$ -
Additions to future costs	**-**	1,340
Accretion expense	**44**	14
Balance, end of period	**$1,398**	$1,354

Note 10. Share capital

Common Stock

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

Issued and fully paid common shares

	Number of Shares	**Par Value**	**Additional Paid In Capital**	**Total**
Balance, December 31, 2007	**76,983,220**	**$3,079**	**$88,682**	**$91,761**
Shares issued pursuant to offering, net of issue costs	16,445,000	658	53,791	54,449
Shares issued pursuant to exercise of stock options	202,500	8	720	728
Balance, December 31, 2008	**93,630,720**	**$3,745**	**$143,193**	**$146,938**
Shares issued pursuant to offering, net of issue costs	5,750,000	230	15,188	15,418
Shares issued pursuant to exercise of stock options	-	-	-	-
Balance, June 30, 2009	**99,380,720**	**$3,975**	**$158,381**	**$162,356**

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.

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Note 10. Share capital (continued)

On May 17, 2009, the Company completed a public offering of 5,000,000 common shares of the Company at a price of $2.87 (Cdn $3.20) per common share, raising gross proceeds of $14.5 million (Cdn $16.0 million). Proceeds net of issuance costs of approximately $0.9 million were $13.6 million.

The Underwriters of the May offering exercised the over-allotment option they were granted in connection with the offering on June 17, 2009. The Underwriters purchased an additional 750,000 common shares of the Company at a price of $2.83 (Cdn $3.20) per share, raising gross proceeds of $2.1 million (Cdn $2.4 million). Proceeds net of issuance costs of approximately $0.3 million were $1.8 million.

Contributed Surplus

Changes in Contributed Surplus	
Balance, December 31, 2008	**$13,225**
Stock-based compensation	1,175
Balance, June 30, 2009	**$14,400**

Accumulated Other Comprehensive Income

There have been no changes to accumulated other comprehensive income as at and for the six months ended June 30, 2009 and 2008. The Company's accumulated other comprehensive income at June, 2009 is $nil.

Warrants

In January 2009, the Company issued 2,000,000 warrants in connection with a debt offering (Note 7.) As of June 30, 2009, the Company had 4,343,745 warrants outstanding and fully exercisable. The fair value of new warrants of $294,000 has been recorded in the share capital accounts as a separate item. The changes in warrants were as follows:

	Number of warrants	Weighted average exercise price
Balance outstanding, December 31, 2007 and 2008	**2,343,745**	**$4.61 (£2.80)**
Warrants granted	2,000,000	$0.98 (Cdn1.136)
Balance outstanding, June 30, 2009	**4,343,745**	**$2.94**

The following table summarizes the outstanding and exercisable warrants at June 30, 2009:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 20, 2005	2,343,745	1.00 years	$4.61 (£2.80)	Jul. 20, 2010	2,343,745
Jan. 23, 2009	2,000,000	4.50 years	$0.98 (Cdn1.136)	Jan. 23, 2014	2,000,000
	4,343,745				4,343,745

Stock options

The Company has a stock option plan (the "Plan") in compliance with the TSX-V's policy for granting stock options. Under the Plan, the number of shares reserved for issuance may not exceed 15,000,000 shares.

At June 30, 2009 there remained for issuance 5,967,500 stock options. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The vesting term of options under the Plan is determined by the Company's Board of Directors but options granted typically vest over a period of three years with one-quarter vesting on the date of the grant and one-quarter vesting on each subsequent anniversary of the date of the 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:

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

Note 10. Share capital (continued)

Stock options (continued)

	Number of options	Weighted average exercise price
Balance outstanding, December 31, 2007	**3,700,000**	**$2.25**
Options granted	2,760,000	$3.19
Options exercised	(202,500)	$1.69
Options forfeited	(676,500)	$2.52
Balance outstanding, December 31, 2008	**5,581,000**	**$2.41**
Options granted	3,509,000	$1.16
Options exercised	-	-
Options forfeited	(57,500)	$2.71
Balance outstanding, June 30, 2009	**9,032,500**	**$2.00**

The following table summarizes the outstanding and exercisable options at June 30, 2009:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2005	187,500	0.50 years	$0.66 (£0.40)	Dec. 31, 2009	187,500
Jul. 06, 2005	112,500	1.00 years	$2.30 (£1.40)	Jul. 06, 2010	112,500
Dec. 27, 2006	2,575,000	2.50 years	$1.89 (Cdn$2.20)	Dec. 27, 2011	2,087,500
Jun. 15, 2007	162,500	3.00 years	$2.55 (Cdn$2.96)	Jun. 16, 2012	156,250
Jan. 25, 2008	1,104,000	3.50 years	$3.39 (Cdn$3.94)	Jan. 26, 2013	770,500
May 05, 2008	200,000	3.50 years	$3.82 (Cdn$4.44)	May 06, 2013	100,000
Jul. 14, 2008	85,000	4.00 years	$3.11 (Cdn$3.61)	Jul. 15, 2013	21,250
Sep. 16, 2008	100,000	4.25 years	$1.95 (Cdn$2.27)	Sep. 16, 2013	25,000
Sep. 23, 2008	1,000,000	4.25 years	$3.39 (Cdn$3.94)	Feb. 05, 2013	500,000
Jan. 02, 2009	3,506,000	4.50 years	$1.17 (Cdn$1.35)	Jan. 02, 2014	184,500
	9,032,500				4,145,500

Stock options totaling 3,509,000 were granted to directors, officers, employees and consultants on January 2, 2009, with an exercise price of Cdn $1.35. Of these options, 750,000 were granted as incentives for new hires, 25% of which vest immediately upon the grant date and 25% vesting on each of the three subsequent anniversaries of the grant date. The remaining 2,759,000 options were granted as part of the annual award which vests 33.3% on each of the three subsequent anniversaries of the grant date.

Stock-based compensation and warrants

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

	2009	2008
Risk-free interest rate	**3.00%**	3.00%
Expected life	**2 ½ - 3 years**	3 years
Annualized volatility	**30% - 60%**	57%
Dividend rate	**0%**	0%
Weighted average grant date fair value per option	**$0.54**	$1.18
Weighted average grant date fair value per warrant	**$0.19**	$-

For the six months ended June 30, 2009, the Company recorded stock-based compensation of $1,175,000 (2008: $1,262,000) and debt financing fees for the warrants of $294,000 (2008: $Nil), which was recorded as debt financing fees expense.

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

Note 10. Share capital (continued)

In January and February 2009, the Company awarded stock appreciation rights for the equivalent of approximately 2,075,000 shares, of which approximately 280,000 shares are contingent upon the achievement of certain 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. The full fair value of these stock appreciation rights is $3.87 million. During the six months ended June 30, 2009 the Company accrued a liability of $1,525,000, of which $1,235,502 is included in general and administrative expenses.

Loss per share

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

	3 Months ended June 30,		6 Months ended June 30,	
	2009	2008	**2009**	2008
Weighted average common shares outstanding, basic	**95,551,050**	93,573,249	**94,596,190**	92,888,277
Effect of stock options and warrants	**2,188,374**	1,387,187	**-**	-
Weighted average common shares outstanding, diluted	**97,739,424**	94,960,436	**94,596,190**	92,888,277

Because the Company incurred net losses for the six months ended June 30, 2009 and 2008, the effect of the stock options and warrants is anti-dilutive. Therefore the computation of diluted loss per share does not take into account the effect of these stock options and warrants.

Note 11. Interest expense

The Company expenses finance costs as incurred. The Company's weighted average interest rate was 6.9% and 5.7% for the six months ended June 30, 2009 and 2008, respectively.

Note 12. Capital management

The Company's capital consists of working capital, amounts due to shareholder, notes payable, long-term debt, and common stock. As the Company achieved first production in the fourth quarter of 2008, 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 described in Note 6 and notes payable is in Note 7. The Company's long-term debt and related changes during the period are described in Note 8. Equity accounts for Coastal are identified in Note 10.

Coastal is a public company and has established access in past transactions to both public and private debt and equity markets. The Company anticipates continuing to access both the debt and equity markets to fund future growth of the business. There has been no change in the capital management policies since December 31, 2008.

Note 13. Financial instruments and risk management

Fair values

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, other receivables, and accounts payable and accrued liabilities of which their carrying value approximates their fair value due to their short-term nature. The Company's risk management contract is considered held-for-trading and its fair value is marked to market every quarter based on quoted market prices in the futures market on the balance sheet date. Amounts due to shareholder, notes payable, and long-term debt are considered other financial liabilities and are recorded at amortized cost.

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

Note 13. Financial instruments and risk management (continued)

The carrying value of the amounts due to shareholder and notes payable approximates the fair value. This is due to the short-term nature of the liabilities. The fair value of the Company's long-term debt as at June 30, 2009 and December 31, 2008 was $37.0 million and $42.7 million, respectively.

The Company 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) risk management contract. The Company has not had any credit losses. At June 30, 2009, 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 government of Thailand. The Company's maximum exposure to credit risk at the balance sheet date is as follows:

	June 30, 2009	December 31, 2008
Cash	**$7,299**	$6,434
Restricted cash	**3,476**	4,146
Accounts receivable from government entities (UK, Thailand)	**2,017**	1,389
Trade receivable	**-**	576
Derivative risk management contract	**220**	2,016
Other accounts receivable	**210**	426
	$13,222	$14,987

All crude oil revenue for the period ended June 30, 2009 was from sales to one customer. Typically, the Company's maximum credit exposure to customers is revenue from two months of commodity sales. The Company's standard credit terms have been (receipt of) payment within 30 days of delivery or prepayment of crude oil sales. The Company's policy to mitigate credit risk associated with commodity sales is to establish relationships with credit worthy customers. The Company has not experienced any collection issues on its trade receivables.

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, income taxes payable, amounts due to shareholder, notes payable, 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 current global financial crisis has caused severe illiquidity in capital markets, economic uncertainty and significant volatility in commodity prices. The Company's ability to raise additional capital could be restricted given the current market environment (Note 1).

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

Note 13. Financial instruments and risk management (continued)

The Company's financial liabilities arose primarily from the development of its Thailand properties. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from receipt of invoice and generally do not bear interest. At June 30, 2009, the Company had recorded all of the obligations associated with its financial liabilities. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities and capital expenditures:

	June 30, 2009				
	1 Year	**2 Years**	**3 Years**	**Thereafter**	**Total**
Accounts payable and accrued liabilities	**$27,608**	**$-**	**$-**	**$-**	**$27,608**
Income taxes payable	**-**	**-**	**-**	**-**	**-**
Amounts due to shareholder	**6,978**	**-**	**-**	**-**	**6,978**
Notes payable	**11,248**	**-**	**-**	**-**	**11,248**
Long-term debt payment	**10,574**	**11,811**	**8,194**	**7,205**	**37,784**
Future commitments (Note 15)					
Capital expenditures	**7,333**	**2,850**	**2,450**	**-**	**12,633**
Rental and lease payments	**118**	**116**	**31**	**31**	**296**
	$63,859	**$14,777**	**$10,675**	**$7,236**	**$96,547**

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 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 risk management 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 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 Company's 2006 acquisition of NuCoastal, which in accordance with Canadian GAAP was accounted for as a reverse takeover ("RTO"), 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.

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

Note 13. Financial instruments and risk management (continued)

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	Income taxes payable	Future income tax liabilities
June 30, 2009					
Thai Baht	**$221**	**$-**	**$(6,088)**	**$-**	$(26,686)
UK Pounds	**71**	**13**	**(36)**	**-**	-
Canadian Dollars	**156**	**-**	**(109)**	**-**	-
Singapore Dollars	**-**	**-**	**(1,424)**	**-**	-
Euros	**6**	**-**	**(49)**	**-**	-
	$454	**$13**	**$(7,706)**	**$-**	$(26,686)
December 31, 2008					
Thai Baht	$158	$1,362	$(13,805)	$(1,252)	$(25,984)
UK Pounds	139	27	(282)	-	-
Canadian Dollars	4	-	(123)	-	-
Singapore Dollars	-	-	(2,520)	-	-
Euros	7	-	(70)	-	-
	$308	$1,389	$(16,800)	$(1,252)	$(25,984)

Based on the above net exposures at June 30, 2009, a 10% depreciation or appreciation of the above currencies against the US dollar would result in a $3.39 million increase or decrease in the Company's after-tax earnings.

(b) Interest rate risk

The Company is exposed to interest rate and cash flow risks on its outstanding borrowings and short-term investments. Presently the Company's long-term debt is at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its exposures given the relatively short-term of the interest rates on long-term debt. The terms of the Company's long-term debt obligation is described in Note 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 $56.0 million at June 30, 2009 (Notes 6, 7 and 8.) A 100 basis point change in interest rates would result in a $396,000 change in the Company's annual earnings. The Company has earned an average of 0.43% and 3.75% on its short-term investments for the six months ended June 30, 2009 and 2008, 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.

The Company's long-term debt (Note 8) incorporates the reference price in its model to determine the effective borrowing base under which the Company may borrow. This model 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 3.6% or $1.4 million.

As a requirement of the debt facilities, the Company entered into a derivative risk management contract described in Note 8. Coastal's derivative contract was in place and the Company realized cash settled proceeds of $439 and $nil during the periods ended June 30, 2009 and 2008, respectively.

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Note 14. Income taxes

The Company has taxable operations in Thailand, Mauritius, the United Kingdom and 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 until May 26, 2024. The Company is subject to foreign withholding taxes on dividend and interest income. The Company's provision for income taxes consists of the following:

Periods ended June 30,	**2009**	2008
Current income taxes	**$-**	$2,484
Future income taxes (recovery) expense	**-**	(1,818)
	-	$666

Under Thailand's Petroleum Income Tax Act ("PITA"), the Company is not required to file an income tax return until after its first production. All costs incurred in Thailand prior to first production are capitalized for income tax purposes and amortized over ten years beginning with first production. The Company has approximately $37.1 million of Thailand PITA tax losses to offset future taxable income that expire in 2018; approximately $3.4 million of United States tax losses to offset future taxable income that expire in 2025 through 2027; and approximately $0.8 million of Mauritius tax losses to offset future taxable income that expire in 2012 through 2013.

The future income tax liability is valued in the underlying currency of the related assets. The change in this account is directly attributable to the currency valuation on this liability and the effect of this change is included in the statement of operations as foreign exchange loss.

Note 15. Commitments and contingencies

The Company has provided a Letter of Credit to the Thailand Customs Department for $0.6 million. This Letter of Credit is cash collateralized (Note 3), has not been drawn on and remains outstanding as of June 30, 2009.

The Company has entered into various commitments primarily related to the ongoing development of its Thailand G5/43 property (Note 5). Coastal has secured equipment and work commitments in the Gulf of Thailand. In December 2007, the Company was awarded the G5/50 Concession in the Gulf of Thailand, within the boundaries of the Company's G5/43 Concession. In order to keep this Concession, the Company has various development obligations. The Company also has operating lease agreements for office space in the United Kingdom, Thailand and the United States. The following table summarizes the Company's outstanding contractual obligations:

Year	**G5/43**	**G5/50**	**Other**	**Total**
2009	$6,625	$708	$118	$7,451
2010	-	2,850	116	2,966
2011	-	2,450	31	2,481
2012	-	-	31	31

The Company is from time to time involved in various claims, legal proceedings, complaints and disputes with governmental authorities 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.

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

Note 16. Supplemental cash flow information

The following table summarizes the changes in non-cash working capital for the three and six months ended June 30, 2009 and 2008:

	3 months ended June 30, **2009**	2008	6 months ended June 30, **2009**	2008
Change in:				
Accounts receivable	**$589**	$(591)	**$164**	$(759)
Crude oil inventory	**(1,448)**	-	**(4,225)**	-
Prepaids and other current assets	**226**	(39)	**(549)**	84
Accounts payable and accrued liabilities	**(276)**	1,746	**8,480**	2,293
	(909)	1,116	**$3,870**	$1,618
Changes relating to:				
Attributable to operating activities	**$(909)**	$1,116	**$3,870**	$1,618

During the three and six months ended June 30, 2009 and 2008, the Company made cash payments for income taxes and interest on long-term debt as follows:

Periods ended June 30,	3 months ended June 30, **2009**	2008	6 months ended June 30, **2009**	2008
Interest on debt	**$75**	$-	**$598**	$180
Income taxes	**$1,252**	$-	**1,252**	-

Note 17. Segmented information

Operating segment

The Company's primary current operations are the acquisition, exploration and development of oil and gas properties in the Gulf of Thailand. The Company also has an indirect operating segment involved in the acquisition, exploration and development of onshore petroleum properties in Thailand. This segment is owned through the Company's 36.1% interest in Apico which is accounted for using the equity method (Note 4). The Company's corporate office is located in the United States of America.

Geographic segments

The Company's revenues and expenses for the three and six months ended June 30, 2009 and 2008 and oil and gas assets as at June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009				December 31, 2008			
Oil and gas assets as at	**Onshore Thailand**	**Gulf of Thailand**	**Corporate**	**Total**	Onshore Thailand	Gulf of Thailand	Corporate	Total
Investment in Apico	**$56,350**	**$-**	**$-**	**$56,350**	$50,376	$-	$-	$50,376
Property, plant and equipment, net	**$-**	**$194,440**	**$360**	**$194,800**	$-	$191,836	$388	$192,224
Total Assets	**$56,350**	**$204,696**	**$9,108**	**$270,154**	$50,376	$202,954	$5,133	$258,463

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

Note 17. Segmented information (continued)

Six months ended	**June 30, 2009** Onshore Thailand	Gulf of Thailand	Corporate	Total	June 30, 2008 Onshore Thailand	Gulf of Thailand	Corporate	Total
Revenues								
Oil and gas revenues, net	**$-**	**$33,796**	**$-**	**$33,796**	$-	$-	$-	$-
Gain (loss) on derivative	**-**	**-**	**(1,923)**	**(1,923)**	-	-	19	19
Interest income	**-**	**-**	**16**	**16**	-	-	515	515
	-	**33,796**	**(1,907)**	**31,889**	-	-	534	534
Expenses								
Production expenses	**-**	**12,852**	**-**	**12,852**	-	-	-	-
General and administrative	**-**	**-**	**6,403**	**6,403**	-	-	5,656	5,656
Foreign exchange (gain) loss	**-**	**-**	**1,397**	**1,397**	-	-	1,609	1,609
Interest expense	**-**	**-**	**2,366**	**2,366**	-	-	662	662
Debt financing fees	**-**	**-**	**926**	**926**	-	-	-	-
Depletion, depreciation & accretion	**-**	**10,807**	**49**	**10,856**	-	-	88	88
Settlement	**-**	**2,365**	**-**	**2,365**	-	-	-	-
Income taxes	**-**	**-**			-	-	666	666
Share of Apico earnings	**3,264**	**-**	**-**	**3,264**	6,475	-	-	6,475
Net income (loss)	**$3,264**	**$7,772**	**$(13,048)**	**$(2,012)**	$6,475	$-	$(8,147)	$(1,672)
Capital expenditures	**$4,516**	**$17,187**	**$81**	**$21,784**	$903	$31,066	$553	$32,522

Three months ended	**June 30, 2009** Onshore Thailand	Gulf of Thailand	Corporate	Total	June 30, 2008 Onshore Thailand	Gulf of Thailand	Corporate	Total
Revenues								
Oil and gas revenues, net	**$-**	**$26,137**	**$-**	**$26,137**	$-	$-	$-	$-
Gain (loss) on derivative	**-**	**-**	**(836)**	**(836)**	-	-	(8)	(8)
Interest income	**-**	**-**	**5**	**5**	-	-	270	270
	-	**26,137**	**(831)**	**25,306**	-	-	262	262
Expenses								
Production expenses	**-**	**9,532**	**-**	**9,532**	-	-	-	-
General and administrative	**-**	**-**	**3,210**	**3,210**	-	-	2,209	2,209
Foreign exchange (gain) loss	**-**	**-**	**1,765**	**1,765**	-	-	(1,773)	(1,773)
Interest expense	**-**	**-**	**1,347**	**1,347**	-	-	433	433
Debt financing fees	**-**	**-**	**26**	**26**	-	-	-	-
Depletion, depreciation & accretion	**-**	**7,642**	**56**	**7,698**	-	-	45	45
Settlement	**-**	**2,365**	**-**	**2,365**	-	-	-	-
Income taxes	**-**	**-**	**-**	**-**	-	-	-	-
Share of Apico earnings	**1,854**	**-**	**-**	**1,854**	3,607	-	-	3,607
Net income (loss)	**$1,854**	**$6,598**	**(7,235)**	**1,217**	$3,607	-	(652)	2,955
Capital expenditures	**$4,516**	**$4,918**	**$34**	**$9,468**	$903	$12,115	$115	$13,133

Note 18. Subsequent events

On August 5, 2009, the Company settled the crude oil sales agreement. On August 5, the Company received a price adjustment payment from its counterparty and has no further obligation under the original prepayment liability. Simultaneously, the Company entered into a new crude oil sales agreement for 1,300,000 barrels with the same counterparty as the first crude oil sales agreement. Under this agreement, the Company will receive prepayment for 400,000 barrels and will be paid for the remaining volumes on an as-delivered basis. The fixed discount to Dubai crude under the August 5th agreement is significantly narrower than the discount the Company received under the original sales agreement.

NON-INDEPENDENT DIRECTOR

Randy L. Bartley, President and CEO (4)

INDEPENDENT DIRECTORS

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Former Senior Vice President, Office of the Chairman
Texaco, Inc.

Bernard de Combret (3) (4) (5) Chairman
Former Deputy Chairman Executive Committee
Total Fina Elf, S.A.

Olivier de Montal
Administrator, Olympia Capital Holding

Lloyd Barnaby Smith (2) (5)
Former British Ambassador to Thailand

Forrest E. Wylie (1) (3) (4) (5)
Chairman, CEO & President
Buckeye Partners, L.P.

John B. Zaozirny (1)
Vice Chairman, Canaccord Capital

Committees of the Board:
(1) Audit, (2) Compensation,
(3) Corporate Governance and Nominating,
(4) Executive; and (5) Reserves

SENIOR MANAGEMENT

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Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer

John M. Griffith, Vice President, Operations
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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-V	TSX Venture Exchange (Canada)
AIM	London AIM Exchange (UK)

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Corporate Bankers:
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London Joint Brokers:
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