

Consolidated financial statements of

Coastal Energy Company

(formerly PetroWorld Corp.)

September 30, 2006

(Unaudited)

Coastal Energy Company

(formerly PetroWorld Corp.)

September 30, 2006

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Coastal Energy Company

(formerly PetroWorld Corp.)

Consolidated statements of operations and deficit Three and nine month periods ended September 30

(Expressed in thousands of U.S. dollars, except share and per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Expenses				
Professional fees	17	8	20	109
Regulatory and transfer agent	56	-	56	-
Office and general	37	31	60	48
Salaries and benefits	27	18	45	21
Amortization	2	2	7	6
Travel and entertainment	1	-	11	11
	140	59	199	195
Other items				
Share of loss of significantly influenced investee	123	43	213	129
Foreign exchange (gain) loss	(38)	(7)	(126)	96
	85	36	87	225
Net loss for the period	(225)	(95)	(286)	(420)
Deficit, beginning of period	(938)	(607)	(877)	(282)
Deficit, end of period	(1,163)	(702)	(1,163)	(702)
Basic and diluted loss per share	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of common shares outstanding	161,717,860	151,663,323	155,051,665	151,663,323

Coastal Energy Company

(formerly PetroWorld Corp.)

Consolidated balance sheets

(Expressed in thousands of U.S. dollars)

(Unaudited)

	September 30, 2006	December 31, 2005
	\$	\$
Assets		
Current assets		
Cash	25,693	135
Accounts receivable (Note 4)	105	584
Amounts due from joint interest partners (Note 7)	-	484
Prepays, deposits and other assets	159	8
	25,957	1,211
Investment in and advances to Apico LLC	40,638	8,972
Petroleum and natural gas properties (Note 5)	63,148	4,214
Plant and equipment, net (Note 6)	573	32
Other long-term assets	361	-
	130,677	14,429
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,437	1,227
Amounts due to joint interest partners (Note 7)	352	1,301
Amounts due to shareholder	4,640	10,399
	6,429	12,927
Future income tax liability (Note 3)	24,240	-
	30,669	12,927
Shareholders' equity		
Share capital (Note 8)	4,875	2,379
Contributed surplus	96,296	-
Deficit	(1,163)	(877)
	100,008	1,502
	130,677	14,429

Commitment (Note 10)

Approved by the Board

(Signed) Frank Inouye

Frank Inouye, Director

(Signed) Albert Whitehead

Albert Whitehead, Director

Coastal Energy Company

(formerly PetroWorld Corp.)

Consolidated statements of cash flows

Three and nine month periods ended September 30

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(225)	(95)	(286)	(420)
Items not involving cash				
Amortization	2	2	7	6
Foreign exchange gain	(17)	-	(19)	-
Share of loss of significantly influenced investee	123	43	213	129
Change in non-cash working capital				
Accounts receivable	203	(2,586)	553	(2,615)
Amounts due from joint interest partners	-	454	484	177
Prepays and other assets	3	2	(5)	(4)
Accounts payable and accrued liabilities	(1,520)	(78)	(2,308)	192
Amounts due to joint interest partners	(201)	(3,110)	(66)	1,772
	(1,632)	(5,368)	(1,427)	(763)
Investing activities				
Investment in and advances to Apico LLC	(2,337)	-	(2,337)	-
Cash acquired on acquisition (Note 3)	588	-	588	-
Petroleum and natural gas properties	(195)	(161)	(1,025)	(362)
Purchase of plant and equipment	(1)	(5)	(3)	(7)
	(1,945)	(166)	(2,777)	(369)
Financing activities				
Issuance of shares for cash	28,388	-	28,388	-
Amounts due to shareholder	200	1,518	1,374	1,769
	28,588	1,518	29,762	1,769
Change in cash	25,011	(4,016)	25,558	637
Cash, beginning of period	682	4,744	135	91
Cash, end of period	25,693	728	25,693	728

Supplemental cash flow information

During the nine months ended September 30, 2006, NuCoastal's shareholder advanced funds of \$4.8 million (2005 - \$1.1 million) to Apico.

During the nine months ended September 30, 2006, an amount due to shareholder of \$9.9 million was converted from an outstanding loan balance to an additional equity contribution and recorded as contributed surplus.

For each of the periods presented, the Company made no cash payments for interest or income taxes.

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Notes to the consolidated financial statements

September 30, 2006

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

1. Nature and continuance of operations

PetroWorld Corp. ("PetroWorld") was incorporated on May 26, 2004 in the Cayman Islands under the Companies Law (2004 revision). Following the transaction described in Note 3, PetroWorld changed its name to Coastal Energy Company (the "Company"). The Company has been pursuing business opportunities in the natural resource industry since incorporation.

These financial statements are prepared 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's ability to continue on a going concern basis depends on its ability to successfully raise additional financing or bring one of its resource properties into commercial production and ultimately achieve profitable operations. The Company is currently a development stage entity and has no revenues from production.

2. Basis of presentation

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, necessary for a fair presentation of results for the interim periods. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These interim consolidated financial statements follow the same accounting policies as the audited consolidated financial statements of NuCoastal Thailand Limited for the year ended December 31, 2005. Accordingly, these interim consolidated financial statements should be read in conjunction with NuCoastal Thailand Limited's 2005 annual audited consolidated financial statements and notes thereto.

3. Acquisitions

On September 25, 2006, PetroWorld acquired all of the issued and outstanding shares of NuCoastal Thailand Limited ("NuCoastal"), in consideration for the issuance of 151,663,323 common shares of PetroWorld. PetroWorld also issued 3,415,000 common shares in consideration for \$2.0 million of funds that had been advanced by NuCoastal's shareholder to Apico LLC ("Apico").

PetroWorld issued enough shares to NuCoastal so that control of PetroWorld passed to NuCoastal. As a result, and in accordance with Canadian GAAP, the NuCoastal acquisition has been accounted for as a reverse takeover that constitutes a business combination, with NuCoastal being identified as the acquirer for accounting purposes. As such, these unaudited consolidated financial statements are a continuation of the financial statements of NuCoastal with the comparative information being that of NuCoastal.

In conjunction with the acquisition by PetroWorld of NuCoastal, NuCoastal's shareholder agreed to convert \$9.9 million of outstanding loan balance to an additional equity contribution recorded as contributed surplus at September 30, 2006.

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3. Acquisitions (continued)

The fair value of all of the issued shares of PetroWorld immediately prior to the NuCoastal acquisition was used to determine the cost of the purchase. The allocation of the purchase price based on the consideration paid and the preliminary estimate of PetroWorld's net assets acquired is as follows:

	\$
Purchase price	
Common shares of PetroWorld (56,250,003 common shares)	31,503
Stock options and warrants	2,250
	<hr/> 33,753 <hr/>
Net assets acquired	
Cash	588
Non-cash working capital deficiency	(2,449)
Plant and equipment	545
Other long-term assets	367
Petroleum and natural gas properties	58,942
Future income tax liabilities	(24,240)
	<hr/> 33,753 <hr/>

The preliminary determination of the fair value of PetroWorld's assets acquired and liabilities assumed is based on the management of the Company's best estimate at the date of these financial statements. The Company is completing its assessment of the fair value of net assets acquired, including obtaining independent appraisals. Any change to the preliminary allocation of the fair value of the net assets acquired will be recorded in the period they are determined.

On September 25, 2006 and concurrent with the acquisition described above, the Company acquired a 10.63% interest in Apico from PHG in consideration for 36,419,562 common shares increasing the Company's interest in Apico to 36.1%. The Company also issued 4,726,000 common shares to PHG in consideration for approximately \$2.7 million of funds that had been advanced by PHG to Apico. Apico, both directly and indirectly, holds interests in various petroleum concessions in Thailand.

Upon closing of the NuCoastal and Apico acquisitions and pursuant to an agreement with Endeavour Financial International Corp. ("EFIC"), a company in which an officer and director was also an officer of PetroWorld, the Company paid EFIC \$567,500 as a success fee.

4. Accounts receivable

	September 30, 2006	December 31, 2005
	\$	\$
Refundable taxes	83	561
Other	22	23
	<hr/> 105 <hr/>	584

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5. Petroleum and natural gas properties

	September 30, 2006	December 31, 2005
	\$	\$
Thailand (a)	61,710	4,214
Nevada (b)	1,438	-
	63,148	4,214

(a) *Thailand*

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

(b) *Nevada*

The Company has a seismic option agreement with Cortez Exploration LLC located in Gabbs Valley, Nevada State, USA. The Company elected to commit for one-half of the drilling and land cost obligation; therefore, it paid 50% of the land cost and 45% of the drilling costs to earn a 30% working interest in the leases and test well.

6. Plant and equipment

The following table summarizes the Company's plant and equipment:

	September 30, 2006	December 31, 2005
	\$	\$
Leasehold improvements	527	-
Equipment	48	46
Other capital assets	66	-
Cost	641	46
Accumulated amortization	(68)	(14)
Net book value	573	32

7. Amounts due from (to) joint interest partners

Amounts due from (to) joint interest partners arise from the timing of the receipt of funds from cash calls made by the Company together with the timing of exploration activities.

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8. Share capital and contributed surplus

(a) *Authorized*

1,000,000,000 common shares with par value of \$0.01 each

(b) *Issued and fully paid common shares*

	Number of shares	Share capital \$	Contributed surplus \$
Balance, December 31, 2005	56,250,003	2,379	-
Shares issued pursuant to the NuCoastal acquisition (Note 3)	151,663,323	1,517	32,237
Shares issued pursuant to the Apico acquisition (Note 3)	36,419,562	364	21,645
Shares issued pursuant to the offering, net of issue costs	61,500,000	615	32,486
Equity contribution by shareholder (Note 3)	-	-	9,928
Balance, September 30, 2006	305,832,888	4,875	96,296

In accordance with RTO accounting, the capital structure of the Company is that of PetroWorld, but the dollar amount of the issued share capital in the unaudited consolidated balance sheet immediately prior to the NuCoastal acquisition is that of NuCoastal.

On September 25, 2006, the Company completed a brokered financing (the "Offering") of 61,500,000 common shares of the Company at a price of \$0.59 (Cdn\$0.65) per share, raising gross proceeds of approximately \$35.8 million (Cdn\$40.0 million). The Company granted the agents an over-allotment option exercisable within 30 days of closing the Offering, entitling the agents to increase the Offering by up to 15% (see Note 12 (a)). Included within the 61,500,000 common shares, the Company issued 3,415,000 and 4,726,000 common shares to NuCoastal's shareholder and PHG, respectively, in consideration for approximately \$2.0 million and \$2.7 million of funds that had been advanced to Apico by NuCoastal's shareholder and PHG, respectively. Net proceeds of the Offering were \$28.4 million (net of issue costs of \$2.7 million).

(c) *Stock options*

The Company has a "rolling" 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 10% of the total number of issued and outstanding shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant.

Following the reverse takeover of PetroWorld (Note 3), the Company assumed all of PetroWorld's fully vested stock options.

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8. Share capital and contributed surplus (continued)

(c) Stock options (continued)

The following table summarizes the outstanding and exercisable options at September 30, 2006:

Outstanding and exercisable	Exercise price	Expiry date	Remaining contractual life
\$			
1,450,000	0.19 (£0.10)	January 25, 2009	2.3 years
1,800,000	0.66 (£0.35)	July 6, 2010	3.8 years
<u>3,250,000</u>			

During the three months and nine months ended September 30, 2006, 200,000 stock options expired. In addition, during the same period, no stock options were granted or exercised.

(d) Warrants

Following the reverse takeover of PetroWorld (Note 3), the Company assumed all of PetroWorld's warrants.

The following table summarizes the outstanding and exercisable warrants at September 30, 2006:

Outstanding and exercisable	Exercise price	Expiry date
\$		
1,125,000	0.66 (£0.35)	January 20, 2007
214,350	0.66 (£0.35)	July 20, 2007
9,375,000	1.31 (£0.70)	July 20, 2010
<u>10,714,350</u>		

There were no changes in outstanding or exercisable warrants during the nine month period ended September 30, 2006.

9. Related party transactions

- (a) Pursuant to the NuCoastal acquisition, PetroWorld paid a success fee of \$0.6 million to EFIC, the amount of which is recorded in the liabilities assumed upon the acquisition of PetroWorld.
- (b) As at September 30, 2006, included in accounts payable and accrued liabilities were amounts of \$0.4 million (December 31, 2005 - \$Nil) owed to companies and individuals related by way of common directors.

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9. Related party transactions (continued)

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Commitment

On November 23, 2005, PetroWorld entered into an office rental agreement with Phoenix Life and Pensions Limited ("Phoenix"). The rental commencement date was May 23, 2006. The term of the agreement is for a period of 10 years, with a five year break clause in which PetroWorld, and now the Company, may terminate the lease on or at the end of the fifth year by giving Phoenix a minimum of six months' written notice. The rent amount is approximately \$0.3 million (£0.2 million) per annum, to be paid by equal quarterly payments in advance of each quarter.

11. Segmented information

The Company currently operates in one business segment, being the acquisition and exploration of petroleum and natural gas properties.

- (a) Operating segment - The Company's operations are directed towards the acquisition and exploration of petroleum and natural gas properties, primarily in Thailand and the United States.
- (b) Geographic segments – The Company's assets as at September 30, 2006 and revenues and expenses for the three and nine month periods ended September 30, 2006 were as follows:

	Cayman Islands	United Kingdom	Thailand	United States	Total
September 30, 2006	\$	\$	\$	\$	\$
Assets	24,858	1,281	103,100	1,438	130,677
Liabilities	487	180	29,846	156	30,669
Capital expenditures	-	-	992	36	1,028
Three months ended September 30, 2006					
Operating expenses	58	47	35	-	140
Other items	(41)	8	118	-	85
Net loss for the period	17	55	153	-	225
Nine months ended September 30, 2006					
Operating expenses	58	47	94	-	199
Other items	(41)	8	120	-	87
Net loss for the period	17	55	214	-	286

Prior to the acquisition of PetroWorld (Note 3) on September 25, 2006, all of the Company's operations were in Thailand.

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(Unaudited)

12. Subsequent events

- (a) On October 25, 2006, the Company issued a further 1,500,000 common shares of the Company, at a price of \$0.59 per share pursuant to the over-allotment option (Note 8 (b)), raising gross proceeds of approximately \$0.9 million.
- (b) On November 15, 2006, the Company signed a 3D seismic agreement with Petroleum Geo-Services Asia Pacific Pte Ltd. ("PGS"). The seismic survey is scheduled to commence in early December 2006 and is expected to take approximately 14 days to complete.

The PGS vessel will acquire approximately 330 square kilometres of high resolution 3D data over the entire western portion of the Songkhla basin in Block G5/43 at a cost of approximately \$5.0 million.