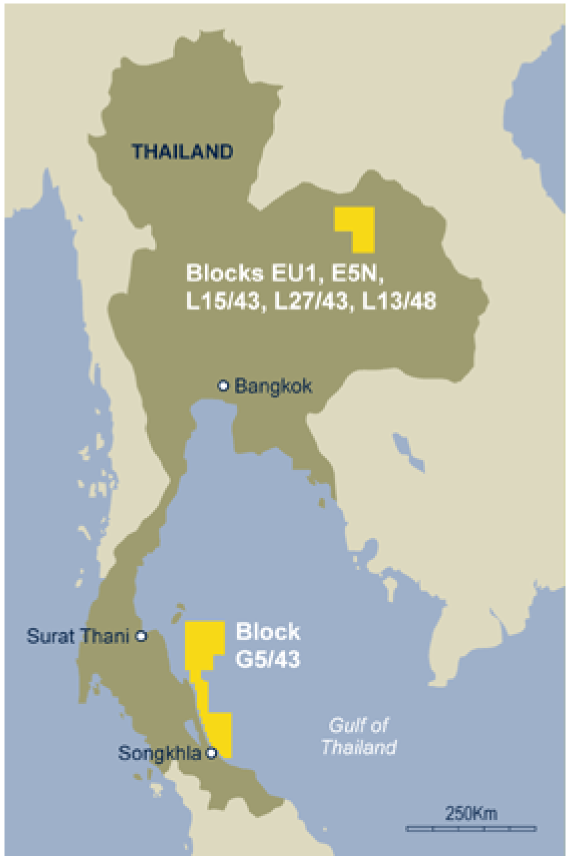
QUARTERLY REPORT

COASTAL ENERGY

SEPTEMBER 30, 2007

COASTAL ENERGY COMPANY
3RD QUARTER 2007



Coastal Energy's Oil & Gas interests

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(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 (the **"**Company**"**). This MD&A, dated November 19, 2007, should be read in conjunction with the accompanying unaudited consolidated financial statements for the three and nine months ended September 30, 2007 and related notes thereto. Additional information related to the Company is available on SEDAR at www.sedar.com.

Overview

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

On October 30, 2007 at the Annual General Meeting, the shareholders of the Company approved a reduction in the authorized shares of the Company's common stock through a reverse stock split with a conversion ratio of one share for every four held. The Company is keeping its stock symbol on the AIM exchange as "CEO;" however as a result of the share consolidation, the Company's trading symbol on the TSX-V changed to "CEN." The share consolidation and symbol change were effective on November 7, 2007. All information related to common shares in this MD&A for the current and prior period has been restated to give effect to the share consolidation.

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

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

Third Quarter 2007 Highlights

- The Company has reported $1.544 million as its share of earnings of a significantly influenced investee. This represents $1.893 million (its 36.1% of Apico's unaudited third quarter net income of $5.242 million) less $0.349 million for amortization of the Company's excess basis in Apico (see Note 4 to the Financial Statements.)

- The Phu Horm gas field, in which the Company has a net 12.6% indirect interest, was averaging over 80 million cubic feet per day ("mmcf/d") during the third quarter.

- The Company continued to conduct geological and development work on its assets in the G5/43 block, Gulf of Thailand; including interpretation of the 3-D seismic shoot of 330 square kilometers over the western half of the Songkhla basin. The area covered by the seismic acquisition includes the Bua Ban oil field which is one of two fields the Company is looking to develop over the next 12-18 months. The seismic will supplement existing 3-D over the Songkhla field. The Company has also been in negotiations to secure a drilling rig for use in Block G5/43 (see subsequent events.)

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.

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

Oil & Gas Properties

Summary of Oil & Gas Properties	Thailand On-Shore	Thailand Off-shore	Nevada USA	Totals
Balance, December 31, 2005	**$7,670**	**$4,751**	**$ -**	**$12,421**
Additions during the period:				
Exploration & development	11,247	4,076	407	15,730
Net assets acquired via NuCoastal Acquisition		57,540	1,402	58,942
Net assets acquired via Apico Acquisition	22,008	-	-	22,008
Advances associated with Apico Acquisition	2,750	-	-	2,750
Equity earnings in Apico	371	-	-	371
Balance, December 31, 2006	**44,046**	**66,367**	**1,809**	**112,222**
Additions during the period:				
Exploration & development	1,463	3,852	203	5,518
Write-down of Nevada oil and gas property	-	-	(2,012)	(2,012)
Equity earnings in Apico	6,420	-	-	6,420
Amortization of excess basis in Apico	(1,165)	-	-	(1,165)
Balance, September 30, 2007	**$50,764**	**$70,219**	**$ -**	**$120,983**

(a) Thailand Onshore

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

Nine months ended September 30,	**2007**	2006
Total revenue	**$47,532**	$-
Total expenses	**18,797**	418
Income tax expense	**10,965**	-
Net Income	**$17,770**	$(418)

	September 30, 2007	December 31, 2006
Current assets	**$27,750**	$7,255
Property, plant and equipment	**80,959**	68,336
Other assets	**3,115**	237
Total assets	**$111,824**	$75,828
Current liabilities	**$18,870**	$6,260
Non-current liabilities	**1,750**	101
Members equity	**91,204**	69,467
Total liabilities and equity	**$111,824**	$75,828

Production at the Phu Horm gas field commenced on November 30, 2006 and will supply the Nam Phong power plant with over 500 billion cubic feet of gas, plus condensate, under a 15 year Gas Sales Agreement with PTT Public Company Limited. Coastal's net interest of 12.6% is held through its equity investment in Apico which holds a 35% interest in Block EU-1 and E-5N. The other partners in the Block include Hess Corporation (Operator - 35%), PTT Exploration & Production (20%) and Exxon Mobil Corp. (10%). During the third quarter, three wells at Phu Horm had average aggregate production rates in excess of 80 mmcf/day to Nam Phong. The field was also producing in excess of 400 bbls of condensate per day.

Block L15/43 surrounds the Phu Horm gas field. Preparations are under way for spudding the Phu Horm South appraisal well on the southern extension of the Phu Horm gas field within the next three (3) months.

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

The well will determine whether the productive Phu Horm reservoir extends beyond the Hess operated production license into the surrounding L15/43 concession.

Block L27/43 is located 50 km southeast of the L15 concession. Seismic operations were conducted and evaluated over the Dong Mun structure in 2006. An appraisal well has been spudded to evaluate the Dong Mun prospect (see subsequent events.) The appraisal well offers the opportunity to add reserves in close proximity to Phu Horm and Nam Phong infrastructure.

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

(b) Thailand Offshore

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

Three successful wells were drilled by NuCoastal and PetroWorld on the Bua Ban oil field ("Bua Ban") in August 2005 which confirmed proved and probable oil reserves of approximately 12 million barrels of oil. 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 Songkhla oil field, which is smaller than Bua Ban, was discovered in 1989 and originally tested 1,500 barrels of production per day and contains proved and probable oil reserves of approximately 4.2 million barrels. As part of a fast track development plan, environmental impact assessment and production area applications are currently being prepared for both the Songkhla and Bua Ban fields. The Company has begun contracting services for the Songkhla development and expects to be in production within the next 12 months (see subsequent events.)

(c) Nevada

The Company considered this asset to be non-core. The Company had a thirty (30%) percent working interest in Federal Leases located in Gabbs Valley, Nevada. In the second quarter, this property was written down to nil. In August 2007, the Company signed an agreement to relinquish its working interest to the operator of these leases in return for relief from any current and future commitments related to these leases.

Summary of Quarterly Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
Operating Expenses	**$3,952**	$140	**$8,761**	$199
Share of (earnings) loss of Apico, LLC	**(1,544)**	123	**(5,255)**	213
Unrealized loss on derivative	**983**	-	**983**	-
(Gain) loss on sale of assets	**(22)**	-	**18**	-
Foreign exchange (gain) loss	**209**	(38)	**1,498**	(126)
Net loss	**(3,578)**	(225)	**(6,005)**	(286)
Per share basic and diluted	**$(0.05)**	$(0.01)	**$(0.08)**	$(0.01)
Working capital			**$13,503**	$19,528
Total assets			**$154,559**	$130,677

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

Cash Flow Analysis

The Company's cash and cash equivalents increased by $2.2 million from $18.4 million at December 31, 2006 to $20.6 million at September 30, 2007. The Company's primary source of funds came from borrowing $25.0 million under its credit facility. These funds were primarily used to fund restricted cash of $2.9 million; invest $1.5 million in Apico; invest $9.9 million in property, plant and equipment; reduce accounts payables and accrued liabilities by $2.2 million; and pay operating expenses of $6.6 million.

Summary of Quarterly Results

	2007			2006				2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Operating expenses	**$3,952**	**$3,514**	**$1,295**	**$2,588**	$140	$22	$36	$224
Share of (earnings) loss of Apico LLC	**(1,544)**	**(2,148)**	**(1,563)**	**(583)**	123	80	10	43
Unrealized loss on derivative	**983**	**-**	**-**	**-**	-	-	-	-
(Gain) loss on sale of assets	**(22)**	**40**	**-**	**-**	-	-	-	-
Foreign exchange (gain) loss	**209**	**282**	**1,007**	**1,763**	(38)	(19)	(69)	(91)
Net income (loss)	**$(3,578)**	**$(1,688)**	**$(739)**	**$(3,768)**	$(225)	$(83)	$23	$(176)
Per share basic & diluted	**$(0.05)**	**$(0.02)**	**$(0.01)**	**$(0.05)**	$(0.01)	$0.00	$0.00	$0.00

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

(a) Operating Expenses

- The increase in Q3 2007 compared to prior quarter was primarily the result of $2.1 million in debt financing fees and $0.4 million in interest which were offset by the Q2 write down of the Nevada oil & gas property.
- The increase in Q2 2007 compared to the prior quarter was primarily the result of the $2.0 million write down of the Nevada oil & gas property. In addition, the Company had higher salaries (including stock based compensation), office and general, and regulatory and transfer agent fees which were partially offset by reduced professional fees and travel and entertainment
- The decrease in Q1 2007 compared to the prior quarter was primarily the result of lower professional fees, regulatory and listing fees
- The increase in Q4 2006 compared to the prior quarter was primarily the result of the consolidation of operations of PetroWorld and NuCoastal (effective September 25, 2006) combined with additional professional fees, regulatory and listing fees and stock based compensation.
- The increase in Q3 2006 compared to the prior quarter was primarily the result of increased regulatory & listing fees.

(b) Share of (earnings) loss of Apico LLC

Under the equity method of accounting, the Company records its share of net income / loss of Apico based on the reported quarterly net income / loss of Apico. Apico recorded its first quarter of profitability in Q4 2006, when the Phu Horm gas field began production. Q1 2007 was the first full quarter of production for the Phu Horm gas field. The Company's share of earnings was reduced in Q1 and Q2 2007 by the amortization of the Company's excess basis in Apico

(c) Unrealized loss on derivative

As a condition of the Company's reserve based revolving debt facility, the Company is required to hedge 50% of its commodity price exposure related to production on the Phu Horm Gas Field. The Company obtains 3rd party quotes in order to mark to market the gains and losses related to the commodity hedge.

Given the fact that the Company purchased a put option, its exposure is limited to $1.2 million, the amount of the option premium paid. As of September 30, 2007, the market value of this option was $0.2 million.

(d) Foreign exchange (gain) loss

The foreign exchange gain/loss is a result of the Company carrying out transactions and maintaining certain assets and liabilities in currencies other than the US Dollar, including the Canadian Dollar, the British Pound and the Thai Baht. The foreign exchange loss attributable to the revaluation of the long-term Thailand tax liability created by the reverse takeover of PetroWorld is as follows:

- $0.22 million in Q3 2007
- $0.36 million in Q2 2007
- $0.76 million in Q1 2007
- $0.91 million in Q4 2006

Liquidity and Capital Resources

As at September 30, 2007, the Company had cash and cash equivalents of $20.6 million, which, in management's opinion, is sufficient combined with the revolving credit facility to cover ongoing obligations as they become due. Beginning with December 2006, Apico has been largely self-funding as a result of production from its Phu Horm interest and the Company has made only two additional advances to its investment in Apico, in the aggregate amount of $1.463 million. The Company presently has earnings from its interest in Apico, which is accounted for under the equity method on the Statement of Operations.

In order to put the offshore Gulf of Thailand property into commercial production, substantial capital will be required. The additional sources of capital presently available to the Company for development are from additional borrowings under the Company's revolving credit facility or the sale of equity. In June 2007, the Company secured $50 million of borrowing base credit facilities, maturing on December 31, 2013. The Facility is secured by the Company's investment in Apico, LLC. As of the date of this report the borrowing base available under the Facility was $39.5 million, of which the Company has drawn $25.0 million.

As a requirement of the credit facilities, the Company entered into a derivative hedging agreement with an affiliate of the lender under which the Company has the right to sell up to 96,000 metric tons of Singapore fuel oil at a price of $290.00 per metric ton. The Company paid $1.2 million for this put option and the put option expires on June 30, 2009. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. For the quarter ended September 30, 2007, the Company recorded an unrealized loss on this instrument of $1.0 million.

(a) Share Capital

250,000,000 common shares with par value of $0.04 each;
As of the date of this report, the Company had 76,983,222 common shares outstanding.

(b) Stock Options

Effective May 3, 2007, options for 175,000 shares expired unexercised. On June 14, 2007, options for 62,500 shares were exercised. The Company granted stock options for 375,000 shares on June 15, 2007. On July 12, 2007, options for 62,500 shares were exercised. On August 31, 2007, options for 37,500 expired unexercised. The following table summarizes the outstanding and exercisable options as of the date of this report:

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

Number Outstanding	Remaining contractual life	Exercise Price	Number Exercisable	Expiry date
212,500	1.25 years	$0.82 (£0.40)	212,500	January 25, 2009
362,500	2.75 years	$2.85 (£1.40)	362,500	July 6, 2010
2,900,000	4.25 years	$2.21 (C$2.20)	725,000	December 27, 2011
375,000	4.75 years	$2.97 (C$2.96)	93,750	June 16, 2012
3,850,000			1,393,750	

(c) Warrants

Effective January 20, 2007, warrants for 281,250 shares with an exercise price of £1.40 expired unexercised. Effective July 20, 2007, warrants for 53,588 shares with an exercise price of £1.40 expired unexercised. As of the date of this report, the Company had 2,343,745 warrants outstanding exercisable at $5.71 (£2.80) per share and expiring on July 20, 2010.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transaction

A non-executive director of the Company is an officer and director of a company which is the temporary operator of the Company's previously held working interest in Gabbs Valley, Nevada. Included in accounts payable and accrued liabilities at September 30, 2007 and December 31, 2006 were nil and $0.06 million, respectively, owed to this operator.

In August 2007, the Company formally relinquished all its working interest in the Nevada leases to the temporary operator in exchange for the Company's current obligation to pay the operator $0.021 million related to well clean up costs along with all future obligations surrounding this working interest. 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.

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, 2006 and also in Note 12 to the annual audited financial statements for the year ended December 31, 2006.

Subsequent Events

On November 8, 2007 the Company announced that the Dong Mun 3 ("DM3") well had commenced drilling. This well is located in Block L27/43 in Khorat Plateau, northeast Thailand. The Company has a 36.1% interest in this concession via its ownership in Apico. Apico management anticipates it will take approximately 45 days for this well to reach its projected total depth of 2716 meters sub sea depth.

On November 13, 2007 the Company announced that it had reached a definitive agreement with a contract driller for a twelve (12) month agreement to drill development wells in the Songkhla and Bua Ban oil fields and appraisal wells in the Ko Kra basin in the Gulf of Thailand.

Financial Instruments

The Company's financial instruments are comprised of cash and cash equivalents, restricted cash, accounts receivable, amounts due to shareholder and accounts payable. The fair values of the financial instruments approximate their carrying values due to their short term nature.

As a condition of the Company's reserve based revolving debt facility, the Company is required to hedge 50% of its commodity price exposure related to production on the Phu Horm Gas Field. The Company obtains 3rd party quotes in order to mark to market the gains and losses related to the commodity hedge. Given the fact that the Company purchased a put option, its exposure is limited to $1.2 million, the amount of the option premium paid. As of September 30, 2007, the market value of this option was $0.2 million.

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, 2006 and also in Note 2 to the annual audited financial statements for the year ended December 31, 2006.

New Accounting Pronouncements

Effective January 1, 2007, the Company has adopted two new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

(a) Financial Instruments – Recognition and Measurement (CICA Handbook Section 3855)

In accordance with this new standard, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations and deficit.

Upon adoption of this new standard, the Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable and other are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities; amounts due to shareholder; and long-term debt are classified as other financial liabilities, which are measured at amortized cost. As at September 30, 2007, the Company did not have any financial assets classified as available-for-sale and therefore, the adoption of the standard noted above had no effect on the presentation of the Company's consolidated financial statements.

The Company has adopted a policy to expense debt financing costs when they are incurred.

(b) Comprehensive Income (CICA Handbook Section 1530)

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports comprehensive income in its statement of operations and a new category, accumulated other comprehensive income, in the shareholders' equity section of the consolidated balance sheet. The components of this new category may include unrealized gains and losses on financial assets classified as available-for-sale, exchange gains and losses arising from the translation of financial statements of a self-sustaining foreign operation and the effective portion of the changes in fair value of cash flow hedging instruments.

During the nine month period ended September 30, 2007, there were no changes in shareholders' equity that resulted from non-owner sources and consequently, the adoption of the standard noted above had no effect on the presentation of the Company's consolidated financial statements.

Risks and Uncertainties

(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 is currently a development stage entity and has no direct revenue from production; however, the Company has earnings from its interest in Apico, which is accounted for under the equity method on the statement of operations. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing or bring one of its resource properties into commercial production and ultimately achieve profitable operations. Although to date the Company has been successful in obtaining financing, there can be no assurance that the Company will be successful in raising additional share capital or generating revenue to generate sufficient cash flows to continue as a going concern.

(b) Trends

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.

(c) Risks and Uncertainties

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

(d) Industry

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

(e) Petroleum and Gas Prices

The price of petroleum and natural gas is affected by numerous factors beyond the control of the Company including global consumption and demand for petroleum and natural gas, international economic and political trends, fluctuations in the U.S. dollar and other currencies, interest rates, and inflation. While prices for petroleum and natural gas have increased significantly since the start of 2003, there is no assurance that this trend will continue or that current prices will be sustained.

(f) Cash Flows and Additional Funding Requirements

The Company presently has earnings from its interest in Apico, which is accounted for under the equity method on the statement of operations. In order to put the offshore Gulf of Thailand property into commercial production, substantial capital will be required. The sources of capital presently available to the Company for development are from borrowings under the Company's revolving credit facility or the sale of equity. The Company has sufficient financial resources to undertake its firm obligations for the next 12 months.

(g) 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.

(h) 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.

(i) Title to Oil & Gas Properties

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

(j) Dependence on Management

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

(k) 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.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2006, that the Company's disclosure controls and procedures as of December 31, 2006 are effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company.

In addition, the certifying officers of the Company are responsible for designing or causing internal controls over financial reporting to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The certifying officers have concluded that the Company's internal control over financial reporting, as defined in 52-109, is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended December 31, 2006, in accordance with Canadian GAAP.

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

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

Outlook

The Company is continuing to work towards and continues to operate in the business segment of acquiring and exploring petroleum and natural gas properties.

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

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
	$	$	**$**	$
Expenses				
Salaries and benefits	**721**	27	**2,063**	45
Professional fees	**218**	17	**743**	20
Office and general	**250**	37	**660**	60
Travel and entertainment	**102**	1	**262**	11
Regulatory and transfer agent	**164**	56	**364**	56
Interest expense	**383**	-	**489**	-
Depreciation and amortization	**42**	2	**74**	7
Debt financing fees (Note 8)	**2,072**	-	**2,072**	-
Write-down of unproved oil and gas properties (Note 5)	**-**	-	**2,034**	-
	3,952	140	**8,761**	199
Other items				
Share of (earnings) loss of significantly influenced investee, net of taxes	**(1,544)**	123	**(5,255)**	213
Unrealized (gain) loss on derivative (Note 8)	**983**	-	**983**	-
(Gain) loss on sale of assets	**(22)**	-	**18**	-
Foreign exchange (gain) loss	**209**	(38)	**1,498**	(126)
	(374)	85	**(2,756)**	87
Net loss and comprehensive loss	**(3,578)**	(225)	**(6,005)**	(286)
Deficit, beginning of period	**(7,358)**	(938)	**(4,931)**	(877)
Deficit, end of period	**(10,936)**	(1,163)	**(10,936)**	(1,163)
Loss per share				
Basic	**(0.05)**	(0.01)	**(0.08)**	(0.01)
Diluted	**(0.05)**	(0.01)	**(0.08)**	(0.01)
Weighted average number of common shares outstanding				
Basic	**76,975,070**	40,010,526	**76,897,828**	38,624,331
Diluted	**76,975,070**	40,010,526	**76,897,828**	38,624,331

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

CONSOLIDATED BALANCE SHEETS

	September 30, 2007	December 31, 2006
	$	$
Assets		
Current assets		
Cash and cash equivalents	**20,596**	18,350
Restricted cash (Note 2)	**2,929**	-
Accounts receivable and other (Note 3)	**972**	490
	24,497	18,840
Investment in and advances to Apico LLC (Note 4)	**50,764**	44,046
Property, plant and equipment, net (Note 5)	**79,049**	68,784
Derivative Instrument (Note 8)	**184**	-
Other long-term assets	**65**	394
	154,559	132,064
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	**5,910**	4,820
Amounts due to shareholder (Note 7)	**5,084**	-
	10,994	4,820
Amounts due to shareholder (Note 7)	**-**	4,724
Long-term debt (Note 8)	**25,000**	-
Future income tax liability	**26,489**	25,153
	62,483	34,697
Shareholders' equity		
Share capital (Note 9)	**3,079**	3,074
Contributed surplus	**99,933**	99,224
Deficit	**(10,936)**	(4,931)
	92,076	97,367
	154,559	132,064

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

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
Operating activities	**$**	$	**$**	$
Net loss for the period	**(3,578)**	(225)	**(6,005)**	(286)
Items not involving cash				
Depreciation, depletion and amortization	**42**	2	**74**	7
Foreign exchange (gain) loss	**210**	(17)	**1,331**	(19)
Interest expense	**382**	-	**487**	-
Write-down of unproved oil and gas properties	**-**	-	**2,034**	-
Stock-based compensation	**186**	-	**613**	-
Share of (earnings) loss of significantly influenced investee	**(1,544)**	123	**(5,255)**	213
Unrealized loss on derivative	**983**	-	**983**	-
Loss on sale of assets	**(22)**	-	**18**	-
Change in non-cash working capital				
Accounts receivable and other	**(86)**	206	**(554)**	1,032
Accounts payable and accrued liabilities	**(1,126)**	(1,721)	**(2,154)**	(2,374)
	(4,553)	(1,632)	**(8,428)**	(1,427)
Investing activities				
Investment in and advances to Apico LLC	**(981)**	(2,337)	**(1,463)**	(2,337)
Cash acquired on acquisition	**-**	588	**-**	588
Increase in restricted cash	**(2,929)**	-	**(2,929)**	-
Purchase of property, plant and equipment	**(3,425)**	(196)	**(9,890)**	(1,028)
Proceeds from sale of property and equipment	**-**	-	**849**	-
Increase in other long-term assets	**3**		**(1,198)**	
	(7,332)	(1,945)	**(14,631)**	(2,777)
Financing activities				
Issuance of shares for cash	**50**	28,388	**100**	28,388
Proceeds from issuance of long-term debt	**25,000**	-	**25,000**	-
Amounts due to shareholder	**200**	200	**200**	1,374
	25,250	28,588	**25,300**	29,762
Net effect of foreign exchange on cash held in foreign currencies	**5**	-	**5**	-
Change in cash and cash equivalents	**13,370**	25,011	**2,246**	25,558
Cash and cash equivalents, beginning of period	**7,226**	682	**18,350**	135
Cash and cash equivalents, end of period	**20,596**	25,693	**20,596**	25,693
Cash and cash equivalents consists of:				
Cash	**20,596**	25,693	**20,596**	25,693
Short-term money market instruments	**-**	-	**-**	-
	20,596	25,693	**20,596**	25,693

Supplemental cash flow information
- For each of the periods presented, the Company made no cash payments for interest or income taxes
- During the period ended September 30, 2006, NuCoastal's Shareholder advanced funds of $4.8 million to Apico, LLC

Note 1. Basis of presentation

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and follow the same accounting policies and methods of their application as the audited consolidated financial statements of the Company as at December 31, 2006, 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, 2006. Certain disclosures that are normally required to be included in the notes to the annual financial statements have been condensed or excluded. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

On October 30, 2007, at the Annual General Meeting, the shareholders of the Company approved a reduction in the authorized shares of the Company's common stock through a reverse stock split with a conversion ratio of one share for every four held. The Company is keeping its stock symbol on the AIM exchange as "CEO;" however as a result of the share consolidation, the Company's trading symbol on the TSX-V changed to "CEN." The share consolidation and symbol change were effective on November 7, 2007. All information related to common shares for the current and prior period has been restated to give effect to the share consolidation.

Changes in Accounting Policies

Effective January 1, 2007, the Company has adopted two new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

Financial Instruments – Recognition and Measurement (CICA Handbook Section 3855)
In accordance with this new standard, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations and deficit.

Upon adoption of this new standard, the Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable and other are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, amounts due to shareholder and long-term debt are classified as other financial liabilities, which are measured at amortized cost. As at September 30, 2007, the Company did not have any financial assets classified as available-for-sale and therefore, the adoption of the standard noted above had no effect on the presentation of the Company's consolidated financial statements.

The Company has adopted a policy to expense debt financing costs when they are incurred.

Comprehensive Income (CICA Handbook Section 1530)
Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports comprehensive income in the statement of operations and a new category, accumulated other comprehensive income, in the shareholders' equity section of the consolidated balance sheet. The components of this new category may include unrealized gains and losses on financial assets classified as available-for-sale, exchange gains and losses arising from the translation of financial statements of a self-sustaining foreign operation and the effective portion of the changes in fair value of cash flow hedging instruments.

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

During the nine month period ended September 30, 2007, there were no changes in shareholders' equity that resulted from non-owner sources and consequently, the adoption of the standard noted above had no effect on the presentation of the Company's consolidated financial statements.

Note 2. Restricted Cash

The Company has cash, the use of which is restricted by the Company's banking institutions. The following table summarizes the restricted cash as of September 30, 2007 and December 31, 2006.

	September 30, 2007	December 31, 2006
Collateral in support of Corporate Letter of Credit	**$661**	$-
Restricted in support of Corporate Long-term Debt	**2,268**	-
	$2,929	$-

Note 3. Accounts receivable and other

	September 30, 2007	December 31, 2006
Refundable taxes	**$587**	$64
Amounts due from joint interest partners	**288**	123
Other receivables	**70**	149
Prepaids, deposits and other assets	**27**	154
	$972	$490

Note 4. Investment in and advances to Apico LLC

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

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

The Company's September 2006 additional investment in Apico exceeded its proportionate share of net assets of Apico by $18.7 million ("excess basis"). This difference has been allocated to Apico's oil and gas properties and is being amortized using the units of production method in accordance with the Company's accounting policy. At September 30, 2007, the remaining unamortized excess basis is $17.6 million.

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

	Nine months ended September 30, 2007	Year ended December 31, 2006
Balance, beginning of period	**$44,046**	$7,670
Advances during the period	**1,463**	11,247
Acquisition of additional ownership percentage	**-**	24,758
Amortization of excess basis in Apico	**(1,165)**	-
Share of earnings (loss) of significant investee	**6,420**	371
Balance, end of period	**$50,764**	$44,046

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

Note 5. Property plant and equipment

	Cost	Accumulated depreciation and amortization	Net Book Value
Oil and gas properties			
Thailand	**$70,219**	**$ -**	**$70,219**
United States	**-**	**-**	**-**
Oil and gas production equipment	**1,609**	**-**	**1,609**
Construction in progress	**6,781**	**-**	**6,781**
Office furniture & computer equipment	**424**	**(87)**	**337**
Leasehold improvements	**120**	**(17)**	**103**
Balance, September 30, 2007	**$79,153**	**$(104)**	**$79,049**

	Cost	Accumulated depreciation and amortization	Net Book Value
Oil and gas properties			
Thailand	$66,367	$ -	$66,367
United States	1,809	-	1,809
Office furniture & computer equipment	146	(40)	106
Leasehold improvements	554	(52)	502
Balance, December 31, 2006	$68,876	$(92)	$68,784

During the nine months ended September 30, 2007 and 2006 the Company capitalized $1.099 million and $0.099 million, respectively, of general and administrative overhead into oil and gas properties.

Thailand

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

United States

In August 2007, the Company formally abandoned and wrote off this property (see Note 10.) During the quarter ended September 30, 2007, the Company received a $0.022 million refund from the Federal Bureau of Land Management on these leases.

Oil and gas production equipment

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

Construction in progress

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

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

Note 6. Accounts payable and accrued liabilities

	September 30, 2007	December 31, 2006
Accounts Payable	**$1,578**	$4,173
Accrued Expenses	**4,332**	264
Amounts due to joint interest partners	**-**	383
	$5,910	$4,820

Note 7. Amounts due to shareholder

The amounts due to shareholder are unsecured, bear interest at 4.5% per annum and are due on July 20, 2008.

Note 8. Long-term Debt

Effective July 5, 2007, the Company entered into an 8-year, $50 million secured revolving debt facility (the "Facility") arranged and managed by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"). The Facility consists of a $42.5 million senior loan and a $7.5 million junior loan. The Facility is in the form of a borrowing base loan and its availability is subject to recalculation every quarter through June 2008 and semi-annually thereafter. As of September 30, 2007, the amount available under the borrowing base was $42.4 million. The Facility is secured by the Company's investment in Apico, LLC. Proceeds from the Facility will be used to fund the continuing investment in Apico, the offshore Thailand development program and for general corporate purposes.

Amounts drawn under this Facility will bear interest at the lenders' LIBOR plus an applicable margin between 1.75% and 3.5%. The effective interest rate on the Facility for the period ended September 30, 2007 was 7.85%. As part of the Facility, the Company is required to deposit funds into a bank account, which is considered Restricted, in accordance with Canadian GAAP, as to its availability (see Note 2.)

As a requirement of the Facility, the Company entered into a derivative hedging agreement with an affiliate of the lender under which the Company has the right to sell up to 96,000 metric tons of Singapore fuel oil at a price of $290.00 per metric ton. The Company paid $1.166 million for this option and the option expires on June 30, 2009. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. During the quarter ended September 30, 2007 the Company incurred $1.0 million of unrealized losses on this instrument.

Under CICA Handbook Section 3855, the Company has adopted a policy to expense debt financing costs when they are incurred. During the quarter ended September 30, 2007 the Company incurred $2.1 million of debt financing costs related to this Facility.

Note 9. Share capital

Common Stock

Authorized 250,000,000 common shares with par value of $0.04 each;
76,983,222 common shares issued and outstanding at September 30, 2007

Stock Options

During the nine months ended September 30, 2007, options for 125,000 common shares were exercised, 212,500 options expired unexercised and 375,000 options were granted with an exercise price of C$2.96 and an expiry date of June 16, 2012. The following table summarizes the outstanding and exercisable options at September 30, 2007:

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

Note 9. Share capital (continued)

Number Outstanding	Remaining contractual life	Exercise Price	Number Exercisable	Expiry date
212,500	1.25 years	$0.82 (£0.40)	212,500	January 25, 2009
362,500	2.75 years	$2.85 (£1.40)	362,500	July 6, 2010
2,900,000	4.25 years	$2.21 (C$2.20)	725,000	December 27, 2011
375,000	4.75 years	$2.97 (C$2.96)	93,750	June 16, 2012
3,850,000			1,393,750	

Warrants

During the nine months ended September 30, 2007, warrants for 334,838 common shares expired unexercised. As of September 30, 2007, the Company had 2,343,745 warrants outstanding, exercisable at $5.71 (£2.80) per share and expiring July 20, 2010.

Stock-based compensation

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

	2007	2006
Risk-free interest rate	**4.25%**	4.25%
Expected life	**3 years**	3 years
Annualized volatility	**40%**	40%
Dividend rate	**0%**	0%
Weighted average grant date fair value per option	**$0.92**	$0.48

Note 10. Related party transactions

A non-executive director of the Company is an officer and director of a company which is the temporary operator of the Company's previously held working interest in Nevada. Included in accounts payable and accrued liabilities at September 30, 2007 and December 31, 2006 were nil and $0.06 million, respectively, owed to this operator.

In August 2007, the Company formally relinquished all its working interest in the Nevada leases to the temporary operator in exchange for the Company's current obligation to pay the operator $0.021 million related to well clean up costs along with all future obligations surrounding this working interest. 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.

Note 11. Segmented information

Operating segment

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

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

Note 11. Segmented information (Continued)

Geographic segments

The Company's oil and gas assets as at September 30, 2007 and December 31, 2006 and revenues and expenses for the nine months ended September 30, 2007 and 2006 were as follows:

	Corporate		Thailand		United States		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Oil and gas assets								
Investment in Apico	**-**	-	**50,764**	44,046	**-**	-	**50,764**	44,046
Property, plant & equipment, net	**7,221**	585	**71,828**	66,390	**-**	1,809	**79,049**	68,784
Subtotal	**7,221**	585	**122,592**	110,436	**-**	1,809	**129,813**	112,830
Operating expenses	**5,229**	105	**1,498**	94	**2,034**	-	**8,761**	199
Share of Apico's (earnings) loss	**-**	-	**(5,255)**	213	**-**	-	**(5,255)**	213
Unrealized loss on derivative	**983**	-	**-**	-	**-**	-	**983**	-
(Gain) loss on sale of assets	**40**	-	**-**	-	**(22)**	-	**18**	-
Foreign exchange (gain) loss	**1,557**	(33)	**(59)**	(93)	**-**	-	**1,498**	(126)
Net income (loss) for the period	**(7,809)**	(72)	**3,816**	(214)	**(2,012)**	-	**(6,005)**	(286)

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

NON-EXECUTIVE CHAIRMAN

Albert E. Whitehead
Executive Chairman & CEO
Empire Petroleum Corporation

INDEPENDENT DIRECTORS

C. Robert Black (1)(4)(5)
Former Senior Vice President, Office of the Chairman
Texaco, Inc.

Bernard de Combret (2)(3)(5)
Former Deputy Chairman Executive Committee
Total Fina Elf, S.A.

Olivier de Montal (2)
Administrator, Olympia Capital Holding

John J. Murphy (3)(4)
Former Chairman & CEO, Dresser Industries, Inc.

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

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

John B. Zaozirny (1)
Counsel to McCarthy Tetrault LLP

Committees of the Board: (1) Audit, (2) Compensation, (3) Corp. Governance, (4) Executive, and (5) Strategy

EXECUTIVE MANAGEMENT

Frank A. Inouye
President, CEO, Director

William C. Phelps
Chief Financial Officer

Allan H. Armitage
General Manager, Thailand

CORPORATE SECRETARY

Kim R. Landon
In-House Counsel

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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)

THIRD PARTY ADVISORS

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

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

Auditors:
Deloitte & Touche, LLP

Legal Counselors:
Stikeman Elliott LLP (Canada & UK)
Walkers SPV Limited (Cayman Islands)
Johnson Stokes & Masters (Thailand)
CK (Corporate Services) (Mauritius)

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

Nominated Advisor (NOMAD):
KBC Peel Hunt, Ltd.

Public Relations Firm:
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