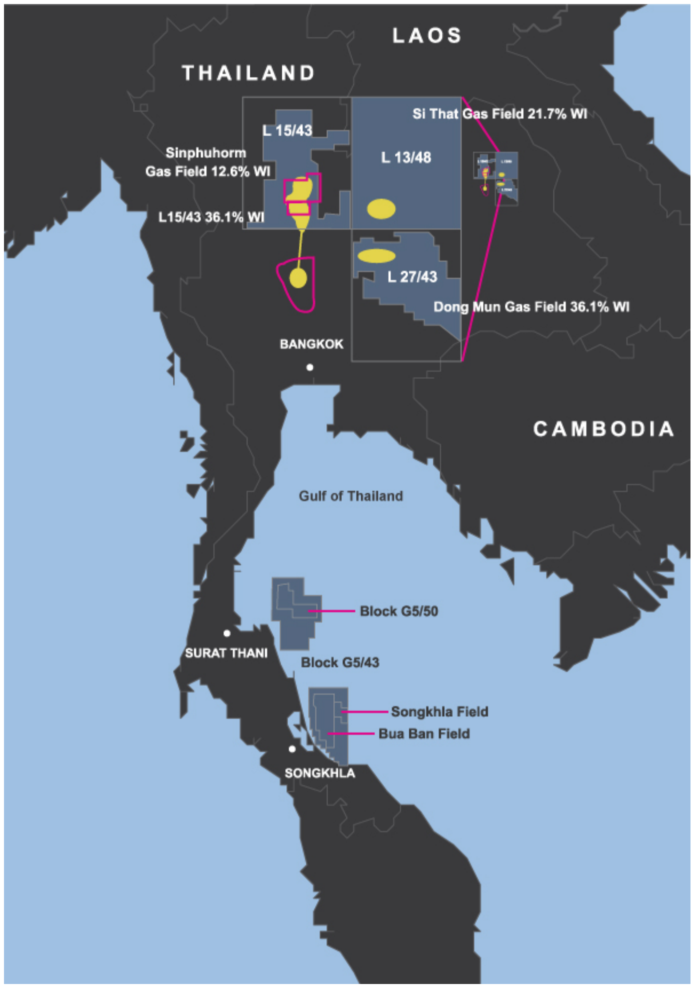
COASTAL ENERGY COMPANY
QUARTERLY REPORT
June 30, 2011

COASTAL
ENERGY

COASTAL ENERGY COMPANY

Three and Six Month Periods ended June 30, 2011



Coastal Energy's Oil & Gas Interests

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President's Report to the Shareholders

Dear Fellow Shareholders:

I'm pleased to report the great progress that Coastal has made in the first half of 2011. We have had transformational success with our 2011 offshore exploration program; with 11 of the 12 wells we have drilled to date discovering commercial quantities of oil. The vast majority of the discoveries have been in the Miocene interval, building on the success of the Bua Ban Main Miocene discoveries made in 2010. The Miocene discoveries at Bua Ban North A and B are significant in size and reservoir thickness and of best reservoir quality we have seen in the basin.

We recently began testing the first wells at Bua Ban North B and results have exceeded expectations. We are now producing 7,100 bbl/d from four wells at Bua Ban North B. We plan on completing the remaining three wells in the coming days and completing the three wells at Bua Ban North A in the fourth quarter once the mobile offshore production unit arrives on location.

Following the successful exploration results at Bua Ban North, we drilled an exploration well in the center of the Songkhla basin in between the Songkhla A and Bua Ban fields. The Songkhla H prospect was successful and encountered oil in commercial quantities in the Oligocene reservoir and a successful drill stem test was performed. We now plan to return the drilling rig to Bua Ban North and drill several delineation wells along the eastern and western flanks to determine the size and extent of the Miocene trend in this area.

In addition to the exploration success, Coastal has enjoyed further financial success in 2011. We have delivered EBITDAX that is 25% greater than in the first six months of 2010. We expect to post significant production and EBITDAX increases in the coming quarters driven by our recent discoveries.

We plan to continue building on this success in the coming quarters as we bring more production online and further appraise these Miocene discoveries. The success of the Miocene is encouraging and opens up several new prospect areas for Coastal's drilling program in the second half of 2011.

On behalf of the Board of Directors

Randy L. Bartley

President and Chief Executive Officer
August 10, 2011

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

Financial and Operating Highlights

	3 months ended June 30,			6 months ended June 30,		
	2011	2010	% Change	**2011**	2010	% Change
Financial						
Crude oil revenue	**$64,628**	$42,164	53%	**$137,184**	$91,674	50%
EBITDAX [(1)]	**$39,467**	$29,854		**$81,946**	$65,350	
Per share – Basic	**$0.35**	$0.27	30%	**$0.73**	$0.60	22%
Per share – Diluted	**$0.34**	$0.27	26%	**$0.71**	$0.58	22%
Net Income						
Per share – Basic	**$0.11**	$0.11	-%	**$0.08**	$0.22	-64%
Per share – Diluted	**$0.10**	$0.11	-9%	**$0.08**	$0.21	-62%
Capital expenditures, excluding onshore	**$34,355**	$42,649	-19%	**$62,224**	$88,032	-29%
Total Assets				**$416,819**	$390,020	7%
Working capital deficit				**$48,619**	$61,802	-21%
Weighted average common shares outstanding						
Basic	**111,978,982**	109,514,439	2%	**111,659,289**	109,291,599	2%
Diluted	**115,159,253**	112,633,874	2%	**115,027,847**	112,899,135	2%
Operations						
Operating netback ($/bbl) [(1) (2)]						
Crude oil revenue	**$108.29**	$72.80	**49%**	**$100.77**	$70.93	42%
Royalties	**8.41**	5.45	**54%**	**7.98**	5.26	52%
Production expenses	**28.69**	14.18	**102%**	**28.90**	14.86	94%
Operating netback	**$71.19**	$53.17	**34%**	**$63.89**	$50.81	26%
Average daily crude oil production (bbls) [(2)]	**7,203**	7,914	**-9%**	**7,698**	7,493	3%

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

Second Quarter 2011 Highlights

- Total Company production declined slightly in Q2 to 9,494 boe/d from 9,814 boe/d in the same period last year. The Company's offshore production from its two producing fields in the Gulf of Thailand averaged 7,203 bbl/d in the second quarter, down 9% from the same period last year. The decline in offshore production is mainly attributable to downtime for workovers during the quarter, as well as pressure declines in the Songkhla A-09 and A-11 wells due to lack of aquifer support. The Company plans to drill injection wells to restore production from these wells later in 2011. Onshore production averaged 2,291 boe/d, up from 1,900 boe/d last year driven by increased Thai gas demand.

- EBITDAX for the six months ending June 30, 2011 was $81.9 million, 25% above the same period in 2010.

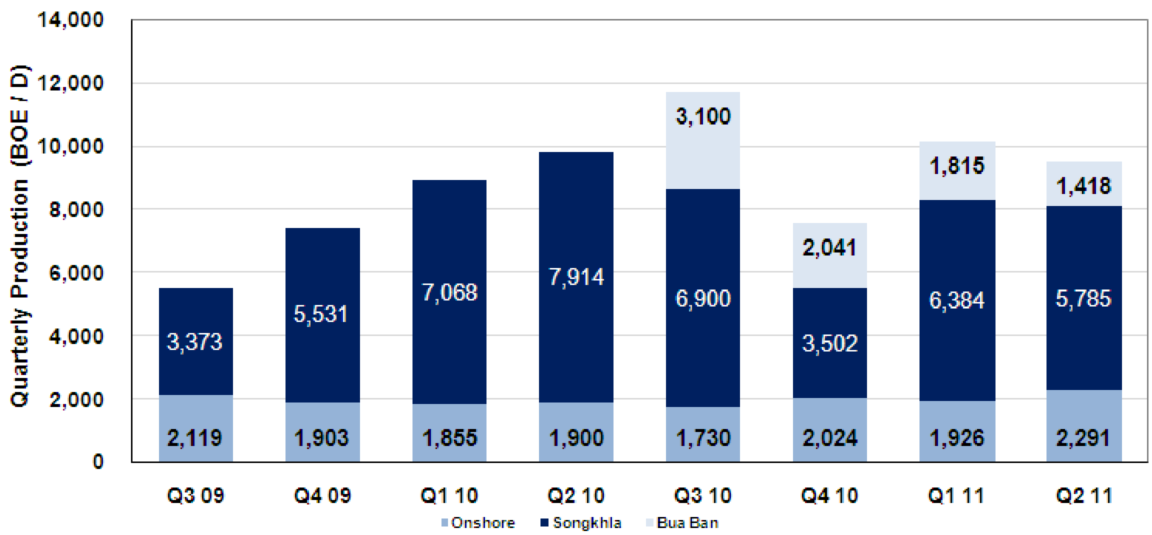
- The Company completed the first phase of exploration drilling at Bua Ban North A & B and announced major discoveries in the Miocene trend at both fields. The Company drilled three successful wells at Bua Ban North A and seven successful wells at Bua Ban North B. A MOPU has been set on location at Bua Ban North B and production testing is underway.

- The Company received approval to list its shares on the main board of the Toronto Stock Exchange. Its Common Shares began trading on the TSX on July 5, 2011 under the ticker symbol "CEN".

- Subsequent to the end of the quarter, the Company announced the initial production testing results at Bua Ban North B. Production is currently 7,100 bbl/d out of four of the seven wells. The Company is currently completing and tying in the remaining wells.

- The Company announced successful exploration results at Songkhla H. The discovery well flow tested 1,000 bbl/d of oil without an electric submersible pump. The prospect is being appraised.

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



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

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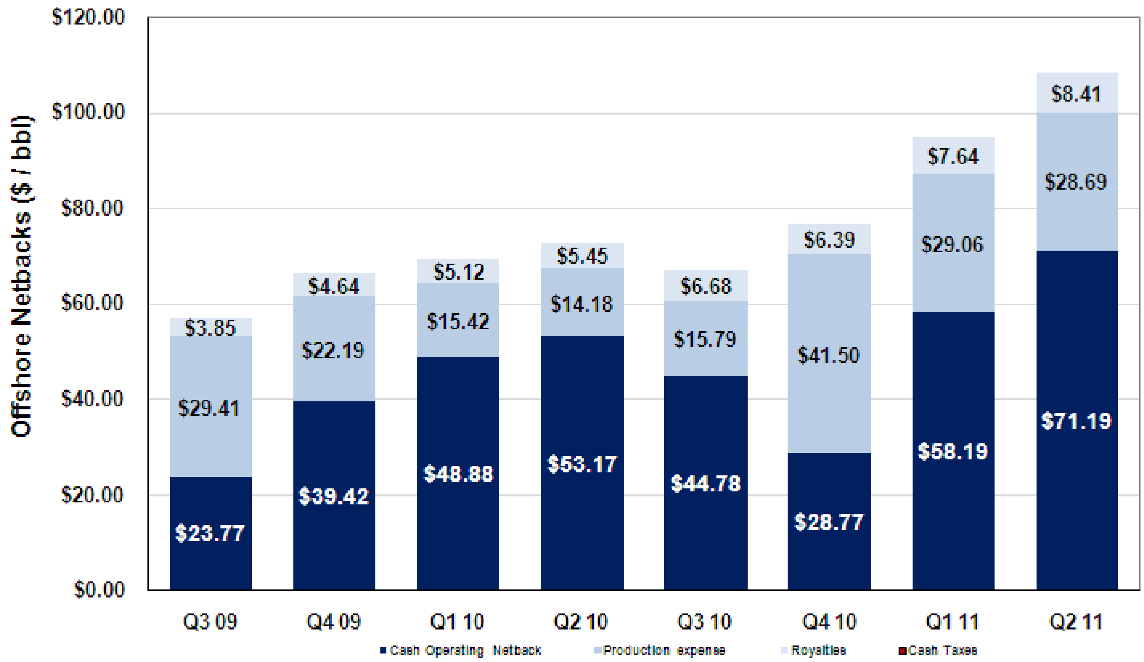
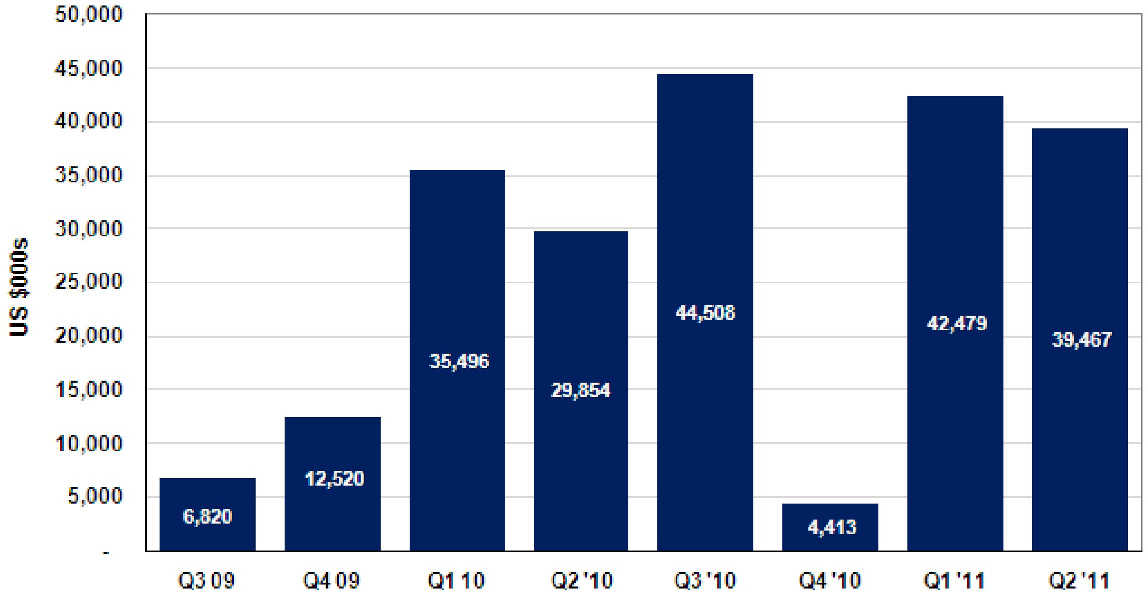


EBITDAX Computation	**2011** Q2	**2011** Q1	**2010** Q4	**2010** Q3	**2010** Q2	**2010** Q1	**2009** Q4(a)	**2009** Q3(a)
Net income (loss) attributable to shareholders	**$11,816**	**$(2,362)**	**$(62,741)**	**$25,077**	**$12,526**	**$11,568**	**$2,009**	**$(111)**
Add Back:								
Unrealized (gain) loss on derivative	**(7,744)**	**18,257**	**16,614**	**-**	**1**	**65**	**(284)**	**(128)**
Realized loss on derivative (c)	**8,615**	**2,400**	**1,567**	**-**	**-**	**-**	**-**	**-**
Interest income	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(2)**	**(5)**	**(6)**
Stock option expense	**607**	**618**	**545**	**615**	**676**	**683**	**567**	**399**
Unrealized foreign exchange loss / (gain) (b)	**308**	**149**	**297**	**2,158**	**(121)**	**(135)**	**1,008**	**165**
Interest expense	**1,201**	**1,162**	**1,272**	**722**	**749**	**732**	**677**	**796**
Debt financing fees	**31**	**234**	**256**	**23**	**119**	**124**	**205**	**323**
Loss on sale of assets	**-**	**-**	**-**	**-**	**-**	**-**	**148**	**-**
Depletion, depreciation and accretion	**11,698**	**13,286**	**11,658**	**8,343**	**3,684**	**5,973**	**7,457**	**5,382**
Taxation	**12,005**	**3,183**	**(40,857)**	**9,872**	**12,669**	**6,541**	**738**	**-**
Impairment and Settlement expense	**-**	**-**	**10,706**	**-**	**-**	**-**	**-**	**-**
Exploration	**931**	**5,553**	**62,786**	**26**	**91**	**9,267**	**-**	**-**
Other – IFRS transition	**-**	**-**	**2,311**	**(2,327)**	**(539)**	**680**	**-**	**-**
EBITDAX	**$39,467**	**$42,479**	**$4,413**	**$44,508**	**$29,854**	**$35,496**	**$12,520**	**$6,820**

Note (a) The net income numbers for 2009 have not been restated from Canadian GAAP to IFRS
(b) The unrealized foreign exchange adjustment primarily relates to a tax liability in Thailand.
(c) The realized loss on the derivative contracts has been added back to net income / loss since these contracts were executed as part of the debt facility with BNP Paribas and therefore considered a financing cost. This has lead to a revision of the Q4 2010 and Q1 2011 EBITDAX numbers. EBITDAX is a non-GAAP/non-IFRS measure.

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



Note: The net income numbers for 2009 have not been restated from Canadian GAAP to IFRS

Operational Review

Gulf of Thailand Properties

The Company holds 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 5,021 square kilometres and average water depths are approximately 70 feet. Block G5/50 contains approximately 554 square kilometers of acreage within the boundaries of Block G5/43.

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

Songkhla Field

The Company currently has eight producing wells at the Songkhla A field. These wells produce out of the Lower Oligocene and Eocene intervals and are currently producing approximately 5,800 bbl/d due to downtime for workovers. The A-09 and A-11 wells experienced greater production declines in Q211 due to lack of aquifer support in the eastern fault blocks. The Company is planning to drill injection wells into the A-09 and A-11 fault blocks later in 2011 to restore production volumes.

In Q410 and Q111, the Company announced discoveries of several new eastern fault blocks at Songkhla outside of the original reservoir. The Company has plans to drill further appraisal and development wells at Songkhla in 2011.

As of December 31, 2010, Songkhla A had proven and probable ("2P") reserves of approximately 21 mmbbls.

Bua Ban Field

Production from the field commenced on July 1, 2010. Two of the wells, the A-03 and A-11, both encountered oil in the Miocene reservoir. This was the first time productive Miocene sands had been encountered in the Songkhla basin and laid the foundation for the successful Miocene exploration at Bua Ban North in 2011.

Production from Bua Ban averaged approximately 1,400 bbl/d in the second quarter, bringing aggregate offshore production to approximately 7,200 bbl/d. As of December 31, 2010, Bua Ban had proven and probable ("2P") oil reserves of 6 million barrels of oil.

Bua Ban North Field

Coastal began drilling the Bua Ban North A & B exploration prospects in Q111. The Company has drilled three successful exploration wells at Bua Ban North A and seven successful exploration wells at Bua Ban North B to date. All of the successful wells have encountered oil in the Miocene interval with some of the wells encountering oil shows in the Upper and Lower Oligocene as well. The Miocene is the dominant trend at both locations. A MOPU is on location at Bua Ban North B and is currently producing 7,100 bbl/d from four wells. The remaining wells are currently being completed and tied in. The Company is planning further exploration and appraisal wells at this field in Q311.

Summary of Oil & Gas Properties	**Thailand Onshore**	**Producing Oil & Gas Properties**	**Totals**
Balance, December 31, 2010	**$47,261**	**$245,577**	**$292,838**
Additions during the period:			
Development, including ARO	1,446	14,563	16,009
Equity earnings in Apico, net of distributions	5,973	-	5,973
Amortization / depletion	(613)	(26,619)	(27,232)
Balance June 30, 2011	**$54,067**	**$233,521**	**$287,588**

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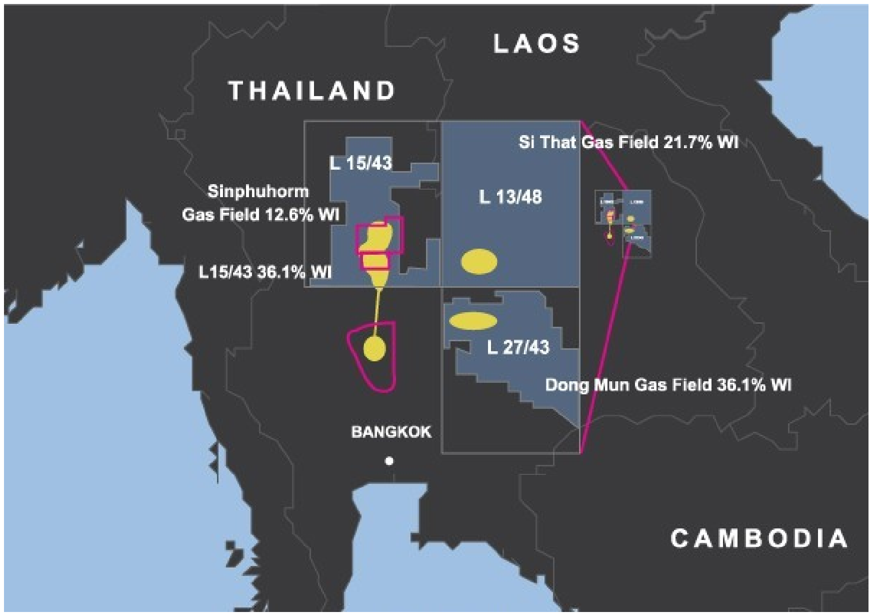
Thailand Onshore



The Company's Thailand onshore interests are held indirectly through its 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 net working interest of 12.6% in Blocks EU-1 and E-5N onshore Thailand through its 36.1% equity investment in Apico, LLC, which holds a 35% non-operated working interest in the Blocks. Blocks EU-1 and E-5N contain the Sinphuhorm gas field. Production at Sinphuhorm 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. In the second quarter of 2011, the Sinphuhorm field delivered approximately 106 mmcf/d (13 mmcf/d net to Coastal) to Nam Phong. The field also produced 495 bbl/d (63 bbl/d net to Coastal) of condensate. As of December 31, 2010, Sinphuhorm had 2P reserves of 993.1 billion cubic feet ("bcf") of natural gas (139 bcf net to Coastal, 23.2 mmboe) and 5 mmbbls of oil (0.7 mmbbls net to Coastal), before royalties.

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

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Management's Discussion and Analysis

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 10, 2011, should be read in conjunction with the accompanying unaudited consolidated financial statements as at and for the three and six months ended June 30, 2011 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 Southeast Asia. The functional and reporting currency of the Company and its subsidiaries is the US dollar. The Company's trading symbols are "CEN" on the TSX and "CEO" on the AIM exchange.

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

Petroleum Concession	**Coastal's Working Interest**
Gulf of Thailand	
Block G5/43	100.0%
Block G5/50 (within the boundaries of Block G5/43)	100.0%
Onshore Thailand (via Coastal's 36.1% ownership of Apico LLC ("Apico"))	
Blocks EU-1 and E-5N containing the Sinphuhorm gas field	12.6%
Block L15/43 (surrounding the Sinphuhorm gas field)	36.1%
Block L27/43 (southeast of the Sinphuhorm gas field)	36.1%

Non-IFRS and Non-GAAP Measures

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

Funds flow from operations, funds flow per share, EBITDA, EBITDAX, net debt, operating netbacks and working capital are not defined by IFRS or GAAP, and consequently are referred to as non-IFRS or 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 IFRS or GAAP.

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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.

Financial Review

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

Average Daily Production (boe/d)	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Songkhla	**5,785**	7,914	-27%	**6,083**	7,493	-19%
Bua Ban	**1,418**	-	-	**1,615**	-	-
Total Offshore Production	**7,203**	7,914	-9%	**7,698**	7,493	3%
Sinphuhorm (via Apico)	**2,291**	1,900	21%	**2,108**	1,878	12%
Total Company	**9,494**	9,814	-3%	**9,806**	9,371	5%

Offshore production declined slightly from the same period last year due to downtime for workovers, as well as decreased production from the Songkhla A-09 and A-11 wells due to lack of aquifer support. Water injection wells are planned for later this year to restore production at Songkhla A. Onshore production has increased dramatically year over year due to increasing gas demand in Thailand.

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

Crude Oil Inventory (bbls)	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Inventory Beginning of Period	**177,312**	80,723	120%	**203,983**	157,883	29%
+ Production	**655,406**	720,156	-9%	**1,393,337**	1,356,259	3%
- Sales / Liftings	**596,811**	579,212	3%	**1,361,413**	1,292,475	5%
Inventory, End of Period	**235,907**	221,667	6%	**235,907**	221,667	6%

The Company's crude oil production is stored in floating storage and offloading vessels ("FSOs") moored at the production platforms. The inventory represents crude oil produced and loaded in the FSOs, but which had not yet been off-loaded for sale at the end of the period. There was an inventory build up of 58,595 bbl during Q211.

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Oil Sales, Average Benchmark and Realized Prices ($/bbl)	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Oil Sales	**$64,628**	$42,164	53%	**$137,184**	$91,674	50%
Dubai (Benchmark - $/bbl)	**$110.62**	$78.07	42%	**$105.80**	$77.08	37%
Sales Price per bbl Sold ($/bbl)	**$108.29**	$72.80	49%	**$100.77**	$70.93	42%
Sales Price as a Percentage of Dubai	**98%**	93%		**95%**	92%	

Revenue increased by 53% in Q211 over the same period in 2010. This was a function of higher lifting volumes as well as increased commodity prices. The Company's realized commodity price increased by 49% year on year. The sales price for the Company's offshore oil is based on the Dubai benchmark price. The Company is also receiving a higher percentage of its benchmark crude price as it has pursued an aggressive marketing strategy for its crude. However, the percentage received in Q211 is higher than normal given that a majority of the Company's sales occurred in April and May when pricing was higher. The Company had over 235,907 barrels of crude oil in inventory at the end of Q2 11, the revenue from which will be realized in Q311.

Royalties	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Royalties	**$5,018**	$3,154	59%	**$10,863**	$6,804	60%
$ per bbl	**$8.41**	$5.45	54%	**$7.98**	$5.26	52%
Royalties as a percent of revenue	**8%**	7%		**8%**	7%	

Royalties on the Gulf of Thailand assets are paid to the Kingdom of Thailand as a percentage of revenue calculated on a sliding scale and based on monthly sales. Second quarter royalties increased on a per barrel basis owing to an increase in realized oil sales prices as well as higher production rates.

Other income	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Unrealized (loss) gain on derivative contracts	**$7,744**	($1)	-	**($10,513)**	($66)	-
Realized loss on derivative contracts	**(8,615)**	-	-	**(11,015)**	-	-
Interest income	**1**	1	-	**2**	3	-
Foreign exchange (loss) gain	**(1,157)**	33	-	**(1,585)**	244	-
Other income	**($2,027)**	$33	-	**($23,111)**	$181	-

The Company has risk management contracts outstanding to hedge its exposure to interest rate and commodity price movements. These contracts were entered into as a condition of the Company's revolving credit facility. The Company adjusts the fair value of this risk management contract (mark to market) every quarter with the changes in fair value recognized in net earnings, as required under IFRS. Mark to market losses have been significant in 2011; however, the large loss in Q1 has been offset slightly in Q2 by the decline in oil prices since the end of Q1. The Company also realized $8.6 million of losses on those contracts during the quarter.

The remaining unrealized loss may never be realized depending upon commodity price movements between June 30, 2011 and expiry of the final contract (September 2012).

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

The foreign exchange loss is a result of the Company carrying out transactions and maintaining certain financial assets and liabilities in currencies other than the US Dollar. The primary foreign currency in which the Company transacts is Thai Baht. The Company also occasionally has transactions denominated in the Canadian Dollar, Singapore Dollar, British Pound and Euro. Included within the FOREX loss for the three and six months ended June 30, 2011 is unrealised losses associated with cash retranslation of $0.5m and $0.7m, respectively.

Production	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Production expenses	**$19,174**	$10,363	85%	**$39,157**	$19,850	97%
Effect of change in inventory	**(2,050)**	(2,152)	-5%	**185**	(644)	-129%
	$17,124	$8,211	109%	**$39,342**	$19,206	105%
$ per bbl	**$28.69**	$14.18		**$28.90**	$14.86	

Production expenses on a per barrel basis have increased in 2011 due to higher workover expenses, lower production rates while workovers have been completed and the fact Bua Ban did not commence production until Q3 2010.

General and Administrative Expenses	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Salaries and benefits	**$5,311**	$2,939	81%	**$9,262**	$5,491	69%
Professional fees	**228**	540	-58%	**587**	838	-30%
Office and general	**464**	337	38%	**898**	807	11%
Travel and entertainment	**324**	203	60%	**666**	532	25%
Regulatory and transfer fees	**130**	76	71%	**307**	224	37%
Total general and administrative expenses	**$6,457**	$4,095	58%	**$11,720**	$7,892	49%

G&A expense increased over the same period last year due to higher stock based compensation expenses. Specifically, the amount required to be accrued for Stock Appreciation Rights ("SARs") increased to $3.0 million from $1.1 million on a year over year basis due to a significant increase in the price of the Company's stock (June 30, 2011: C$8.07, June 30, 2010: C$4.69).

Exploration	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Unsuccessful exploration costs	**$931**	$91	-	**$6,484**	$9,358	-

The 2011 charge relates to a write down of costs associated with the frac jobs on Benjarong, the results of which did not lead to commercially acceptable performance.

As a result of the Company's transition to IFRS reporting, it is now expensing dry hole costs on exploration prospects which prove to be unsuccessful.

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

Finance costs	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Finance costs	**$1,201**	$749	60%	**$2,363**	$1,481	60%

Interest expense increased year over year as the Company had higher debt balances. Total debt (excluding interest) at June 30, 2011 was $80 million versus $34.4 million at June 30, 2010. The Company's average interest rate was 4.42% for the three months ended June 30, 2011 (2010: 3.05%). Interest expense includes interest on the Company's amounts due to shareholder (which were repaid in Q310) and long-term debt.

Depletion and Depreciation	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Oil and gas depreciation & depletion	**$12,395**	$4,447	179%	**$26,619**	$8,119	228%
Effect of change in inventory	**(777)**	(813)	-4%	**(1,791)**	1,422	-226%
Corporate depreciation	**80**	50	60%	**156**	116	34%
Depletion, depreciation, amortization and impairment expense	**$11,698**	$3,684	218%	**$24,984**	$9,657	159%
$ per bbl	**$19.60**	$6.36	-	**$18.35**	$7.47	-

As a requirement of the Company's transition to IFRS, the Company had to reallocate its producing assets amongst its 2P reserves. A function of this is that depletion per barrel at Bua Ban Main is much higher than for Songkhla A. Given production at Bua Ban Main did not commence until Q3 2010, this would explain why the overall depletion cost per barrel is that much lower in Q2 2010 relative to Q2 2011.

Taxes	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Current tax expense (recovery)	**$-**	$(946)	-	**$-**	$18	-
Deferred income taxes	**$12,005**	13,615	-12%	**15,188**	19,192	-21%
Taxes	**$12,005**	$12,669	-5%	**$15,188**	$19,210	-21%

The Company's future income tax liability primarily relates to Thai taxes and is denominated in Thai Baht.

Share of net income from Apico LLC	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Coastal's 36.1% of Apico's net income	**$4,607**	$3,436	34%	**$8,141**	$6,692	22%
Amortization of Coastal's excess basis	**(335)**	(280)	20%	**(613)**	(552)	11%
Earnings from Significantly Influenced Investee, net of taxes	**$4,272**	$3,156	35%	**$7,528**	$6,140	23%
100% Field Production volumes (mmcf/d)	**105.7**	88.6	19%	**97.3**	77.8	25%
12.6% net to Coastal (mmcf/d)	**13.3**	11.1	19%	**12.3**	9.8	25%

Under the equity method of accounting for investments, the Company records its share of the net income of Apico based on Apico's quarterly reported net income. Apico experienced higher revenue in the three and six months ended June 30, 2011 over the prior comparable periods due to increased natural gas demand in Thailand and higher realized gas pricing.

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

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	3 Months ended June 30,			6 Months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Net income and comprehensive income attributable to Coastal Energy	**$11,816**	$12,526	-6%	**$9,454**	$24,094	-61%
Basic earnings per share	**$0.11**	$0.11	-%	**$0.08**	$0.22	-64%
Diluted earnings per share	**$0.10**	$0.11	-9%	**$0.08**	$0.21	-62%

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

Summary of Quarterly Results

	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4(a)	Q3(a)
Revenues and Other Income								
Oil sales	**$64,628**	**$72,556**	**$33,246**	**$68,688**	**$42,164**	$49,510	$28,926	$21,205
Royalties	**(5,018)**	**(5,845)**	**(2,769)**	**(6,828)**	**(3,154)**	(3,650)	(2,027)	(1,430)
Gain (loss) on derivative	**(871)**	**(20,657)**	**(18,181)**	**-**	**(1)**	(65)	(282)	128
Interest income	**1**	**1**	**1**	**1**	**1**	2	5	6
Other income	**(1,157)**	**(428)**	**(913)**	**(296)**	**33**	211	(342)	(240)
	57,583	**45,627**	**11,384**	**61,565**	**39,043**	**46,008**	**26,280**	**19,669**
Expenses								
Production	**17,124**	**22,218**	**17,996**	**16,124**	**8,211**	10,995	9,689	10,936
Depreciation, Depletion, Amortization and Impairment	**11,698**	**13,286**	**22,364**	**8,343**	**3,684**	5,973	7,457	5,382
General and Administrative	**6,457**	**5,263**	**8,027**	**4,334**	**4,095**	3,797	8,144	5,029
Exploration	**931**	**5,553**	**62,786**	**26**	**91**	9,267	-	-
Debt financing fees	**31**	**234**	**256**	**23**	**119**	124	205	323
Finance expenses	**1,201**	**1,162**	**1,272**	**722**	**749**	732	677	796
	37,442	**47,716**	**112,701**	**29,572**	**16,949**	30,888	26,172	22,466
Taxes	**12,005**	**3,183**	**(40,857)**	**9,872**	**12,669**	6,541	738	-
Share of net income (loss) from Apico LLC	**4,272**	**3,256**	**(917)**	**2,709**	**3,156**	2,984	2,577	2,621
Net income (loss) before non-controlling interests	**12,408**	**(2,016)**	**(61,377)**	**24,830**	**12,581**	11,563	1,947	(176)
Non Controlling interest	**(592)**	**(346)**	**(1,364)**	**247**	**(55)**	5	62	65
Net income (loss) attributable to Coastal Energy Company	**11,816**	**(2,362)**	**(62,741)**	**25,077**	**12,526**	**11,568**	**2,009**	**(111)**
EBITDAX[b]	$39,467	$42,479	$4,413	$44,508	$29,854	$35,496	$12,520	$6,820
Basic earnings (loss)	$0.11	($0.02)	($0.57)	$0.23	$0.11	$0.11	$0.02	$0.00
Diluted earnings (loss)	$0.10	($0.02)	($0.57)	$0.22	$0.11	$0.10	$0.02	$0.00

Note (a) The numbers from Q1 2010 onwards are presented in accordance with IFRS. Those prior to this date are presented under Canadian GAAP

Note (b) EBITDAX is a non-IFRS and non-Canadian 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.)

Significant factors influencing Quarterly Results include

- The volatility of global crude oil prices has a direct effect on the Company's revenue as well as unrealized gains or losses on risk management contracts. The Company realized a higher sales price for its crude oil in the second quarter of 2011 due to an increase in commodity prices.
- The Company has incurred higher lease operating expenses in the first half of 2011 as workover expenses related to downhole pump replacements on its wells have been increasing.
- The Company has incurred higher general and administrative expenses as the increase in the Company's stock price has increased its stock-based compensation expense.
- 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.

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Cash Flow Analysis

The Company's cash and cash equivalents at June 30, 2011 were $2.2 million, a decrease of $1.7 million from $3.9 million at December 31, 2010. The Company's primary source of funds came from operations, shares issued for cash of $5.4 million from one-time option exercises, and $6.3 million increase in borrowings. Cash and cash equivalents were primarily used to fund property, plant and equipment expenditures of $73.0 million and to fund working capital.

Capital Expenditures

Capital expenditures (on an accruals basis) amounted to $34.4 million and $62.2 million for the three and six months ended June 30, 2011, compared to $42.6 million and $88.0 million for the three and six months ended June 30, 2010, respectively. The Q211 expenditures were almost entirely related to exploration drilling at Bua Ban North. 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	**2011**	2010	**2011**	2010
Seismic, geological and geophysical studies	**$1,368**	$803	**$1,655**	$1,738
Drilling and completions	**23,936**	22,069	**48,856**	45,102
Facilities	**372**	17,467	**944**	37,202
Lease and well equipment	**8,266**	2,266	**10,128**	3,830
Administrative assets	**413**	44	**641**	154
Other	**-**	-	**-**	6
Total Capital Expenditures	**$34,355**	$42,649	**$62,224**	$88,032

Equity Capital

Share Capital

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

As of the date of this report, the Company had 112,541,730 common shares outstanding.

Warrants

During the three months ended June 30, 2011, the Company issued no warrants, no warrants were forfeited and no warrants were exercised. Subsequent to June 30, 2011, no warrants were exercised. As of the date of this report the Company had 200,000 warrants outstanding at a weighted average exercise price of $1.10 per share.

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Stock Options

During the three months ended June 30, 2011, the Company granted 50,000 stock options; 90,140 options were forfeited and 475,000 options were exercised. Subsequent to June 30, 2011, 97,836 options were exercised. The following table summarizes the outstanding and exercisable options as of the date of this report:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	0.50 years	$2.25 (GBP 1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	580,000	0.50 years	$2.28 (Cdn$2.20)	Dec. 27, 2011	580,000
Jan. 25, 2008	367,500	1.50 years	$4.09 (Cdn$3.94)	Jan. 26, 2013	367,500
May 05, 2008	37,500	1.83 years	$4.60 (Cdn$4.44)	May 06, 2013	37,500
Jul. 14, 2008	77,500	2.00 years	$3.74 (Cdn$3.61)	Jul. 15, 2013	56,250
Sep. 16, 2008	100,000	2.25 years	$2.35 (Cdn$2.27)	Sep. 16, 2013	75,000
Sep. 23, 2008	1,000,000	2.50 years	$4.09 (Cdn$3.94)	Feb. 05, 2013	1,000,000
Jan. 02, 2009	2,073,170	2.50 years	$1.40 (Cdn$1.35)	Jan. 01, 2014	1,211,496
Dec. 01, 2009	2,385,757	3.50 years	$5.32 (Cdn$5.13)	Nov. 30, 2014	730,902
Dec. 28, 2010	1,547,282	4.50 years	$5.96 (Cdn$5.75)	Dec. 27, 2015	-
Jun. 01, 2011	50,000	5.00 years	$7.05 (Cdn$6.80)	Jun. 01,2016	-
	8,243,709				4,083,648

Off-Statement of financial position Arrangements

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

Related Party Transaction

Effective September 25, 2006, the Company assumed a note payable to O. S. Wyatt, Jr., 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. The note and its accrued interest were periodically renegotiated. The note was fully repaid in Q3 2010

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, 2011 and also as described in Notes 19 to the unaudited condensed interim financial statements for the three and six months ended June 30, 2011.

Subsequent Events

The Company announced successful flow test results at Bua Ban North B. The first four wells, the B-01, B-05, B-06 and B-08, are flowing approximately 7,100 bbl/d in aggregate using electric submersible pumps.

Critical Accounting Policies, Estimates and New Accounting Pronouncements

A detailed summary of the Company's critical accounting policies and estimates is included in Note 3 to the unaudited financial statements for the three and six months ended June 30, 2011. Given the transition to International Financial Reporting Standards we strongly advocate readers of this document read and understand the policies described in that document.

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 29, 2011 (available on SEDAR at www.sedar.com.) It is recommended that this document be reviewed for a thorough discussion of risks faced by the Company.

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

Industry

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

Petroleum and Gas Prices

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

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

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risk normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damages to persons or property and possible environmental damage. Although the Company may obtain liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not 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.

Reserve Estimates

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

Disruptions in Production

Other factors affecting the production and sale of oil and natural gas that could result in decrease of profitability include: (i) expiration or termination of leases, permits or licenses, or sales price re-determinations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) worker vacation schedules and related maintenance activities; and (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.

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.

Environmental

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

Laws and Regulations

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

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

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

Title to Oil and Gas Properties

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

Dependence on Management

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

Apico Financial Reporting

The Company accounts for its 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 on its exposure to and management of credit risk, liquidity risk and market risk in Note 24 to the unaudited condensed interim financial statements for the three and six months ended June 30, 2011.

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 condensed 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.

As of June 30, 2011, the Company's common stock was listed and traded on the TSX-Venture exchange. Effective July 5, 2011, the Company's common stock was listed and began trading on the Toronto Stock Exchange and was simultaneously de-listed on the TSX-Venture exchange. With future financial filings, the Company's officers will be required to file their respective certificates under NI 52-109.

International Financial Reporting Standards Transition

Effective January 1, 2011, the Company began preparing its financial statements under International Financial Reporting Standards (IFRS). As such, the accounting policies of the Company have been adjusted to comply with IFRS beginning with the statement of financial position as at January 1, 2010. A comprehensive summary of all of the significant changes, including reconciliations of the Canadian GAAP financial statements to those prepared under IFRS, is presented in Note 25 "First Time Adoption of IFRS" of the Company's unaudited June 30, 2011 condensed interim financial statements.

Adopting IFRS did not impact the cash the Company generated. However, the adoption of IFRS has had an impact on the Company's statement of financial position and statement of income. Previously reported net income for the second quarter of 2010 under IFRS is shown in the following reconciliation:

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

	Three Months ended June 30, 2010	Six Months ended June 30,2010
	$m	$m
Net Income under Canadian GAAP	8.6	18.8
Differences increasing (decreasing) reported net income:		
Unsuccessful exploration costs	(0.1)	(9.4)
Income Taxes	(4.0)	(0.3)
Foreign exchange	-	0.7
Depletion	7.9	15.3
Finance lease	(0.1)	(0.3)
Property, Plant & Equipment	-	(1.1)
Share of joint venture's net income	0.2	0.4
Total Differences in Net Income	3.9	5.3
Net Income under IFRS	12.5	24.1

Net income for the three and six months ended June 30, 2011 was $11.8 million and $9.4 million, respectively under IFRS. The significant IFRS accounting adjustments to net income include the write off of costs associated with the frac jobs at Benjarong (not commercially viable), and lower depletion due to the way we were required to allocate our property base upon transition to IFRS.

Outlook

Coastal anticipates using the proceeds from its current production at Songkhla, Bua Ban and Sinphuhorm to enhance its liquidity position and fund further development and exploration of Blocks G5/43 and G5/50.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Revenues and Other Income				
Oil sales, net of royalties (Note 15)	**59,610**	39,010	**126,321**	84,870
Other income (Note 16)	**(2,027)**	33	**(23,111)**	181
	57,583	39,043	**103,210**	85,051
Expenses				
Production	**17,124**	8,211	**39,342**	19,206
Depreciation and depletion (Note 7)	**11,698**	3,684	**24,984**	9,657
General and administrative	**6,457**	4,095	**11,720**	7,892
Exploration (Note 6)	**931**	91	**6,484**	9,358
Debt financing fees	**31**	119	**265**	243
Finance (Note 14)	**1,201**	749	**2,363**	1,481
	37,442	16,949	**85,158**	47,837
Net income before income taxes, share of net income from Apico LLC and non-controlling interest	**20,141**	22,094	**18,052**	37,214
Share of net income from Apico LLC (Note 8)	**4,272**	3,156	**7,528**	6,140
Net income before income taxes and non-controlling interest	**24,413**	25,250	**25,580**	43,354
Income taxes (Note 20)				
Current	**-**	(946)	**-**	18
Deferred	**12,005**	13,615	**15,188**	19,192
	12,005	12,669	**15,188**	19,210
Net income and comprehensive income	**12,408**	12,581	**10,392**	24,144
Net income attributable to non-controlling interest	**(592)**	(55)	**(938)**	(50)
Net income and comprehensive income attributable to the shareholders of Coastal Energy Company	**11,816**	12,526	**9,454**	24,094
Net income per share:				
Basic (Note 18)	0.11	0.11	0.08	0.22
Diluted (Note 18)	0.10	0.11	0.08	0.21

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

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

As at	June 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Assets			
Current Assets			
Cash	**2,186**	3,884	21,229
Restricted cash	**20,872**	16,369	3,829
Accounts receivable (Note 4)	**12,092**	10,299	6,111
Derivative asset	**179**	135	66
Inventory (Note 5)	**17,095**	12,783	5,310
Prepaids and other current assets	**126**	606	526
Total current assets	**52,550**	44,076	37,071
Non-Current Assets			
Exploration and evaluation assets (Note 6)	**75,233**	31,068	44,907
Property, plant and equipment (Note 7)	**234,677**	246,248	189,534
Investment in and advances to Apico LLC (Note 8)	**54,067**	47,261	55,225
Deposits and other assets	**292**	289	300
Total non-current assets	**364,269**	324,866	289,966
Total Assets	**416,819**	368,942	327,037
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities (Note 9)	**49,771**	53,550	31,363
Deferred income (Note 10)	**-**	-	23,060
Current portion of long-term debt (Note 12)	**28,668**	36,262	10,266
Amounts due to shareholder (Note 11)	**-**	-	5,164
Obligations under finance leases	**838**	885	35
Current portion of derivative liabilities (Note 12)	**21,892**	10,141	-
Total current liabilities	**101,169**	100,838	69,888
Non-Current Liabilities			
Long-term debt (Note 12)	**48,874**	35,081	24,284
Obligations under finance leases	**394**	579	1,439
Non-current portion of derivative liabilities (Note 12)	**5,415**	6,609	-
Deferred tax liabilities	**27,073**	11,885	23,653
Decommissioning liabilities (Note 13)	**20,558**	17,655	4,071
Total Non-Current Liabilities	**102,314**	71,809	53,447
Shareholders' Equity (Note 18)			
Common shares	**208,389**	201,303	198,121
Contributed surplus	**15,661**	15,892	13,779
Warrants	**29**	79	153
Accumulated deficit	**(18,084)**	(27,538)	(13,968)
Total Coastal Energy Company Shareholders' Equity	**205,995**	189,736	198,085
Non-Controlling Interest	7,341	6,559	5,617
Total equity	**213,336**	196,295	203,702
Total liabilities and equity	**416,819**	368,942	327,037

Commitments and contingencies (Note 19)

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

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Operating activities				
Net income attributable to the shareholders of Coastal Energy Company	**11,816**	12,526	**9,454**	24,094
Adjustments:				
Share of net income from Apico LLC	**(4,272)**	(3,156)	**(7,528)**	(6,140)
Non controlling interest	**592**	55	**938**	50
Unrealized loss (gain) on derivative instruments	**(7,674)**	1	**10,513**	66
Depletion and depreciation	**11,698**	3,684	**24,984**	9,657
Finance expense	**1,417**	1,097	**2,363**	1,481
Amortisation of debt financing fees	**31**	-	**265**	-
Stock-based compensation	**3,624**	1,892	**5,746**	3,151
Deferred income taxes	**12,005**	13,615	**15,188**	19,192
Unrealized foreign exchange loss	**308**	144	**457**	144
Exploration expense	**931**	91	**6,484**	9,358
Income taxes paid	**-**	-	**-**	(6)
Interest income	**1**	1	**2**	3
Interest paid	**(1,982)**	(533)	**(2,294)**	(1,043)
Earnings Distributions from Apico LLC	**1,265**	3,613	**2,168**	4,154
Change in non-cash working capital (Note 21)	**2,808**	19,328	**(4,735)**	13,662
	32,568	52,358	**64,005**	77,823
Financing Activities				
Issuance of common shares, net of issuance costs	**749**	46	**5,442**	1,886
Borrowings under long-term debt	**-**	-	**6,275**	-
Repayment of long-term debt	**-**	(1,000)	**-**	(5,979)
Loan arrangement fees	**(348)**	-	**(348)**	-
Repayment of amounts due to shareholder	**-**	(253)	**-**	(2,003)
Other	**(375)**	-	**(375)**	-
	26	(1,207)	**10,994**	(6,096)
Investing Activities				
(Increase) decrease in restricted cash	**(11,036)**	415	**(4,503)**	792
Purchase of property, plant and equipment	**(33,422)**	(53,532)	**(69,892)**	(89,864)
Advances to Apico LLC	**(1,446)**	-	**(1,446)**	-
Deposits and other assets	**40**	-	**(3)**	(6)
(Payments to) contributions from non-controlling interest	**-**	-	**(156)**	750
	(45,864)	(53,117)	**(76,000)**	(88,328)
Effect of exchange rate changes on cash	**(456)**	(116)	**(697)**	19
Decrease in cash	**(13,726)**	**(2,082)**	**(1,698)**	(16,582)
Cash - Beginning of period	**15,912**	6,729	**3,884**	21,229
Cash - End of period	**2,186**	4,647	**2,186**	4,647

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

	Note	Common Shares	Contributed Surplus	Warrants	Accumulated Deficit	Non Controlling Interests	Total
		$	$	$	$	$	$
Balance as at January 1, 2010	18	198,121	13,779	153	(13,968)	5,617	203,702
Net income and comprehensive income		-	-	-	24,094	-	24,094
Exercise of stock options		2,134	(533)				1,601
Exercise of warrants		364	-	(74)	-	-	290
Stock-based compensation		-	1,525	-	-	-	1,525
Net income attributable to non-controlling interests		-	-	-	-	50	- 50
Contributions from non-controlling interests		-	-	-	-	750	- 750
Balance as at June 30, 2010	18	200,619	14,771	79	10,126	6,417	232,012
Net loss and comprehensive loss		-	-	-	(37,664)	-	(37,664)
Exercise of stock options		684	(166)	-	-	-	518
Stock-based compensation		-	1,287	-	-	-	1,287
Net income attributable to non-controlling interests		-	-	-	-	1,117	1,117
Distributions declared to non-controlling interests		-	-	-	-	(975)	(975)
Balance as at December 31, 2010	18	201,303	15,892	79	(27,538)	6,559	196,295
Net income and comprehensive income		-	-	-	9,454	-	9,454
Exercise of stock options		7,036	(1,594)	-	-	-	5,442
Exercise of warrants		50	-	(50)	-	-	-
Stock-based compensation		-	1,363	-	-	-	1,363
Net income attributable to non-controlling interests		-	-	-	-	938	938
Distributions declared to non-controlling interests		-	-	-	-	(156)	(156)
Balance as at June 30, 2011	18	208,389	15,661	29	(18,084)	7,341	213,336

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

Note 1. Reporting entity

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

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

Note 2. Basis of preparation

Statement of compliance

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The Unaudited Condensed Interim Consolidated Financial Statements do not include all of the information required for annual financial statements. Amounts relating to the three and six months ended June 30, 2010 and as at December 31, 2010 were previously presented in accordance with Canadian GAAP. These amounts have been restated as necessary to be compliant with the accounting policies under IFRS, which are included in Note 3. Reconciliations and descriptions relating to the transition from Canadian GAAP to IFRS are included in Note 25.

In addition, the Company's disclosures included in these condensed interim consolidated financial statements exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP.

The unaudited condensed interim consolidated financial statements were approved for issue by the Audit Committee of the Board of Directors on August 10, 2011 under authority from the Company's Board of Directors.

Basis of measurement

These financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based payment transactions, which are measured at fair value. The comparative figures presented in these consolidated financial statements are in accordance with IFRS and have not been audited.

Functional and presentational currency

These financial statements are presented in United States dollars which is both the functional and the presentation currency of the Company and its subsidiaries, and all amounts are represented in hundreds of thousand dollars except when otherwise indicated.

Significant use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on a regular basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Specific amounts and disclosures affected by estimates and assumptions are: (i) amounts recorded for depletion and depreciation expense and amounts used for impairment test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves on a Cash Generating Unit ("CGU") basis; (ii) stock-based compensation is based upon expected volatility and option life estimates; (iii) decommissioning liabilities and the related accretion are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates; (iv) the provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax base of assets and liabilities; and (v) the decision to record (or not record) liabilities and contingencies are based on the estimates of the probability of outcomes and estimates of future cash flows.

Note 3. Accounting policies

Significant accounting policies

These condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in Note 3 of the condensed interim consolidated financial statements as at and for the three month period ended March 31, 2011.

Changes in accounting policies

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". In October 2010, the standard was revised. The new and revised standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities, which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 27, "Separate Financial Statements", to establish the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements and replaces the current IAS 27 Consolidated and Separate Financial Statements as the consolidation guidance is included in IFRS 10 Consolidated Financial

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Statements. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 28, "Investments in Associates and Joint Ventures", to establish the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In June 2011, the IASB issued amendments to IAS 1, "Presentation of Items of Other Comprehensive Income", to split items of other comprehensive income (OCI) between those that are reclassed to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. We are evaluating the impact that this standard may have on our statements of operations and financial position.

Note 4. Accounts receivable

As at	**June 30, 2011**	December 31, 2010	January 1, 2010
Oil sales	**$-**	$47	$-
Refundable taxes (VAT)	**11,691**	9,932	5,682
Other	**401**	320	429
	$12,092	$10,299	$6,111

Note 5. Inventories

As at	**June 30, 2011**	December 31, 2010	January 1, 2010
Marine fuel	**$4,619**	$1,912	$-
Crude oil inventory	**12,476**	10,871	5,310
	$17,095	$12,783	$5,310

Note 6. Exploration and evaluation assets

	Exploration and Evaluation
Cost and Net Book Value	
As at January 1, 2010	**$44,907**
Additions	58,331
Exploration expense	(72,170)
As at December 31, 2010	**31,068**
Additions	50,649
Exploration expense	(6,484)
As at June 30, 2011	**$75,233**

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

Exploration expenses
During the three and six month period ended June 30, 2011, the Company expensed $0.93 million and $6.48 million, respectively, in relation to non-commercial results at Benjarong (2010: $0.09 million and $9.36 million, respectively). In the year ended December 31, 2010, E&E assets of $72.17 million were written off in respect of Benjarong and Songkhla B following the unsatisfactory results of production tests.

Note 7. Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
Cost				
As at January 1, 2010	**$10,605**	**$178,300**	**$1,305**	**$190,210**
Additions	101	99,331	279	99,711
Disposals	-	(1,143)	-	(1,143)
As at December 31, 2010	**10,706**	**276,488**	**1,584**	**288,778**
Additions	-	14,563	641	15,204
As at June 30, 2011	**$10,706**	**$291,051**	**$2,225**	**$303,982**
Accumulated DD&A				
As at January 1, 2010	**-**	**-**	**676**	**676**
Depletion and depreciation	-	30,911	237	31,148
Impairment	10,706	-	-	10,706
As at December 31, 2010	**10,706**	**30,911**	**913**	**42,530**
Depletion and depreciation	-	26,619	156	26,775
As at June 30, 2011	**$10,706**	**$57,530**	**$1,069**	**$69,305**
Net Book Value				
As at January 1, 2010	**$10,605**	**$178,300**	**$629**	**$189,534**
As at December 31, 2010	**$-**	**$245,577**	**$671**	**$246,248**
As at June 30, 2011	**$-**	**$233,521**	**$1,156**	**$234,677**

Included within Oil & Gas Properties are assets held under finance leases. The net book value of these assets is $0.71 million (2010: $1.31 million). The depreciation charged on these assets amounted to $0.12 million and $0.24 million in three and six months ended June 30, 2011 (2010: $0.12 million and $0.24 million, respectively).

During the three and six months ended June 30, 2011, $3.55 million and $4.51 million of costs associated with decommissioning liabilities are included within additions (12 months ended December 31, 2010: $13.30 million)

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Impairment

During the fourth quarter of 2010, the Company impaired its mat-based jack-up rig held within "Assets under Construction" for $10.71 million and this asset was written down to $nil.

Note 8. Investment in and advances to Apico LLC

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

Petroleum Concession	Apico's interest	net to Coastal
Block EU-1 and E-5N in the Sinphuhorm gas field	35%	12.635%
Block L15/43 - surrounding the Sinphuhorm gas field	100%	36.100%
Block L27/43 – southeast of the Sinphuhorm gas field	100%	36.100%

The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference has been allocated to Apico's oil and gas properties and is being amortized using the units of production method. At June 30, 2011, the remaining unamortized excess basis was $13.6 million (December 31, 2010: $13.9 million).

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

As at	**June 30, 2011**	December 31, 2010	January 1, 2010
Balance, beginning of period	**$47,261**	$55,225	$50,376
Advances during the period	**1,446**	-	4,516
Share of earnings of significantly influenced investee, net of taxes	**$8,141**	9,041	9,544
Amortization of excess basis in Apico	**(613)**	(1,109)	(1,082)
Earnings distributions	**(2,168)**	(15,896)	(8,129)
Balance, end of period	**$54,067**	$47,261	$55,225

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

As at	**June 30, 2011**	December 31, 2010	January 1, 2010
Assets	**$155,662**	$121,931	$140,622
Liabilities	**36,270**	30,338	30,052

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Revenue	**$27,618**	$18,498	**$47,587**	$35,862
Net income	**12,754**	9,629	**22,536**	18,527

The Company's share of Apico's commitments relating to geological studies, seismic surveys and exploratory drilling is $1.13 million within the next 1 year and $2.57 million in the next 1 to 3 years.

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

Note 9. Accounts payable and accrued liabilities

As at	**June 30, 2011**	December 31, 2010	January 1, 2010
Trade payables	**$21,707**	$41,573	$21,087
Accrued payables	**27,018**	10,720	9,671
Income taxes payable	**31**	31	38
Other	**1,015**	1,226	567
	$49,771	$53,550	$31,363

Included within accrued payables is an accrual of $9.27 million for the fair value of vested stock appreciation rights (December 31, 2010: $7.89 million; January 1, 2010: $6.87 million). The Company incurred a liability of $3.31 million and $4.94 million for the three and six months ended June 30, 2011 respectively (2010: $1.35 million and $1.98 million, respectively). Of this, $0.13 million and $0.43 million for the three and six months ended June 30, 2011 respectively (2010: $0.14 million and $0.25 million, respectively) was capitalised.

The fair value of these instruments was determined using the Black-Scholes model. The full fair value of granted SARs units at June 30, 2011 is $16.73 million (December 31, 2010: $20.86 million; and January 1, 2010: $14.58 million). These awards vest and are cash-settled 33.3% on each of the subsequent anniversaries of the grant date. No grants were made in the three and six months ended June 30, 2011.

Note 10. Deferred income

Deferred income at January 1, 2010 relates to cash advances received under arrangements for the Company to deliver 400,000 barrels to a third party customer within the following twelve months. All deliveries were completed in 2010 as required under this agreement.

Note 11. Amounts due to shareholder

The amounts due to shareholder had an interest rate of 12% per annum, and was fully repaid in 2010.

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Note 12. Long term debt

As at	**June 30, 2011**	December 31, 2010	January 1, 2010
Revolving debt facility	**$80,000**	$80,000	$34,400
Unused portion of debt facility	**-**	(6,275)	-
Total debt drawn down	**80,000**	73,725	34,400
Unamortised debt issue costs	**(2,458)**	(2,382)	-
Carrying value of long-term	**77,542**	71,343	34,400
Current portion of long-term debt	**(28,668)**	(36,262)	(10,116)
Non-Current portion of long-term debt	**$48,874**	$35,081	$24,284

Current portion of long-term debt shown on the face of the balance sheet comprises:

As at	**June 30 2011**	December 31, 2010	January 1, 2010
Principal	**28,668**	$36,262	$10,116
Interest	**-**	-	150
	$28,668	$36,262	$10,266

BNP Paribas debt facility

The Company entered into an $80 million revolving debt facility arranged by BNP Paribas ("BNP") and including Commonwealth Bank of Australia on September 16, 2010. The facility is amortized over a five year period and matures on June 30, 2015.

The effective interest rate for the three and six months ended June 30, 2011 was 4.42% and 4.44%, respectively, per annum.

As a requirement of the facility, the Company is required to undertake derivative contracts on a percentage of its projected production over a rolling 18 to 24 month period.

The following is a summary of the crude oil derivative contracts outstanding at June 30, 2011:

	Notional Volumes	**Term**	**Average Strike Price**	**Fair value of asset (liability)**
Long Puts				
Brent	1,147,500	July 2011 – Sep. 2012	$79.03/bbl	$1,850
Short Calls				
Brent	833,000	July 2011 – Sep. 2012	$79.03/bbl	(29,157)
Fair value of derivative assets (liabilities)				$(27,307)

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

The following is a summary of the crude oil derivative contracts outstanding at December 31, 2010:

	Notional Volumes	Term	Average Strike Price	Fair value of asset (liability)
Long Puts				
Brent	1,641,750	Jan. 2011 – Sep. 2012	$79.03/bbl	$5,710
Short Calls				
Brent	1,302,000	Jan. 2011 – Sep. 2012	$79.03/bbl	(22,460)
Fair value of derivative assets (liabilities)				$(16,750)

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

	June 30, 2011	December 31, 2010
Current portion	**$21,892**	$10,141
Non-current portion	**5,415**	6,609
Total fair value of derivative liabilities	**$27,307**	$16,750

In the fourth quarter 2010, the Company entered into a contract to swap 50% of its expected LIBOR interest rate exposure from floating to fixed over a 30 month period commencing January 1, 2011 at 1.10% per annum. The carrying value of this derivative asset is $0.18 million as of June 30, 2011 (2010: $0.14 million derivative asset).

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

	Three Months ended June 30,		Six Months ended June 30,	
	2011	2010	**2011**	**2010**
Realized loss on crude oil price derivative contracts	**$(8,615)**	$-	**$(11,015)**	$-
Unrealized mark-to-market losses (gains) on oil price derivative contracts	**7,709**	-	**(10,557)**	-
Unrealized gain on interest rate swap	**35**	-	**44**	-
	$(871)	$-	**$(21,528)**	$-

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

SMBC debt facility

The Company had a revolving debt facility with Sumitomo Mitsui Banking Corporation Europe Limited. All amounts under this debt facility were fully repaid in September 2010. Loans under the SMBC facility bore interest at SMBC's LIBOR plus an applicable margin between 1.75% and 3.5%. The effective interest rate for the three and six months ended June 30, 2010 was 3.05% and 3.12%, respectively.

As a requirement of the facility, the Company was required to enter into derivative financial commodity contracts for the period of the loan. The Company entered into a derivative risk management contracts with an affiliate of SMBC under which the Company had the right to sell 4,000 metric tons per month of Singapore fuel oil at a price of $290.00 per metric ton commencing July 1, 2007 and expiring June 30, 2010. The unrealized loss on this arrangement in 2010 was $66,000.

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

Note 13. Decommissioning liabilities

Changes in the carrying amount of decommissioning liabilities are as follows:

	Six Months Ended June 30, 2011	Twelve Months Ended December 31, 2010
Decommissioning liabilities, Beginning of Period	**$17,655**	$4,071
Obligations Incurred with Development Activities	**4,510**	13,842
Changes in Estimates	**(881)**	(540)
Obligations Settled	**(964)**	-
Accretion	**238**	282
Decommissioning liabilities, End of Period	**$20,558**	$17,655

Decommissioning liabilities represents the present value of estimated remediation and reclamation costs associated with our PP&E. Coastal has discounted the estimated asset retirement obligation using a risk-free rate of 3.1% (December 31, 2010: 3.0%; December 31, 2009: 3.9%). While the provision for abandonment is based on management's best estimates of future costs and the economic lives of the assets involved, there is uncertainty regarding both the amount and timing of incurring these costs. Management anticipates the remedial work will occur approximately 9 years from the statement of financial position date. The Company expects to fund decommissioning liabilities from future cash flows from our operations.

Note 14. Finance expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Long-term debt interest expense	**$907**	$349	**$1,740**	$697
Accretion related to decommissioning liabilities (Note 13)	**125**	87	**238**	126
Finance lease interest	**169**	313	**385**	658
	$1,201	$749	**$2,363**	$1,481

Note 15. Oil sales, net of royalties

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Oil sales	**$64,628**	$42,164	**$137,184**	$91,674
Royalties	**(5,018)**	(3,154)	**(10,863)**	(6,804)
	$59,610	$39,010	**$126,321**	$84,870

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

Note 16. Other income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Change in fair value of derivative contracts (Note 12)	**($871)**	($1)	**($21,528)**	($66)
Interest	**1**	1	**2**	3
Foreign exchange (losses) and gains	**(1,157)**	33	**(1,585)**	244
	($2,027)	$33	**($23,111)**	$181

Note 17. Related parties

Major subsidiaries and Apico LLC

The Condensed Interim Consolidated Financial Statements include the financial statements of Coastal Energy and our affiliated subsidiaries as at June 30, 2011; December 31, 2010 and January 1, 2010. Transactions involving the Company, its subsidiaries, its joint venture or its special purpose entity are eliminated upon consolidation. The Company did not have any material related party transactions with entities outside the consolidated group in the three and six months ended June 30, 2011 and 2010.

Note 18. Equity

Common Shares
Authorized share capital consists of 250,000,000 common shares with a par value of $0.04 each. At June 30, 2011, there were 112,416,894 common shares outstanding (December 31, 2010: 109,717,510 shares).

Stock options
The Company has a stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the number of shares reserved for issuance may not exceed 15,000,000 shares. At June 30, 2011 there remained available for future issuance 1,802,771 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. Prior to the January 2009 grant, the options vested one-quarter on the date of the grant and one-quarter on each subsequent anniversary of the date of the grant. Beginning with the January 2009 grant, the options vest one-third on each subsequent anniversary of the date of grant. The maximum exercise period of options granted under the Plan is five years following the grant date. The changes in stock options were as follows:

	June 30, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**10,794,987**	**$3.47**	10,409,599	$2.85
Options granted	**50,000**	**$6.56**	1,570,904	$5.72
Options exercised	**(2,413,301)**	**$2.24**	(983,131)	$2.23
Options forfeited	**(90,140)**	**$3.62**	(202,385)	$2.93
Balance, end of period	**8,341,546**	**$3.65**	10,794,987	$3.47

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

The following table summarizes the outstanding and exercisable options at June 30, 2011:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jul. 06, 2005	25,000	0.50 years	$2.25 (GBP 1.40)	Dec. 27, 2011	25,000
Dec. 27, 2006	612,500	0.50 years	$2.28 (Cdn$2.20)	Dec. 27, 2011	612,500
Jan. 25, 2008	367,500	1.50 years	$4.09 (Cdn$3.94)	Jan. 26, 2013	367,500
May 05, 2008	37,500	1.83 years	$4.60 (Cdn$4.44)	May 06, 2013	37,500
Jul. 14, 2008	77,500	2.00 years	$3.74 (Cdn$3.61)	Jul. 15, 2013	56,250
Sep. 16, 2008	100,000	2.25 years	$2.35 (Cdn$2.27)	Sep. 16, 2013	75,000
Sep. 23, 2008	1,000,000	2.50 years	$4.09 (Cdn$3.94)	Feb. 05, 2013	1,000,000
Jan. 02, 2009	2,122,338	2.50 years	$1.40 (Cdn$1.35)	Jan. 01, 2014	1,260,663
Dec. 01, 2009	2,401,926	3.50 years	$5.32 (Cdn$5.13)	Nov. 30, 2014	747,071
Dec. 28, 2010	1,547,282	4.50 years	$5.96 (Cdn$5.75)	Dec 27, 2015	-
Jun. 01, 2011	50,000	5.00 years	$7.05 (Cdn$6.80)	Jun 01, 2016	-
	8,341,546				4,181,484

The above options are dilutive and, therefore, have been taken into account in the per share calculations detailed below.

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. For the three months ended June 30, 2011 the Company recorded stock option expenses of $0.68 million (2010: $0.76 million), of which $0.07 million (2010: $0.10 million) was capitalized. For the six months ended June 30, 2011 the Company recorded stock option expenses of $1.37 million (2010: $1.53 million), of which $0.10 million (2010: $0.20 million) was capitalized.

Warrants

No warrants were issued in 2011 or 2010. The warrants outstanding at the beginning of the period were issued in connection with a debt offering exercisable at Cdn $1.136 per share equivalent and expiring January 23, 2014. During 2011, 340,000 warrants were exercised in exchange for 291,082 common shares (2010: 563,867 and 457,734, respectively). The changes in warrants were as follows:

	June 30, 2011		December 31, 2010	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
Balance, beginning of period	**540,000**	**$1.13**	3,246,245	$3.42
Warrants issued	**-**	**-**	-	-
Warrants exercised	**(340,000)**	**$1.13**	(563,867)	$4.18
Warrants expired	**-**	**-**	(2,142,378)	$3.62
Balance, end of period	**200,000**	**$1.13**	540,000	$1.13

Earnings per share

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

	3 Months ended June 30,		6 Months ended June 30,	
	2011	2010	**2011**	2010
Weighted average common shares outstanding, basic	**111,978,982**	109,514,439	**111,659,289**	109,291,599
Effect of stock options and warrants	**3,180,271**	3,119,435	**3,368,558**	3,607,536
Weighted average common shares outstanding, diluted	**115,159,253**	112,633,874	**115,027,847**	112,899,135

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

Note 19. Commitments and contingencies

The Company has provided a letter of credit to the Thailand Customs Department for $0.7 million (December 31, 2010: $0.7 million; and January 1, 2010: $0.7 million). This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of June 30, 2011.

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

Year	Drilling & Production	G5/50	Other	Total
2011	$29,516	$5,300	$202	$35,018
2012	2,254	-	405	2,659
2013	-	-	329	329
2014	-	-	133	133

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

The Company from time to time is 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.

Note 20. Income taxes

Reconciliation of Effective Tax Rate to the Thai Statutory Tax Rate

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	**2011**	2010
Net income before income taxes and non-controlling interest	**$24,413**	$25,250	**$25,580**	$43,354
Thailand petroleum income tax statutory rate	**50%**	50%	**50%**	50%
Expected income tax expense computed at standard rates	**12,207**	12,625	**12,790**	21,677
Add (deduct) the tax effect of :				
Tax differential in other countries	**(2,347)**	(140)	**(113)**	(406)
Non-deductible expenses and other	**1,200**	(596)	**959**	(384)
Valuation allowance	**(1,233)**	434	**(1,150)**	469
Tax basis revaluation	**2,178**	346	**2,702**	(2,146)
Provision for Income Taxes	**$12,005**	$12,669	**$15,188**	$19,210

At June 30, 2011, the Company had unrecognized deferred tax assets related to its US and UK entities. There is no material change in these amounts from year end. These assets will be recognized for accounting purposes when it becomes more likely than not that they will be utilized.

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

Note 21. Changes in non-cash working capital

The following table summarizes the changes in non-cash working capital for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Accounts Receivable	**$13,128**	($556)	**($1,793)**	($595)
Inventory	**(5,142)**	(2,949)	**(4,312)**	(465)
Prepaids and Other Current Assets	**45**	137	**480**	227
Accounts Payable and Accrued Liabilities	**(5,223)**	18,039	**890**	20,022
Deferred income	**-**	4,657	**-**	(5,527)
Total	**$2,808**	$19,328	**($4,735)**	$13,662

Note 22. Segmental reporting

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

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

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

Segmented net income for the six months ended June 30, 2011

	Thailand Onshore	**Thailand Offshore**	**Corporate and Other**	**Total**
Net oil sales	$ -	$126,321	$ -	$126,321
Other Income	-	(23,124)	13	(23,111)
	-	103,197	13	103,210
Less: Expenses				
Production	-	39,342	-	39,342
Depreciation and depletion	-	24,906	78	24,984
General and administrative	-	1,904	9,816	11,720
Exploration	-	6,484	-	6,484
Debt financing fees	-	-	265	265
Finance costs	-	623	1,740	2,363
Add: Net income from Apico LLC	7,528	-	-	7,528
Net Income (Loss) before tax and non-controlling interest	$7,528	$29,938	(11,886)	$25,580
Capital Expenditures	$ -	$62,090	$134	$62,224

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

Segmented net income for the six months ended June 30, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$ -	$84,870	$ -	$84,870
Other Income	-	244	(63)	181
	-	85,114	(63)	85,051
Less: Expenses				
Production	-	19,206	-	19,206
Depreciation and depletion	-	9,657	-	9,657
General and administrative	-	1,273	6,619	7,892
Exploration	-	9,358	-	9,358
Debt financing fees	-	-	243	243
Finance costs	-	784	697	1,481
Add: Net income from Apico LLC	6,140	-	-	6,140
Net Income (Loss) before tax and non-controlling interest	$6,140	$44,836	($7,622)	$43,354
Capital Expenditures	$ -	$87,892	$140	$88,032

Segmented net income for the three months ended June 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$ -	$59,610	$ -	$59,610
Other Income	-	(2,046)	19	(2,027)
	-	57,564	19	57,583
Less: Expenses				
Production	-	17,124	-	17,124
Depreciation and depletion	-	11,653	45	11,698
General and administrative	-	921	5,536	6,457
Exploration	-	931	-	931
Debt financing fees	-	(102)	133	31
Finance costs	-	294	907	1,201
Add: Net income from Apico LLC	4,272	-	-	4,272
Net Income (Loss) before tax and non-controlling interest	$4,272	$26,743	($6,602)	$24,413
Capital Expenditures	$ -	$34,250	$105	$34,355

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

Segmented net income for the three months ended June 30, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$ -	$39,010	$ -	$39,010
Other Income	-	32	1	33
	-	39,042	1	39,043
Less: Expenses				
Production	-	8,211	-	8,211
Depreciation and depletion	-	3,684	-	3,684
General and administrative	-	(2,524)	6,619	4,095
Exploration	-	91	-	91
Debt financing fees	-	-	119	119
Finance costs	-	400	349	749
Add: Net income from Apico LLC	3,156	-	-	3,156
Net Income (Loss) before tax and non-controlling interest	$3,156	$29,180	($7,086)	$25,250
Capital Expenditures	$ -	$42,613	$36	$42,649

Segmented assets as at June 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	**$54,067**	**$ -**	**$ -**	**$54,067**
PP&E and E&E net book value	**-**	**309,322**	**588**	**309,910**
Total Assets	**$54,067**	**$361,917**	**$835**	**$416,819**

Segmented assets as at December 31, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	**$47,261**	**$ -**	**$ -**	**$47,261**
PP&E and E&E net book value	**-**	**276,650**	**666**	**277,316**
Total Assets	**$47,261**	**$315,423**	**$6,258**	**$368,942**

Segmented assets as at January 1, 2010

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	**$55,225**	**$ -**	**$ -**	**$55,225**
PP&E and E&E net book value	**-**	**234,142**	**299**	**234,441**
Total Assets	**$55,225**	**$267,580**	**$4,232**	**$327,037**

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

Note 23. Capital management

The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include common share capital, long-term debt and working capital (a non-IFRS measurement defined as current assets less current liabilities). In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, incur debt, sell assets or adjust its capital spending to manage current and projected debt levels. The Company may also repurchase common shares when the Company believes the market price does not reflect the underlying values of the common shares.

The Company's capital structure is comprised as follows:

As at	**June 30, 2011**	December 31, 2010	January 1, 2010
Total shareholders' equity	**$213,336**	$196,295	$203,702
Long-term debt	**80,000**	73,725	34,400
Obligations under finance leases	**1,232**	1,464	1,474
Amounts due to shareholder	**-**	-	5,164
Working capital deficit (1)	**19,113**	19,615	22,516
	$313,681	$291,099	$267,256

Note 1: This amount excludes the current portion of the bank debt and obligations under finance leases (which by the definition above would normally be included in this computation) as they are already included above.

As of June 30, 2011, the Company has fully utilized its $80.0 million borrowing facility. Management believes it can access the equity and credit markets in the future should circumstances deem that necessary.

The Company is in compliance with its debt covenants.

Note 24. Financial instruments and risk management

Financial risk management objectives

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

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

Given the direct involvement of senior financial personnel in monitoring financial risks, it is not considered necessary at this time for any formalized reporting of financial risk sensitivity models to be prepared. This decision will be reassessed by management on an ongoing basis as part of wider assessments of the ongoing effectiveness of the treasury function.

Fair values

The Company's financial instruments include cash, derivative assets and liabilities, accounts receivable, and accounts payable and accrued liabilities. Cash and derivative assets and liabilities are carried at fair value. The Company considers that all other items have a carrying value that approximates their fair value due to their short-term nature.

The fair value of the Company's long-term debt as at June 30, 2011 was $77.29 million (December 2010: $70.89 million) when using the market LIBOR rate.

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

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

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

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

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

The Company's cash, restricted cash and derivative commodity contracts have been assessed on the fair value hierarchy described above. Cash is classified as Level 1. Restricted cash is classified as Level 2.

The Company's derivative commodity contracts, as with 2010, are considered fair value through profit and loss and their fair values are marked to market every quarter based on quoted market prices in the futures market on the statement of financial position date. As discussed in Note 12, these derivative instruments are solely required for debt facilities. These contracts are classified as Level 1.

The Company considers its risks in relation to financial instruments in the following categories, of which management considers that no category has significantly worsened in 2011 relative to 2010.

Credit risk

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and restricted cash; (2) accounts receivable and other; (3) derivative contract. The Company has not had any credit losses in the past beyond that described below. At March 31, 2011 and 2010, the Company has no financial assets that are past due or impaired due to credit risk related defaults.

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

December 31,	**June 30, 2011**	December 31, 2010	January 1, 2009
Cash	**$2,186**	$3,884	$21,229
Restricted cash	**20,872**	16,369	3,829
Refundable taxes (UK, Thailand)	**11,691**	9,932	5,682
Trade receivable	**-**	47	-
Other accounts receivable	**401**	320	429
Derivative asset	**179**	135	66
	$35,329	$30,687	$31,235

Revenues in both years relate to a single customer that had a credit rating of BBB+ with Standard and Poors as at June 30, 2011. The Company's trade receivables in at the end of each period were less than 30 days aged and was subsequently fully collected.

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

Typically, the Company's maximum credit exposure to customers is revenue from one month's commodity sales. The Company's standard credit terms have been (receipt of) payment within 30 days of delivery or prepayment of crude oil sales, although the latter is no longer permitted as part of the new debt facility. The Company's policy to mitigate credit risk associated with commodity sales is to establish relationships with credit worthy customers. The Company has not written off any amounts receivable in either 2011 or 2010.

No receivables are overdue (2010: $nil) and hence no allowance has been made for doubtful debts (2010: $nil).

Liquidity risk

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

Coastal's liquidity position has improved as a result of increased levels of production in the current year.

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, 2011 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, 2011					December 31, 2010	January 1, 2010
	Within 1 year	**1-2 years**	**3-5 years**	**There after**	**Total**	Total	Total
Accounts payable and accrued liabilities	**$49,771**	**$-**	**$-**	**$-**	**$49,771**	$53,550	$31,363
Long-term debt principal and interest	**28,668**	**32,407**	**11,410**	**7,515**	**80,000**	73,725	34,550
Obligations under finance leases	**838**	**394**	**-**	**-**	**1,232**	1,464	1,474
Derivative liabilities	**23,985**	**11,031**	**-**	**-**	**35,016**	16,750	-
	$103,262	**$43,832**	**$11,410**	**$7,515**	**$166,019**	$145,489	$67,387

Market risk

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

(a) Currency risk

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

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's costs are incurred principally in US dollar, Thai baht, UK Pounds and Canadian Dollars. The appreciation of non-US Dollar currencies against the US Dollar can increase the costs of operations and capital expenditures in US Dollar terms.

Based on the Company's net foreign currency exposures at June 30, 2011, a 10% depreciation or appreciation of the foreign currencies against the US dollar would result in a $0.24 million (December 31, 2010: $0.92 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These movements are attributable to year-end payables and receivables denominated in currencies other than the US dollar.

(b) Interest rate risk

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. Presently the Company's credit facility has an interest rate of LIBOR +4%. 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 16 to the December 31, 2010 Canadian GAAP financial statements. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling $80.0 million at December 31, 2010 (2010: $73.7 million). A 100 basis point change in interest rates at the statement of financial position date would result in a $0.80 million change in the Company's annual net income (2010: $0.74 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 12.

The Company paid an average of 4.42% and 4.44% on its borrowings for the three and six months ended June 30, 2011, respectively (2010: 3.98% and 4.12%, respectively).

The Company earned an average of 0.04% and 0.05% on its short-term investments for the three and six months ended June 30, 2011 respectively (2010: 0.37% and 0.60%, respectively).

(c) Commodity price risk

Profitability of the Company depends on market prices for petroleum and natural gas. Petroleum and natural gas prices are affected by numerous factors such as global consumption and demand for petroleum and natural gas, international economic and political trends, fluctuation in the US dollar and other currencies, interest rates, and inflation.

A 10% decline in the reference price projection would not reduce the availability under the borrowing base at June 30, 2011.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 12. A 10% increase in prices of Brent as of June 30, 2011 would cause an increase in the derivative liability of $43.77 million (2010: increase in liability of $15.19 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of June 30, 2011 would cause a decrease in the liability of $19.37 million (2010: decrease of $13.89 million).

(d) Other price risk

The Company is exposed to equity price risk in relation to stock appreciation rights granted to employees. For more detail, see Note 13 in the December 31, 2010 Canadian GAAP financial statements.

Note 25. Transition to IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. This note describes how the transition from Canadian GAAP to IFRS has affected the Company's financial position and comprehensive income.

The accounting policies described in Note 3 to the March 31, 2011 interim condensed consolidated financial statements have been applied in preparing the financial statements for the period ended June 30, 2011, the comparative information presented in these financial statements for the periods ended June 30, 2010 and December 31, 2010, and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the "Transition Date").

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

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the reported financial position and results of operations of the Company. The differences between IFRS and Canadian GAAP that affect Coastal Energy are described in the notes following the reconciliation tables below.

Under IFRS 1 "First Time Adoption of International Financial Reporting Standards", IFRS is applied to all accounts retrospectively at the Transition Date unless a specific exemption was available and taken. The following are the significant exemptions the Company has elected to apply:

- Deemed cost exemption for oil and gas assets – The Company has elected to report items of oil and gas assets on Transition Date at deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of such items may be either its fair value at the Transition Date or an amount determined by a previous revaluation under Canadian GAAP. The exemption can be applied on an asset-by-asset basis. Oil and gas assets that were part of the full cost pool and determined to be developed or producing assets were allocated to Cash Generating Units ("CGU's") on the Transition Date pro rata using reserve values, subject to an impairment test on the Transition Date.
- Share-Based Payments – The Company has elected not to apply IFRS 2 "Share-Based Payments" to equity instruments which vested before the Transition Date. As such, adjustments were made only to Share-Based Payments that were granted before the Transition Date but had not vested.
- Decommissioning liabilities – In accounting for changes in obligations to dismantle, remove and restore items of property, plant and equipment, the guidance under IFRS requires changes in such obligations to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating the effect of all such changes throughout the life of the obligation, the Company has elected to measure the liability and the related depreciation effects at the Transition Date.
- Borrowing Costs – The Company applied an IFRS transitional exemption to prospectively capitalize borrowing costs from the transition date.
- Cumulative Translation Differences – The Company elected to set the cumulative translation account to $nil at January 1, 2010. This exemption has been applied to all subsidiaries.
- Business Combinations – The Company applied the business combinations exemption to not apply IFRS 3 Business Combinations retrospectively to past business combinations. Accordingly, we have not restated business combinations that took place prior to the Transition Date.

Reconciliation of Shareholders' Equity

	Note	**January 1 2010**	June 30 2010	December 31 2010
Shareholders' Equity under Canadian GAAP		**$195,351**	**$217,562**	**$205,426**
Non-controlling interest under Canadian GAAP		5,617	6,418	6,559
		200,968	223,980	211,985
Differences increasing (decreasing) reported shareholders' equity:				
Exploration expenses	a	-	(9,358)	(72,170)
Decommissioning liabilities	b	(1,263)	(1,160)	(933)
Deferred taxes	c	3,133	2,791	30,855
Foreign currency	c	909	1,606	4,445
Depletion	d	-	15,257	26,805
Finance lease	e	(45)	(369)	(522)
Property, plant & equipment	f	-	(1,143)	(1,143)
Investment in and advances in Apico LLC	g	-	409	(3,027)
Total equity under IFRS		**$203,702**	**$232,013**	**$196,295**

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

Reconciliation of Net Income

For the year to date periods ended	Note	June 30 2010 (3 months)	June 30 2010 (6 months)	December 31 2010 (12 months)
Net Income under Canadian GAAP		**$8,577**	**$18,795**	**$4,854**
Differences increasing (decreasing) reported net income:				
Exploration expenses	a	(91)	(9,358)	(72,170)
Accretion on decommissioning liabilities	b	59	103	330
Deferred taxes	c	(4,026)	(342)	27,722
Foreign currency	c	22	697	3,536
Depletion	d	7,902	15,257	26,805
Finance lease	e	(146)	(324)	(477)
Property, plant & equipment	f	-	(1,143)	(1,143)
Share of net income in Apico LLC	g	229	409	(3,027)
Total Differences in Net Income		**3,949**	**5,299**	**(18,424)**
Net Income (loss) and comprehensive income (loss) attributable to the shareholders of Coastal Energy Company under IFRS		**$12,526**	**$24,094**	**($13,570)**

Condensed consolidated statement of Cash Flows

The adoption of IFRS did not impact the amounts reported as operating, investing or financing cash flows in the consolidated statements of cash flows.

Notes to the IFRS Reconciliations

a. Exploration expense

Under Canadian GAAP, dry hole costs associated with the Songkhla B and Benjarong prospects were moved from unproved properties to proved properties, both asset captions on the statement of financial position. Under IFRS the costs incurred on these fields were written off to the statement of operations and comprehensive income.

b. Decommissioning liabilities

Under Canadian GAAP, decommissioning liabilities were discounted at a credit adjusted risk fee rate which of nine percent (9%). Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted therefore the entire decommissioning liability is discounted at a risk free rate of three percent (3%) for all periods presented.

Under Canadian GAAP unwinding of the discount, or accretion, was included in depletion and depreciation. Under IFRS it is included in finance expense.

c. Deferred tax liabilities

The change in the deferred tax liabilities is mainly the result of the change in the accounting basis of the decommissioning liability on transition to IFRS, the change in accounting basis of property, plant and equipment and as a result of decreased depletion and the change in accounting for foreign exchange gains and losses resulting from taxes denominated in foreign currencies.

d. Depletion

Upon transition to IFRS, the Company adopted a policy of depleting oil and gas interests on a unit of production basis over proved plus probable ("2P") reserves. The depletion policy under Canadian GAAP was based on units of production over proved ("1P") reserves. In addition, depletion was calculated on the entire Thailand offshore cost centre under Canadian GAAP; while IFRS requires depletion and depreciation to be calculated based at the individual prospect level.

e. Finance leases

Upon transition to IFRS a contractual arrangement met the standards for treatment as a finance lease. Under Canadian GAAP it had been treated an operating lease.

f. Property, plant and equipment

Certain downhole assets were scrapped as a result of equipment failures. These assets were not removed from the full cost pool under Canadian GAAP. The items were written off to the statement of operations and comprehensive income under IFRS.

g. Investment in and advances to Apico LLC

To converge the accounting of Apico LLC with the IFRS accounting policies of Coastal

h. Statement of financial position reclasses

IFRS requires the closing E&E assets' balance to be separately identified. The Company has adopted to show this split on the face of the statement of financial position. There is no such requirement under Canadian GAAP.

i. Statement of operations and comprehensive income reclasses

Under IFRS, oil sales are presented net of royalties on the face of the statement of operations and comprehensive income. A footnote is then provided to detail the respective components. Under Canadian GAAP, oil revenues and related royalties were presented gross on the statement of operations and comprehensive income.

Under Canadian GAAP unwinding of the discount, or accretion relating to decommissioning liabilities, was included in depletion and depreciation. Under IFRS it is included in finance expense.

NON-INDEPENDENT DIRECTOR

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

INDEPENDENT DIRECTORS

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

Andrew L. Cochran (1) (2) (4)
CEO, Dominion Petroleum Limited

Olivier de Montal (2) (3)
Administrator, Olympia Capital Holding

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

John B. Zaozirny (1) (3)
Vice Chairman, Canaccord Genuity Corp.

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

SENIOR MANAGEMENT

Lloyd Barnaby Smith, Non-Executive Chairman

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

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

TRADING SYMBOLS

CEN on TSX
CEO on AIM

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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	TSX Exchange (Canada)
AIM	London AIM Exchange (UK)

THIRD PARTY ADVISORS

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

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BNP Paribas

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Stikeman Elliott LLP (Canada & UK)
Walkers SPV Limited (Cayman Islands)
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Computershare (TSX)
Capita Registrars (LSE-AIM)

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