Note 1.Reporting entity

Coastal Energy Company ("Coastal" orthe "Company" or "we") is an internationaloil 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 widely held and 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 presentation

The condensed interim consolidated financial statements for Coastal Energy Company as at June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 should be read in conjunction with the audited consolidated financial statements as at December 31, 2011, December 31, 2010 and January 1, 2010 and for the years ended December 31, 2011 and December 31, 2010. The interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The condensed interim consolidated financial statements are stated in United States dollars and have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

The interim consolidated financial statements were approved by the Audit Committee of the Company's Board of Directors on August 9, 2012.

Note 3. Restricted cash

The Company has cash balances which are restricted by the Company's banking institutions. The following table summarizes the restricted cash balances:

As at	**June 30, 2012**	December 31, 2011
Collateral in support of corporate letter of credit (Note 16)	**$1,399**	$1,400
Restricted in support of long-term debt	**4,994**	27,047
	$6,393	$28,447

The terms of the debt facility with BNP Paribas require that cash proceeds from borrowing base assets be held in restricted accounts with the Lender. Cash may be disbursed from the restricted accounts for approved purposes as designated in the credit agreement.

Note 4. Accounts receivable

As at	June 30, 2012	December 31, 2011
Oil sales	**$7,545**	$-
Refundable taxes (VAT)	**19,079**	16,115
Other	**1,546**	824
	$28,170	$16,939

Note 5. Exploration and evaluation assets

	Exploration and Evaluation
Cost and Net Book Value	
As at December 31, 2010	**$31,068**
Additions	145,363
Transfers to Property, plant and equipment	(136,176)
Exploration expense	(8,374)
As at December 31, 2011	**31,881**
Additions	23,506
Exploration expense	(286)
As at June 30, 2012	**$55,101**

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.

During the three and six months ended June 30, 2012, the Company expensed$0.29 million of exploration costs (2011: $0.93 million and $6.48 million respectively, expensed in relation to non-commercial results at Benjarong).

Note 6.Property, plant and equipment

	Assets Under Construction	Oil & Gas Properties	Corporate and Other	Total
Cost				
As at December 31, 2010	**$10,706**	**$276,488**	**$1,584**	**$288,778**
Additions	-	32,001	1,134	33,135
Disposals	(10,706)	(1,427)	-	(12,133)
Transfers from Exploration and evaluation assets	-	136,176	-	136,176
As at December 31, 2011	**-**	**443,238**	**2,718**	**445,956**
Additions	17,788	75,046	369	93,203
As at June 30, 2012	**$17,788**	**$518,284**	**$3,087**	**$539,159**

Accumulated depletion, depreciation and impairment

As at December 31, 2010	**10,706**	**30,911**	**913**	**42,530**
Depletion and depreciation	-	59,447	351	59,798
Disposals	(10,706)	(718)	-	(11,424)
As at December 31, 2011	**-**	**89,640**	**1,264**	**90,904**
Depletion and depreciation	-	37,494	341	37,835
As at June 30, 2012	**$-**	**$127,134**	**$1,605**	**$128,739**

Carrying amount

As at December 31, 2011	**$-**	**$353,598**	**$1,454**	**$355,052**
As at June 30, 2012	**$17,778**	**$391,150**	**$1,482**	**$410,420**

During thesix monthsendedJune30, 2012,$3.61 millionof costs associated with decommissioning liabilities are included within additions (year ended December 31, 2011: $24.96 million addition).

Depletion and depreciation expense recognized in property, plant and equipment for the three and six months ended June 30, 2012 was $16.18 million and $37.84 million respectively (2011: $12.48 million and $26.78 million respectively), whereas the charge for depletion and depreciation expense recognized in the consolidated statement of operations and comprehensive income was $18.59 million and $38.63 million respectively (2011: $11.70 million and $24.98 million respectively). The difference relates to an inventory adjustment for crude oil produced but not yet sold.

Assets under construction

The Company purchased the 'Richmond', a submersible drilling rig in March 2012. As of June 30, 2012 the rig was in the process of being transported from Texas to the Far East, where refurbishment activities are due to commence early in the third quarter.

Note 7. Investment in and advances to Apico LLC

The Company has a 39.0% (2011: 36.1%)interest inApico 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 in 2012 and 2011:

	Apico's interest	Net to Coastal	
Petroleum Concession	**2012 & 2011**	**2012**	**2011**
Block EU-1 and E-5N in the Sinphuhorm gas field	35%	13.648%	12.635%
Block L15/43 - surrounding the Sinphuhorm gas field	100%	38.994%	36.100%
Block L27/43 – southeast of the Sinphuhorm gas field	100%	38.994%	36.100%

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

As at	**June 30, 2012**	December 31, 2011
Balance, beginning of period	**$47,698**	$47,261
Acquisition of additional ownership interest	**9,250**	-
Advances during the period	**-**	1,446
Share of earnings, net of income taxes	**9,808**	15,583
Amortization of excess basis in Apico	**(304)**	(1,056)
Earnings distributions	**-**	(15,536)
Balance, end of period	**$66,452**	$47,698

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

As at	**June 30, 2012**	December 31, 2011
Current assets	**$32,218**	$19,419
Non-current assets	**116,309**	109,733
Current liabilities	**24,801**	30,694
Non-current liabilities	**2,661**	2,731

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
Revenue	**$27,848**	$27,618	**$49,312**	$47,587
Expenses	**3,693**	6,766	**7,659**	11,526
Income taxes	**9,488**	8,098	**16,380**	13,525
Net income	**14,667**	12,754	**25,273**	22,536

The Company's share of Apico's commitments relating to geological studies, seismic surveys and exploratory drilling for the next 1 year is $7.15million. There is also a bank guarantee of $0.60 million to cover customs duties.

Note 8. Accounts payable and accrued liabilities

As at	**June 30, 2012**	December 31, 2011
Trade payables	**$33,779**	$34,252
Accrued payables	**42,452**	23,084
Income taxes payable	**81,847**	79
Other	**1,140**	2,056
	$159,218	$59,471

Included within accrued payables is an accrual of $7.05 million for the fair value of vested stock appreciation rights (SARs) (December 31, 2011: $6.17 million). The Company incurred a liability of $0.29 million and $2.07 million for the three and six months endedJune 30, 2012 (2011: $3.31 million and $4.94 million,respectively). Of this, $0.06 million and $0.27 million for the three and six months ended June 30, 2012(2011: $0.13 and $0.43 million, respectively) was capitalized to property, plant and equipment.

The fair value of these instruments was determined using the Black-Scholes model based on observable market prices. The full fair value of granted SARs units at June 30, 2012 is $11.68 million (December 31, 2011: $13.17 million). The Company considers the fair value used in valuing these instruments to be Level 2, as defined in Note 18.

No SARs have been granted in 2012.

Note 9.Derivative liability - Warrants

The Company had 200,000 warrants outstanding at the beginning of 2012 with an exercise price of $1.113 (Cdn $1.136). No warrants have been granted nor exercised during 2012. The recorded values of the Canadian dollar denominated purchase warrants were calculated using the Black-Scholes pricing modelover the remaining term of the warrants. The key inputs are as follows:

As at	**June 30, 2012**	December 31, 2011
Risk free interest rate as per US Treasury Bonds	**0.33%**	0.25%
Share price (Canadian dollars)	**$13.40**	$14.07
Remaining term of the warrants	**1.58 years**	2.08 years
Volatility	**40%**	40%

Note 10.Long term debt

As at	**June 30, 2012**	December 31, 2011
Revolving debt facility	**$100,000**	$80,000
Unused portion of debt facility	**(50,000)**	-
Total debt drawn down	**50,000**	80,000
Unamortised debt issue costs	**(2,518)**	(2,191)
Carrying value of long-term	**47,482**	77,809
Current portion of long-term debt	**-**	(55,653)
Non-Current portion of long-term debt	**47,482**	$22,156

Current portion of long-term debt shown on the statement of financial position comprises

As at	**June 30, 2012**	December 31, 2011
Principal	**$-**	$55,653
Interest	**17**	9
	$17	$55,662

BNP Paribas debt facility

In Q1 2012 the Company has amended the terms of the revolving debt facility with BNP Paribas ("BNP") and including Commonwealth Bank of Australia. This has seen the facility increase from $80.0 million to $100.0 million, an extension of the amortization period of the borrowing base, and a significant lessening of the terms required to utilize cash balances held with the lender. The facility is due to amortize through to the earlier of June 30, 2016 or the reserve tail date. As part of this revision the Bua Ban North field was added to the borrowing base.

The effective interest rate for the three and six months ended June 30, 2012 was 3.77% and 3.81% respectively (2011: 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, 2012:

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	Notional Volumes	Term	Average Strike Price	Fair value of asset (liability)
Long Puts				
Brent	886,000	Jul. 2012 – Sep. 2013	$72.85/bbl	$651
Short Calls				
Brent	802,000	Jul. 2012 – Sep. 2013	$109.31/bbl	(4,586)
Fair value of derivative assets (liabilities)				$(3,935)

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

	June 30, 2012	December 31, 2011
Current portion	**($3,935)**	($14,557)
Non-current portion	**-**	(1,274)
Total fair value of derivative liabilities	**($3,935)**	($15,831)

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 assetis $0.06 millionas of June 30, 2012 (December 31, 2011: $0.06 million derivative asset).

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

	Three Months ended June 30,		Six Months ended June 30,	
	2012	2011	**2012**	**2011**
Realized losses on crude oil price derivative contracts	**$(5,958)**	$(8,615)	**$(11,110)**	$(11,015)
Unrealized gains (losses) on crude oil price derivative contracts	**15,927**	7,709	**11,896**	(10,557)
Unrealized (losses) gains on interest rate swap	**(35)**	35	**(11)**	44
	$9,934	$(871)	**$775**	$(21,528)

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

All derivative contracts are considered as held-for-trading using the criteria specified under IFRS.

Note 11. Other income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Change in fair value of derivative contracts (Note 10)	**$9,934**	($871)	**$775**	($21,528)
Interest	**1**	1	**3**	2
Foreign exchange losses	**(157)**	(1,157)	**(1,171)**	(1,585)
	$9,778	($2,027)	**($393)**	($23,111)

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Note 12. Related parties

Major Subsidiaries and Apico LLC

These condensed interimfinancial statements include the financial statements of Coastal Energy and our affiliated subsidiaries as at June 30, 2012 and December 31, 2011. Transactions involving the Company, its subsidiaries, its joint venture, its special purpose entity and equity investment are eliminated upon consolidation. In the opinion of management there are no material related party transactions with entities outside the consolidated group in the three and six months ended June 30, 2012 and 2011 except for thatdescribed below.

In Q2 2012, a related party of the primary shareholder, O.S. Wyatt, Jr., reached payout under the terms of a net profits agreement following the recovery of all capital and operating expenditures relating to the G5/43 concession. Under the terms of this arrangement we estimate the party is due $0.62 million, which is based upon 2.5% of net profits from the Gulf of ThailandBlock G5/43 operations for the three months ended June 30, 2012. The amounts due to this related party is outstanding at quarter end. The net profits agreement was executed in 2005 and has been previously disclosed by the Company.

Note 13.Equity

Common Shares

Authorized share capital consists of 250,000,000 common shares with a par value of $0.04 each. Each share carries equal voting rights, is non-preferential and participates evenly in the event of a dividend payment or in the winding up of the Company. At June 30, 2012, 112,987,045common shares were issued and fully paid (December 31, 2011:113,605,881 shares).

During Q2 2012, the Company repurchased 1,258,450 common shares through the facilities of the TSX and other Canadian market places under a normal course issuer bid (‘NCIB’) at an average cost of $14.02 per share (Cdn$ 14.44 per share) for a total repurchase cost of $17.65 million. The book value of the common shares repurchased was $1.83 per share for a total book value of $2.35 million that was recorded to share capital. The residual amount of $15.29 million was recorded directly to retained earnings. All of the common shares under the NCIB were cancelled.The NCIB will terminateon the earliest of the purchase of 5,715,972 common shares, Coastal providing a notice of termination, and May 24, 2013.Any common shares purchased pursuant to the Normal Course Issuer Bid will be cancelled by the Company.

InQ1 2012, the Company repurchased 33,395 common shares from directors.The book value of the common shares repurchased was $1.86 per share for a total book value of $0.06 million that was recorded to share capital. The residual amount of $0.47 million was recorded directly to retained earnings. All of the common shares under this arrangement were cancelled.

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 of options combined with restricted stock units (discussed below) may not exceed 10% of the total shares issued and outstanding. At June 30, 2012 there remained available for future issuance 3,366,689stock options, restricted stock units (discussed below) or a combination thereof. 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, 2012		December 31, 2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**8,545,717**	**$5.79**	10,794,987	$3.47
Options granted	**-**	**-**	1,591,947	$13.58
Options exercised	**(815,597)**	**$2.97**	(3,602,288)	$2.15
Options forfeited	**(3,732)**	**$5.04**	(238,929)	$4.74
Balance, end of period	**7,726,388**	**$6.08**	8,545,717	$5.79

For share options exercised in the six months ended June 30, 2012 the weighted average share price at the date of exercise was $16.17(year ended December 31, 2011: $8.78).

The following table summarizes the outstanding and exercisable options at June 30, 2012:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jan. 25, 2008	167,770	0.50 years	$3.76 (Cdn$3.85)	Jan. 26, 2013	167,770
May 05, 2008	25,000	0.83 years	$4.23 (Cdn$4.34)	May 06, 2013	25,000
Jul. 14, 2008	42,500	1.00 years	$3.52 (Cdn$3.61)	Jul. 15, 2013	42,500
Sep. 16, 2008	100,000	1.25 years	$2.21 (Cdn$2.27)	Sep. 16, 2013	100,000
Sep. 23, 2008	898,000	1.50 years	$3.84 (Cdn$3.94)	Feb. 05, 2013	898,000
Jan. 02, 2009	1,269,929	1.50 years	$1.32 (Cdn$1.35)	Jan. 01, 2014	1,269,929
Dec. 01, 2009	2,217,950	2.50 years	$5.00 (Cdn$5.13)	Nov. 30, 2014	1,424,229
Dec. 28, 2010	1,463,292	3.50 years	$5.61 (Cdn$5.75)	Dec. 27, 2015	460,113
Dec. 14, 2011	1,541,947	4.50 years	$13.70 (Cdn$14.04)	Dec. 13, 2016	-
	7,726,388				4,387,541

The above options are dilutive in 2012 and, therefore, have been taken into account in the per share calculationsfor that year. The options are anti-dilutive in 2011 and as such have been excluded from the comparative numbers.

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. No grants were made in the six months ended June 30, 2012.

For the three and six months ended June30, 2012 the Company recorded stock option expenses of $1.06 million and $2.12 million, respectively (2011: $0.68 million and $1.37 million, respectively), of which $0.06million and $0.12 million, respectively (2011: $0.07million and $0.10 million, respectively) was capitalized.

Restricted Stock

The Company has a restricted stock plan (the “RS Plan”) in compliance with the TSX’s policy for granting restricted stock units (“RSUs”). Under the RS Plan, the number of shares reserved for issuance may, along with other stock plans, not exceed 10% of the total issued and outstanding shares of the Company. At June 30, 2012 there remained available for future issuance 3,366,689RSUs, stock options or a combination thereof (December 31, 2011: 2,609,243).The vesting term of RSUs under the RS Plan is determined by the Company’s Board of Directors. For the RSUs granted on December 14, 2011 one-third vest on each subsequent anniversary of the date of the grant. The changes in RSUs in 2012 were as follows:

	Number of RSUs
Balance, December 31, 2011	**205,628**
RSUs granted	**-**
RSUs settled	**-**
RSUs forfeited	**-**
Balance, June 30, 2012	**205,628**

The following table summarizes the outstanding RSUs at June 30, 2012:

Grant Date	Number Outstanding	Remaining Contractual Life	Grant Date Fair Value	Expiry Date
Dec. 14, 2011	205,628	2.5 years	$12.93	Dec. 14, 2014

The above RSUs are dilutive in 2012 and, therefore, have been taken into account in the per share calculations detailed below.

For the three months and six months ended June 30, 2012 the Company recorded RSU expenses of $0.41 million and $0.82 million, respectively (2011: $nil), of which $0.06 million and $0.12 million, respectively (2011: $nil) was capitalized.No RSU has vested as of June 30, 2012.

Contributed Surplus
This reserve is being used on an ongoing basis to record stock-based compensation expense.

Net Income 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 net income were required.

	3 Months ended June 30,		6 Months ended June 30,	
	2012	2011	**2012**	2011
Weighted average common shares outstanding, basic	**113,953,045**	111,978,982	**113,968,697**	111,659,289
Effect of stock options and warrants	**4,527,825**	3,180,271	**4,768,250**	3,368,558
Weighted average common shares outstanding, diluted	**118,480,870**	115,159,253	**118,736,947**	115,027,847

The average market price used in the 'Effect of stock options and warrants' line in the above table was Cdn$15.39 and Cdn$16.49 for the three and six months ended June 30, 2012 (2011: Cdn$6.53 and Cdn$6.77, respectively). Upon translation to US dollars these amounts equate to $15.10 and $16.18 for the three and six months ended June 30, 2012 (2011: $6.77 and $7.02, respectively).

Note 14. Income taxes

Income taxes are comprised of the following amounts relating to current income tax expense and deferred income tax expense:

	3 Months ended		6 Months ended	
	2012	2011	**2012**	2011
Current income tax expense				
Current year income tax expense	**45,160**	$-	**81,768**	$-
Adjustment in respect of prior years	**129**	-	**129**	-
Current income tax expense	**45,289**	-	**81,897**	-
Deferred tax expense				
Origination and reversal of temporary differences in the current year	**18,998**	12,005	**30,701**	15,188
Adjustment in respect of prior years	**13,097**	-	**13,097**	-
Deferred tax expense	**32,095**	12,005	**43,798**	15,188

The provision for income taxes differs from the amount that would have been expected by applying statutory corporate income tax rates to incomebefore taxes. The principal reasons for this difference are as follows:

	3 Months ended		6 Months ended	
	2012	2011	**2012**	2011
Net income before income taxes	**$120,888**	$24,413	**$217,692**	$25,580
Thailand petroleum income tax statutory rate	**50%**	50%	**50%**	50%
Expected income tax expense computed at standard rates	**60,444**	12,207	**108,846**	12,790
Add (deduct) the tax effect of :				
Tax differential in other countries	**(792)**	(2,347)	**(648)**	(113)
Non-taxable/deductible expenses	**1,112**	1,200	**246**	959
Share-based compensation	**145**	-	**290**	-
Valuation allowance	**377**	(1,233)	**1,015**	(1,150)
Tax basis revaluation	**925**	2,178	**773**	2,702
Special Remuneratory Benefit - Thailand	**2,076**	-	**2,076**	-
Change in estimate (see note below)	**13,097**	-	**13,097**	-
Income tax expense	**77,384**	12,005	**125,695**	15,188
Consisting of:				
Current income tax expense	**45,289**	-	**81,897**	-
Deferred tax expense	**32,095**	12,005	**43,798**	15,188
Income tax expense	**$77,384**	$12,005	**$125,695**	$15,188

After filing the Company's 2010 Thai petroleum income taxes, the Company began reconciling the components of its income tax accounting accrual with the actual tax pools reported in the tax return. The revisions were completed in the current quarter resulting in an increase of $13.1 million in the Company's deferred income tax charge.

Note 15.Segment 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.

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Segmented Income for theSixMonths ended June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$-	$342,961	$-	$342,961
Other Income	-	(12,249)	11,856	(393)
	-	330,712	11,856	342,568
Less: Expenses				
Production	-	77,374	-	77,374
Depreciation and depletion	-	38,083	551	38,634
Net profits interest	-	869	-	869
General and administrative	-	5,954	9,430	15,384
Exploration	-	286	-	286
Debt financing fees	-	-	632	632
Finance costs	-	394	807	1,201
Add: Net income from Apico LLC	9,504	-	-	9,504
Net Income before taxes	$9,504	$207,752	$436	$217,692

Segmented Capital Expenditure for the Six Months ended June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$67,173	$45,909	$113,082

Segmented 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 taxes	$7,528	$29,938	($11,886)	$25,580

Segmented Capital Expenditure for the Six Months ended June 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$62,090	$134	$62,224

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Segmented Income for the Three Months ended June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Net oil sales	$-	$174,125	$-	$174,125
Other Income	-	(6,062)	15,840	9,778
	-	168,063	15,840	183,903
Less: Expenses				
Production	-	41,164	-	41,164
Depreciation and depletion	-	18,202	388	18,590
Net profits interest	-	869	-	869
General and administrative	-	2,601	4,456	7,057
Exploration	-	286	-	286
Debt financing fees	-	(156)	351	195
Finance costs	-	357	(6)	351
Add: Net income from Apico LLC	5,497	-	-	5,497
Net Income (Loss) before taxes	$5,497	$104,740	$10,651	$120,888

Segmented Capital Expenditure for the Three Months ended June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$27,191	$25,639	$52,830

Segmented 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	-	-	31	31
Finance costs	-	294	907	1,201
Add: Net income from Apico LLC	4,272	-	-	4,272
Net Income (Loss) before taxes	$4,272	$27,572	($7,431)	$24,413

Segmented Capital Expenditure for the Three Months ended June 30, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Capital Expenditures	$-	$34,250	$105	$34,355

Segmented Assets as at June 30, 2012

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	$66,452	$-	$-	$66,452
PP&E and E&E carrying amount	-	411,877	53,644	465,521
Total Assets	$66,452	$574,770	$59,391	$700,613

Segmented Assets as at December 31, 2011

	Thailand Onshore	Thailand Offshore	Corporate and Other	Total
Investment in and advances to Apico LLC	$47,698	$-	$-	$47,698
PP&E and E&E carrying amount	$-	386,492	441	386,933
Total Assets	$47,698	$455,748	$15,285	$518,731

Note 16.Commitments and contingencies

Commitments and contingencies

The Company has provided a letter of credit to the Thailand Customs Department for $1.4 million(December 31, 2011: $1.4 million). This letter of credit is cash collateralized, has not been drawn on and remains outstanding as of June 30, 2012.

The Company has entered into various commitments primarily related to the ongoing development of its Thailand G5/43 and G5/50 property concessions, and the Kapal, Banang andMerantiCluster ('KBM') service contract in Malaysia (see below). Coastal has secured equipment and work commitments in the Gulf of Thailand and Malaysia. In order to keep both the concessions and service contract, the Company has various development obligations. The Company also has operating lease agreements for office space in Thailand, Malaysia and the United States. The following table summarizes the Company's outstanding contractual obligations:

Year	Drilling & Production Thailand	Drilling & Production Malaysia	G5/50	Other	Total
2012	$31,145	$39,000	$5,300	$216	$75,661
2013	-	$145,000	-	324	145,324
2014	-	$100,000	-	131	100,131

The Company's share of Apico's commitments is disclosed in Note 7.

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

Kapal, Banang, Meranti Cluster

The Company has entered into a Small Field Risk Service Contract ("RSC") with Petronas for the development and production of petroleum from the KBM cluster of small fields (the "KBM Cluster") offshore Peninsular Malaysia.

Coastal (with 100% equity interest under the Small Field RSC) will be the operator of the KBM Cluster fields. As at June 30, 2012, in accordance with the Small Field RSC, Coastal was finalising an arrangement for a Malaysian company to participate in the Small Field RSC for a 30% equity interest.

Coastal will provide the upfront development capital, undertaking the development drilling and production of the KBM Cluster. PETRONAS will remain the owner of the project. Subject to its performance, Coastal will recover its capital and operating expenditures and will be paid a remuneration fee, which will be adjusted by key performance indicators ("KPIs") based on the timely implementation of the agreed field development plan and budget.

Note 17. Capital management

The Company's management of its capital structure is detailed in Note 27 to the December 31, 2011 financial statements. The Company's capital structure is comprised as follows:

As at	**June 30, 2012**	December 31, 2011
Total shareholders' equity	**$327,864**	$250,867
Long-term debt drawn	**50,000**	80,000
Working capitaldeficit (asset) excluding long-term debt drawn [(1)]	**(2,805)**	(6,814)
	$375,059	$324,053

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

As of June 30, 2012, the Company hasutilized $50.0 million of its $100.0 million borrowing facility. Management believes it can access the equity and credit markets in the future should circumstances deem raising additional equity or debt is necessary.

The Company is in compliance with its debt covenants.

Note 18. Financial instruments and financial 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.

Fair Values

The Company's financial instruments include cash, restricted 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 almost all other items (excluding long-term debt and warrants) 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, 2012 was $47.77 million (December 2011: $70.70 million) when using the market LIBOR rate.

The Company classifies the fair value of cash, restricted cash, derivative commodity contracts and the derivative liability for warrants 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 and restricted cash are classified as Level 1.

The Company's derivative commodity contracts, as with 2011, are considered fair value through profit and loss and their fair valuesare marked to market every quarter based oninputs from quoted market prices in the futures market on the statement of financial position date. As discussed in Note 10, these derivative instruments are solely required for debt facilities. These contracts as well as the derivative liabilities associated with warrants are classified as Level 2.

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 2012 relative to 2011.

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; (3) derivative assets. The Company has not had any credit losses in the past beyond that described below. At June 30, 2012 and 2011, 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:

As at	June 30, 2012	December 31, 2011
Cash	$116,646	$22,995
Restricted cash	6,393	28,447
Refundable taxes (UK, Thailand)	19,079	16,115
Trade receivable	7,545	-
Other accounts receivable	1,546	824
Derivative asset	48	59
	$151,257	$68,440

Revenues in both years relate to a single customer that had a credit rating of BBB+ with Standard and Poors as at June 30, 2012. The Company's trade receivables at the end of each period were less than 30 days aged and were subsequently fully collected.

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 2012 or 2011.

No receivables are overdue (2011: $nil) and hence no allowance has been made for doubtful accounts receivable (2011: $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, derivative liabilities, long-term debt, obligations under operating leases and future contractual commitments. The Company frequently assesses its liquidity position and obligations under its financial liabilities by preparing financial forecasts. Coastal mitigates liquidity risks by maintaining a sufficient cash balance as well as maintaining a sufficient current and projected liquidity cushion to meet expected future payments.

The Company's financial liabilities arose primarily from the development of its Thailand properties. 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, 2012 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:

	June 30, 2012					December 31, 2011
	Within 1 year	**1-2 Years**	**3-5 years**	**There after**	**Total**	Total
Accounts payable and accrued liabilities	**$159,218**	**$-**	**$-**	**$-**	**$159,218**	$59,471
Long-term debt principal and interest	**17**	**-**	**-**	**50,000**	**50,017**	80,009
Derivative liabilities	**3,935**	**-**	**-**	**-**	**3,935**	15,831
Derivative liability – warrants	**2,408**	**-**	**-**	**-**	**2,408**	2,853
	$165,578	**$-**	**$-**	**$50,000**	**$215,578**	$158,164

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, 2012, a 10% depreciation or appreciation of the foreign currencies against the US dollar would result in a $2.27 million (December 31,2011: $0.90 million) increase or decrease in the Company's after-tax earnings with the same impact on comprehensive income. These exposures 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 plus 350 bps. 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 10. The Company accounts for its borrowings under the long-term debt on an amortized cost basis. The Company had borrowings totaling $50.0 million at June 30, 2012 (December 31, 2011: $80.0 million). A 100basis point change in interest rates at the statement of financial position date would result in a $0.50 million change in the Company's annual net income (2011: $0.80 million). The Company has entered into an interest rate swap to specifically manage interest rate risk. Further details can be found in Note 10.

The Company paid an average of 3.77% and 3.81%, respectively on its borrowings for the three and six months ended June 30, 2012(2011: 4.42% and 4.44% respectively).

The Company earned an average of 0.01% and 0.01%, respectivelyon its short-term investments for thethree and six months ended June 30, 2012 (2011: 0.04% and 0.05%, 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, 2012.

As a requirement of the debt facilities, the Company entered into a derivative hedging agreement described in Note 10. A 10% increase in prices of Brent as ofJune 30, 2012 would cause an increase in the derivative liability of $2.96 million (2011: increase in liability of $7.31 million) from what is recorded on the statement of financial position. A 10% decrease in prices as of June 30, 2012 would cause a decrease in the liability of $1.65million (2011: decrease of $5.09 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 8.

Note 19.Subsequent events

The Company signed an agreement on July 9, 2012 to extend use of the Atwood Vicksburg drilling rig through to December 31, 2013. Under this agreement the Company will incur an average cost of $110,000 per day.

In early July the Company purchased the production facilities which are in place at Bua Ban North A. The Company currently has a letter of intent in place to purchase the production facilities at Bua Ban North B.

Following quarter end, the Company released the results of an interim third party reserves evaluation by its reserve auditor, RPS Energy Ltd. Total company 2P reserves increased to 149.1 mmboe from 102.1 mmboe at December 31, 2011.

NON-INDEPENDENT DIRECTOR

Randy L. Bartley, President and CEO

William C. Phelps, Chief Financial Officer

INDEPENDENT DIRECTORS

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Andrew L. Cochran [1] [2] [4]
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Administrator, Loze&Associés

Lloyd Barnaby Smith[3] [4]
Former British Ambassador to Thailand

John B. Zaozirny [1] [3]
Vice Chairman, CanaccordGenuity Corp.

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

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Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer, Director

John M. Griffith, Vice President, Operations
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TRADING SYMBOLS

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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	Toronto Stock Exchange (Canada)
AIM	London AIM Stock Exchange (UK)

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