

Coastal Energy Company - CEO LN/CEN CN £9.00/C\$14.93

December 23, 2011

Year end Dec 31,		2011e	2012e	2013e
Production				
Oil & Liquids	bbl/d	10,881	21,224	22,248
Natural Gas	mmcf/d	11.4	10.8	10.8
Total Production	boe/d	12,778	23,028	24,052
Oil & Liquids Weight	%	85%	92%	93%
Production per Share	boe/Share	0.04	0.07	0.08
	%	36%	79%	4%
Production per D.A. Share	boe/Share	0.04	0.08	0.11
	%	43%	106%	35%
Financials				
Cash Flow	\$mm	227.8	606.2	573.3
Cash Flow Netback	\$/Boed	48.83	71.92	65.31
Cash Flow Per Diluted Share	\$/Share	1.98	5.23	4.95
% Change Year-Over-Year	%	82%	165%	-5%
Earnings	\$mm	64.4	470.7	315.1
Earnings Per Diluted Share	\$/Share	0.56	4.06	2.72
% Change Year-Over-Year	%	1188%	626%	-33%
Capital Expenditures	\$mm	159.4	260.0	260.0
Capex / Cash Flow	%	70%	43%	45%
Free Cash Flow	\$mm	68.3	346.2	313.3
Cash Use / Cash Flow	%	70%	43%	45%
Net Debt	\$mm	28.4	(317.8)	(648.9)
Bank Line	\$mm	80.0	80.0	80.0
Liquidity	\$mm	51.6	397.8	728.9
Entry Net Debt / Cash Flow		0.4	0.0	N/A
Capital Structure				
Basic Shares	mm	112.8	112.8	112.8
Options	mm	2.9	2.9	2.9
Warrants	mm	0.2	0.2	0.2
Convertible Debentures	mm	0.0	0.0	0.0
Diluted Shares	mm	115.9	115.9	115.9
Fully Diluted Shares	mm	116.8	116.8	116.8
Market Cap.	US\$m	1,751.3	1,728.0	1,756.9
Enterprise Value	US\$m	1,779.7	1,410.2	1,108.1
Valuation				
Share Price Y/E	\$/Share	\$14.93	\$14.93	\$14.93
Net Asset Value	\$/Share	\$20.27	\$20.27	\$20.27
Risked NAV	\$/Share	\$26.86	\$26.86	\$26.86
Price / NAV	%	74%	74%	74%
Net Asset Value (Risked)	\$/Share	\$23.73	\$23.73	\$23.73
Price / NAV	%	63%	63%	63%
Price / Cash Flow	x	7.6	2.9	3.1
Price / Earnings	x	27.0	3.7	5.6
DACFM	x	7.7	2.3	1.9
Target DACFM	x	13.1	4.4	4.1
EV per Boe/d	US\$/boed	139,275	61,237	46,069
Target EV per Boe/d	US\$/boed	237,222	114,863	98,273
EV per Boe - Proved	US\$/boe	73.99	73.99	73.99
EV per Boe - P + P	US\$/boe	31.32	31.32	31.32
Pricing				
WTI	US\$/bbl	94.82	105.01	110.03
Brent	US\$/bbl	110.68	112.33	115.27
NYMEX	US\$/mmbtu	4.07	3.75	4.50
UK NBP	US\$/mmbtu	6.32	6.81	7.06
Exchange Rate	US\$ / CDN\$	1.01	1.00	1.02
Oil & Liquids	US\$/wellhead	101.32	103.26	106.20
Natural Gas	US\$/wellhead	N/A	N/A	N/A

Note: Financial information reported in US\$, with the exception of stock price, target price and NAV
Source: FirstEnergy Capital Corp. and Company Reports

New Play Opener

Highlights - Pedal to the Metal

- The Bua Ban North B-09 well discovered 3-4 mmbbl in deeper Miocene sands which could open a new play for Coastal with an overall prize of 63 mmbbl prospective resources. Additionally positive results from the well test operation at Bua Ban North A-11 horizontal well could lead the Company to develop Bua Ban North with horizontal wells, triggering a 5% incremental recovery factor to rise to 38%, unlocking an additional 10-15 mmbbl reserves at Bua Ban North. The shares still trade at a 30% discount to our core NAV and about 2.3x EV/DACF2012. Coastal is targeting 123 mmbbl prospective resources in 2012. Our Top Pick is re-iterated with a target price of £16.00 per share.

Bua Ban North B-09 Opens a New Play

- The Bua Ban North B-09 well discovered 3-4 mmbbl in deeper Miocene sands which could open a new play for Coastal, with an overall prize of 63 mmbbl prospective resources.
- The Bua Ban North B-09 was drilled as an appraisal well between the southernmost Bua Ban North B-04 well and the Bua Ban North A-09 well. The well encountered five Miocene pay zones. Total aggregate net pay in the well is 175 feet with average porosity of 27%. This is the largest aggregate pay zone seen to date in this field. Pay was encountered in the M75 zone for the first time, which represents a new productive zone for the field.
- This outcome confirms the lateral extent of the deeper pay zones below the main producing reservoir. Following this result in the deeper zones, the Company plans to drill further appraisal/exploration wells to continue testing the 63 mmbbl of prospective resources defined in the RPS report of November 15, 2011.

Upcoming Horizontal Well Test Results Could Unlock 10-15 mmbbl

- Coastal is planning to start testing the Bua Ban North A-11 horizontal well next week. This was initially due to happen this week, but operations were delayed to

Opinion: TOP PICK
12 MONTH TARGET PRICE: £16.00/C\$25.60

Analyst: Stephane Foucaud, P.Eng.
+44-207-448-0213 • sgfoucaud@firstenergy.com
Associate: David Przybyla, P.Eng.
+44-207-448-0251 • dprzybyla@firstenergy.com
London Office • +44-207-448-0200

Ranking System: Top Pick (T) Outperform (O) Market Perform (M) Underperform (U) Speculative Buy (SB) Tender (X)

The information contained herein is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. While the accuracy or completeness of the information contained in this document cannot be guaranteed by FirstEnergy Capital, it was obtained from sources believed to be reliable. FirstEnergy Capital and/or its officers, directors and employees may from time to time acquire, hold or sell positions in the securities mentioned herein as principal or agent. FirstEnergy Capital (USA) Corp., a member of the Financial Industry Regulatory Authority, is a wholly owned subsidiary of FirstEnergy Capital Holdings Corp. and operates as a Broker-Dealer in the United States.

Authorised and Regulated by the Financial Services Authority

Refer to the last page for Important Certifications and Regulatory Disclosures.

Bua Ban North Resources	mmbbl
In Place Resources According to CPR	204
2P Reserves Based on 33% Recovery Factor	67
Potential Upside to 2P by Increasing Recovery Factor by 5% to 38% with Horizontal Drilling	10
Potential In Place Upside Associated with Larger Net Pay	96
Recoverable Resources Upside Based on Vertical Drilling (33% Recovery Factor)	32
Recoverable Resources Upside Based on Horizontal Drilling (+5% Recovery Factor)	5
Total Potential Upside Horizontal Drilling + Larger Net Pay	47
2P+ Total Upside	114

Source: FirstEnergy Capital Corp. and Company Reports

severe weather. The well could flow at 2,000 bbl/d on a restrained basis in order to minimize decline. Additionally a horizontal well could recover three times the volume recoverable with a vertical well (6 mmbbl versus 2 mmbbl). Overall positive results from this well test operation could lead the Company to decide to develop Bua Ban North with horizontal wells. This could trigger a 5% incremental recovery factor increase to 38% and unlock an additional 10-15 mmbbl reserves at Bua Ban North.

- Note that horizontal drilling will not materially boost the value of a barrel of 2P reserve even if the development cost of the Company's 67 mmbbl 2P reserves at

Bua Ban North would be lower. This is due to the fact that the overall capex programme is already very low. Furthermore, most of the additional free cash flow would actually be captured by the SRP tax windfall.

On Track to Produce 25,000 bbl/d by the End of 2012

- Coastal Energy anticipates to tie-in a total of 11 wells by year-end January 2012, adding 5,000-7,000 bbl/d production for a total rate that we estimate at 25,000 boe/d. November production already stood at 17,500 boe/d.

Forthcoming Drilling Catalysts

- Exploration drilling at Songkhla G (previously called Bua Ban South, 67 mmbbl prospective resources) is scheduled for Q1 2012.
- Appraisal/exploration at Bua Ban North targeting 63 mmbbl of prospective resources.

	Bua Ban North 2P Reserves (mmbbl)	Recovery per Producing Well (mmbbl)	Number of Producing Wells	Number of Injector Wells	Drilllex (US\$m)	Facility Capex (US\$m)	Total Capex (US\$m)	NPV 12.5% (US\$m)
Vertical Development	67	2	34	11	136	90	226	1,270
Horizontal Development	67	6	11	4	51	90	141	1,310
Combined Development	67	2 to 4	23	8	102	90	192	1,290

Source: FirstEnergy Capital Corp. and Company Reports

Area	Field/Prospect	Resources		NPV (US\$/Boe)	Net Risked (mmboe)	EMV (US\$m)	p/sh (FD)	Target Price (p/sh)	Unrisked (p/sh)	
		Gross (mmboe)	WI (%)							
Assets - Producing										
Thailand - Onshore	EU1/E5N - Sinphuhorm	189.7	12.6%	\$ 9.66	24	231	122	122	122	
Thailand - Offshore	G5/43 - Songkhla A	21.4	100.0%	\$ 19.43	21	416	219	219	219	
Thailand - Offshore	Bua Ban Main G5/43	5.7	100.0%	\$ 19.43	6	111	58	58	58	
Thailand - Offshore	Bua Ban North	67.0	100.0%	\$ 19.33	67	1295	684	684	684	
					118.0	2,052	1,083	1,083	1,083	
Assets - Undeveloped										
Thailand - Offshore	Bua Ban North - Contingent	1.3	100.0%	\$ 16.44	0.98	16	8	8	11	
Thailand - Offshore	G5/43 - Songkhla A	9.5	100.0%	\$ 16.44	10	117	62	62	82	
Thailand - Offshore	Bua Ban North B-09	3.0	100.0%	\$ 10.08	3	23	12	12	16	
Thailand - Offshore	Songkhla H Oligocene	3.0	100.0%	\$ 16.44	3	37	20	20	26	
					16	193	102	102	136	
Assets - Corporate										
YE 2012 Net Cash (Debt)						340	179	179	179	
G&A (discounted 12.5%)						-131	-69	-69	-69	
Total 2P reserves at YE 2011 (MMboe)		115.0								
Core NAV						2,454	1,295	1,295		
Assets - Risked Upside										
Thailand - Offshore	Bua Ban Shale (part of Bua Ban South)	75.0	100.0%	\$ -	8	0	0	0	0	
Thailand - Offshore	Bua Ban North - Remaining Prospective	39.2	100.0%	\$ 9.62	9.80	94	50	50	199	
Thailand - Offshore	Bua Ban North A & B Miocene 100	6.4	100.0%	\$ 10.08	2	16	9	9	34	
Thailand - Offshore	Bua Ban North A&B Miocene 200	12.8	100.0%	\$ 10.08	3	32	17	17	68	
Thailand - Offshore	Bua Ban North A & B Miocene 300	8.5	100.0%	\$ 10.08	2	18	10	10	45	
Thailand - Offshore	Bua Ban North A&B Miocene 400	15.9	100.0%	\$ 10.08	4	37	20	20	85	
Thailand - Offshore	Bua Ban North A&B Miocene 500	17.3	100.0%	\$ 10.08	4	41	21	21	92	
Thailand - Offshore	Burried Hill - Pre-Tertiary	21.0	100.0%	\$ 10.08	5	50	26	26	112	
Thailand - Offshore	Songkhla G (Bua Ban South) - Lower Miocene	66.9	100.0%	\$ 10.08	17	166	87	87	356	
Thailand - Offshore	Western Flank Terrace (Bua Ban Terrace) - Lower Miocene	12.8	100.0%	\$ 10.08	3	26	14	14	68	
Thailand - Offshore	Western Flank Terrace (Bua Ban Terrace) - Lower & Upper Oligocene	11.6	100.0%	\$ 10.08	3	26	14	14	62	
Thailand - Offshore	Western Flank Terrace (Bua Ban Terrace) - Eocene	9.0	100.0%	\$ 10.08	2	17	9	9	48	
Thailand - Offshore	Songkhla A Extensions (previously Songkhla A)	17.8	100.0%	\$ 10.08	4	33	17	17	94	
Thailand - Offshore	Songkhla South A - Lower & Upper Oligocene - NEW	6.8	100.0%	\$ 10.08	2	11	6	6	36	
Thailand - Offshore	Songkhla South B - Lower & Upper Oligocene - NEW	20.0	100.0%	\$ 10.08	4	40	21	21	106	
Thailand - Offshore	G5/50 Lower & Upper Oligocene - NEW	14.0	100.0%	\$ 10.08	4	35	19	19	75	
Thailand - Offshore	Benjarong South	39.0	100.0%	\$ 10.08	4	39	21	21	208	
					92	784	414	213	2,059	
Options							14	7	7	
Net Risked Resources, Risked NAV & Unrisked NAV						109	3252	1717	1516	3396
Notes										
EMV - Expected Monetary Value - EMV= (Reward*C.o.S.) - [Capital at Risk*(1-C.o.S.)]							Fully Diluted (FD) Shares O/S (mm)	121.1	P/Core NAV	64%
Unrisked Value - Value that potentially could be realised if success was achieved on prospect.							CDN/USD	1.00	P/NAV (12m)	54%
							USD/GBP	1.56	P/Unrisked	24%

Source: FirstEnergy Capital Corp. and Company Reports

Valuation and Recommendation

- We have added the 3-4 mmbbl discovery associated to the Bua Ban North B-09 well to our valuation. However we have also revisited our models following a discussion with management with regards to cost structure. The net effect is broadly neutral in our valuation. We re-iterate our target price of £16.00 and we maintain our Top Pick recommendation.
- Trading at about a 30% discount to core NAV and offering over 75% upside to its target, with near term drilling catalysts at Bua Ban North B and Songkhla G, Coastal remains one of our preferred names.

Quarterly Information		2010e	2011e	2012e
Oil & Liquids Production	Q1	4,193	4,929	9,485
Bbl/d	Q2	5,415	4,615	8,996
	Q3	5,135	7,957	8,965
	Q4	5,273	7,478	8,498
	Avg.	5,007	6,256	8,985
Natural Gas Production	Q1	0.0	8.0	22.2
Mmc/d	Q2	0.0	7.7	21.6
	Q3	0.0	7.4	20.9
	Q4	0.0	7.1	20.3
	Avg.	0.0	7.6	21.2
Total Production	Q1	4,193	6,262	13,191
Boe/d	Q2	5,415	5,898	12,590
	Q3	5,135	9,192	12,452
	Q4	5,273	8,667	11,880
	Avg.	5,007	7,516	12,526
Cash Flow / Diluted Share	Q1	0.12	0.14	0.31
\$/Share	Q2	0.17	0.14	0.30
	Q3	0.17	0.23	0.31
	Q4	0.17	0.22	0.31
	Total	0.63	0.73	1.22
Earnings / Diluted Share	Q1	0.03	0.02	0.05
\$/Share	Q2	0.07	0.02	0.06
	Q3	0.06	0.05	0.06
	Q4	0.07	0.05	0.07
	Total	0.23	0.13	0.24

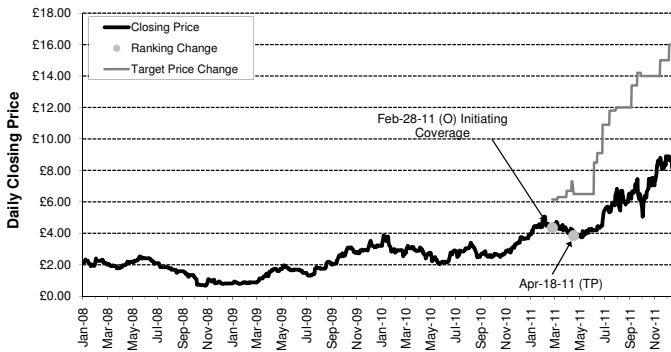
Source: FirstEnergy Capital Corp. and Company Reports

Disclosure Requirements

1. Is this an issuer related or industry related publication?
2. Does the analyst, a member of the analysts household, associate or employee who prepared this research report have a financial interest in securities of the subject issuer? If yes, nature of the interest and name:
3. Is FirstEnergy a market maker in the issuer's securities at the date of this report?
4. Does FirstEnergy beneficially own more than 1% of any class of common equity of the issuer?
5. Does FirstEnergy or the analyst have any actual material conflicts of interest with the issuer?
Explanation:
6. Does any director, officer, employee of FirstEnergy or member of their household serve as a director or officer or advisory capacity of the issuer? (if so, list name)
7. Did the analyst and/or associate who prepared this research report receive compensation based solely upon investment banking revenues?
8. Did the analyst receive any payment or reimbursement of travel expenses by the issuer?
9. Since July 9, 2002, has the analyst received any compensation based on a specific investment banking transaction relative to this issuer?
10. Has any director, officer or employee who prepared this research report received any compensation from the subject company in the past 12 months?
11. Has FirstEnergy provided the issuer or its predecessor with non-investment banking securities-related services in the past 12 months?
12. Has FirstEnergy managed or co-managed an offering of securities by the issuer or its predecessor in the past 12 months?
13. Has FirstEnergy received compensation for investment banking and related services from the issuer or its predecessor in the past 12 months?

Issuer
N
N
N
N
N
N
N
N
N
N
N
N
N
N
Y

Coastal Energy Company (AIM: CEO)
Ranking and Target Changes 2008 - 2011



RATING SYSTEM: T = Top Pick (Buy); O = Outperform (Buy); M = Market Perform (Hold); U = Underperform (Sell); SB = Speculative Buy (Buy); R = Under Review; * = Restricted; As of April 15, 2009 X = Tender; NR = Not Rated
Source: FirstEnergy Capital Corp. & Bloomberg

Ranking System

FirstEnergy's rating system reflects our outlook for expected performance of an issuer's equity securities relative to its peer group over the next 12 months.

- A Top Pick (Buy) rating represents a security expected to provide a return materially higher than the peer group average.
- An Outperform (Buy) rating represents a security expected to provide a return greater than the peer group average.
- A Market Perform (Hold) rating represents a security expected to provide a return in line with the peer group average.
- An Underperform (Sell) rating represents a security expected to provide a return less than the peer group average.
- A Speculative Buy (Buy) rating represents a security where the return potential is high, but the risk of a significant loss is material.
- A Tender (X) represents a security where investors are guided to tender to the terms of the takeover offer.

The author of this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject security and issuer.

The author of this reports further certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

FirstEnergy Capital may receive or intends to seek compensation for investment banking services from all issuers under research coverage within the next three months.

This report has not been approved by FirstEnergy Capital LLP for the purposes of section 21 of the Financial Services and Markets Act 2000 as it is being distributed only to persons who are investment professionals within the meaning of article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to, and should not be relied upon, by any other person.

Opinion: TOP PICK
12 MONTH TARGET PRICE: £16.00/C\$25.60

	<u>Ranking Distribution</u>	<u>% Investment Banking Clients</u>
Top Picks	9%	6%
Outperforms	50%	23%
Market Performs	25%	9%
Underperforms	3%	1%
Speculative Buys	11%	7%
Under Review	1%	1%
Restricted Companies	1%	1%
Tenders	1%	0%
Not Rated	0%	0%
Total	100%	