COASTAL CARIBBEAN OILS & MINERALS LTD
Form 10-Q
November 09, 2006

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2006**

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to _________________

Commission file number 1-4668

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| BERMUDA<br>(State or other jurisdiction of incorporation or organization) | NONE<br>(I.R.S. Employer Identification No.) |
| Clarendon House, Church Street, Hamilton, Bermuda<br>(Address of principal executive offices) | HM 11<br>(Zip Code) |

(850) 653-2732
(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (l) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of l934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. T Yes ¨ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes T No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes T No

The number of shares outstanding of the issuer's single class of common stock as of November 9, 2006 was 46,211,604.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**SEPTEMBER 30, 2006**

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**PART I - FINANCIAL INFORMATION**

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**PART I - FINANCIAL INFORMATION**

**ITEM 1 - Financial Statements**

**CONSOLIDATED BALANCE SHEETS**
(Expressed in U.S. dollars)

(A Bermuda Corporation)
A Development Stage Company

| **Assets** | September 30, 2006 (Unaudited) | December 31, 2005 (Note) |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 641,545 | $ 2,250,236 |
| Income taxes receivable | 35,000 | - |
| Prepaid expenses and other | - | 199,754 |
| Total current assets | 676,545 | 2,449,990 |
| | | |
| Certificate of deposit | 125,830 | 75,000 |
| Well drilling costs | 961,698 | - |
| Petroleum leases | 2,122,384 | 1,860,614 |
| Equipment, net | 10,234 | 1,771 |
| | | |
| Total assets | $ 3,896,691 | $ 4,387,375 |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 56,408 | $ 27,526 |
| Income taxes payable | - | 35,000 |
| Total current liabilities | 56,408 | 62,526 |
| | | |
| Shareholders' equity | | |
| Common stock, par value $.12 per share: | | |
| Authorized - 250,000,000 shares | | |
| Outstanding - 46,211,604, respectively | 5,545,392 | 5,545,392 |
| Capital in excess of par value | 32,137,811 | 32,137,811 |
| | 37,683,203 | 37,683,203 |
| Deficit accumulated during the development stage | (33,842,920) | (33,358,354) |
| Total shareholders' equity | 3,840,283 | 4,324,849 |
| Total liabilities and shareholders' equity | $ 3,896,691 | $ 4,387,375 |

Note: The balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date.

See accompanying notes.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**PART I - FINANCIAL INFORMATION**

**ITEM 1 - Financial Statements**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
(Expressed in U.S. dollars)

(A Bermuda Corporation)
A Development Stage Company
(unaudited)

| | Three months ended September 30, 2006 | Three months ended September 30, 2005 | Nine months ended September 30, 2006 | Nine months ended September 30, 2005 | For the period from Jan. 31, 1953 (inception) to September 30, 2006 |
|---|---|---|---|---|---|
| **Revenues** | $ - | $ - | $ - | $ - | $ - |
| **Expenses:** | | | | | |
| Legal fees and costs | 49,951 | 76,011 | 161,610 | 90,068 | 17,216,677 |
| Administrative expenses | 75,739 | 52,320 | 272,406 | 130,811 | 10,209,946 |
| Personnel | 39,050 | 44,291 | 104,150 | 93,810 | 3,971,981 |
| Shareholder communications | 11,924 | 12,524 | 16,776 | 24,584 | 4,092,685 |
| Write off of unproved properties | - | - | - | - | 5,560,494 |
| Exploration costs | - | - | - | - | 247,465 |
| Lawsuit judgments | - | - | - | - | 1,941,916 |
| Minority interests | - | - | - | - | (632,974) |
| Other | - | - | - | - | 364,865 |
| Contractual services | - | - | - | - | 2,155,728 |
| | 176,664 | 185,146 | 554,942 | 339,273 | 45,128,783 |
| **Other income (expense):** | | | | | |
| Gain on settlement (Note 4) | - | 8,125,900 | - | 8,125,900 | 8,124,016 |
| Goodwill impairment | - | (801,923) | - | (801,923) | (801,923) |
| Interest and other income | 8,913 | 21,657 | 35,376 | 21,657 | 3,963,670 |
| | 8,913 | 7,345,634 | 35,376 | 7,345,634 | 11,285,863 |
| **Income tax benefit (expense)** | 35,000 | (35,000) | 35,000 | (35,000) | - |
| **Net income (loss)** | **$ (132,751)** | **$ 7,125,488** | **$ (484,566)** | **$ 6,971,361** | |
| Deficit accumulated during the development stage | | | | | $ (33,842,920) |

| | | | | |
|---|---|---|---|---|
| Weighted average number of shares outstanding (basic & diluted) | 46,221,604 | 46,221,604 | 46,221,604 | 46,221,604 |
| Net loss per share (basic & diluted) | $ (.00) | $ .15 | $ (.01) | $ .15 |

See accompanying notes.

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**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1 - Financial Statements**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Expressed in U.S. Dollars)

(A Bermuda Corporation)
A Development Stage Company
(Unaudited)

| | Nine months ended September 30, 2006 | 2005 | For the period from Jan. 31, 1953 (inception) to September 30, 2006 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net income (loss) | $ (484,566) | $ 6,971,361 | $ (33,842,920) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Goodwill impairment | - | 801,923 | 801,823 |
| Gain on settlement | - | (8,125,900) | (8,124,016) |
| Write off of unproved properties | - | - | 5,619,741 |
| Depreciation | 2,100 | - | 2,220 |
| Minority interest | - | - | (632,974) |
| Common stock issued for services | - | - | 119,500 |
| Compensation recognized for stock option grant | - | - | 75,000 |
| Recoveries from previously written off properties | - | - | 252,173 |
| Net change in: | | | |
| Income taxes receivable | (35,000) | - | (35,000) |
| Prepaid expenses and other | 199,754 | 14,438 | - |
| Accounts payable and accrued liabilities | 28,882 | (2,337,420) | 56,408 |
| Income taxes payable | (35,000) | 35,000 | - |
| Net cash provided by (used in) operating activities | (323,830) | (2,640,598) | 35,708,045) |
| **Investing activities:** | | | |
| Additions to oil, gas, and mineral properties net of assets acquired for common stock and reimbursements | (333,907) | (143,023) | (5,934,703) |
| Well drilling costs | (889,561) | - | (889,561) |
| Drilling advances from joint interest owners | 632,432 | - | - |
| Net proceeds from settlement | - | 8,125,900 | 8,124,016 |
| Proceeds from relinquishment of surface rights | - | - | 246,733 |
| Purchase of certificate of deposit | (50,830) | (10,000) | (125,830) |

| | | | |
|---|---|---|---|
| Purchase of minority interest in CPC | - | (801,923) | (801,823) |
| Equipment purchases | (10,563) | (1,891) | (74,103) |
| Net cash provided by (used in) investing activities | (1,284,861) | 7,169,063 | 544,729 |
| | | | |
| **Financing activities:** | | | |
| Loans from officers | - | 31,500 | 111,790 |
| Repayment of loans to officers | - | (111,790) | (111,790) |
| Sale of common stock net of expenses | - | - | 30,380,612 |
| Proceeds from exercise of options | - | - | 884,249 |
| Sale of shares by subsidiary | - | - | 820,000 |
| Sale of subsidiary shares | - | - | 3,720,000 |
| Net cash provided by (used in) financing activities | - | (80,290) | 35,804,861 |
| | | | |
| Net increase (decrease) in cash and cash equivalents | (1,608,691) | 4,448,175 | 641,545 |
| Cash and cash equivalents at beginning of period | 2,250,236 | 179 | - |
| Cash and cash equivalents at end of period | $ 641,545 | $ 4,448,354 | $ 641,545 |

See accompanying notes.

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**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**PART I - FINANCIAL INFORMATION**

## ITEM 1 Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include Coastal Caribbean Oils & Minerals, Ltd. (the Company's), its wholly owned subsidiary, Coastal Petroleum Company (Coastal Petroleum) and Coastal Petroleum's wholly owned subsidiary, Williston Basin, Inc., and have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Note 2. Going Concern

As of September 30, 2006, the Company had no revenues, had recurring losses from operations and has had an accumulated deficit during the development stage. We, along with various other parties, settled several lawsuits in 2005, which were filed by the Company, our subsidiary Coastal Petroleum Company and others against the State of Florida (See Notes 3 and 5). All of these lawsuits were related to the State's actions limiting oil and gas exploration and development activities on land covered by our subsidiary's leases and by royalties held by the Company and others. The cost of that litigation was substantial. Management believes its current cash position will allow the Company to move forward to explore and develop profitable oil and gas operations, although there is no assurance these efforts will be successful.

Note 3. Litigation

Florida Case

In June 2005, the Company and others agreed to a final settlement of all claims and rights with the State of Florida (the State) for $12.5 million (the Agreement). The State paid out the settlement through an intermediary in July 2005. The total settlement and the amount received by the Company was as follows:

| | |
|---|---|
| Gross settlement proceeds | $ 12,500,000 |
| | |
| Distribution to other parties: | |
| Lykes Mineral Corporation | 1,390,000 |
| Outside Royalty Holders | 2,540,000 |
| Settlement Consultant | 465,000 |
| | |
| Gross proceeds to Coastal | 8,105,000 |
| | |

| | | |
|---|---|---|
| Purchase of other CPC shares | | 802,000 |
| Paid to Coastal Creditors | | 2,431,000 |
| Net proceeds to Company | $ | 4,872,000 |

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**PART I - FINANCIAL INFORMATION**

**ITEM 1 Financial Statements** (Continued)

Note 3. Litigation (Continued)

As part of the settlement, the Company acquired the remaining minority interests in its subsidiary, Coastal Petroleum for $802,000. As Coastal Petroleum had no tangible or intangible assets at the time the shares were acquired, the full purchase price was assigned to goodwill. The Company reviewed its goodwill related to Coastal Petroleum for impairment and determined the goodwill was fully impaired. Therefore, an impairment charge of $802,000 was made during the quarter ending September 30, 2005. The Company now owns 100% of Coastal Petroleum Company.

For the quarter ending September 30, 2005, the Company recorded a gain on its share of the settlement of $8,126,000 after deducting all direct settlement costs and costs to cancel various royalty rights related to the Florida leases.

Lease Taking Case (Lease 224-A)

This proceeding has been dismissed as part of the Agreement with the State.

Royalty Taking Case

This proceeding has been dismissed as part of the Agreement with the State.

Lease Taking Case (Lease 224-B)

This proceeding has been dismissed as part of the Agreement with the State.

Note 4. Net income (loss) per share

Net income (loss) per share is based upon the weighted average number of common and common equivalent shares outstanding during the period. The Company's basic and diluted calculations of EPS are the same because the exercise of options is not assumed in calculating diluted EPS, as the result would be anti-dilutive (for 2006, the Company reported a net loss; for 2005, the fair value of the common stock exceeded the option price at September 30, 2005).

Note 5. Oil & Gas Development Activity

Drilling Activity

The Company began drilling its initial well in north central Montana in January 2006 under a farm-in agreement with the mineral owner on acreage in Blaine County. The Company has capitalized $773,000 in drilling costs through September 30, 2006 and is currently in the process of completing and testing the well. The well hit the target Lodgepole reef, but the reef had been flushed with fresh water. Several other formations were drilled through that were prospective for oil or gas and all but one of them have been tested. The remaining formation will be tested after the Company completes the drilling of the twin well in Valley County which is currently the Company's primary focus. Drilling results will remain confidential until that process is complete.

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**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1 Financial Statements** (Continued)

Note 5. Oil & Gas Development Activity (Continued)

The Company has participated in and is acting as operator in a twin well to the only known well to produce from the Lodgepole in Montana. Drilling on the well began in early September and was expected to be completed within the month. However, delays and equipment difficulties have extended the drilling time and added to the cost of the well. The Company is still in the process of finishing the project and will provide results of the drilling when the project is complete and the results are available. The Company estimates its participation costs in the twin well to be $200,000. The total cost of the well is estimated to be $1 Million. The well is located in Valley County and the Company will be the operator until the well has reached production.

**Montana Leases**

The Company’s primary presence in Montana is in Valley County, where it holds leases covering 137,163.26 net acres, which the Company acquired in three separate acquisitions between July 2005 and February 2006. The leases acquired in those acquisitions are contiguous to each other and are referred to collectively as “the Valley County Leases.”

The first acquisition of the Valley County Leases was in July 2005, when the Company acquired the rights to drill two 6,500 foot wells to test Mississippian Lodgepole Reefs in Valley County, in northeast Montana for a one time fee of $50,000 from an entity controlled by one of the Company’s Directors. That acquisition included a small amount of acreage and the option to drill fifty additional prospects in the Valley County area.

The second acquisition of the Valley County Leases was in November 2005, when the Company acquired a group of oil and gas lease rights to approximately 109,423.26 net acres in eastern Montana for $1,568,000 from EOG Resources, Inc. and Great Northern Gas Company. These leases are subject to various overriding royalty interests to others ranging up to 19.5%. These leases expire in years from 2007 to 2014.

The final acquisition of acreage within the Valley County Leases was in February 2006, when the Company acquired additional oil and gas leases in eastern Montana covering 27,740 net acres contiguous to its existing Montana leases. These leases were acquired from the Bureau of Land Management and United States Department of the Interior.

The Company has an agreement with a consultant entity, controlled by one of the Company’s Directors, to identify Mississippian Lodgepole Reef prospects to be drilled on and near its Valley County Leases. Previously under the agreement, the Company was required to drill a test well on an identified Lodgepole Reef prospect by a certain time, however, there is no longer a drilling obligation under the agreement.

The Company has received four permits to drill on its Valley County Leases. The Company estimates the cost to drill a test well on the Valley County Leases to be approximately $800,000 and the Company is seeking partners to participate for the bulk of expenditures.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1 Financial Statements** (Continued)

Note 5. Oil & Gas Development Activity (Continued)

**North Dakota Leases**

In July 2005, the Company acquired leases to the deeper rights in approximately 21,688 net acres in and near Slope County, North Dakota for a one time fee of $50,000 from an entity controlled by one of the Company's Directors. Since that time, some of the leases have expired and the Company currently holds leases on 7,671.68 gross and net acres in Slope County. The Company is obligated to drill a test well before January 15, 2007, and has the option to drill the remaining Lodgepole Reef prospects on these leases. The Company intends to partner with other entities to share the cost of the initial 9,700 foot test well the total estimated drilling cost of which is estimated to be $1,200,000.

**Florida Leases**

The Florida Leases were surrendered to Florida as a part of the 2005 Agreement with Florida and are no longer held by the Company.

Prior to 2005, Coastal Petroleum held three unproved and nonproducing oil, gas and mineral leases granted by the Trustees of the Internal Improvement Fund of the State of Florida (Trustees). These leases covered submerged and unsubmerged lands, principally along the Florida Gulf Coast, and certain inland lakes and rivers throughout the State. The two leases bordering the Gulf Coast were divided into three areas, each running the entire length of the coastline from Apalachicola Bay to the Naples area. Coastal Petroleum held certain royalty interests in the inner area, no interest in the middle area and a 100% working interest in the outside area. Coastal Petroleum also held a 100% working interest in Lake Okeechobee, and a royalty interest in other areas. Coastal Petroleum had agreed not to conduct exploration, drilling, or mining operations on said lake, except with prior approval of the Trustees.

Note 6. Income Taxes

For the three and nine months ended September 30, 2006, the Company reported a loss for both financial statement reporting and income tax purposes. For the three and six months ended September 30, 2005, the Company reported a net income for financial statement reporting, but reported a net loss for income tax purposes due to the utilization of net operating loss carryforwards. The Company has provided a 100% valuation allowance on its deferred tax asset as a result of its net operating loss carryforwards. The Company has approximately $8,800,000 in net operating loss carryforwards at December 31, 2005.

Note 7. Related Party Transactions

Pursuant to a written agreement with respect to the Valley County Leases, the Company uses an entity controlled by an individual who is a shareholder, officer and director of the company to perform geotechnical analysis of potential drilling sites at a cost of $1,000 per site. The Company capitalized $60,720 and $36,341 paid to this entity for the nine months ended September 30, 2006 and 2005, respectively.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1 Financial Statements** (Continued)

Note 7. Related Party Transactions (Continued)

The Company pays a monthly retainer to the law firm of Angerer & Angerer. The principals of the law firm include two individuals who are collectively shareholders, officers and a director of the Company. The Company expensed $108,000 and $36,000 in legal fees for the nine months ended September 30, 2006 and 2005, respectively.

The Company has retained the law firm of Igler & Dougherty, P.A. as securities counsel. One of the Company’s directors is a shareholder in the law firm. The Company has expensed $43,640 and $33,785 in legal fees and costs for the nine months ended September 30, 2006 and 2005 respectively.

**ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward Looking Statements**

Statements included in Management’s Discussion and Analysis of Financial Condition and Results of Operations, which are not historical in nature are intended to be forward looking statements. The Company cautions readers that forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements. Among the risks and uncertainties are: the uncertainty of securing additional financing through the sale of shares of Coastal Petroleum and/or Coastal Caribbean; changes in the income tax laws relating to tax loss carry forwards; the failure of the Company’s test wells to locate oil or gas reserves or the failure to locate oil or gas reserves which are economically feasible to recover; reductions in world wide oil or gas prices; adverse weather conditions; or mechanical failures of equipment used to explore the Company’s leases.

**Critical Accounting Policies**

The Company follows the full cost method of accounting for its oil and gas properties. All costs associated with property acquisition, exploration and development activities whether successful or unsuccessful are capitalized

The capitalized costs are subject to a ceiling test which basically limits such costs to the aggregate of the estimated present value discounted at a 10% rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

The Company assesses whether its unproved properties are impaired on a periodic basis. This assessment is based upon work completed on the properties to date, the expiration date of its leases and technical data from the properties and adjacent areas.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations** (Continued)

**Liquidity and Capital Resources**

**Liquidity**

The Company has $642,000 in available cash, excluding certificate of deposits pledged for drilling permits, at September 30, 2006 compared to $2,250,000 at December 31, 2005. The Company is current with all its vendors and has no loans outstanding.

As of September 30, 2006, the Company had no revenues, had recurring losses prior to 2005 and had an accumulated deficit during the development stage. We, along with others, settled several lawsuits in June 2005, which were filed by the Company, our subsidiary Coastal Petroleum Company and others against the State of Florida (See Notes 3 and 5). All of these lawsuits were related to the State's actions limiting our ability to commence development activities through our subsidiary. The cost of that litigation was substantial. Management believes its current cash position will allow the Company to move forward to explore and develop profitable oil and gas operations, although there is no assurance these efforts will be successful.

The Company acquired oil and gas leasing rights for 25,000 acres in Slope County North Dakota and for two well sites in Valley County, Montana for $100,000 from an entity controlled by one of the Company's directors. Since that time, some of the leases have expired and the Company currently holds leases on 7,671.68 gross and net acres in Slope County. The leases include an option to drill for additional prospects in the Valley County area. The leases provide for a 25% working interest, 20% net revenue interest in each well, on a well by well basis, to an entity controlled by one of the Company's directors. The leases are also subject to the overriding royalty interest of the landowner. The Company expects its share of the cost to drill the three initial wells to be approximately $1.5 million over the next twelve months.

In February 2006, the Company acquired new oil and gas leases in eastern Montana covering 27,496 acres contiguous to its existing Montana leases. These leases were acquired from the Bureau of Land Management and United States Department of the Interior. The Company now holds leases in Valley County covering a total of 137,163.26 net acres. The Company has also received four permits to drill on its Valley County Leases and continues to seek partners to share the cost of wells it intends to drill over the next year.

In January 2006, the Company drilled its first well in north central Montana under a farm-in agreement with the mineral owner on acreage in Blaine County. The Company has capitalized $773,000 in drilling costs through September 30, 2006 and is currently in the process of completing and testing the well. The well hit the target Lodgepole reef, but the reef had been flushed with fresh water. Several other formations were drilled through that were prospective for oil or gas and all but one of them have been tested. The remaining formation will be tested after the Company completes the drilling of the twin well in Valley County which is currently the Company's primary focus. The drilling results will remain confidential until that process is complete.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations** (Continued)

**Liquidity and Capital Resources** (Continued)

The Company has participated in and acted as operator in a twin well to the only known well to produce from the Lodgepole in Montana. Drilling on the well began in early September and was expected to be completed within the month. However, delays and equipment difficulties (for example having to wait three weeks for a service rig) have extended the drilling time and added to the cost of the well. The Company is still in the process of finishing the project and will provide results of the drilling when the project is complete and the results are available. The Company estimates its participation costs in the twin well to be $200,000. The well is located in Valley County and the Company will be the operator until the well reaches production. The well is expected to be completed by December 31, 2006.

**Results of Operations**

**Nine months ended September 30, 2006 vs. September 30, 2005**

In June 2005, we settled all our legal actions with the State of Florida and realized a gain of $8,124,000 in July 2005. Prior to June 2005, we expensed all our oil and gas property lease costs as impaired as well as substantial legal costs.

Prior to June 2005, we had been working toward resolution of our legal actions against the State of Florida, and we continued to suffer declining financial condition and a lack of resources to continue pursuing expensive and lengthy litigation. We minimized expenses, deferred payments and borrowed funds from our officers to maintain our legal efforts against the State of Florida.

Since June 2005, we have actively acquired oil and gas leases in North Dakota and Montana and we began drilling our first well in January 2006.

Our interest income increased in 2006 due to the short-term investment of cash received from the settlement. We had no such investments until July 2005.

During 2005, we attempted to minimize all other operating expenses. For 2005, we had one employee, and maintained legal counsel on a monthly retainer and maintained our minimum periodic reporting obligations. During 2006, almost all our operating costs increased due to our lease acquisitions and well drilling activity in North Dakota and Montana resulting in significant increases in travel and lodging costs. We also added Company directors, increased director compensation, added director liability insurance and hired an additional administrative employee. Our legal expenses increased in 2006 due to our entering various lease and other contracts and for drafting documents to solicit drilling partners.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**PART I - FINANCIAL INFORMATION**

**ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations** (Continued)

**Three months ended September 30, 2006 vs. September 30, 2005**

In June 2005, we settled all our legal actions with the State of Florida and realized a gain of $8,124,000 in July 2005. Prior to June 2005, we expensed all our oil and gas property lease costs as impaired as well as substantial legal costs.

Prior to June 2005, we had been working toward resolution of our legal actions against the State of Florida, and we continued to suffer declining financial condition and a lack of resources to continue pursuing expensive and lengthy litigation. We minimized expenses, deferred payments and borrowed funds from our officers to maintain our legal efforts against the State of Florida.

Since June 2005, we have actively acquired oil and gas leases in North Dakota and Montana and we began drilling our first well in January 2006.

Our interest income decreased in 2006 due to the reduction in short-term investments of cash received from the settlement from 2005 due to drilling and operating expenses.

During 2005, we attempted to minimize all other operating expenses. For 2005, we had one employee, and maintained legal counsel on a monthly retainer and maintained our minimum periodic reporting obligations. During 2006, almost all our operating costs increased due to our lease acquisitions and well drilling activity in North Dakota and Montana resulting in significant increases in travel and lodging costs. We also added Company directors, increased director compensation, added director liability insurance and hired an additional administrative employee. Our legal expenses increased in 2006 due to our entering various lease and other contracts and for drafting documents to solicit drilling partners.

**ITEM 3 Quantitative and Qualitative Disclosure About Market Risk**

The Company does not have any significant exposure to market risk as there were no investments in marketable securities at September 30, 2006.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**PART I - FINANCIAL INFORMATION**

## ITEM 4 Controls and Procedures

I, Phillip W. Ware, the principal executive officer and the principal financial officer, have evaluated the Company’s disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) adopted under the Securities Act of 1934) as of the end of the period covered by this report and have concluded:

1. That the Company’s disclosure controls and procedures are effective and adequately designed to ensure that material information relating to the Company, including its consolidated subsidiary, is timely made known to such officers by others within the Company and its subsidiary, particularly during the period in which this quarterly report is being prepared; and

2. That there were no significant changes in the Company’s internal controls or in other factors that could materially affect or are reasonably likely to materially affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

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**PART II - OTHER INFORMATION**

**September 30, 2006**

**ITEM 5 Other Information**

Coastal Caribbean is currently a passive foreign investment company, or PFIC, for United States federal income tax purposes, which could result in negative tax consequences to a shareholder. If, for any taxable year, the Company's passive income or assets that produce passive income exceed levels provided by U.S. law, the Company would be a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes. For the years 1987 through 2001, Coastal Caribbean's passive income and assets that produce passive income exceeded those levels and for those years Coastal Caribbean constituted a PFIC. If Coastal Caribbean is a PFIC for any taxable year, then the Company's U.S. shareholders potentially would be subject to adverse U.S. tax consequences of holding and disposing of shares of our common stock for that year and for future tax years. Any gain from the sale of, and certain distributions with respect to, shares of the Company's common stock, would cause a U.S. holder to become liable for U.S. federal income tax under section 1291 of the Internal Revenue Code (the interest charge regime). The tax is computed by allocating the amount of the gain on the sale or the amount of the distribution, as the case may be, to each day in the U.S. shareholder's holding period. To the extent that the amount is allocated to a year, other than the year of the disposition or distribution, in which the corporation was treated as a PFIC with respect to the U.S. holder, the income will be taxed as ordinary income at the highest rate in effect for that year, plus an interest charge.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**PART II - OTHER INFORMATION**

**September 30, 2006**

**ITEM 6 Exhibits**

| | |
|---|---|
| 31.1 | Certification pursuant to Rule 13a-14 by Phillip W. Ware |
| 32.1 | Certification pursuant to Section 906 by Phillip W. Ware |

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**

**FORM 10-Q**

**September 30, 2006**

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**
Registrant

Date: November 9, 2006

By /s/ Phillip W. Ware

Phillip W. Ware
Chief Executive Officer,
President and Treasurer

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