

COASTAL CARIBBEAN OILS & MINERALS LTD
Form 10-Q
May 13, 2003

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

FORM 10-Q

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

For the quarterly period ended MARCH 31, 2003

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

NONE

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

Clarendon House, Church Street, Hamilton, Bermuda

HM 11

(Address of principal executive offices)

(Zip Code)

441-295-1422

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 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. Yes No

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

The number of shares outstanding of the issuer's single class of common
stock as of May 12, 2003 was 46,211,604.

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

MARCH 31, 2003

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1 Financial Statements

Consolidated balance sheets at March 31, 2003 and December 31, 2002

Consolidated statements of operations for the three month periods ended March 31, 2003 and 2002 and for the period from January 31, 1953 (inception) to March 31, 2003

Consolidated statements of cash flows for the three month periods ended March 31, 2003 and 2002 and for the period from January 31, 1953 (inception) to March 31, 2003

Notes to consolidated financial statements

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

ITEM 3 Quantitative and Qualitative Disclosure About Market Risk

ITEM 4 Controls and Procedures

PART II - OTHER INFORMATION

ITEM 5 Other Information

ITEM 6 Exhibits and Reports on Form 8-K

Signatures

Rule 13a-14 Certifications

2

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

March 31, Dece

2003

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 93,929	\$
Interest and accounts receivable	872	
Notes receivable	--	
Prepaid expenses	322,508	

Total current assets	417,309	

Contingent litigation claim (Note 4)	--	

Total assets	\$ 417,309	\$
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 835,809	\$
Due to related parties	690,450	

Total current liabilities	1,526,259	1
	-----	-----
Minority interests	--	
Shareholders' deficit:		
Common stock, par value \$.12 per share:		
Authorized - 250,000,000 shares		
Outstanding - 46,211,604 and 46,211,604 shares, respectively	5,545,392	5
Capital in excess of par value	32,117,811	32
	-----	-----
	37,663,203	37
Deficit accumulated during the development stage	(38,772,153)	(38)
	-----	-----
Total shareholders' deficit	(1,108,950)	

Total liabilities and shareholders' deficit	\$ 417,309	\$
	=====	=====

Note: The balance sheet at December 31, 2002 has been derived from the audited consolidated financial statements at that date.

See accompanying notes.

3

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)

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

A Development Stage Company
(unaudited)

	Three months ended March 31,	
	2003	2002
INTEREST AND OTHER INCOME	\$ 453	\$ 3,662
EXPENSES:		
Legal fees and costs	119,932	316,432
Administrative expenses	169,103	193,755
Salaries	34,117	37,950
Shareholder communications	6,345	9,028
Write off of unproved properties	--	--
Exploration costs	--	--
Lawsuit judgments	--	--
Minority interests	--	--
Other	--	--
Contractual services	--	--
	329,497	557,165
NET LOSS	\$ (329,044)	\$ (553,503)
Deficit accumulated during the development stage		
Average number of shares outstanding (basic & diluted)	46,211,604	43,468,329
Net loss per share (basic & diluted)	\$ (.01)	\$ (.01)

See accompanying notes.

4

COASTAL CARIBBEAN OILS & MINERALS, LTD.
FORM 10-Q
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)

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

	Three months ended March 31,	
	2003	2002
OPERATING ACTIVITIES:		
Net loss	\$ (329,044)	\$ (55,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest	--	--
Write off of unproved properties	--	--
Common stock issued for services	--	--
Compensation recognized for stock option grant	--	--
Recoveries from previously written off properties	--	--
Net change in:		
Interest and accounts receivable	3,196	6,000
Prepaid expenses	88,126	29,000
Accounts payable and accrued liabilities	(10,444)	(14,000)
Deferred financing costs	--	(14,000)
Net cash used in operating activities	(248,166)	(33,000)
INVESTING ACTIVITIES:		
Additions to oil, gas, and mineral properties net of assets acquired for common stock and reimbursements	--	--
Proceeds from relinquishment of surface rights	--	--
Purchase of fixed assets	--	--
Net cash used in investing activities	--	--
FINANCING ACTIVITIES:		
Sale of common stock net of expenses	--	--
Shares issued upon exercise of options	--	--
Sale of shares by subsidiary	50,000	--
Sale of subsidiary shares	--	--
Net cash provided by financing activities	50,000	--
Net (decrease) increase in cash and cash equivalents	(198,166)	(33,000)
Cash and cash equivalents at beginning of period	292,095	60,000
Cash and cash equivalents at end of period	\$ 93,929	\$ 27,000

See accompanying notes.

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

ITEM 1 FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the Company's 58.84% owned subsidiary, Coastal Petroleum Company (Coastal Petroleum) 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 month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002.

Note 2. Litigation

Florida Litigation

Coastal Petroleum has been involved in various lawsuits for many years. Coastal Petroleum's current litigation (Florida Litigation) now involves one basic claim: whether the State's denial of a permit constitutes a taking of Coastal Petroleum's property. In addition, Coastal Caribbean is a party to another action in which Coastal Caribbean claims that certain of its royalty interests have been confiscated by the State.

In 1990, the State of Florida enacted legislation that prohibits drilling or exploration for oil or gas on Florida's offshore acreage. Although the law does not apply to areas where Coastal Petroleum is entitled to conduct exploration, the State of Florida has effectively prevented any exploratory drilling by denying the Company's application for drilling permits. In addition, in those areas where Coastal Petroleum has only a royalty interest, the law also effectively prohibits production of oil and gas, rendering it impossible for Coastal Petroleum to collect royalties from those areas. During 1998, Coastal Petroleum exhausted its legal remedies in its efforts to obtain compensation for the drilling prohibition on its royalty interest acreage.

Lease Taking Case (Lease 224-A)

On June 26, 2000, the First District Court of Appeal affirmed an earlier ruling that the Florida Department of Environmental Protection (DEP) could deny Coastal Petroleum a permit to drill an exploratory well about nine miles south of St. George Island in the Florida Panhandle. While the appeals court held that the DEP could take such action on the basis of a compelling public purpose in not allowing offshore oil and gas drilling in Florida, the court also found that the DEP's action would be unconstitutional "if just compensation is not paid for what is taken." The

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

ITEM 1 FINANCIAL STATEMENTS

appeals court stated that whether the denial of the permit constituted a taking of Coastal Petroleum's property should be determined by the Circuit Court.

On January 16, 2001, Coastal Petroleum Company filed a complaint in the Leon County Circuit Court in Florida against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its Lease 224-A.

On February 13, 2001, certain holders of royalties pertaining to Lease 224-A filed a Motion to Intervene as Additional Plaintiffs. On April 24, 2001, the Leon County Circuit trial judge granted certain royalty holders with overriding royalties, which aggregate approximately 4% on State Lease 224-A, the right to intervene on a limited basis in the takings lawsuit. On May 22, 2001, the royalty holders appealed the Circuit Court's order granting them limited intervention to the First District Court of Appeal, claiming the order denied them the right to fully participate in the case until after final judgment and that the court erroneously found that the royalty holders lack an ownership interest in Coastal Petroleum's lease. On June 12, 2001, the Court of Appeal ordered the royalty holders to show cause why the appeal should not be dismissed for lack of jurisdiction. The royalty holders filed a response to the Court of Appeal on June 21, 2001, Coastal Petroleum filed its reply on July 2, 2001 and the State of Florida filed its reply on July 5, 2001. The Court of Appeal dismissed the appeal without jurisdiction on March 28, 2002.

Counsel for the appealing royalty holders has advised Coastal Petroleum that the royalty holders' position is that their interest is worth substantially more than 4% of whatever judgment may be awarded to Coastal Petroleum in the litigation and that they intend to make a claim against any recovery Coastal Petroleum may obtain in the litigation. Coastal Petroleum has informed the Circuit Court and counsel for the royalty holders that Coastal Petroleum is not making any claim in the litigation on behalf of any interest the royalty holders may have.

On October 8, 2002, after a two week trial the trial court in the takings litigation orally ruled from the bench that the State's denial of a permit to drill on Coastal Petroleum's Lease 224-A did not constitute an unlawful taking of Coastal Petroleum's property. On November 15, 2002, the trial court issued its Final Judgment that the State's denial of a permit to drill on Coastal Petroleum's Lease 224-A did not constitute an unlawful taking of Coastal Petroleum's property. Coastal Petroleum Company filed a notice of appeal of the Final Judgment to the Florida First District Court of Appeal on November 18, 2002 and filed its initial brief on February 10, 2003. The intervenors (described above) joined the appeal of the Final Judgment and appealed the ruling on their motion to intervene. The intervenors filed their brief on February 10, 2003. The DEP filed their Answer Brief on March 21, 2003, the State Trustees filed its Answer Brief on March 7, 2003, and Coastal filed an Answer Brief to the intervenors on March 7, 2003. In response to the State's Motion to Strike Coastal's Answer Brief, the Court struck all briefs except Coastal's Initial Brief, treated the intervenors' appeal as separate, consolidated the appeals and reset the briefing schedule. The intervenors' filed their Initial Briefs on April 28, 2003. The Answer Briefs of Coastal and the State are due on May 23, 2003.

On December 13, 2002, the State filed a motion for an order by the trial court by which the State seeks to recover \$178,315 from Coastal Petroleum, including expert witness fees, deposition costs and copying costs. On December 20, 2002, Coastal Petroleum filed objections

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

and responses to the State's motion, objecting to the costs and requesting an evidentiary hearing. In the opinion of Company's litigation counsel, the State's motion for fees and costs is without merit. On April 9, 2003, the State agreed not to pursue its motion until after conclusion of the appeal in this case. An award of costs by the trial court against Coastal Petroleum could be appealed by either party. Coastal Petroleum also would have the right to seek an automatic stay of any cost award rendered against it pending appeal of the award, by the posting of a bond deemed sufficient by the trial court.

Royalty Taking Case

The offshore areas covered by Coastal Petroleum's original leases (prior to the 1976 Settlement Agreement) are subject to certain other royalty interests held by third parties, including Coastal Caribbean. In 1994, several of those third parties, including Coastal Caribbean which has approximately a 12% interest in any recovery, have instituted a separate lawsuit against the State. That lawsuit claims that the royalty holders' interests have been confiscated as a result of the State's actions discussed above and that they are entitled to compensation for that taking.

The royalty holders were not parties to the 1976 Settlement Agreement, and the royalty holders contend that the terms of the Settlement Agreement do not protect the State from taking claims by those royalty holders. The case is currently pending before the Circuit Court in Tallahassee. On December 2, 1999, the Circuit Court denied the State's motion to dismiss the plaintiffs' claim of inverse condemnation but dismissed several other claims.

On May 10, 2000, the State filed a motion for summary judgment but no hearing date has been set for the motion. Discovery is proceeding.

Any recovery made in the royalty holders' lawsuit would be shared among the various plaintiffs in that lawsuit, including Coastal Caribbean, but not Coastal Petroleum.

Lease Taking Case (Lease 224-B)

On May 21, 2002, Coastal Petroleum filed a complaint in the Leon County Circuit Court, Florida against the State of Florida seeking compensation for the State's alleged taking of its property rights to explore for oil and gas within its State Lease 224-B. The lease encompasses more than 400,000 acres off the West Coast of Florida in the Gulf of Mexico. On July 22, 2002, a motion by the State of Florida to dismiss the case was heard. The court denied the State's motion to dismiss the case on August 30, 2002. The case is currently pending and is in the discovery stage.

On March 28, 2003, the State filed a motion to stay the proceeding until the appeal of Lease 224-A is completed. A hearing before the trial judge was held on May 1, 2003, at which Coastal objected to the stay unless the stay was conditioned upon the suspension of Coastal's lease obligation. The judge gave parties 10 days to resolve the issue by agreement or he would enter an order resolving it. As of May 13, 2003, the judge has not yet resolved this issue.

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Note 3. Loss per share

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 (the Company has continuing losses).

Note 4. Stock Options

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) and related interpretations in accounting for its stock options because the alternative fair value accounting provided under FASB Statement No. 123, "Accounting for Stock Based Compensation," requires use of option valuation models that were not developed for use in valuing stock options. Under APB No. 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model.

Summary of Options Outstanding at March 31, 2003

Granted	Expiration	Total	Vested	Exercise Prices (\$)
-----	-----	-----	-----	-----
1998	May 19, 2003	225,000	225,000	2.625
2000	March 22, 2010	700,000	700,000	.91
		-----	-----	-----
		925,000	925,000	(\$1.33
		=====	=====	Weighted Average)
Options reserved for future grants		75,000		

The assumptions used in the 2000 valuation model were: risk free interest rate - 6.66%, expected life - 10 years, expected volatility - .741, and expected dividend - 0. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Had the Company determined stock-based compensation based on the fair value of

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

the options granted at the grant date, consistent with the method prescribed under SFAS No. 123, there would have been no change to the Company's net loss for the three months ended March 31, 2003 and 2002.

Note 5. Going Concern

The Company has a working capital deficiency, has a limited amount of cash, has incurred recurring losses and has a deficit accumulated during the development stage. Furthermore, on January 16, 2001, Coastal Petroleum Company filed a complaint in the Leon County Circuit Court in Florida against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its Lease 224-A. On November 15, 2002, the trial court issued its Final Judgment that the State's denial of a permit to drill on Coastal Petroleum's Lease 224-A did not constitute an unlawful taking of Coastal Petroleum's property. The Company is currently in the process of appealing the court's ruling. The cost of that litigation has been substantial and has required the Company to obtain additional capital. On March 10, 2003, Coastal Petroleum sold 2 shares of its common stock to a non-shareholder of Coastal Petroleum for \$50,000. This amount has been included as an increase to additional paid-in capital. The sale of additional shares of Coastal Petroleum common stock to this and other parties is being pursued although to date, no binding agreements have been entered into.

With the amount of cash on hand at March 31, 2003, the Company should be able to fund its operations through June 30, 2003, provided that the Company's directors, certain of its officers, legal counsel and administrative consultants agree to continue to defer the payment of all of their past and current salaries and fees. As of March 31, 2003, the amount of salaries and fees deferred totaled approximately \$1,443,000. Because the proceeds from offerings of the Company's common stock have been inadequate to fund the Company's capital needs, the Company is exploring other possible funding sources, particularly the other shareholders of Coastal Petroleum. These situations raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of these uncertainties.

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

9

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 OPERATION (CONT'D)

statements. The Company cautions readers that forward looking statements are subject to certain risks and uncertainties that could cause actual results to

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

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; the uncertainty of any decision favorable to Coastal Petroleum in its litigation against the State of Florida; and the substantial cost of continuing the litigation.

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. Since the Company's properties were undeveloped and nonproducing and the subject of litigation, capitalized costs were not being amortized.

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. These properties are subject to extensive litigation with the State of Florida.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

In July 2002 Coastal Caribbean concluded a rights offering and sold 2,743,275 shares of common stock for \$.50 per share and received net proceeds of approximately \$900,000.

At March 31, 2003, Coastal Caribbean had approximately \$94,000 of cash available. Management believes that this amount should be sufficient to fund the Company's operations through June 30, 2003, provided that payments to the Company's litigation counsel and to the Company's salaried employee are deferred and provided further that payments to other Company counsel are also deferred. In addition, an estimated amount of approximately \$185,000 would be necessary to fund the Company's operations through December 31, 2003, assuming these deferrals continue. This amount would be approximately \$650,000 if such deferrals do not continue. After June 30, 2003, the Company may have to suspend or cease operations and may have to file for bankruptcy under the laws of Bermuda unless and until the Company can secure additional financing. The Company's current cash is expected to be used for general corporate purposes, and to continue the litigation against the State of Florida.

10

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 OPERATION (CONT'D)

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

Certain directors, officers, legal counsel and administrative consultants have agreed to defer the payment of their salaries and fees. At March 31, 2003, the amount of salaries and fees being deferred totaled approximately \$1,443,000.

Coastal Caribbean has a working capital deficiency, has a limited amount of cash, has incurred recurring losses and has a deficit accumulated during the development stage. On January 16, 2001, Coastal Petroleum filed a complaint in the Leon County Circuit Court in Florida against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its Lease 224-A. On November 15, 2002, the Trial Court issued its Final Judgment that the State's denial of a permit to drill on Coastal Petroleum's Lease 224-A did not constitute an unlawful taking of Coastal Petroleum's property. The cost of that litigation has been substantial and will require the Company to obtain additional capital.

Since October 2002, Coastal Caribbean and Coastal Petroleum have attempted to raise funds from the other shareholders of Coastal Petroleum and from others. With the exception of the sale in the first quarter by Coastal Petroleum of two shares of its common stock for \$25,000 per share to a non-shareholder of Coastal Petroleum and non-binding indications of interest in purchasing shares from Coastal Petroleum by other potential purchasers, those efforts have been unsuccessful.

During the three months ended March 31, 2003 the Company made the following cash expenditures.

Angerer and Angerer (Litigation Counsel)	\$ 80,443
Philip Ware (President)	23,001
Transfer Agent	6,000
Ernst & Young - Accountants	20,000
Directors & Officers Insurance	85,908
Daniel Sharp (Chief Financial Officer)	21,762
Payroll Taxes	1,761
Office Expenses	6,433
Miscellaneous	3,968

Total	\$249,276
	=====

11

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 OPERATION (CONT'D)

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

If the Company does not raise additional capital prior to June 30, 2003 the Company will discontinue payments during the second quarter ending June 30, 2003 to Angerer & Angerer and Mr. Philip Ware. The Company expects to make a cash payment of approximately \$27,000 for directors and officers insurance during the second quarter.

In the event the lease obligations are not suspended, if the Company does not raise additional capital before the annual rentals on the leases are due, it will be unable to make an annual rental payment on its Florida lease of \$59,000 which was last paid in July, 2002.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2003 VS. MARCH 31, 2002

The Company incurred a loss of \$329,000 for the 2003 quarter, compared to a loss of \$554,000 for the comparable 2002 quarter.

INTEREST INCOME AND OTHER INCOME DECREASED 85% from \$3,700 in the 2002 quarter to \$500 in the 2003 quarter because of the decrease in the amount of funds available to invest.

LEGAL FEES AND COSTS DECREASED 62% to \$120,000 for the 2003 quarter, compared to \$316,000 in the prior period. Legal fees and costs were higher in the 2002 period as a result of Coastal Petroleum Company's lawsuit against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its state Lease 224-A, particularly the preparation for the trial in the litigation, which commenced in September, 2002. Legal fees and costs continue to be incurred, although at a reduced level, as the Company appeals the adverse decision which was handed down by the court in October, 2002.

ADMINISTRATIVE EXPENSES DECREASED 13% during the 2003 period to \$169,000 compared to \$194,000 in the 2002 period. Accounting and administrative expenses decreased from \$60,000 in the 2002 period to \$25,000 in the 2003 period because of the costs associated with various filings with the Securities and Exchange Commission made in 2002. Offsetting this was an increase in the cost of Directors' and Officers' liability insurance from \$59,000 in 2002 to \$84,000 in the 2003 quarter.

SALARIES DECREASED 11% in the 2003 quarter to \$34,000 compared to \$38,000 in the 2002 quarter as a result of the resignation of the President of the Company effective February 28, 2003. The Company's other salaried employee was elected President on March 1, 2003 without any increase in compensation.

SHAREHOLDER COMMUNICATIONS DECREASED 33% during the 2003 period to \$6,000 from \$9,000 in the 2002 period because the Company reduced its shareholder communications expenses to conserve its cash resources.

12

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

PART I - FINANCIAL INFORMATION

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

The Company does not have any significant exposure to market risk as there were no investments in marketable securities at March 31, 2003.

ITEM 4 CONTROLS AND PROCEDURES

We, Phillip W. Ware, the principal executive officer and Daniel W. Sharp, 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) within the ninety (90) day period prior to the date of this report and have concluded:

1. That the Company's disclosure controls and procedures are 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 significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

13

COASTAL CARIBBEAN OILS & MINERALS, LTD.
FORM 10-Q
PART II - OTHER INFORMATION

MARCH 31, 2003

ITEM 5 - OTHER INFORMATION

In Coastal's current appeal of the November 15, 2002 Final Judgment entered by the trial court finding no taking of Coastal's Lease 224-A, Coastal filed its Initial Brief on January 27, 2003 and the intervenors filed their Initial Brief on February 10, 2003. The DEP filed their Answer Brief on March 21, 2003, the State Trustees filed its Answer Brief on March 7, 2003, and Coastal filed an Answer Brief to the intervenors on March 7, 2003. In response to the State's Motion to Strike Coastal's Answer Brief, the Court struck all briefs except for Coastal's Initial Brief, treated the intervenors' appeal as a separate appeal, consolidated the appeals and reset the briefing schedule. The intervenors' filed their Initial Briefs on April 28, 2003. The Answer Briefs of Coastal and the State are due on May 23, 2003.

The only matter from the inverse condemnation trial on Lease 224-A remaining in the trial court is the State's motion for costs. On April 9, 2003, the State agreed not to pursue its motion for costs until after conclusion of the appeal in this case.

In Coastal's inverse condemnation suit covering Lease 224-B, the State filed a motion to stay the proceeding until the appeal of Lease 224-A is completed. A hearing before the trial judge was held on May 1, 2003, at which Coastal objected to the stay unless the stay was conditioned upon the suspension of Coastal's lease obligations. The judge gave the parties 10 days to resolve the issue by agreement or he would enter an order resolving it. As of May 13, 2003, the judge has not yet resolved this issue.

Effective March 31, 2003 Nicholas Dill resigned as a director of Coastal Caribbean Oils & Minerals, Ltd.

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

Effective February 28, 2003, Mr. Benjamin Heath resigned as an officer and director of Coastal Caribbean Oils & Minerals, Ltd. and of Coastal Petroleum Company.

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

14

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

PART II - OTHER INFORMATION

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, 2002.

15

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

PART II - OTHER INFORMATION

MARCH 31, 2003

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99(1) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 executed by Phillip W. Ware.

99(2) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 executed by Daniel W. Sharp.

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended March 31, 2003.

16

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

MARCH 31, 2003

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: May 12, 2003

By /s/ Daniel W. Sharp

Daniel W. Sharp
Treasurer and Chief Accounting and
Financial Officer

17

FORM 10-Q

COASTAL CARIBBEAN OILS & MINERALS, LTD.

RULE 13A-14 CERTIFICATION

I, Phillip W. Ware, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coastal Caribbean Oils & Minerals, Ltd.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Phillip W. Ware

Phillip W. Ware
President

18

FORM 10-Q

COASTAL CARIBBEAN OILS & MINERALS, LTD.

RULE 13A-14 CERTIFICATION

I, Daniel W. Sharp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coastal Caribbean Oils & Minerals, Ltd.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material

Edgar Filing: COASTAL CARIBBEAN OILS & MINERALS LTD - Form 10-Q

respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Daniel W. Sharp

Daniel W. Sharp
Treasurer and Chief Accounting and
Financial Officer