

COASTAL CARIBBEAN OILS & MINERALS LTD
Form 10-Q
May 10, 2007

**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, 2007

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
(State or other jurisdiction of
incorporation or organization)

NONE
(I.R.S. Employer
Identification No.)

Clarendon House, Church Street, Hamilton, Bermuda
(Address of principal executive offices)

HM 11
(Zip Code)

(850) 653-2732

(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. T Yes " No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer " Accelerated filer " Non-accelerated filer T

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.

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March 31, 2007

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COASTAL CARIBBEAN OILS & MINERALS, LTD.
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PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements**CONSOLIDATED BALANCE SHEETS**

(Expressed in U.S. dollars)

(A Bermuda Corporation)
A Development Stage Company

| Assets | March 31, 2007 (Unaudited) | December 31, 2006 (Note) |
|---|-------------------------------|--------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 155,840 | \$ 342,541 |
| Prepaid expenses and other | 19,504 | 29,255 |
| Total current assets | 175,344 | 371,796 |
| Certificates of deposit | 126,313 | 126,313 |
| Petroleum leases | 2,268,670 | 2,199,809 |
| Equipment, net | 10,825 | 11,455 |
| Total assets | \$ 2,581,152 | \$ 2,709,373 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 44,141 | \$ 5,322 |
| Total current liabilities | 44,141 | 5,322 |
| Shareholders' equity | | |
| Common stock, par value \$.12 per share: | | |
| Authorized - 250,000,000 shares | | |
| Outstanding - 46,211,604 shares | 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 | (35,146,192) | (34,979,152) |
| Total shareholders' equity | 2,537,011 | 2,704,051 |
| Total liabilities and shareholders' equity | \$ 2,581,152 | \$ 2,709,373 |

Note: The balance sheet at December 31, 2006 has been derived from
the audited consolidated financial statements at that date.

See accompanying notes.

COASTAL CARIBBEAN OILS & MINERALS, LTD.
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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 March 31, | | For the period from Jan. 31, 1953 (inception) to March 31, 2007 |
|--|------------------------------|--------------|---|
| | 2007 | 2006 | |
| Interest and other income | \$ 1,194 | \$ 15,243 | \$ 3,970,838 |
| Gain on settlement | - | - | 8,124,016 |
| | 1,194 | 15,243 | 12,094,854 |
| Expenses: | | | |
| Legal fees and costs | 52,691 | 46,083 | 17,311,927 |
| Administrative expenses | 66,913 | 116,374 | 10,318,196 |
| Salaries | 39,050 | 31,250 | 4,050,081 |
| Shareholder communications | 9,580 | 3,251 | 4,103,090 |
| Goodwill impairment | - | - | 801,823 |
| Write off of unproved properties | - | - | 6,578,929 |
| Exploration costs | - | - | 247,465 |
| Lawsuit judgments | - | - | 1,941,916 |
| Minority interests | - | - | (632,974) |
| Other | - | - | 364,865 |
| Contractual services | - | - | 2,155,728 |
| | 168,234 | 196,958 | 47,241,046 |
| Net loss | \$ (167,040) | \$ (181,715) | |
| Deficit accumulated during the development stage | | | \$ (35,146,192) |
| Average number of shares outstanding (basic & diluted) | 46,211,604 | 46,211,604 | |
| Net loss per share (basic & diluted) | \$ (.004) | \$ (.004) | |

See accompanying notes.

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)

| | Three months ended March 31, | | For the period from Jan. 31, 1953 (inception) To March 31, 2007 |
|--|------------------------------|--------------|---|
| | 2007 | 2006 | |
| Operating activities: | | | |
| Net loss | \$ (167,040) | \$ (181,715) | \$ (35,146,192) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Gain on settlement | - | - | (8,124,016) |
| Goodwill impairment | - | - | 801,823 |
| Minority interest | - | - | (632,974) |
| Depreciation | 630 | - | 2,148 |
| Write off of unproved properties | - | - | 6,638,176 |
| 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: | | | |
| Prepaid expenses and other | 9,751 | 176,457 | (19,505) |
| Inventory - drilling | - | (21,968) | - |
| Accrued liabilities | 38,819 | 95,626 | 44,143 |
| Income taxes payable | - | (35,000) | - |
| Net cash provided by (used in) operating activities | (117,840) | 33,400 | (35,989,724) |
| Investing activities: | | | |
| Additions to oil, gas, and mineral properties net of assets acquired for common stock and reimbursements | (68,861) | (86,952) | (6,008,852) |
| Well drilling costs | - | (520,069) | (1,018,435) |
| Net proceeds from settlement | - | - | 8,124,016 |
| Proceeds from relinquishment of surface rights | - | - | 246,733 |
| Purchase of certificate of deposit | - | - | (126,313) |
| Purchase of minority interest in CPC | - | - | (801,823) |
| Purchase of fixed assets | - | - | (74,623) |
| Net cash provided by (used in) investing activities | (68,861) | (607,021) | 340,703 |
| Financing activities: | | | |

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| | | | |
|--|------------|--------------|------------|
| Loans from officers | - | - | 111,790 |
| Repayment of loans from officers | - | - | (111,790) |
| Sale of common stock net of expenses | - | - | 30,380,612 |
| Shares issued upon exercise of options | - | - | 884,249 |
| Sale of shares by subsidiary | - | - | 820,000 |
| Sale of subsidiary shares | - | - | 3,720,000 |
| Net cash provided by financing activities | - | - | 35,804,861 |
| Net (decrease) increase in cash and cash equivalents | (186,701) | (573,621) | 155,840 |
| Cash and cash equivalents at beginning of period | 342,541 | 2,250,236 | - |
| Cash and cash equivalents at end of period | \$ 155,840 | \$ 1,676,615 | \$ 155,840 |

See accompanying notes.

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ITEM 1 Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include Coastal Caribbean Oils & Minerals, Ltd. (the Company), 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 month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

Note 2. Going Concern

As of March 31, 2007, the Company had no revenues, had recurring losses from operations and has had an accumulated deficit during the development stage. The Company's current cash position is not adequate to fund existing operations or exploration and development of its oil and gas properties. Management is exploring options to sell interests in its leases or team with others for oil and gas exploration and development activity, although there no assurance these efforts will be successful. These situations raise substantial doubt about the Company's ability to continue as a going concern. These 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, which may result from the outcome of this uncertainty.

Note 3. 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.

Note 4. Oil & Gas Development Activity

Drilling Activity

Currently the Company is not drilling any wells.

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 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 each of them has been tested. While gas was encountered in the testing, the well did not contain economic quantities of oil or gas. The Company expensed \$800,000 in drilling costs related to this well in the fourth quarter of 2006. This well will be abandoned by the Company.

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ITEM 1 Financial Statements (Continued)

Note 4. Oil & Gas Development Activity (Continued)

The Company has also participated in and acted as operator in a twin well to the only known well to produce from the Lodgepole in Montana. The targeted Lodgepole reef contained oil, but not in sufficient quantities to be commercial for the Company. Likewise, an uphole test of the Mission Canyon Formation resulted in oil being encountered, but not in sufficient quantities to be commercial for the Company. The Company's participation costs in the twin well were approximately \$225,000, which was expensed in the fourth quarter of 2006. The total cost of the well was approximately \$1,260,000. This well will be abandoned by the participants with the Company acting as operator until abandonment is completed.

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 deadline, however, there is no longer a drilling obligation under the agreement.

The Company's Letter of Intent with Victory Energy Corporation (Victory) has expired and the Company is currently looking to team with another entity to explore the Company's leases. Under the Letter of Intent, Victory had agreed to complete and execute a Formal Agreement within 60 days and to pay the Company \$250,000 upon the execution of that Formal

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ITEM 1 Financial Statements (Continued)

Note 4. Oil & Gas Development Activity (Continued)

Agreement. The 60 days expired and instead of executing the Agreement, Victory requested an extension, but could give the Company no assurances that it would be able to complete the transaction even with the extension. Therefore, an agreement could not be reached regarding an extension of the time to execute the Formal Agreement and the Letter of Intent expired. The two Companies have parted ways and Coastal has begun discussions with other entities regarding the exploration of its leases.

The Company has already begun the permitting process for drilling on a 34,000 acre shallow natural gas prospect on its Montana leases. This prospect alone is of interest to independent oil and gas companies and the initial well to test the prospect would be less than the cost of a Lodgepole test well, since it is not as deep.

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 9,388.94 gross and 9,150.31 net acres in Slope County. The Company is obligated to drill a test well before June 1, 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.

Note 5. Income Taxes

For the three months ended March 31, 2007 and 2006, the Company reported a loss for both financial statement reporting and income tax purposes. 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 \$10,000,000 in net operating loss carryforwards at December 31, 2006.

Note 6. 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 paid no amounts to this entity for the three months ended March 31, 2007 and 2006, respectively.

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 \$36,000 and \$36,000 in legal fees for the three months ended March 31, 2007 and 2006, respectively.

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ITEM 1 Financial Statements (Continued)

The Company has retained the law firm of Iglar & Dougherty, P.A. as securities counsel. One of the Company's directors is a shareholder in the law firm. The Company has expensed \$4,038 and \$8,633 in legal fees and costs for the three months ended March 31, 2007 and 2006, 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.

Liquidity and Capital Resources

Liquidity

The Company has \$156,000 in available cash, excluding certificate of deposits pledged for drilling permits, at March 31, 2007 compared to \$343,000 at December 31, 2006. The Company is current with all its vendors and has no loans outstanding. The Company has lease payments totaling approximately \$125,000 due in June 2007.

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

As of March 31, 2007, the Company had no revenues, had recurring losses prior to 2005 and had an accumulated deficit during the development stage. The Company's current cash position is not adequate to fund existing operations or exploration and development of its oil and gas properties. Management is exploring options to sell interests in its leases or team with others for oil and gas exploration and development activity, although there no assurance these efforts will be successful. These situations raise substantial doubt about the Company's ability to continue as a going concern.

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 9,150.31 net acres in Billings, Slope and Stark Counties. 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 does not expect to drill on these leases on its own within the next twelve months, but will look to team with another entity to share the costs of such drilling.

The Company now holds leases in Valley County covering a total of 137,163.26 net acres. The Company has received four permits to drill on its Valley County Leases and is in the process of obtaining additional permits, including a permit to drill a test well into the Company's 34,000 acre shallow natural gas prospect. The Company continues to seek others to team with and share the cost of wells it intends to drill over the next year.

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 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 each of them has been tested. While gas was encountered in the testing, the well did not contain economic quantities of oil or gas. The Company expensed \$800,000 in drilling costs related to this well in the fourth quarter of 2006. The Company will abandon this well.

The Company has also participated in and acted as operator in a twin well to the only known well to produce from the Lodgepole in Montana. The targeted Lodgepole reef contained oil, but not in sufficient quantities to be commercial for the Company. Likewise, an uphole test of the Mission Canyon Formation resulted in oil being encountered, but not in sufficient quantities to be commercial for the Company. The Company's participation costs in the twin well were approximately \$225,000, which was expensed in the fourth quarter of 2006. The total cost of the well was approximately \$1,260,000.

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

Results of Operations

Three months ended March 31, 2007 vs. March 31, 2006

In 2005 we 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 2007 from 2006 due to lower cash balances.

During 2007, our travel and lodging and other expenses decreased due to the cessation of drilling activities in North Dakota and Montana from 2006 levels when we were engaged in well drilling activities.

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 March 31, 2007.

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.

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March 31, 2007

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, 2006.

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March 31, 2007

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 |

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March 31, 2007

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 10, 2007

By: /s/ Phillip W. Ware

Phillip W. Ware
Chief Executive Officer,
President and Treasurer