

RENAISSANCERE HOLDINGS LTD  
Form 10-K  
February 19, 2010  
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UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-14428

**RENAISSANCERE HOLDINGS LTD.**

(Exact Name Of Registrant As Specified In Its Charter)

**Bermuda**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**Renaissance House, 8-20 East Broadway, Pembroke HM 19 Bermuda**

(Address of Principal Executive Offices)

**(441) 295-4513**

(Registrant's telephone number)

**98-014-1974**  
(I.R.S. Employer  
Identification Number)

**Securities registered pursuant to Section 12(b) of the Act:**

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<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Shares, Par Value \$1.00 per share	New York Stock Exchange, Inc.
Series B 7.30% Preference Shares, Par Value \$1.00 per share	New York Stock Exchange, Inc.
Series C 6.08% Preference Shares, Par Value \$1.00 per share	New York Stock Exchange, Inc.
Series D 6.60% Preference Shares, Par Value \$1.00 per share	New York Stock Exchange, Inc.

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, as defined in Rule 12b-2 of the Act. Large accelerated filer , Accelerated filer , Non-accelerated filer , Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of Common Shares held by nonaffiliates of the registrant at June 30, 2009 was \$2,758.1 million based on the closing sale price of the Common Shares on the New York Stock Exchange on that date.

The number of Common Shares outstanding at February 10, 2010 was 60,058,112.

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference to the registrant's Definitive Proxy Statement to be filed in respect of our 2010 Annual General Meeting of Shareholders.

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### NOTE ON FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us.

In particular, statements using words such as may , should , estimate , expect , anticipate , intends , believe , predict , potential , or will import generally involve forward-looking statements. For example, we may include certain forward-looking statements in Management s Discussion and Analysis of Financial Condition and Results of Operations with regard to trends in results, prices, volumes, operations, investment results, margins, combined ratios, reserves, overall market trends, risk management and exchange rates. This Form 10-K also contains forward-looking statements with respect to our business and industry, such as those relating to our strategy and management objectives, trends in market conditions, market standing and product volumes, investment results, government initiatives and regulatory matters, and pricing conditions in the reinsurance and insurance industries.

In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements in this report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those addressed by the forward-looking statements, including the following:

we are exposed to significant losses from catastrophic events and other exposures that we cover, which we expect to cause significant volatility in our financial results from time to time;

the frequency and severity of catastrophic events or other events which we cover could exceed our estimates and cause losses greater than we expect;

risks associated with implementing our business strategies and initiatives, including risks related to developing or enhancing the operations, controls and other infrastructure necessary in respect of our more recent, new or proposed initiatives;

risks relating to adverse legislative developments including, the risk of new legislation in Florida continuing to expand the reinsurance coverages offered by the Florida Hurricane Catastrophe Fund ( FHCF ) and the insurance policies written by the state-sponsored Citizens Property Insurance Corporation ( Citizens ); failing to reduce such coverages or implementing new programs which reduce the size of the private market; and the risk that new, state based or federal legislation will be enacted and adversely impact us;

the risk that the Risk Management Agency of the U.S. Department of Agriculture (the RMA ) adversely changes the financial terms of the Standard Reinsurance Agreement (the SRA ) which we are currently party to and under which our Individual Risk segment participates in the federal multi-peril crop insurance program;

the risk of the lowering or loss of any of the ratings of RenaissanceRe Holdings Ltd. or of one or more of our subsidiaries or changes in the policies or practices of the rating agencies;

risks relating to our strategy of relying on third party program managers, third party administrators, and other vendors to support our Individual Risk operations;

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risks due to our dependence on a few insurance and reinsurance brokers for the preponderance of our revenue, a risk we believe is increasing as a larger portion of our business is provided by a small number of these brokers, including as a result of the merger of AON Corporation ( AON ) and Benfield Group Limited ( Benfield );

the risk we might be bound to policyholder obligations beyond our underwriting intent, and the risk that our third party program managers or agents may elect not to continue or renew their programs with us;

the inherent uncertainties in our reserving process, including those related to the 2005 and 2008 catastrophes, which uncertainties we believe are increasing as we diversify into new product classes;

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we are exposed to the risk that our customers may fail to make premium payments due to us (a risk that may be increasing in certain of our key markets), as well as the risk of failures of our reinsurers, brokers, third party program managers or other counterparties to honor their obligations to us, including their obligations to make third party payments for which we might be liable, which risks we believe continue to be heightened during the ongoing period of financial market dislocation;

risks associated with appropriately modeling, pricing for, and contractually addressing new or potential factors in loss emergence, such as the trend toward potentially significant global warming and other aspects of climate change which have the potential to adversely affect our business, or the ongoing financial crisis, which could cause us to underestimate our exposures and potentially adversely impact our financial results;

risks associated with a sustained weakness or weakening in business and economic conditions, specifically in the principal markets in which we do business, which may adversely affect the demand for our products and ultimately our business and operating results;

risks relating to a deterioration in the investment markets and current economic conditions which could adversely affect our net investment income and lead to investment losses, particularly with respect to our illiquid investments in asset classes experiencing significant volatility;

risks associated with highly subjective judgments, such as valuing our more illiquid assets, and determining the impairments taken on our investments, which could impact our financial position or operating results;

risks associated with our investment portfolio, including the risk that investment managers may breach our investment guidelines, or the inability of such guidelines to mitigate risks arising out of the ongoing financial crisis;

changes in economic conditions, including interest rate, currency, equity and credit conditions which could affect our investment portfolio or declines in our investment returns for other reasons which could reduce our profitability and hinder our ability to pay claims promptly in accordance with our strategy, which risks we believe are currently enhanced in light of the ongoing financial crisis, both globally and in the U.S.;

we are exposed to counterparty credit risk, including with respect to reinsurance brokers, customers, agents, retrocessionaires, capital providers and parties associated with our investment portfolio, energy trading business, and premiums and other receivables owed to us, which risks we believe continue to be heightened as a result of the ongoing global economic downturn;

emerging claims and coverage issues, which could expand our obligations beyond the amount we intend to underwrite;

loss of services of any one of our key senior officers, or difficulties associated with the transition of new members of our senior management team;

a contention by the U.S. Internal Revenue Service (the "IRS") that Renaissance Reinsurance Ltd. ("Renaissance Reinsurance"), or any of our other Bermuda subsidiaries, is subject to U.S. taxation;

the passage of federal or state legislation subjecting Renaissance Reinsurance or our other Bermuda subsidiaries to supervision, regulation or taxation in the U.S. or other jurisdictions in which we operate, or increasing the taxation of business ceded to us;

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changes in insurance regulations in the U.S. or other jurisdictions in which we operate, including the risks that U.S. federal or state governments will take actions to diminish the size of the private markets in respect of the coverages we offer, the risk of potential challenges to the Company's claim of exemption from insurance regulation under current laws and the risk of increased global regulation of the insurance and reinsurance industry;

operational risks, including system or human failures;

risks in connection with our management of third party capital;

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risks that we may require additional capital in the future, particularly after a catastrophic event or to support potential growth opportunities in our business, which may not be available or may be available only on unfavorable terms, risks which we believe to be heightened during the ongoing financial market crisis;

risks relating to failure to comply with covenants in our debt agreements;

risks relating to the inability of our operating subsidiaries to declare and pay dividends to the Company;

risks that acquisitions or strategic investments that we have made or may make could turn out to be unsuccessful;

risks that certain of our new or potentially expanding business lines could have a significant negative impact on our financial results or cause significant volatility in our results for any particular period;

the risk that ongoing or future industry regulatory developments will disrupt our business, or that of our business partners, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;

we operate in a highly competitive environment, which we expect to increase over time from new competition from non-traditional participants as capital markets products provide alternatives and replacements for our more traditional reinsurance and insurance products and as a result of consolidation in the (re)insurance industry;

risks arising out of possible changes in the distribution or placement of risks due to increased consolidation of customers or insurance and reinsurance brokers, or third party program managers, or from potential changes in their business practices which may be required by future regulatory changes;

the risk that there could be regulatory or legislative changes adversely impacting us, as a Bermuda-based company, relative to our competitors, or actions taken by multinational organizations having such an impact;

acts of terrorism, war or political unrest; and

risks relating to changes in regulatory regimes and/or accounting rules, such as the roadmap to International Financial Reporting Standards ( IFRS ), which could result in significant changes to our financial results.

*The factors listed above should not be construed as exhaustive. Certain of these risk factors and others are described in more detail in Item 1A. Risk Factors below. We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*



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### **PART I**

#### **ITEM 1. BUSINESS**

*Unless the context otherwise requires, references in this Form 10-K to RenaissanceRe or the Company mean RenaissanceRe Holdings Ltd. and its subsidiaries, which principally include, but are not limited to, Renaissance Reinsurance, RenRe Insurance Holdings Ltd. and its subsidiaries ( RenRe Insurance ), Renaissance Trading Ltd. ( Renaissance Trading ), RenRe Energy Advisors Ltd. ( REAL ) and the Company's Lloyd's syndicate, RenaissanceRe Syndicate 1458 ( Syndicate 1458 ).*

*We also underwrite reinsurance on behalf of joint ventures, principally including Top Layer Reinsurance Ltd. ( Top Layer Re ), recorded under the equity method of accounting, and DaVinci Reinsurance Ltd. ( DaVinci ). The financial results of DaVinci and DaVinci's parent company, DaVinciRe Holdings Ltd. ( DaVinciRe ), are consolidated in our financial statements. For your convenience, we have included a glossary beginning on page 53 of selected insurance and reinsurance terms. All dollar amounts referred to in this Form 10-K are in U.S. dollars unless otherwise indicated. Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.*

#### **GENERAL**

RenaissanceRe, established in Bermuda in 1993 to write principally property catastrophe reinsurance, is today a leading global provider of reinsurance and insurance coverages and related services. Through our operating subsidiaries, we seek to produce superior returns for our shareholders by being a trusted, long-term partner to our customers for assessing and managing risk, delivering responsive solutions, and keeping our promises. We accomplish this by leveraging our core capabilities of risk assessment and information management, and by investing in our capabilities to serve our customers across the cycles that have historically characterized our markets. Overall, our strategy focuses on superior risk selection, marketing, capital management and joint ventures. We provide value to our customers and joint venture partners in the form of financial security, innovative products, and responsive service. We are known as a leader in paying valid reinsurance claims promptly. We principally measure our financial success through long-term growth in tangible book value per common share plus the change in accumulated dividends, which we believe is the most appropriate measure of our Company's performance, and believe we have delivered superior performance in respect of this measure over time.

Our core products include property catastrophe reinsurance, which we write through our principal operating subsidiary Renaissance Reinsurance and joint ventures, principally DaVinci and Top Layer Re; specialty reinsurance risks written through Renaissance Reinsurance and DaVinci; and primary insurance and quota share reinsurance, which we write through the operating subsidiaries of RenRe Insurance. We believe that we are one of the world's leading providers of property catastrophe reinsurance. We also believe we have a strong position in certain specialty reinsurance lines of business and are building a franchise in the U.S. insurance and crop insurance business. Our reinsurance and insurance products are principally distributed through intermediaries, with whom we seek to cultivate strong relationships.

We currently conduct our business through two reportable segments, Reinsurance and Individual Risk. For the year ended December 31, 2009, our Reinsurance and Individual Risk segments accounted for 69.3% and 30.7%, respectively, of our total consolidated gross premiums written. Our segments are more fully described in Business Segments below.

#### **CORPORATE STRATEGY**

Our mission is to produce superior returns for our shareholders by being a trusted, long-term partner to our customers for assessing and managing risk, delivering responsive solutions, and keeping our promises. Our vision is to seek to generate long-term growth in tangible book value per common share plus the change in accumulated dividends for our shareholders by being a leader in select financial services through our people and culture, executing our expertise in risk, and having a passion for exceeding our customers' expectations.

Since our inception, we have cultivated and endeavor to preserve certain competitive advantages that position us to fulfill our strategic objectives. We believe these competitive advantages are:

*Superior Risk Selection.* We seek to underwrite our reinsurance, insurance and financial risks through the use of sophisticated risk selection techniques, including computer models and databases, such as



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the Renaissance Exposure Management System ( REMS ) and the Program Analysis Central Repository ( PACeR ). We pursue a disciplined approach to underwriting and only select those risks that we believe will produce an attractive return on equity, subject to prudent risk constraints.

*Superior Marketing.* We believe our modeling and technical expertise, and the risk management advice that we provide to our customers, has enabled us to become a provider of first choice in many lines of business to our customers worldwide. We seek to offer stable, predictable and consistent risk-based pricing and a prompt turnaround on our claims.

*Superior Capital Management.* We generally seek to write as much attractively priced business as is available to us and then manage our capital accordingly. Accordingly, we generally seek to raise capital when we forecast an increased demand in the market, at times by accessing capital through joint ventures or other structures and seek to return capital to our shareholders or joint venture investors when the demand for our coverages appears to decline, and we believe a return of capital would be beneficial to our shareholders or joint venture investors.

*Superior Joint Ventures.* Building upon our relationships and expertise in risk selection, marketing and capital management, we seek to pursue and execute on joint venture and investment opportunities, which include new partners and diversifying classes of business. We believe our focus on our joint ventures allows us to leverage our access to business and our underwriting capabilities on an efficient capital base, develop fee income, and diversify our portfolio. We routinely evaluate and expect that we may in the future pursue additional joint venture opportunities and strategic investments.

We believe we are well positioned to fulfill these objectives by virtue of the experience and skill of our management team, our significant financial strength, and our strong relationships with brokers and customers. In addition, we believe our superior service, our proprietary modeling technology, and our extensive business relationships, which have enabled us to become a leader in the property catastrophe reinsurance market, will be instrumental in allowing us to achieve our strategic objectives. In particular, we believe our strategy, high performance culture, and commitment to our customers and joint venture partners permit us to differentiate ourselves by offering specialized services and products at times and in markets where capacity and alternatives may be limited.

## **BUSINESS SEGMENTS**

We currently conduct our business through two reportable segments, Reinsurance and Individual Risk. Financial data relating to our two segments is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Reinsurance Segment**

Our Reinsurance operations are comprised of three units: 1) property catastrophe reinsurance, primarily written through Renaissance Reinsurance and DaVinci; 2) specialty reinsurance, primarily written through Renaissance Reinsurance and DaVinci; and 3) certain other activities of ventures as described herein. Our Reinsurance operations are managed by the Global Chief Underwriting Officer, who leads a team of underwriters, risk modelers and other industry professionals, who have access to our proprietary risk management, underwriting and modeling resources and tools. We believe the expertise of our underwriting and modeling team and our proprietary analytic tools, together with superior customer service, provide us with a significant competitive advantage.

Our portfolio of business has continued to be increasingly characterized by relatively large transactions with ceding companies with whom we do business, although no current relationship exceeds 15% of our gross premiums written. Accordingly, our gross premiums written are subject to significant fluctuations depending on our success in maintaining or expanding our relationships with these large customers. We market our reinsurance products worldwide exclusively through brokers, whose market has become extremely consolidated in recent years. In 2009, three brokerage firms accounted for 90.1% of our Reinsurance segment gross premiums written. We believe that recent market dynamics, and trends in our industry in respect of potential future consolidation, have increased our exposure to the risks of broker, client and counterparty concentration.

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The following table shows our total catastrophe and specialty reinsurance gross premiums written:

Year ended December 31, (in thousands)	2009	2008	2007
Renaissance catastrophe premiums	\$ 706,947	\$ 633,611	\$ 662,987
Renaissance specialty premiums	111,889	153,701	277,882
<b>Total Renaissance premiums</b>	<b>818,836</b>	<b>787,312</b>	<b>940,869</b>
DaVinci catastrophe premiums	389,502	361,010	340,117
DaVinci specialty premiums	2,457	6,069	9,434
<b>Total DaVinci premiums</b>	<b>391,959</b>	<b>367,079</b>	<b>349,551</b>
<b>Total Reinsurance premiums</b>	<b>\$ 1,210,795</b>	<b>\$ 1,154,391</b>	<b>\$ 1,290,420</b>
Total specialty premiums (1)	\$ 114,346	\$ 159,770	\$ 287,316
<b>Total catastrophe premiums (2)</b>	<b>\$ 1,096,449</b>	<b>\$ 994,621</b>	<b>\$ 1,003,104</b>

(1) Total specialty premiums written includes \$nil, \$nil and \$0.4 million premiums assumed from our Individual Risk segment for the years ended December 31, 2009, 2008 and 2007, respectively.

(2) Total catastrophe premiums written includes \$12.7 million, \$5.7 million and \$37.0 million of premiums assumed from our Individual Risk segment for the years ended December 31, 2009, 2008 and 2007, respectively.

**Property Catastrophe Reinsurance**

We believe we are one of the largest providers of property catastrophe reinsurance in the world, based on our total catastrophe premium. Our principal property catastrophe reinsurance products include catastrophe excess of loss reinsurance and excess of loss retrocessional reinsurance as described below:

*Catastrophe Excess of Loss Reinsurance.* We principally write catastrophe reinsurance on an excess of loss basis, which means we provide coverage to our insureds when aggregate claims and claim expenses from a single occurrence of a covered peril exceed the attachment point specified in a particular contract. Under these contracts, we indemnify an insurer for a portion of the losses on insurance policies in excess of a specified loss amount, and up to an amount per loss specified in the contract. The coverage provided under excess of loss reinsurance contracts may be on a worldwide basis or limited in scope to selected geographic areas. Coverage can also vary from all property perils to limited coverage on selected perils, such as earthquake only coverage.

*Excess of Loss Retrocessional Reinsurance.* We also write retrocessional reinsurance contracts that provide property catastrophe coverage to other reinsurers or retrocedants. In providing retrocessional reinsurance, we focus on property catastrophe retrocessional reinsurance, which covers the retrocedant on an excess of loss basis when aggregate claims and claim expenses from a single occurrence of a covered peril and from a multiple number of reinsureds exceed a specified attachment point. The coverage provided under excess of loss retrocessional contracts may be on a worldwide basis or limited in scope to selected geographic areas. Coverage can also vary from all property perils to limited coverage on selected perils, such as earthquake only coverage. The information available to retrocessional underwriters concerning the original primary risk can be less precise than the information received from primary companies directly. Moreover, exposures from retrocessional business can change within a contract term as the underwriters of a retrocedant alter their book of business after retrocessional coverage has been bound.

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Our property catastrophe reinsurance contracts are generally all risk in nature. Our most significant exposure is to losses from earthquakes and hurricanes and other windstorms, although we are also exposed to claims arising from other catastrophes, such as tsunamis, freezes, floods, fires, tornadoes, explosions and acts of terrorism in connection with the coverages we provide. Our predominant exposure under such coverage is to property damage. However, other risks, including business interruption and other non-property losses, may also be covered under our property reinsurance contracts when arising from a covered peril. We offer our coverages on a worldwide basis.

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Because of the wide range of possible catastrophic events to which we are exposed, including the size of such events and because of the potential for multiple events to occur in the same time period, our catastrophe reinsurance business is volatile and our results of operations reflect this volatility. Further, our financial condition may be impacted by this volatility over time or at any point in time. The effects of claims from one or a number of severe catastrophic events could have a material adverse effect on us. We expect that increases in the values and concentrations of insured property and the effects of inflation will increase the severity of such occurrences in the future.

*Catastrophe-Linked Securities.* We also invest in catastrophe-linked securities ( cat-linked securities ). Cat-linked securities are generally privately placed fixed income securities as to which all or a portion of the repayment of the principal is linked to catastrophic events; for example, the occurrence of one or more hurricanes or earthquakes producing industry losses exceeding certain specified thresholds. We underwrite, model, evaluate and monitor these securities using the same tools and techniques used to evaluate our more traditional property catastrophe reinsurance business assumed. In addition, we may enter into derivative transactions, such as total return swaps, that are based on or referenced to underlying cat-linked securities. Based on an evaluation of the specific features of each cat-linked security, we account for these securities as reinsurance or at fair value, as applicable, in accordance with U.S. generally accepted accounting principles ( GAAP ). In addition, in future periods we may utilize the growing market for cat-linked securities to expand our ceded reinsurance buying if we find the pricing and terms of such coverage attractive.

We seek to moderate the volatility of our risk portfolio through superior risk selection, diversification and the purchase of retrocessional coverages and other protections. In furtherance of our strategy, we may increase or decrease our presence in the catastrophe reinsurance business based on market conditions and our assessment of risk-adjusted pricing adequacy. We frequently seek to purchase reinsurance or other protection for our own account to further reduce the financial impact that a large catastrophe or a series of catastrophes could have on our results.

As a result of our position in the market and reputation for superior customer service, we believe we have superior access to reinsurance business we view as desirable compared to the market as a whole. As described above, we use our proprietary underwriting tools and guidelines to attempt to construct an attractive portfolio from these opportunities. We dynamically model policy submissions against our current in-force underwriting portfolio, comparing our estimate of the modeled expected returns of the contract against the amount of capital that we allocate to the contract, based on our estimate of its marginal impact on our overall risk portfolio. At times, our approach to portfolio management has resulted and may result in the future in our having a relatively large market share of catastrophe reinsurance exposure in a particular geographic region, such as Florida, or to a particular peril, such as U.S. hurricane risk, where we believe supply and demand characteristics promote our providing significant capacity, or where the risks or class of risks otherwise adds efficiency to our portfolio. Conversely, from time to time we may have a disproportionately low market share in certain regions or perils where we believe our capital would be less effectively deployed.

### ***Specialty Reinsurance***

We write a number of lines of reinsurance other than property catastrophe, such as catastrophe exposed workers' compensation, surety, terrorism, political risk, trade credit, medical malpractice, catastrophe exposed personal lines property, casualty clash, certain other casualty lines and other specialty lines of reinsurance, which we collectively refer to as specialty reinsurance. As with our catastrophe business, our team of experienced professionals seek to underwrite these lines using a disciplined underwriting approach and sophisticated analytical tools.

We generally target lines of business where we believe we can adequately quantify the risks assumed and where potential losses could be characterized as low frequency and high severity, similar to our catastrophe reinsurance coverages. We also seek to identify market dislocations and write new lines of business whose risk and return characteristics are estimated to exceed our hurdle rates. We also seek to manage the correlations of this business with our overall portfolio, including our aggregate exposure to single and aggregated catastrophe events. We believe that our underwriting and analytical capabilities have positioned us well to manage this business.

We offer our specialty reinsurance products principally on an excess of loss basis, as described above with respect to our catastrophe reinsurance products, and also provide some proportional coverage. In a proportional reinsurance arrangement (also referred to as quota share reinsurance and pro-rata reinsurance), the reinsurer

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shares a proportional part of the original premiums and losses of the reinsured. The reinsurer pays the cedant a commission which is generally based on the cedant's cost of acquiring the business being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expenses) and may also include a profit factor. Our products frequently include tailored features such as limits or sub-limits which we believe help us manage our exposures. Any liability exceeding, or otherwise not subject to, such limits reverts to the cedant. As with our catastrophe reinsurance business, our specialty reinsurance frequently provides coverage for relatively large limits or exposures, and thus we are subject to potential significant claims volatility.

We generally seek to write significant lines on our specialty reinsurance treaties. As a result of our financial strength, we have the ability to offer significant capacity and, for select risks, we have made available significant limits. In 2009, we added experienced underwriting and support executives to our specialty reinsurance unit, and invested in new and enhanced risk management tools and processes. In addition, we believe that the launch of Syndicate 1458 will help us grow our market presence over time in respect of select lines of business we find attractive. While we believe that these and other initiatives will support growth in our specialty reinsurance unit in due course, we intend to continue to apply our disciplined underwriting approach which, together with currently prevailing market conditions, is likely to temper our growth in current and near term-term periods.

We believe these capabilities, the strength of our specialty reinsurance underwriting team, and our demonstrated ability and willingness to pay valid claims are competitive advantages of our specialty reinsurance business.

### ***Ventures***

We pursue a number of other opportunities through our ventures unit, which has responsibility for managing our joint venture relationships, executing customized reinsurance transactions to assume or cede risk and managing certain investments directed at classes of risk other than catastrophe reinsurance. We also provide customized weather and energy risk management solutions to various customers on a worldwide basis.

*Property Catastrophe Managed Joint Ventures.* We actively manage property catastrophe-oriented joint ventures, which provide us with an additional presence in the market, enhance our client relationships and generate fee income. These joint ventures allow us to leverage our access to business and our underwriting capabilities on a larger capital base. Currently, our joint ventures include Top Layer Re and DaVinci Renaissance Underwriting Managers, Ltd. ( RUM ), a wholly owned subsidiary of the Company, acts as the exclusive underwriting manager for each of these joint ventures.

DaVinci was established in 2001 and principally writes property catastrophe reinsurance and certain low frequency, high severity specialty reinsurance lines of business on a global basis. In general, we seek to construct for DaVinci a property catastrophe reinsurance portfolio with risk characteristics similar to those of Renaissance Reinsurance's property catastrophe reinsurance portfolio and certain lines of specialty reinsurance such as terrorism and catastrophe exposed workers' compensation. In accordance with DaVinci's underwriting guidelines, it can only participate in business that is underwritten by Renaissance Reinsurance. We maintain majority voting control of DaVinciRe and, accordingly, consolidate the results of DaVinciRe into our consolidated results of operations and financial position. We seek to manage DaVinci's capital efficiently over time in light of the market opportunities and needs we perceive and believe we are able to serve. Our ownership in DaVinciRe was 38.2% and 22.8% at December 31, 2009 and 2008, respectively. In January 2010, DaVinciRe redeemed the shares of certain third party DaVinciRe shareholders and in a separate transaction, we sold a portion of our shares in DaVinciRe to a third party shareholder. As a result of these transactions, our ownership interest in DaVinciRe increased to 41.2%. We expect our ownership in DaVinciRe to fluctuate over time.

Top Layer Re writes high excess non-U.S. property catastrophe reinsurance. Top Layer Re is owned 50% by State Farm Mutual Automobile Insurance Company ( State Farm ) and 50% by Renaissance Reinsurance, a wholly owned subsidiary of the Company. State Farm provides \$3.9 billion of stop loss reinsurance coverage to Top Layer Re. We account for our equity ownership in Top Layer Re under the equity method of accounting and our proportionate share of its results are reflected in equity in earnings (losses) of other ventures in our consolidated statements of operations.

During 2009, we formed and launched a new managed joint venture, Timicuan Reinsurance II Ltd. ( Tim Re II ), which provided additional capacity to the Florida property catastrophe market for the 2009 wind season. In conjunction with the formation and launch of Tim Re II, \$49.5 million of non-voting Class B shares were sold to external investors, and we also invested an additional \$10.0 million in Tim Re II's non-voting Class B shares, representing a 16.8% ownership interest. We ceded a defined portfolio of property catastrophe excess of loss

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reinsurance contracts incepting June 1, 2009 to Tim Re II under a fully-collateralized facultative retrocessional reinsurance contract in return for a potential underwriting profit commission. The Class B shareholders participated in substantially all of the profits or losses of Tim Re II while the Class B shares remained outstanding. Tim Re II, a wholly owned subsidiary, is considered a variable interest entity and is consolidated by the Company. Tim Re II repurchased the Class B shares subsequent to December 31, 2009, which was the end of the contract period.

During 2007 and 2006, we participated in the formation of Starbound Reinsurance II Ltd. ( Starbound II ) and Starbound Reinsurance Ltd. ( Starbound Re ), respectively. These joint ventures provided capacity to the U.S. property catastrophe market, primarily for the 2007 and 2006 U.S. hurricane seasons, respectively. While these joint ventures were active, we owned a minority interest share of the entities and accounted for them as investments in other ventures, under equity method. These joint ventures have subsequently terminated and have returned capital to the joint venture shareholders. Effective July 31, 2008 and August 31, 2007, we repurchased all of the issued and outstanding share capital of Starbound II and Starbound Re, respectively. We now account for these entities as consolidated subsidiaries.

In addition, during 2006, we sold third party capital in Timicuan Reinsurance Ltd. ( Tim Re ) to provide additional capacity to accept property catastrophe excess of loss reinsurance business for the 2006 hurricane season, in return for a profit commission. In January 2007, the Company purchased all of the issued and outstanding equity securities of Tim Re and now accounts for Tim Re as a consolidated subsidiary.

Ventures works on a range of other customized reinsurance transactions. For example, we have participated in and continuously analyze, other attractive opportunities in the market for cat-linked securities and derivatives. We believe our products contain a number of customized features designed to fit the needs of our partners, as well as our risk management objectives.

*Strategic Investments.* Ventures also pursues strategic investments where, rather than assuming exclusive management responsibilities ourselves, we instead partner with other market participants. These investments are directed at classes of risk other than catastrophe, and at times may also be directed at non-insurance risks. We find these investments attractive both for their expected returns, and also because they provide us diversification benefits and information and exposure to other aspects of the market.

Examples of these investments include our investments in Tower Hill Insurance Group, LLC ( THIG ), Tower Hill Claims Services, LLC ( THCS ) and Tower Hill Claims Management, LLC ( THCM ) (collectively, the Tower Hill Companies ), which operate primarily in the State of Florida, Essent Group Ltd. ( Essent ) and Platinum Underwriters Holdings Ltd. ( Platinum ). THIG is a managing general agency specializing in insurance coverage for site built and manufactured homes. THCS and THCM provide claim adjustment services through exclusive agreements with THIG. During the third quarter of 2008, we invested \$50.0 million in the Tower Hill Companies, representing a 25.0% ownership interest, to expand our core platforms by obtaining ownership in an additional distribution channel for the Florida homeowners market and to enhance our relationships with other stakeholders. Essent provides mortgage insurance and reinsurance coverage for mortgages located in the U.S. Platinum is a Bermuda-domiciled reinsurance company listed on the New York Stock Exchange.

*Weather Operations.* We undertake weather related consulting activities through our operating companies, principally including Weather Predict Inc. ( Weather Predict ), WeatherPredict Consulting Inc. ( WP Consulting ) and Accurate Environmental Forecasting Inc. ( AEF ). Through these subsidiaries we provide fee-based consulting services, sell weather-related information and forecasts, and engage in education, research and development, and loss mitigation activities, such as the RenaissanceRe Wall of Wind research facility located in southern Florida and the Stormstruck® interactive weather experience at the Walt Disney World® Resort in Florida.

*Weather and Energy Risk Management Operations.* We provide energy related risk management solutions and financial products through Renaissance Trading and REAL and sell certain financial products primarily to address weather risks, and engage in certain weather, energy and commodity derivatives trading activities. Principally through REAL, we expect that our participation will increase in the trading markets for securities and derivatives linked to energy, commodities, weather, other natural phenomena, and/or products or indices linked in part to such phenomena. While our activities focus on financial products that allow various energy, utility and other customers to manage their exposures to energy related commodities, we expect our own results in this area to potentially be volatile over time. As this unit grows, we will seek to continue to invest in operating and control environment systems and procedures, hire staff and develop and install management information and other systems.



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Business activities that appear in our consolidated underwriting results, such as DaVinci and certain reinsurance transactions, are included in our Reinsurance segment results; the results of our investments, such as Top Layer Re, and Platinum, our weather and energy related activities and other ventures are included in the Other category of our segment results.

### *Competition*

The markets in which we operate are highly competitive, and we believe that competition is increasing and becoming more robust. Our competitors include independent reinsurance and insurance companies, subsidiaries and/or affiliates of globally recognized insurance companies, reinsurance divisions of certain insurance companies and domestic and international underwriting operations, including underwriting syndicates at Lloyd's. As our business evolves over time we expect our competitors to change as well.

In 2009, enhanced competition from new entrants in the reinsurance market appears to have been deferred to a degree due to the issues that faced the capital and credit markets. However, these issues have somewhat subsided and we anticipate renewed competition from entities such as hedge funds, investment banks, exchanges and other capital market participants that had shown interest over the past several years in entering the reinsurance market. In addition, we continue to anticipate further, and perhaps accelerating, growth in financial products such as exchange traded catastrophe options, cat-linked securities, unrated privately held reinsurance companies providing collateralized reinsurance, catastrophe-linked derivative agreements and other financial products, intended to compete with traditional reinsurance. We believe that competition from non-traditional sources such as these will increase in the future. Many of these competitors have greater financial, marketing and management resources than we do. In addition, the tax policies of the countries where our customers operate, as well as government sponsored or backed catastrophe funds, affect demand for reinsurance. We are unable to predict the extent to which the foregoing new, proposed or potential initiatives may affect the demand for our products or the risks which may be available for us when providing coverage.

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**Individual Risk Segment**

We define our Individual Risk segment to include underwriting that involves understanding the characteristics of the original underlying insurance policy. Our Individual Risk segment is managed, effective January 2010, by the Global Chief Underwriting Officer. Our Individual Risk operations seek to identify and write classes of business which we believe to be attractively priced relative to the risk exposure and where our capabilities in modeling, analytical tools and information systems may provide a competitive advantage. In 2009, our crop insurance business was the most significant contributor to the results of our Individual Risk segment, as shown in the table below. We currently expect this relationship to continue in 2010, as a result of factors including expected further softening of market conditions in respect of other lines of primary insurance business we had historically targeted, among other factors.

The following table shows our Individual Risk gross premiums written by major type of business:

2008

centage	
Gross	Gross
remiums	Premiums
ritten	Written

54.7%	\$ 272,559
20.0%	119,987

These Exchange Act rules may limit the ability or willingness of brokers and other market participants to make market in our shares and may limit the ability of our shareholders to sell in the secondary market, through brokers, dealers or otherwise. We also understand that many brokerage firms discourage their customers from trading in shares falling within the "penny stock" definition due to the added regulatory and disclosure burdens imposed by these Exchange Act rules. The SEC from time to time may propose and implement even more stringent regulatory or disclosure requirements on shares not listed on NASDAQ or on a national securities exchange. The adoption of the proposed changes that may be made in the future could have an adverse effect on the trading market for our shares.

***We may incur substantial write-downs of the carrying value of our gas and oil properties, which would adversely impact our earnings.***

We intend to periodically review the carrying value of our gas and oil properties under the full cost accounting rules of the Securities and Exchange Commission. Under these rules, capitalized costs of proved gas and oil properties may not exceed the present value of estimated future net revenues from proved reserves, discounted at an annual rate of 10%. Application of this “ceiling” test requires pricing future revenue at the un-escalated prices in effect as of the end of each fiscal quarter and requires a write-down for accounting purposes if the ceiling is exceeded, even if prices were depressed for only a short period of time. We may be required to write down the carrying value of our gas and oil properties when natural gas and oil prices are depressed or unusually volatile, which would result in a charge against our earnings. Once incurred, a write-down of the carrying value of our natural gas and oil properties is not reversible as of a later date.

***Competition in our industry is intense. We are very small and have an extremely limited operating history compared to the vast majority of our competitors, and we may not be able to compete effectively.***

We intend to compete with major and independent natural gas and oil companies for property acquisitions. We will also compete for the equipment and labor required to operate and to develop natural gas and oil properties. The majority of our anticipated competitors have substantially greater financial and other resources than we do. In addition, larger competitors may be able to absorb the burden of any changes in federal, state and local laws and regulations more easily than we can, which would adversely affect our competitive position.

These competitors may be able to pay more for natural gas and oil properties and may be able to define, evaluate, bid for and acquire a greater number of properties than we can. Our ability to acquire additional properties and develop new and existing properties in the future will depend on our ability to conduct operations, to evaluate and select suitable properties and to consummate transactions in this highly competitive environment. In addition, some of our competitors have been operating in our core areas for a much longer time than we have and have demonstrated the ability to operate through industry cycles.

***Drilling wells is a high risk activity, often involving significant costs that may be more than our estimates, and may not result in any addition to our production or reserves. Any material inaccuracies in drilling costs, estimates or underlying assumptions will materially affect our business.***

Developing and exploring for natural gas and oil involves a high degree of operational and financial risk, which precludes definitive statements as to the time required and costs involved in reaching certain objectives. The budgeted costs of drilling, completing and operating wells are often exceeded and can increase significantly when drilling costs rise due to a tightening in the supply of various types of oilfield equipment and related services. Moreover, the successful drilling of a natural gas or oil well does not ensure a profit on investment. Exploratory wells bear a much greater risk of loss than development wells.

A variety of factors, both geological and market-related, can cause a well to become uneconomical or only marginally economic. Our initial drilling and development sites, and any potential additional sites that may be developed, require significant additional exploration and development, regulatory approval and commitments of resources prior to commercial development. Any success that we may have with these wells or any future drilling operations will most likely not be indicative of our current or future drilling success rate. If our actual drilling and development costs are significantly more than our estimated costs, we may not be able to continue our business operations as proposed and we would be forced to modify our plan of operation.

***The natural gas and oil business involves numerous uncertainties and operating risks that can prevent us from realizing profits and can cause substantial losses.***

Our development, exploitation and exploration activities may be unsuccessful for many reasons, including weather, cost overruns, equipment shortages and mechanical difficulties. Moreover, the successful drilling of a natural gas or oil well does not ensure a profit on investment. A variety of factors, both geological and market-related, can cause a well to become uneconomical or only marginally economical. In addition to their cost, unsuccessful wells can hurt our efforts to replace reserves. The natural gas and oil business involves a variety of operating risks, including:

- fires;
- explosions;
- blow-outs and surface cratering;
- uncontrollable flows of oil, natural gas, and formation water;
- natural disasters, such as hurricanes and other adverse weather conditions;
  - pipe, cement, or pipeline failures;
  - casing collapses;
- embedded oil field drilling and service tools;
- abnormally pressured formations; and
- environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.
- If we experience any of these problems, it could affect well bores, gathering systems and processing facilities, which could adversely affect our ability to conduct operations. We could also incur substantial losses as a result of:
  - a. injury or loss of life;
  - b. severe damage to and destruction of property, natural resources and equipment;
  - c. pollution and other environmental damage;
  - d. clean-up responsibilities;
  - e. regulatory investigation and penalties;
  - f. suspension of our operations; and
  - g. repairs to resume operations.

***The unavailability or high cost of drilling rigs, equipment, supplies, personnel and other services could adversely affect our ability to execute on a timely basis our development, exploitation and exploration plans within our budget.***

Shortages or an increase in cost of drilling rigs, equipment, supplies or personnel could delay or interrupt our operations, which could impact our financial condition and results of operations. Drilling activity in the geographic areas in which we conduct drilling activities may increase, which would lead to increases in associated costs, including those related to drilling rigs, equipment, supplies and personnel and the services and products of other vendors to the industry. Increased drilling activity in these areas may also decrease the availability of rigs. We do not have any contracts with providers of drilling rigs and we cannot be assured that drilling rigs will be readily available when we need them. Drilling and other costs may increase further and necessary equipment and services may not be available to us at economical prices.

***Our lease ownership may be diluted due to financing strategies we may employ in the future due to our lack of capital.***

To accelerate our development efforts we plan to take on other working interest participants that will contribute to the costs of drilling and completion and then share in revenues derived from production. In addition, we may in the future, due to a lack of capital or other strategic reasons, establish joint venture partnerships or farm out all or part of our development efforts. These economic strategies may have a dilutive effect on our lease ownership and will more than likely reduce our potential operating revenues.

***Our business plan anticipates that we will be able to develop our oil and gas properties. The cost to develop our oil and gas properties is significant, and, to date, we have been unable to fully implement our business plan due to our limited amount of funds and the availability of drilling equipment. Unless we can fully implement our business plan, our revenues and results of operations, and the value of your investment, will be adversely affected.***

We believe that the properties held by our subsidiary, Coastal Petroleum, have significant reserves of oil and gas; however, we have not had the time, the necessary funds, or equipment availability to fully exploit these resources. The costs associated with the development of oil and gas properties, including engineering studies, equipment purchase costs, leasing and personnel costs, are significant. In order to be profitable we must enhance our oil and gas production, which means that we must drill more wells. In order to drill more wells, we may need to find additional sources of capital, in addition to the revenues we expect to earn from our oil and gas sales. We cannot guarantee that future financing will be available to us, on acceptable terms or at all. If we do not earn revenues sufficient to implement our business plan and we fail to obtain other financing, either through another offering of our securities or by obtaining loans, we may not become profitable and we may be unable to continue our operations. If we were not able to continue our operations, your securities would become worthless.

***We have accumulated losses. Our continued inability to generate revenues that will allow us to profitably operate our business could adversely affect the value of your investment.***

As of year end we did not earn any money from oil and gas sales to pay for our operating expenses. For the fiscal year ended December 31, 2006 we reported a net loss and we cannot give you any assurance that we will generate profits in the near future, or at all. If we fail to generate profits and we are unable to obtain financing to continue our operations we could be forced to severely curtail, or possibly even cease, our operations.

***Even if we fully develop our oil and gas properties, we may not be profitable. Our inability to operate profitably will adversely affect our business and the value of your investment.***

We have assumed that once we fully develop our oil and gas properties we will be profitable. Our reserves may prove to be lower than expected, production levels may be lower than expected, the costs to exploit the oil and gas may be higher than expected, new regulations may adversely impact our ability to exploit these resources and the market price for crude oil and natural gas may be lower than current prices. We also face competition from other oil and gas companies in all aspects of our business, including oil and gas leases, marketing of oil and gas, and obtaining goods, services and labor.

***We may not have enough insurance to cover all of the risks we face. If our insurance coverage should prove to be inadequate, our financial condition and results of operations, as well as the value of your investment, could be adversely affected.***

In accordance with customary industry practices, we maintain insurance coverage against some, but not all, potential losses in order to protect against the risks we face. We do not carry business interruption insurance nor do we have a policy of insurance on the life of Phillip W. Ware, our President and Chief Executive Officer. We may elect not to carry insurance if our management believes that the cost of available insurance is excessive relative to the risks presented. In addition, we cannot insure fully against pollution and environmental risks.

The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations and on the value of your investment.

***Oil and natural gas prices are highly volatile in general and low prices negatively affect our financial results.***

Our revenue, profitability, cash flow, future growth and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent upon prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas have been volatile, and such markets are likely to continue to be volatile in the future. Prices are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control. Among the factors that can cause this volatility are:

- worldwide or regional demand for energy, which is affected by economic conditions;
  - the domestic and foreign supply of natural gas and oil;
    - weather conditions;
    - domestic and foreign governmental regulations;
  - political conditions in natural gas and oil producing regions;
- the ability of members of the Organization of Petroleum Exporting Countries to agree upon and maintain oil prices and production levels; and
  - the price and availability of other fuels.

Declines in oil and natural gas prices may materially adversely affect our financial condition, liquidity, and ability to finance planned capital expenditures and results of operations. We may be required in the future to write down the carrying value of our oil and natural gas properties when oil and natural gas prices are depressed or unusually volatile. Whether we will be required to take such a charge will depend on the prices for oil and natural gas at the end of an quarter and the effect of reserve additions or revisions and capital expenditures during such quarter. If a write down is required, it would result in a charge to earnings, but would not impact cash flow from operating activities.

It is impossible to predict natural gas and oil price movements with certainty. Lower natural gas and oil prices may not only decrease our future revenues on a per unit basis but also may reduce the amount of natural gas and oil that we can produce economically. A substantial or extended decline in natural gas and oil prices may materially and adversely affect our future business enough to force us to cease our business operations. In addition, our financial condition, results of operations, liquidity and ability to finance planned capital expenditures will also suffer in such a price decline. Further, natural gas and oil prices do not necessarily move together.

***Government regulation and liability for environmental matters may adversely affect our business and results of operations.***

Oil and natural gas operations are subject to various federal, state and local government regulations, which may be changed from time to time. Matters subject to regulation include:

- discharge permits for drilling operations;
  - drilling bonds;
- reports concerning operations;
  - the spacing of wells;
- unitization and pooling of properties; and
  - taxation.

From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and natural gas wells below actual production capacity in order to conserve supplies of oil and natural gas.

There are federal, state and local laws and regulations primarily relating to protection of human health and the environment applicable to the development, production, handling, storage, transportation and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations. In addition, we may be liable for environmental damages caused by previous owners of property we purchase or lease. As a result, we may incur substantial liabilities to third parties or governmental entities. We are also subject to changing and extensive tax laws, the effects of which cannot be predicted. The implementation of new laws or regulations, or the modification of existing laws or regulations, could have a material adverse effect on us.





***Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.***

Estimating proved reserves involves many uncertainties, including factors beyond our control. There are uncertainties inherent in estimating quantities of proved oil reserves since petroleum engineering is not an exact science. Estimates of commercially recoverable oil reserves and of the future net cash flows from them are based upon a number of variable factors and assumptions including:

- historical production from the properties compared with production from other producing properties;
  - the effects of regulation by governmental agencies;
  - future oil prices; and
- future operating costs, severance and excise taxes, abandonment costs, development costs and workover and remedial costs.

***Development of our reserves, when and if established, may not occur as scheduled and the actual results may not be as anticipated.***

Our future reserve estimates will be based on various assumptions, including assumptions required by the Securities and Exchange Commission relating to natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating our natural gas and oil reserves is anticipated to be extremely complex, and will require significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. Our actual production, revenues, taxes, development expenditures and operating expenses will likely vary from those anticipated. These variances may be material.

***Our common stock is thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your stock to raise money or otherwise desire to liquidate your shares.***

Our common shares are "thinly-traded" on the NASD OTC Bulletin Board, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to issuers which have a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price.

We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

Examples of external factors, which can generally be described as factors that are unrelated to the operating performance or financial condition of any particular company, include changes in interest rates and worldwide economic and market conditions and trends, as well as changes in industry conditions such as changes in the cost of energy and the passage of regulatory and environmental rules. Changes in the market price of our common stock may have no connection with our operating results, financial condition or prospects. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time, or as to what effect, if any, that the availability or sale of our common stock will have on the prevailing market price. Because of the volatility of the price of our common stock, the value of your investment could decline substantially.

***Our right to issue additional capital stock at any time could have an adverse effect on your proportionate ownership and voting and other rights.***

We are entitled under our Certificate of Incorporation to issue up to 250,000,000 shares of common stock. Our Board of Directors may generally issue those shares, or options or warrants to purchase those shares, without further approval by our shareholders. In the event that we will be required to issue additional securities to raise capital to further our development plans, your proportionate ownership and voting rights could be adversely affected by the issuance of additional common shares, or options or warrants to purchase those shares, including a dilution in your proportionate ownership and voting rights. We cannot give you any assurance that we will not issue additional common shares, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time. The issuance of additional common stock by our management will have the effect of diluting the proportionate equity interest and voting power of holders of our common stock.

***We have not paid cash dividends and it is unlikely that we will pay cash dividends in the foreseeable future. Investing in our securities will not provide you with income.***

We plan to use all of our earnings, to the extent we have earnings, to fund our operations. We do not plan to pay any cash dividends in the foreseeable future. We cannot guarantee that we will, at any time, generate sufficient surplus cash that would be available for distribution as a dividend to the holders of our common stock. You should not expect to receive cash dividends on our common stock.

***Our dependence on outside equipment and service providers may hurt our profitability.***

We need to obtain logging equipment and cementing and well treatment services in the area of our operations. We may not be able to obtain these items in a timely and cost-effective manner. Several factors, including increased competition in the area, may limit their availability. Longer waits and higher prices for equipment and services may reduce our profitability.

***We must increase our oil production revenue or develop additional sources of funds to support our oil operations.***

Our long term success is ultimately dependent on our ability to expand our revenue base through the acquisition and development of producing properties. We have made significant investments in oil and gas leases in North Dakota and Montana. The acquisitions are not indicative of future success. All of the projects envisioned in our business plan are subject to the risk of failure and the loss of our investment. In the event we are not able to increase the revenues from our leases, the leases could fall into default and we could lose our rights to those leases.

***Drilling for and producing oil is a high risk activity with many uncertainties that could adversely affect our business, financial condition or results of operations.***

Our future success will depend on the success of our exploitation, exploration, development and production activities. Our oil exploration and production activities are subject to numerous risks beyond our control; including the risk that drilling will not result in commercially viable oil production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Our cost of drilling, completing and operating wells is often uncertain before drilling commences.

Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. The cost of drilling, completing and operating wells is often uncertain. Moreover, drilling may be curtailed, delayed or canceled as a result of many factors, including title problems, weather conditions, shortages of, or delays in delivery of equipment as well as the financial instability of well operators, major working interest owners and well servicing companies. Our wells may be shut-in for lack of a market until a pipeline or gathering system with available capacity is extended into our area. Our oil wells may have production curtailed until production facilities and delivery arrangements are acquired or developed for them. The affect of one or more of the above factors could result in our becoming unprofitable or ceasing business.

**Item 1B. Unresolved Staff Comments**

None

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**Item 2. Properties****Properties**

Information required by Item 2 “Properties” is included under Item 1 “Business.”

**Disclosure Concerning Oil and Gas Operations.**

Since the properties in which the Company has interests are undeveloped and nonproducing, items 2 through 4 of Securities Exchange Act Industry Guide 2 are not applicable.

**(5) Undeveloped Acreage.**

The Company's undeveloped acreage as of December 31, 2006 was as follows:

	Gross Acres	Net Acres
Montana	138,897.09	137,163.26
North Dakota	9,388.94	9,150.31
<b>Total:</b>	<b>148,286.03</b>	<b>146,313.57</b>

**(6) Drilling Activity.**

The Company drilled one well and operated and participated in the drilling of a second well in 2006. See Drilling Activity section under Item 1 Business at page 9.

**(7) Present Activities.**

See Drilling Activity section under Item 1 Business at page 9.

**Item 3. Legal Proceedings****Agreement with the State of Florida**

For years the Company's subsidiary, Coastal Petroleum litigated against the State in an effort to secure drilling permits and drill for oil off the coast of Florida. The State denied Coastal Petroleum permission to drill on its Leases, a decision that was upheld by a Florida court. Florida courts also denied Coastal Petroleum compensation for a taking of the Leases. Furthermore, the longstanding State policy against any drilling for oil or gas offshore of Florida remains in place as a reflection of the Florida Statutes which bans such activity, and there is no indication that it will change. Given the policy and court decisions, any additional attempt by Coastal Petroleum to secure a permit to drill its Florida Leases was considered by Management as futile.

After the United States Supreme Court refused to hear Coastal Petroleum's taking case in 2004 and the Company's legal options were limited, the State of Florida approached Coastal Petroleum regarding a possible buyback of its leases. With limited financial resources to continue a legal fight which was further frustrated with recent court decisions, Coastal Petroleum continued discussions with the State and ultimately, on June 1, 2005 was joined by Coastal Caribbean and other royalty holders in accepting an offer by the State of Florida to repurchase Coastal Petroleum Florida Leases and other royalty rights. The proceeds from the State were divided by the parties to the Agreement and the Company and its subsidiary received approximately \$4.871 million after payment to all their creditors. The Agreement resulted in the closing and dismissal of all of the Company's litigation concerning the leases including the following:

- Drilling Permit Litigation - Lease Taking Case (Lease 224-A)
  - Ancillary Matters to Lease Taking Case (Lease 224-A)
    - Coastal Caribbean Royalty Litigation
    - Lease Taking Case (Lease 224-B)

The Company is currently not a party to any litigation.

### **Contingency Fees**

All contingency fees previously issued to firms or individuals relating to the litigation against the State of Florida were released or nullified by the 2005 Agreement with the State of Florida or in the mutual releases exchanged pursuant to that Agreement. No contingency fees remain in effect.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

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**PART II****Item 5. Market for the Company's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information.**

The principal market for the Company's common stock is in the over-the-counter market on the "Electronic Bulletin Board" of the National Association of Securities Dealers, Inc. under the symbol **COCBF**. The quarterly high and low closing prices on the Electronic Bulletin Board and the Pink Sheets (Pink Sheets LLC) during the last two years were as follows:

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<b>2005</b>	<b>1<sup>st</sup> quarter</b>	<b>2<sup>nd</sup> quarter</b>	<b>3<sup>rd</sup> quarter</b>	<b>4<sup>th</sup> quarter</b>
High	.17	.22	.21	.21
Low	.075	.06	.095	.085

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<b>2006</b>	<b>1<sup>st</sup> quarter</b>	<b>2<sup>nd</sup> quarter</b>	<b>3<sup>rd</sup> quarter</b>	<b>4<sup>th</sup> quarter</b>
High	.72	.73	.39	.23
Low	.15	.32	.21	.12

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**Holdings.**

The approximate number of record holders of the Company's common stock at March 20, 2007 was 8,015.

**Dividends.**

The Company has never declared or paid dividends on its common stock and it does not anticipate declaring or paying any dividends in the foreseeable future. The Company plans to retain any future earnings to reduce the deficit accumulated during the development stage of \$34,979,152 at December 31, 2006 and to finance its operations.

***Foreign Exchange Control Regulations***

The Company is subject to the applicable laws of The Islands of Bermuda relating to exchange control, but has the permission of the Foreign Exchange Control of Bermuda to carry on business in, to receive, disburse and hold United States dollars and dollar securities under its designation as an External Account Company. The Company has been advised that, although as a matter of law it is possible for such designation to be revoked, there is little precedent for revocation under Bermuda law.



### ***Income and Withholding Taxes***

Coastal Caribbean is a Bermuda corporation. Bermuda currently imposes no taxes on corporate income or capital gain realized outside of Bermuda. Any amounts received by Coastal Caribbean from United States sources as dividends, interest, or other fixed or determinable annual or periodic gains, profits and income, will be subject to a 30% United States withholding tax. In addition, any dividends from its domestic subsidiary, Coastal Petroleum, will not be eligible for the 100% dividends received deduction, which is allowable in the case of a United States parent corporation. Shares of the Company held by persons who are citizens or residents of the United States are subject to federal estate and gift and local inheritance taxation. Any dividends received by such persons will also be subject to federal, State and local income taxation. The foregoing rules are of general application only, and reflect law in force as of the date of this report.

A convention between Bermuda and the United States relating to mutual assistance on tax matters became operative in 1988.

### ***Passive Foreign Investment Company Rules***

The Internal Revenue Code of 1986, as amended, provides special rules for distributions received by U.S. holders of stock of a passive foreign investment company (PFIC), as well as amounts received from the sale or other disposition of PFIC stock.

Under the PFIC rules, a non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75 percent of its gross income is passive income or (2) at least 50 percent of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, and gains from commodities and securities transactions. Special rules apply in cases where a foreign corporation owns directly or indirectly at least a 25 percent interest in a subsidiary, measured by value. In this case, the foreign corporation is treated as holding its proportionate share of the assets of the subsidiary and receiving directly its proportionate share of the income of the subsidiary when determining whether it is a PFIC. Thus, Coastal Caribbean would be deemed to receive its pro rata share of the income and to hold its pro rata share of the assets, of Coastal Petroleum.

Based on certain estimates of its gross income and gross assets and the nature of its business, Coastal Caribbean would be classified as a PFIC for the years 1987 through 2006. Once an entity is considered a PFIC for a taxable year, it will be treated as such for all subsequent years with respect to owners holding the stock in a year that it was classified as a PFIC under the income or asset test described above. Whether the Company will be a PFIC under either of these tests in future years will be difficult to determine because the tests are applied annually. Based upon Coastal Caribbean's current passive income, it is likely that Coastal Caribbean will be classified as a PFIC in 2007.



If Coastal Caribbean is classified as a PFIC with respect to a U.S. holder any gain from the sale of, and certain distributions with respect to, shares of our common stock, would cause a U.S. holder to become liable for U.S. federal income tax under Code section 1291 (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. The interest charge would generally be calculated as if the distribution or gain had been recognized ratably over the U.S. holder's holding period (for PFIC purposes) for the shares. To the extent an amount is allocated to the year of the disposition or distribution, or to a year before the first year in which the corporation qualified as a PFIC, the amount so allocated is included as additional gross income for the year of the disposition or distribution. A U.S. holder also would be required to make an annual return on IRS Form 8621 that describes any distributions received with respect to our shares and any gain realized on the sale or other disposition of our shares.

As an alternative to taxation under the interest charge regime, a U.S. holder generally can elect, subject to certain limitations, to annually take into gross income the appreciation or depreciation in our common shares' value during the tax year (mark-to-market election). If a U.S. holder makes the mark-to-market election, the U.S. holder will not be subject to the above-described rule. Instead, if a U.S. holder makes the mark-to-market election, the U.S. holder recognizes each year an amount equal to the difference as of the close of the taxable year between the U.S. holder's fair market value of the common shares and the adjusted basis in the common shares. Losses would be allowed only to the extent of net gain previously included by the U.S. holder under the mark-to-market election for prior taxable years. Amounts included in or deducted from income under the mark-to-market election and actual gains and losses realized upon the sale or disposition of the common shares, subject to certain limitations, will be treated as ordinary gains or losses. If the mark-to-market election is made for a year other than the first year in the U.S. holder's holding period in which the corporation was a PFIC, the first year's mark-to-market inclusion, if any, is taxed as if it were a distribution subject to the interest charge regime discussed above.

Another alternative election which would allow a U.S. holder to elect to take its pro rata share of Coastal Caribbean undistributed income into gross income as it is earned by Coastal Caribbean (QEF election) would only be available to a U.S. holder if Coastal Caribbean provided certain information to the shareholders of Coastal Caribbean. Coastal Caribbean has had no undistributed income for the years 1987 through 2006. If the QEF election is made in a year other than the first year of the U.S. holder's holding period in which the foreign corporation is a PFIC, both the QEF regime and interest charge regime can apply, unless a special election is made. Under this special election, the taxpayer is treated as if it disposed of its PFIC stock in a transaction subject to the interest charge rules to the extent gain is deemed to be recognized. Once this election is made, the holder will be subject only to the QEF regime.

**Recent Sales of Unregistered Securities**

None

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None

**Item 6. Selected Consolidated Financial Information**

The following selected consolidated financial information (in thousands except for per share amounts) for the Company insofar as it relates to each of the five years in the period ended December 31, 2006 has been extracted from the Company's consolidated financial statements.

	Years ended December 31,				
	2006	2005	2004	2003	2002
Net income (loss)	\$ (1,621)	\$ 6,766	\$ (673)	\$ (1,008)	\$ (2,448)
Net income (loss) per share (basic and diluted)	(.04)	.15	(.01)	(.02)	(.05)
Cash and cash equivalents and marketable securities	343	2,250	-	3	292
Unproved oil, gas and, mineral properties (full cost method)	2,200	1,861	-	-	-
Total assets	2,709	4,387	17	91	707
Shareholders' (deficit) equity:					
Common stock	5,545	5,545	5,545	5,545	5,545
Capital in excess of par value	32,138	32,138	32,138	32,138	32,068
Deficit accumulated during the development stage	(34,979)	(33,358)	(40,124)	(39,451)	(38,443)
Total shareholders' (deficit) equity	\$ 2,704	\$ 4,325	\$ (2,441)	\$ (1,768)	\$ (830)
Common stock shares outstanding (weighted average)	44,212	44,212	44,212	44,212	44,734

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## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operation 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. For a discussion of certain risk factors affecting the Company, please see "Risk Factors" above.

### **General**

We are now an active independent oil and gas exploration company. Through our subsidiary Coastal Petroleum, we have acquired mineral rights in Montana and North Dakota in the oil producing region known as the Williston Basin. Our objective formations on those leases include the Lodgepole and several others. The Company's future growth will be driven primarily by exploration and development activities. Our business strategy is to increase shareholder value by acquiring and drilling reasonably priced prospects that have good potential, whether in the Williston Basin or in other parts of the United States, with the goal of shaping the Company into a producing independent oil and gas firm. We will continue to seek high quality exploration projects with potential for providing long-term drilling inventories that generate high returns.

In Montana, we have obtained the rights to explore in one area which will be our primary area of focus and we drilled exploratory wells in two other areas: the primary area is a large tract in Valley County in eastern Montana; and the two wells were drilled on a smaller tract in Blaine County in north central Montana and under a farmin agreement on a location in Valley County, south of the Company's primary acreage. These first two wells reached the targeted Lodgepole reef, but were not commercial successes. We are moving forward to begin exploration on our primary area of focus.

The first well we drilled was on the smaller tract in Blaine County in north central Montana, more than 130 miles west of our Valley County acreage. We drilled to a depth of 4,600 feet and reached the targeted Lodgpole reef, but the reef had been flushed with water and there was no oil present. The well passed through multiple other zones that potentially contained oil or gas while drilling to the Lodgepole reef. Each of the other zones was tested and while gas was present in some of the zones, it was not present in commercial quantities. We will not pursue any further drilling in this area.

The Evaline twin well in Valley County, Montana was the other well that we participated in and operated. It was drilled to total depth into the Lodgepole reef that was targeted and encountered oil, but not in sufficient quantities for the Company to earn its interest. We then moved uphole and perforated the Mission Canyon Formation which had a significant show of oil while we were drilling to the Lodgepole. We tested the Mission Canyon and it too contained oil, but again not in sufficient quantities for us to earn an interest in the well. Under the Agreement with Farmor Helis there was a production threshold that had to be met to earn the interest and that threshold could not be met. The Farmor, Helis, may complete the Evaline twin well and establish production at less than the threshold. However, we will move forward from this well and focus on our primary area.

Our primary area of focus covers approximately 137,163.26 net acres in eastern Montana, close to known production from a Lodgepole reef in Valley County. This area of Montana has a number of other producing formations in addition to the Lodgepole. It is in this area of primary focus that we have signed a Letter of Intent with Victory Energy Corporation (“Victory”). We are currently working with Victory to complete the Formal Agreement which should be completed by April 6, 2007. Under the Agreement, Victory will be required to drill a minimum of three wells on our Valley County leases and to make payments totaling \$1,225,000 over the next twelve to thirteen months to us in return for a 50% interest in the leases.

Under the terms of the Letter of Intent which will be incorporated into the Formal Agreement, Victory will commence drilling the first well to test one of our Lodgepole reef prospects within three months of the execution of the Agreement. A second well will be started within four and half months to test a 34,000 acre shallow gas prospect on the leases. The third well under the Agreement will be drilled to test another of our Lodgepole reef prospects and will begin within eight months of the Agreement. The wells will be drilled at Victory’s sole cost and Victory will also participate in paying the lease rentals once the Formal Agreement is signed.

Additional terms of the Letter of Intent provide for Victory to earn a 50% working interest in the spacing unit covered by each well while we will retain the other 50% of the working interest. Victory will also earn an undivided 1/6 working interest in all of our Valley County Leases after each well is drilled. After the three wells are drilled, the Company and Victory will each have a 50% working interest in all of the Valley County, Montana leases. We have also agreed to work together to explore an Area of Mutual Interest within twenty miles of the Leases, encompassing approximately 1,000,000 acres.

We expect that the relationship with Victory Energy will allow the Company to begin exploration of its Valley County leases and to improve the financial standing of the Company until production can be established. It will also allow the Company to become active in this oil play which has very good potential, but with a small initial investment.

In North Dakota, we control the working interest on approximately 9,150 net acres in Slope, Billings, and Starbuck Counties, on which a number of drillable prospects have been mapped to date. The depth of wells in North Dakota is deeper than in Montana (approximately 9,500 feet versus approximately 5,000 feet), and thus the cost of drilling is higher. A typical North Dakota wildcat well costs about \$1.2 million to drill. We intend to bring in others to share the risk and investment in wells it drills in North Dakota until the Company is in a stronger financial position, but we do not yet have any commitments from potential participants for drilling in North Dakota. The drilling deadline on the North Dakota leases has been extended until April 1, 2007.

We plan to drill or participate in approximately three exploratory wells in 2007. However, the number of wells that we drill in 2007 and their cost will be subject to various factors, including the completion of the agreement with Victory, the availability of drilling rigs that we can hire and whether we drill alone or with other participants. In addition, we could reduce the number of wells that we drill if oil and natural gas prices were to decline significantly. We expect the cost of drilling the three wells to depend upon many factors including those above which may affect the cost of operations and whether and to what extent others participate with the Company.

### **Liquidity and Capital Resources**

As more fully described in Note 1 to the consolidated financial statements, we have no recurring revenues, have experienced recurring losses and have a deficit accumulated during the development stage. We, along with various other related parties, settled several lawsuits in 2005, which were filed by the Company, our subsidiary Coastal Petroleum Company and other related parties against the State of Florida. All of these lawsuits were related to the State's actions limiting our ability to commence development activities through our subsidiary. The cost of this litigation was substantial. Management believes its current cash position and the proposed agreement with Victory 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. These situations raise substantial doubt about our ability to continue as a going concern. Our 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 these uncertainties.

At December 31, 2006, we have \$343,000 in cash compared to \$2,250,000 at December 31, 2005. In July 2005, we and others settled all our lawsuits with the State of Florida for a total of \$12,500,000. Our share of the proceeds was \$8,105,000, from which we paid all our legal related obligations and creditors, and acquired the remaining minority interest in Coastal Petroleum, after which we netted \$4,872,000 in cash.

During 2006, we spent \$1,358,000 for well drilling costs and acquisition and maintenance of our oil and gas lease rights including:

- The payment of rentals on the 137,163.26 net acres of leases we have in Valley County, Montana, totaling \$340,000. These leases are subject to various overriding royalty interests held by others of up to 19.5%. The leases expire in 10 years from 2007 to 2014.
- The drilling of two oil and gas exploratory wells. The Blaine County, Montana well was drilled by Coastal Petroleum at its sole cost. The Valley County Evaline twin well was operated by Coastal Petroleum, who was also one of six participants in the well. The Company was responsible for 1/6<sup>th</sup> of the costs of the drilling, completing and testing of that well. Together the Company spent \$1,018,000 on the drilling, completing and testing of the two wells.

We expect to continue to participate with others to drill additional wells both in Montana and North Dakota.

## **Results of Operations and Critical Accounting Policies and Estimates**

### **Development Stage Enterprise Presentation**

The Company is a development stage enterprise. It has never had substantial revenues and has operated at a loss each year (except 2005) since its inception in 1953.

### **Oil and Gas Accounting**

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.

Prior to 2005, all costs incurred in connection with the Company's Florida leases were considered impaired by the actions taken by the State of Florida. The Company recorded an impairment charge in 2001 and has expensed subsequent costs when incurred.

During 2005, we acquired new oil and gas leases in North Dakota and Montana. We have capitalized these and other related costs and have begun a site selection and well drilling program.

During 2006, the Company drilled one well and participated in the drilling of a second well that did not provide commercial quantities of oil or gas, and expensed the \$1,018,000 of drilling costs.

### **Goodwill Impairment**

As part of the 2005 settlement, we acquired the remaining minority interest in our subsidiary, Coastal Petroleum, representing 15.2% of its outstanding common stock for \$802,000 in cash. Since Coastal did not have any tangible or intangible assets, we assigned this amount to goodwill. We then evaluated the goodwill and determined it was impaired as Coastal Petroleum had no expected revenues or cash flows at that time and we recorded an impairment expense of \$802,000.

**2006 vs. 2005**

During 2006, we drilled two wells and continued to seek additional leases and prospects as well as capital partners with whom to drill them. However, we did not recognize any revenue in 2006, wrote off the costs of our two wells and realized a loss of \$(1,621,000). During 2005, we settled all our legal actions with the State of Florida and realized a gain of \$8,124,000. This gain provided us with our first reported net income for 2005 of \$6,766,000.

For most of 2005, we had been working toward resolution of our legal actions against the State of Florida. During this time, 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.

Our expenses increased overall in 2006 from 2005 due to our operational focus to oil exploration from pursuing legal actions. Our operating expenses were \$678,000 and \$572,000 for 2006 and 2005, respectively. The largest increase was in administrative expenses in 2006 from 2005 due to increases in travel, lodging and other costs related to our drilling program and the addition of one employee. Our shareholder related expenses decreased in 2006 due to holding a shareholder meeting in 2005 that was not held in 2006.

For 2005, we reported a goodwill impairment expense of \$802,000. For 2006, we wrote off our drilling costs of \$1,018,000.

**2005 vs. 2004**

During 2005, we settled all our legal actions with the State of Florida and realized a gain of \$8,124,000. In previous years, we expensed all our oil and gas property lease costs as impaired as well as substantial legal costs. This gain provided us with our first reported net income for 2005 of \$6,800,000, compared to a net loss of \$(673,000) for 2004.

For most of 2005 and 2004, we were working toward resolution of our legal actions against the State of Florida. During this time, 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.

Our interest income increased in 2005 due to the short-term investment of cash received from the settlement. We had no such investments in 2004.

For 2005 and 2004, we had one employee, and maintained legal counsel on a monthly retainer, maintained our periodic reporting obligations and attempted to minimize all other operating expenses. Our operating expenses were \$572,000 and \$673,000 for 2005 and 2004, respectively. The largest decrease was in legal expenses in 2005 from 2004 due to our change in focus to settle with the State of Florida. Our shareholder related expenses increased in 2005 due to holding a shareholder meeting in 2005 that was not held in 2004.

For 2005, we reported a goodwill impairment expense of \$802,000. We had no such impairment charges in 2004.

**Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

The Company does not have any significant exposure to market risk as the only market risk sensitive instruments are its investments in marketable securities. At December 31, 2006, the carrying value of such investments (including those classified as cash and cash equivalents) was approximately \$342,541, the fair value was \$342,541 and the face value was \$342,541. Since the Company expects to hold the investments to maturity, the maturity value should be realized.

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**Item 8. Financial Statements and Supplementary Data**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors  
Coastal Caribbean Oils & Minerals, Ltd.  
Apalachicola, Florida

We have audited the consolidated balance sheet of Coastal Caribbean Oils & Minerals, Ltd. and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows, for the years then ended, and for the period from January 31, 1953 (inception) to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Coastal Caribbean Oils & Minerals, Ltd. and subsidiary as of December 31, 2006 and 2005, and the results of their operations and cash flows for the years then ended, and for the period from January 31, 1953 (inception) to December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Notes 1 and 4 to the consolidated financial statements, the Company suffered recurring losses from operations and has not yet realized any revenues from development activities. This raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Baumann, Raymondo & Company PA  
Tampa, Florida

March 19, 2007

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors,  
Coastal Caribbean Oils & Minerals, Ltd.:

We have audited the accompanying consolidated statements of operations, cash flows and common stock and capital in excess of par value of Coastal Caribbean Oils & Minerals, Ltd. (a development stage company) for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Coastal Caribbean Oils & Minerals, Ltd. for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1 to the consolidated financial statements, the Company has a working capital deficiency, has incurred recurring losses and has a deficit accumulated during the development stage. 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 classifications or liabilities that may result from the outcome of these uncertainties.

/s/ James Moore & Co., P.L.  
March 15, 2005  
Gainesville, Florida

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**(A Bermuda Corporation)  
A Development Stage Company**CONSOLIDATED BALANCE SHEETS**

(Expressed in U.S. dollars)

	December 31,	
	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 342,541	\$ 2,250,236
Prepaid expenses and other	29,255	199,754
Total current assets	371,796	2,449,990
Certificates of deposit	126,313	75,000
Petroleum leases	2,199,809	1,860,614
Equipment, net	11,455	1,771
Total assets	\$ 2,709,373	\$ 4,387,375
<b>Liabilities and Shareholders' (Deficit) Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,322	\$ 27,526
Income taxes payable	-	35,000
Total current liabilities	5,322	62,526
Shareholders' (deficit) equity:		
Common stock, par value \$.12 per share:		
Authorized - 250,000,000 shares		
Outstanding - 46,211,604		
shares, 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	(34,979,152)	(33,358,354)
Total shareholders' (deficit) equity	2,704,051	4,324,849
Total liabilities and shareholders' (deficit) equity	\$ 2,709,373	\$ 4,387,375

See accompanying notes.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**(A Bermuda Corporation)  
A Development Stage Company**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Expressed in U.S. Dollars)

	Years ended December 31,			For the period from Jan. 31, 1953 (inception) to Dec. 31, 2006
	2006	2005	2004	
<b>Gain on settlement</b>	\$ -	\$ 8,124,016	\$ -	\$ 8,124,016
<b>Interest and other income</b>	41,350	50,723	1	3,969,644
	41,350	8,174,739	1	12,093,660
<b>Expenses:</b>				
Legal fees and costs	204,169	155,388	327,091	17,259,236
Administrative expenses	313,743	201,847	208,414	10,251,283
Salaries	143,200	112,020	112,838	4,011,031
Shareholder communications	17,601	102,817	24,565	4,093,510
Goodwill impairment	-	801,823	-	801,823
Write off of unproved properties	1,018,435	-	-	6,578,929
Exploration costs	-	-	-	247,465
Lawsuit judgments	-	-	-	1,941,916
Minority interests	-	-	-	(632,974)
Other	-	-	-	364,865
Contractual services	-	-	-	2,155,728
	1,697,148	1,373,895	672,908	47,072,812
<b>Net income (loss) before income taxes</b>	(1,655,798)	6,800,844	(672,907)	-
<b>Income tax benefit (expense)</b>	35,000	(35,000)	-	-
<b>Net income (loss)</b>	\$ (1,620,798)	\$ 6,765,844	\$ (672,907)	
Deficit accumulated during the development stage				\$ (34,979,152)
Net income (loss) per share based on weighted average number of shares outstanding during the period:				
Basic and diluted EPS	\$ (.035)	\$ .146	\$ (.015)	
Weighted average number of shares outstanding (basic and diluted)	46,211,604	46,211,604	46,211,604	

See accompanying notes.

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**COASTAL CARIBBEAN OILS & MINERALS, LTD.**(A Bermuda Corporation)  
A Development Stage Company**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in U.S. Dollars)

	Years ended December 31,			For the period from Jan. 31, 1953 (inception) To Dec. 31, 2006
	2006	2005	2004	
<b>Operating activities:</b>				
Net income (loss)	\$ (1,620,798)	\$ 6,765,844	\$ (672,907)	\$ (34,979,152)
Adjustments to reconcile net loss to net cash used in operating activities:				
Gain on settlement	-	(8,124,016)	-	(8,124,016)
Goodwill impairment	-	801,823	-	801,823
Minority interest	-	-	-	(632,974)
Depreciation	1,398	120	-	1,518
Write off of unproved properties	1,018,435	-	-	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	170,499	(183,432)	71,625	(29,256)
Accrued liabilities	(22,204)	(2,349,680)	518,296	5,324
Income taxes payable	(35,000)	35,000	-	-
Other assets	-	-	-	-
Net cash used in operating activities	(487,670)	(3,054,341)	(82,986)	(35,871,884)
<b>Investing activities:</b>				
Additions to oil, gas, and mineral properties net of assets acquired for common stock and reimbursements	(339,195)	(1,860,614)	-	(5,939,991)
Well drilling costs	(1,018,435)	-	-	(1,018,435)
Net proceeds from settlement	-	8,124,016	-	8,124,016
Proceeds from relinquishment of surface rights	-	-	-	246,733
Purchase of certificates of deposit	(51,313)	(75,000)	-	(126,313)
Purchase of Minority interest in subsidiary	-	(801,823)	--	(801,823)
Purchase of equipment	(11,082)	(1,891)	-	(74,623)

Net cash provided by (used in) investing activities	(1,420,025)	5,384,688	-	409,564
<b>Financing activities:</b>				
Loans from Officers	-	31,500	80,290	111,790
Repayment of loans to officers	-	(111,790)	-	(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	-	(80,290)	80,290	35,804,861
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,907,695)</b>	<b>2,250,057</b>	<b>(2,696)</b>	<b>342,541</b>
Cash and cash equivalents at beginning of period	2,250,236	179	2,875	-
Cash and cash equivalents at end of period	\$ 342,541	\$ 2,250,236	\$ 179	\$ 342,541

See accompanying notes.

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

(A Bermuda Corporation)

A Development Stage Company

**CONSOLIDATED STATEMENT OF COMMON STOCK  
AND CAPITAL IN EXCESS OF PAR VALUE**

(Expressed in U.S. dollars)

For the period from January 31, 1953 (inception) to December 31, 2006

	Number of Shares	Common Stock	Capital in Excess of Par Value
Shares issued for net assets and unrecovered costs at inception	5,790,210	\$ 579,021	\$ 1,542,868
Sales of common stock	26,829,486	3,224,014	16,818,844
Shares issued upon exercise of stock options	510,000	59,739	799,760
Market value (\$2.375 per share) of shares issued in 1953 to acquire an investment	54,538	5,454	124,074
Shares issued in 1953 in exchange for 1/3 <sup>rd</sup> of a 1/60 <sup>th</sup> overriding royalty (sold in prior year) in nonproducing leases of Coastal Petroleum	84,210	8,421	-
Market value of shares issued for services rendered during the period 1954-1966	95,188	9,673	109,827
Net transfers to restate the par value of common stock outstanding in 1962 and 1970 to \$0.12 per share	-	117,314	(117,314)
Increase in Company's investment (equity) due to capital transactions of Coastal Petroleum in 1976	-	-	117,025
Balance at December 31, 1990	33,363,632	4,003,636	19,395,084
Sale of subsidiary shares	-	-	300,000
Balance at December 31, 1991	33,363,632	4,003,636	19,695,084
Sale of subsidiary shares	-	-	390,000
Balance at December 31, 1992	33,363,632	4,003,636	20,085,084
Sale of subsidiary shares	-	-	1,080,000
Balance at December 31, 1993	33,363,632	4,003,636	21,165,084
Sale of subsidiary shares	-	-	630,000
Balance at December 31, 1994	33,363,632	4,003,636	21,795,084
Sale of subsidiary shares	-	-	600,000
Balance at December 31, 1995	33,363,632	4,003,636	22,395,084
Sale of common stock	6,672,726	800,727	5,555,599
Sale of subsidiary shares	-	-	480,000
Exercise of stock options	10,000	1,200	12,300
Balance at December 31, 1996	40,046,358	4,805,563	28,442,983
Sale of subsidiary shares	-	-	240,000
Exercise of stock options	10,000	1,200	10,050
Balance at December 31, 1997, 1998 and 1999	40,056,358	4,806,763	28,693,033
Sale of common stock	3,411,971	409,436	2,729,329
Compensation recognized for stock option grant	-	-	75,000
Balance at December 31, 2000 and 2001	43,468,329	5,216,199	31,497,362
Sale of common stock	2,743,275	329,193	570,449



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Balance as of December 31, 2002	46,211,604	5,545,392	32,067,811
Sale of subsidiary shares	-	-	70,000
Balance as of December 31, 2003, 2004, 2005 and 2006	46,211,604 \$	5,545,392 \$	32,137,811

See accompanying notes.

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**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**1. Summary of significant accounting policies**

Consolidation

The accompanying consolidated financial statements include the accounts of Coastal Caribbean Oils & Minerals, Ltd., a Bermuda corporation (Coastal Caribbean) and its wholly owned subsidiary, Coastal Petroleum Company (“Coastal Petroleum”), referred to collectively as the Company. The Company, which has been engaged in a single industry segment, is considered to be a development stage company since its exploration for oil, gas and minerals has not yet yielded any significant revenue or reserves. All intercompany transactions have been eliminated. Certain prior year amounts have been reclassified to conform with the current year presentation.

Cash and Cash Equivalents

The Company considers all highly liquid short-term investments with maturities of three months or less at the date of acquisition to be cash equivalents.

Equipment

Equipment is recorded at cost. Depreciation is provided using straight-line over five years, the estimated useful lives of the assets.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The outcome of the litigation and the ability to develop the Company’s oil and gas properties will have a significant effect on the Company’s financial position and results of operations. Actual results could differ from those estimates.

Unproved Oil, Gas and Mineral Properties

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.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**1. Summary of significant accounting policies (Cont'd)**

Prior to 2005, the Company's undeveloped and nonproducing Florida properties were subject to extensive litigation with the State of Florida and all costs associated with oil and gas properties were deemed impaired and had been expensed.

During 2006, the Company drilled one well and participated in the drilling of a second well that did not produce commercial quantities of oil or gas, and expensed the \$1,018,000 of drilling costs.

**Sale of Subsidiary Shares**

All amounts realized from the sale of Coastal Petroleum shares have been credited to capital in excess of par value.

**Net Income (Loss) Per Share**

Net income (loss) per common 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.

**Financial instruments**

The carrying value for cash and cash equivalents, certificates of deposit, and accounts payable approximates fair value based on anticipated cash flows and current market conditions.

**Stock Based Compensation**

The Company uses the fair value based method of accounting for its stock option plans. Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004), *Share-Based Payments*, which requires companies to expense stock options and other share-based payments. SFAS No. 123R supersedes SFAS No. 123, which permitted either expensing stock options or providing pro forma disclosure. The Company adopted the modified prospective application transition method as proscribed by SFAS No. 123R, which applies to all new awards and to awards granted, modified, canceled or repurchased after January 1, 2006, as well as the unvested portion of the prior awards. The adoption of SFAS No. 123R resulted in no changes to the 2006 or prior financial statement amounts or disclosures.

Prior to January 1, 2006, the Company followed the provisions of APB Opinion No. 25 and related Interpretations in accounting for stock issued to employees. Compensation expense resulting from stock options issued under the stock option plan (Note 6) is measured at the grant date based upon the difference between the exercise price and the market value of the common stock. All stock options issued to employees during 2005 were granted at an exercise price equal to the market value at the date of grant. Stock-based compensation arrangements involving non-employees are accounted for under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). The Company provides the disclosure

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**1. Summary of significant accounting policies (Cont'd)**

requirements of SFAS 123 and the Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS 123 for employee arrangements* for 2005 and 2004.

Under SFAS No. 123, the fair value of each option granted is estimated using the Black-Scholes stock option pricing model. The following assumptions were made in estimating fair value of options issued to employees and directors: risk-free interest rate of 4.52% in 2005; no dividend yield; expected life of five years; and expected volatility of 146%. Had the compensation cost of stock options issued to employees and directors been determined on the basis of fair value pursuant to SFAS No. 123, the net income (loss) and earnings (loss) would have been as follows:

	2005	2004
<b>Net income (loss)</b>	\$ 6,765,844	\$ (672,907)
Less: stock-based employee and director compensation determined under the fair value method for all awards, net of related tax effect	73,000	-
Proforma net income (loss)	\$ 6,692,844	\$ (672,907)
<b>Earnings (loss) per share:</b>		
Basic and diluted as reported	\$ .146	\$ (.015)
Less: stock-based employee and director compensation determined under the fair value method for all awards, net of related tax effect	(.001)	-
Proforma earnings (loss) per share	\$ .145	\$ (.015)

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued several new standards which have implementation dates subsequent to the Company's year end. Management does not believe that any of these new standards will have material impact on the Company's financial position, results of operations or cash flows.

Going Concern

The Company has no recurring revenues, had recurring losses in 2006 and prior to 2005, and has a deficit accumulated during the development stage. Management believes its current cash position and proposed agreement with Victor (see Note 3) 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.

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



**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**1. Summary of significant accounting policies (Cont'd)**

amounts and classification of liabilities, which may result from the outcome of this uncertainty.

**2. Coastal Petroleum Company - Minority Interests**

In 2005, as part of the settlement with the State of Florida, Lykes Minerals Corp. (Lykes), a wholly owned subsidiary of Lykes Bros. Inc. returned its 78 Coastal Petroleum shares (26.35%) to Coastal Petroleum in order to receive compensation from the State of Florida for all its rights and to cancel an agreement with Lykes that entitled Lykes to exchange each Coastal Petroleum share for 100,000 Coastal Caribbean shares, subject to adjustment for dilution and other factors and the right to exchange Coastal Petroleum shares for overriding royalty interests in Coastal Petroleum properties.

In 2005, Coastal Petroleum also acquired 45 of its shares (15.20%) from others as part of the settlement with the State of Florida 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 expensed in 2005. Coastal Petroleum is a wholly owned subsidiary of Coastal Caribbean as of December 31, 2006.

**3. Unproved Oil, Gas and Mineral Properties**

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 \$800,000 in drilling costs through December 31, 2006. 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 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. The total cost of the well was approximately \$1,260,000.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**3. Unproved Oil, Gas and Mineral Properties (Cont'd)**

**Montana Leases**

The Company's primary presence in Montana is in Valley County, where it holds leases covering 137,163.26 net acres, of 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 EOC 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 signed a Letter of Intent with Victory Energy Corporation ("Victory") and is currently working with Victory to complete the Formal Agreement which should be completed by April 6, 2007. Under the Agreement, Victory would be required to drill a minimum of three wells on the Company's Valley County leases and to make payments totaling \$1,225,000 over the next twelve to thirteen months to Coastal Petroleum in return for a 50% interest in the leases.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**3. Unproved Oil, Gas and Mineral Properties (Cont'd)**

Under the terms of the Letter of Intent, which will be incorporated into the Formal Agreement, Victory will commence drilling the first well to test one of the Company's Lodgepole reef prospects within three months of the execution of the Agreement. A second well will be started within four and half months to test a 34,000 acre shallow gas prospect on the leases. The third well under the Agreement will be drilled to test another of the Company's Lodgepole reef prospects and will begin within eight months of the Agreement. The wells will be drilled at Victory's sole cost and Victory will also participate in paying the lease rentals once the Formal Agreement is signed.

Additional terms provide that Victory will earn a 50% working interest in the spacing unit covered by each well while Coastal Petroleum will retain the other 50% of the working interest. Victory will also earn an undivided 1/6<sup>th</sup> working interest in all of the Company's Valley County Leases after each well is drilled. After the three wells are drilled Coastal Petroleum and Victory will each have a 50% working interest in all of the Valley County, Montana leases. The parties have also agreed to work together to explore an Area of Mutual Interest within twenty miles of the Leases encompassing approximately 1,000,000 acres.

The Company is working with Victory to begin the permitting process on the first wells to be drilled under the formal agreement. The first of the wells is expected to begin before the end of July, 2007. The Company estimates the cost to drill the initial test well on the Valley County Leases to be approximately \$800,000.

**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 April 1, 2007, and has the option to drill the remaining Lodgepole reef prospects on these leases. The Company intends to work 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.



**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

#### **4. Litigation**

##### **Settlement Agreement with the State of Florida**

The State paid out the settlement through an intermediary in July 2005. The total settlement and the amount received by the Company were 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

The Company recorded a gain on its share of the settlement of \$8,124,000 after deducting all direct settlement costs and costs to cancel various royalty rights related to the Florida leases.

The settlement with the State of Florida in July 2005, included the closing and dismissal of the following legal actions:

Drilling Permit Litigation - Lease Taking Case (Lease 224-A)

Drilling Permit Litigation - Lease Taking Case (Lease 224-B)

Royalty Taking Case

Prior to 2005, Coastal Petroleum had agreed to pay an aggregate of 7.9% in contingent fees based on any net recovery from execution on or satisfaction of judgment or from settlement of the Florida litigation. No contingency fees were deemed due from the proceeds of the settlement agreement with the State of Florida, as the past costs and fees for the Florida Litigation exceed the amount of funds the Company will receive under the Agreement.

#### **5. Common Stock**

The Company's Bye-Law No. 21 provides that any matter to be voted upon must be approved not only by a majority of the shares voted at such meeting, but also by a majority in number of the shareholders present in person or by proxy and entitled to vote thereon.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**5. Common Stock (cont.)**

There was no activity in Common Stock during 2006, 2005 and 2004.

The following represents shares issued upon sales of common stock:

Year	Number of Shares	Common Stock	Capital in Excess of Par Value
1953	300,000	\$ 30,000	\$ 654,000
1954	53,000	5,300	114,265
1955	67,000	6,700	137,937
1956	77,100	7,710	139,548
1957	95,400	9,540	152,492
1958	180,884	18,088	207,135
1959	123,011	12,301	160,751
1960	134,300	13,430	131,431
1961	127,500	12,750	94,077
1962	9,900	990	8,036
1963	168,200	23,548	12,041
1964	331,800	46,452	45,044
1965	435,200	60,928	442,391
1966	187,000	26,180	194,187
1967	193,954	27,153	249,608
1968	67,500	9,450	127,468
1969	8,200	1,148	13,532
1970	274,600	32,952	117,154
1971	299,000	35,880	99,202
1972	462,600	55,512	126,185
1973	619,800	74,376	251,202
1974	398,300	47,796	60,007
1975	-	-	(52,618)
1976	-	-	(8,200)
1977	850,000	102,000	1,682,706
1978	90,797	10,896	158,343
1979	1,065,943	127,914	4,124,063
1980	179,831	21,580	826,763
1981	30,600	3,672	159,360
1983	5,318,862	638,263	1,814,642
1985	-	-	(36,220)
1986	6,228,143	747,378	2,178,471
1987	4,152,095	498,251	2,407,522
1990	4,298,966	515,876	26,319
1996	6,672,726	800,727	5,555,599
2000	3,411,971	409,436	2,729,329
2002	2,743,275	329,193	570,449

39,657,458 \$ 4,763,370 \$ 25,674,221

The following represents shares issued upon exercise of stock options:

Year	Number of Shares		Common Stock		Capital in Excess of Par Value
1955	73,000	\$	7,300	\$	175,200
1978	7,000		840		6,160
1979	213,570		25,628		265,619
1980	76,830		9,219		125,233
1981	139,600		16,752		227,548
1996	10,000		1,200		12,300
1997	10,000		1,200		10,050
	530,000	\$	62,139	\$	822,110

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**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**6. Stock Option Plans**

At December 31, 2006, the Company maintains two stock-based employee compensation plans.

During 1995, the Company adopted a Stock Option Plan covering 1,000,000 shares of the Company's common stock. In July 2005, the Company issued an option to its president to acquire 50,000 shares of the Company's common stock at a price of \$.15 per share under the Company's stock option plan. The option expires in ten years and was fully vested when issued. The Company determined the fair value of the stock did not exceed the exercise price on the date of issuance and no expense was recorded in 2005.

Unexercised options that existed prior to the 2005 Agreement with the State of Florida were terminated by the Agreement or the releases exchanged during the process of closing the Agreement.

In December 2005, the Company issued options to its directors to acquire 200,000 shares of the Company's common stock at a price of \$.15 per share. The option expires in December 2015 and was fully vested when issued. The Company determined the fair value of the stock did not exceed the exercise price on the date of issue.

During 2005, the Company adopted a Stock Option Plan covering 2,300,000 shares of the Company's common stock. In September 2005, the Company issued an option to its president to acquire 250,000 shares of the Company's common stock at a price of \$.20 per share under the Company's stock option plan, subject to the approval of the Plan by the shareholders. The Plan was approved at the shareholders meeting on December 9, 2005. The option expires in ten years and was fully vested when issued. The Company determined the fair value of the stock did not exceed the exercise price on the date of issue.

Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004), *Share-Based Payments*, which requires companies to expense stock options and other share-based payments. The Company did not issue any stock options or share-based payments in 2006.

Prior to January 1, 2006, the Company followed APB Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for options issued to employees, which is referred to as the intrinsic value method. Under that method no expense related to the issuance of stock options has been recognized in the accompanying financial statements for 2005.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**6. Stock Option Plans (Cont'd)**

The following table summarizes employee stock option activity:

Employee Options outstanding	Number of Shares	Range of Per Share Option Price (\$)	Weighted Average Exercise Price (\$)	Aggregate Option Price (\$)
Outstanding and exercisable at December 31, 2004	700,000	.91	.91	637,000
Nullified, cancelled or released during 2005	(700,000)	.91	.91	637,000
Issued during 2005	500,000	.15 - .20	.18	87,500
Outstanding and exercisable at December 31, 2005	500,000	.15 - .20	.18	87,500
Issued during 2006	-	-	-	-
Outstanding and exercisable at December 31, 2006	500,000	.15 - .20	.18	87,500
<b>Available for grant at December 31, 2006</b>	<b>2,775,000</b>			

**Summary of Employee Options Outstanding at December 31, 2006**

Year Granted	Number of Shares	Expiration Date	Exercise Prices (\$)
Granted 2005	50,000	July 25, 2015	.15
Granted 2005	250,000	September 27, 2015	.20
Granted 2005	200,000	December 20, 2015	.15

The weighted-average remaining contractual life of the outstanding stock options at December 31, 2006, 2005 and 2004 was 9 years, 10 years and 8 years, respectively.

**Nonqualified Stock Options**

In July 2005, the Company issued an option to its legal counsel to acquire 25,000 shares of the Company's common stock at a price of \$.15 per share. The option expires in July 2015 and was fully vested when issued. The market value of the stock equaled the exercise price on the date of issue.

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**6. Stock Option Plans (Cont'd)**

A summary of non-employee option activity follows:

<b>Non-Employee Options outstanding</b>	<b>Number of Shares</b>	<b>Range of Per Share Option Price (\$)</b>	<b>Weighted Average Exercise Price (\$)</b>	<b>Aggregate Option Price (\$)</b>
Outstanding and exercisable at December 31, 2004	-	-	-	-
Nullified, cancelled or released during 2005	-	-	-	-
Issued during 2005	25,000	.15	.15	3,750
Outstanding and exercisable at December 31, 2005	25,000	.15	.15	3,750
Issued during 2006	-	-	-	-
Outstanding and exercisable at December 31, 2006	25,000	.15	.15	3,750

Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004), *Share-Based Payments*, which requires companies to expense stock options and other share-based payments. The Company did not issue any stock options or share-based payments to non-employees in 2006.

Prior to January 1, 2006, the Company followed SFAS 123 in accounting for stock options issued to non-employees. The fair value of each option granted is estimated using the Black-Scholes stock option pricing model. The following assumptions were made in estimating fair value: risk-free interest rate of 4.52% in 2005; no dividend yield; expected life of five years; expected volatility of 144%.

The following table summarizes information about non-employee stock options:

**Summary of Non Employee Options Outstanding at December 31, 2005**

<b>Year Granted</b>	<b>Number of Shares</b>	<b>Expiration Date</b>	<b>Exercise Prices (\$)</b>
Granted 2005	25,000	July 25, 2015	.15

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**7. Income taxes**

The Company is organized under the laws of Bermuda. Bermuda currently imposes no taxes on corporate income or capital gains outside of Bermuda. The Company's subsidiary is a U.S. corporation and is subject to U.S. income tax and files income tax returns in the U.S. and the State of Florida. For 2006, the subsidiary has net taxable loss. The subsidiary will have approximately \$10,000,000 in net operating losses to carry forward to 2007. The remaining net operating loss carry forwards expire in periods from 2009 through 2026 as follows: \$62,000 in 2009, \$571,000 in 2010, \$955,000 in 2011, \$1,281,000 in 2012, \$757,000 in 2018, \$622,000 in 2019, \$749,000 in 2020, \$1,884,000 in 2021, \$1,693,000 in 2022, \$132,000 in 2023, \$57,000 in 2024, and \$1,400,000 in 2026. For financial reporting purposes, a valuation allowance has been recognized to offset the deferred tax assets relating to those carry forwards.

For 2005, the Company provided an estimated U.S. income tax provision of \$35,000 resulting from the settlement with the State of Florida. The Company ultimately did not realize a tax liability for 2005 and this provision was reversed in 2006 as an income tax benefit.

Significant components of the Company's deferred tax assets were as follows:

	2006	2005
Net operating losses	\$ 3,800,000	\$ 3,300,000
Accruals to related parties	-	-
Write off of unproved properties	-	-
Total deferred tax assets	3,800,000	3,300,000
Valuation allowance	(3,800,000)	(3,300,000)
Net deferred tax assets	\$ -	\$ -

Components of the income tax provision are as follows:

	2006	2005	2004
<b>Provision for income taxes</b>			
Current provision (benefit) for income taxes	\$ (35,000)	\$ 1,345,000	\$ -
Provision for deferred tax liability	-	-	-
Benefit of other deductible carryforward items	-	(617,000)	-
Benefit of net operating loss	(600,000)	(693,000)	(253,000)
Deferred asset valuation allowance (reversal)	600,000	-	253,000
Net income tax provision (benefit)	\$ (35,000)	\$ 35,000	\$ -

**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**8. Related party transactions**

Oil and Gas Exploration Activities

In 2005, the Company acquired various oil and gas rights for one time fees of \$100,000 from an entity controlled by one of the Company's Directors.

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 \$72,800 and \$50,000 paid to this entity for the years ended December 31, 2006 and 2005, respectively.

Services

The Company expensed \$144,000, \$72,000 and \$288,000 in fees by Angerer & Angerer in 2006, 2005 and 2004, respectively. Robert Angerer, Sr. was elected a director of Coastal Caribbean and of Coastal Petroleum on January 30, 2003 and re-elected a Vice President of Coastal Caribbean and Coastal Petroleum in December 2005.

The Company expensed \$50,453, \$44,022 and \$8,000 for legal fees by the law firm of Iglar & Dougherty, PA, during 2006, 2005, and 2004. Mr. Herbert D. Haughton, a shareholder of the firm, was elected a director of Coastal Caribbean and of Coastal Petroleum in December 2005.

**9. Selected quarterly financial data (unaudited)**

The following is a summary (in thousands, except for per share amounts) of the quarterly results of operations for the years ended December 31, 2006 and 2005:

<b>2006</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>
	(\$)	(\$)	(\$)	(\$)
Total revenues	-	-	-	-
Expenses	(197)	(181)	(177)	(1,130)
Gains and other income	15	11	9	6
Income Taxes	-	-	35	-
Impairment of goodwill	-	-	-	-
Net income (loss)	(182)	(170)	(133)	(1,136)
Per share (basic & diluted)	(.004)	(.004)	(.003)	(.024)
Weighted average number of shares outstanding	46,212	46,212	46,212	46,212



**COASTAL CARIBBEAN OILS & MINERALS, LTD.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**9. Selected quarterly financial data (unaudited) (Cont'd)**

<b>2005</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>
	(\$)	(\$)	(\$)	(\$)
Total revenues	-	-	-	-
Expenses	(88)	(66)	(185)	(233)
Gains and other income	-	-	8,147	28
Income Taxes	-	-	(35)	-
Impairment of goodwill	-	-	(802)	-
Net income (loss)	(88)	(66)	7,125	(205)
Per share (basic & diluted)	(.002)	(.001)	.154	(.004)
Weighted average number of shares outstanding	46,212	46,212	46,212	46,212

**10. Concentrations of credit risk**

All demand and certificate of deposits are held by national banks. The Company has no policy requiring collateral or other security to support its deposits, although all demand and certificate of deposits with banks are federally insured up to \$100,000 under FDIC protection. Demand deposit bank balances totaled \$358,798 and \$2,446,458 at December 31, 2006 and 2005, respectively. Certificate of deposit balances were \$126,313 and \$75,000 at December 31, 2006 and 2005, respectively.

**11. Significant fourth quarter adjustments**

During the fourth quarter of 2006, the Company drilled one well and participated in the drilling of a second well that did not prove commercial quantities of oil or gas, and expensed the \$1,018,000 of drilling costs.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

### ***Previous Independent Accountants***

On August 18, 2005, James Moore & Co., P.L. ("James Moore") resigned as Coastal Caribbean Oils & Minerals, Ltd. (the "Company") independent public accountants. James Moore's decision to resign was not recommended or approved by the Company's Board of Directors or any committee thereof.

James Moore's report on the Company's consolidated financial statements for the Company's fiscal year ended December 31, 2004 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal year ended December 31, 2004 and through August 18, 2005, there were no disagreements with James Moore on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to James Moore's satisfaction, would have caused James Moore to make reference to the subject matter in connection with their report on the Company's consolidated financial statements for such year and there were no reportable events as defined in Item 304(a)(1)(v) of the Regulation S-K.

The Company provided James Moore with a copy of the foregoing disclosures.

### ***New Independent Accountants***

On August 18, 2005 the Company retained Baumann Raymondo & Company, P.A. as its independent public accountants.

## **Item 9A. Controls and Procedures**

- a. Evaluation of disclosure controls and procedures. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. As required by Rule 13a-15(b) under the Exchange Act, our Chief Executive Officer who is also our Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The Company's Chief Executive Officer has concluded that the Company's disclosure controls and procedures, as of December 31, 2006 were effective.
- b. Changes in internal controls. The Company made no changes in its internal control over financial reporting that occurred during the Company's fourth fiscal quarter that has materially affected, or which is reasonably likely to materially affect the Company's internal control over financial reporting.

**PART III****Item 10. Directors and Executive Officers of the Company****Directors**

As of December 31, 2006, the board of directors included five members, one of whom, Mr. Ware, also serves as a executive officer. The board is divided into three classes, with each class serving a term of office of three years or until such time as their successors are elected, qualified, and assume office. The Company has not held an annual meeting since the annual meeting held in December 2005 due to the high cost of holding such a meeting. Therefore the director whose term expired at the annual meeting to be held in 2006 continues to serve until his successor is elected and assumes office.

Name	Director Since	Other Offices Held With the Company	Age and Business Experience For the Past Five Years
<b>Directors With Three Year Terms Expiring at the 2008 Annual Meeting:</b>			
Phillip W. Ware	1985	President, Chief Executive Officer and Principal Accounting Officer	Mr. Ware, age 57, has been employed by Coastal Petroleum Company since 1976. He has served as President of Coastal Petroleum since April 1985. Mr. Ware is a 1975 graduate of the University of Florida and is a professional geologist registered with the State of Florida.
Robert J. Angerer, Sr.	2003	Vice President and Chairman of the Board	Mr. Angerer, age 60, is a partner in Oil For America, an oil exploration business formed in 2002, with operations primarily in North Dakota and Montana. He is a lawyer and an engineer and has been a member of the Florida Bar since 1974. He has been a partner in the Tallahassee law firm of Angerer & Angerer since 1994. He is a graduate of the University of Michigan and of Florida State University College of Law. He has served as a director of Coastal Petroleum since 2003.

Directors With Two Year Terms Expiring at the 2007 Annual Meeting			
Herbert D. Haughton	N/A	None	Mr. Haughton, age 65, is a banking, corporate and securities lawyer. He is a shareholder in the Tallahassee, Florida law firm of Iglar & Dougherty, PA, where he has practiced law since 1994, following his admission to the Florida Bar. Prior to entering the practice of law, Mr. Haughton spent over 30 years in the banking industry serving as president and chief executive officer of three different community banks in Florida from 1977 to 1991. He is a graduate of Cleary University and Florida State University College of Law.
Anthony F. Randazzo, Ph.D.	N/A	None	Dr. Randazzo, age 65, is Professor Emeritus of Geological Sciences at the University of Florida where he has worked since 1967. He served as Chairman of the Department of Geology at the University of Florida from 1988 to 1995. He is also currently a co-principal and President of the geotechnical consulting firm Geohazards, Inc. which he was instrumental in forming in 1985. He earned his B.S. degree at The City College of New York in 1963, his M.S. from the University of North Carolina at Chapel Hill 1965, and his Ph.D. from the University of North Carolina at Chapel Hill in 1968. He is a Registered Professional Geologist in the State of Florida and the State of Georgia.

Director With One Year Term Expiring at the 2006 Annual Meeting			
Matthew D. Cannon	N/A	None	Mr. Cannon, age 62, is currently a partner in the Cannon Trading Partnership, which he formed in 1993. From 1991 to 1992 he served as a partner in Seisma Drilling Corporation. From 1988 to 1991 he served as vice president and director of Hilb, Rogal and Hamilton Company, an insurance agency located in Gainesville, Florida which specialized in underwriting, rating, sales, collections and claims associated with commercial lines insurance policies. Prior to that he served as vice president and director of the Cannon-Treweek insurance agency from 1968 to 1988.

### **Executive Officers**

Phillip W. Ware has been President of Coastal Petroleum and Vice President of Coastal Caribbean for many years and became President of Coastal Caribbean effective March 1, 2003, and Robert J. Angerer, Sr., became a director of Coastal Caribbean on January 30, 2003 and Vice President of Coastal Caribbean on February 27, 2003. Effective August 18, 2005, Kenneth Michael Cornell of Cornell & Associates, Inc. resigned as the Chief Financial Officer and Principal Accounting Officer of the Company, at which time Mr. Ware was appointed Principle Accounting Officer.

Officers of Coastal Caribbean are elected annually by the board and report directly to it.

Only Mr. Ware received direct compensation for his services as an officer of Coastal Caribbean or Coastal Petroleum. \$69,000 and \$92,000 of Mr. Ware's compensation for his services was deferred during 2003 and 2004, respectively and was paid in 2005. Mr. Ware devotes 100% of his professional time to the business and affairs of Coastal Caribbean and Coastal Petroleum. The other executive officer devotes a small percentage of his professional time as an officer on behalf of the Companies.

The business experience described for each director or executive officer above covers the past five years.

We are not aware of any arrangements or understandings between any of the individuals named above and any other person by which any of the individuals named above was selected as a director and/or executive officer. We are not aware of any family relationship among the officers and directors of Coastal Caribbean or its subsidiary except for the father and son relationship between Mr. Angerer, Sr. and Robert J. Angerer, Jr., who serves as the Company Secretary.

### **Compliance with Section 16(a) of the Securities Exchange Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who beneficially own more than 10% of the Company's Common Stock to file initial reports of beneficial ownership and reports of changes in beneficial ownership with the Securities and Exchange Commission (the "SEC"). Such persons are required by the SEC regulations to furnish the Company with copies of all Section 16(a) forms filed by such persons. Based solely on its copies of forms received by it, or written representations from certain reporting persons that no Form 5's were required for those persons, the Company believes that during the just completed fiscal year, its executive officers, directors, and greater than 10% beneficial owners complied with all applicable filing requirements.

### **Code of Ethics**

The Company has adopted a Code of Ethics applicable to principle executive and financial officers. The Code of Ethics is posted on the Company's website at [www.coastalcarib.com](http://www.coastalcarib.com) and may be reviewed by following the link entitled "Corporate Governance Materials." A copy of the Code of Ethics is also filed herein as Exhibit (j).

## **Item 11. Executive Compensation**

### **Compensation Discussion and Analysis**

#### **Compensation Philosophy**

The Company's executive compensation program reflects the Company's philosophy that executive's compensation should be structured so as to closely align executives' interests with the interests of our shareholders. The primary objectives of the Company in determining compensation are to emphasize operating performance criteria that enhance shareholder value and to establish and maintain a competitive executive compensation program that enables the Company to retain and motivate a highly qualified executive who will contribute to the long-term success of the Company. When used in this Compensation Discussion and Analysis section, the term "named executive officer" means the person listed in the Summary Compensation Table.

Consistent with this philosophy, we seek to provide compensation for the named executive officer that is similar to comparable companies in the oil and gas industry. In making these determinations, we annually review each compensation component and compare it to market reference points. The application of our compensation philosophy to our named executive officer is described below in this Compensation Discussion and Analysis section.

### **Executive Compensation Program Design**

The objective of the Company and the compensation committee is to attract, retain and motivate the most highly qualified executive officer who will contribute to the Company's goals by consistently delivering exceptional performance while working within the annual budget of a development stage Company. In order to accomplish the Company's goals, we believe compensation paid to the executive officer should be designed around a combination of competitive based salary combined with performance-based pay including equity-based or other incentives which thereby align the interest of our executive officer with those of the Company's shareholders.

Base salary constituted nearly all of the compensation package of the indicated named executive officer during the year ended December 31, 2006.

At the request of the compensation committee, our compensation program is reviewed on an annual basis to ensure it meets the objectives of our compensation program and is benchmarked with the market. Prior compensation from the Company, such as gains from previously awarded stock options, is not generally taken into account in setting other elements of compensation, such as base pay and long-term incentive awards. We believe that our executive officer should be fairly compensated each year relative to market pay levels of our peer groups and internal equity within the Company.

### **Compensation Program Benchmarking**

The compensation committee endeavors to conduct its review on an annual basis for the named executive officer to ensure that our compensation program works as designed and intended. This review by the compensation committee also facilitates discussion among the members of the compensation committee regarding our compensation program.

### **Compensation Program Overview**

Following is an overview of the principal components of our compensation program:

#### **How Amounts for Compensation Components are Determined**

In addition to the information provided above, following are other details on specific compensation components for 2006:

*2006 Base Salary.* Base salary level of the named executive officer is determined based on a combination of factors including our compensation philosophy, market compensation data, competition for key executive talent, the named executive officer's experience, leadership, achievement of specified business objectives and contribution to the Company's success, the Company's overall annual budget for merit increases and the named executive officer's individual performance. In the compensation committee's first meeting of each year, the compensation committee conducts an annual review of the base salary of our named executive officer by taking into account these factors.

The base salary of the named executive officer did not increase during 2006 based upon the factors set out above. The compensation committee focused on the Company's annual budget and the beginning of new operations in an effort to establish production and revenue for the Company.

*2006 Long-Term Incentives.* The Company has in the past provided long-term incentives. Primarily this has been done through the issuance of stock options, however there is no set program or requirements for issuance of the stock options. Instead, stock options may be issued at the discretion of the compensation committee in conjunction with the Board of Directors.

In addition to our philosophy, internal equity, current share price, and individual performance during the prior year are considered. We do not target long-term incentive opportunities to be a particular percentage of total compensation. The compensation committee did not grant any stock options in 2006 to any individuals (including our Chief Executive Officer).

Another long-term incentive used in the oil and gas industry is the granting of overriding interest in wells to be drilled. On June 22, 2005, the Company approved of its subsidiary granting such an incentive to Mr. Ware and that incentive was granted as a 1% overriding interest in any well that he recommends that is drilled by the Company or its subsidiary Coastal Petroleum. No payments under this incentive plan were earned or paid during 2006.

#### **Retirement and Other Benefits**

We currently do not offer retirement programs within the Company that are intended to supplement the employee's personal savings and social security. However, the Company contributes to the SEP-IRA of the named executive employee. The Company believes that this contribution assists the Company in maintaining a competitive position in terms of retaining our named executive employee.

#### **Other Benefits**

The Company does not provide the named executive officer with perquisites or other personal benefits. The Company does provide healthcare insurance for its named executive officer, which the Company believes assists in maintaining a competitive position in terms of retaining him.



### **Board Process and Independent Review of Compensation Program**

The compensation committee is responsible for determining the compensation of our directors and our Chief Executive Officer. In addition, the compensation committee is authorized to exercise all the powers granted to it in its charter. The compensation committee charter provides that the compensation committee will have access to the necessary corporate resources to carry out its charter authority.

For our Chief Executive Officer, the compensation committee evaluates and assesses our Chief Executive Officer's performance related to leadership, financial and operating results, board relations, and other material considerations. These considerations as well as market information concerning compensation for similar positions are then incorporated into the compensation committee's compensation adjustment decisions. Market information is obtained through various sources including reference to materials published by the American Association of Petroleum Geologists (AAPG) annually in their *AAPG Explorer*. These materials review compensation being paid to geologists holding various degrees and of varying years of experience in oil and gas companies across the country.

The following table sets forth the compensation of the President of the Company, Mr. Ware, who served as our Chief Executive Officer and Principal Financial Officer for the three years ending with 2006. We have determined that Mr. Ware is our only named executive officer pursuant to the applicable rules of the SEC (the "named executive officer"). No other company employee received \$100,000 or more in total compensation. Mr. Ware's current base salary is \$125,000.

## Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus <sup>(1)</sup> (\$)	Stock Awards <sup>(3)</sup> (\$)	Option Awards <sup>(3)</sup> (\$)	Non-Equity Incentive Compensation <sup>(2)</sup> (\$)	Change in Pension Value and Non-qualified Deferred Compensation <sup>(2)(5)</sup> (\$)	All Other Compensation <sup>(2)(5)</sup> (\$)	Total (\$)
Phillip W. Ware, Chief Executive Officer, President, Chief Financial Officer, Director	2006	125,000	-	-	-	-	-	13,800	138,800
	2005	112,020	-	-	47,000	-	-	13,800	172,820
	2004	92,000 <sup>(4)</sup>	-	-	-	-	-	13,800	105,800

(1) Annual Cash Bonus Award - Annual incentive awards, which were paid during the year or immediately following the year indicated.

(2) Other Annual Compensation - All additional forms of cash and non-cash compensation paid, awarded or earned including automobile allowances, 401(k) Plan matching contributions, and club membership costs.

(3) Stock Options - Grant of stock options to acquire 50,000 shares was made under the Company's 1995 Stock Option Plan. Grant of stock options to acquire 250,000 shares was made under the Company's 2005 Incentive Stock Option Plan

(4) This amount was accrued in 2004 and paid in 2005.

(5) Payment to SEP-IRA pension plan (2004 and 2005 amounts were deferred and paid in 2005).

The Company does not have a contract with its named executive officer nor does it have a change of control employment agreement which would be effective upon change of control of the Company or in the event of termination of employment.

**Stock Options**

The Company granted Mr. Ware an option to acquire 50,000 shares of our common stock, exercisable at \$.15 per share, and 250,000 shares of our common stock, exercisable at \$.20 per share, for ten years during the year ended December 31, 2006. The Company has not adjusted or amended the exercise price of any stock options during the year ended December 31, 2006.

All the outstanding options that existed prior to the 2005 Agreement with the State of Florida were terminated as part of the Agreement with the State of Florida and through the mutual releases exchanged as a part of the closing under that Agreement.

The following table sets forth certain information with respect to outstanding equity awards at December 31, 2006 held by the named executive officer.

**Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards		Equity Incentive Plan Awards:				Stock Awards		Equity Incentive Plan Awards:	
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Shares, Units or Other Rights That Have Not Vested (#)	Equity Awards: Number of Awards	Market Payout Value of Unearned Shares, Units or Other Rights (\$)
Phillip W. Ware	50,000	-	-	0.15	July 25, 2015	-	-	-	-	-
	250,000	-	-	0.20	September 27, 2015	-	-	-	-	-

### **Option Exercises**

There were no options exercised in 2006.

### **Compensation of Directors**

The compensation committee of our Board sets the compensation of our directors. In determining the appropriate level of compensation for our directors, the compensation committee considers the commitment required from our directors in performing their duties on behalf of the Company, as well as comparative information the committee obtains from various sources. Set forth below is a description of the compensation of our directors.

### **Annual Retainers and Other Fees and Expenses.**

We pay our directors an annual retainer of \$25,000. There is currently no provision for paying directors additional fees based upon attending meetings, service on a committee, or serving as chair of a committee. We do not regularly compensate directors for their service through stock options, although in the past the Company has issued stock options to Directors. We do reimburse directors for travel, lodging and related expenses they may incur in attending shareholder, Board and committee meetings.

Directors were paid \$125,000 and \$54,725 in 2006 and 2005, respectively. Beginning in the year 2005, the Company paid each director an annual fee of \$25,000 for director service or a prorated share of that amount based upon time spent serving as a director during any part of the year. Certain directors were also paid \$71,250 in 2005 as payment for directors fees accrued during the year 2004. The following table shows the compensation of the Company's directors for the year ended December 31, 2006.

### Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Earnings Compensation (\$)	All Other Compensation (\$)	Total (\$)
Phillip W. Ware	25,000	-	-	-	-	-	25,000
Robert J. Angerer, Sr.	25,000	-	-	-	-	-	25,000
Herbert D. Haughton	25,000	-	-	-	-	-	25,000
Matthew D. Cannon	25,000	-	-	-	-	-	25,000
Anthony F. Randazzo	25,000	-	-	-	-	-	25,000

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### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee serves with regard to compensation and personnel policies, programs and plans including management development and succession, and to approve employee compensation and benefit programs. The Compensation Committee's charter was adopted on December 20, 2005. A copy of the Compensation Committee Charter may be obtained by a written request addressed to Mr. Robert J. Angerer, Jr., Secretary, P.O. Box 10468 Tallahassee, Florida 32302. Members of the Compensation Committee are: Herbert D. Haughton and Matthew D. Cannon.

### **Compensation Committee Report**

To the Shareholders of  
Coastal Caribbean Oils & Minerals, Ltd.:

The Compensation Committee has reviewed and discussed with management of the Company the Compensation Discussion and Analysis included in this annual report on Form 10-K. Based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this annual report on Form 10-K.

March 21, 2007

COMPENSATION COMMITTEE

Matthew D. Cannon, Chair  
Herbert D. Haughton

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

#### **Security Ownership of Certain Beneficial Owners**

As of December 31, 2006, Mr. Robert J. Angerer, Sr. owned 2,067,487 shares, or 4.47%, of our common stock and his son, Mr. Robert J. Angerer, Jr., beneficially owned 2,256,914 shares, or 4.88%, of our common stock. Mr. Angerer, Sr. disclaims beneficial ownership of any shares owned by his son.

As of March 21, 2006, no persons or apparent groups of persons are known by management to own beneficially five percent or more of the Company's outstanding shares.

**Security Ownership of Management**

The following table sets forth information as to the number of shares of the Company's common stock owned beneficially at December 31, 2006, by each director of the Company and by all directors and executive officers as a group:

Name of Individual or Group	Amount and Nature of Beneficial Ownership		Percent of Class
	Shares Held	Options	
	Directly or Indirectly		
Phillip W. Ware	204,121	300,000	1.09%
Robert J. Angerer, Sr.	2,067,587	50,000	4.58%
Herbert D. Haughton	50,000	50,000	0.21%
Anthony F. Randazzo	100,000	50,000	0.32%
Matthew D. Canon	105,300	50,000	0.33%
Directors and executive officers as a group (a total of 5 persons)	2,527,008	500,000	6.55%

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information about the Company's common stock that may be issued upon the exercise of options and rights under the Company's 1995 Stock Option Plan and the Company's 2005 Employee's Incentive Stock Option Plan as of December 31, 2006

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a) (#)	Weighted average exercise price of outstanding options, warrants and rights (b) (\$)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c) (#)
Equity compensation plans not approved by security holders <sup>(1)</sup>	250,000	\$ 0.15	750,000
Equity compensation plans approved by security holders <sup>(2)</sup>	250,000	\$ 0.20	2,050,000
<b>Total:</b>	<b>500,000</b>	<b>\$ 0.15 - 0.20</b>	<b>2,800,000</b>

(1) 1995 Stock Option Plan

(2) 2005 Employee's Incentive Stock Option Plan

The Company's 1995 Stock Option Plan was adopted by the Board of Directors of the Company in March 1995. 1,000,000 shares of the Company's common stock were authorized for issuance under the terms of the plan. Options under the plan may be granted only to directors, officers, key employees of, and consultants and consulting firms to, (i) the Company, (ii) subsidiary corporations of the Company from time to time and any business entity in which the Company from time to time has a substantial interest, who, in the sole opinion of the Committee of the Board administering the Plan, are responsible for the management and/or growth of all or part of the business of the Company. The exercise price of each option to be granted under the plan shall not be less than the fair market value of the stock subject to the option on the date of grant of the option.

The Company's 2005 Employees' Stock Option and Limited Rights Plan ("Employees' Plan") was adopted by the Board on September 27, 2005, for the benefit of officers and other key employees of Coastal and Coastal Caribbean. The Plan was approved by the shareholders at the Annual General Meeting held on December 9, 2005. The Employees' Plan provides for 2,300,000 shares of Coastal common stock to be reserved for future issuance pursuant to the exercise of stock options. This represents 5% of the total number of shares of the Company's outstanding common stock. Employees of Coastal or Coastal Petroleum may be granted options to purchase shares of common stock, as determined by the Board in its sole discretion.

Options granted under the Program will be "incentive stock options" within the meaning of section 422A of the Internal Revenue Code of 1986, as amended, which are designed to result in beneficial tax treatment to the employee but no tax deduction to Coastal. The per share exercise price at which the shares of common stock may be purchased upon exercise of a granted option will be equal to or greater than the Fair Market Value of a share of common stock as of the date of grant. Fair Market Value of a share of common stock is defined in the Employees' Plan. At no time will Coastal have total cumulative stock options outstanding to acquire more than 15% of the outstanding common stock of Coastal under all of its plans.

### **Item 13. Certain Relationships and Related Transactions**

#### ***Angerer & Angerer***

The law firm of Angerer & Angerer, Tallahassee, Florida, has been litigation counsel to the Company for more than twenty-five years. Mr. Robert J. Angerer, Sr., a partner of the firm, was elected a director of Coastal Caribbean and Coastal Petroleum on January 30, 2003, and a Vice President of Coastal Caribbean and Coastal Petroleum on February 28, 2003. During 2006 and 2005, Angerer & Angerer billed Coastal Petroleum \$144,000 and \$72,000 respectively for legal fees.



***Robert J. Angerer, Sr.***

Mr. Robert J. Angerer, Sr., a director, Vice President and Chairman of the Board of both Coastal Caribbean and Coastal Petroleum, loaned the Companies funds in the total amount of \$106,000 to enable them to continue operating during 2003 and 2004 and those loans were repaid in 2005.

On July 15, 2005 Coastal Petroleum acquired a lease and the rights to drill two 5,100 foot wells to test a Mississippian Lodgepole reef in Valley County, in northeast Montana. Coastal Petroleum acquired these rights for \$50,000 from Oil For America, a partnership in which Robert J. Angerer, Sr. is a partner. Included in the agreement is the right to drill additional prospects in the Valley County area.

Coastal Petroleum also acquired leases from Oil For America to the deeper rights in approximately 21,688 net acres in and near Slope County, North Dakota for an additional \$50,000. The Company has the option to drill the remaining Lodgepole reef prospects on these leases.

The leases were acquired on terms and under circumstances that are substantially the same or at least as favorable as those prevailing at the time for comparable transactions with or involving other non-affiliated companies.

***Igler & Dougherty, PA***

The law firm of Igler & Dougherty, PA, Tallahassee, Florida, has been SEC counsel to the Company for almost three years. Mr. Herbert D. Haughton, a shareholder of the firm, was elected a director of Coastal Caribbean and of Coastal Petroleum in December 2005. During 2006 and 2005, Igler & Dougherty billed Coastal Petroleum \$50,453 and \$44,022, respectively for legal fees.

**Item 14. Principal Accountant Fees and Services**

Baumann, Raymondo and Company, P.A. audited the Company's financial statements for 2006 and 2005 and performed the reviews for 2006 and the quarter ended September 30, 2005. James Moore & Co., P.L. audited the Company's financial statements for 2004 and performed the review for the quarters ended March 31, 2005 and June 30, 2005.

Fees related to services performed by Baumann, Raymondo and Company, P.A. and James Moore & Co., P.L. in 2006 and 2005 were as follows:

	2006	2005
Audit Fees (1)	\$ 30,500	\$ 33,668
Audit-Related Fees	-0-	-0-
Tax Fees (2)	-0-	2,350
Total	\$ 30,500	\$ 36,018

(1) Audit fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements. The Audit Committee must pre-approve audit related and non-audit services not prohibited by law to be performed by the Companies independent auditors. The Audit Committee for the Company was made up of John D. Monroe and Graham B. Collis until July 28, 2004 when they both resigned as directors. From their resignation until December 9, 2005, the Audit Committee was comprised of the only remaining directors, Phillip W. Ware and Robert J. Angerer, Sr. Since their appointment on December 9, 2005, newly elected directors Matthew D. Cannon and Anthony F. Randazzo have served as the members of the Audit Committee. The Audit Committee pre-approved all audit related and non-audit services in 2006, 2005 and 2004.

The Audit Committee has reviewed Coastal Caribbean's audited financial statements as of, and for, the fiscal year ended December 31, 2006, and met with both management and Coastal Caribbean's independent auditors to discuss those financial statements. Management has represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee has received from, and discussed with Baumann, Raymondo & Company, PA, the written disclosure and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*). These items relate to that firm's independence from Coastal Caribbean. The Audit Committee has also discussed with Baumann, Raymondo & Company any matters required to be discussed by Statement of Auditing Standards No. 61 (*Communication with Audit Committees*).

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board that Coastal Caribbean's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and filed with the Securities and Exchange Commission.

(2) Tax fees principally included tax advice, tax planning and tax return preparation.

**PART IV****Item 15. Exhibits and Financial Statement Schedules****Financial Statements**

The financial statements listed below and included under Item 8 above are filed as part of this report.

	Page
Reports of Independent Registered Public Accounting Firms	32
Consolidated balance sheets at December 31, 2006 and 2005	34
Consolidated statements of operations for each of the three years in the period ended December 31, 2006 and for the period from January 31, 1953 (inception) to December 31, 2006.	35
Consolidated statements of cash flows for each of the three years in the period ended December 31, 2006 and for the period from January 31, 1953 (inception) to December 31, 2006.	36
Consolidated statement of common stock and capital in excess of par value for the period from January 31, 1953 (inception) to December 31, 2006	37
Notes to consolidated financial statements.	38-5

**Financial Statement Schedules**

All schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and the notes thereto.

**Exhibits**

The following exhibits are filed as part of this report:

10. Material contracts.

(g) Stock Option Plan adopted March 7, 1995 filed as Exhibit 4A to form S-8 dated July 28, 1995 (File Number 001-04668) is incorporated herein by reference.

(h) Memorandum of Settlement dated June 1, 2005 between Coastal Petroleum Company, et al. and the State of Florida filed as Exhibit 10(h) to form 10K-A dated July 27, 2005 (File Number 001-04668) is incorporated herein by reference.

(i) Incentive Stock Option Plan adopted September 30, 2005 and approved by the shareholders on December 9, 2005 filed as Appendix A to form DEF 14A dated November 3, 2005 (File Number 001-04668) is incorporated herein by reference.

(j) Code of Ethics applicable to principle executive and financial officers adopted December 20, 2005 filed as Exhibit 10(j) to form 10K dated March 8, 2006 (File Number 001-04668) is incorporated herein by reference.

21. Subsidiaries of the registrant.

The Company has one subsidiary, Coastal Petroleum Company, a Florida corporation which is 100 % owned.

23. Consent of experts and counsel.

23.1 Consent of James, Moore & Co., P.L.  
23.2 Consent of Baumann, Raymondo & Company PA

31.1 Certification of Chief Executive Officer and Principal Financial Officer Required by Rule 13a-14(a)-15d-14(a) under the Exchange Act

32.1 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.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

By: */s/ Phillip W. Ware*

\_\_\_\_\_  
**Phillip W. Ware**, Chief Executive Officer  
President and Principal Financial Officer

Dated: March 21, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By */s/ Phillip W. Ware*  
\_\_\_\_\_  
**Phillip W. Ware**  
Director, Chief Executive  
Officer,  
President and Principal Financial  
Officer

Dated: March 21, 2007

By */s/Robert J. Angerer*  
\_\_\_\_\_  
**Robert J. Angerer**  
Director and Vice President

Dated: March 21, 2007

By */s/ Phillip W. Ware*  
\_\_\_\_\_  
**Phillip W. Ware**  
Director, Chief Executive  
Officer,  
President and Principal Financial  
Officer

Dated: March 21, 2007

By */s/Robert J. Angerer*  
\_\_\_\_\_  
**Robert J. Angerer**  
Director and Vice President

Dated: March 21, 2007

By */s/Herbert D. Haughton*  
\_\_\_\_\_  
**Herbert D. Haughton**  
Director

Dated: March 21, 2007

By */s/Anthony F. Randazzo*  
\_\_\_\_\_  
**Anthony F. Randazzo**  
Director

Dated: March 21, 2007

By     /s/Matthew D. Cannon      
**Matthew D. Cannon**  
Director

Dated: March 21, 2007

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**INDEX TO EXHIBITS**

**Exhibit No.**

23.1	Consent of James Moore & Co., P.L.
23.2	Consent of Baumann, Raymondo & Company, PA
31.1	Certification pursuant to Rule 13a-14 by Phillip W. Ware
32.1	Certification pursuant to Section 906 by Phillip W. Ware