

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes an offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws and may not be offered or sold within the United States or to U.S. persons unless registered under the 1933 Act and applicable State securities laws or an exemption from such registration is available. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States or to U.S. persons. See "Plan of Distribution."

This document is only being and may only be distributed to and directed at (i) persons outside the United Kingdom; or (ii) persons in the United Kingdom who are (a) a "Qualified investor" within the meaning of Section 86(7) of the U.K. Financial Services and Markets Act 2000 (the "FSMA") and (b) within the categories of persons referred to in Article 19 (Investment professionals) or Article 49 (High net worth companies, unincorporated associations, etc.) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order") (all such persons together being referred to as "relevant persons"). The securities being offered hereunder are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document is not a prospectus for the purposes of Section 85(1) of the FSMA. Accordingly, this document has not been approved as a prospectus by the U.K. Financial Services Authority (the "FSA") under Section 87A of FSMA and has not been filed with the FSA pursuant to the U.K. Prospectus Rules nor has it been approved by a person authorized under the FSMA. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Coastal Energy Company at 87 Mary Street, PO Box 908GT, George Town, Grand Cayman, KYI 9002 Cayman Islands +1 345 949 0100, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

December 28, 2007



### COASTAL ENERGY COMPANY

**14,300,000 Common Shares**

**C\$50,050,000**

This short form prospectus qualifies the distribution of 14,300,000 common shares (the "Offered Shares") of Coastal Energy Company ("Coastal" or the "Company") at a price of C\$3.50 per Offered Share (the "Offering"). The offering price of the Offered Shares was determined by negotiation between the Company and Macquarie Capital Markets Canada Ltd. on its own behalf, and on behalf of Westwind Partners Inc. (collectively, the "Underwriters").

The outstanding common shares of Coastal are listed and posted for trading on the TSX Venture Exchange (the "TSXV") under the symbol "CEN" and the Alternative Investment Market of the London Stock Exchange ("AIM") under the symbol "CEO". On December 10, 2007 (the last trading day prior to the announcement of the Offering), the closing price of the common shares of the Company on the TSXV was C\$3.60 per common share and on AIM was £1.70 per common share. On December 27, 2007 (the last trading day prior to the date of this short form prospectus), the closing price of the common shares of the Company on the TSXV was C\$4.10 per common share and on AIM was £2.08 per common share. The Company has received conditional approval to list the Offered Shares to be distributed under this short form prospectus on the TSXV. Listing of the Offered Shares on the TSXV is subject to the Company fulfilling all the listing requirements of the TSXV. In accordance with the procedural requirements of AIM, the Company will also apply, no less than three business days prior to the date of closing, for the Offered Shares to be admitted to trading on AIM, which admission will be subject to the Company fulfilling the admission requirements of AIM.

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**Price: C\$3.50 per Offered Share**

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	<u>Price to Public</u>	<u>Underwriters' Fee<sup>(1)</sup></u>	<u>Net Proceeds to the Company<sup>(2)</sup></u>
Per Offered Share.....	C\$3.50	C\$0.175	C\$3.325
Total <sup>(3)</sup> .....	C\$50,050,000	C\$2,502,500	C\$47,547,500

Notes:

- (1) The Company has agreed to pay to the Underwriters a cash commission (the "**Underwriters' Fee**") equal to 5% of the gross proceeds of the Offering including in respect of any Additional Shares (as defined herein) sold pursuant to the exercise of the Over-Allotment Option (as defined herein).
- (2) After deducting the Underwriters' Fee but before deduction of expenses of the Offering, estimated at C\$250,000, which, together with the Underwriters' Fee, will be paid from the proceeds of the Offering.
- (3) The Company has granted to the Underwriters an option (the "**Over-Allotment Option**"), exercisable in whole or in part at the discretion of the Underwriters for a period of 30 days from the Closing Date (as defined herein), to purchase up to an additional 2,145,000 Offered Shares at a price of C\$3.50 per Offered Share (the "**Additional Shares**") to cover over-allotments and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total price to the public will be C\$57,557,500, the total Underwriters' Fee will be C\$2,877,875 and the total net proceeds to the Company will be C\$54,679,625 (in each case before deduction of the expenses of the Offering (see note 2 above)). See "Plan of Distribution". This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of the Additional Shares pursuant to the exercise of the Over-Allotment Option. Unless the context otherwise requires, references herein to the "Offering" and the "Offered Shares" assume the exercise of the Over-Allotment Option in full.

The Underwriters, as principals, conditionally offer the Offered Shares for sale, subject to prior sale, if, as and when issued by Coastal and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement (as defined herein) referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of Coastal by Stikeman Elliott LLP and on behalf of the Underwriters by Bennett Jones LLP. In connection with the Offering and subject to applicable laws, the Underwriters may effect transactions which stabilize or maintain the market price of Coastal at levels other than those that might otherwise prevail upon the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

**Investment in the common shares of Coastal is highly speculative and involves a high degree of risk. Investors should carefully consider the risk factors in the AIF (as defined herein) and in management's discussion and analysis of the financial condition and results of operations of the Company for the period ended September 30, 2007, which are incorporated herein by reference. See "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Information".**

The following table sets out the details of the Over-Allotment Option granted by the Company to the Underwriters in connection with the Offering:

<u>Underwriters' Position</u>	<u>Maximum size</u>	<u>Exercise period</u>	<u>Exercise price</u>
Over-Allotment Option	2,145,000 Offered Shares	Exercisable for a period of 30 days from the Closing Date	C\$3.50 per Offered Share
Total Securities Under Option	2,145,000 Offered Shares	N/A	C\$3.50 per Offered Share

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Closing of the Offering is anticipated to occur on or about January 8, 2008 or on such other date as the Underwriters and the Company may agree upon (the "**Closing Date**") and certificates, if any, representing the Offered Shares will be available for delivery on or about the Closing Date.

The Company's registered office is located at 87 Mary Street, PO Box 908GT, George Town, Grand Cayman, KYI 9002 Cayman Islands. The head office of the Company is located at 1 Farnham Road, Guildford, Surrey GU2 4RG, United Kingdom.

References to Coastal or the Company also includes its subsidiary entities as the context requires.

The Company is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada. Although the Company has appointed Stikeman Elliott LLP of Suite 1700, 666 Burrard Street, Vancouver, British Columbia V6C 2X8 as its agent for service of process, it may not be possible for investors to collect from the Company judgments obtained in Canadian courts predicated on the civil liability provisions of securities legislation.

## TABLE OF CONTENTS

TABLE OF CONTENTS .....	1
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION .....	1
CURRENCY & EXCHANGE RATE INFORMATION .....	2
DOCUMENTS INCORPORATED BY REFERENCE .....	2
THE COMPANY .....	4
THE BUSINESS .....	4
RECENT DEVELOPMENTS .....	4
CONSOLIDATED CAPITALIZATION .....	5
USE OF PROCEEDS .....	5
PLAN OF DISTRIBUTION .....	6
Market Stabilization .....	7
United Kingdom Restrictions .....	7
DESCRIPTION OF THE SECURITIES DISTRIBUTED .....	7
DIVIDEND POLICY .....	7
RISK FACTORS .....	8
LEGAL MATTERS .....	8
INTEREST OF EXPERTS .....	8
AUDITORS, TRANSFER AGENT AND REGISTRAR .....	8
MATERIAL CONTRACTS .....	9
ELIGIBILITY FOR INVESTMENT .....	9
PURCHASERS' STATUTORY RIGHTS .....	9
AUDITORS' CONSENT .....	10
CERTIFICATE OF THE COMPANY .....	C-1
CERTIFICATE OF THE UNDERWRITERS .....	C-2

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference in this short form prospectus, constitute forward-looking statements. These statements relate to, but are not limited to, the Company's expectations, intentions, plans and beliefs. All statements other than statements of historical fact may be forward looking statements. Forward-looking statements are often, but not always, identified by use of words such as “seek”, “anticipate”, “contemplate”, “continue”, “plan”, “will”, “budget”, “target”, “believe”, “estimate”, “may”, “potential”, “intend”, “could”, “expect” and similar expressions. Such statements reflect the Company's current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including, among others, those which are discussed under the heading “Description of the Business - Risk Factors” in the AIF and in management's discussion and analysis of the financial condition and results of operations of the Company for the period ended September 30, 2007 incorporated by reference in this short form prospectus.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those anticipated in such forward-looking statements.

These forward-looking statements are made as of the date of this short form prospectus or, in the case of documents incorporated by reference herein, as of the date of such documents, and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable law. Forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on

forward-looking statements due to the inherent uncertainty therein. Although Coastal has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this short form prospectus. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein.

### CURRENCY & EXCHANGE RATE INFORMATION

Unless otherwise indicated, all references to "C\$" in this short form prospectus refer to Canadian dollars; all references to "US\$" or to "United States dollars" refer to United States dollars, and all references to £ are to British pounds.

The following table sets forth the year end exchange rate and the average closing exchange rate, and the high and low closing exchange rates, in each case for the period indicated, of one United States dollar in exchange for Canadian dollars as quoted by the Bank of Canada.

	Fiscal Year Ended December 31,			Quarter Ended		
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>March 31, 2007</u>	<u>June 30, 2007</u>	<u>September 30, 2007</u>
High .....	1.2555	1.0948	1.1759	1.1759	1.1343	1.0582
Low .....	1.1610	1.1794	0.9671	1.1682	1.0652	1.0254
Average .....	1.2114	1.1343	1.080 <sup>(1)</sup>	1.1716	1.0981	1.0446
Year End .....	1.1659	1.1653	n/a	1.1529	1.0634	1.0037

Note:

(1) The average is for the period beginning January 1, 2007 through November 30, 2007.

The noon exchange rate on December 27, 2007 as reported by the Bank of Canada for the conversion of Canadian dollars was C\$1.00 equals US\$1.0193.

### DOCUMENTS INCORPORATED BY REFERENCE

*Information has been incorporated by reference in this short form prospectus from documents filed with various securities commissions or similar regulatory authorities in Canada.* Copies of the documents incorporated by reference may be obtained on request without charge from the Company at 87 Mary Street, PO Box 908GT, George Town, Grand Cayman, KYI 9002 Cayman Islands +1 345 949 0100, or by accessing the Company's disclosure documents available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com).

The following documents of the Company, filed with securities commissions or similar regulatory authorities in Canada, are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

- (a) the annual information form of the Company for the year ended December 31, 2006 dated June 15, 2007 (the "AIF");
- (b) the annual audited consolidated financial statements of the Company for the year ended December 31, 2006 together with the notes thereto, and the auditors' report thereon;
- (c) management's discussion and analysis of the financial condition and results of operations of the Company for the year ended December 31, 2006;
- (d) the interim unaudited consolidated financial statements of the Company for the three and nine month periods ended September 30, 2007, together with the notes thereto, together with management's discussion

and analysis of the financial condition and results of operations of the Company for the period ended September 30, 2007;

- (e) the management information circular dated July 25, 2006 regarding the extraordinary annual general meeting of shareholders of the Company held on August 30, 2006;
- (f) the management information circular dated June 25, 2007 regarding the annual general meeting of shareholders of the Company held on August 17, 2007;
- (g) the management information circular dated October 2, 2007 regarding the general meeting of shareholders of the Company held on October 30, 2007; and
- (h) the material change report of the Company dated November 8, 2007 with respect to the completion of the Company's 4:1 share consolidation (the "**Consolidation**").

Any documents of the type required by National Instrument 44-101 to be incorporated by reference in a short form prospectus, including any business acquisition reports, material change reports (except for confidential material change reports), comparative interim or annual financial statements and applicable auditor's reports, management's discussion and analysis, information circulars and annual information forms filed by the Company pursuant to the requirements of applicable securities legislation after the date of this short form prospectus and prior to the completion or withdrawal of the distribution of the Offered Shares shall be deemed to be incorporated by reference into this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document which it modifies or supersedes. The making of such a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall be deemed, except as so modified or superseded, not to constitute a part of this short form prospectus.

**Without limiting the generality of the foregoing, the Company advises that the expert report titled *Competent Person's Report on the Assets of Petroworld Corp. – Onshore Thailand* dated July 14, 2006 prepared by Gaffney Cline & Associates (Consultants) Pte. Ltd. (the "Gaffney Cline Report") contained in the Company's information circular dated July 25, 2006, has been superseded in its entirety by the expert report titled *Coastal Energy Company - Thailand Property Evaluation As of January 1, 2007* dated April 11, 2007 prepared by Huddleston & Co., Inc. (the "Huddleston Report"), which is described in the AIF. The Gaffney Cline Report and any information derived from it contained in any document incorporated herein by reference does not constitute a part of this short form prospectus.**

**The Company further advises that the (i) financial statements; and (ii) management's discussion and analysis of the financial condition and results of operations ("MD&A") of each of the Company and NuCoastal contained in the Company's information circular dated July 25, 2006 have been superseded in their entirety by the Company's financial statements and MD&A incorporated by reference in this short form prospectus as provided by items (b) through (e) above, and that such superseded financial statements and MD&A and any information derived from them contained in any document incorporated herein by reference do not constitute a part of this short form prospectus.**

## THE COMPANY

The Company was incorporated as “Action Ventures Ltd.” on May 26, 2004 under the laws of the Cayman Islands. On November 10, 2004, the Company changed its name to “PetroWorld Corp” and on September 27, 2006, the Company changed its name to “Coastal Energy Company” upon completion of the acquisition by the Company of all of the issued and outstanding shares of NuCoastal (Thailand) Limited (“**NuCoastal**”) which occurred on September 25, 2006. The Company’s registered office is located at 87 Mary Street, PO Box 908GT, George Town, Grand Cayman, KYI 9002 Cayman Islands.

The Company has one class of shares, being common shares with nominal or par value of US\$0.04 per share (each a “**common share**”). The common shares trade on the AIM under the symbol “CEO” and on the TSXV under the trading symbol “CEN”. The Company is a reporting issuer in each of the Provinces of British Columbia, Alberta and Ontario.

The Company has five subsidiaries, namely Coastal Energy Company Nevada (formerly PetroWorld Nevada Corp.), a company incorporated in the United States under the laws of the State of Nevada; Coastal Energy (UK) Company Limited (formerly PetroWorld Corp. (UK) Limited), a company incorporated under the laws of the United Kingdom; NuCoastal, a company incorporated under the laws of the Kingdom of Thailand; Coastal Energy Company (Khorat) Ltd., a company incorporated under the laws of the Cayman Islands; and Ocean 66 Ltd., a company incorporated under the laws of Mauritius. Each of these subsidiaries has one class of issued securities, being common shares, 100% of which are owned by the Company.

## THE BUSINESS

The Company is an independent oil and gas exploration, development and production company, with core assets offshore and onshore Thailand. The Company's business strategy involves investing in opportunities in oil and gas related industries, including acquisitions of interests in oil and gas properties, or acquisitions of interests in companies in oil and gas related industries.

The Company’s principal oil and gas properties and assets are: (1) 100% direct ownership in offshore Block G5/43 in the Gulf of Thailand which includes the Bua Ban and Songkhla oil fields; (2) 12.635% indirect ownership interest in onshore Blocks EU-1 and E5-N in the Phu Horm gas field located in the Khorat Plateau area of Thailand; (3) 36.1% indirect ownership interest in onshore Block L15/43 surrounding the Phu Horm gas field and Block L27/43 located southeast of the Phu Horm gas field; and (4) 21.66% indirect ownership interest in onshore Block L13/48 located immediately east of the Phu Horm gas field.

## RECENT DEVELOPMENTS

On November 26, 2007, the Company announced that the Phu Horm-10 well (“**PH-10**”) located on the Phu Horm gas field, northeast Thailand, has been brought into production. The PH-10 well was drilled in September to support the three existing producing wells; PH-3, PH-4, PH-5. It has commenced production at 7-8 million cubic feet per day (“**mmcf**”). Total production from the Phu Horm field is currently averaging approximately 80mmcf to 90 mmcf. Coastal’s interest in the gas field is held indirectly through APICO LLC which retains a 35% equity share in the gas field. Coastal is APICO’s largest shareholder with 36.1% interest.

On November 13, 2007 the Company announced it had entered into a 12 month drilling contract with Swiber Offshore Drilling Pte. Ltd. of Singapore. The Swiber Jack Up-1 barge mounted rig will be used for the drilling of production, appraisal and exploration wells in the offshore G5/43 block, Gulf of Thailand, which is 100% owned and operated by NuCoastal. Drilling is expected to commence in March 2008 with two to three production test wells on the Bua Ban field.

## CONSOLIDATED CAPITALIZATION

The Company's financial statements for the quarter ended September 30, 2007 gave effect to the Consolidation, which was approved on October 30, 2007 and effective November 7, 2007. Since September 30, 2007, and after giving effect to the Consolidation, no common shares of the Company have been issued upon exercise of outstanding warrants and options. Upon completion of the Offering there will be an aggregate of 91,283,222 common shares issued and outstanding (or 93,428,222 common shares if the Over-Allotment Option is exercised in full) or 97,476,967 common shares assuming the exercise or conversion of all outstanding convertible securities of the Company (or 99,621,967 common shares if the Over-Allotment Option is exercised in full).

	<u>As at December 31, 2006<sup>(1)</sup></u>	<u>As at September 30, 2007<sup>(1)(2)</sup></u> <u>(unaudited)</u>	<u>As at September 30, 2007, after giving effect to the Offering<sup>(1)(3)</sup></u> <u>(unaudited)</u>
Common Shares Outstanding	307,432,888	76,983,222	91,283,222
Options	15,250,000	3,850,000	3,850,000
Warrants	10,714,350	2,343,745	2,343,745
Cash Equivalents and Restricted Cash	\$18,350	\$23,525	\$70,431
Long-term Debt <sup>(4)</sup>	\$4,724	\$25,000	\$25,000
Share Capital			
Common Shares	\$3,074	\$3,079	\$3,651
Warrants	---	---	---
Contributed Surplus	\$99,224	\$99,933	\$146,267
Deficit	<u>(\$4,931)</u>	<u>(\$10,936)</u>	<u>(\$10,936)</u>
Total Capitalization	<u>\$102,091</u>	<u>\$117,076</u>	<u>\$163,982</u>

Notes:

- (1) All amounts are in US\$000's except outstanding common share, option and warrant amounts.
- (2) The share, option and warrant amounts reflect the effect of the 4:1 share consolidation which was consummated November 7, 2007
- (3) After deducting the Agent's Fee, but not taking into account the proceeds of sale (if any) of the Over-Allotment Shares. See "Use of Proceeds."
- (4) As at September 30, 2007, the Company has short term debt to Oscar S. Wyatt in the amount of \$5.084 million. The terms of the note representing this indebtedness required the Company to repay Mr. Wyatt upon the completion of a previous financing undertaken by the Company. Management of the Company expects Mr. Wyatt to continue to waive this repayment obligation, with the result that the indebtedness to Mr. Wyatt will remain outstanding following closing of the Offering.

## USE OF PROCEEDS

The estimated net proceeds to the Company from the Offering, after payment of the Underwriters' Fee and deducting the estimated expenses of the Offering (estimated to be C\$250,000), will be approximately C\$47,297,500. The majority of the funds are expected to be used to accelerate development, appraisal and exploration work on the G5/43 block in the Gulf of Thailand. Coastal owns 100% of the block and has commenced development work on two previously discovered oil fields. The net proceeds of the Offering will be used as follows:

<u>Use</u>	<u>Amount</u> (C\$)
Development Drilling	15,000,000
Platform Fabrication and Installation	10,000,000
Equipment	10,000,000
Appraisal Drilling	8,000,000
Engineering	2,500,000

General Corporate Purposes	<u>1,797,500</u>
Total	<u>47,297,500</u>

If the Over-Allotment Option is exercised in full, the net proceeds to the Company, after payment of the Underwriters' Fee and deducting the estimated expenses of the Offering, are estimated to be C\$54,429,625. The Company intends to use the additional funds to further fund the development of the Company's projects and for general corporate purposes.

The Company's actual use of the net proceeds may vary depending on the Company's operating and capital needs from time to time. There may be circumstances where for sound business reasons, a reallocation of funds may be necessary.

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated December 11, 2007 as amended on December 27, 2007 (the "**Underwriting Agreement**") among Coastal and the Underwriters, Coastal has agreed to sell 14,300,000 Offered Shares and the Underwriters have agreed to purchase, as principals, on or about January 8, 2008 or on such other date as the Underwriters and the Company may agree upon, subject to the terms and conditions of the Underwriting Agreement, all but not less than all of such Offered Shares at a price of C\$3.50 per Offered Share, payable in cash (the "**Offering Price**") against delivery of certificates representing the Offered Shares. The Offered Shares are being offered to the public in the provinces of British Columbia, Alberta and Ontario. Subject to applicable law, the Underwriters may offer the Offered Shares for sale outside of Canada.

The Offering Price was determined by negotiation among the Underwriters and the Company. All subscription proceeds received by the Underwriters will be held by the Underwriters pending closing, which is expected to occur on the Closing Date.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, and may be terminated at any time before closing of the Offering, at their discretion, on the basis of their assessment of the state of the financial markets and may also be terminated at any time on the occurrence of certain stated events. Subject to certain exceptions contained in the Underwriting Agreement, if an Underwriter fails to purchase the Offered Shares which it has agreed to purchase, the other Underwriter may, but is not obligated to, purchase such Offered Shares. The Underwriters are, however, obligated to take up and pay for all Offered Shares they have obligated themselves to purchase if any of the Offered Shares are purchased under the Underwriting Agreement.

In consideration for their services in connection with the Offering, Coastal has agreed to pay the Underwriters a cash fee equal to 5% of the gross proceeds of the Offering. Coastal has also agreed to reimburse the Underwriters for their expenses and legal fees and disbursements incurred in connection with the Offering. The Underwriting Agreement further provides that the Company will indemnify the Underwriters against certain liabilities, including liabilities under applicable securities legislation in certain circumstances, and expenses, or contribute to payments the Underwriters may be required to make in respect thereof.

The Underwriters have been granted the Over-Allotment Option to cover over-allotments and for market stabilization purposes, exercisable in whole or in part at any time until the close of business on the date which is 30 days after the Closing Date, to purchase on the same terms, and at the same price, up to 2,145,000 Additional Shares. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of the Additional Shares pursuant to the exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the total price to the public will be C\$57,557,500, the total Underwriters' Fee will be C\$2,877,875 and the total net proceeds to the Company will be C\$54,679,625 (in each case, before deduction of the expenses of the Offering).

The Company has received conditional approval for the listing of the Offered Shares to be distributed under this short form prospectus on the TSXV. Listing of the Offered Shares will be subject to the Company fulfilling all of the listing requirements of the TSXV. In accordance with the procedural requirements of AIM, the Company will also apply, no less than three business days prior to the date of closing, for the Offered Shares to be admitted to trading on AIM, which admission will be subject to the Company fulfilling the admission requirements of AIM.

The Company has agreed that, subject to certain stated exceptions set forth in the Underwriting Agreement, it will not, without the prior consent of Macquarie Capital Markets Canada Ltd., which consent may not be unreasonably withheld, issue or sell any common shares or any securities giving the right to acquire common shares, or agree or announce any intention to do so, at any time prior to the expiry of 120 days following the closing of the Offering.

### **Market Stabilization**

Pursuant to rules and policy statements of certain Canadian provincial securities commissions, the Underwriters may not, throughout the period of distribution under this short form prospectus, bid for or purchase common shares for their own account or for accounts over which they exercise control or direction. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the common shares. These exceptions include bids or purchases permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by Market Regulation Services Inc. relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing, the Underwriters may over-allot or effect transactions in Canada or in the United Kingdom that stabilize or maintain the market price of the common shares at levels other than those that might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

### **United Kingdom Restrictions**

This short form prospectus is only being and may only be distributed to and directed at persons in the United Kingdom who are (a) a "Qualified investor" within the meaning of Section 86(7) of the FSMA, and (b) within the categories of persons referred to in Article 19 (Investment professionals) or Article 49 (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order (all such persons together being referred to as "**relevant persons**"). The Offered Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Offered Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. This short form prospectus is not a prospectus for the purposes of Section 85(1) of the FSMA. Accordingly, this short form prospectus has not been approved as a prospectus by the FSA under Section 87A of the FSMA and has not been filed with the FSA pursuant to the U.K. Prospectus Rules nor has it been approved by a person authorized under the FSMA.

## **DESCRIPTION OF THE SECURITIES DISTRIBUTED**

The Offering consists of 14,300,000 Offered Shares (16,445,000 Offered Shares if the Over-Allotment Option is exercised in full).

The Company's authorized share capital consists of US\$10,000,000 divided into 250,000,000 common shares of a par value of US\$0.04 each, of which 76,983,222 common shares are outstanding as at December 27, 2007.

The Company's articles of association (the "**Articles**") provide that each shareholder present in person, and each person representing a shareholder by proxy at a general meeting of the Company will have one vote for each common share held by such person or by the person represented by proxy.

The Articles further provide that the board of directors of the Company (the "**Board**") may from time to time declare dividends (including interim dividends) and other distributions on shares in issue and authorize payments of the same out of the funds of the Company lawfully available for such purpose, and that all dividends will be declared and paid according to the amounts paid on the shares. No dividends have been paid on any shares of the Company since incorporation and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

## **DIVIDEND POLICY**

No dividends have ever been paid by the Company. The Company anticipates that it will retain all future earnings and other cash resources for the future operation and development of its business. Payment of any future dividends will be at

the discretion of the Board after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

## **RISK FACTORS**

*The operations of the Company are speculative due to the high risk nature of its business. A purchaser of Offered Shares should be aware that there are various risks that could have a material adverse effect upon, among other things, the operating results, earnings, properties, business, business prospects and condition (financial or otherwise) of Coastal. Purchasers of the Offered Shares should carefully consider all information contained in this short form prospectus and the information under the heading "Cautionary Statement Regarding Forward-Looking Information", including all documents incorporated by reference, and in particular should give special consideration to the risk factors set out in the AIF.*

An investment in the Company is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise therefrom (which may be equal to the whole amount invested).

There can be no certainty that the Company will be able to implement successfully the strategy described in this short form prospectus and the documents incorporated by reference herein. No representation is or can be made as to the future performance of the Company and there can be no assurance that the Company will achieve its objectives.

Prospective investors in the Company's common shares should carefully consider the matters described under the heading "Risk Factors" in the AIF and in management's discussion and analysis of the financial condition and results of operations of the Company for the period ended September 30, 2007 incorporated by reference in this short form prospectus.

## **LEGAL MATTERS**

Certain legal matters relating to the distribution of the Offered Shares pursuant to this short form prospectus will be passed upon by Stikeman Elliott LLP on behalf of the Company and by Bennett Jones LLP on behalf of the Underwriters. The partners and associates of Stikeman Elliott LLP, as a group, and the partners and associates of Bennett Jones LLP, as a group, each beneficially own, directly or indirectly, less than 1% of the outstanding common shares of Coastal.

## **INTEREST OF EXPERTS**

The consolidated financial statements of the Company as at and for the years ended December 31, 2006 and December 31, 2005 incorporated by reference in this short form prospectus have been audited by Deloitte & Touche LLP, Chartered Accountants, as set forth in its audit report. Deloitte & Touche LLP is the independent auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

Information relating to reserves in this short form prospectus and incorporated by reference in this short form prospectus has been derived from the Huddleston Report, and from the expert report titled *Evaluation of the Interests of PetroWorld Corp in the Development of Songkhla and Bua Ban Fields in the Songkhla Basin Concession G5/43, Thailand* dated May 31, 2006 prepared by Petrotech Engineering Ltd. The principals of Huddleston & Co., Inc. and Petrotech Engineering Ltd. individually or as a group, neither own nor expect to receive any of the securities of the Company, directly or indirectly.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Company are Deloitte & Touche LLP, Chartered Accountants, Suite 2800, 1055 Dunsmuir Street, 4 Bentall Centre, Vancouver, British Columbia, V7X 1P4.

The Company's registrar and transfer agent in Canada is Pacific Corporate Trust Company at its offices in Vancouver, British Columbia. The Company's registrar and transfer agent in the United Kingdom is Capita Registrars at its offices in Beckenham, Kent.

### **MATERIAL CONTRACTS**

The only material contract entered into by the Company in connection with this Offering is the Underwriting Agreement referred to under "Plan of Distribution". Copies of the Underwriting Agreement may be inspected during regular business hours at the offices of the Company at 87 Mary Street, PO Box 908GT, George Town, Grand Cayman, KYI 9002 Cayman Islands +1 345 949 0100 until the expiry of the 30 day period following the date of this short form prospectus. A copy of the Underwriting Agreement is also available under the Company's profile at [www.sedar.com](http://www.sedar.com).

Other material contracts of the Company are described in the AIF.

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Stikeman Elliott LLP, counsel to the Company, and Bennett Jones LLP, counsel to the Agents, based on the provisions of the *Income Tax Act* (Canada) (the "ITA"), the regulations thereunder and the proposals to amend the ITA and the regulations thereunder publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof, provided that the Offered Shares are listed on the TSXV at the relevant time, the Offered Shares, if issued on the date hereof, would be qualified investments under the ITA and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, subject to the specific provisions of any particular plan.

### **PURCHASER'S STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

## AUDITORS' CONSENT

We have read the short form prospectus of Coastal Energy Company ("**Coastal**") dated December 28, 2007 relating to the distribution of 14,300,000 common shares of Coastal. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned prospectus of our report to the shareholders of Coastal on the consolidated balance sheets of Coastal as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. Our report is dated April 25, 2007.

(Signed) "**Deloitte & Touche LLP**"

Chartered Accountants  
Vancouver, British Columbia  
December 28, 2007

## CERTIFICATE OF THE COMPANY

Dated: December 28, 2007

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of the provinces of British Columbia, Alberta and Ontario.

(SIGNED)  
**FRANK INOUYE**  
President & Chief Executive Officer

(SIGNED)  
**WILLIAM C. PHELPS**  
Chief Financial Officer

On behalf of the Board of Directors

(SIGNED)  
**ALBERT WHITEHEAD**  
Director

(SIGNED)  
**JOHN ZAOZIRNY**  
Director

**CERTIFICATE OF THE UNDERWRITERS**

Dated: December 28, 2007

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of the provinces of British Columbia, Alberta and Ontario.

**MACQUARIE CAPITAL MARKETS CANADA LTD.**

(SIGNED)  
**SCOTT HAYDUK**  
Vice President

**WESTWIND PARTNERS INC.**

(SIGNED)  
**PAUL J. COLUCCI**  
Managing Director

