

**NOTICE OF EXTRAORDINARY MEETING OF SHAREHOLDERS AND  
MANAGEMENT INFORMATION CIRCULAR**

**with respect to a proposed**

**Plan of Merger**

**involving**

**COASTAL ENERGY COMPANY**

**and**

**CONDOR ACQUISITION (CAYMAN) LIMITED**

Meeting to be held on  
January 6, 2014  
At 10:00 a.m. (EST)  
at the offices of  
Walkers  
190 Elgin Avenue  
George Town, Grand Cayman  
KY1-9001  
Cayman Islands

December 3, 2013



December 5, 2013

Dear Coastal Shareholders:

You are invited to attend an extraordinary meeting (the "**Meeting**") of shareholders of Coastal Energy Company ("**Coastal**") to be held at 10:00 a.m. (EST) on January 6, 2014 at the offices of Walkers at 190 Elgin Avenue, George Town, Grand Cayman KY1-9001, Cayman Islands.

At the Meeting you will be asked to approve a plan of merger (the "**Merger**") pursuant to which Condor Acquisition (Cayman) Limited ("**Purchaser**"), a newly-incorporated entity controlled by Compañía Española de Petróleos, S.A.U. and in which Strategic Resources (Global) Limited is an investor, will acquire, indirectly through its wholly-owned subsidiary Condor (Cayman) Limited, 100% ownership of Coastal in exchange for consideration (the "**Consideration**") of C\$19.00 for each issued and outstanding common share of Coastal (each, a "**Common Share**").

The accompanying management information circular (the "**Circular**") contains a detailed description of the Merger. You are urged to carefully review the Circular and accompanying materials as they contain important information regarding the Merger.

After careful consideration of the Merger, the board of directors of Coastal (the "**Board**") has unanimously approved the entering into of the agreement in respect of the Merger and the plan of merger (the "**Plan of Merger**") under section 233 of the *Companies Law (2013 Revision) of the Cayman Islands* and has determined that the Merger is in the best interests of Coastal and unanimously recommends that Coastal shareholders vote in favour of the Merger and approve the Plan of Merger. The recommendation of the Board followed an extensive review and analysis of the proposed transaction with the assistance of its legal and financial advisors.

Coastal shareholders holding in the aggregate 37,240,969 Common Shares, representing approximately 32.81% of the outstanding Common Shares as of December 3, 2013, the record date for the Meeting, have entered into support agreements with Purchaser, pursuant to which such holders have agreed to vote in favour of the Merger, subject to the terms and conditions of such support agreements.

The Merger is subject to several closing conditions which must be satisfied or waived prior to completion of the Merger, including Coastal shareholder approval, receipt of applicable third party approvals and government decisions (including the expiry of a regulatory term or issuance of a decision pursuant to Spanish energy regulations) and no material adverse change with respect to Coastal having occurred, including, in particular, no material adverse change to any of Coastal's concessions or environmental permits, and no material adverse change to the value of Coastal on a consolidated basis or the ownership by Coastal or its subsidiaries of any assets material to Coastal, on a consolidated basis. The Merger is not subject to any financing condition. Assuming that all of the closing conditions to the Merger are satisfied, Coastal expects that the Merger will become effective on or about January 15, 2014.

#### *Voting*

**Your vote is important, regardless of the number of Common Shares you own.** If you are a registered Coastal shareholder, whether or not you plan to attend the Meeting in person, we encourage you to complete, sign, date and return the form of proxy accompanying the Circular, in accordance with the instructions set out therein and in the Circular, so that your Common Shares can be voted at the Meeting in accordance with your instructions. In order to be effective, a proxy must be deposited with Coastal's registrar and transfer agent, Computershare Trust Company of Canada, at its offices at 100 University Ave., 8<sup>th</sup> Floor, Toronto, Ontario, Canada, M5J 2Y1, or by toll-free telephone (1-866-732-VOTE (8683)) or online ([www.investorvote.com](http://www.investorvote.com)) by using the 15-digit control number contained in the form of proxy, by 10:00 a.m. (EST) on January 2, 2014, or not less than 48 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. Voting by proxy will not prevent you from voting in person if you attend the Meeting and revoke your proxy, but will ensure that your vote will be counted if you are unable to attend.

If you hold your interest in Common Shares in the form of depository interests ("Depository Interests"), please complete, sign, date and return the form of direction accompanying the Circular, in accordance with the instructions set out therein and in the Circular, to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU, by 3:00 p.m. (GMT) on December 31, 2013, or not less than

72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. The completion and return of the form of direction will not preclude you from attending the Meeting and voting in person. Holders of Depositary Interests wishing to attend the Meeting should contact Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU or by email at [custodymgt@capita.co.uk](mailto:custodymgt@capita.co.uk) by no later than 3:00 p.m. (GMT) on December 31, 2013, or not less than 72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. Holders of Depositary Interests who wish to appoint a proxy or proxies may also do so through the CREST electronic proxy appointment service for the Meeting and any adjournments or postponements thereof by using the procedures described in the CREST manual.

If you are not registered as the holder of your Common Shares but hold your Common Shares through a broker or other intermediary, you should follow the instructions provided by your broker or other intermediary to vote your Common Shares.

*Letter of Transmittal*

We also encourage registered Coastal shareholders to complete, sign, date and return the enclosed letter of transmittal, in accordance with the instructions set out therein and in the Circular to the depositary, Computershare Investor Services Inc., so that if the Merger is completed, the Consideration to which you are entitled can be sent to you as soon as possible following completion of the Merger.

If you hold your interest in Common Shares in the form of Depositary Interests you will receive the Consideration to which you are entitled through CREST in accordance with the usual procedures of CREST. There is no requirement for holders of Depositary Interests to complete the enclosed letter of transmittal.

If you hold your Common Shares through a broker or other intermediary please contact that broker or other intermediary for instructions and assistance in receiving the Consideration to which you are entitled.

On behalf of Coastal, thank you for your continued support.

ON BEHALF OF THE BOARD OF DIRECTORS

*Lloyd Barnaby Smith*

Chairman of the Board  
George Town, Grand Cayman, BWI  
December 5, 2013

# COASTAL ENERGY COMPANY

190 Elgin Avenue  
George Town, Grand Cayman  
KY1-9005  
Cayman Islands  
British West Indies

## NOTICE OF EXTRAORDINARY MEETING OF SHAREHOLDERS OF COASTAL ENERGY COMPANY

Notice is hereby given that an extraordinary meeting (the "**Meeting**") of shareholders of COASTAL ENERGY COMPANY ("**Coastal**") will be held at 10:00 a.m. (EST) on January 6, 2014 at the offices of Walkers at 190 Elgin Avenue, George Town, Grand Cayman KY1-9001, Cayman Islands, for the following purposes:

1. to consider and, if thought fit, approve (with or without modification) a special resolution (the "**Merger Resolution**"), the full text of which is set forth in Appendix A to the accompanying management information circular (the "**Circular**") to approve a proposed plan of merger under section 233 of the *Companies Law (2013 Revision) of the Cayman Islands* (the "**Merger**") involving Coastal and Condor (Cayman) Limited ("**Cayco**"), a wholly-owned subsidiary of Condor Acquisition (Cayman) Limited ("**Purchaser**"), a newly incorporated entity controlled by Compañía Española de Petróleos, S.A.U. and in which Strategic Resources (Global) Limited is an investor, and pursuant to which, among other things, Cayco will merge with and into Coastal and Purchaser will acquire, indirectly through Cayco, 100% ownership of Coastal in exchange for consideration (the "**Consideration**") of C\$19.00 for each issued and outstanding common share of Coastal (each, a "**Common Share**"); and
2. to transact such other business as may properly be brought before the Meeting and any adjournment or postponement thereof.

This Notice of Meeting is accompanied by the Circular, which provides additional information relating to the matters to be dealt with at the Meeting and forms part of this Notice of Meeting.

Holders of Common Shares (the "**Coastal Shareholders**") are entitled to vote at the Meeting either in person or by proxy. Only Coastal Shareholders of record at the close of business (EST) on December 3, 2013 will be entitled to receive notice of and vote at the Meeting, and any adjournment or postponement of the Meeting.

If you are a registered Coastal Shareholder, whether or not you plan to attend the Meeting in person, please sign, date and return the form of proxy accompanying the Circular, in accordance with the instructions set out therein and in the Circular, so that your Common Shares can be voted at the Meeting in accordance with your instructions. In order to be effective, a proxy must be deposited with Coastal's registrar and transfer agent, Computershare Trust Company of Canada, at its offices at 100 University Ave., 8<sup>th</sup> Floor, Toronto, Ontario, Canada, M5J 2Y1, or by toll-free telephone (1-866-732-VOTE (8683)) or online ([www.investorvote.com](http://www.investorvote.com)) by using the 15-digit control number contained in the form of proxy, by 10:00 a.m. (EST) on January 2, 2014, or not less than 48 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. Voting by proxy will not prevent you from voting in person if you attend the Meeting and revoke your proxy, but will ensure that your vote will be counted if you are unable to attend. In addition, if you are a registered Coastal Shareholder, you must complete, sign, date and return the enclosed letter of transmittal, in accordance with the instructions set out therein and in the Circular to the depositary, Computershare Investor Services Inc., so that if the Merger is completed, the Consideration to which you are entitled can be sent to you as soon as possible following completion of the Merger.

If you hold your interest in Common Shares in the form of depositary interests ("**Depositary Interests**"), please complete, sign, date and return the form of direction accompanying the Circular, in accordance with the instructions set out therein and in the Circular, to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU, by 3:00 p.m. (GMT) on December 31, 2013, or not less than 72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. The completion and return of the form of direction will not preclude you from attending the Meeting and voting in person. Holders of Depositary Interests wishing to attend the Meeting

should contact Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU or by email at [custodymgt@capita.co.uk](mailto:custodymgt@capita.co.uk) by no later than 3:00 p.m. (GMT) on December 31, 2013, or not less than 72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. Holders of Depositary Interests who wish to appoint a proxy or proxies may also do so through the CREST electronic proxy appointment service for the Meeting and any adjournments or postponements thereof by using the procedures described in the CREST manual. Holders of Depositary Interests will receive the Consideration to which they are entitled through CREST in accordance with the usual procedures of CREST. There is no requirement for holders of Depositary Interests to complete the enclosed letter of transmittal.

If you are not a registered Coastal Shareholder and have received these materials through your broker or other intermediary, please complete and return the voting instruction form provided to you by your broker or other intermediary in accordance with the instructions provided therein. Failure to do so may result in your Common Shares not being eligible to be voted by proxy at the Meeting. In addition, if you are a beneficial holder of Common Shares, please contact your broker or other intermediary to instruct them to deposit your Common Shares to the Merger. Your broker should do so prior to the Meeting in order for you to receive the Consideration to which you are entitled to.

ON BEHALF OF THE BOARD OF DIRECTORS

*Lloyd Barnaby Smith*

Chairman of the Board  
George Town, Grand Cayman, BWI  
December 5, 2013

## TABLE OF CONTENTS

GLOSSARY OF TERMS.....	1
INFORMATION IN THIS CIRCULAR.....	9
EXCHANGE RATE DATA.....	10
FINANCIAL INFORMATION.....	10
FORWARD-LOOKING STATEMENTS.....	10
NOTICE TO COASTAL SHAREHOLDERS IN THE U.S. ....	11
Q&A ON THE MERGER, VOTING RIGHTS AND SOLICITATION OF PROXIES.....	12
INFORMATION CONCERNING THE MEETING.....	16
Date, Time and Place of the Meeting.....	16
Purpose of the Meeting.....	16
Quorum.....	16
Record Date.....	16
GENERAL PROXY INFORMATION.....	16
Solicitation of Proxies.....	16
Appointment and Revocation of Proxies.....	17
Notice and Access.....	17
Voting of Proxies and Exercise of Discretion.....	17
Information for Depositary Interest Holders.....	18
Information for Beneficial Coastal Shareholders.....	18
Voting Shares and Principal Holders Thereof.....	19
Dissent Rights of Coastal Shareholders.....	19
THE MERGER.....	20
Background to the Merger.....	20
Reasons for the Merger.....	21
Recommendation of the Board.....	23
Fairness Opinion.....	23
Merger Steps.....	24
Effective Date.....	24
Source of Funds.....	25
Treatment of Options, RSUs and SARs.....	25
Interests of Certain Persons in the Merger.....	25
Required Shareholder Approvals.....	27
Support Agreements.....	27
Regulatory Approvals and Decisions.....	28
AIM and TSX Matters.....	28
Canadian Securities Law Matters.....	28
Completion of the Merger.....	29
Effects on Coastal if the Merger is Not Completed.....	29
Risks Associated with the Merger.....	29
MERGER MECHANICS.....	31
Depositary Agreement.....	31
Certificates and Payment.....	31
MERGER AGREEMENT.....	33
Conditions to the Merger Becoming Effective.....	33
Representations and Warranties.....	34
Covenants.....	35
CEPSA Guarantee.....	41
Termination of the Merger Agreement.....	41
Termination Fee.....	42
Amendment and Waivers.....	43
INFORMATION CONCERNING COASTAL.....	44
General.....	44
Description of Share Capital and Voting Securities.....	44
Dividend Policy.....	44
Trading in Shares.....	44
Intentions with Respect to the Merger.....	45
Material Changes in the Affairs of Coastal.....	45
Prior Sales and Purchases.....	45
Previous Distributions.....	46

INFORMATION CONCERNING PURCHASER .....	46
CERTAIN CAYMAN ISLANDS TAX CONSIDERATIONS .....	46
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS .....	47
Disposition of Common Shares for the Consideration.....	47
Dissenting Coastal Shareholders .....	48
Taxation of Capital Gains and Capital Losses.....	48
Foreign Information Reporting.....	48
Non-Resident Holders .....	48
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS .....	49
Exchange of Common Shares for Cash .....	50
Backup Withholding and Information Reporting .....	50
UNITED KINGDOM TAXATION.....	50
Taxation of Chargeable Gains.....	51
Transactions in Securities Anti-Avoidance .....	51
Stamp Duty and Stamp Duty Reserve Tax ("SDRT") .....	51
INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS .....	51
LEGAL MATTERS .....	52
ADDITIONAL INFORMATION .....	52
APPROVAL OF DIRECTORS.....	53
CONSENT OF CREDIT SUISSE SECURITIES (USA) LLC .....	54
APPENDIX A - MERGER RESOLUTION .....	A-1
APPENDIX B - PLAN OF MERGER .....	B-1
APPENDIX C - FAIRNESS OPINION .....	C-1

## GLOSSARY OF TERMS

In this Management Information Circular, the following words and phrases have the related meanings, unless the context otherwise requires:

<b>Acquisition Proposal</b>	Other than the transactions contemplated by the Merger Agreement and other than any transaction involving only Coastal and/or one or more of its wholly-owned Subsidiaries, any offer, proposal or inquiry (written or oral) from any Person or group of Persons other than Purchaser (or any affiliate of Purchaser or any Person acting in concert with Purchaser or any affiliate of Purchaser) after the date of the Merger Agreement relating to: (i) any sale or disposition (or any lease, long-term supply agreement or other arrangement having the same economic effect as sale or disposition), direct or indirect, in a single transaction or a series of related transactions, of assets representing 15% or more of the consolidated assets or contributing 15% or more of the consolidated revenue of Coastal or of 15% or more of the voting or equity securities of Coastal or any of the Coastal Subsidiaries or any of the voting or equity securities held by Coastal in the APICO Companies (or rights or interests in such voting or equity securities); (ii) any take-over bid, tender offer, exchange offer, treasury issuance or other transaction that, if consummated, would result in such Person or group of Persons beneficially owning 15% or more of any class of voting or equity securities of Coastal or any of the Coastal Subsidiaries or any of the voting or equity securities held by Coastal in the APICO Companies (including securities convertible into or exercisable or exchangeable for voting or equity securities); (iii) any scheme or plan of arrangement, merger, amalgamation, consolidation, share exchange, business combination, reorganization, recapitalization, liquidation, dissolution, winding up or exclusive license involving Coastal or any of the Coastal Subsidiaries; or (iv) any other similar transaction or series of transactions involving Coastal or any of the Coastal Subsidiaries or the APICO Companies to the extent such transactions relate to items (i) or (ii) set out above.
<b>AIM</b>	The AIM market operated by the London Stock Exchange plc.
<b>allowable capital loss</b>	Has the meaning given to such term under " <i>Certain Canadian Federal Income Tax Considerations - Taxation of Capital Gains and Capital Losses</i> ".
<b>APICO Companies</b>	APICO LLC, APICO (Khorat) Holdings LLC and APICO (Khorat) Limited.
<b>Beneficial Coastal Shareholder</b>	Has the meaning given to such term under " <i>General Proxy Information - Information for Beneficial Coastal Shareholders</i> ".
<b>Board</b>	The board of directors of Coastal as constituted from time to time.
<b>Business Day</b>	Any day other than a Saturday, Sunday or a statutory holiday in Toronto, Ontario, Canada, Houston, Texas, U.S.A., United Kingdom, Abu Dhabi, UAE, Cayman Islands or Hong Kong.
<b>Capita IRG Trustees</b>	Capita IRG Trustees Limited, as issuer of the Depositary Interests pursuant to a deed poll dated January 19, 2005.



<b>Cayco</b>	Condor (Cayman) Limited, an exempted company with limited liability incorporated and existing under the laws of the Cayman Islands incorporated by Purchaser.
<b>Cayman Companies Law</b>	The <i>Companies Law (2013 Revision) of the Cayman Islands</i> , as amended, revised and consolidated from time to time.
<b>CEPSA</b>	Compañía Española de Petróleos, S.A.U., a company with limited liability incorporated and existing under the laws of Spain.
<b>Certificate of Merger</b>	The certificate of merger to be issued by the Registrar pursuant to subsection 233(11) of the Cayman Companies Law in respect of the Merger.
<b>Change in Recommendation</b>	Has the meaning given to such term under " <i>Merger Agreement - Termination of the Merger Agreement</i> ".
<b>Circular</b>	This Management Information Circular.
<b>Citi</b>	Citigroup Global Markets Inc.
<b>Coastal</b>	Coastal Energy Company, an exempted company with limited liability incorporated and existing under the laws of the Cayman Islands.
<b>Coastal Shareholders</b>	The holders of Common Shares.
<b>Coastal Subsidiaries</b>	NuCoastal (Thailand) Limited, Coastal Energy Company (Khorat) Ltd., Coastal Energy (UK) Company Limited, Coastal Energy Company Nevada, Ocean 66, Ltd., MOPU Holdings Ltd., CEC International, Ltd., Viking Storage Solutions Ltd., CEC Services (Thailand) Ltd., MOPU Holdings (Singapore) Pte. Ltd. and Coastal Energy KBM Sdn. Bhd.
<b>Code</b>	Has the meaning given to such term under " <i>Material U.S. Federal Income Tax Considerations</i> ".
<b>Common Shares</b>	The common shares of a nominal or par value of \$0.04 in the capital of Coastal.
<b>Consideration</b>	C\$19.00 in cash per Common Share.
<b>CRA</b>	Canada Revenue Agency.
<b>Credit Suisse</b>	Credit Suisse Securities (USA) LLC.
<b>CREST</b>	The relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in securities and the holding of uncertificated securities in respect of which Euroclear is the operator (as defined in the CREST Regulations).
<b>CREST Proxy Instruction</b>	Has the meaning given to such term under " <i>General Proxy Information - Information for Depositary Interest Holders</i> ".
<b>CREST Regulations</b>	The Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time.
<b>Depositary</b>	Computershare Investor Services Inc.

<b>Depository Agreement</b>	The depository agreement dated December 3, 2013 between Coastal, Purchaser and the Depository.
<b>Depository Interest Holders</b>	The holders of Depository Interests.
<b>Depository Interests</b>	Interests which represent Common Shares tradable through CREST (Common Shares are held on trust for the holders of such interests by Capita IRG Trustees in exchange for the issue of a dematerialised depository interest representing the Common Shares).
<b>Dissent Notice</b>	Has the meaning given to such term under " <i>General Proxy Information - Dissent Rights of Coastal Shareholders</i> ".
<b>Dissent Rights</b>	Means the rights of dissent in favour of Registered Coastal Shareholders to be exercised in accordance with and under the Cayman Companies Law.
<b>Dissenting Shareholder</b>	Has the meaning given to such term under " <i>General Proxy Information - Dissent Rights of Coastal Shareholders</i> ".
<b>DMF</b>	The Department of Mineral Fuels, Ministry of Energy, Kingdom of Thailand.
<b>Effective Date</b>	The date shown on the Certificate of Merger giving effect to the Merger.
<b>Effective Time</b>	12:01 a.m. on the Effective Date, or such other time on the Effective Date as Coastal, CEPSA and Purchaser agree to in writing before the Effective Date.
<b>Euroclear</b>	Euroclear UK and Ireland Limited.
<b>Excluded Shareholders</b>	Oscar S. Wyatt, Jr. and his affiliates.
<b>Executives</b>	Has the meaning given to such term under " <i>The Merger - Interests of Certain Persons in the Merger</i> ".
<b>Existing Employment Agreements</b>	Has the meaning given to such term under " <i>The Merger - Interests of Certain Persons in the Merger</i> ".
<b>Fairness Opinion</b>	The written opinion of Credit Suisse dated November 18, 2013 addressed to the Board to the effect that, as of the date of such opinion, and subject to the assumptions, qualifications, limitations and other matters considered in connection with the preparation of the opinion, the Consideration to be received by Coastal Shareholders, other than the Excluded Shareholders, in the Merger pursuant to the Merger Agreement was fair, from a financial point of view, to such holders.
<b>GAAP</b>	Generally accepted accounting principles as set out in the Canadian Institute of Chartered Accountants Handbook - Accounting for an entity that prepares its financial statements in accordance with IFRS, at the relevant time, applied on a consistent basis.
<b>Governmental Entity</b>	(i) Any international, multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau, ministry, agency or instrumentality, domestic or foreign; (ii) any subdivision or authority of any of the

above; (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing; or (iv) any stock exchange.

<b>Holder</b>	Has the meaning given to such term under " <i>The Merger - Support Agreements</i> ".
<b>IFRS</b>	Has the meaning given to such term under " <i>Financial Information</i> ".
<b>Intermediary</b>	Has the meaning given to such term under " <i>General Proxy Information - Information for Beneficial Coastal Shareholders</i> ".
<b>IRS</b>	Has the meaning given to such term under " <i>Material U.S. Federal Income Tax Considerations</i> ".
<b>Law</b>	With respect to any Person, any and all applicable law (statutory, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement, whether domestic or foreign, enacted, adopted, promulgated or applied by a Governmental Entity that is binding upon or applicable to such Person or its business, undertaking, property or securities, and to the extent that they have the force of law, policies, guidelines, notices and protocols of any Governmental Entity, as amended.
<b>Letter of Transmittal</b>	The letter of transmittal to be delivered by Coastal to Registered Coastal Shareholders in respect of the Common Shares and used by Registered Coastal Shareholders to deliver Common Shares for payment.
<b>Matching Period</b>	Has the meaning given to such term under " <i>Merger Agreement - Covenants</i> ".
<b>Material Adverse Effect</b>	Any change, event, occurrence, effect or circumstance that:  (A) individually or in the aggregate with other such changes, events, occurrences, effects or circumstances is or could reasonably be expected to be material and adverse to the business, operations, results of operations, assets, properties, rights under contract, capitalization, financial condition, rights, obligations, liabilities (contingent or otherwise) of Coastal (including its interests in the APICO Companies) and the Coastal Subsidiaries, taken as a whole, except any such change, event, occurrence, effect, or circumstance resulting from or arising in connection with:  (a) any change affecting the oil exploration and production industry in general, including changes in the price of oil;  (b) any change in global, national or regional political conditions (including any change in government or the outbreak or escalation of war or acts of terrorism) or in general economic, business, regulatory, political or market conditions or in national or global financial or capital markets;  (c) any adoption, proposal, implementation or change in Law or any interpretation of Law by any Governmental Entity, including directives imposed

by the DMF;

- (d) any change in GAAP;
- (e) any natural disaster;
- (f) any action taken by Coastal or any of the Coastal Subsidiaries or the APICO Companies which is required to be taken pursuant to the Merger Agreement (excluding any obligation to act in the Ordinary Course);
- (g) any actions taken (or omitted to be taken) upon the written request of, or with the written approval of, Purchaser;
- (h) the announcement of the Merger Agreement or the consummation of the Merger;
- (i) any change in the market price or trading volume of any securities of Coastal or any suspension of trading in securities generally on any securities exchange on which any securities of Coastal trade (it being understood that the causes underlying such change in market price or suspension of trading in securities may be taken into account in determining whether a Material Adverse Effect has occurred); or
- (j) the failure of Coastal in and of itself to meet any internal or public projections, forecasts or estimates of revenues or earnings (it being understood that the causes underlying such failure may be taken into account in determining whether a Material Adverse Effect has occurred);

provided, however, that with respect to clauses (a) through to and including (e), such matter does not have a materially disproportionate effect on Coastal (including its interest in the APICO Companies) and the Coastal Subsidiaries, taken as a whole, relative to other comparable companies and entities operating in the industries and geographic regions in which Coastal, the Coastal Subsidiaries and/or the APICO Companies operate, and unless expressly provided in any particular section of the Merger Agreement, references in certain sections of the Merger Agreement to dollar amounts are not intended to be, and shall not be deemed to be, illustrative or interpretive for purposes of determining whether a Material Adverse Effect has occurred; or

(B) either individually or in the aggregate with other such changes, events, occurrences, effects or circumstances prevents, or individually or in the aggregate would reasonably be expected to prevent, Coastal from performing its obligations under the Merger Agreement in any material respect.

<b>Meeting</b>	The extraordinary meeting of Coastal Shareholders to be held at 10:00 a.m. (EST) on January 6, 2014 at the offices of Walkers at 190 Elgin Avenue, George Town, Grand Cayman KY1-9001, Cayman Islands.
<b>Merger</b>	The proposed merger of Cayco with and into Coastal under the Plan of Merger under section 233 of the Cayman Companies Law on the terms and subject to the conditions set out in the Plan of Merger, subject to any amendments or variations to the Plan of Merger made in accordance with the terms of the Merger Agreement.
<b>Merger Agreement</b>	The merger agreement dated November 18, 2013 among Coastal, Purchaser and CEP SA.
<b>Merger Resolution</b>	The special resolution approving the Plan of Merger to be considered at the Meeting, attached as Appendix A to this Circular.
<b>MI 61-101</b>	Multilateral Instrument 61-101 - <i>Protection of Minority Shareholders in Special Transactions</i> .
<b>Net Profits Agreements</b>	The First Amended and Restated Net Profits Agreement between CEC International, Ltd. and Auldana Advisors Corporation dated as of October 12, 2012, as amended from time to time, related to a 1% interest in the net profits deriving from the Thailand Petroleum Concession Agreement No. 7/2546/64 and the First Amended and Restated Net Profits Agreement between CEC International, Ltd. and Elk Petroleum Thailand LLC dated as of October 3, 2012, as amended from time to time, related to a 2.5% interest in the net profits deriving from the Thailand Petroleum Concession Agreement No. 7/2546/64.
<b>New Employment Agreements</b>	Has the meaning given to such term under " <i>The Merger - Interests of Certain Persons in the Merger</i> ".
<b>NI 51-101</b>	National Instrument 51-101 - <i>Standards of Disclosure for Oil and Gas Activities</i> .
<b>NI 51-102</b>	National Instrument 51-102 - <i>Continuous Disclosure Obligations</i> .
<b>NI 54-101</b>	National Instrument 54-101 - <i>Communication with Beneficial Owners of Securities of a Reporting Issuer</i> .
<b>Non-Resident Holder</b>	Has the meaning given to such term under " <i>Certain Canadian Federal Income Tax Considerations - Non-Resident Holders</i> ".
<b>Notice of Meeting</b>	The notice of extraordinary meeting of Coastal Shareholders accompanying this Circular.
<b>NuCoastal</b>	NuCoastal (Thailand) Limited, a company incorporated under the laws of Thailand and a wholly-owned subsidiary of Coastal.
<b>Options</b>	The outstanding options to purchase Common Shares issued by Coastal pursuant to Coastal's 2008 Incentive Stock Option Plan, amended and restated on July 21, 2011.

<b>Ordinary Course</b>	With respect to an action taken by Coastal, the Coastal Subsidiaries or the APICO Companies, that such action is consistent with the past practices of Coastal, the Coastal Subsidiaries or the APICO Companies, as applicable, and is taken in the ordinary course of the normal day-to-day operations of the business of Coastal, the Coastal Subsidiaries or the APICO Companies, as the case may be.
<b>Outside Date</b>	March 31, 2014, or such later date as may be agreed in writing by Coastal, Purchaser and CEPESA.
<b>Person</b>	Includes any individual, partnership, association, body corporate, organization, trust, estate, trustee, executor, administrator, legal representative, government (including Governmental Entity), syndicate or other entity, whether or not having legal status.
<b>PFIC</b>	Has the meaning given to such term under " <i>Material U.S. Federal Income Tax Considerations</i> ".
<b>Plan of Merger</b>	The plan of merger, substantially in the form attached as Appendix B to this Circular subject to any amendments or variations to such plan in accordance with the Merger Agreement.
<b>Proposed Amendments</b>	Has the meaning given to such term under " <i>Certain Canadian Federal Income Tax Considerations</i> ".
<b>Purchaser</b>	Condor Acquisition (Cayman) Limited, an exempted company with limited liability incorporated and existing under the laws of the Cayman Islands.
<b>Record Date</b>	December 3, 2013.
<b>Registered Coastal Shareholder</b>	Has the meaning given to such term under " <i>General Proxy Information - Appointment and Revocation of Proxies</i> ".
<b>Registrar</b>	The Registrar of Companies in the Cayman Islands.
<b>Relevant Executives</b>	Has the meaning given to such term under " <i>The Merger - Canadian Securities Law Matters</i> ".
<b>Representatives</b>	Collectively, any officer, director, employee, representative (including any financial or other advisor) or agent of Coastal or any of the Coastal Subsidiaries.
<b>Reverse Takeover</b>	The September 25, 2006 acquisition by Coastal of all the outstanding stock of NuCoastal, which was accounted for as a reverse takeover in accordance with GAAP.
<b>RSUs</b>	The outstanding restricted share units issued by Coastal pursuant to Coastal's 2010 Restricted Stock Unit Plan, amended and restated on July 21, 2011.
<b>SARs</b>	The outstanding stock appreciation rights issued by Coastal pursuant to Coastal's Stock Appreciation Rights Plan effective as of September 22, 2008.
<b>SDRT</b>	Has the meaning given to such term under " <i>United Kingdom Taxation</i> ".

<b>Securities Laws</b>	The <i>Securities Act</i> (British Columbia) and any other applicable provincial securities Laws.
<b>SEDAR</b>	The System for Electronic Document Analysis and Retrieval.
<b>Spanish Energy Regulations</b>	The Ninth Additional Provision of Spanish Law 3/2013, of 4 June, setting up the Spanish National Commission for the Markets and Competition ( <i>Disposición Adicional Novena de la Ley 3/2013, de 4 de junio, de creación de la Comisión Nacional de los Mercados y la Competencia</i> ).
<b>Spanish Energy Regulator</b>	The Spanish National Commission for the Markets Competition ( <i>Comisión Nacional de los Mercados y la Competencia</i> ) or the Spanish Ministry of Industry, Energy and Tourism ( <i>Ministerio de Industria, Energía y Turismo</i> ), in each case as applicable pursuant to the Spanish Energy Regulations.
<b>Spanish Regulatory Decision</b>	Either: (i) the Spanish Energy Regulator issues a decision resolving (or otherwise confirming in writing to CEPSA in form and substance satisfactory to CEPSA) that no conditions and/or obligations will be imposed under the Spanish Energy Regulations on CEPSA and/or any of its affiliates (including, following the Effective Time, Coastal and the Coastal Subsidiaries) as a result of or in connection with the acquisition by Purchaser of Coastal that would, in CEPSA's sole and reasonable opinion, reasonably be expected to (a) materially increase the cost of such acquisition to CEPSA, Purchaser or any of their respective affiliates and/or materially impact the economic benefit of the Merger to CEPSA, Purchaser or any of their respective affiliates, or (b) materially affect the ownership or operation by CEPSA and/or its affiliates (including, following the Effective Time, Coastal and the Coastal Subsidiaries) of their respective business or assets, including the ability of CEPSA or any of its affiliates to make distributions, sell or acquire other assets or Persons, incur indebtedness or undertake any capital expenditure; or (ii) the statutory period for the Spanish Energy Regulator to issue a decision under the Spanish Energy Regulations having expired without such decision having been issued.
<b>SRG</b>	Strategic Resources (Global) Limited, a company incorporated and existing under the laws of the Republic of Seychelles.
<b>Subsidiary</b>	Has the meaning specified in National Instrument 45-106 - <i>Prospectus and Registration Exemptions</i> in effect on the date of the Merger Agreement.
<b>Superior Proposal</b>	Any unsolicited <i>bona fide</i> written Acquisition Proposal from a Person who is an arm's length third party to acquire, directly or indirectly, not less than all of the outstanding Common Shares or all or substantially all of the assets of Coastal on a consolidated basis that: (a) complies with Securities Laws and did not result from or involve a breach of Article 5 of the Merger Agreement; (b) is reasonably capable of being completed without undue delay, taking into account all financial, legal, regulatory and other aspects of such proposal and the Person making such proposal; (c) is not subject to any due diligence or financing contingency and in respect of which it has been demonstrated to the satisfaction of the Board, acting in good faith (after receipt of advice from its financial advisors and its outside legal counsel), that any required financing to complete such Acquisition Proposal is reasonably likely to be obtained; and (d) that the Board determines, in its good faith judgment, after receiving the advice of its outside legal and financial advisors and after taking into

account all of the terms and conditions of the Acquisition Proposal, including all legal, financial, regulatory and other aspects of such Acquisition Proposal and the party making such Acquisition Proposal, that such Acquisition Proposal would, if consummated in accordance with its terms, but without assuming away the risk of non-completion, result in a transaction which is more favourable, from a financial point of view, to the Coastal Shareholders than the Merger (taking into account any changes to the terms and conditions of the Merger proposed by Purchaser pursuant to Section 5.4(2) of the Merger Agreement and any other factors the Board determines, acting reasonably, to be appropriate).

<b>Superior Proposal Notice</b>	Has the meaning given to such term under " <i>Merger Agreement - Covenants</i> ".
<b>Support Agreement</b>	Has the meaning given to such term under " <i>The Merger - Support Agreements</i> ".
<b>taxable capital gain</b>	Has the meaning given to such term under " <i>Certain Canadian Federal Income Tax Considerations – Taxation of Capital Gains and Capital Losses</i> ".
<b>Tax Act</b>	The <i>Income Tax Act</i> (Canada).
<b>Tax Equalization Agreements</b>	Has the meaning given to such term under " <i>The Merger - Interests of Certain Persons in the Merger</i> ".
<b>Termination Fee</b>	A fee of US\$76,000,000 payable by Coastal to, or to the order of, Purchaser in certain circumstances described under " <i>Merger Agreement - Termination Fee</i> ".
<b>TSX</b>	The Toronto Stock Exchange.
<b>TSX-V</b>	The TSX Venture Exchange.
<b>U.S. Exchange Act</b>	The Securities Exchange Act of 1934 (United States), as amended, and the rules and regulations thereunder.
<b>U.S. holder</b>	Has the meaning given to such term under " <i>Material U.S. Federal Income Tax Considerations</i> ".
<b>VDR</b>	Has the meaning given to such term under " <i>The Merger - Background to the Merger</i> ".
<b>Warrants</b>	The warrants to purchase Common Shares issued by Coastal.

Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, will have the same meaning herein as in NI 51-101.

#### **INFORMATION IN THIS CIRCULAR**

No person has been authorized to give any information or make any representation in connection with the Merger or any other matters to be considered at the Meeting other than those contained in this Circular and, if given or made, any such information or representation must not be relied on as having been authorized.

All information relating to CEPSC, Purchaser, SRG or any of their affiliates contained in this Circular has been provided to Coastal by those parties. Coastal has relied upon this information without having made independent inquiries as to the accuracy or completeness thereof; however, Coastal has no reason to believe such information is misleading or inaccurate. Coastal does not assume any responsibility for the



inaccuracy or incompleteness of the information provided by CEPSA, Purchaser, SRG or any of their affiliates, or for any failure of any of them to disclose events that may have occurred or that may affect the significance or accuracy of any such information or for any failure of any of them to update or amend such information, whether as a result of new information, future events or otherwise.

Information contained in this Circular is given as of December 3, 2013 unless otherwise specifically stated.

#### EXCHANGE RATE DATA

Currency amounts expressed herein are in United States dollars (US\$ or \$), Canadian dollars (C\$) and British pounds (£). Exchange rates on December 31, 2012 and December 3, 2013 were as follows:

	<u>December 31, 2012</u>	<u>December 3, 2013</u>
US\$1.00	C\$0.9949	C\$1.0662
US\$1.00	£0.6150	£0.6092
C\$1.00	US\$1.0051	US\$0.9379
C\$1.00	£0.6181	£0.5714

#### FINANCIAL INFORMATION

All financial information in this Circular is prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are expressed in United States dollars (US\$ or \$) unless otherwise indicated. All amounts expressed in Canadian dollars are indicated as "C\$".

#### FORWARD-LOOKING STATEMENTS

This Circular, including the information included in Appendices to this Circular, contains "forward-looking statements" and "forward-looking information" within the meaning of the applicable Canadian Securities Laws (such forward-looking statements and forward-looking information being collectively herein after referred to as "forward-looking statements") that are based on expectations, estimates and projections as at the date of this Circular. These forward-looking statements include but are not limited to statements and information concerning: the Merger; covenants of Coastal and Purchaser; the timing for the implementation of the Merger and the potential benefits of the Merger; the ability of Coastal and Purchaser to satisfy the closing conditions to, and to complete the Merger; principal steps of the Merger; statements made in, and based upon, the Fairness Opinion; statements relating to the business and future activities of, and developments related to, Coastal and Purchaser after the date of this Circular and before the Effective Time and to and of Purchaser after the Effective Time; Coastal Shareholder approval of the Merger; issuance of any regulatory decision in connection with the Merger (including the Spanish Regulatory Decision); and the market position and future financial or operating performance of Purchaser or Coastal.

Any statements that involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often but not always using phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends" or variations of such words and phrases, or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements and are intended to identify forward-looking statements, which include statements relating to, among other things, the ability of Coastal or Purchaser to continue to successfully compete in the market.

These forward-looking statements are based on the beliefs of the management of Coastal, Purchaser or CEPSA, as the case may be, as well as on assumptions which such management believes to be reasonable, based on information currently available at the time such statements were made. However, there can be no assurance that forward-looking statements will prove to be accurate. Such assumptions and factors include, among other things, the satisfaction of the terms and conditions of the Merger, including the approval of the Merger by Coastal Shareholders, the receipt of the Spanish Regulatory Decision and third party approvals and consents, and the timing of the receipt thereof; general business and economic conditions; that Coastal and Purchaser will successfully integrate and the anticipated benefits of the Merger will be achieved; market competition; and tax benefits and tax rates.

By their nature, forward-looking statements are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Coastal or Purchaser to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to a variety of risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation: the Merger Agreement may be terminated in certain circumstances; general business, economic, competitive, political, regulatory and social uncertainties; current and future prices of oil and gas; risks related to competition; risks related to factors beyond the control of Coastal or Purchaser; risks and uncertainties associated with exploration and production operations; title risks; environmental risks and risks relating to environmental approvals; risks related to directors and executive officers of Coastal possibly having interests in the Merger that are different from other Coastal Shareholders; risks relating to the possibility that more than 10% of Registered Coastal Shareholders may exercise their Dissent Rights; dependence on key management and personnel; the global economic climate; the execution of strategic growth plans; risks inherent to operating in Thailand and Malaysia; risks relating to foreign exchange and interest rates; market reaction to the Merger; risks relating to the integration of Coastal and Purchaser's operations; insurance risks; and litigation.

This list is not exhaustive of the factors that may affect any of the forward-looking statements of Coastal or Purchaser. Forward-looking statements are statements about the future and are inherently uncertain. Actual results could differ materially from those projected in the forward-looking statements as a result of the matters set out in this Circular generally and certain economic and business factors, some of which may be beyond the control of Coastal and Purchaser. Some of the important risks and uncertainties that could affect forward-looking statements are described in the section of this Circular entitled "*The Merger - Risks Associated with the Merger*" and the section entitled "*Description of Business - Risk Factors*" of Coastal's annual information form dated March 26, 2013, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com). Coastal and Purchaser do not intend, and do not assume, any obligation to update any forward-looking statements, other than as required by applicable Law. For all of these reasons, Coastal Shareholders should not place undue reliance on forward-looking statements.

#### **NOTICE TO COASTAL SHAREHOLDERS IN THE U.S.**

Coastal is an exempted company existing under the laws of the Cayman Islands and the Common Shares are not registered under the U.S. Exchange Act. The proxy solicitation rules under section 14(a) of the U.S. Exchange Act are, therefore, not applicable to Coastal or this solicitation, and, accordingly, this solicitation is not being effected in accordance with such rules. Coastal Shareholders in the U.S. should be aware that disclosure requirements under Canadian Securities Laws may be different from requirements under the U.S. Exchange Act.

Financial statements included or incorporated by reference in this Circular have been prepared in accordance with either IFRS or GAAP, which both differ from U.S. generally accepted accounting principles in certain material respects, and thus they may not be comparable to financial statements of U.S. companies. Coastal Shareholders in the U.S. should be aware that the Merger described in this Circular may have tax consequences in both the United States and Canada.

The enforcement by Coastal Shareholders of civil liabilities under U.S. securities laws may be affected adversely by the fact that each of Coastal and Purchaser is incorporated or organized outside the United States, that some or all of their respective directors and officers named in this Circular are not residents of the United States and that all or a substantial portion of their respective assets and said persons may be located outside the United States. As a result, it may be difficult or impossible for Coastal Shareholders in the U.S. to effect service of process within the United States upon Coastal or Purchaser, their respective officers and directors, or to realize against them upon judgments of courts of the United States predicated upon civil liabilities under the federal securities laws of the United States or "blue sky" laws of any state within the United States. In addition, Coastal Shareholders in the U.S. should not assume that the courts of Canada or the Cayman Islands: (a) would enforce judgments of United States courts obtained in actions against such persons predicated upon civil liabilities under the federal securities laws of the United States or "blue sky" laws of any state within the United States; or (b) would enforce, in original actions, liabilities against such persons predicated upon civil liabilities under the federal securities laws of the United States or "blue sky" laws of any state within the United States.

## COASTAL ENERGY COMPANY

190 Elgin Avenue  
George Town, Grand Cayman  
KY1-9005  
Cayman Islands  
British West Indies

Phone: +01 (713) 877-7125  
Fax: +01 (713) 877-7128

### MANAGEMENT INFORMATION CIRCULAR

#### Q&A ON THE MERGER, VOTING RIGHTS AND SOLICITATION OF PROXIES

This Circular is dated December 3, 2013 and, unless otherwise stated, the information in this Circular is as of December 3, 2013. For ease of reference, a glossary of terms used in this Circular can be found starting at page 1.

##### **What is this document?**

This Circular is a management information circular sent to Coastal Shareholders in advance of an extraordinary meeting of Coastal Shareholders to be held in connection with the proposed Merger of Coastal and Cayco, a wholly-owned subsidiary of Purchaser, as set out in the Notice of Meeting. This Circular provides additional information respecting the business of the Meeting. References in this Circular to the Meeting include any adjournment or postponement that may occur. A form of proxy, form of direction or voting instruction form accompanies this Circular.

##### **When and where is the Meeting being held?**

The Meeting will be held at 10:00 a.m. (EST) on January 6, 2014 at the offices of Walkers at 190 Elgin Avenue, George Town, Grand Cayman KY1-9001, Cayman Islands, unless adjourned or postponed.

##### **Why is the Meeting being held?**

The Meeting is being held in order to approve the proposed Merger between Coastal and Cayco, a wholly-owned subsidiary of Purchaser.

At the Meeting, Coastal Shareholders will be asked to consider, and, if deemed advisable, to pass the Merger Resolution, a copy of which is attached as Appendix A to this Circular. The Merger Resolution must be approved by special resolution, that is by not less than two-thirds (66⅔%) of the votes cast by Coastal Shareholders present in person or represented by proxy at the Meeting. In addition, pursuant to MI 61-101, the Merger Resolution must be approved by at least a simple majority of the votes cast by Coastal Shareholders present in person or represented by proxy at the Meeting, with the 1,961,738 votes attached to Common Shares held by the Relevant Executives being excluded from such vote.

##### **Why is Coastal proposing the Merger?**

After careful consideration of the Merger, the Board has unanimously approved the entering into of the Merger Agreement and the Plan of Merger and has determined that the Merger is in the best interests of Coastal and unanimously recommends that Coastal Shareholders vote in favour of the Merger. The recommendation of the Board followed an extensive review and analysis of the proposed transaction with the assistance of its legal and financial advisors.

In reaching its decision to approve the Merger, the Board considered a number of factors. See the section of this Circular entitled "*The Merger - Reasons for the Merger*".

### **How is the Merger being implemented?**

The Merger involves the merger of Coastal and Cayco, subject to the satisfaction or waiver of certain conditions. The Merger will be implemented pursuant to a plan of merger under section 233 of the Cayman Companies Law. Under the terms of the Merger, Purchaser will acquire, indirectly through Cayco, 100% ownership of Coastal in exchange for the Consideration for each issued and outstanding Common Share. In addition, all Options and RSUs will be cancelled and the vesting of all SARs will be accelerated in full in exchange for cash payments. See the section of this Circular entitled "*The Merger - Treatment of Options, RSUs and SARs*".

### **When does Coastal expect the Merger to be completed?**

The completion of the Merger is subject to several closing conditions that must be satisfied or waived, including the approval of Coastal Shareholders, receipt of the Spanish Regulatory Decision and satisfaction of certain third party contractual conditions. Assuming that all of the closing conditions to the Merger are satisfied or waived, Coastal expects that the Merger will become effective on or about January 15, 2014. It is possible that completion of the Merger may be delayed beyond this date if the conditions to completion of the Merger cannot be met on a timely basis, but in no event will completion of the Merger occur later than March 31, 2014 or such later date as may be agreed to in writing by Coastal, Purchaser and CEPESA.

### **Have Coastal Shareholders agreed to vote in favour of the Merger?**

Coastal Shareholders holding in the aggregate 37,240,969 million Common Shares, representing approximately 32.81% of the outstanding Common Shares as of the Record Date, have entered into Support Agreements with Purchaser, pursuant to which such holders have agreed to vote in favour of the Merger, subject to the terms and conditions of such Support Agreements. See the section of this Circular entitled "*The Merger - Support Agreements*".

### **Am I entitled to Dissent Rights?**

Yes. The Cayman Companies Law contains a mechanism whereby Registered Coastal Shareholders can seek payment of the fair value of their Common Shares upon dissenting from the Merger in the manner prescribed under Cayman Companies Law. See the section of this Circular entitled "*General Proxy Information - Dissent Rights of Coastal Shareholders*" for more information.

You must be registered in the register of members of Coastal as the holder of the Common Shares in order to exercise the Dissent Rights under the Cayman Companies Law. If you are a Beneficial Coastal Shareholder and you wish to dissent under the Cayman Companies Law, you will need to request that your Intermediary transfer the Common Shares to you so that you are registered in the register of members of Coastal as the holder of the Common Shares in advance of any shareholder vote on the Merger being taken. You must complete such transfer prior to exercising the Dissent Rights.

The Merger is conditional on Dissent Rights not having been exercised with respect to more than 10% of the issued and outstanding Common Shares. See the section of this Circular entitled "*Merger Agreement - Conditions to the Merger Becoming Effective*".

### **Are there risks I should consider in connection with the Merger?**

Yes. A number of risk factors that you should consider in connection with the Merger are described in the section of this Circular entitled "*The Merger - Risks Associated with the Merger*".

### **Who is eligible to vote?**

Holders of Common Shares and Depositary Interests at the close of business (EST) on December 3, 2013 and their duly appointed representatives are eligible to vote.

### **How do I vote?**

If you are a Registered Coastal Shareholder, you can vote your Common Shares in person at the Meeting or by signing and returning your form of proxy in accordance with the instructions set out therein. Please see

the section of this Circular entitled "*General Proxy Information - Appointment and Revocation of Proxies*" below for more information.

If you are a Depository Interest Holder, please see the section of this Circular entitled "*General Proxy Information - Information for Depository Interest Holders*" below for more information.

If you are a Beneficial Coastal Shareholder, please see the section of this Circular entitled "*General Proxy Information - Information for Beneficial Coastal Shareholders*" for more information.

#### **How do I know if I am a "Registered Coastal Shareholder" or a "Beneficial Coastal Shareholder"?**

Coastal Shareholders may be "Registered Coastal Shareholders" or "Beneficial Coastal Shareholders". If a Coastal Shareholder's name appears on the register of members of Coastal, such Coastal Shareholder is a "Registered Coastal Shareholder". If a Coastal Shareholder holds Common Shares through an Intermediary, such Coastal Shareholder is a "Beneficial Coastal Shareholder" and he, she or it will not be listed in the register of members of Coastal. Such Beneficial Coastal Shareholder will typically have an account statement from his, her or its bank or broker as evidence of his, her or its Common Share ownership.

#### **What happens if I want to attend the Meeting and vote in person?**

If you are a Registered Coastal Shareholder and wish to vote in person, you may present yourself to a representative of Computershare Trust Company of Canada at the Meeting. **Your vote will be taken and counted at the Meeting.** We encourage you to complete and return the form of proxy whether or not you plan to attend the Meeting in person.

If you are a Depository Interest Holder and you wish to vote in person, you should contact Capita IRG Trustees, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU or by email at [custodymgt@capita.co.uk](mailto:custodymgt@capita.co.uk) by no later than 3:00 p.m. (GMT) on December 31, 2013.

If you are a Beneficial Coastal Shareholder and you wish to vote in person at the Meeting, insert your own name in the space provided (appointee section) on the voting instruction form sent to you with this Circular. In doing so, you are instructing your nominee to appoint you as proxyholder. Complete the form by following the return instructions provided by your nominee. You should present yourself to a representative of Computershare Trust Company of Canada upon arrival at the Meeting.

#### **What constitutes a quorum at the Meeting?**

A quorum for the Meeting consists of two or more Coastal Shareholders entitled to vote at the Meeting, whether present in person or by proxy. No business may be transacted at the Meeting unless a quorum is present at the commencement of the Meeting. If a quorum is present at the commencement of the Meeting, a quorum will be deemed to be present during the remainder of the Meeting.

#### **Who is soliciting my proxy?**

The management of Coastal is soliciting your proxy. It is expected that the solicitation will be primarily by mail, however, proxies may also be solicited personally or by phone by directors, officers and regular employees of Coastal. The cost of the solicitation will be borne by Coastal.

#### **What do I do with my completed form of proxy, form of direction or voting instruction form?**

If you are a Registered Coastal Shareholder, please complete, sign, date and return the enclosed form of proxy, in accordance with the instructions set out therein, to Computershare Trust Company of Canada, at its offices at 100 University Ave., 8<sup>th</sup> Floor, Toronto, Ontario, Canada, M5J 2Y1, or by toll-free telephone (1-866-732-VOTE (8683)) or online ([www.investorvote.com](http://www.investorvote.com)) by using the 15-digit control number contained in the form of proxy, by 10:00 a.m. (EST) on January 2, 2014, or not less than 48 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting.

If you are a Depository Interest Holder, please complete, sign, date and return the enclosed form of direction, in accordance with the instructions set out therein, to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU, by 3:00 p.m. (GMT) on December 31, 2013, or

not less than 72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting.

If you are a Beneficial Coastal Shareholder, instead of a form of proxy you may find enclosed a voting instruction form. Please see the section of this Circular entitled "*General Proxy Information - Information for Beneficial Coastal Shareholders*" for instructions on how to ensure you are represented at the Meeting.

**If I change my mind, can I take back my proxy once I have given it?**

A Registered Coastal Shareholder who has given a proxy may revoke it by an instrument in writing executed by the Registered Coastal Shareholder or by his or her attorney authorized in writing or, where the Registered Coastal Shareholder is a corporation, by a duly authorized officer or attorney of the corporation, and delivered to Coastal's head office, at any time up to and including the last business day preceding the day of the Meeting, or if adjourned, any reconvening thereof, or to the Chairman of the Meeting on the day of the Meeting or, if adjourned, any reconvening thereof, or in any other manner provided by law. A revocation of a proxy does not affect any matter on which a vote has been taken before the revocation.

**How will my Common Shares be voted if I give my proxy?**

The Common Shares represented by a properly executed and deposited proxy will be voted on any poll that may be called for or required by law and, if a Coastal Shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly. **If a choice with respect to such matters is not clearly specified, your proxyholder can vote your Common Shares as he or she thinks fit. If a Coastal Shareholder appoints the persons designated by management in the form of proxy as his, her or its proxyholders, such proxyholders will, unless you give contrary instructions, vote the Common Shares represented by the proxy FOR the Merger Resolution.**

**A Coastal Shareholder desiring to appoint some other person or company (who need not be a Coastal Shareholder) to represent him, her or it at the Meeting may do so, either by striking out the printed names of the persons designated on the enclosed form of proxy and inserting the desired person's name in the blank space provided in the form of proxy or by completing another proper form of proxy.**

**What if amendments are made to these matters or other business is brought before the Meeting?**

The accompanying form of proxy confers discretionary authority on the persons named in it as proxies with respect to amendments to or variations in matters described in the accompanying Notice of Meeting and other matters that may properly come before the Meeting, or any adjournment or postponement thereof. As at the date of this Circular, management of Coastal is not aware of any such amendments, variations or other matters. If such should occur, the proxyholder will vote thereon in accordance with their best judgment, exercising discretionary authority.

**How many Common Shares are entitled to vote?**

As at the Record Date, there were 113,492,456 Common Shares outstanding, each Common Share carrying the right to one vote.

**Who are the principal shareholders of Coastal?**

To the knowledge of the directors and officers of Coastal, the following table lists the persons who beneficially own, directly or indirectly, or exercise control or direction over Common Shares carrying in excess of 10% of the voting rights attached to the Common Shares as of the Record Date:

NAME	NUMBER OF COMMON SHARES	PERCENTAGE OF ISSUED COMMON SHARES <sup>(1)</sup>
Oscar S. Wyatt, Jr. <sup>(2)</sup>	29,784,343	26.24%

(1) Based on 113,492,456 Common Shares issued and outstanding as at the Record Date.

(2) Shares held by Mr. Wyatt in excess of 10% of the total Common Shares outstanding are subject to a voting trust agreement under which a board of four "Attorneys" holds the proxy for such Common Shares. Currently, four of Coastal's independent directors serve on this board of "Attorneys". As of the date of this Circular, this 16.24% amounts to 18,435,098 Common Shares.

## **How will I receive the Consideration for my Common Shares or Depositary Interests?**

### *Registered Coastal Shareholders*

Registered Coastal Shareholders will have received with this Circular a Letter of Transmittal. In order to receive the Consideration for Common Shares, Registered Coastal Shareholders must complete and sign the Letter of Transmittal enclosed with this Circular and deliver it and the other documents required by it, including the certificates representing the Common Shares held, to the Depositary, in accordance with the instructions contained in the Letter of Transmittal. Registered Coastal Shareholders can obtain additional copies of the Letter of Transmittal by contacting the Depositary. The Letter of Transmittal is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Depositary Interest Holders*

If you are a Depositary Interest Holder, you will receive your Consideration through CREST in accordance with the usual procedures of CREST. There is no requirement for Depositary Interest Holders to complete the Letter of Transmittal.

### *Beneficial Coastal Shareholders*

Beneficial Coastal Shareholders holding Common Shares that are registered in the name of an Intermediary must contact their Intermediary to arrange for the surrender of their Common Shares and the receipt of payment of the Consideration.

## **INFORMATION CONCERNING THE MEETING**

### **Date, Time and Place of the Meeting**

The Meeting will be held at 10:00 a.m. (EST) on January 6, 2014 at the offices of Walkers at 190 Elgin Avenue, George Town, Grand Cayman KY1-9001, Cayman Islands, unless adjourned or postponed.

### **Purpose of the Meeting**

At the Meeting, Coastal Shareholders will be asked to consider and vote on the Merger Resolution and such other business as may properly come before the Meeting. As at the date of this Circular, management of Coastal knows of no other matter expected to come before the Meeting, other than the vote on the Merger Resolution.

### **Quorum**

Under Coastal's articles of association, the quorum for the transaction of business at the Meeting consists of two or more Coastal Shareholders entitled to vote at the Meeting, whether present in person or by proxy.

### **Record Date**

The Board has passed a resolution to fix the close of business (EST) on December 3, 2013 as the Record Date for the determination of Coastal Shareholders entitled to receive notice of and vote at the Meeting, and any adjournment or postponement of the Meeting.

## **GENERAL PROXY INFORMATION**

### **Solicitation of Proxies**

This Circular is furnished in connection with the solicitation of proxies by management of Coastal for use at the Meeting to be held on January 6, 2014 or any adjournment or postponement thereof at the time and place and for the purposes set forth in the accompanying Notice of Meeting. The solicitation of proxies will be by mail and may be supplemented by telephone and other personal contact by directors, officers and regular employees of Coastal at nominal cost.

## Appointment and Revocation of Proxies

The individuals named in the accompanying form of proxy have been selected by the Board and have agreed to represent, as proxyholder, Coastal Shareholders appointing them. A COASTAL SHAREHOLDER WISHING TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A COASTAL SHAREHOLDER) TO REPRESENT HIM, HER OR IT AT THE MEETING HAS THE RIGHT TO DO SO, EITHER BY STRIKING OUT THE NAMES OF THOSE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY AND INSERTING THE DESIRED PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER FORM OF PROXY. All proxies must be deposited with Coastal's registrar and transfer agent, Computershare Trust Company of Canada, at its offices at 100 University Ave., 8<sup>th</sup> Floor, Toronto, Ontario, Canada, M5J 2Y1, or by toll-free telephone (1-866-732-VOTE (8683)) or online ([www.investorvote.com](http://www.investorvote.com)) by using the 15-digit control number contained in the form of proxy, by 10:00 a.m. (EST) on January 2, 2014, or not less than 48 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. The time limit for the deposit of proxies may be waived or extended by the Chairman of the Meeting at his or her discretion without notice.

If a Coastal Shareholder receives more than one form of proxy, form of direction or voting instruction form, it is because the Common Shares owned by such Coastal Shareholder are registered in more than one form. In such cases, such Coastal Shareholder should sign and submit all documents received by the Coastal Shareholder in accordance with the instructions provided therein.

A Coastal Shareholder whose name appears on the register of members of Coastal (a "**Registered Coastal Shareholder**") who has given a proxy may revoke it by an instrument in writing executed by such Registered Coastal Shareholder or by his or her attorney authorized in writing or, where the Registered Coastal Shareholder is a corporation, by a duly authorized officer or attorney of the corporation, and delivered to Coastal's head office, at any time up to and including the last business day preceding the day of the Meeting, or if adjourned, any reconvening thereof, or to the Chairman of the Meeting on the day of the Meeting or, if adjourned, any reconvening thereof, or in any other manner provided by Law. A revocation of a proxy does not affect any matter on which a vote has been taken before the revocation.

## Notice and Access

Coastal is not sending the meeting materials to Registered Coastal Shareholders or Beneficial Coastal Shareholders using notice-and-access delivery procedures as defined under NI 54-101 and NI 51-102.

## Voting of Proxies and Exercise of Discretion

The Common Shares represented by a properly executed and deposited proxy will be voted on any poll that may be called for or required by law and, if the Coastal Shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly.

The accompanying form of proxy confers discretionary authority on the persons named in it as proxies with respect to amendments to or variations in matters described in the accompanying Notice of Meeting and other matters that may properly come before the Meeting, or any adjournment or postponement thereof. As at the date of this Circular, management of Coastal is not aware of any amendments, variations or other matters. If such should occur, the persons named in the form of proxy or other nominee of the Coastal Shareholder will vote thereon in accordance with their best judgment, exercising discretionary authority.

A Coastal Shareholder who has given a proxy may revoke it provided certain actions are taken. See "*General Proxy Information - Appointment and Revocation of Proxies*", above.

**IF A CHOICE IS NOT CLEARLY SPECIFIED IN THE PROXY, YOUR PROXYHOLDER CAN VOTE YOUR COMMON SHARES AS HE OR SHE THINKS FIT. IF A COASTAL SHAREHOLDER APPOINTS THE PERSONS DESIGNATED BY MANAGEMENT IN THE FORM OF PROXY AS HIS, HER OR ITS PROXYHOLDERS, SUCH PROXYHOLDERS WILL, UNLESS CONTRARY INSTRUCTIONS ARE PROVIDED, VOTE THE COMMON SHARES REPRESENTED BY THE PROXY FOR THE MERGER RESOLUTION.**



## Information for Depository Interest Holders

If you are a Depository Interest Holder, please complete, sign, date and return the form of direction accompanying this Circular, in accordance with the instructions set out therein, to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU, by 3:00 p.m. (GMT) on December 31, 2013, or not less than 72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. The completion and return of the form of direction will not preclude you from attending the Meeting and voting in person. Depository Interests Holders wishing to attend the Meeting should contact Capita IRG Trustees, The Registry, 34 Beckenham Road, Beckenham, Kent, England, BR3 4TU or by email at [custodymgt@capita.co.uk](mailto:custodymgt@capita.co.uk) by no later than 3:00 p.m. (GMT) on December 31, 2013, or not less than 72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting.

Depository Interest Holders who wish to appoint a proxy or proxies may also do so through the CREST electronic proxy appointment service for the Meeting and any adjournments or postponements thereof by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service providers, who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Capital Asset Services (ID RA10), as issuer's agent, not later than 3:00 p.m. (GMT) on December 31, 2013, or not less than 72 hours (excluding weekends and holidays) before the commencement of any adjournment or postponement of the Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the proxy through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedure(s) in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed one or more voting service providers, to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. Coastal may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the CREST Regulations. The CREST manual can be reviewed at [www.euroclear.com](http://www.euroclear.com).

## Information for Beneficial Coastal Shareholders

Only Registered Coastal Shareholders or duly appointed proxyholders are permitted to vote at the Meeting. Most Coastal Shareholders are "non-registered" shareholders because the Common Shares they own are not registered in their own names but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased their Common Shares. A person is not a Registered Coastal Shareholder (a "**Beneficial Coastal Shareholder**") in respect of Common Shares which are held either: (i) in the name of an intermediary (an "**Intermediary**") that the Beneficial Coastal Shareholder deals with in respect of the shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or (ii) in the name of a clearing agency (such as CDS & Co., the registration name for CDS Clearing and Depository Services Inc.) or its nominee, of which the Intermediary is a participant. In accordance with the requirements of NI 54-101, Coastal has distributed copies of this Circular and accompanying documents to the clearing agencies and Intermediaries for onward distribution to Beneficial Coastal Shareholders.

Intermediaries are required to forward this Circular and accompanying documents to Beneficial Coastal Shareholders other than Beneficial Coastal Shareholders that have waived the right to receive them.

Intermediaries will frequently use service companies to forward the meeting materials to Beneficial Coastal Shareholders. Generally, Beneficial Coastal Shareholders who have not waived the right to receive meeting materials will either:

- (a) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of Common Shares beneficially owned by the Beneficial Coastal Shareholder and is to be completed, but not signed, by the Beneficial Coastal Shareholder and deposited with Computershare Trust Company of Canada, or
- (b) more typically, be given a voting instruction form which is not signed by the Intermediary, and which, when properly completed and signed by the Beneficial Coastal Shareholder and returned to the Intermediary or its service company, will constitute voting instructions which the Intermediary must follow.

In either case, the purpose of this procedure is to permit Beneficial Coastal Shareholders to direct the voting of the Common Shares which they beneficially own. Should a Beneficial Coastal Shareholder who receives one of the above forms wish to vote at the Meeting in person, the Beneficial Coastal Shareholder should strike out the names of the management proxyholders named in the form and insert the Beneficial Coastal Shareholder's name in the blank space provided. Beneficial Coastal Shareholders should carefully follow the instructions of their Intermediary, including those regarding when and where the proxy or voting instruction form is to be delivered.

### Voting Shares and Principal Holders Thereof

The authorized capital of Coastal is US\$10,000,000 divided into 250,000,000 Common Shares with a par value of US\$0.04 each. As at the close of business on December 3, 2013, 113,492,456 Common Shares were issued and outstanding, each Common Share carrying the right to one vote.

December 3, 2013 has been fixed in advance by the Board as the Record Date for the purposes of determining those Coastal Shareholders entitled to receive notice of, and to vote in person or by proxy at, the Meeting or any adjournment or postponement thereof.

On a show of hands, every individual who is present and entitled to vote as a Coastal Shareholder or as a representative of one or more corporate Coastal Shareholders, or who is holding a proxy on behalf of a Coastal Shareholder who is not present at the Meeting, will have one vote, and on a poll every Coastal Shareholder present in person or represented by proxy and every person who is a representative of one or more corporate Coastal Shareholders, will have one vote for each Common Share registered in his, her or its name on the register of members of Coastal, which is available for inspection during normal business hours at the office of Computershare Trust Company of Canada and will be available at the Meeting. At the Meeting, a resolution put to the vote of the Meeting will be decided on a poll.

To the knowledge of the directors and officers of Coastal, the following table lists the persons who beneficially own, directly or indirectly, or exercise control or direction over Common Shares carrying in excess of 10% of the voting rights attached to the Common Shares as of the Record Date:

NAME	NUMBER OF COMMON SHARES	PERCENTAGE OF ISSUED COMMON SHARES <sup>(1)</sup>
Oscar S. Wyatt, Jr. <sup>(2)</sup>	29,784,343	26.24%

(1) Based on 113,492,456 Common Shares issued and outstanding as at the Record Date.

(2) Shares held by Mr. Wyatt in excess of 10% of the total Common Shares outstanding are subject to a voting trust agreement under which a board of four "Attorneys" holds the proxy for such Common Shares. Currently, four of Coastal's independent directors serve on this board of "Attorneys". As of the date of this Circular, this 16.24% amounts to 18,435,098 Common Shares.

### Dissent Rights of Coastal Shareholders

The Cayman Companies Law contains a mechanism whereby Registered Coastal Shareholders can seek payment of the fair value of their Common Shares if such Registered Coastal Shareholders dissent from the Merger (each, a "Dissenting Shareholder" and collectively, the "Dissenting Shareholders"). A Dissenting Shareholder who dissents in accordance with the Cayman Companies Law is entitled to payment of the fair value for his, her or its Common Shares. A Dissenting Shareholder who wishes to exercise Dissent Rights

must notify Coastal in advance of the vote to approve the Merger Resolution at the Meeting, and demand payment for his, her or its Common Shares. Within 20 days following the Meeting, Coastal must notify the Dissenting Shareholders if the Merger is approved. Each Dissenting Shareholder then has a further 20 days to provide his, her or its name, address, number of Common Shares and to demand payment (the "**Dissent Notice**"). A Dissenting Shareholder must dissent in respect of all Common Shares held by him, her or it.

Upon giving the Dissent Notice, a Dissenting Shareholder will have no further rights as a Coastal Shareholder except to be paid fair value for his, her or its Common Shares. Within seven days of the expiry of the 20 day period in which the Dissenting Shareholders provide Dissent Notices or seven days after the Plan of Merger is filed with the Registrar (whichever is later), Coastal is required to send a further notice to each Dissenting Shareholder to purchase such Dissenting Shareholder's Common Shares at a particular price. Coastal and the Dissenting Shareholder then have 30 days to agree on the price. Failing agreement within 30 days, Coastal is required to petition the court to determine the fair value of the Dissenting Shareholder's Common Shares.

You must be registered in the register of members of Coastal as the holder of the Common Shares in order to exercise Dissent Rights under the Cayman Companies Law. If your Common Shares are held in an account with an Intermediary, they will not be registered in your name and instead will be registered in the name of the Intermediary or a clearing agency in which the Intermediary participates. In that case, if you wish to dissent under the Cayman Companies Law, you will need to request that the Intermediary transfer the Common Shares to you so that you are registered in the register of members of Coastal as the holder of the Common Shares in advance of any shareholder vote on the Merger being taken. You must complete such transfer prior to exercising the Dissent Rights.

The Merger is conditional on Dissent Rights not having been exercised with respect to more than 10% of the issued and outstanding Common Shares. See the section of this Circular entitled "*Merger Agreement - Conditions to the Merger Becoming Effective*".

## **THE MERGER**

### **Background to the Merger**

The Merger Agreement is the result of arm's length negotiations conducted between representatives of Coastal and Purchaser and their respective advisors. The following is a summary of the meetings, discussions, negotiations and actions between the parties that preceded the execution and public announcement of the Merger Agreement.

In an effort to maximize shareholder value, Coastal regularly evaluates strategic opportunities in a manner consistent with the best interests of Coastal. Over the past two years, Coastal was approached by, and participated in intermittent negotiations with, a number of potential acquirors. In January 2013, Coastal was approached by a representative of Purchaser and entered into a confidentiality agreement with said representative on January 29, 2013, which was subsequently amended to provide that information could be provided to CEPESA. To facilitate discussions of a potential transaction, Coastal established a virtual data room ("**VDR**") to allow these parties the opportunity to conduct preliminary due diligence. Following the execution of the confidentiality agreement, Purchaser's representatives were granted access to the VDR and the parties commenced discussions regarding a formalized due diligence process.

Throughout 2013, representatives of Purchaser and its affiliates traveled to Houston, Texas and sites in Thailand to conduct in person due diligence sessions with select members of Coastal's staff. Several full day meetings were conducted during which time Coastal staff presented extensive technical and financial information related to Coastal and its business and operations. Representatives of Purchaser and its affiliates and advisors also commenced a review of the contents of the VDR, periodically providing additional detailed follow-up enquiries throughout 2013. Representatives of Purchaser and its affiliates also engaged external financial, accounting, technical and legal advisors to conduct due diligence activities and to negotiate the terms of a proposed merger agreement. During the spring and summer of 2013, there were some extended breaks and pauses in the negotiation between the parties throughout this period. Notably, on July 3, 2013, the parties agreed to cease further discussions regarding a potential transaction and Coastal shut down Purchaser's representatives' and its affiliates' and advisors' access to the VDR.

On September 5, 2013, Coastal received a formal expression of interest from Purchaser's representatives and the representatives of Purchaser and its affiliates and advisors were once again granted access to the

VDR. On September 10, 2013, a meeting of the Board was held and it was decided that Coastal should engage investment banks Citi and Credit Suisse as Coastal's financial advisors with respect to a potential transaction with Purchaser and its shareholders. It was subsequently agreed by the Board that in light of these developments, Coastal should continue discussions with the parties and attempt to negotiate a definitive agreement. Following this meeting, Citi communicated to Purchaser's representatives that Coastal was interested and would accommodate further due diligence enquiries. Also, Coastal signed engagement letters with each of Citi and Credit Suisse. In addition to ongoing due diligence and site visits by Purchaser's representatives, Coastal's management met with Purchaser's representatives in Houston.

During October and November 2013, the parties continued negotiating the terms of the proposed Merger, including the terms of the Merger Agreement and related ancillary documentation.

On November 15, 2013, a Board meeting was held to review and discuss the proposed transaction with Purchaser. At the invitation of the Board, representatives of Citi, Credit Suisse and Stikeman Elliott LLP, counsel to Coastal, also attended the meeting. Representatives of Credit Suisse reviewed and discussed with the Board Credit Suisse's preliminary financial analyses with respect to Coastal and the proposed Merger. It was agreed by the Board that Coastal should continue discussions with Purchaser. Following this meeting, representatives of Citi communicated to Purchaser's advisors that Coastal wished to continue discussions towards a proposed transaction.

On November 18, 2013, Coastal's management and Purchaser's management agreed in principle to the terms of the Merger.

On November 18, 2013, after the close of trading on AIM and TSX, the Board met to further consider the Merger. At the invitation of the Board, members of Coastal's senior management and representatives of Coastal's legal and financial advisors also attended the meeting. Representatives of Stikeman Elliott LLP reviewed and discussed the Board's fiduciary duties in the context of the proposed Merger and summarized the material terms of the Merger Agreement and the Plan of Merger. At the request of the Board, representatives of Credit Suisse then reviewed and discussed with the Board their financial analyses with respect to Coastal and the proposed Merger.

The Board, having extensively reviewed, considered and deliberated on all aspects of the Merger and the Merger Agreement, having considered the advice of Credit Suisse, Citi, its legal counsel and senior management of Coastal, and having reviewed a significant amount of information and considered a number of factors, unanimously determined that the Merger is in the best interests of Coastal and that Coastal Shareholders should have the opportunity to vote to approve the Merger and authorized management to execute the Merger Agreement on behalf of Coastal in substantially the form reviewed by the Board, subject to the resolution of certain remaining issues and receipt of the Fairness Opinion. Later that day, following resolution of the outstanding issues, at the request of management of Coastal, Credit Suisse delivered the Fairness Opinion. Based upon and subject to the foregoing, the Board unanimously approved the Merger and unanimously resolved to recommend that Coastal Shareholders vote in favour of the Merger Resolution. The determination of the Board is based on various factors described more fully under the heading "*The Merger - Reasons for the Merger*".

The Merger Agreement was executed on November 18, 2013. Prior to the opening of the financial markets on November 19, 2013, Coastal, CEPSA and SRG issued a joint press release announcing the Merger.

### **Reasons for the Merger**

In reaching its conclusion that the Merger is in the best interests of Coastal and in recommending that Coastal Shareholders vote in favour of the Merger Resolution, the Board considered and relied upon a number of factors, including the following:

- The announcement of the execution of the Merger Agreement represented the culmination of a thorough process that had been conducted under the supervision of the Board and with the assistance of experienced legal and financial advisors. The Board believes that the Consideration available to Coastal Shareholders in the Merger represents superior value to any of the other alternatives considered.

- The Consideration being offered to Coastal Shareholders in the Merger represents a premium of approximately 28% over the closing price of the Common Shares on the TSX of C\$14.81 on November 18, 2013, being the last trading day prior to the date on which Coastal announced the execution of the Merger Agreement.
- The Board considered Coastal's historical and projected business, financial condition, results of operations, management and competitive position.
- The Fairness Opinion addressed to the Board from Credit Suisse to the effect that, as of the date of the opinion and subject to the procedures followed and the assumptions, qualifications, limitations and other matters considered in connection with the preparation of the opinion, the Consideration to be received by Coastal Shareholders other than the Excluded Shareholders in the Merger pursuant to the Merger Agreement was fair, from a financial point of view, to such holders.
- Since the announcement of the execution of the Merger Agreement on November 19, 2013, no third party offers or proposals to acquire Coastal have been received by Coastal or the Board.
- The fact that the Consideration under the Merger is all cash, which provides certainty of value to Coastal Shareholders, while avoiding long term business risk.
- The fact that the Merger is not subject to any financing condition and the assessment of the Board that Purchaser has the financial capacity to consummate the Merger.
- The terms and conditions of the Merger Agreement, including the fact that the Board remains able to consider and respond, in accordance with its fiduciary duty, to unsolicited Acquisition Proposals that constitute or could reasonably be expected to constitute or lead to a Superior Proposal, and to change its recommendation in appropriate circumstances, and that the Termination Fee payable to Purchaser in connection with a termination of the Merger Agreement is reasonable in the circumstances and not preclusive of other offers.
- Coastal Shareholders who do not vote in favour of the Merger will have the right to dissent and be paid the fair value of their Common Shares.

The Board also considered potential adverse factors associated with the Merger, including, among other things:

- If the Merger is successfully completed, Coastal will no longer exist as an independent publicly traded company and Coastal Shareholders will be unable to participate in the longer term potential benefits, if any, of the business of Coastal.
- The conditions to Purchaser's obligation to complete the Merger and the rights of Purchaser to terminate the Merger Agreement in certain circumstances.
- If the Merger Agreement is terminated and the Board decides to seek another transaction or business combination, there is no assurance that Coastal will be able to find a party willing to pay greater or equivalent value compared to the Consideration available to Coastal Shareholders under the Merger or that the continued operation of Coastal under its current business model will yield equivalent or greater value to Coastal Shareholders compared to that available under the Merger Agreement.
- The limitations contained in the Merger Agreement on Coastal's ability to solicit additional interest from third parties, as well as the fact that if the Merger Agreement is terminated in certain circumstances, Coastal may also be required to pay the Termination Fee.
- If the Merger is not completed, Coastal may be adversely affected due to potentially negative market perceptions and potentially damaged relationships with customers and employees. The Board also considered the risk of loss of key employees, disruption in normal business relationships and substantial distraction of management attention while the transaction is pending.

and the significant costs involved in connection with entering into the Merger Agreement and completing the Merger.

- The fact that an all-cash transaction will be taxable to Coastal Shareholders resident in Canada for Canadian federal income tax purposes and to U.S. holders for U.S. federal income tax purposes.

The foregoing summary of the information and factors considered by the Board is not, and is not intended to be, exhaustive. In view of the variety of factors and the amount of information considered in connection with its evaluation of the Merger, the Board did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to specific factors in reaching their conclusions and recommendations. The recommendations of the Board were made after consideration of all of the above-noted factors and in light of their collective knowledge of the business, financial condition and prospects of Purchaser, and discussions with Coastal's financial and legal advisors. In addition, individual directors of Coastal may have assigned different weights to different factors. Overall, the Board concluded that the potential benefits of the Merger to Coastal and the Coastal Shareholders outweighed the potential adverse factors considered.

### **Recommendation of the Board**

As a result of its discussions and after careful consideration of the factors set forth above, the Board unanimously approved the entering into of the Merger Agreement and the Plan of Merger and has determined that the Merger is in the best interests of Coastal and **unanimously recommends that Coastal Shareholders vote in favour of the Merger Resolution.**

In addition, each member of the Board and each executive officer of Coastal who owns Common Shares has advised Coastal that, as of the date of the Merger Agreement, each such person intends to vote all of the Common Shares held by him or her (representing in the aggregate approximately 2.42% of the outstanding Common Shares as of the Record Date) in favour of the Merger Resolution and against any resolution submitted by any Coastal Shareholder that is inconsistent with the Merger. Each of these persons has entered into a Support Agreement with Purchaser pursuant to which they have agreed to vote their Common Shares in favour of the Merger Resolution. Moreover, four of Coastal's independent directors serve on a board of four "Attorneys" that administers an independent voting trust covering a portion of the Common Shares held by Mr. Wyatt; these directors have also entered into a Support Agreement, in their capacity as "Attorneys", pursuant to which they have agreed to vote such Common Shares in favour of the Merger Resolution. See "*The Merger - Interests of Certain Persons in the Merger*" and "*The Merger - Support Agreements*".

### **Fairness Opinion**

Pursuant to an engagement letter dated October 10, 2013, Coastal engaged Credit Suisse as its financial advisor to render an opinion addressed to the Board with respect to the fairness, from a financial point of view, to Coastal Shareholders of the Consideration to be received by such holders in a possible sale of Coastal. On November 18, 2013, Credit Suisse delivered the Fairness Opinion to the effect that, as of the date of the Fairness Opinion and subject to the assumptions, qualifications, limitations and other matters considered in connection with the preparation of the Fairness Opinion, the Consideration to be received by Coastal Shareholders other than the Excluded Shareholders in the Merger pursuant to the Merger Agreement was fair, from a financial point of view, to such holders.

Credit Suisse's Fairness Opinion was directed to the Board and only addressed the fairness, from a financial point of view, to Coastal Shareholders other than the Excluded Shareholders of the Consideration to be received by such holders in the Merger pursuant to the Merger Agreement and did not address any other aspect or implication of the Merger. All references to Credit Suisse's Fairness Opinion in this document are qualified in their entirety by reference to the full text of the Fairness Opinion which is included as Appendix C to this Circular and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Credit Suisse in preparing its Fairness Opinion. Credit Suisse's Fairness Opinion was provided solely for the information of the Board (solely in its capacity as such) in connection with its consideration of the Merger and may not be used for any other purpose or relied upon by any other person or entity. Neither Credit Suisse's Fairness Opinion nor the references to the Fairness Opinion set forth in this Circular are intended to be, and they do not constitute, advice or a recommendation to any Coastal Shareholder as to how such Coastal Shareholder should vote or act with respect to any matter relating to the Merger. Credit Suisse's Fairness Opinion was only one of many factors

considered by the Board in determining to recommend that Coastal Shareholders vote in favour of the Merger Resolution.

Credit Suisse's Fairness Opinion was necessarily based upon information made available to Credit Suisse as of the date of the opinion and financial, economic, market and other conditions as they existed and could be evaluated on the date of the Fairness Opinion. Credit Suisse did not independently verify any of the information reviewed by it in connection with the preparation of its Fairness Opinion and did not undertake to, and is under no obligation to, update, revise, reaffirm or withdraw its Fairness Opinion, or otherwise comment on or consider events occurring or coming to its attention after the date of its Fairness Opinion. In addition, as the Board was aware, the financial projections and estimates that Credit Suisse reviewed relating to the future financial performance of Coastal reflected certain assumptions regarding the oil and gas industry that were subject to significant uncertainty and that, if different than assumed, could have a material impact on Credit Suisse's analyses and Fairness Opinion. Credit Suisse's Fairness Opinion did not address the relative merits of the Merger as compared to alternative transactions or strategies that might be available to Coastal, nor did it address the underlying business decision of the Board to proceed with the Merger.

Under the terms of its engagement, Credit Suisse became entitled to a fee for its services, which fee became payable to Credit Suisse upon the rendering of its opinion. In addition, Coastal has agreed to reimburse certain of Credit Suisse's expenses and to indemnify Credit Suisse and certain of its affiliates for certain liabilities incurred in connection with Credit Suisse's engagement.

### **Merger Steps**

**The following description is qualified in its entirety by reference to the full text of the Plan of Merger attached as Appendix B to this Circular.**

Pursuant to the Merger, at the Effective Time, Cayco, a wholly-owned subsidiary of Purchaser, will merge with and into Coastal and, by virtue of the Cayman Companies Law, the following will occur simultaneously:

- the rights, the property of every description including choses in action, and the business, undertaking, goodwill, benefits, immunities and privileges of each of Coastal and Cayco will immediately vest in Coastal, as the surviving company; and
- Coastal, as the surviving company, will be liable for and subject, in the same manner as each of Coastal and Cayco, to all mortgages, charges or security interests, and all contracts, obligations, claims, debts and liabilities of each of Coastal and Cayco.

The terms and conditions of the Merger are as follows:

- each share of par value US\$1.00 in the capital of Cayco issued and outstanding immediately before the Effective Time will be cancelled and exchanged for one validly issued, fully paid and non-assessable common share of par value US\$0.04 each in the capital of Coastal as at the Effective Date;
- subject to the condition below, each Common Share issued and outstanding immediately before to the Effective Time (other than Common Shares held by Dissenting Shareholders) will be cancelled in exchange for the right to receive the Consideration at the Effective Time and the register of members of Coastal will be updated accordingly; and
- each Common Share held by Coastal as treasury shares or owned, directly or indirectly, by Purchaser, CEPESA, Cayco or any wholly-owned subsidiary of Coastal immediately prior to the Effective Time will be cancelled on the register of members of Coastal and will cease to exist as at the Effective Time, and no consideration will be payable in relation thereto.

### **Effective Date**

The Merger will become effective on the date shown on the Certificate of Merger to be issued by the Registrar in respect of the Merger. Assuming that all of the closing conditions to the Merger are satisfied, Coastal expects that the Merger will become effective on or about January 15, 2014.

## Source of Funds

The transaction will be funded by CEPSA's and SRG's available financial resources.

## Treatment of Options, RSUs and SARs

In connection with or as a result of the Merger:

- each unexercised Option, whether vested or unvested, will be cancelled in exchange for a cash payment equal to an amount by which the Consideration exceeds the applicable exercise price of such Option, subject to withholding taxes where applicable;
- each outstanding RSU, whether vested or unvested, will be cancelled in exchange for a cash payment equal to the Consideration; and
- the vesting of all outstanding SARs will be accelerated in full and the holders of SARs will receive the Consideration in respect of each SAR outstanding.

The Merger is conditional on no Person holding any securities, including any Options, RSUs, Warrants or rights to acquire any Options, RSUs, Warrants or other securities that will be exercisable into Common Shares immediately following the Effective Time.

## Interests of Certain Persons in the Merger

In considering the recommendations of the Board with respect to the Merger, Coastal Shareholders should be aware that certain members of the Board and executive officers of Coastal have certain interests in connection with the Merger, including those referred to below, that may present them with actual or potential conflicts of interest in connection with the Merger. The Board is aware of these interests and considered them along with the other matters described in this Circular.

### *Securityholdings*

As at the Record Date, the directors and executive officers of Coastal hold, directly or indirectly, the following securities of Coastal (expressed as the number and percentage of the outstanding security):

Name and Position	Common Shares		Options		RSUs		SARs	
	#	%	#	%	#	%	#	%
C. Robert Black Independent Director	32,384	0.03	Nil	Nil	10,810	1.26	15,250	2.19
Andrew L. Cochran Executive Director	Nil	Nil	Nil	Nil	10,810	1.26	180,551	25.91
Olivier de Montal Independent Director	400,000	0.35	Nil	Nil	10,810	1.26	15,250	2.19
Lloyd Barnaby Smith Independent Director	88,420	0.08	Nil	Nil	14,040	1.64	27,466	3.94
Forrest E. Wylie Independent Director	Nil	Nil	Nil	Nil	8,023	0.93	6,686	0.96
John B. Zaozirny Independent Director	260,000	0.23	Nil	Nil	10,810	1.26	15,250	2.19
Randy L. Bartley Director, President and Chief Executive Officer	769,970	0.68	2,285,807	54.19	346,375	40.35	95,287	13.67



Name and Position	Common Shares		Options		RSUs		SARs	
	#	%	#	%	#	%	#	%
William C. Phelps Director and Chief Financial Officer	1,191,768	1.05	796,251	18.88	188,070	21.91	35,298	5.06
John M. Griffith VP, Operations & Resident Manager, Thailand	Nil	Nil	238,879	5.66	135,669	15.81	27,096	3.89
<b>TOTAL</b>	<b>2,742,542</b>	<b>2.42</b>	<b>3,320,937</b>	<b>78.73</b>	<b>735,417</b>	<b>85.67</b>	<b>418,134</b>	<b>59.99</b>

All of the Common Shares held by Coastal's directors and executive officers will be treated in the same manner under the Merger as Common Shares held by every other Coastal Shareholder, and all Options, RSUs and SARs held by Coastal's directors and executive officers will be treated in the same manner as the Options, RSUs and SARs held by other employees and consultants of Coastal.

On November 18, 2013, the members of the Board and executive officers of Coastal, who collectively own, directly or indirectly, approximately 2,742,542 Common Shares (representing approximately 2.42% of the outstanding Common Shares on a non-diluted basis as of the Record Date), agreed to vote in favour of the Merger Resolution pursuant to the terms of the Support Agreements. In addition, four of Coastal's independent directors serve on a board of four "Attorneys" that administers an independent voting trust covering approximately 18,435,098 Common Shares held by Mr. Wyatt (representing approximately 16.24% of the outstanding Common Shares on a non-diluted basis; these directors have also entered into a Support Agreement, in their capacity as "Attorneys", pursuant to which they have agreed to vote such Common Shares in favour of the Merger. See "*The Merger - Support Agreements*".

#### *Termination and Retention Benefits*

Coastal has entered into employment agreements with each of its executive officers, being Randy L. Bartley (President & Chief Executive Officer), William C. Phelps (Chief Financial Officer) and John M. Griffith (Vice President, Operations & Resident Manager, Thailand), and with Andrew Cochran (Executive Director) (each an "**Executive**" and together, the "**Executives**") which contain change of control provisions (the "**Existing Employment Agreements**"). Coastal has also entered into an agreement with each of the Executives that provides for the payment of a gross-up if an excise tax is imposed on the Executive in respect of any change of control payments pursuant to Sections 280G and 4999 of the U.S. Internal Revenue Code of 1986, as amended (the "**Tax Equalization Agreements**"). In connection with, and contingent upon, the Merger, each Executive has agreed to the termination and liquidation of both his Existing Employment Agreement and his Tax Equalization Agreement, in exchange for a single lump sum cash payment to be paid within 3 business days following the Effective Date; the termination and liquidation is also subject to the approval by the compensation committee of the Board of the agreements providing for the termination and liquidation within 30 days prior to the completion of the Merger. The amount of each Executive's lump sum payment is:

Name	Payment
Randy L. Bartley	US\$13,702,134
William C. Phelps	US\$11,092,577
John M. Griffith	US\$6,306,785
Andrew L. Cochran	US\$900,000

Coastal has also entered into new employment agreements with each of the Executives, other than Andrew Cochran, in connection with, and contingent upon, the Merger (the "**New Employment Agreements**"). The New Employment Agreements provide for the payment and provision of certain compensation payments and benefits, including the payment of the following cash retention bonuses that are contingent upon attainment of certain performance conditions and continued service to Coastal for a specified period following the completion of the Merger:

Name	Payment
Randy L. Bartley	US\$13,389,142
William C. Phelps	US\$645,529
John M. Griffith	US\$1,003,175

Coastal will pay bonuses and other special cash compensation (in addition to salary) to employees of Coastal and its affiliates in an amount not to exceed \$27,500,000 in the aggregate.

#### *Insurance and Indemnification*

Pursuant to the Merger Agreement, Coastal agreed to purchase, prior to the Effective Date, and Purchaser has agreed to, or to cause Coastal to, maintain in effect without any reduction in scope or coverage for six years from the Effective Date customary "tail" policies of directors' and officers' liability insurance providing protection: (i) no less favourable in the aggregate to the protection provided by the policies maintained by Coastal which are in effect immediately prior to the Effective Date; and (ii) in respect of claims arising from facts or events which occurred on or prior to the Effective Date.

Further, Purchaser has agreed that it will cause Coastal to honour all rights to indemnification or exculpation with respect to matters occurring prior to the Effective Date now existing in favour of present and former employees, officers and directors of Coastal and the Coastal Subsidiaries, to the extent that such rights and matters have been disclosed in the VDR, and acknowledges that such rights will survive the completion of the Plan of Merger and will continue in full force and effect for a period of not less than six years from the Effective Date or the statutes of limitations applicable to such matters.

#### **Required Shareholder Approvals**

In order for the Merger to be effected, Coastal Shareholders will be asked to consider and, if deemed advisable, approve the Merger Resolution and other related matters at the Meeting. The Merger Resolution must be approved by special resolution, that is by not less than two-thirds (66⅔%) of the votes cast by Coastal Shareholders who vote in respect of the Merger Resolution in person or by proxy at the Meeting. In addition, pursuant to MI 61-101, the Merger Resolution must be approved by at least a simple majority of the votes cast by Coastal Shareholders present in person or represented by proxy at the Meeting, with the 1,961,738 votes attached to Common Shares held by the Relevant Executives being excluded from such vote. See the section of this Circular entitled "*The Merger - Canadian Securities Law Matters*".

The full text of the Merger Resolution and Plan of Merger are attached as Appendix A and Appendix B to this Circular, respectively.

**The Board has approved the terms of the Merger Agreement and the Plan of Merger and unanimously recommends that Coastal Shareholders vote FOR the Merger Resolution.** See the section of this Circular entitled "*The Merger - Reasons for the Merger*".

In addition, the Plan of Merger has been approved by the board of directors of Cayco and the board of directors of Purchaser, as shareholder of Cayco.

#### **Support Agreements**

Each of Oscar S. Wyatt, Jr., the board of four "Attorneys" that administers an independent voting trust covering approximately 18,435,098 Common Shares held by Mr. Wyatt, the directors and executive officers of Coastal who own Common Shares and certain other Coastal Shareholders (each, a "**Holder**") have entered into support agreements with Purchaser (each, a "**Support Agreement**") pursuant to which they have agreed to vote or cause to be voted their Common Shares in favour of the Merger. As of the Record Date, approximately 32.81% of the outstanding Common Shares were subject to the Support Agreements.

Under the Support Agreements, each of the Holders has agreed to various covenants, including a covenant not to: (i) solicit, assist, initiate, encourage or otherwise knowingly facilitate any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to, an Acquisition Proposal; (ii) enter into or otherwise engage or participate in any discussions or negotiations with any person regarding any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to, an Acquisition

Proposal; (iii) accept, approve, vote in favour of, endorse or recommend, or enter into any agreement in respect of an Acquisition Proposal; (iv) provide confidential information or access to any confidential information relating to Coastal, the Coastal Subsidiaries or the APICO Companies to any person or group in connection with any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to, an Acquisition Proposal; or (v) otherwise co-operate in any way with any effort or attempt by any other person or group to do or seek to do any of the foregoing.

Each of the Support Agreements may be terminated at any time by mutual consent of Purchaser and the applicable Holder, or by Purchaser or the applicable Holder upon the occurrence of certain events, including a material breach by the other party of its covenants under the Support Agreement, any of the representations and warranties of the other party being untrue or inaccurate in any material respect or any Law being passed that makes consummation of the Merger illegal or otherwise prohibited, and will automatically terminate upon the termination of the Merger Agreement or at the Effective Time.

The Support Agreements will not prevent any director or officer of Coastal, solely in his capacity as a director or officer of Coastal, from acting in accordance with the exercise of his fiduciary duties or other legal obligations to act in the best interests of Coastal, if such action is required in order for the director or officer to fulfill his fiduciary duty as a director or officer.

### **Regulatory Approvals and Decisions**

Other than the Spanish Regulatory Decision, Coastal is not aware of any material approval, consent or other action by any Governmental Entity or third parties that would be required to be obtained in order to complete the Merger. If any such approval or consent is determined to be required, such approval or consent will be sought, although any such additional requirements could delay the Effective Date or prevent the completion of the Merger. While there can be no assurance that any regulatory consents or approvals that are determined to be required will be obtained, Coastal currently anticipates that any such consents and approvals that are determined to be required will have been obtained or otherwise resolved by the Effective Date, which, subject to receipt of the approval of the Coastal Shareholders at the Meeting and the satisfaction or waiver of all other conditions specified in the Merger Agreement, is expected to be on or about January 15, 2014.

#### *Spanish Regulatory Decision*

The completion of the Merger is subject to several closing conditions that must be satisfied or waived, including receipt of the Spanish Regulatory Decision. On November 20, 2013, CEPSA filed the relevant notice with the Spanish Energy Regulator to request the issue of the Spanish Regulatory Decision. The Spanish Regulatory Decision is expected to be issued around January 11, 2014.

### **AIM and TSX Matters**

Currently, the Common Shares trade on the TSX and the Depositary Interests trade on AIM. Upon completion of the Merger, Coastal will become a wholly-owned subsidiary of Purchaser and the Common Shares will be delisted from the TSX as soon as practicable following the Effective Date. In addition, it is proposed that the Depositary Interests will be delisted from AIM as soon as practicable following the Effective Date in compliance with the requirements of the AIM Rules for Companies.

### **Canadian Securities Law Matters**

#### *Status under Canadian Securities Laws*

Coastal is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland. Upon completion of the Merger, Purchaser expects to apply to the applicable securities regulatory authorities to have Coastal cease to be a reporting issuer as soon as practicable following the Effective Date.

#### *MI 61-101*

MI 61-101 governs transactions which raise the potential for conflicts of interest, including issuer bids, insider bids, related party transactions and business combinations.

The Merger does not constitute an issuer bid, an insider bid or a related party transaction for the purposes of MI 61-101. The Merger is a business combination under MI 61-101 since, as described below, certain related parties of Coastal are entitled to receive a collateral benefit as a consequence of the Merger. A "collateral benefit", as defined under MI 61-101, includes any benefit that a "related party" of Coastal (which includes the directors and senior officers of Coastal and the Coastal subsidiaries and any Coastal Shareholder who beneficially owns and/or exercises control or direction over, directly or indirectly, more than 10% of the outstanding Common Shares) is entitled to receive, directly or indirectly as a result of the Merger, including a lump sum payment or an enhancement in benefits related to past or future services as an employee, director or consultant of Coastal as well as a payment for surrendering securities, regardless of whether it is provided or agreed to by Coastal or Purchaser.

MI 61-101 requires that, in addition to any other required securityholder approval, a business combination is subject to "minority approval" (as defined in MI 61-101). In relation to the Merger and for purposes of the required Coastal Shareholder approval for the Merger, the "minority" shareholders of Coastal are all Coastal Shareholders other than (i) Coastal, (ii) any interested party to the Merger within the meaning of MI 61-101, (iii) any related party to such interested party within the meaning of MI 61-101 (subject to the exceptions set out therein), and (iv) any person that is a joint actor with a person referred to in the foregoing clauses (ii) or (iii) for the purposes of MI 61-101. In the context of the Merger, an "interested party" is any party entitled to receive, directly or indirectly, as a consequence of the Merger, a collateral benefit.

For the purposes of MI 61-101, each of Randy Bartley, Coastal's Chief Executive Officer, and William Phelps, Coastal's Chief Financial Officer, (the "**Relevant Executives**") is considered to beneficially own more than 1% of the Common Shares, taking into account the Options and RSUs owned by each Relevant Executive as required under MI 61-101. An independent committee of Coastal has determined that the value of the termination and retention payments to be received by each of the Relevant Executives as a result of the Merger, as described under "*The Merger - Interests of Certain Persons in the Merger*", net of any offsetting costs, is more than 5% of the amount of the Consideration that each of the Relevant Executives expects to be beneficially entitled to receive under the terms of the Merger in exchange for the Common Shares he beneficially owns. Accordingly, the termination and retention payments that each of the Relevant Executives may receive as a result of the completion of the Merger constitute a collateral benefit under MI 61-101. Thus, any Common Shares beneficially owned, or over which control or direction is exercised by Mr. Bartley or Mr. Phelps or any of their joint actors must be excluded for purposes of determining whether minority approval has been obtained. As of the Record Date, Mr. Bartley and Mr. Phelps owned beneficially or exercised control or direction over 769,970 and 1,191,768 Common Shares, respectively. In addition, as of the Record Date, Mr. Bartley and Mr. Phelps held 2,285,807 and 796,251 Options and 346,375 and 188,070 RSUs, respectively.

### **Completion of the Merger**

The Merger will become effective at the Effective Time on the Effective Date. Assuming that all of the closing conditions are satisfied or waived, the Effective Date is currently expected to be on or about January 15, 2014. It is possible that completion may be delayed beyond this date if the conditions to completion of the Merger cannot be met on a timely basis, but in no event will completion of the Merger occur later than March 31, 2014 or such later date as may be agreed to in writing by Coastal, Purchaser and CEPISA.

### **Effects on Coastal if the Merger is Not Completed**

If the Merger Resolution is not approved by Coastal Shareholders or if the Merger is not completed for any other reason, Coastal Shareholders will not receive any payment for any of their Common Shares in connection with the Merger, Coastal will remain an independent public company and the Common Shares will continue to be traded on the TSX and AIM. See "*The Merger - Risks Associated with the Merger*".

### **Risks Associated with the Merger**

In evaluating the Merger, Coastal Shareholders should carefully consider the following risk factors related to the Merger. The following risk factors are not a definitive list of all risk factors associated with the Merger. Additional risks and uncertainties, including those currently unknown or considered immaterial by Coastal, may also adversely affect the Common Shares and/or the business of Coastal. Whether or not the Merger is completed, Coastal will continue to face many of the risks that it currently faces with respect to its business and affairs. In addition to the risk factors relating to the Merger set out below, Coastal Shareholders should also carefully consider the risk factors associated with the business of Coastal set forth in the section

entitled "*Description of Business - Risk Factors*" of Coastal's annual information form dated March 26, 2013, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com). If any of the risk factors materialize, the predictions based on them may need to be re-evaluated. The risks associated with the Merger include, without limitation:

***Failure to complete the Merger could negatively impact the market price of Common Shares and future business and financial results of Coastal.***

The completion of the Merger is subject to a number of conditions precedent, certain of which are outside of the control of Coastal, including receipt of the Spanish Regulatory Decision and the satisfaction of certain third party contractual conditions. There can be no certainty, nor can Coastal provide any assurance, that these conditions will be satisfied or, if satisfied, that they will be satisfied on acceptable terms.

If the Merger is not completed, the market price of the Common Shares may decline to the extent that the market price reflects a market assumption that the Merger will be completed and that the related benefits will be realized, or as a result of the market's perceptions that the Merger was not consummated due to an adverse change in Coastal's business or financial condition.

If the Merger is not completed and the Board decides to seek another merger or business combination, there can be no assurance that it will be able to find a party willing to pay an equivalent or more attractive price than the Consideration to be paid pursuant to the Merger.

Certain costs related to the Merger, such as legal, accounting and certain financial advisor fees, must be paid by Coastal even if the Merger is not completed.

Whether or not the Merger is completed, the pending Merger could adversely affect Coastal's operations because matters relating to the Merger require substantial commitments of time and resources by Coastal's management and employees which could otherwise have been devoted to other opportunities that may have been beneficial to Coastal.

In addition, Coastal employees may experience uncertainty about their future roles with Coastal until Purchaser's strategies with respect to Coastal are further developed and executed. This may adversely affect Coastal's ability to attract or to retain key management and personnel.

Coastal cannot guarantee when, or whether, the Merger will be completed, that there will not be a delay in the completion of the Merger or that all or any of the anticipated benefits of the Merger will be obtained. If the Merger is not completed or is delayed, Coastal may experience the risks discussed above which may adversely affect Coastal's business, financial results and share price.

***The Merger is subject to satisfaction or waiver of a number of conditions.***

The completion of the Merger is conditional upon, among other things, receipt of Coastal Shareholder approval and the Spanish Regulatory Decision and the satisfaction of certain third party contractual conditions. There can be no certainty, nor can Coastal provide any assurance, that these conditions will be satisfied or, if satisfied, that they will be satisfied on acceptable terms. A substantial delay in obtaining satisfactory approvals or consents or the imposition of unfavourable terms or conditions in any government or regulatory decisions could have an adverse effect on the business or financial condition of Coastal. In addition, if for any reason the conditions to the Merger are not satisfied or waived and the Merger is not completed, the market price of the Common Shares may be adversely affected.

***Coastal will incur costs and may have to pay the Termination Fee.***

Certain costs relating to the Merger, such as legal, accounting and certain financial advisor fees, must be paid by Coastal even if the Merger is not completed. If the Merger is not completed, Coastal may also be required to pay the Termination Fee and, in certain circumstances, expenses of Purchaser, under the Merger Agreement. If Coastal is required to pay the Termination Fee under the Merger Agreement, the financial condition of Coastal could be materially adversely affected.

***The Termination Fee provided under the Merger Agreement if the Merger Agreement is terminated in certain circumstances may discourage other parties from attempting to acquire Coastal.***

Under the Merger Agreement, Coastal is required to pay a Termination Fee of US\$76,000,000 in the event the Merger Agreement is terminated in certain circumstances, which must be paid concurrently with such termination or upon the occurrence of certain events. See "*Merger Agreement - Termination Fee*". The Termination Fee may discourage other parties from attempting to acquire the Common Shares, even if those parties would otherwise be willing to offer greater value than that offered in the Merger.

***Risks associated with the fixed Consideration.***

The Consideration is fixed and it will not increase or decrease due to fluctuations in the market price of the Common Shares.

***Risks associated with income tax consequences.***

The Merger Agreement results in certain income tax consequences to Coastal Shareholders. See the sections of this Circular entitled "*Certain Canadian Federal Income Tax Considerations*" and "*Material U.S. Federal Income Tax Considerations*".

## **MERGER MECHANICS**

### **Depository Agreement**

Prior to the Effective Date, Coastal, Purchaser and the Depository will enter into the Depository Agreement.

Pursuant to the Depository Agreement, on or before the Effective Date, Purchaser will deposit or cause to be deposited in escrow with the Depository immediately available funds sufficient to pay the aggregate Consideration to be paid pursuant to the Merger.

The Depository Agreement will provide for the delivery of the Consideration to Coastal Shareholders and Depository Interest Holders in the manner described under the heading "*Certificates and Payment*" below.

### **Certificates and Payment**

#### *Registered Coastal Shareholders*

Registered Coastal Shareholders will have received with this Circular a Letter of Transmittal. In order to receive the Consideration for Common Shares, Registered Coastal Shareholders must complete and sign the Letter of Transmittal enclosed with this Circular and deliver it and the other documents required by it, including the certificates representing the Common Shares held, to the Depository, in accordance with the instructions contained in the Letter of Transmittal. Registered Coastal Shareholders can obtain additional copies of the Letter of Transmittal by contacting the Depository. The Letter of Transmittal is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

**The Letter of Transmittal contains procedural information relating to the Merger and should be reviewed carefully.**

Promptly after the Effective Time and the date of receipt by the Depository from a depositing Registered Coastal Shareholder of the Letter of Transmittal duly completed (together with the certificates representing such Common Shares and such additional documents and instruments as Purchaser or the Depository may require), the Registered Coastal Shareholder will be entitled to receive in exchange therefor from the Depository a cheque (or other form of immediately available funds) representing the aggregate Consideration to which such Registered Coastal Shareholder is entitled under the Plan of Merger.

If any certificate which immediately prior to the Effective Time represented outstanding Common Shares has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen or destroyed, the Depository will issue in exchange for such lost, stolen or destroyed certificate, the Consideration payable pursuant to the Merger. When authorizing such payment in exchange for any lost, stolen or destroyed certificate, the person to whom such Consideration is to be

delivered must as a condition precedent to the delivery of such Consideration, give an indemnity bond satisfactory to the Depositary and Purchaser (acting reasonably) in such sum as Purchaser may direct or otherwise indemnify Purchaser and Coastal in a manner satisfactory to them against any claim that may be made against Purchaser and Coastal with respect to the certificate alleged to have been lost, stolen or destroyed.

Any certificate which immediately prior to the Effective Time represented outstanding Common Shares that has not been duly surrendered on or prior to the sixth anniversary of the Effective Date shall cease to represent a claim by or interest of any former Registered Coastal Shareholder of any kind or nature against or in Coastal, Purchaser, the Depositary or any of their respective affiliates. On the sixth anniversary of the Effective Date all cash to which such former holder was entitled will be deemed to have been surrendered to Purchaser for no consideration.

Any payment made by way of cheque by the Depositary that has not been deposited or has been returned to the Depositary or that otherwise remains unclaimed on or before the sixth anniversary of the Effective Date, and any right or claim to payment that remains outstanding on the sixth anniversary of the Effective Date shall, to the extent lawful, cease to represent a right or claim of any kind or nature and shall be deemed to have been donated, surrendered and forfeited to Purchaser for no consideration.

Under no circumstances will interest be paid to any holder on any payment to be made hereunder, regardless of any delay in making such payment.

Purchaser, Coastal or the Depositary will be entitled to deduct and withhold from any amount payable to any Registered Coastal Shareholder, such amounts as Purchaser, Coastal or the Depositary determines, acting reasonably, that the Depositary is required to deduct and withhold under the Tax Act or any provision of any other applicable law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes as having been paid to Registered Coastal Shareholders in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

#### *Depositary Interest Holders*

The Consideration that Depositary Interest Holders are entitled to receive as determined in accordance with the Plan of Merger is intended to ultimately be delivered to Depositary Interest Holders in CREST (through Capita Asset Services, as the registered holder of the relevant Common Shares). CREST is the paperless system allowing securities to be held in and transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Trades in Common Shares, being Canadian securities, are incapable of being settled within CREST.

Following the Effective Date, the Depositary will deliver or cause to be delivered to Capita Registrars Limited the Consideration to which Depositary Interest Holders are entitled to under the Plan of Merger and Capita Registrars Limited will arrange to have such Consideration credited to each Depositary Interest Holder's CREST member account.

CREST only accepts settlement of cash in Pounds Sterling, Euros or U.S. dollars. The amount of any Consideration that a Depositary Interest Holder is entitled to receive under the Merger as determined in accordance with the Plan of Merger will be converted into U.S. dollars at the then current rates of exchange on the Effective Date.

#### *Beneficial Coastal Shareholders*

Beneficial Coastal Shareholders holding Common Shares that are registered in the name of an Intermediary must contact their Intermediary to arrange for the surrender of their Common Shares and the receipt of payment of the Consideration.

## MERGER AGREEMENT

The following description of certain provisions of the Merger Agreement is a summary only, is not comprehensive and is qualified in its entirety by reference to the full text of the Merger Agreement, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Capitalized terms used but not otherwise defined herein have the meanings set out in the Merger Agreement.

### Conditions to the Merger Becoming Effective

#### *Mutual Conditions Precedent*

The respective obligations of Coastal, Purchaser and CEPSPA to complete the Merger are subject to the fulfillment of each of the following conditions precedent, on or prior to the Effective Time, each of which may only be waived, in whole or in part, by the mutual consent of each of Coastal, Purchaser and CEPSPA:

- approval of the Merger Resolution by Coastal Shareholders at the Meeting;
- absence of any Law that would make the consummation of the Merger illegal or that would otherwise prohibit or enjoin Coastal, Purchaser or CEPSPA from consummating the Merger; and
- the Plan of Merger not having been modified or amended in a manner adverse to Purchaser without Purchaser's consent.

#### *Additional Conditions Precedent to the Obligations of Purchaser*

The obligations of Purchaser to complete the Merger are also subject to the fulfillment of each of the following conditions precedent, on or prior to the Effective Time, each of which is for the exclusive benefit of Purchaser and may only be waived, in whole or in part, by Purchaser in its sole discretion:

- accuracy of all of Coastal's representations and warranties subject to the applicable materiality threshold;
- performance of all of Coastal's covenants in all material respects;
- receipt of all third party or other consents, approvals and notices required to be obtained in connection with the Merger under certain Material Contracts on terms which would not reasonably be expected to materially and adversely affect the ownership or operation by Coastal of its business or aggregate consolidated assets of Coastal;
- receipt of the Spanish Regulatory Decision;
- no Person holding any securities, including any Options, RSUs, Warrants or rights to acquire any Options, RSUs, Warrants or other securities that will be exercisable into Common Shares immediately following the Effective Time;
- release from escrow of the termination and liquidation agreements entered into between Coastal and certain of its senior officers in accordance with the escrow arrangements entered into by Coastal, such employees and Purchaser;
- acquisition by Coastal of all rights, title and interest in, to and under the Net Profits Agreements from FlowStream Thor Ltd. pursuant to the Option and Purchase Agreement dated October 24, 2013 between Coastal and FlowStream Thor Ltd.;
- absence of any change, event, occurrence, effect or circumstance that individually or in aggregate with such other changes, events, occurrences, effects or circumstances is or could reasonably be expected to be material and adverse to the rights granted to the Concessionaires under or in respect of any of the Concessions;



- absence of any change, event, occurrence, effect or circumstance that individually or in aggregate with such other changes, events, occurrences, effects or circumstances: (i) is or could reasonably be expected to be material and adverse to the rights granted to Coastal or the Coastal Subsidiaries under any of the Environmental Permits material to Coastal, the Coastal Subsidiaries or the APICO Companies; or (ii) prevent, preclude or materially delay Coastal, the Coastal Subsidiaries or the APICO Companies from obtaining an extension for any material Environmental Permit;
- absence of any event, including any fire, storm, flood, explosion, mechanical failure or similar event, that has or would reasonably be expected to materially and adversely affect the value of Coastal on a consolidated basis or the ownership by Coastal or the Coastal Subsidiaries of any assets material to Coastal on a consolidated basis;
- holders of no more than 10% of the outstanding Common Shares having validly exercised Dissent Rights;
- absence of any Proceeding pending or threatened by any Person (other than Purchaser) in any jurisdiction that is reasonably likely to:
  - (a) cease trade, enjoin, prohibit, or impose any limitations, damages or conditions on, Purchaser's ability to acquire, hold, or exercise full rights of ownership over, any Common Shares, including the right to vote the Common Shares;
  - (b) prohibit or restrict the Merger, or the ownership or operation by Purchaser of a material portion of the aggregate business or assets of Purchaser, Coastal, the Coastal Subsidiaries and the APICO Companies, or compel Purchaser to dispose of or hold separate any material portion of the aggregate business or assets of Coastal, the Coastal Subsidiaries and the APICO Companies or Purchaser or CEPESA or their respective subsidiaries as a result of the Merger; or
  - (c) prevent or materially delay the consummation of the Merger, or if the Merger is consummated, have a Material Adverse Effect;
- absence of any Proceeding (including Proceedings involving the DMF, the Minister of Energy, the Cabinet, the National Environmental Board, and the Secretary of ONEP before the Central Administrative Court and/or the Proceedings involving the DMF and NuCoastal (Thailand) Limited before the Songkhla Administrative Court) that has or would reasonably be expected to materially and adversely affect the ownership or operation by Coastal or any of the Coastal Subsidiaries or the APICO Companies of a material portion of the business or aggregate consolidated assets of Coastal; and
- the absence of a Material Adverse Effect or any event, occurrence or development which would be reasonably expected to have a Material Adverse Effect.

*Additional Conditions Precedent to the Obligations of Coastal*

The obligations of Coastal to complete the Merger are also subject to the fulfillment of each of the following conditions precedent, on or prior to the Effective Time, each of which is for the exclusive benefit of Coastal and may only be waived, in whole or in part, by Coastal in its sole discretion:

- accuracy of all of Purchaser and CEPESA's representations and warranties subject to the applicable materiality threshold; and
- performance of all of Purchaser's covenants in all material respects.

**Representations and Warranties**

The Merger Agreement contains customary representations and warranties made by each of Coastal and Purchaser to each other. The assertions embodied in those representations and warranties are solely for the purposes of the Merger Agreement and are not intended to modify or supplement any factual disclosures

about Coastal in Coastal's public reports. Certain representations and warranties may not be accurate or complete as of any specified date because they are qualified by certain supplemental disclosure provided by Coastal to Purchaser or are subject to a standard of materiality or are qualified by a reference to the concept of "Material Adverse Effect", which may not correspond to concepts of materiality applicable to Coastal Shareholders. Finally, information concerning the subject matter of the representations and warranties may change after the date of the Merger Agreement and these changes may not be fully reflected in any public filing. Therefore, Coastal Shareholders should not rely on the representations and warranties contained in the Merger Agreement as statements of factual information.

The Merger Agreement contains customary representations and warranties of Coastal relating to certain matters including, among other things: incorporation and qualification; corporate authorization; no conflict; required regulatory approvals; required consents; execution and binding obligation; authorized and issued capital; corporate records; non-arm's length transactions; absence of changes; compliance with Laws; authorizations; title to assets and properties; no options, etc. to purchase assets; condition of tangible assets; owned property; leases; material contracts; intellectual property; inventories; books and records; financial statements; no liabilities; environmental matters; employees; employee plans; insurance; litigation; customers; taxes; reports; the Fairness Opinion; and financial advisor fees.

In addition, the Merger Agreement contains representations and warranties of Purchaser and CEPESA relating to certain matters including, among other things: incorporation and corporate power; corporate authorization; no conflict; execution and binding obligation; sufficient funds; and ownership of Common Shares.

## **Covenants**

### *Covenants of Coastal Regarding the Conduct of Business*

Coastal has covenanted and agreed with Purchaser that, during the period from the date of the Merger Agreement until the earlier of the Effective Time and the time that the Merger Agreement is terminated in accordance with its terms, except as expressly contemplated or permitted by the Merger Agreement, as required by Law or with the prior written consent of Purchaser, Coastal will conduct its business in the Ordinary Course and use its commercially reasonable efforts to, among other things, preserve intact the current business organization of Coastal and the Coastal Subsidiaries, keep available the services of the present employees and agents of Coastal and the Coastal Subsidiaries and maintain good relations with, and the goodwill of, Governmental Entities, suppliers, customers, landlords, creditors, distributors and all other Persons having business relationships with Coastal and any of the Coastal Subsidiaries, and except as expressly contemplated or permitted by the Merger Agreement, as required by Law or with the prior written consent of Purchaser, Coastal will not, and will not permit any of the Coastal Subsidiaries to, directly or indirectly, among other things:

- amend the Constatng Documents of any Coastal Subsidiary or, for an such entity which is not a corporation, its equivalent organizational documents;
- split, combine or reclassify any shares of its or any of the Coastal Subsidiaries' capital stock or declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof), except for the payment of dividends payable by wholly-owned Subsidiaries to Coastal or another of its wholly-owned Subsidiaries, or amend any term of any outstanding debt security;
- redeem, repurchase, or otherwise acquire or offer to redeem, repurchase or otherwise acquire any shares of its capital stock;
- issue, deliver, sell, pledge, dispose, encumber, grant or authorize any Common Shares or any other securities of its capital or the capital of the Coastal Subsidiaries, other than in connection with the exercise of outstanding Options, Warrants or RSUs or pledges required under the terms of its existing credit facilities;
- engage in the conduct of any new line of business outside of the existing business segments material to Coastal or the Coastal Subsidiaries;

- adopt a plan of liquidation, reorganization, winding-up or similar actions of Coastal or any of the Coastal Subsidiaries or reorganize, amalgamate or merge Coastal or any of the Coastal Subsidiaries with any other Person;
- authorize, approve, agree to issue or award, or issue or award any Options, RSUs, Warrants or SARs;
- acquire (by merger, consolidation, acquisition of stock or assets or otherwise), directly or indirectly, in one transaction or in a series of related transactions, assets, securities, properties, interests or businesses having a cost, on a per transaction or series of related transactions basis, in excess of \$5 million and subject to a maximum of \$10 million for all such transactions;
- sell, lease, transfer or otherwise dispose of any of the assets, securities, properties, interests or businesses of Coastal which, individually or in the aggregate, exceed \$5 million, other than in the Ordinary Course;
- enter into any Contract which would be a Material Contract (other than the renewal of a Contract in existence on the date of the Merger Agreement on terms materially consistent with the terms in existence on the date of the Merger Agreement) or terminate, fail to renew, cancel, waive, release, assign, grant or transfer any rights of material value or amend, modify or change in any material respect any existing Material Contract;
- make an application to amend, terminate, allow to expire or lapse or otherwise modify any licence, lease, permit, Authorization and similar rights and privileges that are required to operate such assets and properties of Coastal and the Coastal Subsidiaries, as the case may be, as presently operated;
- incur or guarantee any indebtedness for borrowed money other than in connection with advances under Coastal's existing credit facilities or indebtedness entered into in the Ordinary Course;
- enter into any interest rate, currency, equity or commodity swaps, derivatives, forward sales contracts or similar financial instruments, other than as required under Coastal's existing credit facilities;
- make any bonus or profit sharing distribution or similar payment of any kind except for the payments to Coastal employees in the aggregate amount set out in the Company Disclosure Letter;
- implement or adopt any change in Coastal's accounting principles, practices or methods, except as required by GAAP or as a result of a change in Law;
- increase any severance, change of control, bonus or termination pay to (or amend any existing arrangement with) any of its or any of the Coastal Subsidiaries' employees, directors or officers;
- cancel, waive, release, assign, settle or compromise any claim in a manner that could require a payment by, or release another Person of an obligation to, Coastal or any of the Coastal Subsidiaries of \$5 million individually, or \$10 million in aggregate, or could reasonably be expected to have Material Adverse Effect or to adversely affect in any material respect the ability of Coastal to complete the transactions contemplated by the Merger Agreement;
- waive, release, assign, compromise or settle any litigation, Proceeding or governmental investigation or amend the terms of any existing settlement agreement relating to the assets or the business of Coastal or the Coastal Subsidiaries in excess of an aggregate amount of \$10 million, or to the Merger (regardless of the amount);
- enter into, amend, modify or terminate any union recognition agreement, Collective Agreement or similar agreement with any trade union or representative body other than in the Ordinary Course and upon reasonable consultation with Purchaser;

- make or change any material Tax election, information schedule, return or designation, settle or compromise any material Tax claim or file any amended Tax return or enter into any material agreement with a Governmental Entity with respect to Taxes;
- except as contemplated in the Merger Agreement, amend, modify or terminate any material insurance policy of Coastal or any of the Coastal Subsidiaries in effect on the date of the Merger Agreement;
- fail to make any filings with AIM, the TSX or any Governmental Entity required under Law; or
- authorize, agree, resolve or otherwise commit, whether or not in writing, to do any of the foregoing.

*Covenants of Coastal Relating to the Merger*

Coastal will use its commercially reasonable efforts to take or cause to be taken all actions and to do or cause to be done all things necessary, proper or advisable under Law to consummate the Merger as soon as practicable, including, among other things:

- using its commercially reasonable efforts to satisfy all conditions precedent in the Merger Agreement;
- using its commercially reasonable efforts to obtain and maintain all third party or other consents, waivers, permits, exemptions, orders, approvals, agreements, amendments or confirmations of third parties or governmental entities that are: (i) required to be obtained under the Material Contracts in connection with the Merger; (ii) required in order to maintain the Material Contracts in full force and effect following completion of the Merger; or (iii) required in connection with, or required to permit, the completion of the Merger and the transactions contemplated by the Merger Agreement and Cayman Companies Law, in each case, on terms that are reasonably satisfactory to Purchaser, and without paying, and without committing itself or Purchaser to pay, any consideration or incur any liability or obligation without the prior written consent of Purchaser;
- using its commercially reasonable efforts to effect all necessary registrations, filings and submissions of information required by Governmental Entities from Coastal, the Coastal Subsidiaries or the APICO Companies relating to the Merger;
- if requested by Purchaser, assisting in obtaining the resignations (in a form satisfactory to Purchaser, acting reasonably) of the members of the board of directors of Coastal and the Coastal Subsidiaries and Coastal's (and each Coastal Subsidiary's) designated or nominated directors of the APICO Companies who are required by Purchaser to resign as of the Effective Time;
- providing executed transfers, in a form reasonably acceptable to Purchaser, for the outstanding shares of the Coastal Subsidiaries and APICO Companies set out in the Company Disclosure Letter in favour of such nominees and/or Coastal Subsidiaries as Purchaser will direct Coastal in writing, to be held in escrow (the terms and conditions of such escrow to be satisfactory to each of Coastal and Purchaser, acting reasonably) until the Effective Time and using its commercially reasonable efforts to effect at, or as soon as reasonably practicable following, the Effective Time the transfers of such outstanding shares in accordance therewith;
- if requested by Purchaser, assisting with the transfer of the registered office of Coastal;
- submitting the Merger Resolution for approval by Coastal Shareholders at the Meeting;
- complying promptly with all requirements imposed by Law on Coastal and the Coastal Subsidiaries with respect to the Merger Agreement or the Merger;
- giving Purchaser the opportunity to participate in the defense or settlement of any commenced or threatened filings, actions, suits, claims, investigations or Proceedings relating to the Merger Agreement or the Merger and not settling any Proceedings without Purchaser's prior written consent; and

- not taking any action, or refraining from taking any commercially reasonable action, or permitting any action to be taken or not taken, which is inconsistent with the Merger Agreement or which would reasonably be expected to prevent, delay or otherwise impede the consummation of the Merger.

Coastal will promptly notify Purchaser of:

- any Material Adverse Effect or any change, effect, event, development, occurrence, circumstance or state of facts which would reasonably be expected to have a Material Adverse Effect;
- any notice or other communication from any Person alleging that the consent (or waiver, permit, exemption, order, approval, agreement, amendment or confirmation) of such Person is required in connection with the Merger Agreement or the Merger;
- any notice or other communication from any Governmental Entity in connection with the Merger Agreement (and will contemporaneously provide a copy of any such written notice or communication to Purchaser); or
- any filings, actions, suits, claims, investigations or Proceedings commenced or, to its knowledge, threatened against, relating to or involving or otherwise affecting Coastal.

*Covenants Regarding Non-Solicitation*

Except as expressly provided in the Merger Agreement, Coastal agreed that it will not, directly or indirectly, through any Representative of Coastal or of any of the Coastal Subsidiaries, or otherwise, and will not permit any such Person to:

- solicit, assist, initiate, knowingly encourage or otherwise knowingly facilitate (including by way of furnishing or providing copies of, access to, or disclosure of, any confidential information, properties, facilities, books or records of Coastal or any Coastal Subsidiary or entering into any form of agreement, arrangement or understanding) any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to, an Acquisition Proposal;
- enter into or otherwise engage or participate in any substantive discussions or negotiations with any Person (other than Purchaser and its affiliates) regarding any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to, an Acquisition Proposal;
- make a Change in Recommendation;
- accept, approve, endorse or recommend, or publicly propose to accept, approve, endorse or recommend, or take no position or remain neutral with respect to, any Acquisition Proposal (it being understood that publicly taking no position or a neutral position with respect to an Acquisition Proposal for a period of no more than ten Business Days following the announcement of such Acquisition Proposal will not constitute a violation of the Merger Agreement provided the Board has rejected such Acquisition Proposal and affirmed its recommendation before the end of such ten Business Day period); or
- accept, approve, endorse, recommend or enter into or publicly propose to accept, approve, endorse, recommend or enter into any agreement in respect of an Acquisition Proposal (other than a confidentiality agreement permitted by and in accordance with the Merger Agreement).

Coastal also agreed that it will, and will cause the Coastal Subsidiaries and their Representatives to, immediately cease and terminate, and cause to be terminated, any solicitation, encouragement, discussions, negotiations or other activities commenced prior to the date of the Merger Agreement with any Person (other than Purchaser) with respect to any inquiry, proposal or offer that constitutes, or may reasonably be expected to constitute or lead to, an Acquisition Proposal, and in connection with such termination will:

- immediately discontinue access to and disclosure of all information, including any data room and any confidential information, properties, facilities, books and records of Coastal or any of the Coastal Subsidiaries; and
- promptly request, and exercise all rights it has to require: (i) the return or destruction of all copies of any confidential information regarding Coastal or any of the Coastal Subsidiaries provided to any Person other than Purchaser since June 30, 2012; and (ii) the destruction of all material including or incorporating or otherwise reflecting such confidential information regarding Coastal or any of the Coastal Subsidiaries, to the extent that such information has not previously been returned or destroyed, using its commercially reasonable efforts to ensure that such requests are fully complied with to the extent Coastal is entitled.

If Coastal or any of the Coastal Subsidiaries or any of their respective Representatives receives or otherwise becomes aware of any inquiry, proposal or offer that constitutes, or may reasonably be expected to constitute or lead to, an Acquisition Proposal, or any request for copies of, access to, or disclosure of, confidential information relating to Coastal or any of the Coastal Subsidiaries, including but not limited to information, access, or disclosure relating to the properties, facilities, books or records of Coastal or any of the Coastal Subsidiaries, Coastal must promptly notify Purchaser, at first orally, and then promptly and in any event within 24 hours in writing, of:

- such Acquisition Proposal, inquiry, proposal, offer or request, including a description of its material terms and conditions, the identity of all Persons making the Acquisition Proposal, inquiry, proposal, offer or request, and copies of all material documents, correspondence or other materials received in respect of, from or on behalf of any such person; and
- from time to time as reasonably required in the circumstances, to provide Purchaser with updates on the status of developments and negotiations with respect to such Acquisition Proposal, inquiry, proposal, offer or request, including any changes, modifications or other amendments to any such Acquisition Proposal, inquiry, proposal, offer or request and to provide to Purchaser copies of all material documents, correspondence or other materials received, and a description of the material terms of such correspondence sent or communicated to Coastal by or on behalf of any Person making any such Acquisition Proposal, inquiry, proposal, offer or request.

Notwithstanding anything contained the Merger Agreement, or any other agreement between Coastal, Purchaser and CEPESA or between Coastal and any other Person, if at any time, prior to obtaining the approval by Coastal Shareholders of the Merger Resolution, Coastal receives a written Acquisition Proposal, Coastal may engage in or participate in discussions or negotiations with such Person regarding such Acquisition Proposal, and may provide copies of, access to or disclosure of confidential information, properties, facilities, books or records of Coastal or the Coastal Subsidiaries for a maximum of ten Business Days, if and only if:

- the Board first determines in good faith, after consultation with its financial advisors and its outside legal counsel, that such Acquisition Proposal constitutes or could reasonably be expected to constitute or lead to a Superior Proposal, and, after consultation with its outside counsel, that the failure to engage in such discussions or negotiations would be inconsistent with its fiduciary duties;
- Coastal has been and continues to be in compliance with its non-solicitation obligations under the Merger Agreement;
- prior to providing any such copies, access or disclosure, Coastal enters into a confidentiality and standstill agreement with such Person substantially in the same form as the Confidentiality Agreement, provided that such confidentiality and standstill agreement may not restrict Coastal or any of the Coastal Subsidiaries from complying with its non-solicitation covenants under the Merger Agreement;
- Coastal provides Purchaser with two Business Days' prior written notice stating Coastal's intention to participate in such discussions or negotiations and to provide such copies, access or disclosure; and

- Coastal promptly provides to Purchaser any material non-public information concerning Coastal or any of the Coastal Subsidiaries or the APICO Companies provided to such Person which was not previously provided to Purchaser.

#### *Right to Match*

If Coastal receives an Acquisition Proposal that constitutes a Superior Proposal prior to the approval of the Merger Resolution by Coastal Shareholders, then the Board may, subject to compliance with the termination provisions in the Merger Agreement, enter into a definitive agreement with respect to such Acquisition Proposal, if and only if:

- Coastal has been and continues to be in compliance with its non-solicitation obligations under the Merger Agreement;
- Coastal has delivered to Purchaser a written notice of the determination of the Board that such Acquisition Proposal constitutes a Superior Proposal and of the intention of the Board to enter into such definitive agreement, together with a written notice from the Board indicating that the Board has determined (in consultation with its financial advisors) that the value of the consideration offered to Coastal Shareholders under the terms of such Acquisition Proposal is more favourable, from a financial point of view, to Coastal Shareholders than the financial value of the consideration offered by Purchaser to Coastal Shareholders under the Merger (the "**Superior Proposal Notice**");
- Coastal has provided Purchaser a copy of the definitive agreement for the Superior Proposal and other documents supplied to Coastal in connection therewith and all documentation relating to Coastal's valuation of any non-cash consideration included by the Person making the Acquisition Proposal;
- at least five Business Days (the "**Matching Period**") have elapsed from the date that is the later of the date on which Purchaser received from Coastal the Superior Proposal Notice and a copy of the definitive agreement for the Superior Proposal;
- during the Matching Period, Purchaser has had the opportunity (but not the obligation), in accordance with the Merger Agreement, to offer to amend the Merger Agreement and the Plan of Merger in order for such Acquisition Proposal to cease to be a Superior Proposal;
- if Purchaser has offered to amend the Merger Agreement and the Plan of Merger, the Board has determined in good faith, after consultation with its outside legal counsel and financial advisors, that such Acquisition Proposal continues to constitute a Superior Proposal compared to the terms of the Merger as proposed to be amended by Purchaser;
- the Board has determined in good faith, after consultation with its outside legal counsel, that the failure to enter into a definitive agreement with respect to such Superior Proposal would be inconsistent with its fiduciary duties; and
- prior to entering into any such definitive agreement Coastal terminates the Merger Agreement and pays the Termination Fee in accordance with the Merger Agreement.

During the Matching Period, or such longer period as Coastal may approve in writing for such purpose: (i) the Board will review any offer made by Purchaser to amend the terms of the Merger Agreement and the Plan of Merger in good faith in order to determine whether such proposal would, upon acceptance, result in the Acquisition Proposal previously constituting a Superior Proposal ceasing to be a Superior Proposal; and (ii) Coastal will negotiate in good faith with Purchaser to make such amendments to the terms of the Merger Agreement and the Plan of Merger as would enable Purchaser to proceed with the transactions contemplated by the Merger Agreement on such amended terms. If the Board determines that such Acquisition Proposal would cease to be a Superior Proposal, Coastal must promptly so advise Purchaser and Coastal and Purchaser will amend the Merger Agreement to reflect such offer made by Purchaser.

### *Insurance and Indemnification*

Pursuant to the Merger Agreement, Coastal agreed to purchase, prior to the Effective Date, and Purchaser has agreed to, or to cause Coastal to, maintain in effect without any reduction in scope or coverage for six years from the Effective Date customary "tail" policies of directors' and officers' liability insurance providing protection; (i) no less favourable in the aggregate to the protection provided by the policies maintained by Coastal which are in effect immediately prior to the Effective Date; and (ii) in respect of claims arising from facts or events which occurred on or prior to the Effective Date.

Further, Purchaser has agreed that it will cause Coastal to honour all rights to indemnification or exculpation with respect to matters occurring prior to the Effective Date now existing in favour of present and former employees, officers and directors of Coastal and the Coastal Subsidiaries, to the extent that such rights and matters have been disclosed in the VDR, and acknowledges that such rights will survive the completion of the Plan of Merger and will continue in full force and effect for a period of not less than six years from the Effective Date or the statutes of limitations applicable to such matters.

### **CEPSA Guarantee**

Under the terms of the Merger Agreement, CEPSA has unconditionally and irrevocably guaranteed to and in favour of Coastal the due and punctual performance by Purchaser of all of its obligations under the Merger Agreement, including payment by Purchaser of all amounts due from Purchaser under the Merger Agreement and the Plan of Merger, including the due and punctual payment of the consideration required to satisfy the aggregate Consideration as provided in the Plan of Merger.

### **Termination of the Merger Agreement**

The Merger Agreement may be terminated prior to the Effective Time by:

- the mutual written agreement of Coastal, Purchaser and CEPSA;
- either Coastal or Purchaser if:
  - (a) the Merger Resolution is not approved by the Coastal Shareholders at the Meeting;
  - (b) after the date of the Merger Agreement, any Law is enacted, made, enforced or amended, as applicable, that makes the consummation of the Merger illegal or otherwise permanently prohibits or enjoins Coastal, Cayco, CEPSA or Purchaser from consummating the Merger, and such Law has, if applicable, become final and non-appealable; or
  - (c) the Effective Time does not occur on or prior to the Outside Date, so long as the failure to complete the Merger by such date was not caused by the terminating party's failure to fulfill any of its obligations under the Merger Agreement;
- Coastal if:
  - (a) a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Purchaser or CEPSA under the Merger Agreement occurs that would cause any of the mutual conditions or conditions for the sole benefit of Coastal not to be satisfied, and such breach or failure is incapable of being cured or is not cured on or before the Outside Date in accordance with the notice and cure provisions in the Merger Agreement, provided that Coastal is not then in breach of the Merger Agreement so as to cause any of the mutual conditions or conditions for the sole benefit of Purchaser not to be satisfied; or
  - (b) prior to the approval by Coastal Shareholders of the Merger Resolution, the Board authorizes Coastal to enter into a written agreement (other than a confidentiality agreement permitted by and in accordance with the Merger Agreement) with respect to a Superior Proposal, provided Coastal is then in compliance with its non-solicitation obligations under the Merger Agreement and that prior to or concurrent with such



termination Coastal pays the Termination Fee in accordance with the Merger Agreement;

- Purchaser if:
  - (a) a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Coastal under the Merger Agreement occurs that would cause any of the mutual conditions or conditions for the sole benefit of Purchaser not to be satisfied, and such breach or failure is incapable of being cured on or before the Outside Date or is not cured in accordance with the notice and cure provisions in the Merger Agreement, provided that Purchaser is not then in breach of the Merger Agreement so as to cause any of the mutual conditions or conditions for the sole benefit of Coastal not to be satisfied; or
  - (b) (i) the Board or any committee of the Board fails to unanimously recommend or withdraws, amends, modifies or qualifies, publicly proposes or states its intention to do so, or fails to publicly reaffirm (without qualification), within ten days after having been requested in writing by Purchaser to do so, its determination that the Plan of Merger is in the best interests of Coastal and its recommendation that Coastal Shareholders vote in favour of the Merger Resolution, or takes no position or a neutral position with respect to an Acquisition Proposal for more than ten days after first learning of an Acquisition Proposal; (ii) the Board or any committee of the Board approves or recommends an Acquisition Proposal, or (iii) the Board or any committee of the Board accepts, approves, recommends or authorizes Coastal to enter into a written agreement (other than a confidentiality agreement concerning a Superior Proposal) with respect to a Superior Proposal (each of the above, a "**Change in Recommendation**") or, prior to the approval of the Merger Resolution, Coastal breaches certain of its non-solicitation obligations under the Merger Agreement in any material respect.

#### **Termination Fee**

If the Merger Agreement is terminated under certain circumstances, the Termination Fee, being US\$76,000,000, less the amount of any non-resident withholding required by Law relating to Taxes which is concurrently remitted by Coastal to the relevant Governmental Entity, must be paid by Coastal to Purchaser.

Coastal must pay to Purchaser the Termination Fee if the Merger Agreement is terminated:

- by Purchaser if there is a Change in Recommendation or, prior to the approval of the Merger Resolution, Coastal breaches certain of its non-solicitation obligations under the Merger Agreement in any material respect;
- by Coastal if prior to the approval of the Merger Resolution by Coastal Shareholders, the Board authorizes Coastal to enter into a written agreement (other than a confidentiality agreement permitted by and in accordance with the Merger Agreement) relating to a Superior Proposal;
- by: (i) either Coastal or Purchaser if the Merger Resolution is not approved by Coastal Shareholders at the Meeting; (ii) either Coastal or Purchaser if the Effective Time does not occur on or before the Outside Date, so long as the failure to complete the Merger by such date was not caused by the terminating party's failure to fulfill any of its obligations under the Merger Agreement; or (iii) Purchaser if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Coastal under the Merger Agreement occurs that would cause any of the mutual conditions or conditions for the sole benefit of Purchaser not to be satisfied, and such breach or failure is incapable of being cured on or before the Outside Date or is not cured in accordance with the notice and cure provisions in the Merger Agreement, provided that Purchaser is not then in breach of the Merger Agreement so as to cause any of the mutual conditions or conditions for the sole benefit of Coastal not to be satisfied, but only if:
  - (a) prior to such termination, an Acquisition Proposal is made or publicly announced or otherwise publicly disclosed by any Person other than Purchaser or any of its

affiliates or any Person (other than Purchaser or any of its affiliates) has publicly announced an intention to do so; and

- (b) within 9 months following the date of such termination: (i) an Acquisition Proposal (whether or not such Acquisition Proposal is the same Acquisition Proposal referred to in (a) above) is consummated; or (ii) Coastal or one or more of the Coastal Subsidiaries, directly or indirectly, enters into a contract (other than a confidentiality and standstill agreement) in respect of an Acquisition Proposal (whether or not such Acquisition Proposal is the same Acquisition Proposal referred to in (a) above) and such Acquisition Proposal is later consummated or effected (whether or not such Acquisition Proposal is later consummated or effected within 9 months after such termination).

For purposes of the foregoing, the term "Acquisition Proposal" has the meaning assigned to such term in the "Glossary of Terms", except that references to "15% or more" will be deemed to be references to "50% or more".

Coastal must pay to Purchaser an expense reimbursement fee of no more than \$10,000,000 if the Merger Agreement is terminated under the following circumstances:

- by either Coastal or Purchaser if the Merger Resolution is not approved by Coastal Shareholders at the Meeting; or
- by Purchaser if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Coastal under the Merger Agreement occurs that would cause any of the mutual conditions or conditions for the sole benefit of Purchaser not to be satisfied, and such breach or failure is incapable of being cured on or before the Outside Date or is not cured in accordance with the notice and cure provisions in the Merger Agreement, provided that Purchaser is not then in breach of the Merger Agreement so as to cause any of the mutual conditions or conditions for the sole benefit of Coastal not to be satisfied.

#### **Amendment and Waivers**

The Merger Agreement and the Plan of Merger may, at any time and from time to time before or after the holding of the Meeting but not later than the Effective Time, be amended by mutual written agreement of Coastal, Purchaser and CEP SA, and any such amendment may, without limitation, to the extent permitted by Law:

- change the time for performance of any of the obligations or acts of Coastal, Purchaser or CEP SA;
- modify any representation or warranty contained in the Merger Agreement or in any document delivered pursuant to the Merger Agreement or waive any inaccuracies in the representations and warranties of a party contained in the Merger Agreement;
- modify any of the covenants contained in the Merger Agreement and waive or modify performance of any of the obligations of Coastal, Purchaser or CEP SA; and/or
- modify any mutual conditions contained in the Merger Agreement.

No waiver of any of the provisions of the Merger Agreement will constitute a waiver of any other provision (whether or not similar). No waiver will be binding unless executed in writing by the party to the Merger Agreement to be bound by the waiver. A failure or delay in exercising any right under the Merger Agreement by a party to the Merger Agreement will not operate as a waiver of that right. A single or partial exercise of any right will not preclude a party to the Merger Agreement from any other or further exercise of that right or the exercise of any other right.

## INFORMATION CONCERNING COASTAL

### General

Coastal is an international oil and gas exploration and production company with assets in Thailand and Malaysia. It is focused on acquiring discovered, underdeveloped oil and gas opportunities with significant upside potential, primarily in Southeast Asia. Coastal's current portfolio includes a number of development assets along with multiple potential high-impact exploration prospects.

Coastal was incorporated as "Action Ventures Ltd." on May 26, 2004 under the laws of the Cayman Islands. On November 10, 2004, Coastal changed its name to "PetroWorld Corp" and on September 27, 2006, Coastal changed its name to "Coastal Energy Company" upon completion of the Reverse Takeover.

Coastal's registered office is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands, British West Indies.

Coastal is a reporting issuer in each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.

### Description of Share Capital and Voting Securities

The authorized capital of Coastal is US\$10,000,000 divided into 250,000,000 Common Shares with a par value of US\$0.04 each. As at the close of business on December 3, 2013, 113,492,456 Common Shares were issued and outstanding, each Common Share carrying the right to one vote. As of December 3, 2013, Coastal had 4,217,769 Options, 858,387 RSUs and 696,962 SARs outstanding, which are exercisable for, convertible into or valued by reference to 4,217,769, 858,387 and 696,962 Common Shares, respectively.

### Dividend Policy

Coastal has not paid dividends since incorporation, and the Board does not anticipate paying dividends in the near future. The Board will reconsider Coastal's dividend policy as and when Coastal is in a position to pay dividends. The declaration and payment of dividends will depend on the results of Coastal's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant by the Board at the time.

### Trading in Shares

The Common Shares were listed on the TSX-V on September 16, 2005, and traded under the symbol "PWD". Effective October 4, 2006, the trading symbol was changed to "CEO" to reflect Coastal's name change. Effective November 7, 2007, Coastal's trading symbol was changed to "CEN" as a result of a reverse-stock split. The Common Shares were listed on the TSX effective July 5, 2011 and were simultaneously de-listed on the TSX-V. Its trading symbol on the TSX remains "CEN."

The Common Shares were listed on AIM on January 25, 2005, and traded under the symbol "PWC". Trading on AIM was halted on March 31, 2006 and resumed on September 25, 2006. Effective October 4, 2006, Coastal's AIM trading symbol changed to "CEO" to reflect Coastal's name change.

The following table sets out the monthly high and low trading prices and aggregate trading volume for the Common Shares on the TSX and AIM exchanges during the 12-month period prior to the date of this Circular:

	TSX			AIM		
	High (C\$)	Low (C\$)	Volume	High (£)	Low (£)	Volume
Dec 1 to 3, 2013	18.81	18.74	7,599,689	10.79	10.73	124,615
Nov 2013	18.89	14.81	57,119,377	11.19	9.05	1,600,790
Oct 2013	18.96	18.06	3,465,000	11.25	10.70	202,753
Sep 2013	18.97	16.56	4,754,455	11.53	10.13	298,133
Aug 2013	17.19	14.74	3,779,377	10.21	9.10	326,344

	TSX			AIM		
	High (C\$)	Low (C\$)	Volume	High (£)	Low (£)	Volume
Jul 2013	15.85	13.73	6,019,955	9.98	8.60	172,203
Jun 2013	17.16	12.71	10,001,646	10.93	8.05	447,341
May 2013	20.04	17.38	4,398,485	12.73	11.13	350,697
Apr 2013	19.90	16.75	4,916,413	12.70	10.80	298,035
Mar 2013	20.00	16.59	5,757,610	13.03	11.20	238,027
Feb 2013	22.85	19.40	4,527,113	14.48	12.63	188,035
Jan 2013	21.96	19.96	4,158,013	13.55	12.25	327,434
Dec 2012	20.07	18.55	4,164,306	12.53	11.65	112,422

Source: FactSet

On November 18, 2013, the last trading day before the Merger was announced, the closing price of the Common Shares on the TSX and AIM was C\$14.81 and £9.05, respectively.

### Intentions with Respect to the Merger

Each member of the Board and each executive officer of Coastal who owns Common Shares has advised Coastal that each such person intends to vote all of the Common Shares held by such person in favour of the Merger Resolution. In addition, each of these persons has entered into a Support Agreement with Purchaser pursuant to which they have agreed to vote their Common Shares in favour of the Merger Resolution. In addition, four of Coastal's independent directors serve on a board of four "Attorneys" that administers an independent voting trust covering Common Shares held by Mr. Wyatt; these directors have also entered into a Support Agreement, in their capacity as "Attorneys", pursuant to which they have agreed to vote such Common Shares in favour of the Merger Resolution. See "*The Merger - Interests of Certain Persons in the Merger*" and "*The Merger - Support Agreements*".

### Material Changes in the Affairs of Coastal

Except as publicly disclosed or otherwise described in this Circular, the directors and officers of Coastal are not aware of any plans or proposals for material changes in the affairs of Coastal.

### Prior Sales and Purchases

During the 12-month period prior to the date of this Circular, Coastal has not issued any Common Shares, excluding Common Shares issued upon exercise of Options or Warrants or settlement of RSUs.

During the 12-month period prior to the date of this Circular, Coastal has issued the following RSUs:

<u>Date</u>	<u>Security</u>	<u>Price per Security</u>	<u>Number of Securities</u>
August 27, 2013	RSUs	C\$14.96	8,023
December 14, 2012	RSUs	C\$19.87	712,264

During the 12-month period prior to the date of this Circular, Coastal has purchased, and subsequently cancelled, the following Common Shares pursuant to its normal course issuer bids which commenced on May 25, 2012 and June 14, 2013:

<u>Date</u>	<u>Security</u>	<u>Average Price per Security</u>	<u>Number of Securities</u>
July 5, 2013 to August 26, 2013	Common Shares	C\$15.23	431,800

## Previous Distributions

During the five-year period prior to the date of this Circular, Coastal distributed the following securities:

<u>Date</u>	<u>Security</u>	<u>Price per Security</u>	<u>Aggregate Proceeds</u>
November 5, 2009	Common Shares	C\$5.00	C\$34,500,000
May 28, 2009	Common Shares	C\$3.20	C\$18,400,000
January 23, 2009	Warrants	N/A <sup>1</sup>	N/A <sup>1</sup>

(1) These Warrants were issued in connection with Coastal's offering of 100 senior unsecured notes for gross proceeds of US\$10,000,000. Each US\$100,000 note was issued together with a Warrant entitling the holder thereof to acquire 20,000 Common Shares at a strike price of C\$1.136. All Warrants had been exercised prior to the Record Date.

## INFORMATION CONCERNING PURCHASER

Purchaser is an exempted company with limited liability incorporated and existing under the laws of the Cayman Islands, having its registered office located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Purchaser is a CEPSPA controlled entity in which SRG is an investor.

CEPSA is a company with limited liability incorporated and existing under the laws of Spain. It is an integrated energy company operating at every stage of the oil value chain, with more than 11,000 employees. It is engaged in petroleum and natural gas exploration and production activities; refining, the transport and sale of crude oil derivatives; petrochemicals, gas and electricity. CEPSA is Spain's fourth largest industrial group in terms of turnover, and has been in the market for more than 80 years. Through progressive internationalization of its activities, CEPSA also has business interests in Algeria, Brazil, Canada, Colombia, Panama, Peru and Portugal and sells its products all over the world. CEPSA is wholly-owned by International Petroleum Investment Company, which is wholly-owned by the Abu Dhabi government. The registered office of CEPSA is located at Campo De Las Naciones - Avda. Del Partenón, 12 28042, Madrid, Spain.

Strategic Resources (Global) Limited is a private investment holding company controlled by international value investor Larry Low H P.

## CERTAIN CAYMAN ISLANDS TAX CONSIDERATIONS

The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax. Coastal is registered as an "exempted company" pursuant to the Cayman Companies Law. Coastal has received an undertaking from the Governor-in-Cabinet of the Cayman Islands that in accordance with section 6 of the *Tax Concession Law (1999 Revision) of the Cayman Islands*, imposing any tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax will not apply to Coastal or its operations; and in addition that no tax to be levied on profits, income, gains or appreciations will be payable:

- on or in respect of the Common Shares or Coastal's debentures or other obligations; or
- by way of the withholding in whole or in part on payment of a dividend or other distribution of income or capital by Coastal to Coastal Shareholders or on a payment of principal or interest or other sums due under Coastal's debentures or obligations.

Accordingly, Coastal does not anticipate that it will be subject to any taxation in the Cayman Islands other than in relation to incidental registry fees and stamp duties on certain instruments entered into by Coastal.

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the Cayman Islands.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the principal Canadian federal income tax considerations under the Tax Act relating to the Merger that generally applies to Coastal Shareholders who, at all relevant times, for purposes of the Tax Act: (i) are resident in Canada; (ii) beneficially own Common Shares; (iii) hold their Common Shares as capital property; (iv) deal at arm's length with Coastal, CEPSA and Purchaser; and (v) are not affiliated with Coastal, CEPSA or Purchaser.

Common Shares will generally be considered to be capital property to a holder thereof, unless the shares are held in the course of carrying on a business or were acquired in a transaction considered to be an adventure or concern in the nature of trade.

This summary does not apply to a Coastal Shareholder: (i) that is a "financial institution" (as defined in the Tax Act) for the purposes of the mark-to-market rules; (ii) that is a "specified financial institution" (as defined in the Tax Act); (iii) an interest in which is a "tax shelter investment" (as defined in the Tax Act); (iv) who has acquired Common Shares upon the exercise of an employee stock option; (v) who has elected to report its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian currency; (vi) for which Coastal is a "foreign affiliate" (as defined in the Tax Act); or (vii) that has entered or will enter into a "derivative forward agreement" (as defined in the Tax Act). All such Coastal Shareholders should consult their own tax advisors having regard to their own particular circumstances. This summary has been prepared on the basis that Coastal is not a resident of Canada for the purposes of the Tax Act.

This summary does not address the tax consequences to holders of Options, RSUs or SARs. Such holders should consult their own tax advisors.

Generally, for purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Common Shares must be determined in Canadian dollars. Any such amount that is expressed or denominated in a currency other than Canadian dollars must be converted into Canadian dollars using the relevant exchange rate quoted by the Bank of Canada at noon on the relevant day or such other rate of exchange acceptable to the Minister of National Revenue (Canada).

This summary is based upon the current provisions of the Tax Act and counsel's understanding of the current published administrative practices and assessing policies of the CRA. This summary also takes into account all specific proposals to amend the Tax Act (the "**Proposed Amendments**") announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and assumes that all Proposed Amendments will be enacted in their present form. However, there can be no assurance that the Proposed Amendments will be enacted in the form proposed, or at all. Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in law, or the administrative practices and assessing policies of CRA, whether by legislative, governmental, or judicial action or decision, nor does it take into account provincial, territorial or foreign income tax considerations, which may differ from the Canadian federal income tax considerations discussed below.

**This summary is of a general nature only, and is not exhaustive of all possible Canadian federal income tax considerations. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular Coastal Shareholder. Accordingly, Coastal Shareholders should consult their own tax advisors for advice as to the income tax consequences to them of the Merger in their particular circumstances.**

### **Disposition of Common Shares for the Consideration**

A Coastal Shareholder that disposes of a Common Share under the Merger in exchange for the Consideration will be considered to have disposed of such Common Share for proceeds of disposition equal to the amount of the Consideration. As a result, such Coastal Shareholder will generally realize a capital gain (or a capital loss) to the extent that such Coastal Shareholder's proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to such Coastal Shareholder of such Common Share immediately before the disposition. See "*Taxation of Capital Gains and Capital Losses*" below for a general description of the treatment of capital gains and capital losses under the Tax Act.

## **Dissenting Coastal Shareholders**

A Coastal Shareholder who, as a result of the exercise of Dissent Rights, disposes of Common Shares in consideration for a cash payment, will be considered to have disposed of the Common Shares for proceeds of disposition equal to the cash payment (other than any portion of the payment that is interest (if any) awarded by the court). Such Dissenting Shareholder will realize a capital gain (or capital loss) equal to the amount by which such proceeds of disposition, net of any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base to such Dissenting Shareholder of such Common Shares immediately before the disposition. See "*Taxation of Capital Gains and Capital Losses*" below for a general description of the treatment of capital gains and capital losses under the Tax Act.

Interest (if any) awarded by a court to a Coastal Shareholder who is a Dissenting Shareholder will be included in such Dissenting Shareholder's income for purposes of the Tax Act.

## **Taxation of Capital Gains and Capital Losses**

One-half of any capital gain (a "**taxable capital gain**") realized by a Coastal Shareholder from a disposition of Common Shares in a taxation year will be included in the Coastal Shareholder's income in that taxation year. One-half of any capital loss (an "**allowable capital loss**") realized by a Coastal Shareholder from a disposition of Common Shares in a taxation year must generally be deducted against taxable capital gains realized in that taxation year by Coastal Shareholder, to the extent and in the circumstances specified in the Tax Act. Any excess of allowable capital losses over taxable capital gains realized in a particular taxation year may be carried back up to three taxation years and carried forward indefinitely and deducted against net taxable capital gains realized in those other years, to the extent and in the circumstances specified in the Tax Act.

Capital gains realized by individuals and certain trusts may give rise to a liability for alternative minimum tax under the Tax Act.

A Coastal Shareholder that is throughout a taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including amounts in respect of net taxable capital gains.

## **Foreign Information Reporting**

A Coastal Shareholder that is a "specified Canadian entity" for a taxation year or a fiscal period and whose total cost amount of "specified foreign property" (in each case, as defined in the Tax Act), including Common Shares, at any time in the year or fiscal period exceeds C\$100,000 will be required to file an information return for the year or period disclosing prescribed information in respect of such property. With some exceptions, a taxpayer resident in Canada in the taxation year, other than a corporation or trust exempt from tax under Part I of the Tax Act, will be a "specified Canadian entity". Coastal Shareholders are encouraged to consult their own tax advisors as to whether they must file an information return under these rules.

## **Non-Resident Holders**

The following section summarizes the principal Canadian federal income tax considerations generally applicable to a Coastal Shareholder who:

- at all relevant times, for purposes of the Tax Act and any applicable tax treaty or convention, is not resident and is not deemed to be resident in Canada; and
- does not use or hold (and will not use or hold) and is not deemed to use or hold the Common Shares in, or in the course of, carrying on a business in Canada and does not carry on an insurance business in Canada and elsewhere (a "**Non-Resident Holder**").

### *Disposition of Common Shares*

Provided that the Common Shares do not constitute "taxable Canadian property" at the time they are disposed of, a disposition of such shares will not be taxable in Canada.

Provided that the Common Shares are listed on a designated stock exchange (which includes the TSX) at a particular time, the Common Shares generally will not constitute taxable Canadian property to a Non-Resident Holder at that time unless at any time during the five-year period immediately preceding that time: (i) 25% or more of the issued shares of any class or series of Coastal's capital stock were owned by the Non-Resident Holder, by persons with whom the Non-Resident Holder did not deal at arm's length or by the Non-Resident Holder and any such persons; and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from real property situated in Canada, Canadian resource properties, options in respect of the foregoing properties or a combination thereof. A Non-Resident Holder's Common Shares can also be deemed to be taxable Canadian property in certain circumstances set out in the Tax Act.

## **MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of material U.S. federal income tax consequences of the Merger to "U.S. holders" (as defined below) of Common Shares. This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), the U.S. Treasury Department regulations promulgated under the Code, published rulings by the Internal Revenue Service (the "**IRS**"), judicial authorities and administrative decisions, all as in effect as of the date of this Circular and all of which are subject to change, possibly with retroactive effect. This summary is not binding on the IRS or a court, and there can be no assurance that the tax consequences described in this summary will not be challenged by the IRS or that they would be sustained by a court if challenged. No ruling has been or will be sought from the IRS, and no opinion of counsel has been or will be rendered, as to the U.S. federal income tax consequences of the Merger.

For purposes of this summary, the term "**U.S. holder**" means a beneficial owner of Common Shares that is: (i) an individual who is a citizen or resident of the United States; (ii) a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia; or (iii) otherwise subject to U.S. federal income taxation on a net income basis in respect of its Common Shares. This summary does not apply to holders of Common Shares that are not U.S. holders.

This summary does not address or consider all of the U.S. federal income tax consequences that may be applicable to U.S. holders of Common Shares in light of their particular circumstances. For example, this summary does not address the alternative minimum tax or the tax consequences to holders who validly exercise Dissent Rights. In addition, this summary does not address the U.S. federal income tax consequences of the Merger to holders who are subject to special treatment under U.S. federal income tax rules, including, for example, banks and other financial institutions, insurance companies, securities dealers, traders in securities who elect to use the mark-to-market method of accounting, tax-exempt investors, S corporations, holders classified as partnerships or other flow-through entities under the Code, holders who hold their Common Shares as part of a hedge, straddle, conversion transaction or other integrated investment, holders whose functional currency is not the U.S. dollar, holders who acquired their Common Shares through the exercise of employee stock options or otherwise as compensation, holders who own 5% or more of all Common Shares, and holders who do not hold their Common Shares as "capital assets" within the meaning of Section 1221 of the Code. In addition, this summary does not address any aspects of foreign, state, local, estate, gift or other tax laws that may be applicable to a particular holder in connection with the Merger.

The tax consequences of the Merger to U.S. holders who hold their Common Shares through a partnership or other flow-through entity will generally depend on the status of the holder and the activities of the partnership or other flow-through entity. Partners in a partnership holding Common Shares should consult their tax advisors regarding the tax consequences of the Merger to them.

Further, this summary does not address any tax consequences of the Merger to U.S. holders of Options, RSUs or SARs which are cancelled in exchange for cash pursuant to the Merger. Such holders should consult their tax advisors regarding the tax consequences of the Merger to them.

Coastal believes that it is not currently, and has never been, a passive foreign investment company ("**PFIC**") for U.S. federal income tax purposes, and this summary assumes that Coastal is not currently a PFIC and has never been a PFIC. If Coastal were a PFIC at any time when a U.S. holder held Common Shares of Coastal, special, possibly materially adverse, consequences would result for that U.S. holder.



## **Exchange of Common Shares for Cash**

A U.S. holder's receipt of the Consideration in exchange for Common Shares will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder whose Common Shares are converted into the right to receive the Consideration pursuant to the Merger will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference, if any, between the amount of cash received with respect to such Common Shares and the U.S. holder's adjusted tax basis in such Common Shares. A U.S. holder's adjusted tax basis will generally equal the price the U.S. holder paid for such Common Shares. The amount of gain or loss must be determined separately for each block of shares (i.e., shares acquired at the same cost and in a single transaction) surrendered by the U.S. holder in the Merger. Such gain or loss will generally be long-term capital gain or loss if the U.S. holder's holding period for such shares is more than 12 months at the Effective Date. Long-term capital gains recognized by individual and certain other non-corporate U.S. holders are generally taxed at preferential U.S. federal income tax rates. A U.S. holder's ability to deduct capital losses may be limited.

For purposes of determining the amount of gain or loss recognized in respect of the Merger, the amount of Consideration will equal the U.S. dollar value of the Canadian dollars received, which generally will be calculated by reference to the exchange rate in effect on the Effective Date. On the date the cash is received by a U.S. holder or the Depositary, as the case may be, that U.S. holder generally will recognize U.S. source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the Effective Date and the date cash is received by the U.S. holder or the Depositary, regardless of whether the Canadian dollars are converted into U.S. dollars. However, in the case of a U.S. holder that uses the cash method of tax accounting (or an accrual basis U.S. holder that so elects), the amount realized in respect of the Merger will be based on the U.S. dollar value of the Canadian dollars received on the date the cash is received by the U.S. holder or the Depositary, as the case may be, and no exchange gain or loss will be recognized at the time the cash is received. If the Canadian dollars are not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the Canadian dollars equal to their U.S. dollar value on the date of receipt, and any gain or loss realized on a subsequent conversion or other disposition of the Canadian dollars will generally be treated as ordinary income or loss.

## **Backup Withholding and Information Reporting**

A U.S. holder may be subject to backup withholding on all cash payments to which such U.S. holder is entitled in connection with the Merger, unless the U.S. holder provides its correct taxpayer identification number and complies with applicable certification procedures or otherwise establishes an exemption from backup withholding. In addition, if the Depositary is not provided with a U.S. holder's correct taxpayer identification number or other adequate basis for exemption, the U.S. holder may be subject to certain penalties imposed by the IRS. Each U.S. holder should complete and sign the IRS Form W-9 included as part of the Letter of Transmittal and timely return it to the Depositary in order to avoid backup withholding, unless an exemption applies and is established in a manner satisfactory to the Depositary. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will generally be allowable as a refund or credit against a U.S. holder's U.S. federal income tax liability, provided that certain required information is timely furnished to the IRS.

**This summary is provided for general information only and is not tax advice. Coastal Shareholders should consult their tax advisors regarding the application of the U.S. federal income tax laws to their particular situations, as well as any potential tax consequences of the Merger arising under foreign, state, local, estate, gift and other tax laws.**

## **UNITED KINGDOM TAXATION**

The following paragraphs, which are intended as a general guide only, are based on current UK legislation and HM Revenue & Customs practice both of which are subject to change, possibly with retrospective effect. They summarize certain limited aspects of the UK taxation consequences of the Merger, and relate only to Coastal Shareholders and Depositary Interest Holders who hold their Common Shares or Depositary Interests, as applicable, beneficially as an investment (other than under an individual savings account) and who are resident and, in the case of individuals, domiciled in (and only in) the UK for taxation purposes at all relevant times. The tax position of certain classes of Coastal Shareholders and Depositary Interest Holders, such as Coastal Shareholders and Depositary Interest Holders who have (or are deemed to have) acquired or acquire their Common

**Shares or Depositary Interests, as applicable, in connection with an office or employment (including pursuant to Options granted pursuant to Coastal's 2008 Incentive Stock Option Plan, amended and restated on July 21, 2011) is not considered. In addition, these comments may not apply to certain classes of Coastal Shareholders and Depositary Interest Holders including dealers in securities, insurance companies, collective investment schemes and persons who are exempt from taxation.**

**If you are in any doubt as to your taxation position, or if you are subject to taxation in any jurisdiction other than the UK, you should consult an appropriate professional advisor without delay.**

### **Taxation of Chargeable Gains**

Liability to United Kingdom taxation of chargeable gains will depend on the individual circumstances of Coastal Shareholders and Depositary Interest Holders.

When a Coastal Shareholder or a Depositary Interest Holder receives cash under the Merger in exchange for the cancellation of his Common Shares or Depositary Interests, as applicable, this will constitute a disposal of his Common Shares or Depositary Interests, as applicable, for the purposes of United Kingdom taxation of chargeable gains. Such disposal may, depending on his personal circumstances (including the availability of exemptions, relief and/or allowable losses), give rise to a liability to UK taxation on chargeable gains.

For individual Coastal Shareholders and Depositary Interest Holders, the capital gains annual exempt amount (which is £10,900 for the 2013/14 tax year) will be available to prevent a charge to capital gains tax arising on the first £10,900 of any chargeable gain (to the extent it has not already been utilized).

Individual Coastal Shareholders and Depositary Interest Holders who have temporarily ceased to be resident in the United Kingdom or have become temporarily treated as non-resident for UK tax purposes at the time of disposal of their Common Shares or Depositary Interests, as applicable, may, under special rules, still be liable to United Kingdom taxation on any capital gain realized (subject to any available exemption or relief) on return to the United Kingdom.

For Coastal Shareholders and Depositary Interest Holders within the charge to UK corporation tax but which do not qualify for substantial shareholdings exemption in respect of their Common Shares or Depositary Interests, as applicable, a disposal of Common Shares or Depositary Interests, as applicable, may give rise to a chargeable gain or allowable loss for the purposes of UK corporation tax. Indexation allowance will normally be available in respect of the full period of ownership of the Common Shares or Depositary Interests, as applicable, to reduce any chargeable gain arising.

### **Transactions in Securities Anti-Avoidance**

Under the provisions of Chapter 1 of Part 13 Income Tax Act 2007 (for Coastal Shareholders or Depositary Interest Holders within the charge to income tax) and Part 15 Corporation Tax Act 2010 (for Coastal Shareholders or Depositary Interest Holders within the charge to corporation tax), HM Revenue & Customs can, in certain circumstances, counteract tax advantages arising in relation to certain transactions in securities. No clearance has been or will be sought by Coastal in relation to the applicability of those provisions in respect of the Merger. However, it is not expected that they will, as a general matter, affect the taxation treatment of a Coastal Shareholder or Depositary Interest Holder receiving cash under the Merger in exchange for the cancellation of his, her or its Common Shares or Depositary Interests, as applicable.

### **Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

No stamp duty or SDRT will be payable by Coastal Shareholders or Depositary Interest Holders as a result of accepting the Offer.

### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as disclosed under the section of this Circular entitled "*The Merger - Interests of Certain Persons in the Merger*", no informed person (as defined in NI 51-102) of Coastal, or any associate or affiliate of any informed person of Coastal, has had any material interest, direct or indirect, in any transaction, or proposed

transaction, which has materially affected or would materially affect Coastal or any of the Coastal Subsidiaries since the commencement of the most recently completed financial year of Coastal.

#### **LEGAL MATTERS**

Certain legal matters in connection with the Merger as they pertain to Coastal will be passed upon by Stikeman Elliott LLP, Cleary Gottlieb Steen & Hamilton LLP and Walkers.

#### **ADDITIONAL INFORMATION**

Additional information relating to Coastal is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Financial information is provided in Coastal's comparative annual financial statements and management's discussion and analysis for its most recently completed year, which are filed on SEDAR.

Coastal's most recent interim financial report will be sent without charge to any Coastal Shareholder upon request.

**APPROVAL OF DIRECTORS**

The contents and sending of this Circular, including the Notice of Meeting, have been approved and authorized by the Board.

BY ORDER OF THE BOARD OF DIRECTORS

"Lloyd Barnaby Smith"

Lloyd Barnaby Smith  
Chairman of the Board

George Town, Grand Cayman, BWI  
December 5, 2013

## CONSENT OF CREDIT SUISSE SECURITIES (USA) LLC

To the Board of Directors of Coastal Energy Company:

We hereby consent to the inclusion of our opinion dated November 18, 2013 (the "**Fairness Opinion**") addressed to the board of directors of Coastal Energy Company ("**Coastal**") in the management information circular of Coastal dated December 3, 2013 and the references to the Fairness Opinion therein under the captions "Glossary of Terms", "Forward-Looking Statements", "The Merger - Background to the Merger", "The Merger - Reasons for the Merger" and "The Merger - Fairness Opinion".

*"Credit Suisse Securities (USA) LLC"*

Credit Suisse Securities (USA) LLC  
December 5, 2013

## APPENDIX A - MERGER RESOLUTION

### "BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. Coastal Energy Company (the "**Company**") be authorised to merge (the "**Merger**") with Condor (Cayman) Limited ("**Merging Co**"), an exempted company incorporated under the laws of the Cayman Islands, so that the Company be the surviving company and all the undertaking, property and liabilities of the Merging Co vest in the Company by virtue of such merger pursuant to the provisions of the *Companies Law (2013 Revision) of the Cayman Islands* (the "**Companies Law**");
2. the Plan of Merger in the form annexed hereto and approved by resolution of the Directors of the Company and submitted to the shareholders of the Company for their approval (the "**Plan of Merger**"), be approved and confirmed in all respects;
3. the Company be authorised to enter into the Plan of Merger;
4. the Plan of Merger be executed by any one Director on behalf of the Company and any Director be authorised to submit the Plan of Merger, together with any supporting documentation, for registration to the Registrar of Companies of the Cayman Islands;
5. as at the Effective Time (as defined in the Plan of Merger), the Memorandum and Articles of Association of the Company in the form attached to the Plan of Merger be hereby adopted;
6. the cancellation of admission of the Company's securities to trading on, and the delisting from, each of the AIM market operated by the London Stock Exchange plc and the Toronto Stock Exchange if the Merger is completed, subject to any requisite filings and approvals that may be required in connection therewith, is hereby consented to and approved in all respects and any one director or officer of the Company is hereby authorized to take all steps which are necessary or desirable in order to effect such cancellation and delisting; and
7. all actions taken and any documents or agreements executed, signed or delivered prior to or after the date of these Resolutions by any Director or officer of the Company in connection with the transactions contemplated by these resolutions be approved, ratified and confirmed in all respects.

**APPENDIX B - PLAN OF MERGER**

Please see attached.

## PLAN OF MERGER

**THIS PLAN OF MERGER** is made on • 2014 pursuant to the provisions of Part XVI of the Companies Law (2013 Revision) (the "**Law**") by:

- (1) **Coastal Energy Company**, an exempted company with limited liability incorporated under the laws of the Cayman Islands with registered number 136249, having its registered office at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, Grand Cayman KY1-9005, Cayman Islands (the "**Surviving Company**"); and
- (2) **Condor (Cayman) Limited**, an exempted company with limited liability incorporated under the laws of the Cayman Islands with registered number 282017, having its registered office at the offices of Codan Trust Company (Cayman) Limited, Boundary Hall, Cricket Square, Grand Cayman KY1-1111, Cayman Islands ("**Merging Company**").

**IT IS AGREED** that:

1. The Constituent Companies (as defined in the Law) to this Plan of Merger are the Surviving Company and the Merging Company.
2. The surviving company that results from the merger of the Constituent Companies (the "**Merger**") is the Surviving Company.
3. The registered office of the Surviving Company shall be at the offices of Codan Trust Company (Cayman) Limited, Boundary Hall, Cricket Square, Grand Cayman KY1-1111, Cayman Islands.
4. It is intended that the Merger shall take effect on the date that this Plan of Merger is registered by the Registrar or on such subsequent date as the Surviving Company and the Merging Company shall agree and notify to the Registrar (the "**Effective Date**").
5. The Surviving Company has, immediately prior to the Effective Date, • outstanding common shares of par value US\$0.04 each.
6. The Merging Company has, immediately prior to the Effective Date, • outstanding shares of par value US\$1.00 each with one vote for each share.
7. At 12:01 a.m. on the Effective Date or such other time on the Effective Date as the parties to this Plan of Merger agree to in writing before the Effective Date (the "**Effective Time**"), the rights, the property of every description including choses in action, and the business, undertaking, goodwill, benefits, immunities and privileges of each of the Constituent Companies shall immediately vest in the Surviving Company and the Surviving Company shall be liable for and subject, in the same manner as the Constituent Companies, to all mortgages, charges or security interests, and all contracts, obligations, claims, debts and liabilities of each of the Constituent Companies.
8. The terms and conditions of the Merger are as follows:
  - (a) each share of par value US\$1.00 in the capital of the Merging Company issued and outstanding immediately before the Effective Time shall be cancelled and exchanged for one validly issued, fully paid and non-assessable common share of par value US\$0.04 in the capital of the Surviving Company as at the Effective Date;
  - (b) subject to Section 8(c) below, each common share of par value US\$0.04 each in the capital of the Surviving Company issued and outstanding immediately before the Effective Time shall be cancelled in exchange for the right to receive cash consideration of C\$19.00 per share (the "**Consideration**") at the Effective Time and the register of members of the Surviving Company shall be updated accordingly; and
  - (c) each common share of par value US\$0.04 in the capital of the Surviving Company held by the Surviving Company as treasury shares or owned directly or indirectly by Condor Acquisition (Cayman ) Limited, Compañía Española de Petróleos, S.A.U., the Merging Company or any wholly-



owned subsidiary of the Surviving Company immediately prior to the Effective Time shall be cancelled on the register of members of the Surviving Company and shall cease to exist as at the Effective Time, and no consideration shall be payable in relation thereto.

9. From the Effective Time, the memorandum and articles of association of the Surviving Company shall be the memorandum and articles of association adopted with effect from the Effective Date in the form set out in the Annex A to this Plan of Merger.
10. **[A list of the secured creditors of the Constituent Companies, together with their names and addresses and a description of the nature of the secured interest, is attached to this Plan of Merger as Annex B. Each of the secured creditors has consented to the Merger. / Neither of the Constituent Companies has any secured creditors.]**
11. The names and addresses of the Directors of the Surviving Company as at the Effective Date are as follows:
- | <b>Name</b>                          | <b>Address</b>  |
|--------------------------------------|---|
| Strategic Resources (Global) Limited | P.O. Box 1239, Offshore Incorporations Centre<br>Victoria, Mahé, Republic of Seychelles |
| CEPSA E.P., S.A.                     | Ribera del Loira, 50<br>28042 Madrid, Spain   |
12. This Plan of Merger has been approved in accordance with the Law by the respective Boards of Directors and by the shareholders of both Constituent Companies.
13. Each of the Constituent Companies agrees and undertakes that it will, and will procure that a member of its Board of Directors will, provide and execute such certificates, documents, declarations, undertakings and confirmations, as may be required pursuant to section 233 of the Law in order to consummate the Merger.

Each of the undersigned, being Directors of the Constituent Companies, has executed this Plan of Merger, which may be executed by facsimile and in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument, on the date first above written.

For and on behalf of the Surviving Company:

---

**[Name]**  
Director

For and on behalf of the Merging Company:

---

**[Name]**  
Director

**ANNEX A**  
**Memorandum and Articles of Association**

**THE COMPANIES LAW (AS AMENDED)**

**COMPANY LIMITED BY SHARES**

**AMENDED AND RESTATED  
MEMORANDUM & ARTICLES  
OF  
ASSOCIATION OF  
Coastal Energy Company**

(Amended and Restated on •, 2014)



## TABLE OF CONTENTS

<a href="#">TABLE A</a> .....	3
<a href="#">Interpretation</a> .....	3
<a href="#">Preliminary</a> .....	4
<a href="#">Shares</a> .....	4
<a href="#">Variation of Rights attaching to Shares</a> .....	5
<a href="#">Certificates</a> .....	5
<a href="#">Fractional Shares</a> .....	5
<a href="#">Lien</a> .....	5
<a href="#">Calls on Shares</a> .....	6
<a href="#">Forfeiture of Shares</a> .....	6
<a href="#">Transfer of Shares</a> .....	7
<a href="#">Transmission of Shares</a> .....	7
<a href="#">Alteration of Capital</a> .....	7
<a href="#">Redemption and Purchase of own Shares</a> .....	8
<a href="#">Closing Register of Members or Fixing Record Date</a> .....	8
<a href="#">General Meetings</a> .....	9
<a href="#">Notice of General Meetings</a> .....	9
<a href="#">Proceedings at General Meetings</a> .....	9
<a href="#">Votes of Members</a> .....	10
<a href="#">Corporations acting by Representatives at Meetings</a> .....	11
<a href="#">Directors</a> .....	11
<a href="#">Alternate Director</a> .....	11
<a href="#">Powers and Duties of Directors</a> .....	12
<a href="#">Borrowing Powers of Directors</a> .....	13
<a href="#">The Seal</a> .....	13
<a href="#">Disqualification of Directors</a> .....	13
<a href="#">Proceedings of Directors</a> .....	13
<a href="#">Dividends</a> .....	15
<a href="#">Accounts and Audit</a> .....	15
<a href="#">Capitalisation of Profits</a> .....	16
<a href="#">Share Premium Account</a> .....	16
<a href="#">Notices</a> .....	17
<a href="#">Non-Recognition of Trusts</a> .....	18
<a href="#">Winding Up</a> .....	18
<a href="#">Amendment of Articles of Association</a> .....	18
<a href="#">Registration by way of Continuation</a> .....	18

# **THE COMPANIES LAW (AS AMENDED)**

## **COMPANY LIMITED BY SHARES**

### **AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION**

**OF**

### **Coastal Energy Company**

**(Amended and Restated on •, 2014)**

1. The name of the Company is Coastal Energy Company.
2. The Registered Office of the Company will be situated at the offices of Intertrust SPV (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands or at such other location as the Directors may from time to time determine.
3. The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by any law as provided by Section 7(4) of the Companies Law (as amended).
4. The Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit as provided by Section 27(2) of the Companies Law (as amended).
5. Nothing in the preceding sections shall be deemed to permit the Company to carry on the business of a Bank or Trust Company without being licensed in that behalf under the provisions of the Banks & Trust Companies Law (as amended), or to carry on Insurance Business from within the Cayman Islands or the business of an Insurance Manager, Agent, Sub-agent or Broker without being licensed in that behalf under the provisions of the Insurance Law (as amended), or to carry on the business of Company Management without being licensed in that behalf under the provisions of the Companies Management Law (as amended).
6. The Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands; provided that nothing in this section shall be construed as to prevent the Company effecting and concluding contracts in the Cayman Islands, and exercising in the Cayman Islands all of its powers necessary for the carrying on of its business outside the Cayman Islands.
7. The liability of the members is limited to the amount, if any, unpaid on the shares respectively held by them.

8. The authorised share capital of the Company is US\$50,000.00 divided into 1,250,000 common shares of a nominal or par value of US\$0.04 each provided always that subject to the provisions of the Companies Law (as amended) and the Articles of Association the Company shall have power to redeem or purchase any of its shares and to sub-divide or consolidate the said shares or any of them and to issue all or any part of its capital whether original, redeemed, increased or reduced with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions whatsoever and so that unless the conditions of issue shall otherwise expressly provide every issue of shares whether stated to be Ordinary, Preference or otherwise shall be subject to the powers on the part of the Company hereinbefore provided.
  
9. The Company may exercise the power contained in Section 206 of the Companies Law (as amended) to deregister in the Cayman Islands and be registered by way of continuation in some other jurisdiction.

# THE COMPANIES LAW (AS AMENDED)

## COMPANY LIMITED BY SHARES

# AMENDED AND RESTATED ARTICLES OF ASSOCIATION OF Coastal Energy Company

(Amended and Restated on ●, 2014)

### TABLE A

The Regulations contained or incorporated in Table 'A' in the First Schedule of the Companies Law (as amended) shall not apply to this Company and the following Articles shall comprise the Articles of Association of the Company:

### INTERPRETATION

1. In these Articles:

**"Directors"** and **"Board of Directors"** means the Directors of the Company for the time being, or as the case may be, the Directors assembled as a Board or as a committee thereof;

**"Member"** means a person whose name is entered in the Register of Members and includes each subscriber to the Memorandum of Association pending the issue to him of the subscriber share or shares;

**"Memorandum of Association"** means the Memorandum of Association of the Company, as amended and re-stated from time to time;

**"Ordinary Resolution"** means a resolution:

- (a) passed by a simple majority of such Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of the Company and where a poll is taken regard shall be had in computing a majority to the number of votes to which each Member is entitled; or
- (b) approved in writing by all of the Members entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Members and the effective date of the resolution so adopted shall be the date on which the instrument, or the last of such instruments if more than one, is executed;

**"paid up"** means paid up as to the par value and any premium payable in respect of the issue of any shares and includes credited as paid up;

**"Register of Members"** means the register to be kept by the Company in accordance with Section 40 of the Companies Law;

**"Seal"** means the Common Seal of the Company (if adopted) including any facsimile thereof;

**"share"** means any share in the capital of the Company, including a fraction of any share;

"signed" includes a signature or representation of a signature affixed by mechanical means;

"**Special Resolution**" means a resolution passed in accordance with Section 60 of the Companies Law, being a resolution:

- (a) passed by a majority of not less than two-thirds of such Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of the Company of which notice specifying the intention to propose the resolution as a Special Resolution has been duly given and where a poll is taken regard shall be had in computing a majority to the number of votes to which each Member is entitled; or
  - (b) approved in writing by all of the Members entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Members and the effective date of the Special Resolution so adopted shall be the date on which the instrument or the last of such instruments if more than one, is executed.
2. In these Articles, save where the context requires otherwise:
- (a) words importing the singular number shall include the plural number and vice versa;
  - (b) words importing the masculine gender only shall include the feminine gender;
  - (c) words importing persons only shall include companies or associations or bodies of persons, whether corporate or not;
  - (d) "**may**" shall be construed as permissive and "**shall**" shall be construed as imperative;
  - (e) references to a "**dollar**", "**dollars**" or "**\$**" is a reference to the lawful currency of the United States of America; and
  - (f) references to a statutory enactment shall include reference to any amendment or re-enactment thereof for the time being in force.
3. Subject to the last two preceding Articles, any words defined in the Companies Law shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.

#### **PRELIMINARY**

4. The business of the Company may be commenced as soon after incorporation as the Directors see fit.
5. The registered office of the Company shall be at such address in the Cayman Islands as the Directors shall from time to time determine. The Company may in addition establish and maintain such other offices and places of business and agencies in such places as the Directors may from time to time determine.

#### **SHARES**

6. Subject as otherwise provided in these Articles, all shares for the time being and from time to time unissued shall be under the control of the Directors, and may be re-designated, allotted or disposed of in such manner, to such persons and on such terms as the Directors in their absolute discretion may think fit.
7. The Company may insofar as may be permitted by law, pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any shares. Such commissions may be satisfied by the payment of cash or the lodgement of fully or partly paid-up shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.
8. A share shall not be issued until the consideration for the share is fully paid in money or in property or past services that are not less in value than the fair equivalent of the money that the Company would have received if the share had been issued for money. In determining whether property or past services are the



fair equivalent of a money consideration, the directors may take into account reasonable charges and expenses of the Company and payments made by the Company for property and past services acquired by, or, as the case may be, performed for the benefit of, the Company. For the purposes of this Article, "property" does not include a promissory note, a promise to pay, or a promise to provide services to the Company.

#### **VARIATION OF RIGHTS ATTACHING TO SHARES**

9. If at any time the share capital is divided into different classes of shares, the rights attaching to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated with the consent in writing of the holders of two-thirds of the issued shares of that class, or with the sanction of a resolution passed by at least a two-thirds majority of the holders of shares of the class present in person or by proxy at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these Articles relating to general meetings of the Company shall mutatis mutandis apply, but so that the necessary quorum shall be at least one person holding or representing by proxy at least one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll.
10. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied or abrogated by the creation or issue of further shares ranking *pari passu* therewith or the redemption or purchase of shares of any class by the Company.

#### **CERTIFICATES**

11. Every person whose name is entered as a member in the Register of Members shall, without payment, be entitled to a certificate in the form determined by the Directors. Such certificate may be under the Seal. All certificates shall specify the share or shares held by that person and the amount paid up thereon, provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all.
12. If a share certificate is defaced, lost or destroyed it may be renewed on such terms, if any, as to evidence and indemnity as the Directors think fit.

#### **FRACTIONAL SHARES**

13. The Directors shall not issue any fractional shares.

#### **LIEN**

14. The Company shall have a first priority lien and charge on every partly paid share for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share, and the Company shall also have a first priority lien and charge on all partly paid shares standing registered in the name of a Member (whether held solely or jointly with another person) for all moneys presently payable by him or his estate to the Company, but the Directors may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The Company's lien, if any, on a share shall extend to all distributions payable thereon.
15. The Company may sell, in such manner as the Directors in their absolute discretion think fit, any shares on which the Company has a lien, but no sale shall be made unless an amount in respect of which the lien exists is presently payable nor until the expiration of 14 days after a notice in writing, stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share, or the persons entitled thereto by reason of his death or bankruptcy.
16. For giving effect to any such sale the Directors may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares comprised in any such transfer and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

17. The proceeds of the sale after deduction of expenses, fees and commission incurred by the Company shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the date of the sale.

#### **CALLS ON SHARES**

18. The Directors may from time to time make calls upon the Members in respect of any moneys unpaid on their partly paid shares, and each Member shall (subject to receiving at least 14 days notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on such shares.
19. The joint holders of a share shall be jointly and severally liable to pay calls in respect thereof.
20. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of eight per centum per annum from the day appointed for the payment thereof to the time of the actual payment, but the Directors shall be at liberty to waive payment of that interest wholly or in part.
21. The provisions of these Articles as to the liability of joint holders and as to payment of interest shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had become payable by virtue of a call duly made and notified.
22. The Directors may make arrangements on the issue of partly paid shares for a difference between the Members, or the particular shares, in the amount of calls to be paid and in the times of payment.
23. The Directors may, if they think fit, receive from any Member willing to advance the same all or any part of the moneys uncalled and unpaid upon any partly paid shares held by him, and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding without the sanction of an Ordinary Resolution, eight per cent. per annum) as may be agreed upon between the Member paying the sum in advance and the Directors.

#### **FORFEITURE OF SHARES**

24. If a Member fails to pay any call or instalment of a call in respect of partly paid shares on the day appointed for payment, the Directors may, at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.
25. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.
26. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by notice has been made, be forfeited by a resolution of the Directors to that effect.
27. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the Directors think fit.
28. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares forfeited, but his liability shall cease if and when the Company receives payment in full of the amount unpaid on the shares forfeited.
29. A statutory declaration in writing that the declarant is a Director, and that a share has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts in the declaration as against all persons claiming to be entitled to the share.

30. The Company may receive the consideration, if any, given for a share on any sale or disposition thereof pursuant to the provisions of these Articles as to forfeiture and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of and that person shall be registered as the holder of the share, and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the disposition or sale.
31. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which by the terms of issue of a share becomes due and payable, whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

#### **TRANSFER OF SHARES**

32. The instrument of transfer, if any, may be in such form as the directors may approve and must be signed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The transferor will be deemed to remain the holder of the share until the name of the transferee is entered in the register of Members in respect of it.
33. No transfer of shares shall be effective unless the Directors have given their approval thereto and, for the avoidance of doubt, the Directors may, in their absolute discretion and without giving any reason, refuse to register any transfer of shares.
34. If the Directors refuse to register a transfer of any shares, they must, within two months after the date on which the transfer was lodged with the Company, send to the transferor and the transferee notice of the refusal.
35. The registration of transfers may be suspended at such times and for such periods as the Directors may, in their absolute discretion, from time to time determine, provided always that such registration shall not be suspended for more than 30 days in any year.
36. All instruments of transfer which are registered shall be retained by the Company, but any instrument of transfer which the Directors decline to register shall (except in any case of fraud) be returned to the person depositing the same.
37. Nothing in these Articles precludes the Directors from recognising a renunciation of the allotment of any share by the allottee in favour of some other person.

#### **TRANSMISSION OF SHARES**

38. The legal personal representative of a deceased sole holder of a share shall be the only person recognised by the Company as having any title to the share. In the case of a share registered in the name of two or more holders, the survivors or survivor, or the legal personal representatives of the deceased survivor, shall be the only person recognised by the Company as having any title to the share.
39. Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member shall upon such evidence being produced as may from time to time be required by the Directors, have the right either to be registered as a Member in respect of the share or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made; but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy.
40. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a Member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company.

#### **ALTERATION OF CAPITAL**

41. The Company may from time to time by Ordinary Resolution increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe.

42. The Company may by Ordinary Resolution:
- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
  - (b) convert all or any of its paid up shares into stock and reconvert that stock into paid up shares of any denomination;
  - (c) subdivide its existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
  - (d) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.
43. The Company may by Special Resolution reduce its share capital and any capital redemption reserve in any manner authorised by law.

#### **REDEMPTION AND PURCHASE OF OWN SHARES**

44. Subject to the provisions of the Companies Law, the Company may:
- (a) issue shares on terms that they are to be redeemed or are liable to be redeemed at the option of the Company or the Member on such terms and in such manner as the Directors may, before the issue of such shares, determine;
  - (b) purchase its own shares (including any redeemable shares) on such terms and in such manner as the Directors may determine and agree with the Member; and
  - (c) make a payment in respect of the redemption or purchase of its own shares otherwise than out of profits or the proceeds of a fresh issue of shares.
45. Any share in respect of which notice of redemption has been given shall not be entitled to participate in the profits of the Company in respect of the period after the date specified as the date of redemption in the notice of redemption.
46. The redemption or purchase of any share shall not be deemed to give rise to the redemption or purchase of any other share.
47. The Directors may when making payments in respect of redemption or purchase of shares, if authorised by the terms of issue of the shares being redeemed or purchased or with the agreement of the holder of such shares, make such payment either in cash or in specie.

#### **CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE**

48. For the purpose of determining those Members that are entitled to receive notice of, attend or vote at any meeting of Members or any adjournment thereof, or those Members that are entitled to receive payment of any dividend, or in order to make a determination as to who is a Member for any other purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period which shall not exceed in any case 40 days. If the Register of Members shall be so closed for the purpose of determining those Members that are entitled to receive notice of, attend or vote at a meeting of Members the register shall be so closed for at least 10 days immediately preceding such meeting and the record date for such determination shall be the date of the closure of the Register of Members.
49. In lieu of or apart from closing the Register of Members, the Directors may fix in advance a date as the record date for any such determination of those Members that are entitled to receive notice of, attend or vote at a meeting of the Members and, for the purpose of determining those Members that are entitled to receive

payment of any dividend, the Directors may, at or within 90 days prior to the date of declaration of such dividend, fix a subsequent date as the record date for such determination.

50. If the Register of Members is not so closed and no record date is fixed for the determination of those Members entitled to receive notice of, attend or vote at a meeting of Members or those Members that are entitled to receive payment of a dividend, the date on which notice of the meeting is posted or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of those Members that are entitled to receive notice of, attend or vote at a meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

#### **GENERAL MEETINGS**

51. The Directors may, whenever they think fit, convene a general meeting of the Company.
52. General meetings shall also be convened on the written requisition of any Member or Members entitled to attend and vote at general meetings of the Company who hold not less than 10 per cent of the paid up voting share capital of the Company deposited at the registered office of the Company specifying the objects of the meeting for a date no later than 21 days from the date of deposit of the requisition signed by the requisitionists, and if the Directors do not convene such meeting for a date not later than 45 days after the date of such deposit, the requisitionists themselves may convene the general meeting in the same manner, as nearly as possible, as that in which general meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors to convene the general meeting shall be reimbursed to them by the Company.
53. If at any time there are no Directors, any two Members (or if there is only one Member then that Member) entitled to vote at general meetings of the Company may convene a general meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

#### **NOTICE OF GENERAL MEETINGS**

54. At least seven days notice counting from the date service is deemed to take place as provided in these Articles specifying the place, the day and the hour of the meeting and, in case of special business, the general nature of that business, shall be given in the manner hereinafter provided or in such other manner (if any) as may be prescribed by the Company by Ordinary Resolution to such persons as are, under these Articles, entitled to receive such notices from the Company, but with the consent of all the Members entitled to receive notice of some particular meeting and attend and vote thereat, that meeting may be convened by such shorter notice or without notice and in such manner as those Members may think fit.
55. The accidental omission to give notice of a meeting to or the non-receipt of a notice of a meeting by any Member shall not invalidate the proceedings at any meeting.

#### **PROCEEDINGS AT GENERAL MEETINGS**

56. All business carried out at a general meeting shall be deemed special with the exception of sanctioning a dividend, the consideration of the accounts, balance sheets, and any report of the Directors or of the Company's auditors, the appointment and removal of Directors and the fixing of the remuneration of the Company's auditors. No special business shall be transacted at any general meeting without the consent of all Members entitled to receive notice of that meeting unless notice of such special business has been given in the notice convening that meeting.
57. No business shall be transacted at any general meeting unless a quorum of Members is present at the time when the meeting proceeds to business. Save as otherwise provided by these Articles, two Members (or if there is only one Member then that Member) entitled to vote at the meeting, whether present in person or by proxy, shall be a quorum.
58. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to the next business day, at the same time and place, and if at the adjourned meeting a quorum is not present

within half an hour from the time appointed for the meeting the Member or Members present and entitled to vote shall be a quorum.

59. If the Directors wish to make this facility available to Members for a specific or all general meetings of the Company, a Member may participate in any general meeting of the Company, by means of a telephone or similar communication equipment by way of which all persons participating in such meeting can hear each other and such participation shall be deemed to constitute presence in person at the meeting.
60. The chairman, if any, of the Board of Directors shall preside as chairman at every general meeting of the Company.
61. If there is no such chairman, or if at any general meeting he is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as chairman, the Members present shall choose one of their number to be chairman of that meeting.
62. The chairman may with the consent of any general meeting at which a quorum is present (and shall if so directed by the meeting) adjourn a meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for 14 days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.
63. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by one or more Members present in person or by proxy entitled to vote, and unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of, or against, that resolution.
64. If a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.
65. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.
66. A poll demanded on the election of a chairman of the meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

#### **VOTES OF MEMBERS**

67. Subject to any rights and restrictions for the time being attached to any class or classes of shares, on a show of hands every Member present in person and every person representing a Member by proxy shall at a general meeting of the Company have one vote and on a poll every Member and every person representing a Member by proxy shall have one vote for each share of which he or the person represented by proxy is the holder.
68. In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.
69. A Member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, or other person in the nature of a committee appointed by that court, and any such committee or other person may vote by proxy.
70. No Member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares carrying the right to vote held by him have been paid.

71. On a poll votes may be given either personally or by proxy.
72. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. A proxy need not be a Member.
73. An instrument appointing a proxy may be in any usual or common form or such other form as the Directors may approve.
74. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
75. A resolution in writing signed by all the Members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly authorised representatives) shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held.

#### **CORPORATIONS ACTING BY REPRESENTATIVES AT MEETINGS**

76. Any corporation which is a Member or a Director may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members or of the Board of Directors or of a committee of Directors, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member or Director.

#### **DIRECTORS**

77. The Company may by Ordinary Resolution appoint any person to be a Director.
78. Subject to the provisions of these Articles, a Director shall hold office until such time as he is removed from office by the Company by Ordinary Resolution.
79. The Company may by Ordinary Resolution from time to time fix the maximum and minimum number of Directors to be appointed but unless such number is fixed as aforesaid the number of Directors shall be unlimited.
80. The remuneration of the Directors may be determined by the Board of Directors or by the Company by Ordinary Resolution.
81. There shall be no shareholding qualification for Directors unless determined otherwise by the Company by Ordinary Resolution.
82. The Directors shall have power at any time and from time to time to appoint a person as Director, either as a result of a casual vacancy or as an additional Director, subject to the maximum number (if any) imposed by the Company by Ordinary Resolution.

#### **ALTERNATE DIRECTOR**

83. Any Director may in writing appoint another person to be his alternate to act in his place at any meeting of the Directors at which he is unable to be present. Every such alternate shall be entitled to notice of meetings of the Directors and to attend and vote thereat as a Director when the person appointing him is not personally present and where he is a Director to have a separate vote on behalf of the Director he is representing in addition to his own vote. A Director may at any time in writing revoke the appointment of an alternate appointed by him. Such alternate shall not be an officer of the Company and shall be deemed to be the agent of the Director appointing him. The remuneration of such alternate shall be payable out of the remuneration of the Director appointing him and the proportion thereof shall be agreed between them.
84. Any Director may appoint any person, whether or not a Director, to be the proxy of that Director to attend and vote on his behalf, in accordance with instructions given by that Director, or in the absence of such instructions at the discretion of the proxy, at a meeting or meetings of the Directors which that Director is

unable to attend personally. The instrument appointing the proxy shall be in writing under the hand of the appointing Director and shall be in any usual or common form or such other form as the Directors may approve, and must be lodged with the chairman of the meeting of the Directors at which such proxy is to be used, or first used, prior to the commencement of the meeting.

#### **POWERS AND DUTIES OF DIRECTORS**

85. Subject to the provisions of the Companies Law, these Articles and to any resolutions made in a general meeting, the business of the Company shall be managed by the Directors, who may pay all expenses incurred in setting up and registering the Company and may exercise all powers of the Company. No resolution made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that resolution had not been made.
86. The Directors may from time to time appoint any person, whether or not a Director to hold such office in the Company as the Directors may think necessary for the administration of the Company, including but not limited to, the office of president, one or more vice-presidents, treasurer, assistant treasurer, manager or controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. Any person so appointed by the Directors may be removed by the Directors. The Directors may also appoint one or more of their number to the office of managing director upon like terms, but any such appointment shall *ipso facto* determine if any managing director ceases from any cause to be a Director, or if the Company by Ordinary Resolution resolves that his tenure of office be terminated.
87. The Directors may appoint a Secretary (and if need be an Assistant Secretary or Assistant Secretaries) who shall hold office for such term, at such remuneration and upon such conditions and with such powers as they think fit. Any Secretary or Assistant Secretary so appointed by the Directors may be removed by the Directors.
88. The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.
89. The Directors may from time to time and at any time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretion (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit, and may also authorise any such attorney to delegate all or any of the powers, authorities and discretion vested in him.
90. The Directors may from time to time provide for the management of the affairs of the Company in such manner as they shall think fit and the provisions contained in the three next following Articles shall not limit the general powers conferred by this Article.
91. The Directors from time to time and at any time may establish any committees, local boards or agencies for managing any of the affairs of the Company and may appoint any persons to be members of such committees or local boards and may appoint any managers or agents of the Company and may fix the remuneration of any such persons.
92. The Directors from time to time and at any time may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorise the members for the time being of any such local board, or any of them to fill any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
93. Any such delegates as aforesaid may be authorised by the Directors to subdelegate all or any of the powers, authorities, and discretion for the time being vested in them.



## **BORROWING POWERS OF DIRECTORS**

94. The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

## **THE SEAL**

95. The Seal shall not be affixed to any instrument except by the authority of a resolution of the Board of Directors provided always that such authority may be given prior to or after the affixing of the Seal and if given after may be in general form confirming a number of affixings of the Seal. The Seal shall be affixed in the presence of a Director or a Secretary (or an Assistant Secretary) or in the presence of any one or more persons as the Directors may appoint for the purpose and every person as aforesaid shall sign every instrument to which the Seal is so affixed in their presence.
96. The Company may maintain a facsimile of the Seal in such countries or places as the Directors may appoint and such facsimile Seal shall not be affixed to any instrument except by the authority of a resolution of the Board of Directors provided always that such authority may be given prior to or after the affixing of such facsimile Seal and if given after may be in general form confirming a number of affixings of such facsimile Seal. The facsimile Seal shall be affixed in the presence of such person or persons as the Directors shall for this purpose appoint and such person or persons as aforesaid shall sign every instrument to which the facsimile Seal is so affixed in their presence and such affixing of the facsimile Seal and signing as aforesaid shall have the same meaning and effect as if the Seal had been affixed in the presence of and the instrument signed by a Director or a Secretary (or an Assistant Secretary) or in the presence of any one or more persons as the Directors may appoint for the purpose.
97. Notwithstanding the foregoing, a Secretary or any Assistant Secretary shall have the authority to affix the Seal, or the facsimile Seal, to any instrument for the purposes of attesting authenticity of the matter contained therein but which does not create any obligation binding on the Company.

## **DISQUALIFICATION OF DIRECTORS**

98. The office of Director shall be vacated, if the Director:
- (a) becomes bankrupt or makes any arrangement or composition with his creditors;
  - (b) is found to be or becomes of unsound mind;
  - (c) resigns his office by notice in writing to the Company;
  - (d) is removed from office by Ordinary Resolution; or
  - (e) is removed from office by notice addressed to him at his last known address and signed by all his co-Directors (not being less than two in number).

## **PROCEEDINGS OF DIRECTORS**

99. The Directors may meet together (either within or outside the Cayman Islands) for the despatch of business, adjourn, and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the chairman shall have a second or casting vote. A Director may, and a Secretary or Assistant Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors.
100. A Director or Directors may participate in any meeting of the Board of Directors, or of any committee appointed by the Board of Directors of which such Director or Directors are members, by means of telephone or similar communication equipment by way of which all persons participating in such meeting can hear each other and such participation shall be deemed to constitute presence in person at the meeting.

101. The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed, if there be two or more Directors shall be two, and if there be one Director the quorum shall be one. A Director represented by proxy or by an Alternate Director at any meeting shall be deemed to be present for the purposes of determining whether or not a quorum is present.
102. A Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Board of Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made. A Director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or proposed contract or arrangement shall come before the meeting for consideration.
103. A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director or intending Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested, be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relation thereby established. A Director, notwithstanding his interest, may be counted in the quorum present at any meeting of the Directors whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement.
104. Any Director may act by himself or his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing herein contained shall authorise a Director or his firm to act as auditor to the Company.
105. The Directors shall cause minutes to be made in books or loose-leaf folders provided for the purpose of recording:
- (a) all appointments of officers made by the Directors;
  - (b) the names of the Directors present at each meeting of the Directors and of any committee of the Directors; and
  - (c) all resolutions and proceedings at all meetings of the Company, and of the Directors and of committees of Directors.
106. When the chairman of a meeting of the Directors signs the minutes of such meeting those minutes shall be deemed to have been duly held notwithstanding that all the Directors have not actually come together or that there may have been a technical defect in the proceedings.
107. A resolution signed by all the Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors duly called and constituted. When signed a resolution may consist of several documents each signed by one or more of the Directors.
108. The continuing Directors may act notwithstanding any vacancy in their body but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors may act for the purpose of increasing the number, or of summoning a general meeting of the Company, but for no other purpose.
109. The Directors may elect a chairman of their meetings and determine the period for which he is to hold office but if no such chairman is elected, or if at any meeting the chairman is not present within fifteen minutes after the time appointed for holding the meeting, the Directors present may choose one of their number to be chairman of the meeting.

110. A committee appointed by the Directors may elect a chairman of its meetings. If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the meeting, the members present may choose one of their number to be chairman of the meeting.
111. A committee appointed by the Directors may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the committee members present and in case of an equality of votes the chairman shall have a second or casting vote.
112. All acts done by any meeting of the Directors or of a committee of Directors, or by any person acting as a Director, shall notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

#### **DIVIDENDS**

113. Subject to any rights and restrictions for the time being attached to any class or classes of shares, the Directors may from time to time declare dividends (including interim dividends) and other distributions on shares in issue and authorise payment of the same out of the funds of the Company lawfully available therefor.
114. Subject to any rights and restrictions for the time being attached to any class or classes of shares, the Company by Ordinary Resolution may declare dividends, but no dividend shall exceed the amount recommended by the Directors.
115. The Directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, in the absolute discretion of the Directors be applicable for meeting contingencies, or for equalising dividends or for any other purpose to which those funds may be properly applied and pending such application may in the absolute discretion of the Directors, either be employed in the business of the Company or be invested in such investments (other than shares) as the Directors may from time to time think fit.
116. Any dividend may be paid by cheque sent through the post to the registered address of the Member or person entitled thereto, or in the case of joint holders, to any one of such joint holders at his registered address or to such person and such address as the Member or person entitled, or such joint holders as the case may be, may direct. Every such cheque shall be made payable to the order of the person to whom it is sent or to the order of such other person as the Member or person entitled, or such joint holders as the case may be, may direct.
117. The Directors when paying dividends to the Members in accordance with the provisions of these Articles may make such payment either in cash or in specie.
118. Subject to any rights and restrictions for the time being attached to any class or classes of shares, all dividends shall be declared and paid according to the amounts paid on the shares, but if and so long as nothing is paid up on any of the shares dividends may be declared and paid according to the par value of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this Article as paid on the share.
119. If several persons are registered as joint holders of any share, any of them may give effectual receipts for any dividend or other moneys payable on or in respect of the share.
120. No dividend shall bear interest against the Company.
121. Any dividend which has remained unclaimed for a period of 12 years from the date on which it becomes due for payment will, if the directors so resolve, be forfeited and cease to remain owing by the company and will from then on belong to the company absolutely.

#### **ACCOUNTS AND AUDIT**

122. The books of account relating to the Company's affairs shall be kept in such manner as may be determined from time to time by the Directors.

123. The books of account shall be kept at the registered office of the Company, or at such other place or places as the Directors think fit, and shall always be open to the inspection of the Directors.
124. The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors, and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by law or authorised by the Directors or by the Company by Ordinary Resolution.
125. The accounts relating to the Company's affairs shall only be audited if the Directors so determine, in which case the financial year end and the accounting principles will be determined by the Directors.

#### **CAPITALISATION OF PROFITS**

126. Subject to the Companies Law, the Directors may, with the authority of an Ordinary Resolution:
- (a) resolve to capitalise an amount standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution;
  - (b) appropriate the sum resolved to be capitalised to the Members in proportion to the nominal amount of shares (whether or not fully paid) held by them respectively and apply that sum on their behalf in or towards:
    - (i) paying up the amounts (if any) for the time being unpaid on shares held by them respectively; or
    - (ii) paying up in full unissued shares or debentures of a nominal amount equal to that sum, and allot the shares or debentures, credited as fully paid, to the Members (or as they may direct) in those proportions, or partly in one way and partly in the other, but the share premium account, the capital redemption reserve and profits which are not available for distribution may, for the purposes of this Article, only be applied in paying up unissued shares to be allotted to Members credited as fully paid;
  - (c) make any arrangements they think fit to resolve a difficulty arising in the distribution of a capitalised reserve and in particular, without limitation, where shares or debentures become distributable in fractions the Directors may deal with the fractions as they think fit;
  - (d) authorise a person to enter (on behalf of all the Members concerned) into an agreement with the Company providing for either:
    - (i) the allotment to the Members respectively, credited as fully paid, of shares or debentures to which they may be entitled on the capitalisation; or
    - (ii) the payment by the Company on behalf of the Members (by the application of their respective proportions of the reserves resolved to be capitalised) of the amounts or part of the amounts remaining unpaid on their existing shares, and any such agreement made under this authority being effective and binding on all those Members; and
  - (e) generally do all acts and things required to give effect to the resolution.

#### **SHARE PREMIUM ACCOUNT**

127. The Directors shall in accordance with Section 34 of the Companies Law establish a share premium account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any share.

128. There shall be debited to any share premium account on the redemption or purchase of a share the difference between the nominal value of such share and the redemption or purchase price provided always that at the discretion of the Directors such sum may be paid out of the profits of the Company or, if permitted by Section 37 of the Companies Law, out of capital.

#### NOTICES

129. Any notice or document may be served by the Company or by the person entitled to give notice to any Member either personally, by facsimile or by sending it through the post in a prepaid letter or via a recognised courier service, fees prepaid, addressed to the Member at his address as appearing in the Register of Members. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register of Members in respect of the joint holding, and notice so given shall be sufficient notice to all the joint holders.
130. Any Member present, either personally or by proxy, at any meeting of the Company shall for all purposes be deemed to have received due notice of such meeting and, where requisite, of the purposes for which such meeting was convened.
131. Any notice or other document, if served by (a) post, shall be deemed to have been served five days after the time when the letter containing the same is posted, (b) facsimile, shall be deemed to have been served upon production by the transmitting facsimile machine of a report confirming transmission of the facsimile in full to the facsimile number of the recipient, or (c) recognised courier service, shall be deemed to have been served 48 hours after the time when the letter containing the same is delivered to the courier service. In proving service by post or courier service it shall be sufficient to prove that the letter containing the notice or documents was properly addressed and duly posted or delivered to the courier service.
132. Any notice or document delivered or sent by post to or left at the registered address of any Member in accordance with the terms of these Articles shall notwithstanding that such Member be then dead or bankrupt, and whether or not the Company has notice of his death or bankruptcy, be deemed to have been duly served in respect of any share registered in the name of such Member as sole or joint holder, unless his name shall at the time of the service of the notice or document, have been removed from the Register of Members as the holder of the share, and such service shall for all purposes be deemed a sufficient service of such notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.
133. Notice of every general meeting of the Company shall be given to:
- (a) all Members holding shares with the right to receive notice and who have supplied to the Company an address for the giving of notices to them; and
  - (b) every person entitled to a share in consequence of the death or bankruptcy of a Member, who but for his death or bankruptcy would be entitled to receive notice of the meeting.

No other person shall be entitled to receive notices of general meetings.

#### INDEMNITY

134. Subject to Article 135, every Director (including for the purposes of this Article any alternate Director appointed pursuant to the provisions of these Articles), Secretary, Assistant Secretary, or other officer for the time being and from time to time of the Company (but not including the Company's auditors) and the personal representatives of the same shall be indemnified and secured harmless out of the assets and funds of the Company against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by him in or about the conduct of the Company's business or affairs or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by him in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.
135. The Company shall not indemnify an individual in accordance with Article 134 unless the individual (a) acted honestly and in good faith with a view to the best interests of the Company, and (b) in the case of a criminal

or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual's conduct to which such action or proceeding relates was lawful.

136. No such Director, alternate Director, Secretary, Assistant Secretary or other officer of the Company (but not including the Company's auditors) shall be liable (a) for the acts, receipts, neglects, defaults or omissions of any other such Director or officer or agent of the Company, (b) for any loss on account of defect of title to any property of the Company, (c) on account of the insufficiency of any security in or upon which any money of the Company shall be invested, (d) for any loss incurred through any bank, broker or other similar person, (e) for any loss occasioned by any negligence, default, breach of duty, breach of trust, error of judgement or oversight on his part, or (f) for any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers authorities, or discretions of his office or in relation thereto, unless the same shall happen through his own dishonesty.

#### **NON-RECOGNITION OF TRUSTS**

137. Subject as provided to the contrary in these Articles, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not, unless required by law, be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent or future interest in any of its shares or any other rights in respect thereof except an absolute right to the entirety thereof in each Member registered in the Register of Members.

#### **WINDING UP**

138. If the Company shall be wound up the liquidator may, with the sanction of an Ordinary Resolution of the Company divide amongst the Members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of shares. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction shall think fit, but so that no Member shall be compelled to accept any shares or other securities whereon there is any liability.

#### **AMENDMENT OF ARTICLES OF ASSOCIATION**

139. Subject to the Companies Law and the rights attaching to the various classes of shares, the Company may at any time and from time to time by Special Resolution alter or amend these Articles in whole or in part.

#### **REGISTRATION BY WAY OF CONTINUATION**

140. The Company may by Special Resolution resolve to be registered by way of continuation in a jurisdiction outside the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing. In furtherance of a resolution adopted pursuant to this Article, the Directors may cause an application to be made to the Registrar of Companies to deregister the Company in the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing and may cause all such further steps as they consider appropriate to be taken to effect the transfer by way of continuation of the Company.

**ANNEX B**  
**Secured Creditors**

[A list of the secured creditors of the Constituent Companies, together with their names and addresses and a description of the nature of the secured interest, is attached to this Plan of Merger as Annex B. Each of the secured creditors has consented to the Merger. / Neither of the Constituent Companies has any secured creditors.]

**APPENDIX C - FAIRNESS OPINION**

Please see attached.



[LETTERHEAD OF CREDIT SUISSE SECURITIES (USA) LLC]

November 18, 2013

Coastal Energy Company  
33555 West Alabama, Suite 500  
Houston, TX 77098  
Attention: Board of Directors

Members of the Board of Directors:

You have asked us to advise you in your capacity as the Board of Directors (the "Board") of Coastal Energy Company (the "Company") with respect to the fairness, from a financial point of view, to the holders of Company common shares with par value of US\$0.04 each ("Company Shares") other than Oscar S. Wyatt, Jr. and his affiliates (collectively, the "Excluded Shareholders"), of the Consideration (as defined below) to be received by such holders in the Merger (as defined below) pursuant to the Merger Agreement (including the associated Plan of Merger, the "Agreement") to be entered into by and among Condor Acquisition (Cayman) Limited ("Sub"), a subsidiary of Compañía Española de Petróleos, S.A.U. ("Parent"), Parent and the Company. We understand that pursuant to the Agreement, the Company will merge with a wholly owned subsidiary of Sub (the "Merger"), each outstanding Company Share will be converted into the right to receive C\$19.00 in cash (the "Consideration"), and the Company will become a subsidiary of Sub.

In arriving at our opinion, we have reviewed a draft, dated November 18, 2013, of the Agreement, drafts, dated October 17, 2013 and November 2, 2013 of the Support Agreements to be entered into by certain owners and beneficial owners of Company Shares pursuant to which such owners and beneficial owners of Company Shares will, upon the terms and conditions set forth therein agree to, among other things, vote such Company Shares in favor of the resolution approving the merger, and certain publicly available business and financial information relating to the Company. We have also reviewed certain other information relating to the Company, including financial forecasts and budgets relating to the Company provided to or discussed with us by the management of the Company (the "Projections"); certain publicly available research analyst estimates with respect to the future financial performance of the Company (the "Research Reports"); certain oil and gas reserve reports prepared by the Company's third-party oil and gas reserves consultants with respect to the Company's offshore proved, probable and possible oil and gas reserves in

Thailand (the "RPS 3P Offshore Thailand Reserve Reports"); a resource development plan prepared by the Company's third-party oil and gas reserves consultants with respect to the Company's offshore prospective oil and gas resources in Thailand (the "RPS Offshore Thailand Resource Development Plan"); certain oil and gas reserve reports prepared by Company management with respect to the Company's onshore proved and probable oil and gas reserves in Thailand (the "Management 2P Onshore Thailand Reserve Reports"); the Company management plan and underlying assumptions provided to or discussed with us by the management of the Company with respect to the Company's risk service contract to develop certain offshore oil and gas fields in Malaysia (the "Management Malaysian RSC Plan" and, collectively with the RPS 3P Offshore Thailand Reserve Reports, the RPS Offshore Thailand Resource Development Plan and the Management 2P Onshore Thailand Reserve Reports, the "Company Oil & Gas Data and Analyses"); and certain alternative commodity pricing and resource risk assumptions provided to us by the Company and the Company's third-party oil and gas reserves consultants. In addition, we have spoken with the management of the Company and certain of its representatives, including the Company's third-party oil and gas reserves consultants, regarding the business and prospects of the Company, the Company's oil and gas reserves and the Company's prospective and contingent oil and gas resources, including prospective and contingent oil and gas resource estimates and riskings. We have been advised by the Company that no development plan has been prepared by Company management or the Company's third-party oil and gas reserves consultants with respect to the Company's contingent oil and gas resources onshore in Thailand and, at the direction of Company management, have not taken them into account for purposes of our analyses and this opinion. We have also considered certain financial and stock market data of the Company, and we have compared that data with similar data for other companies with publicly traded securities in businesses we deemed similar to those of the Company, and we have considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have been effected or announced. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

In connection with our review, we have not independently verified any of the foregoing information, and we have assumed and relied upon such information being complete and accurate in all respects material to our analyses and this opinion. With respect to the Projections that we have used in our analyses, management of the Company has advised us and we have assumed that the Projections have been reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company, and we express no opinion with respect to the Projections or the assumptions upon which they are based. With respect to the Research Reports, we have reviewed and discussed the Research Reports with the management of

the Company and have been advised and have assumed that the Research Reports represent reasonable estimates and judgments with respect to the future financial performance of the Company, and we express no opinion with respect to the Research Reports or the assumptions upon which they are based. With respect to the Company Oil & Gas Data and Analyses, we have been advised and have assumed that such data and analyses have been reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the management of the Company and the Company's third-party oil and gas reserves consultants, as applicable, as to the oil and gas reserves and prospective and contingent oil and gas resources of the Company, respectively, and we express no opinion with respect to such Company Oil & Gas Data and Analyses or the assumptions upon which they are based. For purposes of our analyses and this opinion, we have, at your direction, further assumed that the capital expenditures, expenses and production development plans included in the Projections for the Company that we have used in our analyses and the Company Oil & Gas Data and Analyses will be incurred and achieved in the amounts and at the times indicated therein. At your direction we have relied upon and for purposes of our analyses and this opinion have assumed that the Projections, the Research Reports and the Company Oil & Gas Data and Analyses are a reasonable basis on which to evaluate the Company. In addition, we have relied upon, without independent verification, the assessments of the management of the Company with respect to the Company's existing technology and future capabilities with respect to the extraction of the Company's proved, probable and possible oil and gas reserves and prospective and contingent oil and gas resources and with respect to the Company's risk service contract to develop certain offshore oil and gas fields in Malaysia and, with your consent, have assumed that there have been no developments since the date of the Projections provided to or discussed with us by the management of the Company that would adversely affect such views. We also have assumed, with your consent, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the Company or the contemplated benefits of the Merger, that the Merger will be consummated in the form and structure described above in accordance with the terms of the Agreement, without waiver, modification or amendment of any term, condition or agreement thereof and that any modification to the form or structure of the Merger as described above, whether pursuant to the Agreement or otherwise, would not be material to our analyses or this opinion. In addition, we have not been requested to make, and have not made, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company, nor have we been furnished with any such evaluations or appraisals other than those included in the Company Oil & Gas Data and Analyses. With your consent we have also assumed that the final form of each of the Agreement and the Support Agreements, when executed by the parties thereto, will conform to the drafts reviewed by us in all respects material to our analyses.

Our opinion addresses only the fairness, from a financial point of view, to the holders of Company Shares other than the Excluded Shareholders of the Consideration to be received by such holders in the Merger pursuant to the Agreement and does not address any other aspect or implication of the Merger or any agreement, arrangement or understanding entered into in connection therewith or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to, any compensation or consideration to be received or otherwise payable to any officers, directors, employees, securityholders or affiliates of any party to the Agreement, or class of such persons, relative to the Consideration or otherwise. Furthermore, no opinion, counsel or interpretation is intended regarding matters that require legal, regulatory, accounting, insurance, tax, environmental, executive compensation or other similar professional advice including, without limitation, any advice regarding the amounts, risking and other aspects of the Company's oil and gas reserves and prospective and contingent oil and gas resources. It is assumed that such opinions, counsel, interpretations or advice have been or will be obtained from the appropriate professional sources. Without limiting the generality of the foregoing, we have relied without independent verification on the views of the Company's management and advisors with respect to the tax treatment of the Company's oil and gas assets in Thailand and any income derived therefrom (including any related special remunerative benefit) and the contractual and other legal aspects and implications of the Company's risk service contract to develop certain offshore oil and gas fields in Malaysia. The issuance of this opinion was approved by our authorized internal committee.

Our opinion is necessarily based upon information made available to us as of the date hereof and financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. We have not undertaken, and are under no obligation, to update, revise, reaffirm or withdraw this opinion, or otherwise comment on or consider events occurring or coming to our attention after the date hereof. In addition, as you are aware, the financial projections and estimates that we have reviewed relating to the future financial performance of the Company reflect certain assumptions regarding the oil and gas industry, and the future commodity prices associated with that industry that are subject to significant uncertainty and volatility and that, if different than assumed, could have a material impact on our analyses and this opinion. Our opinion does not address the relative merits of the Merger as compared to alternative transactions or strategies that might be available to the Company, nor does it address the underlying business decision of the Board or the Company to proceed with the Agreement and the transactions contemplated thereby. Furthermore, we were not requested to and we express no view or opinion with respect to the ability of Parent and Sub to finance the proposed acquisition of the Company pursuant to the Merger or any potential legal or other impediments to the consummation of the Merger. We are not expressing any opinion as to the price or range of prices at which Company Shares may be purchased or sold at any time. Although we have previously been engaged as the Company's financial advisor to assist the

Company in connection with a possible sale of the Company, in connection with our current engagement by the Company, we were not requested to, and did not, solicit third party indications of interest in acquiring all or any part of the Company.

We were engaged by the Company to render an opinion addressed to the Board with respect to the fairness, from a financial point of view, to the holders of Company Shares of the consideration to be received by such holders in a possible sale of the Company and will receive a fee for our services, which fee became payable to us upon the rendering of our opinion. In addition, the Company has agreed to reimburse certain of our expenses and to indemnify us and certain related parties for certain liabilities and other items arising out of or related to our engagement. As you are aware, we were previously engaged as the Company's financial advisor to assist the Company in connection with a possible sale of the Company. We and our affiliates may have provided other financial advice and services, and may in the future provide financial advice and services, to the Company, Parent and their respective affiliates, including International Petroleum Investment Company, an affiliate of Parent ("IPIC"), for which we and our affiliates have received, and would expect to receive, compensation. We are a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our and our affiliates' own accounts and the accounts of customers, any currency or commodity that may be involved in the Merger and equity, debt and other securities and financial instruments (including bank loans and other obligations) of the Company, Parent, their affiliates (including, without limitation, IPIC and companies in which it may have interests) and any other company that may be involved in the Merger, as well as provide investment banking and other financial services to such companies and their affiliates.

It is understood that this letter is solely for the information of the Board (solely in its capacity as such) in connection with its consideration of the Merger and may not be used for any other purpose or relied upon by any other person or entity. This letter does not constitute a recommendation to the Board with respect to the proposed Merger or advice or a recommendation to any holder of Company Shares as to how such holder should vote or act on any matter relating to the Merger.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Consideration to be received by the holders of Company Shares other than the Excluded Shareholders in the Merger pursuant to the Agreement is fair, from a financial point of view, to such holders.

Very truly yours,

/s/ CREDIT SUISSE SECURITIES (USA) LLC