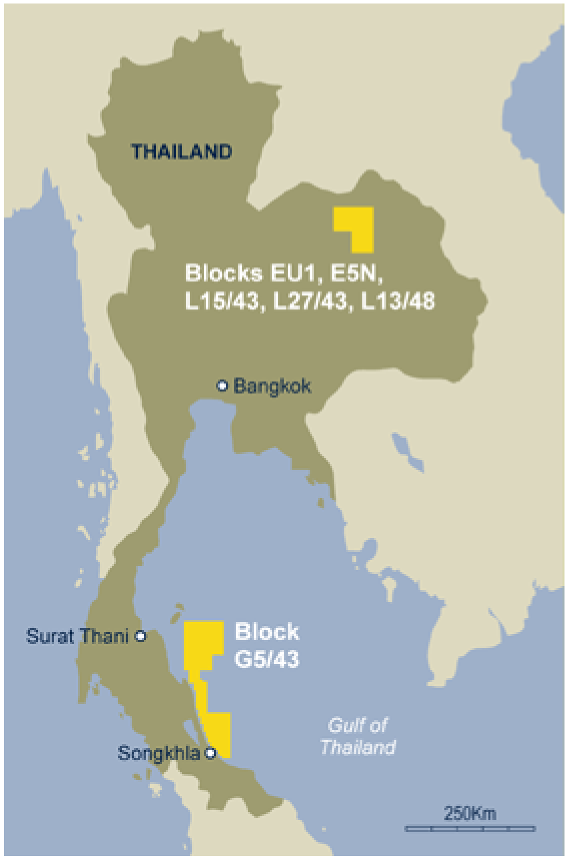
ANNUAL REPORT

COASTAL ENERGY

DECEMBER 31, 2007

Coastal Energy Company
Years Ended 2007 and 2006



Coastal Energy's Oil & Gas interests

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(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

The following is Management's Discussion and Analysis ("MD&A") of the results and financial condition of Coastal Energy Company ("Coastal" or the **"**Company**"**). This MD&A, dated April 21, 2008, should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2007 and 2006 and related notes thereto. Additional information related to the Company is available on SEDAR at www.sedar.com.

Overview

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands on May 26, 2004. The Company was listed on the Alternative Investment Market ("AIM") of the London Stock Exchange in January 2005 and on the TSX Venture Exchange ("TSX-V") in September 2005. On September 25, 2006, Coastal Energy Company, formerly PetroWorld Corp., ("PetroWorld") acquired NuCoastal (Thailand) Limited in a transaction accounted for as a reverse takeover ("RTO") (see Note 4 to the Consolidated Financial Statements.) The Company is engaged in the acquisition and exploration of petroleum and natural gas properties. The functional and reporting currency of the Company and its subsidiaries is the US dollar ("USD").

On October 30, 2007 at a General Meeting of the Shareholders, the shareholders of the Company approved a reduction in the authorized shares of the Company's common stock through a reverse stock split with a conversion ratio of one share for every four held. The Company is keeping its stock symbol on the AIM exchange as "CEO;" however as a result of the share consolidation, the Company's trading symbol on the TSX-V changed to "CEN." The share consolidation and symbol change were effective on November 7, 2007. All information related to common shares in this MD&A for the current and prior period has been restated to give effect to the share consolidation.

The Company's oil and gas properties and assets consists of the following ownerships interests in petroleum concessions awarded by the Kingdom of Thailand:

Petroleum Concession	Coastal
Offshore Thailand	
Block G5/43 in the Gulf of Thailand	100.0%
Block G5/50 in the Gulf of Thailand (within the boundaries of Block G5/43)	100.0%
Onshore Thailand (via the Company's 36.1% ownership of Apico LLC ("Apico"))	
Block EU-1 and E-5N containing the Phu Horm gas field	12.6%
Block L15/43 (surrounding the Phu Horm gas field)	36.1%
Block L27/43 (southeast of the Phu Horm gas field)	36.1%
Block L13/48 (immediately east of the Phu Horm gas field)	21.7%

2007 Highlights

- The Company has reported $7.7 million as its share of earnings of a significantly influenced investee. This represents $9.2 million (its 36.1% of Apico's audited annual net income of $25.5 million) less $1.5 million for amortization of the Company's excess basis in Apico (see Note 7 to the Consolidated Financial Statements.)

- The Phu Horm gas field, in which the Company has a net 12.6% indirect interest, averaged over 85 million cubic feet per day ("mmcf/d") during the year.

- On July 3, 2007, the Company announced that it had secured $50 million of borrowing base credit facilities arranged by Sumitomo Mitsui Banking Corporation Europe Limited.

- On September 21, 2007, the Company announced that the Phu Horm 10 ("PH-10") well had been successfully drilled, tested and completed as a production support well in the Phu Horm gas field in northeast Thailand, producing approximately 10 mmcf/day.

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

- On October 30, 2007, the shareholders of the Company approved a reduction of the Company's authorized common stock through a reverse stock split with a conversion ratio of one share for every four held. This was effective on November 7, 2007 and resulted in the change of the Company's stock symbol on the TSX-V exchange to "CEN." The Company's stock symbol on the AIM exchange remains "CEO."

- On November 8, 2007, the Company announced that the Dong Mun 3 ("DM3") well had commenced drilling in Block L27/43 in Khorat Plateau, northeast Thailand. The Company has a 36.1% interest in this concession via its ownership in Apico, LLC.

- On November 13, 2007, the Company announced that it had reached a definitive agreement with a contract driller for a twelve month agreement to drill development wells in the Songkhla and Bua Ban oil fields and appraisal wells in the Ko Kra basin in the Gulf of Thailand.

- On December 11, 2007, the Company announced that it had entered into an agreement with Macquarie Capital Markets Canada Ltd. (the "Lead Underwriter") to sell, on a "bought-deal" basis, 14,300,000 common shares at a price of Cdn$3.50 per common share for gross proceeds of approximately Cdn$50.1 million, with an over-allotment option of 2,145,000 additional shares (15%). These common shares were issued on January 8, 2008.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward looking statements are based on current expectations, estimates, and projections that involve various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied.

Oil & Gas Reserves

The Company's reserves were evaluated by Huddleston & Co., Inc. effective December 31, 2007 and are all in Thailand. Selected data from their report follows. Their entire report is available on SEDAR at www.sedar.com. Natural gas is converted to equivalent barrels ("BOE") at the energy equivalent conversion rate of six thousand cubic feet (6mcf) to one barrel ("1bbl") of crude oil, reflecting the approximate relative energy content.

Consolidated reserve figures, net of royalties for 2007 and 2006 reflect Coastal Energy's 100% interest in Block G5/43 and 36.1% interest in APICO as if the Company directly owned the onshore properties

Oil and Gas Reserves	**December 31, 2007**			December 31, 2006		
	Oil (Mbbls)	**Gas (MMcf)**	**BOE (Mbbls)**	Oil (Mbbls)	Gas (MMcf)	BOE (Mbbls)
Onshore developed producing	**271**	**49,616**	**8,540**	23	4,862	833
Offshore undeveloped	**7,563**	**-**	**7,563**	5,531	-	5,531
Onshore undeveloped	**27**	**4,879**	**840**	-	40,496	6,938
Total Proved	**7,861**	**54,495**	**16,943**	5,743	45,358	13,302
Offshore	**16,136**	**-**	**16,136**	10,577	-	10,577
Onshore	**225**	**41,079**	**7,072**	237	50,759	8,697
Total Probable	**16,361**	**41,079**	**23,208**	10,814	50,759	19,274
Total Proved Plus Probable	**24,222**	**95,574**	**40,151**	16,557	96,118	32,576

The following table summarizes the net present value of future revenues discounted at 10% before income taxes:

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

millions	Based on forecast prices at December 31.		Based on constant prices at December 31,	
	2007	2006	**2007**	2006
Onshore developed producing	**$154.4**	$11.9	**$154.3**	$14.1
Offshore undeveloped	**210.3**	69.1	**281.4**	81.5
Onshore undeveloped	**4.3**	66.7	**5.4**	84.8
Total Proved	**$369.0**	147.7	**$441.1**	180.4
Offshore	**792.5**	347.6	**931.3**	366.2
Onshore	**41.4**	38.6	**38.7**	40.4
Total Probable	**833.9**	386.2	**970.0**	406.6
Total Proved Plus Probable	**$1,202.9**	$533.9	**$1,411.1**	$587.0

The product prices used in the constant price and cost evaluations at December 31, 2007 were $99.03/bbl for offshore oil, $84.72 for onshore condensate and $5.98/Mcf for onshore gas. The product prices used in the constant price and cost evaluations at December 31, 2006 were $59.80/bbl for oil, $55.00 for condensate and $4.927/Mcf for gas. The forecast prices used by Huddleston & Co., Inc. in their evaluation for December 31, 2007 and 2006 were taken from the Gilbert Lausten Jung ("GLJ") Petroleum Consultants website (www.glj.com.) GLJ projected prices through 2018 and 2017, respectively, and Huddleston & Co. Inc. then applied a 2% per year escalation for the life of the properties. Forecasted prices as at December 31, 2007 and 2006 are as follows:

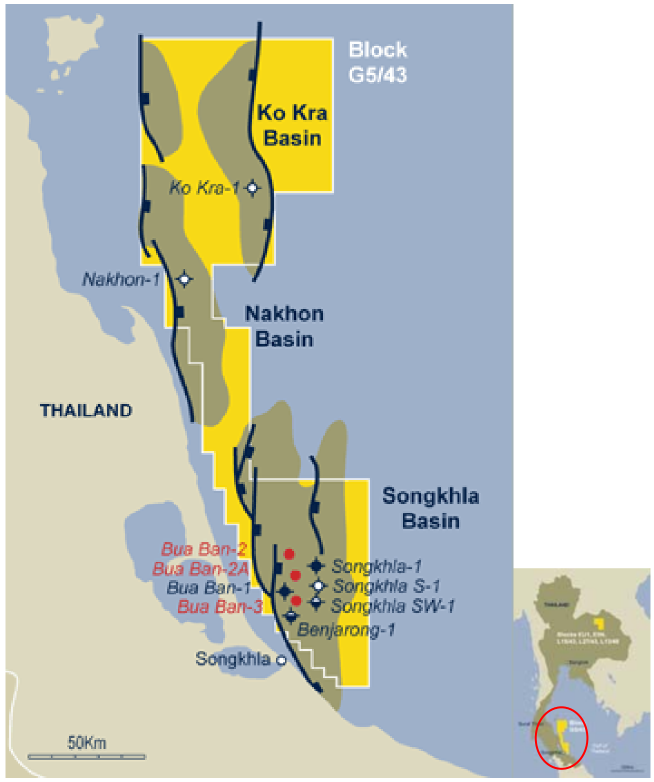
	As at December 31, 2007			As at December 31, 2006		
Year	**Oil ($/bbl)**	**Condensate ($/bbl)**	**Gas ($/Mcf)**	Oil ($/bbl)	Condensate ($/bbl)	Gas ($/Mcf)
2007	**n/a**	**n/a**	**n/a**	61.34	53.12	4.583
2008	**95.85**	**85.21**	**6.930**	59.34	51.21	4.417
2009	**91.85**	**81.40**	**6.600**	57.34	49.31	4.252
2010	**87.85**	**77.59**	**6.270**	56.34	48.36	4.169
2011	**85.85**	**75.68**	**6.100**	56.34	48.36	4.169
2012	**85.85**	**75.68**	**6.100**	56.84	48.83	4.210

Future years are as per the price forecast published by Huddleston & Co., Inc.'s report dated April 21, 2008.

Oil & Gas Properties

Summary of Oil & Gas Properties	Thailand On-Shore	Thailand Off-shore	Totals
Balance, December 31, 2005	**$7,670**	**$4,751**	**$12,421**
Additions during the period:			
Exploration & development	11,247	4,076	15,323
Net assets acquired via NuCoastal Acquisition		57,540	57,540
Net assets acquired via Apico Acquisition	22,008	-	22,008
Advances associated with Apico Acquisition	2,750	-	2,750
Equity earnings in Apico	371	-	371
Balance, December 31, 2006	**44,046**	**66,367**	**110,413**
Additions during the period:			
Exploration & development	1,463	9,320	10,783
Equity earnings in Apico	9,212	-	9,212
Amortization of excess basis in Apico	(1,533)	-	(1,533)
Balance, December 31, 2007	**$53,188**	**$75,687**	**$128,875**

(a) Thailand Offshore Properties



The Company maintains a 100% working interest in Block G5/43 (the "Block") in the Gulf of Thailand. The Block is approximately 8,500 square kilometres and average water depths are approximately 70 feet. Under the terms of the Concession, the Company relinquished approximately 8,600 square kilometers of G5/43 back to the Kingdom of Thailand in July 2007. Company management used available seismic and technical data to determine the less prospective acreage which was relinquished. As a result, under full cost accounting, the Company incurred no financial impact related to this relinquishment.

Three successful wells were drilled by NuCoastal and PetroWorld on the Bua Ban oil field ("Bua Ban") in August 2005 which confirmed the existence of oil reserves. The three well program encountered the Lower Oligocene reservoir with estimated net pay ranging from 66-77 feet and a confirmed oil column of 577-724 feet. As of December 31, 2007, Bua Ban has proved and probable ("2P") oil reserves of 19.2 million barrels ("mmbbls"). The Songkhla oil field, which is smaller than Bua Ban, was discovered in 1989 and originally tested 1,500 barrels of production per day. As of December 31, 2007, it has 2P reserves of approximately 4.5 mmbbls. As part of a fast track development plan, environmental impact assessment and production area applications have been submitted for approval for both the Songkhla and Bua Ban fields. The Company has commenced contracting services for the Songkhla development and expects to be in production by the end of 2008 (see subsequent events.)

In December 2007, the Company was awarded the petroleum concession to Block G5/50 in the Gulf of Thailand within the boundaries of Block G5/43.

(b) Thailand Onshore

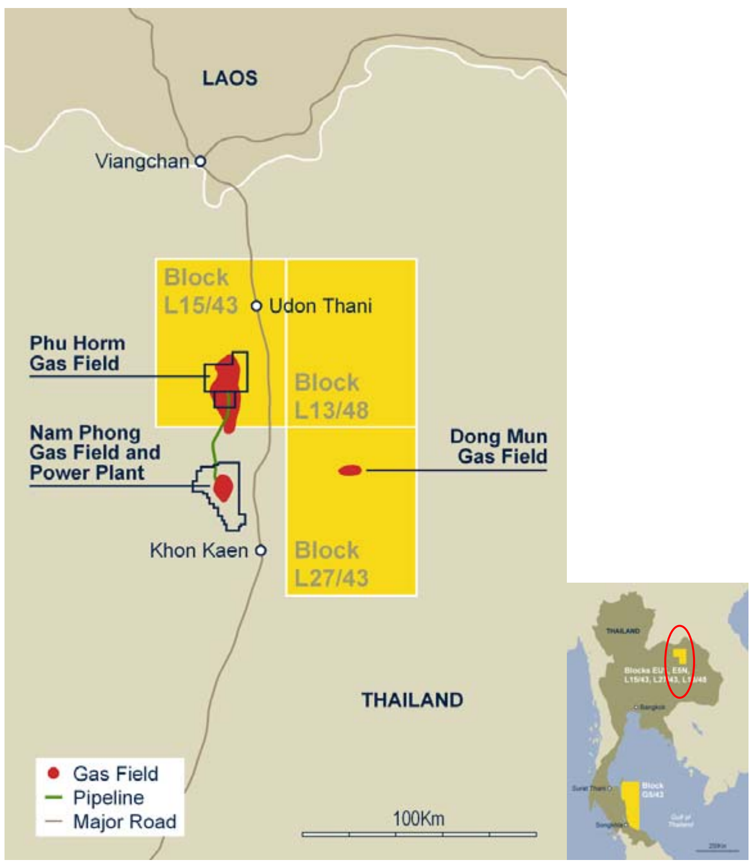
The Thailand onshore interests are held indirectly through the Company's equity investment in Apico. Apico is considered a significant equity investee. Apico's petroleum concessions are located in the Khorat Plateau in north eastern Thailand. Apico's results of operations for the years ended December 31 and its financial position are as follows:

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

Year ended December 31,	2007	2006
Total revenue	**$60,195**	$3,305
Total expenses	**17,940**	1,720
Income tax expense	**16,757**	793
Net Income	**$25,498**	$792

	December 31, 2007	December 31, 2006
Current assets	**$37,825**	$7,431
Property, plant and equipment	**89,884**	68,335
Other assets	**570**	62
Total assets	**$128,279**	$75,828
Current liabilities	**$26,691**	$6,260
Non-current liabilities	**2,571**	101
Members equity	**99,017**	69,467
Total liabilities and equity	**$128,279**	$75,828

Thailand Onshore Properties



Production at the Phu Horm gas field commenced on November 30, 2006 and will supply the Nam Phong power plant with over 500 billion cubic feet of gas, plus condensate, under a 15 year Gas Sales Agreement with PTT Public Company Limited. Coastal's net interest of 12.6% is held through its equity investment in Apico which holds a 35% interest in Block EU-1 and E-5N. The other partners in the Block include Hess Corporation (Operator - 35%), PTT Exploration & Production (20%) and Exxon Mobil Corp. (10%). During the year, four wells at Phu Horm had average aggregate production rates of approximately 85 mmcf/day, delivered to Nam Phong. The field was also producing in excess of 450 bbls of condensate per day.

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Three development wells were drilled in the Phu Horn gas field during 2007. PH-6 and PH-7 were directionally drilled from the PH-4 pad and were expected to be completed as support wells. The PH-6 well was drilled to a total depth of 2,468 meters sub-sea and encountered the primary reservoir, the Pha Nok Khao ("PNK"), at 1,864 meters sub-sea. The well was drilled under-balanced through the main reservoir section and flowed up to 3 mmcf/day while drilling and flow tested at a rate of 1.1 mmcf/day. Although the reservoir is gas bearing, further evaluation is required in order to confirm the reason for the low flow rates which could be due to formation damage while drilling or low porosity and permeability. The PH-7 well encountered the PNK reservoir at 2,024 meters sub-sea, approximately 105 meters lower than anticipated. Preliminary evaluation of the well suggests the reservoir was tight with very low porosity and permeability. The PH-10 well was completed in September and commenced production at 10 mmcf/day.

Block L15/43 surrounds the Phu Horm gas field. Drilling of the South Phu Horm-1 appraisal well on the southern extension of the Phu Horm gas field commenced February 15, 2008. The well will be drilled to a total estimated depth of 2,462 meters, sub-sea, and determine whether the productive Phu Horm reservoir extends beyond the Hess operated production license into the surrounding L15/43 concession.

Block L27/43 is located 50 km southeast of the L15 concession. Seismic operations were conducted and evaluated over the Dong Mun structure in 2006. The Dong Mun 3 ("DM3") appraisal well was spudded on November 8, 2007 reaching a total depth of 3,127 meters. The well encountered numerous gas shows in the Jurassic, Triassic and Permian sections. Although gas was recorded over these intervals, no tests were conducted due to the lack of suitable testing equipment. The appraisal well offers the opportunity to add reserves in close proximity to Phu Horm and Nam Phong infrastructure.

Block L13/48 is located 40km east of the Phu Horm gas field. The L13 concession holds the Si That discovery which tested gas in the Si That-2 well. Similar to Dong Mun, Si That offers an appraisal opportunity for additional reserves with low geological and technical risk. The Si That appraisal well is expected to be drilled in 2008.

Selected Annual Information

Years ended December 31,	2007	2006	2005
Operating Expenses	**$(10,325)**	$(2,799)	$(418)
Share of earnings (loss) of Apico, LLC	**7,679**	371	(172)
Foreign exchange loss	**(1,799)**	(1,638)	(5)
Net Loss from Continuing Operations	**(5,221)**	(4,054)	(595)
Net Loss from Discontinued Operations	**(2,012)**	-	-
Overall Net Loss	**$(7,233)**	$(4,054)	$(595)
Basic and diluted loss per share from continuing operations	**$(0.07)**	$(0.08)	$(0.02)
Basic and diluted loss per share from discontinued operations	**(0.02)**	-	-
Overall basic and diluted loss per share	**$(0.09)**	$(0.08)	$(0.02)
Working capital (deficit)	**914**	14,020	(10,983)
Total assets	**157,654**	132,064	13,664

Total assets increased from $132.1 million at December 31, 2006 to $157.7 million at December 31, 2007. The increase is primarily related to investment in and advances to Apico, which increased by $9.2 million from $44.0 million at December 31, 2006 to $53.2 million at December 31, 2007 and property, plant and equipment, which increased by $20.0 million from $68.8 million at December 31, 2006 to $88.8 million at December 31, 2007.

The increase in investment in and advances to Apico was the result of 3 components: a total of $1.5 million was invested in Apico as a result of cash calls related to its Thailand properties, the Company's share of Apico's Income for the year ended December 31, 2007 was $9.2 million which was offset by $1.5 million amortization of the Company's excess basis in Apico. Oil and gas properties increased by $9.3 million. In addition the Company acquired $2.5 million of oil and gas production equipment and incurred $10.1 million on construction in progress of platforms and facilities for use in the Gulf of Thailand.

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Cash Flow Analysis

The Company's cash and cash equivalents decreased by $5.2 million from $18.3 million at December 31, 2006 to $13.1 million at December 31, 2007. The Company's primary source of funds came from borrowing $25.0 million under its credit facility, $0.9 proceeds from sale of assets and increase in accounts payables and accrued liabilities of $5.0 million from $4.8 million at December 31, 2006 to $9.8 million at December 31, 2007. Cash and cash equivalents were primarily used to fund restricted cash of $2.0 million; invest $1.5 million in Apico; invest $14.7 million in property, plant and equipment; invest $1.2 million in other long-term assets; and pay operating expenses of $11.5 million.

Summary of Quarterly Results

	2007				2006			
	Q4	**Q3**	**Q2 (a)**	**Q1**	Q4	Q3	Q2	Q1
Operating expenses	**$(3,310)**	**$(3,991)**	**$(1,628)**	**$(1,396)**	$(2,600)	$(140)	$(22)	$(37)
Share of earnings (loss) of Apico LLC	**2,424**	**1,544**	**2,148**	**1,563**	583	(123)	(80)	(9)
Unrealized loss on derivative	**(183)**	**(983)**	**-**	**-**	-	-	-	-
Interest income	**142**	**61**	**126**	**101**	12	-	-	-
Loss on sale of assets	**-**	**-**	**(40)**	**-**	-	-	-	-
Foreign exchange gain (loss)	**(301)**	**(209)**	**(282)**	**(1,007)**	(1,763)	38	19	68
Net income (loss) from continuing operations	**(1,228)**	**(3,578)**	**324**	**(739)**	(3,768)	(225)	(83)	22
Net income (loss)	**(1,228)**	**(3,578)**	**(1,688)**	**(739)**	(3,768)	(225)	(83)	22
Basic and diluted earnings (loss) per share from continuing operations	**$(0.02)**	**$(0.05)**	**$0.01**	**$(0.01)**	$(0.05)	$(0.01)	$0.00	$0.00
Basic and diluted earnings (loss) per share	**$(0.02)**	**$(0.05)**	**$(0.01)**	**$(0.01)**	$(0.05)	$(0.01)	$0.00	$0.00

Note (a) During Q2 2007, the Company took a write-down against its oil and gas investment in Nevada, USA. The total carrying value of this property was $2.0 million. This balance was expensed in Q2 as a period operating cost. Upon further review, the event has been determined to constitute a discontinuance of the operations of Coastal's United States cost centre. Accordingly, this write-down has now been reclassified from operating expenses to a loss from discontinued operations.

The amounts reported prior to September 25, 2006 are the historical information of NuCoastal (Thailand) Limited. Subsequent to September 25, 2006 the amounts reported include the consolidated results of PetroWorld. Therefore, most of 2006 is not comparable to 2007 and management has determined to omit year-over-year comparisons.

Operating Expenses

- The decrease from Q3 2007 to Q4 2007 of $0.7 million was primarily the result of Q3 debt financing fees of $2.1 million that were not incurred in Q4. This decrease was partially offset by $1.0 million increase in salaries and benefits due to accrual of bonuses; $0.3 million increase in interest expense due to increased loans and $0.1 million increase in travel and entertainment.
- The increase from Q2 2007 to Q3 2007 of $2.4 million was primarily the result of $2.0 million in debt financing fees and $0.4 million in interest incurred in Q3, not incurred in Q2.
- The increase from Q1 2007 to Q2 2007 of $ 0.2 million was primarily the result of increases of $0.1 million in salaries and benefits due to adding personnel; $0.1 million in office and general; and $0.1 million in regulatory and transfer agent fees related to the AGM incurred in Q2 which were partially offset by decreases of $0.1 million in professional fees and travel and entertainment expenses from Q1.
- The decrease from Q4 2006 to Q1 2007 of $1.3 million was primarily the result of lower professional fees, regulatory and listing fees.
- The increase from Q3 2006 to Q4 2006 of $ 2.4 million was primarily the result of the consolidation of operations of PetroWorld and NuCoastal (effective September 25, 2006) combined with additional professional fees, regulatory and listing fees and stock based compensation.

- The increase from Q2 2006 to Q3 2006 of $0.1 was primarily the result of increased regulatory & listing fees.

Share of earnings (loss) of Apico LLC

Under the equity method of accounting, the Company records its share of net income / loss of Apico based on the reported quarterly net income / loss of Apico. Apico recorded its first quarter of profitability in Q4 2006, when the Phu Horm gas field began production. Q1 2007 was the first full quarter of production for the Phu Horm gas field. The Company's share of earnings from Apico was reduced by the amortization of the Company's excess basis in Apico.

Unrealized loss on derivative

As a condition of the Company's reserve based revolving debt facility, the Company is required to hedge 50% of its commodity price exposure related to production on the Phu Horm Gas Field. The Company obtains 3rd party quotes in order to mark to market the gains and losses related to the commodity hedge. Given the fact that the Company purchased a put option, its exposure is limited to $1.2 million, the amount of the option premium paid. As of December 31, 2007, the market value of this option was $479.

Foreign exchange gain (loss)

The foreign exchange gain/loss is a result of the Company carrying out transactions and maintaining certain assets and liabilities in currencies other than the US Dollar, including the Canadian Dollar, the British Pound and the Thai Baht. In addition, the foreign exchange loss attributable to the revaluation of the long-term Thailand tax liability created by the reverse takeover of PetroWorld is as follows:

- $0.39 million in Q4 2007
- $0.22 million in Q3 2007
- $0.36 million in Q2 2007
- $0.76 million in Q1 2007
- $0.91 million in Q4 2006

Liquidity and Capital Resources

As at December 31, 2007, the Company had cash and cash equivalents of $13.1 million, which, in management's opinion, is sufficient combined with the revolving credit facility to cover ongoing obligations as they become due. Beginning with December 2006, Apico has been largely self-funding as a result of production from its Phu Horm interest and the Company has made only two additional advances to its investment in Apico, in the aggregate amount of $1.5 million. The Company presently has earnings from its interest in Apico, which is accounted for under the equity method on the Consolidated Statement of Operations.

In order to put the offshore Gulf of Thailand property into commercial production, substantial capital will be required. The additional sources of capital presently available to the Company for development are from additional borrowings under the Company's revolving credit facility or the sale of equity. In June 2007, the Company secured $50 million of borrowing base credit facilities, maturing on December 31, 2013. The Facility is secured by the Company's investment in Apico, LLC. At December 31, 2007, the Company had drawn $25.0 million under this facility. The Company used proceeds from the public offering described below to repay the $25.0 million. As of the date of this report the borrowing base available under the Facility was $41.8 million.

As a requirement of the credit facilities, the Company entered into a derivative hedging agreement with an affiliate of the lender under which the Company has the right to sell up to 96,000 metric tons of Singapore fuel oil at a price of $290.00 per metric ton. The Company paid $1.2 million for this put option and the put option expires on June 30, 2009. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. For the year ended December 31, 2007, the Company recorded an unrealized loss on this instrument of $1.2 million.

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

(a) Share Capital

250,000,000 common shares with par value of $0.04 each;
As of the date of this report, the Company had 93,490,720 common shares outstanding.

(b) Stock Options

Effective May 3, 2007, options for 275,000 shares expired unexercised. On June 14, 2007, options for 62,500 shares were exercised. The Company granted stock options for 375,000 shares on June 15, 2007. On July 12, 2007, options for 62,500 shares were exercised. On August 31, 2007, options for 100,000 expired unexercised. On January 24, 2008, options for 62,500 shares were exercised. The Company granted stock options for 1,375,000 shares on January 25, 2008 and 1,000,000 shares on February 5, 2008. The following table summarizes the outstanding and exercisable options as of the date of this report:

Number Outstanding	Remaining contractual life	Exercise Price	Number Exercisable	Expiry date
187,500	2.00 years	$0.79 (£0.40)	187,500	January 25, 2009
175,000	2.50 years	$2.78 (£1.40)	175,000	July 6, 2010
2,900,000	4.00 years	$2.23 (C$2.20)	1,450,000	December 27, 2011
375,000	4.50 years	$3.00 (C$2.96)	93,750	June 16, 2012
1,375,000	5.00 years	$3.92 (C$3.94)	343,750	January 26, 2013
1,000,000	5.00 years	$3.93 (C$3.94)	250,000	February 6, 2013
6,012,500			2,500,000	

(c) Warrants

Effective January 20, 2007, warrants for 281,250 shares with an exercise price of £1.40 expired unexercised. Effective July 20, 2007, warrants for 53,588 shares with an exercise price of £1.40 expired unexercised. As of the date of this report, the Company had 2,343,745 warrants outstanding exercisable at $5.71 (£2.80) per share and expiring on July 20, 2010.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transaction

A non-executive director of the Company is an officer and director of a company which is the temporary operator of the Company's previously held working interest in Gabbs Valley, Nevada. Included in accounts payable and accrued liabilities at December 31, 2007 and December 31, 2006 were $nil and $0.1 million, respectively, owed to this operator.

Discontinued Operations

In August 2007, the Company formally relinquished all its working interest in the Nevada leases to the temporary operator in exchange for the Company's current obligation to pay the operator $21,000 related to well clean up costs along with all future obligations surrounding this working interest. The Company wrote off its interest in this property of approximately $2 million. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Commitments and Contingencies

All the Company's commitments and contingencies are described in Note 16 to the Consolidated Financial Statements for the year ended December 31, 2007.

Subsequent Events

On January 8, 2008, the Company completed a public offering of 16,445,000 common shares (including the over-allotment option of 2,145,000 common shares) of the Company at a price of $3.50 (Cdn$3.50) per common share, raising gross proceeds of $57.6 million (Cdn$57.6 million). Proceeds of this offering, net of issuance costs of $3.1 million, were $54.5 million.

On February 4, 2008, the Company announced that the Dong Mun 3 ("DM3") well had completed drilling, reaching a total depth of 3,127 meters. This well encountered gas shows at several zones and currently has been suspended pending testing. This well is located in Block L27/43 in Khorat Plateau, northeast Thailand. The Company has a 36.1% interest in this concession via its ownership in Apico.

On February 6, 2008, the Company announced changes to its senior management and Board of Directors. Mr. Albert Whitehead retired as Chairman of Coastal; Mr. Frank Inouye, Coastal's current President and Chief Executive Officer was appointed as the new Chairman; and Mr. Randy Bartley was appointed as President, Chief Executive Officer and a Director of the Company.

On February 18, 2008, the Company announced that the South Phu Horm-1 ("SPH1") well had commenced drilling to a targeted depth of 2,462 meters. This well is located in Block L15/43 in Khorat Plateau, northeast Thailand. The Company has a 36.1% interest in this concession via its ownership of Apico.

On February 26, 2008, the Company acquired a 24,000 ton tanker ship for $8 million to be used as a floating storage and off-loading unit in connection with the development of the Company's Gulf of Thailand properties.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, amounts due to shareholder, and accounts payable. The fair values of the financial instruments approximate their carrying values due to their short term nature. The Company's long-term debt is also considered a financial instrument and its fair value is approximately its carrying value due to the short term nature of the interest renewal periods allowed under the revolving debt facility.

As a condition of the Company's reserve based revolving debt facility, the Company is required to hedge 50% of its commodity price exposure related to production on the Phu Horm Gas Field. The Company obtains 3rd party quotes in order to mark to market the gains and losses related to the commodity hedge. Given the fact that the Company purchased a put option, its exposure is limited to $1.2 million, the amount of the option premium paid. As of December 31, 2007, the market value of this option was $479.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with Canadian GAAP, which require management to make judgments, estimates and assumptions which may have a significant impact on the financial statements. A detailed summary of the Company's significant accounting policies is included in Note 2 to the Consolidated Financial Statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

(a) Capital Assets – Full Cost Accounting

The Company follows the full cost method of accounting as described in Note 2 to the Consolidated Financial Statements. Alternatively, the Company could follow the successful efforts method of Accounting whereby all costs related to non-productive wells are expensed in the period in which they are incurred.
Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test. Under the successful efforts method of accounting, the costs are aggregated on a property-by-property basis and the carrying value for each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The Company has elected to follow the full cost method.

Coastal assesses the carrying value of its property, plant and equipment for impairment annually or as circumstances dictate. Impairment is deemed to exist when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Cash flows are calculated using expected future product prices and costs and are discounted using a risk-free interest rate. Any impairment is measured as the excess of the carrying amount over the estimated discounted future net cash flows associated with the Company's proved and probable reserves. Reserves are determined pursuant to Canadian Securities Administrators' National Instrument 51-101, "Standards of Disclosure of Oil and Gas Activities". Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to earnings in the period the impairment occurs.

(b) Reserve Estimates

All of the Company's oil and gas reserves are evaluated and reported on by independent qualified reserve evaluators. Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net earnings through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or negative impact on net income and can impact the carrying amounts of capital assets.

(c) Asset Retirement Obligations

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability. The Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership in tangible long-lived assets such as wells and facilities and the estimated timing of the costs to be incurred in future periods. Actual payments to settle the obligations may differ from estimated amounts.

(d) Stock-based Compensation

The Company has a share option plan and uses the fair value method of accounting for all stock-based awards to non-employees and employees, including those that are direct awards of stock. Under the fair value method, employee compensation expense attributed to direct awards of stock is measured at the fair value of the award at the grant date using the Black-Scholes option-pricing model and is recognized over the vesting period of the award. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are credited to share capital. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

(e) Income Taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

New Accounting Pronouncements

Effective January 1, 2007, the Company adopted new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes and their effect on the Company's financial statements are discussed in Note 3 to the Consolidated Financial Statements. Also discussed in Note 3 are new accounting standards which will be adopted prospectively in accordance with the respective standard.

Risks and Uncertainties

Coastal has published its assessment of its business risks in the Risk Factor section of its Annual Information Form ("AIF") dated April 28, 2008 (available on SEDAR at www.sedar.com.) It is recommended that this document be reviewed for a through discussion of risks faced by the Company.

The Company is subject to a number of risk factors due to the nature of the petroleum and gas business in which it is engaged, not the least of which are adverse movements in commodity prices, which are impossible to forecast. The Company is also subject to the oil and gas services sector which, at the present, has limited available capacity and therefore may demand premium rates. The Company seeks to counter these risks as far as possible by selecting exploration areas on the basis of their recognized geological potential to host economic returns.

(a) Going Concern

The accompanying audited consolidated financial statements have been prepared by management in accordance with Canadian GAAP on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company is currently a development stage entity and has no direct revenue from production; however, the Company has earnings from its interest in Apico, which is accounted for under the equity method on the consolidated statement of operations. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing or bring one of its resource properties into commercial production and ultimately achieve profitable operations. Although to date the Company has been successful in obtaining financing, there can be no assurance that the Company will be successful in raising additional share capital or generating revenue to generate sufficient cash flows from continuing operations to continue as a going concern.

(b) Industry

The Company is engaged in the acquisition of petroleum and natural gas properties, an inherently risky business, and there is no assurance that an economic petroleum and natural gas deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially viable petroleum and natural gas deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management.

(c) Petroleum and Gas Prices

In recent years, the petroleum and natural gas exploration industry has seen significant growth, primarily as a result of increased global demand, led by India and China. During this period, prices for petroleum have steadily increased, resulting in multi-year price highs. Prior to this recent surge, large companies found it more feasible to grow their reserves and resources by purchasing companies or existing oilfields. However, with improving prices and increasing demand, a discernible need for the development of exploration projects has arisen. Junior companies have become key participants in identifying properties of merit to explore and develop.

The price of petroleum and natural gas is affected by numerous factors beyond the control of the Company including global consumption and demand for petroleum and natural gas, international economic and political trends, fluctuations in the U.S. dollar and other currencies, interest rates, and inflation. While prices for petroleum and natural gas have increased significantly since the start of 2003, there is no assurance that this trend will continue or that current prices will be sustained.

(d) Cash Flows and Additional Funding Requirements

The Company presently has earnings from its interest in Apico, which is accounted for under the equity method on the consolidated statement of operations. In order to put the offshore Gulf of Thailand property into commercial production, substantial capital will be required. The sources of capital presently available to the Company for development are from borrowings under the Company's revolving credit facility or the sale of equity. The Company has sufficient financial resources to undertake its firm obligations for the next 12 months.

The Company is exposed to fluctuations in short-term interest rates on amounts drawn under its revolving credit facility. The Company has not hedged these rates given the need to remain flexible in borrowing and repaying the outstanding balances.

(e) Environmental

The Company's exploration activities are subject to extensive laws and regulations governing environmental protection. Although the Company closely follows and believes it is operating in compliance with all applicable environmental regulations, there can be no assurance that all future requirements will be achievable on reasonable terms. Failure to comply may result in enforcement actions causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures.

(f) Laws and Regulations

The Company's exploration activities are subject to local laws and regulations governing prospecting, drilling, development, exports, taxes, labour standards, occupational health and safety, and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly.

There are also many risks associated with operations in international markets, including changes in foreign governmental policies relating to crude oil and natural gas taxation, other political, economic or diplomatic developments, changing political conditions and international monetary fluctuations. These risks include: political and economic instability or war; the possibility that a foreign government may seize our property with or without compensation; confiscatory taxation; legal proceedings and claims arising from our foreign investments or operations; a foreign government attempting to renegotiate or revoke existing contractual arrangements, or failing to extend or renew such arrangements; fluctuating currency values and currency controls; and constrained natural gas markets dependent on demand in a single or limited geographical area. The Company applies the expertise of its management, its advisors, its employees and contractors to ensure compliance with current local laws.

(g) Title to Oil & Gas Properties

While the Company has undertaken customary due diligence in the verification of title to its oil & gas properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered Petroleum Agreements or transfers and title may be affected by undetected defects.

(h) Dependence on Management

The Company strongly depends on the business and technical expertise of its senior management team and there is little possibility that this dependence will decrease in the near term. The loss of one or more of these individuals could have a materially adverse effect on the Company.

(i) Apico Financial Reporting

The Company accounts for its 36.1% investment in Apico under the equity method whereby it records its share of Apico's earnings as earnings from a significantly influenced investee. Apico is required to provide the partners its financial statements under the Joint Venture Agreement on a timely basis. While the Company has a seat on the Board of Directors of Apico, it does not control the Board or the management of

Apico. Therefore, the Company relies heavily on Apico management to provide timely and accurate financial information to the partners.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

As of December 31, 2007, an evaluation was carried out under the supervision of, and with the participation of Coastal's management including the Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of Coastal's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operations of Coastal's disclosure controls and procedures were effective as at December 31, 2007, and would provide reasonable assurance that material information related to the Company would be made known to them by others within the Company.

As of December 31, 2007, an evaluation was carried out under the supervision of, and with the participation of Coastal's management including the Chief Executive Officer and the Chief Financial Officer, of the design of Coastal's internal controls over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls over financial reporting were effective as at December 31, 2007, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended December 31, 2007, in accordance with Canadian GAAP.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures and internal controls over financial reporting can only provide reasonable assurance, and not absolute assurance.

Outlook

The Company is continuing to work towards and continues to operate in the business segment of acquiring, exploring and developing petroleum and natural gas properties.

Coastal anticipates drilling up to 7 wells in the Songkhla oil field and up to 5 wells in the Bua Ban oil field in the Gulf of Thailand during 2008. As a result of this drilling, the Company anticipates bringing oil production on line in the Songkhla oil field in the fourth quarter of 2008 and production on line in the Bua Ban field in the second quarter 2009. In addition, the Company anticipates acquiring 2-D seismic in northern part of its G5/43 Block in the Gulf of Thailand during 2008.

Coastal anticipates Apico will test its DM3 and SPH-1 wells in 2008 and will drill 2 additional wells in its onshore Thailand properties.

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Auditors' report

To the Shareholders of
Coastal Energy Company

We have audited the consolidated balance sheets of Coastal Energy Company as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[signed] "Deloitte & Touche LLP"

Chartered Accountants
April 21, 2008

(All amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	2007	2006
	$	$
Expenses		
Salaries and benefits	**3,689**	786
Professional fees	**1,080**	1,299
Office and general	**1,192**	461
Travel and entertainment	**598**	84
Regulatory and transfer agent	**378**	91
Interest expense	**1,138**	45
Debt financing fees (Note 11)	**2,132**	-
Depreciation and amortization	**118**	33
	10,325	2,799
Other items		
Share of earnings of significantly influenced investee, net of taxes	**(7,679)**	(371)
Unrealized loss on derivative (Note 11)	**1,166**	-
Interest income	**(430)**	(12)
Loss on sale of assets	**40**	-
Foreign exchange loss	**1,799**	1,638
	(5,104)	1,255
Net loss from continuing operations	**(5,221)**	(4,054)
Net loss from discontinued operations (Note 15)	**(2,012)**	-
Net loss and comprehensive loss	**(7,233)**	(4,054)
Deficit, beginning of year	**(4,931)**	(877)
Deficit, end of year	**(12,164)**	(4,931)
Basic and diluted loss per share from continuing operations	**(0.07)**	(0.08)
Basic and diluted loss per share from discontinued operations	**(0.02)**	-
	(0.09)	(0.08)
Weighted average number of common shares outstanding	**76,919,352**	48,337,007

(All amounts are expressed in US$000's unless otherwise stated)

CONSOLIDATED BALANCE SHEETS

	2007	2006
	$	$
Assets		
Current assets		
Cash and cash equivalents	**13,149**	18,350
Restricted cash (Note 5)	**2,048**	-
Accounts receivable and other (Note 6)	**450**	490
	15,647	18,840
Investment in and advances to Apico LLC (Note 7)	**53,188**	44,046
Property, plant and equipment, net (Note 8)	**88,762**	66,975
Other long-term assets	**57**	394
Non-current assets related to discontinued operations (Note 15)	**-**	1,809
	157,654	132,064
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	**9,793**	4,820
Amounts due to shareholder (Note 10)	**4,940**	-
	14,733	4,820
Amounts due to shareholder (Note 10)	**-**	4,724
Long term debt (Note 11)	**25,000**	-
Future income tax liability (Note 13)	**26,876**	25,153
	66,609	34,697
Shareholders' equity		
Share capital (Note 12)	**3,079**	3,074
Contributed surplus (Note 12)	**100,130**	99,224
Deficit	**(12,164)**	(4,931)
	91,045	97,367
	157,654	132,064

Commitments and contingencies (Note 16)

Approved by the Board

/s/ Randy Bartley
Randy L. Bartley, Director

/s/ Frank Inouye
Frank A. Inouye, Chairman

(All amounts are expressed in US$000's unless otherwise stated)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2007	2006
Operating activities	**$**	$
Net loss for the year	**(7,233)**	(4,054)
Net loss from discontinued operations	**2,012**	-
Items not involving cash (Note 17)	**(3,290)**	1,672
Change in non-cash working capital		
Accounts receivable and other	**(32)**	775
Accounts payable and accrued liabilities	**(3,003)**	(3,965)
Cash used in operating activities of continuing operations	**(11,546)**	(5,572)
Cash used in operating activities of discontinued operations	**-**	-
Cash used in operating activities	**(11,546)**	(5,572)
Investing activities		
Investment in and advances to Apico LLC	**(1,463)**	(5,167)
Cash and cash equivalents acquired on acquisition	**-**	588
Increase in restricted cash	**(2,048)**	-
Purchase of property, plant and equipment, net	**(14,680)**	(9)
Proceeds from sale of property and equipment	**849**	-
Acquisition of financial instrument and other	**(1,190)**	5
Cash used in investing activities of continuing operations	**(18,532)**	(4,583)
Cash used in investing activities of discontinued operations	**(203)**	(1,332)
Cash used in investing activities	**(18,735)**	(5,915)
Financing activities		
Issuance of shares for cash	**101**	29,218
Proceeds from issuance of long-term debt	**25,000**	-
Amounts due to shareholder	**-**	1,234
Proceeds from issuance of short-term debt	**200**	-
Repayment of short-term debt	**(200)**	-
Cash provided by financing activities of continuing operations	**25,101**	30,452
Cash provided by financing activities of discontinued operations	**-**	-
Cash provided by financing activities	**25,101**	30,452
Net effect of foreign exchange on cash held in a foreign currencies	**(21)**	(750)
Change in cash and cash equivalents	**(5,201)**	18,215
Cash and cash equivalents, beginning of year	**18,350**	135
Cash and cash equivalents, end of year	**13,149**	18,350
Cash and cash equivalents consists of:		
Cash	**4,793**	3,462
Short-term money market instruments	**8,356**	14,888
	13,149	18,350

Supplemental cash flow information (Note 17)

Note 1. Basis of presentation

Coastal Energy Company ("Coastal" or the "Company") was incorporated on May 26, 2004 in the Cayman Islands. These consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing or bring one of its oil and gas properties into commercial production and ultimately achieve profitable operations.

On October 30, 2007, the shareholders of the Company approved a reduction in the authorized shares of the Company's common stock through a reverse stock split with a conversion ratio of one share for every four held. The share consolidation was effective on November 7, 2007. All information related to common shares for the current and prior year has been restated to give effect to the share consolidation.

Note 2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The principal accounting policies are outlined below:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries. All significant inter-company transactions and balances have been eliminated.

Variable interest entities ("VIE's"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, Consolidation of Variable Interest Entities, are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The Company does not have any entities that qualify for treatment under this guidance as at December 31, 2007 and 2006.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include accounts receivable, property, plant and equipment, asset retirement obligations, derivative instruments, stock-based compensation, allocation of purchase price of acquisitions and income taxes.

Depreciation and depletion of property, plant and equipment assets are dependent upon estimates of useful lives and reserves estimates, both of which are determined with the exercise of judgment. The assessment of any impairment of property, plant and equipment is dependent upon estimates of fair value that take into account factors such as reserves, economic and market conditions and the initial useful lives of assets. Asset retirement obligations are recognized in the period in which they arise and are stated as the fair value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices.

Cash and cash equivalents

Cash and cash equivalents consists of cash and highly liquid investments with original maturities of three months or less.

Note 2. Significant accounting policies (continued)

Investments

Investments in companies in which the Company has voting interests of 20% to 50%, or where the Company has the ability to exercise significant influence, are accounted for using the equity method. Under this method, the Company's share of the investees' earnings and losses is included in operations and its investments therein are adjusted by a like amount. Dividends received are credited to the investment accounts.

Property, plant and equipment

All costs related to the acquisition of oil and gas properties are capitalized. Such costs include land and lease acquisition costs, annual charges on non-producing properties, geological and geophysical costs, and costs of drilling and equipping productive and non-productive wells.

Gains and losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of more than 20%.

Capitalized costs are accumulated in cost centres on a country-by-country basis and are depleted and depreciated using the unit-of-production method based upon estimated proved reserves before royalties as determined by independent engineers.

As of December 31, 2007, the Company has one cost centre, Thailand. Included in costs subject to depletion are estimated costs to develop proved reserves. Costs relating to undeveloped properties are excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. These properties are assessed at least annually to determine whether impairment has occurred.

Depreciation of office equipment, furniture and fixtures and leasehold improvements is calculated using the straight-line method over the estimated life of the asset or the life of the lease, if shorter.

Coastal assesses the carrying value of its property, plant and equipment for impairment annually or as circumstances dictate. Impairment is deemed to exist when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Cash flows are calculated using expected future product prices and costs and are discounted using a risk-free interest rate. Any impairment is measured as the excess of the carrying amount over the estimated discounted future net cash flows associated with the Company's proved and probable reserves. Reserves are determined pursuant to Canadian Securities Administrators' National Instrument 51-101, "Standards of Disclosure of Oil and Gas Activities". Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to earnings in the period the impairment occurs.

The Company capitalizes certain general and administrative overhead and does not capitalize interest costs.

Capitalization of costs and construction in progress

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Assets under construction are not subject to depreciation until they are put into use. Maintenance and repair costs are expensed as incurred.

Asset retirement obligation

The Company recognizes the estimated fair value of future retirement obligations associated with property, plant and equipment as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim the wells

Note 2. Significant accounting policies (continued)

and well sites. Only wells and well sites that the Company has constructed, drilled, completed workovers on, or performed enhancements to, are included in the estimate. This estimate is evaluated on a periodic basis and any adjustment to the estimate is applied prospectively. The change in net present value of the future retirement obligation due to the passage of time is expensed as accretion. Actual retirement obligations settled during the period reduce the asset retirement liability. As at December 31, 2007 and 2006 there were no asset retirement obligations.

Loss per share

The basic loss per share is computed by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. The fully diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock method" is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. Options and warrants, as disclosed in Note 12, are anti-dilutive and, therefore, have not been taken into account in the per share calculations.

Income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stock-based compensation

The Company has a share option plan as described in Note 12. The Company uses the fair value method of accounting for all stock-based awards to non-employees and employees, including those that are direct awards of stock. Under the fair value method, employee compensation expense attributed to direct awards of stock is measured at the fair value of the award at the grant date using the Black-Scholes option-pricing model and is recognized over the vesting period of the award. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are credited to share capital.

Foreign currency translation

The Company translates foreign currency denominated monetary assets and liabilities of its integrated foreign subsidiaries at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at estimated transaction date exchange rates except depletion and depreciation expense, which is translated at the same historical rates as the related assets. Exchange gains or losses are included in the determination of net income as other items.

Financial instruments

On January 1, 2007, the Company adopted the CICA Handbook Section 3855, "*Financial Instruments – Recognition and Measurement*" (see Note 3).

Financial instruments are measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity'" "loans or receivables," or "other financial liabilities" as defined by the accounting standard.

Note 2. Significant accounting policies (continued)

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). Financial assets "held-to-maturity," "loans and receivables," and "other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents and restricted cash are designated as "held-for-trading" and are measured at fair value. Accounts receivable and other are designated as "loans and receivables." Accounts payable and accrued liabilities, amounts due to shareholder, and long term debt are designated as "other financial liabilities." As at December 31, 2007, the Company did not have any financial assets classified as available-for-sale and therefore, the adoption of the standard noted above had minimal effect on the presentation of the Company's consolidated financial statements.

The Company has adopted a policy to expense debt financing costs when they are incurred.

Joint interests

A portion of the Company's exploration activities is conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities. Amounts due from (to) joint interest partners arise from the timing of the receipt of funds from cash calls made by the Company or the joint interest partners together with the timing of exploration activities.

Comparative Figures

As described below, certain of the prior year's figures have been reclassified to conform to the current year presentation.

The Company previously presented stock based compensation expense as a separate line item within the expenses section of the statement of operations, comprehensive loss and deficit. For the year ended December 31, 2007 the Company now presents stock based compensation expense within the same financial statement line item as salaries and benefits and has reclassified the prior year figures to conform to this presentation.

Note 3. Changes in Accounting Policies

Effective January 1, 2007, the Company adopted CICA Handbook Section 1530, "*Comprehensive Income*," CICA Handbook Section 3855, "*Financial Instruments - Recognition and Measurement*," CICA Handbook Section 3865, "*Hedges*," and CICA Handbook Section 3251, "*Equity*." These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, transaction costs incurred on financial instruments, as well as standards on when and how hedge accounting may be applied. CICA Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income. As required by these new standards, the Company has adopted these standards prospectively.

Financial Instruments – Recognition and Measurement (CICA Handbook Section 3855)

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. The Company's accounting policies for financial instruments are described in Note 2. The adoption of this standard had minimal effect on the presentation of the Company's consolidated financial statements.

Comprehensive Income (CICA Handbook Section 1530)

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports comprehensive income in the statement of operations and a new category, accumulated other

Note 3. Changes in Accounting Policies (continued)

comprehensive income, in the shareholders' equity section of the consolidated balance sheet. The components of this new category may include unrealized gains and losses on financial assets classified as available-for-sale, exchange gains and losses arising from the translation of financial statements of a self-sustaining foreign operation and the effective portion of the changes in fair value of cash flow hedging instruments.

During the year ended December 31, 2007, there were no changes in shareholders' equity that resulted from non-owner sources and consequently, the adoption of the standard noted above had no effect on the presentation of the Company's consolidated financial statements.

Recent accounting pronouncements

In June 2007, the CICA issued changes to Section 1400, "*General Standards of Financial Statement Presentation*." Section 1400 has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Management shall make an assessment of an entity's ability to continue as a going concern. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. Section 1400 is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Earlier adoption is encouraged. The adoption of this standard will have no impact on the Company's operating results or financial position and management expects that there will not be a material impact on the Company's financial statement disclosure.

In December 2006, the CICA issued Section 1535, "*Capital Disclosures*." The main features of the new Section are as follows:

- Requirements for an entity to disclose qualitative information about its objectives, policies and processes for managing capital;
- A requirement for an entity to disclose quantitative data about what it regards as capital; and
- A requirement for an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

Section 1535 is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of this standard will have no impact on the Company's operating results or financial position and the Company is currently assessing the impact the adoption of this standard will have on the Company's financial statement disclosure.

In June 2007, the CICA issued Section 3031, "*Inventories*," replacing Section 3030 of the same title. The main differences between the two Sections are as follows:

- Measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overhead expenses and other costs to inventory;
- Consistent use (by type of inventory with similar nature and use; specific cost method used for inventories for specific projects are not ordinarily interchangeable) of either first in, first out ("FIFO") or weighted average cost formula to measure the cost of other inventories;
- Reversal of previous write-downs to net realizable value is required when there is a subsequent increase in the value of inventories; and
- The amount of inventories recognized as an expense during the period shall be disclosed in the financial statements.

Section 3031 is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Earlier adoption is encouraged. The Company expects that the adoption of this standard will not have a material impact on its results of operations or financial position.

In January 2006, the CICA Accounting standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRSs"). In March 2007, the

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

Note 3. Changes in Accounting Policies (continued)

AcSB released an "*Implementation Plan for Incorporating IFRSs into Canadian GAAP*" which assumes a date by March 31, 2008. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

Note 4. Acquisitions

Reverse takeover ("RTO") transaction

On September 25, 2006, Coastal Energy Company, formerly PetroWorld Corp., ("PetroWorld") acquired all of the issued and outstanding shares of NuCoastal Thailand Limited ("NuCoastal"), in consideration for the issuance of 37,915,830 common shares of PetroWorld.

In conjunction with the acquisition by PetroWorld of NuCoastal, NuCoastal's shareholder agreed to convert $9.9 million of outstanding loan balance to an additional equity contribution recorded as contributed surplus at December 31, 2006. The remainder of the outstanding loan balance was converted into a note payable (see Note 10).

The fair value of all of the issued shares of PetroWorld immediately prior to the NuCoastal acquisition was used to determine the cost of the purchase. The allocation of the purchase price based on the consideration paid and PetroWorld's net assets acquired is as follows:

	$
Purchase price	
Common stock of PetroWorld (14,062,500 shares)	31,503
Stock options and warrants	2,250
	33,753
Net assets acquired	
Cash	588
Non-cash working capital deficit	(2,449)
Property, plant and equipment	59,487
Other long-term assets	367
Future income tax liability	(24,240)
	33,753

Additional investment in Apico

On September 25, 2006 and concurrent with the acquisition described above, the Company acquired an additional interest in Apico from PH Gas, LP ("PHG") in consideration for 9,104,890 common shares increasing the Company's interest in Apico to 36.1%. Apico, both directly and indirectly, holds interests in various petroleum concessions in Thailand (see Note 7).

Note 5. Restricted cash

The Company has cash accounts which are restricted by the Company's banking institutions. The following table summarizes the restricted cash as of December 31, 2007 and 2006.

	December 31, 2007	December 31, 2006
Collateral in support of Corporate Letter of Credit (Note 16)	**$667**	$-
Restricted in support of Corporate Long-term Debt (Note 11)	**1,381**	-
	$2,048	$-

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

Note 6. Accounts receivable and other

	December 31, 2007	December 31, 2006
Prepaids, deposits and other assets	**$312**	$154
Refundable taxes	**132**	64
Other receivables	**6**	149
Amounts due from joint interest partners	**-**	123
	$450	$490

Note 7. Investment in and advances to Apico LLC

The Company holds approximately 36.1% of Apico, a limited liability company incorporated in the State of Delaware, USA. Apico's primary purpose is the acquisition, exploration and development of onshore petroleum interests in the Kingdom of Thailand. Apico has the following working interests in petroleum concessions located in the Khorat Plateau area in northeastern Thailand:

Petroleum Concession	Apico's %	net to Coastal
Block EU-1 and E-5N in the Phu Horn gas field	35%	12.635%
Block L15/43 - surrounding the Phu Horm gas field	100%	36.100%
Block L27/43 – southeast of the Phu Horm gas field	100%	36.100%
Block 13/48 – immediately east of the Phu Horm gas field	60%	21.660%

The Company's investment in Apico exceeds its proportionate share of net assets of Apico ("excess basis"). This difference has been allocated to Apico's oil and gas properties and is being amortized using the units of production method. At December 31, 2007 and 2006, the remaining unamortized excess basis was $17.2 million and $18.7 million, respectively.

The following table summarizes the Company's investments in and advances to Apico:

Year ended	December 31, 2007	December 31, 2006
Balance, beginning of year	**$44,046**	$7,670
Advances during the year	**1,463**	11,247
Acquisition of additional ownership percentage	**-**	24,758
Amortization of excess basis in Apico	**(1,533)**	-
Share of earnings of significant investee	**9,212**	371
Balance, end of year	**$53,188**	$44,046

Note 8. Property plant and equipment, net

	Cost	Accumulated depreciation and amortization	Net Book Value
Oil and gas properties			
Thailand	**$75,687**	**$ -**	**$75,687**
Oil and gas production equipment	**2,510**	**-**	**2,510**
Construction in progress	**10,125**	**-**	**10,125**
Office furniture & computer equipment	**450**	**(109)**	**341**
Leasehold improvements	**125**	**(26)**	**99**
Balance, December 31, 2007	**$88,897**	**$(135)**	**$88,762**

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

Note 8. Property plant and equipment, net (continued)

	Cost	Accumulated depreciation and amortization	Net Book Value
Oil and gas properties			
Thailand	$66,367	$ -	$66,367
Office furniture & computer equipment	146	(40)	106
Leasehold improvements	554	(52)	502
Balance, December 31, 2006	$67,067	$(92)	$66,975

During the years ended December 31, 2007 and 2006 the Company capitalized $nil and $0.1 million, respectively, of general and administrative overhead into oil and gas properties.

Thailand

The Company has a 100% working interest in Block G5/43 in the Gulf of Thailand which includes the Bua Ban and Songkhla oil fields and 100% interest Block G5/50 in the Gulf of Thailand.

Oil and gas production equipment

The Company is acquiring equipment to be used in the production of the Company's interests in the Gulf of Thailand. Once these assets are put into service, the Company will commence depreciation using the straight line method over their respective useful lives.

Construction in progress

Construction in progress relates to the acquisition and refurbishment of a mat-based jack-up rig which the Company intends to use in its development of its interests in the Gulf of Thailand. Once this asset is placed in service, the Company will commence depreciation using the straight line method over its useful life.

Note 9. Accounts payable and accrued liabilities

	December 31, 2007	December 31, 2006
Accounts Payable	**$2,497**	$4,173
Accrued Expenses	**7,296**	264
Amounts due to joint interest partners	**-**	383
	$9,793	$4,820

Note 10. Amounts due to shareholder

As part of the RTO, the Company assumed a note payable to NuCoastal's shareholder for $4.7 million. The original note was unsecured, accrued interest at 4% and was set to mature on July 20, 2007. In January 2007, the note and its accrued interest was renegotiated to accrue interest at 4.5% per annum and mature on July 20, 2008.

Note 11. Long term debt

During the year ended December 31, 2007, the Company entered into a $50 million revolving debt facility (the "Facility") secured by the Company's investment in Apico and with a final maturity date of December 31, 2013. The Facility, arranged and managed by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"), consists of a $42.5 million senior loan and a $7.5 million junior loan. The Facility is in the form of a borrowing base loan and its availability is subject to recalculation every quarter. As of December 31, 2007, the amount available under the borrowing base was $39.5 million, under which the Company had

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Note 11. Long term debt (continued)

drawn a total of $25 million comprised of an $8 million loan and the $17 million loan, both drawn under the senior loan.

Loans under this Facility bear interest at SMBCs' LIBOR plus an applicable margin between 1.75% and 3.5%. The applicable LIBOR rate is determined by the length of the interest renewal period; and the margin is dependent upon whether the loan is drawn under the senior or junior terms and the aggregate amount of loans outstanding. The effective interest rate on the Facility for the year ended December 31, 2007 was 8.05%. As part of the Facility, the Company is required to deposit funds into a bank account, which is considered restricted as to its availability (see Note 5**)**. During the year ended December 31, 2007 the Company recorded $2.1 million of debt financing costs related to this Facility.

As a requirement of the Facility, the Company entered into a derivative hedging agreement with an affiliate of SMBC under which the Company has the right to sell 4,000 metric tons per month (up to a total of 96,000 metric tons) of Singapore fuel oil at a price of $290.00 per metric ton starting July 1, 2007 and expiring June 30, 2009. The Company paid $1.2 million for this option. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the statement of operations and deficit. As at December 31, 2007 the fair value of the option was $nil, during 2007 the Company recorded $1.2 million of unrealized losses on this instrument.

Note 12. Share capital

Common Stock

Authorized 250,000,000 common shares with par value of $0.04 each;

Issued and fully paid common shares

	Common Stock		Contributed
	Shares	Amount	Surplus
Balance, December 31, 2005	250,000	$2,379	$ -
Effect of RTO	13,812,500	(1,817)	1,817
Shares issued pursuant to the NuCoastal Acquisition (Note 4)	37,915,830	1,517	32,237
Equity Contribution by shareholder (Note 4)	-		9,855
Shares issued pursuant to the Apico acquisition (Note 4)	9,104,890	364	21,645
Shares issued pursuant to the offering, net of issue costs	15,750,000	630	33,279
Shares issued pursuant to exercise of stock options	25,000	1	19
Stock-based compensation	-	-	372
Balance, December 31, 2006	**76,858,220**	**$3,074**	**$99,224**
Shares issued pursuant to exercise of stock options	125,000	5	95
Stock-based compensation	-	-	811
Balance, December 31, 2007	**76,983,220**	**$3,079**	**$100,130**

During the year ended December 31, 2006, the Company completed a brokered financing (the "Offering") of 15,750,000 common shares of the Company at a price of $2.32 (Cdn$2.60) per share, raising gross proceeds of approximately $36.6 million (Cdn$41 million). Included within the Offering, the Company issued 853,750 and 1,181,500 common shares to NuCoastal's shareholder and PHG, respectively, in consideration for approximately $2.0 million and $2.7 million of funds that had been advanced to Apico by NuCoastal's shareholder and PHG, respectively. Net proceeds of the Offering were $29.2 million (net of issue costs of $2.7 million).

Stock Options

The Company has a "rolling" stock option plan (the "Plan") in compliance with the TSX-V's policy for granting stock options. Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant.

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Note 12. Share capital (continued)

Prior to the RTO (see Note 4), the Company had granted no stock options. The Company assumed all of PetroWorld's fully vested stock options in the acquisition. The changes in stock options were as follows:

	Number of options	Weighted average exercise price
Balance outstanding, December 31, 2005	-	$ -
Options assumed on RTO (Note 4)	725,000	$1.80
Options granted	3,025,000	$1.88
Options exercised	(25,000)	$0.76
Balance outstanding, December 31, 2006	**3,725,000**	**$1.88**
Options granted	375,000	$3.00
Options exercised	(125,000)	$0.79
Options expired	(275,000)	$2.66
Balance outstanding, December 31, 2007	**3,700,000**	**$2.25**

The following table summarizes the outstanding and exercisable options at December 31, 2007:

Number Outstanding	Remaining contractual life	Exercise Price	Number Exercisable	Expiry date
212,500	2.00 years	$0.79 (£0.40)	212,500	January 25, 2009
212,500	2.50 years	$2.78 (£1.40)	212,500	July 6, 2010
2,900,000	4.00 years	$2.23 (C$2.20)	1,450,000	December 27, 2011
375,000	4.50 years	$3.00 (C$2.96)	93,750	June 16, 2012
3,700,000			1,968,750	

Warrants

Prior to the RTO (see Note 4), the Company had granted no warrants. The Company assumed all of PetroWorld warrants in the acquisition. During the year ended December 31, 2007, warrants for 334,838 common shares expired unexercised. As of December 31, 2007, the Company had 2,343,745 warrants outstanding, exercisable at $5.71 (£2.80) per share and expiring July 20, 2010. The changes in warrants were as follows:

	Number of warrants	Weighted average exercise price
Balance outstanding, December 31, 2005	-	$ -
Warrants assumed on RTO (Note 4)	2,678,583	$5.24 (£2.62)
Balance outstanding, December 31, 2006	**2,678,583**	**$5.24 (£2.62)**
Warrants expired	(334,838)	$2.80 (£1.40)
Balance outstanding, December 31, 2007	**2,343,745**	**$5.71 (£2.80)**

Stock-based compensation

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2007	2006
Risk-free interest rate	**4.25%**	4.25%
Expected life	**3 years**	3 years
Annualized volatility	**40%**	40%
Dividend rate	**0%**	0%
Weighted average grant date fair value per option	**$0.92**	$0.48

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

Note 12. Share capital (continued)

Stock based compensation expense in included in the expenses section of the consolidated statement of loss, comprehensive loss and deficit in salaries and benefits. For the years ended December 31, 2007 and 2006, the Company recorded stock based compensation expense of $811,000 and $372,000, respectively.

Note 13. Income taxes

The Company has taxable operations in the Cayman Islands, Thailand, the United Kingdom and United States. The provision for income taxes from continuing operations reported differs from the statutory tax rates in the jurisdictions of operations due to the following:

	2007	2006
Statutory tax rate	**- %**	- %
Recovery of income taxes computed at standard rates	**$ -**	$ -
Effect of higher tax rates on losses of operations in foreign jurisdictions	**(747)**	(106)
Non-taxable equity income from significantly influenced investee	**1,933**	-
Benefit of income tax losses not recognized	**(1,186)**	106
	$ -	$ -

There is presently no taxation imposed by the Government of the Cayman Islands on income or capital gains. If any form of taxation were to be enacted, the Company has been granted an exemption there from until May 26, 2024. The Company is subject to foreign withholding taxes on dividend and interest income.

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets are as follows:

	2007	2006
	$	$
Future income tax assets		
Non-capital loss carryforwards	**1,167**	162
Valuation allowance	**(1,167)**	(162)
Net future income tax asset	**$ -**	$ -
Future income tax liability		
Accumulated cost basis differences on assets	**26,876**	25,153

Under the tax laws applicable to oil and gas exploration and production companies in Thailand, the Company is not required to file an income tax return until its first production. All costs incurred in Thailand prior to first production are capitalized for income tax purposes and amortized over the life of the first production property. As at December 31, 2007, Coastal has capitalized approximately $2,222,000 of expenditures under this provision. The Company has approximately $3,377,000 of United States tax losses to offset future taxable income that expire in 2025 through 2027. Coastal also has approximately $57,000 of United Kingdom tax losses to offset future taxable income that expire in 2014.

The future income tax liability is valued in the underlying currency of the related assets (see Note 4). The change in this account is directly attributable to the currency valuation on this liability and the effect of this change is included in the statement of operations, comprehensive loss and deficit under the foreign exchange loss.

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

Note 14. Related party transactions

A non-executive director of the Company is an officer and director of a company which is the temporary operator of the Company's previously held working interest in Nevada (see Note 15). Included in accounts payable and accrued liabilities at December 31, 2007 and 2006 were $nil and $0.1 million, respectively, owed to this operator.

Note 15. Discontinued operations

In August 2007, the Company formally relinquished all its working interest in the Nevada leases to the temporary operator (see Note 14) in exchange for the Company's current obligation to pay the operator $21,000 related to well clean up costs along with all future obligations surrounding this working interest. The Company wrote off its interest in this property of approximately $2 million. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Nevada leases were the only property within the United States cost centre. Accordingly, the information related to the Nevada leases is presented as discontinued operations in the Company's consolidated financial statements. As at December 31, 2006, the Nevada leases consisted solely of the oil and gas property and had a carrying value of $1.8 million. There were no assets and liabilities related to discontinued operations as at December 31, 2007.

Note 16. Commitments and contingencies

Prior to the RTO, NuCoastal's shareholder provided a Letter of Credit to the Thailand Customs Department on behalf of the Company. This Letter of Credit, for $0.5 million, was not drawn on and during 2007, the Company replaced this Letter of Credit with its own Letter of Credit to the Thailand Customs Department for approx $0.6 million. The Company's Letter of Credit, cash collateralized (see Note 5), has not been drawn on and remains outstanding as of December 31, 2007.

The Company has entered into various commitments primarily related to the ongoing development of its Thailand G5/43 property (see Note 8). Coastal has secured equipment and work commitments in the Gulf of Thailand (including a twelve month rig commitment commencing in March 2008). In December 2007, the Company was awarded the G5/50 Concession in the Gulf of Thailand, adjacent to the Company's G5/43 Concession. In order to keep this Concession, the Company has various development obligations. The Company also has operating lease agreements for office space in the United Kingdom, Thailand and the United States. The following table summarizes the Company's outstanding contractual obligations:

Year	G5/43	G5/50	Other	Total
2008	$24,442	$375	$227	$25,044
2009	10,085	850	224	11,159
2010	-	2,850	85	2,935
2011	-	2,450	-	2,450

The Company is from time to time involved in various claims, legal proceedings, complaints and disputes with governmental authorities arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

(All tabular amounts are expressed in US$000's unless otherwise stated except share and per share amounts)

Note 17. Supplemental cash flow information

The following table summarizes items not involving cash for the years ended December 31, 2007 and 2006.

Years ended December 31,	2007	2006
Depreciation and amortization	**$118**	$33
Foreign exchange loss	**1,744**	1,638
Interest expense	**510**	-
Stock based compensation	**811**	372
Share of earnings of significantly influenced investee	**(7,679)**	(371)
Unrealized loss on derivative instrument	**1,166**	-
Loss on sale of assets	**40**	-
	$(3,290)	$1,672

During the year ended December 31, 2007:

- The Company made no cash payments of income taxes.
- The Company made cash payments of $0.6 million for interest on long-term debt.

During the year ended December, 31, 2006:

- NuCoastal's shareholder advanced funds of $5.7 million to Apico LLC.
- $9.9 million due to NuCoastal's shareholder was converted from an outstanding loan balance to additional equity and recorded as contributed surplus.
- The Company issued 10,286,390 common shares for additional investment in Apico LLC valued at $24.7 million and 853,750 common shares as payment of amount due shareholder valued at $2.0 million.
- The Company made no cash payments for interest or income taxes.

Note 18. Segmented information

Operating segment

The Company's current operations are in one business segment, being the acquisition, exploration and development of oil and gas properties, primarily in Thailand.

Geographic segments

The Company's oil and gas assets supporting continuing operations as at December 31, 2007 and 2006 and revenues and expenses from continuing operations for the years ended December 31, 2007 and 2006 were as follows:

	Corporate		Thailand		Total	
	2007	2006	**2007**	2006	**2007**	2006
Oil and gas assets						
Investment in Apico	**-**	-	**53,188**	44,046	**53,188**	44,046
Property, plant & equipment, net	**11,756**	585	**77,006**	66,390	**88,762**	66,975
Subtotal	**11,756**	585	**130,194**	110,436	**141,950**	111,021
Operating expenses	**8,615**	2,377	**1,710**	422	**10,325**	2,799
Share of Apico's earnings	**-**	-	**(7,679)**	(371)	**(7,679)**	(371)
Unrealized loss on derivative	**1,166**	-	**-**	-	**1,166**	-
Interest income	**(429)**	(12)	**(1)**	-	**(430)**	(12)
Loss on sale of assets	**40**	-	**-**	-	**40**	-
Foreign exchange (gain) loss	**1,971**	803	**(172)**	835	**1,799**	1,638
Net income (loss) from continuing operations for the period	**(11,363)**	(3,168)	**6,142**	(886)	**(5,221)**	(4,054)

Note 19. Subsequent events

On January 8, 2008, the Company completed a public offering of 16,445,000 common shares (including the over-allotment option of 2,145,000 common shares) of the Company at a price of $3.50 (Cdn $3.50) per common share, raising gross proceeds of $57.6 million (Cdn $57.6 million). Proceeds of the offering, net of issuance costs of approximately $3.1 million, were $54.5 million. During January 2008, the Company used $25 million of these proceeds to repay the loans outstanding under the long-term debt (see Note 11).

On February 26, 2008, the Company acquired a 24,000 ton tanker ship for $8 million to be used as a floating storage and offloading vessel in connection with the development of the Company's Gulf of Thailand properties.

NON-INDEPENDENT DIRECTORS

Frank A. Inouye, Chairman[4]

Randy L. Bartley, President and CEO[4]

INDEPENDENT DIRECTORS

C. Robert Black [1][4]
Former Senior Vice President, Office of the Chairman
Texaco, Inc.

Bernard de Combret [2][3][4]
Former Deputy Chairman Executive Committee
Total Fina Elf, S.A.

Olivier de Montal [2]
Administrator, Olympia Capital Holding

John J. Murphy [3]
Former Chairman & CEO, Dresser Industries, Inc.

Lloyd Barnaby Smith [2]
Former British Ambassador to Thailand

Forrest E. Wylie [1][3][4]
Chairman, CEO & President
Buckeye Partners, L.P.

John B. Zaozirny [1]
Counsel to McCarthy Tetrault LLP

Committees of the Board: (1) Audit, (2) Compensation,
(3) Corp. Governance, and (4) Executive

EXECUTIVE MANAGEMENT

Randy L. Bartley, President, CEO, Director

William C. Phelps, Chief Financial Officer

John M. Griffith, Vice President, Thailand Operations

Stephen M. Holder, Vice President, Controller

Allan H. Armitage, General Manager, Thailand

CORPORATE SECRETARY

Kimberley R. Landon, General Counsel

INVESTOR RELATIONS

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Website: www.CoastalEnergy.com
Trading Symbols: CEO on AIM / CEN on TSX-V

ABBREVIATIONS

bbl	barrel
boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 mcf of natural gas
bbl/d	barrels of oil per day
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
TSX-V	TSX Venture Exchange (Canada)
AIM	London AIM Exchange (UK)

THIRD PARTY ADVISORS

Petroleum and Geological Engineers:
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Corporate Bankers:
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Hongkong and Shanghai Banking Corporation

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Legal Counselors:
Stikeman Elliott LLP (Canada & UK)
Walkers SPV Limited (Cayman Islands)
Mayer Brown JSM (Thailand)
CK (Corporate Services) (Mauritius)

Stock Registrars:
Pacific Corporate Trust Company (TSX-V)
Capita Registrars (LSE-AIM)

Nominated Advisor (NOMAD):
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Public Relations Firm:
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