

Action No: 0901-02873

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF CANADIAN SUPERIOR ENERGY INC.

AND IN THE MATTER OF ~~SEEKER PETROLEUM LTD.~~

AND IN THE MATTER OF ~~CANADIAN SUPERIOR TRINIDAD AND TOBAGO~~
~~LIMITED~~

FIRST REPORT OF THE MONITOR
HARDIE & KELLY INC.
MARCH 12, 2009

INTRODUCTION

1. On March 5, 2009, Canadian Superior Energy Inc. ("CSEI"), Seeker Petroleum Ltd. ("Seeker") and Canadian Superior Trinidad and Tobago Limited ("CSTT") made application for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended, (the "CCAA") pursuant to an order (the "Initial Order") of the Court of Queen's Bench of Alberta (the "Court").
2. Pursuant to the Initial Order, Hardie & Kelly Inc. was appointed as monitor (the "Monitor") of CSEI, Seeker and CSTT (collectively referred to as the "Companies").
3. The purpose of this preliminary report of the Monitor (the "First Report") is to provide the Court with the Monitor's comments and recommendations with respect to the application of Scotia Watcrous (USA) Inc. ("Scotia Waterous") seeking a first charge in relation to the success fee provided for pursuant to the February 19, 2009 engagement letter (the "Engagement Letter") to sell CSEI's participating interest in Block 5 (c) in Trinidad and Tobago ("Block 5 (c)").

BLOCK 5 (c)

4. The Block 5 (c) asset consists of an interest in approximately 80,000 acres in the Columbus sub-basin located approximately 96 kilometres east of Trinidad and Tobago in water depths ranging from 150-450 metres. To date, three wells have been drilled. The first two wells, *Victory* and *Bounty*, have been drilled and announced as natural gas discoveries. The third well, *Endeavour*, has been drilled. *Endeavour* has also been announced as a natural gas discovery and testing is ongoing.
5. CSEI's interest in Block 5 (c) originally arose from a July 20, 2005 Production Sharing Contract ("PSC") with the Minister of Energy and Energy Industries of

the Republic of Trinidad and Tobago.

6. On October 29, 2007, CSEI assigned a 30% interest in the PSC to BG International Limited ("BGI").
7. On February 6, 2009, pursuant to an August 11, 2007 Joint Operating Agreement ("JOA") between CSEI, BGI and Challenger Energy Corp. ("CNE"), BGI delivered a notice of default and removal of operator to CSEI.
8. On February 8, 2009 BGI prepared a Request for Arbitration pursuant to the JOA.
9. On February 11, 2009, the Court granted an Order appointing Deloitte & Touche Inc. as Interim Receiver (the "Receiver") of CSEI's Participating Interest in Block 5 (c) (the "Receivership Order").
10. The Receivership Order provides that CSEI is not precluded from marketing its Participating Interest in Block 5 (c) subject to the terms of the Receivership Order, the JOA and the PSC and providing the Receiver is kept apprised of the status of the sales process.

SCOTIA WATEROUS (USA) INC.

11. The Engagement Letter retaining Scotia Waterous as CSEI's financial advisor to dispose of some or all of CSEI's interest in Block 5 (c) is attached to the March 12, 2009 Affidavit of Mr. Lee Girardo. The key terms of Scotia Waterous's compensation under the Engagement Letter are as follows:
 - a. An initial engagement fee (the "Engagement Fee") of \$500,000 US which was previously paid to Scotia Waterous;
 - b. Scotia Waterous shall be entitled to a fee of 5% of the overall transaction value upon closing of a transaction (the "Success Fee") with the Engagement Fee being credited against the Success Fee; and
 - c. A minimum Success Fee of \$3 million upon closing of a transaction.

12. Based on our previous experience and discussions with parties in the industry, the Monitor is of the opinion that the Engagement Fee and the Success Fee are in the upper end of the range in terms of an engagement to dispose of assets. However, we are advised by Scotia Waterous and CSEI that certain unique circumstances were taken into account when negotiating the Engagement Letter, as follows:

- a. The expedited time frames imposed on Scotia Waterous to prepare for and execute the marketing process;
- b. The complexity of the Block 5 (c) asset;
- c. The complexity and uncertainty associated with the current circumstances surrounding CSEI, BGI and CNE; and
- d. The international reputation of Scotia Waterous as a quality advisor with the ability to consummate a successful sale in the required time frame.

13. Scotia Waterous advises the Monitor they have mobilized their global resources to attempt to meet the stringent time frames established by CSEI in light of the current circumstances. They are in the process of preparing a written report for the Monitor summarizing their progress to date but they have verbally advised as follows:

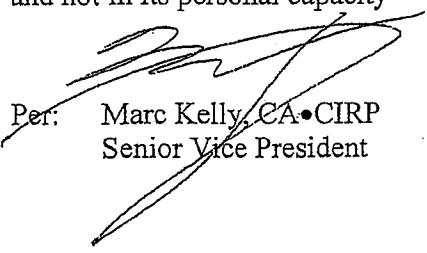
- a. Data rooms have been established in Calgary, Houston and London;
- b. Dozens of companies world wide have been contacted to make them aware of the opportunity; and
- c. Numerous parties have subsequently executed confidentiality agreements, have visited the data rooms and have been given presentations.

14. We are advised by Scotia Waterous that, to date, they are encouraged by the initial feedback from interested parties. As of the date of this report, a deadline for the receipt of non-binding bids has not been finalized but Scotia Waterous advises the deadline will be in advance of March 25, 2009.

RECOMMENDATION

15. The Companies believe the sale of CSEI's participating interest in Block 5 (c) will be critical to the formation of a restructuring plan. The Monitor is not aware of any objections from interested parties with respect to the Engagement Letter which was included in the materials filed with the Court by the Companies as part of their initial CCAA application. The Monitor is satisfied that Scotia Waterous is undertaking a large and expensive process to facilitate a sale. In the event Scotia Waterous were to withdraw its services, it is likely there would be a significant disruption with the timing of the Companies' ability to move forward with a restructuring plan. Various other professionals involved in the proceedings have received retainers or certain charges to ensure payment for their services so the Monitor does not believe it is unreasonable for Scotia Waterous to seek some form of charge.
16. Given the foregoing, the Monitor is supportive of the granting of some form of charge to Scotia Waterous over the sales proceeds of Block 5 (c), however, we anticipate the structure and priority ranking of such a charge is likely to be opposed by certain of the interested parties. The Monitor's only recommendation with respect to priority or structure is that the charge or mechanism put in place for Scotia Waterous should effectively ensure they will be paid should they consummate a sale.

Hardie & Kelly Inc., in its capacity
as Monitor of the Companies
and not in its personal capacity


Per: Marc Kelly, CA•CIRP
Senior Vice President

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FIRST REPORT OF THE MONITOR

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