

**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**

**PRIMARY AFFIDAVIT**

I, Richard M. Watkins, of the City of Houston, in the State of Texas, MAKE OATH AND SAY AS FOLLOWS:

1. I am a director of Canadian Superior Energy Inc. (the "Corporation") and am a member of the Independent Committee established by the Board of Directors of the Corporation. As such I have a personal knowledge of the facts hereinafter deposed to save to the extent that such facts are based on information and belief as described below.
2. A large part of the information contained herein is based on information variously given to me by the Corporation's legal, tax and financial advisors, by its Chief Financial Officer and by other members of the Independent Committee. I verily believe all such information to be true to the best of my knowledge, information and belief.
3. In this Affidavit, capitalized words and phrases that are defined in my previous Affidavit sworn the 24<sup>th</sup> day of April, 2009 (the "April 24 Affidavit"), shall have the same meanings when used herein.

**Two Affidavits**

4. I am today swearing two Affidavits which are in similar form. One is the Primary Affidavit which contains the primary facts in support of the Corporation's application for the extension of the period of stay in these CCAA proceedings. My second Affidavit is a Confidential Affidavit which contains all of the information set forth in my Primary Affidavit, but also includes in italics, certain confidential information (my "Confidential Affidavit"). The Corporation intends on May 4, 2009 to apply to the Court to have my Confidential Affidavit sealed in the sense that it is to be shown only to Justice S.J. LoVecchio, to the Monitor and its counsel, to the Receiver and its counsel, and an expurgated copy to be shown to the Canadian Western Bank ("CWB") and its counsel.

## Background

5. In my April 24 Affidavit, I outlined the facts relating to the establishment of the Independent Committee, the appointment of its legal counsel, Carscallen Leitch LLP, special tax counsel, Felesky Flynn LLP, and its financial advisor, Jennings Capital Inc. ("Jennings"). The Charter and Mandate of the Independent Committee was also described and exhibited to my April 24 Affidavit.

## The Status of Indebtedness

6. At the current time, the Corporation's indebtedness can be summarized as follows:

(i)	Unsecured accounts payable	US\$16,800,000	CDN\$21,000,000
(ii)	CWB loan	US\$28,400,000	CDN\$35,500,000
(iii)	Block 5(c) JOA Obligations	US\$62,500,000	CDN\$78,125,000
	<b>Total Obligations</b>	<b>US\$107,700,000</b>	<b>CDN\$134,625,000</b>

7. As has been detailed in previous Affidavits in this proceeding, Challenger Energy Inc. ("Challenger") owes the Corporation an amount, which is as follows:

(i)	Block 5(c) JOA Obligations	US\$33,854,706	CDN\$42,318,383
(ii)	Corporate loan	US\$11,200,000	CDN\$14,000,000
	<b>Total Amount Owed by Challenger to the Corporation</b>	<b>US\$45,054,706</b>	<b>CDN\$56,318,383</b>

## Outline of the Independent Committee's Plan

8. The Independent Committee recognizes that as is detailed in my Confidential Affidavit, there are assets held by the Corporation that have values, even at the prices available in the current economic situation, that well exceed the aggregate indebtedness of the Corporation of \$107,700,000 (US).
9. Accordingly, notwithstanding the present focus on timely retirement of the Corporation's debts, the Independent Committee believes that, at the same time, it needs to pay careful attention to preserving shareholder value.
10. Throughout the period since the Corporation has been in CCAA, I as a Director of the Corporation, have received numerous communications from various shareholders, including substantial shareholders of the Corporation, urging the Directors to not sell the entirety of the Corporation's interest in Block 5(c), if that could be avoided.
11. Accordingly, the Independent Committee has developed a plan which, if implemented, it believes would serve the best interests of all stakeholders, including as the primary focus, the creditors, as well as the shareholders of the Corporation.

12. In short, such plan entails a negotiated merger with Challenger, a sale of a 45 percent interest in Block 5(c), retention of a 25 percent interest in Block 5(c) and the financing of approximately 18 months of anticipated capital costs with respect to such 25 percent interest by means of recapitalization or a sale of all or a portion of the Corporation's Western Canadian assets. I will address each of those components of the plan below.

### **Proposed Merger with Challenger**

13. Unfortunately from a timing point of view, the Independent Committee was hampered in not being confident in its ability to vigorously pursue the proposed merger with Challenger until two circumstances were known. First, the Independent Committee had to reach a point where it was confident that the Corporation would be able to sell a 45 percent interest in Block 5(c) at an acceptable price. Second, the Independent Committee needed income tax advice from Felesky Flynn LLP, its special tax counsel, concerning the tax implications of both a straight sale of the interest in Block 5(c) and a possible merger. On the first point, the Independent Committee did not reach a level of comfort until this week. On the second point, Court approval of the appointment of special tax counsel was granted by the Court on April 29, 2009 and tax advice in at least a preliminary draft form was received from the special tax counsel on April 30, 2009.
14. In anticipation of satisfactory resolution of those two points, however, the Independent Committee, through Jennings, submitted a proposed form of Letter of Intent ("LOI") to Challenger on April 28, 2009. Such document was submitted to the three persons representing Challenger with whom the Independent Committee has been dealing, namely Michael Hibberd, who I understand to be the Chairman of the Challenger Special Committee, Dan MacDonald, the President of Challenger, and Jeff Lawson, of Peters & Co. Limited, the financial advisors to Challenger.
15. After 6:00 p.m. on April 30, comments were received from Challenger on the proposed form of LOI together with a proposed form of Cooperation Agreement. At approximately 10:00 p.m. that evening, Jennings responded to the points made by Challenger. Challenger then responded very briefly at approximately 11:00 p.m. that evening. Needless to say, these negotiations are at an intense and critical stage.
16. At 8:00 a.m. this morning, May 1<sup>st</sup>, a meeting was held between Jennings, Carscallen Leitch LLP, the Monitor and its counsel and the Receiver and its counsel to update the parties on the current status of the various aspects of the Independent Committee's plan. At that time, both the Monitor and Receiver stated that they had heard through the Challenger Monitor, and in the case of the Receiver from Challenger itself, that Challenger may not be entirely satisfied with the communications between it and the Independent Committee. To endeavour to better understand and to address any such concern, the Independent Committee has through its advisors agreed to having both the Monitor for the Corporation and the Monitor for Challenger, and their respective legal counsel, attend on, or to be otherwise included, in all communications between the two corporations. By that means, it is intended that any misunderstanding concerning the nature or quality of the communications between them can be immediately addressed and understood by the Monitors.
17. The Independent Committee is familiar with the numerous and complex legal and business issues between the Corporation and Challenger. It is convinced that a merger negotiated on

the basis of common sense business principles is the best solution for the resolution of those issues. Failure to achieve such a resolution could result in extensive, protracted and expensive litigation between these parties. Having carefully analysed all aspects of its relationship with Challenger, the Independent Committee is convinced that a merger is by far the best solution and would be in the best interest of all stakeholders of both corporations.

#### **Sale of a Block 5(c) Interest**

18. As is more fully described in my April 24 Affidavit, ScotiaWaterous continues to take the lead in the sales process with respect to the Corporation's 45 percent interest in Block 5(c). After a long, internationally promoted marketing process, initial indicative bids were received. On April 22, 2009, firm bids were received. Active negotiations have been ongoing since that time with various bidders, such that matters have progressed to a stage where documentation of a proposed transaction is being addressed.

#### **Sale of Western Canadian Assets**

19. Upon retaining Jennings as its Financial Advisor, the Independent Committee instructed Jennings to assist it in reviewing all strategic alternatives for the resolution by the Corporation of its indebtedness and to preserve shareholder value. One of the steps taken in that regard has been the conduct by Jennings of a targeted sales process for the Western Canadian assets of the Corporation.
20. In that respect, Jennings contacted 23 prospective purchasers. Bids were ultimately due on April 28, 2009. Certain bids were received and the Independent Committee has taken advice with respect to them.

#### **Recapitalization**

21. On the instructions of the Independent Committee and as part of its commitment to examine all strategic alternatives, Jennings has been in discussions with various capital providers ("Interested Parties") who have shown interest in participating in a recapitalization of the Corporation. Through the course of this process, Jennings has been providing Interested Parties with information on the Corporation and has been more recently communicating a structure whereby 45 percent of Block 5(c) is monetized, 25 percent is retained by the Corporation through a merger or other type of arrangement with Challenger, and where the Corporation would raise additional funds in order to be appropriately capitalized on a go-forward basis.

#### **Communications with CWB**

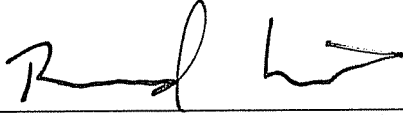
22. The Independent Committee has directed Jennings to establish direct communication with John Plant, the relationship manager at CWB on the Corporation's account. By that means, CWB has been kept apprised of the sales process and the commitment of the Independent Committee to the sale of a 45 percent interest in Block 5(c).

23. I make this my Primary Affidavit and my Confidential Affidavit in support of an application by the Corporation for an extension of the stay period under the Initial Order to June 4, 2009, and in support of an application for an Order sealing my Confidential Affidavit.

SWORN BEFORE ME at the City of Calgary, )  
in the Province of Alberta, this 1<sup>st</sup> day of May, )  
2009 )

Commissioner for Oaths in and for the Province )  
of Alberta )

LINDSAY R. GRICE  
Commissioner for Oaths in and for  
the Province of Alberta  
Commission expires at the will of the  
Lieutenant-Governor of Alberta.

  
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RICHARD M. WATKINS

Action No. 0901-02873

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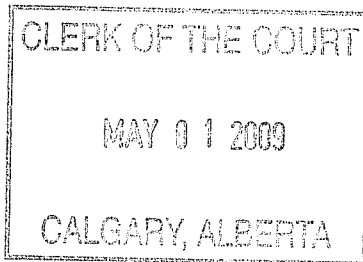
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**PRIMARY AFFIDAVIT**  
Deponent: Richard Watkins  
Sworn: May 1, 2009

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**CARSCALLEN LEITCH LLP**  
Barristers & Solicitors  
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Calgary, Alberta T2P 2Y3

Attention: Stanley Carscallen, Q.C.  
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File No. 22967.001