

Affidavit of Richard M. Watkins
Sworn June 1, 2009
Action No. 0901-02873

**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**

AFFIDAVIT

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

Background

1. I am a director of Canadian Superior Energy Inc. ("CSEI") and am a member of the Independent Committee established by the Board of Directors of CSEI. As such, I have personal knowledge of the facts hereinafter deposed to save to the extent that such facts are based on information and belief, in which case I believe the same to be true and correct.
2. On March 5, 2009, the Honourable Justice S.J. LoVecchio granted an Order (the "Initial Order") declaring CSEI, Seeker Petroleum Inc. ("SPL"), and Canadian Superior Trinidad and Tobago Limited ("CSTT") (CSEI, SPL, and CSTT shall collectively be referred to herein as "Canadian Superior) to be corporations to which the *Companies' Creditors Arrangement Act* (the "CCAA") applies, granting various other relief and appointing Hardie & Kelly Inc. as Monitor (the "Monitor") of Canadian Superior in the CCAA proceedings. Under the terms of the Initial Order, a Stay Period (as defined in the Initial Order) ending March 25, 2009 was established.

3. The Stay Period has been extended pursuant to prior Orders, the most recent of which on May 4, 2009 (the "May 4 Order") which extended the Stay Period to June 4, 2009.

Status Update

4. I am pleased to inform the Court and the creditors that since swearing my Affidavit of May 1, 2009 (the "May 1 Affidavit") and the granting of the May 4 Order, Canadian Superior has made significant progress with its restructuring efforts. The month of May has been an extremely busy month for Canadian Superior and its advisors, and the efforts of the Independent Committee to advance its restructuring plan described in the May 1 Affidavit have progressed significantly. Summarized the following important events have occurred, or are on the verge of being put in place:
 - (a) Borden Ladner Gervais LLP ("BLG") has replaced Thackray Burgess LLP (now McMillan) as insolvency counsel to Canadian Superior in these proceedings, and BLG now represents Canadian Superior in all matters relating to the CCAA proceedings and the Arbitration (as defined in the Initial Order), except that McMillan continues to be responsible for the preparation of the Sale Agreement (as defined below). With the assistance of BLG and the Independent Committee's counsel, Carscellan Leitch LLP ("Carscellan"), a detailed road map for the restructuring of Canadian Superior has been devised;
 - (b) CSEI and Challenger Energy Corp. ("Challenger") have made very good progress with negotiations respecting a merger between CSEI and Challenger. The details of such negotiations are confidential and cannot be disclosed. I will provide more details to the Court in a confidential affidavit;
 - (c) CSEI is close to executing a confidential Agreement of Purchase and Sale (the "Sale Agreement") respecting the sale by CSEI, subject to the Court's approval, of 45% of the working interest in Block 5(c) (as defined in my Affidavit sworn April 24, 2009 (the "April 24 Affidavit")); and
 - (d) Canadian Superior and Challenger have initiated claims procedures to determine all creditor claims against them pursuant to Claims Procedure Orders granted by the Court on May 22, 2009 (the "Claims Procedure").

The Sale Agreement

5. During the month of May great progress was made with the negotiations between CSEI and the proposed purchaser (the "Intended Purchaser") of 45% of the working interest held in CSEI's name in Block 5(c). Many drafts of the Sale Agreement have been turned, and input from corporate, securities, insolvency and tax counsel has been obtained by CSEI.
6. The Intended Purchaser has travelled to Calgary, has met the main players involved in the transaction, and all the indications are that the Sale Agreement will be executed within a few days. The Sale Agreement will be subject to Court approval, and will provide for a closing date no later than September 30, 2009.
7. Because of the anticipated merger between CSEI and Challenger, it has been possible to structure the Sale Agreement in a tax efficient manner which will preserve considerable value for creditors and shareholders, including the shareholders of Challenger who will be exchanging their shares for CSEI shares pursuant to the anticipated merger.
8. The Sales Agreement takes into account the right of first refusal of BG International Limited ("BGI") under the Joint Operating Agreement between BGI, CSEI and Challenger, and should the Court approve the Sale Agreement the appropriate steps will be taken to enable BGI to exercise its said rights, should it so elect.
9. Should the Sales Agreement be entered into, and should it be approved by the Court, CSEI anticipates that the proceeds from such sale (or from a sale to BGI should it exercises its right of first refusal), will enable Canadian Superior to implement a successful joint plan of arrangement for itself and Challenger (the "Plan") which will not only see all or substantially all of Canadian Superior and Challenger's creditors being paid, but will also be beneficial to all shareholders. Negotiations to properly capitalize Canadian Superior after its emergence from CCAA protection are ongoing and I have every reason to believe that such negotiations will be successful. The negotiations are at an advanced and sensitive stage, and are confidential.

Claims Procedure

10. With the assistance of the Monitor, Canadian Superior has completed the first stage of the Claims Procedure, namely providing notice of the Claims Procedure to all known creditors and placing newspaper advertisements to advise of the Claims Procedure.
11. The Claims Procedure contemplates that all claims against Canadian Superior will be submitted to the Monitor by the Claims Bar Date of June 23, 2009.

Anticipated Timeline

12. The following is a tentative anticipated timeline (the "Anticipated Timeline") which Canadian Superior hopes to adhere to in completing its restructuring:
 - (a) June 5-10/09 Execute a merger agreement with Challenger (the "Merger Agreement") and execute the Sale Agreement
 - (b) June 8-11/09 Apply for Court approval of the Sale Agreement, and activate BGI's right of first refusal;
 - (c) July 15-25/09 Obtain Challenger shareholder approval for the merger with CSEI;
 - (d) July 15/09 Substantially complete the Claims Procedure;
 - (e) July 15/09 Obtain consent from the Court to convene meetings of creditors, and circulate the Plan to Canadian Superior and Challenger's creditors;
 - (f) July 15-25/09 Apply to the Ministry of Energy and Energy Industries of Trinidad and Tobago for approval of transfer of 45% of the working interest in Block 5(c) to either the Intended Purchaser or BGI;
 - (g) July 24-28/09 Apply for extension of CCAA stay until August 31, 2009;

- (h) Aug. 14-28/09 Meetings of creditors to vote on the Plan;
- (i) Aug. 16-30/09 Application for an Order sanctioning the Plan and vesting 45% of the working interest in Block 5(c) in the Intended Purchaser/BGI;
- (j) Aug. 16-Sept. 7/09 Complete the closing of the Merger Agreement and the Sale Agreement, and emerge from CCAA protection with CSEI still owing 25% of the working interest in Block 5(c).

The Arbitration

13. Canadian Superior is seeking a stay of the Arbitration (as defined in the Initial Order) between itself and BGI for the following reasons:
- (a) Canadian Superior has made significant progress in its restructuring, and if matters proceed in the manner contemplated by the Anticipated Timeline, the Plan will be put to creditors in August of 2009;
 - (b) It is Canadian Superior's understanding that BGI is not seeking forfeiture of the Block 5(c) Assets;
 - (c) BGI's remaining claims are for alleged damages and costs, and can be dealt with in the Claims Procedure. It will be disruptive, unnecessary and expensive for the Arbitration to proceed in parallel with the Claims Procedure;
 - (d) It is important for purposes of the restructuring of Canadian Superior that there is certainty about the claims of BGI; and
 - (e) There is no prejudice to BGI if the Arbitration is stayed and BGI's claims dealt with in the Claims Procedure. Should BGI's claims be rejected in the Claims Procedure, CSEI is prepared to agree that upon a Notice of Objection (as defined in the Claims Procedure Order) being received by BGI, BGI will have the right to either prove its claims pursuant to the Claims Procedure, or to reactivate the Arbitration should BGI so wishes;

- (f) On May 29, 2009 counsel for CSEI put forward a proposal to BGI's counsel for a stay of the Arbitration, and I attach hereto marked as **Exhibit "A"** a copy of two e-mails sent by BLG to Osler, counsel to BGI. Negotiations regarding such proposal are being conducted.

Cash Flow

14. The Cash Flow Projections of Canadian Superior for May 24, 2009 through June 1, 2009 was attached as **Exhibit "B"** to the Affidavit of Leif Snethun sworn May 1, 2009. I attach hereto marked as **Exhibit "B"** the Actual Cash Flow Summary for May 1, 2009 through June 1, 2009. Cash at June 4, 2009 was anticipated to be \$ 4,866,504. Actual closing cash at June 1, 2009 is \$3,789,330, being a variance of \$1,963,000. The variations is explained as follows:
- (a) Net receipts to May 29 were down due to production pricing and volumes (\$3,050,100 versus \$2,566,292) - \$483,808; transfer of USD funds held by Monitor in budget but disallowed -\$2,607,858; lower crown and freehold payments -\$100,000; therefore overall receipts were down by \$2,990,000;
 - (b) Expenses incurred versus budgeted to May 29 were \$989,000 less (mostly due to legal costs and capital costs - it will however be in next cash flow);
 - (c) Therefore receipts were down approximately \$3.0 million, but offset by reduced capital and expenses of \$1.0 million which results in a negative variance of approximately \$2.0 million.
15. Significant unforeseen legal and other professional fees were incurred during May 2009 as a result of the need to create the Independent Committee, to retain advisors for the Independent Committee, the retention of new insolvency counsel for Canadian Superior, some inevitable duplication in professional services as a result of the need to create the Independent Committee, and the significant demands made on the professionals to deal with the proposed merger with Challenger, the Sale Agreement, complex tax issues, continuous negotiations with many stakeholders, the creation of a viable CCAA strategy, and putting a Claims Procedure in place.

16. I attach hereto marked as **Exhibit "C"** the Cash Flow Projections for June 2, 2009 through July 24, 2009. The projected deficit of \$1,961,892 in cash is the result of the expected continued drop in the price of gas, and the increased professional fees necessitated by the intensive phase which this restructuring will be going through between now and July 24, 2009. Canadian Superior and the Independent Committee are taking steps to eliminate duplication of work by the professionals. With the retention of BLG by Canadian Superior a transfer of work from Carscellan and McMillan to BLG is in the process of taking place, and the requested stay of the Arbitration will further curtail professional fees. It is hoped that the estimated professional fees will come in below budget. The projected cash flow to July 24, 2009 will be funded from the opening cash at June 1, 2009 of \$ 3,789,330 and the available line of credit with Canadian Western Bank to whom the Cash Flow Projections have been disclosed. In addition the Monitor is holding in trust an amount of \$ 3,444,144 USD representing the reclamation of funds in \$TT from Trinidad and Tobago.

Extension of Stay

17. The Monitor continues to support Canadian Superior's efforts to restructure and has been kept fully apprised of its progress.
18. The Monitor has been consulted with respect to the Order being sought by Canadian Superior on June 4, 2009 and supports Canadian Superior's application for an extension of the stay and for a stay of the Arbitration.
19. Canadian Superior has acted in good faith and with due diligence in these proceedings. Canadian Superior will continue to act in good faith and with due diligence to advance a plan of arrangement or compromise to its creditors.
20. I believe that it is in the best interests of Canadian Superior and all stakeholders that there be an extension of the stay of proceedings up to and including July 24, 2009.

21. I make this Affidavit in support of an application for an Order of this Honourable Court to extend the Stay Period to July 24, 2009 to stay the Arbitration and to seal the confidential affidavit which will also be filed in support of the application.

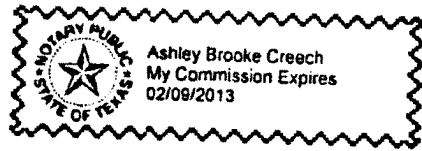
SWORN BEFORE ME at the City of)
Houston, in the State of Texas, this 1)
day of June, 2009.)

ASB

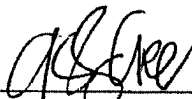
A Notary Public in and for the State of)
Texas)

[Signature]

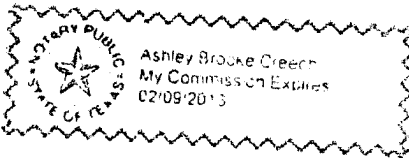
RICHARD M. WATKINS



THIS IS EXHIBIT "A"
referred to in the Affidavit of
RICHARD M. WATKINS
Sworn before me this 1
day of JUNE, A.D. 2009.



A Notary Public in and
for the State of Texas



Kruger, Josef G. A.

From: Kruger, Josef G. A.
Sent: May 29, 2009 6:44 PM
To: 'cnicholson@osler.com'
Subject: Re: CanSup/BG International

The reference in paragraph 5 to paragraph 3 should be a reference to paragraph 4.

From: Kruger, Josef G. A.
To: CHRISTA NICHOLSON (cnicholson@osler.com)
Sent: Fri May 29 18:41:15 2009
Subject: CanSup/BG International

Dear Christa

Re: Canadian Superior Energy Inc.; Seeker Petroleum Ltd. And Canadian Superior Trinidad and Tobago Limited

CCAA Action 0901-02873

Further to our conversation on this morning, we have instructions from our clients, Canadian Superior Energy Inc. ("CanSup"), with the consent of the Monitor, to put the following proposal to you in respect of the arbitration proceedings presently pending between CanSup and your client BG International Limited ("BG"):

1. CanSup and BG agree to an immediate stay of the arbitration proceedings, subject to what is stated below;
2. Representatives of CanSup will meet with representatives of BG prior to June 12, 2009 to enable BG's representatives to review CanSup's accounting records relating to its accounting of funds and expenses of the Joint Operation pursuant to the Joint Operating Agreement as defined in BG's Request for Arbitration;
3. BG will prove any claims which it may wish to advance against CanSup in the Claims Process established by the Claims Procedure Order dated May 22, 2009;
4. BG will not advance any claim in the Claims Procedures applicable to CanSup and Challenger Energy or in the arbitration proceedings for forfeiture of the 70% Participating Interest held in the name of CanSup in the Block 5c asset;
5. BG's claims against CanSup submitted in the Claims Process will be dealt with in accordance with the Claims Procedure Order, except that in the event of CanSup and/or the Monitor disputing any of BG's claims which are presently included in BG's Request for Arbitration, BG will have the right (subject to paragraph 3 above) to recommence the arbitration proceedings in respect of such disputed claims upon receipt of any Notice of Objection pursuant to the Claims Procedure Order.

Please advise whether this proposal is acceptable to your client. We have instructions to apply on June 4, 2009 for an Order staying the arbitration, but would prefer to deal with the matter by consent on the basis set out above. Robb Thompson has confirmed his availability to meet promptly with BG's representatives and to walk them through the accounting records.

Sincerely,

30/05/2009

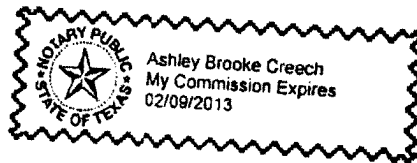
BORDEN LADNER GERVAIS LLP

Josef G.A. Krüger

THIS IS EXHIBIT "B"
referred to in the Affidavit of
RICHARD M. WATKINS
Sworn before me this 1
day of JUNE, A.D. 2009.



A Notary Public in and
for the State of Texas



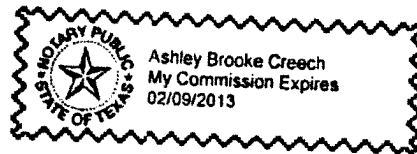
Actual
Receipts/Disbursements to May 29, 2009

RECEIPTS		
Petroleum and natural gas revenues		\$ 2,574,276
Other Receipts		\$ 92,130
Less:		
Transportation		\$ (74,505)
Crown royalties		\$ (1,060,493)
Freehold Mineral		\$ (86,393)
GORR		\$ (189,949)
Freehold Royalties		\$ (40,318)
Subtotal		\$ 1,214,748
DISBURSEMENTS		
Operating Costs		\$ (783,310)
Capital expenditures		\$ (204,597)
Payroll		
Employees & Benefits		\$ (898,753)
Consultants		\$ (64,390)
Lease Payments		
Premises		\$ (501,240)
Operating		\$ (6,361)
Land Lease Rentals		\$ (164,499)
General & administrative		\$ (602,947)
Engineering Fees		\$ (193,850)
Professional Fees		\$ (69,954)
Bank Interest		\$ (209,249)
Restructuring Costs		
Directors Fees		\$ (38,139)
Carscallen		\$ (263,580)
Thackray Burgess		\$ -
McDonald Hanley		\$ (48,311)
Brownlee		\$ (88,181)
Hardie & Kelly		\$ (35,037)
Bennett Jones		\$ (17,914)
BLG		\$ (194,263)
Felesky		\$ -
Solomon Harris		\$ -
Ignatius Chambers		\$ (38,670)
Jennings		\$ -
Macleod Dixon		\$ (10,860)
Subtotal		\$ (4,434,105)
NET CASH FLOW		\$ (3,219,357)
OPENING CASH AND AVAILABLE LINE OF CREDIT		\$ 7,008,687
CLOSING CASH AND AVAILABLE LINE OF CREDIT		\$ 3,789,330
FUNDS HELD IN TRUST BY MONITOR (USD \$)		\$ 3,444,144

THIS IS EXHIBIT "C"
referred to in the Affidavit of
RICHARD M. WATKINS
Sworn before me this 1
day of JUNE, A.D. 2009.



A Notary Public in and
for the State of Texas



Notes

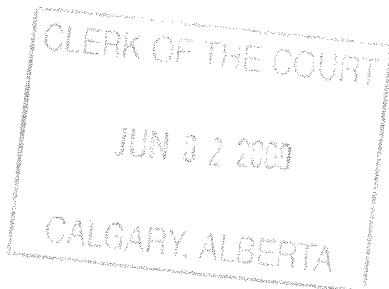
- 1 Revenues are based on previous month production and pricing. Transportation costs with TCH, represents, June and July pre-pay estimate
- 2 Revenues are generally received on the 25th of the month.
- 3 Assumption that crown royalties are payable two months after the production month. Therefore April crown royalties are due in June and May in July.
- 4 Freshfield and GORR royalties are due the month following production
- 5 Estimated operating costs have been based on required 30 day payments and prepayment of critical services
- 6 It is assumed that wages, benefits and consulting fees will be based on historical results
- 7 Western Canada Surface and Land Lease obligations will be paid in the ordinary course
- 8 General and administrative costs are based on historical expenditure levels with internalization of costs where practical
- 9 Represents estimated G/L reserve report fee to July
- 10 Represents estimated G/L reserve report fee to July
- 11 Represents monthly interest obligations to Canadian Western Bank
- 12 Represents monthly interest obligations to Canadian Western Bank
- 13 Cash balances and available bank line of credit. The opening cash does not include cash held in trust with Mentor of \$3,414,144 USD and 25,704,332 TTS in Trinidad
- 14 Represents Trinidad Dollar converted to USD, transferred to Canada and held in trust by Mentor

June 2, 2009

Let this Affidavit
be immediately filed
in Action Number
0901-02873

"Master Prowse"

M.C.C.Q.B.A



Action No.: 0901-02873

IN THE COURT OF QUEEN'S BENCH OF
ALBERTA

JUDICIAL DISTRICT OF CALGARY

BETWEEN:

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

AFFIDAVIT OF RICHARD WATKINS
SWORN JUNE 1, 2009

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
1000 Canterra Tower
400 Third Avenue S.W.
Calgary, Alberta T2P 4H2

Attention: Patrick T. McCarthy Q.C.
Telephone: (403) 232-9441
Fax: (403) 266-1395

File No. 433114-000012