

Affidavit of Richard M. Watkins  
Sworn June 3, 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 a member of the Independent Committee established by the Board of Directors of CSEI (the "Board"). 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 verily believe the same to be true.

**CSEI Shareholders' Meeting**

2. As noted in Mr. David Anderson's affidavit, Palo Alto Investors LLC ("Palo Alto") requisitioned a shareholders' meeting which, in March of this year, was duly called by CSEI for June 26, 2009.
3. There have been significant changes at CSEI since that time, perhaps the most significant of which was the departure of Messrs. Greg Noval and Mike Coolen on April 27, 2009.

4. Also since that time, as indicated in my affidavit of June 1, 2009, considerable progress has been made toward resolving the financial issues facing Canadian Superior, including the significant advances in the negotiations with Challenger Energy Corp. ("Challenger") to effect a merger (the "Merger") and subsequent to the signing of that affidavit, the signing of a purchase and sale agreement between CSEI and Centrica Resources Limited ("Centrica") for the sale of a 45% interest in the Block 5(c) property (the "PSA"). An application to this Honourable Court for the approval of the transaction contemplated by the PSA will be made shortly.
5. CSEI has received a number of communications from Palo Alto regarding its wishes as to the composition of the Board, and in particular in early May of 2009 I was provided with a list of 8 prospective directors compiled by Palo Alto. Since receiving that list, and notwithstanding that I have had a heavy schedule of meetings with the Independent Committee, CSEI's professional advisors, and others in relation both to the direction of the restructuring of Canadian Superior, and the negotiation of a Merger and the PSA, I have personally met with five of those candidates (some more than once), and spoken to two others by telephone. Of these candidates, six are being actively advanced by Palo Alto.
6. In general terms I have found the prospective directors proposed by Palo Alto with whom I have met or spoken to be well qualified individuals, however it appears only one prospective director has experience in the Western Canadian Sedimentary Basin. That same individual appears to be the only prospective director proposed by Palo Alto with a presence in the local community and experience on the board of a Canadian-listed corporation. Following its restructuring, CSEI intends to maintain its significant Western Canadian assets and its Canadian listing.
7. Throughout all of April and early May of 2009, CSEI's condition was critical and there were serious questions as to whether it would survive. It took a tremendous amount of time and effort on the part of CSEI, the Independent Committee, and their advisors to deal with the challenges CSEI faced during that period. During the Board's discussions in early May about the timeline for the restructuring of CSEI, the question arose as to the advisability of proceeding with the CSEI shareholders' meeting scheduled for June 26,

2009. A majority of the Board expressed their belief that if CSEI were able to restructure and exit these CCAA proceedings it would require a fresh Board, with only a limited number of the current directors remaining to provide continuity. Because of the intensity of the activity during the previous six weeks, however, to that point there had been no time for the Board to search out and assess appropriate candidates for that fresh slate of directors, and, in fact, such an effort would have been, in my view, premature.

8. In addition, given that CSEI's survival was in doubt and considering the stage of negotiations with Challenger and Centrica at that point as well as the uncertainty which then existed as to whether an agreement could be reached with either of them, our advisors raised concerns about whether well qualified candidates would be prepared to stand for election to the Board until CSEI had resolved its financial issues. The Board also believed that without a CEO, with many critical business issues still to be resolved, and the expectation that there would be substantial turnover when a new Board was elected, it would be impractical to proceed with the scheduled shareholders' meeting on June 26, 2009 as the new Board would be unable to come to grips with the many issues that would then remain and have to be dealt with.
9. The tentative schedule which we developed for Canadian Superior's restructuring contemplated that if a formal merger agreement could be reached with Challenger by early June, Challenger would then hold a shareholders' meeting, likely in mid July. If the Merger were approved by Challenger's shareholders, then a CCAA plan of compromise and arrangement encompassing both companies would be expected to be circulated to the creditors of both companies immediately thereafter, and a meeting of the creditors of both companies to vote on the plan could be held in early August. If the plan were approved by creditors and this Honourable Court, plan implementation would then likely occur some time in August. Accordingly, the Board determined that the shareholders' meeting should be adjourned to September 1, 2009
10. I am advised by Borden Ladner Gervais LLP and do verily believe that pursuant to s.192 of the *Alberta Business Corporations Act*, where a corporation is subject to a CCAA reorganization, the Court is empowered, pursuant to s. 192(3) of that Act, to "...appoint directors in place of or in addition to all or any of the directors then in office." With that

in mind, it was determined by the Independent Committee that CSEI would, in conjunction with issuing the CCAA plan, nominate a new slate of directors and the names of those directors would, with the approval of this Honourable Court, be circulated along with the CCAA plan. If the CCAA plan were approved by creditors and the Court, the appointment of those directors would occur at the time of implementation of the CCAA plan. The slate of prospective directors would also be identified in the materials circulated to shareholders prior to the rescheduled shareholders' meeting, and shareholders would then be free to vote for or against them at the rescheduled shareholders' meeting. I have on several occasions stated to Mr. Anderson of Palo Alto that several of Palo Alto's prospective directors will be nominated to the new board.

11. While I remain cautiously optimistic that the proposed merger with Challenger will proceed, there are a number of uncertainties remaining. A firm Merger agreement with Challenger has not yet been drafted and, in any event, the Merger will be subject to a vote of Challenger's shareholders, which will likely take place in early July. Approval by Challenger's shareholders is not, at this time, assured. The Merger is also subject to the approval by this Honourable Court of a corporate plan of arrangement between Challenger and CSEI, and the creditors of both Challenger and CSEI, and this Honourable Court must also approve a CCAA plan of arrangement for Challenger and CSEI.
12. There are also a number of conditions in the PSA which remain to be satisfied, beyond the approval of this Honourable Court. Centrica must be satisfied, at the time of closing, with the composition of CSEI's management, and CSEI must demonstrate to Centrica's satisfaction that it has the financial capability to meet its obligations in respect of any ongoing interest in the Block 5(c) asset. Accordingly, while the Independent Committee has a "plan for emergence from the present CCAA process", there are still a number of steps which remain, and it is not yet certain if, or when CSEI will emerge from the CCAA process.
13. As a result, the Board remains of the belief that a shareholders' meeting should not occur until shortly after the CCAA process, the Merger, and the sale of the Block 5(c) asset are expected to conclude.

14. The Monitor has been advised of the Board's decision to adjourn the shareholders' meeting until September 1, as well as the rationale for doing so, and it is my understanding that the Monitor agreed with that rationale.

#### **Current Directors**

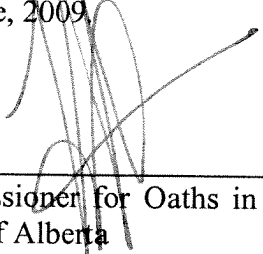
15. CSEI's Board currently consists of 7 members, with one vacancy. It has been agreed by the Independent Committee that neither Mr. Coolen nor Mr. Noval will be nominated for the new Board and I understand that no more than 3 of the remaining current members of the Board will allow their names to stand for re-election. I cannot say how Mr. Anderson formed the view of the motivation of the current Directors which he expresses in paragraphs 13 and 14 of his affidavit, but that view is incorrect.

#### **Palo Alto's Settlement Agreement**

16. As noted above, many of Palo Alto's prospective directors appear to be well qualified and it is the intention of the Independent Committee to nominate several of them to the Board. The principal issue with Palo Alto appears to be in part that it wishes to ensure that its nominees form a majority of the new Board, and in part that it seeks other assurances which the current Board is not prepared to give.
17. In particular, many of the terms of Palo Alto's draft "settlement agreement", to which Canadian Superior has never agreed, are not acceptable. In particular, the "settlement agreement" contemplates that Palo Alto will be able to dictate the identity of replacement directors for a period of two years (without any requirement that it still be a shareholder of any magnitude for that period), that it be entitled to nominate six out of nine directors, and that CSEI pay all expenses incurred by Palo Alto in relation to the matters dealt with by the "settlement agreement", including the fees of its legal and other advisors, all which I understand from Mr. Anderson could amount to more than \$450,000. Of particular concern is the risk that Palo Alto's nominees, if they formed a majority of the Board, could vote as a block and allow Palo Alto to control CSEI which is, in the view of the current Board, inappropriate for a single shareholder owning less than 10% of the shares.

18. I make this Affidavit in opposition to the application of Palo Alto for an order directing that CSEI hold a shareholders meeting prior to the currently scheduled date of September 1, 2009.

SWORN BEFORE ME at the City of )  
Calgary, in the Province of Alberta, this 3<sup>rd</sup> )  
day of June, 2009. )



\_\_\_\_\_)  
A Commissioner for Oaths in and for the )  
Province of Alberta )

**TRAVIS LYSAK**  
**BARRISTER & SOLICITOR**



\_\_\_\_\_  
**RICHARD M. WATKINS**

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 3, 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.  
Josef Kruger

**Telephone:** (403) 232-9500

**Fax:** (403) 266-1395

File No. 433114-000012