

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**

**EIGHTH REPORT OF THE MONITOR
HARDIE & KELLY INC.
JULY 9, 2009**

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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. On June 4, 2009, this Honourable Court granted a further extension of the Stay of Proceedings through to July 24, 2009. The Monitor will be filing a full report discussing the Companies’ operations and restructuring activities in advance of the application scheduled for July 23, 2009.
4. The purpose of this interim report (the “Eighth Report”) is to provide the Court with the Monitor’s recommendation in respect of the Companies’ upcoming July 10, 2009 application seeking an Order authorizing and approving the June 18, 2009 Arrangement Agreement (the “Arrangement Agreement”) entered into between CSEI and Challenger Energy Corp. (“Challenger”). A copy of the Arrangement Agreement is attached as Exhibit “A” to the July 2, 2009 sworn Affidavit of Richard Watkins.

RESTRUCTURING EFFORTS

5. In the Monitor’s Third Report dated April 28, 2009, the Monitor reported on the formation of an independent committee (the “Independent Committee”) of CSEI’s board of directors (the “Board”) with the principal mandate of assisting the Board in fulfilling its responsibilities in regard to the Companies’ obligations under the CCAA proceedings.

6. In the Monitor's Fourth Report dated May 1, 2009, the Monitor advised this Honourable Court of the following critical components to the Independent Committee's restructuring plan:
 - a. the sale of a 45% interest in Block 5(c) in Trinidad & Tobago ("Block 5(c)");
 - b. the negotiation of a merger between CSEI and Challenger resulting in the retention of a 25% interest in Block 5(c); and
 - c. arranging financing for approximately 18 months of estimated capital costs.

Sale of Block 5(c)

7. On June 11, 2009, this Honourable Court approved an agreement of purchase and sale (the "Sale Agreement") entered into June 1, 2009 between CSEI and Centrica Resources Limited ("Centrica") wherein Centrica would acquire a 45% interest in Block 5(c).
8. On June 2, 2009, pursuant to the Joint Operating Agreement between CSEI, British Gas International ("BGI") and Challenger, CSEI served notice to BGI of having entered into the Sale Agreement and requested confirmation from BGI as to whether they would exercise the right of first refusal ("ROFR") provided for by the JOA.
9. On June 30, 2009, CSEI received written notice of BGI's exercise of the ROFR.

Challenger Energy Corp.

10. The Monitor has previously advised this Honourable Court of the ongoing discussions and negotiations between CSEI and Challenger with a view to effecting a form of merger or transaction between the two entities. On June 18, 2009, CSEI and Challenger entered into the Arrangement Agreement.
11. The Arrangement Agreement contemplates a Plan of Arrangement under Section 192 of the *Canada Business Corporations Act* wherein it is contemplated that CSEI will acquire all the issued and outstanding shares of Challenger by the issuance of 0.51 shares of CSEI in exchange for each share of Challenger (the "Arrangement").

12. The key terms of the Arrangement Agreement are as follows:
 - a. Initial approval of the Arrangement Agreement by this Honourable Court;
 - b. An application to Court by Challenger for an Order (the “Interim Order”) directing a special meeting (the “Meeting”) of Challenger shareholders to approve the Arrangement;
 - c. A resolution by Challenger’s shareholders at the Meeting approving the Arrangement;
 - d. A final Order (the “Final Order”) of the Court approving the Arrangement;
 - e. Preparation and approval by the statutory majority of creditors and this Honourable Court of a joint plan of compromise or arrangement under the respective CCAA proceedings;
 - f. A \$3 million break fee payable by either party upon certain events giving rise to the termination of the Arrangement Agreement;
 - g. CSEI and Challenger shall each be satisfied that the sale of Block 5(c) contemplated by the Sale Agreement will be completed shortly after the completion of the Arrangement; and
 - h. CSEI and Challenger shall each be satisfied that CSEI has been accepted and approved as a working interest partner with respect to the remaining 25% working interest in Block 5(c).

13. Jennings Capital Inc. (“Jennings”) the financial advisors to the Independent Committee have provided a verbal opinion to both the Independent Committee and the Board that the Arrangement is fair from a financial point of view to the shareholders of CSEI. Jennings has further advised the Monitor that upon request by the Independent Committee or the Board, Jennings will provide a formal written fairness opinion upon final conclusion of all documentation. As a result of the foregoing, the Monitor has not obtained an independent evaluation with respect to the fairness of the Arrangement.

14. Furthermore, the Monitor continues to be advised that it is still the intention of the Companies' that the pending plan of compromise or arrangement (the "Plan") will provide for payment in full of all claims accepted by the Companies, or as otherwise approved by the Court, in accordance with the claims process established by the May 22, 2009 Order of this Honourable Court (the "Claims Process").
15. There are a number of claims that have been filed in the Claims Process in response to which the Companies will be issuing *Notices of Dispute* by the July 14, 2009 deadline to respond to claims. The final resolution of these claims may ultimately influence the structure of the Plan and the ability of the Companies to immediately settle claims in full. The Monitor will be providing a summary of the claims filed and the Companies' disposition thereof as part of the report to be filed in advance of the July 23, 2009 Court application.

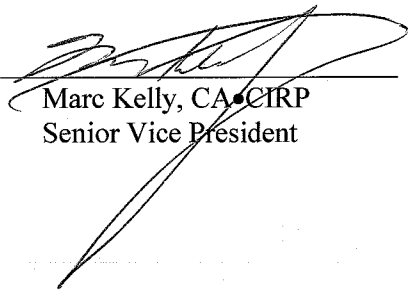
RECOMMENDATION

16. The Monitor is of the view that the Arrangement Agreement should be authorized and approved by this Honourable Court for the following reasons:
 - a. Since the formation of the Independent Committee, the Companies have indicated a transaction with Challenger is one of the critical steps that will lead to a successful restructuring; and
 - b. The Companies continue to represent that the pending Plan will ultimately provide for the payment in full of all claims against the Companies accepted in the Claims Process.

All of which is respectfully submitted this 9th day of July 2009.

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