

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**

**TENTH REPORT OF THE MONITOR
HARDIE & KELLY INC.**

August 14, 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 July 21, 2009, the Monitor prepared a report for this Honourable Court (the “Ninth Report”) in advance of the Companies’ application for an extension of the stay of proceedings (the “Stay”) provided for in the Initial Order.
4. On July 23, 2009, this Honourable Court granted a further extension of the Stay through to September 15, 2009.
5. The purpose of this tenth report (the “Tenth Report”) is to provide an update and commentary to this Honourable Court with respect to the following:
 - a. The Companies’ restructuring activities;
 - b. The Companies’ request for an order authorizing the establishment of a single class of creditors, the holding of a meeting of creditors and establishment of the procedures associated therewith; and
 - c. The Monitor’s comments, analysis and recommendation regarding CSEI’s proposed Plan of Arrangement and Compromise filed with this Honourable Court on August 14, 2009 (the “Plan”).

TERMS OF REFERENCE

6. In preparing this Tenth Report, the Monitor has relied upon unaudited financial information, records of the Companies and discussions with the Companies' management ("Management"), the Companies' advisors, the Independent Committee of CSEI's board of directors (the "Independent Committee") and its advisors. The Monitor has not performed an audit, review or other verification of such information.

RESTRUCTURING EFFORTS

7. Since the commencement of the CCAA proceedings, the Companies under the direction of the Independent Committee have undertaken and accomplished a number of significant initiatives leading to the filing of the Plan.

Sale of Block 5(c) and BG International Limited

8. 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) in Trinidad & Tobago ("Block 5(c)") for US \$142,500,000.
9. On June 2, 2009, pursuant to the Joint Operating Agreement (the "JOA") between CSEI, BG International Limited ("BGI") and Challenger Energy Corp. ("Challenger"), CSEI served notice to BGI of having entered into the Sale Agreement and requested confirmation from BGI as to whether it would exercise the right of first refusal ("ROFR") provided for by the JOA.
10. On June 30, 2009, CSEI received written notice of BGI's exercise of the ROFR.
11. CSEI and BGI subsequently entered into an Agreement of Purchase and Sale (the "PSA") as of June 30, 2009 respecting the sale of a 45% interest in Block 5(c) pursuant to the ROFR in addition to an agreement, dated July 30, 2009, settling numerous issues between the parties (the "Compromise Agreement").

12. The PSA contemplates several conditions precedent being satisfied including, most materially, the following:
 - a. CSEI must be able to demonstrate to BGI's satisfaction, acting reasonably, that it is able to meet its capital obligations under the JOA through to December 2010, which condition will be deemed to have been met if CSEI can evidence US \$60 Million of committed capital (inclusive of US \$20 Million to be held in trust by BGI from the proceeds of the sale);
 - b. BGI must be satisfied that ownership of the 25% interest in Block 5(c) claimed by Challenger has been resolved;
 - c. Consent of the Minister of Energy and Energy Industries of the Republic of Trinidad and Tobago;
 - d. BGI must be satisfied, acting reasonably, with CSEI's senior management team; and
 - e. Obtaining an Order from this Honourable Court vesting title in a 45% interest in Block 5(c) in favour of BGI.

13. To date, CSEI advises that it has partially satisfied the capital requirement set out above by way of the following:
 - a. As discussed above, US \$20 million from the sales proceeds from Block 5(c) will be held in trust by BGI pursuant to the PSA thereby reducing the capital requirement to US \$40 Million from US \$60 Million; and
 - b. CSEI has received an offer from National Bank of Canada (the "Offering Letter") in respect of a new CDN \$25 million credit facility.

14. The Offering Letter is subject to certain conditions precedent including, most materially, the following:
 - a. Completion of CSEI's sale of a 45% interest in Block 5(c);
 - b. The acquisition of Challenger;
 - c. The election of a certain slate of directors at the Annual and Special Meeting (the "ASM") to be held on September 9, 2009; and
 - d. CSEI's emergence from CCAA.

15. CSEI and its advisors continue to work towards securing the balance of the required capital commitment and the Independent Committee is confident satisfactory arrangements will be in place in advance of September 15, 2009.

Challenger Energy Corp.

16. On July 10, 2009, this Honourable Court approved an Arrangement Agreement which contemplates a Plan of Arrangement under Section 192 of the *Canada Business Corporations Act* wherein it is proposed 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").
17. On August 7, 2009, Challenger's shareholders voted to approve the Arrangement.
18. CSEI's shareholders will vote on the Arrangement at the ASM.
19. The effect of the Arrangement Agreement, if completed, is that CSEI will acquire the 25% interest in Block 5(c) claimed by Challenger which will satisfy a critical condition of each of the PSA and Offering Letter.

Palo Alto Investors, LLC

20. Palo Alto Investors, LLC ("Palo Alto") is a significant shareholder of CSEI representing ownership of approximately 9.3% of the total shareholdings of CSEI.
21. On August 12, 2009, this Honourable Court approved a settlement agreement (the "Palo Alto Agreement") entered into on August 10, 2009 between CSEI and Palo Alto wherein a number of ongoing concerns of Palo Alto were resolved.
22. The Palo Alto Agreement provides for, *inter alia*, the following:
 - a. an agreement with respect to a proposed slate of board of directors (the "Board") of CSEI;
 - b. the reimbursement by CSEI of certain of Palo Alto's costs; and
 - c. an amendment to CSEI's by-laws in regard to the residency requirements of members of the Board.

PLAN OF ARRANGEMENT

Summary

23. The Plan, a copy of which is attached as Exhibit “B” to the August 14, 2009 sworn Affidavit of Richard Watkins (the “August 14 Watkins Affidavit”) contemplates those creditors whose claims have been accepted by CSEI through the Court directed claims process (the “Claims Procedure”), or as will otherwise be determined to be valid claims by the Court (collectively referred to as “Proven Claims”), receiving the following cash distributions immediately after the date of the anticipated implementation of the Plan (the “Plan Implementation Date”):
 - a. payment in full of the accepted or otherwise determined amount of the claim; and
 - b. simple interest at a rate of 5% per annum calculated from the date of the Initial Order to the Plan Implementation Date.

24. Given that the intention of the Plan is to see those creditors with Proven Claims paid in full, the Plan contemplates the establishment of a single class of voting creditors (the “Eligible Voting Creditors”). The Monitor is of the opinion that this treatment is appropriate in the circumstances because creditors with Proven Claims will all be paid in full.

25. Although Canadian Western Bank (“CWB”) also filed claims against CSTT and Seeker pursuant to corporate guarantees, the Plan filed by CSEI contemplates satisfying CWB’s claim in full. The Claims Procedure resulted in no other Proven Claims in respect of CSTT and only six other Proven Claims in respect of Seeker totalling approximately \$55,000 without any remaining Disputed Claims. Consequently, CSTT and Seeker will not be filing plans of arrangement or compromise and those creditors claiming against Seeker will be paid under the same terms and conditions as set out in the Plan.

26. The Plan requires the approval of:
 - a. a majority in number and two-thirds in value of the Eligible Voting Creditors present either by proxy or in person voting on the Plan; and
 - b. this Honourable Court.

Implementation of the Plan

27. Assuming the requisite approvals are received, the distribution to creditors is then scheduled to be facilitated by way of a series of events to be accomplished as follows:
- a. CSEI will transfer a 25% interest in Block 5(c) to a newly incorporated wholly owned subsidiary;
 - b. CSEI will acquire Challenger's 25% interest in Block 5(c) in consideration of a promissory note equal to the fair market value of the interest;
 - c. Approximately US \$40 Million due to CSEI from Challenger will be set off against the promissory note issued to Challenger;
 - d. The receivership proceedings in respect of Block 5(c) will be terminated and the charges created in those proceedings will be discharged;
 - e. The sale of a 45% interest in Block 5(c) to BGI will close;
 - f. BGI will deliver to the Monitor the net proceeds from the sale (the "BGI Proceeds") after deducting the US \$20 Million associated with the capital requirements, \$US \$52 Million with respect to advances made to the Receiver of Block 5(c) (the "Receiver") and certain other costs pursuant to the Compromise Agreement;
 - g. The Monitor will satisfy the claim of CWB from the BGI Proceeds;
 - h. The new credit facility with National Bank of Canada will become effective;
 - i. CSEI will advance to the Monitor the additional amount of funds required to satisfy the claims of the remaining creditors whose claims have been accepted or determined to be valid by the Court (the "Affected Creditors") and those creditors whose claims remain in dispute (the "Disputed Claims"); and
 - j. The Monitor will establish the Affected Creditors' Pool and the Disputed Claims Reserve (as defined in the Plan) and distribute funds to those parties entitled thereto.

Claims

28. In the Ninth Report, the Monitor provided this Honourable Court with a summary of the claims and dispensation of same by the Companies at that time.

29. Since that time, numerous creditors have issued Notices of Objection. Management under the direction of the Independent Committee and in consultation with legal counsel and the Monitor have resolved many of the disputes; however, several Disputed Claims totalling between CDN \$20 - \$25 Million remain unsettled and will be required to be resolved by this Honourable Court or by agreement.
30. On July 31, 2009, this Honourable Court established a process for dealing with claims that were filed after the June 23, 2009 Claims Bar Date.
31. A summary of the claims now accepted by the Companies is as follows:

	Number of Claims	CDN\$ Value
Unsecured	504	\$28,228,956
Secured	44	41,864,641
Total	548	\$70,093,597

32. An updated summary of the general breakdown of the nature of the claims accepted and disallowed by the Companies is attached as Exhibit "A" to the August 14 Watkins Affidavit.

Monitor's Analysis and Conclusion

33. Throughout the proceedings, the Companies have represented their intention of satisfying the claims of their creditors in full. The restructuring initiatives and the implementation of the Plan will achieve this goal and will also provide the following benefits:
- a. an additional payment of 5% interest to creditors;
 - b. a certain and expedited distribution to creditors;
 - c. resolution of the various issues with BGI;
 - d. resolution of any question of ownership of Block 5(c);
 - e. resolution of various issues with Palo Alto, a significant shareholder;
 - f. resolution of the concerns of the Companies' current principal lender CWB; and
 - g. the ability for CSEI to emerge from CCAA as a going concern.

34. In the event the Plan is refused by the statutory majority of creditors or this Honourable Court, or if the conditions precedent and steps set out in Paragraphs 12 and 27 above are not satisfied or completed, it is likely that one or more of CWB, BGI and or the Receiver would take immediate action to enforce their legal remedies which may lead to the liquidation of the Companies.
35. In the event of a liquidation of the Companies' assets, the quantum and timing of recovery for creditors would be uncertain. Although the Companies' asset value exceeds CDN \$350 Million, (which if fully realized would be more than enough to pay all creditors in full) a liquidation of assets would likely become a complicated, lengthy and costly process given the various disputes previously associated with CSEI's and Challenger's interest in Block 5(c).
36. As a result of the foregoing, the Monitor considers the Plan to be fair and reasonable to the Proven Creditors.

MEETING OF CREDITORS

37. On August 17, 2009, The Companies will be seeking an Order of this Honourable Court (the "Creditors' Meeting Order") establishing the procedures and conduct to be followed in regard to the establishment of a creditors meeting to consider and vote on a resolution to approve the Plan (the "Creditors' Meeting") which would include the following:
 - a. accepting the filing of the Plan;
 - b. establishing one class of creditors for the purposes of considering and voting on the Plan;
 - c. authorizing the Creditors' Meeting to be held on September 11, 2009;
 - d. directing the Monitor to publish a notice of the Creditors' Meeting on or before August 21, 2009 in each of the *Globe and Mail* (National Edition), the *Calgary Herald* and the *Trinidad Guardian*;
 - e. directing the Monitor to deliver the necessary meeting materials to each creditor that has a Proven Claim or an alleged creditor with a Disputed Claim on or before August 20, 2009;

- f. requiring the Monitor to provide a report to this Honourable Court no later than one (1) Court Day after the Creditors' Meeting on the results of the vote on the Plan; and
- g. In the event the Plan is approved by the required statutory majority of the Affected Creditors, authorization for CSEI to bring a motion to this Honourable Court on September 14, 2009 seeking an Order sanctioning the Plan pursuant to the CCAA.


RECOMMENDATION

- 38. The Monitor is of the opinion that the Plan is fair and reasonable and provides the best alternative to the Proven Creditors in the circumstances; however the Monitor cautions that in order to fully fund the Plan a number of conditions precedent and steps as set out in Paragraphs 12 and 27 are still required to be satisfied or completed prior to the Plan Implementation Date.
- 39. The Monitor recommends to this Honourable Court the following:
 - a. Acceptance of the filing of the Plan; and
 - b. Approval of the proposed Creditors' Meeting Order.

All of which is respectfully submitted this 14th day of August 2009.

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

Per: _____


Marc Kelly, CA•CRP
Senior Vice President