

## Canadian Superior Energy (SNG)

January 15, 2008

Stock Price: \$3.66  
Target Under Review

Spoke with Craig McKenzie (CEO):

- **Trinidad:**
  - **Victory Well:**
    - The well has an estimated flowing rate greater than 100 mmcf/d. SNG believes that the well is comparable to other wells in the area which are on production at rates of 100 to 150 mmcf/d.
    - SNG and partners have tested only the first of several potential zones. The first zone tested at 40 to 45 mmcf/d with 30 b/mmcf of condensate on a restricted basis. SNG and partners are now planning to test one more prospective zone prior to moving the rig to the Bounty exploration well.
    - Due to delays the Victory well will come in over budget at an estimated \$85M. SNG believes that the drilling contractor will reimburse the partners for a number of down time days in the order of ~\$10M.
    - At this stage not enough data has been collected to determine the discovered resources, but SNG still believes that on a risked basis the 3 prospects on the block can carry >4 Tcf.
    - Gas economics in Trinidad:
      - \$7/mcf Henry Hub
      - - \$0.50/mcf regas cost
      - - \$0.50/mcf shipping cost
      - - \$1.50/mcf liquefaction cost
      - - \$0.10/mcf internal trans costs
      - - Gov of Trinidad takes 50 to 60% post cost recoveries.
      - Resulting in ~\$3 to \$3.50/mcf netbacks at current prices.
      - Discovered, undeveloped reserves are estimated to be worth ~\$1.50/mcf on a transactional basis.
- **Western Canada:**
  - Current corporate production is >3,100 boe/d
  - SNG is planning a ~\$22M capital program to continue with a modest growth profile in Western Canada.
- **Seeker Petroleum Ltd. Acquisition**
  - Seeker Petroleum is being offered \$51.8M (including the assumption of \$8.5M in debt) through either \$0.85/share in cash or 0.2285 SNG share with a max cash component of \$14.2M and max share component of 7.65M SNG shares.
  - Western Canadian Private E&P with Alberta properties at Puskwa, Kaybob/Windfall, Mulligan and Red Earth and in British Columbia at Cabin and Parkland.
  - Estimated production of 1,035 boe/d current (72.5% natural gas & 27.5% liquids) and 240 b/d of light oil behind pipe. Seeker Petroleum has 2P reserves of 2.07MB
  - Transaction metrics
    - 3.6 times the estimated 2008 cash flow.
    - $\$51.8M/1,035 = \$50,048/\text{flowing boe}$ ;  $\$51.8M/2.07MB = \$25.02$  per 2P barrel.
    - Stripping out an estimated \$10.4M in land and Seismic the deal is being done at \$39,972/flowing boe (~\$32k/flowing boe with the behind pipe production) and \$19.96 per 2P barrel in reserves.
  - Post Transaction SNG will have 4,350 boe/d in Western Canadian production and 160k net undeveloped acres.

- **Other Business Development:**
  - Looking to make an entry into North Africa, specifically Libya and Tunisia.
    - Any deal would include significant work commitments.
  - The business development team has also been looking at the Gulf of Mexico
  - SNG is in contact with banks to provide project mezzanine financing for the Trinidad exploration program.
  - Look for a new website in the coming months. Pictures of the Victory well testing are currently posted on the Canadian Superior website.
  
- **Rough Valuation:**
  - $\$3.66 \times 140\text{M shares (currently outstanding)} = \$512\text{M market cap}$
  - Est. Debt = \$25M
  - Enterprise value = \$537M
  
  - Currently gas weighted domestic companies are trading at ~\$50k/flowing boe, or \$155M (~\$1.10/share) in value to SNG is attributed to their domestic operations. The market is therefore carrying a \$357M in value for the Trinidad discovery, or in other words is already discounting a 240Bcf net discovery to SNG (530 Bcf gross) at \$1.50/mcf value.
  - **Based on the test rates, and the fact that a number of prospective zones were encountered we believe that a 500 Bcf discovery is easily justified. Additionally, with the Victory well being a success, the Bounty and Intrepid wells are significantly reduced in risk.**
  
  - Potential Future Valuations on various discovery Scenarios:

|   |   |
|---|---|
| Forward Valuation Matrix:<br>Assuming \$45M debt and 20% equity dilution beyond the estimated 147M shares O/S post the Seeker acquisition to complete a full exploration and appraisal program in Trinidad. | Canadian Operations<br>(post Seeker acquisition)<br><br><b>~4,300</b> |
| Trinidad Ultimate Discovered Reserves (Gross, SNG has 45% WI) of <b>500 Bcf</b>   | \$2.88  |
| Trinidad Ultimate Discovered Reserves (Gross, SNG has 45% WI) of <b>1 Tcf</b>   | \$4.79  |
| Trinidad Ultimate Discovered Reserves (Gross, SNG has 45% WI) of <b>2 Tcf</b>   | \$8.62  |
| Trinidad Ultimate Discovered Reserves (Gross, SNG has 45% WI) of <b>4 Tcf</b>   | \$16.27   |



*Kan Tan IV flow testing the Victory Discovery*

**Our 12 Month Price Target on Canadian Superior remains “Under Review” until we can meet with management and review the details of the Seeker Petroleum acquisition and the Victory discovery.**