

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of June 2, 2009 and reviewed and approved by the Board of Directors of Canadian Superior Energy Inc. ("Canadian Superior" or the "Company"). This MD&A is a review of the operational results of the Company with disclosure of oil and gas activities in accordance with Canadian Securities Association National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and a review of financial results of the Company based on Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting currency is the Canadian dollar. This MD&A should be read in conjunction with the unaudited consolidated interim financial statements and accompanying notes for the three months ended March 31, 2009 and the audited consolidated financial statements and MD&A for the year ended December 31, 2008.

*Non-GAAP Measures* – This MD&A contains the term cash flow from operations and operating netback, which are non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP and are, therefore, unlikely to be comparable to similar measures presented by other issuers. Management believes cash flow from operations and operating netback are relevant indicators of the Company's financial performance, ability to fund future capital expenditures and repay debt. Cash flow from operations and operating netback should not be considered an alternative to or more meaningful than cash flow from operating activities, as determined in accordance with GAAP, as an indicator of the Company's performance. In the Operating netback and cash flow from operations section of this MD&A, reconciliation has been prepared of cash flow from operations and operating netback to cash from operating activities, the most comparable measure calculated in accordance with GAAP.

*Boe Presentation* – Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of boes may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

*Forward-Looking Statements* – Certain information regarding the Company presented in this document, including management's assessment of the Company's future plans and operations, may constitute forward-looking statements under applicable securities law and necessarily involve risk associated with oil and gas exploration, production, marketing and transportation such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risk, competition from other producers and ability to access capital from internal and external resources, and as a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Statements contained in this document relate to forward-looking information, including estimates, projections, interpretations, prognoses and other information that may relate to current, past or future production, development(s), testing, well test results, resource potential and/or reserves, project start-ups and future capital spending. Forward looking information contained in this document is as of the date of this document. The Company assumes no obligation to update and/or revise this forward-looking information "except as required by law". Current, past and/or future actual results and/or reported results, estimates, projections, resource potential and/or reserves, interpretations, prognoses, and/or estimated results, well results, test results, reserves, production, resource and/or resource potential, development(s), project start-ups, and capital spending, plans and/or estimated results could differ materially due to changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors or revisions. This document may contain the reference to the terms discovery, reserves and/or resources or resource potential discovered and/or undiscovered which are those quantities estimated to be contained in accumulations. There is no certainty that any portion of these accumulations or estimated accumulations in this document may not change materially; and that, if discovered, in any discovery, the accumulations or estimated accumulations may not be economically viable or technically feasible to produce.

Statements contained in this document relating to estimates, results, events and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve known and unknown risks, uncertainties, scheduling, re-scheduling and other factors which may cause the actual results, performance, estimates, projections, resource potential and/or reserves, interpretations, prognoses, schedules or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, among others, those described in the Company's' annual reports on Form 40-F or Form 20-F on file with the U.S. Securities and Exchange Commission.

## Business of Canadian Superior

Canadian Superior Energy Inc. is engaged in the exploration for, and acquisition, development and production of petroleum and natural gas, and liquefied natural gas regasification ("LNG") projects, with operations in Western Canada, offshore Nova Scotia, Canada, offshore Trinidad and Tobago, the United States and North Africa.

### Operating netback and cash flow from operations

Three months ended March 31,	(\$ thousands)			(\$ per boe)		
	2009	2008	% change	2009	2008	% change
<b>Revenue</b>						
Petroleum and natural gas sales	<b>9,980</b>	16,146	(38)	<b>32.94</b>	57.05	(42)
Transportation	<b>(188)</b>	(214)	(12)	<b>(0.62)</b>	(0.76)	(18)
Royalties	<b>(1,479)</b>	(3,324)	(56)	<b>(4.88)</b>	(11.74)	(58)
	<b>8,313</b>	12,608	(34)	<b>27.44</b>	44.55	(38)
<b>Operating expenses</b>						
	<b>3,451</b>	2,091	65	<b>11.39</b>	7.39	54
<b>Operating netback<sup>(1)</sup></b>						
	<b>4,862</b>	10,517	(54)	<b>16.05</b>	37.16	(57)
General and administrative	<b>2,919</b>	2,371	23	<b>9.63</b>	8.38	15
Asset retirement expenditures	<b>257</b>	--	n/a	<b>0.85</b>	--	n/a
Interest and other income	<b>(125)</b>	(207)	(40)	<b>(0.41)</b>	(0.73)	(44)
Foreign exchange gain	<b>(364)</b>	(1,678)	(78)	<b>(1.20)</b>	(5.93)	(80)
Interest	<b>789</b>	717	10	<b>2.60</b>	2.53	3
Bad debt expense	<b>57</b>	--	n/a	<b>0.19</b>	--	n/a
Restructuring Costs	<b>2,740</b>	--	n/a	<b>9.04</b>	--	n/a
Capital taxes	<b>--</b>	120	n/a	<b>--</b>	0.42	n/a
<b>Cash flow from (used for) operations<sup>(1)</sup></b>						
	<b>(1,411)</b>	9,194	(115)	<b>(4.65)</b>	32.49	(114)
Changes in non-cash working capital	<b>6,631</b>	(3,310)	300	<b>21.88</b>	(11.69)	287
<b>Cash provided by operating activities</b>						
	<b>5,220</b>	5,884	(11)	<b>17.23</b>	20.80	(17)

<sup>(1)</sup> Non-GAAP measure

For the three months ended March 31, 2009, cash flow used for operations was (\$1.4) million compared to cash flow from operations of \$9.2 million in 2008. The decrease in 2009 is mainly due to lower operating netbacks as a result of decreased commodity prices. In addition, the Company incurred \$2.7 million in restructuring costs related to its CCAA proceedings and the receivership of the "Intrepid" Block 5(c) asset in Trinidad and Tobago.

### Production

	Three months ended	
	2009	2008
Natural gas (mcf/d)	<b>17,016</b>	15,123
Crude oil and natural gas liquids (bbls/d)	<b>531</b>	590
Total Production (boe/d) (6:1)	<b>3,367</b>	3,110

First quarter production in 2009 averaged 3,367 boe per day. The increase in production is due primarily to additional production volumes from the acquisition of Seeker.

## Petroleum and natural gas sales, net of transportation

	Three months ended	
	March 31	
<i>(\$ thousands, except where otherwise noted)</i>	2009	2008
Petroleum and natural gas sales, net of transportation		
Natural gas	7,573	11,209
Crude oil and natural gas liquids	2,219	4,723
Total	9,792	15,932
Average sales price		
Natural gas (\$/mcf)	4.94	8.14
Crude oil and natural gas liquids (\$/bbl)	46.44	88.02
Total (\$/boe)	32.31	56.29

For the three months ended March 31, 2009, petroleum and natural gas sales, net of transportation was \$9.8 million, consisting of \$7.6 million in natural gas and \$2.2 million of crude oil and natural gas liquids sales. The Company realized an average sales price of \$32.31 per boe compared to \$56.29 per boe in 2008. The decrease in petroleum and natural gas sales is due to lower commodity prices in 2009 compared to the same period in 2008.

## Royalties

	Three months ended	
	March 31	
<i>(\$ thousands, except where otherwise noted)</i>	2009	2008
Royalties		
Crown	1,093	2,648
Freehold and overriding	386	676
Total	1,479	3,324
Royalties per boe (\$)	4.88	11.74
Average royalty rate (%)	15.1	20.9

Canadian Superior pays royalties to provincial governments, freehold landowners and overriding royalty owners. Royalties are calculated and paid based on petroleum and natural gas sales net of transportation. Natural gas and liquids royalties for the three months ended March 31, 2009 were \$1.5 million or 15.1% of total petroleum and natural gas sales compared to \$3.3 million or 20.9% in 2008. The decrease in 2009 royalty rate is due to favourable prior period adjustments realized in 2009 on crown royalties and reduced royalty rates under the new Alberta royalty framework.

## Operating expenses

Operating expenses were \$3.5 million or \$11.39 per boe for the first quarter of 2009 compared to \$2.1 million or \$7.39 per boe for the same period in 2008. The increase compared to prior year is mainly due to the higher cost structure of the producing properties acquired in the Seeker acquisition which occurred at the end of the first quarter in 2008.

## General and administrative expenses

	Three months ended	
	March 31	
	2009	2008
<i>(\$ thousands, except where otherwise noted)</i>		
Gross general and administrative expense	5,584	4,128
Capitalized general and administrative expense	(2,665)	(1,757)
Net general and administrative expense	2,919	2,371
General and administrative expense (\$/boe)	9.63	8.38

First quarter general and administrative expense ("G&A") was \$2.9 million or \$9.63 per boe compared to \$2.4 million or \$8.38 per boe in 2008. The increase in gross G&A from 2008 is mainly due to increased expenses related to the Company's share of the Liberty LNG project.

### Restructuring costs

During the first quarter of 2009, the Company incurred \$2.7 million (March 31, 2008 – nil) in restructuring costs related to the receivership of the "Intrepid" Block 5(c) asset in Trinidad and Tobago and CCAA proceedings.

### Stock based compensation

During the three months ended March 31, 2009, Canadian Superior incurred stock based compensation expenses of \$0.7 million compared to \$1.6 million in 2008. The decrease is due to significant grants of options becoming fully vested as at December 31, 2008 and a significantly lower amount of options being granted during the first quarter of 2009 compared to the same period in 2008.

### Depletion, depreciation and accretion

Depletion, depreciation and accretion ("DD&A") was \$9.3 million or \$30.76 per boe for the three months ended March 31, 2009. The calculation of depletion and depreciation included an estimated \$12.5 million (December 31, 2008 - \$12.5 million) for future development capital associated with proven undeveloped reserves and excluded \$140.8 million (December 31, 2008 - \$123.6 million) related to unproved properties and projects under construction or development. Of the costs excluded \$22.7 million (December 31, 2008 - \$22.7 million) relates to Western Canada, \$5.5 million (December 31, 2008 - \$5.5 million) to East Coast Canada, \$95.8 million (December 31, 2008 - \$80.6 million) to Trinidad and Tobago, \$14.1 million (December 31, 2008 – \$12.3 million) to an LNG project in the United States and \$2.7 million (December 31, 2008 –\$2.5 million) for offshore Libya/Tunisia. Canadian Superior's DD&A per boe is high compared to other exploration and production companies its size, due to significant expenditures incurred in prior years to drill and evaluate the Company's offshore wells in the East Coast of Canada being included in the depletable base with no associated proven reserves reflected.

### Income taxes

Canadian Superior's current and future income taxes are dependent on factors such as production, commodity prices and tax classification of drilled exploration and development wells. The Company had a future income tax recovery for the three months ended March 31, 2009 of \$3.1 million (March 31, 2008 - \$0.1 million reduction).

At March 31, 2009, the Company had \$250.5 million in tax pools (December 31, 2008 - \$256.3 million) and \$14.7 million in non-capital losses (December 31, 2008 - \$10.6 million) available for future deduction against taxable income.

	<b>March 31</b>
<i>(\$ thousands)</i>	<b>2009</b>
Canadian exploration expense	<b>33,126</b>
Canadian oil and gas property expense	<b>41,962</b>
Canadian development expense	<b>54,161</b>
Undepreciated capital costs	<b>32,925</b>
Share issue costs	<b>6,048</b>
Foreign exploration expense	<b>81,544</b>
Other	<b>782</b>
<b>Total</b>	<b>250,548</b>

Non-capital losses expire as follows:

<i>(\$ thousands)</i>	
2010	<b>220</b>
2011 - 2025	--
2026	<b>2,970</b>
2027	<b>7,387</b>
2028	<b>4,129</b>
	<b>14,706</b>

### Capital expenditures

	<b>Three months ended</b>	
	<b>March 31</b>	
<i>(\$ thousands)</i>	<b>2009</b>	<b>2008</b>
Exploration and development	<b>17,468</b>	10,676
Plants, facilities and pipelines	<b>1,200</b>	148
Land and lease	<b>591</b>	351
Capitalized general and administrative expenses	<b>2,665</b>	1,757
Exploration and development expenditures	<b>21,924</b>	12,932
Exploration and development divestitures	<b>(9,062)</b>	(940)
<b>Net capital expenditures</b>	<b>12,862</b>	11,992

The Company invested \$21.9 million for capital expenditures during the three months ended March 31, 2009, of which the majority was spent to drill, test and evaluate the "Endeavour" well offshore Trinidad. In addition, the Company tied in 5 wells (4.5 net). No wells were drilled in Western Canada during the first quarter of 2009.

During the first quarter of 2009, the Company had divestitures of \$9.1 million relating to the sale of gross overriding royalties and seismic in Western Canada of which \$7.5 million of the proceeds were applied as a permanent reduction to the Company's credit facility.

### Acquisition

On March 26, 2008, Canadian Superior completed the acquisition of Seeker for consideration of approximately \$51.6 million. The purchase was funded through the issuance of common shares of the Company and advances from the credit facility.

The acquisition was accounted for under the purchase method as follows:

<b>Consideration</b>	
Cash	22,211
Common shares (7,651,866)	28,465
Transaction costs	887
	51,563
<b>Net assets received at fair value</b>	
Cash	1,716
Working Capital	(387)
Fair value of financial instruments	(796)
Property, plant and equipment	40,953
Goodwill	10,365
Asset retirement obligation	(1,243)
Future income taxes	955
	51,563

### Liquidity and capital resources

	<b>March 31</b>	December 31
<i>(\$ thousands)</i>	<b>2009</b>	2008
Working capital surplus (deficit) excluding revolving credit facility	<b>(21,375)</b>	2,034
Revolving credit facility	<b>(33,963)</b>	(43,263)
Working capital deficit	<b>(55,338)</b>	(41,229)

As at March 31, 2009, Canadian Superior had a working capital deficit of \$55.3 million (December 31, 2008 - \$41.2 million), the Company had drawn \$34.0 million (December 31, 2008 - \$43.3 million) against the \$37.5 million (December 31, 2008 - \$45.0 million) revolving credit facility ("credit facility"). The credit facility is secured by a \$100 million first floating charge demand debenture on the assets of the Company and a general security agreement covering all the assets of the Company. In addition, the bank has a \$14.0 million fixed and specific charge against the whole of the Company's Participating Interest in Block 5(c). The Company was charged a variable interest of prime plus 2.0% in January 2009, prime plus 3.0% in February 2009 and prime plus 5.0% in March, 2009 (December 31, 2008 – prime plus 1.0%). The Company has been notified that it will continue to be charged an additional 1.0% above prime for each month during the second quarter of 2009. On January 30, 2009, the Company's bank charged a monthly fee of \$0.1 million to the Company which will continue to be charged until Canadian Superior repays all amounts outstanding and owing to the bank.

The Company had \$10.6 million in cash and short-term deposits (December 31, 2008 - \$6.0 million) and \$15.2 million of term deposits (December 31, 2008 - \$15.2 million) posted as security against the remaining Offshore Nova Scotia work expenditure bids.

On February 12, 2009, the bank demanded for payment in full the amounts outstanding together with any accrued interest and other legal fees and charges by February 23, 2009 or they would take such steps as they considered necessary to protect its position. At February 12, 2009, the amounts outstanding and owing to the bank were \$44.2 million.

In addition, on February 18, 2009 the bank applied the proceeds from an asset sale by the Company as a permanent reduction to the operating facility to a maximum availability of \$37.5 million.

On February 23, 2009, the bank did not take steps to protect its position. Instead, with the filing of the Initial Order for CCAA on March 5, 2009, the bank was under no obligation to advance or re-advance any monies or otherwise extend any credit to the Company. During the first stay period to March 25, 2009 and the second stay period to May 4, 2009 the bank did allow the Company to use the available line of credit. The Company anticipates the same terms for the third stay period to June 4, 2009 and thereafter.

## Contingencies and commitments

### Nova Scotia

Since 2000, the Company has acquired several exploration licenses from the CNSOPB. Each of these licenses is for a specific period of nine years, subject to certain requirements being met during the first five years or six years. As a condition of the licenses, the Company is required to post security in the amount of 25% of its work expenditure bids. The deposit is refundable only to the extent of approved allowable expenditures. The duration of the initial five year term, for a given license, can be extended one additional year to six years by posting an additional security drilling deposit in an amount of \$250,000. The CNSOPB has an additional extension program that allows the six year period to be further extended up to nine years by payment of annual extension fees. During the three months ended March 31, 2009, the Company forfeited two exploration licenses. As of March 31, 2009, as a result of the Company incurring certain expenditures and drilling two exploration wells, the Company had fulfilled its work expenditures on two of the exploration licenses, allowed five licenses to return to the Crown, extended one license and held the remaining two under the regular licensing process. At March 31, 2009, the Company owned 100% of the remaining three exploration licenses with aggregate work expenditure outstanding of \$55.1 million and \$15.2 million in term deposits assigned to the Canadian Receiver General through the CNSOPB.

### Block 5(c) Trinidad and Tobago

The Company is committed to drill three exploration wells on its "Intrepid" Block 5(c) under its Block 5(c) PSC with the Government of Trinidad and Tobago funded in part by a related party participating on a promoted basis, paying 1/3 of Canadian Superior's Block 5(c) exploration program, plus other considerations, to obtain 25% of Canadian Superior's net revenue share from this block; and, also by a non-related party paying approximately 40% of the exploration cost, plus other considerations, for a 30% interest in the Block 5(c) PSC. The Company completed the drilling of the final well of the three well program in March 2009.

On February 10, 2009 the Company announced that it proposed to monetize a 25% or larger interest in its "Intrepid" Block 5(c) offshore Trinidad and Tobago and its related discoveries, subject to acceptable terms and conditions, and subject to all required approvals. Canadian Superior has retained a financial advisor, Scotia Waterous (USA) Inc, to assist in the sale of the asset.

On February 12, 2009 the Company announced the appointment, upon the application of BG, a wholly owned subsidiary of the BG Group plc, of a Receiver of its participating interest in "Intrepid" Block 5(c). Pursuant to the Court Order, the Receiver, in conjunction with BG, will operate the property and conduct the flow testing of the "Endeavour" well which was completed in March 2009. The Court Order allows the Receiver to charge Canadian Superior interest in Block 5(c) with an amount up to US\$47.0 million to pay for its share of the costs under the joint operating agreement with BG. On May 22, 2009, the outstanding principal amount was increased to US\$52.0 million. Canadian Superior will continue with the monetization of its interest in Block 5(c) as previously announced and the proceeds from any sale will be applied to its share of the costs charged against Block 5(c) and to discharge the Receiver. At March 31, 2009, the Company estimates its net obligation to the receiver to be approximately US\$36.9 million, which includes approximately US\$49.4 million paid by the receiver net of US\$12.5 million of Block 5(c) joint interest billings collected by the receiver on the Company's behalf.

### MG Block Trinidad and Tobago

In 2007, the Company received an exploration and development license from the Government of Trinidad and Tobago on the Mayaro-Guayaguayare block ("MG Block") and as a result is committed to conducting 3D seismic by the end of 2009 and to drill two exploration wells on the MG block in a joint venture with the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"). The first well has to be drilled to a depth of 3,000 meters by January 2010 and the second to a depth of 1,800 meters by July 2010. The Company estimates that its share of the cost of these wells to be approximately US\$15.0 million per well. The estimated cost of the 3D seismic program is approximately US\$30.0 million. The Company has provided a performance guarantee of US\$12.0 million to meet the minimum work program.

## Libya/Tunisia

On September 3, 2008, Canadian Superior entered into an exploration production sharing agreement ("EPSA") with a Tunisian/Libyan company, Joint Exploration, Production, and Petroleum Services Company ("Joint Oil") and also signed a "Swap Agreement" awarding an overriding royalty interest and optional participating interest to Joint Oil, in Canadian Superior's "Mariner" Block, offshore, Nova Scotia, Canada. If at the end of August 2011, no royalty well has been spud, Joint Oil has the right to put back and sell the overriding royalty to the Company for US\$12.5 million. Under terms of the EPSA, Canadian Superior has been named Operator for the "7th of November Block".

The exploration work commitment for the first phase (four years) of the seven year exploration period will include three exploration wells, 300 square miles of 3D seismic, and one appraisal well. As a requirement of the EPSA, Canadian Superior provided a bank guarantee for US\$15.0 million to Joint Oil, portions of this guarantee will be reduced by Joint Oil upon Canadian Superior completing specified requirements under the EPSA. Under the terms of the EPSA, the Company has provided a corporate guarantee to a maximum of US\$49.0 million to secure its compliance with certain obligations during the exploration period.

## Flow-through shares

At March 31, 2009, the Company had yet to incur approximately \$10.0 million of Canadian exploration expenses which were renounced for tax purposes. These expenses must be incurred by December 31, 2009.

## Litigation and claims

The Company is involved in various claims and litigation arising in the ordinary course of business. In the opinion of Canadian Superior the various claims and litigations arising there from are not expected to have a material adverse effect on the Company's financial position. The Company maintains insurance, which in the opinion of the Company, is in place to address any unforeseen claims.

## Subsequent events

On April 27, 2009, the Board of Directors of Canadian Superior announced the departure of the Executive Chairman of the Company and the President and Chief Executive Officer of the Company.

On June 2, 2009 the Company announced, as part of its restructuring plan pursuant to CCAA it had reached agreement to dispose of a 45% interest in Block 5(c) for \$142.5 million USD in cash. The agreement is subject to the satisfaction of certain conditions including pre-emption rights from existing field partners and approvals from the Canadian courts and the Government of Trinidad and Tobago. The board of directors of the Company has approved of the sale and intends to recommend the sale to the court. Closing is expected in August 2009.

## Related parties transactions

As at March 31, 2009, Canadian Superior carried a receivable in the amount of US\$44.3 million (December 31, 2008 – US\$29.1 million) from a company which one of Canadian Superior's officers and directors is a shareholder and was a director until October 23, 2008. The receivable at March 31, 2009 was composed of amounts owed to March 31, 2009 of approximately US\$36.8 million, amounts totaling US\$3.9 million representing amounts owing after settlement of dispute with the drilling contractor and approximately US\$3.6 million of drilling costs incurred in March 2009 not billed until April 2009. These receivables pertain to costs incurred on Canadian Superior's "Intrepid" Block 5 (c) project at Trinidad under normal industry terms and conditions.

On February 27, 2009, this company obtained an order from the Court of Queen's Bench of Alberta granting creditor protection under CCAA. The Initial Order was for a period ending March 23, 2009, subsequently extended to April 20, 2009 and June 4, 2009 and is subject to further extension by the Court. The Initial Order was obtained after the Board of Directors determined this company was unable to continue to make required payments under a participation agreement with Canadian Superior and BG with respect to the "Intrepid" Block 5(c) project in Trinidad or to repay \$14.0 million due on February 28, 2009 under a bridge loan facility with Canadian Superior.

On September 23, 2008, Canadian Superior entered into a short-term \$14.0 million bridge facility with this company to enable it to close on a \$30 million equity financing. At March 31, 2009, \$14.0 million had been drawn and was used to satisfy this company's share of direct and indirect costs in connection with the exploration program on the "Intrepid" Block 5 (c) project in Trinidad. The interest payable to Canadian Superior at March 31, 2009 was \$0.2 million based on an interest rate of 10% per annum on any outstanding balance. This company may pay interest incurred in common shares. During the three months ended March 31, 2009, this company issued 188,216 common shares for interest payable up to and including January 31, 2009 based on a predetermined calculation. The bridge security is secured by a debenture creating a first priority security interest over all present and after-acquired personal property and a first floating charge over all present and after-acquired real and personal property of this company. Upon any drawdown of any amounts of the bridge facility this company will issue a predetermined amount of non-transferable warrants to Canadian Superior. At March 31, 2009, this company has issued 500,000 non-transferable share purchase warrants to Canadian Superior. Each warrant entitles the holder to purchase a common share until October, 2010 at a price of \$3.50 per common share. In addition, this company paid a standby fee of \$0.1 million to Canadian Superior in 2008. At March 31, 2009, this company continues to be in default on repayment of the bridge facility.

During the three months ended March 31 2009, the Company paid \$0.1 million (2008 - \$0.5 million), on industry terms, for equipment rentals to a company controlled by an officer and director of Canadian Superior. Also during 2009, the Company invoiced \$0.1 million (2008 - \$0.2 million), to this related party company for payroll services. Subsequent to March 31, 2009, the Company no longer provides this payroll service to this company.

On May 20, 2008, Canadian Superior announced its participation in the proposed development of an LNG project in US federal waters offshore New Jersey. The project will be conducted by Excalibur Energy (USA) Inc., which is a 50/50 joint venture between Canadian Superior and a company controlled and owned by certain officers and directors of Canadian Superior and third parties. Under the terms of the joint venture agreement Canadian Superior will advance the first US\$10.0 million of the pre-construction costs for the project. Joint venture partners may discontinue their participation in the project at any time by assigning its respective interest to the remaining partners without any additional cost or further action required. During the three months ended March 31, 2009, Canadian Superior incurred under normal industry terms and conditions \$1.8 million (March 31, 2008 – nil) of costs related to this project.

#### **Off-balance sheet arrangements**

The Company has no off-balance sheet arrangements.

#### **Share capital**

As at June 2, 2009 the Company had 168.6 million Class A common shares and 15.5 million stock options issued and outstanding.

#### **Financial Instruments**

The carrying values of financial assets and liabilities approximate their fair value due to their short periods of maturity and the credit facility bearing interest at market rates.

Cash, short-term investments and Nova Scotia offshore term deposits are classified as financial assets held for trading and are measured at their fair value. Gains or losses related to periodic revaluation are recorded to net income or loss.

Accounts receivable and the bridge facility receivable are classified as loans and receivables and are initially measured at their fair value. Subsequent periodic revaluations are recorded at their amortized cost using the effective interest rate method.

Accounts payable, accrued liabilities, revolving credit facility and convertible preferred shares are classified as other liabilities and are initially measured at fair value. Subsequent periodic revaluations are recorded at their amortized cost using the effective interest rate method.

Derivatives are classified as held for trading and measured at their fair value. Gains or losses related to periodic revaluation are recorded to net income or loss.

## Risk management

In order to manage the Company's exposure to credit risk, foreign exchange risk, interest rate and commodity price risk, the Company developed a risk management policy. Under this policy, it may enter into agreements, including fixed price, forward price, physical purchases and sales, futures, currency swaps, financial swaps, option collars and put options. The Company's Board of Directors evaluates and approves the need to enter into such arrangements.

### Credit risk

The Company's accounts receivable and bridge facility receivable are with natural gas and liquids marketers, the Government of the Republic of Trinidad and Tobago and joint venture partners in the petroleum and natural gas business under substantially normal industry sale and payment terms and are subject to normal credit risks. As at March 31, 2009, the maximum credit risk exposure is the carrying amount of the accounts receivable and accruals of \$108.6 million (December 31, 2008 – \$83.2 million). As at March 31, 2009, the Company's receivables consisted of \$86.0 million (December 31, 2008 - \$51.8 million) of Block 5(c) joint interest receivables, including US\$44.3 million receivable (December 31, 2008 – US\$29.1 million ) from a related party, \$5.8 million (December 31, 2008 - \$7.4 million) of Western Canada joint interest billings, \$13.6 million (December 31, 2008 - \$18.3 million) in value added tax receivable from the Government of the Republic of Trinidad and Tobago and \$3.3 million (December 31, 2008 - \$5.6 million) of revenue accruals and other receivables. Purchasers of the Company's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of nonpayment. The Company mitigates risk from joint venture partners by obtaining partner approval of capital expenditures prior to starting a project.

The Company's allowance for doubtful accounts is currently \$0.3 million (December 31, 2008 - \$0.3 million).

### Foreign exchange risk

The Company is exposed to foreign currency fluctuations as oil and gas prices received are referenced to U.S. dollar denominated prices. At March 31, 2009, the Company has US\$7.1 million in cash and short-term investments (December 31, 2008 – US\$3.6 million), US\$56.1 million (December 31, 2008 – US\$31.1 million) of Block 5(c) joint interest receivables, US\$10.8 million (December 31, 2008 – US\$15.0 million) in value added tax receivable from the Government of the Republic of Trinidad and Tobago, US\$79.9 million (December 31, 2008 – US\$42.1 million) of Block 5(c) payables, US\$2.0 million (December 31, 2008 – US\$2.0 million) of LNG project payables and US\$14.2 million (December 31, 2008 – US\$14.1 million) of convertible preferred shares. These balances are exposed to fluctuations in the U.S. dollar. In addition, the Company is exposed to fluctuations between U.S. dollars and the domestic currencies of Trinidad and Tobago and Tunisia. At this time, the Company has chosen not to enter into any risk management agreements to mitigate foreign exchange risk.

### Interest rate risk

The Company is exposed to interest rate risk as the credit facility bears interest at floating market interest rates. The Company has no interest rate swaps or hedges to mitigate interest rate risk at March 31, 2009.

### Commodity price risk

The Company is exposed to fluctuations in prices for natural gas, crude oil and natural gas liquids, as the majority of the Company's production is currently sold at spot prices that are subject to volatile trading activity. Commodity prices fluctuate in response to, among other things, domestic and foreign supply and demand, import and export balances, government regulations, weather, and fluctuations in the availability and price of other replacement energy sources. A significant drop in commodity prices could materially impact the Company's petroleum and natural gas sales, the volume of production it could produce economically, require downward adjustments to proved reserves and could materially impact the Company's financial condition. In addition, a substantial decrease in commodity prices could impact the Company's borrowing base under the credit facility, therefore reducing the credit facility available, and in some instances, require a portion of the credit facility to be repaid.

The Company enters into commodity sales agreements and certain derivative financial instruments to reduce its exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes and are not used for trading or other speculative purposes.

## Adoption of new accounting policies

On January 1, 2009, the Company prospectively adopted CICA section 1582 Business Combinations. This section establishes principles and requirements of the acquisition method for business combinations and related disclosures. Adoption of the statement did not have a material impact on the Company's statement of operations.

On January 1, 2009, the Company adopted CICA sections 1601 Consolidated Financial Statements and 1602 Non-Controlling Interests. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. Adoption of the statement did not have a material impact on the Company's statement of operations.

The Canadian Accounting Standards Board requires all public companies to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted if certain conditions are met. Companies will be required to provide IFRS comparative information for the previous fiscal year. At this time, the Company cannot reasonably estimate the impact of adopting IFRS on the Company's consolidated financial statements.

## Sensitivities

The following sensitivity analysis is provided to demonstrate the impact of changes in commodity prices on 2009 petroleum and natural gas sales and is based on the balances disclosed in this MD&A and the consolidated financial statements for the three months ended March 31, 2009:

(\$ thousands)	Petroleum and Natural Gas Sales <sup>(1)</sup>
Change in average sales price for natural gas by \$1.00/mcf	1,531
Change in the average sales price for crude oil and natural gas liquids by \$1.00/bbl	48
Change in natural gas production by 1 mmcf/d <sup>(2)</sup>	445
Change in crude oil and natural gas liquids production by 100 bbls/d <sup>(2)</sup>	418

(1) Reflects the change in petroleum and natural gas sales for the three months ended March 31, 2009.

(2) Reflects the change in production multiplied by the Company's average sales prices for the three months ended March 31, 2009.

## Quarterly financial summary

(\$ thousands except per share and production amounts)

	2009		2008		2007			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Production								
Natural gas (mcf/d)	17,016	15,726	17,268	18,626	15,123	15,366	12,838	11,802
Oil and natural gas liquids (bbl/d)	531	599	689	766	590	636	516	656
Total (boe/d)	3,367	3,220	3,567	3,871	3,110	3,197	2,656	2,623
Petroleum and natural gas sales	9,792	13,213	20,494	24,824	15,932	13,039	10,248	11,961
Net income (loss)	(8,986)	(18,189)	(2,117)	(1,589)	(1,863)	(9,129)	(2,865)	2,187
Earnings (loss) per share – basic	(0.05)	(0.11)	(0.01)	(0.01)	(0.01)	(0.07)	(0.02)	0.02
Cash flow from (used for) operations	(1,411)	4,654	9,330	10,723	9,194	3,033	2,101	2,251
Cash flow per share - basic	(0.01)	0.03	0.06	0.07	0.07	0.02	0.02	0.02

## Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding public disclosure.

Management, including the COO and CFO, has evaluated the effectiveness of the Company's disclosure control and procedures as of March 31, 2009. Based on this evaluation, Management concluded during the interim period ended March 31, 2009, no material changes in the Company's internal controls and procedures have occurred during the Company's most recent interim period, which have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

As reported in the Company's 2008 annual MD&A, the Company concluded that the following material weaknesses in internal controls over financial reporting as of December 31, 2008 existed:

- The Company did not effectively implement certain corporate governance policies; and
- The Company did not have effective policies and procedures governing the authorization of transactions including material agreements.

#### Remediation Effort in 2009

The Company is taking steps to augment and improve the design of procedures and controls impacting these areas of weakness in internal controls over financial reporting. We have implemented or are implementing the following measures, which will improve significantly our disclosure controls, procedures and internal control over financial reporting:

- The Company will implement a delegation of authority to guide decisions and provide guidance to the dollar level amount of transactions that can be entered into by employees at all levels; and
- The implementation of a Board of Directors Mandate and a Corporate Governance mandate to be reviewed and approved on an annual basis.

Management believes that, through implementation of the measures noted above, we will address the conditions identified above as material weaknesses. We will monitor the effectiveness of these measures, and our internal control over financial reporting on an ongoing basis. We will continue to assess our remediation plans and will take further action, as appropriate, to strengthen our internal control over financial reporting.

#### **Additional information**

Additional information relating to Canadian Superior is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at Canadian Superior Energy Corp., Suite 3200, 500 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 2V6 and on the Company's website at [www.cansup.com](http://www.cansup.com).