

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of November 11, 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 Administrators 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 and nine months ended September 30, 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 (used for) 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 (used for) 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 (used for) operations and operating netback should not be considered an alternative to or more meaningful than cash flow from (used for) operating activities, as determined in accordance with GAAP, as an indicator of the Company's performance. In the Operating netback and cash flow from (used for) operations section of this MD&A, reconciliation has been prepared of cash flow from (used for) 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, actions of foreign governments, 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 of hydrocarbons. 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 a liquefied natural gas regasification ("LNG") project, with operations in Western Canada, offshore Nova Scotia, Canada, offshore Trinidad and Tobago, the United States and North Africa.

## **CCAA Proceedings**

On March 5, 2009 ("Petition Date"), Canadian Superior made an application for protection under the Companies' Creditors Arrangement Act ("CCAA") and an Initial Order was granted by the Court of Queen's Bench of Alberta (the "Court") for creditor protection for 20 days, which was subsequently extended to May 4, 2009, June 4, 2009, July 24, 2009 and finally to September 15, 2009. Pursuant to the Initial Order, the Company received approval to continue to undertake various actions in the normal course in order to maintain stable and continuing operations during the CCAA proceedings.

In addition to the Initial Order, on February 11, 2009, Deloitte & Touche Inc. was appointed Interim Receiver (the "Receiver") of the Company's participation interest in Block 5(c) Trinidad pursuant to a court order granted by the Court (the "Receivership Proceedings"). The Receiver assumed temporary operatorship of the Block 5(c) Trinidad properties. This Interim Receivership had no effect on the creditors subject to the CCAA Initial Order.

On August 17, 2009, the Company filed with the Court a Plan of Arrangement (the "Plan"). The purpose of the Plan was to affect a compromise and settlement of all affected claims in order to allow the Company to restructure its affairs for the benefit of all stakeholders, with a view to expediting the recovery of amounts owed to obtain payment in full for the affected creditors. The details of the Plan were as follows:

- The Company would acquire all the shares of Challenger Energy Corp. ("Challenger") pursuant to the terms of the Arrangement Agreement, including its 25% interest in Block 5(c);
- The Interim Receivership proceedings would be terminated;
- BG International Limited ("BG") would acquire a 45% interest in Block 5(c) from the Company for US\$142.5 million;
- BG would withhold two amounts from the purchase price; the first amount was the Receiver's claim of US\$52.0 million plus costs and the second amount was US\$20.0 million to be held in escrow by BG as operator under the Joint Operating Agreement;
- The Company would pay to the Monitor an amount sufficient to fund the affected creditors' pool and disputed claims reserve; and
- The Company would enter into a new revolving credit facility and security agreement with a Canadian chartered bank for \$25.0 million ("credit facility").

On September 11, 2009, the creditors approved the Plan under the CCAA. On September 14, 2009, the Plan was sanctioned by the Court. The Plan was implemented following the various transactions that were completed on September 15, 2009 (the "Effective Date"). Accordingly, the Company emerged from CCAA protection.

On July 10, 2009, the Court approved an Arrangement Agreement contemplating a plan wherein the Company would acquire all the issued and outstanding shares of Challenger by the issuance of 0.51 shares of the Company in exchange for each share of Challenger. On September 9, 2009, an Annual and Special meeting of the Company's shareholders was held at which time the shareholders voted in favour of the Arrangement Agreement. The shareholders of Challenger approved the Arrangement Agreement on August 7, 2009.

On August 10, 2009, the Company entered into a Settlement Agreement with Palo Alto Investors, LLC ("PAI"), a shareholder of the Company, which at the date of the Settlement Agreement held 9.3% of the Company's outstanding common shares. The provisions of the Settlement Agreement became effective upon approval of the Monitor and the Court in the CCAA proceedings. The agreement stated, if by August 11, 2009, each of the new Directors did not consent in writing to act as a director of the Company, then the Settlement Agreement would terminate. The provisions of the Settlement Agreement were as follows:

- The Company's 2009 Annual General Meeting would be held on September 9, 2009;
- The mailing of the Management Proxy Circular would be mailed no later than August 17, 2009;
- The Company would issue a press release announcing the Annual General Meeting, filing date of material and the names of the Board nominees; and
- Within 30 days of exiting CCAA and upon request for payment by PAI, the Company would pay certain expenses of PAI.

## Operating netback and cash flow from (used for) operations

Three months ended September 30,	(\$ thousands)			(\$ per boe)		
	2009	2008	% change	2009	2008	% change
<b>Revenue</b>						
Petroleum and natural gas sales	6,058	20,739	(71)	25.84	63.19	(59)
Realized losses on financial instruments	--	(57)	n/a	--	(0.17)	n/a
Transportation	(145)	(188)	(23)	(0.62)	(0.57)	9
Royalties	(70)	(3,360)	(98)	(0.30)	(10.24)	(97)
	<b>5,843</b>	<b>17,134</b>	<b>(66)</b>	<b>24.92</b>	<b>52.21</b>	<b>(52)</b>
Operating expenses	(2,446)	(4,738)	(48)	(10.43)	(14.44)	(28)
Operating netback <sup>(1)</sup>	3,397	12,396	(73)	14.49	37.77	(62)
General and administrative	(3,398)	(3,376)	1	(14.50)	(10.29)	41
Asset retirement expenditures	(117)	(101)	16	(0.50)	(0.31)	61
Interest and other income	317	142	123	1.35	0.43	214
Foreign exchange gain (loss)	(84)	965	(109)	(0.36)	2.94	(112)
Interest	(3,237)	(459)	605	(13.81)	(1.40)	886
Bad debt	(25)	--	n/a	(0.11)	--	n/a
Restructuring costs	(10,504)	--	n/a	(44.81)	--	n/a
Capital taxes	--	(237)	n/a	--	(0.72)	n/a
Cash flow from (used for) operations <sup>(1)</sup>	(13,651)	9,330	(246)	(58.25)	28.42	(305)
Changes in non-cash working capital	(23,065)	3,387	(781)	(98.40)	10.32	(1,053)
Cash from (used for) by operating activities	(36,716)	12,717	(389)	(156.65)	38.74	(504)

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

Nine months ended September 30,	(\$ thousands)			(\$ per boe)		
	2009	2008	% change	2009	2008	% change
<b>Revenue</b>						
Petroleum and natural gas sales	24,340	62,399	(61)	29.65	64.77	(54)
Realized losses on financial instruments	--	(536)	n/a	--	(0.56)	n/a
Transportation	(503)	(613)	(18)	(0.61)	(0.64)	(5)
Royalties	(2,113)	(11,133)	(81)	(2.57)	(11.56)	(78)
	<b>21,724</b>	<b>50,117</b>	<b>(57)</b>	<b>26.47</b>	<b>52.01</b>	<b>(49)</b>
Operating expenses	(10,314)	(11,214)	(8)	(12.56)	(11.64)	8
Operating netback <sup>(1)</sup>	11,410	38,903	(71)	13.91	40.37	(66)
General and administrative	(10,822)	(9,432)	15	(13.18)	(9.79)	35
Asset retirement expenditures	(462)	(229)	102	(0.56)	(0.24)	133
Interest and other income	798	452	77	0.97	0.47	106
Foreign exchange gain	953	1,985	(52)	1.16	2.06	(44)
Interest	(5,768)	(1,733)	233	(7.03)	(1.80)	291
Bad debt	(112)	--	n/a	(0.14)	--	n/a
Restructuring costs	(18,855)	--	n/a	(22.96)	--	n/a
Capital taxes	--	(699)	n/a	--	(0.73)	n/a
Cash flow from (used for) operations <sup>(1)</sup>	(22,858)	29,247	(178)	(27.83)	30.34	(192)
Changes in non-cash working capital	(7,462)	729	(1,124)	(9.09)	0.76	(1,296)
Cash from (used for) operating activities	(30,320)	29,976	(201)	(36.92)	31.10	(219)

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

For the three months ended September 30, 2009, cash flow used for operations was (\$13.7) million compared to cash flow from operations of \$9.3 million in 2008. For the nine months ended, cash flow used for operations was (\$22.9) million compared to cash flow from operations of \$29.2 million in 2008. The decrease for the nine months ended in 2009 is mainly due to the Company incurring approximately \$18.9 million in restructuring costs, \$2.8 million in interest costs and one time general and administrative expenses ("G&A") related to its CCAA proceedings and the receivership of the "Intrepid" Block 5(c) asset in Trinidad and Tobago. In addition, the Company incurred lower operating netbacks as a result of decreased commodity prices and natural production declines in 2009.

## Production

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Natural gas (mcf/d)	11,794	17,268	14,616	17,007
Crude oil and natural gas liquids (bbls/d)	582	689	571	682
Total Production (boe/d) (6:1)	2,548	3,567	3,007	3,516

Third quarter production averaged 2,548 boe per day and 3,007 boe per day for the nine months ended September 30, 2009. The decrease compared to 2008 is due to normal declines in production, the inability to tie-in all of the successful wells from the 2008 drilling program and the postponement of the 2009 drilling program until the Company exited from CCAA protection on September 15, 2009. The Company has now commenced its 2009 drilling program.

## Petroleum and natural gas sales, net of transportation

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
<i>(\$ thousands, except where otherwise noted)</i>				
Petroleum and natural gas sales, net of transportation				
Natural gas	2,794	13,640	15,339	42,465
Realized losses on financial instruments	--	(57)	--	(536)
	2,794	13,583	15,339	41,929
Crude oil and natural gas liquids	3,119	6,911	8,498	19,321
Total	5,913	20,494	23,837	61,250
Average sales price				
Natural gas (\$/mcf)	2.57	8.55	3.84	9.00
Crude oil and natural gas liquids (\$/bbl)	58.24	108.99	54.47	103.43
Total (\$/boe)	25.23	62.45	29.03	63.57

For the three months ended September 30, 2009, petroleum and natural gas sales, net of transportation were \$5.9 million, consisting of \$2.8 million in natural gas and \$3.1 million of crude oil and natural gas liquids sales. For the nine months ended September 30, 2009, petroleum and natural gas sales were \$23.8 million, consisting of \$15.3 million in natural gas and \$8.5 million of crude oil and natural gas liquids sales. For the third quarter, the Company realized an average sales price of \$25.23 per boe compared to \$62.45 per boe in 2008. For the nine months ended September 30, 2009, the Company realized an average sales price of \$29.03 per boe compared to \$63.57 per boe in 2008. The decrease in petroleum and natural gas sales is mainly due to the significant decline in commodity prices combined with natural declines in production volumes in 2009 compared to 2008. In addition, during CCAA the Company was unable to tie-in all of the successful wells from the 2008 drilling program and was forced to postpone the 2009 drilling program until the Company exited from CCAA protection on September 15, 2009.

## Royalties

	Three months ended		Nine months ended	
	September 30		September 30	
<i>(\$ thousands, except where otherwise noted)</i>	2009	2008	2009	2008
Royalties				
Crown	98	2,556	1,493	8,769
Freehold and overriding	(28)	805	620	2,364
Total	70	3,360	2,113	11,133
Royalties per boe (\$)	0.30	10.24	2.57	11.56
Average royalty rate (%)	1.2	16.4	8.9	18.2

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 nine months ended September 30, 2009 were \$2.1 million or 8.9% of total petroleum and natural gas sales compared to \$11.1 million or 18.2% in 2008. The decrease in 2009 crown royalties is mainly due to the Company receiving \$1.5 million in favourable custom processing and capital cost deductions and reduced royalty rates under the new Alberta royalty framework. In addition, the Company recorded \$0.5 million of favourable payout related royalty adjustments (\$0.2 million to Crown royalties and \$0.3 million to gross overriding royalties) as part of the CCAA creditor claims process.

## Operating expenses

Operating expenses were \$2.4 million or \$10.43 per boe for the third quarter of 2009 compared to \$4.7 million or \$14.44 per boe in 2008. For the nine months ended September 30, 2009, operating expenses were \$10.3 million or \$12.56 per boe compared to \$11.2 million or \$11.64 per boe. The decrease is mainly due to reduced costs incurred under the cost rationalization policy implemented by the Company during the CCAA proceedings which was partially offset by the recording of approximately \$0.9 million of additional operating costs identified during the CCAA creditor claims process.

## General and administrative expenses

	Three months ended		Nine months ended	
	September 30		September 30	
<i>(\$ thousands, except where otherwise noted)</i>	2009	2008	2009	2008
Gross general and administrative expense	4,846	9,650	19,326	20,569
Capitalized general and administrative expense	(1,448)	(6,274)	(8,504)	(11,137)
Net general and administrative expense	3,398	3,376	10,822	9,432
General and administrative expense (\$/boe)	14.50	10.29	13.18	9.79

Third quarter G&A was \$3.4 million or \$14.50 per boe compared to \$3.4 million or \$10.29 per boe in 2008. For the nine months ended September 30, 2009, G&A was \$10.8 million or \$13.18 per boe compared to \$9.4 million or \$9.79 per boe in 2008. The decrease in gross G&A from 2008 is mainly due to decreased activity related to the Liberty LNG project which was partially offset by the payment of one time executive contract settlements in connection with the departures of the Executive Chairman and the President and Chief Executive Officer of the Company in April 2009.

## Restructuring costs

During the nine months ended September 30 2009, the Company incurred \$18.9 million (September 30, 2008 – nil) in restructuring costs related to the receivership of the “Intrepid” Block 5(c) asset in Trinidad and Tobago and CCAA proceedings. The majority of these costs were related to legal costs incurred directly by the Company and associated with the CCAA process and legal costs incurred by the Receiver, BG and the Company’s former banker being charged back to the Company.

## Stock based compensation

During the nine months ended September 30, 2009, Canadian Superior incurred stock based compensation expenses of \$2.0 million compared to \$4.8 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 2009 compared to the same period in 2008.

## Depletion, depreciation and accretion

Depletion, depreciation and accretion ("DD&A") was \$25.5 million or \$31.07 per boe for the nine months ended September 30, 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 \$121.4 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, \$71.6 million (December 31, 2008 - \$80.6 million) to Trinidad and Tobago, \$18.1 million (December 31, 2008 - \$12.3 million) to an LNG project in the United States and \$3.5 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 of its size, due to significant prior year expenditures 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 nine months ended September 30, 2009 of \$15.1 million.

For the nine months ended September 30, 2009, the Company had \$253.6 million in tax pools and \$44.0 million in non-capital losses that are available for future deduction against taxable income.

	September 30
<i>(\$ thousands)</i>	<b>2009</b>
Canadian exploration expense	<b>39,964</b>
Canadian oil and gas property expense	<b>41,415</b>
Canadian development expense	<b>51,740</b>
Undepreciated capital costs	<b>35,234</b>
Share issue costs	<b>10,695</b>
Foreign exploration expense	<b>73,741</b>
Other	<b>813</b>
<b>Total</b>	<b>253,602</b>

Non-capital losses expire as follows:

<i>(\$ thousands)</i>	
2010-2015	<b>220</b>
2016-2025	<b>--</b>
2026-2030	<b>43,785</b>
	<b>44,005</b>

The Company has a future income tax asset of \$5.8 million as at September 30, 2009. The Company has not recognized this amount in the financial statements as the Company does not consider it more likely than not that the benefit associated with the assets will be realized in a reasonable period. The Company will continue to review this position on a go forward basis.

## Capital expenditures

(\$ thousands)	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Exploration and development	54,665	31,301	74,669	62,078
Plants, facilities and pipelines	(458)	755	985	1,752
Land and lease	217	1,186	1,106	2,899
Capitalized general and administrative expenses	1,448	6,274	8,504	11,137
Exploration and development expenditures	55,872	39,516	85,264	77,866
Proceeds on dispositions (a)	(146,644)	--	(155,706)	(940)
Net capital expenditures	(90,772)	39,516	(70,442)	76,926

The Company invested \$85.3 million for capital expenditures during the nine months ended September 30, 2009, of which the majority was spent to drill, test and evaluate the third offshore Trinidad well "Endeavour". In addition, the Company tied in 5 wells (4.5 net). No wells were drilled in Western Canada during the first nine months of 2009.

### (a) Dispositions

#### **Block 5(c) Trinidad and Tobago**

On June 30, 2009, BG gave notice to the Company of its intent to exercise a right of first refusal in respect of the agreement of purchase and sale dated June 1, 2009 between the Company and Centrica Resources Limited. On September 15, 2009, the Company completed the sale to BG of an undivided 45% of the Company's 70% interest in Block 5(c) Trinidad for gross proceeds of US\$142.5M. The sale was executed as part of the Company's CCAA Plan of Arrangement.

Proceeds from disposition	\$CDN
Cash	155,377
Transaction costs	(8,733)
Net proceeds	146,644
<b>Net assets disposed at carrying value</b>	
Property, plant and equipment	(116,530)
Asset retirement obligation	5,522
	(111,008)
Gain on disposition	35,636

#### **Western Canada - Gross overriding royalty and seismic data**

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

### (b) Business Combinations

#### **Challenger**

On September 15, 2009, the Company completed the acquisition of Challenger for consideration of approximately 27.7 million common shares of Canadian Superior. The purchase price for this transaction has been allocated, on a preliminary basis, as follows:

<b>Consideration</b>	
Common shares (27,728,346)	22,183
<b>Net assets received at fair value</b>	
Cash	215
Working capital	(53,244)
Property, plant and equipment	86,950
Asset retirement obligation	(3,068)
Warrants	(147)
	30,706
Gain on corporate acquisition	(8,523)
	22,183

### **Seeker Petroleum Ltd.**

On March 26, 2008, Canadian Superior completed the acquisition of Seeker Petroleum Ltd. 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>September 30</b>	December 31
<i>(\$ thousands)</i>	<b>2009</b>	2008
Working capital surplus excluding revolving credit facility	<b>23,388</b>	2,034
Revolving credit facility	<b>(16,471)</b>	(43,263)
Working capital surplus (deficit)	<b>6,917</b>	(41,229)

During the nine months ended September 30, 2009, the Company was under CCAA creditor protection from March 5, 2009 to September 14, 2009 and emerged from CCAA protection on September 15, 2009.

As at September 30, 2009, Canadian Superior had a working capital surplus of \$6.9 million (December 31, 2008 – (\$41.2) million), the Company had drawn \$16.5 million (December 31, 2008 - nil) against the \$25.0 million (December 31, 2008 - nil) credit facility at a variable interest rate of prime plus 0.75% (December 31, 2008 – nil). The credit facility is secured by a \$100 million debenture with a floating charge on the assets of the Company and a general security agreement covering all the assets of the Company. The credit facility has covenants that require the Company to maintain its working capital ratio at 1:1 or greater and annualized non-domestic operating expenditures to the lesser of US\$7.0 million or 50% of domestic cashflow while the credit facility is outstanding. On October 28, 2009, the Company's lender increased the credit facility from \$25.0 million to \$40.0 million. The credit facility is subject for the next scheduled review in April 2010.

The Company had \$1.2 million in cash and short-term deposits (December 31, 2008 - \$6.0 million), \$22.9 million is classified as restricted cash, 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.

The Company generally relies on cash flow from operations, credit facility availability and equity financings to fund its capital requirements and to provide liquidity. Cash is primarily used, and will continue to be used, to fund acquisitions, exploration and development of petroleum natural gas properties, expenses for continued operations, G&A costs and/or repayment of principal and interest outstanding on the credit facility.

The Company's cash flow from operations is directly related to underlying commodity prices and production volumes. A significant decrease in commodity prices or production could materially impact the Company's future cash flow from operations and liquidity. 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. Management is currently evaluating various options to mitigate its commodity price risk. The Company's future liquidity is also dependent on its ability to increase reserves and production through successful drilling activity and acquisitions.

The remainder of the Company's 2009 exploration and development program will be financed through a combination of cash flow from operations, restricted cash draws, credit facility utilization and potential equity financings.

### **Contingencies and commitments**

#### **Nova Scotia**

Since 2000, the Company has acquired several exploration licenses from the Canada-Nova Scotia Offshore Petroleum Board ("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 nine months ended September 30, 2009, the Company forfeited two exploration licenses. As of September 30, 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 September 30, 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 participate as a 25% working interest partner in the future exploration and development of the "Intrepid" Block 5(c) project operated by BG. At September 30, 2009, BG held in escrow for Canadian Superior US\$20.0 million which reflects the Company's estimated working interest share of budgeted expenditures for the Block 5(c) project until December 31, 2010. Any draws made against the US\$20.0 million are required to be replenished by the Company within 30 days of the draw date. The Company's future obligations for the exploration and development of Block 5(c) are dependent on BG's decisions as operator and the Government of Trinidad and Tobago.

## 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 at least 3,000 meters by January 2010 and the second to a depth of at least 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 agreed to provide a performance guarantee to Petrotrin of US\$12.0 million to meet the minimum work program. The Company is currently in discussions with Petrotrin with respect to the exploration and development program on the MG Block.

## 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 on the Mariner Block, 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".

In July 2008, the Company entered into a Participation Agreement to use reasonable efforts to transfer a 50% interest to a third party upon execution of the EPSA. The interest is to be held in trust until the third party is recognized as a party to the EPSA. The third party is obligated to pay its share of the project costs incurred after July 5, 2009.

Under the EPSA, 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 September 30, 2009, the Company had yet to incur approximately \$9.8 million of Canadian exploration expenses which were renounced for tax purposes. These expenses must be incurred by December 31, 2009. Although no assurances can be provided, the Company believes it will incur these capital expenditures by December 31, 2009.

## Litigation and claims

On November 11, 2009, a U.S. based law firm announced they were investigating potential violations of the federal securities laws of the Company on behalf of purchasers of common shares. No claim has been filed with the Company.

## Subsequent events

On October 16, 2009, the Board of Directors approved a plan to make a substantial portion of the compensation of the directors in the form of long term equity based grants. This plan reflects the Board's belief that the directors should develop a meaningful equity position in the Company and that a major portion of each director's compensation should be tied to the long term performance of the Company. Under the plan, the Board granted 1,338,000 units to the directors under the terms of the stock unit award agreements. A stock unit is the right to receive a cash amount equal to the fair market value of one common share of the Company. The units vest the earlier of December 31, 2012 or the date the Company incurs a change of control. The units vest ratably in the event a director leaves the Board for any reason. If subsequent to the grant date, the shareholders of the Company approve an equity compensation plan under which the stock units may be paid with common shares of the Company, then the Board may determine that the units may be paid in cash or common shares.

On October 20, 2009, the Company issued 531,436 common shares to satisfy the second and third quarter dividend payments to its preferred shareholders.

On October 28, 2009, the Company announced that the Toronto Stock Exchange ("TSX") has completed its review of the common shares of the Company and had determined that the Company meets TSX's original listing requirements.

On November 2, 2009, the Company issued 153,000 common shares of Canadian Superior pursuant to the exercise of 300,000 purchase warrants of Challenger at a price of \$0.25 per purchase warrant for total proceeds of \$75,000.

On November 11, 2009, the Company issued 5,311,000 stock options with a weighted average exercise price of \$0.64 per share.

### **Related parties transactions**

On September 15, 2009, the Company acquired all the issued and outstanding common shares of Challenger for consideration of approximately 27.7 million shares of Canadian Superior. Challenger is a company which Canadian Superior's former Executive Chairman and director was a shareholder and a director. Prior to the acquisition, Canadian Superior carried a receivable in the amount of \$37.8 million (December 31, 2008 – \$35.4 million), a \$14.0 million bridge facility receivable and accrued interest receivable of \$0.9 million from Challenger. 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, Challenger 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, June 4, 2009, July 24, 2009 and September 15, 2009. The Initial Order was obtained after the Challenger Board of Directors determined the company was unable to continue to make required payments under a participation agreement with Canadian Superior and BG with respect to exploration Block 5(c) 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 Challenger to enable Challenger to close on a \$30 million equity financing. During the fourth quarter of 2008, \$14.0 million had been drawn and was used to satisfy Challenger'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 was based on an interest rate of 10% per annum on any outstanding balance. Challenger may pay interest incurred in common shares. During the nine months ended September 30, 2009, Challenger issued 188,216 common shares for interest payable up to and including January 31, 2009 based on a predetermined calculation. Upon any drawdown of any amounts of the bridge facility Challenger was obligated to issue a predetermined amount of non-transferable warrants to Canadian Superior. Challenger issued 500,000 non-transferable share purchase warrants to Canadian Superior which expired unexercised October 2, 2009. In addition, Challenger paid a standby fee of \$0.1 million to Canadian Superior in 2008. Challenger was in default on repayment of the bridge facility.

During the nine months ended September 30, 2009, the Company paid \$0.1 million (2008 - \$1.3 million), on industry terms, for equipment rentals to a company controlled by the former Executive Chairman and director of Canadian Superior. Also during 2009, the Company invoiced \$0.1 million (2008 - \$0.5 million), to this related party company for payroll services. Subsequent to March 31, 2009, the Company no longer provides payroll services to this company.

On May 20, 2008, Canadian Superior announced its participation in the proposed development of a liquefied natural gas regasification project in US federal waters offshore New Jersey. The project was to be conducted by a 50/50 joint venture between Canadian Superior and Global LNG Inc. ("Global"), a company controlled and owned by the former Executive Chairman and director of Canadian Superior. Under the terms of the joint venture agreement Canadian Superior agreed to advance the first US\$10.0 million of the pre-construction costs for the project. On August 13, 2009, the Company executed an agreement wherein the Company now owns 100% of the project and is responsible for 100% of the ongoing costs. During the nine months ended September 30, 2009, Canadian Superior incurred under normal industry terms and conditions \$5.8 million (2008 – \$8.3 million) of costs related to this project.

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

The Company has no off-balance sheet arrangements.

## Share capital

As at November 11, 2009, the Company had 197.1 million common shares, 7.9 million stock options and 9.6 million warrants 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, restricted cash 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 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 September 30, 2009, the maximum credit risk exposure is the carrying amount of the accounts receivable and accruals of \$13.6 million (December 31, 2008 – \$83.2 million). As at September 30, 2009, the Company's receivables consisted of \$0.3 million (December 31, 2008 - \$51.8 million) of Block 5(c) joint interest receivables, \$7.0 million (December 31, 2008 - \$7.4 million) of Western Canada joint interest billings, \$3.9 million (December 31, 2008 - \$18.3 million) in value added tax receivable from the Government of the Republic of Trinidad and Tobago and \$2.4 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 \$0.4 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 September 30, 2009, the Company has US\$0.2 million in cash and short-term investments (December 31, 2008 – US\$3.6 million), US\$21.1 in restricted cash (December 31, 2008 – nil), US\$0.3 million (December 31, 2008 – US\$31.1 million) of Block 5(c) joint interest receivables, US\$3.6 million (December 31, 2008 – US\$15.0 million) in value added tax receivable from the Government of the Republic of Trinidad and Tobago, US\$3.5 million (December 31, 2008 – US\$42.1 million) of Block 5(c) payables, US\$0.4 million (December 31, 2008 – US\$2.0 million) of LNG project payables and US\$14.4 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 September 30, 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, geopolitical events, import and export balances, government regulations, weather, commodity speculators 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. At September 30, 2008, the following commodity price risk contract was in place:

Term	Contract	Volume (GJs/d)	Fixed price
Feb 1, 2008 – October 31, 2008	Swap	2,000	\$7.05

## 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 nine months ended September 30, 2009:

(\$ thousands)	Petroleum and Natural Gas Sales <sup>(1)</sup>
Change in average sales price for natural gas by \$1.00/mcf	<b>3,990</b>
Change in the average sales price for crude oil and natural gas liquids by \$1.00/bbl	<b>156</b>
Change in natural gas production by 1 mmcf/d <sup>(2)</sup>	<b>1,048</b>
Change in crude oil and natural gas liquids production by 100 bbls/d <sup>(2)</sup>	<b>1,487</b>

(1) Reflects the change in petroleum and natural gas sales for the nine months ended September 30, 2009.

(2) Reflects the change in production multiplied by the Company's average sales prices for the nine months ended September 30, 2009.

## Quarterly financial summary

(\$ thousands except per share and production amounts)

	2009				2008			2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Production								
Natural gas (mcf/d)	11,794	15,094	17,016	15,726	17,268	18,626	15,123	15,366
Oil and natural gas liquids (bbl/d)	582	601	531	599	689	766	590	636
Total (boe/d)	2,548	3,117	3,367	3,220	3,567	3,871	3,110	3,197
Petroleum and natural gas sales	5,913	8,132	9,792	13,213	20,494	24,824	15,932	13,039
Net income (loss)	29,456	(9,888)	(8,986)	(18,189)	(2,117)	(1,589)	(1,863)	(9,129)
Income (loss) per share – basic	0.17	(0.06)	(0.05)	(0.11)	(0.01)	(0.01)	(0.01)	(0.07)
Cash flow from (used for) operations	(13,651)	(7,796)	(1,411)	4,654	9,330	10,723	9,194	3,033
Cash flow per share - basic	(0.08)	(0.05)	(0.01)	0.03	0.06	0.07	0.07	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 September 30, 2009. Based on this evaluation, Management concluded during the interim period ended September 30, 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 Corporate Governance guidelines 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).