

CANADIAN SUPERIOR ENERGY INC
Form F-1
May 12, 2006

As filed with the Securities and Exchange Commission on May 12, 2006

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM F-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CANADIAN SUPERIOR ENERGY INC.

(Exact name of registrant as specified in its charter)

Alberta

(Province or other jurisdiction of
incorporation or organization)

Suite 3300, 400 3rd Avenue, SW
Calgary, Alberta
Canada T2P 4H2
(403) 294-1411

1311

(Primary Standard Industrial
Classification Code Number)

Not Applicable

(IRS Employer
Identification No.)

(Address and telephone number of registrant's principal executive office)

PTSGE Corp.

925 Fourth Avenue, Suite 2900
Seattle, Washington 98104
(206) 623-7580

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications to:

Gary J. Kocher
Devin W. Stockfish

Preston Gates & Ellis LLP
925 Fourth Avenue, Suite 2900
Seattle, Washington 98104
(206) 623-7580

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. X

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. O

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. O

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering O

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered(1)	Proposed Maximum aggregate offering price(2)	Proposed Maximum Per Share Offering Price(2)	Amount of registration fee
Common shares, no par value	7,200,000	\$16,560,000	\$2.30	\$1,771.92

(1) Includes 1,200,000 common shares issuable upon the exercise of common share purchase warrants and 6,000,000 common shares issuable upon conversion of 5% US\$100 cumulative convertible redeemable preferred shares issued to persons in the United States in connection with a private placement. Pursuant to Rule 416, this registration statement shall also cover any additional common shares issuable by reason of any future stock dividend, stock split, recapitalization or other similar transaction effected without receipt of consideration that increases the number of outstanding common shares of registrant.

(2) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 based on the average of the high and the low sales prices of Canadian Superior Energy Inc. common shares on the American Stock Exchange on May 10, 2006.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a) may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the United States Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Preliminary Prospectus dated May 12, 2006
Subject to Completion**

7,200,000 Common Shares

This is an offering by certain shareholders of Canadian Superior Energy Inc. of common shares issuable upon exercise of common shares purchase warrants and 5% US \$100 cumulative convertible redeemable preferred shares issued by us in a private placement transaction. The selling shareholders may, from time to time, sell any or all of their common shares on any stock exchange, market or trading facility on which the shares are traded or in privately negotiated transactions at fixed prices that may be changed, at market prices prevailing at the time of sale or at negotiated prices.

We will not receive any proceeds from the sale of our common shares by the selling shareholders.

Our common shares are traded on the American Stock Exchange, or AMEX, and on the Toronto Stock Exchange, or the TSX, under the symbol SNG. The reported closing price of our common shares on May 10, 2006 on AMEX was US\$2.32 and on the TSX was C\$2.55.

Investing in our common shares involves substantial risks which are described in the Risk Factors section beginning on page 5.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2006.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. Unless otherwise indicated, the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common shares.

Market data and certain industry forecasts used throughout this prospectus were obtained from market research, publicly available information and industry publications. We believe that these sources are generally reliable, but the accuracy and completeness of such information is not guaranteed. We have not independently verified this information, and we do not make any representation as to the accuracy of such information.

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In this prospectus, unless otherwise indicated, all dollar amounts and references to \$ are to Canadian dollars and US\$ refers to United States dollars. Unless otherwise indicated, all U.S. dollar amounts referred to in this prospectus which have been converted into U.S. dollars from Canadian dollars have been so converted using the noon exchange rate on April 28, 2006 for one Canadian dollar, expressed in U.S. dollars, as reported by the Federal Reserve Bank of New York, being \$0.8926.

In this prospectus, unless the context otherwise requires, references to we, us, our or similar terms, as well as references to Canadian Superior, refer to Canadian Superior Energy Inc. either alone or together with our subsidiaries.

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ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas		
bbl	barrel	mcf		thousand cubic feet
bbls	barrels	MMcf		million cubic feet
Bcf	billion cubic feet			
Mbbls	thousand barrels	mcf/d		thousand cubic feet per day
boe/d	barrels of oil equivalent per day	MMcf/d		million cubic feet per day
bbl/d	barrels of oil per day	M ³		cubic metres
Mmbbls	million barrels	MMBTU		million British Thermal Units
AOF	absolute open flow	gj		gigajoule (trillion joules)
API	American Petroleum Institute	TCF		trillion cubic feet
ARTC	Alberta Royalty Tax Credit	MMscf		million standard cubic feet
MSTB	thousands of Stock Tank Barrels of oil (oil volume at 60° F and 14.65 PSIA)	NGLS		natural gas liquids

Other:

boe Barrel of oil equivalent of natural gas and crude oil on the basis of 1 Bbl of crude oil for 6 Mcf of natural gas (this conversion factor is not based on either energy content or current prices).

\$M Thousands of dollars

\$MM Millions of dollars

CONVERSION

The following table sets forth certain standard conversions from Standard Imperial units to the International system of units (or metric units).

To Convert From	To	Multiplied By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls oil	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471
Gigajoules	MMBTU	0.950

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary may not contain all the information that you should consider before investing in our common shares. You should read the entire prospectus carefully before making an investment decision.

BUSINESS OF THE COMPANY

We are a crude oil and natural gas exploration and production company with primary emphasis on the exploration for, and production of, crude oil and natural gas in Western Canada, offshore Nova Scotia, Canada and offshore Trinidad and Tobago.

Trinidad and Tobago

We were awarded the right to explore on Block 5(c), which we have named *Intrepid*, in the Government of Trinidad and Tobago Ministry of Energy and Energy Industries 2003/2004 Offshore Competitive Bid Round in May 2004. Our *Intrepid* Block 5(c) covers 80,041 gross acres. We have obtained detailed 3D seismic data of the *Intrepid* Block from the Government of Trinidad and Tobago and are interpreting that data to confirm drilling locations.

On July 20, 2005, we signed a production sharing contract with the Government of Trinidad and Tobago for Block 5(c), which provides us the right to explore on Block 5(c), which covers 80,041 gross acres.

We submitted our Application for a Certificate of Environmental Clearance to the Trinidad and Tobago Environmental Management Authority, or EMA, for exploration drilling on Block 5(c) within the East Coast Marine Area. We have conducted two Public Consultation Meetings in Mayaro, on December 17, 2005 and on February 13, 2006, to discuss the proposed project with affected stakeholders. An Environmental Baseline Survey was conducted in Block 5(c).

On March 20, 2006, we announced that we had entered into a firm multi-well contract for the Kan Tan IV Semi-Submersible Drilling Rig, managed by A. P. Moller - Maersk A/S, of Copenhagen, Denmark and owned by Beijing Zhiyuan Industries Company Limited, of Beijing, China to drill our first two exploration wells on our *Intrepid* Block 5(c) offshore Trinidad. We plan to commence drilling on the first of two Canadian Superior operated back-to-back wells in September and October 2006 to evaluate two separate large 3D seismically defined potential natural gas structures with the Kan Tan IV rig as soon as the Kan Tan IV has completed a scheduled refurbishment currently underway in Brownsville, Texas.

We continue to make steady progress in preparing for exploration and development on our offshore Trinidad and Tobago holdings.

In addition, in Trinidad and Tobago, we continued to prepare for the first phase of operations on our Mayaro/Guayaguayare (M/G) Tradewinds project, a joint venture with the national oil company, the Petroleum Company of Trinidad and Tobago Limited, or Petrotrin. This joint venture encompasses securing two near-shore Blocks (55,000 gross acres) off the east coast of Trinidad where there is the potential to establish significant oil reserves in the heart of a known producing hydrocarbons-bearing structural trend. On the M/G Block, we are working on the design of a seismic program to evaluate the near-shore block and plan to conduct this program after this license is transferred to us by the Trinidad and Tobago Government.

East Coast, Offshore Nova Scotia, Canada

Our holdings offshore Nova Scotia consist of 100% interests in six exploration licences totaling 1,293,946 acres. We are involved in the three main play types in the basin.

In 2005, we were advised by the Canada-Nova Scotia Offshore Petroleum Board, or CNSOPB, that the consolidation of its deepwater Mayflower exploration licence (EL 2406) and the shallower water Mariner exploration licence (EL 2409) had been approved by the Government of Canada and the Province of Nova Scotia. This consolidation will come into effect upon the drilling of the next Mariner exploration well and will allow the work commitments and related work commitment deposits for these two exploration licences (EL 2406 and EL 2409) to be combined, allowing the existing work deposit for our deepwater Mayflower Project, approximately \$10 million, to be applied directly against the costs of drilling our next Mariner well; in effect, this provides us with \$10 million of additional capital to be applied to drilling the next Mariner well.

The Mariner Project lands are located approximately nine kilometres northeast of Sable Island, offshore Nova Scotia. The first exploration well, Mariner I-85, was drilled on this block in 2003/2004 (November 2003 to March 2004). Furthermore, upon consolidation, the exploration term for our 100% deepwater Mayflower license (EL 2406) will be extended for 2 additional years, from the current expiry date of December 31, 2006 to December 31, 2008; and, thereafter, 50% of the licence area will be extended for an additional two years to December 31, 2010. Our Mayflower deepwater project exploration licence covers approximately 712,000 acres.

In addition to our Mariner exploration project targeting Cretaceous and Jurassic gas bearing sands, we continue to monitor drilling activities near our Abenaki Reef Marquis 100% prospects. Our Marquis Project lands encompass two exploration licenses with approximately 111,000 contiguous acres located in shallow water depths close to the existing Sable Offshore Energy Project producing infrastructure and EnCana's Deep Panuke discoveries. We also have identified several other large Cretaceous and Jurassic prospects on our 100% Marauder and 100% Marconi exploration lands which cover an additional 371,000 acres offshore Nova Scotia, offsetting the Sable Island area, and in the fourth quarter of 2005, we initiated the environmental impact assessment work required prior to conducting seismic and drilling on these properties.

Western Canada

Concerted emphasis and effort continues to be applied to Western Canada through our exploration and operations teams to maintain and grow our cash flow and production, focusing on developing our Drumheller, Alberta core area and several other drilling opportunities.

All of our current production is located in Western Canada where we have interests in several key areas including Drumheller, Windfall, Boundary Lake, East Ladyfern, Giroux Lake and Teepee. During 2005, we drilled or participated in 67 gross (28.22 net) wells which included 17 gross (14.42 net) operated wells and 50 gross (13.8 net) non-operated wells. We completed or tied in 63 wells for a success rate of 94%. We maintained our extensive land holdings in Western Canada. At December 31, 2005, we held 275,710 gross acres (193,576 net acres) of land at an average working interest of 70%.

The Drumheller Area accounts for approximately 90% of our production and consists of both conventional and non-conventional (coal bed methane) play types. In 2005, 64 gross (26 net) wells were drilled in the Drumheller area consisting of 18 gross (13.2 net) conventional wells and 46 gross (12.8 net) Horseshoe Canyon coal bed methane wells. We acquired or purchased five 3-D seismic programs, which are

critical in continuing the success that we achieved in 2005.

The Drumheller area offers a multitude of opportunities that include both oil and gas play types and are contained in four distinct stratigraphic zones.

The shallow targets include the Belly River and the Edmonton Groups and range in depth from 300 - 700 meters (980 - 2300 feet). Well production in these zones range from 50 - 750 mcf/d with associated reserve size of .1 - 2 Bcf.

Our current activities in coal bed methane are centered on the Horseshoe Canyon in which we drilled or participated in 46 wells during 2005. All of these wells have been successful and we will continue to develop these assets in to 2006. We hold 157 gross (81 net) sections of Horseshoe Canyon rights. The Horseshoe Canyon coal depths range from 200 - 400 meters (650 - 1300 feet) and are typically found in 8 - 10 coal seams with thicknesses averaging from .75 - 1.5 meters (2.5 - 5 feet). These coals contain dry gas and produce little or no water.

We have 42 gross (41 net) sections of land in the Mannville coal bed methane fairway. Our total acreage for coal bed methane is 185 gross (108 net) sections of which 14 gross (13.4 net) sections have both Horseshoe Canyon and Mannville coal bed methane potential.

The Boundary Lake / Teepee area is a high reward medium risk area and was a major focus area for us in 2005. At the end of 2005, this property represented a minor portion of our total production, but renewed emphasis has been placed on this year round access area. We purchased additional lands, 2D and 3D seismic data. We also have several follow-up locations based on the success of the initial drilling.

We drilled or participated in two wells in the Windfall area in 2005. Both these wells were successful and have been tied in. Both wells are producing between 750 - 1000 mcf/d.

In 2005, we followed up our Slave Point play in the East Ladyfern area with the addition of 2D seismic and the drilling of the 1-26-91-11W6 well. This well was drilled in late January 2005 due to delayed freeze-up and rig availability. Because of early break-up, no testing could be done at the time. The logs over the Slave Point have been subsequently further evaluated and we have now determined that they show gas over water. At this time, because of high costs associated with completing this type of sour natural gas, further testing of this formation is not justified. However, the shallower Cretaceous zones in the 1-26 and other wells in the area show promise. We plan, together with our partner, to complete the 12-27-91-11W6 and the 1-26-91-11W6 well bores and to drill a new shallow location in the first half of 2006. With success in the shallower non-sour lower cost Cretaceous resource play, the needed infrastructure will be brought into the area and may allow economic tie-ins of the Slave Point gas in this area at a later date.

We are now also focusing our exploration in Western Canada towards the foothills of Alberta, Canada. This area represents an area of high risk - high reward exploration and production with year round access. In this area, well reserves can range to over 10 Bcf/well with associated natural gas liquids and can produce at rates of over 5 - 10 mmcf/d.

Strategy

We have been successful in implementing our strategies for creating high impact opportunities, value and growth with the support of our shareholders. We continue to strive to deliver shareholders a growth strategy based on continued development in Western Canada of cash flow and production focusing on our Drumheller core area, and on other opportunities that we have developed in Western

Canada, including our evolving Coal Bed Methane, or CBM, opportunities. We plan to commence drilling in Trinidad and Tobago on our Intrepid Block 5(c) later in 2006 and to proceed with further drilling offshore Nova Scotia on our Mariner Block in due course.

RECENT DEVELOPMENTS

On February 1, 2006, we completed a private placement of US\$15 million of preferred share purchase units to West Coast Opportunity Fund, LLC. Each preferred share purchase unit consists of ten 5% US\$100 cumulative convertible redeemable preferred shares and eighty common share purchase warrants. The common share purchase warrants comprising part of the preferred share purchase units are exercisable for our common shares for a period of thirty-six months from the date of issue, which was February 1, 2006, at an exercise price of US\$3.00 per common share. Each convertible redeemable preferred share comprising part of a preferred share purchase unit is convertible at the election of the holder thereof into forty of our common shares, subject to certain adjustments. Pursuant to the terms of a registration rights agreement entered into in connection with the private placement, we were obligated to file a registration statement with the Securities and Exchange Commission, or the Commission, within 30 days of the closing of the private placement to register the common shares issuable upon exercise of the common share purchase warrants and upon conversion of the convertible redeemable preferred shares. We are required to have the registration statement declared effective within 180 days of the closing of the private placement. To the extent that we fail meet either of the foregoing requirements, we will be required to pay West Coast Opportunity Fund, LLC one-thirtieth of one percent of the US\$15 million aggregate purchase price for each day that such requirement is not met, up to a maximum amount of six percent of the aggregate purchase price.

CORPORATE INFORMATION

We were incorporated as 297272 Alberta Ltd. by Articles of Incorporation under the Business Corporations Act (Alberta) on March 21, 1983. We changed our name to Kapalua Gold Mines Ltd. on April 27, 1993 and then to Prize Energy Inc. on November 16, 1993. We subsequently changed our name to Canadian Superior Energy Inc. on August 24, 2000. Our main offices are located at 3300, 400 - 3rd Avenue S.W., Calgary, Alberta, T2P 4H2 and our registered office is located at 3300, 421 - 7th Avenue S.W., Calgary, Alberta, T2P 4K9. Our east coast office is located at 1409, 1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2. Our telephone number is (403) 294-1411 and our website address is www.cansup.com. The information contained on our website does not constitute part of, nor is it incorporated into, this prospectus.

RISK FACTORS

Investing in our common shares involves a high degree of risk. In addition to the other information included in this prospectus, you should carefully consider the risks described below before purchasing our common shares. If any of the following risks actually occur, our business, financial condition and results of operations could materially suffer. As a result, the trading price of our common shares could decline, and you might lose all or part of your investment.

An investment in our common shares is speculative due to the nature of our business.

An investment in our common shares is speculative due to the nature of our involvement in the exploration, development and production of oil and natural gas and our present stage of development. Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by us will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the

inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions, such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Our long-term commercial success depends upon our ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that we will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, we may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

We might have difficulty obtaining additional capital, which could prevent us from achieving our business objectives. If we are successful in raising additional capital, it may have a dilutive effect on our shareholders.

We anticipate that we will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If our revenues or reserves decline, we may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations, will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to us. Failure to obtain such financing on a timely basis could cause us to forfeit our interest in certain properties, miss certain acquisition opportunities and reduce or terminate our operations. Moreover, future activities may require us to alter our capitalization significantly. Our inability to access sufficient capital for our operations could have a material adverse effect on our financial condition, results of operations or prospects. Also, if we raise funds by issuing additional common shares or debt securities convertible into common shares, our shareholders will experience dilution, which may be significant, to their ownership interest in us. If we raise funds by issuing shares of a different class of stock other than our common shares or by issuing debt, the holders of such different classes of stock or debt securities may have rights senior to the rights of the holders of our common shares.

We may incur debt to finance the acquisition of assets and other companies. This may impair our ability to obtain future financing to fund our operations or future business opportunities.

From time to time we may enter into transactions to acquire assets or the securities of other companies. These transactions may be financed partially or wholly with debt, which may increase our debt levels above industry standards. Neither our articles nor our bylaws limit the amount of indebtedness that we may incur. The level of our indebtedness may impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise or to fund our operations.

Declines in the world prices of oil and natural gas may have a material adverse effect on our revenues and net income.

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond our control. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue and income. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of our oil and natural gas reserves. We might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in our future net production revenue, causing a reduction in our oil and natural gas acquisition and development activities. In addition, bank borrowings available to us are in part determined by our borrowing base. A sustained material decline in prices from historical average prices could limit our borrowing base, therefore reducing the bank credit available to us, and could require that a portion of our then existing bank debt be repaid.

In addition to establishing markets for our oil and natural gas, we must also successfully market our oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by us will be affected by numerous factors beyond our control. We will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by us. Our ability to market our natural gas may depend upon our ability to acquire space on pipelines which deliver natural gas to commercial markets. We will also likely be affected by deliverability uncertainties related to the proximity of our reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and other aspects of the oil and natural gas business.

The nature of our business exposes us to substantial risks. To the extent that we incur liability in excess of our insurance coverage, our financial position, results of operations or prospects could be materially affected.

Our involvement in the exploration for and development of oil and natural gas properties may result in our becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although we have obtained insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, we may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to us. The occurrence of a significant event that we are not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position, results of operations or prospects.

Future litigation could adversely affect our business and cash position.

From time to time, we may become involved in litigation relating to claims arising from our ordinary course of business. While we are not currently a party to any outstanding litigation, there can be no assurance that claims will not arise in the future. Litigation can be time consuming, expensive, and distract our management from the conduct of our business. To the extent we incur expenses in connection with litigation or regulatory proceedings in the future, which expenses may include substantial fees of attorneys and other professional advisors and potential obligations to indemnify officers and directors who may be parties to such actions, such expenses could adversely affect our cash position if they are not otherwise covered by available insurance.

We are subject to numerous environmental regulations that have become more stringent in the recent past and may result in increased liabilities and increased capital expenditures by us.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and national, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. We believe that we are in substantial compliance with existing legislation. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect our financial condition, results of operations or prospects.

We will encounter competition in all areas of our business and may not be able to successfully compete with our competitors.

We actively compete for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than us. Our competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators. The oil and natural gas industry is highly competitive. Our competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than we do. Certain of our customers and potential customers are themselves exploring for oil and gas, and the results of such exploration efforts could affect our ability to sell or supply oil or natural gas to these customers in the future. Our ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with our future industry partners and joint operators and our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Our reserves will be depleted over time and we may be unable to develop or acquire additional reserves.

Our future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on our successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any of our existing reserves and the production therefrom will decline over time as such existing reserves are exploited. A future increase in our reserves will depend not only on our ability to develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects. There can be no assurance that our future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Our success depends on our ability to retain the current members of our senior management team and other key personnel.

Our success depends to a significant extent on the continued services of our core senior management team and other key personnel. If one or more of these individuals were unable or unwilling to continue in his present position, our business would be disrupted and we might not be able to find replacements on a timely basis or with the same level of skill and experience. Finding and hiring any such replacements could be costly and might require us to grant significant equity awards or other incentive compensation, which could adversely impact our financial results. We do not maintain key-person life insurance for any of our management personnel or other key employees.

Our production and revenues may to some extent be dependent on the ability of third party operators.

To the extent we are not the operators of our oil and natural gas properties, we will be dependent on such operators for the success of those properties and we will largely be unable to direct or control the activities of the operators. If, in situations where we are not the operator, the operator fails to perform adequately or becomes insolvent, our revenues may be reduced. Payments from production generally flow through the operator and, where we are not the operator, there is a risk of delay and additional expenses in receiving such revenues. Additionally any delay in payment along the production chain could adversely impact your dividends.

We may not be able to secure the required licenses and permits for the conduct of our business.

Our operations generally require licenses and permits from various governmental authorities. There can be no assurance that we will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at our projects.

Increases in royalties and taxes payable by us will adversely affect our profitability.

In addition to federal regulations, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time, the Governments of Canada, Alberta, British Columbia and Saskatchewan have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced planning projects. Oil and natural gas royalty holidays and reductions for specific wells reduce the amount of Crown royalties

paid by us to the provincial governments. In Alberta, the Alberta Royalty Tax Credit program provides a rebate on Alberta Crown royalties paid in respect of eligible producing properties. Both of these incentives have the effect of increasing our net income. Producers of oil and natural gas in the Province of British Columbia are also required to pay annual rental payments in respect of Crown leases and royalties and freehold production taxes in respect of oil and natural gas produced from Crown and freehold lands, respectively. The amount payable as a royalty in respect of oil depends on the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), the quantity of oil produced in a month and the value of the oil. In specific circumstances, oil produced from newly discovered pools may be exempt from the payment of a royalty for the first 36 months of production.

We may not be able to guarantee that title to certain of our properties is free from defect.

We have not obtained a legal opinion as to the title to our freehold properties other than the properties that we obtained in our acquisition of assets of El Paso Corporation in 2004 and cannot guarantee or certify that a defect in the chain of title may not arise to defeat our interest in certain of such properties. Remediation of title problems could result in additional costs and litigation. If title defects are unable to be remedied, we may lose some of our interest in the disputed properties resulting in reduced production. Although title reviews were conducted prior to the purchase of the El Paso Properties and may be conducted prior to the purchase of other oil and natural gas producing properties or the commencement of drilling wells, such reviews may not discover unforeseen title defects that could adversely affect our title to or proportionate interest in the property or entitlement to revenue from the property.

Certain of our directors and officers may have conflicts of interest.

Certain of our directors and officers are also directors and officers of other oil and natural gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of Canadian Superior and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the *Business Corporations Act* (Alberta).

FORWARD-LOOKING STATEMENTS

Statements contained in this prospectus relating to future results, events and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Securities Act, and Section 21E of the Securities Exchange Act, or Exchange Act. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or the actual results, performance or achievements of our industry, to be materially different from any future results, performance or achievements expressed or implied by such statements. All statements in this document, other than statements of historical fact, including statements regarding estimates of reserves, estimates of future production as well as other statements about anticipated future events or results are forward looking statements. Forward looking statements often, but not always, are identified by the use of words such as seek, anticipate, believe, continue, plan, estimate, expect, target, and intend, and statements that an event or result may, will, should occur or be achieved and other similar expressions. Forward-looking statements in this prospectus include, but are not limited to, statements about:

- The future commercial success of our oil and natural gas exploration, development and production activities;
- The stability of world-wide oil and natural gas prices;
- Our ability to make necessary capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future;
- Competition with and among other oil and natural gas companies for the acquisition, exploration, production and development of oil and natural gas properties;
- Our oil and natural gas reserves;
- Our ability to obtain the required licenses and permits from governmental authorities for our exploration, development and production activities; and
- Our ability to successfully defend against pending or future litigation.

Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward looking statements are discussed in the section Risk Factors and elsewhere in this document and to those that may be discussed as part of particular forward looking statements. We qualify all of our forward-looking statements by these cautionary statements. We assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

USE OF PROCEEDS

All of the net proceeds from the sale of the common shares by the selling shareholders will go to them upon sale of such shares. We will not receive any proceeds from the sales of our common shares by the selling shareholders. If all of the common share purchase warrants are exercised we will receive an aggregate of US\$3,600,000 in payment of the exercise prices therefore. We will not receive any additional consideration in connection with the conversion of the 5% US\$100 cumulative convertible redeemable preferred shares. The proceeds received from the exercise of the warrants, if any, will be used for drilling and development of our holdings offshore Trinidad and Tobago, and for general working capital.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The statement of operations data and cash flow data for the years ended December 31, 2005, 2004 and 2003, and the balance sheet data as of December 31, 2005 and 2004, are derived from our audited consolidated financial statements and related notes thereto, which have been included elsewhere in this prospectus. Our selected consolidated financial information for the years ended December 31, 2002 and 2001 and our balance sheet data as of December 31, 2002 and 2001 have been derived from our audited consolidated financial statements, which are not included in this prospectus. The balance sheet data as of December 31, 2003 is derived from audited consolidated financial statements, which have not been presented in this prospectus.

We prepare our consolidated financial statements in Canadian dollars in accordance with Canadian GAAP. See Note 15 to our annual consolidated financial statements, which are included elsewhere in this prospectus, for a description of the principal differences between Canadian GAAP and U.S. GAAP. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes thereto included elsewhere in this prospectus.

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	Year Ended December 31,				
	2005	2004	2003	2002	2001
Revenue					
Oil and gas	\$ 54,545	\$ 38,684	\$ 31,618	\$ 7,741	\$ 4,945
Royalties net of royalty tax credit	(9,716)	(5,805)	(6,050)	(1,734)	(867)
	44,829	32,879	25,568	6,007	4,078
Expenses					
Production and operating	7,239	7,151	5,992	2,542	1,054
General and administration	5,398	4,614	4,849	2,898	2,291
Interest	1,015	1,104	1,456	158	0
Depletion, amortization and accretion	23,539	22,177	14,291	48,894	1,055
Stock based compensation	3,657	2,612	771	0	0
	40,848	37,658	27,359	54,492	4,400
Earnings (loss) from operations	3,981	(4,779)	(1,791)	(48,485)	(322)
Other income (expense)	(715)	493	364	454	13,499
Earnings (loss) before income taxes	3,266	(4,286)	(1,427)	(48,031)	13,177
Income taxes (reduction)					
Capital	129	261	288	64	140
Future reduction	81	(1,523)	(763)	(19,922)	4,928
	210	(1,262)	(475)	(19,858)	5,068
Net earnings (loss)	3,056	(3,024)	(952)	(28,173)	8,109
Retained earnings (deficit), beginning of year, as previously reported	(4,462)	(312)	(17,057)	11,116	3,007
Accounting changes	0	(1,126)	(486)		
Retained earnings (deficit), beginning of year, as restated	(4,462)	(1,438)	(17,543)	11,116	3,007
Reduction in stated capital	0		17,057	0	
Retained earnings (deficit), end of year	(1,406)	(4,462)	(1,438)	(17,057)	11,116
Earnings (loss) per share	0.03	(0.03)	(0.01)	(0.51)	0.20
Diluted earnings (loss) per share	0.03	(0.03)	(0.01)	(0.51)	0.19
Balance Sheet Data					
Cash and short term investments	11,798	1,725	9,328	0	8,190
Current assets	21,540	8,126	23,436	5,978	11,954
Total assets	186,345	151,011	144,749	49,956	68,588
Current portion long-term debt:	12,851	10,750	12,550	5,150	0
Total liabilities	45,545	37,461	42,379	17,086	25,691
Total shareholders' equity	140,800	113,550	102,370	32,870	42,897

PRICE RANGE OF COMMON SHARES

Our common shares are traded on AMEX and the TSX under the symbol SNG. The following tables set forth, for the periods indicated, the reported high and low sales prices of our common shares on AMEX.

Period	American Stock Exchange	
	High (U.S.\$)	Low
Year ended December 31, 2005	2.50	1.46
Year ended December 31, 2004	3.54	1.00
Year ended December 31, 2003	2.58	0.88
Year ended November 30, 2002	1.06	0.68
Year ended November 30, 2001		
Calendar 2006		
First Quarter	2.57	2.15
Calendar 2005		
Fourth Quarter	2.38	1.93
Third Quarter	2.50	1.60
Second Quarter	1.76	1.46
First Quarter	2.12	1.58
Calendar 2004		
Fourth Quarter	2.25	1.43
Third Quarter	1.90	1.30
Second Quarter	1.69	1.00
First Quarter	3.54	1.22
April 2006	2.42	2.23
March 2006	2.40	2.15
February 2006	2.57	2.16
January 2006	2.63	2.05
December 2005	2.18	2.00
November 2005	2.14	1.98

The following table sets forth, for the periods indicated, the reported high and low sales prices of our common shares on the TSX.

Period	Toronto Stock Exchange	
	High (C\$)	Low
Year ended December 31, 2005	2.92	1.82
Year ended December 31, 2004	4.70	2.18
Year ended December 31, 2003	3.40	1.25
Year ended November 30, 2002	3.39	1.05
Year ended November 30, 2001	1.73	1.20
Calendar 2006		
First Quarter	2.95	2.49
Calendar 2005		
Fourth Quarter	2.80	2.23
Third Quarter	2.92	1.90
Second Quarter	2.20	1.82

Period	Toronto Stock Exchange	
	High (C\$)	Low
First Quarter Calendar 2004	2.74	1.94
Fourth Quarter	2.84	1.77
Third Quarter	2.43	1.71
Second Quarter	2.29	1.36
First Quarter	4.70	1.62
April 2006	2.81	2.52
March 2006	2.75	2.49
February 2006	2.95	2.50
January 2006	3.00	2.40
December 2005	2.53	2.30
November 2005	2.50	2.31

CONSOLIDATED CAPITALIZATION

The following table describes our consolidated capitalization as of December 31, 2005, and as adjusted in order to give effect to the issuance and exercise of the common share purchase warrants, the issuance and conversion of the 5% \$100 cumulative convertible redeemable preferred shares, and the issuance of the common shares issuable upon exercise and conversion thereof, and before deducting expenses of this offering. This table is presented in Canadian GAAP and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus.

For your convenience, we have converted certain Canadian dollar amounts for December 31, 2005 into U.S. dollars at the rate of US\$0.869 per \$1.00 (the noon exchange rate on December 31, 2005 for one Canadian dollar, expressed in U.S. dollars, as reported by the Federal Reserve Bank of New York). You should not view such currency translations as a representation that such Canadian dollar amounts actually represent such U.S. dollar amounts or could be or could have been converted into U.S. dollars at the rates indicated or at any other rate.

	December 31, 2005		December 31, 2005	
	Actual (U.S. dollars, in thousands)	As Adjusted	Actual (Canadian dollars, in thousands)	As Adjusted
Cash, cash equivalents and short term investments	\$ 10,252	\$ 28,852	C\$ 11,798	C\$ 33,201
Long term debt and obligations under capital leases (including current portion)	0	0	0	0
Shareholders equity				
Common shares, no par value (authorized: unlimited; outstanding: 119,135,362 actual as of December 31, 2005, 126,335,362 as adjusted)	118,023	136,623	135,815	157,219
Preferred shares, no par value (authorized: unlimited; outstanding: nil actual and as adjusted)	0	0	0	0
Contributed surplus	5,554	5,554	6,391	6,391
Deficit	(1,222)	(1,222)	(1,406)	(1,406)
Total shareholders equity	122,355	140,955	140,800	162,204
Total Capitalization	\$ 132,607	\$ 169,807	C\$ 152,598	C\$ 195,405

The information in the above table does not include:

- 9,488,389 common shares issuable upon the exercise of outstanding share options as of December 31, 2005 at a weighted-average exercise price of \$1.83 per share;
- 1,462,661 common shares reserved for future issuance under our stock option plan as of December 31, 2005; and
- 2,750,000 common shares issuable upon the exercise of outstanding warrants as of December 31, 2005, at a weighted average exercise price of \$2.50.

CURRENCY EXCHANGE RATES

We present our consolidated financial statements in Canadian dollars. The following table sets forth, for each period presented, the low and high exchange rates for Canadian dollars expressed in U.S. dollars, the exchange rate at the end of such period and the average exchange rate for such period, based on noon buying rate in the City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York. As of April 28, 2006, the inverse of the noon Federal Reserve Bank of New York buying rate of Canadian dollars was \$1.00 = US\$0.8926.

	Fiscal Year Ended December 31				
	2001	2002	2003	2004	2005
High	US\$ 0.662	US\$ 0.670	US\$ 0.774	US\$ 0.849	US\$ 0.869
Low	0.620	0.624	0.635	0.716	0.787
Period end	0.633	0.628	0.774	0.831	0.858
Average*	0.637	0.645	0.719	0.770	0.828

* Based on average exchange rates in effect on the last day of each month during such periods.

	Month Ended													
	October 31, 2005		November 30, 2005		December 31, 2005		January 31, 2006		February 28, 2006		March 31, 2006		April 30, 2006	
Low	US\$	0.858	US\$	0.836	US\$	0.852	US\$	0.853	US\$	0.864	US\$	0.853	US\$	0.853
High		0.841		0.858		0.869		0.874		0.879		0.883		0.893
Period end		0.849		0.857		0.858		0.874		0.879		0.880		0.893
Average		0.848		0.846		0.861		0.864		0.870		0.864		0.874

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion below should be read in conjunction with the Consolidated Financial Statements and Auditors' Report which have been included elsewhere in this prospectus. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada, which differ in certain respects from U.S. generally accepted accounting principles. See Note 15 to our audited financial statements for the years ended December 31, 2005, 2004 and 2003 for a summary of the principal differences between Canadian GAAP and U.S. GAAP as they relate to us.

The following discussion contains the term "funds flow from operations", which is determined before changes in non-cash working capital and should not be considered an alternative to, or more meaningful than, "cash flow from operating activities" as determined in accordance with generally accepted accounting principles, or GAAP. Our determination of funds flow from operations may not be comparable to that reported by other corporations. Reconciliation between net earnings and funds flow from operations can be found in the consolidated statements of cash flows in the audited financial statements. We also present funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding in a manner consistent with the calculation of earnings per share.

Overview

We are a crude oil and natural gas exploration and production company with primary emphasis on the exploration for, and production of, crude oil and natural gas in western Canada, offshore Nova Scotia, and offshore Trinidad and Tobago. We will continue our growth in production and cashflow by

our development and exploration activities of our core areas in western Canada. During 2005, we increased our production to an exit rate of 3,470 boe per day from a December 2004 exit rate of 2,868 per day. We currently produce over 3,000 boe per day. Higher volumes combined with higher prices received for our product combined to provide us with record cashflow and earnings for 2005.

We will supplement the growth experienced in 2005 with the opportunities presented to us with our high risk, high reward exploration plays offshore eastern Canada and Trinidad and Tobago. We will mitigate some of the risks involved in the offshore plays by utilizing the abilities of our highly specialized staff and consultants working on the projects, as well as using state of the art technology and imaging techniques available to us in the reprocessing and interpretation of our extensive seismic library over our prospects.

Certain Principal Factors Affecting Our Results of Operations and Financial Condition

Oil and natural gas prices have increased significantly since the beginning of 2004. Rising prices contributed to an increase in our oil and natural gas sales and revenues in both 2004 compared to 2003 and 2003 compared to 2002. Prices continued to rise during 2005, leading, together with an increase in production volumes, to a 68% increase in oil and natural gas sales compared to the same period in 2004. Oil prices continued to increase during the first quarter of 2006 to average \$59.04 per bbl during the period. Gas prices, although lower than the highs achieved in late 2005, still averaged higher in the first quarter of 2006 at \$8.26 per mcf compared to a first quarter 2005 price of \$7.59 per mcf.

Significant Accounting Policies

Use of Estimates

The amounts recorded for depletion and amortization of oil and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved and probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions. These estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Stock-Based Compensation Plans

We have adopted the application of the new accounting policy for stock-based compensation (CICA Section 3870) as of January 1, 2004, with retroactive effect to January 1, 2002. This section requires all stock options granted to our employees, directors or consultants be fair valued and recorded as a compensation expense when granted. The Black-Scholes option pricing model was used to estimate the fair value of options on the date of the grant, for inclusion as the stock-based compensation expense to Contributed Surplus. Retroactive adjustments were made for previous years. For the year ended December 31, 2005, \$3.6 million was expensed as stock-based compensation compared \$2.6 million recorded in 2004 and \$771,000 recorded in 2003. Total Contributed Surplus at December 31, 2005 relating to stock based compensation since the inception of the Company amounts to \$6.4 million.

Asset Retirement Obligations

We have adopted the retroactive application of the new accounting policy for asset retirement obligations (CICA Section 3110) as of January 1, 2004. All existing reclamation and abandonment liabilities have been reversed and the new standard has been set up with prior years being restated. The obligation has been measured and recorded at fair value and the corresponding oil and natural gas assets have been increased. The capitalized costs have been included in the asset base, and are being amortized

to depletion expense over the useful life of the asset. The liability will be adjusted over time with a corresponding accretion expense until the obligations are settled.

Results of Operations

Year Ended December 31, 2005 Versus Year Ended December 31, 2004

Net Income and Funds Flow from Operations

The following table sets forth our selected financial information for the periods indicated:

Year ended December 31 (in \$000s)	2005		2004		% change
Gross revenue	\$	55,223	\$	39,299	41
Transportation		678		615	10
Revenue		54,545		38,684	41
Royalties, net of ARTC		9,716		5,805	67
Production and operating expenses		7,239		7,151	1
Operating Netback		37,590		25,728	46
General and administrative expenses		5,398		4,614	17
Interest and other expense (income), net		1,730		611	183
Large Corporations Tax		129		261	(51)
Funds Flow from Operations		30,333		20,242	50
Depletion and amortization		23,539		22,177	6
Future income tax (recovery)		81		(1,523)	(105)
Stock compensation expense		3,657		2,612	40
Net income (loss)	\$	3,056	\$	(3,024)	(201)

For the year ended December 31, 2005, we posted net income of \$3.1 million (\$0.03 per share) up 201% compared to a net loss of \$3.0 million (\$0.03 loss per share) over 2004.

For the year ended December 31, 2005, funds flow of \$30.3 million was up 50% from 2004 funds flow of \$20.2 million. Higher product prices received in 2005 combined with increased product volumes were the primary contributor to the funds flow increases. This was achieved by Exploration and Development drilling with no production acquisitions.

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Production, Pricing and Revenue

Years ended December 31	2005		2004	
Natural Gas				
Average Daily Production (mcf/d)	12,083		11,533	
Average Sales Price (\$/mcf)	\$	9.40	\$	6.80
Natural Gas Revenue net of transportation (\$000 s)	\$	41,476	\$	28,623
Oil & NGLs				
Average Daily Production (bbl/d)	618		642	
Average Net Sales Price (\$/bbl)	\$	57.96	\$	42.91
Oil & NGLs Revenue net of transportation (\$000 s)	\$	13,069	\$	10,060
Barrels of Oil Equivalent (6:1)				
Average Daily Production (boe/d)	2,632		2,565	
Average Sales Price (\$/boe)	\$	56.79	\$	41.33
Total Oil & Gas Revenue net of transportation (\$000 s)	\$	54,545	\$	38,684

Average daily production for the year ended December 31, 2005, increased to 2,632 boe/d, up from 2,565 boe/d recorded in 2004.

For the year ended December 31, 2005, oil and gas revenues, net of transportation costs of \$678,000, of \$54.5 million were 41% higher than 2004 revenues of \$38.7 million. The revenue increases are due to increased production volumes brought on in the third and fourth quarters of 2005 as well as higher average prices. The average sales prices net of transportation costs for the year ended December 31, 2005 averaged \$56.79/boe (\$9.40/mcf for natural gas and \$57.96/bbl for oil and NGLs) up 37% from \$41.33/boe recorded in 2004 (\$6.80/mcf for natural gas and \$42.91/bbl for oil and NGLs). Average gas volumes of 12,083 mcf/d in 2005 were up 5% from 11,533 mcf/day recorded over the same period in 2004 while oil volumes of 618 bbls/d for the year were down 4% from 2004 sales of 642 bbls/d.

Hedging

We enter into commodity sales agreements and certain derivative financial instruments to reduce our exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes to protect us against negative commodity price movements and are not used for trading or other speculative purposes. These 2005 activities resulted in a loss of \$22,696 which was recorded as a decrease in oil and gas revenues during the period.

At December 31, 2005, we had the following contracts in place:

Contract	Volume	Price	Term
Fixed Price	1000 gj/ Per day	10.08/gj (Aeco)	January 1 March 31, 2006

At December 31, 2005, the estimated fair value of the above financial instruments was a gain of \$23,140.

Royalties

For the year ended December 31, 2005, royalties, net of the Alberta Royalty Tax Credit of \$500,000, were \$9.7 million, up 67% from \$5.8 million recorded in 2004. Increased product prices are the main contributor to higher royalties in 2005. Lower royalties were attributed to 2004 which resulted from

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a \$1.1 million royalty rebate relating to capital expenditures incurred in 2002 and 2003. The average royalty rate for the year was 17.8% of total revenues, compared to 2004 crown royalty rate of 15.0%.

Years ended December 31 (\$000 s)	2005	2004	% change
Crown	\$ 8,119	\$ 5,871	38
2003 GCA adjustment made in 2004		(1,143)	
Freehold & overriding	2,097	1,577	33
Total Royalties	\$ 10,216	\$ 6,305	62
Alberta Royalty Tax Credit	(500)	(500)	
Net Royalties	\$ 9,716	\$ 5,805	67
Per boe	\$ 10.11	\$ 6.20	63
Percent of total revenue	17.8	% 15.0	% n/a

Production and Operating Expenses

For the year ended December 31, 2005, production and operating expenses were \$7.2 million and were even with 2004 expenditures. For 2005, yearly production and operating expenses of \$7.54/boe were down slightly from the 2004 rate of \$7.64/boe.

General and Administrative Expenses

For the year ended December 31, 2005, G&A charges of \$5.4 million were up 17% from \$4.6 million recorded in 2004. On a unit of production basis, G&A expenses for 2005 increased to \$5.62 per boe up 14% from \$4.93 recorded in 2004. The main reason for the raise in general and administrative costs is an increase in insurance costs, bank re-financing fees and an increase in staffing requirements, including staffing and opening our Trinidad office.

Stock Based Compensation Expense

In September 2003, the CICA issued an amendment to section 3870 Stock based compensation and other stock based payments . The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. We implemented this amended standard in 2004. We recorded \$3.7 million in stock based compensation expense for the year ended December 31, 2005, up from \$2.6 million reported in 2004.

Interest and other Expense (Income)

For the year ended December 31, 2005, we expensed \$1,015,000 in interest, down from \$1,104,000 incurred in 2004. At the end of the year we had a drawn balance of \$12.9 million on a \$25.0 million revolving loan production facility. A one time charge of \$1,012,000 (inclusive of legal costs) was accrued at year end to recognize the settlement of a former employee alleged compensation claims payable by us.

For the year ended December 31, 2005, interest income was \$297,000 compared to \$493,000 earned in 2004.

Depletion and Amortization

For the year ended December 31, 2005, depletion and amortization expense totaled \$23.5 million, up 6% from \$22.2 million recorded in 2004. Depletion expenses are high for a company our size because

of the large expenditures required to evaluate and drill offshore wells on the East Coast of Canada. Certain East Coast exploration and drilling costs have been included in the depletable pool, with no corresponding increase in reserves.

Taxes

We recorded current taxes only in respect of the federal Large Corporations Tax. The Large Corporations Tax is based on our year-end book value, and was \$210,000 in 2005 compared to \$261,000 recorded in 2004. Lower tax rates and an increase in the allowed capital deduction claim resulted in the reduction of taxes payable. The 2005 amount was offset by an over accrual of Large Corporation Tax in 2004 of \$81,000 resulting in a net \$129,000 charge to corporate tax expense for the period. Future income taxes of \$81,000 were recorded in 2005 compared to a future tax credit of \$1.5 million in 2004. We do not expect to be cash taxable in 2006.

Capital Expenditures

Years ended December 31 (\$000 s)	2005		2004		% change
Acquisition/(Disposition)	\$	(525)	\$	1,070	(149)
Exploration & Development		23,849		27,894	(14)
Plants & Facilities & Pipelines		5,749		6,696	(14)
Land & Lease		9,073		2,116	329
Capitalized expenses		5,937		4,445	34
	\$	44,083	\$	42,221	4

For the year ended December 31, 2005, capital expenditures totaled \$44.1 million compared to \$42.2 million recorded during the same period in 2004.

Summary of Quarterly Results

(\$000 s except production and per share amounts)

	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05	31-Dec-04	30-Sep-04	30-Jun-04	31-Mar-04
Production								
Oil bbls/d	705	647	555	562	691	653	603	614
Gas mcf/d	13,489	12,345	11,375	11,092	12,209	10,490	11,428	11,882
Boe bbls/d	2,953	2,705	2,451	2,411	2,726	2,401	2,508	2,594
Revenue	18,635	14,982	10,808	10,120	11,014	9,282	9,315	9,072
Net income (loss)	1,443	1,495	13	105	280	(2,267)	(271)	760
Income (loss) per share	0.01	0.01	0.00	0.00	(0.00)	(0.02)	(0.00)	0.01
Funds flow from operations	10,344	8,871	5,775	5,343	5,968	4,526	5,312	4,436
Funds flow per share	0.09	0.08	0.05	0.05	0.06	0.04	0.05	0.04

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Year Ended December 31, 2004 Versus Year Ended December 31, 2003

Net Income and Funds Flow from Operations

The following table sets forth our selected financial information for the periods indicated:

Years ended December 31 (in \$000s)	2004	2003	% change
REVENUE	\$ 38,684	\$ 31,618	22
Royalties, net of ARTC	5,805	6,050	(4)
Production and operating expenses	7,151	5,992	19
OPERATING NETBACK	25,728	19,576	31
General and administrative expenses	4,614	4,849	(5)
Net interest expense (income)	611	1,092	44
Large Corporations Tax	261	288	(9)
FUNDS FLOW FROM OPERATIONS	20,242	13,347	52
Depletion and amortization	22,177	14,291	55
Future income tax recovery	(1,523)	(763)	97
Stock compensation expense	2,612	771	239
NET LOSS	\$ (3,024)	\$ (952)	215

We recorded a net loss of \$3.0 million, or \$(0.03) per share, for 2004, as compared to a loss of \$1.0 million \$(0.01) per share, in 2003. The principal reason for the loss in 2004 was the increased depletion expense of \$22.2 million compared to 14.3 million in 2003 resulting from the inclusion of the Mariner I-85 drilling costs in the depletable pool in 2004.

Cash flow from operations increased 52% to \$20.2 million in 2004, from \$13.3 million in 2003. Increased production and higher product prices received in 2004 were the primary contributor to the large cash flow increase.

Production, Pricing and Revenue

Years ended December 31	2004	2003	% change
NATURAL GAS			
Average Daily Production (mcf/d)	11,533	10,210	13
Average Sales Price (\$/mcf)	\$ 6.80	\$ 6.60	3
NATURAL GAS REVENUE (\$000 s)	\$ 28,623	\$ 24,589	16
OIL & NGLs			
Average Daily Production (bbl/d)	642	583	10
Average Sales Price (\$/bbl)	\$ 42.91	\$ 33.03	30
OIL & NGLS REVENUE (\$000 s)	\$ 10,060	\$ 7,029	43
BARRELS OF OIL EQUIVALENT (6:1)			
Average Daily Production (boe/d)	2,565	2,285	12
Average Sales Price (\$/boe)	\$ 41.33	\$ 37.92	9
TOTAL OIL & GAS REVENUE (\$000 s)	\$ 38,684	\$ 31,618	22

Average daily production for 2004 increased to 2,565 boe/d, up 12 percent from 2,285 boe/d in 2003. The increase in production during 2004 was largely attributable to increased production in the Drumheller area.

Oil and gas revenue increased \$7.1 million (22 percent) to \$38.7 million in 2004, as compared to \$31.6 million in 2003. This revenue increase was due to both higher production levels and higher average

prices achieved during 2004. The average sales price in 2004 was \$41.33/boe (\$6.80/mcf for natural gas and \$42.91/bbl for oil and NGLs) up 9 percent from \$37.92/boe in 2003 (\$6.60/mcf for natural gas and \$33.03/bbl for oil and NGLs). Of the \$7.1 million increase in oil and gas revenues recorded in 2004, \$2.9 million of the increase was attributed to increased prices, while \$4.2 million of the increase was created by increased production volumes for both oil and gas. Gas volumes increased 13% to 11,533 mcf per day in 2004, up from 10,210 mcf per day in 2003, while oil volumes increased 10% to 642 bbls per day in 2004, up from an average of 583 bbls per day produced in 2003.

While we sold all of our production within Canada, and received production payments in Canadian dollars, the Canadian dollar prices for oil, NGLs and natural gas were strongly referenced to US commodity prices. During 2004, the Canadian dollar increased approximately 8 percent versus the US dollar, resulting in us realizing Canadian dollar denominated sales prices showing lower increases than the US dollar reference prices.

Hedging

We entered into commodity sales agreements and certain derivative financial instruments to reduce our exposure to commodity price volatility. These financial instruments were entered into solely for hedging purposes to protect us against negative commodity price movements and were not used for trading or other speculative purposes. These 2004 activities resulted in a loss of \$496,000, which was recorded as a decrease in oil and gas revenues during the period.

We had the following contracts in place relating to 2005:

Contract	Volume	Price	Term
NATURAL GAS			
Fixed Price	1,000 gj/d	\$9.37/gj (Aeco)	January 1 - March 31, 2005
Costless Collar	1,000 gj/d	\$7 to \$13.50/gj (Aeco)	January 1 - March 31, 2005
CRUDE OIL			
Fixed Price	100 bbls/d	\$44.25 USD/bbl WTI	January 1 - March 31, 2005

At December 31, 2004, the estimated fair value of the above financial instruments was a gain of \$358,000.

Royalties

Royalties, net of the Alberta Royalty Tax Credit of \$500,000, totaled \$5.8 million in 2004, down 5 percent from \$6.1 million recorded in 2003. The decrease in royalty expense is due to a \$1.1 million royalty reduction recorded in 2004 relating to the 13th month adjustment to gas cost allowance for 2003 crown royalties. 2004 crown royalties of \$5,871 were 15.1% of total revenues, compared to 2003 crown royalties (adjusted for GCA booked in 2004) of \$4,076, or 12.9% of revenues. This increase in the percentage of total revenues in 2004 resulted from fewer low productivity wells producing in 2004, offset by production from new wells that did not qualify for the low productivity reduced royalty rate.

Years ended December 31 (\$000 s)	2004	2003	% change
Crown	\$ 5,871	\$ 5,219	12
2003 GCA adjustment made in 2004	(1,143)	0	n/a
Freehold & overriding	1,577	1,248	26
Total royalties	6,305	6,467	(2)
Alberta Royalty Tax Credit	(500)	(417)	20
NET ROYALTIES	\$ 5,805	\$ 6,050	(4)
Per boe	\$ 6.20	\$ 7.26	(15)
Percent of total revenue	15	% 19	% n/a

Production and Operating Expenses

Production and operating expenses increased to \$7.2 million for 2004, up 19 percent from \$6.0 million reported in 2003, resulting from a combination of increased production to 2,565 boe per day in 2004 compared to 2,285 boe per day in 2003, and increased costs caused by higher demands for products and services. On a boe basis, 2004 production and operating expenses increased to \$7.64/boe, up 6 percent from \$7.19/boe in 2003.

General and Administrative Expenses

Gross G&A charges remained steady at \$9.4 million in 2004, from \$9.2 million in 2003. G&A recoveries consisting of overhead recoveries on capital projects increased 45 percent to \$379,000 in 2004 from \$260,000 in 2003. Capitalized G&A consisting of the share of our general and administrative expenditures which relate to exploration activities increased 10 percent to \$4.5 million in 2004, from \$4.1 million recorded in 2003. Net G&A expenses of \$4.6 million in 2004, was down 4 percent from \$4.8 million in 2003.

On a unit of production basis, G&A expenses dropped 16 percent to \$4.87 per boe for 2004 from \$5.82 per boe recorded in 2003. This reduction was the result of maintaining stable general and administrative costs in an environment of increased production.

Years ended December 31 (\$000 s)	2004	2003	% change
Gross G&A Expenses	\$ 9,438	\$ 9,172	3
Recoveries	(379)	(260)	(46)
Capitalized	(4,472)	(4,063)	10
NET G&A	\$ 4,587	\$ 4,849	(6)
Per boe	\$ 4.90	\$ 5.82	(16)

Stock Based Compensation Expense

In September 2003, the CICA issued an amendment to section 3870 Stock based compensation and other stock based payments . The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. We implemented this amended standard in 2004. We recorded \$2.6 million in stock based

compensation expense for 2004, up from \$771,000 recorded in 2003.

Interest

During 2004, we paid \$1.1 million in interest on our revolving production loan facility, which at year end had a drawn balance of \$10.75 million. \$1.5 million of interest expenses were incurred in 2003.

Interest income of \$493,000 was earned by us in 2004 on our Offshore Nova Scotia license term deposits compared to \$364,000 earned in 2003.

Depletion and Amortization

Depletion and amortization expense for 2004 totaled \$22.2 million, up from \$14.3 million in 2003. The large increase in 2004 depletion over 2003 is the result of several factors. Depletion is calculated on a quarterly basis, and as such, the increased depletion expense relating to the Drumheller purchase didn't occur until the second quarter of 2003 when the transaction closed. Also, preliminary reserve estimates used in the second and third quarter of 2003 were higher than the actual reserves given on the December 31, 2003 independent reserve evaluation causing a lower depletion percentage used against capital assets. Additionally, approximately \$16.0 million of Mariner I-85 well costs were added to our full cost pool for depletion purposes in the third quarter of 2004 which increased DD&A in both the third and fourth quarter of 2004. DD&A has been restated in accordance with the adoption of a new accounting standard regarding asset retirement obligations. The adoption of this new standard increased both 2004 and 2003 depletion expense by approximately \$1.0 million.

Asset Retirement Obligation

The new CICA standard dealing with accounting for asset retirement obligations changed the method of accruing for certain site restoration costs. Under the new standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically when the related assets are acquired, installed, drilled or completed. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets.

The total estimated undiscounted cash flows required to settle the obligation, using an annual inflation which has been discounted using a credit adjusted risk-free interest rate of 8.5% for 2004 and 7.0 % for 2003 and prior years. These payments are expected to be made over the next 10 to 13 years with the majority of costs incurred between 2015 and 2017.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

As at December 31 (\$000 s)	2004	2003
Asset Retirement Obligation, beginning of year	\$ 5,979	\$ 1,043
Liabilities incurred	900	4,652
Accretion expense	456	284
Technical revisions	(158)	
Asset Retirement Obligation, end of year	\$ 7,177	\$ 5,979

Taxes

We recorded current taxes only in respect of the federal Large Corporations Tax. The Large Corporations Tax is based on our year-end book value, and was \$261,000 in 2004. As a result of the loss from operations of \$4.3 million reported in 2004, a reduction in future income taxes of \$1.5 million was recorded.

Capital Expenditures

Years ended December 31 (\$000 s)	2004	2003	% change
Acquisition/(Disposition)	\$ 1,070	\$ 54,160	n/a
Exploration & Development	23,597	17,801	33
Plants, Facilities & Pipelines	6,696	2,787	140
Land & Lease	2,116	1,325	60
Seismic	4,297	3,859	11
Capitalized expenses	4,445	4,063	9
	\$ 42,221	\$ 83,995	(50)

We incurred \$42.2 million of capital expenditures in 2004 including approximately \$11.0 million related to our share of the Mariner I-85 well. In 2003, we spent \$84 million on capital expenditures which included \$54.2 million for the Drumheller acquisition. 2004 capital expenditures include the costs of drilling 38 gross wells in Western Canada, compared to 17 wells drilled in 2003. Exploration and development expenses in 2003 also include approximately \$5.5 million for our share of the Mariner I-85 well costs.

Ceiling Test

We adopted CICA Accounting Guideline 16 Oil and Gas Accounting Full Cost effective for our fourth quarter 2003. This guideline limits the carrying value of oil and gas properties to their fair value in a ceiling test calculation which must be performed at least annually. The fair value is estimated to be the future cash flow from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate. Increased reserves and strong product prices generated an excess carrying amount of assets related to the ceiling of proved plus probable reserves of approximately \$6.0 million. No write-down of oil and gas assets was required for 2004 or 2003 under this guideline.

Summary of Quarterly Results

(\$000 s except production amounts)

	31-Dec-04	30-Sep-04	30-Jun-04	31-Mar-04	31-Dec-03	30-Sep-03	30-Jun-03	31-Mar-03
Production								
Oil bbls/d	691.4	653.1	602.9	614.2	731.8	797.8	671.4	122
Gas mcf/d	12,208.9	10,489.8	11,427.5	11,881.5	11,431.0	11,692.0	12,639.7	4,846.0
Gross Revenue	11,014	9,282	9,315	9,072	8,642	9,087	9,888	4,001
Net income (loss)	280	(2,267)	(271)	(766)	(728)	(6)	495	(713)
Income (loss) per share	(0.0)	(0.02)	(0.0)	(0.1)	(0.0)	(0.0)	0.01	(0.01)
Funds flow from operations	5,968	4,526	5,312	4,436	3,676	4,317	4,696	658
Funds flow per share	0.06	0.04	0.05	0.04	0.04	0.05	0.05	0.01

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Year Ended December 31, 2003 Versus Year Ended December 31, 2002

Net Income and Funds Flow From Operations

Years ended December 31	(\$000 s)		
	2003	2002	% change
REVENUE	\$ 31,618	\$ 7,741	308
Royalties, net of ARTC	6,050	1,734	249
Production and operating expenses	5,992	2,542	136
OPERATING NETBACK	19,576	3,465	465
General and administrative expenses	4,849	2,898	67
Net interest expense (income)	1,092	(296)	n/a
Large Corporations Tax	288	64	350
FUNDS FLOW FROM OPERATIONS	13,347	799	1,570
Depletion and amortization	14,291	5,895	142
Write down of oil and gas assets		43,000	n/a
Stock based compensation	771	0	n/a
Future income tax recovery	(763)	(19,922)	n/a
NET LOSS	\$ (952)	\$ (28,173)	n/a

We recorded a net loss of \$1.0 million, or \$(0.01)/share, for 2003, as compared to a loss of \$28.2 million \$(0.51)/share, in 2002. The principal reason for the large loss in 2002 was the \$24.7 million after tax ceiling test write down in that year.

Cash flow from operations increased nearly sixteen-fold to \$13.3 million in 2003, from \$0.8 million in 2002. The Drumheller acquisition, providing us with substantial production increases, was the primary contributor to the large cash flow increase in 2003.

The following table sets forth our selected financial information for the periods indicated:

Years ended December 31 (\$000 s except per share amounts)	2003	2002	2001
Oil and gas revenue net of royalties	\$ 25,568	\$ 6,007	\$ 4,078
Funds flow from operations	13,347	799	1,729
Per Share - basic	0.16	0.01	0.04
Per Share - diluted	0.15	0.01	0.04
Net earnings (loss)	(952)	(28,173)	8,109
Per Share - basic	(0.01)	(0.51)	0.20
Per Share - diluted	(0.01)	(0.51)	0.19
Total assets	144,749	49,956	68,588
Net debt (surplus) including working capital	3,744	5,484	(1,203)

Production, Pricing and Revenue

Years ended December 31	2003	2002	% change
NATURAL GAS			
Average Daily Production (mcf/d)	10,210	4,725	116
Average Sales Price (\$/mcf)	\$ 6.60	\$ 4.04	63
NATURAL GAS REVENUE (\$000 s)	\$ 24,589	\$ 6,968	253
OIL & NGLs			
Average Daily Production (bbl/d)	583	59	888
Average Sales Price (\$/bbl)	\$ 33.03	\$ 35.69	(7)
OIL & NGLS REVENUE (\$000 s)	\$ 7,029	\$ 769	814
BARRELS OF OIL EQUIVALENT (6:1)			
Average Daily Production (boe/d)	2,285	846	170
Average Sales Price (\$/boe)	\$ 37.92	\$ 25.07	51
TOTAL OIL & GAS REVENUE, NET OF TRANSPORTATION (\$000 s)	\$ 31,618	\$ 7,741	308

Average daily production for 2003 increased to 2,285 boe/d, up 170 percent from 846 boe/d in 2002. The increase in production during 2003 was largely attributable to the Drumheller property acquisition, which closed on March 20, 2003.

Oil and gas revenue, net of transportation, increased 308 percent to \$31.6 million in 2003, as compared to \$7.7 million in 2002. This revenue increase is due to both higher production levels and higher average price realizations achieved during 2003. The average realized sales price in 2003 was \$37.92/boe (\$6.60/mcf for natural gas and \$33.03/bbl for oil and NGLs) up 51 percent from \$25.07/boe in 2002 (\$4.04/mcf for natural gas and \$35.69/bbl for oil and NGLs).

While we sold all of our production within Canada, and received our production payments in Canadian dollars, the Canadian dollar prices for oil, NGLs and natural gas were strongly referenced to US commodity prices. During 2003, the Canadian dollar increased approximately 20 percent versus the US dollar, resulting in our realizing Canadian dollar denominated sales prices showing lower increases than the US dollar reference prices.

Hedging

We entered into commodity sales agreements and certain derivative financial instruments to reduce our exposure to commodity price volatility. These financial instruments were entered into solely for hedging purposes to protect us against negative commodity price movements and are not used for trading or other speculative purposes. After acquiring the Drumheller property in March 2003, we entered into agreements to hedge approximately 40 percent of our 2003 production. These 2003 activities resulted in income of \$269,000 which was recorded as increased oil and gas revenues during the period.

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We had the following contracts in place relating to 2004:

Contract	Volume	Price	Term
NATURAL GAS			
Fixed Price	1,000 gj/d	\$ 5.68/gj (Aeco)	January 1 - January 31, 2004
Fixed Price	2,000 gj/d	\$ 6.53/gj (Aeco)	January 1 - March 31, 2004
Fixed Price	2,000 gj/d	\$ 5.95/gj (Aeco)	March 1 - March 31, 2004
Fixed Price	2,000 gj/d	\$ 6.14/gj (Aeco)	April 1 - October 31, 2004
CRUDE OIL			
Fixed Price	275 bbl/d	\$ 35.75 CAD/bbl WTI	January 1 - May 31, 2004

Royalties

Years ended December 31 (\$000 s)	2003	2002	% change
Crown	\$ 5,219	\$ 1,949	168
Freehold and overriding	1,248	85	1,368
Total royalties	6,467	2,034	218
Alberta Royalty Tax Credit	(417)	(300)	39
NET ROYALTIES	\$ 6,050	\$ 1,734	249
Per boe	\$ 7.26	\$ 5.61	29
Percent of total revenue	19	% 22	% n/a

Royalties, net of royalty credit, totaled \$6.0 million in 2003, up 249 percent from \$1.7 million in 2002. The increase in royalty expense is due to a 170 percent increase in average daily production rates and a 51 percent increase in realized prices in 2003. The average royalty rate, as a percentage of revenue, fell to 19 percent in 2003, down from 22 percent in 2002.

Production and Operating Expenses

	2003				Year	
	Q1	Q2	Q3	Q4	2003	2002
Production and Operating Expenses (\$000 s)	724	1,989	1,771	1,508	5,992	2,542
Per boe (\$)	8.65	7.89	7.02	6.16	7.19	8.23

Production and operating expenses increased to \$6.0 million for 2003, up 136 percent from \$2.5 million reported in 2002, as a result of a significant increase in our production during 2003. Measured on a boe basis, 2003 production and operating expenses fell to \$7.19/boe, down 13 percent from \$8.23/boe in 2002. Drumheller area production significantly reduced our per barrel production and operating expenses. Our Northern access properties generally had higher operating costs per boe compared to the Drumheller area. Production and operating expenses consistently fell throughout 2003 as our field team worked diligently to implement operations efficiencies. Fourth quarter of 2003 production and operating expenses averaged \$6.16/boe, down 29 percent from the first quarter average cost of \$8.65/boe.

General and Administrative Expenses

Years ended December 31 (\$000 s)	2003	2002	% change
Gross G&A Expenses	\$ 9,172	\$ 6,328	45
Recoveries	(260)	(250)	n/a
Capitalized	(4,063)	(3,180)	n/a
Net G&A	\$ 4,849	\$ 2,898	67
Per boe	\$ 5.82	\$ 9.39	(38)

Net G&A expenses increased to \$4.8 million in 2003, up from \$2.9 million in 2002. This increase can be attributed to increased staffing and associated expenses to support our increased operations base and activities, as well as to a one-time contractual payment made to an officer and director of Canadian Superior. On a unit of production basis, G&A expenses fell 38 percent to \$5.82/boe for 2003. Our capitalized \$4.1 million of overhead related to exploration and development, representing 44 percent of gross G&A costs.

Interest Expenses

During 2003 we paid \$1.5 million in interest on our revolving production loan facility, which at year end had a drawn balance of \$12.55 million. Only \$158,000 of interest expenses were incurred in 2002 due to the relatively small size of the facility draws in that year.

Interest Income

Interest income of \$364,000 was earned by us in 2003 on our Offshore Nova Scotia license term deposits. Interest income was marginally higher in 2002 because of higher interest rates in that year.

Depletion and Amortization

Depletion and amortization expense for 2003 totaled \$14.3 million in 2003 up from \$5.9 million in 2002. This increase principally related to the 170 percent increase in production resulting from the Drumheller acquisition. 2003 depletion and amortization expenses averaged \$17.14/boe.

Taxes

We recorded current taxes only in respect of the federal Large Corporations Tax. The Large Corporations Tax is based on our year-end book value, and was \$288,000 in 2003. As a result of the loss from operations of \$1.8 million reported in 2003, a reduction in future income taxes of \$763,000 was recorded.

Capital Expenditures

Years ended December 31 (\$000 s)	2003	2002	% change
Acquisition	\$ 54,160	\$ 0	100
Exploration & Development	17,801	35,535	(50)
Plants & Facilities & Pipelines	2,787	11,130	(75)
Land & Lease	1,325	4,962	(73)
Seismic	3,859	217	1,678
Capitalized Expenses	4,063	3,181	28
	\$ 83,995	\$ 55,025	53

We incurred \$84.0 million of capital expenditures in 2003, including \$54.2 million on the Drumheller acquisition in the first quarter of the year. Exploration and development expenses included the costs of drilling 13 wells at Drumheller in the second half of 2003 and two East Ladyfern wells in the first quarter of 2003. Exploration and development expenses also included approximately \$5.5 million for our share of the Mariner I-85 well costs incurred to December 31, 2003.

Ceiling Test

We adopted CICA Accounting Guideline 16 Oil and Gas Accounting - Full Cost effective for our fourth quarter 2003. This guideline limits the carrying value of oil and gas properties to their fair value in a ceiling test calculation which must be performed at least annually. The fair value is estimated to be the future cash flow from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate. No write-down of oil and gas assets was required for 2003 under this guideline.

Liquidity and Capital Resources

At December 31, 2005, we had a \$25.0 million revolving production loan facility of which \$12.9 million was drawn. In addition, in August, we completed a private placement financing consisting of 5.5 million special warrants at a price of \$2.00 per special warrant for total proceeds of \$11.0 million before financing costs of \$275,000. The special warrants allow purchasers to acquire one common share of Canadian Superior and one half warrant. Each full warrant allows holders to acquire one share of Canadian Superior at a price of \$2.50 to the end of June 30, 2006. In December, we completed a private placement financing consisting of 2,976,400 flow through shares at a price of \$3.00 per share for total proceeds of \$8.9 million. We have approximately \$11.8 million in cash deposits available for corporate purpose. In addition, prior to year end we had secured a financing of US\$15 million that closed in January 2006 comprised of Units consisting of ten 5% US\$100 cumulative redeemable convertible preferred shares, or Preferred Shares, and 80 common share purchase warrants. Each Preferred Share will be convertible into forty common shares of Canadian Superior (6,000,000 common shares in aggregate) at a price of US\$2.50 per common share. Also, on February 9, 2006 we completed a private placement of 1,000,000 Units at a price of \$2.40 per Unit for gross proceeds of \$2,400,000. Each Unit consists of one common share and one-half of one common share purchase warrant. The warrants comprising part of the Units are exercisable until December 31, 2006 at an exercise price of \$2.80 per common share.

Our 2006 Western Canadian exploration and development expenditures are expected to be primarily funded from operating cash flow. Additional cash may be required to fund planned 2007 and 2008 capital programs, including programs in Offshore Nova Scotia and Offshore Trinidad. These

expenditures may be sourced from cash flow, additional equity financings or potential farm outs, or both, or joint ventures or releases of secured offshore term deposits as additional work expenditures are incurred.

At December 31, 2005, we had \$14.4 million of term deposits posted as security against our remaining Offshore Nova Scotia work expenditure bids. Under existing regulations, when a company is the successful bidder for a particular offshore Nova Scotia exploration license, the company must deposit with the Government in cash or by letter of credit an amount equal to 25% of their work commitment expenditure bid (i.e. \$0.25 on the dollar value bid). As exploration expenditures are made on a particular exploration license, the deposit is refunded on the same basis, \$0.25 on the dollar spent. To the extent that expenditures are not incurred within the periods allowed, we would forfeit our proportionate share of any remaining deposits relating to the unexpended work commitment.

Management believes that the combination of working capital, projected cash flows and our current bank line are sufficient to meet our current capital and operating requirements.

Contractual Obligations

In the normal course of business, we are obligated to make future contractual payments. These obligations, which are set forth below, represent contracts and other commitments that are known and non-cancelable.

	Payment Due by Period				More than 5 years
	Total	Less than 1 year	1 - 3 years	3 - 5 years	
Long-term debt obligations					
Capital (finance) lease obligations	0	0	0	0	
Operating lease obligations	\$ 3,370,000	\$ 1,197,000	\$ 1,907,000	\$ 266,000	
Purchase obligations	0	0	0	0	
Other long-term liabilities reflected on the balance sheet under the GAAP of the primary financial statements	8,929,000	8,929,000	0	0	
Total	\$ 12,299,000	\$ 10,126,000	\$ 1,907,000	\$ 266,000	

Quantitative and Qualitative Disclosures about Market Risk

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by us will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Management will evaluate exploration and development prospects on an ongoing basis in a manner consistent with industry standards. Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that we will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, we may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could

greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Our production is generally sold at prevailing market prices. Periodically, we enter into commodity sales agreements and certain derivative financial instruments to reduce our exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes to protect us against negative commodity price movements and are not used for trading or other speculative purposes. These 2005 activities resulted in a loss of \$22,696 which was recorded as a decrease in oil and gas revenues during the period.

We enter into commodity sales agreements and certain derivative financial instruments to reduce our exposure to commodity price volatility. At December 31, 2005, the estimated fair value of these financial instruments was a gain of \$23,140.

BUSINESS

We are a crude oil and natural gas exploration and production company with a primary emphasis on the exploration for, and production of, crude oil and natural gas in Western Canada, offshore Nova Scotia, Canada and offshore Trinidad and Tobago.

Our principal properties can be divided into three distinct groups:

1. Trinidad and Tobago;
2. East Coast, Offshore Nova Scotia, Canada; and
3. Western Canadian Holdings.

TRINIDAD AND TOBAGO

On July 20, 2005, we signed the Production Sharing Contract, or PSC, with the Government of Trinidad and Tobago for Intrepid Block 5(c), offshore Trinidad and Tobago. The PSC provides us the right to explore on Block 5(c) which covers 80,041 gross acres and has significant natural gas exploration and development potential off the east coast of the island of Trinidad where we are preparing for exploration drilling.

During 2005, we actively pursued various rig options for the Intrepid drilling. We announced on March 20, 2006 that we had entered into a firm multi-well drilling contract 100% on our own to contract the Kan Tan IV Semi-Submersible Drilling Rig, managed by A. P. Moller - Maersk A/S, or Maersk, of Copenhagen, Denmark and owned by Beijing Zhiyuan Industries Company Limited, or Beijing Zhiyuan, of Beijing, China to drill our first two exploration wells on our Intrepid Block 5(c) offshore Trinidad. These two Canadian Superior operated back-to-back wells will evaluate two large separate potential hydrocarbon bearing structures that are delineated by extensive 3D seismic that we have evaluated. We anticipate that the first well of the two back-to-back wells will commence drilling in September/October 2006 shortly after the Kan Tan IV has completed a scheduled refurbishment currently underway in Brownsville, Texas. These prospects have been estimated to contain over 4 TCF of natural gas and condensate. Structures of similar size are located in the immediate vicinity of our Intrepid Block 5(c).

In addition, our exploration team has continued to evaluate and interpret detailed 3D seismic data over the Intrepid Block 5(c) and over nearby producing fields and have identified at least three drillable prospects and selected a number of drilling locations on these prospects. We have verified that this block has multi-tcf natural gas potential. Also, in addition to working with this extensive and valuable seismic data set, we began reprocessing of the data in the last week of October 2005 to further assist in finalizing the geological prognosis across the block and at the proposed drilling locations. This work continued through the fourth quarter of 2005 and into 2006. In addition, extensive offset well data has been obtained from the Trinidad and Tobago Ministry of Energy and Energy Industries and is being used to confirm data already synthesized and confirm final well design engineering.

Also in the third quarter of 2005, we appointed Mr. Roger De Freitas as Country Manager of operations in Trinidad and Tobago and opened a local country office in Port of Spain. We are undertaking the necessary procurement and contracting for the provision of the various drilling services

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and materials and have secured the critical longer lead time casing and wellhead components for the first Intrepid well. The wellhead and related components, and several thousand meters of casing, costing several million dollars, have been secured and paid for. We are in the process of transferring certain supplies and inventory from our Nova Scotia operations to Trinidad and Tobago for the first Intrepid well. The Intrepid Block 5(c) has water depths in the range of 150m to 450m and all wells in Block 5(c) will be drilled from a semi submersible drilling rig. In preparation, we have undertaken our environmental assessment and geohazard well site survey work on two of the prospects. To assist us in going forward with our planned drilling in Trinidad, we have entered into a transaction whereby a non-competitive industry financial partner, which will be paying one-third of the exploration program costs to earn one-fourth of our revenue share of these prospects.

Offshore Trinidad is a world class basin with multiple large exploration and development opportunities as evidenced by recent drilling successes in the Columbus Basin, as well as having well developed, and developing, liquid natural gas, or LNG, facilities and capacity, and ready access to international markets. Approximately eighty percent of North America's LNG is supplied from Trinidad and some of the largest producing wells in the world are located in Trinidad close to our acreage.

In addition, in Trinidad and Tobago, we continue to prepare for the first phase of operations on our Mayaro/Guayaguayare (M/G) Tradewinds project, a joint venture with Petrotrin. This joint venture encompasses securing two near-shore Blocks (55,000 gross acres) off the east coast of Trinidad where we have the potential to establish significant oil reserves in the heart of a known producing hydrocarbons-bearing structural trend. On the M/G Block, we are working on the design of a seismic program to evaluate the near-shore block.

OFFSHORE NOVA SCOTIA, CANADA

We have evolved as the largest public company holder of exploration acreage offshore Nova Scotia with 100% interests in six exploration licenses totaling 1,293,946 acres and are one of the few active operators involved in all three main play types in the basin. We have the experience and technical capability to drill and operate some of the most complex and technically challenging wells in the world, whether offshore Nova Scotia or in Trinidad and Tobago.

We have been advised by the Canada-Nova Scotia Offshore Petroleum Board, or CNSOPB, that the consolidation of our deepwater Mayflower exploration license (EL 2406) and our shallow water Mariner exploration license (EL 2409) has been approved by the Government of Canada and the Province of Nova Scotia. This consolidation will come into effect upon the drilling of the next Mariner exploration well and will allow the work commitments and related work commitment deposits for these two exploration licenses (EL 2406 and EL 2409) to be combined, allowing the existing work deposit for Mayflower, approximately \$10 million, to be applied directly against the costs of drilling our next Mariner well. In effect, this provides us with \$10 million of additional capital to be applied to drilling the next Mariner well. The Mariner Project lands are located approximately nine kilometres northeast of Sable Island, offshore Nova Scotia, encompassing an offshore area of 101,800 acres (100% Canadian Superior), and directly offsets five significant discoveries near Sable Island, including the ExxonMobil Venture natural gas field. The first exploration well, Mariner 1-85, was drilled on this block November 2003 to March 2004. Although this exploration well was abandoned untested by the operator, we believe that the well

established significant potential natural gas reserves. An independent engineering report has resulted in potential recoverable natural gas reserve estimates between 211 and 632 Bcf on the one Mariner structure on which the Mariner I-85 well was drilled and evaluated, and we intend to proceed with further drilling on the Mariner Block in due course. Two well sites on the Mariner Block have been surveyed in this regard.

Furthermore, upon consolidation, the exploration term for our 100% deepwater Mayflower license (EL 2406) will be extended for two additional years, from the current expiry date of December 31, 2006 to December 31, 2008. Thereafter, 50% of the license area will be extended for an additional two years to December 31, 2010. Our Mayflower deepwater project exploration license covers approximately 712,000 acres and mapping to date indicates the presence of five sizeable deepwater prospects. These large prospects are structural and are typically formed by mobile salt tectonics. We plan to take full advantage of the extended exploration term on Mayflower. We are planning to proceed in the near future with a high resolution seismic program over the Mayflower block to further define targeted structures to enable future drilling and have recently updated our Environmental Impact Assessment in regard to this planned seismic activity.

In addition to our Mariner exploration project targeting Cretaceous and Jurassic gas bearing sands, we continue to monitor drilling activities near our Abenaki Reef Marquis 100% prospects. Our Marquis Project lands encompass two exploration licenses with approximately 111,000 contiguous acres located in shallow water depths close to the existing Sable Offshore Energy Project producing infrastructure and EnCana's Deep Panuke discoveries. We also have identified several other large Cretaceous and Jurassic prospects on our 100% Marauder and 100% Marconi exploration lands which cover an additional 371,000 additional acres offshore Nova Scotia, offsetting the Sable Island area. We have initiated the environmental impact assessment work required prior to conducting seismic and drilling on these properties and this environmental assessment work is ongoing.

WESTERN CANADA

All of our current production in Western Canada is primarily located in the Drumheller, Alberta area, with other production and exploration in the Windfall, Boundary Lake, East Ladyfern, Giroux Lake and Teepee areas.

During 2005, we drilled or participated in 67 gross (28.2 net) wells which included 17 gross (14.4 net) operated wells and 50 gross (13.8 net) non-operated wells. We participated in the completion or tying in of 63 wells for an overall success rate of 94%.

We maintained our extensive land holdings in Western Canada. At December 31, 2005, we held 275,710 gross acres (193,576 net acres) of predominately Canadian Superior operated lands with a high working interest of approximately 70%.

Drumheller Area

In our Drumheller area of Central Alberta, Canada, which has shallow, low cost prospects and year round accessibility and is located approximately 60 miles N.E. of the city of Calgary, we have major acreage and production holdings in both conventional Cretaceous plays and in the Horseshoe Canyon and Mannville Coal Bed Methane, or CBM, plays, and this core area accounts for approximately 90% of our production. In 2005, 64 gross (26 net) wells were drilled in the Drumheller area consisting of 18 gross (13.2 net) conventional wells and 46 gross (12.8 net) Horseshoe Canyon CBM wells. We acquired or

purchased five extensive 3D seismic programs, which are critical in continuing the success that we achieved in 2005.

Conventional Plays

The Drumheller area offers a multitude of opportunities that include both oil and gas play types and are contained in five distinct stratigraphic zones. The shallow targets include the Belly River and the Edmonton Groups and range in depth from 300-700 meters (980 - 2300 feet). Well production in these zones range from 50 - 750 mcf/d with associated reserve size of .1 - 2 Bcf.

Intermediate targets in this area include the Medicine Hat and Second White Specks formation which produce between 10 to 100 mcf/d and the Viking formation which can produce up to 1000 mcf/d. We continue to evaluate these formations through logging as it drills into deeper zones. We plan to drill two Viking tests in the first half of 2006.

Deeper targets in the Drumheller area include the Mannville group and the Banff formation, and the Nisku and Leduc formations are being evaluated. The Mannville group typically encounters several reservoirs with average production rates for these horizons ranging from 250 to over 1000 mcf/d. The Banff formation is a carbonate play which ranges in depth from 1100 - 1400 meters (3600 - 4600 feet) and tend to be oil prone. On average the Banff formation can produce oil rates of 20 - 200 bbl/d with reserves ranging from 20 - 200 mmbbl. The Nisku and Leduc formations are typically high reserve prospects with high deliverability.

In 2006, we anticipate drilling 25-30 conventional wells in Drumheller, a low cost area with year-round access, and we have an extensive portfolio of multiple-zone locations identified for drilling on our existing acreage. Approximately 66% of these wells will target the Mannville group, 22% will target the Viking or the Belly River and Edmonton groups and the remaining 12% will target the Banff and/or Nisku or Leduc formations.

Coal Bed Methane

Coal bed methane has recently been recognized as one of the emerging plays available to the oil and gas industry, which has contributed significantly to our Proven Reserves. The Drumheller area is in the heart of recent CBM development in Western Canada where we are fortunate to have one of the largest concentrated high working interest land positions with significant land holdings in both the Horseshoe Canyon and the Mannville stratigraphic zones.

Our current activities in CBM are centered on the Horseshoe Canyon in which we drilled or participated in 46 wells during 2005. All of these wells have been successful and we plan to continue to develop these assets in 2006. We hold 157 gross (81 net) sections of Horseshoe Canyon rights. The Horseshoe Canyon Coal depths range from 200 - 400 meters (650 - 1300 feet) and are typically found in 8 - 10 coal seams with thicknesses averaging from 0.75 - 1.5 meters (2.5 - 5 feet). These coals contain dry gas and produce little or no water. We anticipate that we will drill or participate in 20 - 40 Horseshoe Canyon wells in 2006.

An untapped resource that exists in the Drumheller area is the Mannville coals. These coals are between 1000 - 1300 meters (3300 - 4300 feet) in depth with each seam being thicker (up to 4 meters) but less frequent (1 - 5 seams) than the Horseshoe Canyon. Resource potential estimates are still in the early stages but we calculate that it has over 100 BCF (P50) of net sales reserves in this area. Currently we have 42 gross (41 net) sections of land in the Mannville CBM fairway. Drilling for these coals would include

horizontal drilling techniques. We will remain cautious with our plans for development of Mannville CBM until the reserve and production parameters are better defined.

Our total acreage for CBM is 185 gross (108 net) sections of which 14 gross (13.4 net) sections have both Horseshoe Canyon and Mannville CBM potential. We will use our results to date on a small portion of our non-operated land to provide a solid foundation for development and operating drilling on this large CBM potential that exists over our extensive operated high working interest acreage base within our Drumheller core producing area. We are working to develop our extensive concentrated land holdings adjacent to recent record land sales with land prices as high as approximately \$700,000 per section.

Windfall/Pine Creek/Giroux Lake

We drilled or participated in two wells in the Windfall area in 2005. Both of these wells were successful and have been tied in. Both wells are producing between 500 - 750 mcf/d. We are planning a 2D seismic shoot in the Giroux area and have budgeted two locations in the Windfall/Pine Creek/Giroux area. We continue to look at this higher reward, medium risk area with a view towards further expansion, using its current land base as a nucleus.

Boundary Lake/Teepee

The Boundary Lake / Teepee area is a high reward medium risk area and was a major focus area for us in 2005 and into 2006. At the end of 2005, this property represented a minor portion of our total production, but renewed emphasis has been placed on this year round access area. We purchased additional lands, 2D and 3D seismic data and anticipate drilling two wells in 2006 and participating in a third. We also have several follow-up locations based on the success of the initial drilling. The area has multi-zone potential with typical well reserves in the range of 2 - 5 Bcf and associated production of 1 - 4 MMcf/d.

East Ladyfern

In 2005, we followed up our Slave Point play in the East Ladyfern area with the addition of 2D seismic and the drilling of the 1-26-91-11W6 well. This well was drilled in late January 2005 due to delayed freeze-up and rig availability. Because of early break-up, no testing could be done at the time. The logs over the Slave Point have been subsequently further evaluated and we have now determined that they show gas over water. At this time, because of high costs associated with completing this type of sour natural gas, further testing of this formation is not justified. However, we believe the shallower Cretaceous zones in the 1-26 and other wells in the area show promise. We plan, together with our partner, to complete the 12-27-91-11W6 and the 1-26-91-11W6 well bores and to drill a new shallow location in first half of 2006. If we achieve success in the shallower non-sour lower cost Cretaceous resource play, the needed infrastructure will be brought into the area and may allow economic tie-ins of the Slave Point gas in this area at a later date.

Strategy for Drilling in the Foothills of Alberta West of the 5th Meridian

We are now also focusing our exploration in Western Canada towards the foothills of Alberta, Canada. This area represents an area of high risk - high reward exploration and production with year round access. In this area well reserves can range to over 10 Bcf/well with associated natural gas liquids and can produce at rates of over 5 - 10 MMcf/d.

Competition

The oil and natural gas industry in Canada and Trinidad and Tobago is highly competitive in all aspects, including the exploration for, and the development of, new sources of supply, the acquisition of oil and natural gas interests and the marketing of, crude oil, natural gas and natural gas liquids. We compete with other companies in this sector for the exploration and development of oil and natural gas reserves.

We actively compete for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and natural gas companies. Our competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators, most of which possess significantly greater financial resources than us.

Cyclical Nature of Business

Our business is generally not cyclical, however, our revenue from the sale of natural gas is highly seasonal, with demand and prices for natural gas rising during cold winter months and hot summer months.

Specialized Skills and Knowledge

We believe that our success is largely dependant on the performance of our management and key employees, many of whom have specialized knowledge and skills relating to conventional and offshore oil and natural gas operations. We believe that we have adequate personnel with the specialized skills required to successfully carry out our operations.

Government Regulation

All aspects of the oil and natural gas industry present potential environmental risks and are, accordingly, subject to a variety of Canadian federal, provincial and municipal environmental regulations. These regulatory regimes are laws of general application that apply to us in the same manner as they apply to other participants in the energy industry.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to third parties and may require us to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect our financial condition, capital expenditures, results of operations, competitive position or prospects.

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We believe that we conduct our operations in Canada in a manner consistent with environmental regulations as stipulated in provincial and federal legislation and in Trinidad and Tobago in a manner consistent with the environmental regulations of the Republic of Trinidad and Tobago, which are similar to other jurisdictions where Canadian Superior has and continues to work (e.g. offshore Nova Scotia). We are committed to meeting our responsibilities to protect the environment wherever we operate and anticipate making expenditures of both a capital and expense nature to ensure full compliance with laws relating to protection of the environment. We anticipate spending sufficient funds on environmental expenditures in 2006 and in future years in order to comply in all material respects with all environmental requirements related to our field operations. We do not anticipate that such expenditures, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. We will maintain insurance coverage where available, and financially desirable, in light of risk versus cost factors.

Employment

As of April 1, 2006, we had a total of 36 full-time staff, including 4 staff members in the Halifax office, 7 staff members in the Drumheller field office, 23 staff members in the Calgary office, and 2 staff members in the Trinidad office.

Legal Proceedings

We are involved in various claims and litigation arising in the ordinary course of our business. In the opinion of our management, the various claims and litigation arising therefrom are not expected to have a material adverse effect on our financial position. We maintain insurance, which in the opinion of our management, is in place to address any unforeseen claims.

During 2004, a number of class action proceedings were initiated against Canadian Superior and certain of our directors and officers in the United States District Court, Southern District of New York, in the Ontario Superior Court of Justice and the Quebec Superior Court by plaintiffs alleging to have purchased securities of Canadian Superior and alleging they suffered damages resulting from statements by us regarding our Mariner I-85 exploration well drilled offshore Nova Scotia.

On September 6, 2005, together with our insurers we reached an agreement to settle all securities class action litigation and actions pending in Canada against Canadian Superior and certain of our officers and directors resulting from the drilling last year of the Mariner I-85 exploration well drilled offshore Nova Scotia. The \$2.15 million settlement, which is covered by our insurance, was reached with no admission of liability by any party.

On June 8, 2005, we announced that together with our insurers we reached an agreement to settle all securities class action litigation and actions pending in the United States against Canadian Superior and certain of our officers and directors resulting from the drilling last year of the Canadian Superior El Paso Mariner I-85 exploration well drilled with El Paso Corporation offshore Nova Scotia. The US\$3.2 million settlement, covered by our insurance, was reached with no admission of liability by any party.

Intercorporate Relationships

We have no subsidiaries which individually represent more than 10% of our total consolidated assets and total consolidated revenues. All of our subsidiaries in the aggregate represent less than 20% of our total consolidated assets and total consolidated revenues. The following list represents current subsidiaries:

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Name	Country of Incorporation	Ownership Percent	
Marquis Exploration Ltd	Canada	100	%
Mariner Exploration Inc.	Canada	100	%
Canadian Frontier Energy Corp.	Canada	100	%
3885062 Canada Ltd.	Canada	100	%
Canadian 88 Energy International Inc.	Canada	100	%
Canadian 88 International Inc.	Canada	100	%
Canadian Superior Energy (U.S.A.) Inc.	U.S.A.	100	%

Historical Principal Capital Expenditures/Divestitures

The following table summarizes the capital expenditures incurred by us for the years ended December 31, 2005, December 31, 2004 and December 31, 2003.

Capital Expenditures (\$000 s)	Year Ended December 31,		
	2005	2004	2003
Acquisition/(Disposition)	\$ (525)	1,070	54,160
Exploration & Development	23,849	27,894	21,660
Plants, Facilities & Pipelines	5,749	6,696	2,787
Land & Lease	9,073	2,116	1,325
Capitalized Expenses	5,937	4,445	4,063
	\$ 44,083	\$ 42,221	\$ 83,995

Current and Planned Capital Expenditures/Divestitures

The total capital budget for 2006 is estimated at \$57.0 million, which is approximately 50% of exploration activity. This includes approximately \$37.0 million spent in Western Canada and \$20.0 million spent offshore Trinidad and Tobago. The 2006 capital expenditure program will be funded by working capital, cash flow and equity financings.

Reserve Information

The following table sets forth our estimated working interest share quantities of proved reserves before royalties as at the end of each of the fiscal years ended December 31, 2005, 2004 and 2003.

RESERVES SUMMARY

	December 31, 2005				December 31, 2004				December 31, 2003			
	Proved Producing	Proved Non- producing	Proved Undeveloped	Total Proved	Proved Producing	Proved Non- producing	Proved Undeveloped	Total Proved	Proved Producing	Proved Non- producing	Proved Undeveloped	Total Proved
Light and Medium Oil (Mbbbl)	755	10	0	765	768	0	0	768	795	151	75	1,022
Heavy Oil (Mbbbl)	0	0	0	0	0	0	0	0	0	0	0	0
Natural Gas (MMcf)	18,008	2,121	2,537	22,666	17,043	2,340	1,025	20,408	15,195	1,424	618	17,237
Natural Gas Liquids (Mbbbl)	160	3	2	165	167	18	3	189	170	10	11	191
Total Oil Equivalent (Mbbbl)	3,916	366	425	4,707	3,776	408	174	4,358	3,498	399	189	4,086

Production

The following table discloses our net (before royalty interests) production volumes for the fiscal years ended December 31, 2005, 2004 and 2003 for each product type.

PRODUCTION VOLUME

	December 31, 2005				December 31, 2004				December 31, 2003			
	Light and Medium Crude Oil (Bbls/d)	Natural Gas (mcf/d)	Natural Gas Liquids (Bbls/d)	BOE (BOE/d)	Light and Medium Crude Oil (Bbls/d)	Natural Gas (mcf/d)	Natural Gas Liquids (Bbls/d)	BOE (BOE/d)	Light and Medium Crude Oil (Bbls/d)	Natural Gas (mcf/d)	Natural Gas Liquids (Bbls/d)	BOE (BOE/d)
Total (all fields)	499	12,083	119	2,632	530	11,533	112	2,565	477	10,210	106	2,285

DIVIDEND POLICY

We have not declared or paid any cash dividends on our common shares. We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on our common shares in the foreseeable future. Pursuant to the terms of the 5% US\$100 cumulative redeemable convertible preferred shares or preferred shares issued in the February 2006 private placement, we may pay quarterly dividends in cash at a 5% annualized cash dividend rate or alternatively by way of issuance of our common shares at market price, based on a 5.75% annualized dividend rate in lieu of the 5% annualized cash dividend rate. The dividends on the Preferred Shares are payable, as and when declared by the board of directors, but such dividends are cumulative and will carry forward to the extent that they are not paid.

DESCRIPTION OF SHARE CAPITAL

Our authorized share capital consists of an unlimited number of common shares and an unlimited number of first preferred shares, issuable in series, each with no par value. As at April 30, 2006, 121,322,963 of our common shares were issued and outstanding and 150,000 of our preferred shares were issued and outstanding. In addition, as of April 30, 2006, there were 9,936,388 common shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$1.98 per share, 2,195,908 common shares reserved for future grant or issuance under our stock option plan, and 3,950,000 common shares issuable upon the exercise of outstanding warrants and special warrants at a weighted average exercise price of \$2.65 per share.

Common Shares

The common shares are entitled to notice of and to vote at all meetings of shareholders (except meetings at which only holders of a specified class or series of shares are entitled to vote) and are entitled to one vote per share. The holders of common shares are entitled to receive such dividends as the board of directors may declare and, upon liquidation, to receive such assets of Canadian Superior as are distributable to holders of common shares. All of the common shares are of the same class and, once issued, rank equally as to entitlement to dividends, voting powers (one vote per share) and participation in assets upon dissolution or winding-up. No common shares have been issued subject to call or assessment. The common shares contain no pre-emptive or conversion rights and have no provisions for redemption or purchase for cancellation, surrender, or sinking or purchase funds. Provisions as to the modification, amendment or variation of such rights or provisions are contained in our articles and bylaws and in the *Business Corporations Act (Alberta)*.

Preferred Shares

Our board of directors created a series of 150,000 first preferred shares, series A referred to as 5% US\$100 cumulative redeemable convertible preferred shares with a stated value of US\$100 per share. Cumulative dividends are payable, as and when declared by the board of directors, on the 5% US\$100 cumulative convertible redeemable preferred shares at a rate of 5% per annum in priority to dividends on common shares and all other shares ranking junior to the 5% US\$100 cumulative convertible redeemable preferred shares with respect to payment of any dividends. We may satisfy such dividend payment obligations in whole or in part by the issuance of common shares at current market price (the weighted average trading price for 20 trading days on the American Stock Exchange) for an equivalent of 115% of the dividend otherwise payable.

The 5% US\$100 cumulative convertible redeemable preferred shares are redeemable by us on or after December 30, 2010 for an amount equal to the stated value together with any accrued and unpaid dividends to the date fixed for redemption. The 5% US\$100 cumulative convertible redeemable preferred shares also may be redeemed by us between December 30, 2007 and December 30, 2010, provided that we have completed at least one well on Block 5(c) of our Trinidad and Tobago license and that the current market price prior to the date on which the redemption notice is given was at least 125% of the US\$2.50 current conversion price.

The holders of 5% US\$100 cumulative convertible redeemable preferred shares may request redemption of their 5% US\$100 cumulative convertible redeemable preferred shares for a price per share equal to the stated value, together with all accrued and unpaid dividends on the earlier of December 30, 2010, or upon the occurrence of a takeover of Canadian Superior resulting in the common shares no longer being publicly traded.

The 5% US\$100 cumulative convertible redeemable preferred shares are convertible at any time, or in the case called for redemption, on or prior to 4:30 p.m. on the third business day prior to the date fixed for redemption, at the current conversion basis; namely by dividing US\$100 by the current conversion price of US\$2.50 per common share, subject to adjustments as provided for in our articles of incorporation. The holders of 5% US\$100 cumulative convertible redeemable preferred shares are not entitled to any voting rights or to receive notice or attend at any meeting of shareholders unless and until we are in default of the payment of four quarterly dividends, whether or not such dividends have been declared, at which time the holders shall be entitled to receive notice of and attend at meetings of shareholders and shall be entitled to 40 votes in respect of each 5% US\$100 cumulative convertible redeemable preferred share.

Additional preferred shares may be issued in one or more series with each series to consist of such number of shares as may, before the issue of the series, be fixed by our board of directors. The board of directors is authorized, before the issue of the series, to determine the designation, rights, restrictions, conditions and limitations attaching to the preferred shares of each series. The preferred shares of each series rank equally with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up and in priority to the common shares and any other of our shares ranking junior to the preferred shares. In addition, if any amount of a fixed cumulative dividend or an amount payable on return of capital in respect of shares of a series of preferred shares is not paid in full, the shares of the series are entitled to participate ratably with the shares of any other series of the same class in respect of such amounts.

Shareholders Rights Plan

Our shareholders have adopted a shareholder rights plan, or Rights Plan. The Rights Plan is contained in an agreement dated as of January 22, 2001, as amended and restated as of May 17, 2001, between us and Computershare Trust Company of Canada (the Rights Plan Agreement). The effective date of the Rights Plan was January 22, 2001 (the Effective Date) and it was amended and restated as of May 17, 2001. The Rights Plan continues in effect until January 22, 2011, being ten years from its effective date.

Under the Rights Plan, one right, or Right, is attached to each common share. The Rights will separate from the common shares and become exercisable eight trading days (the Separation Time) after a person acquires, or commences a take-over bid to acquire, 20% or more of the voting shares or other securities convertible into our voting shares, unless the Separation Time is deferred. The acquisition by any person (an Acquiring Person) of 20% or more of the common shares, other than in a permitted manner, is called a Flip-in Event. Any Rights held by an Acquiring Person will become void

upon the occurrence of a Flip-In Event.

Eight trading days after a Flip-in Event, each Right will permit the holder (other than an Acquiring Person) to purchase from us, on payment of the \$15 exercise price, common shares with a market value of \$30. The result will be massive dilution of the holdings of the Acquiring Person. We anticipate that no Acquiring Person will be willing to risk such dilution and so will instead either make a take-over bid that is permitted by the Rights Plan, negotiate with our board of directors for a waiver of the Rights Plan, or apply to regulatory authorities for an order rendering the Rights Plan ineffective.

A person will not become an Acquiring Person, and will not trigger the separation and ability to exercise the Rights, by becoming the beneficial owner of 20% or more of the common shares pursuant to a take-over bid specifically permitted by the Rights Plan (a Permitted Bid) or in other circumstances provided for under the Rights Plan. Investment advisors (for fully managed accounts), trust companies (acting in their capacities as trustees and administrators) and statutory bodies acquiring 20% of the common shares are exempted from triggering a Flip-In Event, provided that they are not making, and are not part of a group making, a take-over bid.

The issue of the Rights is not initially dilutive. However, upon a Flip-In Event occurring and the Rights separating from the common shares, reported earnings per share on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not (or, in the case of an Acquiring Person, cannot) exercise their Rights upon the occurrence of a Flip-In Event will suffer substantial dilution.

Registration Rights

We have granted registration rights to the holders of our 5% US\$100 cumulative convertible redeemable preferred shares and common share purchase warrants, which were issued by us in a private placement on February 1, 2006. Pursuant to the terms of a registration rights agreement entered into in connection with the private placement, we are obligated to file a registration statement with the Securities and Exchange Commission within 30 days of the closing of the private placement to register the common shares issuable upon exercise of the common share purchase warrants and upon conversion of the 5% US\$100 cumulative convertible redeemable preferred shares. We are required to have the registration statement declared effective within 180 days of the closing of the private placement. To the extent that we fail meet either of the foregoing requirements, we will be required to pay West Coast Opportunity Fund, LLC one-thirtieth of one percent of the US\$15 million aggregate purchase price for each day that such requirement is not met, up to a maximum amount of six percent of the aggregate purchase price. As we failed to file the registration statement within such 30 day period, we have incurred penalties which are payable to West Coast Opportunity Fund, LLC.

Equity Sales and Related Transactions

Voting common shares issued:

	Number	Amount
Balance at January 1, 2003	65,032	\$ 49,927
Reduction of stated capital		(17,057)
Issued for cash	22,440	35,000
Issued upon exercise of stock options	1,625	1,601
Issued upon exercise of warrants	1,206	2,412
Issued for cash on flow-through shares	5,798	17,765
Tax benefits renounced on flow-through shares		(6,396)
Issue costs, net of future tax reduction of \$1,915		(3,157)
Balance, as at December 31, 2003	96,101	80,095
Issued upon conversion of special warrants	7,543	22,834
Issued upon exercise of stock options	1,299	1,462
Issued upon exercise of \$2.00 purchase warrants	3,002	6,004
Issued upon exercise of \$3.20 purchase warrants	484	1,549
Issued for cash on flow-through shares	1,377	3,443
Tax benefits renounced on flow-through shares		(1,188)

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Issue costs, net of future tax reduction of \$106		(203)
Value of stock compensation for exercised options		630	
Balance, as at December 31, 2004	109,806	\$	114,626
Issued for cash on Special Warrants	5,500		10,835
Issued upon exercise of stock options	852		1,044
Issued for cash on flow-through shares	2,977		8,929
Issue costs, net of future tax reduction of \$221		(436)
Value of stock compensation for exercised options		652	
Balance, as at December 31, 2005	119,135	\$	135,650

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ARTICLES OF INCORPORATION AND BYLAWS

Objects or Purposes

Our articles of incorporation and bylaws do not contain stated objects or purposes and do not place any limitations on the business that we may carry on.

Directors

Directors Power to Vote on Matters in which a Director is Materially Interested. A director who (a) is a party to a material contract or material transaction or proposed material contract or proposed material transaction with us, or (b) is a director or officer of or has a material interest in any person who is a party to a material contract or material transaction or proposed material contract or proposed material transaction with us, must disclose in writing to us or request to have entered in the minutes of meetings of directors the nature and extent of the director's interest. The director cannot vote on any resolution to approve the contract or transaction unless the contract or transaction is (a) an arrangement by way of security for money lent to or obligations undertaken by the director, or by a body corporate in which the director has an interest, for our benefit or for the benefit of an affiliate of ours, (b) a contract or transaction relating primarily to the director's remuneration as a director, officer, employee or agent of ours or an affiliate of ours, (c) a contract or transaction for indemnity or insurance of directors or officers under the *Business Corporations Act* (Alberta) or (d) a contract or transaction with an affiliate of ours.

Directors Power to Determine Their Compensation. Our directors may fix their remuneration.

Borrowing Powers Exercisable by the Directors. Our directors may, without authorization of our shareholders, (a) borrow money on our credit, (b) issue, reissue, sell or pledge our debt obligations, (c) give a guarantee on our behalf to secure performance of an obligation of any person, and (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any of our property, owned or subsequently acquired, to secure any obligation of ours. Our directors may also, by resolution, delegate

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the borrowing powers referred to above to a director, a committee of directors or an officer.

Retirement or Non-Retirement of Directors Under an Age Limit Requirement. There is no mandatory age-related retirement or non-retirement requirement for our directors.

Number of Shares Required for Director's Qualification. Our directors are not required to hold any of our shares as a qualification to be a director.

Rights, Preferences and Restrictions Attaching to Our Shares

The rights, preferences and restrictions attaching to our shares are described above under *Description of Share Capital*.

Action Necessary to Change the Rights of Holders of Our Shares

The rights of holders of our shares may be changed by amending our articles, amalgamating with one or more other corporations, continuing under the laws of another jurisdiction, reorganizing under a court order or effecting an arrangement under a court order, in each case pursuant to the *Business Corporations Act* (Alberta). Those actions generally require approval of our shareholders by special resolution, meaning a resolution passed by a majority of not less than 2/3 of the votes cast by the shareholders who voted in respect of that resolution or signed by all the shareholders entitled to vote on that resolution. The holders of a class of shares, or a series of shares of a class, are entitled to vote separately as a class or series if the class or series is affected by the amendment or other action in a manner different from other shares of the same class or series. This applies whether or not shares of a class or series otherwise carry the right to vote.

Shareholders Meetings

Meetings of our shareholders must be held at the place within Alberta that our directors determine. Our directors must call an annual meeting of shareholders to be held not later than 15 months after holding the last preceding annual meeting and may at any time call a special meeting of shareholders. However, we may apply to the court for an order extending the time in which our next annual meeting must be held.

For the purpose of determining shareholders entitled to receive notice of or to vote at a meeting of shareholders, our directors must fix in advance a date as the record date for that determination of shareholders, but that record date cannot precede by more than 50 days or by less than 35 days the date on which the meeting is to be held. Notice of the time and place of a meeting of shareholders must be sent not less than 21 days and not more than 50 days before the meeting to each shareholder entitled to vote at the meeting, to each director and to our auditor.

All business transacted at a special meeting of shareholders and all business transacted at an annual meeting of shareholders, except consideration of the financial statements and auditor's report, fixing the number of directors for the following year, election of directors and reappointment of the incumbent auditor, is deemed to be special business. Notice of a meeting of shareholders at which special business is to be transacted must state (a) the nature of that business in sufficient detail to permit the shareholder to form a reasoned judgment on that business, and (b) the text of any special resolution to be submitted to the meeting.

We must, no later than 10 days after the record date, prepare a list of shareholders arranged in alphabetical order and showing the number of shares held by each shareholder. Each shareholder is

entitled to vote the shares shown opposite the shareholder's name at the meeting to which the list relates, except to the extent that (a) the person has transferred the ownership of any of the person's shares after the record date, and (b) the transferee of those shares (i) produces properly endorsed share certificates, or (ii) otherwise establishes that the transferee owns the shares, and demands, not later than 10 days before the meeting, that the transferee's name be included in the list before the meeting, in which case the transferee is entitled to vote the transferee's shares at the meeting.

A quorum of shareholders is present at a meeting of shareholders if at least two persons are present in person, each being a registered shareholder or a proxy for a registered shareholder, and representing in the aggregate not less than 10% of our outstanding shares carrying voting rights at the meeting.

Each of our common shares entitles the holder of it to one vote at a meeting of shareholders. The holders of our 5% US\$100 cumulative convertible redeemable preferred shares are not entitled to any voting rights or to receive notice or attend at any meeting of shareholders unless and until we are in default of the payment of four quarterly dividends, whether or not such dividends have been declared, at which time the holders shall be entitled to receive notice of and attend at meetings of shareholders and shall be entitled to 40 votes in respect of each 5% US\$100 cumulative convertible redeemable preferred share. The holders of our 5% US\$100 cumulative convertible redeemable preferred shares may also be entitled to voting rights in the circumstances described above under Articles of Incorporation and Bylaws Action Necessary to Change the Rights of Holders of Our Shares .

The registered holders or beneficial owners of not less than 5% of our issued shares that carry the right to vote at a meeting sought to be held may requisition our directors to call a meeting of shareholders for the purposes stated in the requisition. The requisition must state the business to be transacted at the meeting and must be sent to each director and to our registered office. On receiving the requisition, our directors must call a meeting of shareholders to transact the business stated in the requisition unless one of the exceptions set out in the *Business Corporations Act* (Alberta) is available.

Limitations on the Right to Own Securities

There are no limitations in our articles or bylaws on the rights to own any of our securities. However, the *Investment Canada Act* (Canada) may limit the rights of non-resident or foreign shareholders to acquire shares.

Change in Control

There are no provisions of our articles or bylaws that would have an effect of delaying, deferring or preventing a change in control and that would operate with respect to a merger, acquisition or corporate restructuring involving us. However, the *Investment Canada Act* (Canada) and our Rights Plan (described above under Description of Share Capital Shareholder Rights Plan) may each have that effect.

Shareholder Ownership Disclosure

There are no provisions in our bylaws governing the ownership threshold above which shareholder ownership must be disclosed. However, Canadian and U.S. securities laws regarding shareholder ownership by certain persons require certain disclosure.

CERTAIN INCOME TAX CONSIDERATIONS

Certain United States Federal Income Tax Considerations

The following description is a general summary of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the common shares offered hereunder (the Offered Shares) by a U.S. Holder. This discussion does not address all potentially relevant U.S. federal income tax matters, and unless otherwise specifically provided, it does not address any state, local, foreign or alternative minimum tax consequences of purchasing, holding or disposing of the Offered Shares. This discussion is limited to U.S. Holders that own less than 10% of Canadian Superior's total shares outstanding.

As used herein, the term U.S. Holder means the following persons who invest in and hold Offered Shares as capital assets: (i) citizens or residents (as defined for U.S. federal income tax purposes) of the U.S.; (ii) corporations (or other entities classified as corporations for U.S. federal income tax purposes) organized under the laws of the U.S. or of any state or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, and (iv) a trust (A) if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (B) that has elected to be treated as a U.S. person under applicable U.S. Treasury regulations, or Treaty Regulations, and, in each case, (a) who are residents of the U.S. for purposes of the Canada-United States Tax Convention (1980), as amended (the Convention), (b) whose common shares would not, for purposes of the Convention, be effectively connected with a permanent establishment in Canada and (c) who otherwise would qualify for the full benefits of the Convention. It should be noted that certain single member entities are disregarded for U.S. federal income tax purposes. Thus, the income, gain, loss and deductions of such entity are attributed to the owner of such single member entity for U.S. federal income tax purposes. The discussion below for U.S. Holders may not apply to certain single member non-corporate entities that are treated as owned by a non-U.S. Holder. If a partnership holds Offered Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Prospective investors which are single member non-corporate entities or partners in partnerships holding Offered Shares should consult with their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

This summary is based on the Convention, the U.S. Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions and existing and proposed Treasury Regulations, changes to any of which subsequent to the date of this prospectus may affect the tax consequences described herein possibly on a retroactive basis. It is for general guidance only and does not address the consequences applicable to certain categories of shareholders subject to special treatment under the Code, including, but not limited to, tax exempt organizations, pass through entities, certain financial institutions, insurance companies, dealers in securities or foreign currencies, traders in securities electing to mark to market, U.S. persons whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar or persons that own directly, indirectly or by application of the constructive ownership rules of the Code 10% or more of Canadian Superior's shares by voting power or by value. Persons considering the purchase of Offered Shares should consult their tax advisors with regard to the application of the income tax laws of the U.S. and any other taxing jurisdiction to their particular situations.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any prospective investor, and no representation with respect to the tax consequences to any particular investor is made. **Prospective investors should consult their own tax advisors with respect to the income tax considerations relevant to them, having regard to their particular circumstances.**

Dividends

A U.S. Holder generally will recognize, to the extent of Canadian Superior's current and accumulated earnings and profits (determined in accordance with U.S. federal income tax principles), dividend income on the receipt of distributions (including constructive dividends) on the Offered Shares equal to the U.S. dollar value of such distributions determined by reference to the exchange rate on the day they are received by the U.S. Holder (with the value of such distributions computed before any reduction for any Canadian withholding tax). Any amount of such distributions treated as dividends generally will not be eligible for the dividends received deduction available to certain U.S. corporate shareholders. To the extent that any such distribution exceeds Canadian Superior's current and accumulated earnings and profits, it will be treated first as a tax free return of the U.S. Holder's tax basis in the Offered Shares to the extent thereof, and thereafter as a gain from the sale or exchange of such shares (see *Dispositions* below). U.S. Holders who receive distributions in Canadian dollars must include in income under the rules described above an amount equal to the U.S. dollar value of such distributions on the date of receipt based on the exchange rate on such date.

U.S. Holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any distributions received in Canadian dollars that are subsequently converted into U.S. dollars. Distributions to a U.S. Holder with respect to the Offered Shares will be subject to Canadian non-resident withholding tax, which is limited to a maximum rate of 15% pursuant to the terms of the Convention. Any Canadian withholding tax paid will not reduce the amount treated as received by the U.S. Holder for U.S. federal income tax purposes. However, subject to limitations imposed by U.S. law and the Convention, a U.S. Holder may be eligible to receive a foreign tax credit for the Canadian withholding tax. Because the limitations applicable to the foreign tax credit rules are complex, U.S. Holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances. U.S. Holders who do not elect to claim any foreign tax credits may be able to claim an ordinary income tax deduction for Canadian income tax withheld.

With respect to non-corporate U.S. investors, certain dividends received before January 1, 2009 from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the U.S. which the U.S. Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The U.S. Treasury Department has determined that the Convention meets these requirements. However, a foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares that are readily tradable on an established securities market in the U.S. Management believes that Canadian Superior's common shares, which are traded on the American Stock Exchange, are readily tradable on an established securities market in the U.S. There can be no assurance that Canadian Superior's common shares will be considered readily tradable on an established securities market in later years. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of this legislation to your particular circumstances.

Dispositions

Upon a sale or exchange of an Offered Share, a U.S. Holder will generally recognize a capital gain or loss equal to the difference between the amount realized on such sale or exchange (or, if the

amount realized is denominated in Canadian dollars, its U.S. dollar equivalent, determined by reference to the spot rate of exchange on the date of disposition) and the tax basis of such Offered Share. Such gain or loss will be a long term capital gain or loss if the Offered Share has been held for more than one year and will be short-term gain or loss if the holding period is equal to or less than one year. Such gain or loss generally will be considered U.S. source gain or loss for U.S. foreign tax credit purposes. Long-term capital gains of non-corporate taxpayers are eligible for reduced rates of taxation. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder which is a corporation. For both corporate and non-corporate taxpayers, limitations apply to the deductibility of capital losses.

Passive Foreign Investment Company

The rules governing passive foreign investment companies can have significant tax effects on U.S. Holders. Canadian Superior could be classified as a passive foreign investment company if, for any taxable year, either:

- (a) 75% or more of Canadian Superior's gross income is passive income, which generally includes interest, dividends, certain gains from the sale or exchange of stock or securities and some types of rents and royalties, or
- (b) on average, 50% or more of Canadian Superior's assets, by fair market value, or, in some cases, by adjusted tax basis, produce or are held for the production of passive income.

Distributions constituting excess distributions, as defined in Section 1291 of the Code, from a passive foreign investment company and dispositions of shares of a passive foreign investment company are subject to the highest rate of tax on ordinary income in effect and to an interest charge based on the value of the tax deferred during the period during which the shares are owned.

Management does not believe that Canadian Superior is currently a passive foreign investment company. However, no assurance can be given that Canadian Superior will not become a passive foreign investment company in the future. Moreover, prospective investors should be aware that Canadian Superior does not intend to provide U.S. Holders with information as to its status as a passive foreign investment company or to comply with any record keeping, reporting or other requirements of the Code applicable to passive foreign investment companies. Non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from Canadian Superior prior to January 1, 2009 if Canadian Superior is a passive foreign investment company in the taxable year in which such dividends are paid or in the preceding taxable year. U.S. Holders should consult a tax advisor with respect to how the passive foreign investment company rules affect their tax situation.

Information Reporting and Backup Withholding

A U.S. Holder may be subject to U.S. information reporting with respect to dividends paid on the Offered Shares and certain payments of proceeds from the sale or exchange of the Offered Shares, unless such U.S. Holder is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact. A U.S. Holder that is subject to U.S. information reporting generally will also be subject to U.S. backup withholding (currently at the rate of 28%) unless such U.S. Holder provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding tax rules. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability.

Certain Canadian Federal Income Tax Considerations

The following is a general summary of the principal Canadian federal income tax consequences of the purchase, ownership and disposition of the Offered Shares generally applicable to purchasers of Offered Shares pursuant to this offering who, at all relevant times, are residents of the U.S. for the purposes of the Convention, are not residents of Canada or deemed to be residents of Canada for purposes of the Income Tax Act (Canada) (the Canadian Tax Act), hold their Offered Shares as capital property, deal at arm's length with Canadian Superior for the purposes of the Canadian Tax Act, do not have a permanent establishment or fixed base in Canada, and do not use or hold and are not deemed to use or hold such Offered Shares in connection with a business carried on, or deemed to be carried on, in Canada (U.S. Resident Holders). Whether a U.S. Resident Holder holds Offered Shares as capital property for purposes of the Canadian Tax Act will depend on all of the circumstances relating to the acquisition and holding of those shares. Offered Shares will generally be considered to be capital property to a U.S. Resident Holder unless the shares are held in the course of carrying on a business or unless that holder is engaged in an adventure in the nature of trade (i.e. speculation) with respect to such shares. Special rules, which are not discussed in this summary, may apply to a U.S. Resident Holder that is an insurer carrying on business in Canada and elsewhere.

This summary is based upon the current provisions of the Canadian Tax Act, the regulations thereunder, all specific proposals to amend the Canadian Tax Act and regulations thereunder publicly announced by or on behalf of the Minister of Finance of Canada prior to the date hereof (the Proposals), the provisions of the Convention as in effect on the date hereof, and an understanding of the current published administrative practices and policies of the Canada Revenue Agency. Other than the Proposals, this summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account tax laws of any province or territory of Canada or of any jurisdiction outside Canada. The summary assumes that the Proposals will be enacted substantially as proposed, but there can be no assurance that the Proposals will be enacted as proposed or at all.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular U.S. Resident Holder, and no representation with respect to the tax consequences to any particular U.S. Resident Holder is made. The tax liability of a U.S. Resident Holder will depend on the holder's particular circumstances. Accordingly, U.S. Resident Holders should consult with their own tax advisors for advice with respect to their own particular circumstances.

Dividends

Dividends paid or credited or deemed under the Canadian Tax Act to be paid or credited to a U.S. Resident Holder on the Offered Shares will generally be subject to Canadian withholding tax equal to 25% of the gross amount of such dividends. Under the Convention, the rate of Canadian withholding tax which would apply to dividends paid on the Offered Shares to a U.S. Resident Holder that beneficially owns such dividends is generally 15%, unless the beneficial owner is a company which owns at least 10% of the voting shares of Canadian Superior at that time, in which case the rate of Canadian withholding tax is reduced to 5%.

Dispositions

A U.S. Resident Holder will not be subject to tax under the Canadian Tax Act on any capital gain realized by the holder on a disposition or deemed disposition of Offered Shares, provided that the shares do not constitute taxable Canadian property of the U.S. Resident Holder for purposes of the Canadian Tax Act. Also, under the Convention a U.S. Resident Holder will not be subject to tax under the Canadian

Tax Act on any capital gain realized by the holder on a disposition or deemed disposition of Offered Shares, provided the value of the shares is not derived principally from real property situated in Canada, as defined in the Convention. Offered Shares will generally not constitute taxable Canadian property of a U.S. Resident Holder provided that such shares are listed on a prescribed stock exchange (which currently includes the Toronto Stock Exchange and American Stock Exchange) at the time of the disposition unless, at any time during the 60-month period immediately preceding the disposition, the U.S. Resident Holder, persons with whom the U.S. Resident Holder did not deal at arm's length, or the U.S. Resident Holder together with all such persons owned 25% or more of the issued shares of any class of the capital stock of Canadian Superior. U.S. Resident Holders to whom Offered Shares constitute taxable Canadian property should consult with their own tax advisors as to the Canadian income tax consequences of a disposition of the Offered Shares.

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MANAGEMENT**Our Directors and Executive Officers**

The following table sets forth certain information about our directors and executive officers as of the date of this prospectus. Except as otherwise stated below, the business address of each of our directors and executive officers is 3300, 400 - 3rd Avenue S.W., Calgary, Alberta, T2P 4H2.

Name	Age	Position
Gregory S. Noval	51	Chief Executive Officer and Director
Michael E. Coolen	56	President, Chief Operating Officer and Director
Leigh Bilton(2)	53	Executive Vice President, Vice President, Western Canada Operations and Director
Ross A. Jones	50	Chief Financial Officer
Mel Marshall	44	Vice President, Exploration
Charles Dallas	73	Director
Thomas J. Harp(1)(2)	78	Director
Gerald J. Maier(1)(2)	77	Director
Alexander Squires(1)	59	Director
Kaare Idland	76	Director

(1) Member of the audit committee.

(2) Member of the reserve committee.

Gregory S. Noval, B.Comm., B.A. (Econ.), LLB, has served as our Chief Executive Officer from 1997 to present, and our President from 1996 through April 2006. Mr. Noval has served as a member of our board since 1996. Mr. Noval served as President and Chief Executive Officer, Canadian 88 Energy Corporation from 1988 to 2000.

Michael E. Coolen, B.Sc., B.Eng. (Mech), P.Eng., has served as President and Chief Operating Officer since April 2006, and prior to that he served as our Vice President, East Coast Operations since March 2004. Mr. Coolen has served as a member of our board of directors since November 2005. From July 2001 until March 2004, Mr. Coolen served as our Director of East Coast Operations. From 1994 until 2001, Mr. Coolen was employed as Manager Health, Safety and Environment for Sable Offshore Energy Inc., under secondment from Exxon Mobil Canada and Mobil Oil Canada.

Leigh Bilton has served as our Executive Vice President and has served as our Vice President, Western Canada Operations since 2001 and as member of our board of directors since 2002. From 2001 until present, Mr. Bilton served as our Manager Field Operations. Mr. Bilton served as Vice President, Operations of Canadian 88 Energy Corporation from 1998 until 2001.

Ross A. Jones, CMA, has served as our Chief Financial Officer since November 2004. From 2002 to 2004, Mr. Jones served as President of Stevlaur Resources Ltd., an oil and gas financial consulting company, and from 1998 to 2001, Mr. Jones was Vice President of Tikal Resources Corp., a junior oil and gas company listed on the TSX.

Mel Marshall, B.Sc., Geophysics, P.Geoph., has served as our Vice President, Exploration since July 2004 and manages our Western Canada, East Coast and Trinidad assets. From 1998 through 2004, Mel held various exploration management roles at Coastal/El Paso Canada which included managing the El Paso Canada East Coast project. Prior to his Coastal/El Paso responsibilities, Mr. Marshall held various senior technical positions at Dome Petroleum/Amoco Canada, Encor Energy Inc. Talisman Energy Inc., and Crestar Energy Inc. Mr. Marshall has been an explorationist for the last 21 years.

Charles Dallas is a rancher and independent businessman, and has served as a member of our board of directors since 2000.

Thomas J. Harp, B.Sc. (Pet. Eng.), P. Geoph. has served as a member of our board of directors since 2000. From 1979 to present, Mr. Harp has served as President of Harp Resources Ltd., a private resources company, and from 1979 to June 2004, Mr. Harp served as Chief Executive Officer of Coyote Oilfield Rentals.

Gerald J. Maier, B.Sc. (Pet. Eng.), O.C. C.D., LL.D., FCAE, has served as a member of our board of directors since March 2004. Mr. Maier has served as the Chairman of Granmar Investments Ltd., a private company, from 1985 to present. He has also served as a director of Stream Flo Industries Ltd., from 1998 to present, and Vintage Petroleum Inc. from 2002 to January 2006.

Alexander Squires, B.Sc. (Ind Eng.), MBA, C.F.A. has served as a member of our board of directors since November 2004. From 1997 to present, Mr. Squires has been a Managing Partner and Director of Brant Securities Ltd., an independent full service securities firm. Mr. Squires is a Chartered Financial Analyst and was the director of the Toronto Society of Financial Analysts from 1984 to 1986.

Kaare (Kory) Idland has served as a member of our board of directors since November 2005. Mr. Idland founded Kidd Construction Ltd., an independent oil and gas construction service company, in 1960, and has served as its President and Chief Executive Officer since its inception.

Board Structure and Composition

Our board of directors consists of eight members, whose terms expire at the next annual general meeting of our shareholders. Our shareholders elect our directors annually. Our executive officers are appointed by the directors until they resign or until their successors are appointed. There are no family relationships among any of our directors or executive officers.

Board Committees

Our board of directors has established an audit committee and a reserves committee.

Audit Committee. The mandate of the audit committee is to assist our board of directors in its oversight of the integrity of the financial and related information of our business and our subsidiaries and related entities, including the financial statements, internal controls and procedures for financial reporting and the processes for monitoring compliance with legal and regulatory requirements. The audit committee is appointed by the board of directors to assist the board in fulfilling its oversight responsibilities, including: the integrity of our financial statements; the integrity of the financial reporting process; the system of internal control and management of financial risks; the external auditors' qualifications and independence; and the external audit process and our process for monitoring compliance with laws and regulations. The audit committee consists of Mr. Gerald J. Maier, Mr. Alexander Squires and Mr. Thomas J. Harp. Our board of directors has made a determination that all members of our audit committee meet the applicable tests for independence and the requirements for financial literacy under applicable rules and regulations of the Securities and Exchange Commission and the American Stock Exchange. Our board has also determined that Mr. Squires is an audit committee financial expert, as defined under the Securities and Exchange Commission rules implementing Section 407 of the Sarbanes-Oxley Act of 2002, and has the requisite accounting or related financial expertise, as defined by applicable rules and regulations of the American Stock Exchange.

Reserve Committee. The Reserves Committee, which consists of Messrs. Maier, Bilton and Harp., reviews the qualifications and appointment of the independent qualified reserves evaluators. The Reserves Committee also reviews the procedures for providing information to the evaluators.

Board Compensation

Our non-management directors receive an annual honorarium of \$2,500. In addition, non-management directors receive fees of (i) \$1,000 for each directors meeting attended in person; (ii) \$500 for each directors meeting attended by telephone; and (iii) \$500 for each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in carrying out their duties as directors. Our directors may also be granted stock options pursuant to our stock option plan.

Executive Compensation

The following table sets forth the total compensation awarded or paid to, or earned for, services rendered to us in all capacities during 2005, by our chief executive officer and our four other most highly compensated executive officers. These executives are referred to as the named executive officers elsewhere in this prospectus.

Summary Compensation Table

Name and Principal Position	Annual Compensation		Long-Term Compensation Securities Underlying Options
	Salary	Bonus	Other Annual Compensation(1)
Gregory S. Noval	\$ 348,722	\$ 166,435	