



## **ANNUAL INFORMATION FORM**

**For the Year Ended December 31, 2010**

**Dated April 5, 2011**

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## DEFINITIONS

Unless the context indicates otherwise, the following terms and abbreviations shall have the meanings set out below when used in this Annual Information Form. Additional terms relating to oil and natural gas reserves and operations have the meanings set forth under "Abbreviations" and "Presentation of Arcan's Oil and Gas Reserves" in this Annual Information Form.

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, and the regulations thereunder each as may be amended from time to time, and any successor laws or regulations thereto;

"**Acquired Assets**" means interests in 102 gross (81 net) sections of land combined with approximately 500 BOE/d of existing production in Arcan's Swan Hills area of Alberta;

"**Acquisition**" means the March 31, 2010, acquisition of the Acquired Assets for cash consideration of \$52.8 million;

"**AECO**" means the physical storage and trading hub for natural gas on the TransCanada Alberta Transmission System (NOVA) which is the delivery point for the various benchmark Alberta index prices;

"**Amalgamation**" means the amalgamation of Desco and Arcan Resources Ltd. effective January 1, 2007, pursuant to Section 181 of the ABCA and the Amalgamation Agreement;

"**Amalgamation Agreement**" means the amalgamation agreement between Desco and Arcan dated October 11, 2006;

"**Annual Information Form**" means this annual information form dated April 5, 2011 for the year ended December 31, 2010;

"**Arcan**" means Arcan Resources Ltd., the corporation continuing from the amalgamation of Desco and Arcan Resources Ltd., effective January 1, 2007;

"**Arcan Properties**" means the oil and gas properties beneficially owned or controlled, directly or indirectly, by Arcan;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society);

"**Common Shares**" means the common shares in the capital of Arcan;

"**Debenture(s)**" means the 6.25% convertible unsecured debentures of Arcan maturing on February 28, 2016 issued by Arcan at a price of \$1,000 per Debenture;

"**Debenture Indenture**" means the indenture governing the Debentures made as of February 14, 2011 between Arcan and the Debenture Trustee;

"**Debenture Offering**" means the public offering by Arcan in February 2011 of Debentures in an aggregate amount of \$86.25 million;

"**Debenture Trustee**" means Valiant Trust Company, a trust company continued under the laws of Canada and any successor thereof;

"**Desco**" means Desco Energy Ltd., a corporation amalgamated under the ABCA;

"**Desco Shares**" means the outstanding common shares in the capital of Desco;

"**GAAP**" means Canadian generally accepted accounting principles and practices, including without limitation the principles set forth in the CICA Handbook published by the Canadian Institute of Chartered Accountants;

"**GLJ**" means GLJ Petroleum Consultants Ltd., independent qualified reserves evaluators;

"**GLJ Report**" means the independent engineering evaluation dated March 31, 2011, and effective December 31, 2010, prepared by GLJ evaluating the oil and natural gas reserves attributable to Arcan;

"**NI 51-101**" means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*;

"**Options**" means options to purchase Common Shares issued by Arcan from time to time;

"**Performance Shares**" means the performance shares in the capital of Arcan issued to former shareholders of Desco;

"**Preferred Shares**" means preferred shares in the capital of Arcan;

"**Tax Act**" the *Income Tax Act*, R.S.C. 1985 (5<sup>th</sup> Supp.), c.1, and the regulations thereunder, each as may be amended from time to time, and any successor laws or regulations thereto;

"**the Unit**" means the Deer Mountain Unit #2, in which Arcan owns an 81 percent working interest;

"**TSX**" means the Toronto Stock Exchange; and

"**TSXV**" means the TSX Venture Exchange.

## ABBREVIATIONS

In this Annual Information Form, the abbreviations set forth below have the following meanings:

<b>Oil and Natural Gas Liquids</b>		<b>Natural Gas</b>	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	MMcf	million cubic feet
Mbbls	thousand barrels	Mcf/d	thousand cubic feet per day
bbls/d	barrels per day		
NGLs	natural gas liquids		
<b>Other</b>			
API	American Petroleum Institute		
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.		

BOE	barrels of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
BOE/d	barrels of oil equivalent per day
\$M	thousands of dollars
\$MM	millions of dollars
MMBOE	million barrels of oil equivalent
MMBTU	millions of british thermal units
US\$	United States denominated dollars
WTI	West Texas Intermediate, the reference price paid in US\$ at Cushing, Oklahoma, for crude oil of standard grade.

In this Annual Information Form, unless otherwise indicated, all dollar amounts are in Canadian dollars and all references to "\$" or "Cdn\$" are to Canadian dollars.

## PRESENTATION OF ARCAN'S OIL AND GAS RESERVES

### Note to Reader Regarding Oil and Gas Information, Definitions and NI 51-101

The oil and gas reserves and operational information of Arcan contained in this Annual Information Form contains the information required to be included in the Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information ("**Form 51-101F1**") pursuant to NI 51-101 adopted by the Canadian securities regulatory authorities. Readers should also refer to the Form 51-101F2 – *Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor* ("**Form 51-101F2**") attached hereto as Schedule "A" and the Form 51-101F3 – *Report of Management and Directors on Oil and Gas Disclosure* ("**Form 51-101F3**") attached hereto as Schedule "B". The effective date for the Form 51-101F1 – *Statement of Reserves Data and Other Oil and Gas Information* contained in this Annual Information Form is December 31, 2010 and the information contained in the Annual Information Form has been prepared as of April 5, 2011, unless otherwise noted. This Annual Information Form also contains certain supplemental operational and reserves information with respect to Arcan, not required to be disclosed under NI 51-101.

Certain of the following definitions and guidelines are contained in the Glossary to NI 51-101 contained in Canadian Securities Administrators Staff Notice 51-324 ("**CSA Notice 51-324**"), which incorporates certain definitions from the COGE Handbook. Readers should consult CSA Notice 51-324 and the COGE Handbook for additional explanation and guidance.

### Disclosure of Reserves and Production Information

Arcan's actual oil and natural gas reserves and future production may be greater than or less than the estimates provided in this Annual Information Form. The estimated future net revenue from the production of such oil and natural gas reserves does not represent the fair market value of such reserves.

### **Barrels of Oil Equivalent (BOE)**

Arcan has adopted the standard of 6 Mcf: 1 BOE when converting natural gas to BOEs. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 BOE is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### **Interests in Reserves, Production, Wells and Properties**

In addition to the terms having defined meanings set forth in CSA Notice 51-324, the terms set forth below have the following meanings when used in this Annual Information Form:

**"gross"** means:

- (i) in relation to Arcan's interest in production or reserves, its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of Arcan;
- (ii) in relation to wells, the total number of wells in which Arcan has an interest; and
- (iii) in relation to properties, the total area of properties in which Arcan has an interest.

**"net"** means:

- (i) in relation to Arcan's interest in production or reserves, its working interest (operating or non-operating) share after deduction of royalty obligations, plus Arcan's royalty interests in production or reserves;
- (ii) in relation to Arcan's interest in wells, the number of wells obtained by aggregating Arcan's working interest in each of its gross wells; and
- (iii) in relation to Arcan's interest in a property, the total area in which Arcan has an interest, multiplied by the working interest owned by Arcan.

**"working interest"** means the percentage of undivided interest held by Arcan in the oil and/or natural gas or mineral lease granted by the mineral owner, Crown or freehold, which interest gives Arcan the right to "work" the property (lease) to explore for, develop, produce and market the leased substances.

### **Reserves Categories and Levels of Certainty for Reported Reserves**

**"Reserves"** are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.

**"Proved Reserves"** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves.

**"Probable Reserves"** are those additional reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable Reserves.

The qualitative certainty levels referred to in the definitions above are applicable to individual reserves entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (iv) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves; and
- (v) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable Reserves ("**Proved + Probable**" or "**P+P**").

### **Development and Production Status**

Each of the reserves categories reported by Arcan (Proved and Probable) may be divided into developed and undeveloped categories:

"**Developed Reserves**" are those reserves that are expected to be recovered from existing wells and installed facilities, or if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into Producing and Non-Producing.

- (i) "**Developed Producing Reserves**" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing, or if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (ii) "**Developed Non-Producing Reserves**" are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"**Undeveloped Reserves**" are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (Proved or Probable) to which they are assigned.

### **Description of Price and Cost Assumptions**

"**Forecast prices and costs**" means future prices and costs that are:

- (i) generally accepted as being a reasonable outlook of the future; and
- (ii) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which Arcan is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices or costs referred to in paragraph (i).

### **SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS AND INFORMATION**

This Annual Information Form contains forward-looking information within the meaning of applicable securities laws, which are based on Arcan's current internal expectations, estimates, projections, assumptions and beliefs. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "plan", "intend", "strategy", "should", "believe", "possible" and similar expressions are intended to

identify forward-looking information. This information is not a guarantee of future performance and involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements or information. Arcan believes the expectations reflected in its forward-looking information is reasonable but no assurance can be given that these expectations will prove to be correct, and such forward-looking information included in this Annual Information Form should not be unduly relied upon. Such forward-looking information speaks only as of the date of this Annual Information Form and Arcan does not undertake any obligation to publicly update or revise any forward-looking information, except as required by applicable laws.

In particular, this Annual Information Form contains forward-looking statements and information pertaining to, among other things, the following:

- the quantity of, and future net revenues from, Arcan's reserves;
- crude oil, NGLs and natural gas production levels;
- commodity prices, foreign currency exchange rates and interest rates;
- capital expenditure programs, drilling programs and other future expenditures;
- supply and demand for oil, NGLs and natural gas;
- waterflood and CO<sub>2</sub> recoveries;
- Arcan's business strategy and planned acquisition and development strategy;
- expectations regarding Arcan's ability to raise capital and to continually add to reserves through acquisitions and development;
- schedules for and timing of certain projects and Arcan's strategy for growth;
- the impact of the Acquisition;
- Arcan's future operating and financial results;
- future abandonment and reclamation costs;
- Arcan's tax pools and the time at which Arcan may incur certain income or other taxes;
- Expectations as to the amount of production required to allow new wells to reach pay-out;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws; and
- future income tax laws and royalty regimes.

The forward-looking information and statements contained in this Annual Information Form reflect several material factors and expectations and assumptions of Arcan including, without limitation: that Arcan will continue to conduct its operations in a manner consistent with past operations; the accuracy of current horizontal production data, historical well production and waterflood results; the general continuance of current or, where applicable, assumed industry conditions; continuity of reservoir conditions across Arcan's Swan Hills land base; availability of debt and/or equity sources to fund Arcan's capital and operating requirements as needed; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the accuracy of the estimates of Arcan's reserves volumes; the accuracy of current horizontal production data; and certain commodity price and other cost assumptions.

Arcan's actual results could differ materially from those anticipated in its forward-looking information as a result of both known and unknown risks, including the risk factors set forth under "Risk Factors" in this Annual Information Form and those set forth below:

- the early stage of development of Arcan's business;
- Arcan's involvement in the acquisition, exploration, exploitation, development and production of oil and natural gas;
- the dependence on other operators in relation to some of the properties in which Arcan has an interest or may acquire an interest;
- liabilities and unexpected events inherent in oil and gas operations, including processing, geological, technical, drilling, capacity, weather-related, cost increases, accidents, exchange rates, labour supply, demand and regulatory risks;
- the ability of Arcan to acquire or discover new reserves to replace the existing reserves;
- uncertainties associated with estimating reserves;
- the possibility of Arcan financing future transactions, which would require increasing the debt level of Arcan above industry standards;
- constraints on, or the unavailability of, adequate pipeline and transportation capacity to deliver Arcan's production to market;
- the reliance upon infrastructure to carry on the exploration, processing and development activities;
- the presence of risks which Arcan may not be fully protected against through insurance;
- risks relating to the growth of Arcan such as capacity constraints and pressure on its internal systems and controls;
- the potential expiration of licenses or leases for any reason;
- the risk that Arcan is or may become exposed to third-party credit risks;
- actions by governmental or regulatory authorities, including changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry;
- the dependence of Arcan on key personnel and employers, whose departure could have a material adverse effect;
- industry risks such as Arcan's ability to select and acquire suitable producing properties, competition in the distribution and marketing of oil and gas, and reliability of delivery;
- volatility in market prices for oil, NGLs and natural gas;
- the ability of Arcan to maintain the financial covenants contained in its Credit Facility (as defined below), which could require substantial capital requirements;
- actions of industry partners;
- the availability of drilling equipment and access restrictions;
- changes in environmental, regulatory or other legislation applicable to Arcan's operations, and Arcan's ability to comply with current and future environmental legislation and regulations and other laws and regulations;
- changes in capital and other expenditure requirements and debt service requirements;
- despite reasonable investigation, Arcan can not give an assurance that it holds good and marketable title to its properties;

- Arcan has not paid any dividends and is unlikely to pay dividends in the immediate or foreseeable future;
- potential conflicts of interest to which the directors and officers of Arcan may be subjected to; and
- incorrect assessments of the value of acquisitions.

Moreover, the current global economic conditions and uncertainty, including the current volatility in financial markets, is adding a substantial amount of risk to the North American and worldwide economy, and the continuation of such factors may adversely impact Arcan's anticipated or expected results of operations and may cause the actual results to materially deviate from the forward-looking statements and information contained in this Annual Information Form.

Many of these risk factors and other specific risks and uncertainties are discussed in further detail throughout this Annual Information Form. Readers are referred to the risk factors described in this Annual Information Form under "Risk Factors" and in other documents Arcan files from time to time with securities regulatory authorities. Copies of these documents are available without charge from Arcan or electronically under Arcan's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **ARCAN RESOURCES LTD.**

Pursuant to the terms of the Amalgamation Agreement, Desco and Arcan Resources Ltd. amalgamated on January 1, 2007, pursuant to Section 181 of the ABCA with the amalgamated corporation continuing under the name "Arcan Resources Ltd."

Desco Energy Ltd. was incorporated on June 23, 2005, pursuant to the provisions of the ABCA under the name "Desco Energy Ltd." by a Certificate of Amendment and Registration of Restated Articles dated August 17, 2005, Desco amended its Articles of Incorporation to remove the restrictions on share transfer set forth therein. Prior to the Amalgamation, Desco was a reporting issuer in the provinces of British Columbia and Alberta and the Desco Shares were listed and posted for trading on the TSXV under the trading symbol "DSE". Desco had no subsidiaries.

Arcan Resources Ltd. was incorporated pursuant to the provisions of the ABCA on October 9, 2003. Prior to the Amalgamation, Arcan Resources Ltd. was not a reporting issuer and none of its securities were listed on a stock exchange. Arcan Resources Ltd. had no subsidiaries.

The head office of Arcan is located at Suite 3200, 450 – 1<sup>st</sup> Street S.W., Calgary, Alberta, T2P 5H1, and the registered office of Arcan is located at Suite 3500, 855 – 2<sup>nd</sup> Street S.W., Calgary, Alberta, T2P 4J8. The Common Shares trade on the TSXV under the symbol "ARN" and the Debentures trade on the TSXV under the symbol "ARN.DB".

#### **INTERCORPORATE RELATIONSHIPS**

Arcan has no subsidiaries.

#### **GENERAL DEVELOPMENT OF THE BUSINESS OF ARCAN**

Pursuant to the terms of the Amalgamation Agreement, Desco and Arcan amalgamated on January 1, 2007, under Section 181 of the ABCA with the amalgamated corporation continuing under the name "Arcan Resources Ltd.". On January 9, 2007, the Common Shares commenced trading on the TSXV under the symbol "ARN".

The predecessor to Arcan was incorporated on October 9, 2003, pursuant to the provisions of the ABCA under the name Fisher Petroleum Ltd. ("**Fisher Petroleum**") and commenced operations on April 28, 2004. At its inception, Fisher Petroleum was focused on the exploration and development of oil and natural gas properties in the Western Canadian sedimentary basin. In April 2004, Ed Gilmet, Arcan's current President and Chief Executive Officer, commenced employment with Fisher Petroleum and shortly thereafter Fisher Petroleum changed its name to "Arcan Resources Ltd." Arcan drilled its first well (0.175 net) in July 2004 in the Sundre/Ricinus area of Alberta resulting in an Ostracod and Viking gas well.

Desco was incorporated as a capital pool company or "CPC" as that term is defined in TSXV Policy 2.4 – *Capital Pool Companies*. On October 7, 2005, Desco completed its initial public offering by way of a final prospectus dated September 27, 2005, filed in the provinces of Alberta and British Columbia. The Desco Shares began trading on the TSXV effective November 11, 2005, under the symbol "DSE.P" and on December 28, 2005, the Desco Shares began trading on the TSXV under the symbol "DSE". Arcan and Desco entered into the Amalgamation Agreement on October 11, 2006, and amalgamated effective January 1, 2007, after shareholder approval. By virtue of the Amalgamation, Arcan increased its interest in the McLeod and Hamburg/Chinchaga properties.

On March 13, 2008, Desco shareholders who had each received one Performance Share of Arcan as a result of the Amalgamation, converted their 6,550,400 Performance Shares into 1,335,005 Common Shares for no additional consideration.

On October 29, 2009, Arcan completed an offering with a syndicate of underwriters, pursuant to which the underwriters purchased for resale, on a "bought deal" basis, 9,000,000 Common Shares at a price of \$1.25 per Common Share for aggregate proceeds of \$11.3 million.

On November 20, 2009, Arcan completed a private placement of 1,071,500 Common Shares issued on a "flow-through" basis under the Tax Act ("**Flow-Through Shares**") at a price of \$1.40 per Flow-Through Share, for aggregate proceeds of \$1,500,100. Arcan agreed to make expenditures qualifying as "Canadian exploration expenses" under the Tax Act on or before December 31, 2010, in an amount equal to the aggregate subscription proceeds of the Flow-Through Shares issued, effective December 31, 2009.

In the first quarter of 2010, Arcan entered into an offer to purchase the Acquired Assets as part of the Acquisition for a cash purchase price of approximately \$52.8 million. Through the Acquisition, Arcan acquired interests in 102 gross (81 net) sections of lands in the Swan Hills area of west central Alberta which were adjacent to Arcan's existing land base with approximately 500 BOE/d of existing production. The Acquisition was financed through an offering of Subscription Receipts (as defined below).

On March 24, 2010, Arcan completed an offering with a syndicate of agents. Pursuant to the terms of the agency agreement, the agents agreed to use their commercially reasonable efforts to complete a private placement of 26,000,000 subscription receipts of Arcan (the "**Subscription Receipts**") at a price of \$2.50 per Subscription Receipt for aggregate proceeds to Arcan of \$65,000,000. Each Subscription Receipt entitled the holder thereof to receive, without payment of additional consideration, one Common Share on the exercise or deemed exercise of each Subscription Receipt. All Subscription Receipts were exercised on March 31, 2010, being the date upon which a receipt had been issued by the requisite securities regulatory authorities for a final short form prospectus qualifying the Common Shares issuable upon the exercise of the Subscription Receipts and the date upon which Arcan closed the Acquisition.

In the second quarter of 2010, Arcan replaced its existing \$50 million bank line of credit with a \$100 million two year banking facility (the "**Credit Facility**"). The Credit Facility is comprised of a \$90 million syndicated revolving credit facility and a \$10 million revolving operating facility. The Credit Facility is available on a revolving basis until May 31, 2011. On May 31, 2011, at Arcan's discretion, Credit Facility will be available on a non-revolving basis for a period of one year, at which time Credit Facility will be due and payable.

Alternatively, the Credit Facility may be extended for a further 364 day period at the request of the Arcan, subject to approval by the lenders.

On November 5, 2010, Arcan completed an offering with a syndicate of underwriters, pursuant to which the underwriters purchased for resale, on a "bought deal" basis, 10,421,875 Common Shares at a price of \$4.80 per Common Share for aggregate proceeds of \$50 million.

On February 14, 2011 Arcan completed the Debenture Offering with a syndicate of underwriters, pursuant to which the underwriters purchased for resale, on a "bought deal" basis, \$75 million aggregate amount of Debentures. On February 20, 2011 an additional \$11.25 million aggregate amount of Debentures were issued pursuant to the exercise by the underwriters of an overallotment option.

### **OVERVIEW OF ARCAN'S BUSINESS**

Arcan is engaged in the exploration for, and the development and production of petroleum and natural gas in Western Canada. Arcan has three core areas of operation: (i) the natural gas prone McLeod area, which had a net average production of approximately 86 BOE/d in 2010; (ii) the Hamburg/Chinchaga area, which had a net average production of approximately 509 BOE/d in 2010; and (iii) the Swan Hills area, including the Unit, which had a net average production of approximately 1,648 BOE/d in 2010. Arcan completed the Acquisition in the Swan Hills area on March 31, 2010 and now holds 150 gross (140 net) sections of land on this play. In aggregate, these three properties had production averaging 2,243 BOE/d net to Arcan in 2010. Arcan's total production at the date hereof is estimated at approximately 3,000 BOE/d.

For 2011, Arcan intends to implement plans to expand drilling horizontal multi-stage fracture wells across its land base and continue to expand its water injection program. Based on results to date, Arcan anticipates average production of up to approximately 4,000 BOE/d in 2011 and an estimated exit production of up to approximately 5,000 BOE/d. During the first quarter of 2011, Arcan has drilled eight (7.4 net) horizontal wells, is currently drilling well number nine and re-entered and fractured one older existing horizontal well. Arcan anticipates utilizing two drilling rigs during the 2011 breakup period and drilling a total of 20 to 25 horizontal wells over the course of 2011, to total up to 40 horizontal wells by the end of 2011.

#### **Swan Hills –The Complex**

The Swan Hills reef complex is located in north central Alberta, approximately 200 kilometres northwest of Edmonton. The main portion of Swan Hills was discovered and developed through vertical drilling in the 1950's and 1960's. The reef complex is over 50 miles long covering over 24 townships of land and is recognized as having a very large accumulation of 40° API light sweet oil-in-place. The main portion of the reef has undergone extensive waterflood operations and in many of its pools has recovered over 40 percent of the oil-in-place. Because the Swan Hills pools hold such large volumes of original-oil-in-place, each percentage point increase in the overall recovery factor represents significant incremental production and reserves at low geological risk. The large original-oil-in-place and reservoir characteristics make this area a candidate for future development under a CO<sub>2</sub> flood, with pilot projects already underway.

#### **Swan Hills – The Land**

Arcan entered the Swan Hills play in 2005. Recognizing the potential of the play, Arcan started accumulating additional interests and in 2007, built new facilities to handle a large production base and implemented a waterflood in the Unit. This was followed by a large land purchase and farm-in during 2008. Rising oil prices since 2005 have helped solidify the economics in this area; however, the key change came with the successful application of horizontal drilling and multi-stage fracture technology. Arcan's land base extends over 40 kilometres along the Swan Hills reef trend. Arcan is utilizing the 70 pre-existing vertical well bores as well as a new 3D seismic program shot in the first quarter of 2011, to delineate its horizontal drilling activity. On

March 31, 2010, Arcan completed the Acquisition. An important part of the Acquisition was that these lands were additive to Arcan's current working interests and were adjacent to Arcan's existing land base. As a result of the closing of the Acquisition, Arcan has consolidated interests that total over 160 gross (150 net) sections of land on the Swan Hills play.

### **Swan Hills – The Reserves and Economics**

Offsetting units with over 50 years of production history have recovered more than 35 percent of their estimated original oil-in-place, and are believed capable of 45 percent ultimate recovery under vertical well development and waterflood. These units have significant further upside potential from the application of multi-stage horizontal fracturing and possible future CO<sub>2</sub> injection schemes. The GLJ Report has 29 proven undeveloped locations with average gross proved plus probable net present value of \$6.1 million per horizontal well discounted at 10 percent. This does not reflect the significant upside in NPV that may be achieved through full waterflood development. Also identified in the GLJ Report is an additional five proven developed non-producing locations, bringing the total number of proved locations to 34 in the Swan Hills area. In 2010 horizontal drilling and capital expenditures were focused in the Unit where reserves had already been recorded on a vertical drilling basis. Drilling new horizontal wells in the Unit was not as effective in adding reserves as drilling outside of the Unit; however, they did significantly modify the production profile in the Unit and were in proximity to owned infrastructure and waterflood operations. The results from the waterflood and ten (8.1 net) wells in the Unit combined with proving the horizontal multi stage technology in the five (4.8 net) wells outside of the Unit, translated into significant value growth outside of the Unit in 2010. Further drilling off of the Unit and eventual waterflood on those lands is expected to continue to add to Arcan's recorded reserves. Operations for the first quarter of 2011 focused more heavily on the central portion of Arcan's land block in the Ethel area. Arcan estimates that for the remainder of 2011 it will prove up reserves as it continues to focus drilling in the Ethel area as well as including some drilling in the Morse River Unit #1 and the undeveloped land base at Virginia Hills and South Swan Hills land blocks. By focusing drilling in these relatively undeveloped areas, Arcan anticipates strength in future reserve additions.

### **Swan Hills – Wells and Production**

Arcan has drilled or re-entered 24 (21.3 net) horizontal wells to date, 23 (20.3 net) of which have been multi-stage fractured, and Arcan is currently drilling its 25<sup>th</sup> and 26<sup>th</sup> wells. In 2010, Arcan multi-stage fractured 15 (12.9 net) horizontal wells of which, ten (8.1 net) of the wells were in the Unit, two (2.0 net) wells were in Ethel and non-unit lands to the south of the Unit, one (0.8 net) well was in the Morse River Unit #1, one (1.0 net) well was at 04-02-66-9W5 and one (1.0 net) well was in the south west corner of Arcan's land base at 02-20-66-09W5. Arcan's wells, on average, for the wells that were on for 30 days produced 360 BOE/d each, the 13 wells that were on for 60 days produced an average of 330 BOE/d each, the 13 wells that were on for 90 days produced an average of 280 BOE/d each and the nine wells that were on for 180 days produced an average of 200 BOE/d each. These wells, which were on for six months, produced about five percent natural gas and 95 percent light oil and had cumulative production of 36,000 BOE.

In the first quarter of 2011 Arcan added nine (8.7 net) additional multi-stage fracture horizontal wells. Two (1.6 net) of the nine wells were drilled in the Unit with one (0.8 net) well drilling at the end of the quarter, six (6.0 net) wells were drilled in Ethel and one re-entry of older existing horizontal well was drilled at 06-36-68-08W5. Arcan anticipates further data and production volumes from these new wells throughout the second quarter of 2011. Arcan has identified additional re-entry candidates, anticipates utilizing two rigs during the break-up period and has a further ten to 15 horizontal wells budgeted for 2011, which will provide Arcan with an expected total of up to 40 multi-fractured wells in the Swan Hills play by the end of 2011.

Arcan has two types of well production profiles; wells on enhanced oil recovery ("**EOR**") recovery which are fully supported by waterflood and the new Ethel wells producing on primary recovery which are awaiting anticipated future implementation of an EOR scheme by early in the first quarter of 2012. Arcan's operations

are focused on drilling wells and moving wells up this profile ladder to get them all fully supported by waterflood. Arcan believes that once these additional wells are fully supported by waterflood their production patterns will modify and move to a higher recovery of the original oil-in-place. Arcan's 12-29-68-8W5 ("12-29") well was Arcan's first horizontal multi-stage fractured well and has the longest production history of just over one year. The 12-29 well is fully supported by waterflood and has been tied into Arcan's operated facilities. The 12-29 well has a cumulative production of approximately 100,000 BOE to date. Arcan estimates that its new wells will reach pay-out at around 60,000 bbls factoring oil at \$100 per bbl less a \$5 royalty rate and operating costs of \$15 per bbl. A typical well producing under primary recovery without the benefit of an EOR scheme is Arcan's second well Ethel (5-34) 10-27-67-8W5 ("10-27") which came on-stream in May 2010. The 10-27 well averaged approximately 450 BOE/d over the first 30 days, 200 BOE/d over the first six months and cumulative production of almost 50,000 BOE on primary recovery in the first ten months. With current economics, Arcan estimates that its first quarter 2011 Ethel focused drilling program will have a pay-out of one year or less even on primary recovery and under a fully-developed waterflood recovery could ultimately recover 35 to 40 percent of the oil-in-place.

### **Hamburg**

Arcan discovered the Hamburg GG Slave Point 42° API sweet oil pool in February 2006. Since the discovery, Arcan: took control of operating the battery; applied and received approval for an enhanced recovery scheme; drilled numerous producers, source wells and injectors; and implemented a waterflood scheme commencing water injection in October 2007. Water injection was enhanced considerably in February, 2009 with an additional injection well with one further injector in April 2010. All the producing wells in the pool have been pipeline connected through Arcan's battery to market infrastructure. Arcan owns a 50.25 percent interest in the pool as well as 100 percent interest in three offsetting sections of land. Arcan drilled one (100 percent interest) well in the southern portion of the land base in December 2010.

### **McLeod**

Arcan's McLeod core area offers medium-risk, natural gas targets largely focused in Cretaceous/Jurassic aged strata. McLeod is a multi-zone liquids rich gas prone area.

### **Competition**

The oil and natural gas industry is competitive in all its phases. Arcan competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Arcan's competitors include resource companies which have greater financial resources, staff and facilities than those of Arcan. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Arcan believes that its competitive position is equivalent to that of other oil and gas issuers of similar size and at a similar stage of development.

### **Components**

Arcan sources its materials and equipment such as drilling rigs, acid for fracture, fracture equipment and crews, steel pipes and pump jacks from a variety of suppliers located mostly in Canada. More than one supplier exists for Arcan's main materials and equipment. In the past, the source, supply and price of materials and equipment has been consistent, although in periods of high industry activity there may be shortages of certain materials and equipment. To mitigate this risk, Arcan maintains relationships with a number of suppliers and where necessary identifies alternate sources of supply.

## **Environmental Protection**

The oil and natural gas industry is subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances associated with certain oil and natural gas industry operations. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in the imposition of material fines and penalties.

Arcan did not incur any material expenditure in the past year as a result of environmental protection requirements, nor does it anticipate environmental protection requirements to have any material financial or operational effects on the capital expenditures, earnings or competitive position of Arcan in 2011. See "Risk Factors – Environmental Concerns".

## **Environmental Policies**

Arcan is dedicated to protecting and conserving the environment in which we operate and protecting the health of all persons in the communities directly or indirectly affected by our presence. To this end, we have implemented an environmental policy designed to minimize the impact of our operations on the environment. Arcan's Environment, Health and Safety Committee monitors the policy to ensure it is effective, complies with applicable legislation and is consistent with industry standards.

The financial and operational impacts of complying with applicable environmental laws have not been isolated from general operating costs since they are minimal and have not varied significantly. See "Risk Factors – Environmental Concerns".

## **Seasonality**

The level of activity in the oilfield industry is influenced by seasonal weather. The spring thaw makes the ground unstable and less capable of supporting heavy weights. Consequently, municipalities and transportation departments enforce road bans that restrict the movement of heavy equipment, thereby reducing drilling and well servicing activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting production.

There is increased activity in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, production tends to increase in the fall and peak in the winter months of November through March.

## **Personnel**

As at December 31, 2010, Arcan had 17 full time office employees and 4 full time field employees. Arcan has added two new engineering staff, one geologist and one land person to its office employees since year end.

## **STATEMENT OF RESERVES DATA**

In accordance with NI 51-101, the GLJ Report was prepared by GLJ and is dated as of March 31, 2011. The GLJ Report evaluated the oil, NGLs and natural gas reserves attributable to Arcan effective as at December 31, 2010.

The tables below include the Acquisition, which closed on March 31, 2010. Production history from all new horizontal wells drilled and on production in 2010 provided data for updated reserves calculations for the year ended December 31, 2010.

The tables below are a summary of the oil, NGLs and natural gas reserves attributable to Arcan and the net present value of future net revenue attributable to such reserves as evaluated in the GLJ Report, based on forecast price and cost assumptions. The tables summarize the data contained in the GLJ Report, and as a result, may contain slightly different numbers than those contained in the GLJ Report due to rounding. Also due to rounding, certain columns may not add exactly. Readers should review the definitions and information contained in "Presentation of Arcan's Oil and Gas Reserves" and "Abbreviations" in this Annual Information Form in conjunction with the following table and notes. All of Arcan's reserves are on-shore in Canada.

Arcan's Form 51-101F2 is attached to this Annual Information Form as Schedule "A" and its Form 51-101F3 is attached to this Annual Information Form as Schedule "B".

The estimated net present value of future net revenues attributable to Arcan's reserves in Alberta is based upon royalty costs passed into law as of December 2010. The net present value of future net revenue attributable to reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures, and well abandonment costs for only those wells assigned reserves by GLJ. The undiscounted or discounted net present value of future net revenue attributable to reserves estimated by GLJ do not represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, NGLs and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein.

The values shown for income taxes and future net revenue after income taxes were calculated on a stand-alone basis in the GLJ Report. The values shown may not be representative of future income tax obligations, applicable tax horizon or after-tax valuation.

The GLJ Report is based on certain factual data supplied by Arcan and incorporates GLJ's opinion of reasonable practice in the industry. The extent and character of ownership and all factual data pertaining to petroleum properties and contracts (except for certain information residing in the public domain) were supplied by Arcan to GLJ. GLJ accepted this data as presented and neither title searches nor field inspections were conducted.

### Summary of Oil and Gas Reserves – Forecast Prices and Costs

Reserves Category	Light & Medium Oil		Natural Gas Liquids		Natural Gas <sup>(1)</sup>		Total	
	Gross <sup>(2)</sup> (Mbbls)	Net <sup>(3)</sup> (Mbbls)	Gross <sup>(2)</sup> (Mbbls)	Net <sup>(3)</sup> (Mbbls)	Gross <sup>(2)</sup> (MMcf)	Net <sup>(3)</sup> (MMcf)	Gross <sup>(2)</sup> (Mbbls)	Net <sup>(3)</sup> (Mbbls)
Proved								
Developed Producing	5,885	4,163	601	365	2,693	2,210	6,935	4,897
Developed Non-Producing	839	740	61	43	283	241	947	823
Undeveloped	5,353	4,129	388	290	1,202	1,036	5,942	4,592
<b>Total Proved</b>	<b>12,077</b>	<b>9,031</b>	<b>1,050</b>	<b>699</b>	<b>4,178</b>	<b>3,487</b>	<b>13,823</b>	<b>10,312</b>
<b>Total Probable</b>	<b>6,206</b>	<b>4,231</b>	<b>598</b>	<b>392</b>	<b>2,814</b>	<b>2,354</b>	<b>7,273</b>	<b>5,015</b>
<b>Total Proved + Probable</b>	<b>18,283</b>	<b>13,262</b>	<b>1,647</b>	<b>1,091</b>	<b>6,992</b>	<b>5,841</b>	<b>21,096</b>	<b>15,327</b>

**Notes:**

- (1) Estimates of reserves of natural gas include associated and non-associated gas.
- (2) "Gross Reserves" are Arcan's working interest share of remaining reserves before the deduction of royalties.
- (3) "Net Reserves" are Arcan's working interest share of remaining reserves less all Crown, freehold, and overriding royalties and interests owned by others.

**Net Present Value of Future Net Revenue – Forecast Prices and Costs**

Reserves Category	Net Present Value of Future Net Revenue <sup>(1)</sup>										Unit Value <sup>(3)</sup> (\$/BOE)
	Before Income Taxes – Discounted at (%/yr)					After Income Taxes – Discounted at (%/yr) <sup>(2)</sup>					
	0	5	10	15	20	0	5	10	15	20	
	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	
Proved											
Developed Producing	286.4	214.1	173.1	147.0	128.8	276.0	209.6	171.0	145.9	128.3	35.35
Developed Non-Producing	58.3	47.0	40.1	35.4	31.9	43.7	37.6	33.8	30.1	28.7	48.72
Undeveloped	234.6	163.4	119.5	90.2	69.5	175.9	119.6	84.7	61.4	45.0	26.02
<b>Total Proved</b>	<b>579.2</b>	<b>424.5</b>	<b>332.7</b>	<b>272.5</b>	<b>230.2</b>	<b>495.6</b>	<b>366.8</b>	<b>289.5</b>	<b>238.3</b>	<b>202.0</b>	<b>32.26</b>
<b>Total Probable</b>	<b>366.0</b>	<b>205.1</b>	<b>135.3</b>	<b>98.4</b>	<b>76.0</b>	<b>274.6</b>	<b>152.6</b>	<b>99.3</b>	<b>71.1</b>	<b>53.9</b>	<b>26.97</b>
<b>Total Proved + Probable</b>	<b>945.1</b>	<b>629.6</b>	<b>467.9</b>	<b>370.9</b>	<b>306.2</b>	<b>770.2</b>	<b>519.4</b>	<b>388.8</b>	<b>309.4</b>	<b>256.0</b>	<b>30.53</b>

**Notes:**

- (1) Net present value of future net revenue includes all resource income: sale of oil, gas, by-product reserves; processing of third party reserves; and other income.
- (2) Income taxes includes all resource income, appropriate income tax calculations and prior tax pools.
- (3) Calculated using net present value of future net revenue before deducting income taxes, discounted at 10 percent per year. Unit values are based on Arcan's net reserves.

**Additional Information Concerning Future Net Revenue – Forecast Prices and Costs**

Reserves Category	Revenue (MM\$)	Royalties (MM\$)	Operating Cost (MM\$)	Development Costs (MM\$)	Well Abandonment Costs (MM\$)	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
						(MM\$)	(MM\$)	(MM\$)
<b>Proved</b>	1,304.3	322.4	254.9	141.2	6.7	579.2	83.6	495.6
<b>Total Proved + Probable</b>	2,073.8	550.6	369.7	199.6	8.6	945.1	174.9	770.2

**Future Net Revenue by Production Group – Forecast Prices and Costs**

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (Discounted at 10%/Yr) (M\$)
Proved	Light & Medium Oil (including by-products, including solution gas from oil wells)	331,353
	Natural Gas (including by-products, but excluding solution gas from oil wells)	1,304
		332,657
Proved + Probable	Light & Medium Oil (including by-products, including solution gas from oil wells)	465,758
	Natural Gas (including by-products, but excluding solution gas from oil wells)	2,158
		467,917

### Pricing Assumptions – Forecast Prices and Costs

GLJ employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2010, in the GLJ Report in estimating reserves data using forecast prices and costs<sup>(1)</sup>:

Year	Inflation	Medium and Light Crude Oil			Natural Gas		Exchange Rate (US\$/Cdn)
		WTI Cushing Oklahoma 40° API (US\$/bbl)	Edmonton Par Price 40° API (\$/bbl)	Cromer Medium 29.3° API (\$/bbl)	Alberta Gas Reference Price Plant Gate (\$/MMBTU)	AECO - C Spot (\$/MMBTU)	
2010 (actual)	1.8	79.42	78.02	73.81	3.93	4.17	0.971
2011	2.0	88.00	86.22	82.78	3.92	4.16	0.980
2012	2.0	89.00	89.29	83.04	4.51	4.74	0.980
2013	2.0	90.00	90.92	83.64	5.06	5.31	0.980
2014	2.0	92.00	92.96	84.59	5.52	5.77	0.980
2015	2.0	95.17	96.19	87.54	5.97	6.22	0.980
2016	2.0	97.55	98.62	89.75	6.28	6.53	0.980
2017	2.0	100.26	101.39	92.26	6.50	6.76	0.980
2018	2.0	102.74	103.92	94.57	6.65	6.90	0.980
2019	2.0	105.45	106.68	97.08	6.80	7.06	0.980
2020	2.0	107.56	108.84	99.04	6.95	7.21	0.980

**Note:**

(1) All pricing in the above table, excluding inflation and the exchange rate, is escalated at 2.0 percent per year thereafter.

In 2010, Arcan did not produce any heavy crude oil and received a weighted average price of \$72.97/bbl for light and medium crude oil and NGLs and \$4.84/Mcf for natural gas.

### Reconciliation of Changes in Reserves

The following table summarizes the changes in reserves from December 31, 2009 to December 31, 2010<sup>(1)</sup>:

*Forecast Prices and Costs*

	Light & Medium Oil (Mbbls)			Natural Gas (MMcf)			Natural Gas Liquids (Mbbls)		
	<u>Proved</u>	<u>Probable</u>	<u>P+P</u>	<u>Proved</u>	<u>Probable</u>	<u>P+P</u>	<u>Proved</u>	<u>Probable</u>	<u>P+P</u>
	<b>December 31, 2009</b>	6,032	1,798	7,830	4,055	1,999	6,054	428	148
Technical Revisions	114	(42)	72	(782)	(167)	(948)	31	13	44
Discoveries	-	-	-	-	-	-	-	-	-
Drilling Extensions and Improved Recovery	675	1,692	3,047	87	532	619	39	239	278
Infill Drilling	4,587	1,874	6,461	836	338	1,174	368	148	515
Acquisitions	1,269	264	1,533	550	112	662	248	50	298
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(660)	-	(660)	(568)	-	(568)	(63)	-	(63)
<b>December 31, 2010</b>	<u>12,077</u>	<u>6,206</u>	<u>18,283</u>	<u>4,178</u>	<u>2,814</u>	<u>6,992</u>	<u>1,050</u>	<u>598</u>	<u>1,648</u>

**Note:**

(1) Based on gross reserves and using forecast price and cost cases.

**Undeveloped Reserves**

The following discussion generally describes the basis on which Arcan attributes Proved and Probable undeveloped reserves and the anticipated plans for developing those undeveloped reserves. Additional information concerning the exploration and development plans for the ensuing year is provided below under the heading "Other Oil and Gas Information for the Properties".

The following tables disclose the volumes of undeveloped reserves that were first attributed in each of Arcan's most recent three financial years:

*Proved Undeveloped Reserves<sup>(1)</sup>*

	Light & Medium Oil (Mbbls)		Heavy Oil (Mbbls)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbls)		Oil Equivalent (Mbbls)	
	First	Total at	First	Total at	First	Total at	First	Total at	First	Total at
	Attributed	Year-end	Attributed	Year-end	Attributed	Year-end	Attributed	Year-end	Attributed	Year-end
<b>Pre2008</b>	425	425	-	-	62	62	34	34	469	469
<b>2008</b>	1,778	2,203	-	-	338	400	108	142	1,942	2,412
<b>2009</b>	-	2,203	-	-	127	526	116	258	137	2,548
<b>2010</b>	4,847	5,353	-	-	852	1,202	384	388	5,373	5,942

**Note:**

(1) These are Arcan's working interest share of remaining reserves before the deduction of royalties.

Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty to be recoverable from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production.

*Probable Undeveloped Reserves<sup>(1)</sup>*

	Light & Medium Oil (Mbbls)		Heavy Oil (Mbbls)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbls)		Oil Equivalent (Mbbls)	
	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end
<b>Pre2008</b>	121	121			18	18	10	10	134	134
<b>2008</b>	522	643	-	-	627	645	54	64	681	815
<b>2009</b>	12	655	-	-	46	690	32	96	52	867
<b>2010</b>	3,926	4,115	-	-	834	1,708	375	401	4,441	4,801

**Note:**

(1) These are Arcan's working interest share of remaining reserves before the deduction of royalties.

The tables above include two probable undeveloped Slave Point GG locations in Hamburg, two probable undeveloped Gething locations in McLeod, seven probable undeveloped Beaverhill Lake locations in the Swan Hills and one probable developed non-producing Beaverhill Lake location in the Swan Hills. Arcan plans to continue to focus primarily on its Swan Hill properties in 2011 and estimates that it will drill 20 to 25 new horizontal wells in the area including in proven undeveloped locations. Arcan drilled one well in the Hamburg GG pool the fourth quarter of 2010 and may drill further wells in the Hamburg GG pool after waterflood response has increased. Arcan has not been expending funds on its gas properties due to the currently low gas price environment, but is monitoring liquids rich gas development activities in its McLeod area and will evaluate development if gas prices strengthen.

Probable undeveloped reserves are those additional reserves that are less certain to be recovered than Proved undeveloped reserves, where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production.

*Development*

Arcan currently plans to pursue the development of the majority of its undeveloped reserves within the next two years through ordinary course capital expenditures. However, Arcan may choose to delay development depending on a number of circumstances, including the existence of higher priority expenditures and prevailing commodity prices and cash-flow.

**Significant Factors or Uncertainties Affecting Reserves Data**

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data become available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a

changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices, and reservoir performance. Such revisions can be either positive or negative.

### Future Development Costs

The table below sets out the total development costs deducted in the estimation of future net revenue attributable to Proved reserves and Proved plus Probable reserves (using forecast prices and costs).

Year	Forecast Prices & Costs	
	For Proved Reserves (M\$)	For Proved Plus Probable Reserves (M\$)
2011	90,362	117,162
2012	50,824	78,706
2013	-	3,751
2014	-	-
2015	-	-
Total for First 5 Years	141,186	199,619
Total Undiscounted	141,213	199,646
Total Discounted at 10%/Yr	130,213	182,890

#### Notes:

- (1) Future development costs shown are associated with booked reserves in the GLJ Report and do not necessarily represent Arcan's full exploration and development budget.
- (2) See "Statement of Reserves Data – Future Net Revenue by Production Group – Forecast Prices and Costs."

Arcan has three sources of funding available to finance its capital expenditure programs: internally generated cash-flow from operations, debt financing when appropriate, and new issues of Common Shares, if available on favourable terms. Arcan expects to fund the above future development costs through internally generated cash-flow, debt financing and the new issues of Common Shares and that the future development costs would realize the related non-producing and probable reserves and future revenues as calculated in the GLJ Report.

### Other Oil and Gas Information for the Properties

For a further description of Arcan's primary properties see "Overview of Arcan's Business".

### Oil and Gas Wells

The following table sets forth the number and status of wells as at December 31, 2010, in which Arcan has a working interest:

	Producing Wells				Non-Producing Wells			
	Oil		Natural Gas		Oil		Natural Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	92.0	78.2	6.0	3.7	48.0	37.5	0.0	0.0
British Columbia	-	-	-	-	-	-	1.0	0.5

### Properties with no Attributed Reserves

The following table summarizes, as at December 31, 2010, the gross acres of unproved properties, the net acres of unproved properties, and the number of net acres for which Arcan has rights to explore, develop or exploit

that will, absent further action, expire prior to December 31, 2011. This does not include lands in which Arcan has a right to acquire/earn an interest pursuant to the farm-in agreements to which Arcan is a party.

	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Net Acres Expiring Within One Year</u>
Canada (majority in Alberta)	128,442	115,449	10,271

Arcan has no other drilling commitments. Included in the lands above are approximately 1,321 acres, which are located in British Columbia.

### Drilling Activity

The following table sets forth the gross and net exploratory and development wells drilled on the Arcan Properties during the financial year ended December 31, 2010.

	<u>Exploratory Wells</u>		<u>Development Wells</u>		<u>Total Wells</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Light & Medium Oil	-	-	17.0	15.2	17.0	15.2
Heavy Oil	-	-	-	-	-	-
Natural Gas	1.0	0.3	-	-	1.0	0.3
Stratigraphic Test	-	-	-	-	-	-
Dry/Service	-	-	-	-	-	-
Total:	<u>1.0</u>	<u>0.3</u>	<u>19.0</u>	<u>16.2</u>	<u>20.0</u>	<u>16.5</u>

For a description of Arcan's current and likely exploration and development activities, please see "General Development of the Business of Arcan."

### Forward Contracts

Periodically Arcan utilizes economic hedges to protect a portion of its cash flows. Arcan has hedged 2,000 bbls/d from January 1, 2011 to December 31, 2011 by purchasing Canadian dollar WTI put contracts establishing a \$70.00 floor. As payment Arcan sold four 500 bbls/d Canadian dollar WTI call contracts two of which are at \$100.00, one at \$100.05 and the last one was priced at \$100.30. These contracts were entered into in the third quarter of 2010 and as the volumes relate to 2011, no realized loss was recorded but an unrealized loss of \$2.2 million was recorded for the year ended December 31, 2010. Arcan anticipates that these contracts will be marked-to-market at the end of each quarter with realized and/or unrealized gain or losses, if any, recorded in the statement of operations for each reporting period. For 2009, Arcan had entered into a fixed price oil swap contract to receive \$64.40 per bbl in exchange for Canadian dollar WTI on oil production of 500 bbls/d for the period from April 1 to December 31, 2009. There were no hedging contracts for 2010 production volumes.

Subsequent to December 31, 2010 Arcan has hedged 1,000 bbls/d from January 1, 2012 to December 31, 2012 by purchasing Canadian dollar WTI put contracts establishing a \$75.00 floor. As payment Arcan sold two 500 bbls/d Canadian dollar WTI call contracts, one of which is at \$126.00 and one priced at \$127.50.

### Additional Information Concerning Abandonment and Reclamation Costs

Arcan typically estimates well abandonment costs by area. Such costs are included in the GLJ Report as deductions in arriving at future net revenue. Arcan expects to incur and is accruing reclamation costs for 65 net locations with respect to the Arcan Properties. The total amount of abandonment and reclamation costs net of estimated salvage value that Arcan expects to incur with respect to the Arcan Properties for Proved + Probable reserves without discount is \$8,634,000 and with a 10 percent discount is \$761,000. The following chart summarizes such costs over the next three years:

	<u>Abandonment and Reclamation Costs Including Well Abandonment and Disconnect Costs all Net of Salvage<sup>(1)</sup> (M\$)</u>	<u>Discounted 10%</u>
<b>Proved Reserves (Yr)</b>		
2011	53	50
2012	26	20
2013	69	58
<b>Proved + Probable Reserves (Yr)</b>		
2011	18	16
2012	61	53
2013	52	44

**Note:**

(1) Costs shown are greater than those included in the GLJ Report as all disconnect and facility reclamation is included.

Arcan will be liable for its share of ongoing environmental obligations and for the ultimate reclamation of the properties held by it upon abandonment. Ongoing environmental obligations are expected to be funded out of cash-flow.

**Costs Incurred**

The following table summarizes capital expenditures incurred for the year ended December 31, 2010, with respect to the Arcan Properties:

	<u>MM\$</u>
Property acquisition costs – proved properties	-
Property acquisition costs – unproved properties	52.8
Exploration costs	0.5
Development costs	95.0
<b>TOTAL</b>	<b><u><u>\$148.3</u></u></b>

**Production Estimates – Forecast Prices and Costs**

The following table discloses, for 2011, each product type, the total working interest volume of production estimated by GLJ in the GLJ Report in the estimates of the net present value of future net revenue from Proved reserves disclosed above under the heading "Statement of Reserves Data – Summary of Oil and Gas Reserves – Forecast Prices and Costs":

<u>Reserves Category</u>	<u>Forecast Pricing Daily Production<sup>(2)</sup></u>
Light & Medium Oil (bbls/d)	4,246
Associated and Non-Associated Gas (Mcf/d)	1,800
Natural Gas Liquids (bbls/d)	395
<b>TOTAL<sup>(1)</sup> (BOE/d)</b>	<b><u><u>4,940</u></u></b>

**Notes:**

- (1) BOE have been reported based on natural gas conversion of 6 Mcf:1 bbl.  
 (2) Daily production is Arcan's interest before all royalty deductions.

	<u>Light &amp; Medium Oil (bbls/d)</u>	<u>Natural Gas<sup>(2)</sup> (Mcf/d)</u>	<u>Natural Gas Liquids (bbls/d)</u>
<b>By Field</b>			
Swan Hills	3,867	814	372
Hamburg	375	667	12
McLeod and Other Properties	4	319	11
<b>Total</b>	<b>4,246</b>	<b>1,800</b>	<b>395</b>

**Notes:**

- (1) Daily production is taken from the GLJ Report.
- (2) Natural Gas includes associated and non-associated sales gas volumes.

**Estimated 2011 Production**

The following table describes the volume of production, net of royalties estimated for 2011 in preparing the estimated net present values of future net revenue above:

<u>By Product Type</u>	<u>Estimated 2011 Net Daily Production (Proved)</u>	<u>Estimated 2011 Net Daily Production (Probable)</u>	<u>Estimated 2011 Net Daily Production (Proved Plus Probable)</u>
Crude Oil			
Light & Medium Oil (bbls/d)	4,246	771	5,017
Total Crude Oil (bbls/d)	4,246	771	5,017
Natural Gas Liquids (bbls/d)	395	91	485
Total Liquids (bbls/d)	4,640	862	5,502
Natural Gas (Mcf/d)	1,800	649	2,448
Total Net of Royalties (BOE/d)	4,940	970	5,910

**Production History**

The following tables disclose, for the year ended December 31, 2010, certain information in respect of Arcan's share of production, product prices received, royalties paid, operating expenses and resulting netback for the Arcan Properties:

*Arcan Average Daily Production Volume Before Deduction of Royalties*

	<u>Three Months Ended</u>				
	<u>Mar. 31, 2010</u>	<u>June 30, 2010</u>	<u>Sept. 30, 2010</u>	<u>Dec. 31, 2010</u>	<u>Total</u>
Natural Gas (Mcf/d)	1,951	1,613	1,301	1,373	1,557
Crude Oil and NGLs (bbls/d)	1,142	1,674	2,523	2,572	1,983
Total (BOE/d)	1,468	1,943	2,740	2,800	2,243

*Prices Received, Royalties Paid, Production Costs and Netback for Arcan – Combined*

	<b>Three Months Ended</b>				<b>Total</b>
	<b>Mar. 31, 2010</b>	<b>June 30, 2010</b>	<b>Sept. 30, 2010</b>	<b>Dec. 31, 2010</b>	
Natural Gas (\$/Mcf)	5.91	4.60	4.18	4.26	4.84
Crude Oil and NGLs (\$/bbl)	77.35	68.13	71.55	75.58	72.97
Prices Received (\$/BOE)	68.07	62.52	67.87	71.50	67.89
Royalties Paid (\$/BOE)	17.81	14.09	15.94	22.68	17.96
Production Costs (\$/BOE)	18.08	12.12	11.95	13.85	13.57
Netback <sup>(1)</sup> (\$/BOE)	32.18	36.31	39.98	34.97	36.36

**Note:**

- (1) Netback is a non-GAAP financial measure and does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Netback is calculated by deducting royalties paid, production costs and transportation costs from prices received. Arcan uses netback to analyze financial and operating performance.

*Production Volume by Field*

The following table indicates the average daily net production from the important fields comprising the Arcan Properties for the year ended December 31, 2010:

	<b>Light &amp; Medium Oil (bbls/d)</b>	<b>Natural Gas (Mcf/d)</b>	<b>Natural Gas Liquids (bbls/d)</b>
Field			
Swan Hills	1,620	169	-
Hamburg	343	993	-
McLeod	-	396	20
Other Properties	-	-	-
Total	1,963	1,557	20

**Tax Horizon**

Based on existing reserves and an estimated \$247.2 million in tax pools, Arcan estimates that it will not be required to pay income taxes until after 2013. Arcan does not have a tax partnership in place.

**SHARE CAPITAL**

Arcan is authorized to issue an unlimited number of Common Shares, an unlimited number of Preferred Shares issuable in series, and an unlimited number of Performance Shares.

**Common Shares and Options**

The holders of the Common Shares are entitled to dividends, if, as and when declared by the board of directors of Arcan, to one vote per share at meetings of the shareholders of Arcan, and upon liquidation, to receive such assets of Arcan as are distributable to the holders of the Common Shares. As at the date hereof, there are 88,110,446 Common Shares and 8,440,500 Options outstanding.

**Preferred Shares**

The Preferred Shares of Arcan may be issued from time to time in one or more series, each consisting of a number of Preferred Shares as determined by the board of directors of Arcan, which also may fix the

designation, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. The Preferred Shares of Arcan have a priority over the Common Shares with respect to payment of dividends and distributions of assets in the event of liquidation, dissolution or winding-up of Arcan. As at the date hereof, there are no Preferred Shares of Arcan outstanding.

### **Performance Shares**

In connection with the Amalgamation, Performance Shares were issued to the former shareholders of Desco. All of the Performance Shares were subsequently converted to Common Shares for no additional consideration. There are no Performance Shares currently outstanding and Arcan does not intend to issue and Performance Shares in the future.

### **Debentures**

The following is only a summary of certain characteristics of the Debentures. For a complete description of the Debentures and the rights and conditions associated therewith, reference should be made to the full text of the Debenture Indenture which is available under Arcan's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *General*

Pursuant to the Debenture Offering, Arcan currently has \$86,250,000 aggregate principal amount of Debentures outstanding. The Debentures will mature on February 28, 2016 (the "**Maturity Date**"). The principal amount of the Debentures is payable at maturity in cash or, at Arcan's option and subject to satisfaction of certain conditions, by delivery of freely tradeable Common Shares or a combination of cash and freely tradeable Common Shares. The Debentures are payable at the principal corporate trust office of the Debenture Trustee.

The Debentures bear interest from the date of issue at 6.25% per annum, which is payable semi-annually in arrears on February 28 and August 31 of each year (each an "**Interest Payment Date**"), commencing on August 31, 2011 to holders of record at the close of business on the preceding February 15 or the preceding August 15, respectively (or the first business day prior to such date if not a business day). The first interest payment will include any interest accrued from (and including) the closing date of the Debenture Offering to (but excluding) August 31, 2011. Each payment of cash interest on the Debentures will include any interest accrued for the period commencing on and including the immediately preceding Interest Payment Date (or, if none, the initial issuance date of the Debentures) through and including the day before the applicable Interest Payment Date (or redemption or purchase date, as the case may be). Any payment required to be made on any day that is not a business day will be made on the next succeeding business day. Interest for all periods shall be computed on the basis of a 360 day year comprised of twelve 30 day months.

#### *Rights Upon Dissolution or Winding Up*

The Debentures are direct, subordinated, unsecured obligations of Arcan and rank equally with one another and subordinate to all other existing and future senior secured and senior unsecured indebtedness of Arcan, including all trade creditors, and rank *pari passu* to all future subordinated unsecured indebtedness and except as prescribed by law. The Debenture Indenture does not restrict Arcan from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities.

In the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to Arcan, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of Arcan, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of Arcan, then holders of Senior Indebtedness (as such term is defined in the Debenture Indenture) will receive payment in full before the holders of Debentures

will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. Arcan will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without any limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures or (b) at any time when a default or an event of default has occurred under the Senior Indebtedness and is continuing or upon the acceleration of certain Senior Indebtedness and the notice of such default, event of default or acceleration has been given by or on behalf of holders of Senior Indebtedness to Arcan, unless the Senior Indebtedness has been repaid in full as defined in the Debenture Indenture.

#### *Optional Redemption*

The Debentures are not redeemable by Arcan prior to February 28, 2014. On and after February 28, 2014 and at any time prior to February 28, 2016, the Debentures may be redeemed at the option of Arcan, in whole or in part from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to 100 percent of their principal amount plus any accrued and unpaid interest thereon up to (but excluding) the date set for redemption, provided that the then Current Market Price (as such term is defined in the Debenture Indenture) is at least 125 percent of the conversion price.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis or in such other manner as the Debenture Trustee deems equitable, subject to regulatory approvals.

In the event that a holder of Debentures exercises its conversion privilege following a notice of redemption by Arcan and during the period from the close of business on any regular record date to the opening of business on the next succeeding Interest Payment Date, such holder shall be entitled to receive any accrued and unpaid interest in addition to the applicable number of Common Shares, for the period from the last Interest Payment Date to (but excluding) the date of conversion.

#### *Conversion Privilege*

Holders may convert their Debentures into Common Shares at any time prior to the close of business on the earlier of: (i) the business day immediately preceding the Maturity Date; (ii) if called for redemption, on the business day immediately preceding the date specified by Arcan for redemption of the Debentures, or (iii) if called for to repurchase pursuant to a Change of Control (as such term is defined in the Debenture Indenture) on the business day immediately preceding the payment date, based on an initial conversion ratio of 114.2857 Common Shares per \$1,000 principal amount of Debentures (equivalent to an initial conversion price of \$8.75 per Common Share). The conversion rate is subject to adjustment in certain circumstances.

A holder may convert fewer than all of such holder's Debentures so long as the Debentures converted are an integral multiple of \$1,000 principal amount of Debentures. A holder of a Debenture otherwise entitled to a fractional Common Share will receive cash equal to the fraction of the Common Share multiplied by the then Current Market Price as at the date of conversion.

No adjustment to the conversion price for the Debentures will be made for distributions or dividends (except as set forth below) on Common Shares issuable upon conversion or for interest accrued on Debentures surrendered for conversion; however, holders converting their Debentures shall be entitled to receive, in addition to the applicable number of Common Shares, accrued and unpaid interest (less any taxes required to be deducted) in respect thereof for the period up to, but excluding, the date of conversion from, and including, the most recent Interest Payment Date.

### *Method of Payment*

On redemption or at maturity of the Debentures, Arcan will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada the amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. Subject to required regulatory approvals and provided that there is not a current Event of Default (as such term is defined in the Debenture Indenture) under the Debenture Indenture, Arcan may, at its option, elect to satisfy its obligation to pay all or a portion of the principal amount of the Debentures, together with accrued and unpaid interest thereon, on redemption or at maturity through, in whole or in part, the issuance of Common Shares.

The number of Common Shares a holder will receive in respect of each Debenture will be determined by dividing the principal amount of the Debentures that are to be redeemed or repaid at maturity, as the case may be, and that are to be paid in Common Shares, together with accrued and unpaid interest, by 95 percent of the Current Market Price of the Common Shares. No fractional Common Shares will be issued on redemption or repayment at maturity but in lieu thereof, Arcan shall satisfy fractional interests by a cash payment equal to the fraction of the Common Share multiplied by the Current Market Price of the Common Shares.

### *Interest Payment Option*

Arcan may elect, from time to time and subject to regulatory approval, provided that there is not a current Event of Default under the Indenture, to satisfy its obligation to pay interest on the Debentures (the "**Interest Obligation**"), on an Interest Payment Date (including following conversion, at the time of redemption, or at the time of maturity) by delivering (i) cash; or (ii) sufficient freely tradeable Common Shares to the Debenture Trustee to satisfy all or any part of the Interest Obligation in accordance with the Debenture Indenture (the "**Share Interest Payment Election**") or a combination of (i) or (ii). The Debenture Indenture provides that, upon such election, the Debenture Trustee shall: (i) accept delivery of the Common Shares; (ii) deliver and receive bids with respect to, and facilitate sales of, such Common Shares on behalf of Arcan by registered brokers or dealers, each as Arcan shall direct in its absolute discretion; (iii) invest the proceeds of such sales in securities issued or guaranteed by the Government of Canada, which mature prior to the applicable Interest Payment Date; (iv) use the proceeds received from such permitted government securities, together with any proceeds from the sale of Common Shares not invested as aforesaid, to satisfy the Interest Obligation; and (v) perform any other action necessarily incidental thereto.

If a Share Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Common Shares (plus any amount received by the Debenture Trustee from Arcan attributable to any fractional Common Shares) in an amount equal to the applicable interest payment in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to Arcan in respect of the Interest Obligation.

Neither Arcan's making of the Share Interest Payment Election nor the consummation of sales of Common Shares will: (i) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date; or (ii) entitle such holders to receive any Common Shares in satisfaction of the Interest Obligation.

### *Purchase for Cancellation*

Arcan may, to the extent permitted by applicable law, at any time purchase the Debentures in the open market or by tender at any price or by private agreement. Any Debenture purchased by Arcan will be surrendered to the Debenture Trustee for cancellation. Any Debentures surrendered to the Debenture Trustee may not be reissued or resold and will be cancelled promptly.

### **DIVIDEND POLICY**

Arcan has not declared or paid any dividends on the Common Shares or its preferred shares since its incorporation. Any decision to pay dividends on the Common Shares or its preferred shares will be made by the board of directors of Arcan on the basis of Arcan's earnings, financial requirements and other conditions existing at such future time. As at the date hereof, there is no plan to change Arcan's dividend policy.

### **MARKET FOR SECURITIES**

The Common Shares were listed and posted for trading on the TSXV under the trading symbol "ARN" on January 9, 2007. The following table sets forth the reported market price ranges and the trading volumes for the Common Shares for the year ended December 31, 2010, as reported by the TSXV:

<b>Period</b>	<b>Price Range (\$)</b>		<b>Trading Volume</b>
	<b>High</b>	<b>Low</b>	
<b>2010</b>			
January	2.20	1.43	6,941,200
February	2.94	1.70	10,207,100
March	2.70	4.19	11,932,600
April	5.01	3.97	13,997,100
May	4.90	3.31	10,370,800
June	5.29	3.90	9,155,000
July	5.08	4.10	5,267,400
August	5.43	4.26	6,722,400
September	4.90	4.27	5,325,000
October	5.23	4.58	6,636,300
November	5.23	4.35	7,796,700
December	5.75	4.95	8,335,700

The Debentures were listed and posted for trading on the TSXV under the trading symbol "ARN.DB" on February 14, 2011.

### **ESCROWED SECURITIES**

As at December 31, 2010, there are no securities of Arcan held in escrow.

## DIRECTORS AND OFFICERS

The name, municipality of residence, principal occupation for the prior five years and proposed position, of each of the directors and officers of Arcan are as follows:

<b>Name and Municipality of Residence</b>	<b>Office / Date Appointed<sup>(1)</sup></b>	<b>Principal Occupation during the Past 5 Years</b>	<b>Number and Percentage of Common Shares Beneficially Owned or over which Control or Direction is Exercised</b>
<b>Robert J. Dales<sup>(2)</sup></b> Calgary, Alberta, Canada	Director January 1, 2007	Currently President of Drako Capital Corp., a TSXV-listed issuer that filed its initial prospectus on June 29, 2010. Prior thereto, President, Chief Executive Officer and a director of Desco Energy Ltd. from June 2005 to December 2006. President of Valhalla Ventures Inc., a private investment corporation, from January 1999 to present. President of Desco Exploration Ltd., an oil and gas corporation, from April 2002 until September 2002.	504,492 (0.6%)
<b>Andy Fisher<sup>(4)(5)</sup></b> Calgary, Alberta, Canada	Executive Vice President and Director January 1, 2007	Executive Vice President of Arcan since October 9, 2003. Prior thereto, Mr. Fisher assisted GEOCAN Energy Inc., a TSX-listed junior oil and gas company based in Calgary, Alberta, in asset acquisitions and exploration and business strategies from November 2000 to May 2004.	778,660 (0.9%)
<b>Ed Gilmet<sup>(3)</sup></b> Calgary, Alberta, Canada	President, CEO and Director January 1, 2007	President and Chief Executive Officer of Arcan since October 9, 2003. Prior thereto, Mr. Gilmet was a senior geophysicist with Burlington Resources Energy Ltd.	1,297,025 (1.5%)
<b>Murray Hinz<sup>(6)</sup></b> Calgary, Alberta, Canada	Proposed Director	Vice President Finance of CanElson Drilling Inc. a public oil and gas drilling company from June 2010 to present, prior thereto the CFO from July 2008. President of Marazul Consulting Inc., an international financial consulting company, from 2007 to present. Prior thereto Mr. Hinz held the positions of Controller and Financial Analyst for Ritz Carlton Resort Development, Grand Cayman, from 2004 to 2006.	6,000 (0.0%)
<b>Michael J. Laffin<sup>(3)</sup></b> Calgary, Alberta, Canada	Corporate Secretary and Director January 1, 2007	Partner since August 2002 with Blake, Cassels & Graydon LLP, a national Canadian law firm.	114,500 (0.1%)

<b>Name and Municipality of Residence</b>	<b>Office / Date Appointed<sup>(1)</sup></b>	<b>Principal Occupation during the Past 5 Years</b>	<b>Number and Percentage of Common Shares Beneficially Owned or over which Control or Direction is Exercised</b>
<b>J. Terry McCoy</b> <sup>(2)(4)(5)</sup> Calgary, Alberta, Canada	Director January 1, 2007	President of Koa Resources Ltd., a private oil and gas company. Prior thereto, Mr. McCoy held positions as Vice President of Exploration for Calvalley Petroleum Inc., President and a director of Trafina Energy Ltd., and Vice President of Exploration at Murphy Oil Company.	168,529 (0.2%)
Douglas Penner Calgary, Alberta, Canada	Vice President, Finance and Chief Financial Officer January 1, 2007	Vice President, Finance and Chief Financial Officer of Arcan since April 2006. Prior thereto, Mr. Penner was Vice President, Finance and Chief Financial Officer of Open Range Energy Corp., a publicly traded Calgary-based junior oil and gas exploration company, from November 2005 to April 2006. Prior thereto, Mr. Penner was Vice President, Finance and Chief Financial Officer of Tempest Energy Corp., an oil and gas company, from January 2001 to November 2005.	1,000,500 (1.1%)
Graeme Ryder Calgary, Alberta, Canada	Controller January 1, 2007	Controller of Arcan since August 2006. Prior thereto, Mr. Ryder was Controller of Open Range Energy Corp., a publicly traded Calgary-based junior oil and gas exploration company, from December 2005 to July 2006. Prior thereto, Mr. Ryder was Controller of Tempest Energy Corp., an oil and gas company, from June 2003 to November 2005.	28,000 (0.0%)

**Notes:**

- (1) The term of office of all directors will expire on the date of the next annual meeting of shareholders of Arcan or until their successors are elected or appointed pursuant to the ABCA.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation and Corporate Governance Committee
- (4) Member of the Reserves Committee.
- (5) Member of the Environment, Health and Safety Committee.
- (6) If appointed by the shareholders of Arcan at the next annual general meeting of shareholders, Arcan expects that Mr. Hinz will be appointed to the Compensation and Corporate Governance Committee and the Audit Committee.

It is expected that the officers of Arcan will devote all of their time to the business of Arcan in the forthcoming year and that each of the directors who are not also officers will devote the amount of their time to Arcan as is necessary to successfully oversee Arcan and fulfil their obligations as directors.

Each of the directors of Arcan will hold office until the next annual general meeting of the Arcan shareholders, or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the Arcan's articles or by-laws.

As at the date hereof, the directors and executive officers of Arcan, as a group, beneficially own, directly or indirectly, or exercise control or direction over 4,183,272 Common Shares, which represents approximately 4.7 percent of the outstanding Common Shares.

The following are biographies of the directors and officers of Arcan:

**Robert J. Dales, MBA – Director**

Mr. Dales has more than 30 years of experience in the oil and gas industry and has held various administrative and management positions. Mr. Dales secured a Bachelor of Commerce degree from the University of Calgary in 1972 and a Master of Business Administration from the University of Alberta in 1973. From 1981 until 1999, Mr. Dales worked in the Operations Department of Panarctic Oils Ltd., a private oil and gas exploration company, as Operations Manager. Mr. Dales was President, Chief Executive Officer and a director of Resolution Energy Inc., a publicly traded oil and gas exploration and development company, which was listed on the Canadian Venture Exchange, from June 1993 until October 2001. From 1994 until 1996, Mr. Dales was Secretary-Treasurer and a director of Energy North Inc., a public oil and gas exploration development company, which was listed on the TSX. Mr. Dales was also President and a director of Desco Resources Ltd., an oil and gas exploration and development company (now Peyto Exploration and Development Ltd. and listed on the TSX) from March 1997 until October 1998. Mr. Dales is currently the President and a director of Drako Capital Corp., a TSXV-listed issuer, a director of Manitek Energy Inc., a TSXV-listed issuer, a director of Celtic Exploration Ltd. ("**Celtic**") (formerly Desco Exploration Ltd.), a public oil and gas exploration company, and President and a director of Valhalla Ventures Inc., a private investment company based in Calgary, Alberta.

**Andy Fisher, B.Comm., PLM – Executive Vice President and Director**

Mr. Fisher has 20 years of varied experience in oil and gas land management, operations, financings, strategic planning, business development, acquisitions and divestitures, due diligence and office management. Mr. Fisher has been employed as Executive Vice President of Arcan Resources Ltd. since May 2004. From November 2000 to May 2004, Mr. Fisher assisted GEOCAN Energy Inc. of Calgary, Alberta, in securing financings, asset acquisitions and advising on business strategies. Mr. Fisher was employed with Pacalta Resources Ltd. from March 1993 until June 1999 in the position of Vice President, International Contracts and Negotiations. Mr. Fisher helped manage Pacalta's Canadian assets and oversaw its pursuit of business opportunities in various countries. Prior to Pacalta, Mr. Fisher was employed with OMV Group of Austria, Amoco Canada Resources and Petro-Canada.

**Ed Gilmet, P. Geoph. – President, Chief Executive Officer and Director**

Mr. Gilmet has more than 30 years of oil and gas experience in a variety of exploration and management positions in several prominent major and intermediate sized companies. Mr. Gilmet brings these strengths to Arcan's corporate management and strategic long term planning. He also brings an extensive background of successful oil and gas exploration throughout the entire Western Canadian sedimentary basin, particularly within the Hamburg/Chinchaga drilling area.

**Murray Hinz, CA CFP – Proposed Director**

Mr. Hinz is a senior finance executive with 16 years experience in accounting, auditing and business consulting services. As at the date hereof, Mr. Hinz is Vice President Finance for CanElson Drilling Inc. and the President of Marazul Consulting Inc., an international financial consulting firm. Prior thereto, Mr. Hinz was a controller and financial analyst for the Ritz Carlton Resort Development in Grand Cayman and a financial advisor with Deloitte & Touche (Grand Cayman) and PricewaterhouseCoopers (Calgary). Mr. Hinz

has a Bachelor of Commerce from the University of Saskatchewan, is a member of the Institute of Chartered Accountants of Alberta and is a Certified Financial Planner.

**Michael J. Laffin, MPA, LLB – Corporate Secretary and Director**

Since August 2002, Mr. Laffin has been a partner with the law firm of Blake, Cassels & Graydon LLP. Mr. Laffin provides legal advice to several oil and gas companies ranging in size from senior integrated to junior exploration companies in negotiating and drafting contracts and providing advice on issues pertaining to joint ventures, financing, purchase and sale, transportation, processing and construction and securities issues. Mr. Laffin has supervised many large scale projects related to oil and gas unit consolidation, domestic and international acquisitions, take-over bids, due diligence and financings. In addition to mainstream oil and gas matters, Mr. Laffin has developed subspecialties in the area of coalbed methane development and water rights. Mr. Laffin also has wide ranging experience in international and offshore transactions. Mr. Laffin has prepared and presented several papers to the Canadian Petroleum Law Foundation, Canadian Association of Petroleum Landmen, Petroleum Joint Venture Association and the Natural Resources Subsection of the Canadian Bar Association.

**J. Terry McCoy, P. Geol. – Director**

Mr. McCoy is a senior oil and gas executive with 40 years of experience with major, senior intermediate and junior oil and gas companies. As at the date hereof, Mr. McCoy is President of Koa Resources Ltd., an oil and gas company owned by Mr. McCoy. Prior thereto, Mr. McCoy was Vice President of Exploration for Calvalley Petroleum Inc. Prior thereto, Mr. McCoy was President of Trafina Energy Ltd. Prior thereto, Mr. McCoy was Vice President of Exploration and Land at Murphy Oil Company of Canada and prior thereto, was employed as President of Burlington Resources of Canada and as Vice President of Exploration and Land of POCO Petroleum Ltd. prior to 1990. In addition, Mr. McCoy has held executive positions at Columbia Gas Development of Canada, Conwest Exploration Company, Union Oil of Canada and Amoco Canada Petroleum Company. Mr. McCoy is a director of two private companies.

**Douglas Penner, CA, CIA, CFA – Vice President, Finance and Chief Financial Officer**

Mr. Penner has more than 20 years of varied experience in oil and gas financial management, operations, financings, strategic planning, business development, acquisitions and divestitures, due diligence and reporting. In addition to being involved in all aspects of public company reporting, Mr. Penner brings his strengths to his involvement with the board of directors and in-depth assessment of business strategies and alternatives. From 2000 to 2005, Mr. Penner was Vice President, Finance and Chief Financial Officer of Tempest Energy Corp., a public company listed on the TSX. Mr. Penner also served as Vice President, Finance and Chief Financial Officer of Open Range Energy Corp., a spin-out created upon the sale of Tempest Energy. Prior thereto, Mr. Penner was employed by Northrock Resources, Tier One Energy Corp., Amerada Hess Canada and Ernst & Young.

**Graeme Ryder, CA – Controller**

Mr. Ryder has more than ten years of varied experience in oil and gas financial management, operations, financings, strategic planning, business development, acquisitions and divestitures, due diligence and reporting. From 2003 to 2005, Mr. Ryder was Controller of Tempest Energy Corp., a public company listed on the TSX. Mr. Ryder also served as Controller of Open Range Energy Corp., a spin-out created upon the sale of Tempest Energy. Prior thereto, Mr. Ryder was employed at KPMG LLP.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

On April 25, 2007, Mystique Energy, Inc. ("**Mystique**"), a junior oil and gas company that is traded on the TSXV, announced that its board of directors determined that it was in the best interest of all of its stakeholders to seek creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") and it obtained such protection pursuant to an order from the Alberta Court of Queen's Bench. Mr. McCoy, a director of Arcan, resigned as a director of Mystique effective April 25, 2007.

On February 16, 2010 Darian Resources Ltd. ("**Darian**"), a private Alberta company, sought and obtained creditor protection from the Alberta Court of Queen's Bench pursuant to the provisions of the CCAA. Mr. McCoy had been a director of Darian until his resignation on March 26, 2009.

Except as disclosed herein, no director or officer of Arcan, or a shareholder holding sufficient number of securities of Arcan to affect materially the control of Arcan, is as at the date hereof, or has been within the last ten years of the date hereof, a director or officer of any company (including Arcan) that, while he was acting in such capacity: (i) was the subject of a cease trade or similar order, or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or officer ceased to be a director or officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets. No director or officer of Arcan, or a shareholder holding sufficient number of securities of Arcan to affect materially the control of Arcan, has, or a personal holding company of any such persons has, within ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

### **Penalties or Sanctions**

No director or officer of Arcan, or a shareholder holding a sufficient number of securities of Arcan to affect materially the control of Arcan, has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

The directors and officers of Arcan are engaged in and will continue to engage in other activities in the oil and natural gas industry, and as a result of these and other activities, the directors and officers of Arcan may become subject to conflicts of interest. The ABCA provides that, in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. Arcan purchased the Acquired Assets from Celtic. Mr. Dales was a director of Celtic at the time of the Acquisition. Mr. Dales excluded himself from all discussions between Arcan and Celtic with respect to the Acquisition and abstained from voting on any matters related thereto. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA. As at the date hereof, Arcan is not aware of any existing or potential material conflicts of interest between Arcan and a director or officer of Arcan.

## **RISK FACTORS**

An investment in Common Shares or Debentures is speculative due to the high risk nature and the current stage of development of Arcan's business, which involves the acquisition of, exploration for and development of oil and gas properties.

### **Stage of Development**

An investment in Arcan is subject to certain risks related to the nature of Arcan's business and its early stage of development. There are numerous factors that may affect the success of Arcan's business, which are beyond Arcan's control, including local, national and international economic and political conditions. Arcan's business involves a high degree of risk, which a combination of experience, knowledge and careful evaluation may not overcome. Arcan has a limited history of operations and there can be no assurance that Arcan's business will be successful or profitable.

### **Acquisition, Exploration, Exploitation, Development and Production Risks**

An investment in the Common Shares or Debentures is highly speculative due to the nature of Arcan's involvement in the acquisition, exploration, exploitation, development and production of oil and natural gas and its present stage of development.

Oil and natural gas exploration, exploitation and development involves a high degree of risk and there is no assurance that expenditures made on future exploration, exploitation and development by Arcan will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing drilling programs 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 wells or additional seismic data and interpretations thereof.

Arcan currently has a limited number of potential acquisition, exploration, exploitation, development and production prospects. Management of Arcan will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and their past practices. The long-term commercial success of Arcan depends on its ability to acquire, exploit, develop and commercially produce oil and natural gas reserves. No assurance can be given that Arcan will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Arcan may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and natural gas exploration, exploitation and development may involve unprofitable efforts, not only from any 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 natural gas operations are subject to the usual risks involved in the acquisition, exploration, exploitation, 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.

### **Dependence on Other Operators**

Other companies operate some of the oil and natural gas properties in which Arcan has an interest or may acquire an interest. As a result, Arcan may have limited ability to exercise influence over the operation of these assets or their associated costs, which could adversely affect Arcan's financial performance. Arcan's return on assets operated by others therefore depends upon a number of factors that may be outside of Arcan's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology, and risk management practices.

### **Project Risks**

Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Arcan's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Arcan's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labour; and
- regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Arcan may be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it hopes to produce.

### **Reserves Replacement**

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

## Reserve Estimates

The value of the Common Shares depends upon, among other things, the reserves attributable to Arcan's properties. The actual reserves contained in Arcan's properties will vary from the estimates summarized in this Annual Information Form and those variations could be material. Estimates of reserves are by necessity projections, and thus are inherently uncertain. The process of estimating reserves requires interpretations and judgments on the part of petroleum engineers, resulting in imprecise determinations, particularly with respect to new discoveries. Different engineers may make different estimates of reserve quantities and revenues attributable thereto based on the same data. Ultimately, actual reserves attributable to Arcan's properties will vary and be revised from current estimates, and those variations and revisions may be material. The reserve information contained in this Annual Information Form is only an estimate. A number of factors are considered and a number of assumptions are made when estimating reserves. These factors and assumptions include, among others:

- historical production in the area compared with production rates from similar producing areas;
- future commodity prices, production and development costs, royalties and capital expenditures;
- initial production rates;
- production decline rates;
- ultimate recovery of reserves;
- success of future exploitation activities;
- marketability of production;
- effects of government regulation; and
- other government levies that may be imposed over the producing life of reserves.

Reserve estimates are based on the relevant factors, assumptions and prices on the date the evaluations were prepared. Many of these factors are subject to change and are beyond Arcan's control. If these factors, assumptions and prices prove to be inaccurate, Arcan's actual reserves could vary materially from its estimates. Additionally, all such estimates are, to some degree, uncertain, and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable quantities of oil and natural gas, the classification of such reserves based on risk of recovery and associated contingencies, and the estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric or probabilistic calculations and upon analogy to similar types of reserves, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history may result in variations or revisions in the estimated reserves, and any such variations or revisions could be material. Reserve estimates may require revision based on actual production experience. Such figures have been determined based upon assumed oil, natural gas and NGLs prices and operating costs. Market price fluctuations of commodity prices may render uneconomic the recovery of certain categories of petroleum or natural gas may vary.

## **Environmental Concerns**

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 federal, provincial and local 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 of applicable environmental legislation 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 governments and third parties and may require Arcan to incur costs to remedy such discharge.

In certain areas where Arcan operates, spills, releases and other environmental and safety issues can also occur as a result of sabotage and damage to the pipelines. Depending on the cause and severity of an environmental incident, the Arcan's reputation may also be adversely affected, which could limit our ability to obtain permits and implement our future plans. Although Arcan believes that it is in material compliance with current applicable environmental regulations, 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 have a material adverse effect on Arcan's business, financial condition, results of operations and prospects. Additionally, although Arcan is currently not a party to any material environmental litigation, there can be no assurance that Arcan will not become subject to such legal proceedings in the future, which may have a material adverse effect on Arcan's business, financial condition, results of operations and prospects.

## **Issue of Debt**

From time to time, Arcan may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase Arcan's debt levels above industry standards. Neither Arcan's articles nor its by-laws limit the amount of indebtedness that Arcan may incur. The level of Arcan's indebtedness from time to time could impair Arcan's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

## **Ability to Maintain Obligations Under Credit Facility and Other Debt**

Arcan's Credit Facility is secured by a charge over all of Arcan's assets. Arcan is required to satisfy certain financial covenants in order to maintain its good standing under its Credit Facility. Arcan may from time to time enter into other arrangements to borrow money in order to fund its operations and expansion plans, and such arrangements may include covenants that have similar obligations or that restrict its business in some way. Events may occur in the future, including events out of Arcan's control, that would cause Arcan to fail to satisfy its obligations under its Credit Facility, the Debentures or other debt instruments. In such circumstances, the amounts drawn pursuant to Arcan's debt obligations may become due and payable before the agreed maturity date and Arcan may not have the financial resources to repay such amounts when due. If Arcan were to default on its obligations under its Credit Facility or other secured debt instruments the future, the lender(s) under such debt instruments could enforce their security and seize all or significant portions of Arcan's assets.

If Arcan's Credit Facility is not extended for a 364 day period, any amounts owing under the Credit Facility will become due and payable on May 31, 2012. There is no guarantee that Arcan's lenders will agree to extend

the maturity of Arcan's Credit Facility beyond such date, or that Arcan will have sufficient funds available to repay its Credit Facility when due. A failure to repay when due would represent a default under Arcan's Credit Facility and Arcan's lenders could enforce their security and seize all or significant portions of Arcan's assets.

### **Availability of Drilling Equipment and Access Restrictions**

Oil and natural gas exploration, exploitation, development and production activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Arcan and may delay exploration, exploitation, development and production activities.

### **Infrastructure**

Oil and gas exploration, processing, development and exploration activities depend on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important requirements, which affect capital and operating costs. Unusual or infrequent weather, phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect future operations of Arcan.

### **Uninsurable Risks**

In the course of exploration, development and production of oil and gas properties, several risks, and in particular, unexpected or unusual geological or operating conditions, may occur. It is not always possible to fully insure against such risks, and Arcan may decide not to take out insurance against such risks as a result of high premiums or for other reasons. Should such liabilities arise they could reduce or eliminate any future profitability and result in an increase in costs and a decline in value of the securities of Arcan.

Arcan is not insured against most environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the industry. Arcan will periodically evaluate the cost and coverage of the insurance against certain environmental risks that is available to determine if it would be appropriate to obtain such insurance. Without such insurance, and if Arcan becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds Arcan has to pay such liabilities and result in bankruptcy. Should Arcan be unable to fully fund the remedial cost of an environmental problem it might be required to enter into interim compliance measures pending completion of the required remedy.

### **Management of Growth**

Arcan may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of Arcan's development.

The ability of Arcan to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability to deal with this growth could have a material adverse impact on its business, operations and prospects.

### **Expiration of Licenses and Leases**

Arcan's properties will generally be held in the form of licenses and working interests in licenses and leases. If Arcan or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of Arcan's licenses or lease or the

working interests relating to a license or lease may have a material adverse effect on Arcan's results of operations and business.

### **Third-Party Credit Risk**

Arcan is or may be exposed to third-party credit risk through its contractual arrangements with its future joint venture partners, future marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Arcan, such failures could have a material adverse effect on Arcan and its operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in Arcan's ongoing capital program, potentially delaying the program and the result of such program until Arcan finds a suitable alternative partner.

### **Governmental Regulation**

The oil and gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights and property interests, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase Arcan's costs and have a material adverse effect on Arcan.

### **Dependence on Key Personnel and Employees**

The success of Arcan is dependent on the services of its proposed directors, officers and key employees. The experience of these individuals would be a factor contributing to Arcan's continued success and growth. The ability of Arcan to conduct its operations is also highly dependent on the availability of skilled workers. Arcan does not intend to get any key man insurance policies, and therefore there would be a risk that the death or departure of any member of management or any key employee would have a material adverse effect on Arcan. Investors who are not prepared to rely on the proposed management of Arcan should not invest in securities of Arcan.

### **Industry Risks**

Arcan's ability to acquire reserves will depend on its ability to select and acquire suitable producing properties or prospects. Competitive factors in the distribution and marketing of oil and gas include pricing methods and reliability of delivery. The marketability of oil and natural gas produced by Arcan could also be affected by numerous other factors beyond the control of Arcan.

These factors include market fluctuations, the world price of oil, the supply and demand for oil and natural gas, the proximity and capacity of oil and natural gas pipelines and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, production allowable, the import and export of oil and natural gas and environmental protection. The effect of these factors cannot be accurately predicted.

### **Prices and Markets for Crude Oil, Condensate and Natural Gas**

Oil and natural gas are commodities, the prices of which are determined based on world demand, supply and other factors, all of which are beyond the control of Arcan. 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. Certain wells or other projects may become uneconomic as a result of a decline in world oil and natural gas prices, leading to a reduction in the volume of oil and natural gas reserves.

Also, following Arcan's earning of working interests in oil and natural gas properties, an operator or Arcan might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Arcan's future net production revenue, causing a reduction in its oil and gas acquisition, exploration, exploitation, development and production activities. In addition, bank borrowings available to Arcan are in part determined by the borrowing base of Arcan. A sustained material decline in prices from historical average prices could limit or reduce Arcan's borrowing base, therefore reducing the bank credit available to Arcan, and could require that a portion of any existing bank debt of Arcan be repaid.

In addition to establishing markets for its oil and natural gas, Arcan must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Arcan will be affected by numerous factors beyond its control. Arcan will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil that may in the future be produced by Arcan. The ability of Arcan to market natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Arcan will also likely be affected by deliverability uncertainties related to the proximity of its 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 many other aspects of the oil and natural gas business. Arcan has no direct experience in the marketing of oil and natural gas.

#### **Substantial Capital Requirements; Liquidity**

Arcan's Credit Facility contains financial covenants that must be maintained at all times and which may reduce the amount available under the Credit Facility. Furthermore, Arcan may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Arcan to forfeit its interest in certain properties, miss certain business opportunities and reduce or terminate its operations. There can be no assurance that debt or equity financing or cash generated by operations would be available or sufficient to meet these requirements or for other corporate purposes, or if debt or equity financing is available, that it would be on terms acceptable to Arcan. Moreover, future activities may require Arcan to alter its capitalization significantly. The inability of Arcan to access sufficient capital for its operations could have a material adverse effect on Arcan's business, financial condition and results of operations.

#### **Competition**

The oil and gas industry is highly competitive. Arcan will actively compete for reserve acquisitions, exploration, exploitation and development leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and natural gas companies, many of which have significantly greater financial and other resources than Arcan. Arcan's competitors for the acquisition, exploration, exploitation, production and development of oil and natural gas properties, and for capital to finance such activities, include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers.

#### **Availability of Drilling Equipment and Access Restrictions**

Oil and natural gas exploration, exploitation, development and production activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Arcan and may delay exploration, exploitation, development and production activities.

### **Environmental Regulation**

Arcan's future operations will be subject to environmental regulations promulgated by governments from time to time in the regions where Arcan carries on business. Current environmental legislation in these countries provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments.

Environmental legislation and policies are periodically amended. Such amendments may result in stricter standards and enforcement, and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects have the potential to hold companies and their directors, officers and employees responsible for previously unidentified environmental liabilities. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of fines and penalties, any of which may be material. There can be no assurance that these environmental regulations and associated costs would not have a material adverse effect on Arcan's financial condition or results of operations in the future.

### **Capital Funding**

Arcan may require additional financing. The ability of Arcan to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of Arcan. There can be no assurances that Arcan will be successful in its efforts to arrange additional financing if needed on terms satisfactory to Arcan. If additional financing is raised by the issuance of shares from treasury of Arcan, control of Arcan may change and securityholders may suffer additional dilution.

### **No Assurance of Title**

Title to or rights in oil and gas properties may involve certain inherent risks due to problems, among others, arising from the conveyancing history characteristic of many such properties. Although Arcan conducts reasonable investigations with respect to the validity of ownership, there can be no assurance that it holds good and marketable title to its properties.

### **Dividends**

Arcan has not paid any dividends and is unlikely to pay dividends in the immediate or foreseeable future. The future payment of dividends on the Common Shares will be dependent upon the financial requirements of Arcan to finance future growth, the financial condition of Arcan and other factors which the board of directors of Arcan may consider appropriate in the circumstances.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors and officers of Arcan may be subject in connection with the operations of Arcan. Some of the directors and officers of Arcan may be, or may become, engaged in other ventures in the oil and gas industry in which Arcan would not have an interest, and situations might arise where proposed directors and officers of Arcan would be in direct conflict with Arcan. Conflicts of interest would be subject to procedures under the applicable corporate laws.

### **Possible Failure to Realize Anticipated Benefits of Acquisitions**

Arcan may complete acquisitions to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits, including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating

operations, procedures and personnel in a timely and efficient manner, as well as Arcan's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Arcan's ability to achieve the anticipated benefits of these and future acquisitions.

### **MATERIAL CONTRACTS**

There are no material contracts entered into or proposed to be entered into by Arcan in the financial year or entered into prior to the previous financial year, but still in effect, other than contracts in the ordinary course of business.

On February 6, 2009, Arcan adopted a shareholder rights plan (the "**Plan**"), similar to existing shareholder rights plans adopted by other Canadian public companies, pursuant to the terms of a shareholder rights plan agreement between Arcan and Valiant Trust Company.

The objectives of the Plan are to ensure that, to the extent possible, all shareholders of Arcan are treated equally and fairly in connection with any take-over bid for Arcan. The Plan discourages discriminatory, coercive or unfair take-overs of Arcan and gives Arcan's board of directors time, if, in the circumstances, Arcan's board of directors determines it is appropriate to take such time, to pursue alternatives to maximize shareholder value in the event an unsolicited take-over bid is made for all or a portion of the outstanding Common Shares of Arcan.

In order to implement the adoption of the Plan, Arcan's board of directors authorized the issuance of one right (a "**Right**") in respect of each Common Share outstanding at the close of business on February 6, 2009 (the "**Record Time**") and in respect of each Common Share issued thereafter. The Rights trade with and are represented by Common Share certificates, including certificates issued prior to the Record Time. Until such time as the Rights separate from the Common Shares and become exercisable, Rights certificates will not be distributed to shareholders.

If a person, or a group acting in concert, acquires (other than pursuant to an exemption available under the Plan) or announces its intention to acquire 20 percent or more of the Common Shares, Rights (other than those held by such acquiring person which will become void) will separate from the Common Shares and permit the holder thereof to purchase Common Shares at a 50 percent discount to their market price. A person, or a group acting in concert, who is the beneficial owner of 20 percent or more of the outstanding Common Shares as of the Record Time is exempt from the dilutive effects of the Plan provided such person (or persons) does not acquire more than one percent of the Common Shares in addition to those Common Shares already held by such person (or persons). At any time prior to the Rights becoming exercisable, the board of directors may waive the operation of the Plan with respect to certain events before they occur.

The issuance of the Rights is not dilutive until the Rights separate from the underlying Common Shares and become exercisable or until the exercise of the Rights. The issuance of the Rights will not change the manner in which shareholders currently trade their Common Shares.

"**Permitted bids**" under the Plan must be made to all holders of Common Shares and must be open for acceptance for a minimum of 60 days. If at the end of 60 days, at least 50 percent of the outstanding Common Shares other than those owned by the offeror and certain related parties have been tendered and not withdrawn, the bidder may take-up and pay for the shares but must extend the bid for a further ten days to allow other shareholders to tender to the bid.

The Plan was confirmed by Arcan's shareholders at the annual and special meeting of Arcan held on May 20, 2009. The Plan has been approved by the TSXV.

The Plan was not proposed in response to, or in contemplation of, any specific take-over bid for Arcan. The board of directors did not adopt the Plan to prevent a take-over of Arcan, to secure the continuance of management or the directors in their respective offices or to deter fair offers for the Common Shares.

A copy of the Plan is available on the SEDAR website at [www.sedar.com](http://www.sedar.com), and can also be obtained from Arcan upon written request.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

There are no outstanding legal proceedings material to Arcan to which Arcan is a party or in respect of which any of its properties are subject, nor are there any such proceedings currently known to Arcan to be contemplated. During 2010, there were no penalties or sanctions imposed against Arcan by a court relating to securities legislation or by a securities regulatory authority, nor were there any settlement agreements entered into by Arcan with a court relating to securities legislation or with a securities regulatory authority. There have been no penalties or sanctions imposed by a court or regulatory body against Arcan that would likely be considered important to a reasonable investor making an investment decision.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as may be disclosed elsewhere in this Annual Information Form, none of the directors, officers or principal shareholders of Arcan, and no associate or affiliate of any of them, has or has had any material interest in any transaction or any proposed transaction, which has materially affected or will materially affect Arcan.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of Arcan are KPMG LLP, Chartered Accountants, Suite 2700, 205 – 5th Avenue S.W., Calgary, Alberta, T2P 4B9.

The transfer agent and registrar for the Common Shares is Valiant Trust Company at its principal offices in Calgary, Alberta, and at the principal offices of its agent in Toronto, Ontario.

### **INTEREST OF EXPERTS**

Reserve estimates contained in this Annual Information Form have been prepared by GLJ. As at December 31, 2010, the effective date of those estimates, and as at the date of this Annual Information Form, the directors, officers, employees and consultants of GLJ who participated in the preparation of the GLJ Report were in a position to directly influence the preparation or outcome of the GLJ Report, and as a group, owned, directly or indirectly, none of the outstanding Common Shares.

Mr. Michael J. Laffin, a director of Arcan, is a partner at Blake, Cassels & Graydon LLP, a law firm which renders legal services to Arcan.

The auditors of Arcan are KPMG LLP, Chartered Accountants. KPMG LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

### **ADDITIONAL INFORMATION**

Additional information concerning Arcan may be found under Arcan's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including information concerning directors' and officers' remuneration and indebtedness, principal holders of Arcan's securities and securities authorized for issuance under equity compensation plans, will be contained in the management information circular to be filed on SEDAR in respect of Arcan's annual general meeting of shareholders. Additional financial information is provided in Arcan's comparative financial statements and management's discussion and analysis for the financial year ended December 31, 2010.

**SCHEDULE "A"**

**FORM 51-101F2 – REPORT ON RESERVES DATA BY  
GLJ PETROLEUM CONSULTANTS LTD.**

**FORM 51-101F2**  
**REPORT ON RESERVES DATA**  
**BY**  
**INDEPENDENT QUALIFIED RESERVES**  
**EVALUATOR OR AUDITOR**

To the board of directors of Arcan Resources Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2010, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	Corporate Evaluation April 1, 2011	Canada	-	467,917	-	<b>467,917</b>

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, April 5, 2011

*ORIGINALLY SIGNED BY*

Jodi L. Anhorn, M. Sc., P. Eng  
Vice-President

## SCHEDULE "B"

### FORM 51-101F3 – REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

Terms to which a meaning is ascribed in *National Instrument 51-101* have the same meaning in this form.

Management of Arcan Resources Ltd. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010 using forecast prices and costs.

An independent qualified reserves evaluator has evaluated and reviewed the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Company has:

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing the reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserve data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) "Ed Gilmet"  
Ed Gilmet  
President and Chief Executive Officer

(signed) "Douglas Penner"  
Douglas Penner  
Vice President, Finance and Chief Financial Officer

(signed) "Michael J. Laffin"  
Michael J. Laffin

Corporate Secretary and Director

*(signed) "Andy Fisher"*

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Andy Fisher

Executive Vice President and Director

April 5, 2011.