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Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice President, Finance and Chief Financial Officer of Arcan Resources Ltd. at Suite 3200, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1, (telephone (403) 262-0321 or by faxing a written request to (403) 262-4636), and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

February 7, 2011



ARCAN RESOURCES LTD.

\$75,000,000

6.25% Convertible Unsecured Subordinated Debentures due February 28, 2016

Price: \$1,000 per Debenture

Arcan Resources Ltd. ("**Arcan**" or the "**Corporation**") is hereby qualifying for distribution \$75,000,000 aggregate principal amount of 6.25% convertible unsecured subordinated debentures (the "**Debentures**") maturing on February 28, 2016 (the "**Maturity Date**") at a price of \$1,000 per Debenture (the "**Offering**"). The Debentures will bear interest at an annual rate of 6.25% payable semi-annually in arrears on February 28 and August 31 of each year (each, an "**Interest Payment Date**"), commencing August 31, 2011. The August 31, 2011 interest payment will represent accrued interest for the period from, and including, the closing of the Offering up to, but excluding, August 31, 2011.

Debenture Conversion Privilege

Each Debenture will be convertible into common shares of the Corporation (the "**Common Shares**") at the option of the holder 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 the Corporation for redemption of the Debentures or (iii) if called for repurchase pursuant to a Change of Control (as defined herein), on the business day immediately preceding the payment date, at a conversion price of \$8.75 per Common Share (the "**Conversion Price**"), being a conversion rate of approximately 114.2857 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment in certain circumstances as described in the Indenture (as defined herein). Holders converting their Debentures will receive accrued and unpaid interest thereon from the last Interest Payment Date on their Debentures prior to the date of conversion, to the date that is one day prior to the date of conversion.

The issued and outstanding Common Shares are listed and posted for trading on the TSX Venture Exchange (the "TSXV" or the "Exchange") under the symbol "ARN". The TSXV has conditionally accepted the listing of the Debentures and the Common Shares issuable upon conversion, redemption or maturity of the Debentures offered under this short form prospectus. The listing of the Debentures and Common Shares will be subject to the Corporation fulfilling all of the requirements of the TSXV. On January 24, 2011, the last trading day prior to the public announcement of the Offering, the closing price of the Common Shares on the TSXV was \$5.78 per Common Share. On February 4, 2011, the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSXV was \$5.35 per Common Share. The offering price of \$1,000 per Debenture (the "Issue Price") and the terms of the Offering were determined by negotiation between the Corporation and RBC Dominion Securities Inc. (the "Bookrunner"), together with Haywood Securities Inc. (collectively, the "Co-Lead Underwriters") on their own behalf and on behalf of National Bank Financial Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Paradigm Capital Inc., Wellington West Capital Markets Inc., PI Financial Corp. and Stifel Nicolaus Canada Inc. (together with the Co-Lead Underwriters, the "Underwriters"). See "Plan of Distribution".

	<u>Price to Public</u>	<u>Underwriters' Fee ⁽²⁾</u>	<u>Net Proceeds to the Corporation ⁽²⁾⁽³⁾</u>
Per Debenture ⁽¹⁾	\$1,000	\$40	\$960
Total Offering	\$75,000,000	\$3,000,000	\$72,000,000

Notes:

- (1) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part, at any time, from time to time, for a period of up to 30 days following the closing of the Offering, to purchase up to 15% of the principal amount of the Debentures at the Issue Price on the same terms and conditions as the Offering, for the purposes of covering over-allotments, if any, and for market stabilization purposes. A purchaser who acquires Debentures forming any part of the Underwriters' over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Over-Allotment Option is exercised in full, the total Offering, Underwriters' Fee (as defined herein) and net proceeds to the Corporation (before deducting expenses of the Offering) will be \$86,250,000, \$3,450,000 and \$82,800,000, respectively. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of Debentures pursuant to the exercise of the Over-Allotment Option. See "Plan of Distribution" and the table below.
- (2) Upon closing of the Offering, the Corporation will pay the Underwriters a cash commission equal to 4.0% of the gross proceeds of the Offering (the "Underwriters' Fee"). See "Plan of Distribution".
- (3) Before deducting expenses of the Offering, estimated to be \$450,000, which will be paid from general funds of the Corporation.

<u>Underwriters' Position</u>	<u>Maximum Size or Number of Securities Available</u>	<u>Exercise period</u>	<u>Exercise price</u>
Over-Allotment Option	11,250 Debentures	At any time until 30 days following closing of the Offering	\$1,000 per Debenture

Each of RBC Dominion Securities Inc., National Bank Financial Inc., BMO Nesbitt Burns Inc. and CIBC World Markets Inc. is an indirect wholly-owned subsidiary of a Canadian chartered bank that is a lender to Arcan and to which Arcan is indebted. Initially, the net proceeds of the Offering will be used to repay a portion of Arcan's indebtedness to such banks. Consequently, Arcan may be considered to be a "connected issuer" of RBC Dominion Securities Inc., National Bank Financial Inc., BMO Nesbitt Burns Inc. and CIBC World Markets Inc. within the meaning of applicable Canadian securities legislation. See "Relationship Between Arcan and Certain Underwriters".

The Debentures will not be redeemable by the Corporation prior to February 28, 2014. On or after February 28, 2014, and prior to February 28, 2016, the Debentures will be redeemable by the Corporation, in whole or in part, from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Corporation's sole option on not more than 60 days and not less than 40 days prior notice, provided that the Current Market Price (as defined herein) on the date on which notice of redemption is given is not less than 125% of the Conversion Price. In the event that a holder of Debentures exercises their conversion right following a notice of redemption by the Corporation, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of Common Shares to be received on conversion, for the period from the latest Interest Payment Date to the date of conversion.

Subject to required regulatory approval and provided that there is not a current Event of Default (as defined in the Indenture and summarized herein), the Corporation has the option to satisfy its obligation to repay the principal

amount of the Debentures, due at redemption or maturity, upon not less than 40 days and not more than 60 days prior notice, by issuing and delivering that number of freely tradeable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the Current Market Price on the date of redemption or maturity, as applicable. Further particulars concerning the interest, repurchase and maturity provisions of the Debentures are set out under "Details of the Offering" below.

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by the Corporation and delivered and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters relating to the Offering on behalf of the Corporation by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Fraser Milner Casgrain LLP.

The Underwriters propose to offer the Debentures initially at the Issue Price specified above. After a reasonable effort has been made to sell all of the Debentures at such Issue Price, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by the Corporation. See "Plan of Distribution".

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation. See "Risk Factors". The TSXV has conditionally accepted the listing of both the Debentures distributed under this short form prospectus and the Common Shares issuable on the conversion, redemption or maturity of the Debentures. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSXV.

An investment in the securities offered hereunder is speculative and involves a high degree of risk. The risk factors identified under the heading "Risk Factors" and "Forward-Looking Statements" herein and the other documents incorporated by reference in this short form prospectus should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered hereunder.

Subscriptions for Debentures will be received subject to rejection or allotment, in whole or in part, by the Underwriters and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that closing of the Offering will occur on or about February 14, 2011, or such other date as may be agreed between the Corporation and the Underwriters, but in any event not later than 42 days following the date of the receipt for this short form prospectus (the "**Closing Date**"). The Debentures will be represented by one or more global certificates issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee under the book-based system administered by CDS. No certificates evidencing the Debentures will be issued to subscribers except in certain limited circumstances, and registration will be made in the depository service of CDS. Subscribers for Debentures will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Debentures is purchased. See "Details of the Offering – Global Debentures".

Subject to applicable laws in connection with the Offering, the Underwriters may effect transactions intended to stabilize or maintain the market prices for the Debentures at a level above that which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

The earnings coverage ratios in respect of the Debentures for the 12 month period ended December 31, 2009 and the 12 month period ended September 30, 2010, are less than one to one. See "Earnings Coverage Ratios".

The principal business address and registered office of Arcan is located at Suite 3200, 450 - 1st Street S.W., Calgary, Alberta, T2P 5H1.

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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 short form prospectus. Additional terms relating to oil and natural gas reserves and operations have the meanings set forth under "Abbreviations and Conversion" and "Presentation of Arcan's Oil and Gas Reserves and Production Information" in the AIF (as defined below).

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

"**Acquired Assets**" means the interests in 102 gross (81 net) sections of land in the Swan Hills area of Alberta, acquired by Arcan on March 31, 2010;

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

"**GLJ Acquired Assets Report**" means the reserves evaluation from GLJ, dated February 24, 2010 and effective December 31, 2009 evaluating the oil, natural gas and NGLs reserves associated with respect to the Acquired Assets; and

"**November Share Offering**" means the public offering by the Corporation on November 5, 2010 of 10,421,875 Common Shares at an issue price of \$4.80 per share to raise gross proceeds of \$50,025,000.

In this short form prospectus, unless otherwise indicated, all dollar amounts are in Canadian dollars and all references to "\$" are to Canadian dollars.

NOTE TO READERS

Readers should rely only on the information contained or incorporated by reference in this short form prospectus. The Corporation has not authorized any person to provide different information. If an investor is provided with different or inconsistent information, he or she should not rely on it. The Debentures and the Common Shares issuable upon conversion, redemption or maturity of the Debentures offered hereunder may be sold only in those jurisdictions where offers and sales are permitted. This short form prospectus is not an offer to sell or a solicitation of any offer to buy the Debentures or the Common Shares issuable upon conversion, redemption or maturity of the Debentures in any jurisdiction where it is unlawful. The information contained in this short form prospectus is accurate only as of the date of this short form prospectus, regardless of the time of delivery of this short form prospectus or the time of any sale of the Debentures offered hereunder.

NON-GAAP MEASURES

In this short form prospectus and in certain documents incorporated by reference into this short form prospectus, there are references to the terms "funds from operations", "funds from operations per share", "net debt", "cash operating costs", "operating netbacks" and "corporate netbacks" which are not recognized measures under Canadian generally accepted accounting principles ("**GAAP**").

The term "funds from operations", should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net earnings as determined in accordance with GAAP as an indicator of Arcan's performance. Arcan also presents funds from operations per share, whereby funds from operations is divided by the basic weighted average number of Common Shares outstanding to determine per share amounts. Operating netbacks and corporate netbacks are also presented. Net debt is defined as outstanding bank debt plus or minus working capital. Operating netbacks represent Arcan's revenue, less royalties and operating expenses, and corporate netbacks represent Arcan's operating netback, less realized economic hedging gains and losses, general and administrative and interest expense, in order to determine the amount of funds generated by production. Operating netbacks and corporate netbacks have been presented on a per BOE basis, as well.

These measures do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes that funds from operations, operating netbacks and corporate netbacks are useful supplemental measures as they provide an indication of the ability of Arcan to fund future growth through capital investment and/or repay debt. These measures have been described and presented in certain documents incorporated by reference into this short form prospectus in order to provide shareholders and potential investors with additional information regarding Arcan's liquidity and its ability to generate funds to finance its operations. Arcan's

method of calculating funds from operations may differ from that of other companies, and, accordingly, may not be comparable.

For more information, see Arcan's management discussion and analysis of financial condition and results of operations for the year ended December 31, 2009 and the three and nine months periods ended September 30, 2010, which includes a definition of "funds from operations" and reconciliation to cash flow from operating activities, which is incorporated herein by reference.

SELECTED ABBREVIATIONS AND CONVERSIONS

In this short form prospectus, the abbreviations set forth below have the following meanings:

Oil and Natural Gas Liquids		Natural Gas	
"bbl"	Barrel	"Mcf"	one thousand cubic feet
"NGLs"	natural gas liquids		

Other

"API"	means American Petroleum Institute, but is generally referred to as a degree of gravity that provides a relative measure of crude oil density.
"BOE"	barrel of oil equivalent. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl 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"	BOEs per day.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice President, Finance and Chief Financial Officer of Arcan Resources Ltd. at Suite 3200, 450 - 1st Street S.W., Calgary, Alberta, T2P 5H1, (telephone (403) 262-0321 or by faxing a written request to (403) 262-4636), or by accessing the disclosure documents available through the Internet on the SEDAR website at www.sedar.com.

The following documents of Arcan, which have been filed with securities commissions or similar authorities in Canada, are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the annual information form of Arcan dated April 22, 2010 for the year ended December 31, 2009 (the "**AIF**");
- (b) the financial statements of Arcan and the notes thereto as at and for the years ended December 31, 2009 and 2008, together with the report of the auditors thereon;
- (c) management's discussion and analysis of financial condition and results of operations of Arcan for the year ended December 31, 2009;
- (d) the interim financial statements of Arcan and the notes thereto as at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009;
- (e) management's discussion and analysis of financial condition and results of operations of Arcan for the three and nine months ended September 30, 2010;
- (f) the management proxy circular of Arcan dated April 22, 2010, relating to the annual and special meeting of holders of Common Shares held on May 25, 2010;
- (g) the management proxy circular of Arcan dated April 9, 2009, relating to the annual and special meeting of holders of Common Shares held on May 20, 2009;

- (h) the material change report of Arcan dated March 1, 2010 in respect of (i) Arcan's initial test results from its first horizontal multi-stage fracture well, (ii) an agreement to purchase new oil and natural gas properties in the Swan Hills area of west central Alberta, and (iii) the proposed private placement of subscription receipts to raise proceeds of up to \$65 million;
- (i) the material change report of Arcan dated March 26, 2010 in respect of the closing of a private placement offering of subscription receipts for aggregate proceeds of \$65 million;
- (j) the material change report of Arcan dated October 6, 2010 in respect of an increase in Arcan's credit facilities from \$70 million to \$100 million;
- (k) the material change report of Arcan dated October 12, 2010 in respect of the November Share Offering;
- (l) the material change report dated January 28, 2011 in respect of this Offering; and
- (m) the press release of Arcan dated March 17, 2010 (the "**March 17, 2010 Press Release**") announcing the receipt of the GLJ Acquired Assets Report and the execution of a term sheet with respect to an expansion of Arcan's credit facilities to \$70,000,000.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any material change reports (excluding confidential material change reports), comparative interim financial statements, comparative annual financial statements and the auditors' report thereon, management's discussion and analysis of financial results, information circulars, annual information forms and business acquisition reports, filed by Arcan with the securities commissions or similar authorities in each of the provinces of Canada, other than Québec, subsequent to the date of this short form prospectus and prior to the termination of this distribution are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which is also, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed to be an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus and in certain documents incorporated by reference into this short form prospectus constitute forward-looking statements. These statements relate to future events or Arcan's future plans and performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "seek", "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve 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. Arcan believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this short form prospectus should not be unduly relied upon.

In particular, this short form prospectus, and the documents incorporated by reference herein contain forward-looking statements pertaining to 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 (including expansion of Arcan's drilling inventory and acceleration of its drilling program) and other future expenditures;
- future production and productive capabilities;
- supply and demand for oil, NGLs and natural gas;
- Arcan's business strategy and planned acquisition and development strategy, including information regarding Arcan's 2011 capital program;
- Arcan's plans regarding the use of proceeds of the Offering;
- expectations regarding Arcan's ability to raise capital and to continually add to reserves through acquisitions and development;
- estimated earnings coverage ratios;
- projections of market prices and costs;
- schedules for and timing of certain projects and Arcan's strategy for growth;
- the timeline for resumption of service of and the magnitude of the production curtailments resulting from shut down of the Pengrowth (as defined herein) gas gathering system;
- 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;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws;
- future income tax laws and royalty regimes;
- statements regarding the potential future market price of Arcan's Common Shares, including statements regarding potential "Current Market Prices" of Arcan's Common Shares in the future; and
- the expected closing date of the Offering.

Arcan's actual results could differ materially from those anticipated in these forward-looking statements and information as a result of both known and unknown risks, including risk factors set forth under "Risk Factors" in this short form prospectus and in the AIF and those set forth below:

- volatility in market prices for oil, NGLs and natural gas;
- actions by governmental or regulatory authorities including changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry;
- changes or fluctuations in oil, NGLs and natural gas production levels;
- changes in foreign currency exchange rates and interest rates;
- changes in capital and other expenditure requirements and debt service requirements;
- liabilities and unexpected events inherent in oil and gas operations, including geological, technical, drilling and processing risks;
- actions of industry partners;
- uncertainties associated with estimating reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- constraints on, or the unavailability of, adequate pipeline and transportation capacity to deliver Arcan's production to market;
- Arcan's success at the acquisition, exploitation and development of reserves;
- changes in the business focus of management of the Corporation and new opportunities available to the Corporation which change the Corporation's business plans or the planned use of proceeds of the Offering;
- risks associated with Arcan's ability to repay or refinance its senior indebtedness when due;
- changes in general economic, market (including credit market) and business conditions in Canada, North America and worldwide;
- potential volatility in the market price for Arcan's Common Shares in the future; and
- 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.

Statements relating to reserves are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing list of factors is not exhaustive.

Readers are cautioned that these factors and risks are difficult to predict. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the list of factors above and the risk factors set forth under the heading "Risk Factors" are not exhaustive. Before placing any reliance on any forward-looking statements to make decisions with respect to an investment in securities of Arcan, prospective investors and others should carefully consider the factors identified above and other risks, uncertainties and potential changes that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In addition, the forward-looking statements contained in this short form prospectus or in any of the documents incorporated by reference herein are made as of the date of the respective document. Neither Arcan, nor any of the Underwriters undertake any obligation to publicly update or to revise any forward-looking statements except as expressly required by applicable securities laws. The forward-looking statements contained in this short form prospectus and the documents incorporated by reference herein are expressly qualified by the cautionary statements contained herein.

SUMMARY OF THE OFFERING

This summary is qualified by, and should be read in conjunction with, the detailed information contained elsewhere in this short form prospectus. For a more complete description of the terms of the Debentures, see "Details of the Offering".

Issue: \$75,000,000 aggregate principal amount of 6.25% convertible unsecured subordinated debentures (the "**Debentures**"), with the Over-Allotment Option entitling the Underwriters to purchase up to an additional \$11,250,000 aggregate principal amount of Debentures at any time up to 30 days following the Closing Date to cover over-allotments.

Amount of Offering: \$75,000,000 (up to \$86,250,000 if the Over-Allotment Option is exercised in full).

Price: \$1,000 per Debenture.

Maturity: February 28, 2016.

Interest: 6.25% per annum, which will be payable semi-annually in arrears on February 28 and August 31 of each year, commencing on August 31, 2011. The first interest payment will include any interest accrued from (and including) the Closing Date up to (but excluding) August 31, 2011. It is estimated that the first interest payment, payable on August 31, 2011, will be \$34.03 per \$1,000 principal amount of Debentures. See "Details of the Offering – General".

Rank and Subordination: The Debentures will be direct, subordinated, unsecured obligations of the Corporation and will rank equally with one another and subordinate to all other existing and future senior secured and senior unsecured indebtedness of the Corporation, including all trade creditors, and will rank *pari passu* to all future subordinated unsecured indebtedness. The Indenture will not restrict the Corporation or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities.

The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness (as defined herein) of the Corporation. The Debentures will also be effectively subordinated to claims of creditors of the Corporation except to the extent the Corporation is a creditor ranking at least *pari passu* with such other creditors.

See "Details of the Offering – Rank and Subordination".

Conversion: Each Debenture will be convertible into fully paid and non-assessable freely tradeable Common Shares at the option of the holder thereof 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 the Corporation for redemption of the Debentures or (iii) if called for repurchase pursuant to a Change of Control, on the business day immediately preceding the payment date, at the Conversion Price of \$8.75 per Common Share, being a conversion rate of 114.2857 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment as provided in the Indenture (as defined herein). Holders converting their Debentures will receive accrued and unpaid interest thereon up to, but excluding, the conversion date. See "Details of the Offering – Conversion Privilege".

Redemption: The Debentures shall not be redeemed by the Corporation prior to February 28, 2014. On and after February 28, 2014 and prior to February 28, 2016, the Debentures may be redeemed by the Corporation, 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 their principal

amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the Current Market Price on the date on which notice of redemption is provided is at least 125% of the Conversion Price. In the event that a holder of Debentures exercises its conversion right following a notice of redemption by the Corporation, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of Common Shares to be received on conversion, for the period from the latest Interest Payment Date to the date of conversion. See "Details of the Offering – Optional Redemption".

Payment of Principal Amount in Common Shares:

The Corporation has the option, subject to regulatory approval, to satisfy its obligations to repay the principal amount of the Debentures upon redemption or at maturity, provided no Event of Default (as defined in the Indenture and summarized herein) has occurred and is continuing at such time, upon not less than 40 days and not more than 60 days prior notice, by issuing and delivering that number of freely tradeable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the Current Market Price on the date fixed for redemption or maturity, as the case may be. See "Details of the Offering – Method of Payment".

Change of Control:

Within 30 days following the occurrence of a Change of Control, Arcan will be required to make an offer in writing to holders of the Debentures to repurchase the Debentures then outstanding at a price equal to 100% of the principal amount of the Debentures plus accrued and unpaid interest thereon.

A "Change of Control" will be defined in the Indenture as the acquisition of voting control or direction over at least 50% of the aggregate voting rights attached to the Common Shares then outstanding by any person or group of persons acting jointly or in concert.

Additionally, if a Change of Control occurs in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a Change of Control consists of: (a) cash; (b) trust units, limited partnership units or other participating securities of a trust, limited partnership or similar entity; (c) equity securities that are not traded or intended to be traded immediately following such transactions on a recognized stock exchange; or (d) other property that is not traded or intended to be traded immediately following such transactions on a recognized stock exchange, then, subject to regulatory approvals, during the period beginning 10 trading days before the anticipated date on which the Change of Control becomes effective and ending 30 days after the Change of Control purchase offer is delivered, holders of Debentures will be entitled to convert their Debentures and, subject to certain limitations, receive, in addition to the number of Common Shares they would otherwise be entitled to receive, an additional number of Common Shares per \$1,000 principal amount of Debentures as set forth in a table in the Indenture and subject to stock exchange requirements.

See "Details of the Offering – Change of Control".

Events of Default

The Indenture will provide that an Event of Default in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect of the Debentures: (a) failure for 30 days to pay interest on the Debentures when due; (b) failure to pay principal or premium (whether by way of payment of cash or delivery of Common Shares), if any, on the Debentures when due, whether at maturity, upon redemption, on a Change of Control, by declaration or otherwise; (c) default in the delivery, when due, of any Common Shares or other consideration, including any make whole premium, payable upon conversion with respect to the Debentures, which default continues for 15 days; (d) default in the observance or performance of any other covenant or condition of the Indenture and the failure to cure (or obtain a waiver for) such default for a period of 30 days after notice in writing has been given by the Debenture Trustee (as defined herein) or from holders of not less than 25% in aggregate principal amount of the Debentures to the Corporation specifying such default and requiring the Corporation to

rectify or obtain a waiver for same; and (e) certain events of bankruptcy, insolvency or reorganization of the Corporation under bankruptcy or insolvency laws. An Event of Default shall also be deemed to occur with respect to the Debentures in the event any indebtedness in excess of \$10,000,000 of the Corporation is declared due and payable prior to the date on which it would otherwise become due and payable, unless such default is cured or waived pursuant to the terms of the indebtedness. See "Details of the Offering – Events of Default".

Form and Denomination:

The Debentures will be issued in minimum denominations of \$1,000 and any integral multiples thereof.

Governing Law:

The Debentures and the Indenture under which the Debentures will be issued will be governed by the laws of the Province of Alberta.

Risk Factors:

See "Risk Factors" and the other information included in or incorporated by reference in this short form prospectus for a discussion of the factors that should be carefully considered before making a decision to invest in the Debentures.

BUSINESS OF ARCAN

Overview

Arcan's business plan is focused on building and capturing opportunities in western Canada that will create sustainable and profitable per share growth in reserves, production and cash flow. The plan is based on an integrated approach to growth by balancing exploration endeavours with strategic acquisitions that provide lower risk exploitation and development opportunities.

Arcan's business is focused in three core properties as set forth below. In aggregate, these three properties had production net to Arcan averaging approximately 1,375 BOE/d in 2009 and 2,740 BOE/d in the three months ended September 30, 2010. Arcan's net production as at the date hereof is approximately 2,500 BOE/d with significant pipeline restrictions due to a Pengrowth Energy Corporation ("**Pengrowth**") gas gathering pipeline system line outage in the Swan Hills Area which occurred on January 1, 2011.

For more information regarding Arcan's properties, including estimates of Arcan's oil, natural gas and NGL reserves as determined by GLJ, see "General Development of the Business of Arcan", "Overview of Arcan's Core Areas" and "Statement of Reserves Data" in the AIF.

Beaverhill Lake/Swan Hills, Alberta

Arcan owns over 150 net sections of land which is part of the large Swan Hills oil complex in north-western Alberta. Arcan had a net average production of approximately 623 BOE/d in 2009 and estimates average production of 1,600 BOE/d in 2010 from this area. Since December 2009, Arcan has undertaken a horizontal multi-stage fracture drilling program. Arcan's current production capability at Swan Hills is approximately 3,200 BOE/d.

On March 31, 2010, Arcan completed an acquisition of the Acquired Assets for a cash purchase price of \$53.25 million (the "**Acquisition**"). The purchase price of the Acquisition was funded by the private placement offering of 26,000,000 subscription receipts of Arcan. Upon the closing of the Acquisition, each of the subscription receipts was deemed to be exercised and the holders thereof received one Common Share for each subscription receipt held. Information regarding the oil, NGLs and natural gas reserves attributable to the Acquired Assets, as estimated by GLJ in the GLJ Acquired Assets Report, is included in the March 17, 2010 Press Release, which is incorporated herein by reference.

Hamburg/Chinchaga, Alberta

Arcan discovered the Hamburg "GG" Slave Point 42° API sweet oil pool ("**GG Pool**") in the Hamburg/Chinchaga area of north-western Alberta in February 2006 at a depth of approximately 2,500 meters. Arcan's interest in the Hamburg/Chinchaga area had net average production of approximately 675 BOE/d in 2009, an estimated 525 BOE/d in 2010, and currently has productive capability of approximately 700 BOE/d, net to Arcan. Arcan expects that Hamburg/Chinchaga will remain a significant area with a number of exploration and development opportunities, including the drilling of up to three development wells to offset seven previously drilled oil wells in the GG pool.

McLeod, Alberta

Arcan's McLeod property in the McLeod area of Alberta had net average production of approximately 75 BOE/d in 2009, and is estimated to have had average production of approximately 75 BOE/d in 2010. This area is currently producing approximately 50 BOE/d, net to Arcan. Arcan has not focused on this area extensively in 2010 and into 2011, as it is natural gas prone and Arcan has instead focused on its oil properties.

RECENT DEVELOPMENTS

Beaverhill Lake Swan Hills Horizontal Drilling Program

Since December 2009, Arcan has pursued a horizontal multi-stage fracture drilling program at its Beaverhill Lake Swan Hills property. By the end of 2010, Arcan had completed and tested three new horizontal multistage fractured wells, totalling 15 wells for 2010 with a 100% success rate. The three most recent wells were each approximately 10 kilometres apart along the western edge of Arcan's lands. The first of these wells, Arcan's well number 13 at 02-02-68-9W5 (surface location) 04-02-68-9W5 (bottom hole location) in the Beaverhill Lake Swan Hills reef development program, tested over 500 BOE/d over a

14 day production test and is now tied in and on production. Well number 14 is the first horizontal well in Arcan's Morse River Unit #1 (75% interest) at 2-31-66-9W5 (surface location) 13-31-66-9W5 (bottom hole location) and tested over 550 BOE/d over a 14 day production test and is on production. Well number 15 is the first horizontal re-entry well successfully performed by Arcan on a 350 meter leg 100% interest well that had been drilled in 2003 and was producing approximately 40 BOE/d before the five stage fracture and was producing approximately 200 BOE/d after the fracture. This re-entry well at 07-02-66-10W5 (surface location) 02-02-66-10W5 (bottom hole location) is over 30 kilometres south-west of Arcan's first horizontal well at 9-29-68-8W5, which is still producing over 250 BOE/d after almost one year on production. Arcan continues to develop and exploit the different areas of its 160 gross (150 net) square miles (220 net square kilometres) of land base.

Well number 16, at 13-30-68-8W5 (surface location) 16-30-68-8W5 and 07-30-68-8W5 (bottom hole locations) is currently undergoing production testing operations. This is the thirteenth horizontal multi-stage fractured well drilled within Deer Mountain Unit #2 (the "**Deer Mountain Unit**") and is Arcan's first dual leg horizontal well. Wells number 17, 18, and 19 have been drilled in the Ethel pool (67-8) with the first of these wells at (4-15) 16-10-67-08W5 being fractured on January 22, 2011. Well number 20, drilled inside of the Deer Mountain Unit at 10-19-68-8W5 (surface location) 04-20-68-8W5 (bottom hole location) is awaiting completion operations and the drilling rig from this well has moved south of the Deer Mountain Unit to Arcan 100% lands. Arcan currently has two additional drilling rigs drilling in its 100% owned Ethel 67-8W5 lands (the "**Ethel Lands**"). Arcan is currently shooting a 3D seismic program over the bulk of its southern lands covering Township 67 Range 8W5 and anticipates completion of the program by the end of February 2011.

2010 Year End Production and 2011 Development Plans

With the inclusion of year end well tests Arcan exited 2010 at 3,947 BOE/d. Arcan estimates production for the fourth quarter of 2010 to be between 2,600 to 2,800 BOE/d. Arcan is presently experiencing temporary production curtailments due to the explosion and subsequent shut down of the Pengrowth gas gathering system on January 1, 2011, with the resumption of service contingent upon further corrosion testing of the pipeline prior to any determination of the timing or suitability of the pipeline for resumption of service. Arcan estimates that its current production capacity is presently restricted by approximately 500 to 700 BOE/d as a result of the service disruption. This represents approximately 18% of Arcan's current production capacity of approximately 4,000 BOE/d.

Also for November and December of 2010 and into 2011, Arcan has had eight horizontal wells that have been rate restricted over this time period due to the fracture ball drill out operations that have been performed. After completing the drill out operation Arcan has also identified, through down hole tests, that at least six of these wells have been mechanically rate restricted due to fines liberated during completions causing plugging of existing fracture production ports. Arcan has begun a program to perforate the production string on either side of the existing fracture production ports on all six wells and is awaiting results from this operation to alleviate mechanical flow issues.

Arcan estimates that, including wells that have been completed and are being tied in, current production capacity is approximately 4,000 BOE/d. Arcan expects to spend the majority of its capital for 2011 in its Swan Hills play and currently expects to, drill 20 to 25 new wells in 2011. Arcan estimates that it will focus drilling operations in its Ethel Lands and anticipates following up with waterflood implementation.

November Share Offering

On November 5, 2010, the Corporation completed the November Share Offering. The Corporation used the proceeds of the November Share Offering to advance its oil and natural gas exploration and development activities, including its drilling program at the Beaverhill Lake Swan Hills area.

Expansion of Credit Facilities

On September 30, 2010, the Corporation announced that it had completed amendments to its syndicated credit facilities to increase the amount available under the facilities by 43% from \$70 million to \$100 million. On December 21, 2010, the Corporation announced that it had completed additional amendments to its syndicated credit facilities to add additional lenders to its banking syndicate. See note 2 to the table under the heading "Capitalization of Arcan" for a description of the material terms of the Corporation's credit facilities.

DESCRIPTION OF SECURITIES

Arcan's capital structure consists of an unlimited number Common Shares, an unlimited number of preferred shares issuable in series, and an unlimited number of performance shares.

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 of this short form prospectus, there are 88,090,446 Common Shares outstanding.

No preferred shares or performance shares are currently outstanding.

DETAILS OF THE OFFERING

The Offering consists of 75,000 Debentures at a price of \$1,000 per Debenture. In addition, the Corporation has granted to the Underwriters the Over-Allotment Option, exercisable in whole or in part, at any time, from time to time, until 30 days following closing of the Offering, to purchase up to an additional 11,250 Debentures at a price of \$1,000 per Debenture on the same terms and conditions as the Offering.

General

The Debentures will be issued under the indenture (the "**Indenture**") to be entered into between the Corporation and Valiant Trust Company (the "**Debenture Trustee**") on the Closing Date. After execution, the Indenture will be available for inspection at the offices of the Corporation and will be filed on SEDAR at www.sedar.com.

The Debentures are limited to \$86,250,000 aggregate principal amount. The Debentures will be issued in denominations of \$1,000 or in integral multiples thereof. The Debentures will be dated as of the Closing Date and unless previously converted, redeemed or purchased, as described below, the Debentures will mature on February 28, 2016. The principal amount of the Debentures is payable at maturity in cash or, at the Corporation'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 as further described below under "- Method of Payment". The Debentures will be payable at the principal corporate trust office of the Debenture Trustee.

The Debentures will bear interest from the date of issue at 6.25% per annum, which will be payable semi-annually in arrears on February 28 and August 31 of each year, 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 to (but excluding) August 31, 2011. It is estimated that the first interest payment, payable on August 31, 2011, will be \$34.03 per \$1,000 principal amount of Debentures. 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.

Rank and Subordination

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

The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Corporation. "**Senior Indebtedness**" of the Corporation will be defined in the Indenture but will include all obligations, liabilities and indebtedness of the Corporation and its subsidiaries which would, in accordance with GAAP, be classified upon a consolidated balance sheet of the Corporation as liabilities of the Corporation and its subsidiaries and, whether or not so classified, shall include

(without duplication): (a) indebtedness of the Corporation and its subsidiaries for borrowed money; (b) obligations of the Corporation and its subsidiaries evidenced by bonds, debentures, notes or other similar instruments; (c) obligations of the Corporation and its subsidiaries arising pursuant to or in relation to bankers' acceptances, letters of credit and letters of guarantee (including payment and reimbursement obligations in respect thereof) or indemnities issued in connection therewith; (d) obligations of the Corporation and its subsidiaries under any swap, hedging or other similar contracts or arrangements; (e) obligations of the Corporation and its subsidiaries under Guarantees (as defined in the Indenture), indemnities, assurances, legally binding comfort letters or other contingent obligations relating to Senior Indebtedness or other obligations of any other person which would otherwise constitute Senior Indebtedness within the meaning of this definition; (f) all indebtedness of the Corporation and its subsidiaries representing deferred purchase price of any property including, without limitation, purchase money mortgages; (g) accounts payable to trade creditors; (h) all renewals, extensions and refinancing of any of the foregoing; and (i) all costs and expenses incurred by or on behalf of the holder of any Senior Indebtedness in enforcing payment or collection of any such Senior Indebtedness, including enforcing any security interest securing the same; provided that "**Senior Indebtedness**" will not include any indebtedness that would otherwise be Senior Indebtedness if it is expressly stated to be subordinate and rank *pari passu* with the Debentures.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Corporation, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Corporation, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Corporation, then holders of Senior Indebtedness 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. The Indenture will also provide that the Corporation 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 the Corporation, unless the Senior Indebtedness has been repaid in full as defined in the Indenture.

The Debenture Trustee and the Corporation will also be authorized (and will be obligated upon any request from certain holders of Senior Indebtedness) under the Indenture to enter into subordination agreements on behalf of the holders of Debentures with any holder of Senior Indebtedness.

Optional Redemption

The Debentures are not redeemable by the Corporation 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 the Corporation, 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% of their principal amount plus any accrued and unpaid interest thereon up to (but excluding) the date set for redemption, provided that the Current Market Price is at least 125% of the Conversion Price. "**Current Market Price**" will be defined in the Indenture but means, generally, the volume weighted average trading price of the Common Shares on the TSXV, if the Common Shares are listed on the TSXV, for the twenty consecutive trading days ending five trading days before the applicable date. If the Common Shares are not listed on the TSXV, reference shall be made for the purpose of the above calculation to the principal securities exchange or market on which the Common Shares are listed or quoted or if no such prices are available, then the current market price shall be the fair value of a Common Share as reasonably determined by the Corporation's board of directors.

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 the Corporation 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 the Corporation for redemption of the Debentures, or (iii) if called for to repurchase pursuant to a Change of Control 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 described below.

A Debenture in respect of which a holder has accepted a notice in respect of a Change of Control Purchase Offer (as defined herein), requiring the Corporation to purchase the Debenture may be surrendered for conversion only if such notice is withdrawn in accordance with the Indenture. 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 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. For clarity, payment of such interest, whether in cash or by delivery of Common Shares pursuant to the exercise of the Share Interest Payment Election (as defined herein) may, at the option of the Corporation, be paid on the next regularly scheduled Interest Payment Date following the date of conversion.

Holders of Debentures surrendered for conversion 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 will receive the semi-annual interest payable on such Debentures on the corresponding Interest Payment Date, notwithstanding the conversion. In the event that a holder of Debentures exercises its conversion right following a notice of redemption by the Corporation (as further described under "– Optional Redemption" above), 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 will be entitled to receive accrued and unpaid interest, in addition to the applicable number of Common Shares to be received on conversion, for the period from the last Interest Payment Date to the date of conversion.

The conversion rate will not be adjusted for accrued interest.

For a discussion of the tax treatment of a holder receiving Common Shares upon converting Debentures, see "Certain Canadian Federal Income Tax Considerations".

Subject to the provisions thereof, the Indenture will provide for the adjustment of the conversion rate in certain events including:

- (a) the subdivision or consolidation of the outstanding Common Shares;
- (b) the distribution of Common Shares to holders of Common Shares by way of dividend or distribution or otherwise;
- (c) the payment of a cash dividend or distribution to all the holders of Common Shares;
- (d) the issuance of options, rights or warrants to holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares at less than 95% of the then Current Market Price of the Common Shares;
- (e) the distribution to all holders of Common Shares of any securities or evidences of indebtedness or other assets; and
- (f) the payment to all holders of Common Shares of cash or any other consideration in respect of an issuer bid for Common Shares by the Corporation or any of the Corporation's subsidiaries to the extent that the cash and fair market value of any other consideration included in the payment per Common Share exceeds the Current Market Price of the Common Shares on the date of expiry of such tender offer, take over bid or exchange offer.

In the event that the Corporation pays a dividend or makes a distribution to all holders of Common Shares consisting of capital stock of, or similar equity interests in, a subsidiary or other business of the Corporation, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of Common Shares, in each case based on the weighted average trading price of those securities for the 20 consecutive trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such dividend or distribution on the TSXV, or such other national or regional exchange or market on which the securities are then listed or quoted. No conversion rate adjustment will be made to the extent that the Corporation makes an equivalent distribution to holders of Debentures.

There will be no adjustment of the Conversion Price in respect of any event described in (a), (b), (c), (d), (e) or (f) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date. The Corporation will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the conversion price by at least 1%. However, the Corporation will carry forward any adjustments that are less than 1% of the conversion rate and take them into account when determining subsequent adjustments.

If there is (i) a reclassification, recapitalization or other change of the Common Shares, (ii) a consolidation, amalgamation, statutory arrangement, merger, binding share exchange, acquisition of the Corporation or other combination pursuant to which the Common Shares are converted into or acquired for cash, securities or other property, or (iii) any sale or conveyance of the property or assets of the Corporation as an entirety or substantially as an entirety to any person (other than a direct or indirect wholly-owned subsidiary) or a liquidation, dissolution or winding up of the Corporation, at the effective time of the transaction the right to convert a Debenture into Common Shares will be changed into the right to convert it into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its Debenture immediately prior to the transaction. The Corporation shall give notice to the holders of Debentures at least 30 days prior to the effective date of such transaction in writing and by release to a business newswire stating the consideration into which the Debentures will be convertible after the effective date of such transaction.

Change of Control

In the event of a Change of Control, the Corporation shall be required to offer to purchase all of the outstanding Debentures (a "**Change of Control Purchase Offer**") on the date (the "**Change of Control Purchase Date**") that is 30 business days after the date that such offer is delivered, at a purchase price equal to 100% of the principal amount of the Debentures plus any accrued and unpaid interest ("**Change of Control Purchase Price**"), to, but not including, the purchase date. If such purchase date is after a record date but on or prior to an Interest Payment Date, however, then the interest payable on such date will be paid to the holder of record of the Debentures on the relevant record date.

Within 30 days following the occurrence of a Change of Control, the Corporation shall be required to give written notice to all holders of record of Debentures, as provided in the Indenture, stating among other things, the occurrence of a Change of Control and setting out the terms of the Change of Control Purchase Offer. The Corporation must also deliver a copy of the notice to the Debenture Trustee.

If 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to the Corporation pursuant to the Change of Control Purchase Offer, the Corporation will have the right to redeem all the remaining Debentures at the Change of Control Purchase Price. Notice of such redemption must be given by the Corporation to the Debenture Trustee within 10 days following the expiry of the Change of Control Purchase Offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered pursuant to the Change of Control Purchase Offer.

Under the Indenture, a "**Change of Control**" of the Corporation will be deemed to have occurred at such time after the original issuance of the Debentures upon: (i) the acquisition by any person, or group of persons acting jointly or in concert (within the meaning of MI 62-104 (as defined herein)), of voting control or direction of an aggregate of 50% or more of the outstanding Common Shares; or (ii) the sale of all or substantially all of the assets of the Corporation, but shall not include a sale, merger, reorganization, combination or other similar transaction if the previous holders of Common Shares hold at least 50% of the voting control or direction in such merged, reorganized, combined or other continuing entity (and in the case of a sale of all or substantially all of the assets, in the entity which has acquired such assets) immediately following the completion of such transaction.

Beneficial ownership will be determined in accordance with Multilateral Instrument 62-104 – *Take-Over Bids and Issuer Bids* ("MI 62-104"). The term "**person**" includes any syndicate or group that would be deemed to be a "**person**" under MI 62-104.

The Corporation could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a Change of Control for purposes of the Indenture but that could increase the amount of the Corporation's or its subsidiaries' outstanding indebtedness.

The Corporation's ability to purchase Debentures upon a Change of Control may be limited by the terms of its then outstanding credit agreements.

Cash Change of Control

In addition to the requirement for the Corporation to make a Change of Control Purchase Offer in the event of a Change of Control, if a Change of Control occurs in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a Change of Control consists of:

- (a) cash, other than cash payments for fractional Common Shares and cash payments made in respect of dissenter's appraisal rights;
- (b) trust units, limited partnership units or other participating equity securities of a trust, limited partnership or similar entity;
- (c) equity securities that are not traded or intended to be traded immediately following such transactions on a recognized stock exchange; or
- (d) other property that is not traded or intended to be traded immediately following such transactions on a recognized stock exchange,

then subject to regulatory approvals, during the period beginning 10 trading days before the anticipated date on which the Change of Control becomes effective and ending 30 days after the Change of Control Purchase Offer is delivered, holders of Debentures will be entitled to convert their Debentures, subject to certain limitations, and receive, in addition to the number of Common Shares they would otherwise be entitled to receive as set forth under "– Conversion Privilege" above, an additional number of Common Shares per \$1,000 principal amount of Debentures as set forth below (the "**Make Whole Premium**"), subject to TSXV requirements.

The number of additional Common Shares per \$1,000 principal amount of Debentures constituting the Make Whole Premium will be determined by reference to the table below and is based on the date on which the Change of Control becomes effective (the "**Effective Date**") and the price (the "**Stock Price**") paid per Common Share in the transaction constituting the Change of Control. If holders of Common Shares receive only cash in the transaction, the Stock Price shall be the cash amount paid per Common Share. Otherwise, the Stock Price shall be equal to the Current Market Price of the Common Shares immediately preceding the Effective Date of such transaction.

The following table shows what the Make Whole Premium would be for each hypothetical Stock Price and Effective Date set forth below, expressed as additional Common Shares per \$1,000 principal amount of Debentures. For the avoidance of doubt, the Corporation shall not be obliged to pay the Make Whole Premium otherwise than by issuance of Common Shares upon conversion, subject to the provisions relating to adjustment of the Conversion Price in certain circumstances and following the completion of certain types of transactions described under "– Conversion Privilege" above.

Make Whole Premium Upon a Change of Control
(Number of Additional Common Shares per \$1,000 Debentures)

Stock Price

Effective Date	\$5.66	\$6.00	\$6.25	\$6.50	\$7.00	\$7.50	\$8.00	\$8.50	\$9.00	\$9.50
14-Feb-11	62.3610	55.9800	51.8510	48.1330	41.7360	36.4670	32.0900	28.4240	25.3320	22.7040
28-Feb-11	62.3610	52.6940	48.4190	44.5770	37.9920	32.6030	28.1620	24.4800	21.4100	18.8350
28-Feb-12	62.3610	52.3860	45.7190	41.3360	34.3810	28.6950	24.0230	20.1730	16.9950	14.3690
28-Feb-13	62.3610	52.3860	45.7190	39.5060	32.1230	26.0820	21.0770	16.8730	13.2970	10.2110
28-Feb-14	62.3610	52.3860	45.7190	39.5650	29.6780	23.1920	18.0520	13.9570	10.6670	7.9780
28-Feb-15	62.3610	52.3860	45.7190	39.5650	28.5760	19.0520	10.7190	3.3660	-	-

Stock Price

Effective Date	\$10.00	\$10.50	\$11.00	\$12.00	\$13.00	\$14.00	\$15.00	\$17.50	\$20.00
14-Feb-11	20.4570	18.5240	16.8520	14.1100	12.0210	10.3640	9.0360	6.6650	5.1160
28-Feb-11	16.6670	14.8320	13.2720	10.7720	8.9570	7.5650	6.4910	4.6760	3.5600
28-Feb-12	12.2010	10.4110	8.9350	6.6850	5.2020	4.1600	3.4310	2.3630	1.7950
28-Feb-13	7.5260	5.1820	3.1400	-	-	-	-	-	-
28-Feb-14	5.7540	3.8930	2.3280	-	-	-	-	-	-
28-Feb-15	-	-	-	-	-	-	-	-	-

The actual Stock Price and Effective Date may not be set forth on the table, in which case:

- (a) if the actual Stock Price on the Effective Date is between two Stock Prices on the table or the actual Effective Date is between two Effective Dates on the table, the Make Whole Premium will be determined by a straight-line interpolation between the Make Whole Premiums set forth for the two Stock Prices and the two Effective Dates on the table based on a 365-day year, as applicable;
- (b) if the Stock Price on the Effective Date exceeds \$20.00 per Common Share, subject to adjustment as described below, the Make Whole Premium will be zero; and
- (c) if the Stock Price on the Effective Date is less than \$5.66 per Common Share, subject to adjustment as described below, the Make Whole Premium will be zero.

The Stock Prices set forth in the first row of the table above will be adjusted as of any date on which the conversion rate of the Debentures is adjusted. The adjusted Stock Prices will equal the Stock Prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment giving rise to the Stock Price adjustment and the denominator of which is the conversion rate as so adjusted. The number of additional Common Shares set forth in the table above will be adjusted in the same manner as the conversion rate as set forth above under "– Conversion Privilege", other than by operation of an adjustment to the conversion rate by adding the Make Whole Premium as described above.

Method of Payment

On redemption or at maturity of the Debentures, the Corporation 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 under the Indenture, the Corporation 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. See "– Interest Payment Option" below.

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% 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, the Corporation 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.

The Corporation may not satisfy its obligation to pay the principal amount of a Debenture, together with accrued and unpaid interest thereon, by delivering Common Shares unless the Corporation satisfies the requirements of applicable securities laws and certain other conditions, as provided in the Indenture, prior to the Maturity Date, the redemption date or the purchase date, as applicable, including the following conditions:

- (a) there is not a current Event of Default under the Indenture;
- (b) the Common Shares to be issued upon redemption or repayment at maturity of Debentures shall not be subject to any "restricted period" or "seasoning period" under National Instrument 45-102 – *Resale of Securities* ("**NI 45-102**") other than in respect of a "control distribution" (as defined in NI 45-102) or a transaction or series of transactions incidental to a control distribution; and
- (c) the Common Shares to be issued upon redemption or repayment at maturity of Debentures shall be listed on the TSXV or a national securities exchange or quoted in an inter-dealer quotation system of any registered national securities association.

If the conditions are not satisfied (or waived) with respect to a holder prior to the close of business on the applicable payment date, the Corporation will make the required payment entirely in cash. If the Corporation elects to satisfy any amount payable on redemption of the Debentures by issuing Common Shares, the Corporation will advise the holders of Debentures of such election in the applicable redemption notice. If the Corporation elects to satisfy any amount payable on repayment or maturity of the Debentures by issuing Common Shares, the Corporation will provide notice of such election to the holders of Debentures not more than 60 days and not less than 40 days before the payment date.

The Corporation may not change the form of components or percentages of consideration to be paid for the Debentures once it has given the notice that it is required to give holders of Debentures, except as described in the preceding paragraph. When the Corporation determines the actual number of Common Shares in accordance with the foregoing procedures, it will issue a press release on a national newswire.

As the Current Market Price of the Common Shares will be determined prior to the applicable payment date, holders of the Debentures will bear the market risk with respect to the value of the Common Shares to be received from the date such price is determined to such payment date.

Interest Payment Option

The Corporation 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 Indenture (the "**Share Interest Payment Election**") or a combination of (i) or (ii). The Indenture will provide 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 the Corporation by registered brokers or dealers, each as the Corporation 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.

The Indenture will set forth the procedures to be followed by the Corporation and the Debenture Trustee in order to effect the Share Interest Payment Election. 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 the Corporation 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 the Corporation in respect of the Interest Obligation.

Neither the Corporation'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

The Corporation 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 the Corporation 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.

Events of Default

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect of the Debentures: (a) failure for 30 days to pay interest on the Debentures when due; (b) failure to pay principal or premium (whether by way of payment of cash or delivery of Common Shares), if any, on the Debentures when due, whether at maturity, upon redemption, following a Change of Control, by declaration or otherwise; (c) default in the delivery, when due, of any Common Shares or other consideration, including any Make Whole Premium, payable upon conversion with respect to the Debentures, which default continues for 15 days; (d) default in the observance or performance of any other covenant or condition of the Indenture and the failure to cure (or obtain a waiver for) such default for a period of 30 days after notice in writing has been given by the Debenture Trustee or from holders of not less than 25% in aggregate principal amount of the Debentures to the Corporation specifying such default and requiring the Corporation to rectify or obtain a waiver for same; (e) certain events of bankruptcy, insolvency or reorganization of the Corporation or any material subsidiary under bankruptcy or insolvency laws; (f) if an event of default occurs or exists under any indenture, agreement or other instrument evidencing or governing indebtedness for borrowed money (other than non-recourse debt) of the Corporation or any Material Subsidiary (as defined in the Indenture) thereof and as a result of such event of default (i) indebtedness for borrowed money thereunder in excess of \$10,000,000 (or the equivalent amount in any other currency) has become due and payable before the date it would otherwise have been due and payable and (ii) the holders of such indebtedness are entitled to commence, and have commenced, the enforcement of security they hold for such indebtedness (if any) or the exercise of any other creditors' remedies to collect such indebtedness. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of Debentures then outstanding, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In the case of certain events of bankruptcy or insolvency, the principal amount of the Debentures, together with any accrued and unpaid interest through the occurrence of such event, shall automatically become due and payable. In certain cases, the holders of more than 50% of the principal amount of the Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Consolidation, Mergers or Sales of Assets

The Indenture will provide that the Corporation may not, without the consent of the holders of the Debentures, consolidate or amalgamate with or merge into any person or sell, convey, transfer or lease all or substantially all of the Corporation's properties and assets to another person (other than a direct or indirect wholly-owned subsidiary of the Corporation) unless:

- (a) the resulting, surviving, continuing or transferee person is a corporation organized and existing under the laws of the United States of America, any state thereof, or Canada or any province or territory thereof, and such corporation (if other than the Corporation) expressly assumes all the obligations of the Corporation under the Debentures and the Indenture;
- (b) after giving effect to the transaction, no Event of Default, and no event that, after notice or lapse of time, or both, would become an Event of Default, has occurred and is continuing; and
- (c) other conditions described in the Indenture are met,

provided, however, that the sale, conveyance, transfer or lease (in a single transaction or a series of transactions) of the properties or assets of one or more subsidiaries (other than to the Corporation or another direct or indirect wholly-owned subsidiary) which, if such properties or assets were directly owned by the Corporation, would constitute all or substantially all of the properties and assets of the Corporation on a consolidated basis, shall be deemed to be a sale, conveyance, transfer or lease of all or substantially all of the properties and assets of the Corporation.

Upon the assumption of the Corporation's obligations by such corporation in such circumstances, subject to certain exceptions, the Corporation shall be discharged from all obligations under the Debentures and the Indenture. Although such transactions are permitted under the Indenture, certain of the foregoing transactions occurring could constitute a Change of Control of the Corporation, which would require the Corporation to offer to purchase the Debentures as described above. An assumption of the Corporation's obligations under the Debentures and the Indenture by such corporation might be deemed for Canadian federal income tax purposes to be an exchange of the Debentures for new Debentures by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Modifications of the Indenture

The rights of the holders of the Debentures as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all Debenture holders resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66⅔% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 70% of the principal amount of the Debentures then outstanding. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of Debentures of each particularly affected series.

Offers for Debentures

The Indenture will contain provisions to the effect that if an offer is made for the Debentures which is a take-over bid for Debentures within the meaning of MI 62-104 and not less than 90% of the Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by the holders of Debentures who did not accept the offer on the terms offered by the offeror.

Discharge of the Indenture

The Corporation may satisfy and discharge the Corporation's obligations under the Indenture in certain circumstances, including by delivering to the Debenture Trustee for cancellation all outstanding Debentures or by depositing with the Debenture Trustee, or the paying agent, if applicable, after the Debentures have become due and payable, whether at stated maturity or any redemption date, or any purchase date, or a Change of Control Purchase Date, or upon conversion or otherwise, cash or Common Shares (as applicable under the terms of the Indenture) sufficient to pay all of the outstanding Debentures and paying all other sums payable under the Indenture.

Calculations in Respect of Debentures

The Corporation is responsible for making all calculations called for under the Debentures. These calculations include, but are not limited to, determination of the Current Market Price of Common Shares. The Corporation will make all these calculations in good faith and, absent manifest error, the Corporation's calculations are final and binding on holders of Debentures and the Debenture Trustee. The Corporation will provide a schedule of the Corporation's calculations to the Debenture Trustee, and the Debenture Trustee is entitled to conclusively rely upon the accuracy of the Corporation's calculations without independent verification.

No Personal Liability of Board of Directors, Officers, Employees, Subsidiaries, Incorporators and Shareholders

No past, present or future director, officer, employee, or shareholder of the Corporation or any successor, as such, shall have any liability for any of the obligations of the Corporation under the Debentures or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Debentures by accepting a Debenture waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Debentures.

Governing Law

The Indenture and the Debentures will be governed by and construed in accordance with the laws of the Province of Alberta. The Corporation will submit to the non-exclusive jurisdiction of any court of the Province of Alberta for purposes of all legal actions and proceedings instituted in connection with the Indenture and the Debentures.

Global Debentures

Except in certain limited circumstances, the Debentures will be issued in "book-entry only" form (a "**Global Certificate**") and must be purchased or transferred through a participant in the depository service of CDS (a "**Participant**"). On the Closing Date the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. The Debentures will be evidenced by one or more book-entry only Global Certificates. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

Except as described below, a purchaser acquiring a beneficial interest in the Debentures (a "**Beneficial Owner**") will not be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser's interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a Participant. Such purchaser will receive a confirmation of purchase from the Underwriter or other registered dealer from whom Debentures are purchased.

Neither the Corporation nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and Beneficial Owners must look solely to Participants for the payment of the principal and interest on the Debentures paid by or on behalf of the Corporation to CDS.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below): (a) may not have Debentures registered in their name; (b) may not have physical certificates or other instruments representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

The Debentures will be issued to Beneficial Owners in fully registered form (the "**Debenture Certificates**") only if: (a) required to do so by applicable law; (b) the book-entry only system ceases to exist; (c) the Corporation or CDS advises the Debenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Debentures and the Corporation is unable to locate a qualified successor; (d) the Corporation, at its option, decides to terminate the book-entry only system through CDS; or (e) after the occurrence of an Event of Default (as defined herein), provided that Participants acting on behalf of Beneficial Owners representing, in the aggregate, more than 25% of the aggregate principal amount of the Debentures then outstanding advise CDS in writing that the continuation of a book-entry only system through CDS is no longer in their best interest, and provided further that the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Debenture Trustee must notify CDS, for and on behalf of Participants and Beneficial Owners, of the availability through CDS of Debenture Certificates. Upon surrender by CDS of the Global Certificates representing the Debentures and receipt of instructions from CDS for the new registrations, the Debenture Trustee will deliver the Debentures in the form of Debenture Certificates and thereafter the Corporation will recognize the holders of such Debenture Certificates as debentureholders under the Indenture.

Transfer and Exchange of Debentures

Transfers of beneficial ownership in Debentures represented by Global Debentures will be effected through records maintained by CDS for such Global Debentures or its nominees (with respect to interests of Participants) and on the records of participants (with respect to interests of persons other than Participants). Unless the Corporation elects in its sole discretion to prepare and deliver Debenture Certificates, beneficial owners who are not Participants in CDS' book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interest in Global Debentures may do so only through Participants in CDS' book-entry system.

The ability of a beneficial owner of an interest in a Debenture represented by a Global Debenture to pledge the Debenture, or otherwise take action with respect to such owner's interest in a Debenture represented by a Global Debenture (other than through a Participant), may be limited due to the lack of a physical certificate.

Registered holders of Debenture Certificates, if issued, may transfer such Debentures upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Debenture Certificates to the Debenture Trustee at its principal offices in Calgary and Toronto, or such other city or cities as may from time to time be designated by the Corporation, whereupon new Debenture Certificates will be issued in authorized denominations in the same aggregate principal amount as the Debenture Certificates so transferred, registered in the names of the transferees. No transfer or exchange of a Debenture Certificate will be registered during the period from the date of any selection by the Debenture Trustee of any Debentures to be redeemed or during the 15 preceding days or thereafter until the close of business on the date upon which notice of redemption of such Debentures is given. In addition, no transfer or exchange of any Debentures which have been selected or called for redemption will be registered.

Payments

Payments of interest and principal on each Global Debenture will be made to CDS or its nominee, as the case may be, as the registered holder of the Global Debenture, so long as the book-entry only system is in effect. As long as CDS or its nominee is the registered owner of a Global Debenture, CDS or its nominee, as the case may be, will be considered the sole legal owner of the Global Debenture for the purposes of receiving payments of interest and principal on the Debentures and for all other purposes under the Indenture and the Debentures. The record dates for the payment of interest will be February 28 and August 31 in each year (or the first business day prior to such date if not a business day). Interest payments on Global Debentures will be made by electronic funds transfer on the day interest is payable and delivered to CDS or its nominee, as the case may be.

The Corporation understands that CDS or its nominee, upon receipt of any payment of interest or principal in respect of a Global Debenture, will credit Participants' accounts, on the date interest or principal is payable, with payments in amounts proportionate to their respective beneficial interest in the principal amount of such Global Debenture as shown on the records of CDS or its nominee. The Corporation also understands that payments of interest and principal by Participants to the owners of beneficial interest in such Global Debenture held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants. The Corporation's responsibility and liability in respect of payments on Debentures represented by the Global Debentures is limited solely and exclusively, while the Debentures are registered in global form, to making payment of any interest and principal due on such Global Debenture to CDS or its nominee.

If Debenture Certificates are issued instead of or in place of a Global Debenture, payments of interest on each Debenture Certificate will be made by the Corporation or by the Debenture Trustee as paying agent for the Corporation. Payment of principal at maturity will be made at the principal office of the Debenture Trustee in Toronto and Calgary (or in such other city or cities as may from time to time be designated by the Corporation) against surrender of the Debenture Certificates, if any, or the Global Debenture.

CAPITALIZATION OF ARCAN

The following table sets forth the capitalization of Arcan as at September 30, 2010, both before and after giving effect to the November Share Offering and the Offering:

(in 000's other than in notes and number of Common Shares and Debentures)	Authorized	Outstanding as at September 30, 2010 before giving effect to the November Share Offering and the Offering	Outstanding as at September 30, 2010 after giving effect to the November Share Offering and the Offering ⁽⁴⁾
Common Shares ⁽¹⁾	Unlimited	\$157,665 (75,417,904 Common Shares)	\$205,447 (85,839,779 Common Shares)
Long term debt ⁽²⁾	N/A	\$55,141	\$Nil
Debentures ⁽³⁾	\$86,250	\$Nil	\$75,000 (75,000 Debentures)

Notes:

- (1) For a description of Arcan's share capital, see "Description of Securities". As at September 30, 2010, 7,285,167 stock options to acquire Common Shares were outstanding, exercisable at prices ranging from \$1.00 to \$4.89 per Common Share and expiring at various dates up to September 2015. Stock options which have been issued subsequent to September 30, 2010 are included under "Prior Sales" below. 40,000 Common Shares that were pledged as security against a share purchase loan with an officer of Arcan as at September 30, 2010 are no longer pledged, as such loan was repaid in December 2010. Capitalization for such shares of \$100,000 is included in the table above.
- (2) On September 30, 2010, Arcan announced that it had completed amendments to its syndicated credit facilities to increase the amount available under the facilities from \$70 million to \$100 million. The increased credit facilities consist of a \$90 million syndicated extendible, revolving term credit facility and a \$10 million non-syndicated extendible, revolving operating term credit facility. The credit facilities are secured by a \$500 million first floating charge debenture and a general security agreement. On May 31, 2011, at Arcan's discretion, the credit facilities will be available on a non-revolving basis for a period of one year. At the end of such one-year period, the credit facilities will be due and payable. Alternatively, the credit facilities may be extended for a further 364 day period at the request of Arcan, subject to approval by the lenders. Interest on the credit facilities is calculated at the bank prime rate of interest, plus an applicable facility margin depending upon certain ratios. Arcan has provided the covenant to its lenders that at all times its working capital ratio shall be not less than 1 to 1. At September 30, 2010, Arcan had \$55,141,000 outstanding under its credit facilities, all of which was categorized as long-term debt.
- (3) Based on the distribution of 75,000 Debentures for aggregate gross proceeds of \$75,000,000. Represents the face value of the Debentures without deducting the fair value of the conversion option or issue costs. Under GAAP, the Debentures will be included as a liability measured at fair value, with the remainder (representing the value of the conversion feature) included as equity, both of which are net of allocated issue costs. For accounting purposes, the portion of the Debentures classified as a liability will be accreted over the term of the Debentures to increase the carrying value of the liability up to the principal balance of the outstanding Debentures at the Maturity Date with the accretion recognized as interest expense. See "Plan of Distribution". If the Over-Allotment Option is exercised in full, Debenture capitalization as at September 30, 2010 after giving effect to the Offering will be \$86,250,000. See "Plan of Distribution".
- (4) In the November Share Offering, the Corporation issued 10,421,875 Common Shares at an issue price of \$4.80 per share to raise gross proceeds of \$50,025,000, less underwriters' fees of \$2,626,313 and offering expenses of approximately \$400,000.

EARNINGS COVERAGE RATIOS

The following earnings coverage ratios are calculated for the 12 months ended December 31, 2009 and the 12 months ended September 30, 2010 and are in respect of the earnings coverage ratios after giving effect to the Offering and are derived from the audited financial statements of Arcan for the 12 months ended December 31, 2009 and the unaudited financial information of Arcan for the three months ended December 31, 2009 and the unaudited financial statements of Arcan for the nine months ended September 30, 2010.

After giving pro forma effect to the issuance of the Debentures to be distributed under this short form prospectus subsequent to the respective calculation periods (assuming the Over-Allotment Option is not exercised) as if the issuance of the Debentures had occurred at the beginning of the respective calculation periods and the related servicing costs had been incurred during the respective calculation periods, and assuming the net proceeds from the Debentures reduce interest due to the assumed repayment of long-term debt, the Corporation's pro forma interest requirements for the 12 months ended December 31, 2009 and the 12 months ended September 30, 2010 would have been \$7.0 million and \$7.0 million, respectively, and the Corporation's pro forma net loss before deducting interest and income taxes for such periods would have been \$5.7 million and \$3.8 million, respectively, resulting in earnings coverage ratios of approximately (0.8) times and (0.5) times for such periods, respectively.

The Corporation would have required a net income of \$7.0 million for the 12 months ended December 31, 2009 and \$7.0 million for the 12 months ended September 30, 2010, in order to achieve an earnings coverage ratio of one to one for such periods.

The following table sets out the pro forma earnings coverage ratios discussed above.

(\$millions, except Earnings Coverage Ratio)	Pro Forma for the 12 months ended December 31, 2009	Pro Forma for the 12 months ended September 30, 2010
Interest expense ⁽¹⁾⁽²⁾ (denominator for earnings coverage ratio)	\$7.0	\$7.0
Net loss before deducting interest and income taxes (numerator for earnings coverage ratio)	\$5.7	\$3.8
Earnings Coverage Ratio⁽³⁾⁽⁴⁾	(0.8)	(0.5)

Notes:

- (1) Includes a full 12 months of pro forma interest expense and accretion expense calculated on the value of the Debentures incurred subsequent to the end of the calculation period as if the Debentures were incurred at the beginning of the calculation period but gives no credit to income derived from the associated use of proceeds other than interest savings on the repayment, redemption or retirement of long-term debt.
- (2) The interest expense has been calculated assuming that the Over-Allotment Option is not exercised.
- (3) The earnings coverage ratios have been calculated including the accretion expense for the portion of the Debentures that are reflected in equity in the calculation of the Corporation's interest obligations.
- (4) Under GAAP, a portion of the Debentures will be classified as a liability and a portion as equity (related to the conversion feature), with the related accretion added to interest expense as incurred over the term of such Debentures to increase the carrying value of the liability portion of the principal amount of the Debentures. The entire amount of the annual carrying charges for the Debentures is reflected in interest expense. If the entire amount of the Debentures has been classified as a liability, such that no accretion related expense for the equity portion occurs, the earnings coverage ratios for the 12 months ended December 31, 2009 and September 30, 2010 would have been (1.1) times and (0.7) times, respectively. The Corporation would have needed a net income of \$5.4 million and \$5.4 million for the 12 months ended December 31, 2009 and September 30, 2010, respectively, in order to achieve an earnings coverage ratio of 1 to 1 for such periods.

PRIOR SALES

For the 12 month period preceding the date of this short form prospectus, Arcan has issued the following Common Shares and securities convertible into Common Shares:

Date	Securities	Price Per Security	Number of Securities
January 21, 2010 ⁽²⁾	Common Shares	\$1.00	250,000
February 23, 2010 ⁽³⁾	Common Shares	\$1.30	20,000
February 23, 2010 ⁽³⁾	Common Shares	\$1.50	15,000
February 26, 2010 ⁽³⁾	Common Shares	\$1.50	10,000
March 1, 2010 ⁽²⁾	Common Shares	\$1.00	500,000
March 1, 2010 ⁽³⁾	Common Shares	\$1.50	30,000
March 2, 2010 ⁽³⁾	Common Shares	\$1.30	30,000
March 3, 2010 ⁽⁴⁾	Common Shares	\$2.00	70,000
March 10, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
March 18, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
March 24, 2010 ⁽⁵⁾	Subscription Receipts	\$2.50	26,000,000
March 29, 2010 ⁽³⁾	Common Shares	\$1.30	5,000
March 29, 2010 ⁽⁴⁾	Common Shares	\$2.00	10,000
March 30, 2010 ⁽⁴⁾	Common Shares	\$2.00	21,000
March 31, 2010 ⁽⁴⁾	Common Shares	\$2.00	17,000
March 31, 2010 ⁽⁶⁾	Common Shares	\$2.50	26,000,000
April 1, 2010 ⁽¹⁾	Options	\$4.20	2,862,000
April 6, 2010 ⁽⁴⁾	Common Shares	\$2.00	15,000
April 12, 2010 ⁽⁴⁾	Common Shares	\$2.00	6,000
April 16, 2010 ⁽⁴⁾	Common Shares	\$1.60	27,800
April 19, 2010 ⁽⁴⁾	Common Shares	\$2.00	15,000
April 20, 2010 ⁽⁴⁾	Common Shares	\$1.60	66,711
April 28, 2010 ⁽⁴⁾	Common Shares	\$2.00	8,500
May 3, 2010 ⁽⁴⁾	Common Shares	\$2.00	15,000
May 21, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
May 27, 2010 ⁽⁴⁾	Common Shares	\$2.00	10,000
June 7, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
June 11, 2010 ⁽³⁾	Common Shares	\$1.75	25,833
June 15, 2010 ⁽⁴⁾	Common Shares	\$2.00	10,000

<u>Date</u>	<u>Securities</u>	<u>Price Per Security</u>	<u>Number of Securities</u>
June 17, 2010 ⁽⁴⁾	Common Shares	\$2.00	10,000
June 18, 2010 ⁽³⁾	Common Shares	\$1.75	20,000
June 18, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
July 7, 2010 ⁽⁴⁾	Common Shares	\$2.00	18,000
July 12, 2010 ⁽³⁾	Common Shares	\$1.30	20,000
July 14, 2010 ⁽³⁾	Common Shares	\$1.30	10,000
July 16, 2010 ⁽³⁾	Common Shares	\$1.30	5,000
July 21, 2010 ⁽¹⁾	Options	\$4.89	45,000
August 4, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
August 9, 2010 ⁽³⁾	Common Shares	\$1.75	20,000
August 9, 2010 ⁽⁴⁾	Common Shares	\$2.00	15,000
August 16, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
August 20, 2010 ⁽⁴⁾	Common Shares	\$2.00	37,000
August 27, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
August 30, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
September 3, 2010 ⁽³⁾	Common Shares	\$1.75	20,000
September 8, 2010 ⁽⁴⁾	Common Shares	\$2.00	15,000
September 8, 2010 ⁽³⁾	Common Shares	\$2.05	45,000
September 24, 2010 ⁽¹⁾	Options	\$4.67	47,000
September 28, 2010 ⁽⁴⁾	Common Shares	\$2.00	15,000
September 30, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
October 1, 2010 ⁽³⁾	Common Shares	\$2.02	11,666
October 4, 2010 ⁽³⁾	Common Shares	\$1.75	10,000
October 4, 2010 ⁽³⁾	Common Shares	\$1.50	5,000
October 12, 2010 ⁽⁴⁾	Common Shares	\$2.00	10,000
October 15, 2010 ⁽⁴⁾	Common Shares	\$2.00	20,000
October 20, 2010 ⁽⁴⁾	Common Shares	\$2.00	13,500
October 21, 2010 ⁽⁴⁾	Common Shares	\$2.00	5,000
October 22, 2010 ⁽⁴⁾	Common Shares	\$2.00	15,000
November 5, 2010 ⁽⁷⁾	Common Shares	\$4.80	10,421,875
November 5, 2010 ⁽¹⁾	Options	\$4.61	1,200,000
November 26, 2010 ⁽³⁾	Common Shares	\$1.75	9,167
December 8, 2010 ⁽³⁾	Common Shares	\$1.30	6,000
December 8, 2010 ⁽³⁾	Common Shares	\$1.50	15,000
December 8, 2010 ⁽³⁾	Common Shares	\$1.75	31,667
December 10, 2010 ⁽³⁾	Common Shares	\$1.00	345,000
December 10, 2010 ⁽³⁾	Common Shares	\$1.30	10,000
December 10, 2010 ⁽³⁾	Common Shares	\$1.60	469,000
December 10, 2010 ⁽³⁾	Common Shares	\$1.75	170,000
December 10, 2010 ⁽³⁾	Common Shares	\$2.50	353,000
December 10, 2010 ⁽³⁾	Common Shares	\$2.75	150,000
December 10, 2010 ⁽³⁾	Common Shares	\$3.05	130,000
December 10, 2010 ⁽¹⁾	Options	\$5.17	1,680,000
December 15, 2010 ⁽³⁾	Common Shares	\$1.50	10,000
December 16, 2010 ⁽³⁾	Common Shares	\$1.50	30,000
December 21, 2010 ⁽³⁾	Common Shares	\$2.02	11,667
January 4, 2011 ⁽³⁾	Common Shares	\$1.00	117,500
January 4, 2011 ⁽³⁾	Common Share	\$1.60	207,000
January 4, 2011 ⁽³⁾	Common Shares	\$2.50	67,000
January 4, 2011 ⁽³⁾	Common Shares	\$3.05	8,500
January 4, 2011 ⁽¹⁾	Options	\$5.50	500,000
January 11, 2011 ⁽³⁾	Common Shares	\$1.75	1,300
January 13, 2011 ⁽³⁾	Common Shares	\$1.75	3,700
January 21, 2011 ⁽³⁾	Common Shares	\$1.75	15,000

Notes:

- (1) Options issued to directors, officers and/or employees of Arcan under Arcan's stock option plan. Price per security represents the exercise price per share of the options issued on the applicable date.
- (2) Common Shares issued upon the exercise of performance based options to purchase Common Shares issued to certain directors and officers of Arcan.
- (3) Common Shares issued upon the exercise of stock options under Arcan's stock option plan, issued to certain directors, officers and employees of Arcan.
- (4) Common Shares issued upon the exercise of Warrants to purchase Common Shares issued to certain agents and investors by Arcan from time to time.
- (5) Arcan issued 26,000,000 subscription receipts on March 24, 2010 on a private placement basis at a price of \$2.50 per Common Share, which subscription receipts were exercised into 26,000,000 Common Shares on March 31, 2010 for no further consideration.

- (6) Arcan issued 26,000,000 Common Shares on March 31, 2010 upon the deemed exercise of 26,000,000 subscription receipts issued on March 24, 2010. The subscription receipts were issued at \$2.50 per share; Common Shares issued on the deemed exercise were issued for no further consideration.
- (7) Arcan issued 10,421,875 Common Shares at an issue price of \$4.80 per share in the November Share Offering.

Other than as set forth above, Arcan has not sold or issued any common shares or securities convertible into or exchangeable for common shares during the 12 month period prior to the date hereof.

PRICE RANGE AND TRADING VOLUME OF SECURITIES

Arcan's Common Shares are listed and posted for trading on the TSXV under the symbol "ARN". The following table lists the high and low market prices and trading volume of the Common Shares as reported by the TSXV for the periods indicated.

<u>Period</u>	<u>Price Range (\$)</u>		<u>Trading Volume</u>
	<u>High</u>	<u>Low</u>	
2010			
February.....	\$2.94	\$1.70	10,206,392
March.....	\$4.19	\$2.70	11,931,436
April.....	\$5.01	\$3.97	14,038,601
May.....	\$4.90	\$3.31	10,370,005
June.....	\$5.29	\$3.90	9,153,614
July	\$5.10	\$4.10	5,266,387
August	\$5.43	\$4.26	6,721,437
September.....	\$4.90	\$4.27	5,480,557
October.....	\$5.23	\$4.58	6,635,299
November.....	\$5.23	\$4.35	7,800,590
December.....	\$5.75	\$4.95	8,361,643
2011			
January.....	\$5.92	\$5.30	6,158,356
February 1 – 4.....	\$5.73	\$5.33	2,482,600

On February 4, 2011, the last trading day prior to the filing of this short form prospectus, the closing price of Arcan's Common Shares on the TSXV was \$5.35.

USE OF PROCEEDS

The estimated net proceeds to be received by Arcan, after deducting the estimated expenses of the Offering of \$450,000 and the Underwriters' fee of \$3,000,000, will be approximately \$71,550,000. If the Over-Allotment Option is exercised in full, the estimated net proceeds of the Offering, after deducting the estimated expenses of the Offering of \$450,000 and the Underwriters' fee of \$3,450,000 will be approximately \$82,350,000.

Arcan initially intends to use the net proceeds of the Offering to reduce the balance owing under its revolving credit facility, and will re-draw such amount to finance its ongoing exploration and development activities. Arcan plans to use the balance for general working capital purposes. Arcan intends to expand its drilling of horizontal multi-stage fracture wells in Swan Hills over its 150 net sections of land and to continue to expand its existing water injection scheme, building a road and pipeline system to connect production and injection on the southern lands to existing infrastructure and tie in flared gas (at a net cost of approximately \$5,000,000). Arcan also intends to continue development and water injection in the Hamburg GG pool and review opportunities in the McLeod area (at a net cost of approximately \$3,000,000). In the short term, Arcan intends to continue production on the 15 horizontal Swan Hills wells it had at the end of 2010, complete and tie in the five new wells already drilled in 2011, and drill an additional 15 to 19 horizontal wells it had budgeted for the balance of 2011 (at a net cost of approximately \$110,000,000). Arcan may also use a portion of the proceeds to expand its expertise in the western Canadian sedimentary basin in carbonate formations in order to exploit additional opportunities and to expand its exiting asset base (at a net cost of approximately \$5,000,000). Funding for these projects beyond the proceeds of the Offering will be provided from Arcan's cash flow and from borrowings under Arcan's credit facility.

Amounts drawn on Arcan's credit facilities which will initially be repaid by the proceeds of the Offering were incurred to finance Arcan's oil and gas exploration and development program to date and for working capital requirements.

Due to the nature of the oil and natural gas industry, budgets are regularly reviewed in light of the success of expenditures and other opportunities which may become available to Arcan. Potential investors are cautioned that notwithstanding Arcan's current intentions regarding the use of the net proceeds of the Offering, there may be circumstances where a reallocation of funds may be necessary. While Arcan anticipates that it will spend the funds available to it as set forth above, there may be circumstances where, for sound business reasons, a reallocation of the net proceeds may be necessary, depending on future operations on Arcan's properties or unforeseen events.

PLAN OF DISTRIBUTION

Pursuant to an agreement dated effective January 25, 2011, as amended on February 7, 2011 (the "**Underwriting Agreement**") between the Corporation and the Underwriters, the Corporation has agreed to issue and sell and the Underwriters have agreed (severally but not jointly and severally) to purchase on the Closing Date, subject to compliance with all necessary legal requirements and to the terms and conditions contained in the Underwriting Agreement, 75,000 Debentures at a price of \$1,000 per Debenture. The Underwriters will receive a fee of 4.0% of the aggregate Issue Price of the Debentures issued for their services in connection with the Offering. The Issue Price was determined by negotiations between the Corporation and the Co-Lead Underwriters on their own behalf and on behalf of the other Underwriters.

The Corporation has granted the Underwriters the Over-Allotment Option, exercisable in whole or in part, at any time, from time to time, for a period of up to 30 days following the closing of the Offering, to purchase up to an additional 11,250 Debentures at a price of \$1,000 per Debenture on the same terms and conditions as the Offering for the purposes of covering over-allotments, if any, and market stabilization purposes. If the Underwriters exercise the Over-Allotment Option in full, the total Offering, Underwriters' Fee and net proceeds to the Corporation (before deducting expenses of the Offering) will be \$86,250,000, \$3,450,000 and \$82,800,000 respectively. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of the Debentures that are sold pursuant to the exercise thereof.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint or joint and several and may be terminated upon the occurrence of certain stated events. If an Underwriter fails to purchase the Debentures which it has agreed to purchase, the other Underwriters may, but are not obligated to purchase such Debentures, provided that, if the aggregate number of Debentures not purchased is less than 7% of the aggregate number of Debentures agreed to be purchased by the Underwriters, then each of the other Underwriters is obligated to purchase severally the Debentures not taken up, on a pro rata basis or as they may otherwise agree as between themselves. The Underwriters are, however, obligated to take up and pay for all of the Debentures (other than pursuant to the Over-Allotment Option except to the extent it shall have been exercised) if any are purchased under the Underwriting Agreement. The Corporation has agreed to indemnify the Underwriters and their respective directors, officers, employees and agents against certain liabilities. The TSXV has conditionally accepted the listing of the Debentures distributed under this short form prospectus and the Common Shares issuable on the conversion, redemption or maturity of the Debentures on the TSXV. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSXV.

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus.

Subscriptions for Debentures will be received subject to rejection or allotment, in whole or in part, by the Underwriters and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that closing of the Offering will occur on or about February 14, 2011, or such other date as may be agreed between the Corporation and the Underwriters, but in any event not later than 42 days following the date of the receipt for this short form prospectus. Definitive certificates evidencing the Debentures will not be available for delivery on the Closing Date. See "Description of the Debentures – Global Debentures".

The issued and outstanding Common Shares are listed on the TSXV under the symbol "ARN". On January 24, 2010, the last complete day of trading prior to the public announcement of this Offering, the closing price of the Common Shares on the TSXV was \$5.78 per Common Share. On February 4, 2011, the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSXV was \$5.35 per Common Share.

Pursuant to the Underwriting Agreement, the Corporation has agreed to not offer, or announce the offering of, or make or announce any agreement to issue, sell or exchange Common Shares or any securities or financial instruments convertible or

exchangeable into Common Shares, excluding any options to be issued under the Corporation's stock option plan, Common Shares issuable on the exercise of outstanding options or to satisfy instruments outstanding as at January 31, 2011, provided such options do not exceed in the aggregate 10% of the issued and outstanding Common Shares, for a period of 90 days following the Closing Date, without the prior consent of RBC Dominion Securities Inc. on behalf of the Underwriters, such consent not to be unreasonably withheld.

The Underwriters propose to offer the Debentures initially at the Issue Price specified on the cover page of this short form prospectus. After the Underwriters have made reasonable efforts to sell all of the Debentures at the price specified on the cover page, the Issue Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Debentures is less than the price paid by the Underwriters to the Corporation. Notwithstanding any reduction by the Underwriters in the Issue Price specified on the cover page, the proceeds received by the Corporation will not be affected.

Pursuant to policy statements of certain Canadian provincial securities commissions, the Underwriters may not, throughout the period of distribution, bid for or purchase Debentures for their own accounts or for accounts over which they exercise control or direction. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Debentures. Such exceptions include a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by Market Regulation Services Inc., relating to market stabilization and passive market making activities, and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to applicable laws, pursuant to the first-mentioned exception, in connection with this Offering, the Underwriters may effect transactions, including by way of over-allotments and the exercise of the Over-Allotment Option, which stabilize or maintain the market price of the Debentures at a level above that which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

Neither the Debentures nor the Common Shares issuable upon conversion, redemption or maturity of the Debentures have been, or will be, registered under the U.S. Securities Act or any state securities laws. Accordingly, the Debentures and such Common Shares may not be offered or sold within the United States (as such term is defined in Regulation S under the U.S. Securities Act) except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement permits the Underwriters to offer and resell the Debentures that they have acquired pursuant to the Underwriting Agreement to certain "qualified institutional buyers" (as such term is defined in Rule 144A under the U.S. Securities Act) in the United States, provided such offers and sales are made in accordance with Rule 144A under the U.S. Securities Act. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Debentures outside the United States only in accordance with Rule 903 of Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of Debentures or Common Shares issuable upon conversion, redemption or maturity of the Debentures, within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the U.S. Securities Act.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Corporation, and Fraser Milner Casgrain LLP, counsel to the Underwriters, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires Debentures pursuant to this short form prospectus (a "**Holder**") and who, at all relevant times, for the purposes of the *Income Tax Act* (Canada) and the regulations promulgated thereunder, as may be amended from time to time (the "**Tax Act**"), will hold the Debentures and Common Shares acquired under the terms of the Debentures, as capital property, is not affiliated with the Corporation or any Underwriter and deals with the Corporation and all Underwriters at arm's length. Generally, Debentures and Common Shares will be considered to be capital property to a Holder provided that the Holder does not hold the Debentures or Common Shares in the course of carrying on a business of trading or dealing in securities and has not acquired the Debentures or Common Shares in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Holder (a) that is a "financial institution", as defined in the Tax Act for the purposes of the mark-to-market rules, (b) an interest in which would be a "tax shelter investment" as defined in the Tax Act, (c) that is a "specified financial institution" as defined in the Tax Act, or (d) who makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act. Any such holder should consult its own advisor with respect to an investment in the Debentures and the Common Shares.

This summary is based on the current provisions of the Tax Act, all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) before the date of this prospectus ("**Tax Proposals**") and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency ("**CRA**"). No assurance can be given that the Tax Proposals will be enacted in the form proposed or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and except for the Tax Proposals, does not take into account or anticipate any changes in law or in the administrative practices of the CRA, whether by legislative, governmental, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from the Canadian federal income tax considerations discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder and no representation with respect to the income tax consequences to any particular Holder is made. Each prospective Holder should consult with such Holder's own tax advisor with respect to the tax consequences to it of acquiring, holding and disposing of Debentures and Common Shares. The discussion below is qualified accordingly.

Residents of Canada

The following summary is generally applicable to a Holder, who at all relevant times, for the purposes of the Tax Act, is, or is deemed to be, resident in Canada (a "**Resident Holder**"). Certain Resident Holders whose Debentures or Common Shares might not otherwise qualify as capital property may be able to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to treat the Debentures and the Common Shares, and every "Canadian security" owned by such Holders in the taxation year and each future taxation year to be capital property. Resident Holders considering making this election should consult their own tax advisors.

Interest on Debentures

A Resident Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year all interest on a Debenture that accrues or is deemed to accrue to the Holder to the end of that taxation year or becomes receivable or is received by the Holder before the end of that taxation year, to the extent that such amount was not otherwise included in the Holder's income for a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in computing its income for a taxation year any interest on a Debenture received or receivable by such Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), to the extent that such amount was not otherwise included in the Resident Holder's income for a preceding taxation year. In addition, such Resident Holder will be required to include in computing income for a taxation year any interest that accrues or is deemed to accrue to the Resident Holder on the Debenture up to the end of any "anniversary day" (as defined in the Tax Act) in that taxation year to the extent such interest was not otherwise included in the Resident Holder's income for that taxation year or a preceding taxation year.

If interest has accrued on a Debenture, a Resident Holder who disposes of or converts the Debenture for consideration equal to its fair market value will generally be entitled to deduct in computing income for the year of disposition an amount equal to any such interest included in income for that or any preceding year to the extent that no amount was received or became receivable by the Resident Holder in respect of the interest so accrued.

A Resident Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for a refundable tax of 6 ⅓% on its "aggregate investment income", which is defined in the Tax Act to include interest.

As described above under the heading "Details of the Offering – Interest Payment Option", the Corporation may elect to pay interest by issuing Common Shares to the Debenture Trustee for sale, in which event a Resident Holder would be entitled to a cash payment equal to the interest owed to the Resident Holder from the proceeds of sale of such Common Shares by the Debenture Trustee. If the Corporation were to pay interest in this manner, the Canadian federal tax consequences to a Resident Holder would generally be the same as those described above.

Exercise of Conversion Privilege

A Resident Holder that converts a Debenture into Common Shares (or Common Shares and cash delivered in lieu of a fraction of a Common Share) pursuant to the conversion privilege will generally be deemed not to have disposed of the Debenture and accordingly will not realize a capital gain (or capital loss) on such conversion. The cost to such Resident Holder of the Common Shares acquired on such conversion will be equal to the Resident Holder's adjusted cost base of the Debenture immediately before the conversion. The adjusted cost base to the Resident Holder of the Common Shares so received will be determined by averaging the cost of such shares with the adjusted cost base of all other Common Shares held by such Resident Holder as capital property at the time.

Under the current administrative practice of the CRA, a Resident Holder who, upon conversion of a Debenture, receives cash not in excess of \$200 in lieu of a fraction of a share may either treat this amount as proceeds of disposition of a portion of a Debenture thereby realizing a capital gain or capital loss, or alternatively, may reduce the adjusted cost base of the Common Shares that the Resident Holder receives on the conversion by the amount received. Upon a conversion of a Debenture, interest accrued thereon to the date of conversion will be included in computing the income of the Resident Holder as described above under " – Interest on Debentures".

Disposition of Debentures

In general, a disposition or deemed disposition of a Debenture, including a redemption, payment on maturity or purchase for cancellation (but not a conversion of a Debenture into Common Shares pursuant to a Resident Holder's right of conversion) will give rise to a capital gain (or capital loss) equal to the amount by which the Resident Holder's proceeds of disposition (computed as described below) exceed (or are less than) the total of the adjusted cost base of the Debenture to the Resident Holder immediately before the disposition and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under " - Taxation of Capital Gains and Capital Losses".

If the Corporation pays any amount on maturity of a Debenture by issuing Common Shares to the Resident Holder, the Resident Holder's proceeds of disposition will be equal to the fair market value of the Common Shares so received (other than Common Shares received in satisfaction of accrued interest). The cost to a Resident Holder of Common Shares so received will be equal to the fair market value of such Common Shares. Generally, the adjusted cost base to the Resident Holder of Common Shares so received will be determined by averaging the cost of such shares with the adjusted cost base of all other Common Shares held by such Resident Holder as capital property.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition will generally be included in computing the Resident Holder's income to the extent not otherwise included and will generally be excluded in computing the Resident Holder's proceeds of disposition of the Debenture.

Dividends on Common Shares

Dividends received or deemed to be received on the Common Shares by a Resident Holder who is an individual (other than certain trusts) will be included in computing the individual's income for purposes of the Tax Act and will be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from "taxable Canadian corporations" (as defined in the Tax Act), including the enhanced gross-up and dividend tax credit for "eligible dividends" (as defined in the Tax Act) paid by "taxable Canadian corporations" such as the Corporation. A dividend will be eligible for the enhanced gross-up and dividend tax credit if the recipient receives written notice at or prior to the time the dividend is paid from the Corporation designating the dividend as an "eligible dividend". There may be limitations on the ability of the Corporation to designate dividends as eligible dividends.

Taxable dividends received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

A Resident Holder that is a corporation will include dividends received or deemed to be received on Common Shares in computing its income for purposes of the Tax Act and generally will be entitled to deduct the amount of such dividends in computing its taxable income, with the result that no tax will be payable by it in respect of such dividends. Certain corporations may be liable to pay a refundable tax under Part IV of the Tax Act on such dividends.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Resident Holder (except to the Corporation) will generally result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under " - Taxation of Capital Gains and Capital Losses".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year, and one-half of any capital loss (an "**allowable capital loss**") realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust. A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable for a refundable tax~~2%~~ on its "aggregate investment income", which is defined in the Tax Act to include taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Taxation of Holders Not Resident in Canada

The following summary is generally applicable to a Holder who, at all relevant times for purposes of the Tax Act and any applicable income tax treaty, is neither a resident of Canada nor deemed to be resident in Canada and who does not, use or hold, and is not deemed to, use or hold Debentures or Common Shares in, or in the course of carrying on a business in Canada (a "**Non-Resident Holder**"). This summary also assumes that the Debentures will be issued prior to February 28, 2011. Special rules, which are not discussed in this summary, may apply to a non-resident insurer or an authorized foreign bank (as defined in the Tax Act), and this summary is not applicable to such subscribers.

Debentures

Taxation of Interest on Debentures

A Non-Resident Holder will not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of payment of, or in satisfaction of, interest or principal on the Debentures.

Exercise of Conversion Privilege

The conversion of a Debenture into Common Shares only on the exercise of a conversion privilege by a Non-Resident Holder will generally be deemed not to constitute a disposition of the Debenture and, accordingly, a Non-Resident Holder will not recognize a gain or a loss on such conversion.

Dividends on Common Shares

Dividends paid or credited on the Common Shares, or deemed under the Tax Act to be paid or credited on the Common Shares, to a Non-Resident Holder will generally be subject to Canadian withholding tax at the rate of 25%, of the gross amount of such dividends unless the rate is reduced under the provisions of an income tax treaty or convention between Canada and the country of residence of the Non-Resident Holder. For example, under the Canada-United States Tax Convention (1980) (the "**Treaty**"), the withholding tax rate in respect of a dividend paid to a person who is the beneficial

owner of the dividend and who is resident in the United States for the purposes of, and is entitled to full benefits under, the Treaty, is generally reduced to 15%.

Disposition of Debentures and Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of a Debenture or a Common Share, as the case may be, unless the Debenture or Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention. As long as the Common Shares are at the time of disposition listed on a designated stock exchange (which currently includes the TSXV) the Debentures and the Common Shares will not constitute taxable Canadian property to a Non-Resident Holder at such time unless at any time during the sixty-month period that ends at that time: (a) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length, or the Non-Resident Holder together with all such persons, owned 25% or more of any class or series of shares of the capital stock of the Corporation or an interest in, or an option in respect of such shares; and (b) more than 50% of the fair market value of the Common Shares derived, directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) "Canadian resource properties" (as defined in the Tax Act), (iii) "timber resource properties" (as defined in the Tax Act), and (iv) options or interest in respect of property described in (i), (ii) and (iii).

Even if the Debentures or the Common Shares constitute or are deemed to constitute taxable Canadian property to a Non-Resident Holder, and their disposition would give rise to a capital gain, an exemption from tax under the Tax Act may be available under the provisions of an applicable income tax treaty or convention. Non-Resident Holders are advised to consult with their own tax advisors for advice with regard to the availability of any such exemption.

A Non-Resident Holder whose Debentures or Common Shares are "taxable Canadian property" and who is not entitled to an exemption under an applicable income tax convention is referred to the discussion above under the heading "Residents of Canada – Disposition of Debentures" and "Residents of Canada – Disposition of Common Shares" for general information regarding the treatment of dispositions of Debentures and Common Shares under the Tax Act. Non-Resident Holders whose Debentures or Common Shares may be "taxable Canadian property" should consult their own tax advisors in this regard.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Corporation, and, Fraser Milner Casgrain LLP, counsel to the Underwriters, based on the provisions of the Tax Act in force on the date hereof, provided that the Common Shares of the Corporation are listed on a designated stock exchange (which includes the TSXV), the Debentures being offered pursuant to this short form prospectus and the Common Shares issuable on the conversion, redemption or maturity of the Debentures, if issued on the date hereof, would be qualified investments under the Tax Act on the date hereof for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans (except, a deferred profit sharing plan to which the Corporation, or an employer that does not deal at arm's length with the Corporation, has made a contribution), registered education savings plans, registered disability savings plans and a tax-free savings account ("TFSA").

Notwithstanding that the Debentures and the Common Shares will be qualified investments for a TFSA, if the Debentures or the Common Shares are "prohibited investments" for the purposes of the Tax Act, the holder of a TFSA which holds such Debentures or Common Shares will be subject to a penalty tax. Provided that such holder deals at arm's length with the Corporation for the purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in the Corporation or a corporation, partnership or trust with which the Corporation does not deal at arm's length for the purposes of the Tax Act, the Debentures and Common Shares issuable on the conversion, redemption or maturity of the Debentures will not be "prohibited investments" for the purposes of the Tax Act. Holders of a TFSA should consult their own tax advisors to ensure that the Debentures would not be a "prohibited investment" for the purposes of the Tax Act in their particular circumstances.

RISK FACTORS

An investment in the Debentures is subject to certain risks or combination of risks. Investors should carefully consider the risks described under "Risk Factors" on pages 31-38 in the AIF, as supplemented by the risk factors set out below, before purchasing the securities offered hereunder. An investment in the Debentures is suitable only for investors who understand the risk factors associated with this type of investment and who can afford a loss of their entire investment.

An investment in the Debentures should be considered highly speculative due to various factors, including the nature of Arcan's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves and resources. Arcan's business is subject to the risks normally encountered in the oil and natural gas industry such as the marketability of oil and natural gas, competition with companies having greater resources, acquisition, exploration and production risks, need for capital, fluctuations in the market price and demand for oil and natural gas and the regulation of the oil and natural gas industry by various levels of government. The oil and natural gas reserves and recovery information incorporated by reference in this short form prospectus are estimates only and the actual production and ultimate reserves recovered from Arcan's properties and acquisitions may be greater or less than the estimates contained in this short form prospectus. The success of acquisitions and further exploration or development projects cannot be assured. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Arcan.

Risk factors relating to Arcan are discussed in the AIF and management's discussion and analysis, each of which is incorporated by reference in this short form prospectus. These risk factors, together with all of the other information included or incorporated by reference in this short form prospectus, should be carefully reviewed and considered before a decision is made to invest in the securities offered hereunder. Such risks may not be the only risks facing Arcan. Additional risks not currently known may also negatively impact Arcan's business operations and results of operation.

Arcan may use the proceeds of this Offering for purposes other than those set out in this Short Form Prospectus

Arcan currently intends to allocate the net proceeds received from the Offering as described under "Use of Proceeds" in this short form prospectus. However, management will have discretion in the actual application of the net proceeds, and may elect to allocate proceeds differently from that described in "Use of Proceeds" if it is believed it would be in the best interests of Arcan to do so. The failure by management to apply these funds effectively could have a material adverse effect on the business of Arcan.

Ranking of Debentures

The Debentures will be direct, unsecured obligations of the Corporation and will rank equally with one another and, except as prescribed by law, will rank equally with all other unsecured indebtedness (other than Senior Indebtedness) of the Corporation. The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinate in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Corporation, which includes all indebtedness for borrowed money. Furthermore, since the Debentures are unsecured obligations of the Corporation, they are effectively subordinate to all of the Corporation's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. Therefore, in the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the Corporation, the Corporation's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its secured creditors and all holders of Senior Indebtedness. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinated to claims of creditors (including trade creditors) of the Corporation's subsidiaries except to the extent that the Corporation is a creditor of any such subsidiaries ranking at least *pari passu* with such other creditors.

Market for Debentures

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. Although the Corporation has applied to the TSXV to conditionally list the Debentures and the Common Shares issuable on the conversion, redemption or maturity of the Debentures, such listings will be subject to the Corporation fulfilling all of the listing requirements of the TSXV. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid trading market for the Debentures does not develop or is not sustained, this may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation.

The trading price of securities of oil and gas issuers is subject to substantial volatility. This volatility is often based on factors both related and unrelated to the financial performance or prospects of the issuers involved. The market price of the Debentures will be based on a number of factors, including: (i) the prevailing interest rates being paid by entities similar to the Corporation; (ii) the overall condition of the financial and credit markets; (iii) interest rate volatility; (iv) the markets for similar securities; (v) the financial condition, results of operation and prospects of the Corporation; (vi) the publication of earnings estimates or other research reports and speculation in the press or investment community; (vii) the market price and volatility of the Common Shares; (viii) changes in the industry in which the Corporation operates and competition affecting

the Corporation; (ix) general market and economic conditions; (x) domestic and global commodity prices; and (xi) market perceptions of the attractiveness of particular industries.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Debentures.

Credit Risk

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the Corporation and its creditworthiness. Accordingly, there is no assurance the Corporation will have sufficient capital to repay the Debentures on the Maturity Date or that it will be able to raise sufficient capital on acceptable terms by the Maturity Date to repay the Debentures.

Coverage Ratios

See "Earnings Coverage Ratios", which is relevant to an assessment of the risk that the Corporation may be unable to pay interest or principal on the Debentures when due.

Absence of Covenant Protection

Other than as described herein, the Indenture will not limit the Corporation's ability to incur additional debt or liabilities (including Senior Indebtedness). The Indenture will not contain any provision specifically intended to protect holders of the Debentures in the event of a future leveraged transaction by the Corporation.

Change of Control

The Corporation is required to make an offer in writing to holders of the Debentures to purchase all or a portion of their Debentures for cash in the event of certain transactions that would constitute a Change of Control. The Corporation cannot assure holders of Debentures that, if required, it would have sufficient cash or other financial resources at that time or would be able to arrange financing to pay the purchase price of the Debentures in cash. The Corporation's ability to purchase the Debentures in such an event may be limited by law, by the Indenture governing the Debentures, by the terms of other present or future agreements relating to the Corporation's credit facilities and other indebtedness and agreements that the Corporation may enter into in the future which may replace, supplement or amend the Corporation's future debt. The Corporation's credit agreements or other agreements may contain provisions that could prohibit the purchase by the Corporation of the Debentures without the consent of the lenders or other parties thereunder. If the Corporation's obligation to offer to purchase the Debentures arises at a time when the Corporation is prohibited from purchasing or redeeming the Debentures, the Corporation could seek the consent of lenders to purchase the Debentures or could attempt to refinance the borrowings that contain this prohibition. If the Corporation does not obtain a consent or refinance these borrowings, the Corporation could remain prohibited from purchasing the Debentures under its offer. The Corporation's failure to purchase the Debentures would constitute an Event of Default under the Indenture, which might constitute a default under the terms of the Corporation's other indebtedness at that time.

If a holder of Debentures converts its Debentures in connection with a Change of Control that occurs, the Corporation may, in certain circumstances, be required to increase the conversion rate as described under "Details of the Debentures – Cash Change of Control". While the increased conversion rate is designed to compensate a holder of Debentures for the lost option time value of its Debentures as a result of a Change of Control in certain circumstances, the increased conversion rate amount is only an approximation of such lost value and may not adequately compensate the holder for such loss. In addition, in some circumstances as described under "Details of the Offering – Cash Change of Control" no adjustment will be made.

Non-Resident Withholding Tax

In the event that the Debentures are not issued prior to February 28, 2011, the Canadian income tax treatment on the conversion of a Debenture may vary from the treatment described under "Certain Canadian Federal Income Tax Consequences" for a holder of Debentures who is not resident (or deemed resident) in Canada. Under current guidance published by the CRA, it is not entirely clear that the terms of the Debentures would at the date hereof, or at the date of issuance, meet each of the tests described by the CRA to ensure that under its current administrative policy, the CRA would not treat some portion of the proceeds received by such holders on conversion of the Debentures as interest that is subject to

Canadian withholding tax. Such holders should consult their own tax advisors prior to exercising the conversion privileges in such circumstances.

Ability to Maintain Obligations Under Credit Facility and Other Debt

Arcan has borrowed a significant amount of cash under its credit facilities. Arcan currently has a balance of approximately \$26.7 million under the facilities. Arcan is required to satisfy certain financial covenants in order to maintain its good standing under the credit facilities. 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 the credit facilities or other debt instruments. In such circumstances, the amounts drawn under Arcan's debt agreements may become due and payable before the agreed maturity date and Arcan may not have the financial resources to repay such amounts when due. The credit facilities are secured by all of Arcan's property. If Arcan were to default on its obligations under the credit facilities 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 facilities are not extended for a 364 day period, any amount owing under the credit facilities 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 facilities 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 facilities and Arcan's lenders could enforce their security and seize all or significant portions of Arcan's assets.

Claims Made by Aboriginal Peoples

Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of western Canada. Certain aboriginal peoples have filed a claim against the Government of Canada, the Province of Alberta, certain governmental entities claiming, among other things, aboriginal title to large areas of lands. Canadian oil and gas companies have from time to time been subject to claims by aboriginal groups which have affected their operations and may have an effect on the value of their properties. In the future claims may be made against Arcan. If successful, such claims could have an adverse effect on Arcan.

Timeline for Resumption of Service into Pengrowth Swan Hills Gas Gathering System

Arcan is presently experiencing temporary production curtailments due to the explosion and subsequent shut down of the Pengrowth Swan Hills gas gathering system on January 1, 2011. Early estimates suggested that resumption of service of the gas gathering system would occur by mid-February 2011; however, the latest information available indicates that resumption of service is contingent on further corrosion testing of the pipeline before any determination can be made on timing or suitability of the pipeline for resumption of service. The corrosion testing results are expected to be completed within 20 to 30 days from the date hereof and there is no set schedule for resumption of service. If service of the Pengrowth gas gathering system is delayed or does not resume, Arcan's production capacity may continue to be restricted by 500-700 BOE/d or such restrictions could increase.

Forward-Looking Information May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. In particular, this short form prospectus includes information regarding Arcan's intention and ability to use the proceeds of the Offering and other financial resources available to it to expand its drilling inventory and accelerate its horizontal drilling program. These statements reflect Arcan's current intention and its expectations regarding the success of its future drilling plans. The ability of Arcan to expand and accelerate its drilling program, and its willingness to do so, are subject to risks and uncertainties. These include the potential for higher costs or reductions in oil prices that makes such drilling less attractive economically, Arcan's ability to obtain personnel and equipment, general economic factors and changes in the focus of Arcan's business activities.

Additional information on the risks and uncertainties are found in this short form prospectus under the heading "Cautionary Statement Regarding Forward-Looking Statements".

LEGAL PROCEEDINGS

There are no outstanding legal proceedings material to Arcan to which Arcan is a party or in respect of which any of the properties of Arcan is subject, nor are there any such proceedings known by Arcan to be contemplated.

AUDITORS, REGISTRAR AND TRANSFER AGENT OF ARCAN

The auditors of Arcan are KPMG LLP, Chartered Accountants, Calgary, Alberta.

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

INTERESTS OF EXPERTS

Certain legal matters relating to the securities offered hereunder will be passed upon by Blake, Cassels & Graydon LLP on behalf of Arcan and Fraser Milner Casgrain LLP on behalf of the Underwriters. As of the date of this short form prospectus, the partners and associates of these firms, each as a group, beneficially own, directly or indirectly, less than 1% of Arcan's Common Shares.

Mr. Michael J. Laffin, a director of Arcan and the corporate secretary of Arcan, is a partner of Blake, Cassels & Graydon LLP.

As of the date hereof, the principals of GLJ, as a group, own, directly or indirectly, less than 1% of Arcan's outstanding Common Shares.

KPMG LLP, Chartered Accountants, are the auditors of Arcan. KPMG LLP has confirmed that it is independent in accordance with the relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Alberta.

RELATIONSHIP BETWEEN ARCAN AND CERTAIN UNDERWRITERS

Each of RBC Dominion Securities Inc., National Bank Financial Inc., BMO Nesbitt Burns Inc. and CIBC World Markets Inc. is an indirect wholly-owned subsidiary of a Canadian chartered bank that is a lender to Arcan. Accordingly, Arcan may be considered to be a "connected issuer" of such Underwriters under applicable Canadian securities legislation. Arcan was indebted to the lenders under its credit facilities, including these banks, for an aggregate amount of approximately \$55.1 million as at September 30, 2010 and \$26.7 million as at the date of this short form prospectus. The debt outstanding under Arcan's credit facilities is secured by a demand debenture in the amount of \$500 million granting a first priority security interest over all of Arcan's present and after-acquired personal property and a first fixed and floating charge over all other present and after-acquired personal property of Arcan, registered in each jurisdiction in which Arcan carries on business. Arcan is in compliance with all material terms of the agreements governing the credit facilities and the lenders have not waived any material breach by Arcan of such agreements since their execution.

The decision to distribute the Debentures and the determination of the terms of the Offering were made through negotiations between Arcan and the Co-Lead Underwriters, on their own behalf and on behalf of the other Underwriters. The chartered banks that are affiliated with these Underwriters did not have any involvement in such decision or determination, but have been advised of the Offering and terms thereof. As a consequence of the Offering, each of the Underwriters will receive its respective share of the Underwriters' Fee payable by Arcan to the Underwriters. A portion of the net proceeds of the Offering will initially be used to repay the amount owed by Arcan to its lenders under the credit facilities. See "Use of Proceeds".

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT

The Board of Directors of Arcan Resources Ltd.

We have read the short form prospectus dated February 7, 2011 relating to the qualification for distribution and sale of \$75,000,000 aggregate principal amount of 6.25% convertible unsecured subordinated debentures of Arcan Resources Ltd. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above mentioned short form prospectus of our report to the shareholders of Arcan Resources Ltd. on the balance sheets of Arcan Resources Ltd. as at December 31, 2009 and 2008 and the statements of operations, comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended. Our report is dated April 22, 2010.

(signed) "*KPMG LLP*"

Chartered Accountants

Calgary, Canada
February 7, 2011

CERTIFICATE OF ARCAN RESOURCES LTD.

Dated: February 7, 2011

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than Québec.

By: (signed) "*Ed Gilmet*"
President and Chief Executive Officer

By: (signed) "*Douglas N. Penner*"
Vice-President, Finance
and Chief Financial Officer

On behalf of the Board of Directors of Arcan

By: (signed) "*Andrew Fisher*"
Director

By: (signed) "*Michael J. Laffin*"
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: February 7, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than Québec.

RBC DOMINION SECURITIES INC.

By: (signed) "*Greg Heath*"

HAYWOOD SECURITIES INC.

By: (signed) "*Mark Reynolds*"

NATIONAL BANK FINANCIAL INC.

By: (signed) "*Arun Chandrasekaran*"

BMO NESBITT BURNS INC.

By: (signed) "*Shane K. Abel*"

CIBC WORLD MARKETS INC.

By: (signed) "*John Peltier*"

PARADIGM CAPITAL INC.

By: (signed) "*Kevin J. Smith*"

WELLINGTON WEST CAPITAL MARKETS INC.

By: (signed) "*Matt Sobolewski*"

PI FINANCIAL CORP.

By: (signed) "*Arthur H. Kwan*"

STIFEL NICOLAUS CANADA INC.

By: (signed) "*Terris N. Chorney*"