



**ANNUAL INFORMATION FORM**

**For the Year Ended December 31, 2009**

**Dated April 22, 2010**

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## DEFINITIONS

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

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

"**Acquisition**" means the March 31, 2010, acquisition of the Acquired Assets for cash consideration of \$53.25 million;

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

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

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

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

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

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

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

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

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

"**GLJ Report**" means the independent engineering evaluation dated April 12, 2010, and effective December 31, 2009, prepared by GLJ evaluating the oil and natural gas reserves attributable to Arcan;

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

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

"**TSXV**" means the TSX Venture Exchange; and

"**Warrants**" means the warrants to purchase Common Shares issued to certain agents and investors from time to time.

## ABBREVIATIONS

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

<b>Oil and Natural Gas Liquids</b>		<b>Natural Gas</b>	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	Mmcf	million cubic feet
Mbbls	thousand barrels	Mcf/d	thousand cubic feet per day
bbls/d	barrels per day		
NGLs	natural gas liquids		
<b>Other</b>			
API	American Petroleum Institute		
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.		
boe	barrels of oil equivalent on the basis of 1 boe to 6 Mcf of natural gas. boes may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.		
boe/d	barrels of oil equivalent per day		
mmboe	1,000,000 barrels of oil equivalent		
\$000s	thousands of dollars		
psi	pounds per square inch		
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade.		

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

## PRESENTATION OF ARCAN'S OIL AND GAS RESERVES

### **Note to Reader Regarding Oil and Gas Information, Definitions and National Instrument 51-101**

The oil and gas reserves and operational information of Arcan contained in this Annual Information Form contains the information required to be included in the Statement of Reserves Data and Other Oil and Gas Information pursuant to NI 51-101 adopted by the Canadian securities regulatory authorities. Readers should also refer to the Report on Reserves Data by GLJ attached hereto as Schedule "A" and the Report of Management and Directors on Oil and Gas Disclosure attached hereto as Schedule "B". The effective date for the Statement of Reserves Data and Other Oil and Gas Information contained in this Annual Information Form is December 31, 2009 and the information contained in the Annual Information Form has been prepared as of

April 22, 2010, unless otherwise noted. This Annual Information Form also contains certain supplemental operational and reserves information with respect to Arcan, not required to be disclosed under NI 51-101.

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

#### Disclosure of Reserves and Production Information

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

#### Barrels of Oil Equivalent (boe)

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

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

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

"**gross**" means:

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

"**net**" means:

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

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

## Reserves Categories and Levels of Certainty for Reported Reserves

"**Reserves**" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed. Reserves may be divided into proved and probable categories (as well as possible reserves, which Arcan does not report) according to the degree of certainty associated with the estimates.

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

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

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

- (i) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves; and
- (ii) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable Reserves.

## Development and Production Status

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

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

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

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

## Description of Price and Cost Assumptions

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

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

## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS AND INFORMATION

This Annual Information Form contains certain forward-looking statements and forward-looking information, which are based on Arcan's current internal expectations, estimates, projections, assumptions and beliefs. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "plan", "intend", "strategy", "should", "believe" and similar expressions are intended to identify forward-looking statements and forward-looking information. These statements are not guarantees of future performance and 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 or information. Arcan believes the expectations reflected in those forward-looking statements and information are reasonable but no assurance can be given that these expectations will prove to be correct, and such forward-looking statements and information included in this Annual Information Form should not be unduly relied upon. Such forward-looking statements and information speak only as of the date of this Annual Information Form and Arcan does not undertake any obligation to publicly update or revise any forward-looking statements or information, except as required by applicable laws.

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

- the quantity of, and future net revenues from, Arcan's reserves;
- crude oil, NGLs and natural gas production levels;
- commodity prices, foreign currency exchange rates and interest rates;
- capital expenditure programs, drilling programs and other future expenditures;
- supply and demand for oil, NGLs and natural gas;
- Arcan's business strategy and planned acquisition and development strategy;
- expectations regarding Arcan's ability to raise capital and to continually add to reserves through acquisitions and development;
- schedules for and timing of certain projects and Arcan's strategy for growth;
- the impact of the Acquisition;
- Arcan's future operating and financial results;
- future abandonment and reclamation costs;

- Arcan's tax pools and the time at which Arcan may incur certain income or other taxes;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws; and
- future income tax laws and royalty regimes.

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 the risk factors set forth under "Risk Factors" in this Annual Information Form and those set forth below:

- the early stage of development of Arcan's business;
- Arcan's involvement in the acquisition, exploration, exploitation, development and production of oil and natural gas;
- the dependence on other operators in relation to some of the properties in which Arcan has an interest or may acquire an interest;
- liabilities and unexpected events inherent in oil and gas operations, including processing, geological, technical, drilling, capacity, weather-related, cost increases, accidents, exchange rates, labour supply, demand and regulatory risks;
- the ability of Arcan to acquire or discover new reserves to replace the existing reserves;
- uncertainties associated with estimating reserves;
- the possibility of Arcan financing future transactions, which would require increasing the debt level of Arcan above industry standards;
- constraints on, or the unavailability of, adequate pipeline and transportation capacity to deliver Arcan's production to market;
- the reliance upon infrastructure to carry on the exploration, processing and development activities;
- the presence of risks which Arcan may not be fully protected against through insurance;
- risks relating to the growth of Arcan such as capacity constraints and pressure on its internal systems and controls;
- the potential expiration of licenses or leases for any reason;
- the risk that Arcan is or may become exposed to third-party credit risks;
- actions by governmental or regulatory authorities, including changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry;
- the dependence of Arcan on key personnel and employers, whose departure could have a material adverse effect;

- industry risks such as Arcan's ability to select and acquire suitable producing properties, competition in the distribution and marketing of oil and gas, and reliability of delivery;
- volatility in market prices for oil, NGLs and natural gas;
- the ability of Arcan to maintain the financial covenants contained in its bank loan facility, which could require substantial capital requirements;
- actions of industry partners;
- the availability of drilling equipment and access restrictions;
- changes in environmental, regulatory or other legislation applicable to Arcan's operations, and Arcan's ability to comply with current and future environmental legislation and regulations and other laws and regulations;
- changes in capital and other expenditure requirements and debt service requirements;
- despite reasonable investigation, Arcan can not give an assurance that it holds good and marketable title to its properties;
- Arcan has not paid any dividends and is unlikely to pay dividends in the immediate or foreseeable future;
- potential conflicts of interest to which the directors and officers of Arcan may be subjected to; and
- incorrect assessments of the value of acquisitions.

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

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

#### ARCAN RESOURCES LTD.

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

Desco Energy Ltd. was incorporated on June 23, 2005, pursuant to the provisions of the ABCA under the name "Desco Energy Ltd." by a Certificate of Amendment and Registration of Restated Articles dated August 17, 2005, Desco amended its Articles of Incorporation to remove the restrictions on share transfer set forth therein. Prior to the Amalgamation, Desco was a reporting issuer in the provinces of British Columbia

and Alberta and the Desco Shares were listed and posted for trading on the TSXV under the trading symbol "DSE". Desco had no subsidiaries.

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

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

## INTERCORPORATE RELATIONSHIPS

Arcan has no subsidiaries.

## GENERAL DEVELOPMENT OF THE BUSINESS OF ARCAN

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

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

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

On May 8, 2007, Arcan completed a share issue deal for 4,000,000 Common Shares at a price of \$3.80 per share for aggregate proceeds of \$15.2 million.

On September 17, 2007, Arcan completed a share issue deal for 1,500,000 Common Shares at a price of \$3.45 per Common Share, and 1,200,000 Common Shares were issued on a "flow-through" basis under the *Income Tax Act* (Canada) (the "**Tax Act**") at a price of \$4.35 per share, for aggregate proceeds of \$10,395,000. Arcan agreed to make expenditures qualifying as "Canadian exploration expenses" under the Tax Act on or before December 31, 2008.

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

On October 29, 2009, Arcan completed a share issue deal with a syndicate of underwriters, pursuant to which the underwriters purchased for resale, on a "bought deal" basis, 9,000,000 Common Shares at a price of \$1.25 per Common Share for aggregate proceeds of \$11.3 million. The deal was made on a private placement basis pursuant to exemptions from the prospectus requirements of applicable securities laws.

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

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

Arcan has three core areas: (i) the natural gas prone McLeod area, which had a net average production of approximately 75 boe/d in 2009; (ii) the Hamburg/Chinchaga area, which had a net average production of approximately 675 boe/d in 2009; and (iii) the Swan Hills area, including the Deer Mountain Unit #2 (the "**Unit**"), which had a net average production of approximately 623 boe/d in 2009. Arcan completed the Acquisition in the Swan Hills area on March 31, 2010 and now holds 150 gross (140 net) sections of land on this play. In aggregate, these three properties had production averaging approximately 1,375 boe/d net to Arcan in 2009. Arcan's total production at the date hereof is estimated at 1,700 to 2,500 boe per day.

For 2010, Arcan intends to implement plans to expand, based on ongoing drilling and significant water injection. Based on results to date, Arcan anticipates average production of 2,500 to 3,000 boe/d in 2010 and an estimated exit production of 3,500 to 4,000 boe/d. Arcan's initial budget indicated that seven to nine horizontal wells would be drilled in 2010. Arcan intends to re-evaluate this forecast, as current estimates indicate eight horizontal wells will have been drilled by the end of the third quarter of 2010.

## OVERVIEW OF ARCAN'S CORE AREAS

### Swan Hills –The Complex

The Swan Hills complex is located in north central Alberta approximately 200 kilometres northwest of Edmonton. The main portion of the Swan Hills complex was discovered and developed through vertical drilling in the 1950s and 1960s. The reef complex is more than 80 kilometres long covering more than 24 townships of land and is recognized as having a very large accumulation of 41° API light sweet oil in place. The main portion of the reef has undergone extensive waterflood operations and recovered more than 40 percent of the oil in place. As announced by the Alberta Government, the reef is now to be developed under CO<sub>2</sub> flood as part of its \$2 billion carbon capture and storage fund, through the Swan Hills Synfuels project. Because the Swan Hills pools hold such large volumes of original-oil-in-place, each percentage point increase in the overall recovery factor represents significant incremental production and reserves at low geological risk.

### Swan Hills - The Land

Arcan's land base extends over 24 kilometres north/south along the Swan Hills reef trend. More than 50 sections of Arcan's land base has already been proven productive through vertical well control. Production on the Unit commenced in 1964 and unitization occurred in 1984. In September 2005, Arcan purchased a net 10.4 percent interest in the Unit when total production was approximately 250 boe per day. In August 2006, Arcan acquired an additional 65.4 percent working interest, with a further five percent purchased in 2006 bringing Arcan's working interest in the Unit to the current 81 percent. Through 2007, Arcan built a new 4,000 bbl battery as well as a 5,000 psi water injection system covering the Unit.

In 2008, Arcan acquired interests in more than 50 sections of adjacent lands south of the Unit. Through an understanding of the old well bores drilled into the Beaverhill Lake formation, Arcan mapped a continuous reef structure extending from the Unit more than 15 kilometres through the newly acquired lands to other producing wells to the south. Arcan has not yet booked reserves to these lands except for approximately one section stemming from its first two wells drilled on these lands. Historically, vertical wells were drilled and supported by an injection well to establish long-life producing injection/production pods.

On March 31, 2010, Arcan acquired interests in 102 gross (81 net) sections of land with approximately 500 boe per day of existing production for a cash purchase price of \$53.25 million. An important part of the Acquisition was that these lands were additive to Arcan's current working interests and are adjacent to Arcan's existing land base. As a result of the closing the Acquisition, Arcan has a consolidated 100 percent interest in more than 70 sections of land immediately adjacent and to the south of its existing infrastructure in the Unit and a total of more than 150 gross (140 net) sections of land on the Swan Hills reef play.

### Swan Hills - The Reserves

As Arcan has drilled its horizontal multi-stage fracture wells after year-end, none of the related impacts are reflected in the proved producing year end reserves report. Furthermore, newly announced royalty regime changes are also not reflected in the December 31, 2009, year-end reserves report.

To date, the Unit has recovered approximately 3.9 mmbœ. This is approximately 10 percent of GLJ's estimate for original oil-in-place of approximately 39 mmbœ or approximately four mmbœ per section. Offsetting units with more than 40 years of production history have proven over six mmbœ of oil-in-place per section and have recovered more than 35 percent of their estimated original oil in place, and are believed capable of 45 percent ultimate recovery under vertical well development and waterflood. These units have significant further upside potential from the application of multi-stage horizontal fracturing and future possible carbon dioxide injection schemes.

As a result of the Acquisition, Arcan acquired 1.4 mmbœ of proven reserves valued at \$39.3 million (present value discounted at 10 percent) or 1.7 mmbœ of proven plus probable reserves valued at \$43.3 million (present value discounted at 10 percent) (see Arcan's press release dated March 17, 2010, regarding reserves acquired in the Acquisition as filed on SEDAR for further details). Arcan estimates that additional horizontal wells could add up to \$18 million per well to Arcan's net present value and could increase Arcan's reserves after undertaking a large scale development program on its Swan Hills reef play.

### Swan Hills - The Drilling Future

Arcan has drilled and completed two horizontal multi-stage fracture wells to date. With three drilling rigs, Arcan anticipates it may drill up to six (4.9 net) additional horizontal wells during the break-up period with all six (4.9 net) completions to follow in the second or third quarter of 2010, depending on weather conditions. Arcan has a further 15 (12 net) horizontal wells at the drill ready stage to continue the drilling program.

<u>Well</u>	<u>Spud Date</u>	<u>Production Test Start Date</u>	<u>Initial Production (boe per day)</u>
12-29-68-8W5	December 9, 2009	February 10, 2010	600
5-34-67-8W5	February 9, 2010	April 13, 2010	TBA
8-30-68-8W5	March 10, 2010	Drilled and Cased	TBA
5-28-68-8W5	April 18, 2010	Drilling	TBA
1-17-68-8W5	March 15, 2010	Drilled and Cased	TBA
6-20-68-8W5	April 11, 2010	Drilling	TBA
10-32-68-8W5	April 5, 2010	Drilled and Cased	TBA
16-30-68-8W5	Estimated May 2010	Estimated third quarter of 2010	TBA

Arcan has utilized 10 separately staged acid fracture treatments on its first two wells. The horizontal drilling and multi-stage fracture completion capital along with associated equipment and tie-in costs is expected to be approximately \$4.7 million per well. Seven of the eight planned wells are in the Unit where Arcan already has existing operated pipelines and facilities in place to accommodate 4,000 bbls/d with room for expansion to 8,000 bbls/d for a cost of approximately \$1 million. Arcan anticipates that it will develop the land base utilizing three horizontal producing wells per section. Arcan is also reviewing results from other industry participants with lands on the Swan Hills play and Arcan is monitoring their drilling results as two horizontal multi-stage wells have recently been drilled by a competitor in an adjoining section.

#### Swan Hills - The Consolidated Outlook

The initial production of the first two horizontal wells and approximately 500 boe/d on the 102 (81 net) sections of land in the Swan Hills area that were obtained from a third-party vendor (the "**Acquired Assets**") increases the productive capacity on Arcan's lands in the Swan Hills play from approximately 800 bbls/d at December 31, 2009. This base production has declined to 400 bbls/d as numerous vertical wells that were producing have been shut-in to accommodate the new horizontal drilling. Arcan anticipates that most of the current vertical wells will serve as water source wells or water injection wells in the future.

Arcan estimates oil-in-place of four to ten mmboe per section and up to a 40 percent recovery under waterflood. Utilizing three horizontal wells per section for development would translate into more than 600,000 boe of recoverable reserves per well. The expected repeatability of the horizontal drilling and multi-stage fracturing technology is expected to convert the Swan Hills play from a long life light oil legacy resource play to a significant legacy growth opportunity. Vertical well control combined with geological mapping increases Arcan's confidence in its development program.

Production in the Swan Hills averaged 623 boe/d with \$28.93 per boe operating netbacks for the year ended December 31, 2009, up from 528 boe/d with \$54.71 per boe operating netbacks in the year ended December 31, 2008.

#### *Hamburg, Alberta*

In February 2006, Arcan discovered the Hamburg GG oil. In November 2008, Arcan acquired a 50 percent working interest in and became operator of the oil battery serving oil wells located in the GG pool area. These wells are prolific, producing 41° API sweet oil and natural gas.

On February 13, 2009, the Alberta Energy Resources Conservation Board modified the pool enhanced oil recovery ("**EOR**") boundary definition, resulting in the majority of the wells being located within the EOR scheme.

In March 2010, Arcan drilled one (0.5 net) exploration well in the Hamburg area, incurring 20 percent of the drilling costs. Initial indications did not indicate economic quantities of hydrocarbons and therefore the well was not completed and remains standing.

Arcan enhanced its water injection in the pool in March 2010 by converting a third well to an injector and plans to add a free water knock-out to enhance water and production capabilities. Arcan currently has two to four infill development opportunities to drill in the GG pool and will evaluate this program as economic conditions warrant. Longer-term plans call for additional exploration tests that have been selected based on 3D seismic. Additional 3D seismic could be shot and the possibility of drilling up-hole Bluesky and Monteny natural gas targets is being considered, which competitors are producing in offsetting sections.

Production averaged 675 boe/d on \$22.20 per boe operating netbacks for the year ended December 31, 2009, down from 765 boe/d and \$60.44 per boe operating netbacks in the year ended December 31, 2008.

#### *McLeod, Alberta*

The McLeod property is characterized by medium-risk natural gas targets largely focused in Mannville Group and Jurassic-aged strata at depths of 1,800 to 2,200 metres. Arcan has drilled seven (5.2 net) Gething natural gas wells with 90 percent success at McLeod, and sold its interests in one well at the end of December 2008. The McLeod wells were producing approximately 500 thousand cubic feet ("**mcf**") per day net, or approximately 100 boe/d in total as of year-end 2009, which is down from 2008 due to the normal declines of natural gas wells. Arcan has reduced capital allocations to this area as natural gas prices have remained weak compared to oil.

McLeod is a multi-zone liquids rich gas prone area. Arcan will continue to evaluate land opportunities for growth in the area.

#### Competition

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

#### Seasonal Factors

The exploration for and development of oil and natural gas reserves is dependent on access to areas where production is to be conducted. Seasonal weather variations, including freeze-up and break-up, affect access in certain circumstances.

#### Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Compliance with such legislation can require significant expenditures or result in operational restrictions. Breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties, all of which might have a significant negative impact on earnings and overall competitiveness.

## Personnel

As of December 31, 2009, Arcan had a total of 13 head office and nine field employees.

## STATEMENT OF RESERVES DATA

In accordance with NI 51-101, the GLJ Report was prepared by GLJ on April 12, 2010. The GLJ Report evaluated the oil, NGL and natural gas reserves attributable to Arcan effective as at December 31, 2009.

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

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

The Report on Reserves Data by Independent Qualified Reserves Evaluator (Form 51-101F2) is attached to this Annual Information Form as Schedule "A". The Report of Management and Directors on Oil and Gas Disclosure (Form 51-101F3) is attached to this Annual Information Form as Schedule "B".

The estimated net present value of future net revenues attributable to Arcan's reserves in Alberta is based upon the new Alberta royalty framework, which was passed into law in December 2008, as well as the transitional royalty rates made available to oil and gas producers in respect of certain new wells spudded on or after November 19, 2008, but does not include the effects of the short-term royalty incentives or additional changes announced in March 2010 by the Government of Alberta. The net present value of future net revenue attributable to reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures, and well abandonment costs for only those wells assigned reserves by GLJ. The undiscounted or discounted net present value of future net revenue attributable to reserves estimated by GLJ do not represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, NGL and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein.

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

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

Summary of Oil and Gas Reserves – Forecast Prices and Costs

Reserves Category	Light & Medium Oil		Natural Gas <sup>(1)</sup>		Natural Gas Liquids	
	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>
	(Mbbbls)	(Mbbbls)	(Mmcf)	(Mmcf)	(Mbbbls)	(Mbbbls)
Proved						
Developed Producing	3,829	2,436	3,360	2,551	169	103
Developed Non-Producing	0	0	169	151	1	1
Undeveloped	2,203	1,467	526	372	258	156
<b>Total Proved</b>	<b>6,032</b>	<b>3,903</b>	<b>4,055</b>	<b>3,074</b>	<b>428</b>	<b>260</b>
<b>Total Probable</b>	<b>1,797</b>	<b>1,063</b>	<b>1,999</b>	<b>1,519</b>	<b>149</b>	<b>91</b>
<b>Total Proved + Probable</b>	<b>7,830</b>	<b>4,966</b>	<b>6,054</b>	<b>4,593</b>	<b>576</b>	<b>351</b>

Notes:

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

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

Reserves Category	Net Present Value of Future Net Revenue <sup>(1)</sup>										Unit Value <sup>(3)</sup> (\$/boe)
	Before Income Taxes – Discounted at (%/yr)					After Income Taxes – Discounted at (%/yr) <sup>(2)</sup>					
	0	5	10	15	20	0	5	10	15	20	
	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	
Proved											
Developed Producing	153.8	110.8	86.4	71.0	60.5	144.0	106.1	83.9	69.7	59.7	29.14
Developed Non-Producing	1.0	0.8	0.7	0.6	0.5	0.7	0.6	0.6	0.5	0.5	25.66
Undeveloped	104.1	74.4	56.2	44.2	35.6	78.1	56.3	42.9	34.0	27.7	33.37
<b>Total Proved</b>	<b>258.9</b>	<b>185.9</b>	<b>143.2</b>	<b>115.7</b>	<b>96.7</b>	<b>222.8</b>	<b>163.0</b>	<b>127.4</b>	<b>104.2</b>	<b>87.8</b>	<b>30.64</b>
<b>Total Probable</b>	<b>94.1</b>	<b>50.8</b>	<b>33.2</b>	<b>24.3</b>	<b>19.1</b>	<b>70.6</b>	<b>38.1</b>	<b>24.8</b>	<b>18.1</b>	<b>14.2</b>	<b>23.56</b>
<b>Total Proved + Probable</b>	<b>353.0</b>	<b>236.8</b>	<b>176.4</b>	<b>140.0</b>	<b>115.7</b>	<b>293.4</b>	<b>201.1</b>	<b>152.2</b>	<b>122.3</b>	<b>102.1</b>	<b>29.00</b>

Notes:

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

Additional Information Concerning Future Net Revenue – Forecast Prices and Costs

Reserves Category	Revenue (MM\$)	Royalties (MM\$)	Operating Cost (MM\$)	Development Costs (MM\$)	Well Abandonment Costs (MM\$)	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
						(MM\$)	(MM\$)	(MM\$)
Proved	653.3	217.4	146.4	27.6	2.9	258.9	36.0	222.8
<b>Total Proved + Probable</b>	<b>889.5</b>	<b>303.4</b>	<b>194.8</b>	<b>34.8</b>	<b>3.5</b>	<b>353.0</b>	<b>59.6</b>	<b>293.4</b>

Future Net Revenue by Production Group – Forecast Prices and Costs

<b>Reserves Category</b>	<b>Production Group</b>	<b>Future Net Revenue Before Income Taxes (Discounted at 10%/Yr) (M\$)</b>
Proved	Light & Medium Oil (including by-products, including solution gas from oil wells)	138,147
	Natural Gas (including by-products, but excluding solution gas from oil wells)	5,102
		<u>143,249</u>
Proved + Probable	Light & Medium Oil (including by-products, including solution gas from oil wells)	169,860
	Natural Gas (including by-products, but excluding solution gas from oil wells)	6,550
		<u>176,410</u>

Pricing Assumptions – Forecast Prices and Costs

GLJ employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2009, in the GLJ Report in estimating reserves data using forecast prices and costs<sup>(1)</sup>:

Year	Inflation	Medium and Light Crude Oil			Natural Gas		Exchange Rate (\$US/\$Cdn)
		WTI Cushing Oklahoma 40° API (US\$/bbl)	Edmonton Par Price 40° API (\$/bbl)	Cromer Medium 29.3° API (\$/bbl)	Alberta Gas Reference Price Plant Gate (\$/MMBTU)	AECO - C Spot (\$/MMBTU)	
2009 (actual)	0.3	61.56	66.43	63.19	3.99	4.20	0.880
2010	2.0	80.00	83.26	76.60	5.75	5.96	0.950
2011	2.0	83.00	86.42	78.64	6.58	6.79	0.850
2012	2.0	86.00	89.58	80.62	6.68	6.89	0.950
2013	2.0	89.00	92.74	82.54	6.73	6.95	0.950
2014	2.0	92.00	95.90	85.35	6.84	7.05	0.950
2015	2.0	93.84	97.84	87.07	6.94	7.16	0.950
2016	2.0	95.72	99.81	88.83	7.20	7.42	0.950
2017	2.0	97.64	101.83	90.63	7.72	7.95	0.950
2018	2.0	99.59	103.88	92.46	8.29	8.52	0.950
2019	2.0	101.58	105.98	94.32	8.47	8.69	0.950

Note:

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

In 2009, Arcan did not produce any heavy crude oil and received a weighted average price of \$63.89/bbl for light and medium crude oil and NGLs and \$4.50/Mcf for natural gas.

Reconciliation of Changes in Reserves

The following table summarizes the changes in reserves from December 31, 2008 to December 31, 2009<sup>(1)</sup>:

*Forecast Prices and Costs*

	Light & Medium Oil (Mbbls)			Natural Gas (MMcf)			Natural Gas Liquids (Mbbls)		
<b>December 31, 2008</b>	6,323	1,751	8,074	4,542	2,469	7,011	446	153	599
Technical Revisions	72	47	119	(319)	(573)	(892)	(14)	(6)	(20)
Exploration Discoveries	-	-	-	507	51	558	10	1	11
Drilling Extensions	-	-	-	-	-	-	-	-	-
Infill Drilling	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	98	52	150	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(363)	-	(363)	(773)	-	(773)	(14)	-	(14)
<b>December 31, 2009</b>	<b>6,032</b>	<b>1,798</b>	<b>7,830</b>	<b>4,055</b>	<b>1,999</b>	<b>6,054</b>	<b>428</b>	<b>148</b>	<b>576</b>

Note:

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

Undeveloped Reserves

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

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

*Proved Undeveloped Reserves*

	Light & Medium Oil (Mbbl)		Heavy Oil (Mbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbl)		Oil Equivalent (Mbbl)	
	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end
<b>2007</b>	425	425	-	-	62	62	34	34	469	469
<b>2008</b>	1,778	2,203	-	-	338	400	108	142	1,942	2,412
<b>2009</b>	-	2,203	-	-	127	526	116	258	137	2,548

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

*Probable Undeveloped Reserves*

	Light & Medium Oil (Mbbbl)		Heavy Oil (Mbbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)		Oil Equivalent (Mbbbl)	
	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end	First Attributed	Total at Year- end
<b>2007</b>	121	121	-	-	18	18	10	10	134	134
<b>2008</b>	522	643	-	-	627	645	54	64	681	815
<b>2009</b>	12	655	-	-	46	690	32	96	52	867

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

*Development*

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

**Significant Factors or Uncertainties Affecting Reserves Data**

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

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

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices, and reservoir performance. Such revisions can be either positive or negative.

### Future Development Costs

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

Year	Forecast Prices & Costs	
	For Proved Reserves (M\$)	For Proved Plus Probable Reserves (M\$)
2010	16,451	16,626
2011	11,172	16,373
2012	-	1,778
2013	-	-
2014	-	-
Total for First 5 Years	27,623	34,777
Total Undiscounted	27,644	34,798
Total Discounted at 10%/Yr	25,376	31,452

Notes:

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

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

### Other Oil and Gas Information for the Properties

For a further description of Arcan's primary properties see "General Developments of the Business of Arcan – Core Area Overview".

### Oil and Gas Wells

The following table sets forth the number and status of wells as at December 31, 2009, in which Arcan has a working interest:

	Producing Wells				Non-Producing Wells			
	Oil		Natural Gas		Oil		Natural Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	48.0	36.7	5.0	2.5	5.0	3.1	1.0	1.0

### Properties with no Attributed Reserves

The following table summarizes, as at December 31, 2009, the gross acres of unproved properties, the net acres of unproved properties, and the number of net acres for which Arcan has rights to explore, develop or exploit that will, absent further action, expire prior to December 31, 2010. This does not include lands in which Arcan has a right to acquire/earn an interest pursuant to the farm-in agreements to which Arcan is a party.

	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Net Acres Expiring Within One Year</u>
Canada (majority in Alberta)	86,202	54,721	1,008

After the Acquisition, Arcan has no other drilling commitments. Included in the lands above are approximately 5,400 acres, which are located in British Columbia.

#### Drilling Activity

The following table sets forth the gross and net exploratory and development wells drilled on the Arcan Properties during the financial year ended December 31, 2009.

	<u>Exploratory Wells</u>		<u>Development Wells</u>		<u>Total Wells</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Light & Medium Oil	-	-	3.0	1.7	3.0	1.7
Heavy Oil	-	-	-	-	-	-
Natural Gas	1.0	0.5	-	-	1.0	0.5
Dry/Service	1.0	0.5	1.0	0.5	2.0	1.0
Total:	<u>2.0</u>	<u>1.0</u>	<u>4.0</u>	<u>2.2</u>	<u>6.0</u>	<u>3.2</u>

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

#### Forward Contracts

As of December 31, 2009, Arcan did not have any hedging transactions in place. In March 2009, Arcan had entered into a fixed price oil swap contract to receive \$64.40 per bbl in exchange for Canadian dollar WTI on oil production of 500 bbls/d for the period from April 1 to December 31, 2009.

#### Additional Information Concerning Abandonment and Reclamation Costs

Arcan typically estimates well abandonment costs area by area. Such costs are included in the GLJ Report as deductions in arriving at future net revenue. Arcan expects to incur and is accruing reclamation costs for 76 net locations with respect to the Arcan Properties. The total amount of abandonment and reclamation costs net of estimated salvage value that Arcan expects to incur with respect to the Arcan Properties for Proved plus Probable reserves without discount is \$3,474,000 and with a 10 percent discount is \$377,000. The following chart summarizes such costs over the next three years:

	<u>Abandonment and Reclamation Costs Including Well Abandonment and Disconnect Costs all Net of Salvage<sup>(1)</sup> (M\$)</u>	<u>Discounted 10%</u>
<b>Proved Reserves (Yr)</b>		
2010	40	38
2011	18	15
2012	0	0
<b>Proved + Probable Reserves (Yr)</b>		
2010	40	38
2011	0	0
2012	18	13

Note:

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

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

### Costs Incurred

The following table summarizes capital expenditures incurred for the year ended December 31, 2009, with respect to the Arcan Properties:

	<u>MM\$</u>
Property acquisition costs – proved properties	-
Property acquisition costs – unproved properties	0.5
Exploration costs	0.4
Development costs	10.6
<b>TOTAL</b>	<b><u>\$11.5</u></b>

### Production Estimates – Forecast Prices and Costs

The following table discloses, for 2010, each product type, the total working interest volume of production estimated by GLJ in the GLJ Report in the estimates of the net present value of future net revenue from Proved reserves disclosed above under the heading "Statement of Reserves Data – Summary of Oil and Gas Reserves – Forecast Prices and Costs":

<u>Reserves Category</u>	<u>Forecast Pricing Daily Production<sup>(2)</sup></u>
Light & Medium Oil (bbls/d)	1,381
Associated and Non-Associated Gas (Mcf/d)	1,696
Natural Gas Liquids (bbls/d)	64
<b>TOTAL<sup>(1)</sup> (boe/d)</b>	<b>1,728</b>

Notes:

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

<u>By Field</u>	<u>Light &amp; Medium Oil (bbl/d)</u>	<u>Natural Gas<sup>(2)</sup> (Mcf/d)</u>	<u>Natural Gas Liquids (bbl/d)</u>
Deer Mountain	869	56	30
Hamburg	508	1,092	22
McLeod and Other Properties	5	547	12
<b>Total</b>	<b>1,381</b>	<b>1,696</b>	<b>64</b>

Notes:

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

### Estimated 2010 Production

The following table describes the volume of production, net of royalties estimated for 2010 in preparing the estimated net present values of future net revenue above:

<b>By Product Type</b>	<b>Estimated 2010 Net Daily Production (Proved)</b>	<b>Estimated 2010 Net Daily Production (Probable)</b>	<b>Estimated 2010 Net Daily Production (Proved Plus Probable)</b>
Crude Oil			
Light & Medium Oil (bbls/d)	910	57	967
Total Crude Oil (bbls/d)	910	57	967
Natural Gas Liquids (bbls/d)	42	2	44
Total Liquids (bbls/d)	952	59	1,011
Natural Gas (Mcf/d)	1,272	66	1,338
Total Net of Royalties (boe/d)	1,164	70	1,234

### Production History

The following tables disclose, for the year ended December 31, 2009, certain information in respect of Arcan's share of production, product prices received, royalties paid, operating expenses and resulting netback for the Arcan Properties:

#### *Arcan Average Daily Production Volume Before Deduction of Royalties*

	<b>Three Months Ended</b>				<b>Total</b>
	<b>Mar. 31, 2009</b>	<b>June 30, 2009</b>	<b>Sept. 30, 2009</b>	<b>Dec. 31, 2009</b>	
Natural Gas (Mcf/d)	1,444	2,772	2,166	1,001	2,124
Crude Oil and NGLs (bbl/d)	1,110	1,061	913	2,105	1,021
Total (boe/d)	1,350	1,523	1,274	1,352	1,375

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

	<b>Three Months Ended</b>				<b>Total</b>
	<b>Mar. 31, 2009</b>	<b>June 30, 2009</b>	<b>Sept. 30, 2009</b>	<b>Dec. 31, 2009</b>	
Natural Gas (\$/Mcf)	6.17	4.09	3.27	5.20	4.50
Crude Oil and NGLs (\$/bbl)	49.36	63.98	70.18	73.80	63.89
Prices Received (\$/boe)	47.16	52.01	55.85	62.74	54.39
Royalties Paid (\$/boe)	10.51	9.20	17.15	20.53	14.18
Production Costs (\$/boe)	11.12	11.50	21.03	21.48	16.11
Netback <sup>(1)</sup> (\$/boe)	25.53	31.31	17.67	20.73	24.10

Note:

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

*Production Volume by Field*

The following table indicates the average daily net production from the important fields comprising the Arcan Properties for the year ended December 31, 2009:

	Light & Medium Oil (bbl/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (bbl/d)
Field			
Deer Mountain	597	37	20
Hamburg	361	1,714	28
McLeod	6	360	8
Other Properties	-	13	1
Total	964	2,124	57

Tax Horizon

Based on existing reserves and an estimated \$115.9 million in tax pools, Arcan estimates that it will not be required to pay income taxes until after 2012. These pools do not include the \$53.3 million in pools (25 percent tangible, 75 percent land) acquired as part of the Acquisition.

The Acquisition

As noted above, the foregoing reserves disclosure excluded reserves acquired in the Acquisition.

In accordance with NI 51-101, GLJ prepared a report dated February 24, 2010, effective December 31, 2009, on the Acquired Assets, evaluating the crude oil, NGLs and natural gas reserves attributable to the Acquired Assets (the "**GLJ Acquired Assets Report**").

The tables below are a summary of the oil, NGL and natural gas reserves attributable to the Acquired Assets and the net present value of future net revenue attributable to such reserves as evaluated in the GLJ Acquired Assets Report. The tables summarize the data contained in the GLJ Acquired Assets Report, and as a result, may contain slightly different numbers than such report due to rounding. Also due to rounding, certain columns may not add exactly. The tables are presented on a before tax basis and do not include the impact of the \$53,250,000 in tax pools, 25 percent of which are related to tangible assets, acquired and associated with the Acquired Assets.

The net present value of future net revenue attributable to reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures and well abandonment costs for only those wells assigned reserves by GLJ. **It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by GLJ represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, NGL and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein.**

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

*Summary of Oil and Gas Reserves as of December 31, 2009*

Forecast Prices & Costs

Reserves Category	Light and Medium Oil		Natural Gas		Natural Gas Liquids		Total Oil Equivalent	
	Gross (Mbbls)	Net (Mbbls)	Gross (MMcf)	Net (MMcf)	Gross (Mbbls)	Net (Mbbls)	Gross (Mbbls)	Net (Mbbls)
Proved								
Developed Producing	1,269	991	474	402	73	48	1,421	1,106
Developed Non-Producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	1,269	991	474	402	73	48	1,421	1,106
Total Probable	236	184	94	79	15	10	267	207
Total Proved + Probable	1,505	1,176	568	481	88	57	1,687	1,313

*Summary of Net Present Value of Future Net Revenue as of December 31, 2009*

Forecast Prices & Costs

Reserves Category	Before Income Taxes – Discounted at (%/year)				
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)
Proved					
Developed Producing	70,814	50,279	39,349	32,580	27,965
Developed Nonproducing	-	-	-	-	-
Undeveloped	-	-	-	-	-
Total Proved	70,814	50,279	39,349	32,580	27,965
Total Probable	15,523	6,890	3,920	2,564	1,826
Total Proved + Probable	86,337	57,169	43,269	35,144	29,790

*Total Future Net Revenue (Undiscounted) as of December 31, 2009*

Forecast Prices & Costs

<b>Reserves Category</b>	<b>Revenue (M\$)</b>	<b>Royalties (M\$)</b>	<b>Operating Costs (M\$)</b>	<b>Capital Development Costs (M\$)</b>	<b>Abandonment Costs (M\$)</b>	<b>Future Net Revenue Before Income Taxes (M\$)</b>
Proved Producing	138,928	29,625	36,816	-	1,673	70,814
Proved Developed Nonproducing	-	-	-	-	-	-
Proved Undeveloped	-	-	-	-	-	-
<b>Total Proved</b>	<b>138,928</b>	<b>29,625</b>	<b>36,816</b>	<b>-</b>	<b>1,673</b>	<b>70,814</b>
<b>Total Probable</b>	<b>33,209</b>	<b>6,925</b>	<b>10,601</b>	<b>-</b>	<b>160</b>	<b>15,523</b>
<b>Total Proved Plus Probable</b>	<b>172,137</b>	<b>36,551</b>	<b>47,417</b>	<b>-</b>	<b>1,832</b>	<b>86,337</b>

*Net Present Value of Future Net Revenue by Production Group as of December 31, 2009*

Forecast Prices & Costs

<b>Reserves Category</b>	<b>Production Group</b>	<b>BT Discounted (10%/year) Future Net Revenue (M\$)</b>	<b>BT Discounted (10%/year) Future Net Revenue (\$/boe)</b>	<b>BT Discounted (10%/year) Future Net Revenue (\$/Mcf)</b>
Proved Producing	Light & Medium Oil	39,349	35.59	5.93
	Natural Gas	-	-	-
<b>Total Proved Producing</b>		<b>39,349</b>	<b>35.59</b>	<b>5.93</b>
Proved	Light & Medium Oil	39,349	35.59	5.93
	Natural Gas	-	-	-
<b>Total Proved</b>		<b>39,349</b>	<b>35.59</b>	<b>5.93</b>
Proved + Probable	Light & Medium Oil	43,269	32.96	5.49
	Natural Gas	-	-	-
<b>Total Proved + Probable</b>		<b>43,269</b>	<b>32.96</b>	<b>5.49</b>

*Summary of Pricing and Inflation Rate Assumptions as of December 31, 2009*

Forecast Prices & Costs

<b>Year</b>	<b>Oil</b>		<b>Natural Gas</b>	<b>Natural Gas Liquids</b>			<b>Inflation &amp; Exchange</b>	
	<b>WTI Cushing Oklahoma (\$US/bbl)</b>	<b>Edmonton Par Price 40% API (\$Cdn/bbl)</b>	<b>AECO Price (\$Cdn/MMbtu)</b>	<b>Edmonton Pentanes Plus (\$Cdn/bbl)</b>	<b>Edmonton Butanes (\$Cdn/bbl)</b>	<b>Edmonton Propane (\$Cdn/bbl)</b>	<b>Inflation Rate (%/year)</b>	<b>Exchange Rate (\$US/\$Cdn)</b>
2010	80.00	83.26	5.96	84.93	64.11	52.46	2.0	0.950
2011	83.00	86.42	6.79	88.15	66.54	54.45	2.0	0.950
2012	86.00	89.58	6.89	91.37	68.98	56.43	2.0	0.950
2013	89.00	92.74	6.95	94.59	71.41	58.42	2.0	0.950
2014	92.00	95.90	7.05	97.82	73.84	60.42	2.0	0.950
2015	93.84	97.84	7.16	99.79	75.33	61.64	2.0	0.950

Year	Oil		Natural Gas	Natural Gas Liquids			Inflation & Exchange	
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price 40% API (\$Cdn/bbl)	AECO Price (\$Cdn/MMbtu)	Edmonton Pentanes Plus (\$Cdn/bbl)	Edmonton Butanes (\$Cdn/bbl)	Edmonton Propane (\$Cdn/bbl)	Inflation Rate (%/year)	Exchange Rate (\$US/\$Cdn)
2016	95.72	99.81	7.42	101.81	76.85	62.88	2.0	0.950
2017	97.64	101.83	7.95	103.86	78.41	64.15	2.0	0.950
2018	99.59	103.88	8.52	105.96	79.99	65.45	2.0	0.950
2019	101.58	105.98	8.69	108.10	81.60	66.77	2.0	0.950
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.0	0.950

#### Abandonment Costs

The following table summarizes the Acquired Assets' associated abandonment costs deducted in the estimation of future net revenue attributable to the reserve categories noted below based on forecast prices and costs at December 31, 2009:

#### Forecast Prices & Costs

Year	Proved (M\$)	Proved + Probable (M\$)
2010	—	—
2011	—	—
2012	104	104
2013	—	—
2014	—	—
2015	55	55
Remainder	1,514	1,673
Total (Undiscounted)	1,673	1,832
Total (Discounted at 10%/year)	385	315

### SHARE CAPITAL

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

#### Common Shares

The holders of the Common Shares are entitled to dividends, if, as and when declared by the board of directors of Arcan, to one vote per share at meetings of the shareholders of Arcan, and upon liquidation, to receive such assets of Arcan as are distributable to the holders of the Common Shares. As at the date hereof, there are 75,058,571 Common Shares, 317,000 Warrants, and 7,359,000 options to purchase Common Shares outstanding.

#### Preferred Shares

The preferred shares of Arcan may be issued from time to time in one or more series, each consisting of a number of preferred shares as determined by the board of directors of Arcan, which also may fix the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. The preferred shares of Arcan have a priority over the Common Shares with respect to payment of dividends and distributions of assets in the event of liquidation, dissolution or winding-up of Arcan. As at the date hereof, there are no preferred shares of Arcan outstanding.

## DIVIDEND POLICY

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

## MARKET FOR SECURITIES

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

Period	Price Range (\$)		Trading Volume
	High	Low	
<b>2009</b>			
January	0.48	0.28	4,037,200
February	0.47	0.35	640,400
March	0.98	0.36	1,711,500
April	0.97	0.80	689,200
May	1.38	0.85	2,214,200
June	1.30	1.00	1,605,900
July	1.65	0.96	4,806,300
August	1.52	1.32	1,143,400
September	1.55	1.22	1,985,800
October	1.40	1.09	1,074,300
November	1.45	1.08	2,221,700
December	1.52	1.22	2,678,300
<b>2009 Summary</b>	1.65	0.28	24,809,400
<b>2010</b>			
January	2.20	1.43	4,037,200
February	2.94	1.70	640,400
March	4.19	2.70	11,932,600

## ESCROWED SECURITIES

As at December 31, 2009, there are no securities of Arcan held in escrow.

## DIRECTORS AND OFFICERS

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

<b>Name and Municipality of Residence</b>	<b>Office / Date Appointed<sup>(1)</sup></b>	<b>Principal Occupation during the Past 5 Years</b>	<b>Number and Percentage of Common Shares Beneficially Owned or over which Control or Direction is Exercised</b>
<b>Robert J. Dales<sup>(2)</sup></b> Calgary, Alberta, Canada	Director January 1, 2007	Currently President of Desco Resources Inc., a TSXV-listed issuer since July 2009. President, Chief Executive Officer and a director of Desco Energy Ltd. from June 2005 to December 2006. President of Valhalla Ventures Inc., a private investment corporation, from January 1999 to present. President of Desco Exploration Ltd., an oil and gas corporation, from April 2002 until September 2002.	506,490 (0.7%)
<b>Andy Fisher<sup>(4)(5)</sup></b> Calgary, Alberta, Canada	Executive Vice President and Director January 1, 2007	Executive Vice President of Arcan since October 9, 2003. Prior thereto, Mr. Fisher assisted GEOCAN Energy Inc., a TSX-listed junior oil and gas company based in Calgary, Alberta, in asset acquisitions and exploration and business strategies from November 2000 to May 2004.	778,660 (1.0%)
<b>Ed Gilmet<sup>(3)(6)</sup></b> Calgary, Alberta, Canada	President, CEO and Director January 1, 2007	President and Chief Executive Officer of Arcan since October 9, 2003. Prior thereto, Mr. Gilmet was a senior geophysicist with Burlington Resources Energy Ltd.	1,338,591 (1.8%)
<b>Michael J. Laffin<sup>(3)(6)</sup></b> Calgary, Alberta, Canada	Corporate Secretary and Director January 1, 2007	Partner since August 2002 with Blake, Cassels & Graydon LLP, a national Canadian law firm.	114,500 (0.2%)
<b>J. Terry McCoy<sup>(2)(4)(5)</sup></b> Calgary, Alberta, Canada	Director January 1, 2007	President of Koa Resources Ltd., a private oil and gas company. Prior thereto, Mr. McCoy held positions as Vice President of Exploration for Calvalley Petroleum Inc., President and a director of Trafina Energy Ltd., and Vice President of Exploration at Murphy Oil Company.	168,529 (0.2%)

<b>Name and Municipality of Residence</b>	<b>Office / Date Appointed<sup>(1)</sup></b>	<b>Principal Occupation during the Past 5 Years</b>	<b>Number and Percentage of Common Shares Beneficially Owned or over which Control or Direction is Exercised</b>
Douglas Penner Calgary, Alberta, Canada	Vice President, Finance and Chief Financial Officer January 1, 2007	Vice President, Finance and Chief Financial Officer of Arcan since April 2006. Prior thereto, Mr. Penner was Vice President, Finance and Chief Financial Officer of Open Range Energy Corp., a publicly traded Calgary-based junior oil and gas exploration company, from November 2005 to April 2006. Prior thereto, Mr. Penner was Vice President, Finance and Chief Financial Officer of Tempest Energy Corp., an oil and gas company, from January 2001 to November 2005.	1,000,500 (1.3%)
Graeme Ryder Calgary, Alberta, Canada	Controller January 1, 2007	Controller of Arcan since August 2006. Prior thereto, Mr. Ryder was Controller of Open Range Energy Corp., a publicly traded Calgary-based junior oil and gas exploration company, from December 2005 to July 2006. Prior thereto, Mr. Ryder was Controller of Tempest Energy Corp., an oil and gas company, from June 2003 to November 2005.	28,000 (0.0%)

Notes:

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

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

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

As at the date hereof, the directors and executive officers of Arcan, as a group, beneficially own, directly or indirectly, or exercise control or direction over 4,185,272 Common Shares, which represents approximately 5.6 percent of the outstanding Common Shares.

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

**Robert J. Dales, MBA – Director**

Mr. Dales has more than 30 years of experience in the oil and gas industry and has held various administrative and management positions. Mr. Dales secured a Bachelor of Commerce degree from the University of Calgary in 1972 and a Master of Business Administration from the University of Alberta in 1973. From 1981 until

1999, Mr. Dales worked in the Operations Department of Panarctic Oils Ltd., a private oil and gas exploration company, as Operations Manager. Mr. Dales was President, Chief Executive Officer and a director of Resolution Energy Inc., a publicly traded oil and gas exploration and development company, which was listed on the Canadian Venture Exchange, from June 1993 until October 2001. From 1994 until 1996, Mr. Dales was Secretary-Treasurer and a director of Energy North Inc., a public oil and gas exploration development company, which was listed on the TSX. Mr. Dales was also President and a director of Desco Resources Ltd., an oil and gas exploration and development company (now Peyto Energy Trust and listed on the TSX) from March 1997 until October 1998. Mr. Dales is currently a director of Celtic Exploration Ltd. ("**Celtic**") (formerly Desco Exploration Ltd.), a public oil and gas exploration company, and President and a director of Valhalla Ventures Inc., a private investment company based in Calgary, Alberta. Mr. Dales is currently the President and a director of Desco Resources Inc., a TSXV-listed issuer.

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

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

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

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

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

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

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

Mr. McCoy is a senior oil and gas executive with 38 years of experience with major, senior intermediate and junior oil and gas companies. As at the date hereof, Mr. McCoy is President of Koa Resources Ltd., an oil and gas company owned by Mr. McCoy. Prior thereto, Mr. McCoy was Vice President of Exploration for Calvalley Petroleum Inc. Prior thereto, Mr. McCoy was President of Trafina Energy Ltd. Prior thereto,

Mr. McCoy was Vice President of Exploration and Land at Murphy Oil Company of Canada and prior thereto, was employed as President of Burlington Resources of Canada and as Vice President of Exploration and Land at POCO Petroleum Ltd. Prior to 1990, Mr. McCoy held executive positions at Columbia Gas Development of Canada, Conwest Exploration Company, Union Oil of Canada and Amoco Canada Petroleum Company. Mr. McCoy is a director of two private companies.

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

Mr. Penner has more than 18 years of varied experience in oil and gas financial management, operations, financings, strategic planning, business development, acquisitions and divestitures, due diligence and reporting. In addition to being involved in all aspects of public company reporting, Mr. Penner brings his strengths to his involvement with the board of directors and in-depth assessment of business strategies and alternatives. From 2000 to 2005, Mr. Penner was Vice President, Finance and Chief Financial Officer with Tempest Energy Corp., a public company listed on the TSX. Mr. Penner was Vice President, Finance and Chief Financial Officer with Open Range Energy Corp., a spin-out created upon the sale of Tempest Energy. Prior thereto, Mr. Penner was employed by Northrock Resources, Tier One Energy Corp., Amerada Hess Canada and Ernst & Young.

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

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

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

Except as disclosed herein, no director or officer of Arcan, or a shareholder holding sufficient number of securities of Arcan to affect materially the control of Arcan, is as at the date hereof, or has been within the last 10 years of the date hereof, a director or officer of any company (including Arcan) that, while he was acting in such capacity: (i) was the subject of a cease trade or similar order, or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or officer ceased to be a director or officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets. No director or officer of Arcan, or a shareholder holding sufficient number of securities of Arcan to affect materially the control of Arcan, has, or a personal holding company of any such persons has, within 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

**Penalties or Sanctions**

No director or officer of Arcan, or a shareholder holding a sufficient number of securities of Arcan to affect materially the control of Arcan, has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement

agreement with a Canadian securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

#### Conflicts of Interest

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

### RISK FACTORS

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

#### Stage of Development

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

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

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

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

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

markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and natural gas exploration, exploitation and development may involve unprofitable efforts, not only from any wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

While close well-supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash-flow levels to varying degrees.

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

#### Dependence on Other Operators

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

#### Project Risks

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

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;

- currency fluctuations;
- the availability and productivity of skilled labour; and
- regulation of the oil and natural gas industry by various levels of government and governmental agencies.

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

#### Reserves Replacement

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

#### Reserve Estimates

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

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

- other government levies that may be imposed over the producing life of reserves.

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

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

#### Issue of Debt

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

#### Availability of Drilling Equipment and Access Restrictions

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

#### Infrastructure

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

#### Uninsurable Risks

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

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

#### Management of Growth

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

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

#### Expiration of Licenses and Leases

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

#### Third-Party Credit Risk

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

#### Governmental Regulation

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

#### Dependence on Key Personnel and Employees

The success of Arcan is dependent on the services of its proposed directors, officers and key employees. The experience of these individuals would be a factor contributing to Arcan's continued success and growth. The

ability of Arcan to conduct its operations is also highly dependent on the availability of skilled workers. Arcan does not intend to get any key man insurance policies, and therefore there would be a risk that the death or departure of any member of management or any key employee would have a material adverse effect on Arcan. Investors who are not prepared to rely on the proposed management of Arcan should not invest in securities of Arcan.

#### Industry Risks

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

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

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

Oil and natural gas are commodities, the prices of which are determined based on world demand, supply and other factors, all of which are beyond the control of Arcan. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil and natural gas prices, leading to a reduction in the volume of oil and natural gas reserves.

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

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

#### Substantial Capital Requirements; Liquidity

Arcan's bank loan facility contains financial covenants that must be maintained at all times and which may reduce the amount available under the facility. Furthermore, Arcan may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Arcan to forfeit its interest in certain properties, miss certain business

opportunities and reduce or terminate its operations. There can be no assurance that debt or equity financing or cash generated by operations would be available or sufficient to meet these requirements or for other corporate purposes, or if debt or equity financing is available, that it would be on terms acceptable to Arcan. Moreover, future activities may require Arcan to alter its capitalization significantly. The inability of Arcan to access sufficient capital for its operations could have a material adverse effect on Arcan's business, financial condition and results of operations.

### Competition

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

### Availability of Drilling Equipment and Access Restrictions

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

### Environmental Regulation

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

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

### Capital Funding

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

#### No Assurance of Titles

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

#### Dividends

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

#### Conflicts of Interest

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

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

Arcan may complete acquisitions to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits, including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Arcan's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Arcan's ability to achieve the anticipated benefits of these and future acquisitions.

### MATERIAL CONTRACTS

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

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

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

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

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

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

"Permitted bids" under the Plan must be made to all holders of Common Shares and must be open for acceptance for a minimum of 60 days. If at the end of 60 days, at least 50 percent of the outstanding Common Shares other than those owned by the offeror and certain related parties have been tendered and not withdrawn, the bidder may take-up and pay for the shares but must extend the bid for a further 10 days to allow other shareholders to tender to the bid.

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

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

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

#### LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding legal proceedings material to Arcan to which Arcan is a party or in respect of which any of its properties are subject, nor are there any such proceedings currently known to Arcan to be contemplated. During 2009, there were no penalties or sanctions imposed against Arcan by a court relating to securities legislation or by a securities regulatory authority, nor were there any settlement agreements entered into by Arcan with a court relating to securities legislation or with a securities regulatory authority. There have been no penalties or sanctions imposed by a court or regulatory body against Arcan that would likely be considered important to a reasonable investor making an investment decision.

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

On August 25, 2006, Arcan acquired 65.4 percent of the Deer Mountain Unit from Caribou Capital Corp., a company controlled by M. Bruce Chernoff, for approximately \$10 million. Mr. Chernoff subsequently joined the board of directors of Arcan on January 17, 2007, and resigned on November 19, 2009.

Pursuant to the terms of the Amalgamation Agreement, Desco and Arcan amalgamated on January 1, 2007, under Section 181 of the ABCA to form Arcan, a new company under the name "Arcan Resources Ltd.". The Amalgamation was a non-arm's length party transaction because Andy Fisher and Ed Gilmet were officers and directors of Arcan and each of them beneficially owned or controlled, directly or indirectly, more than 10 percent of the Desco Shares at the time the Amalgamation was agreed to. Each of Andy Fisher and Ed Gilmet declared a conflict of interest to the board of directors of Arcan in relation to the Amalgamation and refrained from voting in favour of the directors' resolution that approved the Amalgamation. In addition, a special committee of the board of directors of Arcan, comprised of Michael J. Laffin and Ryan Crawford, reviewed and recommended that the board of directors of Arcan approve the transaction and negotiated the consideration to be paid. In connection with the Amalgamation, each of Andy Fisher and Ed Gilmet agreed to surrender 642,300 Desco Shares immediately prior to the completion of the Amalgamation pursuant to a seed share agreement dated October 11, 2006. Upon the Amalgamation, Andy Fisher received 179,239 Common Shares and 494,700 Performance Shares and Ed Gilmet received 181,051 Common Shares and 499,700 Performance Shares.

Robert J. Dales was President, Chief Executive Officer and a director of Desco. Immediately prior to the Amalgamation, Mr. Dales beneficially owned or controlled, directly or indirectly, 178,550 Desco Shares, representing 2.73 percent of the outstanding Desco Shares. Upon the completion of the Amalgamation, the 178,550 Desco Shares were converted into 64,692 Common Shares and 178,550 Performance Shares. Mr. Dales subsequently joined Arcan's board of directors on January 1, 2007.

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

#### AUDITORS, TRANSFER AGENT AND REGISTRAR

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

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

#### INTEREST OF EXPERTS

Reserve estimates contained in this Annual Information Form have been prepared by GLJ. As at December 31, 2009, the effective date of those estimates, and as at the date of this Annual Information Form, the directors, officers, employees and consultants of GLJ who participated in the preparation of the GLJ Report were in a position to directly influence the preparation or outcome of the GLJ Report, and as a group, owned, directly or indirectly, none of the outstanding Common Shares.

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

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

#### ADDITIONAL INFORMATION

Additional information concerning Arcan may be found under Arcan's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including information concerning directors' and officers' remuneration and

indebtedness, principal holders of Arcan's securities and securities authorized for issuance under equity compensation plans, will be contained in the management information circular to be filed on SEDAR in respect of Arcan's annual meeting of securityholders to be held on May 25, 2010. Additional financial information is provided in Arcan's comparative financial statements and management's discussion and analysis for the financial year ended December 31, 2009.

**SCHEDULE "A"**

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

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

1. We have prepared an evaluation of the Company's reserves data as at December 31, 2009. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2009, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

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

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2009, and identifies the respective portions thereof that we have evaluated and reported on to the Company's board of directors:

<b>Independent Qualified Reserves Evaluator</b>	<b>Description and Preparation Date of Evaluation Report</b>	<b>Location of Reserves (Country or Foreign Geographic Area)</b>	<b>Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)</b>			
			<b>Audited</b>	<b>Evaluated</b>	<b>Reviewed</b>	<b>Total</b>
GLJ Petroleum Consultants Ltd.	April 12, 2010	Canada	-	176,410	-	176,410

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, April 22, 2010.

(signed) "Jodi L. Anhorn"

Jodi L. Anhorn, M.Sc., P. Eng.

## SCHEDULE "B"

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

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

Management of Arcan Resources Ltd. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements.

This information includes reserves data, which include the following:

- (i) proved, probable and proved plus probable oil and gas reserves estimated as at December 31, 2009 using forecast prices and costs; and
- (ii) the related estimated future net revenue.

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

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

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

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

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

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

(signed) "Ed Gilmet"

Ed Gilmet  
President and Chief Executive Officer

(signed) "Douglas Penner"

Douglas Penner  
Vice President, Finance and Chief Financial Officer

(signed) "Michael J. Laffin"

Michael J. Laffin  
Corporate Secretary and Director

(signed) "Andy Fisher"

Andy Fisher  
Executive Vice President and Director

April 22, 2010.