



**ANNUAL INFORMATION FORM**

**For the Year Ended December 31, 2007**

**Dated April 3, 2008**

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## ABBREVIATIONS AND CONVERSION

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
Mmbbls	million barrels	Mmcf/d	million cubic feet per day
Mstb	1,000 stock tank barrels	MMBTU	million British Thermal Units
bbls/d	barrels per day	Bcf	billion cubic feet
BOPD	barrels of oil per day	GJ	gigajoule
NGLs	natural gas liquids		
stb	standard tank barrels		
<b>Other</b>			
AECO	EnCana Corp.'s natural gas storage facility located at Suffield, Alberta.		
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.		
ARTC	Alberta Royalty Tax Credit		
BOE	barrel 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	barrel of oil equivalent per day		
m <sup>3</sup>	cubic metres		
MBOE	1,000 barrels of oil equivalent		
Mcf	1,000 cubic feet of gas equivalent on the basis of 6 Mcfs to 1 bbl of crude oil. Mcfs may be misleading, particularly if used in isolation. A Mcf conversion ratio of 6 Mcfs to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.		
\$000s	thousands of dollars		
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade		

## **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, 2007 and the information contained in the Annual Information Form has been prepared as of April 3, 2008. 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.**

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 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 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:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves; and
- 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.

- "**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.
- "**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).

**"Constant prices and costs"** means, unless expressly noted otherwise, prices and costs used in an estimate that are:

- (i) Arcan's prices and costs as at December 31, 2007, held constant throughout the estimated lives of the properties to which the estimate applies (being Arcan's posted price for oil and the spot price for gas, after historical adjustments for transportation, gravity and other factors); 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

This Annual Information Form (which includes the schedules attached hereto) contains "**forward-looking statements**" within the meaning of applicable securities laws which reflect the current expectations, estimates, projections, assumptions and beliefs of management of Arcan regarding Arcan's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "seek", "continue", "project", "predict", "potential", "target", "should", "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant risks, uncertainties and assumptions. In particular, this Annual Information Form (which includes the schedules attached hereto) contains forward-looking statements pertaining to the following:

- the quantity of reserves;
- crude oil, NGLs and natural gas production levels;
- capital expenditure programs and other expenditures;
- projections of market prices and costs;
- supply and demand for oil, NGLs and natural gas;
- expectations regarding the ability of Arcan to offer and sell equity and debt securities, obtain debt financing and maintain and enhance cash flows through both internal and external growth opportunities;
- the ability of Arcan to continually add to reserves through acquisitions and development;
- treatment under government regulatory and taxation regimes;
- future expenditures and allowances relating to environmental matters;
- future economic cycles;
- capital market conditions; and
- inflation and interest rates.

Many factors could cause Arcan's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, those listed below and under "Risk Factors" in this Annual Information Form:

- volatility in market prices for crude oil, NGLs and natural gas;
- liabilities and risks inherent in crude oil, NGLs and natural gas operations;
- uncertainties associated with estimating reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;

- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- changes in government regulations.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements may vary materially from those expressed or implied by the forward-looking statements contained in this Annual Information Form. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this Annual Information Form are based upon what management of Arcan currently believes to be reasonable assumptions, Arcan cannot assure prospective investors that actual results, performance or achievements will be consistent with these forward-looking statements. These forward-looking statements are made as of the date hereof. Except as required under applicable securities laws, Arcan does not intend, and does not assume any obligation, to update or revise these forward-looking statements.

## DEFINITIONS

Unless the context indicates otherwise, the following terms shall have the meanings set out below when used in this Annual Information Form. Certain other terms and abbreviations used herein, but not defined herein, are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 or the COGE Handbook. See "Abbreviations and Conversions" and "Notes on Reserves Data".

"**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;

"**affiliate**" means a company that is affiliated with another company as described below:

**A company is an "affiliate" of another company if:**

- (a) one of them is the subsidiary of the other, or
- (b) each of them is controlled by the same person.

**A company is "controlled" by a person if:**

- (a) voting securities of the company are held, other than by way of security only, by or for the benefit of that person, and
- (b) the voting securities, if voted, entitle the person to elect a majority of the directors of the company.

**A person beneficially owns securities that are beneficially owned by:**

- (a) a company controlled by that person, or
- (b) an affiliate of that person or an affiliate of any company controlled by that person;

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

"**Arcan Escrow Agreement**" means the escrow agreement among Arcan, the Escrow Agent and the securityholders of Arcan named therein dated effective January 1, 2007;

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

"**Arcan**" means Arcan Resources Ltd., a corporation amalgamated under the ABCA;

"**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;

"**Escrow Agent**" means Valiant Trust Company;

"**Escrowed Securities**" means the securities of Arcan that are subject to the Arcan Escrow Agreement;

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

"**GLJ Report**" means the independent engineering evaluation dated March 17, 2008, and effective December 31, 2007, prepared by GLJ evaluating the oil and natural gas reserves attributable to Arcan;

"**OPEC**" means the Organization of Petroleum Exporting Countries;

"**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;

"**Performance Warrants**" means the performance based options to purchase Common Shares issued to certain directors and officers of Arcan;

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

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

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

## ARCAN RESOURCES LTD.

Pursuant to the terms of the Amalgamation Agreement, Desco and Arcan 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 by Certificate of Incorporation issued 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 by a Certificate of Incorporation issued pursuant to the provisions of the ABCA on October 9, 2003. Prior to the amalgamation, Arcan was not a reporting issuer and none of its securities were listed on a stock exchange. Arcan 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 pursuant to 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 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 focussed 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 the corporation's name was changed 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. Arcan and Desco entered into the Amalgamation Agreement dated October 11, 2006 and subsequently amalgamated on January 1, 2007 after obtaining shareholder approval. 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".

By virtue of Arcan's reverse take-over of Desco in January 2007 pursuant to the terms of the Amalgamation Agreement, Arcan increased its interest in the McLeod and Hamburg/Chinchaga properties.

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

On May 8, 2007, Arcan completed a share issue deal with a syndicate of underwriters pursuant to which the underwriters purchased for resale on a bought deal basis 4,000,000 Common Shares at a price of \$3.80 per share for aggregate proceeds of \$15.2 million. The deal was made on a private placement basis pursuant to exemptions from the prospectus requirements of applicable securities laws.

On September 17, 2007, Arcan completed a share issue deal with a syndicate of underwriters pursuant to which the underwriters purchased for resale on a bought deal basis 1,500,000 Common Shares at a price of \$3.45 per share, and 1,200,000 Common Shares 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 million. Arcan agreed to make expenditures qualifying as "Canadian exploration expenses" under the Tax Act on or before December 31, 2008 in an amount equal to the aggregate subscription proceeds of the Common Shares issued on a "flow-through" basis, effective December 31, 2007. The deal was made on a private placement basis pursuant to exemptions from the prospectus requirements of applicable securities laws.

Arcan has three core areas: (i) the natural gas prone area of the McLeod area which had a net average production of approximately 370 BOE/d in 2007 and which Arcan expects to have numerous oil and gas exploration opportunities; (ii) the Hamburg/Chinchaga area which had a net average production of approximately 400 BOE/d in 2007 and which Arcan expects to be a significant area with a number of exploration and development opportunities including, but not limited to, the drilling of two to four development wells to offset seven previously drilled oil wells in the "GG" pool. These wells had individual initial test rates varying from 300 BOE/d to over 1,800 BOE/d each but some of which are, or could be, restricted to maximum rate limitations ("**MRL**") of approximately 90 (45 net) BOE/d; and (iii) the Deer Mountain Unit which had a net average production of approximately 400 BOE/d in 2007 with significant upside in production anticipated from fracture stimulation of existing wells, down-spaced drilling, increased water injection and pumping efficiencies. Combined these three properties had production averaging approximately 1,178 BOE/d net to Arcan in 2007.

### **Hamburg**

Arcan in February 2006 discovered the Hamburg "GG" oil pool, a Slave Point Formation reservoir lying at approximately 2,500 metres depth. In November 2007 Arcan acquired 50.25 percent working interest in and became operator of the oil battery serving oil wells located in the "GG" pool area. Arcan operates the pool and holds 50.25 percent working interest in the first six wells and 100 percent in the seventh well drilled into the pool. As previously disclosed these wells are prolific and the majority are considered capable of sustained production rates of approximately 400 BOE/d gross (200 BOE/d net) each of 41° API sweet oil and natural gas.

On December 20, 2007 the Alberta Energy Resources Conservation Board (the "**ERCB**"), formerly the Alberta Energy and Utilities Board, modified its pool boundary definition, resulting in the first six wells being located within the "GG" pool. So far, only three of the wells are within the approved enhanced recovery scheme and have received Good Production Practices ("**GPP**") status culminating from commencement of water injection into the pool in late October. Two of these are producing wells and one is a water injection well. Production from the other three of the first six wells remains restricted to approximately 90 BOE/d (45 BOE/d net) each under MRL regulatory status.

Arcan is working to gain regulatory approval to include these wells in the enhanced recovery scheme, and then to have the recently drilled 13-17 well added to the "GG" pool and the enhanced recovery scheme. Along with receiving GPP approval would come lifting of the current MRL. Arcan estimates the majority of the wells to be capable of producing at a stabilized rate of approximately 400 BOE/d gross (200 BOE/d net).

Highlights in 2007 were:

- Initiated waterflood into "GG" pool.
- Production averaged 387 boe per day in 2007, up from 170 boe per day for the twelve months ended December 31, 2006.
- Drilled one gross (1 net) water source well and two gross (1.5 net) development wells in the first quarter of 2007.
- Drilled one gross (0.5 net) development well in the fourth quarter of 2007 and spud one gross (0.5) development well in the fourth quarter of 2007 which was finalized in the first quarter of 2008.
- Drilled one gross (1 net) exploration well in the fourth quarter of 2007 which was unsuccessful. Drilled one gross (1 net) exploration well in the first quarter of 2008 which was cased and is awaiting completion.

**The future** – Arcan was one of few companies drilling Slave Point wells in the area in winter 2007/2008. Arcan plans to continue leveraging its technical team members' 16 years of previous experience drilling in this area. Arcan

has various drill ready Slave Point exploration projects in the Hamburg area in both Alberta and British Columbia. Financial capability will determine the timing and working interests in these prospects. Additional development wells will likely be drilled in the "GG" pool. Hamburg is generally only accessible in the winter.

### **McLeod**

The McLeod property is characterized by medium-risk natural gas targets largely focused in Mannville Group and Jurassic-aged strata at depths of 1,800-2,800 metres. Early in 2007, Arcan reduced drilling in McLeod to focus on higher netback oil. Although Arcan considers this to have been prudent given softening gas prices, this has resulted in significantly lower than anticipated production volumes coming out of the McLeod area. Arcan produced 370 BOE/d for 2007 from this area up from 245 BOE/d for the twelve months ended December 31, 2006.

**The future** – This multi-zone West 5 area is very attractive to the oil and natural gas industry, and hence highly competitive. Arcan competes by farming into or acquiring exclusively lands with drill-ready prospects. This particular approach allows Arcan to run full economics and include risks for tie-ins and land expiries. Arcan plans to continue to lever the capabilities and expertise of its two geologists who previously worked this area for over 15 years with major companies, drilling in excess of 400 wells between them. This experience facilitates successful farm-ins and cultivates a high success ratio. Four additional locations with proposed drilling depths of around 2,500 meters have been surveyed in McLeod and other deeper opportunities in the area are being accumulated. Arcan anticipates drilling two prospects in this area in 2008 including one 50% non-operated well.

### **Deer Mountain**

The Deer Mountain Unit properties are located in north central Alberta approximately 200 kilometres northwest of Edmonton. Unit wells produce oil from the Beaverhill Formations. Initial production commenced in 1964 and unitization occurred in late 1984 when a water injection scheme was initiated. Original oil in place is estimated by our independent reserve engineers in the December 31, 2007 report to be 39.0 million stb gross with total proven plus probable recovery factor of approximately 21%. To date the Deer Mountain Unit has recovered approximately 8 percent or 3.1 million stb gross. This compares to offsetting pools which have recovered more than 35 percent of their estimated original oil-in-place, and are estimated to be capable of 45 percent recovery, with significant additional upside potential from carbon dioxide injection schemes.

In September 2005 Arcan purchased a net 10.4 percent interest in the Swan Hills Deer Mountain Unit #2. At this time overall unit production was approximately 225 BOE/d. In August 2006 Arcan closed the purchase of an additional 65.4 percent interest, followed by a further 5% purchased in 2007, bringing Arcan's interest to 81%.

To date, Arcan has:

- Fracture-stimulated some existing oil wells;
- Reworked existing water injection wells;
- Recompleted an old well to a source well;
- Drilled new oil wells and new water injection wells;
- Installed high pressure water injection and oil effluent pipelines;
- Tied-in approximately 100 mcf per day of solution gas that was previously flared;
- Shot a new 3D seismic program covering approximately 34 square kilometres; and
- Constructed a new water handling facility and oil battery capable of 4,000 barrels per day of fluid throughput.

Recovery from the Deer Mountain Unit is low compared to offsetting pools in the field because of a historic lack of drilling and water injection. It is estimated that the oil recovered from the unit to date is 7.9 percent of the original oil-in-place. Arcan believes that ultimate recovery can be increased significantly by reinvigorating development of this high-quality reservoir, including additional drilling, increased water injection and significant reservoir management.

**The future** – Arcan considers Deer Mountain to be a legacy or long-life asset that may produce for another 20 or more years. Arcan has seen response from the recently initiated pressure support in the north end of the pool. After

dropping to approximately 300 net (370 gross) BOE/d in late 2007, production as of March 2008 exceeded 500 net (617 gross) BOE/d. Additional drilling is expected to commence in the second quarter of 2008, weather permitting. The new battery and centralized water injection facilities will allow Arcan to implement a field-wide waterflood and continue drilling patterns of producing wells and water injection wells.

Based on current well spacing, Arcan estimates there is opportunity for several years worth of development activity, including a large number of additional oil-producing and water injection wells to increase rates and recoveries from the unit. Additional upside is expected through pumping optimization and further re-working of existing wellbores, such as fracture-stimulation. In addition Arcan is examining the potential for a future carbon dioxide injection scheme, for coalbed methane ("CBM") drilling potential in the uphole Mannville coals, and for exploration drilling identified by the new seismic.

### **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, 2007, Arcan had a total of 12 head office and 5 field employees.

## **INDUSTRY CONDITIONS**

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the operations of Arcan in a manner materially different than they would affect other oil and gas issuers of similar size. All current legislation is a matter of public record and Arcan is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

### **Pricing and Marketing – Natural Gas**

In Canada, natural gas is sold throughout the country at various market hubs that are connected to several pipelines within Canada and the United States. The transaction price is determined by negotiation between buyers and sellers

and includes the utilization of electronic trading platforms and various publications and reference indexes. Prices depend on many variables including, but not limited to, supply and demand fundamentals, the price of NYMEX natural gas contracts, distance to alternate markets, pipeline costs, natural gas storage, competing fuels, contract term, weather conditions and foreign exchange rates. Natural gas exported from Canada is subject to regulation by the National Energy Board (the "NEB") and the Government of Canada. The price received for natural gas that is exported depends largely on the same variables noted above including the market hub prices at the delivery end of the export pipelines. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. As in the case with oil, natural gas exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 cubic metres per day), must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export license from the NEB and the issuance of such license requires the approval of the Governor in Council.

The governments of Alberta and Saskatchewan also regulate the removal of natural gas from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

### **Pricing and Marketing – Oil**

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Such price depends in part on oil type and quality, price of competing fuels, distance to market, the value of refined products, supply/demand balance and other contractual terms. Oil exporters are also entitled to enter into export contracts and export oil provided that, for contracts that do not exceed one year in the case of light crude oil and two years in the case of heavy crude oil, an export order is obtained from the NEB prior to the export. Any export pursuant to a contract of longer duration (to a maximum of 25 years) must be made pursuant to an NEB export license and Governor in Council approval.

### **Pipeline Capacity**

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, the prorating of capacity on the inter provincial pipeline systems also continues to affect the ability to export oil and natural gas.

### **The North American Free Trade Agreement**

On January 1, 1994, the North American Free Trade Agreement ("NAFTA") among the governments of Canada, the U.S. and Mexico became effective. The NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the U.S. or Mexico will be allowed, provided that any export restrictions are justified under certain provisions of the General Agreement on Tariffs and Trade, and further provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of the energy resource (based upon the proportion prevailing in the most recent 36 month period or in such other representative period as the parties may agree), (ii) impose an export price higher than the domestic price subject to an exception with respect to certain measures which only restrict the volume of exports, and (iii) disrupt normal channels of supply. All three countries that are parties to the NAFTA are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

The NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

## **Provincial Royalties and Incentives**

### *General*

In addition to federal regulation, each province has legislation and regulations that govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas, natural gas liquids and sulphur production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is also subject to certain provincial taxes and royalties. Operations not on Crown lands that are subject to the provisions of specific agreements are also usually subject to royalties negotiated between the mineral owner and the lessee. These royalties are not eligible for incentive programs sponsored by various governments as discussed below. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are from time to time carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests or net carried interests.

From time to time the governments of the western Canadian provinces have established incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced recovery projects. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

### *Alberta*

The Province of Alberta imposes royalties of varying rates on the production of crude oil from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta unveiled a new royalty regime. The new regime would introduce new royalties for conventional oil and natural gas effective January 1, 2009 that have rate components that are linked to price and production levels and will apply to conventional oil and gas activities.

At present, the amount payable to the Alberta government as a royalty in respect of oil depends on the type of oil, the vintage of the oil, the quantity of oil produced in a month and the value of the oil. The vintage of oil is determined based on various criteria set out in the regulations, but is generally broken down into three categories being old oil, new oil (applicable to oil pools discovered after March 31, 1974 and prior to October 1, 1992) and third tier oil (which is oil produced from pools discovered after September 30, 1992). The royalty rate on old oil is between 10% and 35%, for new oil it is between 10% and 30%, and for third tier oil it is between 10% and 25%. The new royalty formula for conventional oil will operate on a sliding rate formula containing separate elements that account for the world oil price and well production. Royalty rates for conventional oil will range up to 50 percent, with rate component caps once the WTI price of conventional oil reaches \$116 per barrel (in Canadian dollars) or at a well productivity of 151 bbls/d. Royalties for natural gas liquids will be set at 40 percent for pentanes and 30 percent for butanes and propane.

The royalty payable to the Alberta government in respect of natural gas is currently determined by a sliding scale based on a reference price (which is the greater of the amount obtained by the producer and a prescribed minimum price), the type of natural gas, the quantity produced in a given month and the vintage of the natural gas. The vintage of natural gas is based on various criteria set out in the regulations, but is generally determined based on when the natural gas pools were discovered and natural gas from such pools was recovered. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than non-associated natural gas. The royalty payable on natural gas varies between 15% and 30%, in the case of new natural gas, and between 15% and 35%, in the case of old natural gas. Natural gas produced from qualifying exploratory natural gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 is eligible for a royalty exemption for a period of 12 months, up to a prescribed maximum amount. Natural gas produced from

qualifying intervals in eligible natural gas wells spudded or deepened to a depth below 2,500 meters is also subject to a royalty exemption, the amount of which depends on the depth of the well. Under the new royalty regime, natural gas royalties will be set by a sliding rate formula sensitive to a combination of price and production volume, and to a lesser extent well depth. New natural gas royalty rates will range from five percent to 50 percent with rate caps at a natural gas price of \$18.72/Mcf or at a well productivity of 568 Mcf/d.

The implementation of the proposed changes to the royalty regime in Alberta is subject to certain risks and uncertainties. The significant changes to the royalty regime require new legislation, changes to existing legislation and regulation and development of proprietary software to support the calculation and collection of royalties. Additionally, certain proposed changes contemplate further public and/or industry consultation. There may be modifications introduced to the proposed royalty structure prior to the implementation thereof.

## **Land Tenure**

Crude oil and natural gas located in the western Canadian provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying periods and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

## **Environmental Regulation**

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and gas industry operations and can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facilities sites be abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean up orders.

Environmental legislation in the Province of Alberta has been consolidated into the *Environmental Protection and Enhancement Act* (Alberta) (the "APEA") and the *Oil and Gas Conservation Act* (Alberta) (the "OGCA"). The APEA and OGCA impose strict environmental standards, require stringent compliance, reporting and monitoring obligations and carry significant penalties. Arcan is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment and Arcan will be taking such steps as required to ensure compliance with the APEA and similar legislation in other jurisdictions in which it operates. Arcan believes that the trend towards stricter standards in environmental legislation and regulation will continue.

Canada is a signatory to the United Nations Framework Convention on Climate Change. Canada has ratified the Kyoto Protocol established thereunder and the Kyoto Protocol has come into force. Annex B parties to the Kyoto Protocol, including Canada, are required to establish legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". On April 26, 2007, the Honourable John Baird, Minister of the Environment, unveiled *Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution*, which will see the federal government impose mandatory greenhouse gas and air pollution targets on industry (including the oil and gas industry). Arcan's exploration and production facilities and other operations and activities will emit a small amount of greenhouse gases and air pollution which may subject Arcan to legislation in Canada regulating emissions of greenhouse gases. Future Canadian federal legislation, together with provincial emission reduction requirements, such as those proposed in the *Climate Change and Emissions*

*Management Act* (Alberta), may require the reduction of emissions or emissions intensity from the Arcan's operations and facilities. The direct and indirect costs of complying with these emissions regulations may adversely affect the business of Arcan. See "Risk Factors – Environmental Concerns".

## **Trends**

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business.

The first trend is the volatility of commodity prices. Natural gas is a commodity increasingly influenced by liquefied natural gas coming from outside of North America. In addition North American fluctuations in supply, influenced by drilling activity, natural gas storage levels and demand (which is impacted by weather and by economic factors) has resulted in significant volatility in the price of natural gas in Canada and the United States.

Crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. Recently crude oil prices have been kept high by increased demand from growing economies in China and India as well as the ongoing political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East. More recently, volatility has increased over short term supply concerns but there is a growing sentiment that the slowing economy in the United States and decreased demand at these higher prices may cause a downturn in oil prices.

The impact on the oil and gas industry from commodity price volatility is significant. Historically, during periods of high prices, producers generated higher cash flows and conducted active exploration programs without external capital. Higher commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. More recently the significant negative impact of regulatory changes combined with a period of lower natural gas prices dramatically reduced activity as smaller producers had little or no access to capital. With decreased demand, the prices charged by the various service suppliers has also decline.

A second trend within the Canadian oil and gas industry is the large number of start up smaller producers from the last two years have very limited access to equity and so many have stopped growing. Although these companies often have experienced management teams from previous industry organizations they may remain relatively dormant or decline for the next six to eighteen months until pressured to merge or see a rebound in interest in that segment of the sector.

A third trend currently affecting the oil and gas industry is the impact on capital markets caused by investor uncertainty in the North American economy. Global economics ultimately dictate commodity demand and therefore prices. Arcan realizes that it is a price taker and therefore must maintain financial flexibility to deal with uncertain commodity prices. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. Some companies will have to rely on internally generated funds to conduct their exploration and developmental programs.

A fourth trend currently affecting the oil and gas industry is an increasing call for carbon capture due to green house gas emissions. Capital requirements to meet emission standards could be enormous and is directly impacted by events such as the Kyoto Protocol. Arcan realizes that it will be required to meet governmental standards as they are introduced and must maintain the financial flexibility to do so. An advantage longer term may be derived from the waterflood activities and related increased recoveries in our Deer Mountain property as it is likely a leading candidate for CO2 flooding.

A fifth trend has been the Government of Canada's alteration of the taxation of publicly traded royalty trusts. On October 31, 2006, the Government of Canada announced its intention to begin taxing income trusts, including trusts that hold oil and gas properties. This announcement has caused significant volatility in the unit prices of these trusts as the market corrected for this announcement and as the clarification of the rules surrounding the implementation of trust taxation continues to unfold. As oil and gas trusts have been significant acquirers of junior exploration and production companies, the volatility of the trust market has been mirrored by junior exploration and production

companies. Prior to announcement regarding the new legislation, many junior oil and gas companies were able to divest themselves to the larger income trusts entities when there was a business advantage to do so. As a result of the proposed changes, it may be more difficult for junior and gas companies to find an efficient route for divestment which may impact the liquidity and valuation of securities of such companies.

A sixth trend has been the pronounced lack of equity capital available to the sector as a result of the Province of Alberta's alteration of the provincial royalty program. In October 2007, the Alberta Government announced its intention to raise royalty rates on oil and gas properties. This announcement has caused significant declines in share prices as the market corrected for this announcement and as the clarification of the rules surrounding the implementation continues to unfold. It is expected that this volatility will continue until all details surrounding the announcement are clear and final and the market fully corrects for the significant future implications of the increased royalties. As a result of the proposed changes, it may be more difficult for junior and gas companies to find equity financing which may continue to impact the liquidity and valuation of securities of such companies.

## STATEMENT OF RESERVES DATA

In accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities, the GLJ Report was prepared by GLJ on March 17, 2008. The GLJ Report evaluated, as at December 31, 2007, the oil, NGL and natural gas reserves attributable to Arcan.

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 constant and 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 contained in the GLJ Report due to rounding. Also due to rounding, certain columns may not add exactly.

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 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 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 – Constant Prices and Costs

Reserves Category	Light & Medium Oil		Natural Gas <sup>(1)</sup>		Natural Gas Liquids	
	Gross <sup>(2)</sup> (Mbbls)	Net <sup>(3)</sup> (Mbbls)	Gross <sup>(2)</sup> (Mmcf)	Net <sup>(3)</sup> (Mmcf)	Gross <sup>(2)</sup> (Mbbls)	Net <sup>(3)</sup> (Mbbls)
<b>Proved</b>						
Developed Producing	2,382	1,942	3,175	2,252	332	205
Developed Non-Producing	255	167	1,371	1,026	61	38
Undeveloped	1,142	894	(342)	(267)	31	12
<b>Total Proved</b>	<b>3,778</b>	<b>3,003</b>	<b>4,205</b>	<b>3,010</b>	<b>424</b>	<b>255</b>
<b>Probable</b>	<b>1,597</b>	<b>1,162</b>	<b>2,377</b>	<b>1,722</b>	<b>186</b>	<b>113</b>
<b>Total Proved + Probable</b>	<b>5,375</b>	<b>4,165</b>	<b>6,581</b>	<b>4,732</b>	<b>611</b>	<b>368</b>

(1) Estimates of reserves of natural gas include associated and non-associated gas.

(2) "Gross Reserves" are Arcan's working interest share of reserves before the deduction of royalties.

(3) "Net Reserves" are Arcan's working interest share of reserves less all Crown, freehold, and overriding royalties and interests owned by others.

## Net Present Value of Future Net Revenue – Constant Prices and Costs

Reserves Category	Net Present Value (NPV) of Future Net Revenue (FNR) <sup>(1)</sup>										
	Before Income Taxes - Discounted at (%/yr)					After Income Taxes - Discounted at (%/yr) <sup>(2)</sup>					Unit Value <sup>(3)</sup> (\$/BOE)
	0 (MM\$)	5 (MM\$)	10 (MM\$)	15 (MM\$)	20 (MM\$)	0 (MM\$)	5 (MM\$)	10 (MM\$)	15 (MM\$)	20 (MM\$)	
<b>Proved</b>											
Developed Producing	144.3	102.0	80.4	67.1	58.1	129.7	94.6	76.0	64.3	56.1	31.86
Developed Non-Producing	16.2	15.2	13.4	11.7	10.3	11.5	11.1	9.9	8.8	7.9	35.57
Undeveloped	57.3	42.2	32.7	26.3	21.8	40.8	30.0	23.0	18.3	15.1	37.98
<b>Total Proved</b>	<b>217.8</b>	<b>159.5</b>	<b>126.5</b>	<b>105.1</b>	<b>90.2</b>	<b>182.0</b>	<b>135.6</b>	<b>108.9</b>	<b>91.4</b>	<b>79.1</b>	<b>33.63</b>
<b>Probable</b>	<b>99.1</b>	<b>63.0</b>	<b>45.6</b>	<b>35.5</b>	<b>28.7</b>	<b>70.8</b>	<b>44.7</b>	<b>32.2</b>	<b>24.9</b>	<b>20.1</b>	<b>29.21</b>
<b>Total Proved + Probable</b>	<b>316.9</b>	<b>222.4</b>	<b>172.1</b>	<b>140.6</b>	<b>118.9</b>	<b>252.7</b>	<b>180.3</b>	<b>141.1</b>	<b>116.3</b>	<b>99.1</b>	<b>32.34</b>

- (1) NPV of FNR 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% per year. The net values are based on net reserves volumes.

## Additional Information Concerning Future Net Revenue – Constant Prices and Costs

Reserves Category	Revenue (MM\$)	Royalties (MM\$)	Operating Cost (MM\$)	Development Costs (MM\$)	Well Aband. Costs (MM\$)	BT Future Net Revenue <sup>(1)</sup> (MM\$)	Income Taxes (MM\$)	AT Future Net Revenue <sup>(1)</sup> (MM\$)
Proved	400.8	86.5	73.2	21.7	1.5	217.8	35.8	182.0
Total Proved + Probable	575.1	134.2	95.1	27.2	1.7	316.9	64.2	252.7

- (1) BT = Before Taxes and AT = After Taxes

## Net Present Value of Future Net Revenue by Production Group – Constant Prices and Costs

Reserves Category	Production Group	BT Discounted (10%/Yr) Future Net Revenue <sup>(1)</sup> (M\$)	Unit Value <sup>(2)</sup> (\$/Bbl/\$/Mcf)
<b>Proved</b>	Light & Medium Oil (including by-products including solution gas from oil wells)	117,418	34.80
	Natural Gas (including by-products but excluding solution gas from oil wells)	9,044	3.91
		126,462	33.63
<b>Proved + Probable</b>	Light & Medium Oil (including by-products including solution gas from oil wells)	159,055	33.93
	Natural Gas (including by-products but excluding solution gas from oil wells)	13,049	3.43
		172,104	32.34

- (1) BT = Before Taxes  
(2) Calculated using net oil or net gas reserves and constant price and cost assumptions.

## 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> (Mbbls)	Net <sup>(3)</sup> (Mbbls)	Gross <sup>(2)</sup> (MMcf)	Net <sup>(3)</sup> (MMcf)	Gross <sup>(2)</sup> (Mbbls)	Net <sup>(3)</sup> (Mbbls)
<b>Proved</b>						
Developed Producing	2,400	1,957	3,177	2,253	334	206
Developed Non-Producing	253	166	1,371	1,026	61	38
Undeveloped	1,142	894	(342)	(267)	31	12
<b>Total Proved</b>	<b>3,795</b>	<b>3,017</b>	<b>4,207</b>	<b>3,011</b>	<b>426</b>	<b>256</b>
<b>Probable</b>	<b>1,645</b>	<b>1,205</b>	<b>2,383</b>	<b>1,726</b>	<b>191</b>	<b>116</b>
<b>Total Proved + Probable</b>	<b>5,441</b>	<b>4,222</b>	<b>6,590</b>	<b>4,737</b>	<b>617</b>	<b>372</b>

- (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 (NPV) of Future Net Revenue (FNR) <sup>(1)</sup>										
	Before Income Taxes - Discounted at (%/yr)					After Income Taxes - Discounted at (%/yr) <sup>(2)</sup>					Unit Value <sup>(3)</sup> (\$/BOE)
	0 (MM\$)	5 (MM\$)	10 (MM\$)	15 (MM\$)	20 (MM\$)	0 (MM\$)	5 (MM\$)	10 (MM\$)	15 (MM\$)	20 (MM\$)	
<b>Proved</b>											
Developed Producing	127.2	91.7	73.0	61.5	53.6	117.3	87.0	70.5	60.0	52.6	28.76
Developed Non-Producing	14.5	13.9	12.3	10.8	9.6	10.3	10.2	9.3	8.4	7.6	32.79
Undeveloped	47.4	35.0	27.1	21.9	18.1	33.8	24.7	19.1	15.2	12.5	31.50
<b>Total Proved</b>	<b>189.2</b>	<b>140.5</b>	<b>112.4</b>	<b>94.2</b>	<b>81.3</b>	<b>161.4</b>	<b>122.0</b>	<b>98.9</b>	<b>83.6</b>	<b>72.7</b>	<b>29.79</b>
<b>Probable</b>	<b>92.1</b>	<b>57.4</b>	<b>41.1</b>	<b>31.8</b>	<b>25.7</b>	<b>65.7</b>	<b>40.7</b>	<b>29.0</b>	<b>22.2</b>	<b>17.9</b>	<b>25.56</b>
<b>Total Proved + Probable</b>	<b>281.3</b>	<b>197.9</b>	<b>153.6</b>	<b>125.9</b>	<b>107.0</b>	<b>227.0</b>	<b>162.7</b>	<b>127.9</b>	<b>105.8</b>	<b>90.6</b>	<b>28.53</b>

- (1) NPV of FNR 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% per year.

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

Reserves Category	Revenue	Royalties	Operating Cost	Development Costs	Well Aband. Costs	BT Future Net Revenue <sup>(1)</sup>	Income Taxes	AT Future Net Revenue <sup>(1)</sup>
	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)
Proved	387.5	81.8	90.9	23.4	2.3	189.2	27.8	161.4
Total Proved + Probable	570.5	127.6	128.7	30.2	2.7	281.3	54.3	227.0

- (1) BT = Before Taxes and AT = After Taxes

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

Reserves Category	Production Group	BT Discounted (10%/Yr) Future Net Revenue <sup>(1)</sup> (M\$)
<b>Proved</b>	Light & Medium Oil (including by-products including solution gas from oil wells)	102,840
	Natural Gas (including by-products but excluding solution gas from oil wells)	9,600
		<u>112,440</u>
<b>Proved + Probable</b>	Light & Medium Oil (including by-products including solution gas from oil wells)	139,577
	Natural Gas (including by-products but excluding solution gas from oil wells)	13,995
		<u>153,572</u>

- (1) BT = Before Taxes

### Pricing Assumptions – Constant Prices and Costs

GLJ employed the following pricing and exchange rate assumptions as of December 31, 2007, in the Report in estimating reserves data using constant prices and costs.

Oil	Gas	Natural Gas Liquids		Other	
Edmonton Par Price 40 API (\$/bbl)	AECO - C Spot (\$/MMBTU)	Butanes (\$/bbl)	Pentanes Plus (\$/bbl)	Exchange Rate (\$US/\$Cdn)	Inflation Rate (%/Yr)
93.39	6.63	74.71	94.24	1.012	-

### Pricing Assumptions – Forecast Prices and Costs

GLJ employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2007, in the Reports in estimating reserves data using forecast prices and costs.

Year	Inflation	Medium and Light Crude Oil			Natural Gas		
		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)	Exchange Rate (\$US/\$Cdn)
2007 (actual)	2.1	72.24	77.02	66.30	6.43	6.65	0.935
2008	2.0	92.00	91.10	79.26	6.53	6.75	1.000
2009	2.0	88.00	87.10	75.78	7.33	7.55	1.000
2010	2.0	84.00	83.10	72.30	7.37	7.60	1.000
2011	2.0	82.00	81.10	70.56	7.37	7.60	1.000
2012	2.0	82.00	81.10	70.56	7.37	7.60	1.000
2013	2.0	82.00	81.10	70.56	7.37	7.60	1.000
2014	2.0	82.00	81.10	70.56	7.57	7.80	1.000
2015	2.0	82.00	81.10	70.56	7.74	7.97	1.000
2016	2.0	82.02	81.12	70.57	7.91	8.14	1.000
2017	2.0	83.66	82.76	72.00	8.08	8.31	1.000

Escalated at 2.0% per year thereafter.

## RECONCILIATION OF CHANGES IN RESERVES

The following table summarizes the changes in reserves from December 31, 2006 to December 31, 2007<sup>(1)</sup>:

### FORECAST PRICES AND COSTS

	Light & Medium Oil (Mbbls)			Natural Gas (MMcf)			Natural Gas Liquids (Mbbls)		
	Proved	Probable	P+P	Proved	Probable	P+P	Proved	Probable	P+P
<b>December 31, 2006</b>	2,538	1,115	3,653	3,501	2,304	5,804	295	158	453
Discoveries	-	-	-	-	-	-	-	-	-
Extensions	471	238	708	1,378	691	2,069	75	31	106
Infill Drilling	142	61	202	20	9	29	13	5	18
Improved Recovery	156	(4)	152	(404)	(204)	(608)	16	-	16
Technical Revisions	490	118	608	125	(660)	(535)	42	(22)	20
Acquisitions	240	118	357	498	243	741	35	18	52
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(241)	-	(241)	(910)	-	(910)	(49)	-	(49)
<b>December 31, 2007</b>	<b>3,795</b>	<b>1,645</b>	<b>5,441</b>	<b>4,207</b>	<b>2,383</b>	<b>6,590</b>	<b>426</b>	<b>191</b>	<b>617</b>

**Notes:**

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

## UNDEVELOPED RESERVES

The following discussion generally describes the basis on which Arcan attribute 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 – Description of the Properties".

The following table discloses the volumes of undeveloped reserves that were first attributed in each of Arcan's most recent three financial years.

Year	Proved Undeveloped Reserves			Probable Undeveloped Reserves		
	Crude Oil Light and Medium (Mbbls)	NGLs (Mbbls)	Natural Gas (Mmcf)	Crude Oil Light and Medium (Mbbls)	NGLs (Mbbls)	Natural Gas (Mmcf)
2007	541	6	(225)	399	(3)	(240)
2006	600	25	(116)	309	8	70
2005	-	-	-	-	-	-

### Proved Undeveloped Reserves

Proved undeveloped reserves are generally those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells further away from gathering systems. In addition, such reserves may relate to planned infill drilling locations.

### Probable Undeveloped Reserves

Probable undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to 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 (using both constant prices and costs and forecast prices and costs) and proved plus probable reserves (using forecast prices and costs only).

*Arcan Resources Ltd.*

Year	Constant Prices & Costs	Forecast Prices & Costs	
	For Proved Reserves (M\$)	For Proved Reserves (M\$)	For Proved + Probable Reserves (M\$)
2008	11,753	11,753	13,340
2009	4,873	4,970	8,688
2010	162	168	168
2011	162	172	172
2012	162	175	175
<b>Total for First 5 Years</b>	<b>17,112</b>	<b>17,238</b>	<b>22,543</b>
Total Undiscounted	21,706	23,363	30,235
Total Discounted at 10%/Yr	16,742	17,109	21,868

(1) Future development costs shown are associated with booked reserves in the Arcan Report and do not necessarily represent Arcan's full exploration and development budget.

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.

### OTHER OIL AND GAS INFORMATION FOR THE PROPERTIES

#### Description of the Properties

##### *Hamburg/Chinchaga Area*

In the Hamburg/Chinchaga area, Arcan is producing from the Devonian Slave Point formation where it holds a 50.25% working interest. The Slave Point formation is a basal carbonate reservoir unit of the Beaverhill Lake formation. The porous and permeable limestones and dolomites forming these reservoirs are part of a multistage reef build up where backstepping, carbonate and shallowing upwards cycles have formed low relief organic buildups

within mud banks. Arcan's pools lay on the southern main bank edge of the large Hamburg Slave Point "A" pool. Arcan's Slave Point oil pool sits at approximately 2,500 metres and drill and abandon costs are estimated at \$1.9 million gross per well. The wells drilled into the Hamburg "GG" discovery oil pool initially tested from 300 BOE/d to over 1,800 BOE/d each of 40 API sweet oil and natural gas and are tied into an Arcan owned (50.25%) and operated facility.

In the December 2005 to March 2006 period, Arcan drilled two Slave Point oil wells which commenced production in March and April 2006. Arcan believes the two Slave Point oil wells have resulted in a significant oil discovery. To date Arcan has drilled seven (4.0 net) wells into this pool confirming a pool of sizable aerial extent and reserve potential. Late in October, 2007 Arcan commenced a waterflood into this pool after drilling a source well, building an injection facility and an all weather access road and converting one of the wells to an injector. Of the seven wells, six (3.5 net) are included in the "GG" pool, one (0.5 net) of which is an injector. Two (1.0 net) producing wells are included in the Enhanced Recovery ("ER") scheme and produce under Good Production Practices ("GPP"). Three wells continue to be subject to Maximum rate Limits ("MRL's) of approximately 90 (45 net) boe per day each. One recently drilled well (0.5 net) will need to be added to the pool and then included in the ER scheme and is currently flowing under its new well allowable period until the end of April when it will be placed under MRL limits.

Arcan has identified additional exploration opportunities in the area and is sourcing additional farm-in opportunities for both oil and natural gas in both the Alberta and British Columbia sides of the Hamburg area.

#### *McLeod Area*

To date, Arcan has drilled 7 (5.6 net) wells in the McLeod area. Arcan restricted capital expenditures in this area in 2007 to focus on the oil weighted properties. Current production averages approximately 300-400 BOE/d net from the area. Arcan expects to participate in one (0.50 net) development location in the second quarter of 2008 and expects to drill one exploration location in the fourth quarter of 2008. Arcan has numerous additional prospects in the area and is reviewing land activity and additional farm-in and acquisition opportunities in the area for drilling later in 2008.

#### *Deer Mountain (Swan Hills/Judy Creek) Area*

The Deer Mountain Unit properties are located in north central Alberta, approximately 120 miles northwest from the city of Edmonton. Production at the Deer Mountain Unit averaged 406 BOE/d net in 2007. Arcan now has three water injection wells in operation and the new battery and water handling system are fully operational.

In September 2005, Arcan purchased a 10.9% interest, sold a 0.5% interest and signed an option agreement to purchase an additional 65.4% interest in the Deer Mountain Unit. On June 30, 2006 this option was exercised and subsequently closed on August 25, 2006. After some additional interest acquisitions in 2008, Arcan now owns a net 80.87% unit interest.

Deer Mountain Unit wells produce oil from the Beaverhill Lake Formation. Initial production from the Deer Mountain Unit commenced in 1964 and unitization occurred in late 1984 when a water injection scheme was initiated. As at December 2007, the Deer Mountain Unit had 33 wells comprised of: (i) 28 producers; (ii) 3 water injectors; (iii) 2 water source; and (iv) a new oil battery and water handling system. To date the Deer Mountain Unit has recovered approximately 3.1 million BOE and GLJ has assigned an Original Oil In Place ("OOIP") of 39 million stb. Based on petrophysical studies and recent drilling Arcan believes that that the OOIP numbers are low and could be significantly higher. The current recovery factor from the Deer Mountain Unit is low compared to other units in the Beaverhill Lake.

Arcan expects to realize significant upside in drilling, with new 3-D seismic, pumping optimization, fracture stimulating existing well-bores, additional down-spaced drilling and additional water injection. Arcan is also assessing the potential for future CO<sub>2</sub> injection schemes and coalbed methane in the uphole Mannville sands.

## OIL AND GAS WELLS

The following table sets forth the number and status of wells effective December 31, 2007, 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	34.0	27.2	7.0	5.7	7.0	5.0	5.0	3.0

## PROPERTIES WITH NO ATTRIBUTED RESERVES

The following table summarizes, effective December 31, 2007, 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, 2008. This does not include lands in which Arcan has a right to acquire/earn an interest in pursuant to the farm-in agreements entered into.

	Gross Acres	Net Acres	Net Acres Expiring Within One Year
All Alberta	27,250	19,159	0

As of December 31, 2007, Arcan had no commitments to spend funds on the lands noted above for the period ending December 31, 2008.

## DRILLING ACTIVITY

The following table sets forth the gross and net exploratory and development wells drilled on the Arcan Properties during the year (12 months) ended December 31, 2007.

*Arcan Resources Ltd.*

	Exploratory Wells		Development Wells		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
Light and Medium Oil	-	-	8.0	5.7	8.0	5.7
Heavy Oil	-	-	-	-	-	-
Natural Gas	-	-	1.0	1.0	1.0	1.0
Dry/Service	2.0	1.5	1.0	1.0	3.0	2.5
Total:	2.0	1.5	10.0	7.7	12.0	9.2

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

## FORWARD CONTRACTS

As of December 31, 2007, Arcan did not have any hedging transactions in place.

## ADDITIONAL INFORMATION CONCERNING ABANDONMENT AND RECLAMATION COSTS

*Arcan Resources Ltd.*

Arcan typically estimates well abandonment costs area by area. Such costs are included in the Arcan Report as deductions in arriving at future net revenue. Arcan expects to incur and is accruing reclamation costs for 7 wells 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 without discount is \$2,159,000 and with a 10% 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>		
2008	0	0
2009	0	73
2010	40	32
<b>Proved + Probable Reserves (Yr)</b>		
2008	40	40
2009	0	0
2010	81	66

(1) Costs shown are greater than those included in the Arcan 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

*Arcan Resources Ltd.*

The following table summarizes capital expenditures incurred for the year ended December 31, 2007 with respect to the Arcan Properties.

	<u>M\$</u>
Property acquisition costs – proved properties	7.8
Property acquisition costs – unproved properties	3.4
Exploration costs	8.3
Development costs	39.2
	<u>\$58.7</u>

### PRODUCTION ESTIMATES – FORECAST PRICES AND COSTS

*Arcan Resources Ltd.*

The following table discloses for 2008, 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".

<u>Reserves Category</u>	<u>Constant Pricing Daily Production<sup>(2)</sup></u>	<u>Forecast Pricing Daily Production<sup>(2)</sup></u>
Light & Medium Oil (bbls/d)	1,215	1,232
Associated and Non-Associated Gas (Mcf/d)	2,490	2,492
Natural Gas Liquids (bbls/d)	159	161
<b>TOTAL<sup>(1)</sup> (BOE/d)</b>	<u>1,789</u>	<u>1,808</u>

(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>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 Unit #2	667	94	59
Hamburg	555	531	46
McLeod	10	1,851	55
Other Properties	0	17	0
<b>Total</b>	<u>1,232</u>	<u>2,492</u>	<u>161</u>

(1) Daily production is taken from the GLJ Report.

(2) Natural Gas includes associated and non-associated sales gas volumes.

### Estimated 2008 Production

The following table describes the volume of production net of royalties estimated for 2008 in preparing the estimated net present values of future net revenue above.

<b>Product Type</b>	<b>Estimated 2008 Net Daily Production (Proved )</b>	<b>Estimated 2008 Net Daily Production (Proved Plus Probable)</b>
Crude Oil		
Light and medium oil (bbls/d)	872	912
Total crude oil (bbls/d)	872	912
Natural gas liquids (bbls/d)	99	114
Total liquids (bbls/d)	971	1,026
Natural gas (mcf/d)	1,685	2,087
Total Net of Royalties (boepd)	1,252	1,374

### PRODUCTION HISTORY

#### Arcan Resources Ltd.

The following tables disclose, for the year ended December 31, 2007, 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

	<b>Three Months Ended</b>				<b>Total</b>
	<b>Mar. 31, 2007</b>	<b>June 30, 2007</b>	<b>Sept. 30, 2007</b>	<b>Dec. 31, 2007</b>	
Natural gas (Mcf/d)	1,922	2,980	2,246	1,965	2,278
Crude Oil and NGL's (bbl/d)	674	792	929	794	798
Total (BOE/d)	995	1,289	1,304	1,122	1,178

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

(\$ per BOE)	<b>Three Months Ended</b>				<b>Total</b>
	<b>Mar. 31, 2007</b>	<b>June 30, 2007</b>	<b>Sept. 30, 2007</b>	<b>Dec. 31, 2007</b>	
Natural gas (\$/Mcf)	8.19	8.09	6.51	6.93	7.46
Crude Oil and NGL's (\$/bbl)	62.42	70.35	75.47	81.88	73.09
Prices Received	58.14	61.94	65.01	70.12	63.97
Royalties Paid	16.20	14.64	14.12	16.06	15.27
Production Costs	10.65	7.44	9.40	24.83	12.83
Netback <sup>(1)</sup>	31.29	39.86	41.49	29.23	35.97

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, 2007.

<b>Field</b>	<b>Light &amp; Medium Oil (bbl/d)</b>	<b>Natural Gas<sup>(2)</sup> (Mcf/d)</b>	<b>Natural Gas Liquids (bbl/d)</b>
Deer Mountain Unit #2	394	68	-
Hamburg	317	392	4
McLeod	49	1,796	21
Other Properties	-	21	3
<b>Total</b>	<b>760</b>	<b>2,278</b>	<b>28</b>

## **TAX HORIZON**

Based on existing reserves and an estimated \$103.7 million in tax pools, Arcan estimates that it will not be required to pay income taxes until after 2009.

## **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 37,826,560 Common Shares, 598,631 Warrants, 1,500,000 Performance Warrants, and 3,440,000 options to purchase Common Shares outstanding.

### **Preferred Shares**

The Arcan preferred shares 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 who also may fix the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. The Arcan preferred shares 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 Arcan preferred shares outstanding.

### **Performance Shares**

As at December 31, 2007, there were 6,550,400 Performance Shares outstanding. The Performance Shares were issued pursuant to the terms of the amalgamation of Arcan and Desco on January 1, 2007. In connection with the amalgamation, each former Desco shareholder received one Arcan Performance Share as a portion of the consideration for each Desco Share exchanged in the amalgamation. Pursuant to the provisions of the Performance Shares in Arcan's Articles of Amalgamation, such shares were to be, on or before November 1, 2008, either: (a) redeemed and cancelled or (b) converted into a fraction of an Arcan Share, to a maximum of 0.20380435 of an Arcan Share for each Arcan Performance Share. The terms of the Performance Shares provide that Arcan may, at its option, elect to convert each Arcan Performance Share into 0.20380435 of an Arcan Share at an earlier date as specified by the board of directors of Arcan.

Effective March 12, 2008, Arcan's board consented to give immediate effect to the earlier conversion of the Arcan Performance Shares. All 6,550,400 outstanding Performance Shares were converted into 1,335,005 Common Shares, effective as of March 12, 2008. As at the date hereof, there are no Performance Shares 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>2007</b>			
January 9 – 31	4.00	2.85	4,323,300
February	4.25	3.65	2,352,100
March	4.00	3.41	1,311,200
April	4.55	3.47	1,701,700
May	4.43	4.00	1,226,500
June	4.50	3.90	970,200
July	5.14	3.71	3,426,500
August	4.04	3.60	932,000
September	3.79	3.30	882,500
October	3.75	3.03	1,268,000
November	3.20	2.50	735,400
December	3.05	2.31	479,700
<b>2007 Summary</b>	5.14	2.37	19,609,100
<b>2008</b>			
January	2.70	1.40	1,232,100
February	1.99	1.60	936,300

## ESCROWED SECURITIES

Pursuant to the Arcan Escrow Agreement, the Escrow Agent holds the certificates representing the securities of Arcan listed in the Arcan Escrow Agreement. The securityholders named in the Arcan Escrow Agreement are officers and directors of Arcan and persons related to such officers and directors. One-quarter of the Arcan Escrowed Securities were released from escrow on January 10, 2007 when the Common Shares began trading on the TSXV, one-third of the remaining Arcan Escrowed Securities were released on July 10, 2007, one-half of the remaining Arcan Escrowed Securities were released from escrow on January 10, 2008, and all of the remaining Arcan Escrowed Securities will be releasable from escrow on July 10, 2008.

The holders of the Escrowed Securities are generally entitled to exercise voting rights associated with the Escrowed Securities while such securities are in escrow, and to receive dividends thereon. The securityholders named in the Escrow Agreements are not permitted to transfer the securities while they are held by the Escrow Agent.

As at December 31, 2007, the following securities of Arcan are held in escrow:

Designation of Class	Escrowed Securities	
	Number of Securities Held in Escrow	Percentage of Class
Common Shares	611,669	1.7%
Performance Warrants	125,000	8.3%

In addition, certain directors and officers of Arcan beneficially own Common Shares that are registered in the names of their respective registered retirement savings plans (the "RRSP Shares"). While the RRSP Shares are not subject to an escrow agreement, each of the directors and officers who owns RRSP Shares has signed and delivered to the TSXV an acknowledgement and undertaking acknowledging that he beneficially owns RRSP Shares and undertaking that he will not provide the administrator of his RRSP with instructions to trade or otherwise deal with the RRSP Shares except in accordance with the terms of the Arcan Escrow Agreement, as if the RRSP Shares were subject to the Arcan Escrow Agreement.

## 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 Municipally 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>
M. Bruce Chernoff <sup>(2)</sup> Calgary, Alberta, Canada	Director January 17, 2007	In 2002, Mr. Chernoff co-founded Harvest Energy Trust where he currently holds the position of Chairman of the Board. Mr. Chernoff is currently President of Caribou Capital Corp. and is also a director of several other public companies.	1,764,750 (4.7%)
Robert J. Dales <sup>(2)</sup> Calgary, Alberta, Canada	Director January 1, 2007	President, Chief Executive Officer and a director of Desco 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.	476,490 (1.3%)
Andy Fisher <sup>(4)(5)</sup> 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 (2.1%)
Ed Gilmet <sup>(3)(6)</sup> 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.	1,448,913 (3.8%)
Michael J. Laffin <sup>(3)(6)</sup> Calgary, Alberta, Canada	Corporate Secretary and Director January 1, 2007	Partner with Blake, Cassels & Graydon LLP, a national Canadian law firm since August 2002. Prior thereto he was counsel to Donahue LLP, a law firm.	94,500 (0.2%)
J. Terry McCoy <sup>(2)(4)(5)</sup> Calgary, Alberta, Canada	Director January 1, 2007	Vice President of Exploration for Calvalley Petroleum Inc which is an oil and gas company that is active internationally. Prior thereto, Mr. McCoy was President and a director of Trafina Energy Ltd. Prior thereto, Mr. McCoy was Vice President of Exploration at Murphy Oil Company from January 2001 to April 2004.	158,478 (0.4%)
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.	460,500 (1.2%)

<b>Name and Municipally 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>
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.	20,000 (0.1%)
Hank B. Swartout <sup>(3)(4)(5)(6)</sup> Calgary, Alberta, Canada	Director January 1, 2007	Mr. Swartout is an independent business man, with interests in the oil and gas industry and real estate development. He is the former Executive Chairman and founder of Precision Drilling Corporation.	1,809,918 (5.0%)

**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 7,093,209 Common Shares, which represents approximately 18.8% of the number of the Common Shares.

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. 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.

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

**M. Bruce Chernoff – Director**

Mr. Chernoff is a Professional Engineer with a Bachelor of Applied Science degree in Chemical Engineering from Queen's University. In 1988, Mr. Chernoff co-founded Pacalta Resources Ltd., a public junior oil and natural gas company with operations in Canada and Latin America, where he held various senior positions, including Executive Vice President and Chief Financial Officer. Mr. Chernoff was director of Pacalta Resources Ltd. from 1992 until it was purchased by Alberta Energy Company in May 1999 for \$1 billion. Mr. Chernoff is currently President of Caribou Capital Corp. In 2002, Mr. Chernoff co-founded Harvest Energy Trust to pursue oil and natural gas development and acquisition opportunities and where he currently holds the position of Chairman of the Board. As

well as Harvest Energy Trust, Mr. Chernoff is currently a director of West Energy Ltd., Blackwatch Energy Services Trust and Maxim Power Corp.

**Robert J. Dales, MBA – Director**

Mr. Dales has 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 Panartic 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 public 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. (formerly Desco Exploration Ltd.), a public oil and gas exploration company, and President and a director of Valhalla Ventures Inc., a private investment company based in Calgary, Alberta.

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

Mr. Fisher has 19 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 over 28 years exploration experience throughout Saskatchewan, Alberta and British Columbia. Mr. Gilmet has worked at Hudson Bay Oil and Gas, Dome Petroleum Ltd., Westcoast Energy Corp., Poco Petroleum Ltd. and most recently Burlington Resources Canada Ltd. Mr. Gilmet has an extensive background of successful oil and gas exploration using seismic integrated with geology. In the past five years, he has successfully discovered 10 to 15 Bcf of gas each year at an on-stream cost of less than \$8.00/BOE or \$1.30/Mcf. He has directly assisted in increasing gas production from 0 to 70 MMcf/d from Hamburg/Chinchaga area. He is very familiar with all facets of seismic acquisition, processing and interpretation, and has extensive computer skills and management experience. Mr. Gilmet has successfully managed drilling and operation budgets of over \$50 million. While at Westcoast Energy, Poco Petroleum and Burlington Resources Canada during the past 17 years, Mr. Gilmet managed exploration teams of five to 12 technical staff. While working in northern Alberta in the past seven to nine years, Mr. Gilmet increased Poco Petroleum's/Burlington Resources Canada's success ratio to as high as 90% in the Hamburg/Chinchaga drilling area, using seismic, while the industry average remained at 30%.

**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 Vice President of Exploration for Calvalley Petroleum Inc. which is an oil and gas company that is active internationally. Prior thereto Mr. McCoy was President of TRAFINA Energy Ltd. Prior to joining TRAFINA Mr. McCoy was Vice President of Exploration at Murphy Oil Company and prior to Murphy was employed for 11 years at POCO Petroleum as Vice President of Exploration and subsequently as President of Burlington Resources of Canada. 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 over 15 years of varied experience in oil and gas financial management. 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. Tempest Energy grew from zero to over 4,000 BOE/d, mainly through drilling, and was sold to Daylight Energy Trust in November 2005. 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 to joining Arcan. Prior to Tempest Energy, Mr. Penner was employed by Northrock Resources, Tier One Energy Corp., Amerada Hess Canada and Ernst & Young.

### **Graeme Ryder, CA – Controller**

Mr. Ryder has been Controller of Arcan since August 1, 2006 and was Controller of Open Range Energy Corp. prior to joining Arcan. Mr. Ryder was Controller of Tempest Energy Corp., an oil and gas company, from June 2003 to November 2005. He joined Tempest Energy after completing his Chartered Accounting designation with KPMG LLP in Calgary, Alberta.

### **Hank B. Swartout, P. Eng. – Director**

Hank B. Swartout is an independent businessman, with interests in the oil and gas industry and real estate development. He is the former Executive Chairman and founder of Precision Drilling Corporation, Canada's largest oil well drilling contractor, with one-third of Canada's available oil well drilling rig fleet and one-quarter of the country's oil well service rigs. Mr. Swartout is a 1972 graduate of the Petroleum Engineering program at Calgary's Southern Alberta Institute of Technology (SAIT). Following graduation, Mr. Swartout began his career as a field technician and pursued further education at the University of Wyoming, earning his Honours Petroleum Engineering degree. Mr. Swartout returned to Calgary in 1978 to build drilling rigs with Nabors Drilling for use in Alberta and Alaska, then moved to Edmonton in 1981 to manage the rig design and construction business of Dreco Energy Services Ltd. delivering drilling rigs to clients for use in the United States, Canada and overseas. Mr. Swartout served as co-chair of the Calgary and Area United Way Campaign for 2006.

### *Compensation of Directors*

Other than the options to purchase Common Shares that were granted pursuant to option agreements, members of the board of directors of Arcan received no compensation during the financial year ended December 31, 2007.

Michael J. Laffin, formerly a director of Arcan and currently a director of Arcan, is a partner with the law firm of Blake, Cassels & Graydon LLP which firm has received fees from Arcan for legal services provided to Arcan for legal services provided to Arcan during the financial year ended December 31, 2007 and continues to provide such services from time to time to Arcan.

### **Indebtedness of Directors and Executive Officers**

On April 3, 2006, Arcan loaned \$100,000 to Douglas Penner, Vice President, Finance and Chief Financial Officer of Arcan. Mr. Penner used the proceeds of the loan to purchase Common Shares. These Common Shares are held as collateral against that loan.

Other than as described above, no current or former director or officer of Arcan, nor any associate thereof, is or was indebted to Arcan at any time since the beginning of the last completed financial year of Arcan.

#### **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) and it obtained such protection pursuant to an order from the Alberta Court of Queen's Bench. Terry McCoy, a director of Arcan, resigned as a director of Mystique effective April 25, 2007.

Apart from the above disclosure, 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.

## PROMOTERS

Although there are currently no promoters of Arcan, in the past Messrs. Gilmet and Fisher could have been considered to be the promoters of Arcan in that they took the initiative in founding and organizing Arcan.

The preceding table under "Directors and Officers" highlights the number and percentage of Common Shares beneficially owned, directly or indirectly, or over which control is exercised by Messrs. Gilmet and Fisher. The table reflects the conversion of 499,700 Performance Shares, which were held on December 31, 2007 by Mr. Gilmet, to 101,841 Common Shares effective March 12, 2008 and the conversion of 494,700 Performance Shares, which were held on December 31, 2007 by Mr. Fisher, to 100,821 Common Shares effective March 12, 2008. In addition, as at December 31, 2007, Mr. Gilmet holds 500,000 Performance Shares and 525,000 options to purchase Common Shares and Mr. Fisher holds, 500,000 Performance Shares and 525,000 options to purchase Common Shares.

Each of Mr. Fisher and Mr. Gilmet had an interest in Desco. See "Interest of Management and Others in Material Transactions" for details regarding their respective interests in the amalgamation of Desco and Arcan.

Messrs. Gilmet and Fisher received the following compensation from Arcan for services rendered in their capacities as directors and/or officers of Arcan:

**Summary Compensation Table**

Name and Principal Position	Financial Period Ended	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation Fees, Commissions, etc. (\$)	Awards		Payouts	
					Securities Under Arcan Options Granted (#)	Shares Subject to Resale Restrictions (\$)	LTIP Payouts	
Ed Gilmet, President and Chief Executive Officer	Year ended Dec. 31, 2007	185,000	126,000 <sup>(5)</sup>	Nil	133,500 Options <sup>(2)</sup>	Nil	Nil	Nil
	Six months ended Dec. 31, 2006	62,500 <sup>(4)</sup>	Nil	Nil	Nil <sup>(2)</sup>	Nil	Nil	Nil
	Year ended June 30, 2006	125,000	30,000	Nil	274,000 Options <sup>(2)</sup>	Nil	Nil	Nil
	Year ended June 30, 2005	95,000	Nil	Nil	285,000 Options <sup>(2)</sup> 625,000 Performance Warrants <sup>(2)</sup>	Nil	Nil	Nil
	Year ended June 30, 2004	13,000 <sup>(1)</sup>	Nil	Nil	375,000 Performance Warrants <sup>(2)</sup>	Nil	Nil	Nil
Andy Fisher, Executive Vice President	Year ended Dec. 31, 2006	185,000 <sup>(5)</sup>	126,000 <sup>(5)</sup>	Nil	134,500 Options <sup>(3)</sup>	Nil	Nil	Nil
	Six months ended Dec. 31, 2006	62,500 <sup>(5)</sup>	Nil	Nil	Nil <sup>(3)</sup>	Nil	Nil	Nil
	Year ended June 30, 2006	125,000	30,000	Nil	273,000 Options <sup>(3)</sup>	Nil	Nil	Nil
	Year ended June 30, 2005	95,000	Nil	Nil	117,500 Options <sup>(3)</sup> 125,000 Performance Warrants <sup>(3)</sup>	Nil	Nil	Nil
	Year ended June 30, 2004	13,000 <sup>(1)</sup>	Nil	Nil	375,000 Performance Warrants <sup>(3)</sup>	Nil	Nil	Nil

**Notes:**

- (1) Mr. Gilmet was appointed President and Chief Executive Officer effective May 19, 2004. Mr. Fisher was appointed Executive Vice President effective May 19, 2004.
- (2) Mr. Gilmet received the following: (a) options to purchase 113,500 Common Shares at \$4.11 per Arcan Share granted on April 30, 2007, (b) options to purchase 20,000 Common Shares at \$3.05 per Arcan Share granted on January 1, 2007, (c) options to purchase 67,000 Common Shares at \$2.50 per Arcan Share granted on May 18, 2006, (d) options to purchase an additional 207,000 Common Shares at \$1.60 per Arcan Share granted on September 14, 2005, (e) options to purchase 167,500 Common Shares at \$1.00 per Arcan Share granted on March 1, 2005, (f) 625,000 Performance Warrants exercisable upon the occurrence of certain performance thresholds granted on March 1, 2005, (g) options to purchase 117,500 Common Shares at \$1.00 per Arcan Share granted on November 1, 2004, and (h) 375,000 Performance Warrants exercisable upon the occurrence of certain performance thresholds granted on May 1, 2004. On June 30, 2006, Mr. Gilmet transferred 500,000 Performance Warrants and 167,500 options exercisable at \$1.00 to an employee of Arcan.
- (3) Mr. Fisher received the following: (a) 114,500 options to purchase Common Shares at \$4.11 per Arcan Share granted on April 30, 2007, (b) 20,000 options to purchase Common Shares at \$3.05 per Arcan Share granted on January 10, 2007, (c) options to purchase 91,000 Common Shares at \$2.50 per Arcan Share granted on May 18, 2006, (d) options to purchase an 182,000 Common Shares at \$1.60 per Arcan Share granted on September 14, 2005, (e) 125,000 Performance Warrants exercisable upon the occurrence of certain performance thresholds granted on March 1, 2005, (f) options to purchase 117,500 Common Shares at \$1.00 per Arcan Share granted on November 1, 2004, and (g) 375,000 Performance Warrants exercisable upon the occurrence of certain performance thresholds granted on May 1, 2004.
- (4) Based on an annual salary of \$125,000.
- (5) Based on bonuses paid in 2007, of which 125,500 related to 2006 operations.

## **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 its early stage of development. There are numerous factors that may affect the success of Arcan's business, which are beyond Arcan's control, including local, national and international economic and political conditions. Arcan's business involves a high degree of risk, which a combination of experience, knowledge and careful evaluation may not overcome. Each of Desco and 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. While Arcan has established a general set of criteria with respect to participations and acquisitions, investors are advised that a substantial amount of the proceeds to be raised herein will be spent on properties which are not yet identified.

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 are expected to operate some or all of the oil and natural gas properties in which Arcan may acquire an interest. As a result, Arcan is expected to 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 will therefore depend 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 could 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**

There are numerous uncertainties inherent in estimating quantities of oil and natural gas reserves and the future cash flows attributed to such reserves. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditure, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. All such estimates are to some degree speculative, and classifications of reserve are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. Arcan's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

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

### **Alberta Royalty Regime**

The proposed new Alberta royalty regime may adversely impact Arcan and its operations and reserves.

On February 16, 2007, the Alberta government began a review of its royalty regime for oil sands, conventional oil and natural gas and coalbed methane with the stated intention of assessing whether the existing royalty regime was providing Albertans with a fair return on Alberta's natural resources while maintaining an internationally competitive system that allows the Alberta economy to continue to prosper. On October 25, 2007, the Alberta government released a report titled "The New Royalty Framework" (the "**Report**") containing the government's proposals for Alberta's new royalty regime (the "**Proposed Royalty Regime**"), which is scheduled to take effect on January 1, 2009. The Proposed Royalty Regime includes simplified royalty formulas for conventional oil and natural gas that will operate on sliding scales that are determined by commodity prices, well productivity and measured

depths of natural gas wells. The formulas eliminate the need for conventional oil and natural gas tiers and several royalty exemption programs. Substantial legislative, regulatory and systems updates will be introduced before changes become fully effective in January 2009.

Given that the Proposed Royalty Regime has not yet been finalized or passed into law, it is not possible at this time to determine the full impact of the Proposed Royalty Regime on Arcan's financial condition and operations, and in particular the extent to which the Proposed Royalty Regime will reduce Arcan's cash flow. Arcan's reserves and the future net revenue associated therewith as contained in the reserve report summarized in this Annual Information Form do not reflect the revised royalty rates contemplated by the Proposed Royalty Regime and, after taking the Proposed Royalty Regime into account, such values may be adversely affected. Arcan cannot provide any assurance that the Proposed Royalty Regime will be implemented in the form proposed in the Report. If changes are made to the Proposed Royalty Regime before it is implemented by the Alberta government, such changes could be more adverse to Arcan than the royalty regime proposed in the Report.

### **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 would 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 whose prices 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, the 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 policy is 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**

The only material contract entered into or proposed to be entered into by Arcan in the previous financial year or entered into prior to the previous financial year but still in effect, other than contracts in the ordinary course of business, is the Amalgamation Agreement. For further details regarding the Amalgamation Agreement, please refer to the joint management information circular dated November 28, 2006 previously filed under Arcan's SEDAR profile and available at [www.sedar.com](http://www.sedar.com) wherein the Amalgamation Agreement is contained as an appendix.

## **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 2007, 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% 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.

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% 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 Mike 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 of Desco and Arcan, Mr. Dales beneficially owned or controlled, directly or indirectly, 178,550 Desco Shares representing 2.73% of the outstanding Desco Shares. Upon the completion of the amalgamation of Desco and Arcan, 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. See "Corporate Governance – Audit Committee – Auditor Fees" for more information about Arcan's auditors.

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, 2007, 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 Arcan Report or the Desco Report or were in a position to directly influence the preparation or outcome of the Arcan Report or the Desco Report, as a group, owned, directly or indirectly, less than 8% of the outstanding Common Shares.

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 22, 2008. Additional financial information is provided in Arcan's comparative financial statements and management's discussion and analysis for the period and year ended December 31, 2007, respectively.

**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, 2007. The reserves data consist of the following:
  - (a)
    - (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2007, using forecast prices and costs; and
    - (ii) the related estimated future net revenue; and
  - (b)
    - (i) proved oil and gas reserves estimated as at December 31, 2007, using constant prices and costs; and
    - (ii) the related estimated future net revenue.
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, 2007, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)			Total
			Audited	Evaluated	Reviewed	
GLJ Petroleum Consultants	March 17, 2008	Canada	-	\$73,034	-	\$73,034

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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 judgements regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, March 17, 2008.

(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 consist of the following:

- (a) (i) Proved and proved plus probable oil and gas reserves estimated as at December 31, 2007 using forecast prices and costs; and
- (a) (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2007 using constant prices and costs; and
- (b) (ii) the related estimated future net revenue.

Independent qualified reserves evaluators have evaluated and reviewed the Company's reserves data. The report of the independent qualified reserves evaluators 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 evaluators;
- (b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and
- (c) reviewed the reserves data with management and independent qualified reserves evaluators.

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 evaluators on the reserve data; and
- (c) the content and filing of this report.

**[The remainder of this page has been left blank intentionally.]**

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 3, 2008.