

ARSENAL ENERGY INC.

**Annual Information Form
Year Ended December 31, 2002**

December 19, 2003

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GLOSSARY

In this Annual Information Form, the following terms shall have the following meaning, unless otherwise defined elsewhere in this Annual Information Form.

“**ARTC**” means Alberta Royalty Tax Credit

“**bbl**” means barrel

“**bbl/d**” means barrels per day

“**boe**” means barrel of oil equivalent: 6 mcf of natural gas equals 1 bbl of oil

“**boe/d**” means barrels of oil equivalent per day

“**GJ**” means gigajoules

“**mcf**” means thousand cubic feet

“**mcf/d**” means thousand cubic feet per day

“**mmcf**” means million cubic feet

“**mmcf/d**” means million cubic feet per day

“**mstb**” means thousand stock tank barrels

“**NGL**” means natural gas liquids

In this Annual Information Form, unless otherwise noted, all dollar amounts are expressed in Canadian dollars.

Conversion

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

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
MCF	Cubic metres (“m ³ ”)	28.174
Cubic metres	Cubic feet	0.035494
BBL	Cubic metres (“m ³ ”)	0.159
Cubic metres (“m ³ ”)	BBL	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405

INCORPORATION

Arsenal Energy Inc. (the “**Corporation**” or “**Arsenal**”) was formed by the amalgamation of Arsenal Capital Inc. (“**Arsenal Capital**”) and A. C. Global Capital Corp. pursuant to a certificate of amalgamation issued under the *Business Corporations Act* (Alberta) (“**ABCA**”) on October 18, 2002 (the “**ACG Amalgamation**”). Subsequent to the ACG Amalgamation, Arsenal amalgamated with Legend Capital Corp. pursuant to a certificate of amalgamation issued under the ABCA on May 29, 2003 (the “**Legend Amalgamation**”) and continued to be named Arsenal Energy Inc.

The head office of the Corporation is located at 1820, 330 - 5th Avenue SW, Calgary, Alberta T2P 0L4.

GENERAL DEVELOPMENT OF THE BUSINESS OF THE CORPORATION

Description of the Business

The Corporation is a Calgary based resource company engaged in the exploration, development and production of oil and natural gas reserves in Western Canada. The strategy of the Corporation is to acquire land and explore for oil and natural gas in the Western Canadian Basin.

History and Significant Acquisitions and Dispositions

Pursuant to the ACG Amalgamation, each common share of A. C. Global Capital Corp. and each common share of Arsenal Capital was converted into 0.8 common shares Arsenal. As part of the ACG Amalgamation, Arsenal assumed the obligations undertaken by Arsenal Capital Inc. with respect to a Conveyance Agreement dated May 1, 2002 between True Energy Inc. (“**True**”) and Arsenal Capital (the “**Conveyance Agreement**”), an Amending Agreement dated June 17, 2002 among True, Arsenal Capital and Patch Energy Inc. (“**Patch**”), a Farmout and Joint Operating Agreement dated May 1, 2002 among True, Arsenal Capital and Patch (the “**Farmout and Joint Operating Agreement**”) and a letter amending agreement dated June 20, 2002 among True, Arsenal Capital and Patch (collectively, the “**Acquisition Agreements**”). Pursuant to the Acquisition Agreements, Arsenal (through Arsenal Capital) completed an acquisition (the “**Acquisition**”) from True of oil and gas interests in certain properties located in the North Dodsland and Kerrobert areas of west central Saskatchewan on October 17, 2002 (the “**Properties**”).

Arsenal acquired the oil and gas interests in the Properties for an adjusted purchase price of \$439,832 paid in cash and work commitments, upon the terms and conditions of the Conveyance Agreement and Farmout and Joint Operating Agreement and their respective amending agreements.

Pursuant to the Acquisition, Arsenal now owns a 4.98678% working interest in the North Dodsland Voluntary Unit. An independent third party engineering report prepared by Gilbert Laustsen Jung Associates Ltd. (“**GLJ**”) dated effective January 1, 2003 and entitled “Arsenal Capital Inc. Reserves Determination and Economic Analysis” (the “**GLJ Report**”) with respect to this working interest has assigned, on a constant dollar pricing basis, proved producing reserves of 127,000 barrels of oil and 76 million cubic feet of natural gas for an aggregate before tax present value of \$781,000 at 15% NPV.

In the fall and winter of 2002, Arsenal completed a 10 well drilling program at Kerrobert, Saskatchewan. All 10 wells (37.5% net) were completed as Viking oil wells and were put on production in early January. Pursuant to the GLJ Report with respect to Arsenal’s working interest in the Kerrobert property, GLJ has assigned proved producing reserves net after royalty of 45,000 barrels of oil and no gas reserves for a before tax present value of \$737,000 at 15% NPV.

Pursuant to the Legend Amalgamation, each 1.3875 pre Legend Amalgamation share of Arsenal was converted into 1 post Legend Amalgamation share of Arsenal, and each 2.63759225 Legend shares was converted into 1 post Legend Amalgamation share of Arsenal. After the Legend Amalgamation, there were approximately 5,965,836 Arsenal common shares issued and outstanding.

Trends

There are no trends, commitments, events or uncertainties known to management that can reasonably be expected to have a material effect on the Corporation's business, other than the trends, events and uncertainties facing oil and gas producers in Canada. See also "Risk Factors".

NARRATIVE DESCRIPTION OF THE BUSINESS

The Corporation is an Alberta based corporation actively engaged in and focused on the exploration, development, exploitation, acquisition and production of crude oil, natural gas and natural gas liquids.

Principal Properties

The following is a description of the Corporation's principal properties as at the Effective Date. Unless otherwise stated, any references in this section to reserve volumes or production figures from the properties are based on the Corporation's working interest therein before deduction of applicable royalties in the proved and probable reserves as at December 31, 2002 as estimated in the GLJ Report in respect to the oil and gas reserves of the Corporation.

North Dodsland Viking Voluntary Unit No. 1

The North Dodsland Viking Voluntary Unit No. 1 is part of the regionally extensive Dodsland Viking oil field in west central Saskatchewan. The Viking sand is near shore marine sand that is approximately five to six meters thick in the productive area. The sand is typically very fine, to fine grained sequence that grades upwards from a shaley laminated, bioturbated sand sequence to a more massive sand and less shale sequence. The effective date of the acquisition by Arsenal in the North Dodsland Viking Voluntary Unit No. 1 is May 1, 2002. The properties were acquired from True for cash consideration of \$450,000 (adjusted purchase price of \$439,832).

Pursuant to the Conveyance Agreement, Arsenal purchased a 4.98678% working interest in the North Dodsland Viking Unit No. 1. This interest includes all petroleum and natural gas rights to the base of Viking.

All of the wells on the North Dodsland Viking Voluntary Unit No. 1 are connected via pipeline into batteries at 12-21-31-21 W3 and 12-24-31-22 W3. These pipelines are known as the MidSask Pipelines and are operated by Flint Hills Resources Ltd. Natural gas is also gathered to the pipelines, separated and sold through Transgas Limited. Natural gas was sold at an average price of \$4/mcf in May, 2002 and the average oil price in May, 2002 was CDN \$38.41 per barrel, based on oil pricing at the wellhead.

Oil from the North Dodsland Viking Voluntary Unit No. 1 is tank treated and trucked to Kerrobert. Various batteries in the pool are pipeline connected to MidSask Pipelines, operated by Flint Hills Resources Ltd. Oil quality is at approximately 37° API. Sulphur content is approximately 0.025%. Natural gas heat in quality is approximately 1050 BTU.

Kerrobert Viking Properties

Pursuant to the Farmout Agreement, Arsenal participated in the drilling of 10 Viking oil wells in the Kerrobert Area in west-central Saskatchewan with True as the operator. Arsenal paid a 46.75% interest in all drilling, completing and equipping costs to earn a 37.5% working interest in each spacing unit drilled (40 acres). The lands included in the Farmout Agreement are Sections 13, 15, 23, 25 and 26 and Twp. 33, Rge. 24 West of the Third Meridian and Section 8 in Twp. 33, Rge. 23, West of the Third Meridian. The Effective Date of the Farmout Agreement is May 1, 2002.

The Kerrobert Viking properties are part of the regionally extensive Kerrobert Viking marine sand sequence. The Kerrobert Viking sand is geologically similar to the Dodsland Viking sand, but is next occurring sequence in the geological development of the Viking system in the Kindersley area.

Oil from the Kerrobert Viking properties are tank treated and trucked to Kerrobert. Various batteries in the pool are pipeline connected to MidSask Pipelines, operated by Flint Hills Resources Ltd. Oil quality is at approximately 37° API. Sulphur content is approximately 0.025%. Natural gas heat in quality is approximately 1050 BTU.

All leases pertaining to the lands included in the Farmout Agreement are past the primary term but held by production.

Drilling Activity

The North Dodsland Viking Voluntary Unit No. 1

No wells have been drilled on the North Dodsland Viking Voluntary Unit No. 1 since 1996.

Kerrobert Viking Properties

10 wells were drilled on Kerrobert property at section 13-33-24 W3m in December, 2002. Of these 10 wells, 10 were completed as oil wells that are producing light oil and no holes were abandoned. In July, 2003, 9 wells were drilled on the Kerrobert property at sections 13 and 23. Of these 9 wells, 9 were completed as oil wells that are producing light oil and no holes were abandoned.

Oil and Gas Wells

The North Dodsland Viking Voluntary Unit No. 1

The following table summarizes total number of wells as at December 31, 2002 which are producing or considered to be capable of production.

	Producing Wells ⁽¹⁾		Non-Producing Wells ⁽²⁾	
	Oil		Oil	
	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾
North Dodsland Viking Voluntary Unit No. 1	132	6.6	6	0.3

Notes:

- (1) Producing wells include water injection wells.
- (2) The non-producing wells are all suspended or abandoned.
- (3) "Gross" wells refers to all wells in which Arsenal owns a working interest.
- (4) "Net" wells refers to the aggregate of the pro forma percentage working interests and gross overriding royalty interests of Arsenal in the gross wells, before the deduction of royalties.

Kerrobert Viking Properties

The following table summarizes total number of wells as at December 31, 2002 which are producing or considered to be capable of production.

	Producing Wells ⁽³⁾		Non-Producing Wells ⁽⁴⁾	
	Oil		Oil	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Kerrobert Viking Properties	10	3.75	0	0

Notes:

- (1) Producing wells include water injection wells.
- (2) The non-producing wells are all suspended or abandoned.
- (3) "Gross" wells refers to all wells in which Arsenal owns a working interest.
- (4) "Net" wells refers to the aggregate of the pro forma percentage working interests and gross overriding royalty interests of Arsenal in the gross wells, before the deduction of royalties.

Land Holdings

The following table summarizes the Corporation's land holdings as at December 31, 2002:

	Developed Acreage		Undeveloped Acreage		Total Acreage	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Saskatchewan	480	180	9,560	2,390	10,040	2,570
Total	480	180	9,560	2,390	10,040	2,570

Notes:

- (1) "Gross" acres are defined as the total number of acres in which the Corporation has an interest.
- (2) "Net" acres are the aggregate of the numbers obtained by multiplying each gross acre by the Corporation's percentage working interest therein.

Oil and Natural Gas Reserves

The following tables are summaries as at January 1, 2003, of Arsenal's combined interest in the Properties as evaluated in the GLJ Report. Reserve amounts are stated based on both escalated and constant cost and price assumptions. **Probable additional reserves have been risked by 50% to take into account the risk factors associated with the recovery thereof.**

The tables summarize the data contained in the GLJ Report and as a result may contain slightly different numbers due to rounding. All evaluations of future cash flows are stated prior to provision for income taxes and indirect costs and after deduction of royalties and estimated future capital and operating costs. **It should not be assumed that the discounted cash flows shown below are representative of the fair market value of the reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material.**

In preparing the GLJ Report, GLJ relied upon the extent and character of all factual information supplied by Arsenal including ownership, well data, production, prices, revenues, operating costs, contracts and other relevant data and has accepted the information as represented without independent verification. Other engineering and geological data used by GLJ was obtained from GLJ's non-confidential files and from various published records. GLJ did not conduct title searches or field inspections.

GLJ Report
Escalated Cost and Price Assumptions
(Effective January 1, 2003)

Reserves Category	Crude Oil		Natural Gas		Natural Gas Liquids		Total - Oil Equivalent		Present Value of Future Cash Flow Before Income Taxes ⁽²⁾⁽⁵⁾			
	GROSS ⁽¹⁾	NET ⁽¹⁾	GROSS ⁽¹⁾	NET ⁽¹⁾	GROSS ⁽¹⁾	NET ⁽¹⁾	GROSS ⁽¹⁾	NET ⁽¹⁾	0%	10%	15%	20%
	(mstb)	(mstb)	(mmcf)	(mmcf)	(mstb)	(mstb)	(mboe)	(mboe)	(M\$)	(M\$)	(M\$)	(M\$)
Proved Producing ⁽³⁾	171	163	75.6	75.6	4	4	187	180	3888	1501	1250	1103
Probable ⁽³⁾	18	17	6.5	6.5	-	-	20	18	510	123	95	79
Total Proved plus Probable	189	180	82.1	82.1	4	4	207	198	4398	1624	1345	1182
50% Reduction of Probable	9	8	3.2	3.2	-	-	10	9	255	62	47	39
Proved plus 50% Probable	180	172	78.9	78.9	4	4	197	189	4143	1562	1298	1143

GLJ Report
Constant Cost and Price Assumptions
(Effective January 1, 2003)

Reserves Category	Crude Oil		Natural Gas		Natural Gas Liquids		Total - Oil Equivalent		Present Value of Future Cash Flow Before Income Taxes ⁽⁴⁾⁽⁵⁾			
	GROSS ⁽¹⁾	NET ⁽¹⁾	GROSS ⁽¹⁾	NET ⁽¹⁾	GROSS ⁽¹⁾	NET ⁽¹⁾	GROSS ⁽¹⁾	NET ⁽¹⁾	0%	10%	15%	20%
	(mstb)	(mstb)	(mmcf)	(mmcf)	(mstb)	(mstb)	(mboe)	(mboe)	(M\$)	(M\$)	(M\$)	(M\$)
Proved Producing ⁽³⁾	172	164	76.4	76.4	4	4	189	181	4444	1839	1518	1324
Probable ⁽³⁾	19	18	6.6	6.6	-	-	20	19	522	161	126	106
Total Proved plus Probable	191	182	83.0	83.0	4	4	209	200	4966	2000	1644	1430
50% Reduction of Probable	9	9	3.3	3.3	-	-	10	10	261	81	63	53
Proved plus 50% Probable	182	173	79.7	79.7	4	4	199	190	4705	1919	1581	1377

Notes:

- (1) Gross reserves are defined as the aggregate of Arsenal's working interest and royalty interest reserves before deductions of royalties payable to others. Net reserves are gross reserves less all royalties payable to others.
- (2) The oil and gas prices used in the escalating pricing case are as follows:

Gilbert Laustsen Jung Associates Ltd.
Crude Oil and Natural Gas Liquids
Price Forecast
(Effective January 1, 2003)

Year	Inflation%	Exchange Rate \$US/\$Cdn	West Texas Intermediate Crude Oil at Cushing Oklahoma Then Current \$US/bbl	Light, Sweet Crude Oil (40 API, 0.3%S) at Edmonton Then Current \$Cdn/bbl	Alberta Natural Gas Liquids (Then Current Dollars) Edmonton Butane \$Cdn/Bbl
2003 Q1	1.5	0.650	26.75	40.25	30.25
2003 Q2	1.5	0.650	26.00	39.00	27.00
2003 Q3	1.5	0.650	25.00	37.75	25.75
2003 Q4	1.5	0.650	24.50	36.75	25.75
2003 Full Year	1.5	0.650	25.50	38.50	27.25
2004	1.5	0.660	22.00	32.50	21.50
2005	1.5	0.670	21.00	30.50	20.50
2006	1.5	0.670	21.00	30.50	20.50
2007	1.5	0.680	21.25	30.50	20.50
2008	1.5	0.680	21.75	31.00	21.00
2009	1.5	0.680	22.00	31.50	21.50
2010	1.5	0.680	22.25	32.00	22.00
2011	1.5	0.680	22.50	32.50	22.50
2012	1.5	0.680	23.00	33.00	23.00
2013	1.5	0.680	23.25	33.50	23.50
2014+	1.5	0.680	+1.5%/yr	+1.5%/yr	+1.5%/yr

Gilbert Laustsen Jung Associates Ltd.
Natural Gas and Sulphur
Price Forecast
(Effective January 1, 2003)

Year	Saskatchewan Plant Gate SaskEnergy \$/mmbtu
2003 Q1	5.70
2003 Q2	5.30
2003 Q3	5.30
2003 Q4	5.60
2003 Full Year	5.50
2004	4.90
2005	4.65
2006	4.80
2007	4.80
2008	4.80
2009	4.80
2010	4.85
2011	4.90
2012	5.00
2013	5.05
2014+	Escalate at 1.5% per year

Unless otherwise stated, the gas price reference point is the receipt point on the applicable provincial gas transmission system known as the plant gate.

The plant gate price represents the price before raw gas gathering and processing charges are deducted.

Spot refers to weighted average one month price.

- (3) “**Proved Reserves**” are defined as those reserves estimated as recoverable with a high degree of certainty under current technology and existing economic conditions in the case of constant price and cost analyses and anticipated economic conditions in the case of escalated price and cost analyses, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analyses of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

“**Probable Reserves**” are defined as those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved, but where such analysis suggests the likelihood of their existence and future recovery under current technology and existing or anticipated economic conditions. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

“**Possible Reserves**” are defined as those reserves which cannot be classified as either proved or probable at the present time because of relatively high uncertainty but which could reasonable be expected to be recovered with additional successful drilling and/or optimum production performance.

The proved and probable reserves have been further subdivided into the following groups, depending on the status of their development.

“**Producing Reserves**” are defined as those reserves that are actually on production and could be recovered from existing wells and facilities or, if facilities have not been installed, that would involve a small investment relative to cash flow. In multi-well pools involving a competitive situation, reserves may be subdivided into producing and nonproducing reserves in order to reflect allocation of reserves to **specific wells and their respective development status**.

“**Non-Producing Reserves**” are defined as those reserves that are not classified as producing.

- (4) The oil price of \$38.50 CDN/bbl (field price) and the gas price of \$5.65 CDN/mcf (plant gate price) were used in the constant pricing case.
- (5) No allowance for future abandonment costs was made for all Canadian wells. No allowance was made for abandonment of any facilities.

Reconciliation of Reserves

The following table provides a reconciliation of the Corporation’s gross total proved and probable reserves as at December 31, 2001 against such reserves as at December 31, 2002.

	Proved	Probable⁽²⁾	Total
<u>Oil (Mstb)</u>			
December 31, 2001 ⁽¹⁾	Nil	Nil	Nil
Additions	171	9	180
Production	Nil	Nil	Nil
December 31, 2002	171	9	180
<u>Natural Gas (MMCP)</u>			
December 31, 2001 ⁽¹⁾	Nil	Nil	Nil
Additions	75.6	3.2	78.9
Production	Nil	Nil	Nil
December 31, 2002	75.6	3.2	78.9
<u>Natural Gas Liquids (Mstb)</u>			
December 31, 2001 ⁽¹⁾	Nil	Nil	Nil
Additions	4	Nil	4
Production	Nil	Nil	Nil
December 31, 2002	4	Nil	4

Notes:

- (1) The Corporation acquired the properties in October, 2002.

(2) Risked at 50%

Production History by Quarter and Netback

The following table is a summary of the Corporation's production, netbacks and capital expenditures by quarter for the quarter ended December 31, 2002. Note that the Corporation only acquired the properties in October, 2002.

Production and Capital Expenditures by Quarter For the Year 2002

	December
	2002
Daily Production	
Oil & NGL's (bbls/d)	20.5
Oil & NGL netbacks (\$/bbl)	
Price	38.40
Royalties	6.72
Operating costs	12.47
Netback	19.21
Capital Expenditures ⁽¹⁾	1,019,622

Note:

(1) Includes property acquisition, exploration, including drilling, and development.

Future Commitments

Arsenal does not have any future material commitments to buy, sell, exchange or transport oil or gas.

Exploration and Development

In November, 2003 three exploratory natural gas wells in southern Saskatchewan in which Arsenal has a 15% carried working interest have been drilled and cased. Arsenal will now participate in two additional exploratory wells in which it has a 15% net working interest. Arsenal, with its partners, has an opportunity to earn certain P&NG rights in approximately 120 sections in the play through continuous drilling operations.

Arsenal also drilled and cased its first operated test well in western Saskatchewan. The well is the first of two exploration plays. Arsenal has a carried 25% working interest in the first well and a 50% working interest in one section of leased P&NG rights offsetting the said test well.

Environmental

The Corporation believes that it is in substantial compliance with existing environmental laws and regulations applicable to it and is not aware of any proposed environmental legislation or regulations with which it would not be in material compliance. However, the natural gas and crude oil industry may in the future become subject to more stringent environmental protection rules. See "Industry Conditions - Environmental Regulation". This could increase the cost of doing business and may have a negative impact on earnings in the future.

To date, the Corporation has had no material environmental incidents or lost time accidents. The Corporation has provided for site restoration and abandonment costs of \$1,000 as at December 31, 2002, net of expected recoveries and based on costs and regulations currently in effect.

Employees/Consultants

The Corporation has two consultants who collectively attend to the management and daily operations of the Corporation. Additional consultants are retained from time to time on a contract basis as needed.

Competitive Environment

The Corporation is in the business of the exploration, development and production of natural gas and crude oil reserves and is in the relatively early stage of development of such business. As such, the Corporation competes in a very competitive marketplace.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set out certain selected consolidated financial information of Arsenal as at and for the years ended December 31, 2002 and 2001. The selected consolidated financial information has been derived from Arsenal's annual consolidated financial statements, which statements have been audited by KPMG LLP, Chartered Accountants, and such audited annual financial statements are hereby incorporated by reference.

Selected Annual Consolidated Financial Information

	Years Ended December 31	
	2002	2001
	\$(audited)	\$(audited)
Revenue	54,471	16,806
Expenses	205,383	66,019
Net Loss	(150,912)	(49,213)
Net Loss Per Arsenal Share ⁽¹⁾	(.03)	(.01)
Total Assets	1,031,038	406,484
Total Long Term Financing Liabilities	Nil	Nil
Dividends	Nil	Nil
Share Capital	784,027	449,170
Deficit	(200,098)	(49,186)

Note:

(1) Net Loss per Arsenal Share is the same for Basic and Diluted as the loss on a Diluted basis would not be dilutive.

Dividend Policy

The Corporation has never paid a dividend on its common shares, does not expect to pay dividends in the near future and has no express or stated policy in respect of the declaration or payment of any such

dividends. Any decision to declare and pay dividends on any shares of the Corporation in the future will be made by the board of directors of the Corporation on the basis of the terms and conditions attaching to such shares, the Corporation's earnings, financial conditions and requirements, and other conditions and factors existing at the time and which the board of directors of the Corporation may consider appropriate in the circumstances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Arsenal had revenues of approximately \$54,471 for the year ended December 31, 2002 compared to \$16,806 the year ended December 31, 2001. In 2002, revenue included petroleum and natural gas sales less royalties of \$50,940. Revenues during 2001 consisted entirely of interest income. Net losses during fiscal 2002 amounted to \$150,912, or \$0.03 per share, compared with a loss of \$49,213 or \$0.01 per share in fiscal 2001.

General and administrative expenses were \$149,951 in 2002 as compared to \$66,019 in 2001, an increase of 127%. These expenses included professional fees and expenses in relation to Arsenal's prior attempts at completing a Qualifying Transaction costs in relation to completing the ACG Amalgamation and office and listing expenses.

Operating expenses were \$23,253 in 2002 compared to nil in 2001. The increased costs were a result of production from the Properties. Depletion, depreciation and site restoration expenses were \$22,500 in 2002 compared to nil in 2001.

Arsenal used cash resources in funding operations in the amount of \$403,109 in 2002 compared to \$46,073 in 2001, an increase of \$357,036. This was the result of the completion of Arsenal's Qualifying Transaction, the Acquisition of the Properties and exploration on the Properties.

Arsenal's working capital position as at December 31, 2002 was a deficiency of \$413,193 compared to working capital of \$399,984 at December 31, 2001. This was mainly due to costs incurred for the Acquisition of the Properties, the ACG Amalgamation and obtaining a demand loan of \$300,000.

Liquidity at December 31, 2002

As of December 31, 2002, the Corporation had approximately \$3,000 in cash assets. This cash position, together with production revenue, an increased bank loan and receivables, will enable the Corporation to continue operations over the short term.

Selected Quarterly Consolidated Financial Information

	Quarters Ended 2002			
	December 31	September 30	June 30	March 31
	\$(unaudited)	\$(unaudited)	\$(unaudited)	\$(unaudited)
Revenue	51,043	972	1,272	1,184
Net Loss	(848)	(70,795)	(49,780)	(29,489)
Net Loss per Share	0.00	0.02	0.01	0.01

	Quarters Ended 2001			
	December 31	September 30	June 30	March 31
	\$(unaudited)	\$(unaudited)	\$(unaudited)	\$(unaudited)
Revenue	1,694	4,965	4,663	5,484
Net Loss	(38,740)	(2,247)	(7,345)	(881)
Net Loss Per Share	0.01	0.00	0.00	0.00

RISK FACTORS

Exploration, Development and Production Risks

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

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

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

Insurance

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

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities for which prices are determined by domestic and world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely for 25 years. Any material decline in prices could result in a reduction of net production revenue. Foreign exchange is a factor as prices and reserve valuations are tied to US dollars while expenses are in Canadian dollars. Certain wells or projects may become uneconomic as a result of a decline in oil prices and natural gas prices, leading to a reduction in the volume of the Corporation's oil and gas reserves. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Corporation's future net production revenue, causing a reduction in its oil and gas exploration and development activities. In addition, bank borrowings available to the Corporation are in part determined by the borrowing base of the Corporation. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation, and could require that a portion of any existing bank debt of the Corporation be repaid.

The Corporation must 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 the Corporation will be affected by numerous factors beyond its control. The Corporation will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Corporation. The ability of the Corporation to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Corporation 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 the management of other aspects of the oil and natural gas business.

Substantial Capital Requirements; Liquidity

The Corporation anticipates that it will make substantial capital expenditures for the exploration, development and production of oil and natural gas reserves in the future. If the Corporation's revenues or reserves decline, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or

water may give rise to liabilities to foreign governments and third parties and may require the Corporation to incur costs to remedy such discharge. No assurance can be given that the application of environmental laws to the business and operations of the Corporation will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Reserve Replacement

The Corporation's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Corporation successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on the Corporation'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 the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other oil and gas companies of similar size. The current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted.

The provincial governments also regulate production in accordance with sound engineering and conservation practices and sometimes establish daily production limits. Production is also limited by pipeline capacities, demand for natural gas and various grades of crude oil and, in limited circumstances, by maximum rate limitations imposed by regulatory authorities to encourage maximum recovery.

MARKET FOR SECURITIES

The Corporation's common stock is listed on the TSX Venture Exchange under the symbol "AEI".

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, principal occupation for the last five years of the current directors and officers of the Corporation, and year first elected to the board of directors of each of the current directors of the Corporation. The term of office of each director will expire at the end of the next annual meeting of shareholders of the Corporation.

Name and Municipality of Residence	Present Office and Date First Appointed a Director	Principal Occupation and Positions Held During the Past Five Years
Michael S. Vandale ⁽¹⁾ Calgary, Alberta	Chairman, Chief Executive Officer, President and Director since October 18, 2002	Mr. Vandale was the Chairman and President of Sundance Resources Inc., a public corporation listed on the TSX Venture, from June 1996 to August 2000 and from August 2000 to October 2002, and a Director of its successor, True Energy Inc., a public corporation listed on the Toronto Stock Exchange. From 1997 to 1999, director and major shareholder of Mutual Fund Direct Inc. until sold to Altamira. Mr. Vandale is also the sole Shareholder and President of Vandale Oil Inc., a private oil and gas company.
William Hews ⁽¹⁾ Calgary, Alberta	Director since October 18, 2002	Mr. Hews is currently the President of Fideliter Inc., a consulting and investment company. Mr. Hews served as the President and Chief Operating Officer of Wi-LAN Inc. from September 1999 to January 2001, and as the President to September 2001. Mr. Hews is a director of Wi-LAN Inc. and Sylogist Inc., all public companies; epoint Inc., a private company; and Rural Connections Inc., a federally incorporated non-profit company. Mr. Hews worked with Nortel Networks rising to VP level in the operations area.
Errol Stewart ⁽¹⁾ Calgary, Alberta	Director since October 18, 2002	Mr. Stewart has been the President of Era America Resource Corporation, a private oil and gas development and exploration company, since 1993. Mr. Stewart is also the President and a director of Five Star Energy Ltd., a private oil and gas development and exploration company. Mr. Stewart was a founder and director of Scorpion Energy Inc., a private oil and gas development and exploration company, from January 1997 until September 1999 and an officer of Scorpion Energy Inc. from January 1997 to August 1998.
David Stadnyk North Vancouver, British Columbia	Director since October 18, 2002	President and Director of AC Global Capital Corp. since incorporation. President of Patch Energy, a private junior Canadian oil and gas company. President of Praxis Pharmaceuticals an Australian based biotech company. Additionally, Mr. Stadnyk has owned the Team 1040 all sports radio station and the Vancouver Whitecaps soccer club and is presently an owner of the Vancouver Ravens Lacrosse Club. Mr. Stadnyk has been a self-employed businessman for approximately the last 15 years involved in numerous public and private companies.
Greg Belzberg Vancouver, British Columbia	Director since October 18, 2002	President of Bar None Enterprises, BCP Management, BNW Travel Management, Chief Operating Officer of Richter Furniture Manufacturing.
Donald B. Edwards	Secretary	Lawyer and Partner with Borden Ladner Gervais LLP.

Note:

(1) Members of Arsenal's Audit Committee.

As at the date hereof, the directors and officers of the Corporation, as a group, owned directly or indirectly, approximately 2,000,925 common shares of the Corporation or 33.5% of the issued and outstanding common shares of the Corporation. The information not being within the knowledge of the Corporation as to the beneficial ownership of such common shares has been furnished by the directors and officers of the Corporation individually.

Audit Committee

The three-member internal audit committee is responsible for overseeing the financial reporting by management. The current members of the committee are Michael Vandale, William Hews and Errol Stewart. The committee meets with the Corporation's external auditors annually to hear their report on and to discuss management's internal financial control systems and procedures. The committee reviews quarterly and annual financial statements prepared by management prior to presentation to the Board along with their recommendation regarding approval.

Corporate Cease Trade Orders or Bankruptcies

No director, officer or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation is, or has been within the past ten (10) years, a director or officer of any other issuer that, while that person was acting in that capacity, was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation for a period of more than 30 consecutive days or became a 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.

Penalties or Sanctions

No director, officer or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation 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.

Personal Bankruptcies

No director, officer or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, or a personal holding company of any such person has, within the past ten years, become 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 the assets of such person.

Conflicts of Interest

Certain directors and officers of the Corporation and its subsidiaries are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with *Business Corporations* legislation, directors who have a material interest or any corporation or person who is a party to a material contract or a proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation. Some of the directors of the Corporation have either other employment or other business or time restrictions placed on them and accordingly, these directors of the Corporation will only be able to devote part of their time to the affairs of the Corporation.

ADDITIONAL INFORMATION

The Corporation shall provide the following documents to any person upon request to the Corporation at 1820, 330 - 5th Avenue SW, Calgary, AB T2P 0L4:

1. one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference herein;
2. one copy of the audited financial statements of the Corporation for the period ended December 31, 2002, together with the report of the auditors (the “**Financial Statements**”), and one copy of any interim financial statements issued subsequent thereto; and

3. one copy of the Joint Management Information Circular dated April 9, 2003 in respect of the annual and special general meeting of shareholders of the Corporation and Legend Capital Corp. held on May 21, 2003 (the “**Information Circular**”).

Additional information, including information concerning directors’ and officers’ remuneration and indebtedness, principal holders of common shares, options to purchase common shares, and interests of insiders in material transactions is contained in the Information Circular. Additional financial information is provided in the Financial Statements.