



Arsenal Energy Inc.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2008

March 26, 2009

TABLE OF CONTENTS

GLOSSARY OF ABBREVIATIONS	i
CONVERSION OF UNITS	i
DEFINITIONS	ii
CURRENCY	ii
FORWARD-LOOKING STATEMENTS	iii
NAME, ADDRESS AND INCORPORATION	1
INTERCORPORATE RELATIONSHIPS	1
GENERAL DEVELOPMENT OF THE BUSINESS	1
NARRATIVE DESCRIPTION OF THE BUSINESS	3
PETROLEUM AND NATURAL GAS RESERVES	5
RISK FACTORS	24
DESCRIPTION OF SHARE CAPITAL	29
DIVIDENDS OR DISTRIBUTIONS	29
MARKET FOR SECURITIES	29
PRIOR SALES	30
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER	30
DIRECTORS AND OFFICERS	30
PROMOTER	32
CONFLICTS OF INTEREST	33
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	33
AUDIT COMMITTEE	33
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	33
TRANSFER AGENT AND REGISTRAR	33
MATERIAL CONTRACTS	33
INTEREST OF EXPERTS	34
ADDITIONAL INFORMATION	34
APPENDIX A - FORM 51-101F2	A-1
APPENDIX B - FORM 51-102F3	B-1
APPENDIX C - OIL & GAS DEFINITIONS	C-1
APPENDIX D - INFORMATION CONCERNING AUDIT COMMITTEE	D-1

GLOSSARY OF ABBREVIATIONS

bbbl	Barrels
bbbl/d	Barrels per day
boe	Barrel of oil equivalent (6 Mcf = 1Bbl)
boe/d	Barrels of oil equivalent per day
GJ	Gigajoules
GJ/d	Gigajoules per day
Mbbl	1,000 Barrels
Mcf	1,000 cubic feet
Mcf/d	1,000 cubic feet per day
MMcf	1,000,000 cubic feet
MMbtu	One Million British Thermal Units
NGL	Natural gas liquids
WTI	West Texas Intermediate
M\$	Thousands of dollars
MM\$	Millions of dollars

CONVERSION OF UNITS

1 acre	0.4 hectares
2.5 acres	1 hectare
1 bbl	0.159 cubic metres
6.29 bbl	1 cubic metre
1 foot	0.3048 metres
3.281 feet	1 metre
1 Mcf	28.2 cubic metres
0.035 Mcf	1 cubic metre
1 MMBtu	1.054 GJ
0.949 MMBtu	1 GJ

In this Annual Information Form where amounts are expressed on a barrel of oil equivalent basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

DEFINITIONS

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

“**ABCA**” means the *Business Corporations Act*, S.A. 1981, c. B-15 or the *Business Corporations Act*, R.S.A. 2000, c. B-9, as the context requires, together with any amendments thereto and all regulations promulgated there under;

“**Arsenal**” or the “**Corporation**” means Arsenal Energy Inc.;

“**Arsenal Shares**” means common shares in the share capital of the Corporation;

“**Board**” means the board of directors of the Corporation;

“**Flow-Through Shares**” means Arsenal Shares issued on a “flow-through share” basis within the meaning of the *Income Tax Act* (Canada);

“**NI 52-110**” means Canadian Securities Administrators’ National Instrument 52-110 - *Audit Committees*;

“**NI 51-101**” means Canadian Securities Administrators’ National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*;

“**Option**” means an option to purchase an Arsenal Share;

“**Preferred Shares**” means preferred shares of Arsenal;

“**SEDAR**” means the computer system for the transmission, receipt, acceptance, review and dissemination of information filed in electronic format known as the System for Electronic Document and Retrieval maintained by CDS Inc. and available at www.sedar.com; and

“**TSX**” means the Toronto Stock Exchange Inc.

CURRENCY

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

FORWARD-LOOKING STATEMENTS

This Annual Information Form contains certain forward-looking statements and forward-looking information (hereinafter collectively referred to as “**forward-looking statements**”) within the meaning of applicable Canadian securities laws. These statements relate to future events or Arsenal’s future performance and are based upon Arsenal’s current internal expectations, estimates, projections, assumptions and beliefs. All statements other than statements of historical fact are forward-looking statements. In some cases, words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “may”, “will”, “potential”, “proposed” and other similar words, or statements that certain events or conditions “may” or “will” occur, are intended to identify forward-looking statements. In addition, this Annual Information Form may contain forward-looking statements attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although Arsenal believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Arsenal cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by Arsenal that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Such forward-looking statements in this Annual Information Form speak only as of the date of this Annual Information Form.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- the business plan of Arsenal;
- the ability of Arsenal to retain and attract skilled persons in the future;
- acquisition, including the considerations taken into account, and financing opportunities;
- the closing date for the sale of Quadra Egypt Ltd.;
- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- productive capacity of wells, expected or anticipated production rates and anticipated dates of commencement of production;
- the ability of internally generated cash flow and unused bank credit facilities to fund future development costs;
- drilling, completion and facilities costs;
- growth expectations within Arsenal;
- timing of development of undeveloped reserves;
- the tax horizon of Arsenal;
- abandonment and reclamation costs;
- the performance and characteristics of Arsenal’s oil and natural gas properties;
- oil and natural gas production levels;
- the quantity of oil and natural gas reserves;
- capital expenditure programs;
- supply and demand for oil and natural gas and commodity prices;
- expected royalty rates, operating and general administrative costs, costs of services and other costs and expenses;
- expectations regarding Arsenal’s ability to raise capital and to continually add to reserves through acquisitions, exploration and development; and
- treatment under governmental regulatory regimes and tax laws.

With respect to forward-looking statements contained in this Annual Information Form, Arsenal has made certain assumptions regarding, among other things:

- future prices for crude oil and natural gas;
- future currency and interest rates;
- Arsenal’s ability to generate sufficient cash flow from operations and access existing credit facilities and capital markets to meet its future obligations;
- the regulatory framework representing royalties, taxes and environmental matters in the provinces of Canada and the states of the United States in which Arsenal conducts its business;
- no significant adverse changes in economic conditions that influence the demand for petroleum and natural gas;

- a stable competitive environment;
- no significant event occurring outside the ordinary course of business such as a natural disaster or other calamity; and
- Arsenal's ability to obtain qualified staff and equipment in a timely and cost-efficient manner.

Some of the risks which could cause results to differ materially from those expressed in the forward-looking statements contained in this Annual Information Form are set forth below and elsewhere in this Annual Information Form:

- general economic conditions in Canada, the United States and globally;
- industry conditions, including fluctuations in the price of oil and natural gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuations in foreign exchange or interest rates;
- changes in hydrocarbon or investment policies;
- geological, technical, drilling and processing problems and other difficulties in producing reserves;
- failure to realize anticipated benefits of acquisitions;
- unanticipated operating events which can reduce production or cause production to be shut in or delayed;
- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisitions of reserves, undeveloped land and skilled personnel;
- legislative and regulatory developments that may affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity and general economic conditions in geographic areas where Arsenal operates;
- competition for and/or inability to retain drilling rigs and other services;
- the need to obtain required approvals from regulatory authorities; and
- the other factors disclosed under "*Risk Factors*" in this Annual Information Form.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. **Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. Arsenal is not under any duty to update any of the forward-looking statements after the date of this Annual Information Form to conform such statements to actual results or to changes in Arsenal's expectations, except as otherwise required by applicable securities laws.**

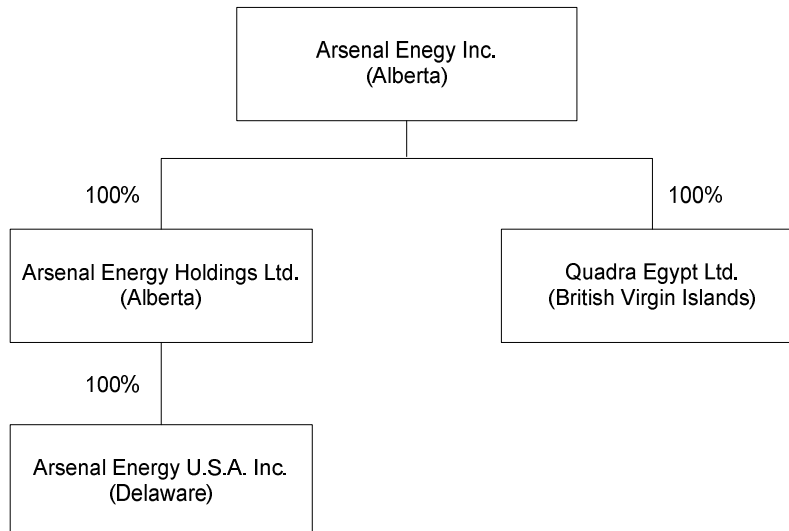
NAME, ADDRESS AND INCORPORATION

Arsenal Energy Inc. was incorporated under the ABCA on August 3, 2000 as Arsenal Capital Inc. (“**Arsenal Capital**”). On October 18, 2002, Arsenal Capital amalgamated with A.C. Global Capital Corp. (the “**ACG Amalgamation**”). Subsequent to the ACG Amalgamation, the resulting issuer amalgamated with Legend Capital Corp., a capital pool company, pursuant to a certificate of amalgamation issued under the ABCA on May 29, 2003, and continued under the name “**Arsenal Energy Inc.**”. Pursuant to a Certificate of Amalgamation issued under the ABCA on April 1, 2005, Arsenal amalgamated with a number of wholly-owned subsidiaries and continued under the name of “**Arsenal Energy Inc.**” On March 13, 2006, Arsenal amalgamated with Tiverton Petroleum Ltd., Quadra Resources Corp. and Fulcrum Exploration Ltd. and continued under the name “**Arsenal Energy Inc.**”. On January 1, 2009, Arsenal amalgamated with GEOCAN Energy Inc. and continued under the name “**Arsenal Energy Inc.**”.

The head office of Arsenal is located at Suite 1900, 639-5th Avenue S.W., Calgary, Alberta, T2P 0M9 and the registered office is located at 1000, 400 - 3rd Avenue S.W., Calgary, Alberta T2P 4H2.

INTERCORPORATE RELATIONSHIPS

The percentage of votes attaching to all voting securities of Arsenal’s subsidiaries beneficially owned, or controlled or directed, directly or indirectly, by Arsenal, as well as the jurisdiction where the subsidiary was incorporated, continued, formed or organized, as the case may be, is set forth below.



GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History of Arsenal

On March 13, 2006, Arsenal amalgamated with Tiverton Petroleum Ltd., Quadra Resources Corp. and Fulcrum Exploration Ltd. pursuant to a certificate of amalgamation issued under the ABCA and continued under the name “**Arsenal Energy Inc.**”.

On April 10, 2006, Arsenal announced the appointment of Errol Stewart as President and Chief Executive Officer of Arsenal. It was announced at this time that Michael Vandale, who was the previous President and Chief Executive Officer of Arsenal, would continue as a Director and the Chairman of the Board and would assist Errol Stewart in the transition and continued growth of Arsenal.

On July 19, 2006, Arsenal announced the appointment of Tony van Winkoop as Vice President, Exploration.

On November 8, 2006, Arsenal completed a non-brokered private placement of 7,328,148 Flow-Through Shares at a subscription price of \$1.10 per share for aggregate gross proceeds of \$8,060,962.80.

On July 3, 2007, Arsenal completed the sale of its entire 14 percent non-operated interest in the Tower Creek property to an arm's length party. Arsenal received total proceeds of \$14 million, which was subject to certain post-closing adjustments. The sale included Arsenal's working interest in the 2-21 Leduc exploration discovery well in northwest Alberta, all well-site facilities and associated lands and an agreement to sell the 11-26 Wabamun test well.

On July 19, 2007, Arsenal announced the appointment of Tony van Winkoop as President and Chief Executive Officer and the resignation of Errol Stewart as President and Chief Executive Officer of Arsenal.

On November 30, 2007, Arsenal completed the first closing of its previously announced brokered private placement (the "**2007 Brokered Private Placement**") by issuing a total of 3,245,279 Flow-Through Shares at a subscription price of \$0.43 per share for aggregate gross proceeds of \$1,395,470.

On December 14, 2007, Arsenal closed the second portion of the 2007 Brokered Private Placement by issuing a total of 4,644,871 Flow-Through Shares at a subscription price of \$0.43 per share for aggregate gross proceeds of \$1,997,294.50.

On December 21, 2007, Arsenal completed the third and final closing of the 2007 Brokered Private Placement by issuing a total of 1,817,386 Flow-Through Shares at a subscription price of \$0.43 for aggregate gross proceeds of \$781,475.08.

On March 28, 2008, Arsenal completed the first closing of its previously announced brokered private placement (the "**2008 Brokered Private Placement**") by issuing a total of 959,800 Arsenal Shares at a subscription price of \$0.63 per Arsenal Share and 4,498,700 Flow-Through Shares at a subscription price of \$0.72 per share for aggregate gross proceeds of \$3,843,738.00.

On April 16, 2008, Arsenal closed the second and final portion of the 2008 Brokered Private Placement and issued 289,500 Arsenal Shares at a subscription price of \$0.63 per Arsenal Share and 1,056,855 Flow-Through Shares at a subscription price of \$0.72 for aggregate gross proceeds of \$943,320.60. Nineteen thousand of the Flow-Through Shares issued on April 16, 2008 were issued on a non-brokered basis.

On August 7, 2008, Arsenal announced that it had entered into an agreement whereby Arsenal would acquire all of the issued and outstanding shares of GEOCAN Energy Inc. ("**GEOCAN**") pursuant to a plan of arrangement (the "**Arrangement**") under the ABCA. Pursuant to the Arrangement, Arsenal was to acquire all of the outstanding class "A" common shares of GEOCAN ("**GEOCAN Shares**") for consideration of \$0.70 per GEOCAN Share, payable, at the election of each GEOCAN shareholder, in cash or 0.81 of an Arsenal Share, subject to a maximum aggregate of \$30,000,000 and a minimum aggregate of \$26,000,000 in cash being paid to the GEOCAN shareholders pursuant to the Arrangement. In the event that the GEOCAN shareholders elected, in the aggregate, to receive more than \$30,000,000 in cash, the amount of cash to be received by a holder electing to receive cash with respect to a GEOCAN Share was to be reduced proportionately and the balance of the purchase price for that GEOCAN Share would be paid by a portion of an Arsenal Share at a deemed price of \$0.865 per Arsenal Share. In the event that the GEOCAN shareholders elected, in the aggregate, to receive less than \$26,000,000 in cash, the number of Arsenal Shares to be received by a holder electing to receive Arsenal Shares with respect to a GEOCAN Share would be reduced proportionately and the balance of the purchase price for that GEOCAN Share would be paid in cash. On October 8, 2008, the Arrangement was completed for consideration of \$30.0 million in cash and the issuance of 10,623,498 Arsenal Shares.

In connection with the GEOCAN acquisition, Arsenal increased its operating credit facility to \$55,000,000.

On October 8, 2008, Arsenal incorporated Arsenal Energy Holdings Ltd. ("**Arsenal Holdings**") and on October 31, 2008, Arsenal sold all of the issued and outstanding shares in Arsenal Energy USA Inc. to Arsenal Holdings for a fair market value estimated at \$35,000,000.

On October 14, 2008, Arsenal announced that it intended to purchase for cancellation up to 4,539,307 Arsenal Shares by way of normal course issuer bid (the "**NCIB**") through the facilities of the TSX. The 4,539,307 Arsenal Shares represented approximately 4.5% of the number of then outstanding Arsenal Shares, being 101,409,646 Arsenal Shares. Purchases under the NCIB will terminate on October 15, 2009 or on such earlier date as the Corporation may purchase all 4,539,307 Arsenal Shares.

Pursuant to the NCIB, and on November 18, 2008 and November 20, 2008, Arsenal respectively purchased 80,000 Arsenal Shares at a price of \$0.20 per share and 80,000 Arsenal Shares at a price of \$0.19 per share. These Arsenal Shares were cancelled in November, 2008.

On January 1, 2009, Arsenal amalgamated with GEOCAN and continued under the name “**Arsenal Energy Inc.**”.

On February 15, 2009, Arsenal redeemed the convertible debentures (the “**Debentures**”) assumed by it when it purchased all of the issued and outstanding shares of Tiverton Petroleum Ltd. by payment of \$3,480,000 to the holders of the Debentures.

Significant Acquisition

The acquisition of GEOCAN pursuant to the Arrangement was the only significant acquisition completed by Arsenal since the beginning of its most recently completed financial year. Arsenal has filed a business acquisition report dated October 16, 2008 with respect to the Arrangement.

NARRATIVE DESCRIPTION OF THE BUSINESS

Arsenal is engaged in the exploration for, and the development and production of, oil and natural gas. Arsenal’s current activities are focused in Northeast British Columbia, Central and East Central Alberta, Western Saskatchewan and in North Dakota, United States.

Business of Arsenal

The business plan of Arsenal is to create sustainable and profitable growth as a participant in the oil and gas industry. Arsenal has and will continue to identify and acquire strategic acquisitions of oil and natural gas properties where it believes further exploitation, development and exploration opportunities exist. In addition, Arsenal implements a full cycle exploration program. Arsenal therefore pursues exploration and development drilling together with focused acquisitions both within its existing geographical project areas in the Western Canada Sedimentary Basin and in other areas of British Columbia, Alberta, Saskatchewan and North Dakota, which present opportunities which are of interest to its management.

In reviewing potential drilling or acquisition opportunities, Arsenal generally gives consideration to the following criteria:

- risked capital required to secure or evaluate the investment opportunity;
- the potential return on the project, if successful;
- the likelihood of success;
- if successful, the timing to bring production on-stream;
- proximity to infrastructure and available capacity;
- follow-up development potential and ability to source required capital; and
- the risked return versus cost of capital.

Business Risks

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the manpower and capital employed will not result in the finding of new reserves in economic quantities. There is a risk that the sale of Arsenal’s reserves may be delayed indefinitely due to processing constraints, lack of pipeline capacity or lack of markets. The price Arsenal receives for its oil and gas production fluctuates continuously and, for the most part, is beyond Arsenal’s control. Arsenal is also subject to the risks associated with owning oil and gas properties, including environmental risks such as the pollution of air, land and water. In all areas of the business, Arsenal competes against entities that may have greater technical and financial resources. Arsenal’s growth is dependent upon external sources of financing which may not be available on acceptable terms. For a further description of risks applicable to Arsenal, see “*Risk Factors*” herein.

Arsenal mitigates these risks by hiring qualified personnel, either directly as employees or indirectly when contracting for services. To control the cost and pace of development, Arsenal attempts to acquire high working interests in each prospect and to operate wherever possible. Arsenal may enter into commodity price and interest

rate hedging strategies to add a degree of certainty to cash flow. Arsenal diversifies its oil and gas market portfolio among various marketers and among a variety of contracts with respect to pricing and term.

Seasonal Considerations

Certain of Arsenal's properties in the Evi and Lubicon region of Northern Alberta and in north-eastern British Columbia are accessible only during winter months. The majority of Arsenal's properties are accessible year round, except during spring break-up. Major facilities through which Arsenal's production is processed may temporarily be shut down for a short period of time during the year to conduct repair and maintenance operations.

Future Commitments

During 2008, Arsenal initiated the following hedging transactions with Alberta Treasury Branches:

Trade Date	Quantity	Price	Commencement	Termination Date on Trade Date
Oil Hedges				
February 19, 2008	200 bbl/d	\$97.55	March 1, 2008	December 31, 2009
April 30, 2008	100 bbl/d	\$109.80	June 1, 2008	December 31, 2009
July 22, 2008	300 bbl/d	\$130.10	August 1, 2008	July 31, 2009
July 25, 2008	200 bbl/d	\$125.80	August 1, 2008	July 31, 2010
Gas Hedges				
November 19, 2008	1,000 GJ/d	\$7.46	January 1, 2009	December 31, 2009
February 2, 2008	1,000 GJ/d	\$6.78	January 1, 2010	December 31, 2010

Effective December 9, 2008, Arsenal terminated its hedge for 100 bbl/d at \$109.80 and received a cash settlement amount of \$1,431,874. Effective November 21, 2008, Arsenal terminated its hedge for 300 bbl/d at \$130.10 and received a cash settlement amount of \$4,056,992. Effective January 7, 2009, Arsenal terminated its hedge for 200 bbl/d at \$97.55 and received a cash settlement amount of \$2,055,743.

Environmental Matters

The oil and gas industry is subject to environmental regulations pursuant to applicable legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations, and requires that well and facility sites be abandoned and reclaimed to the satisfaction of environmental authorities. As at December 31, 2008, Arsenal recorded a provision on its balance sheet of \$14,498,062 for asset retirement obligations for future site restoration, reclamation and abandonment costs. Arsenal maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution and other operating accidents or disruptions. Arsenal also has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure. No assurance can be given that the application of environmental laws to the business and operations of Arsenal 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 Arsenal's financial condition, results of operations or prospects.

Competitive Conditions

Arsenal will actively compete for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than Arsenal. Arsenal's competitors will include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. Arsenal's completion for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than Arsenal.

Certain of Arsenal's customers and potential customers may themselves explore for oil and natural gas and the results of such exploration efforts could affect Arsenal's ability to sell or supply oil or gas to these customers in the future. Arsenal's ability to successfully bid on and acquire additional property rights, to discover reserves to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint

operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Employees & Specialized Skill and Knowledge

As at December 31, 2008, Arsenal had 12 employees and 3 contract personnel at its head office and nil employees and 23 contractors at its field operations.

The Corporation requires the services of engineers and other professionals to explore and analyze oil prospects and to determine a method in which the oil prospects may be developed in a cost-effective manner. In addition, the Corporation relies on the owners and operators of oil drilling equipment to drill and develop prospects to production. The Corporation has been able to acquire the services of these persons as needed in the past and believes that it will be able to continue to acquire these services as needed in the future.

Foreign Operations

Arsenal explores for and drills for oil and natural gas in North Dakota, United States, and therefore the Corporation is dependant upon foreign operations.

Bankruptcies and Reorganization

There has not been any bankruptcy, or any receivership or similar proceedings against the Corporation or any of its subsidiaries or any voluntary bankruptcy, receivership or similar proceedings by the Corporation or any of its subsidiaries, within the three most recently completed financial years for which financial statements have been filed, or the current financial year. Other than as disclosed herein, there have been no material reorganizations of the Corporation or any of its subsidiaries since the beginning of the three most recently completed financial years for which financial statements have been filed, nor have any been proposed for the future.

Environmental and Social Policies

The Corporation has not implemented any social or environmental policies that are fundamental to its operations.

PETROLEUM AND NATURAL GAS RESERVES

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

AJM Petroleum Consultants (“AJM”), independent petroleum engineers of Calgary, Alberta, prepared a report entitled “**Reserve Estimation and Economic Evaluation of Arsenal Energy Inc. (as of December 31, 2008)**” (the “**AJM Report**”), effective December 31, 2008, and dated March 12, 2009, evaluating the proved and probable reserves attributable to Arsenal’s interest in 100% of its North American properties and the present value of estimated future cash flow from such reserves, based on forecast price and cost assumptions. The reserves information was prepared and is presented in accordance with the requirements of NI 51-101.

In preparing the AJM Report, AJM obtained information from Arsenal, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluation and upon which the AJM Report is based, was obtained from public records, other operators and from AJM’s non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by AJM as represented.

All evaluations of the present value of estimated future net revenue in the AJM Report are stated after provision for estimated future capital expenditures, well abandonment and reclamation costs (including the offsetting salvage value of tangible equipment after abandonment) but prior to income taxes and indirect costs and do not necessarily represent the fair market value of the reserves. The recovery and reserve estimates of Arsenal’s oil, NGL, coalbed methane and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

Reference to oil, gas, natural gas liquids, coalbed methane, reserves (gross, net, proved, probable, possible, developed, developed producing, developed non producing, undeveloped), forecast prices and costs, operating costs, development costs, future net revenue and future income tax expenses shall, unless expressly stated to be to the contrary, have the meaning attributed to such terms as set out in NI 51-101, the companion policy to NI 51-101CP and all forms referenced therein.

Summaries of reserves and net present value of future net revenues in Canada as presented on the basis of forecast prices and costs have been based on a crude oil price ranging between \$65.40 per barrel (Edmonton D2/S2) in 2009 and \$150.80 per barrel in 2028 (escalating @2% per year thereafter) and an Alberta natural gas reference average price ranging between \$6.75 per Mcf in 2009 and \$12.85 per Mcf in 2028 (escalating @2% per year thereafter).

Summaries of reserves and net present value of future net revenues in the United States are presented on the basis of forecast prices and costs have been based on a crude oil price ranging between USD\$55.00 per barrel (WTI @ Cushing Oklahoma) in 2009 and USD\$145.70 per barrel in 2028 (escalating @2% per year thereafter) and a natural gas price ranging between USD\$6.50 per Mcf (NYMEX) in 2008 and USD\$13.85 per Mcf in 2028 (escalating @2% per year thereafter).

Throughout the following summary, tables differences may arise due to rounding.

In accordance with the requirements of NI 51-101, attached hereto are the following appendices:

Appendix A: Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor in Form 51-101F2; and

Appendix B: Report of Management and Directors on Reserves Data and Other Information in Form 51-101F3.

Definitions used for reserve categories in the AJM Report are attached as Appendix C hereto. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

For the purposes herein, and unless otherwise noted, “Gross” means: (a) in relation to the Corporation’s interest in production or reserves, its “company gross reserves”, which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interest of the Corporation; (b) in relation to wells, the total number of wells in which the Corporation has an interest; and (c) in relation to properties, the total area of properties in which the Corporation has an interest.

For the purposes herein, and unless otherwise noted, “Net” means: (a) in relation to the Corporation’s interest in production or reserves, the Corporation’s working interest (operating or non-operating) share after deduction of royalty obligations, plus the Corporation’s royalty interest in production or reserves; (b) in relation to the Corporation’s interest in wells, the number of wells obtained by aggregating the Corporation’s working interest in each of its gross wells; and (c) in relation to a Corporation’s interest in a property, the total area in which the Corporation has an interest multiplied by the working interest owned by the Corporation.

The following tables summarize certain information related to Arsenal's oil and gas reserves as of December 31, 2008 based on forecast price and cost assumptions:

SUMMARY OF OIL AND GAS RESERVES — CANADIAN OIL & GAS ASSETS										
as of December 31, 2008										
FORECAST PRICES AND COSTS										
Reserves Category	Reserves									
	Light and Medium Oil		Heavy Oil		Natural Gas⁽¹⁾		Natural Gas Liquids		Coalbed Methane	
	Gross (Mbb1)	Net (Mbb1)	Gross (Mbb1)	Net (Mbb1)	Gross (MMcf)	Net (MMcf)	Gross (Mbb1)	Net (Mbb1)	Gross (MMcf)	Net (MMcf)
PROVED										
Developed Producing	1,079.4	905.2	762.5	682.6	5,257.4	4,232.6	88.0	61.1	154.3	134.1
Developed Non-Producing	60.4	52.1	19.0	17.4	2,055.8	1,540.2	42.9	33.4	0.0	0.0
Undeveloped	95.3	71.6	116.1	103.4	4.3	3.9	0.2	0.1	0.0	0.0
TOTAL PROVED	1,235.0	1,028.9	897.7	803.4	7,317.6	5,725.8	131.1	94.6	154.3	134.1
Probable	492.7	398.3	738.2	639.2	4,599.3	3,511.1	78.4	57.9	89.1	75.1
TOTAL PROVED PLUS PROBABLE	1,727.7	1,427.1	1,635.9	1,442.6	11,916.9	9,236.9	209.4	152.5	243.4	209.2

Note:

(1) Natural gas volumes include associated, non-associated and solution gas but not coalbed methane.

SUMMARY OF OIL AND GAS RESERVES — UNITED STATES OIL & GAS ASSETS										
as of December 31, 2008										
FORECAST PRICES AND COSTS										
Reserves Category	Reserves									
	Light and Medium Oil		Heavy Oil		Natural Gas⁽¹⁾		Natural Gas Liquids		Coalbed Methane	
	Gross (Mbb1)	Net (Mbb1)	Gross (Mbb1)	Net (Mbb1)	Gross (MMcf)	Net (MMcf)	Gross (Mbb1)	Net (Mbb1)	Gross (MMcf)	Net (MMcf)
PROVED										
Developed Producing	969.7	780.7	0.0	0.0	851.3	682.2	108.2	86.5	0.0	0.0
Developed Non-Producing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Undeveloped	372.4	310.5	0.0	0.0	25.8	25.8	3.6	3.6	0.0	0.0
TOTAL PROVED	1,342.1	1,091.2	0.0	0.0	877.1	708.0	111.8	90.1	0.0	0.0
Probable	985.3	806.8	0.0	0.0	279.1	226.2	35.0	28.3	0.0	0.0
TOTAL PROVED PLUS PROBABLE	2,327.4	1,898.0	0.0	0.0	1,156.2	934.2	146.7	118.4	0.0	0.0

Note:

(1) Natural gas volumes include associated, non-associated and solution gas but not coalbed methane.

SUMMARY OF OIL AND GAS RESERVES — AGGREGATED CANADA AND UNITED STATES OIL & GAS ASSETS										
as of December 31, 2008										
FORECAST PRICES AND COSTS										
Reserves Category	Reserves									
	Light and Medium Oil		Heavy Oil		Natural Gas ⁽¹⁾		Natural Gas Liquids		Coalbed Methane	
	Gross (Mbb1)	Net (Mbb1)	Gross (Mbb1)	Net (Mbb1)	Gross (MMcf)	Net (MMcf)	Gross (Mbb1)	Net (Mbb1)	Gross (MMcf)	Net (MMcf)
PROVED										
Developed Producing	2,049.1	1,685.9	762.5	682.6	6,108.7	4,863.9	196.2	147.5	154.3	134.1
Developed Non-Producing	60.4	52.1	19.0	17.4	2,055.8	1,540.2	42.9	33.4	0.0	0.0
Undeveloped	467.6	382.1	116.1	103.4	30.1	29.7	3.8	3.7	0.0	0.0
TOTAL PROVED	2,577.1	2,120.1	897.7	803.4	8,194.6	6,433.8	242.8	184.6	154.3	134.1
Probable	1,477.9	1,205.1	738.2	639.2	4878.4	3,737.4	113.3	86.2	89.1	75.1
TOTAL PROVED PLUS PROBABLE	4,055.1	3,325.2	1,635.9	1,442.6	13,073.1	10,171.1	356.2	270.8	243.4	209.2

Note:

(1) Natural gas volumes include associated, non-associated and solution gas but not coalbed methane.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE - CANADIAN OIL & GAS ASSETS											
as of December 31, 2008											
FORECAST PRICES AND COSTS											
Reserves Category	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)					UNIT VALUE BEFORE INCOME TAX DISC AT 10%/YEAR
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	(\$/MCF) (\$/BBL)
PROVED											
Developed Producing	71,771	59,463	51,317	45,369	40,798	70,313	58,541	50,669	44,892	40,436	18.12
Developed Non-Producing	13,376	10,861	9,084	7,775	6,775	10,720	8,733	7,343	6,324	5,548	19.54
Undeveloped	7,923	5,755	4,302	3,292	2,567	6,374	4,585	3,391	2,564	1,974	20.26
TOTAL PROVED	93,070	76,079	64,703	56,436	50,140	87,407	71,860	61,403	53,780	47,958	18.44
Probable	68,387	48,246	36,192.7	28,388	23,029	52,328	37,220	28,084	22,124	18,008	17.31
TOTAL PROVED PLUS PROBABLE	161,457	124,325	100,895.6	84,824	73,169	139,734	109,079	89,487	75,904	65,966	18.02

**SUMMARY OF NET PRESENT VALUES OF
FUTURE NET REVENUE – UNITED STATES OIL & GAS ASSETS
as of December 31, 2008**

FORECAST PRICES AND COSTS

Reserves Category	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/YEAR
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	(\$/MCF) (\$/BBL)
PROVED											
Developed Producing	53,571	37,748	28,933	23,373	19,574	36,910	26,047	19,997	16,181	13,574	23.72
Developed Non-Producing	0	0	0	0	0	0	0	0	0	0	0
Undeveloped	21,643	13,665	9,665	7,234	5,593	14,790	9,356	6,603	4,927	3,794	25.41
TOTAL PROVED	75,212	51,414	38,598	30,607	25,167	51,700	35,403	26,599	21,107	17,368	24.12
Probable	74,641	41,060	26,891	19,302	14,640	51,100	28,088	18,388	13,194	10,003	25.21
TOTAL PROVED PLUS PROBABLE	149,854	92,472	65,489	49,909	39,807	102,800	63,491	44,988	34,301	27,370	24.56

**SUMMARY OF NET PRESENT VALUES OF
FUTURE NET REVENUE– AGGREGATED CANADA AND UNITED STATES OIL & GAS ASSETS
as of December 31, 2008**

FORECAST PRICES AND COSTS

Reserves Category	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/YEAR
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	(\$/MCF) (\$/BBL)
PROVED											
Developed Producing	125,342	97,210	80,250	68,742	54,372	107,210	84,588	70,666	61,073	54,010	19.81
Developed Non-Producing	13,377	10,861	9,084	7,775	6,775	11,100	8,733	7,343	6,324	5,548	18.73
Undeveloped	29,566	19,420	13,967	10,525	8,160	20,790	13,941	9,994	7,491	4,541	23.57
TOTAL PROVED	168,284	127,490	103,301	87,043	75,307	139,100	107,263	88,003	74,888	65,325	20.22
Probable	143,028	89,307	63,083	47,690	37,669	103,400	65,303	46,473	35,318	28,010	19.98
TOTAL PROVED PLUS PROBABLE	311,312	216,797	166,384	134,733	112,976	242,500	172,570	134,475	110,205	93,336	20.13

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) — CANADIAN OIL & GAS ASSETS as of December 31, 2008 FORECAST PRICES AND COSTS								
Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Future Income Taxes and Expenses (M\$)	Future Net Revenue After Deducting Income Taxes (M\$)
PROVED								
Developed Producing	185,967	30,354	72,887	0	10,955	71,771	1,458	70,313
Developed Non-Producing	2,470	5,024	4,358	1,938	0	13,377	2,657	10,720
Undeveloped	18,931	3,628	4,966	2,414	0	7,923	1,549	6,374
TOTAL PROVED	229,595	39,006	82,211	4,352	10,955	93,071	5,664	87,407
Probable	155,164	28,747	53,702	3,627	702	68,387	16,059	52,328
TOTAL PROVED PLUS PROBABLE	384,759	67,753	135,913	7,980	11,657	161,458	21,723	139,734

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) - UNITED STATES OIL & GAS ASSETS as of December 31, 2008 FORECAST PRICES AND COSTS								
Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Future Income Taxes and Expenses (M\$)	Future Net Revenue After Deducting Income Taxes (M\$)
PROVED								
Developed Producing	99,590	9,246	35,293	0	1481	53,571	10,850	36,910
Developed Non-Producing	0	0	0	0	0	0	0	0
Undeveloped	37,424	3,368	7,121	5,245	48	21,642	4,688	14,834
TOTAL PROVED	137,015	12,614	42,414	5,245	1,529	75,213	15,538	51,744
Probable	115,691	10,697	26,210	4,060	82	74,641	16,125	51,075
TOTAL PROVED PLUS PROBABLE	252,705	23,311	68,625	9,305	1,611	149,854	31,663	102,819

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) - AGGREGATED CANADA AND UNITED STATES OIL & GAS ASSETS as of December 31, 2008 FORECAST PRICES AND COSTS								
Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Future Income Taxes and Expenses (M\$)	Future Net Revenue After Deducting Income Taxes (M\$)
PROVED								
Developed Producing	285,557	39,599	108,180	0	12,436	125,342	12,308	107,223
Developed Non-Producing	24,697	5,024	4,358	1,938	0	13,377	2,657	10,720
Undeveloped	56,356	6,996	12,088	7,659	48	29,566	6,238	21,208
TOTAL PROVED	366,610	51,619	124,626	9,597	13,267	168,284	21,203	139,150
Probable	270,855	39,414	79,912	7,687	672	143,028	40,002	114,981
TOTAL PROVED PLUS PROBABLE	637,465	91,064	204,538	17,285	13,939	311,312	53,387	242,553

FUTURE NET REVENUE BY PRODUCTION GROUP — CANADIAN OIL & GAS ASSETS as of December 31, 2008 FORECAST PRICES AND COSTS			
RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (\$/MCF) (\$/BBL)
PROVED	Light and Medium Oil (including solution gas and associated by-products)	30,301	21.79
	Heavy Oil (including solution gas and other associated by-products)	12,083	13.42
	Natural Gas (including associated by-products but excluding solution gas and by-products from oil wells)	21,912	3.06
	Coalbed Methane (including associated by-products)	407	2.58
	Non-Conventional Oil & Gas Activities (excluding coalbed methane)	0	0
	Total	64,703	16.63
PROVED PLUS PROBABLE	Light and Medium Oil (including solution gas and associated by-products)	43,750	26.67
	Heavy Oil (including solution gas and associated by-products)	22,956	13.99
	Natural Gas (including associated by-products but excluding solution gas and by-products from oil wells)	33,562	2.81
	Coalbed Methane (including associated by-products)	628	2.53
	Non-Conventional Oil & Gas Activities (excluding coalbed methane)	0	0
	Total	100,896	17.22

FUTURE NET REVENUE BY PRODUCTION GROUP — UNITED STATES OIL & GAS ASSETS as of December 31, 2008			
FORECAST PRICES AND COSTS			
RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (\$/MCF) (\$/BBL)
PROVED	Light and Medium Oil (including solution gas and associated by-products)	38,598	24.12
	Heavy Oil (including solution gas and other associated by-products)	0	0
	Natural Gas (including associated by-products but excluding solution gas and by-products from oil wells)	0	0
	Coalbed Methane (including associated by-products)	0	0
	Non-Conventional Oil & Gas Activities (excluding coalbed methane)	0	0
	Total	38,598	24.12
PROVED PLUS PROBABLE	Light and Medium Oil (including solution gas and associated by-products)	65,489	24.56
	Heavy Oil (including solution gas and associated by-products)	0	0
	Natural Gas (including associated by-products but excluding solution gas and by-products from oil wells)	0	0
	Coalbed Methane (including associated by-products)	0	0
	Non-Conventional Oil & Gas Activities (excluding coalbed methane)	0	0
	Total	65,489	24.56

FUTURE NET REVENUE BY PRODUCTION GROUP — AGGREGATED CANADIAN & UNITED STATES OIL & GAS ASSETS as of December 31, 2008			
FORECAST PRICES AND COSTS			
RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (\$/MCF) (\$/BBL)
PROVED	Light and Medium Oil (including solution gas and associated by-products)	68,899	26.74
	Heavy Oil (including solution gas and other associated by-products)	12,083	13.46
	Natural Gas (including associated by-products but excluding solution gas and by-products from oil wells)	21,912	2.62
	Coalbed Methane (including associated by-products)	407	2.64
	Non-Conventional Oil & Gas Activities (excluding coalbed methane)	0	0
	Total	103,301	20.22
PROVED PLUS PROBABLE	Light and Medium Oil (including solution gas and associated by-products)	109,239	26.94
	Heavy Oil (including solution gas and associated by-products)	22,956	14.03
	Natural Gas (including associated by-products but excluding solution gas and by-products from oil wells)	33,562	2.57
	Coalbed Methane (including associated by-products)	628	2.58
	Non-Conventional Oil & Gas Activities (excluding coalbed methane)	0	0
	Total	166,385	20.13

PRICING ASSUMPTIONS

AJM employed the following pricing, exchange rate and inflation rate assumptions in estimating Arsenal's reserves data using forecast prices and costs as of December 31, 2008.

**Table 1
AJM Petroleum Consultants
Price Forecast 2008 12 31
Base Case Forecast Effective December 31, 2008**

	Price Inflation Rate	Cost Inflation Rate	Cdn to US Exchange Rate	Crude Oil Pricing									Natural Gas Liquids Pricing				Natural Gas Pricing							Sulphur Pricing
				WTI at Cushing Oklahoma \$/bbl U.S. Real	WTI at Cushing Oklahoma \$/bbl U.S. Current	Edmonton City Gate \$/bbl Cdn. Real	Edmonton City Gate \$/bbl Cdn. Current	Med. Oil 29 Deg. API Cromer, Sk. \$/bbl Current	Bow River 25 Deg. API Hardisty \$/bbl Current	Heavy Oil 12 Deg. API Hardisty \$/bbl Current	Ethane \$/bbl Current	Propane \$/bbl Current	Butane \$/bbl Current	Penitane + Condensate \$/bbl Current	Alberta Reference Average Price \$/mcf Current	Alberta AECO Average Price \$/mcf Real	Alberta AECO Average Price \$/mcf Current	Alberta System Plant Gate Sales \$/mcf Current	Alberta Direct Plant Gate Sales \$/mcf Current	B.C. Direct Plant Gate Sales \$/mcf Current	Sask. Direct Plant Gate Sales \$/mcf Current	NYMEX US\$/Mcf Real	NYMEX US\$/Mcf Current	\$/ft Current
H 1997	1.6%	1.6%	0.722	\$25.85	\$20.60	\$35.12	\$27.98	\$23.85	\$21.60	\$15.42	n/a	\$19.41	\$19.02	\$30.85	\$1.87	\$2.15	\$1.71	\$1.78	\$1.69	\$1.98	\$1.74	\$3.25	\$2.59	\$11.50
i 1998	0.7%	0.7%	0.675	\$17.76	\$14.38	\$24.81	\$20.08	\$17.22	\$14.79	\$9.48	n/a	\$11.97	\$12.92	\$22.35	\$1.94	\$2.56	\$2.07	\$1.90	\$1.95	\$2.00	\$2.13	\$2.61	\$2.11	(\$6.51)
s 1999	1.8%	1.8%	0.648	\$23.67	\$19.29	\$33.62	\$27.41	\$21.72	\$20.29	\$17.62	\$8.09	\$13.21	\$14.39	\$20.94	\$2.48	\$3.37	\$2.75	\$2.22	\$2.50	\$2.52	\$2.61	\$2.57	\$2.10	\$6.93
t 2000	2.6%	2.6%	0.674	\$36.41	\$30.22	\$53.43	\$44.33	\$39.89	\$34.46	\$28.57	\$14.10	\$32.59	\$36.51	\$46.30	\$4.51	\$6.04	\$5.01	\$4.84	\$4.86	\$4.89	\$5.05	\$5.20	\$4.32	\$13.59
o 2001	2.5%	2.5%	0.646	\$30.36	\$25.87	\$45.96	\$39.17	\$31.54	\$25.12	\$18.07	\$17.20	\$30.62	\$30.49	\$43.03	\$5.39	\$7.36	\$6.27	\$5.42	\$6.11	\$6.26	\$6.10	\$4.61	\$3.93	\$14.50
r 2002	2.3%	2.3%	0.636	\$29.86	\$26.11	\$46.12	\$40.33	\$35.52	\$31.89	\$27.63	\$11.21	\$20.92	\$27.78	\$41.22	\$3.88	\$4.66	\$4.07	\$3.85	\$3.91	\$3.93	\$4.08	\$3.84	\$3.36	\$12.74
i 2003	2.3%	2.3%	0.710	\$34.66	\$31.01	\$48.64	\$43.51	\$37.47	\$32.96	\$27.35	\$18.43	\$32.31	\$36.03	\$45.18	\$6.12	\$7.49	\$6.70	\$6.11	\$6.53	\$6.32	\$6.67	\$6.12	\$5.48	\$40.99
c 2004	1.8%	1.8%	0.770	\$45.04	\$41.45	\$57.55	\$52.96	\$45.76	\$38.01	\$30.44	\$19.04	\$35.20	\$44.07	\$55.49	\$6.31	\$7.14	\$6.57	\$6.32	\$6.40	\$6.44	\$6.84	\$6.79	\$6.25	\$40.82
a 2005	2.2%	2.2%	0.823	\$60.39	\$56.61	\$73.95	\$69.33	\$57.39	\$45.68	\$33.77	\$23.80	\$43.23	\$51.91	\$74.67	\$8.31	\$9.37	\$8.78	\$8.56	\$8.61	\$8.13	\$8.51	\$9.50	\$8.91	\$40.99
i 2006	2.0%	2.0%	0.882	\$68.89	\$66.06	\$76.48	\$73.34	\$62.42	\$52.04	\$39.68	\$19.81	\$44.11	\$58.16	\$78.19	\$6.66	\$6.82	\$6.54	\$6.63	\$6.35	\$6.45	\$7.11	\$7.04	\$6.75	\$19.51
2007	2.1%	2.1%	0.921	\$72.13	\$70.59	\$77.56	\$75.90	\$64.77	\$54.12	\$40.51	\$18.41	\$48.30	\$57.15	\$79.83	\$6.20	\$6.61	\$6.47	\$6.31	\$6.22	\$6.23	\$6.54	\$7.11	\$6.95	\$38.32
2008	2.4%	2.4%	0.951	\$99.58	\$99.58	\$102.85	\$102.85	\$93.33	\$83.97	\$73.18	\$22.82	\$56.99	\$82.72	\$109.23	\$7.90	\$8.22	\$8.22	\$8.09	\$7.97	\$8.03	\$8.16	\$8.83	\$8.83	\$289.85
2																								
0 0 Mths H	0.0%	0.0%	0.000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
0 12 Mths F	2.0%	2.0%	0.820	\$55.00	\$55.00	\$65.40	\$65.40	\$54.40	\$50.40	\$35.40	\$20.10	\$42.50	\$52.30	\$68.65	\$6.75	\$7.00	\$7.00	\$6.70	\$6.80	\$6.70	\$6.95	\$6.50	\$6.50	\$50.00
9 Avg	2.0%	2.0%	0.820	\$55.00	\$55.00	\$65.40	\$65.40	\$54.40	\$50.40	\$35.40	\$20.10	\$42.50	\$52.30	\$68.65	\$6.75	\$7.00	\$7.00	\$6.70	\$6.80	\$6.70	\$6.95	\$6.50	\$6.50	\$50.00
F 2009	0.0%	0.0%	0.820	\$55.00	\$55.00	\$65.40	\$65.40	\$54.40	\$50.40	\$35.40	\$20.10	\$42.50	\$52.30	\$68.65	\$6.75	\$7.00	\$7.00	\$6.70	\$6.80	\$6.70	\$6.95	\$6.50	\$6.50	\$50.00
o 2010	2.0%	3.0%	0.860	\$75.00	\$76.50	\$85.50	\$87.20	\$73.70	\$65.20	\$49.20	\$23.25	\$56.70	\$69.75	\$91.55	\$7.80	\$7.90	\$8.05	\$7.75	\$7.85	\$7.75	\$8.00	\$7.50	\$7.50	\$50.00
r 2011	2.0%	2.0%	0.900	\$85.00	\$88.45	\$92.75	\$96.50	\$82.00	\$70.50	\$54.50	\$23.70	\$62.75	\$77.20	\$101.35	\$7.90	\$7.90	\$8.20	\$7.90	\$8.00	\$7.90	\$8.15	\$8.00	\$8.30	\$50.00
e 2012	2.0%	2.0%	0.950	\$95.00	\$100.80	\$98.30	\$104.30	\$89.30	\$76.30	\$60.30	\$26.10	\$67.80	\$83.45	\$109.50	\$8.70	\$8.50	\$9.00	\$8.70	\$8.80	\$8.70	\$8.95	\$9.00	\$9.55	\$50.00
c 2013	2.0%	2.0%	0.950	\$100.00	\$108.25	\$103.50	\$112.05	\$97.05	\$84.05	\$68.05	\$28.35	\$72.85	\$89.65	\$117.65	\$9.50	\$9.00	\$9.75	\$9.45	\$9.55	\$9.45	\$9.70	\$9.50	\$10.30	\$50.00
a 2014	2.0%	2.0%	0.950	\$100.00	\$110.40	\$103.50	\$114.25	\$99.25	\$86.25	\$70.25	\$28.95	\$74.25	\$91.40	\$119.95	\$9.65	\$9.00	\$9.95	\$9.65	\$9.75	\$9.65	\$9.90	\$9.50	\$10.50	\$51.00
s 2015	2.0%	2.0%	0.950	\$100.00	\$112.60	\$103.50	\$116.55	\$101.55	\$88.55	\$72.55	\$29.55	\$75.75	\$93.25	\$122.35	\$9.85	\$9.00	\$10.15	\$9.85	\$9.95	\$9.85	\$10.10	\$9.50	\$10.70	\$52.00
t 2016	2.0%	2.0%	0.950	\$100.00	\$114.85	\$103.50	\$118.90	\$103.90	\$90.90	\$74.90	\$30.15	\$77.30	\$95.10	\$124.85	\$10.05	\$9.00	\$10.35	\$10.05	\$10.15	\$10.05	\$10.30	\$9.50	\$10.90	\$53.05
2017	2.0%	2.0%	0.950	\$100.00	\$117.15	\$103.50	\$121.25	\$106.25	\$93.25	\$77.25	\$30.75	\$78.80	\$97.00	\$127.30	\$10.30	\$9.00	\$10.55	\$10.25	\$10.35	\$10.25	\$10.50	\$9.50	\$11.15	\$54.10
2018	2.0%	2.0%	0.950	\$100.00	\$119.50	\$103.50	\$123.70	\$108.70	\$95.70	\$79.70	\$31.35	\$80.40	\$98.95	\$129.90	\$10.45	\$9.00	\$10.75	\$10.45	\$10.55	\$10.45	\$10.70	\$9.50	\$11.35	\$55.20
2019	2.0%	2.0%	0.950	\$100.00	\$121.90	\$103.50	\$126.15	\$111.15	\$98.15	\$82.15	\$31.95	\$82.00	\$100.90	\$132.45	\$10.70	\$9.00	\$10.95	\$10.65	\$10.75	\$10.65	\$10.90	\$9.50	\$11.60	\$56.30
o 2020	2.0%	2.0%	0.950	\$100.00	\$124.35	\$103.50	\$128.70	\$113.70	\$100.70	\$84.70	\$32.70	\$83.65	\$102.95	\$135.15	\$10.95	\$9.00	\$11.20	\$10.90	\$11.00	\$10.90	\$11.15	\$9.50	\$11.80	\$57.45
2021	2.0%	2.0%	0.950	\$100.00	\$126.80	\$103.50	\$131.25	\$116.25	\$103.25	\$87.25	\$33.30	\$85.30	\$105.00	\$137.80	\$11.15	\$9.00	\$11.40	\$11.10	\$11.20	\$11.10	\$11.35	\$9.50	\$12.05	\$58.60
2022	2.0%	2.0%	0.950	\$100.00	\$129.35	\$103.50	\$133.90	\$118.90	\$105.90	\$89.90	\$34.05	\$87.05	\$107.10	\$140.60	\$11.40	\$9.00	\$11.65	\$11.35	\$11.45	\$11.35	\$11.60	\$9.50	\$12.30	\$59.75
2023	2.0%	2.0%	0.950	\$100.00	\$131.95	\$103.50	\$136.55	\$121.55	\$108.55	\$92.55	\$34.80	\$88.75	\$109.25	\$143.40	\$11.60	\$9.00	\$11.90	\$11.60	\$11.70	\$11.60	\$11.85	\$9.50	\$12.55	\$60.95
2024	2.0%	2.0%	0.950	\$100.00	\$134.60	\$103.50	\$139.30	\$124.30	\$111.30	\$95.30	\$35.40	\$90.55	\$111.45	\$146.25	\$11.85	\$9.00	\$12.10	\$11.80	\$11.90	\$11.80	\$12.05	\$9.50	\$12.80	\$62.15
2025	2.0%	2.0%	0.950	\$100.00	\$137.30	\$103.50	\$142.10	\$127.10	\$114.10	\$98.10	\$36.15	\$92.35	\$113.70	\$149.20	\$12.05	\$9.00	\$12.35	\$12.05	\$12.15	\$12.05	\$12.30	\$9.50	\$13.05	\$63.40
2026	2.0%	2.0%	0.950	\$100.00	\$140.00	\$103.50	\$144.90	\$129.90	\$116.90	\$100.90	\$36.90	\$94.20	\$115.90	\$152.15	\$12.35	\$9.00	\$12.60	\$12.30	\$12.40	\$12.30	\$12.55	\$9.50	\$13.30	\$64.65
2027	2.0%	2.0%	0.950	\$100.00	\$142.80	\$103.50	\$147.80	\$132.80	\$119.80	\$103.80	\$37.65	\$96.05	\$118.25	\$155.20	\$12.60	\$9.00	\$12.85	\$12.55	\$12.65	\$12.55	\$12.80	\$9.50	\$13.55	\$65.95
2028	2.0%	2.0%	0.950	\$100.00	\$145.70	\$103.50	\$150.80	\$135.80	\$122.80	\$106.80	\$38.40	\$98.00	\$120.65	\$158.35	\$12.85	\$9.00	\$13.10	\$12.80	\$12.90	\$12.80	\$13.05	\$9.50	\$13.85	\$67.25
2028+	2.0%	2.0%	0.950	0.0%	2.0%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%	2.0%	2.0%	

Notes: - All prices are in Canadian dollars except WTI and NYMEX gas which are in U.S. dollars.
 - Edmonton city gate prices based on light sweet crude posted at major Canadian refineries. (40 Deg. API < 0.5% Sulphur)
 - Natural Gas Liquid prices are forecasted at Edmonton therefore an additional transportation cost must be included to plant gate sales point.
 - 1 Mcf is equivalent to 1 mmbtu.
 - System gas prices includes TCGSL, Progas, Pan Alberta and Alliance.
 - Real dollars listed include future growth in prices with no escalation considered.
 - Alberta gas prices, except AECO, include an Average cost of service to the plant gate.
 - The Alberta Royalty Tax Credit (ARTC) was eliminated effective January 1, 2007.
 - For the current year data the Average is based on XX months historical and XX months Forecast.



Arsenal's weighted average realized sales prices for the year ended December 31, 2008 were \$74.99/bbl for heavy oil, \$86.23/bbl for light oil and NGLs and \$7.98/Mcf for natural gas.

RECONCILIATION OF CHANGES IN RESERVES

Reserves Reconciliation (Canada)

The following tables set forth a reconciliation of Arsenal's total gross proved, probable and proved plus probable reserves as at December 31, 2008 against such reserves as at December 31, 2007 based on forecast price and cost assumptions.

FACTORS	LIGHT AND MEDIUM OIL			HEAVY OIL			NATURAL GAS ⁽¹⁾		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2007	408.8	126.2	535.1	932.8	818.1	1,751.0	3,502.5	2,460.7	5,963.2
Acquisitions	745.3	232.6	977.9	38.0	17.5	55.5	4,858.1	2,598.0	7,456.2
Discoveries	0	0	0	0	0	0	0	0	0
Dispositions	0	0	0	0.1	0	0.1	0	0	0
Extensions and Improved Recovery	387.8	154.9	542.7	69.5	74.7	144.2	496.8	-37.9	458.9
Technical Revisions ⁽²⁾	-63.3	-21.0	-84.4	44.5	-172.1	-127.7	-766.8	-421.5	-1188.4
Economic Factors	0	0	0	0	0	0	0	0	0
Gross Production	-243.6	0	-243.6	-187.2	0	-187.2	-773.0	0	-773.0
December 31, 2008	1,235.0	492.7	1,727.7	897.7	738.2	1,635.9	7,317.6	4,599.3	11,916.9

FACTORS	NATURAL GAS LIQUIDS			COALBED METHANE		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2007	40.9	15.1	56.0	157.2	70.1	227.3
Acquisitions	108.0	70.4	178.4	19.3	4.2	23.5
Discoveries	0	0	0	0	0	0
Dispositions	0	0	0	0	0	0
Extensions and Improved Recovery	5.0	1.6	6.6	35.1	12.7	47.8
Technical Revisions ⁽²⁾	-13.5	-8.7	-22.3	-3.8	2.1	-1.7
Economic Factors	0	0	0	0	0	0
Gross Production	-9.3	0	-9.3	-53.5	0	-53.5
December 31, 2008	131.1	78.4	209.4	154.3	89.1	243.4

Notes:

- (1) Natural gas volumes include associated, non-associated and solution gas but does not include coalbed methane.
- (2) Technical revisions to reserve volumes for December 31, 2008.

Reserves Reconciliation (United States)

The following table sets forth a reconciliation of Arsenal's total gross proved, probable and proved plus probable reserves as at December 31, 2008 against such reserves as at December 31, 2007 based on forecast price and cost assumptions.

FACTORS	LIGHT AND MEDIUM OIL			HEAVY OIL			NATURAL GAS ⁽¹⁾		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2007	923.4	606.2	1529.5	0	0	0	1,125.7	520.4	1,646.2
Acquisitions	0	0	0	0	0	0	0	0	0
Discoveries	0	0	0	0	0	0	0	0	0
Dispositions	0	0	0	0	0	0	0	0	0
Extensions and Improved Recovery	583.1	712.4	1295.5	0	0	0	25.8	10.9	36.7
Technical Revisions ⁽²⁾	-48.4	-333.3	-381.6	0	0	0	-176.9	-252.2	-429.2
Economic Factors	0	0	0	0	0	0	0	0	0
Gross Production	-116.0	0	-116.0	0	0	0	-97.5	0	-97.5
December 31, 2008	1,342.1	985.3	2327.4	0	0	0	877.1	279.1	1,156.2

FACTORS	NATURAL GAS LIQUIDS			COALBED METHANE		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2007	205.1	94.5	299.6	0	0	0
Acquisitions	0	0	0	0	0	0
Discoveries	0	0	0	0	0	0
Dispositions	0	0	0	0	0	0
Extensions and Improved Recovery	0	1.5	5.1	0	0	0
Technical Revisions ⁽²⁾	-82.3	-61	-143.4	0	0	0
Economic Factors	0	0	0	0	0	0
Gross Production	-14.6	0	-14.6	0	0	0
December 31, 2008	111.8	35.0	146.7	0	0	0

Notes:

- (1) Natural gas volumes include associated, non-associated but does not include coalbed methane.
- (2) Technical revisions to reserve volumes for December 31, 2008.

ADDITIONAL INFORMATION RELATING TO RESERVES DATA

Proved Undeveloped Reserves and Probable 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 Arsenal gathering systems. In addition, such reserves may relate to planned infill drilling locations. The majority of these reserves are planned to be on stream within a two year timeframe.

Probable undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production. The majority of these reserves are planned to be on stream within a two year timeframe.

The following provides the gross volumes of proved undeveloped reserves and probable undeveloped reserves of Arsenal that were first attributed and booked in each of the most recent three financial years of Arsenal ending on the date of the AJM Report, and in the aggregate, before that time.

TOTAL CORPORATION																				
TIME PERIOD	LIGHT AND MEDIUM OIL (Mbbbl)				HEAVY OIL (Mbbbl)				NATURAL GAS LIQUIDS (Mbbbl)				NATURAL GAS (Mmcf)				COAL BED METHANE (Mmcf)			
	PROVED		PROBABLE		PROVED		PROBABLE		PROVED		PROBABLE		PROVED		PROBABLE		PROVED		PROBABLE	
	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*
2008	468	382	760	1,478	0	116	0	738	3.6	3.8	11	113	26	30	204	4,878	0	0	0	89
2007	415	68	0	788	0	117	0	763	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2006	0	0	0	84	19	224	35	932	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Prior to 2006	0	n/a	0	n/a	99	n/a	45	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* A: First Attributed
B: Booked

Significant Factors or Uncertainties Affecting Reserves Data

The process of estimating reserves is complex. It requires significant judgment 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, commodity prices and economic conditions. Arsenal's reserves are evaluated by AJM, an independent engineering firm.

Estimates made are reviewed and revised, either upward to downward, as warranted by the new information. Revisions are often required due to changes in well performance, commodity 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. Arsenal's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

Future Development Costs

The following table outlines development costs deducted in the estimation of future net revenue attributable to proved reserves and proved plus probable reserves using forecast prices and costs.

Year	Canada		United States	
	Proved Reserves (M\$)	Proved Plus Probable Reserves (M\$)	Proved Reserves (M\$)	Proved Plus Probable Reserves (M\$)
2009	1.7	2.4	1.4	1.4
2010	1.0	1.7	2.5	5.2
2011	0.9	2.5	1.3	2.7
2012	0.4	0.4	0.0	0.0
Remaining Years	0.4	1.0	0.0	0.0
Total Undiscounted	4.4	8.0	5.2	9.3

Arsenal has established a \$12 million capital program (the "2009 Capital Program") to fund its exploration and development activities for 2009. The 2009 Capital Program does not include any new acquisition opportunities, which Arsenal believes will likely be financed through debt or equity financings.

Arsenal estimates that its internally generated cash flow and unused bank credit facilities are sufficient to fund the future development costs disclosed above. Arsenal typically has available three sources of funding to finance its capital expenditure program: internally generated cash flow from operating activities, debt financing when appropriate and new equity issues, if available on favourable terms.

OTHER OIL AND GAS INFORMATION

Arsenal has interests in 14 Canadian core areas and three U.S. core area. These Canadian and U.S. areas are the subjects of the AJM Report. All of Arsenal's properties are located on-shore.

Canada

Alberta

Chauvin/Ribstone

The Chauvin and Ribstone properties are located in close proximity in east central Alberta in Townships 42-43, Range 2 W4M. Arsenal holds a 100% working interest in both through the acquisition of GEOCAN effective October 8, 2008. A combined total of 38 oil wells produce medium-heavy oil from the Cretaceous Sparky, General Petroleum, Rex, McLaren and Colorado formations. In 2008, this area averaged 331 boe/d net and realized a netback of \$57.88/boe. In 2008, one well in Ribstone was converted to water injection.

Galahad

The Galahad property is located in Township 40, Range 15 W4M and produces oil from the Mannville group Lloydminster, Glauconite, and Ellerslie sands. The property consists of twenty five producing and two non-producing oil wells, with Arsenal ownership ranging from 50 to 100%. Production averaged 248 boe/d and the realized netback was \$41.65/boe. In 2008, nine wells were drilled in Galahad resulting in six commercial wells and three dry and abandoned (“D&A”) wells, and two additional wells were successfully recompleted.

Evi

The Evi area is located in Township 87, Range 12 W5M in north central Alberta. Light oil is produced from the Devonian Slave Point, Gilwood, and Granite Wash formations. Production averaged 261 boe/d in 2008, with netback of \$79.08/boe. The oil is processed at the 11-1-87-13 W5M battery operated by Harvest Energy Trust. Arsenal drilled two successful oil wells and recompleted one in 2008.

Other/Minor

Other major producing areas in Alberta include Wildmere (127 boe/d) and Provost (100 boe/d). In 2008, at Wildmere, Arsenal acquired Pearl Exploration and Production Ltd.’s interests in Section 34-48-6 W4M and recompleted three wells in the Second White Specks gas zone. In Provost, six wells were drilled resulting in three producing oil wells, one standing oil well, and two D&A wells.

Significant properties including Alderson, Blueridge, Nevis, Princess, Tomahawk and various minor properties make up a further 249 boe/d production in Alberta. Activity in these areas included participation in four non-operated drills in Alderson resulting in one successful Sunburst oil well and three D&A wells, one successful recompletion in Princess, and two unsuccessful recompletions in Tomahawk.

British Columbia

Currant Area

The Currant property was acquired as part of the acquisition of GEOCAN, and consists of four producing and three probable developed Bluesky/Gething gas wells. Working interests range from 50 to 100%. Production averaged 28 boe/d in 2008, with a netback of \$26.30/boe.

Saskatchewan

Heavy Oil

Arsenal has three significant heavy oil properties: Maidstone, Lashburn, and Dee Valley East. Together, these properties produced 284 boe/d, and realized a netback of \$35.42/boe.

United States

North Dakota

Stanley

The Stanley property is located in Mountrail County, North Dakota. Production from eleven Mission Canyon formation oil wells and one Bakken horizontal well averaged 119 boe/d in 2008, with netbacks averaging \$32.38 Cdn. The Bakken well, George Robert 24-13H, which was drilled and put on production in late 2008, is 35% Arsenal working interest and operated by Murex Petroleum. Initial rates were over 1200 boe/d. Arsenal has exposure to several additional Bakken locations on its land base at working interests ranging from 14 to 35%, and anticipates further drilling in 2009.

Lindahl

This property is located in Williams County, North Dakota. Oil is produced from the Mississippian Madison carbonate through 12 producing wells. Production averaged 72 boe/d net in 2008, with a netback of \$49.89/boe. Industry activity is ongoing in the Bakken oil play in the vicinity of Lindahl.

Rennie Lake

Located in Burke County, North Dakota, the Rennie Lake property produces oil, natural gas and liquids from eight wells completed in the Midale and Nesson zones of the Madison formation. Working interests range from 45 to 100%. In 2008, the production averaged 51 boe/d, with netback of \$32.51 Cdn.

Egypt

As of December 31, 2007, Arsenal had no remaining monetary obligations with respect to its exploration concession in Egypt. As of July 1, 2008, Arsenal surrendered the Egyptian exploration concession. The process of selling Quadra Egypt Ltd. is well advanced, with an expected closing date of May 13, 2009.

Wells

As at December 31, 2008, Arsenal had an interest in 378 gross (191.6 net) producing and 223 gross (154.7 net) non-producing oil and natural gas wells and 4 gross (4 net) service wells as follows:

Location	PRODUCING				NON-PRODUCING				SERVICE WELLS	
	Oil		Natural Gas		Oil		Natural Gas		Gross ⁽¹⁾	Net ⁽²⁾
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾		
Alberta	249	112.4	40	18.3	93	64.7	72	45.7	4	4
Saskatchewan	39	18.5	3	2.1	25	17.7	5	2.9	0	0
British Columbia	0	0	2	1.5	0	0.0	11	10.0	0	0
North Dakota, USA	45	39.0	0	0	17	13.7	0	0.0	0	0
TOTAL	333	169.8	45	21.8	135	96.1	88	58.6	4	4

Notes:

- (1) "Gross" wells means the number of wells in which Arsenal has a working interest or a royalty interest that may be convertible to a working interest.
- (2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Arsenal's percentage working interest therein.

Properties With No Attributed Reserves

The following table sets forth the gross and net acres of unproved properties (properties with no attributed reserves) held by Arsenal and the net area of unproved property for which Arsenal expected its rights to explore, develop and exploit to expire during the 2009 fiscal year.

UNPROVED PROPERTIES - UNDEVELOPED LAND				
(Acres)				
LOCATION	Gross ⁽¹⁾		Net ⁽²⁾	Net Area to Expire in 2009
Alberta	102,659		63,272	16,762
British Columbia	10,199		8,195	701
Saskatchewan	2,970		1,767	80
Total Canada	115,828		73,234	17,543
North Dakota, United States	3,229		2,794	0
TOTAL	119,057		76,028	17,543

Notes:

- (1) "Gross Acres" are the total acres in which Arsenal has or had an interest.
- (2) "Net Acres" is the aggregate of the total acres in which Arsenal has or had an interest multiplied by Arsenal's working interest percentage held therein.

There are no costs or work commitments associated with Arsenal's non-producing properties except for annual lease rental payments and abandonment costs.

Forward Contracts

Arsenal may use certain financial instruments to hedge its exposure to commodity price fluctuations on a portion of its crude oil and natural gas production. See "Narrative Description of Business – Future Commitments" herein.

Additional Information Concerning Abandonment and Reclamation Costs

Arsenal estimates the costs associated with well abandonment and reclamation based on its previous experience, current regulations, costs, technology and industry standards. Arsenal expects to incur abandonment and reclamation costs on 605 gross wells (350.4 net), including 154.7 net non-producing and 4 net service wells. Arsenal's share of the expected total abandonment and reclamation costs for wells with assigned reserves, non-producing and service wells and facilities, net of salvage value are summarized, without discount and using a discount rate of 10%, in the following table:

Category	Forecast Pricing (M\$)			
	Proved 0%	Proved 10%	Proved Plus Probable 0%	Proved Plus Probable NPV 10%
Wells with reserves assigned ⁽¹⁾	12.5	6.1	13.3	5.7
Wells with no reserves assigned and facilities ⁽²⁾	2.8	1.0	2.8	1.0
Total abandonment and reclamation cost provision	15.3	7.1	16.1	6.7
Portion forecast to be paid during the next three years	1.6	1.7	1.2	1.0

Notes:

- (1) Abandonment and reclamation costs were estimated by AJM and included in the AJM Report for all wells assigned reserves.
- (2) Arsenal has estimated the timing and the costs associated with the abandonment and reclamation for wells with no reserves assigned and for facilities. This represents the total abandonment and reclamation costs that were not deducted in computing future net revenue.

Tax Horizon

At the end of 2008, Arsenal had estimated income tax deductions of approximately CDN\$73.6 MM in Canada and US\$5.0 MM in the United States available to reduce future taxable income. Arsenal did not incur current income taxes in 2008 in Canada or the United States. Arsenal could, if sufficient income tax deductions are not generated

by future business operations, incur income taxes in 2010 in Canada and anticipates income tax payable in the United States in 2009.

Costs Incurred

The following table summarizes Arsenal's property acquisition costs, exploration costs and development costs (before property dispositions) incurred during the financial year ended December 31, 2008:

Nature of Cost	Property Acquisitions and Capital Expenditures	
	Canada Amount (M\$)	United States Amount (M\$)
Property Acquisition Costs		
Proved	44.0	0
Unproved	16.3	0
Exploration Costs	5.4	0
Development Costs	12.2	3.2
Total	77.8	3.2

Exploration and Development Activities

The following table summarizes the results of exploration and development activities in Canada and the United States during the financial year ended December 31, 2008:

Wells Completed in 2008	CANADA		UNITED STATES	
	Gross	Net	Gross	Net
Development				
Gas	1	0.25	0	0
Oil	11	9.8	1	0.35
Unsuccessful	2	2	0	0
Service	0	0	0	0
Exploratory				
Gas	1	1	0	0
Oil	5	2.55	0	0
Unsuccessful	3	3	0	0
Service	0	0	0	0
Total	23	18.60	1	0.35

The 2009 Capital Program has now been established at \$12 million and it is to be funded as well from cash flow from operating activities and bank debt. In the United States, approximately \$7 million has been allocated to exploration and development programs, focused primarily on drilling Bakken horizontal wells. The remaining \$5 million has been allocated to exploration and development programs in Canada, targeted primarily to drill development wells in Evi, tie-in standing wells in Galahad, and pursue well recompletions.

Production Estimates

The following tables disclose the estimated average daily production before the deduction of royalties of Arsenal for 2009 for each product type associated with the first year of the gross proved reserves and gross probable reserves reported in the AJM Report effective December 31, 2008, based on forecast prices and costs:

Canada

Corporation	Light/Medium Oil (Bbl/d)	Heavy Oil (Bbl/d)	Natural Gas ⁽¹⁾ (Mcf/d)	Natural Gas Liquids (Bbl/d)	Coal-Bed Methane (Mcf/d)	Combined (BOE/d)
Proved						
Developed Producing	1,070	126	3,377	62	135	1,843
Developed Non-Producing and Undeveloped	55	6	1,045	17	0	252
Total Proved	1,125	132	4,422	79	135	2,095
Probable	123	14	1,088	30	12	351
Total Proved Plus Probable	1,248	146	5,510	109	147	2,446

Note:

(1) Natural gas volume includes associated and non-associated gas.

There are no properties with production in excess of 20% of the estimated production set forth in the immediately preceding table.

United States

Corporation	Light/Medium Oil (Bbl/d)	Heavy Oil (Bbl/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbl/d)	Coal-Bed Methane (Mcf/d)	Combined (BOE/d)
Proved						
Developed Producing	339	0	251	32	0	412
Developed Non-Producing and Undeveloped	48	0	0	0	0	48
Total Proved	387	0	251	32	0	460
Probable	17	0	4	1	0	19
Total Proved Plus Probable	404	0	255	33	0	479

Note:

(1) Natural gas volume includes associated and non-associated gas.

The Stanley and Lindahl properties in North Dakota account for 48% and 25% respectively of Arsenal's United States production, representing 7.7% and 4.0% of total corporate production.

Production History

The following table summarizes the share of Arsenal's average daily production in Canada, before deduction of royalties, for the periods indicated:

Product	2008				
	Year	Q4	Q3	Q2	Q1
Heavy Oil (Bbls/d)	511	478	499	517	552
Natural Gas ⁽¹⁾ (Mcf/d)	2,268	3,751	1,368	2,375	1,572
Light and Medium Oil & NGLs (Bbls/d)	650	972	661	618	507
Total (BOE/d)	1,579	2,075	1,388	1,531	1,321

Note:

(1) Natural gas volume includes associated, non-associated and solution gas and coalbed methane.

The following table summarizes the share of Arsenal's average daily production in the United States, before deduction of royalties, for the periods indicated:

Product	2008				
	Year	Q4	Q3	Q2	Q1
Heavy Oil (Bbls/d)	0	0	0	0	0
Natural Gas ⁽¹⁾ (Mcf/d)	256	252	251	235	288
Light and Medium Oil & NGLs (Bbls/d)	358	399	337	339	356
Total (BOE/d)	401	441	379	378	404

Note:

(1) Natural gas volume includes associated, non-associated and solution gas and coalbed methane.

Netback History

The following table sets forth information respecting average net product prices received, royalties paid, production expenses and operating netbacks received by Arsenal in respect of Arsenal's Canadian production for the periods indicated.

Category	2008				
	Year	Q4	Q3	Q2	Q1
Selling Prices					
Heavy Oil (\$/Bbl)	74.99	43.40	97.00	92.89	65.76
Natural Gas ⁽¹⁾ (\$/Mcf)	8.67	6.74	7.69	9.94	7.59
Light and Medium Oil + NGLs (\$/Bbl)	86.86	51.05	96.30	116.38	85.63
Royalties					
Heavy Oil (\$/Bbl)	14.17	12.14	16.25	18.09	10.38
Natural Gas ⁽¹⁾ (\$/Mcf)	1.64	1.17	1.80	2.43	1.43
Light and Medium Oil + NGLs (\$/Bbl)	10.94	6.88	21.63	8.46	25.05
Production Expenses ⁽²⁾					
Heavy Oil (\$/Bbl)	28.60	31.89	21.61	24.81	35.66
Natural Gas ⁽¹⁾ (\$/Mcf)	2.57	3.09	2.12	3.07	0.98
Light and Medium Oil + NGLs (\$/boe)	19.49	20.66	14.65	20.75	22.06
Operating Netbacks					
Heavy Oil (\$/Bbl)	32.22	-0.62	59.13	49.99	19.72
Natural Gas ⁽¹⁾ (\$/Mcf)	4.46	2.48	3.79	4.44	5.18
Light and Medium Oil + NGLs (\$/boe)	56.43	23.51	71.80	69.19	38.51
Total (BOE/d)	1579	2075	1388	1531	1321

Notes:

(1) Natural gas volume includes associated, non-associated and solution gas and coalbed methane.

(2) Production expenses include petroleum and surface lease rentals, transportation costs, property taxes and expenses related to the operation and maintenance of wells, production facilities and gathering systems.

The following table sets forth information respecting average net product prices received, royalties paid, production expenses and operating netbacks received by Arsenal in respect of Arsenal's U.S. production for the periods indicated.

Category	2008				
	Year	Q4	Q3	Q2	Q1
Selling Prices					
Heavy Oil (\$/Bbl)	0	0	0	0	0
Natural Gas ⁽¹⁾ (\$/Mcf)	9.03	7.66	10.15	12.23	6.63
Light and Medium Oil + NGLs (\$/Bbl)	85.02	47.68	104.37	108.68	86.31
Royalties					
Heavy Oil (\$/Bbl)	0	0	0	0	0
Natural Gas ⁽¹⁾ (\$/Mcf)	1.97	1.84	2.13	2.54	1.46
Light and Medium Oil + NGLs (\$/Bbl)	30.01	15.93	37.71	39.59	29.50
Production Expenses ⁽²⁾					
Heavy Oil (\$/Bbl)	0	0	0	0	0
Natural Gas ⁽¹⁾ (\$/Mcf)	2.01	2.30	2.00	2.39	1.44
Light and Medium Oil + NGLs (\$/boe)	22.94	25.32	25.62	23.09	17.55
Operating Netbacks					
Heavy Oil (\$/Bbl)	0	0	0	0	0
Natural Gas ⁽¹⁾ (\$/Mcf)	5.06	3.52	6.02	7.30	3.73
Light and Medium Oil + NGLs (\$/boe)	32.06	6.43	41.04	46.00	39.27
Total (BOE/d)	401	404	378	379	441

Notes:

- (1) Natural gas volume includes associated, non-associated and solution gas and coalbed methane.
- (2) Production expenses include petroleum and surface lease rentals, transportation costs, property taxes and expenses related to the operation and maintenance of wells, production facilities and gathering systems.

Production Volume by Field

The following table discloses for each important field, and in total, Arsenal's production volumes for the financial year ended December 31, 2008 for each product type:

Field	Light and Medium Oil and Natural Gas Liquids ⁽¹⁾ (Bbl/d)	Heavy Oil (Bbl/d)	Natural Gas (Mcf/d)	BOE (BOE/d)	%
British Columbia					
Curran	0	0	168	28	1.41
Total	0	0	168	28	1.41
Alberta					
Evi	260	0	0	260	13.13
Galahad	173	0	371	235	11.87
Wildmere	0	127	0	127	6.41
Provost	0	100	6	101	5.10
Other	237	0	1514	408	20.61
Total	670	227	1891	1131	57.12
Saskatchewan					
Maidstone	0	143	144	167	8.43
Other	20	141	66	253	12.78
Total	20	284	210	420	21.21
Total Canada	690	511	2269	1579	79.75

Field	Light and Medium Oil and Natural Gas Liquids ⁽¹⁾ (Bbl/d)	Heavy Oil (Bbl/d)	Natural Gas (Mcf/d)	BOE (BOE/d)	%
North Dakota					
Stanley	119	0	0	119	6.01
Lindahl	59	0	13	72	3.64
Other	180	0	244	210	10.61
Total United States	358	0	257	401	20.25
TOTAL	1,048	511	2,525	1,980	100.00

Note:

(1) Includes associated, non-associated and solution gas and coalbed methane.

RISK FACTORS

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. Oil and natural gas operations involve many risks that even a combination of experience and knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Arsenal.

Arsenal's business consists of the exploration and development of oil and gas in British Columbia, Alberta, Saskatchewan and North Dakota. There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of Arsenal and may have a material adverse effect upon Arsenal's financial position and future results of operations.

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 Arsenal 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, 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.

Current Economic Conditions

The current economic downturn may negatively impact the Corporation's financial viability and cause increased volatility and uncertainty in market prices for oil and natural gas. Unfavourable economic conditions may adversely affect Arsenal's development and exploration activities and could also increase the Corporation's financing costs, decrease revenues, limit access to capital markets and negatively impact any of the availability of credit facilities to the Corporation.

No Assurance Of Commerciality

There is no assurance that oil, NGLs or natural gas will be capable of production in sufficient quantities to make existing fields or future discoveries commercially viable or economic for Arsenal or that the existing fields will be able to maintain their economic viability as projected. The long-term viability of Arsenal depends on its ability to find or acquire, develop and commercially produce additional oil, NGL and gas reserves. Without the addition of reserves through exploration, acquisition or development activities, Arsenal's reserves and production will decline over time as reserves are produced and exploited. Arsenal's future reserves levels will depend not only on Arsenal's ability to develop its present properties, but also on its ability to select and acquire suitable new producing properties or prospects. In the case of natural gas, to be economic, Arsenal will either have to find or may also have to establish a commercial market for gas discoveries.

Insurance

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

Royalty Regimes

In Alberta, the Crown royalty rates on conventional oil and natural gas fluctuate, depending on when a well was drilled, well depth, well production volume and the price of oil and natural gas. On October 25, 2007, the Alberta government released a report entitled "The New Royalty Framework" (the "NRF") containing the government's proposals for Alberta's new royalty regime which became effective on January 1, 2009. The NRF assesses the applicable royalty rate on a well by well basis using a sliding scale which takes into account the price of oil and natural gas and well production volumes. The NRF has decreased Arsenal's future net revenue from proved reserves estimated at December 31, 2008, before income taxes discounted at 10%, by approximately 5.0%.

On November 19, 2008 and November 24, 2008 the Alberta provincial government announced details of an optional five-year transitional royalty program that applies to conventional oil and natural gas wells drilled to measured depths between 1,000 and 3,500 meters between November 19, 2008 and January 1, 2014. For each well, the Corporation can make a one time election to produce the well under the transitional royalty program or the NRF. As of January 1, 2014, all production subject to the transitional program will revert to the NRF.

On March 3, 2009, the Government of Alberta announced a drilling royalty credit for new conventional oil and natural gas wells and a new well incentive program which offers a maximum five percent royalty rate for the first year of production from new oil or gas wells.

Changes to the Alberta royalty regime, as well as the potential for additional future changes and corresponding changes in the royalty regimes applicable in other provinces and states where Arsenal operates, have created uncertainty surrounding the ability to accurately estimate future royalties, resulting in additional volatility and uncertainty in the oil and gas market. Increases to royalty rates in jurisdictions where Arsenal operates may negatively impact Arsenal's results from operations and its ability to economically develop existing reserves or add new reserves.

Hedging

From time to time Arsenal may enter into agreements to receive fixed prices on its oil and natural gas production to offset risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Arsenal will not benefit from such increases. Similarly, from time to time Arsenal may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar, however, if the Canadian dollar declines in value compared to the United States dollar, Arsenal will not benefit from its fluctuating exchange rate.

Prices, Markets and Marketing of Crude Oil 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 Arsenal. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices will 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 prices or natural gas prices, leading to a reduction in the future volume of Arsenal's oil and gas production. Arsenal might also elect not to produce from certain wells at lower prices. All these factors could result in a material decrease in Arsenal's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, the borrowing base of Arsenal will in part determine bank borrowings available to Arsenal. A sustained material decline in prices from historical average prices could reduce Arsenal's future borrowing base, therefore reducing the bank credit available to Arsenal, and could require that a portion of any existing bank debt of Arsenal be repaid.

In addition to establishing markets for its oil and natural gas, Arsenal 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 Arsenal, will be affected by numerous factors beyond its control. Arsenal will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Arsenal. The ability of Arsenal to market natural gas may depend upon its ability to acquire space on pipelines, which deliver natural gas to commercial markets. Arsenal 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. Arsenal has limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements; Liquidity

Arsenal anticipates that it will make substantial capital expenditures for the acquisition, exploration development and production of oil and natural gas reserves in the future. If Arsenal's future revenues or reserves decline, Arsenal 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 or equity financing is available, that it will be on terms acceptable to Arsenal. Any equity financing may result in a change of control of Arsenal or holders of Arsenal Shares suffering further dilution. Moreover, future activities may require Arsenal to alter its capitalization significantly. The inability of Arsenal to access sufficient capital for its operations could have a material adverse effect on Arsenal's financial condition, results of operations or prospects.

Failure to obtain such financing on a timely basis could cause Arsenal to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Arsenal's revenues from its reserves decrease as a result of lower oil or natural gas prices or otherwise, it will affect Arsenal's ability to expend the necessary capital to replace its reserves or to maintain its production.

Decommissioning Costs Are Unknown

Arsenal is responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines, which it uses for production of its oil and gas reserves. Abandonment and reclamation of its current facilities and the costs associated therewith is often referred to as "decommissioning". There are no immediate plans to establish a reserve account for these potential costs in respect of any of its current properties or facilities, rather, the costs of decommissioning are expected to be paid from the proceeds of future production in accordance with the practice generally employed in oilfield operations. Should decommissioning be required prior to economic depletion of Arsenal's current properties or should the estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, Arsenal may have to draw on funds from other sources to satisfy such decommissioning costs. The use of other funds to satisfy such decommissioning costs could have a materially adverse effect on Arsenal's financial position and future results of operations.

Foreign Currency Exchange Rates May Fluctuate

Arsenal sells its oil production pursuant to marketing agreements that are denominated in US dollars. Many of the operational and other expenses incurred by Arsenal are paid in US dollars where operations are performed. The assets and liabilities of Arsenal (including reserve information) are recorded in Canadian dollars. As a result, fluctuations in the US dollar against the Canadian dollar and each of these currencies against local currencies in

jurisdictions where properties of Arsenal are located and local costs incurred could result in unanticipated and material fluctuations in Arsenal financial results.

Non-Operated Properties

Arsenal does not operate all of its oil and gas properties. The failure of the operator to properly and efficiently operate these properties could have a material adverse effect on Arsenal's future financial condition and results of operations from such non-operated properties.

Title

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. In accordance with industry practice, Arsenal will conduct such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties. However, no absolute assurances can be given that title defects do not exist. If title defects do exist, it is possible that Arsenal may lose all or a portion of its right, title and interest in and to the properties to which the title defects relate.

Environmental Risks

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of federal, provincial, state and local laws and regulations, as well as international conventions (collectively, "environmental legislation").

Environmental legislation imposes, among other things, restrictions, liabilities, and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that wells, facilities and other properties associated with Arsenal's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and significant changes to certain existing projects, may require the submission and approval of environmental impact assessments. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for clean-up costs and damages. Arsenal cannot be certain that the costs of complying with environmental legislation in the future will not have a material adverse effect on Arsenal's financial condition and results of operations.

Arsenal anticipates that changes in environmental legislation may require reductions in emissions from its operations and result in increased capital expenditures. Further changes in environmental legislation could occur, which may result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on our financial condition and results of operations.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol, which requires the reduction of greenhouse gas emissions. On December 16, 2002, Canada ratified the Kyoto Protocol. In 2007, the world's nations met again to gain the agreement of major countries that were not signatories to the Kyoto protocol such as the United States, China and India. This meeting in Bali, Indonesia did little to advance wider agreement on limiting greenhouse gases and setting new limits for emissions, which expire in 2012 under the Kyoto Protocol. These initiatives may require Arsenal to significantly reduce emissions at its operations of greenhouse gases such as carbon dioxide, which may increase capital expenditures. Details regarding the implementation of the Kyoto Protocol and the ultimate completion of the Bali agreement in 2009 remain unclear.

The Federal Government of Canada has announced certain regulations in respect of greenhouse gases and other pollutants. Although uncertain, these regulations may adversely affect Arsenal's operations and increase our costs. These regulations may become more onerous over time as public and political pressures increase to implement initiatives that will effectively arrest the emission of greenhouse gases.

Reserve Replacement

Arsenal's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on Arsenal successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Arsenal may have at any particular time and the production therefrom will decline

over time as such existing reserves are exploited. A future increase in Arsenal's reserves will depend not only on Arsenal'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 Arsenal's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators and Key Employees

To the extent Arsenal is not the operator of its oil and gas properties, Arsenal will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of Arsenal will be largely dependent upon the performance of its management and key employees. Arsenal does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on Arsenal.

Corporate Matters

To date, Arsenal has not paid any dividends on its Arsenal Shares and does not anticipate the payment of any dividends on its Arsenal Shares for the foreseeable future. Certain of the directors and officers of Arsenal are also directors and officers of other oil and gas companies involved in oil and gas exploration and development, and conflicts of interest may arise between their duties as officers and directors of Arsenal and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the ABCA.

Permits and Licenses

The operations of Arsenal may require licenses and permits from various governmental authorities. There can be no assurance that Arsenal will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its properties.

Issuance of Debt

From time to time Arsenal 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 Arsenal's debt levels above industry standards. Neither Arsenal's articles nor its bylaws limit the amount of indebtedness that Arsenal may incur. The level of Arsenal's indebtedness from time to time could impair Arsenal's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. Arsenal's ability to meet its debt service obligations will depend on Arsenal's future operations, which are subject to prevailing industry conditions and other factors, many of which are beyond the control of Arsenal. As certain of the indebtedness of Arsenal bears interest at rates which fluctuate with prevailing interest rates, increases in such rates would increase Arsenal's interest payment obligations and could have a material adverse effect on Arsenal's financial condition and results of operations. Further, Arsenal's indebtedness is secured by substantially all of Arsenal's assets. In the event of a violation by Arsenal of any of its loan covenants or any other default by Arsenal on its obligations relating to its indebtedness, the lender could declare such indebtedness to be immediately due and payable and, in extreme cases, foreclose on Arsenal's assets.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development 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 Arsenal and may delay exploration and development activities.

Enforcement of Civil Liabilities

As some of Arsenal's assets are located outside of Canada it may be difficult or impossible to enforce judgments granted by a Canadian court against such assets, subsidiaries or directors and officers that are resident outside of Canada.

International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, effective January 1, 2011. IFRS will require increased financial statement disclosure as compared to Canadian GAAP and accounting policy differences between Canadian GAAP and IFRS will need to be addressed by Arsenal.

The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation’s reported financial position and results of operations. The Corporation is currently considering the impact a conversion to IFRS would have on its future financial reporting.

DESCRIPTION OF SHARE CAPITAL

General Description of Share Capital

Arsenal is authorized to issue an unlimited number of Arsenal Shares without nominal or par value, of which, as at the date hereof, 101,249,646 Arsenal Shares are issued and outstanding as fully paid and non-assessable. In addition, 7,361,000 Arsenal Shares are reserved for issuance pursuant to options granted to directors, officers, employees and consultants of Arsenal. Arsenal is also authorized to issue an unlimited number of Preferred Shares without nominal or par value. To date, no Preferred Shares have been issued.

Arsenal Shares

The holders of Arsenal Shares are entitled to dividends as and when declared by the Board, to one vote per share at meetings of shareholders of Arsenal and, upon liquidation, to receive such assets of Arsenal as are distributable to the holders of the Arsenal Shares.

Preferred Shares

The Preferred Shares may be issued from time to time in one or more series, each series consisting of the number of Preferred Shares as determined by the Board who may also fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares.

The Preferred Shares of each series shall, with respect to payment of dividends and distributions of assets in the event of liquidation, dissolution or winding-up of Arsenal, whether voluntary, or any other distribution of the assets of Arsenal among its shareholders for the purpose of winding-up its affairs, rank equally with the Preferred Shares of every other series and shall be entitled to preference over the Arsenal Shares, and the shares of any other class ranking junior to the Preferred Shares.

DIVIDENDS OR DISTRIBUTIONS

Since incorporation, neither Arsenal nor its subsidiaries have declared any dividends or made any distributions on any of their securities. Dividends (or distributions) on securities of Arsenal or its subsidiaries will be paid solely at the discretion of the Board after taking into account the financial condition of Arsenal and the economic environment in which it is operating. No dividends (or distributions) are expected to be paid in the foreseeable future.

MARKET FOR SECURITIES

The following table sets forth the reported high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Arsenal Shares on the TSX as reported by sources Arsenal believes to be reliable for the periods indicated:

Date	Price Range (\$)		Trading Volume
	High	Low	
2008			
January	0.63	0.40	3,824,001
February	0.73	0.50	4,066,041
March	0.73	0.56	4,326,425
April	0.70	0.57	4,539,274

Date	Price Range (\$)		Trading Volume
	High	Low	
May	0.98	0.63	6,846,455
June	0.93	0.75	3,070,641
July	0.93	0.80	3,064,174
August	0.89	0.64	1,643,089
September	0.71	0.43	1,391,861
October	0.53	0.205	7,480,300
November	0.35	0.155	2,621,157
December	0.25	0.13	3,944,348
2009			
January	0.27	0.14	4,016,269
February	0.17	0.105	3,224,722

PRIOR SALES

Other than as set forth below, no securities of the Corporation that are outstanding but not listed or quoted on a marketplace were issued during the financial year ended December 31, 2008:

Date of Issuance	Number	Designation of Security	Issue Price per Security
February 13, 2008	1,296,000	Options	0.60
April 2, 2008	300,000	Options	0.62
June 23, 2008	450,000	Options	0.79
July 9, 2008	250,000	Options	0.82
September 2, 2008	300,000	Options	0.71
October 14, 2008	1,700,000	Options	0.375

Note:

- (1) Each Option entitles the holder thereof to purchase one Arsenal Share and expires five years from the date of issuance.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

To the knowledge of the directors and officers of Arsenal, no securities of Arsenal are held in escrow or subject to a contractual restriction on transfer.

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, the respective office or position held with Arsenal, and principal occupation for the past five years of each of the directors and executive officers of Arsenal. Notes to the table disclose the members of each committee of the Board. The term of office of each director will expire at the end of the next annual meeting of shareholders of Arsenal.

Name and Residence	Number of Arsenal Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly ⁽⁵⁾	Offices with Arsenal	Principal Occupation During the Past Five Years
Tony van Winkoop Alberta, Canada	2,642,920	Vice President, Exploration since July, 2006. President and Chief Executive Officer since July 19, 2007. Director since June 23, 2008	President and Chief Executive Officer of Arsenal since July 2007 and Vice-President, Exploration from July 2006. Prior thereto, General Manager of Development for PrimeWest Energy Trust (oil and gas trust), since 2001.

Name and Residence	Number of Arsenal Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly ⁽⁵⁾	Offices with Arsenal	Principal Occupation During the Past Five Years
J. Paul Lawrence Alberta, Canada	154,862	Vice President, Finance and Chief Financial Officer of Arsenal since May 1, 2008	Vice President, Finance and Chief Financial Officer of Arsenal since May 1, 2008. Prior thereto, Vice President, Finance and Chief Financial Officer of Clearwater Energy Inc. (a private oil and gas exploration and development company) from December 2005 to April 2008. Prior thereto, Vice President, Finance and Chief Financial Officer of Silverwing Energy Inc. (a private oil and gas exploration and development company) from November 2003 to December 2005.
William Hews ⁽¹⁾⁽³⁾ Alberta, Canada	933,173	Director since October 30, 2000 ⁽⁶⁾	President of Fideliter Inc. (private consulting company).
R. Neil Mackay ⁽¹⁾⁽⁴⁾ Saskatchewan, Canada	3,973,169	Director since June 29, 2004	Partner of MacPherson Leslie & Tyerman LLP (law firm).
Curtis R. Stewart ⁽²⁾⁽³⁾ Alberta, Canada	662,317	Director since June 29, 2004	Partner of Bennett Jones LLP (law firm).
Brenlee Taylor Alberta, Canada	40,911	Controller since March 1, 2005	Controller of Arsenal since March 1, 2005. Prior thereto, Supervisor of Accounting for Kensington Energy Ltd. (former oil and gas producer) since 2001.
Jay LaForge Alberta, Canada	75,877	Sr. Production Technologist since September 11, 2006. Vice President, Operations since June 2007	Team Lead BC of Northern Business Unit of Enerplus Resources (oil & gas producer) since 2000.
Gjoa Taylor Alberta, Canada	89,078	Vice President, Land, since February 2008	Vice President, Land of Arsenal since February, 2008. Prior thereto, manager land negotiations for Primewest Energy Trust (oil and gas trust).
Ron Forth Alberta, Canada	202,461	Vice President, Engineering since September 2008	Manager of Central Business Unit, Primewest Energy Trust (oil and gas trust) / now Taqa North Ltd.
Donald B. Edwards Alberta, Canada	166,795	Corporate Secretary since February 5, 2003	Partner with Borden Ladner Gervais LLP (law firm) and a predecessor law firm.
Bill Powers ⁽¹⁾⁽²⁾ Chicago, Illinois, U.S.A.	279,108	Director since June 23, 2008	Managing Member of Powers Asset Management LLC, an asset manager, since June 2005. Prior thereto, principal of Canadian Energy Viewpoint.
R. H. (Harley) Kempthorne ⁽²⁾⁽⁴⁾ Alberta, Canada	2,623,000	Director since June, 2008	Vice President, Engineering of Gentry Resources Ltd. (a public oil and gas exploration and development company) from December 2006 to June 2008. Prior thereto, Manager, oil and gas for Petro-Canada from December 1981 to June 2006.

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Reserves Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Disclosure Committee.
- (5) The information as to Arsenal Shares owned, not being within the knowledge of Arsenal, has been provided by the directors and officers. The information above does not include stock options or warrants convertible into Arsenal Shares.
- (6) Date of appointment as director or officer of Arsenal Capital Inc., a predecessor of Arsenal.

As at the date hereof, the directors and officers of Arsenal, as a group, beneficially owned, or controlled or directed, directly or indirectly, 11,843,671 Arsenal Shares or approximately 11.7% of the issued and outstanding Arsenal Shares. The information as to the Arsenal Shares, not being within the knowledge of Arsenal, has been furnished by the respective directors and officers of Arsenal individually.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of Arsenal's directors or officers, have, within 10 years prior to the date of this Annual Information Form, been a director, chief executive officer or chief financial officer of any company (including Arsenal) that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, and that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or
- (b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, and that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer of the relevant company and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company.

Penalties or Sanctions

None of Arsenal's directors or officers, nor any shareholder holding a sufficient number of securities of Arsenal to affect materially the control of Arsenal, or any of the foregoing person's personal holding companies, have been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or have entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Bankruptcies

None of Arsenal's directors or officers, or a shareholder holding a sufficient number of securities of Arsenal to affect materially the control of Arsenal, or any of the foregoing person's personal holding companies, have within 10 years prior to the date of this Annual Information Form:

- (a) been a director or executive officer of any company (including Arsenal) that, while that person was acting in that capacity, or 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; or
- (b) 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 person.

PROMOTER

No person is or has been within the two years immediately preceding the date hereof, a promoter of Arsenal or a subsidiary of Arsenal.

CONFLICTS OF INTEREST

There are potential conflicts of interest to which the directors and officers of Arsenal will be subject to in connection with the operations of Arsenal. In particular, certain of the directors and officers of Arsenal are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, compete with Arsenal. In addition, certain of the directors and officers of the Corporation are involved in managerial or director positions with corporations which provide financing to, or make equity investments in, competitors of Arsenal. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. 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 by the ABCA.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of the management of Arsenal, Arsenal and its subsidiaries are not a party to, nor is any of Arsenal's or its subsidiaries' properties subject to, any material legal proceedings. Furthermore, neither Arsenal nor any of its subsidiaries were a party to, nor were any of Arsenal's or its subsidiaries' properties subject to, any material legal proceedings since the beginning of Arsenal's most recently completed financial year. Management of Arsenal is not aware of any material legal proceedings that are currently being contemplated against Arsenal or any of its subsidiaries or against any of Arsenal's or its subsidiaries' properties.

To the knowledge of the management of Arsenal, no penalties or sanctions have been imposed against Arsenal or any subsidiary of Arsenal by a court relating to securities legislation or by a securities regulatory authority since the beginning of Arsenal's most recently completed financial year. Furthermore, there have been no penalties or sanctions imposed by a court or regulatory body against Arsenal or a subsidiary of Arsenal that would likely be considered important to a reasonable investor in making an investment decision. Neither Arsenal nor any of its subsidiaries have entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority since the beginning of Arsenal's most recently completed financial year.

AUDIT COMMITTEE

Pursuant to NI 52-110, the Corporation is required to include in its Annual Information Form the disclosure required under Form 52-110F1 with respect to its audit committee, including the text of its audit committee charter, the composition of the audit committee and the fees paid to the external auditor. This information is provided in Appendix D attached hereto.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The management of the Corporation is not aware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years of Arsenal or during the current financial year that has materially affected or is reasonably expected to materially affect Arsenal or a subsidiary of Arsenal:

- (a) a director or executive officer of Arsenal or a subsidiary of Arsenal;
- (b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of the issued and outstanding Arsenal Shares; and
- (c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

The only material contract entered into by Arsenal during its most recently completed financial year, or before the most recently completed financial year that is still in effect, is the Arrangement Agreement. See "*General Development of Business - Three Year History of Arsenal*".

INTEREST OF EXPERTS

There is no person or company who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under NI 51-102 by Arsenal or a subsidiary of Arsenal during, or relating to Arsenal's most recently completed financial year, and whose profession or business gives authority to the report, valuation, statement or opinion made by the person or company, other than KPMG LLP, the independent auditor of Arsenal, PricewaterhouseCoopers LLP, the former independent auditor of GEOCAN, AJM, the independent reserves evaluator for Arsenal, Sproule Associates Limited ("**Sproule**"), a former independent reserves evaluator for GEOCAN and Degolyer and MacNaughton Canada Limited ("**Degolyer**"), a former independent reserves evaluator for GEOCAN.

None of the designated professionals of AJM, Sproule or Degolyer has at any time held any registered or beneficial interest, direct or indirect, in any securities or other property of Arsenal or of one of Arsenal's associates or affiliates. None of the designated professionals of AJM, Sproule or Degolyer have received, or is to receive, any registered or beneficial interest, direct or indirect, in any securities or other property of Arsenal or of one of Arsenal's associates or affiliates.

KPMG LLP and PricewaterhouseCoopers LLP are independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

No director, officer or employee of any of the experts referred to herein is or is expected to be elected, appointed or employed as a director, officer or employee of Arsenal or of any associate or affiliate of Arsenal.

ADDITIONAL INFORMATION

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and securities authorized for issuance under equity compensation plans will be contained in Arsenal's information circular for its next annual meeting of security holders. Additional financial information is provided in the Corporation's comparative financial statements and MD&A for its most recently completed financial year. Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

**APPENDIX A -
FORM 51-101F2
Report on Reserves Data
by Independent Qualified Reserves Evaluator or Auditor**

To the Board of Directors of Arsenal Energy Inc. (the “Company”):

1. We have evaluated the Company’s reserves data as at December 31, 2008. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

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

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2008 and identifies the respective portions thereof that we have evaluated and reported on to the Company’s management/Board of Directors:

Independent Qualified Reserves Evaluator or Auditor	Arsenal Energy Inc. Reserve Estimation and Economic Evaluation	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (\$M, before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
AJM Petroleum Consultants	March 12, 2009	Canada	-	\$100,896	-	\$100,896
AJM Petroleum Consultants	March 12, 2009	United States	-	\$65,489	-	\$65,489

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. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgments regarding future events, actual events will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

**AJM Petroleum Consultants
Fifth Avenue Place, East Tower
6th Floor, 425 – 1st Street S.W.
Calgary, Alberta
T2P 3P8**

“R.G. Bertram”

R.G. Bertram, P. Eng. Vice-President Engineering
Execution date: March 12, 2009

APPENDIX B -
FORM 51-102F3

Report of Management and Directors on Reserves Data and Other Information

Management of Arsenal Energy Inc. (the “**Company**”) are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008, estimated using forecast prices and costs.

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

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

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

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

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

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

“Tony van Winkoop”
Tony van Winkoop
President and Chief Executive Officer

“J. Paul Lawrence”
J. Paul Lawrence
Vice President, Finance and Chief Financial Officer

“R.H. (Harley) Kempthorne”
R.H. (Harley) Kempthorne
Director and Chairman of Reserves Committee

“Curtis R. Stewart”
Curtis R. Stewart
Director

Dated: March 26, 2009

APPENDIX C -
OIL & GAS DEFINITIONS

The following definitions form the bases of the classification of reserves and values presented in the AJM Report. They have been prepared by the Standing Committee on Reserves Definitions of the Petroleum Society of the CIM (“CIM”), incorporated in the Society of Petroleum Evaluation Engineers (“SPEE”) Canadian Oil and Gas Evaluation Handbook (“**COGE Handbook**”) and specified by NI 51-101.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recovered from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

1. Proved Reserves

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.

2. Probable 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.

3. Possible Reserves

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Development and Production Starts

Each of the reserves categories (proved, probable, and possible) may be divided into developed and undeveloped categories.

1. Developed Reserves

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.

2. Developed Producing Reserves

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.

3. Developed Non-Producing Reserves

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.

4. Undeveloped Reserves

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, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels contained in the definitions above are applicable to individual reserves entities (which refer 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 reserve 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;
- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and
- at least 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Glossary of Terms

This glossary is provided only for convenience. AJM subscribes to the Glossary of Terms as defined by the Canadian Oil and Gas Evaluation Handbook. The COGE Handbook can be obtained from the Petroleum Society of CIM at www.petsoc.org.

Company Gross Reserves	These are the working interest owner's share of gross reserves before the deduction of royalties. Royalty interest share of reserves is not included in this category.
Company Net Reserves	These are the working interest owner's share of the gross reserves after the deduction of royalties. Royalty interest share of reserves is included in this category.
Net Profits Interests	Occasionally, interest in oil and gas properties are encumbered by net profits interests, in addition to lessor and overriding royalty interest. A net profits interest is an interest in production income only and not in production. The net profits interest owner may have value, but has not interest in reserves; therefore, no reserves are assigned to this owner.
Net Operating Income	Company interest income after the sale of oil, gas, by-products plus other income, less burdens and operation expense.
Before Tax Cash Flow	Net operating income less any capital investment to the property.

Discounting	Discounting utilized by AJM Petroleum Consultants being the projections of values discounted to the middle of a given period utilizing the following formula: Discount Factor: $\frac{1}{(1+i)^{n-1/2}}$ where i = interest rate as a decimal per period and n = number of periods.
Crude Oil	A mixture, consisting mainly of pentanes and heavier hydrocarbons, that exists in the liquid phase in reservoirs and remains liquid at atmospheric pressure and temperature. Crude oil may contain small amounts of sulphur and non-hydrocarbon compounds, but does not include liquids obtained from the processing of natural gas.
Synthetic Crude Oil	A mixture of hydrocarbons derived by upgrading crude bitumen from oil sands, and kerogen from oil shales or other substances such as coal. May contain sulphur or other non-hydrocarbon compounds and has many similarities to crude oil.
Raw Natural Gas	Natural gas as it is produced from the reservoir prior to processing. It is gaseous at the conditions under which its volume is measured or estimated.
Marketable Natural Gas	Natural gas that meets specifications for its end use, whether it occurs naturally or results from the processing of raw natural gas. Field and plant fuel and losses are excluded, excepting those related to downstream reprocessing plants.
Natural Gas Liquids	Those hydrocarbon components that can be recovered from natural gas as liquids including, but not limited to, ethane, propane, butanes, pentanes plus, condensate, and small quantities of non-hydrocarbons.
Expenses Fixed	Expenses that do not vary with fluctuations in the producing rate.
Expenses Variable	Expenses that vary with fluctuations in the producing rate.

APPENDIX D -
INFORMATION CONCERNING AUDIT COMMITTEE

The Audit Committee's Charter

The following is the text of the Audit Committee's Charter:

Purpose

1. The purpose of the Audit Committee is to:
 - (a) review and recommend to the Board for acceptance, prior to their public release, all material financial information required to be gathered and disclosed by the Corporation;
 - (b) oversee management designed and implemented accounting systems and internal controls; and
 - (c) recommend, engage, supervise, arrange for the compensation and ensure the independence of the external auditor to the Corporation.

Composition

2. The Audit Committee will be comprised of at least three members of the Board each of whom will at all times be independent and financially literate as those terms are defined in Multilateral Instrument 52-110 and possess:
 - (i) an understanding of the accounting principles used by the Corporation to prepare its financial statements;
 - (ii) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
 - (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more individuals engaged in such activities; and
 - (iv) an understanding of internal controls and procedures for financial reporting.

Meetings

3. The Audit Committee is required to meet in person, or by telephone conference call, at least once each quarter and as often thereafter as required to discharge the duties of the Audit Committee.
4. The Chair of the Audit Committee appointed by the Board will, in consultation with the members, determine the schedule, time and place of meetings, and in consultation with management and the external auditor, establish the agenda for meetings.
5. A quorum for a meeting of the Audit Committee shall be a majority of members present in person or by telephone conference call.
6. Notice of the time and place of every meeting shall be given in writing, by email or facsimile to each member of the Audit Committee at least 24 hours prior to the time fixed for such meeting, provided that a member may in any manner waive a notice of meeting.

Responsibilities

7. The Audit Committee is responsible to:

- (a) independently or together with the Board, investigate fraud, illegal acts and conflicts of interest and respond to existing and potential conflicts;
- (b) discuss issues of its choosing with the external auditor, management and corporate counsel;
- (c) establish procedures for the confidential anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (d) establish procedures for the receipt and treatment of complaints received by the Corporation regarding accounting, internal accounting controls and auditing matters and the retention (for at least 7 years) of copies of concerns and evidence of investigations; and
- (e) make inquiries of the external auditor and legal counsel to the Corporation regarding potential claims, assessments, contingent liabilities, and legal and regulatory matters that may have a material impact on the financial statements of the Corporation.

External Auditors

8. To preserve the independence of the external auditor responsible for preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, the Audit Committee is responsible to:
- (a) recommend to the Board the external auditor to be nominated;
 - (b) recommend to the Board the external auditor's compensation;
 - (c) evaluate the external auditor's qualifications, performance and independence including by annually reviewing:
 - (i) a report of the auditor describing its internal quality-control procedures;
 - (ii) material issues raised by its most recent internal quality-control review; and
 - (iii) the results of any inquiry or investigation by government or professional authorities of the auditor within the last five years;
 - (d) review the experience and qualifications of the senior members of the external auditors, ensure that the lead audit partner is replaced periodically in accordance with applicable law, and that the audit firm continues to be independent;
 - (e) review and pre-approve any engagements for non-audit services to be provided by the external auditor and its affiliates in light of the estimated fees and impact on the external auditor's independence;
 - (f) review with management and with the external auditor:
 - (i) any proposed changes in major accounting policies;
 - (ii) the presentation and impact of significant risks and uncertainties; and
 - (iii) key estimates and judgments of management that may be material to financial reporting; and
 - (g) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and most recent former external auditor of the Corporation in compliance with the requirements set out in section 2.4 of Multilateral Instrument 52-110.
9. The Audit Committee is required to:

- (a) maintain direct communications with the internal and external auditors;
- (b) discuss and review specific issues with the external auditor;
- (c) oversee the work of the external auditor;
- (d) resolve any disagreements between management and the external auditor;
- (e) meet with the external auditor at least annually in the absence of management;
- (f) ensure that the external auditor is answerable to the Audit Committee, as representatives of the shareholders, rather than to the executive officers and management;
- (g) pre-approve all audit services;
- (h) meet with the external auditor prior to the audit to review the scope and general extent of the external auditor's annual audit including planning and staffing the audit and the factors considered in determining the audit scope, including risk factors;
- (i) upon completion of the annual audit and prior to public disclosure, review the following with the CEO, CFO and executive officers:
 - (i) annual financial statements, footnotes and management discussion and analysis of financial condition and results of operations;
 - (ii) significant accounting judgements and reporting principles, practices and procedures applied in preparing the financial statements, including newly adopted accounting policies and the reasons for their adoption;
 - (iii) results of the combined audit of the financial statements and internal controls over financial reporting;
 - (iv) significant changes to the audit plan, if any, and any disputes or difficulties with management encountered during the audit, including any disagreements which, if not resolved, would have caused the external auditor to issue a non-standard report on the Corporation's financial statements; and
 - (v) co-operation received by the external auditor during its audit including access to all requested records, data and information.

Accounting Systems, Internal Controls and Procedures

10. The Audit Committee will:

- (a) be satisfied and obtain reasonable assurances from management and the external auditors that:
 - (i) accounting systems are reliable;
 - (ii) prescribed internal controls are effective; and
 - (iii) adequate procedures are in place for the review of the disclosure of financial information extracted or derived from the Corporation's financial statements;
- (b) periodically assess the adequacy of accounting systems, internal controls and procedures for the review of disclosure of financial information;
- (c) direct the external auditor's examinations to particular issues;
- (d) review control weaknesses identified by the external auditor and management's response; and

- (e) review with the external auditor its view of the qualifications and performance of the key financial and accounting executives.

Reporting

- 11. The Audit Committee is responsible, following each meeting, to report to the Board regarding its activities, findings, recommendations, any issues that arise with respect to the quality or integrity of the Corporation's financial statements, compliance with applicable law, the performance and independence of the external auditor and the effectiveness of the internal audit function.
- 12. The Audit Committee is responsible for reviewing and recommending their approval to the Board, prior to their distribution, of all:
 - (a) interim and annual financial statements and notes thereto;
 - (b) managements' discussion and analysis of financial condition and results of operations;
 - (c) relevant sections of the annual report, annual information form and management information circular containing financial information;
 - (d) forecasted financial information and forward looking statements;
 - (e) press releases and other documents in which financial statements, earnings forecasts, results of operations or other financial information is disclosed; and
 - (f) disclosure of the selection of accounting policies (and changes thereto), major accounting judgments, accruals and estimates.
- 13. The Audit Committee will annually, prior to public disclosure of its annual financial statements, ensure that the external auditor has current participant status with, and is in compliance with any restriction or sanction imposed by the Canadian Public Accountability Board.
- 14. The Audit Committee will prepare any reports required to be prepared by the Committee under applicable law including quarterly reports regarding ongoing investigations made pursuant to the Corporation's Whistleblower Policy.
- 15. Receive reports from time to time from the Chair of the Reserves Committee and discuss with the Chair, and if appropriate the Committee, issues of overlapping relevance to the Audit Committee.

Governance

- 16. The Audit Committee is responsible to annually review and in its discretion make recommendations to the Board regarding changes to its Mandate and the position description of its Chair.

Materials

- 17. The Audit Committee has access to all books, records, facilities and personnel of the Corporation necessary for the discharge of its duties.

Advisors

- 18. The Audit Committee has the power, at the expense of the Corporation, to retain, instruct, compensate and terminate independent advisors to assist the Audit Committee in the discharge of its duties.

Composition of the Audit Committee

During the year ended December 31, 2008 the Audit Committee of the Corporation was composed of the following individuals:

William Hews	Independent ⁽¹⁾	Financially literate ⁽²⁾
R. Neil MacKay	Independent ⁽¹⁾	Financially literate ⁽²⁾
Bill Powers	Independent ⁽¹⁾	Financially literate ⁽²⁾

Notes:

- (1) As defined by NI 52-110.
(2) As defined by NI 52-110.

Relevant Education and Experience

Mr. Hews, the Chairman of the Audit Committee, holds a BSc. and MBA. He also has over 7 years of public issuer experience, both as an officer and a director.

Mr. MacKay holds a B.A. and LLB and has been a practicing lawyer for 29 years.

Mr. Powers holds a B.Sc. in Business Administration from Georgetown University and has been the Managing Member of Powers Asset Management LLC, an asset manager specializing in the oil and gas industry, for the last three years.

Reliance on Certain Exemptions

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on:

- (a) the exemption in Section 2.4 (*De Minimis Non-Audit Services*) of NI 52-110;
- (b) the exemption in Section 3.2 (*Initial Public Offerings*) of NI 52-110;
- (c) the exemption in Section 3.4 (*Events Outside Control of Member*) of NI 52-110;
- (d) the exemption in section 3.5 (*Death, Disability or Resignation of Audit Committee Member*) of NI 52-110; or
- (e) an exemption from NI 52-110, in whole or in part, granted under Part 8 (*Exemptions*) of NI 52-110.

Reliance on the Exemption in Subsection 3.3(2) or Section 3.6

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on the exemptions in Sections 3.3(2) (*Controlled Companies*) or 3.6 (*Temporary Exemption for Limited and Exceptional Circumstances*) of NI 52-110.

Reliance on Section 3.8

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on Section 3.8 (*Acquisition of Financial Literacy*) of NI 52-110.

Audit Committee Oversight

At no time since the commencement of the Corporation's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Pre-Approval Policies and Procedures

The Audit Committee of the Corporation has adopted specific policies and procedures for the engagement of non-audit services entitled "Procedures for Approval of Audit and Non-Audit Services by the External Auditors" (the

“**Procedure**”). Under the Procedure, the auditors may not act in any capacity where they function as management, audit their own work or serve in an advocacy role on behalf of the Corporation. Various audit related services provided by the auditors have been pre-approved. Management is required, however, to obtain pre-approval of the Audit Committee for services where engagement fees are expected to exceed \$10,000. Where fees for a particular engagement are expected to be less than or equal to \$10,000, the Chairman of the Audit Committee is to be notified expeditiously of the commencement of such services. If an engagement with the auditors for a particular service is contemplated that is neither expressly forbidden under the Procedure nor covered under the range of services provided for therein, such an engagement must be pre-approved. The Audit Committee has delegated the authority to effect such pre-approval to the Chairman of the Audit Committee. Pre-approved non-audit services shall be provided pursuant to an engagement letter signed by the auditors, which shall set out the particular non-audit services to be provided. At every regularly scheduled meeting of the Audit Committee, management is required to report on all new pre-approved engagements of the auditors since the last such report.

External Auditor Service Fees (By Category)

The aggregate fees billed by the Corporation’s external auditors in each of the last two fiscal years are as follows:

Financial Period Ending December 31	Audit Fees⁽¹⁾	Audit Related Fees⁽²⁾	Tax Fees⁽³⁾	All Other Fees
2008	\$196,100	\$25,800	\$95,285	\$Nil
2007	\$136,700	\$14,700	\$47,023	\$Nil

Notes:

- (1) The aggregate audit fees billed or accrued by Arsenal’s external auditor.
- (2) The aggregate fees billed or accrued by Arsenal’s external auditor for assurance and related services that are reasonably related to the performance of the audit or review of Arsenal’s financial statements that are not reported under ‘Audit Fees’.
- (3) The aggregate fees billed or accrued by Arsenal’s external auditor for professional services rendered for tax compliance, tax advice and tax planning.