

ARSENAL ENERGY INC.

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON JUNE 19, 2009

NOTICE OF MEETING AND MANAGEMENT INFORMATION CIRCULAR

THIS NOTICE OF MEETING AND MANAGEMENT INFORMATION CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION BY THE MANAGEMENT OF ARSENAL ENERGY INC. OF PROXIES TO BE VOTED AT THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF ARSENAL ENERGY INC. TO BE HELD ON JUNE 19, 2009.

TO BE HELD AT

**THE STANDARD LIFE BUILDING
200, 639 – 5th AVENUE S.W.
CALGARY, ALBERTA T2P 0M9
CONFERENCE CENTRE**

9:00 A.M. (MOUNTAIN DAYLIGHT TIME)

ARSENAL ENERGY INC.

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF
ARSENAL ENERGY INC.**

NOTICE IS HEREBY GIVEN THAT the annual and special meeting (the “Meeting”) of holders of common shares of Arsenal Energy Inc. (the “Corporation”) will be held at the Standard Life Building, Conference Centre, 200, 639 – 5th Avenue S.W., Calgary, Alberta T2P 0M9 on June 19, 2009 at 9:00 a.m. (Mountain Daylight time), for the following purposes.

1. To receive and consider the audited financial statements of the Corporation for the financial year ended December 31, 2008 and the report of the auditors thereon;
2. To fix the board of directors of the Corporation to be elected at the Meeting at six (6) members and to elect the board of directors of the Corporation for the ensuing year;
3. To appoint KPMG LLP, Chartered Accountants, of Calgary, Alberta, as auditors of the Corporation for the ensuing year and to authorize the board of directors of the Corporation to fix the auditors’ remuneration;
4. To consider and, if thought advisable, to approve all unallocated options under the stock option plan of the Corporation;
5. To consider and, if thought advisable, to approve the shareholder rights plan of the Corporation; and
6. To transact any such other business as may properly be brought before the Meeting or any adjournment thereof.

Shareholders who are unable to attend the Meeting in person are requested to date and execute the enclosed form of instrument of proxy and return it in the envelope provided for that purpose.

DATED at the City of Calgary, in the Province of Alberta, this 20th day of May, 2009.

BY ORDER OF THE BOARD OF DIRECTORS

“Tony van Winkoop”

Tony van Winkoop
President and Chief Executive Officer

IMPORTANT

It is desirable that as many common shares as possible be represented at the Meeting. If you do not expect to attend and would like your common shares represented, please complete the enclosed instrument of proxy and return it as soon as possible in the envelope provided for that purpose. To be valid, all instruments of proxy must be deposited at the office of the Registrar and Transfer Agent of the Corporation, Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1 not later than forty-eight (48) hours, excluding Saturdays, Sundays and holidays prior to the time of the Meeting or any adjournment thereof. Late instruments of proxy may be accepted or rejected by the Chairman of the Meeting in his sole discretion and the Chairman is under no obligation to accept or reject any late instruments of proxy.

ARSENAL ENERGY INC.

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

JUNE 19, 2009

MANAGEMENT INFORMATION CIRCULAR

PERSONS MAKING THE SOLICITATION

This management information circular (“Circular”) is furnished in connection with the solicitation of proxies by the management of Arsenal Energy Inc. (“Arsenal” or the “Corporation”), to be used at the annual and special meeting (the “Meeting”) of holders of common shares (“Common Shares”) of the Corporation, to be held on June 19, 2009, at the hour of 9:00 a.m. (Mountain Daylight time), at the Standard Life Building, 200, 639 – 5th Avenue S.W., Calgary, Alberta T2P 0M9 in the Conference Centre and at any adjournment thereof for the purposes set out in the accompanying notice of meeting (the “Notice”).

The costs incurred in the preparation and mailing of both the instrument of proxy and this Circular will be borne by the Corporation. In addition to the use of mail, proxies may be solicited by personal interviews, personal delivery, telephone or any form of electronic communication or by directors, officers and employees of the Corporation who will not be directly compensated therefor.

In accordance with National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer*, arrangements have been made with brokerage houses and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the Common Shares held of record by such persons and the Corporation may reimburse such persons for reasonable fees and disbursements incurred by them in doing so. The costs thereof will be borne by the Corporation. The record date to determine the registered shareholders entitled to receive Notice of the Meeting is May 20th, 2009 (the “Record Date”).

APPOINTMENT, VOTING AND REVOCATION OF PROXIES

Appointment

The persons named (the “Management Designees”) in the accompanying instrument of proxy have been selected by the board of directors of the Corporation and have indicated their willingness to represent as proxy the shareholder who appoints them. Any shareholder has the right to appoint a person (who need not be a shareholder) other than the Management Designees to attend and to vote and act for and on behalf of such person at the Meeting. In order to do so the shareholder may insert the name of such person in the blank space provided in the instrument of proxy, or may use another appropriate form of proxy. All instruments of proxy must be deposited with Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, not later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) prior to the Meeting or any adjournment thereof. The Chairman of the Meeting may refuse to recognize any instrument of proxy received after such time.

Voting

Common Shares represented by any properly executed proxy in the accompanying form will be voted or withheld from voting on any ballot that may be called for in accordance with the instructions given by the shareholder. **In the absence of such direction, the Common Shares will be voted in favour of the matters set forth herein.**

The accompanying instrument of proxy confers discretionary authority on the Management Designees with respect to amendments or variations to matters identified in the Notice of Meeting or other matters that may properly come before the Meeting. As of the date hereof, management of the Corporation is not aware of any such amendments, variations or other matters which may come before the Meeting. In the event

that other matters come before the Meeting, then the management designees intend to vote in accordance with the judgement of management of the Corporation.

Revocation

In addition to revocation in any other manner permitted by law, a shareholder may revoke a proxy by an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing and deposited either at the registered office of the Corporation, 1000, Canterra Tower, 400 Third Avenue SW, Calgary, Alberta, T2P 4H2, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any adjournment thereof.

ADVICE TO BENEFICIAL SHAREHOLDERS

The information set forth in this section is of significant importance to many shareholders, as a substantial number of shareholders do not hold Common Shares in their own name. Shareholders who hold their Common Shares through their brokers, intermediaries, trustees or other persons, or who otherwise do not hold their Common Shares in their own name (referred to herein as "Beneficial Shareholders") should note that only proxies deposited by shareholders who appear on the records maintained by the Corporation's registrar and transfer agent as registered holders of Common Shares will be recognized and acted upon at the Meeting. If Common Shares are listed in an account statement provided to a Beneficial Shareholder by a broker, those Common Shares will, in all likelihood, *not* be registered in the shareholder's name. Such Common Shares will more likely be registered under the name of the shareholder's broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms). In the United States, the vast majority of such Common Shares are registered under the name of Cede & Co., the registration name for The Depository Trust Company, which acts as nominee for many United States brokerage firms. Common Shares held by brokers (or their agents or nominees) on behalf of a broker's client can only be voted or withheld at the direction of the Beneficial Shareholder. Without specific instructions, brokers and their agents and nominees are prohibited from voting shares for the broker's clients. Each Beneficial Shareholder should therefore ensure that voting instructions are communicated to the appropriate person well in advance of the Meeting.

Existing regulatory policy requires brokers and other intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. The various brokers and other intermediaries have their own mailing procedures and provide their own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. The form of proxy supplied to a Beneficial Shareholder by its broker (or the agent of the broker) is substantially similar to the instrument of proxy provided directly to registered shareholders by the Corporation. However, its purpose is limited to instructing the registered shareholder (i.e., the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The vast majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("Broadridge") in Canada. Broadridge typically prepares a machine-readable voting instruction form, mails those forms to Beneficial Shareholders and asks Beneficial Shareholders to return the forms to Broadridge, or otherwise communicate voting instructions to Broadridge (by way of the Internet or telephone, for example). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting. **A Beneficial Shareholder who receives a Broadridge voting instruction form cannot use that form to vote Common Shares directly at the Meeting. The voting instruction forms must be returned to Broadridge (or instructions respecting the voting of Common Shares must otherwise be communicated to Broadridge) well in advance of the Meeting in order to have the Common Shares voted. If you have any questions respecting the voting of Common Shares held through a broker or other intermediary, please contact that broker or other intermediary for assistance.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of his broker, a Beneficial Shareholder may attend the Meeting as proxyholder for the registered shareholder and vote the Common Shares in that capacity. **Beneficial Shareholders who wish to attend the Meeting and indirectly vote their Common Shares as proxyholder for the registered shareholder, should enter their own names in the blank space on the form of proxy provided**

to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker.

All references to shareholders in this Circular and the accompanying form of proxy and Notice of Meeting are to registered shareholders unless specifically stated otherwise.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Registered holders of Common Shares as shown on the shareholders' list prepared as of the Record Date will be entitled to vote such shares at the Meeting on the basis of one vote for each Common Share held, except to the extent that the person has transferred the ownership of any of their Common Shares after the Record Date, and the transferee of those shares produces properly endorsed share certificates, or otherwise establishes that they own the Common Shares, and demands, not later than ten (10) days before the Meeting, or shorter period before the Meeting that the by-laws of the Corporation may provide, that their name be included in the list before the Meeting, in which case the transferee is entitled to vote their Common Shares at the Meeting.

As of the Record Date, 101,249,646 of the Corporation's unlimited authorized voting Common Shares were issued and outstanding. The Corporation is also authorized to issue an unlimited number of preferred shares, none of which are issued. In addition, there are 9,049,000 Common Shares issuable upon exercise of previously granted stock options.

The By-laws of the Corporation provide that a quorum of shareholders is present at a meeting of shareholders if at least two persons are present in person, each being a shareholder entitled to vote thereat or a duly appointed proxy, and who hold or represent by proxy in the aggregate not less than five percent (5%) of the outstanding Common Shares entitled to be voted at the meeting.

To the knowledge of the Corporation's directors and executive officers, and as of the date hereof, no person beneficially owns, or controls or directs, directly or indirectly, more than 10% of the voting rights attached to all outstanding Common Shares.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Objectives

The Corporation has a Compensation Committee, whose mandate includes the review and setting of executive compensation. The Compensation Committee, in arriving at its compensation decisions, considers the long-term interest of the Corporation and its stakeholders, and its historical and current stage of development. Based on these considerations, compensation is designed, reviewed and adjusted using performance enhancement as the major goal. The Compensation Committee makes specific recommendations to the board of directors of the Corporation (the "Board") with respect to compensation paid to its executive officers.

The objectives of the Corporation's executive compensation program are twofold, namely: (i) to enable the Corporation to attract and retain highly qualified and experienced individuals to serve as officers; and (ii) to align the compensation levels available to the officers to the successful implementation of the Corporation's strategic plans.

Compensation Process

The Chief Executive Officer and management recommends to the Compensation Committee the individual annual base salaries and bonuses for each executive officer. In doing so, Arsenal participates in an annual compensation survey of oil and gas exploration and production companies. Management compares the base salary and benefits for each employee against industry comparable positions and annually recommends adjustments to the Compensation Committee. The Compensation Committee takes these recommendations into consideration when making final decisions on compensation for those executive officers. Compensation decisions regarding the Chief Executive Officer are made entirely by the Compensation Committee.

The Compensation Committee strives to find a balance among current versus long-term compensation and cash versus equity incentive compensation. Cash payments primarily reward recent performance and equity incentive rewards encourage executive officers to continue to deliver results over a longer period of time and serve as a retention tool.

The Compensation Committee does not use formulas in determining the amount and mix of compensation. The Compensation Committee evaluates a broad range of both quantitative and qualitative factors including reliability in delivering financial and growth targets, a track record of integrity, good judgment, the vision and ability to create further growth and the ability to lead others. The evaluation of an executive officer's performance against his stated objectives will play an important role in awarding the discretionary annual cash bonus and also contribute to a determination of overall compensation. For annual long-term incentive awards, the Compensation Committee primarily considers an executive officer's potential for future successful performance and leadership as part of the executive management team, taking into account past performances as a key indicator.

The compensation of the Chief Executive Officer, executive officers and management of competitors is considered, to the extent publicly available, in determining compensation.

Components of Compensation

The Corporation's executive compensation program consists of a combination of the following significant elements, namely: base salary, the payment of bonuses where appropriate under the Bonus Plan (as hereinafter defined) and participation in the Option Plan (as hereinafter defined) and the ESSP (as hereinafter defined). Extended health care, dental and insurance benefits are provided to all employees, including the Named Executive Officers. The elements of the Corporation's compensation program are designed to attract and retain highly qualified people and to align their interest with those of the shareholders of the Corporation and the Corporation chooses to pay these elements to maintain a competitive position in the marketplace. The maximization of shareholder value is encouraged by making long-term equity incentives a major component of the compensation regime, particularly for the Chief Executive Officer.

Bonus Plan

All regular full-time employees of Arsenal, including the Named Executive Officers, as such term is defined in securities legislation, are eligible to participate in the bonus plan of the Corporation (the "**Bonus Plan**"). The Bonus Plan is designed to reward employees collectively and individually for superior performance. The overall payout under the Bonus Plan is discretionary and determined by the Compensation Committee and is dependent on overall corporate performance against budgeted expectations and against performance by industry peers. Maximum payouts pursuant to the Bonus Plan are 30% of base payroll with a targeted payout of 20% of base payroll. Management subdivides the bonus pool between employees based on individual performance. The Compensation Committee retains the right to pay no bonus when Arsenal's financial position is deteriorating. In January of 2009, the Compensation Committee elected to defer bonus payments for the calendar year 2008 until commodity prices recover.

Employee Share Ownership Plan

The employee stock savings plan (the "**ESSP**") provides an opportunity for all employees to invest in Common Shares on a monthly basis. The plan was implemented to assist employees to acquire Common Shares thereby becoming owners of Arsenal and aligning the employee's interest with that of Arsenal. The savings plan is a voluntary plan available to all full time employees, including executive officers after three months of service. Eligible employees may choose to participate in the ESSP by payroll deduction to purchase Common Shares in the public market through a brokerage firm retained and compensated by Arsenal. Participants may contribute up to 7.5% of their monthly base salary to the ESSP with a corresponding matching by Arsenal of the employee's contribution. The maximum total annual contribution by the employee and Arsenal to the Plan is limited to the maximum annual contribution limit to an Registered Savings Plan.

Option Plan

The stock option plan (the "**Option Plan**") of the Corporation was approved by the shareholders of the Corporation effective May 11, 2006, as amended May 31, 2007. The Option Plan permits the granting of options ("**Options**") to purchase Common Shares to the Corporation's employees, officers, directors and consultants for the purpose of

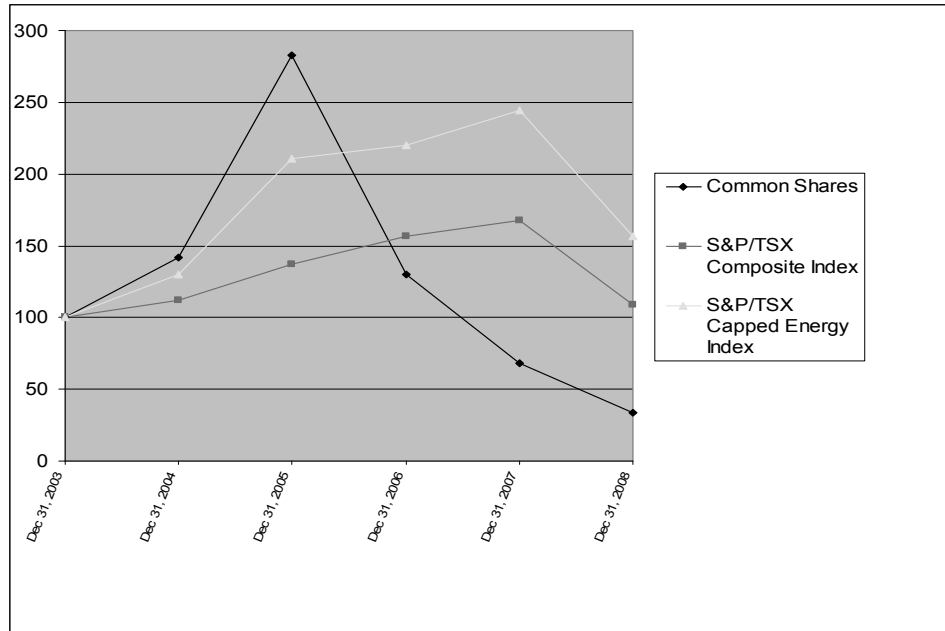
developing the interest of the participants in the growth and development of the Corporation and to better enable the Corporation to attract and retain persons of desired experience and ability. The Option Plan provides that the Board may determine the exercise price of the Option provided that the exercise price must not be less than the market price, which means, when the Common Shares are trading on an exchange, the closing price of the Common Shares on the principal stock exchange on which they are traded on the last business day preceding the grant of the Option, and may not be less than that permitted by the Toronto Stock Exchange (the "TSX"). Substantially all of the Options have been granted so as to vest over 18 months from the date of grant. The Option Plan provides that the Board may, in its sole discretion and without further approval of the shareholders of the Corporation, amend, suspend, terminate or discontinue the Option Plan and may amend the terms and conditions of Options granted under the Option Plan (including the exercise price of the Options, the expiry date of the Options and the termination provisions of the Options), subject to any required approval of any regulatory authority or the TSX. Disinterested shareholder approval will be required for any reduction in the exercise price or the expiry date of Options granted to insiders of the Corporation. The approval of the shareholders of the Corporation will be required for amendments to the Option Plan which amend the number of Common Shares issuable pursuant to Options issued thereunder, which add any form of financial assistance by the Corporation for the exercise of an Option or which change the class of participants which may broaden or increase participation by insiders of the Corporation. Participation in the Option Plan is voluntary. Options granted under the Option Plan will be for a term of no longer than five years. The interest of any optionee under the Option Plan is not transferable or alienable by the optionee either by assignment or in any manner. If any optionee ceases to be a participant as a result of permanent physical or mental disability or death, then, to the extent vested, Options may be exercised for a period of one year thereafter. If an optionee ceases to be a participant for reasons other than permanent physical or mental disability or death and is terminated without notice or entitlement to notice or compensation in lieu thereof, the optionee may exercise the Options, to the extent they have vested as of the date of ceasing to be a participant. If the optionee ceases to be a participant for any reasons other than as described above, the optionee may exercise the Options, to the extent they have vested, when reasonable notice has been given, on the date the optionee ceases to be a participant and when compensation is paid in lieu of notice, for 21 days after the date the optionee ceases to be a participant. The Option Plan provides for the extension of the expiry date of any Option, which would otherwise expire during a "black-out period" for ten (10) business days from the date that any "black-out period" ends. In the event of any change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise or in the event of any other change in the Common Shares, the Board may proportionately adjust the number of Common Shares that may be issued under existing Option agreements. In the event of a change of control, all unexercised and unvested outstanding Options shall immediately vest and be exercisable, but may only be purchased for tender to the subject transaction. If the subject transaction is not completed, any Common Shares issued and tendered pursuant to the transaction shall be deemed to be cancelled and returned to treasury. Each participant may exercise a put right to require the Corporation to purchase all or part of the then vested Options which it may hold, provided, however, that the Corporation may at its sole discretion decline to accept and accordingly, have no obligations with respect to the exercise of the put right from time to time. The Corporation will purchase such options at a price equal to the excess of the closing price of the Common Shares on the principal stock exchange on which they are traded on the date of receipt of the put notice by the Corporation over the exercise price for each Option being purchased under the put or such other amount as may be agreed to by the Optionee and the Corporation.

The Option Plan currently provides that no more than 10,124,964 Common Shares (which is equal to 10% of the currently issued and outstanding Common Shares) may be reserved for issuance upon the exercise of Options granted pursuant to the Option Plan. Of the 10,124,964 Common Shares which may be reserved for issuance upon the exercise of Options, 9,049,000 (which is equal to approximately 8.94% of the issued and outstanding Common Shares) are subject to currently issued and outstanding Options and 1,075,964 (which is equal to approximately 1.06% of the issued and outstanding Common Shares) are currently available for future grants of Options. The aggregate number of Common Shares issuable under the Option Plan and under any other security based compensation arrangement, if any, and: (i) issued to insiders, within any one year period, shall not exceed ten (10%) percent of the issued and outstanding Common Shares; and (ii) issuable to Insiders, shall not exceed ten (10%) percent of the issued and outstanding Common Shares.

Allocations of Options to employees are based on industry comparable allocations for similar positions. Each year, approximately one half of the available unissued Options are granted. Options are granted annually in January by the Compensation Committee with input from Arsenal management. New employees generally receive an initial grant that is double what they would normally receive annually. In January 2009, employees were granted a total of 1,488,000 Options at an exercise price of \$0.205 per Option.

Performance Graph

The following graph compares the yearly percentage change in the cumulative shareholder return over the last five years of the Common Shares (assuming a \$100 investment was made on December 31, 2003) and the cumulative total return of the S&P/TSX Composite Index and the S&P/TSX Capped Energy Index.



	Dec 31, 2003	Dec 31, 2004	Dec 31, 2005	Dec 31, 2006	Dec 31, 2007	Dec 31, 2008
Common Shares	\$100	\$142	\$283	\$130	\$68	\$34
S&P/TSX Composite Index	\$100	\$112	\$137	\$157	\$168	\$109
S&P/TSX Capped Energy Index	\$100	\$130	\$211	\$220	\$244	\$157

When the Compensation Committee and the Board determines overall compensation, it considers a number of factors and performance elements. Although total shareholder return is one performance measure that is reviewed, it is not the only consideration. As a result, a direct correlation between total shareholder return over a given period and executive compensation levels is not anticipated.

Share Based Compensation & Non-equity Incentive Plan Compensation

The Corporation has not at any time granted any share-based compensation nor has it provided any awards pursuant to a non-equity incentive plan, other than those awards granted pursuant to the Bonus Plan.

Benefit, Pension, Retirement, Deferred Compensation and Actuarial Plans

The Corporation currently has no defined benefit, pension, retirement, deferred compensation or actuarial plans for its Named Executive Officers or directors of the Corporation.

Compensation of Named Executive Officers

The following provides compensation for the financial year ended December 31, 2008 paid to the Named Executive Officers of the Corporation.

Name and principal position	Year⁽¹⁾	Salary (\$)	Option-Based awards⁽⁶⁾ (\$)	Annual incentive plan⁽⁷⁾ (\$)	All other Compensation⁽⁸⁾ (\$)	Total Compensation⁽⁹⁾ (\$)
Tony van Winkoop , President and Chief Executive Officer ⁽²⁾	2008	197,138.50	262,542.02	34,000	9,905.15	503,585.67
J. Paul Lawrence , Vice President, Finance and Chief Financial Officer ⁽³⁾	2008	112,641.16	229,413.00	nil	7,596.26	349,650.42
Ron Forth , Vice President, Engineering ⁽⁴⁾	2008	43,773.51	232,908.00	nil	5,551.27	282,232.78
Jay LaForge , Vice President, Operations	2008	158,061.61	164,212.94	28,000	9,905.15	360,179.70
Gjoa Taylor , Vice President, Land ⁽⁵⁾	2008	127,304.62	207,148.20	nil	8,692.84	343,145.66

Notes:

- (1) In accordance with applicable securities laws, the Corporation is not required to disclose comparative period disclosure in respect of a financial year ending before December 31, 2008.
- (2) Tony van Winkoop also served as a person acting in the capacity of Chief Financial Officer of the Corporation until J. Paul Lawrence was appointed to the position of Chief Financial Officer on May 1, 2008. Mr. van Winkoop is also a director of the Corporation. He received no compensation in consideration of acting as a director.
- (3) J. Paul Lawrence was appointed Vice President, Finance and Chief Financial Officer on May 1, 2008. CPM Resources Inc. (a company controlled by Mr. Lawrence and members of his family) received \$41,575 in consulting fees for services rendered by Mr. Lawrence from January 1, 2008 to the date of his appointment to Vice President, Finance and Chief Financial Officer.
- (4) Ron Forth was appointed Vice President Engineering on September 17, 2008.
- (5) Gjoa Taylor was appointed Vice President Land on March 4, 2008.
- (6) The Corporation has calculated the grant date fair value of the Options granted to Named Executive Officers using the Black-Scholes-Merton model. The Corporation chose this methodology because it is recognized as the most common methodology used for valuing options and doing value comparisons. The Black-Scholes-Merton assumptions used by the Corporation were: (i) an initial expected useful life of 5 years; (ii) a forfeiture rate of 0%; (iii) a range of volatilities of 57% to 180%; and (iv) a range of risk-free interest rates from 2.64 % to 4.5%.
- (7) Pursuant to the Bonus Plan, these amounts vested in 2007 and were paid out to the Named Executive Officers in 2008.
- (8) The value of perquisites received by each of the Named Executive Officers, including property or other personal benefits provided to the Named Executive Officers that are not generally available to all employees, were not in the aggregate greater than \$50,000 or 10% of the Named Executive Officers total salary for the financial year. Included under this column is the Corporation's share of contributions to the ESSP.
- (9) Represents the aggregate of Salary, Option-based awards, Annual incentive plan and All other Compensation.

Outstanding Option-Based Awards

The following table sets forth information in respect of Option-based awards outstanding at the end of the financial year ended December 31, 2008 held by the Named Executive Officers of the Corporation.

Name	Number of securities underlying unexercised Options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money Options ⁽¹⁾⁽²⁾ (\$)
Tony van Winkoop	270,000	0.38	14-Oct-2013	Nil
	150,000	0.42	13-Aug-2012	Nil
	336,000	0.60	13-Feb-2013	Nil
	350,000	1.09	15-Jun-2011	Nil
J. Paul Lawrence	210,000	0.38	14-Oct-2013	Nil
	300,000	0.62	02-Apr-2013	Nil
Ron Forth	160,000	0.38	14-Oct-2013	Nil
	300,000	0.71	02-Sep-2013	Nil
Jay LaForge	160,000	0.38	14-Oct-2013	Nil
	125,000	0.42	13-Aug-2012	Nil
	216,000	0.60	13-Feb-2013	Nil
	150,000	1.15	30-Sep-2011	Nil
Gjoa Taylor	160,000	0.38	14-Oct-2013	Nil
	300,000	0.60	13-Feb-2013	Nil

Notes:

- (1) Based on the closing price of the Common Shares on December 31, 2008 of \$0.21, being the last day the Common Shares traded on the TSX during the financial year ended December 31, 2008.
- (2) Calculated based on the difference between the market price of the Common Shares underlying the Options and the exercise price of the Options.

Option-based Awards – Value Vested During the Year

The following table sets forth information in respect of the value vested during the Corporation's financial year ended December 31, 2008, in respect of Option-based awards for the Named Executive Officers of the Corporation.

Name	Option-based awards – Value vested during the year ⁽¹⁾ (\$)
Tony van Winkoop	41,420.00
J. Paul Lawrence	14,500.00
Ron Forth	Nil
Jay LaForge	31,103.28
Gjoa Taylor	16,000.00

Note:

- (1) Calculated based on the difference between the market price of the Common shares underlying the Options at the vesting date and the exercise price of the Option.

Termination and Change of Control Benefits

Other than as set forth herein, there is no contract, agreement, plan or arrangement between the Corporation and a Named Executive Officer that provides for payments to a Named Executive Officer at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Corporation or a change in a Named Executive Officer's responsibilities.

Employment Agreements

Each of the Named Executive Officers has entered into an employment agreement (collectively, the "**Employment Agreements**") with the Corporation.

Pursuant to each of the Employment Agreements, and in the event that the Corporation terminates the employment of a Named Executive Officer without just cause, or if such employment is terminated by the resignation of the Named Executive Officer which resignation has been requested by the Corporation without just cause, the Corporation and the Named Executive Officer have agreed that the Named Executive Officer shall be entitled to 30 days' written notice of termination of employment and be paid severance by way of lump sum retiring allowance equivalent to 11 months of base salary, less withholding tax required by law.

In the event there is a Change of Control (as such term is hereinafter defined) of the Corporation, and if within the 28 days following the event of a Change of Control, a Named Executive Officer has not been offered by the Corporation or its successor a position of employment, that, when taken as a whole, is substantially equivalent as to title, position, reporting relationships and remuneration to that position of employment which the Named Executive Officer held prior to the event of the Change of Control or, alternatively, the Named Executive Officer has not continued his employment without such a change in his position of employment, and the Named Executive Officer has given written notice to the Corporation providing full particulars of his claim, that changes in his terms of employment have occurred or have been proposed that have resulted in a position of employment which when taken as a whole, is not substantially equivalent as to title, position, reporting relationships and remuneration to that position of employment which the Named Executive Officer held prior to the event of the Change of Control and the Named Executive Officer has elected to treat these changes as constructive dismissal, and it has been determined by agreement or arbitration that the claim is valid, then the Named Executive Officer shall be entitled to receive thirty days' notice or 30 days' salary and the value of the lost benefits in lieu of the 30 days notice. In addition, the Named Executive Officer shall be paid a termination retirement allowance on or before the effective date of the termination, equal to 11 months of base salary, less withholding tax required by law.

For purposes of an Employment Agreement, a "Change of Control" shall be deemed to have occurred at such time as:

- (i) the Corporation, sells, leases or exchanges all or substantially all of the property of the Corporation, in one transaction, or in a series of transactions over a period not exceeding two years (herein referred to as "**Asset Disposition**");
- (ii) a merger, amalgamation or other corporate reorganization resulting in a person, an Associated Group or one or more members of an Associated Group in the aggregate, acquiring beneficially 33% or more of the Voting Interests in the resulting entity;
- (iii) the sale of 33% or more of the Voting Interests of the Corporation by a person or by an Associated Group or, in the aggregate, by one or more members of an Associated Group; and
- (iv) the purchase of 33% or more of the Voting Interests of the Corporation by a person or by an Associated Group or, in the aggregate, by one or more members of an Associated Group;
- (v) the acquisition of Voting Shares by any person, an Associated Group or one or more members of an Associated Group in the aggregate, increasing by the acquisition beneficially the Voting Interest of such person, Associated Group, or one or more members of an Associated Group in the aggregate to the level of a 33% Voting Interest in the Corporation by way of an incremental acquisition of such Voting Interests, however achieved

(hereinafter collectively referred to as “**Ownership Change**”; an Asset Disposition or an Ownership Change being collectively referred to as a “**Change of Control**” for the purposes of an Employment Agreement).

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred as a result of any Asset Disposition or any Ownership Change or any other transaction or group of transactions that does not in substance result in a change in the ultimate beneficial ownership or control of (i) all or substantially all of the property of the Corporation; or (ii) the Corporation or the resulting entity.

For the purposes of an Employment Agreement, the following terms shall have the following meanings. “Associated Group” means two or more persons who are associated with respect to the exercise of rights attached to Voting Interests in an entity by contract, business arrangement, personal relationship, common control in fact through the ownership of Voting Interests, or otherwise, in such a manner that they would ordinarily be expected to act together on a continuing basis with respect to the exercise of those rights. “Voting Interest” means, with respect to: (i) a corporation, company or other body corporate with share capital, means a Voting Share or any right which upon exercise, conversion or otherwise is capable of becoming, directly or indirectly, a Voting Share or giving to the holder thereof rights similar to those enjoyed by the owner of a Voting Share; (ii) a corporation, company or other body corporate without share capital, means an ownership interest in the assets thereof that entitles the owner to rights similar to those enjoyed by the owner of a Voting Share; and (iii) a partnership, trust, joint venture, association, unincorporated organization, government or an agency thereof, means an ownership interest in the assets thereof that entitles the owner to participate in the direction of the policy thereof. “Voting Share” means: (i) a share in the capital of a corporation, company or other body corporate to which is attached a voting right ordinarily exercisable at meetings of shareholders of the corporation, company or other body corporate; and, (ii) any other right granted by or in respect of a corporation, company or other body corporate currently exercisable to elect or appoint: (a) individuals to the board of a corporation, company or other body corporate; or (b) individuals forming such other group of individuals comprising the directing mind or will of the corporation, company or other body corporate.

The Option Plan

The Option Plan provides that if an Offer (as such term is hereinafter defined) is made which, if successful, would result in a COC (as such term is hereinafter defined), then all unexercised and unvested outstanding Options shall immediately vest and become exercisable by the holders, notwithstanding any other vesting provisions in the Option Plan or in an agreement providing for the Option, as to all or any of the Common Shares in respect of which such Options have not previously been exercised, but such shares may only be purchased for tender pursuant to such Offer. If for any reason such Common Shares are not taken up and paid for by the offeror pursuant to the Offer, any such Common Shares so purchased by an optionee shall be deemed to be cancelled and returned to the treasury of the Corporation, shall be added back to the number of Common Shares remaining available under the Option Plan and, upon presentation to the Corporation of share certificates representing such Common Shares properly endorsed for transfer back to the Corporation, the Corporation shall refund to the participant all consideration paid for such Common Shares and, in such event, the participant shall thereafter continue to hold the same number of unexercised and unvested outstanding Options on the same terms and conditions, including the exercise price thereof, as were applicable thereto immediately prior to time the subject Offer was made.

For the purposes of the Option Plan, “Offer” means an offer made generally to the holders of the Common Shares in one or more jurisdictions to acquire, directly or indirectly, Common Shares and which is the nature of a “takeover bid” as defined under the Securities Act (Alberta) and where the Common Shares are listed and posted for trading on a stock exchange, not exempt from the formal bid requirements of the *Securities Act* (Alberta). For the purposes of the Option Plan, “COC” means the purchase or acquisition of Common Shares and/or securities convertible into or exchangeable or exercisable for Common Shares as a result of which a person, group of persons or persons acting jointly or in concert, or persons who are Associates of or affiliated with, within the meaning of the *Securities Act* (Alberta), any such person, group or persons or any of such persons acting jointly or in concert, beneficially owns or exercises control or direction over Common Shares and/or securities convertible into or exchangeable or exercisable for Common Shares such that, assuming the conversion, exercise or exchange of all such securities, would entitle such person, group of persons or person acting jointly or in concert to cast 50% plus one of the votes attaching to all Common Shares, excluding, however, a purchase or acquisition of Common Shares in connection with a reverse take-over as defined in the policies of any stock exchanges upon which the

Common Shares are listed and posted for trading, and provided that the beneficial ownership by or exercise or control or direction over securities by shareholders of the Corporation as at the date of the Option Plan shall not constitute or be counted towards a Change of Control.

Estimated Incremental Payments and Benefits as of December 31, 2008

The following table sets forth the estimated incremental payments and benefits that would be received by the Named Executive Officers following a termination without cause or a change of control, in each case had such events occurred on December 31, 2008, and assuming the payment of severance in lieu of notice. Because all of the Options held by the Named Executive Officers on December 31, 2008 were “out-of-the-money”, no monetary benefits would have been received from Options held pursuant to the Option Plan

Name and Principle Position	Base Salary⁽¹⁾ (\$)
Tony van Winkoop , President and Chief Executive Officer	200,689.11
J. Paul Lawrence , Vice President, Finance and Chief Financial Officer	175,689.11
Ron Forth , Vice President, Engineering	167,689.11
Jay LaForge , Vice President, Operations	160,689.11
Gjoa Taylor , Vice President, Land	159,378.03

Note:

(1) Represents the Named Executive Officer’s base salary for the Termination Period.

Compensation of Directors

Director Compensation Table

The following table sets out the compensation paid to directors of the Corporation for the financial year ended December 31, 2008.

Name⁽¹⁾	Fees Earned (\$)	Option-based awards⁽²⁾ (\$)	All other compensation⁽³⁾ (\$)	Total⁽⁴⁾ (\$)
R. Neil Mackay	12,500.00	84,305.00	Nil	96,805.00
William Hews	13,500.00	84,305.00	Nil	97,805.00
Curtis R. Stewart	13,500.00	84,305.00	Nil	97,805.00
R.H. (Harley) Kempthorne	2,500.00	118,050.00	Nil	120,550.00

Notes:

- (1) Information for Tony van Winkoop, the President, Chief Executive Officer and a director of the Corporation, is provided under “*Compensation of Named Executive Officers*”.
- (2) The Corporation has calculated the grant date fair value of the Options granted to the directors using the Black-Scholes-Merton model. The Corporation chose this methodology because it is recognized as the most common methodology used for valuing options and doing value comparisons. The Black-Scholes-Merton assumptions used by the Corporation were: (i) an initial expected useful life of 2 to 4 years; (ii) a forfeiture rate of 0%; (iii) a range of volatilities of 32% to 100%; and (iv) a range of risk-free interest rates from 3.7% to 4.75%.
- (3) None of the directors received perquisites, including property or personal benefits not generally available to all employees that in aggregate were worth \$50,000 or more, or were worth 10% or more of the director’s total salary for the financial year.
- (4) Represents the aggregate of Fees Earned, Option-based awards and All other compensation.

Outstanding Option-Based Awards

The following table sets forth information in respect of Option-based awards outstanding at the end of the financial year ended December 31, 2008 held by the directors.

Name ⁽¹⁾	Number of securities underlying unexercised Options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money Options ⁽²⁾⁽³⁾ (\$)
R. Neil Mackay	50,000	0.36	13-Aug-2012	Nil
	50,000	0.38	14-Oct-2013	Nil
	100,000	0.50	19-Jul-2009	Nil
	100,000	0.79	23-Jun-2013	Nil
	100,000	1.21	15-Apr-2010	Nil
	25,000	1.30	09-Dec-2010	Nil
William Hews	50,000	0.36	13-Aug-2012	Nil
	50,000	0.38	14-Oct-2013	Nil
	100,000	0.59	29-Oct-2009	Nil
	100,000	0.79	23-Jun-2013	Nil
	100,000	1.21	15-Apr-2010	Nil
Curtis R. Stewart	50,000	0.36	13-Aug-2012	Nil
	50,000	0.38	14-Oct-2013	Nil
	100,000	0.50	19-Jul-2009	Nil
	100,000	0.79	23-Jun-2013	Nil
	200,000	1.21	15-Apr-2010	Nil
	25,000	1.30	09-Dec-2010	Nil
R.H. (Harley) Kempthorne	50,000	0.38	14-Oct-2013	Nil
	150,000	0.79	23-Jun-2013	Nil

Notes:

- (1) Information for Tony van Winkoop, the President, Chief Executive Officer and a director of the Corporation, is provided under "Compensation of Named Executive Officers".
- (2) Based on the closing price of the Common Shares on December 31, 2008 of \$0.21, being the last day the Common Shares traded on the TSX during the year ended December 31, 2008.
- (3) Based on the difference between the market price of the Common Shares underlying the Options at December 31, 2008 and the exercise price of the Options.

Option-based Awards – Value Vested During the Year

The following table sets forth information in respect of the value vested during the Corporation's financial year ended December 31, 2008, in respect of Option-based awards for the directors of the Corporation.

Name ⁽¹⁾	Option-based awards – Value vested during the year ⁽²⁾⁽³⁾ (\$)
R. Neil MacKay	9,333.28
William Hews	9,333.28
Curtis R. Stewart	9,333.28
R.H. (Harley) Kempthorne	Nil

Notes:

- (1) Compensation information for Tony van Winkoop, the President, Chief Executive Officer and a director of the Corporation, is provided under the heading "Compensation of Named Executive Officers".
- (2) Calculated based on the difference between the market price of the Common shares underlying the Options at the vesting date and the exercise price of the Option.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the Corporation's compensation plans under which equity securities are authorized for issuance as at December 31, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
The Option Plan	7,361,000	0.70	2,763,964
Equity compensation plans not approved by security holders	nil	nil	nil
Total	7,361,000	0.70	2,763,964

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than as set forth in the table below, no director, executive officer, employee, former director, former executive officer or former employee of the Corporation or its subsidiaries, or any associate or affiliate of the foregoing, have been indebted at any time since the beginning of the most recently completed financial year of the Corporation to the Corporation. None of the persons described in the preceding sentence were at any time since the beginning of the most recently financial year of the Corporation indebted to another entity to which the indebtedness was the subject of a guarantee, "support agreement", letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

For the purposes of the above, "support agreement" includes, but is not limited to, an agreement to provide assistance in the maintenance or servicing of any indebtedness and an agreement to provide compensation for the purpose of maintaining or servicing any indebtedness of the borrower.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND CONSULTANTS UNDER SECURITIES PURCHASE PROGRAMS						
Name and Principal Position	Involvement of Company or Subsidiary	Largest Amount Outstanding During the Year Ended December 31, 2008 (\$)	Amount Outstanding as at the Record Date (\$)	Financially Assisted Securities Purchases During the Year Ended December 31, 2008 (#)	Security for Indebtedness	Amount Forgiven During the Year Ended December 31, 2008 (\$)
Securities Purchase Programs						
Michael S. Vandale Former Director ⁽¹⁾	Lender	225,000 ⁽²⁾	Nil	Nil	(2)	225,000 ⁽²⁾
Other Programs						
N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) Mr. Vandale ceased to be a director of the Corporation on June 23, 2008.
- (2) Represents the amount owed to the Corporation pursuant to an interest-free loan (the "Loan") made by the Corporation in the principal amount of \$325,000 (of which \$100,000 was forgiven in 2006) to Michael S. Vandale, a former director and officer of the Corporation, effective May 13, 2004. The Loan was secured by a demand promissory note and a pledge of 325,000 Common Shares by Mr. Vandale to the Corporation. Amounts owing under the Loan were to incur interest from the date of demand. The Corporation never made demand under the Loan. On May 21, 2008, the Corporation forgave all amounts owed under the Loan as consideration for services rendered.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

The Corporation is not aware of any material interest, direct or indirect, of any "informed person" of the Corporation, any proposed director of the Corporation or any associate or affiliate of any "informed person" or proposed director, in any transaction since the commencement of the Corporation's most recently completed

financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

For the purposes of the above, “informed person” means: (a) a director or executive officer of the Corporation; (b) a director or executive officer of a person or company that is itself an informed person or subsidiary of the Corporation; (c) any person or company who beneficially owns, directly or indirectly, voting securities of the Corporation or who exercises control or direction over voting securities of the Corporation or a combination of both carrying more than 10% of the voting rights attached to all outstanding voting securities of the Corporation other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) the Corporation after having purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

Other than as set forth herein, the Corporation is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any person who:

- (i) has acted as director or executive officer of the Corporation since the beginning of the Corporation’s last financial year;
- (ii) is a proposed nominee for election as a director of the Corporation; or
- (iii) is an associate or affiliate of any of the persons listed directly above in (i) and (ii),

in any matter to be acted upon at the Meeting other than the election of directors or the approval of the Option Plan.

MANAGEMENT CONTRACTS

No management functions of the Corporation or its subsidiaries are, to any substantial degree, performed by a person or company other than the directors or senior officers of the Corporation.

GOVERNANCE

Board of Directors

The Board, which has the statutory responsibility to oversee the conduct of the business of the Corporation and to supervise management, who are responsible for the daily conduct of the business of the Corporation, is comprised of six directors, of which five are independent and accordingly a majority of the directors are independent. A director is independent if he would be independent within the meaning of section 1.4 of National Instrument 52-110 - *Audit Committees*. Currently, the independent directors are William Hews, R. Neil MacKay, Bill Powers, R.H. (Harley) Kempthorne and Curtis R. Stewart. Tony van Winkoop is not be independent by virtue of being an executive officer of the Corporation.

Bill Powers is presently a director of Admiral Bay Resources Inc. and PetroGlobe Inc., both reporting issuers. During the year ended December 31, 2008, the independent directors of the Corporation held four meetings at which the non-independent director and members of management were not in attendance. These meetings were held immediately after all regularly scheduled meetings of the entire Board. R. Neil MacKay is the chair of the Board and is considered independent. R. Neil Mackay oversees the conduct of the Board on a whole and provides leadership to the Board. In order to provide leadership for the independent directors, the Board encourages communication among the independent directors. Since the beginning of the financial year ended December 31, 2008, all directors attended all meetings held by the Board.

Board Mandate

The text of the Board’s written mandate is attached hereto as Schedule “A”.

Position Descriptions

The Board has developed written position descriptions for the chair of the Board and for the chair of each Board committee. The Board together with the Chief Executive Officer has developed a written position description for the Chief Executive Officer, the text of which is available on the Corporation’s website.

The Board has established the following Board committees comprised of the members and chaired by the individuals set out in the following table.

Committee	Members	Independent
Audit Committee	William Hews, Chair R. Neil MacKay Bill Powers	Yes Yes Yes
Compensation Committee	Curtis R. Stewart, Chair William Hews	Yes Yes
Reserves Committee	Bill Powers Curtis R. Stewart R.H. (Harley) Kempthorne, Chair	Yes Yes Yes
Disclosure Committee	R. Neil MacKay, Chair R.H. (Harley) Kempthorne	Yes Yes

Orientation and Continuing Education

The Corporation has developed an orientation program for new directors as set out in the Corporation’s director’s manual (“Director’s Manual”) which contains information regarding the roles and responsibilities of the Board, each Board committee, the Board chair, the chair of each Board committee and the Chief Executive Officer of the Corporation. The Director’s Manual contains information regarding the nature and operation of the Corporation’s business, its organizational structure, governance policies including the Board Mandate and each Board committee mandate, and the Corporation’s code of business conduct and ethics. The Director’s Manual is to be updated as the Corporation’s business, governance documents and policies change. The Corporation arranges for presentations to be made to the Board to inform directors regarding corporate developments and changes in legal, regulatory and industry requirements affecting the Corporation. As well, directors are encouraged to visit the Corporation’s facilities, to interact with management and employees and to stay abreast of industry developments and the evolving business of the Corporation.

Ethical Business Conduct

The Corporation has adopted a written code of business conduct and ethics (the “Code”) for the Corporation’s directors, officers and employees. The Board does not monitor compliance with the Code, but it encourages following the Code by making it widely available. It is distributed to directors in the Director’s Manual and to officers and employees at the commencement of their employment, it is posted in gathering places at the office and work places of the Corporation and it is available on the Corporation’s website. The Code reminds those engaged in service to the Corporation that they are required to report perceived or actual violations of the law, violations of the Corporation’s policies, dangers to health, safety and the environment, risks to the Corporation’s property and accounting or auditing irregularities to the Chairman of the Board who is an independent director of the Corporation. In addition to requiring directors, officers and employees to abide by the Code, the Corporation encourages consultants, service providers and all parties who engage in business with the Corporation to contact the Chairman of the Board regarding any perceived and all actual breaches by the Corporation’s directors, officers and employees of the Code. The Chairman of the Board is responsible for investigating complaints, presenting complaints to the applicable Board committee or the Board as a whole, and developing a plan for promptly and fairly resolving complaints. Upon conclusion of the investigation and resolution of a complaint, the Chairman of the Board will advise the complainant of the corrective action measures that have been taken or advise the complainant that the complaint has not been substantiated. The Code prohibits retaliation by the Corporation, its directors and management, against complainants who raise concerns in good faith and requires the Corporation to maintain the confidentiality of complainants to the greatest extent practical. Complainants may also submit their concerns anonymously in writing. In addition to the Code, the Corporation has an Audit Committee Mandate and

a Whistleblower Policy with respect to accounting and auditing irregularities. Since the beginning of the Corporation's most recently completed financial year, no material change reports have been filed that pertain to any conduct of a director or executive officer that constitutes a departure from the Code. The Board encourages and promotes a culture of ethical business conduct by appointing directors who demonstrate integrity and high ethical standards in their business dealings and personal affairs. Directors are required to abide by the Code and are expected to make responsible and ethical decisions in discharging their duties, thereby setting an example of the standard to which management and employees should adhere. The Board is required by the Board Mandate to satisfy itself that the Chief Executive Officer and other executive officers are acting with integrity and fostering a culture of integrity throughout the Corporation. The Board is responsible for reviewing departures from the Code, reviewing and either providing or denying waivers from the Code, and disclosing any waivers that are granted in accordance with applicable law. In addition, the Board is responsible for responding to potential conflict of interest situations, particularly with respect to considering existing or proposed transactions and agreements in respect of which directors or executive officers advise they have a material interest. The Board Mandate requires that directors and executive officers disclose any interest and the extent, no matter how small, of their interest in any transaction or agreement with the Corporation, and that directors excuse themselves from both Board deliberations and voting in respect of transactions in which they have an interest. By taking these steps the Board strives to ensure that directors exercise independent judgement, unclouded by the relationships of the directors and executive officers to each other and the Corporation, in considering transactions and agreements in respect of which directors and executive officers have an interest.

Nomination of Directors

The Board does not have a nominating committee and responsibility for identifying new candidates to join the Board belongs to the Board as a whole. The Board is responsible for identifying qualified candidates, recommending nominees for election as directors and appointing directors to committees. The Board is requested to objectively consider the independence of candidates, financial acumen, skills and available time to devote to the duties of the Board in making their recommendations for nomination to the Board. The Board reviews the composition and size of the Board and tenure of directors in advance of annual general meetings when directors are most commonly elected by the Corporation's shareholders, as well as when individual directors indicate that their terms may end or that their status may change. The Board encourages all directors to participate in considering the need for and in identifying and recruiting new nominees for the Board. In doing so, the directors are requested by the Board to have regard to the skill sets that are deemed, from time to time, to be most desired in proposed nominees for the Board.

Compensation

The Corporation has a Compensation Committee that annually determines the compensation to be received by the Corporation's directors, the Chief Executive Officer and executive officers. The Compensation Committee is comprised entirely of independent directors. For a detailed review of how compensation is determined, see "*Compensation of Directors and Executive Officers – Compensation Discussion and Analysis*" herein.

Other Board Committees

Other than the Audit Committee and the Compensation Committee, the only other standing committees of the Board are the Disclosure Committee and the Reserves Committee. The function of the Disclosure Committee is to ensure that the written and oral communications by the Corporation to the public and to applicable regulatory authorities are disseminated in a timely and factually accurate manner and to assist the Corporation in maintaining and complying with its disclosure policy. The function of the Reserves Committee is to meet with the Corporation's independent reserves evaluation engineers, at least annually, to discuss the evaluation of the Corporation's reserves and to assist the Corporation in fulfilling its duties and obligations under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*.

Assessments

In addition to determining compensation, the Compensation Committee is responsible for conducting an annual evaluation and assessment of the performance, contribution and effectiveness of individual directors, the Board chair and each Board committee chair, each Board committee and the Board as a whole. The evaluation and review includes a Board questionnaire that asks directors to identify their own skills, their contributions to the

Board and Board committees and to rate their effectiveness, as well as a peer review questionnaire which asks directors to rate the contributions and effectiveness of their fellow Board members. The annual review also asks directors to provide feedback on the Board Mandate, the Corporation's charters, the Code and other policies. The Compensation Committee is required to prepare a report on the information gathered pursuant to the annual assessment, the results of which are then presented to the Board in order to engage in a discussion regarding Board effectiveness and how to improve Board effectiveness.

AUDIT COMMITTEE

Under National Instrument 52-110 *Audit Committees*, the Corporation is required to include in its Annual Information Form ("AIF") 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 and to include in the Circular a cross-reference to the sections in the AIF that contain the required information. The Corporation's disclosure with respect to the foregoing is contained in Appendix "D" of the Corporation's AIF dated March 26, 2009 entitled "*Information Concerning Audit Committee*".

PARTICULARS OF MATTERS TO BE ACTED ON

Fixing Number of Directors and Election of Directors

For this forthcoming year, it is proposed that the Board shall consist of six (6) members. Management therefore intends to place before the Meeting, for approval, with or without modification, a resolution fixing the Board at six (6) members for the next ensuing year. Management does not contemplate that any of such nominees will be unable to serve as directors. However, if for any reason any of the proposed nominees do not stand for election or are unable to serve as such, proxies in favour of management designees will be voted for another nominee in their discretion unless the shareholder has specified in his or her proxy that their shares are to be withheld from voting in the election of directors. Each director elected will hold office until the next annual meeting of shareholders or until his successor is duly elected, unless his office is earlier vacated in accordance with the By-laws of the Corporation.

The following table sets forth the name of each of the persons proposed to be nominated for election as a director, all positions and offices in the Corporation presently held by him, his municipality of residence, his principal occupation at the present and during the preceding five years, the period during which he has served as a director and the number of voting Common Shares that he has advised are beneficially owned by him, directly or indirectly, or over which control or direction is exercised, as of the Record Date.

Unless otherwise directed, it is the intention of the Management Designees to vote proxies in the accompanying form in favour of the ordinary resolution fixing the number of directors at six (6) members and the election of nominees hereinafter set forth, as a group, as directors for the ensuing year.

Name and Municipality of Residence	Principal Occupation for Past Five Years	Director Since	Voting Shares Beneficially Owned or over which Control or Direction is Exercised ⁽⁶⁾
Tony van Winkoop Alberta, Canada	President and Chief Executive Officer of Arsenal since July 2007; Vice-President, Exploration from July 2006 to July 2007. Prior thereto, General Manager of Development for PrimeWest Energy Trust (oil and gas trust), since 2001.	June 23, 2008	2,742,920
William Hews ⁽¹⁾⁽³⁾ Alberta, Canada	President of Fideliter Inc. (private consulting company).	October 30, 2000 ⁽⁵⁾	933,173
R. Neil MacKay ⁽¹⁾⁽⁴⁾ Saskatchewan, Canada	Partner of MacPherson Leslie & Tyerman LLP (law firm).	June 29, 2004	4,226,169
Curtis R. Stewart ⁽²⁾⁽³⁾ Alberta, Canada	Partner of Bennett Jones LLP (law firm).	June 29, 2004	662,317

Name and Municipality of Residence	Principal Occupation for Past Five Years	Director Since	Voting Shares Beneficially Owned or over which Control or Direction is Exercised ⁽⁶⁾
R.H. (Harley) Kempthorne ⁽²⁾⁽⁴⁾ Alberta, Canada	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.	June 23, 2008	2,623,000
Bill Powers ⁽¹⁾⁽²⁾ Illinois, U.S.A.	Managing Member of Powers Asset Management LLC, an asset manager, since June 2005. Prior thereto, principal of Canadian Energy Viewpoint.	June 23, 2008	279,108

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) Date of appointment as director or officer of Arsenal Capital Inc., a predecessor of the Corporation.
- (6) The information as to Common Shares beneficially owned, not being within the knowledge of the Corporation, has been provided by the directors. The information above does not include Options.

Corporate Cease Trade Orders or Bankruptcies

None of the Corporation's directors or executive officers, have, within 10 years prior to the date of this Information Circular, been a director, chief executive officer or chief financial officer of any company, including the Corporation and any personal holding companies, that:

- (i) 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, 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
- (ii) 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, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer 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.

Bankruptcies

None of the Corporation's directors or executive officers, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, or any personal holding companies of the foregoing, has within 10 years prior to the date of this Information Circular:

- (i) been a director or executive officer of any company, as applicable, 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
- (ii) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or

had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

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

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (ii) 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.

Appointment of Auditor

The management of the Corporation intends to nominate KPMG LLP, Chartered Accountants, for appointment as the auditors of the Corporation. Instruments of proxy given pursuant to the solicitation by the management of the Corporation will, on any poll, be voted as directed and, if there is no direction, in favour of the appointment of KPMG LLP, Chartered Accountants, as the auditors of the Corporation to hold office until the close of the next annual general meeting of the Corporation, at a remuneration to be fixed by the directors. KPMG LLP was first appointed auditor of the Corporation by resolution of the shareholders on August 3, 2003.

Approval of Unallocated Options

The rules of the TSX require that every three years after institution, all unallocated options, rights or other entitlements under a security based compensation arrangement which does not have a fixed maximum number of securities issuable, must be approved by shareholders. The Option Plan was approved by shareholders on May 11, 2006, and provides that the aggregate number of Common Shares reserved for issuance on exercise of all Options granted under the Option Plan at any time shall not exceed 10% of the number of Common Shares issued and outstanding at such time. No Options have been granted by the Corporation since January of 2009. The Board does not expect that Options will be granted between the date hereof until the date that the shareholders approve all unallocated options at the Meeting. Any Options granted between the date hereof prior to the Meeting date will be subject to ratification by the shareholders.

The Corporation has 101,249,646 Common Shares outstanding as at the date hereof and therefore pursuant to the Option Plan is able to grant Options for the acquisition of up to 10,124,964 Common Shares. As at the date hereof, the Corporation has granted Options to acquire 9,049,000 Common Shares resulting in 1,075,964 unallocated Option entitlements being currently available for grant under the Option Plan. Accordingly, at the Meeting, shareholders will be asked to consider and, if deemed advisable, approve unallocated Option entitlements under the Option Plan. See "*Compensation of Directors and Officers – Compensation Discussion and Analysis - Option Plan*" herein for a more detailed description of the Option Plan. At the Meeting, shareholders will be asked to consider and, if deemed advisable, approve the following ordinary resolution.

"BE IT RESOLVED as an ordinary resolution of the shareholders of Arsenal Energy Inc. (the "**Corporation**") that:

1. all unallocated option entitlements under the Corporation's stock option plan (the "**Stock Option Plan**") are hereby authorized and approved;
2. the Corporation be and is hereby authorized to continue granting options under the Stock Option Plan until June 19, 2012, being the date that is three years from the date of this shareholder approval of unallocated option entitlements under the Stock Option Plan; and
3. any one director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents, and any amendments thereto, as may be necessary or advisable in order to give effect to the foregoing resolution."

Pursuant to the requirements of the TSX, the foregoing resolution must be approved by a simple majority of the votes cast at the Meeting by the shareholders voting in person or by proxy. Previously allocated Options will continue unaffected by the approval or disapproval of the foregoing resolution. Previously granted Options will not be available for reallocation if they are cancelled or terminated prior to exercise and the foregoing resolution is not approved. If the foregoing resolution is not approved, there will be no further Options granted pursuant to the Option Plan.

A copy of the Option Plan will be made available to any shareholder upon request. Unless otherwise directed, it is the intention of the persons designated in the instrument of proxy to vote proxies in favour of the above resolution.

Approval of Shareholders Right's Plan

At the Meeting, the shareholders will be asked to pass an ordinary resolution confirming the adoption of a shareholder rights plan agreement (the "Rights Plan" or "Plan") dated as of March 20, 2009 between the Corporation and Computershare Trust Company of Canada.

The Board has determined that the Rights Plan is in the best interests of the Corporation and its shareholders and unanimously recommends that the shareholders vote in favour of the Rights Plan. The Rights Plan was not adopted in response to any specific proposal or intention to acquire control of the Corporation.

Purpose of the Rights Plan

Many public companies in Canada have shareholder rights plans in effect. While securities legislation in Canada requires a take-over bid to be open for at least 35 days, the Board is concerned that this is too short a time for companies that are subject to unsolicited take-over bids to be able to respond to ensure that shareholders are offered full and fair value for their shares. The Rights Plan is designed to give the Corporation's shareholders sufficient time to properly assess a take-over bid without undue pressure and to give the Board time to consider alternatives designed to allow the Corporation's shareholders to receive full and fair value for their Common Shares.

The Board is also concerned that current Canadian take-over bid rules permit a person or company to obtain control or effective control of the Corporation without treating all shareholders equally.

The Rights Plan is not intended to prevent a take-over bid or deter offers for Common Shares. It is designed to encourage any bidder to provide shareholders with equal treatment and full and fair value for their Common Shares. A summary of the Rights Plan is found below.

Board Review of the Rights Plan

In adopting the Rights Plan and recommending that shareholders vote in favour of the Rights Plan, the Board considered matters including experience of other issuers with rights plans in the context of take-over bids, judicial and regulatory consideration of shareholder rights plans, the terms and conditions of rights plans adopted by other Canadian companies and the commentary of the investment community on rights plans, including the published proxy voting guidelines.

It is not the intention of the Board, in adopting the Rights Plan and proposing that it be approved by shareholders, to secure the continuance in office of the existing members of the Board or management, or to avoid an acquisition of control of the Corporation in a transaction that is fair and in the best interests of shareholders. The Rights Plan will not detract from or lessen the duty of the Board to act honestly and in good faith with a view to the best interests of the Corporation. The Board will continue to have the duty and power to take such actions and make such recommendations to shareholders of the Corporation as are considered appropriate.

Summary of the Rights Plan

The following is a summary of the principal terms of the Rights Plan, which is qualified in its entirety by reference to the text of the Rights Plan. A copy of the complete Rights Plan has been filed with the Canadian Securities Administrators and is available on SEDAR at www.sedar.com. Copies are also available from the Chief Financial Officer of the Corporation at its head office located at Suite 1900, 639 – 5th Avenue S.W., Calgary, Alberta,

T2P 0M9. All capitalized terms used in this summary without definition have the meanings attributed to them in the Rights Plan.

Effective Date and Term

The Rights Plan came into effect on its approval by the Board on March 20, 2009. Subject to approval and periodic confirmation by shareholders of the Corporation as discussed below, it will remain in effect until the termination of the annual meeting of the Corporation in the year 2012.

Shareholder Approval

The Rights Plan must be approved by more than 50% of the votes cast at the Meeting by shareholders present or voting by proxy. In addition, the Rights Plan must be reconfirmed by more than 50% of the votes cast at each of the third and sixth annual meetings of the Corporation's shareholders following the Meeting.

Issue of Rights

Immediately upon the Rights Plan coming into effect, one Right was issued and attached to each Common Share outstanding and will attach to each Common Share subsequently issued.

Rights Exercise Privilege

The Rights will separate from the Common Shares and will be exercisable on the close of business on the tenth trading day (the "Separation Time") after the earlier of the date on which a person has acquired 20% or more of, or a person commences or announces a take-over bid for, the Corporation's outstanding Common Shares, other than by an acquisition pursuant to a Permitted Bid or a Competing Permitted Bid. The acquisition by a person (an "Acquiring Person") of 20% or more of the Common Shares is referred to as a "Flip-in Event". When a Flip-in Event occurs each Right (except for Rights beneficially owned by an Acquiring Person or certain transferees of an Acquiring Person, which Rights will be void pursuant to the Rights Plan) becomes a right to purchase from the Corporation, upon exercise thereof in accordance with the terms of the Rights Plan, that number of Common Shares having an aggregate market price on the date of consummation or occurrence of such Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price. The Exercise Price for the Rights provided for in the Rights Plan is \$100. As an example, if at the time of the Flip-in Event the Common Shares have a market price of \$25.00, the holder of each Right would be entitled to receive \$200 (twice the Exercise Price) in market value of the Common Shares (8 Common Shares) for \$100, i.e. at a 50% discount.

The issue of the Rights is not initially dilutive. However, upon a Flip-in Event occurring and the Rights separating from the Common Shares, reported earnings per share may be affected. Holders of Rights not exercising their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Any offer other than a Permitted Bid, a competing Permitted Bid or a bid for which the Board has waived the application of the Rights Plan to a particular Flip-in Event (see "Waiver" below) will become prohibitively expensive for the Acquiring Person. The Rights Plan is therefore designed to require any person interested in acquiring more than 20% of the Common Shares to do so by way of a Permitted Bid or a Competing Permitted Bid or to make an offer which the Board considers to represent the full and fair value of the Common Shares.

Exemptions for Portfolio Managers, etc.

Portfolio managers (for fully managed accounts), mutual funds and their managers, trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds, administrators of registered pension plans and crown agents acquiring greater than 20% of the Common Shares are exempted from triggering a Flip-in Event, provided that they are not making, and are not part of a group making, a take-over bid.

Grandfathered Person

A person (a "Grandfathered Person") who was the beneficial owner of more than 20% of the outstanding Common Shares on March 20, 2009 is deemed not to be an Acquiring Person until it ceases to own more than 20% of the

Common Shares or increases its beneficial ownership by more than 1% of the outstanding Common Shares on March 20, 2009 except in specified circumstances. To the knowledge of the directors of the Corporation the Corporation does not have any Grandfathered Person.

Certificates and Transferability

Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on the Common Share certificates of the Corporation and will not be transferable separately from the Common Shares. Common Share certificates do not need to be exchanged to entitle a shareholder to these Rights. The legend will be on all new certificates issued by the Corporation after the Effective Date. From and after the Separation Time, the Rights will be evidenced by Rights certificates and will be transferable separately from the Common Shares.

Permitted Bid Requirements

The Permitted Bid requirements include the following:

- (i) the take-over bid must be made by way of a take-over bid circular;
- (ii) the take-over bid must be made to all holders of Common Shares (other than the bidder);
- (iii) the take-over bid provides that no Common Shares tendered pursuant to the take-over bid may be taken up prior to the expiry of a 60 day period following the date of the bid and unless at such date more than 50% of the Common Shares held by the Independent Shareholders (i.e. the shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons), have been tendered to the take-over bid and not withdrawn;
- (iv) the take-over bid must be open for acceptance for a minimum period of 60 days;
- (v) the Common Shares deposited pursuant to the bid may be withdrawn until taken up or paid for; and
- (vi) if the minimum deposit condition described in (iii) above has been satisfied, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of Common Shares for an additional 10 business days from the date of such public announcement.

The Rights Plan allows for a competing Permitted Bid (a “Competing Permitted Bid”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all of the requirements of a Permitted Bid except that no Common Shares will be taken up or paid for pursuant to the Competing Permitted Bid prior to the close of business on a date that is no earlier than the later of:

- (a) 35 days after the date of the Competing Permitted Bid; and
- (b) the 60th day after the earliest date on which any other Permitted Bid that is then in existence was made.

Waiver

The Board, acting in good faith may, prior to the occurrence of a Flip-in Event, waive the application of the Rights Plan to a particular Flip-in Event (an “Exempt Acquisition”) where the take-over bid is made by a take-over bid circular to all holders of Common Shares. Where the Board of Directors exercises the waiver power for one take-over bid, the waiver will also apply to any other take-over bid for the Corporation made by a take-over bid circular to all holders of Common Shares prior to the expiry of any other bid for which the Rights Plan has been waived.

Redemption

The Board, with the approval of the majority of votes cast by shareholders (or the holders of the Rights if the Separation Time has occurred) voting in person and by proxy, at a meeting duly called for that purpose, may redeem all of the then outstanding Rights at \$0.000001 per Right as adjusted by the terms of the Rights Plan. Rights shall be automatically redeemed following completion of a Permitted Bid, Competing Permitted Bid or Exempt Acquisition.

Protection Against Dilution

The Rights Plan contains detailed provisions regarding adjustments to the Exercise Price and the number and nature of the securities that may be purchased upon exercise of Rights outstanding to prevent dilution in the event of certain declarations of dividends, or consolidation of outstanding Common Shares, issuances of Common Shares (or other securities or rights) in respect of or in lieu of an exchange for existing Common Shares or other changes in the Common Shares.

Amendment

The Board may amend the Rights Plan with the approval of a majority of votes cast by shareholders (or the holders of the Rights if the Separation Time has occurred) voting in person and by proxy at a meeting duly called for that purpose. The Board, without such approval, may correct clerical or typographical errors and, subject to the subsequent approval as noted above at the next meeting of the shareholders (or holders of Rights, as the case may be), may make amendments to the Rights Plan to maintain its validity due to changes in applicable legislation.

Certain Canadian Federal Income Tax Considerations of the Rights Plan

The following commentary summarizes certain Canadian federal income tax consequences of the issuance of the Rights. It is of a general nature only and is not intended to constitute nor should it be construed to constitute legal or tax advice to any particular holder of Common Shares. Such shareholders are advised to consult their own tax advisors regarding the consequences of acquiring, holding, exercising or otherwise disposing of their Rights, taking into account their own particular circumstances and any applicable foreign, provincial or territorial legislation.

The Corporation did not receive any income for the purposes of the Income Tax Act (Canada) (the "ITA") as a result of the issuance of the Rights. The ITA provides that the value of a right to acquire additional shares of a corporation is not a taxable benefit which must be included in computing income of a shareholder, and is not subject to non-resident withholding tax, if the right is conferred on all holders of common shares. Although the Rights are to be so conferred, the Rights could become void in the hands of certain holders of Common Shares upon certain triggering events occurring (such as a Flip-in Event) and, consequently, whether or not the issuance of the Rights is a taxable event is not entirely free from doubt. In any event, only the amount or value of such benefit must be included in computing income of a shareholder. The Corporation considers that the Rights have negligible monetary value because there is only a remote possibility that the Rights will ever be exercised. If the Rights are disposed of (except on exercise thereof), a holder of Rights may be subject to tax in respect of the proceeds of disposition of such Rights.

Eligibility for Investment in Canada

Provided that at all material times the Corporation remains a "public corporation" for purposes of the ITA and deals at arm's length with each person who is an annuitant, a beneficiary, an employer or a subscriber, as the case may be, under a registered retirement savings plan, a registered retirement income fund, a deferred profit sharing plan or a registered education savings plan (collectively, the "Plans"), the Rights will be qualified investments under the ITA for the Plans.

Confirmation by Shareholders

To be effective, the resolution must be passed by:

- (a) a simple majority of the votes cast thereon by the shareholders present in person or by proxy at the Meeting; and

- (c) a simple majority of the votes cast thereon by the Shareholders present in person or by proxy at the Meeting without giving effect to any votes cast by any Grandfathered Person and any associate, affiliate and insider of a Grandfathered Person.

The text of the resolution to confirm the Rights Plan and the rights distributed pursuant thereto is as follows:

“**BE IT RESOLVED** as an ordinary resolution that:

1. the shareholder rights plan, the terms and conditions of which are set out in the Shareholders Rights Plan Agreement dated March 20, 2009 between Arsenal Energy Inc. (the “Corporation”) and Computershare Trust Company of Canada (the “Rights Agreement”), and the distribution and continued existence of the rights distributed pursuant to the Rights Agreement, as more particularly described in the Management Proxy and Information Circular dated May 20, 2009 be and the same is hereby ratified, confirmed and approved;
2. any officer or director of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation to execute and deliver, under the corporate seal of the Corporation or otherwise, all such certificates, directions, notices, acknowledgements, receipts, documents, agreements and instruments and including, without limitation, execution of the Rights Agreement and to do or cause to be done all such other acts and things as such director or officer of the Corporation shall determine to be necessary or desirable in order to carry out the intent of this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such documents or instruments or the doing of any such act or thing; and
3. notwithstanding that these resolutions have been duly passed by the holders of the outstanding common shares of the Corporation, the directors of the Corporation are hereby authorized and empowered, if they decide not to proceed with any of the actions contemplated in the foregoing resolutions, to revoke these resolutions at any time prior to the proposed effective date for such action without further notice to, or approval of the holders of the common shares.”

The Toronto Stock Exchange, on which the Common Shares are listed for trading, has accepted notice from the Corporation of the issue of the Rights and the Common Shares made subject to issuance on the exercise of the Rights, subject to shareholder ratification of the Rights Plan at the Meeting.

The persons named in the enclosed form of proxy, if named as proxy, intend to vote in favour of the resolution regarding the Rights Plan unless a shareholder has specified in his proxy that his shares are to be voted against such resolution.

Recommendation of the Board

In adopting the Rights Plan, the Board considered the appropriateness of establishing a shareholder rights plan and concluded, for the reasons discussed above, that it was in the best interests of the Corporation and favourable to maximizing shareholder value to adopt the Rights Plan. **Accordingly, the Board unanimously recommends that shareholders of the Corporation ratify, confirm and approve the Rights Plan by voting in favour of the resolution confirming the Rights Plan and the rights distributed pursuant thereto.**

Other Business

Management is not aware of any other matters to come before the Meeting other than those set out in the Notice of Meeting. If other matters come before the Meeting, it is the intention of the individuals named in the form of proxy to vote the same in accordance with their best judgment in such matters.

GENERAL

All matters to be brought before the Meeting require, for the passing of same, a simple majority of the votes cast at the Meeting by the holders of Common Shares. If a majority of the Common Shares represented at the Meeting should be voted against the appointment of KPMG LLP, Chartered Accountants, as the auditor of the Corporation, the Board will appoint another firm of chartered accountants based upon the recommendation of the Audit

Committee, which appointment for any period subsequent to the 2009 meeting of shareholders shall be subject to approval by the shareholders at the next annual and special meeting of shareholders.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is on SEDAR at www.sedar.com. Shareholders may contact the Corporation at (403) 262-4854 to request copies of the Corporation's financial statements and MD&A. Financial information is provided in the Corporation's comparative financial statements and MD&A for the Corporation's most recently completed financial year.

SCHEDULE A

ARSENAL ENERGY INC. (the “Corporation”)

BOARD MANDATE

(National Policy 58-201 Corporate Governance Guidelines)

1. The Board of Directors of the Corporation (“Board”) is responsible for:
 - (a) stewardship of the Corporation;
 - (b) supervising the management of the business and affairs of the Corporation; and
 - (c) providing leadership to the Corporation by practicing responsible, sustainable and ethical decision making.
2. The Board has the responsibility to:
 - (a) act honestly and in good faith with a view to the best interests of the Corporation;
 - (b) exercise the care, diligence and skill that a reasonably prudent Board would exercise in comparable circumstances; and
 - (c) direct management to ensure legal, regulatory and exchange requirements applicable to the Corporation have been met.
3. A majority of the Board will, at all times, be independent directors as defined in then current laws applicable to the Corporation.
4. To be considered for nomination and election to the Board, directors must demonstrate integrity and high ethical standards in their business dealings, their personal affairs and in the discharge of their duties to and on behalf of the Corporation.
5. The Board is responsible to:
 - (a) meet in person, or in exceptional circumstances by telephone conference call, at least once each quarter and as often thereafter as required to discharge the duties of the Board;
 - (b) hold meetings of the independent directors without management and non independent directors present; and
 - (c) comply with the position description applicable to individual directors.
6. The Board is responsible to annually select a member of the Board, whether or not that member is independent, to serve as Board chair, or if the Chief Executive Officer of the Corporation (the “CEO”) is also the Board chair, a lead director to:
 - (a) provide leadership to the independent directors;
 - (b) manage the affairs of the Board; and
 - (c) ensure that the Board functions effectively in fulfillment of its duties to the Corporation.
7. The Board is responsible to:
 - (a) establish such committees of the Board as are required by applicable law and as are necessary to effectively discharge the duties of the Board;

- (b) appoint directors to serve as members of each committee;
 - (c) appoint a chair of each committee to:
 - (i) provide leadership to the committee;
 - (ii) manage the affairs of the committee; and
 - (iii) ensure that the committee functions effectively in fulfilling its duties to the Board and the Corporation; and
 - (d) regularly receive and consider reports and recommendations of each committee, in particular:
 - (i) Audit Committee reports and recommendations, particularly with respect to the Corporation's annual audit; and
 - (ii) Compensation Committee recommendations regarding corporate goals and objectives, Board assessments and compensation.
8. The Board is responsible to:
- (a) select and appoint the CEO and with the assistance of the Compensation Committee, establish CEO goals and objectives and evaluate CEO performance; and
 - (b) assist the CEO to select and appoint executive officers, establish executive officers' goals and objectives and monitor their performance.
9. The Board is responsible to:
- (a) annually review and either approve or require revisions to the mandates of the Board and each Board committee, position descriptions, the code of business conduct and ethics (the "Code") and all other policies of the Corporation (collectively the "Governance Documents");
 - (b) take reasonable steps to satisfy itself that each director, the CEO and the executive officers are:
 - (i) performing their duties ethically;
 - (ii) conducting business on behalf of the Corporation in accordance with the requirements and the spirit of the Governance Documents;
 - (iii) fostering a culture of integrity throughout the Corporation; and
 - (c) arrange, on the advice of the Disclosure Committee, for the Governance Documents to be publicly disclosed.
10. The Board is responsible, with the assistance of the Disclosure Committee, to:
- (a) approve and implement a disclosure policy which provides for disclosure and communications practices governing the Corporation; and
 - (b) approve and maintain a process for the Corporation's stakeholders to contact the independent directors directly with concerns and questions regarding the Corporation.
11. The Board is responsible for:
- (a) reviewing departures from the Code;
 - (b) providing or denying waivers from the Code; and

- (c) disclosing departures from the Code including by filing required material change reports for material departures from the Code containing:
 - (i) the date of the departure;
 - (ii) the parties involved;
 - (iii) the reason why the Board has or has not sanctioned the departure; and
 - (iv) any measures taken to address or remedy the departure.
12. The Board has the duty to:
- (a) adopt a strategic planning process for increasing shareholder value, annually approve a strategic plan, and regularly monitor the Corporation's performance against its strategic plan;
 - (b) approve capital and operating budgets to implement the strategic plan;
 - (c) conduct periodic reviews of the Corporation's resources, risks, and regulatory constraints and opportunities to facilitate the strategic plan; and
 - (d) evaluate management's analysis of the strategies of existing and potential competitors and their impact, if any, on the Corporation's strategic plan.
13. The Board has the duty to:
- (a) adopt a process to identify business risks and ensure appropriate systems to manage risks; and
 - (b) together with the Audit Committee, ensure policies and procedures are in place and are effective to maintain the integrity of the Corporation's:
 - (i) disclosure controls and procedures;
 - (ii) internal controls over financial reporting; and
 - (iii) management information systems.
14. The Board has the duty to:
- (a) review and on the advice of the Audit Committee, approve, prior to their public dissemination:
 - (i) interim and annual financial statements and notes thereto;
 - (ii) managements' discussion and analysis of financial condition and results of operations;
 - (iii) relevant sections of the annual report, annual information form and Information Circular containing financial information;
 - (iv) forecasted financial information and forward looking statements; and
 - (v) all press releases and other documents in which financial statements, earnings forecasts, results of operations or other financial information is disclosed; and
 - (b) approve dividends and distributions, material financings, transactions affecting authorized capital or the issue and repurchase of shares and debt securities, and all material divestitures and acquisitions.

15. The Board has access to all books, records, facilities and personnel of the Corporation necessary for the discharge of its duties.
16. The Board has the power, at the expense of the Corporation, to retain, instruct, compensate and terminate independent advisors to assist the Board in the discharge of its duties.

