Catalyst Capital Group (For Internal Discussion Purposes Only)
CONFIDENTIAL – INITIAL REVIEW

ARCAN RESOURCES LTD. JAN. 2014

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All figures in C$ unless otherwise noted. Arcan Resources Ltd. referred to as "Arcan" or the "Company".

1. Executive Summary

Company Overview

- Arcan Resources Ltd. is an oil-focused exploration, development and production ("E&P") company with primary operations at the Swan Hills complex in Western Alberta, part of the Western Canadian Sedimentary Basin ("WCSB")
  - 3,726 boe/d produced in Q3 2013, versus 4,503 boe/d in FY 2012 and an expected ~4,000 boe/d for FY 2013
  - Total 2P reserves of 38.7Mmbbls, of which 11.4Mmbls (29.5%) are proved developed producing ("PDP"), 0.7Mmbbls (0.8%) are proved developed non-producing, 11.7Mmbbls (30.2%) are proved undeveloped and 15.3Mmbls (39.5%) are probable
- The Company generated revenue and EBITDA of $130.0MM and of $57.7MM (44.4% margin) for the 12 months ended September 30, 2013

Investment Thesis

- Arcan is highly levered, with $324MM of net debt and $58MM of EBITDA (5.6x at face; 4.2x creation value through the convertible notes and 4.8x through the equity)
  - $157MM revolving credit facility
  - $86MM 6.25% subordinated convertible notes due 2016 ($51 / 42.3% YTM)
  - $85MM 6.50% subordinated convertible notes due 2018 ($51 / 23.9% YTM)

Pricing Matrix (C$ Thousands) as of 01/05/14
Arcan Resources Inc.

Security	Note	Face Value	Drawn as of 9/30/13	Book xLTM EBITDA	Trading Price	Market Adj. Value	Market xLTM EBITDA	Interest Margin	Implied Interest Rate	Maturity	Yield to Maturity	Current Yield
LTM EBITDA				$57,700			$57,700					
Cash		($4,058.0)	($4,058.0)	-0.1x		($4,058.0)	-0.1x					
Revolving Credit Facility	1	$200,000	$157,000	2.7x	100.0	$157,000	2.7x	L+3.5%	3.75%	05/28/2014	3.75%	3.75%
Total 1st Lien Debt		**$200,000**	**$157,000**	**2.7x**		**$157,000**	**2.7x**					
Net Total 1st Lien Debt		**$195,942**	**$152,942**	**2.7x**		**$152,942**	**2.7x**					
6.25% Convertible due 2016		86,250	86,250	1.5x	51.0	43,988	0.8x	6.25%	6.25%	02/28/2016	41.99%	12.25%
6.50% Convertible due 2018		85,000	85,000	1.5x	51.0	43,350	0.8x	6.50%	6.50%	10/31/2018	23.89%	12.75%
Total Debt		**$371,250**	**$328,250**	**5.7x**		**$244,338**	**4.2x**					
Net Total Debt		**$367,192**	**$324,192**	**5.6x**		**$240,280**	**4.2x**					

Cash	$4,058.0
Revolver	$200,000.0
Draw	($157,000.0)
Liquidity	$47,058.0

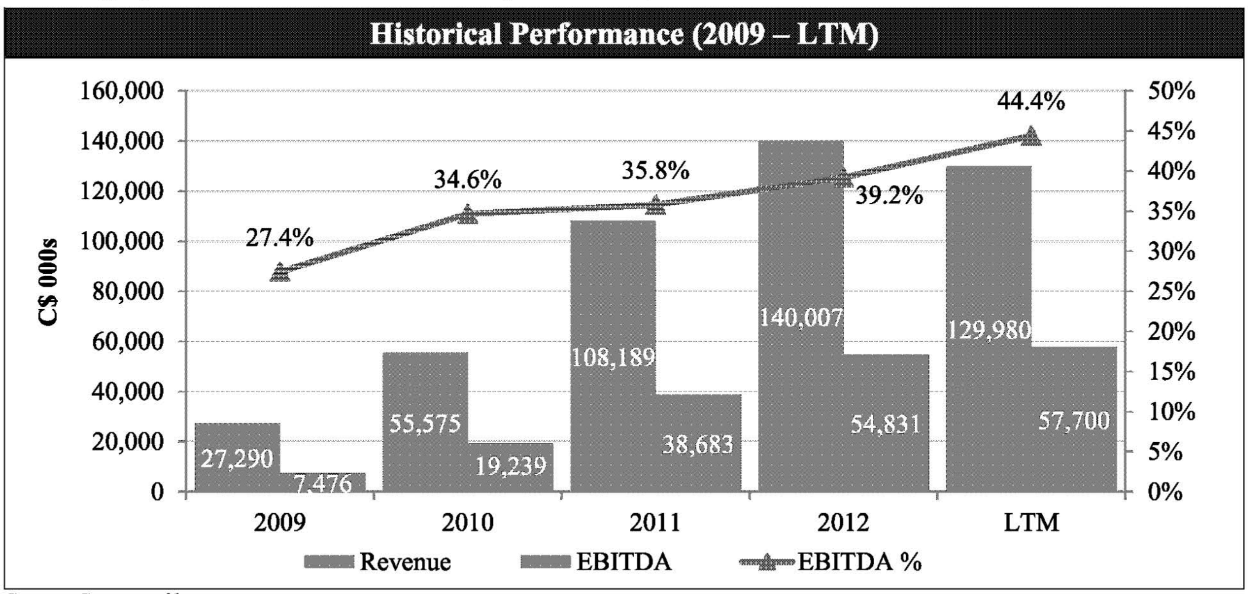
Notes:
(1) Pro-forma for $7.5MM of proceeds from sale of Virginia Hills asset.

- The Company currently generates debt-adjusted cash flow (unlevered operating cash flow) of $60MM per year before capex, which is almost entirely discretionary and tied to drilling and exploration
  - Even with its significant debt and interest burden, the Company is producing operating cash flow of $40MM-$45MM; however, its current capex program calls for spend equal to OCF generation
- **Arcan currently trades at a significant discount to its peer average on all key valuation metrics**:
  - 4.8x EBITDA vs. 13.8x average
  - 11.9x proven reserves vs. 40.9x average
  - 7.2x 2P reserves vs. 22.5x average
  - $74,468 per boe/d of production vs. $111,969 average
- A blowdown model indicates potential upside of ~2x on the notes but ~50% downside in a wide potential valuation range
- Given the Company's relatively low level of secured debt and ample balance sheet asset value, Catalyst can also consider approaching Company management on a cooperative basis to explore opportunities to provide longer-term capital to better suit its growth profile
- As a next step, Catalyst should engage industry consultants to ascertain asset quality and narrow the potential valuation range to ensure ample collateral value

2. Business Description

Company Overview

- Arcan Resources Ltd. is an oil-focused exploration, development and production ("E&P") company with primary operations at the Swan Hills complex in Western Alberta, part of the Western Canadian Sedimentary Basin ("WCSB")
    - o 3,726 boe/d produced in Q3 2013, versus 4,503 boe/d in FY 2012 and an expected ~4,000 boe/d for FY 2013
    - o Total 2P reserves of 38.7 million barrels of oil ("Mmbbls"), of which 11.4Mmbls (29.5%) are proved developed producing ("PDP"), 0.7Mmbbls (0.8%) are proved developed non-producing, 11.7Mmbbls (30.2%) are proved undeveloped and 15.3Mmbls (39.5%) are probable
        - ▪ At current production levels, equates to a 1P reserve life ("RLI") of ~16 years and 2P life of 27 years, above peer average RLIs of 14.1 and 23.3 years
    - o Over 95% of Arcan's resource base and production is light sweet crude oil with a gravity of 37-42° API (comparable to WTI and Brent benchmarks, which have gravities of 39.6° and 38.06° respectively)
- The Company generated revenue and EBITDA of \$130.0MM and of \$57.7MM (44.4% margin) for the 12 months ended September 30, 2013



Source: Company filings.

Resource Overview

- The entire Swan Hills complex was discovered in 1957 and is estimated to hold original oil in place ("OOIP") of 7 billion barrels, of 2.4 billion barrels have been recovered to date, representing a recovery factor of 30%
    - o Secondary recovery techniques, such as waterflooding (injecting water into already-producing wells to boost pressure and, consequently, production), have proven to increase total recovery to 40% in the complex while flattening out natural decline curves

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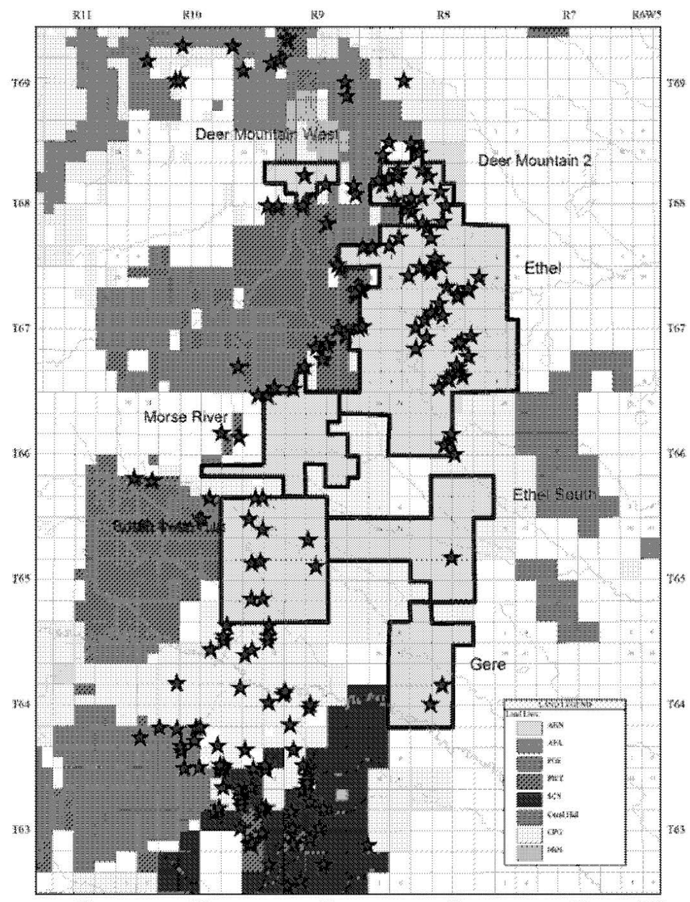
- Arcan's Swan Hill landholdings have an estimated 700 million barrels ("Mmbbls") of OOIP with similar recovery rates (30-40%) as the broader Swan Hill complex
- To date, approximately 17.5Mmbbls have been recovered from Arcan's properties, representing a 2.5% recovery rate
    - Therefore, there remains an additional 190-260Mmbbls of ultimately recoverable oil within Arcan's landholdings
- Arcan leads its industry peers in terms of horizontal drilling activity ("Hz" = horizontal well) in the eastern flank of the Swan Hills play with approximately 60 wells currently pumping oil
- The map below shows landholdings and well sites in the Swan Hills area
- Arcan, highlighted in yellow on the map, holds a mostly contiguous land position of 90,000 prospective acres (approx. 140 sections; 640 acres = 1 section), with production concentrated at the Deer Mountain 2 — which is currently being marketed in a sale process (see *Situation Overview*) — and Ethel locations
    - The Company has the second-largest land position in Swan Hills, aside from Crescent Point (CPG), and has been the most active horizontal driller in the area since 2009 with over 60 wells drilled compared to 30 for Pengrowth, the second-most active
        - Crescent Point and PetroBakken (PBN, now Lightstream), which also owns land in the Swan Hills area, are large shareholders of Arcan, with 19% and 17%, respectively, Arcan a potential takeover play for consolidation in the area



Resource Economics

- Catalyst has modeled out the economics of a new Swan Hills oil well based on different 30-day initial production ("IP") rates of 220 bbl/d, 180 bbl/d and 150 bbl/d
  - Sensitivity tables based on oil prices, initial production and drilling and completion ("D&C") costs are shown on the following page
  - Decline rates for Arcan's wells are very high, with 1-year declines ranging from 50-70% of the 30-day IP rate (i.e. a well with a 30-day IP rate of 220 bbl/d is expected to produce only 66-110 bbl/d after 1-year)
  - Variable operating costs of $12.50/bbl assumed, with $8,000 monthly fixed costs, equating to total per barrel operating costs of $15.00-$15.50
  - Catalyst has assumed no waterflooding in its analysis below, which would approximately double expected total recovery and stabilize production at a cost of $1.0MM-$1.5MM, ~25% that of a new well
- Arcan's current D&C cost is approximately $4.5MM per well; however, this figure had been as high as $6MM in the past
- IRRs assuming a $4.5MM D&C cost and $90/bbl received oil price range from 17.1% to 60.4% on a pre-tax basis
  - Breakevens at a 15% discount rate range from $65-$90/bbl at 220-150 bbl/d 30-day IP rates, with higher oil prices required at lower production rates
- **Note that while Catalyst's analysis approximates information in the Company's reports and investor presentations, it represents reverse engineering with potential for error. To refine its analysis, Catalyst would require Arcan's type curves which is private information**

New Well Economics - 220 bbl/d 30-day initial production

		Flat Oil Price ($/bbl)				
		$60	$75	$90	$105	$120
Drilling & Completion Cost	$4,000,000	18.1%	46.0%	79.7%	122.0%	176.6%
	$4,250,000	13.7%	39.2%	69.2%	106.0%	152.5%
	$4,500,000	9.9%	33.4%	60.4%	93.0%	133.2%
	$4,750,000	6.6%	28.3%	53.0%	82.1%	117.4%
	$5,000,000	3.6%	23.9%	46.6%	72.9%	104.4%

Note: Assumes 220 bbl/d 30-day initial production, $8,000/mth fixed costs and $12.50/bbl operating costs.

New Well Economics - 180 bbl/d 30-day initial production

		Flat Oil Price ($/bbl)				
		$60	$75	$90	$105	$120
Drilling & Completion Cost	$4,000,000	3.1%	24.0%	47.4%	74.8%	107.6%
	$4,250,000	-0.2%	19.2%	40.4%	64.8%	93.5%
	$4,500,000	-3.1%	14.9%	34.4%	56.4%	81.9%
	$4,750,000	-5.7%	11.2%	29.3%	49.3%	72.2%
	$5,000,000	-8.0%	8.0%	24.8%	43.2%	64.0%

Note: Assumes 180 bbl/d 30-day initial production, $8,000/mth fixed costs and $12.50/bbl operating costs.

New Well Economics - 150 bbl/d 30-day initial production

		Flat Oil Price ($/bbl)				
		$60	$75	$90	$105	$120
Drilling & Completion Cost	$4,000,000	-8.0%	8.9%	26.7%	46.3%	68.8%
	$4,250,000	-10.6%	5.1%	21.5%	39.4%	59.4%
	$4,500,000	-13.0%	1.8%	17.1%	33.4%	51.5%
	$4,750,000	-15.1%	-1.1%	13.2%	28.3%	44.8%
	$5,000,000	-17.0%	-3.7%	9.7%	23.8%	39.0%

Note: Assumes 150 bbl/d 30-day initial production, $8,000/mth fixed costs and $12.50/bbl operating costs.

3. Situation Overview

Asset Sales

- Since 2012, the Company has been engaged in the marketing and sale of several of its "non-core" properties to reduce leverage and provide liquidity ahead of the Feb. 2016 maturity of its $86.25MM 6.25% convertible notes
    - In July 2012, Arcan sold its assets in the Hamburg area of Northern Alberta for $12.1MM, a valuation of approximately $51,000 per boe/d based on 237 boe/d of production (89% oil)
    - In August 2012, Arcan sold approximately 10 sections (6,400 acres) of undeveloped land in the Virginia Hills area for $7.0MM, a valuation of approximately $1,100/acre
- On September 24, 2013, Arcan announced its intent to divest four of its oil assets (listed below), including Deer Mountain #2, its second-most productive asset with 926 boe/d, 1P reserves of 6.6Mmbbl and 2P reserves of 8.8Mmbbl
    - RBC Rundle is leading the sales process. Mark McMurray and Darrell Law in Calgary are the managing directors on the file

Asset	WI Production			Financial			Reserves							
							1P			2P			NPV@10%	
	Oil / NGL	Gas	Total	NOI	Opex	Net Back	Oil / NGL	Gas	Total	Oil / NGL	Gas	Total	1P	2P
	bbl/d	mcf/d	boe/d	MM$	$/boe	$/boe	mbbl	mmcf	mboe	mbbl	mmcf	mboe	MM$	MM$
Deer Mountain Unit No. 2	893	198	926	13.0	20.67	37.34	6,263	1,744	6,553	8,437	2,353	8,829	116.3	139.8
Deer Mountain Non-Unit	181	72	193	2.4	4.82	80.14	121	90	136	187	142	211	4.5	6.1
Deer Mountain West	195	37	201	4.4	7.19	73.23	640	161	667	976	248	1,017	14.9	23.0
Virginia Hills	162	0	162	4.2	10.57	46.08	234	71	246	511	155	537	6.3	9.8
Total	1,431	307	1,482	23.9	16.32	44.47	7,258	2,066	7,602	10,112	2,898	10,595	142.0	178.8

Note: Production as of June 2013; financials represent annualized values as of YTD June 2013 from Company lease operating statements; reserves information represent a mid-year update effective July 1, 2013 as per GLJ Petroleum Consultants ("GLJ")

- On December 16, 2013, Arcan announced the sale of the Virginia Hills asset for proceeds of $7.5MM. This implies a value of $46,300 boe/d, 30.5x 1P reserves and 14.0x 2P reserves
    - Price paid represented a 19% premium to 1P reserves value of $6.3MM and a 24% discount to 2P reserves value of $9.8MM
    - Production-based valuation of $46,300 per boe/d is a large discount to Arcan's total $74,468 valuation; however, both reserves-based valuations represent 2x-3x premia
- Based on these metrics, the remaining assets could transact at $61MM (at $46,300 boe/d) to $162MM (19% premium to 1P value)
    - Achieving book value of $135.7MM-$169.0MM would require transaction metrics well above Arcan's TEV, with ~$100MM the threshold for accretive value

Asset Sale Value Analysis						
Book Value of Remaining Assets for Sale ($MM)						
1P NAV	135.7					
2P NAV	169.0					
Assumed Sale Value ($MM)	60.0	85.0	110.0	135.0	160.0	185.0
Sale Implied Valuation						
boe/d	$45,455	$64,394	$83,333	$102,273	$121,212	$140,152
1P	8.2x	11.6x	15.0x	18.4x	21.8x	25.1x
2P	6.0x	8.5x	10.9x	13.4x	15.9x	18.4x
Arcan Market Valuation						
boe/d	$74,468					
1P	11.9x					
2P	7.2x					

- Given the remaining assets have now been on the market for over 3 months, it seems unlikely the Company has fielded (or will field) any attractive/value-add offers
- Catalyst believes that at the present juncture, continuing the sales process is harmful to the Company as it is likely to culminate in a value-neutral (or destroying) transaction while narrowing Arcan's asset base and scale

<u>Stakeholder Dynamics</u>

- Arcan has a concentrated equity investor base — with 19% and 17%, respectively, only Crescent Point and Lightstream, both strategic players with a presence in Arcan's resource area, own more than 3% of the Company's stock
    - Neither Crescent Point nor Lightstream have a representative on the Board of Directors, nor have either asked for a seat on the Board
    - Arcan has entered into a 7-well farm-out agreement with Lightstream, effectively trading production for development dollars — Lightstream pays Arcan up-front for a certain interest in the wells, thereby alleviating the capital intensity of drilling. Catalyst requires additional detail on this arrangement
        - Potential for further joint ventures with Lightstream and initiation of JVs with Crescent Point to monetize assets and/or reduce capital intensity
- There are few publicly listed holders of the Company's two convertible notes, implying large hedge fund or retail ownership. Only three firms are listed as owning more than 2% of the combined issuance:
    - Middlefield Securities, an investment fund manager, owns 6.05% of the convertible notes
    - Horizon Kinetics, a U.S. based boutique investment manager, owns 5.04%
    - Mackenzie Financial owns 2.34%
- A holder list for the revolving $190MM credit facility is unavailable; however, the lender syndicate is as below:
    - Alberta Treasury Branches (Administrative Agent) — $50MM commitment (excl. $10MM operating facility commitment)
    - National Bank of Canada — $50MM commitment
    - Bank of Nova Scotia — $30MM commitment
    - CIBC — $30MM commitment
    - Royal Bank of Canada — $30MM commitment

4. Pricing Matrix and Comparables

- Arcan has a total of $324.2MM of net debt outstanding as of 9/30/2013 (pro-forma the $7.5MM Virginia Hills sale), resulting in 5.6x leverage at face value and 4.2x leverage at market value
  - A buyer of the convertible notes would be creating the Company at a near 50% discount to peer valuations in a restructuring while earning a cash yield of 12.3%-12.8% and yield to maturity of 23.9-42.0% under continuing performance
    - Even if the notes are unable to be refinanced at maturity, two full years of cash coupons would reduce a buyer's basis to ~35-40% of par versus low-case going concern valuations of 42% of par (*see Waterfall Analysis*)
  - $157MM drawn on a $200MM credit facility, and $171MM issued under two *pari passu* subordinated convertible bonds
- Liquidity appears ample, with $47MM remaining under the credit facility, in addition to the ~$40MM of cash from operations generated by Arcan
  - The Company's $200MM credit facility (79% drawn) matures in May 2014; however, the lenders, led by the Alberta Treasury, have taken a soft approach in the past: they have waived defaults of the lone covenant (a 1.0x working capital test) and also extended the facility in May 2013 when leverage was equally high

Pricing Matrix (C$ Thousands) as of 01/05/14
Arcan Resources Inc.

Security	Note	Face Value	Drawn as of 9/30/13	Book xLTM EBITDA	Trading Price	Market Adj. Value	Market xLTM EBITDA	Interest Margin	Implied Interest Rate	Maturity	Yield to Maturity	Current Yield
LTM EBITDA				$57,700			$57,700					
Cash		($4,058.0)	($4,058.0)	-0.1x		($4,058.0)	-0.1x					
Revolving Credit Facility	1	$200,000	$157,000	2.7x	100.0	$157,000	2.7x	L+3.5%	3.75%	05/28/2014	3.75%	3.75%
Total 1st Lien Debt		**$200,000**	**$157,000**	**2.7x**		**$157,000**	**2.7x**					
Net Total 1st Lien Debt		**$195,942**	**$152,942**	**2.7x**		**$152,942**	**2.7x**					
6.25% Convertible due 2016		86,250	86,250	1.5x	51.0	43,988	0.8x	6.25%	6.25%	02/28/2016	41.99%	12.25%
6.50% Convertible due 2018		85,000	85,000	1.5x	51.0	43,350	0.8x	6.50%	6.50%	10/31/2018	23.89%	12.75%
Total Debt		**$371,250**	**$328,250**	**5.7x**		**$244,338**	**4.2x**					
Net Total Debt		**$367,192**	**$324,192**	**5.6x**		**$240,280**	**4.2x**					

Cash	$4,058.0
Revolver	$200,000.0
Draw	($157,000.0)
Liquidity	$47,058.0

Notes:
(1) Pro-forma for $7.5MM of proceeds from sale of Virginia Hills asset.

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- Arcan trades at a discount to peers ranging from 33% (based on most recent quarter's production) to 71% (based on 1P reserves)

Lone Pine Resources Inc.

Comparable Companies Analysis

Company	Share Price	Market Cap	TEV	LTM Revenue	LTM EBITDA	EBITDA Margin	Proven Reserves (Mbbls)	Proven + Probable (Mbbls)	% Oil & NGLs	Daily Production boe/d	EV / Proven Reserves	EV / 2P Reserves	EV / Production EV/ (boe/d)	EV / EBITDA LTM
Junior E&P Peers														
Argent Energy Trust	$8.01	$480.0	$582.1	$99.7	$47.5	47.7%	17,731	32,333	70.0%	5,407	32.8x	18.0x	$107,658	12.2x
Donnycreek Energy Inc.	$2.26	$109.3	$82.8	$7.1	$1.9	27.3%	2,849	10,700	52.0%	498	29.1x	7.7x	$166,194	42.6x
Longview Oil Corp.	$4.73	$222.0	$337.4	$122.8	$61.6	50.2%	21,392	38,263	80.0%	5,859	15.8x	8.8x	$57,584	5.5x
Manitok Energy Inc.	$2.17	$164.3	$168.2	$56.3	$28.9	51.3%	8,029	14,862	50.0%	3,819	20.9x	11.3x	$44,037	5.8x
Painted Pony Petroleum Ltd.	$6.85	$605.9	$595.2	$91.3	$43.6	47.7%	42,978	191,143	18.0%	8,925	13.8x	3.1x	$66,694	13.7x
Pinecrest Energy Inc.	$0.42	$90.1	$205.1	$106.4	$64.9	61.0%	9,476	16,241	99.0%	2,804	21.6x	12.6x	$73,142	3.2x
Raging River Exploration Inc.	$6.41	$1,095.2	$1,101.3	$138.0	$98.3	71.3%	11,544	17,164	95.0%	5,495	95.4x	64.2x	$200,414	11.2x
TORC Oil & Gas Ltd.	$10.28	$937.6	$1,027.2	$95.2	$63.2	66.4%	10,526	18,920	81.0%	5,706	97.6x	54.3x	$180,027	16.2x
Mean						58.9%			68.1%	4,814	40.9x	22.5x	$111,969	13.8x
Median						50.7%			75.0%	5,451	25.3x	12.0x	$90,400	11.7x
Arcan Resources Ltd.	$0.38	$37.2	$277.5	$130.0	$57.7	44.4%	23,410	38,730	93.6%	3,726	11.9x	7.2x	$74,468	4.8x

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5. Corporate Structure

- Catalyst requires additional detail on Arcan's corporate structure; however, it believes the structure comprises solely of Arcan Resources Ltd. and its wholly owned subsidiary Stimsol Canada Inc., which blends and provides acid for Arcan to use in its well-stimulation activity

6. Operating Results and Capitalization Table

- Recent operating results, capitalization and credit statistics are tabled below.

Operating Summary (C$ Thousands)					LTM	3 Months Ending,			
	Notes	31-Dec-10	31-Dec-11	31-Dec-12	30-Sep-13	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13
Petroleum and Natural Gas Revenue		$55,575	$104,969	$133,579	$125,898	$28,874	$31,200	$32,507	$33,317
Royalties		($14,704)	($19,518)	($20,773)	($22,668)	($4,785)	($5,033)	($6,473)	($6,377)
Pumping and Stimulation Services Revenue		-	$3,220	$6,428	$4,082	$1,896	$987	$779	$420
Net Revenue		**$40,871**	**$88,671**	**$119,234**	**$107,312**	**$25,985**	**$27,154**	**$26,813**	**$27,360**
Production and Operating Expenses		$11,110	$26,718	$33,099	$26,110	$7,042	$6,463	$6,135	$6,470
Cost of Sales for Pumping and Stimulation Services		-	$3,185	$9,328	$8,915	$3,757	$1,937	$2,099	$1,122
General and Administrative Expenses		$10,522	$20,085	$21,976	$14,587	$6,786	$2,097	$2,809	$2,895
EBITDA		**$19,239**	**$38,683**	**$54,831**	**$57,700**	**$8,400**	**$16,657**	**$15,770**	**$16,873**
Net Income (Loss)		($7,118)	($779)	($48,984)	($6,530)	-	($2,966)	$1,058	($4,622)
Cash Interest Expense		($1,743)	($3,233)	($15,995)	($18,303)	($4,371)	($4,840)	($4,611)	($4,481)
Capital Expenditures		($148,335)	($250,414)	($181,881)	($54,905)	($17,053)	($21,553)	($8,948)	($7,351)
Cash from Operations		$19,630	$44,889	$44,886	$38,723	$5,952	$11,008	$13,108	$8,655
Cash from Investing		($125,292)	($233,553)	($200,034)	($41,132)	$866	($9,783)	($26,123)	($6,092)
Cash from Financing		$105,662	$192,521	$159,590	($93)	($5,082)	($9,521)	$14,573	($63)

Balance Sheet (C$ Thousands)					LTM				
	Notes	31-Dec-10	31-Dec-11	31-Dec-12	30-Sep-13	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13
Assets									
Current									
Cash and Cash Equivalents		-	$3,857	$8,299	$4,058	$8,299	-	$1,558	$4,058
Trade and Other Receivables		$15,610	$22,011	$13,199	$13,187	$13,199	$15,873	$14,541	$13,187
Prepaids and Deposits		$1,528	$1,827	$1,311	$1,365	$1,311	$1,043	$1,851	$1,365
Inventory		-	$428	$3,896	$1,731	$3,896	$3,799	$2,186	$1,731
Fair Value of Commodity Contracts		-	-	$3,874	-	$3,874	-	-	-
Non-Current									
Intangible Assets		-	$15,642	$2,570	$2,235	$2,570	$2,459	$2,347	$2,235
Exploration and Evaluation Assets		$250,155	$35,379	$26,610	$24,917	$26,610	$25,905	$24,981	$24,917
Property, Plant and Equipment		$23,935	$448,225	$553,630	$564,538	$553,630	$567,332	$569,405	$564,538
Fair Value of Commodity Contracts		-	-	-	-	-	-	-	-
Total Assets		**$291,228**	**$527,369**	**$613,389**	**$612,031**	**$613,389**	**$616,411**	**$616,869**	**$612,031**
Liabilities									
Current Liabilities									
Trade and Other Payables		$43,267	$66,314	$32,310	$19,718	$32,310	$41,075	$24,155	$19,718
Fair Value of Commodity Contracts		$2,233	$525	-	$4,733	-	$574	$1,693	$4,733
Restricted Share Unit Obligation		-	-	-	$1,227	-	$1,455	$873	$1,227
Total Current Liabilities		**$45,500**	**$66,839**	**$32,310**	**$25,678**	**$32,310**	**$43,104**	**$26,721**	**$25,678**
Non-Current Liabilities									
Bank Loans		$20,823	-	$159,422	$164,408	$159,422	$149,898	$164,471	$164,408
Convertible Debentures		-	$138,710	$144,117	$148,308	$144,117	$145,501	$146,897	$148,308
Decommissioning Obligations		$15,746	$19,291	$25,785	$25,263	$25,785	$26,004	$25,338	$25,263
Fair Value of Commodity Contracts		-	$231	$43	$2,321	$43	$2,061	$1,280	$2,321
Restricted Share Unit Obligation		-	-	-	$414	-	$1,219	$514	$414
Deferred Tax Liabilities		$2,204	$13,742	$3,725	$2,207	$3,725	$2,954	$3,709	$2,207
Total Non-Current Liabilities		**$38,773**	**$171,974**	**$333,092**	**$342,921**	**$333,092**	**$327,637**	**$342,209**	**$342,921**
Total Liabilities		**$84,273**	**$238,813**	**$365,402**	**$368,599**	**$365,402**	**$370,741**	**$368,930**	**$368,599**
Total Debt		**$20,823**	**$138,710**	**$303,539**	**$312,716**	**$303,539**	**$295,399**	**$311,368**	**$312,716**
Shareholder's Equity		**$206,955**	**$288,556**	**$247,987**	**$243,432**	**$247,987**	**$245,670**	**$247,939**	**$243,432**

Credit Statistics (C$ Thousands)				LTM	3 Months Ending,			
	31-Dec-10	31-Dec-11	31-Dec-12	30-Sep-13	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13
Sales Growth	NA	88.9%	27.3%	NA	(0.8%)	8.1%	4.2%	2.5%
Royalties / Sales	26.5%	18.6%	15.6%	18.0%	16.6%	16.1%	19.9%	19.1%
Gross Margin / Sales	73.5%	79.0%	78.5%	75.7%	72.2%	78.3%	74.2%	77.8%
SG&A / Sales	25.7%	22.7%	18.4%	13.6%	26.1%	7.7%	10.5%	10.6%
EBITDA / Sales	34.6%	36.9%	41.0%	45.8%	29.1%	53.4%	48.5%	50.6%
EBITDA / Interest Expense	11.0x	12.0x	3.4x	3.2x	1.9x	3.4x	3.4x	3.8x
(Total Debt - Cash) / EBITDA	1.1x	3.5x	5.4x	5.3x	NA	NA	NA	NA
(Total Debt - Cash) / (EBITDA - Capex)	0.1x	0.5x	1.2x	2.7x	NA	NA	NA	NA
Net Investment in Working Capital	($26,129)	($42,048)	($13,904)	($3,435)	($13,904)	($20,360)	($5,577)	($3,435)

7. Waterfall Analysis

- Below are multiple waterfall analyses based on key valuation metrics in the E&P space
  - o The high scenarios represent peer medians, with the low case generally corresponding to the worst peer valuations
- In all cases, convertible noteholders (currently trading at 50% of par) would recover 93%-100% if Arcan is valued in line with peers, and 60%-100% in the mid-case which represents a 15%-30% discount to peers
  - o Even the low case, which represents a 30%-60% discount to peers, convertible noteholders would still recover 42% on average

Arcan Resources Inc.
Waterfall Analysis
C$ Thousands

Priority Scheme Class	Claim Description	9/30/13
1	Revolving Credit Facility	157,000
2	Trade Creditors	19,718
3	6.25% Sub. Convertible due 2016	86,250
	6.50% Sub. Convertible due 2018	85,000

LTM 09/30/2013 EBITDA: 57,700

Class	Distributions by Class	Mult W	Mult M	Mult B
		4.0x	8.0x	12.0x
		230,800	461,600	692,400
1	Revolving Credit Facility	157,000	157,000	157,000
2	Trade Creditors	19,718	19,718	19,718
3	6.25% Sub. Convertible due 2016	27,238	86,250	86,250
	6.50% Sub. Convertible due 2018	26,844	85,000	85,000

Class	Implied Absolute Return by Class	Mult W	Mult M	Mult B
1	Revolving Credit Facility	100%	100%	100%
2	Trade Creditors	100%	100%	100%
3	6.25% Sub. Convertible due 2016	32%	100%	100%
	6.50% Sub. Convertible due 2018	32%	100%	100%

Daily Production (boe/d): 3,726

Class	Distributions by Class	Mult W	Mult M	Mult B
		$60,000	$75,000	$90,000
		223,560	279,450	335,340
1	Revolving Credit Facility	157,000	157,000	157,000
2	Trade Creditors	19,718	19,718	19,718
3	6.25% Sub. Convertible due 2016	23,592	51,741	79,890
	6.50% Sub. Convertible due 2018	23,250	50,991	78,732

Class	Implied Absolute Return by Class	Mult W	Mult M	Mult B
1	Revolving Credit Facility	100%	100%	100%
2	Trade Creditors	100%	100%	100%
3	6.25% Sub. Convertible due 2016	27%	60%	93%
	6.50% Sub. Convertible due 2018	27%	60%	93%

1P Reserves (Mbbls): 23,410

Class	Distributions by Class	Mult W	Mult M	Mult B
		15.0x	20.0x	25.0x
		351,150	468,200	585,250
1	Revolving Credit Facility	157,000	157,000	157,000
2	Trade Creditors	19,718	19,718	19,718
3	6.25% Sub. Convertible due 2016	86,250	86,250	86,250
	6.50% Sub. Convertible due 2018	85,000	85,000	85,000

Class	Implied Absolute Return by Class	Mult W	Mult M	Mult B
1	Revolving Credit Facility	100%	100%	100%
2	Trade Creditors	100%	100%	100%
3	6.25% Sub. Convertible due 2016	100%	100%	100%
	6.50% Sub. Convertible due 2018	100%	100%	100%

2P Reserves (Mbbls): 38,730

Class	Distributions by Class	Mult W	Mult M	Mult B
		5.0x	8.5x	12.0x
		193,650	329,205	464,760
1	Revolving Credit Facility	157,000	157,000	157,000
2	Trade Creditors	19,718	19,718	19,718
3	6.25% Sub. Convertible due 2016	8,528	76,800	86,250
	6.50% Sub. Convertible due 2018	8,404	75,687	85,000

Class	Implied Absolute Return by Class	Mult W	Mult M	Mult B
1	Revolving Credit Facility	100%	100%	100%
2	Trade Creditors	100%	100%	100%
3	6.25% Sub. Convertible due 2016	10%	89%	100%
	6.50% Sub. Convertible due 2018	10%	89%	100%

8. Discounted Cash Flow

- The DCF below assumes a base case "blowdown" scenario with no further drilling, resulting in natural production declines
- **Note that the below is based on public information regarding Arcan's current corporate decline rate. Catalyst would require detailed private information on each of the Company's wells to further refine its analysis**

Arcan Resources Ltd. - Blowdown Scenario DCF

	Actual			Forecasted										
	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	2013	2014	2015	2016	2017	2018
Daily Production														
Oil and NGLs (bbl/d)	4,080	4,004	3,616	3,247	2,915	2,618	2,350	2,243	3,734	2,529	2,099	1,868	1,719	1,633
Gas (mcf/d)	110	401	662	594	534	479	430	411	444	463	384	342	315	299
Total (boe/d)	**4,098**	**4,071**	**3,726**	**3,346**	**3,004**	**2,698**	**2,422**	**2,312**	**3,808**	**2,607**	**2,163**	**1,925**	**1,771**	**1,683**
% Change	*n/a*	*(0.7%)*	*(8.5%)*	*(10.2%)*	*(10.2%)*	*(10.2%)*	*(10.2%)*	*(4.6%)*	*n/a*	*(31.6%)*	*(17.0%)*	*(11.0%)*	*(8.0%)*	*(5.0%)*
% Liquids	*99.6%*	*98.4%*	*97.0%*	*97.0%*	*97.0%*	*97.0%*	*97.0%*	*97.0%*	*98.1%*	*97.0%*	*97.0%*	*97.0%*	*97.0%*	*97.0%*
Total Production														
Oil and NGLs (Mbbl)	367	364	333	299	262	238	216	206	1,363	923	766	684	627	596
Gas (Mmcf)	10	36	61	55	48	44	40	38	162	169	140	125	115	109
Total (Mboe)	**369**	**370**	**343**	**308**	**270**	**245**	**223**	**213**	**1,390**	**951**	**790**	**705**	**647**	**614**
Benchmark Prices														
WTI (US$/bbl)	94.34	94.23	105.82	97.61	92.14	92.06	90.40	88.44	98.00	90.76	84.38	80.02	80.02	80.02
Edmonton Light Sweet (C$/bbl)	88.66	92.96	105.19	91.28	91.44	91.36	89.72	87.77	94.52	90.07	83.74	79.41	79.41	79.41
Alberta Plant Gate ($/mcf)	3.08	3.49	2.43	3.35	3.54	3.54	3.54	3.54	3.09	3.54	3.54	3.54	3.54	3.54
Realized Prices														
Oil and NGLs (bbl)	84.92	88.85	99.71	86.72	86.87	86.80	85.23	83.38	89.97	85.69	79.55	75.44	75.44	75.44
Gas (mcf)	1.92	3.70	2.41	3.35	3.54	3.54	3.54	3.54	2.99	3.54	3.54	3.54	3.54	3.54
Production Revenues ($000s)														
Oil and NGLs	31,181	32,372	33,170	25,904	22,793	20,676	18,430	17,209	122,627	79,108	60,959	51,591	47,334	44,968
Gas	19	135	147	183	170	154	140	134	484	598	497	443	407	386
Total	**31,200**	**32,507**	**33,317**	**26,087**	**22,963**	**20,830**	**18,570**	**17,343**	**123,111**	**79,706**	**61,456**	**52,034**	**47,741**	**45,354**
% Change	*n/a*	*+4.2%*	*+2.5%*	*(21.7%)*	*(12.0%)*	*(9.3%)*	*(10.8%)*	*(6.6%)*	*n/a*	*(35.3%)*	*(22.9%)*	*(15.3%)*	*(8.3%)*	*(5.0%)*
per boe	*84.59*	*87.75*	*97.18*	*84.75*	*84.93*	*84.86*	*83.34*	*81.54*	*88.57*	*83.78*	*77.83*	*73.84*	*73.84*	*73.84*
Cash Hedging Gains / (Losses)	557	334	(2,128)	(39)	(995)	(988)	(609)	(148)	(1,276)	(2,739)	1,364	3,567	-	-
Pumping and Stimulation Revenue	987	779	420	-	-	-	-	-	2,186	-	-	-	-	-
Total Revenues	**32,744**	**33,620**	**31,609**	**26,048**	**21,968**	**19,842**	**17,962**	**17,196**	**124,021**	**76,967**	**62,820**	**55,601**	**47,741**	**45,354**
per boe	88.77	90.76	92.20	84.62	81.25	80.83	80.61	80.85	89.23	80.90	79.55	78.90	73.84	73.84
Royalty Costs	(5,033)	(6,473)	(6,377)	(5,726)	(5,030)	(4,566)	(4,145)	(3,956)	(23,609)	(17,697)	(14,689)	(13,109)	(12,027)	(11,426)
Royalties per boe	(13.65)	(17.47)	(18.60)	(18.60)	(18.60)	(18.60)	(18.60)	(18.60)	(16.99)	(18.60)	(18.60)	(18.60)	(18.60)	(18.60)
Production Costs (incl. Transportation)	(6,463)	(6,135)	(6,470)	(5,809)	(5,103)	(4,633)	(4,206)	(4,014)	(24,877)	(17,955)	(14,903)	(13,300)	(12,202)	(11,592)
Production Costs per boe	(17.52)	(16.56)	(18.87)	(18.87)	(18.87)	(18.87)	(18.87)	(18.87)	(17.90)	(18.87)	(18.87)	(18.87)	(18.87)	(18.87)
Field Netback	53.42	53.72	59.71	47.27	47.45	47.38	45.86	44.07	53.69	46.30	40.35	36.36	36.36	36.36
Pumping and Stimulation Costs	(1,937)	(2,099)	(1,122)	-	-	-	-	-	(5,158)	-	-	-	-	-
General and Administrative Costs	(2,097)	(2,809)	(2,895)	(2,087)	(1,837)	(1,666)	(1,486)	(1,387)	(9,888)	(6,376)	(4,916)	(4,163)	(3,819)	(3,628)
Total Costs	**(15,530)**	**(17,516)**	**(16,864)**	**(13,622)**	**(11,969)**	**(10,865)**	**(9,836)**	**(9,358)**	**(63,532)**	**(42,029)**	**(34,508)**	**(30,571)**	**(28,049)**	**(26,646)**
Total Costs per boe	(42.10)	(47.28)	(49.19)	(44.25)	(44.27)	(44.26)	(44.14)	(44.00)	(45.71)	(44.18)	(43.70)	(43.38)	(43.38)	(43.38)
Unlevered Cash Netback	46.67	43.47	43.01	40.37	36.98	36.57	36.46	36.85	43.52	36.72	35.85	35.52	30.46	30.46
Debt-Adjusted Cash Flow	**17,214**	**16,104**	**14,745**	**12,426**	**9,999**	**8,977**	**8,125**	**7,838**	**60,489**	**34,938**	**28,312**	**25,030**	**19,692**	**18,707**
Capital Expenditures	(21,553)	(8,948)	(7,351)	(3,000)	(1,250)	(1,250)	(1,250)	(1,250)	(42,102)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Unlevered Free Cash Flow	**(4,339)**	**7,156**	**7,394**	**9,426**	**8,749**	**7,727**	**6,875**	**6,588**	**18,387**	**29,938**	**23,312**	**20,030**	**14,692**	**13,707**
EBITDA (ex. Hedging)	**16,657**	**15,770**	**16,873**	**12,464**	**10,993**	**9,965**	**8,734**	**7,985**	**61,764**	**37,677**	**26,948**	**21,463**	**19,692**	**18,707**

- The DCF analysis makes the following assumptions:
  - Forward WTI prices from Bloomberg with Edmonton Light Sweet discount of 7%, consistent with last 3Q average
  - 35% year 1 decline, 17% in year 2, 11% in year 3, 8% in year 4 and 5% in year 5 — similar rates as atypical oil well. **This assumption is key to the blowdown valuation. Catalyst has made broad assumptions and requires more information from the Company to more accurately estimate future runoff production**
  - No further activity from the pumping and stimulation division, which was shut down in Q3 2013
  - Flat royalties and production costs at $18.60 and $18.87 per barrel, respectively
  - G&A set at 8% of production revenues, flat to last 3Q average but above peers
  - Minimal capex of $5MM/year; no further capex for drilling — possible capex can be further reduced if drilling activities cease; Catalyst's assumption is conservative
- Recoveries for the convertible noteholders in the blowdown scenario range from 21%-93% (current price ~50%)
- **Catalyst notes that under these assumptions the Company can generate $75MM of unlevered cash flow through 2016 versus current market value of the convertible notes of ~$85MM, while preserving significant underlying asset value**
  - **Catalyst must engage industry consultants to ascertain the quality of the underlying asset and narrow its valuation range**

DCF Calculation

(Values in C$000s, except for production)

Discount Rate	**15%**

Quarter/Year	1Q14	2Q14	3Q14	4Q14	2015	2016	2017	2018
Production (bbl/d)	3,004	2,698	2,422	2,312	3,808	2,607	2,163	1,925
Revenue	22,963	20,830	18,570	17,343	123,111	79,706	61,456	52,034
EBITDA	10,993	9,965	8,734	7,985	61,764	37,677	26,948	21,463
Free Cash Flow	**8,749**	**7,727**	**6,875**	**6,588**	**23,312**	**20,030**	**14,692**	**13,707**
Discount Factor	1.03	0.99	0.96	0.93	0.84	0.73	0.63	0.55
PV of FCF	**8,986**	**7,668**	**6,589**	**6,095**	**19,539**	**14,593**	**9,308**	**7,552**

PV of Cash Flows	**80,331**

		Valuation Metrics			Terminal Valuation (PV in $000s)		
Terminal Value Calculation		Low	Mid	High	Low	Mid	High
2018 1P Reserves	18,314	15.0x	20.0x	25.0x	151,335	201,781	252,226
2018 2P Reserves	33,634	5.0x	8.5x	12.0x	92,645	157,496	222,347
Average Value					**121,990**	**179,638**	**237,286**

Stakeholder Recoveries	Low	Mid	High	
PV of All Future Cash Flows	202,321	259,969	317,617	
Plus: Cash	4,058	4,058	4,058	
Plus: Undeveloped Land	6,800	10,200	13,600	*Note: 68,000 undeveloped acres at $100/$150/$200 per acre*
Total Distributable Value	**213,179**	**274,227**	**335,275**	
Revolving Credit Facility	157,000	157,000	157,000	
Recovery to Credit Facility	*100%*	*100%*	*100%*	
Value for Trade Creditors	56,179	117,227	178,275	
Trade Creditors	19,718	19,718	19,718	
Recovery to Trade Creditors	*100%*	*100%*	*100%*	
Value for Convertible Notes	36,461	97,509	158,557	
6.25% Sub. Convertible due 2016	86,250	86,250	86,250	
6.50% Sub. Convertible due 2018	85,000	85,000	85,000	
Recovery to Convertible Notes	*21%*	*57%*	*93%*	

9. Capital Structure Summary

First Lien Revolving Credit Facility

- Borrower: Arcan Resources Ltd.
- Pricing: n/a; yield of 3.75% based on price of 100% and Libor base
- Interest Rate: Currently Level V as per the applicable margin table below

Level	Debt to EBITDA Ratio	Prime Loans and U.S. Base Rate Loans	Libor Loans, Bankers' Acceptances and Letters of Credit
I	< 1.00	1.00%	2.00%
II	≥ 1.00 and < 1.75	1.25%	2.25%
III	≥ 1.75 and < 2.50	1.50%	2.50%
IV	≥ 2.50 and < 3.00	2.00%	3.00%
V	≥ 3.00	2.50%	3.50%

- Lenders:
  - Alberta Treasury Branches (Administrative Agent) — $50MM commitment
  - National Bank of Canada — $50MM commitment
  - Bank of Nova Scotia — $30MM commitment
  - CIBC — $30MM commitment
  - Royal Bank of Canada — $30MM commitment
- Borrowing Base: $200MM total split into $190MM extendible revolving facility and $10MM operating facility with a $5MM L/C sublimit (effectively a standalone portion advanced on immediate notice by the lead lender, ATB)
  - $164.5MM drawn as of September 30, 2013 ($157MM pro-forma the Dec. 2013 sale of Virginia Hills asset)
  - Borrowing base determined semi-annually by May 31 and October 31, based on Arcan's submission of engineering reports and sole discretion of the lenders
- Maturity: May 28, 2014, 1-year extension available on 60 and 90 days' prior notice (e.g. from February 27 to March 28) and 66 2/3% approval by lenders (by commitment size)
  - In the event a lender refuses the extension, the other lenders will have the right to buy its commitment at par plus accrued
- Rank / Security: First lien on all assets of Arcan Resources Ltd. and Stimsol
- Covenants:
  - Non-Financial: Customary
  - Financial: >1.0x working capital test (current assets plus undrawn portion of facilities, divided by current liabilities less current debt – 2.15x as of September 30)
- Cross-default with default on either series of convertible notes
- Guarantors: Stimsol Canada Inc.

6.25% Subordinated Convertible Notes

- Issuer: Arcan Resources Ltd.
- Pricing: $51; yield of 41.99%
- Interest Rate: 6.25% per annum, semi-annual payments
  - Payable in cash or shares
- Maturity Date: February 28, 2016
  - Callable on or after February 28, 2014, if the 20-day weighted average share price is equal to or greater than 125% of the conversion price
    - Does not apply given the current share price is only 3.8% of the conversion price
  - Arcan can elect to satisfy its obligation at maturity by delivering shares, the number of which a holder would receive being equal to the debenture principal divided by 95% of the 20-day weighted average common share price
- Conversion price (ratio): $8.75 / 114.2857 common shares
  - Current value of 3.8% of par based on $0.34 share price
- Rank / Security: Subordinated unsecured
- Change of Control: Triggered by acquisition of 50% or more outstanding common shares or sale of substantially all the assets of the Company, excluding any transaction in which the previous holders of the common shares continue to own at least 50% of the voting shares in the new entity
  - 100% note repurchase price, plus accrued, in Change of Control event
  - In the event of a Change of Control where 10% or more of the consideration is in the form of: i) cash; ii) trust units, LP units or other similar securities; iii) equity securities not traded or intended to be traded on an exchange; or iv) other property not traded or intended to be traded on an exchange, then holders will be entitled to a make whole premium based on a grid
    - However, as the current share price is less than $5.66, no make whole premium would presently apply

6.50% Subordinated Convertible Notes

Note that terms are substantially similar to those of the 6.25% convertible notes

- Issuer: Arcan Resources Ltd.
- Pricing: $49; yield of 23.89%
- Interest Rate: 6.50% per annum, semi-annual payments
- Maturity Date: October 31, 2018
  - Callable on or after October 31, 2015, if the 20-day weighted average share price is equal to or greater than 125% of the conversion price

        - Does not apply given the current share price is only 3.8% of the conversion price
    - Arcan can elect to satisfy its obligation at maturity by delivering shares, the number of which a holder would receive being equal to the debenture principal divided by 95% of the 20-day weighted average common share price
- Conversion price (ratio): $8.75 / 114.2857 common shares
    - Current value of 3.8% of par based on $0.34 share price
- Rank / Security: Subordinated unsecured
- Change of Control: Triggered by acquisition of 50% or more outstanding common shares or sale of substantially all the assets of the Company, excluding any transaction in which the previous holders of the common shares continue to own at least 50% of the voting shares in the new entity
    - 100% note repurchase price, plus accrued, in Change of Control event
    - In the event of a Change of Control where 10% or more of the consideration is in the form of: i) cash; ii) trust units, LP units or other similar securities; iii) equity securities not traded or intended to be traded on an exchange; or iv) other property not traded or intended to be traded on an exchange, then holders will be entitled to a make whole premium based on a grid
        - However, as the current share price is less than $5.66, no make whole premium would presently apply

10. Summary Industry Drivers Analysis

Industry Competitors and Rivalry among Incumbents

- The oil & natural gas industry is highly competitive and complex. The Canadian Association of Petroleum Producers estimates that there are over 1,000 E&P companies in Canada
- The E&P/upstream industry is highly dependent on commodity prices, specifically the prices of crude oil, natural gas, NGLs and price spreads/differentials (e.g. between different grades of oil)

Bargaining Power of Buyers

- Factors driving the upstream industry include general economic conditions, supply/demand for oilfield equipment and services, government and royalty policies, environmental regulation, and developments at other levels of the energy value chain (i.e. midstream, infrastructure and downstream sectors)

Bargaining Power of Suppliers

- Suppliers to E&P companies are oilfield services companies, which provide a wide range of services from project planning to heavy construction, contract drilling, equipment and labour supply, and environmental services. Most companies specialize in one or a limited number of areas, leading to a limited number of oilfield services suppliers in each service segment

Threat of Substitute Products

- Substitutes for the oil industry in general include alternative fuels such as coal, gas, solar power, wind power, hydroelectricity and nuclear energy. While oil remains the most widely used fuel source in the world, manufacturers and consumers alike have been gradually shifting to substitute products. Nonetheless, a full migration will likely take decades
- The E&P industry in recent years has seen the advancement of extraction techniques through the wide-scale application of directional horizontal drilling and hydraulic fracturing technology. These new techniques have allowed producers to develop what were previously thought to be out-of-reach resources

Threat of Potential Entrants

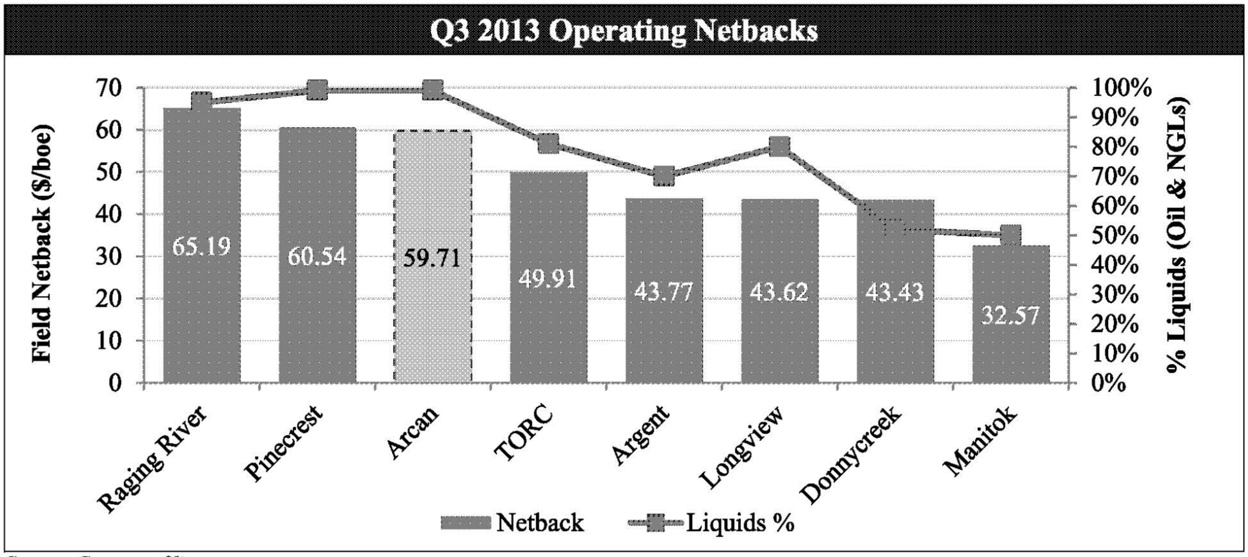
- Arcan holds a large, contiguous and defensible position in the Swan Hills complex. There is little threat of a potential entrant geographically — more realistically, Arcan would be threatened by oil substitutes and producers in more economical plays should benchmark oil prices move significantly

Company Strengths & Weaknesses

<u>Strengths:</u>

- **Large levels of OOIP.** Arcan's landholdings contain an estimated 700 million barrels of original oil-in-place. The Company's 24 Mmboe of 1P reserves and 38Mmboe of 2P reserves only account for 3%-5% of this total, compared to total possible recoveries in the Swan Hills complex of 30%-40%. Therefore, there is significant future development potential for Arcan; however, the Company currently lacks the capital to realize it.

- **Competitive operating netbacks.** With a current operating netback of $59.71/boe (price received less royalties, field opex and transportation costs) Arcan's netbacks are near the top end of the range of its oil-weighted peer set, representing high breakevens



Source: Company filings.

Weaknesses:

- **High well decline rates.** Arcan's wells are highly productive at first, with 30-day IP rates of 150-220 bbl/d on average (certain wells spudding well in excess of 500 bbl/d). However, production at these same wells tend to decline up to 70% in their first year, meaning that Arcan is highly dependent on drilling new wells or on waterflood response to maintain production rates.
- **Single asset exposure.** Arcan is almost entirely levered to the Swan Hills complex. While this complex is well-established, and Arcan has a well-developed and mature position there, it is nonetheless a narrow focus both from a production (95%+ oil, meaning no upside in gas) and geographical perspective.