



INTERIM REPORT

Three months ended March 31, 2008



ARCAN RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

Arcan Resources Ltd. ("We", "Arcan" or the "Company") is engaged in the exploration for, and the development and production of, petroleum and natural gas in Western Canada. Arcan was incorporated on October 9, 2003 and conducted operations as a private company until January 1, 2007, when Arcan amalgamated with Desco Energy Ltd. ("Desco"). The amalgamation resulted in Arcan becoming a public company and a reporting issuer, with its shares trading on the TSX Venture Exchange under the symbol 'ARN' beginning on January 9, 2007.

This Management's Discussion and Analysis ("MD&A") is an explanation, through the eyes of management, of how Arcan performed during the periods covered by the quarterly financial statements of Arcan filed concurrently with this MD&A, and of Arcan's financial condition and future prospects. This MD&A is for the three month period ending March 31, 2008 as compared to the three months ended March 31, 2007 and December 31, 2007. The MD&A complements and supplements the financial statements of Arcan. For a full understanding of the financial position and results of operations of the Company the MD&A should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2008 and 2007 together with the notes thereto as well as the audited financial statements for the year ended December 31, 2007, the six months ended December 31, 2006 and the year ended June 30, 2006, together with the notes related thereto and other documents filed on SEDAR, including historical financial statements, the information circular dated April 22, 2008 relating to the Company's annual general and special meeting to be held on May 22, 2008 and the Company's Annual Information Form ("AIF") dated April 3, 2008 for the year ended December 31, 2007. These documents are available at www.sedar.com.

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Readers should read the legal advisories at the end of this MD&A.

Arcan's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and financial statements. In the preparation of these statements, estimates are necessary. Management believes these estimates have been based on careful judgments and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Arcan's financial position, results of operations and funds from operations.

Arcan's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated May 21, 2008.

Non-GAAP Measurements

Readers are cautioned that this MD&A contains the term funds from operations, which should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with GAAP as an indicator of Arcan's performance. Arcan also presents funds from operations per share, whereby funds from operations is divided by the basic weighted average number of common shares outstanding to determine per share amounts. Operating and corporate netbacks are also presented. Operating netbacks represent Arcan's revenue, less royalties and operating expenses, and corporate netbacks represent Arcan's operating netback, less G&A and interest expense, in order to determine the amount of funds generated by production. The operating and corporate netbacks and their components are also presented on a per boe basis.

These measures do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes that funds from operations and operating and corporate netbacks are useful supplemental measures as they provide an indication of the ability of Arcan to fund future growth through capital investment and/or repay debt. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding Arcan's liquidity and its ability to generate funds to finance its operations. Arcan's method of calculating funds from operations may differ from that of other companies, and, accordingly, may not be comparable.

Arcan determines funds from operations as cash flow from operating activities before changes in non-cash working capital as follows:

Funds from Operations			
	Quarter Ended		
(\$000's)	March 31, 2008	March 31, 2007	December 31, 2007
Cash flow from operating activities (per GAAP)	2,564	822	4,599
Change in non-cash working capital	3,639	937	(2,431)
Funds from operations	6,203	1,758	2,167

First Quarter 2008 Highlights

- ☆ Record production, record revenue, record funds from operations, record netbacks and net income;
- ☆ The Company increased production to 1,477 boe per day for the three months ended March 31, 2008 up 48% over the 995 boe per day in Q1, 2007 and 32% over Q4, 2007;
- ☆ March and April 2008 production averaged over 1,700 boe per day;
- ☆ Operating netbacks of \$53.47 per boe (revenue of \$82.37 per boe and operating cost of \$11.20 per boe) were up 71% from \$31.29 in Q1, 2007 and up 83% from \$29.23 in Q4, 2007;
- ☆ Funds from operations increased 253% to \$6.2 million (0.16 per diluted share) from \$1.8 million (0.06 per diluted share) in Q1, 2007 and up 186% from the \$2.2 million (0.06 diluted per share) in Q4, 2007;
- ☆ Completed wells in Deer Mountain and Hamburg and installed a new treater in Hamburg;
- ☆ Converted all of the Company's performance shares into common shares based on increased reserves in Hamburg; and
- ☆ Increased bank lines to \$40 million.

Financial and Operating Summary

	Quarter Ended			December 31, 2007
	March 31, 2008	March 31, 2007	% Change year over year	
Financials (\$000s except per share amounts)				
Oil and NGL sales	9,199	3,789	143	5,985
Natural gas sales	1,876	1,417	32	1,253
Total petroleum and natural gas revenue	11,075	5,206	113	7,238
Funds from operations ¹	6,203	1,758	253	2,167
Per share basic ¹	0.17	0.06	183	0.06
Per share diluted ¹	0.16	0.06	167	0.06
Net Income (loss)	1,645	(576)	386	(131)
Per share basic and diluted	0.04	(0.02)	300	(0.00)
Capital expenditures – cash	9,556	14,248	(33)	17,697
Total Assets	133,213	97,745	36	123,285
Total Liabilities	51,126	44,125	16	43,815
Shareholders' equity	82,087	53,620	53	79,471
Bank Loan	22,574	10,365	118	13,906
Net debt and working capital	33,495	29,144	15	30,141
Operating, General and Administrative (G&A)				
Production:				
Crude oil (bbls per day)	1,083	674	61	794
Natural gas (mcf per day)	2,366	1,922	23	1,965
Total (boe per day) (6:1)	1,477	995	48	1,122
Average realized price:				
Crude oil (\$ per bbl)	93.32	62.42	50	81.88
Natural gas (\$ per mcf)	8.72	8.19	6	6.93
Combined average (incl. processing revenue) (\$ per boe)	82.37	58.14	42	70.12
Netback (\$ per boe)				
Petroleum and natural gas sales	82.37	58.14	42	70.12
Royalties	(17.70)	(16.20)	9	(16.06)
Operating and transportation expenses	(11.20)	(10.65)	5	(24.83)
Operating netback	53.47	31.29	71	29.23
G&A expenses - cash	(5.07)	(9.84)	(48)	(6.41)
Interest expense - net	(2.01)	(1.82)	10	(1.82)
Corporate netback	46.39	19.63	136	21.00
Common Shares (000s)				
Shares outstanding, end of period	37,827	29,013	30	36,492
Weighted average shares - basic	36,716	28,899	27	36,440
Weighted average shares – diluted ²	37,664	28,899	30	36,440

1 The reader is referred to the section – “Non-GAAP Measurements”.

2 In computing the net loss per diluted share in the 2007 periods, nil shares were added to the weighted average number of shares outstanding because they were anti-dilutive.

Overview

For the three months ended March 31, 2008, Arcan had record funds from operations of \$6.2 million, record production of 1,477 boe per day and record corporate netbacks of \$46.39 per boe. For the three months ended March 31, 2008 production was 1,477 boe per day which is 48% higher than the 995 boe per day average production for the three months ending March 31, 2007. Production from the first quarter of 2008 was weighted towards light oil as Deer Mountain production increased from pressure response and Hamburg increased from new wells and an additional treater. Since the financial year ended December 31, 2007, Arcan has tied in two (1.0 net) productive wells in the Hamburg GG pool, cased one of two exploration wells and installed a new treater. Production has risen to average over 1,700 boe per day in March and April of 2008 despite having a significant gas well shut-in at McLeod. Production in Deer Mountain continues to perform as we see pressure response from injection. Production will likely be hampered in McLeod as a planned Nova outage lasts for 3 to 5 weeks starting in mid June. In Hamburg, Arcan continues its efforts to have rate limitations lifted.

In the first quarter of 2008, Arcan expended \$9.6 million on tie-ins, completions, drilling one well in Hamburg, new pumpjacks and a new treater. The new well at 13-17 on the east side of the "GG" pool in Hamburg has been on production for four months and is performing better than any wells in the pool to date. Arcan installed a new treater in Hamburg at the start of March 2008, allowing expanded production through that facility. In Deer Mountain, production has risen as the wells respond to pressure maintenance. Since the end of the first quarter, Arcan has farmed-in on 19.5 sections and purchased varied interests (from 30% to 100%) on over 50 sections of land to the south and immediately adjacent to our Deer Mountain unit. Our investments currently have Arcan with a 73% weighting towards light oil as the Company continues to benefit from record oil prices.

Arcan entered 2008 with \$30.1 million in debt and working capital and for 2008 anticipates spending within funds from operations and its available \$40 million bank line.

Arcan operates its core properties and is able to re-allocate capital expenditures among exploration and development drilling for both oil and natural gas. Arcan has a large inventory of infill oil locations with low risk profiles, high reserve potential and high operating netbacks. Paramount to Arcan and to its management team is adding value for the Company's shareholders. Arcan is oil weighted and expects to continue to benefit from record oil prices as investment is directed into these areas. The Company continues to monitor and plan for the impact of the proposed changes to the Alberta royalty rates. The industry has been challenging for smaller producers as the impact of record crude oil prices is dampened by the increased royalties proposed by the Alberta government for January 2009. Significant commodity price increases continue to lift Arcan's funds from operations and continue to provide a basis for expanded exploration initiatives. Arcan will continue to adjust for these items and evaluate and modify capital expenditures accordingly.

At March 31, 2008 Arcan had 18 full time employees.

OVERVIEW OF ARCAN'S CORE AREAS

Hamburg

Arcan completed and tied-in two development wells into the GG pool in the first quarter of 2008. Arcan has drilled a total of seven wells in the area of the GG Pool located in Twp. 096 Range 09W6M. So far, only three (two producers and one injector) of the six wells recognized as being in the reef are within the boundaries of the approved ER Scheme and hence have GPP status. The next step in the development of the waterflood is to obtain approval from the Alberta Energy Resource Conservation Board ("ERCB") to include the remaining wells in the GG Pool into the ER Scheme and to have the recently drilled 13-17 well added to the GG Pool then to the ER Scheme. When the boundaries of the ER Scheme are amended these wells are expected to have GPP status resulting in increased production from relief of the current MRLs.

During the first quarter of 2008, one exploration well was abandoned and another was successfully logged and cased. Weather related issues restricted further operations on this exploration well and completion operations are being delayed until next winter. Although Arcan is encouraged by log response, final results will not be available until completion operations are concluded.

Production averaged 716 boe per day on \$61.02 per boe operating netbacks for the three months ended March 31, 2008 up from 195 boe per day and \$40.15 per boe operating netbacks in the three months ended March 31, 2007. Production from Hamburg averaged over 900 boe per day in March 2008. Arcan has produced the 13-17 well at higher rates during its new oil well production period and expects to decrease its production, under MRLs, after the first quarter of 2008.

Arcan has recently installed a new treater at the Hamburg battery which has increased both battery handling capacity and reliability. Two to four more locations have been identified within the area of the GG Pool but further drilling is not anticipated until the results of the last two wells are evaluated and further modeling of the waterflood has been completed. In addition to the future development of the GG pool, Arcan has numerous ready to drill exploration plays in the area, both in Alberta and in British Columbia and continues to add to its drill ready inventory for this winter's exploration.

McLeod

Production averaged 298 boe per day with \$30.13 per boe operating netbacks for the three months ended March 31, 2008, down from 335 boe per day with \$27.95 per boe netbacks in the three months ended March 31, 2007. Early in 2007, Arcan reduced drilling in McLeod to focus on higher netback oil. Although Arcan considers this to have been prudent given relative natural gas prices, this has resulted in significantly lower than anticipated production volumes coming out of the McLeod area. Since March 2008, our new well was shut-in by a third party facility operator reducing production by 200 boe per day for the last ten weeks. Arcan is working to get that production back on and is evaluating other tie-in options in the area.

In late June 2008, Nova is planning a 3 to 5 week shut down in the McLeod area which will shut in the majority of Arcan's production from McLeod for that period. Four additional locations with proposed drilling depths of around 2,500 meters have been surveyed in McLeod and other deeper opportunities in the area are being accumulated. In light of rising natural gas prices, Arcan is expanding its exploration efforts in this area. Arcan has budgeted the drilling of two prospects in this area in 2008 including one 50% non-operated well. Drilling is scheduled to commence as soon as weather permits.

Deer Mountain

In the first quarter of 2008 Arcan completed, equipped and tied-in two wells drilled in Deer Mountain prior to year end. Arcan has been injecting over 1,000 boe of water per day for the majority of the quarter and has seen production levels recover. In Deer Mountain pressure maintenance remains the key to maximizing asset potential. Arcan continues to monitor pool performance and there are short-term steps Arcan could take to increase injections if pressure response requires it. An additional three to eight well program is scheduled for the second half of 2008 with drilling scheduled to commence as soon as weather permits. Arcan's Deer Mountain property contains a large inventory of low risk development infill oil wells with high reserve impact and high netbacks. A total of 29 locations have been or are in the process of being surveyed, with room for further development.

Arcan continues to expand its interests in the area with its recent acquisition of varied interests (30% to 100%) in over 50 sections and a 19.5 section farm-in on lands immediately to the south of our unit. The acquisition secures these lands and provides Arcan with significant future expansion opportunities based on success and heightened oil prices.

Production averaged 460 boe per day with \$56.69 per boe operating netbacks for the three months ended March 31, 2008 up from 392 boe per day with \$35.76 per boe operating netbacks in the three months ended March 31, 2007.

Summary Of Quarterly Operating And Financial Results For The Eight Most Recent Quarters

Fiscal quarter ended	2008	2007				2006		
	March	December	September	June	March	December	September	June
Operating								
Oil and NGLs (bbls per day)	1,083	794	929	792	674	531	221	268
Price (\$/bbl)	93.32	81.88	75.47	70.35	62.42	63.02	73.07	76.64
Natural gas (mcf per day)	2,366	1,965	2,246	2,980	1,922	1,466	1,303	1,908
Price (\$/mcf)	8.72	6.93	6.51	8.09	8.19	7.46	6.47	6.74
Barrels of oil equivalent (boe per day)	1,477	1,122	1,304	1,289	995	775	438	586
Financial (\$000's, except per share amounts)								
REVENUES								
Petroleum and natural gas	11,075	7,238	7,796	7,265	5,206	4,042	2,262	3,041
Royalties	(2,380)	(1,658)	(1,694)	(1,718)	(1,451)	(978)	(460)	(741)
Interest income	28	2	2	5	1	1	76	69
Net revenues	8,723	5,582	6,104	5,552	3,756	3,065	1,878	2,369
EXPENSES								
Operating	1,506	2,563	1,128	873	954	552	239	276
General and administrative	682	662	722	1,482	881	776	576	729
Stock-based compensation	189	179	174	219	138	156	221	419
Interest	298	190	274	177	163	108	4	-
Accretion	83	78	73	71	67	62	30	8
Depletion and depreciation	3,679	2,779	3,448	3,210	2,315	1,689	1,017	1,776
Total Expenses	6,437	6,451	5,819	6,032	4,518	3,343	2,087	3,208
Income (loss) before income taxes	2,286	(869)	287	(481)	(761)	(278)	(209)	(839)
Future income tax expense (reduction)	641	(739)	135	(125)	(185)	(147)	(22)	(83)
Income (loss) for the period	1,645	(131)	152	(356)	(576)	(131)	(187)	(756)
Income (loss) per share - basic	0.04	(0.00)	0.00	(0.01)	(0.02)	(0.01)	(0.01)	(0.04)
Funds from operations	6,203	2,167	3,981	3,020	1,758	1,629	1,060	1,364
Per share - basic	0.17	0.06	0.12	0.10	0.06	0.06	0.04	0.07
Operating Netbacks (\$/boe)								
Petroleum and natural gas revenues	82.37	70.12	65.01	61.94	58.14	57.27	56.10	57.00
Royalties	17.70	16.06	14.12	14.64	16.20	13.86	11.40	13.89
Operating and transportation expenses	11.20	24.83	9.40	7.44	10.65	7.82	5.92	5.17
Operating Netbacks	53.47	29.23	41.49	39.86	31.29	35.59	38.78	37.94
Total assets (\$000's)	133,213	123,285	107,175	101,498	97,745	82,019	69,372	57,854
Capital expended (\$000's)	9,556	17,697	11,500	6,120	23,590	10,369	23,407	8,939
Debt and working capital (\$000's)	(33,495)	(30,141)	(14,585)	(16,964)	(29,144)	(15,745)	(12,031)	(10,328)
Shares (000's)	37,827	36,492	36,471	33,635	29,013	26,534	24,858	24,542

Results of Operations

Drilling				
	Drilling		Success rate (%) (gross)	Working interest (%)
	Gross	Net		
Q1 / 2008	1	1.0	100	100

In the first quarter of 2008, Arcan drilled one gross (1.0 net) exploration well, achieving a 100% success rate and investing \$9.6 million of capital. Operations were focused at Hamburg where one gross (1.0 net) well was drilled, two gross (1.0 net) wells were tied-in, two new pump jacks were installed, a new treater was installed and one (0.5 net) development well completed drilling.

Production			
	Quarter ended		
	March 31, 2008	March 31, 2007	December 31, 2007
Crude Oil and NGLs (bbls per day)	1,083	674	794
Natural gas (mcf per day)	2,366	1,922	1,965
Total oil equivalent (boe per day)	1,477	995	1,122
Oil as a % of total volumes	73	68	71

Arcan's average production rate for the first quarter of 2008 was 1,477 boe per day, a 48% increase over the first quarter of 2007 average of 995 boe per day and a 32% increase over the fourth quarter 2007 average of 1,122 boe per day as production was added in all of Arcan's three areas.

Production is estimated for January 2008 at 1,150 boe per day, February 2008 at 1,500 boe per day. March 2008 peaked above 2,200 boe per day and is estimated to average 1,700 boe per day to give a first quarter average of just under 1,500 boe per day. Arcan's capital expenditures for the past 12 – 18 months have been focused towards our oil properties as oil prices have continued to rise to record highs. Arcan expects the balance of its efforts for the remainder of 2008 will be directed to expanding the Deer Mountain light oil base as well as exploration efforts in McLeod. Arcan has a substantial inventory of development wells to drill to further develop the Deer Mountain Unit. Arcan's oil and NGL weighting remains over 70% and Arcan estimates that this weighting towards oil and NGL's will continue for the balance of 2008.

Netbacks

The Company considers corporate netbacks to be an indication of ability to produce oil and natural gas profitably to earn a return on capital invested and is one of the three sources of funding (the others being raising debt and equity). Commodity price and volume increases were the main factors in the changes to the Company's bottom line for the first quarter of 2008. While Arcan expects commodity price fluctuations over the upcoming year, overall price levels are expected to remain higher, royalty rates are expected to remain relatively stable in 2008 and increase in 2009 (due to the new Alberta royalty structure), and operating costs are expected to remain in the \$10-15 per boe range. These factors and targeted production increases are expected to increase the netbacks received by Arcan for 2008.

Netbacks	Quarter ended		
	\$ thousands	March 31, 2008	March 31, 2007
Revenue	11,075	5,206	7,238
Royalty, net of ARTC	2,380	1,451	1,658
Operating expenses	1,506	954	2,563
Operating netbacks	7,189	2,801	3,017
G&A	682	881	662
Interest expenses	271	162	188
Corporate netbacks	6,236	1,758	2,167
Netbacks - \$ per boe			
Revenue	82.37	58.14	70.12
Royalty, net of ARTC	17.70	16.20	16.06
Operating expenses	11.20	10.65	24.83
Operating netbacks	53.47	31.29	29.23
G&A	5.07	9.84	6.41
Interest expenses	2.01	1.82	1.82
Corporate netbacks	46.39	19.63	21.00

Arcan's operating netback, defined as sales revenue, less royalties and operating expenses, was \$7.2 million in the first quarter of 2008, a 157% percent increase from \$2.8 million recorded in the first quarter of 2007. The increase in operating netback over the first quarter of 2007 was based on a 113% increase in revenue from higher volumes and prices, more than offsetting increases in royalties and operating costs. The impact of these price increases has been dampened by the rising Canadian dollar versus the decreasing U.S. dollar.

Arcan's operating netback on a per boe basis was \$53.47 in the first quarter of 2008, a 71% percent increase from \$31.29 per boe recorded in the first quarter of 2007. The increase in operating netback was due to a 42% increase in price that more than offset increases in royalties and operating costs on a per boe basis in the first quarter of 2008 as compared to the same period in 2007. The increase in the operating netback over the fourth quarter ended December 2007, both on a dollar basis as well as a boe basis, is due to the increases in volumes and prices more than offsetting the increased royalty and operating costs. Operating netbacks of \$29.23 per boe were low in the fourth quarter of 2007 due primarily to significant non-recurring operating costs. The move to oil weighting has significantly increased Arcan's exposure to price upside both in 2007 and particularly in 2008. However, oil properties do present additional operating costs which can be large on a boe basis in the early stages of a waterflood. The net effect to Arcan was significantly higher netbacks from oil than would have been achieved through natural gas.

Operating netbacks from oil were \$59.33 per boe and natural gas were \$30.13 per boe in the first quarter of 2008 versus \$33.67 per boe for oil and \$27.90 per boe for natural gas in the first quarter of 2007. Operating netbacks from oil were \$27.83 per boe and natural gas were \$22.33 per boe during the fourth quarter ended December 2007. Arcan's oil netbacks were stronger than natural gas netbacks for all periods due mainly to commodity pricing and one time operating cost charges in the fourth quarter of 2007.

Arcan's corporate netback, defined as operating netback, less G&A and interest (income less expense), was \$6.2 million in the first quarter of 2008 as compared to \$1.8 million in the first quarter of 2007. The large increase from 2007 related mainly to volumes and commodity prices. On a per boe basis, the corporate netback was \$46.39 in the first quarter of 2008 as compared to \$19.63 per boe in the first quarter of 2007 and \$21.00 per boe in the fourth quarter of 2007. Changes in netbacks and the components thereof are detailed by category in the above table.

Operation details by area for the three months ended March 31, 2008 and 2007 are as follows:

Operating Netbacks by Area						
(Per Boe)	Three months ended March 31, 2008			Three months ended March 31, 2007		
Area	Hamburg	Deer Mountain	McLeod	Hamburg	Deer Mountain	McLeod
Daily Production	716	460	298	195	392	335
Revenue	84.38	95.60	57.43	63.78	72.75	49.80
Royalties	13.71	26.73	13.56	14.44	19.89	15.90
Operating Costs	9.65	12.18	13.75	9.19	17.10	5.95
Operating Netbacks	61.02	56.69	30.13	40.15	35.76	27.95

Arcan focused on its oil properties in 2007 and into 2008 as netbacks from its oil properties continue to outpace natural gas netbacks.

Revenues

Arcan posted record production revenues for the quarter ended March 31, 2008. The 48% increase in production resulted in an increase in revenue of 113% to \$11.1 million from the \$5.2 million recorded in the first quarter of 2007 and was up from the \$7.2 million in the fourth quarter of 2007.

Revenue and Realized Prices			
	Quarter ended		
(\$000's)	March 31, 2008	March 31, 2007	December 31, 2007
Oil and NGL	9,199	3,789	5,985
Natural gas	1,876	1,417	1,253
Total petroleum and natural gas revenue	11,075	5,206	7,238
\$ per boe			
Oil and NGL (per boe)	93.32	62.42	81.88
Natural gas (per mcf)	8.72	8.19	6.93
Total petroleum and natural gas revenue (per boe)	82.37	58.14	70.12
Benchmarks			
WTI (\$U.S. per bbl)	97.86	58.09	90.57
Edmonton Light Sweet (\$Cdn. per bbl)	98.08	67.69	86.89
Alberta Plant Gate (per mcf)	7.77	7.18	6.01
Cdn \$ per U.S. \$	0.995	0.853	1.020

Based on estimated production volume and commodity prices, Arcan expects to post higher revenues in the second quarter of 2008 as well as the year ended December 31, 2008.

Commodity Prices

In the first quarter of 2008, Arcan realized average revenue per boe of \$82.37 as compared to \$58.14 per boe recorded in the first quarter of 2007 and \$70.12 in the fourth quarter of 2007. Arcan realized an average of \$93.32 per bbl of oil and NGL in the first quarter of 2008, an increase of 50 percent from the \$62.42 per bbl realized in the first quarter of 2007 and up from the \$81.88 per bbl received in the fourth quarter of 2007. This compares to an average Edmonton Light Sweet price of \$98.08 per bbl in the first quarter of 2008. The Company realized an average natural gas price of \$8.72 per mcf in the first quarter of 2008, a 6 percent increase from the \$8.19 per mcf averaged in the first quarter of 2007 and an increase from the \$6.93 per mcf received in the fourth quarter of 2007. This is consistent with the price changes at the Alberta Plant gate for the same periods of \$7.77 per mcf in the first quarter of 2008. Arcan anticipates oil prices will remain above \$90 US WTI and that gas prices may soften into the summer of 2008 from current levels. The strength in the commodity prices is being dampened by the continued strength in the Canadian dollar. Based on anticipated production volume increases Arcan expects to post higher revenues on a quarterly basis for the balance of 2008. Pricing may average over 20% higher in the second quarter of 2008 based on WTI pricing exceeding \$125.00 per barrel and Nymex gas exceeding \$11.00 per mcf.

All of Arcan's production to date has been sold on the spot market. Arcan had no hedging during the quarter ended March 31, 2008 and has no hedging in place at this time. Oil continues to grow as a percent of Arcan's total revenues as Arcan invests in increasing its oil production. Arcan's revenue would have been higher except for the impact in the erosion of the Canadian dollar versus the U.S. currency as the average price for WTI has climbed 68% in the first quarter of 2008 versus the same quarter in 2007, while Edmonton par has only increased 45% in the first quarter of 2008 versus the same quarter in 2007 due to the impact of the softening U.S. currency against the Canadian dollar.

Royalties

Royalty expense in the first quarter of 2008 was \$2.4 million or 21% of revenue, compared to \$1.5 million or 28% of revenue in the first quarter of 2007 and was \$1.7 million or 23% of revenue in the fourth quarter of 2007. The increase in royalties was primarily the result of increased revenues. On a percentage of revenue basis royalties have decreased compared to the first quarter of 2007 as Arcan is now receiving Gas Cost Allowance credits on a monthly basis, and compared to the fourth quarter of 2007 royalties as a percentage of revenue are down due to the Company receiving royalty credits in the first quarter of 2008 relating to prior periods. Arcan anticipates that royalty rates will remain in the 22 – 28% of revenue range for the balance of 2008.

Royalties			
	Quarter ended		
	March 31, 2008	March 31, 2007	December 31, 2007
Total (\$000s)	2,380	1,451	1,658
% of revenue	21	28	23
Per boe (\$)	17.70	16.20	16.06

Royalty rates fluctuate with the price of oil and gas and also when higher rates of production are experienced. On October 25, 2007 the Alberta Government released the New Royalty Framework for Alberta ("NRF") with a proposed effective date of January 1, 2009. This new framework applies significant royalty increases to higher rate producing wells, of which Arcan has a number. The impact of the NRF is already factored into Arcan's new \$40 million bank line. Arcan continues to monitor and plan for the impact of the NRF.

Operating Expense (Including Transportation)

Higher volumes only partially offset the generally rising costs in the first quarter of 2008 resulting in an increase in per boe operating costs of 5% to \$11.20 per boe of production from the \$10.65 per boe recorded in the first quarter of 2007. Total operating expenses in the first quarter of 2008 were \$1.5 million, up 58% from \$1.0 million in the first quarter of 2007 and were down from the \$2.6 million in the fourth quarter of 2007 as a result of non-recurring costs being incurred during the fourth quarter period.

Arcan's operating expenses have increased since 2006 due to Arcan moving toward oil-weighted production. Going forward through 2008, Arcan's continued transition towards oil-weighted production, including costs to operate the enhanced recovery, is anticipated to result in \$10 - \$15 per boe average operating costs per unit of production.

Operating Expenses (Including Transportation)			
	Quarter ended		
	March 31, 2008	March 31, 2007	December 31, 2007
Total (\$000s)	1,506	954	2,563
Per boe (\$)	11.20	10.65	24.83

Cash General and Administrative ("Cash G&A")

Cash G&A expenses for the first quarter of 2008 decreased on a per boe basis to \$5.07 per boe from \$9.84 per boe in the first quarter of 2007 and decreased from \$6.41 per boe in the fourth quarter of 2007. The change on a per boe basis resulted primarily from higher volumes. Total cash G&A expenses for the first quarter of 2008, net of recoveries and capitalized amounts of \$0.2 million, were \$0.8 million, compared to \$1.1 million in the first quarter of 2007 after recoveries and capitalized amounts of \$0.2 million. In the fourth quarter of 2007, cash G&A was \$0.8 million net of recoveries and capitalized amounts of \$0.2 million. Arcan had 18 full-time employees as at March 31, 2008 as compared to fourteen employees as at March 31, 2007. Cash G&A expense per boe is forecast to decrease on average for 2008 due to higher volumes more than offsetting higher costs.

Total cash G&A for three months ended March 31, 2008 of \$0.8 million was mainly comprised of wages of \$0.5 million and rent of \$0.1 million.

Arcan does not capitalize any cash G&A expenses. In its role as operator of its oil and natural gas properties, the standard industry operating agreements provide for the charging of certain administrative costs to its joint venture capital expenditure programs and well operations. Arcan expects the cash G&A costs to grow marginally in total as Arcan continues to increase activity levels, however per boe numbers should therefore decline.

Cash G&A Expenses (\$000s except per boe)	Quarter ended		
	March 31, 2008	March 31, 2007	December 31, 2007
Total	682	881	662
Per boe (\$)	5.07	9.84	6.41

Interest Expense

Interest expense in the first quarter of 2008 was \$0.3 million or \$2.22 per boe as compared to \$0.2 million or \$1.82 per boe in the first quarter of 2007 and \$1.84 per boe in the fourth quarter of 2007. The increase in interest expense primarily resulted from an increase in debt levels. Arcan's management increased debt levels based on operational success. Arcan forecasts that the debt to annualized first quarter 2008 cash flow ratio will be less than two to one. Arcan estimates that interest expense will increase as higher debt levels are maintained, but expects these to decrease on a boe basis as production volumes are elevated. The increase in interest expense from the prior year resulted from an increase in average debt levels. Arcan had an effective interest rate of 5.50% on its debt facility at March 31, 2008 compared to 6.20% at March 31, 2007.

Interest Expense	Quarter ended		
	March 31, 2008	March 31, 2007	December 31, 2007
Total (\$000s)	298	163	190
Per boe (\$)	2.22	1.82	1.84

Funds from Operations

Funds from operations increased by 253% in the first quarter of 2008 to \$6.2 million from \$1.8 million in the first quarter of 2007, and increased from \$2.2 million in the last quarter of 2007. On a diluted per share basis, funds from operations increased by 167% to \$0.16 in the first quarter of 2008 from \$0.06 in the same period of 2007.

Arcan's method of calculating funds from operations may differ from that of other companies, and, accordingly, may not be comparable. Arcan determines funds from operations as cash flow from operating activities before changes in non-cash working capital as follows:

Funds from Operations			
	Quarter ended		
(\$000's except per share and per boe)	March 31, 2008	March 31, 2007	December 31, 2007
Cash flow from operating activities (per GAAP)	2,564	822	4,599
Change in non-cash working capital	3,639	937	(2,431)
Funds from operations	6,203	1,758	2,167
Per share	0.17	0.06	0.06
Per share – diluted	0.16	0.06	0.06
Per boe (Corporate Netbacks)	46.39	19.63	21.00

Funds from operations per share is calculated using the weighted average basic and diluted shares used in calculating earnings per share.

Stock-Based Compensation

Arcan recorded stock-based compensation expense of \$0.2 million in the first quarter of 2008, calculated using the Black-Scholes option-pricing model. During the first quarter of 2008 Arcan granted 175,000 options at a weighted average exercise price of \$1.50 per option. The following assumptions were used to calculate stock-based compensation for the first quarter of 2008: zero dividend yield; expected volatility of 40%; risk-free rate of 3.38%; and expected life of five years. In 2007 and 2008 all options granted have vesting terms with one-third of the options vesting on each of the first three anniversary dates and expire after five years.

Stock-based compensation is a non-cash expense, which represents the estimated fair value of performance and other stock options granted to employees as a motivational incentive. Arcan expects stock-based compensation to increase as new options are issued, but decrease on a per unit basis as volumes increase. No stock based compensation is capitalized.

Stock-Based Compensation Expense			
	Quarter ended		
(\$000's except per boe)	March 31, 2008	March 31, 2007	December 31, 2007
Total	189	138	179
Per boe	1.40	1.54	1.73

Depletion, Depreciation and Accretion ("DD&A")

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Arcan recorded \$3.7 million or \$27.36 per boe in depletion expense in the first quarter of 2008 based on production volumes of 134,450 boe. The 6% increase in depletion expense per boe as compared to the first quarter of 2007 is primarily the result of facility investment activities. Depletion per boe increased over the fourth quarter of 2007, where Arcan recorded \$26.92 per boe. The Company plans to decrease the depletion per boe amount in future years by adding reserves through an effective exploration and development program.

The Company excluded from its depletion and depreciation calculation costs associated with undeveloped land and seismic of \$10.0 million and included future development costs of \$22.4 million.

Arcan uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Arcan recorded \$0.62 per boe of accretion expense in the first quarter of 2008, a decrease from \$0.74 per boe in the first quarter of 2007 as a result of increased volumes in 2008 compared to 2007.

Depletion, Depreciation and Accretion Expense			
	Quarter ended		
(\$000's except per boe)	March 31, 2008	March 31, 2007	December 31, 2007
Depletion and depreciation	3,679	2,315	2,779
Per boe	27.36	25.86	26.92
Accretion	83	67	78
Per boe	0.62	0.74	0.76

Income and Other Taxes

A future tax expense of approximately \$0.6 million has been recognized in the financial statements for the first quarter of 2008, which relates to the Company experiencing quarterly pre-tax income of \$2.3 million for the quarter. The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2008, which was 29.50% to pre-tax income due to non-deductible stock-based compensation and future tax rate differences.

On the balance sheet the future tax liability was increased by \$0.8 million from the conversion of the performance shares (including tax spiral) as there were no associated tax pools. As well, Arcan issued \$5.2 million of flow-through shares in September 2007, which were renounced in the first quarter of 2008 with the tax effect of \$1.4 million recognized. As at March 31, 2008 the Company had incurred \$5.2 million of qualifying expenditures and is not required to incur any additional expenditures.

Arcan estimates it has approximately \$108 million in tax pools. With capital spending in 2008 Arcan does not feel it will be in a taxable position until late 2010 at the earliest.

Tax Expense (Reduction)			
	Quarter ended		
(\$000's except per boe)	March 31, 2008	March 31, 2007	December 31, 2007
Total	641	(185)	(739)
Per boe	4.77	(2.07)	(7.16)

Net Income (Loss)

The net income for the first quarter of 2008 was \$1.6 million or \$0.04 per basic and diluted share, up from the \$0.6 million net loss created in the first quarter of 2007. The change in operating netbacks was the primary contributor to this change.

Net Income (Loss)			
	Quarter ended		
(\$000's except per share and per boe)	March 31, 2008	March 31, 2007	December 31, 2007
Total	1,645	(576)	(131)
Per share and diluted	0.04	(0.02)	—
Per boe	12.23	(6.43)	(1.27)

Capital Expenditures

The first quarter of 2008 was focused on increasing production from our Hamburg area. Capital expenditures for the first quarter of 2008 were \$9.6 million, excluding \$2.9 million recorded on the performance share conversion. This was down from the \$23.4 million spent in the first quarter of 2007. Arcan invested \$6.0 million to drill and complete one (one net) and complete four (2.6 net) wells, \$3.5 million on facilities and equipment and \$0.1 million on land and seismic. The focus of the drilling program was at Hamburg with two gross (1.0 net) wells into the GG pool and one exploration well. Arcan also installed a treater and two new pump jacks to service the GG pool.

Capital Expenditure Summary	
(\$ millions)	Q1 2007
Land and seismic	0.1
Drilling and intangibles	6.0
Facilities and equipment	3.5
Total Cash expended on Capital	9.6
Performance share conversion (including the future tax impact)	2.9
Total Capital	12.5

Conversion of Performance Shares

On January 1, 2007, Arcan Resources Ltd. ("Arcan Privateco"), a private oil and gas company, and Desco Energy Ltd. ("Desco"), a publicly traded oil and gas company, completed an amalgamation of the two companies. The amalgamated company continued as a public oil and gas company under the name "Arcan Resources Ltd." (i.e., the Company).

Pursuant to the amalgamation, each outstanding common share of Desco was exchanged for 0.36231884 of a common share of the Company and one performance share of the Company. Each performance share was convertible into a fraction of a common share of the Company, based on reserve increases in Hamburg. On March 13, 2008, the conversion was approved by the board of directors as the total proved and probable reserves located in the Hamburg area of Alberta were determined to be equal to or greater than the minimum 3,324,700 boe. Each performance share of the Company was converted into 0.20380435 of a common share of the Company for an aggregate of 1,335,005 common shares of the Company. In the first quarter of 2008 Arcan recorded \$2.1 million to share capital, \$0.8 million to future income taxes and \$2.9 million to property, plant and equipment as a result of the conversion.

Share Capital and Option Activity

Share Capital (000s)	Q1 2008	Year 2007	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Weighted basic shares outstanding	36,716	32,724	36,440	33,744	31,721	28,899
Stock option dilution (treasury method)	948	-	-	2,626	-	-
Weighted diluted shares outstanding	37,664	32,724	36,440	36,370	31,721	28,899

Liquidity and Capital Resources

As at March 31, 2008, the Company had drawn \$22.6 million on its bank line and had a working capital deficit including bank debt of \$33.5 million. Arcan's management increased debt levels based on operational success. With its solid asset base Arcan estimates that it has the ability to generate short-term and long-term cash flow to meet obligations as they become due. Arcan's management increased debt levels from the fourth quarter of 2007 to accommodate operational successes while still maintaining adequate flexibility within the higher bank lines that also became available with the operational success. At the end of the first quarter, Arcan had debt to annualized cash flow of under two to one based on strong cash flows. Arcan estimates 2008 cash flow to 2008 debt will be under two to one in the current commodity price environment. As at the date hereof, the Company has a \$40.0 million revolving credit facility with a Canadian chartered bank and is within its banking covenants. Arcan expects to be in a net debt position throughout 2008 and expects to be able to meet all of its obligations as they come due.

The Company monitors capital based on the ratio of net debt to quarterly annualized funds from operations. In this ratio net debt is defined as outstanding bank debt plus or minus working capital, divided by funds from operations for the most recent calendar quarter, annualized (multiplied by four). The Company's strategy is to maintain a ratio of less than 2 to 1. This ratio may increase at certain times as a result of operations and acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

As at March 31, 2008 and December 31, 2007, the Company's ratio of net debt to quarterly annualized funds from operations was 1.4 to 1 and 3.5 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at year end was above the 2 to 1 ratio that management strives to maintain due to heavy capital spending in the fourth quarter of 2007. The Company's ratio decreased at March 31, 2008 compared to December 31, 2007 primarily as a result of decreased capital spending and an increase in commodity prices and production volumes over the quarter

Arcan is engaged in a substantial capital expenditure program to develop its three core oil and natural gas properties to their full potential. As of the date of this report Arcan is committed to drill and complete one (1.0 net) farm-in well for approximately \$2 million in the Deer Mountain area and drill one (0.5 net) wells in the McLeod area at an anticipated cost to Arcan of \$0.5 million. Arcan anticipates that future capital requirements will be funded through a combination of internal cash flow, debt and equity financing. There is no assurance that debt or equity financing will be available on terms acceptable to the Company to meet its capital requirements.

Arcan estimates that at May 21, 2008, due to its capital expenditures and cash flow from wells, its debt and working capital deficiency is approximately \$32.0 million, which is below its current debt facility. Arcan estimates that it will have capital expenditures less than cash flow in the second quarter of 2008.

Arcan expects its capital expenditure program to be significantly lower in 2008 than in 2007 and expects the expenditures to be financed through its bank facility, and available funds from operations. Additional equity may be available later in 2008 if the condition of equity markets permit, however, the Company does not forecast requiring this cash inflow to complete its capital program.

The components of Arcan's working capital deficiency are as follows:

(\$ 000's)	Quarter Ended March 2008	Quarter Ended March 2007	Quarter Ended December 2007
Current assets	8,745	8,316	7,597
Less:			
Accounts payable and accrued liabilities	19,666	27,095	23,832
Bank loan	22,574	10,365	13,906
Working capital (deficiency)	(33,495)	(29,144)	(30,141)

Contractual Obligations

The Company has entered into farm-in agreements in the normal course of its business.

In 2007, the Company issued 1,200,000 flow-through common shares for gross proceeds of \$5.2 million. Under the terms of the flow-through share agreement, the Company renounced \$5.2 million of qualifying petroleum and natural gas expenditures in 2008 and has until December 31, 2008 to incur the expenditures. As at March 31, 2008 the Company had incurred \$5.2 million of qualifying expenditures and is not required to incur any additional expenditures.

Arcan has the following commitments:

(a) Future minimum lease payments relating to operating lease commitments are:

To December 31,	\$
2008	178,875
2009	238,500
2010	238,500
2011	244,125
2012	249,750
2013 and thereafter	874,125

(b) As a requirement of a sublease for office premises, Arcan has provided a letter of guarantee in favour of the lessor for a five year period on a declining basis as follows:

	\$
March 2008 to February 2009	180,000
March 2009 to February 2010	120,000
March 2010 to February 2011	60,000

Off-Balance Sheet Obligations

There were no off-balance sheet obligations at March 31, 2008.

Outstanding Share Data

Arcan's issued share capital consists of:	March 31, 2008	December 31, 2007	May 21, 2008
Common shares	37,826,560	36,491,555	37,836,560
Warrants	598,631	598,631	598,631
Performance options	1,500,000	1,500,000	1,500,000
Stock options	3,440,000	3,265,000	3,430,000
Performance shares	-	6,550,400	-

Common shares increased by 1,335,005 and performance shares decreased by 6,550,400 from December 31, 2007 to March 31, 2008 as a result of the conversion of the performance shares to common shares. They were converted as the performance terms associated with those performance shares had been completed. Stock options increased by 175,000 since December 31, 2007 as options exercisable at \$1.50 were granted to a new employee.

None of the current officers or directors of Arcan exercised any options or sold any shares of Arcan during the three month period ended March 31, 2008, the twelve month period ended December 31, 2007 or during the period ended the date hereof.

OUTLOOK

The capital plan for the balance of 2008 is to develop and expand the assets we already own and have invested in. That leads us to drill reserve development wells and pool extension wells in Deer Mountain, one development (0.5 net) gas well in McLeod, exploration opportunities in McLeod and look to add and possibly consolidate interests in our core areas. These activities are expected to add production and value on a very capital effective basis. On the operations side we expect to remain focused on water injection in Hamburg and in Deer Mountain which remain the key driver to harvesting value. Arcan is maximizing our daily production and taking advantage of the high netback environment. For the balance of 2008 we intend to stay within our bank lines, build up our exploration opportunities and our platform for continued growth. We are oil weighted and will continue to benefit from record oil prices as we direct our investments into these areas and we are monitoring and planning for the impact of the changes to the Alberta royalty rates.

Business Risks

Arcan is engaged in the business of exploration, development, production and acquisition of crude oil and natural gas. This business has many risks that even a combination of knowledge, experience and careful evaluation may not be able to overcome. These risks may cause Arcan's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by its forward-looking statements.

Arcan's principal business risks are related to finding and developing economic hydrocarbon reserves efficiently and being able to fund the capital expenditure program. Without the ongoing addition of new oil and natural gas reserves, any existing reserves Arcan has, and the production therefrom, will decline over time as the existing reserves are produced. A future increase in Arcan's reserves will depend not only on its ability to explore and develop any properties it has, but also on its ability to acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by Arcan.

Arcan's need for capital will be both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition, exploration and development of oil and natural gas properties requires substantial amounts of long-term capital. Arcan uses several sources of financing, including new equity, when available on favourable terms, as well as internally generated cash flow, and bank debt.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, and currency exchange rates. Arcan could use hedging instruments to manage these risks at the direction and under the supervision of the Board of Directors. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory and taxation environment and safety concerns.

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. Arcan attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors, and by maintaining an appropriate inventory of production equipment.

Arcan's Chinchaga (Hamburg) oil and natural gas property is in a winter access only area. This results in a limited time frame available to conduct Arcan's annual capital expenditure program in this area. This creates risks for cost overruns when operations have to be rushed. Time overruns can also happen whereby spring breakup occurs before a newly drilled well is completed and tied in, resulting in a one year delay in being able to put the well on production and have it generate revenue for Arcan.

Arcan attempts to manage its business risks. Firstly, Arcan has an experienced, talented, and highly motivated staff of oil and natural gas professionals. Arcan also operates almost all of its properties. This enables Arcan to control the timing, direction and costs related to exploration and development opportunities. Arcan's geological focus is on areas in which the prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. Arcan closely follows all government regulations and has an up-to-date emergency response plan that has been communicated to field operations by management. Arcan also carries insurance coverage to attempt to minimize potential losses.

NEW ACCOUNTING POLICIES

Changes in accounting policies

On January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentations. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Company's financial results, however did result in additional disclosures – refer to the March 31, 2008 notes to the financial statements.

International Financial Reporting Standards (“IFRS”)

In 2005, the AcSB announced that accounting standards of Canada are to converge with IFRS. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while the IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed.

Arcan is currently assessing the impact of these new standards on its financial statements. Early guidance indicates that disclosure of a transition plan and the anticipated effects may need to be disclosed in 2009. On January 1, 2010 the opening balance sheet will need to be IFRS compliant. Experience from Europe and Australia indicated that companies generally underestimated the work involved and that junior to mid sized companies under full cost accounting (like Arcan) were most significantly impacted.

Legal Advisories

Oil, NGLs, and Natural Gas conversions to BOEs

The calculation of barrels of oil equivalent ("boe") is based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil based on an energy conversion primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boes may be misleading, particularly if used in isolation.

Forward Looking Statements

In the interest of providing Arcan shareholders and potential investors with information regarding the Company, including management's assessment of Arcan's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: projections with respect to growth of production and reserves; projections relating to the volatility of oil and natural gas prices and the reasons therefore; Arcan's projected capital investment levels and the source of funding therefore; the effect of Arcan's risk management program, including the impact of derivative financial instruments; the adequacy of Arcan's provision for taxes; and the impact of changes in accounting principles on future financial statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Arcan's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks and uncertainties include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in Arcan's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids; Arcan's ability to replace and expand oil and gas reserves; risks associated with technology; its ability to generate sufficient cash from operations to meet its current and future obligations; Arcan's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; Arcan's ability to secure adequate product transportation; changes in environmental and other regulations or the interpretations of such regulations; political and economic conditions; terrorist threats; risks associated with potential future lawsuits and regulatory actions made against Arcan; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Arcan

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Arcan believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and Arcan does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Arcan plans to continue investing funds in its three core areas, as can be seen from the ongoing growth in total assets. Arcan's sales have also been increasing, although the fourth quarter of 2007 declined due to some temporary production and regulatory issues. Arcan expects that sales volumes will continue to grow in subsequent quarters. Oil and gas prices continue to fluctuate and have increased in 2008 to record high levels.

Additional information about the Company, including the Company's AIF, is available on SEDAR at www.sedar.com.

ARCAN RESOURCES LTD.

Balance Sheets
(Unaudited)

	March 31, 2008	December 31, 2007
Assets		
Current assets:		
Accounts receivable	\$ 8,161,178	\$ 6,966,470
Prepays and deposits	583,744	630,501
	<u>8,744,922</u>	<u>7,596,971</u>
Property, plant, and equipment (note 3)	124,468,482	115,688,102
	<u>\$ 133,213,404</u>	<u>\$ 123,285,073</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,665,750	\$ 23,832,419
Bank loan (note 4)	22,574,154	13,905,831
	<u>42,239,904</u>	<u>37,738,250</u>
Asset retirement obligations (note 5)	4,238,519	4,169,384
Future income taxes	4,647,511	1,906,870
	<u>51,125,934</u>	<u>43,814,504</u>
Shareholders' equity:		
Share capital (note 6)	81,544,606	80,761,100
Share purchase loan (note 6)	(100,000)	(100,000)
Contributed surplus (note 7)	2,482,602	2,294,064
Deficit	(1,839,738)	(3,484,595)
	<u>82,087,470</u>	<u>79,470,569</u>
Commitments (note 9)		
	<u>\$ 133,213,404</u>	<u>\$ 123,285,073</u>

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Operations, Comprehensive Income (Loss) and Deficit

For the three months ended March 31,
(Unaudited)

	2008	2007
Revenue:		
Petroleum and natural gas	\$ 11,074,986	\$ 5,205,511
Interest and other revenue	27,619	1,276
Royalties	(2,380,139)	(1,450,657)
	8,722,466	3,756,130
Expenses:		
Operating	1,505,786	953,588
General and administrative	870,707	1,018,500
Interest	298,314	163,309
Accretion	82,818	66,569
Depletion and depreciation	3,678,828	2,315,407
	6,436,453	4,517,373
Income (loss) before income taxes	2,286,013	(761,243)
Future income tax expense (reduction)	641,156	(185,337)
Net income (loss) and comprehensive income (loss)	1,644,857	(575,906)
Deficit, beginning of period	(3,484,595)	(2,574,704)
Deficit, end of period	\$ (1,839,738)	\$ (3,150,610)
Net income (loss) per share (note 6):		
Basic	\$ 0.04	\$ (0.02)
Diluted	\$ 0.04	\$ (0.02)

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Cash Flows

For the three months ended March 31,
(Unaudited)

	2008	2007
Cash provided by (used in):		
Operating:		
Net income (loss)	\$ 1,644,857	(575,906)
Items not involving cash:		
Depletion and depreciation	3,678,828	2,315,407
Stock-based compensation	188,538	137,634
Accretion	82,818	66,569
Reclamation costs	(33,559)	—
Future income tax expense (reduction)	641,156	(185,337)
	6,202,638	1,758,367
Change in non-cash working capital	(3,638,626)	(936,630)
	2,564,012	821,737
Financing:		
Bank loan	8,668,323	(1,136,888)
Issue of common shares, net of costs	—	40,372
	8,668,323	(1,096,516)
Investing:		
Property, plant and equipment	(9,556,341)	(14,955,716)
Cash from business acquisition, net of costs (note 2)	—	707,353
Change in non-cash working capital	(1,675,994)	14,523,142
	(11,232,335)	274,779
Change in cash	—	—
Cash, beginning of period	—	—
Cash, end of period	\$ —	—
Supplementary disclosure:		
Interest paid	\$ 426,856	\$ 163,309

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Notes to Financial Statements

Three months ended March 31, 2008
(Unaudited)

Arcan Resources Ltd. ("Arcan" or the "Company") is a publicly listed company involved in the business of oil and natural gas exploration, development and production in Canada. The interim financial statements of Arcan have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2007, except as disclosed below. The following disclosure is incremental to the disclosure included with the December 31, 2007 financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2007.

1. Changes in accounting policies:

On January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentations. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Company's financial results, however did result in additional disclosures – refer to note 8.

2. Business acquisition:

On January 1, 2007, Arcan Resources Ltd. ("Arcan Privateco"), a private oil and gas company, and Desco Energy Ltd. ("Desco"), a publicly traded oil and gas company, completed an amalgamation of the two companies. The amalgamated company continued as a public oil and gas company under the name Arcan Resources Ltd. ("Arcan"). Pursuant to the amalgamation Desco shareholders received 2,373,331 common shares and Arcan Privateco shareholders received 26,534,045 common shares, respectively of Arcan. Immediately prior to the amalgamation two officers of Arcan Privateco owned 994,400 or 15.2% of the outstanding shares of Desco.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 2

Three months ended March 31, 2008
(Unaudited)

2. Business acquisition (continued):

In addition, each Desco shareholder received one performance share of Arcan totaling 6,550,400. Each performance share issued to the Desco shareholders was, on or before November 1, 2008, to be either redeemed and cancelled for a nominal amount or converted into a fraction of an Arcan share. In the event that the total proved and probable reserves attributed to certain properties held by Arcan and located in the Hamburg area of Alberta effective June 30, 2008 were determined by an independent firm of qualified oil and natural gas reserves evaluators to be less than 2,216,466 barrels of oil equivalent ("BOE") the Arcan performance shares would not be converted into Arcan shares and would be redeemed and cancelled by Arcan. If the reserves attributable to the Hamburg properties were equal to or greater than 2,216,466 BOE but less than 3,324,700 BOE, the Arcan performance shares would convert into 863,031 Arcan shares and, if determined to be equal to or greater than 3,324,700 BOE the Arcan performance shares would convert into 1,335,005 Arcan shares. The performance shares were assigned no value at the date of the acquisition as the ultimate outcome, as it pertains to conversion or cancellation, could not be determined beyond a reasonable doubt.

The Arcan Privateco shareholders following the amalgamation hold 92% of the outstanding shares of Arcan, resulting in a substantive change in ownership. As a result, Arcan Privateco is deemed to be the acquirer of Desco and consequently has accounted for the acquisition of Desco at exchange values under the purchase method of accounting. The operating results of Desco have been included with Arcan Privateco commencing January 1, 2007. The following table outlines the purchase price allocation as of January 1, 2007.

Net assets acquired:	
Working capital (including cash of \$1,422,956)	\$ 473,469
Property, plant and equipment	8,464,246
Asset retirement obligations	(60,896)
Future income taxes	(1,515,889)
Total net assets acquired	\$ 7,360,930

Consideration:	
Common shares issued to Desco shareholders (2,373,331)	\$ 6,645,327
Transaction costs	715,603
Total consideration	\$ 7,360,930

During the three months ended March 31, 2008, the 6,550,400 performance shares were converted into 1,335,005 common shares. Arcan recorded \$2.1 million to share capital, \$0.8 million to future income taxes and \$2.9 million to property, plant and equipment as a result of the conversion. The impact of the conversion has not been included in the above table.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 3

Three months ended March 31, 2008
(Unaudited)

3. Property, plant and equipment:

	March 31, 2008	December 31, 2007
Petroleum and natural gas properties	\$ 146,759,560	\$ 134,300,352
Accumulated depletion and depreciation	(22,291,078)	(18,612,250)
	<u>\$ 124,468,482</u>	<u>\$ 115,688,102</u>

At March 31, 2008, petroleum and natural gas properties included undeveloped properties of \$10.0 million (March 31, 2007 - \$6.1 million), which have been excluded from the depletion calculation. Future development costs for proved reserves of \$22.4 million (March 31, 2007 - \$12.4 million) have been included in the depletion calculation.

During the year ended December 31, 2007, the Company acquired certain working interests in petroleum and natural gas properties for cash of \$3,499,751, with associated asset retirement obligations of \$196,891.

4. Bank loan:

	March 31, 2008	December 31, 2007
Bank loan	\$22,574,154	\$ 13,905,831

Arcan has a \$40 million operating revolving loan facility. Interest on the facility is calculated at the bank prime rate of interest, plus an applicable facility margin depending upon the Company's Net Debt to Trailing Cash Flow ratio. A re-determination of the borrowing base will occur on or before April 30, 2009. The loan facility is secured by a general security agreement, and is payable in full on demand. This facility had an effective interest rate of 5.50% at March 31, 2008 (March 31, 2007 – 6.20%).

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 4

Three months ended March 31, 2008
(Unaudited)

5. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at March 31, 2008 is \$9.7 million (December 31, 2007 - \$9.6 million), which will be incurred between 2008 and 2019. The majority of the costs will be incurred between 2010 and 2016. An inflation rate of 2% (2007 - 2%) was used to inflate the costs, and a credit-adjusted risk-free rate of 8% (2007 - 8%) was used to calculate the fair value of the asset retirement obligations.

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$ 4,169,384	\$ 3,268,469
Liabilities incurred	19,876	354,022
Liabilities incurred on acquisitions (notes 2 and 3)	—	257,787
Accretion expense	82,818	289,106
Reclamation costs	(33,559)	—
Balance, end of period	\$ 4,238,519	\$ 4,169,384

6. Share capital:

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Common shares issued and outstanding:

	Number of Shares	Amount
Balance, December 31, 2006	26,534,045	\$ 49,047,817
Issued pursuant to business acquisition (note 2)	2,373,331	6,645,327
Issued pursuant to private placement	4,000,000	15,200,000
Issued pursuant to private placement	1,500,000	5,175,000
Issued pursuant to flow-through private placement	1,200,000	5,220,000
Exercise of warrants	689,179	974,715
Exercise of stock options	195,000	312,000
Stock-based compensation on exercise of warrants and stock options	—	172,458
Share issue costs	—	(1,690,851)
Tax effect of share issue costs	—	501,819
Tax effect of flow-through shares issued in 2006	—	(797,185)
Balance, December 31, 2007	36,491,555	\$ 80,761,100
Issued pursuant to performance share conversion (note 2)	1,335,005	2,136,008
Tax effect of flow-through shares issued in 2007	—	(1,352,502)
Balance, March 31, 2008	37,826,560	\$ 81,544,606

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 5

Three months ended March 31, 2008
(Unaudited)

6. Share capital (continued):

(c) Warrants:

The Company has outstanding warrants that were issued to investors and agents, as commission, in certain equity financings. Each warrant is exercisable into one common share of the Company.

	Weighted average Exercise Price (\$)	Number of Warrants
Balance, March 31, 2008 and December 31, 2007	1.93	598,631

The following table indicates the number of exercisable warrants with exercise prices:

	Exercise Price (\$)	Number of Warrants
Issued July 2004	2.00	493,000
Issued April 2005	1.60	105,631
	1.93	598,631

The warrants expire 12 months after the date on which the final receipt for a prospectus is filed by the Company.

(d) Flow-through shares:

In 2007, the Company issued 1,200,000 flow-through common shares for gross proceeds of \$5.2 million. Under the terms of the flow-through share agreement, the Company renounced \$5.2 million of qualifying petroleum and natural gas expenditures in 2008 and has until December 31, 2008 to incur the expenditures. As at March 31, 2008 the Company had incurred \$5.2 million of qualifying expenditures and is not required to incur any additional expenditures.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 6

Three months ended March 31, 2008
(Unaudited)

6. Share capital (continued):

(e) Share purchase loan:

A share purchase loan of \$100,000 (December 31, 2007 - \$100,000) is due from an officer of the Company for the purchase of 40,000 common shares at a price of \$2.50 per common share. This loan is repayable, with interest calculated at the "Prescribed Rate" as determined by the Canada Revenue Agency, currently 4%, on or before April 3, 2009. This loan is secured by the underlying shares.

(f) Stock options:

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	3,265,000	\$ 2.51	2,483,500	\$ 1.95
Granted	175,000	1.50	1,176,500	3.59
Exercised	—	—	(195,000)	1.60
Forfeited	—	—	(200,000)	2.87
Stock options outstanding, end of period	3,440,000	\$ 2.46	3,265,000	\$ 2.51
Exercisable at period-end	1,911,500	\$ 1.90	1,805,167	\$ 1.83

(g) Stock-based compensation:

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2008	March 31, 2007
Fair value of options granted (\$/option)	\$ 0.60	\$ 1.26
Expected life of options (years)	5	5
Expected volatility (%)	40	40
Risk free rate of return (%)	3.38	3.97
Expected dividend yield (%)	Nil	Nil

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 7

Three months ended March 31, 2008
(Unaudited)

6. Share capital (continued):

(h) Performance options:

	March 31, 2008	December 31, 2007
Number outstanding	1,500,000	1,500,000
Exercisable	1,500,000	1,500,000
Weighted average remaining contractual life (years)	1.50	1.75
Weighted average exercise price (\$/share)	1.00	1.00

(i) Per share amounts:

The following table summarizes the basis for the determination of basic and diluted per share amounts:

	2008	2007
Weighted average shares outstanding:		
Basic	36,715,622	28,898,687
Diluted	37,663,614	28,898,687

In computing diluted per share amounts at March 31, 2008, 2,301,500 options (March 31, 2007 -2,682,500 options), nil performance options (March 31, 2007 – 1,500,000 performance options), and 493,000 warrants (March 31, 2007 – 1,182,250 warrants) were excluded for the calculation as their effect was anti-dilutive.

7. Contributed surplus:

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$ 2,294,064	\$ 1,757,255
Stock-based compensation	188,538	709,267
Transfer to share capital on exercise of warrants and options	—	(172,458)
Balance, end of period	\$ 2,482,602	\$ 2,294,064

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 8

Three months ended March 31, 2008
(Unaudited)

8. Financial instruments:

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at March 31, 2008 the Company's receivables consisted of \$3.4 million (December 31, 2007 - \$3.4 million) from joint venture partners, \$4.3 million (December 31, 2007 - \$2.1 million) of receivables from petroleum and natural gas marketers and \$0.5 million (December 31, 2007 - \$1.5 million) of other trade receivables.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 9

Three months ended March 31, 2008
(Unaudited)

8. Financial instruments (continued):

The carrying amount of accounts receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts, as at March 31, 2008 and December 31, 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended March 31, 2008 and 2007.

As at March 31, 2008 and December 31, 2007 the Company considers its receivables to be aged as follows:

Aging	March 31, 2008	December 31, 2007
Not past due (less than 120 days)	\$ 7,671,305	\$ 5,652,229
Past due (over 120 days)	489,873	1,314,241
Total	\$ 8,161,178	\$ 6,966,470

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility, as outlined in note 4, that is at least reviewed annually by the lender. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

Accounts payable are considered due to suppliers in one year or less while bank debt, which is subject to renewal after a 364-day revolving period, could be potentially due within the next year if the facility is not renewed for a further 364-day period.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 10

Three months ended March 31, 2008
(Unaudited)

8. Financial instruments (continued):

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Company utilizes financial derivatives contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2008 and 2007.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand.

The Company had no derivative contracts in place as at or during the three months ended March 31, 2008 and 2007.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. As at March 31, 2008, if interest rates had been one hundred basis points lower with all other variables held constant, net income for the period would have been approximately \$38,000 (2007 - \$15,000) higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been one percent higher. The sensitivity is higher in 2008 as compared to 2007 because of an increase in outstanding bank debt, slightly offset by a decrease in interest rates.

The Company has no interest rate swap or financial contracts in place as at or during the three months ended March 31, 2008 and 2007.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 11

Three months ended March 31, 2008
(Unaudited)

8. Financial instruments (continued):

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholder's equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based on the ratio of net debt to quarterly annualized funds from operations. In this ratio net debt is defined as outstanding bank debt plus or minus working capital, divided by funds from operations for the most recent calendar quarter, annualized (multiplied by four). Funds from operations is defined as cash flow from operating activities before changes in non-cash working capital. The Company's strategy is to maintain a ratio of less than 2 to 1. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

As at March 31, 2008 and December 31, 2007, the Company's ratio of net debt to quarterly annualized funds from operations was 1.4 to 1 and 3.5 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at year end was above the 2 to 1 ratio that management strives to maintain due to heavy capital spending in the fourth quarter of 2007. The Company's ratio decreased at March 31, 2008 compared to December 31, 2007 primarily as a result of decreased capital spending and an increase in commodity prices and production volumes over the quarter.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 12

Three months ended March 31, 2008
(Unaudited)

8. Financial instruments (continued):

The net debt to quarterly annualized funds from operations has been calculated as follows:

	March 31, 2008	December 31, 2007
Working capital deficiency (including bank debt)	\$ 33,494,982	\$ 30,141,279
Cash flow from operating activities	2,564,012	4,598,576
Change in non-cash operating working capital	3,638,626	(2,431,488)
Funds from operations	6,202,638	2,167,088
Annualizing factor	x4	x4
Annualized funds from operations	\$ 24,810,552	\$ 8,668,352
Ratio	1.4 to 1	3.5 to 1

The Company's share capital is not subject to external restrictions, however the bank debt facility is based on petroleum and natural gas reserves (see note 4). The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

There were no changes in the Company's approach to capital management during the period.

Fair value of financial instruments

The Company's financial instruments as at March 31, 2008 and December 31, 2007 includes accounts receivable, accounts payable and accrued liabilities and bank debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

Bank debt bears interest as a floating market rate and accordingly the fair market value approximates the carrying value.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 13

Three months ended March 31, 2008
(Unaudited)

9. Commitments:

(a) Future minimum lease payments relating to operating lease commitments are:

2008	\$ 178,875
2009	238,500
2010	238,500
2011	244,125
2012	249,750
2013 and thereafter	874,125

(b) As a requirement of a sublease for office premises, the Company has provided a letter of Guarantee in favour of the lessor for a five year period on a declining basis as follows:

March 2008 to February 2009	\$ 180,000
March 2009 to February 2010	120,000
March 2010 to February 2011	60,000

Arcan Resources Ltd.

Corporate Information

Directors

M. Bruce Chernoff

Chairman, Harvest Energy Trust

Robert J. Dales

Director, Celtic Exploration Ltd.

Andy Fisher

Executive Vice President, Arcan Resources Ltd.

Ed Gilmet

President and CEO, Arcan Resources Ltd.

Michael J. Laffin

Partner, Blake, Cassels & Graydon LLP

J. Terry McCoy

Calvalley Petroleum Inc.

Hank B. Swartout

Independent Businessman

Auditors

KPMG LLP

Evaluation Engineers

GLJ Petroleum Consultants Ltd.

Banker

Alberta Treasury Branches

Legal Counsel

Blake, Cassels & Graydon LLP

Officers

Ed Gilmet

President and CEO

Andy Fisher

Executive Vice President

Doug Penner

CFO and V.P. Finance

Graeme Ryder

Controller

Michael J. Laffin

Corporate Secretary

Corporate Office

Suite 3200, 450 - 1st Street SW

Calgary, AB T2P 5H1

(403) 262-0321

Registrar and Transfer Agent

Valiant Trust Company

Stock Exchange Listing

TSX-V (symbol "ARN")

Investor Relations Contact

Doug Penner

dpenner@arcanres.com

(403) 513-7234