



INTERIM REPORT

Three months ended March 31, 2009



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 maintaining a June 30 year end. On January 1, 2007 Arcan amalgamated with Desco Energy Ltd. ("Desco") with the amalgamated entity's year end established as December 31. 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 unaudited 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 months ended March 31, 2009 as compared to the three months ended March 31, 2008 and December 31, 2008. 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, 2009 and 2008 together with the notes thereto as well as the audited financial statements for the year ended December 31, 2008 and 2007, together with the notes related thereto and other documents filed on SEDAR, including historical financial statements, the information circular dated April 9, 2009 relating to the Company's annual general and special meeting to be held on May 20, 2009 and the Company's Annual Information Form ("AIF") dated April 3, 2009 for the year ended December 31, 2008. These documents are available at www.sedar.com under the Company's SEDAR profile.

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 for the three months ended March 31, 2009. This MD&A is dated May 19, 2009.

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 per boe, less per boe royalties and operating expenses, and corporate netbacks represent Arcan's operating netback, less per boe general and administrative ("G&A") and interest expense, in order to determine the amount of funds generated by production.

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, 2009	March 31, 2008	December 31, 2008
Cash flow from operating activities (per GAAP)	1,361	2,564	4,590
Change in non-cash working capital	605	3,639	(2,603)
Funds from operations	1,966	6,203	1,987

First Quarter 2009 Highlights

- ☆ Drilled and tied in one (0.5 net) successful exploration gas well in the first quarter of 2009;
- ☆ Received Good Production Practices ("GPP") approval on the GG pool in Hamburg, converted one well to an injector, installed two pump jacks and constructed light vehicle all season access;
- ☆ Production decreased to 1,350 boe per day for the three months ended March 31, 2009 down 9% from the 1,477 boe per day for the three months ended March 31, 2008 and down 8% from the fourth quarter of 2008, although oil production was up over those periods;
- ☆ April 2009 production averaged over 1,700 boe per day, new exploration well on production;
- ☆ Operating netbacks of \$25.53 per boe (revenue of \$47.16 per boe and operating cost of \$11.12 per boe) were down 52% from \$53.47 in the first quarter of 2008 and down 9% from \$28.15 in the fourth quarter of 2008;
- ☆ Funds from operations decreased 68% to \$2.0 million (0.05 per diluted share) in the first quarter of 2009 from \$6.2 million (0.16 per diluted share) in the first quarter of 2008 and consistent with the \$2.0 million (0.05 diluted per share) in the fourth quarter of 2008; and
- ☆ Extended our \$50 million bank line to April 2010.

Financial and Operating Summary

	Quarter Ended			December 31, 2008
	March 31, 2009	March 31, 2008	% Change period over period	
Financials (\$000s except per share amounts)				
Oil and NGL sales	4,929	9,199	(46)	6,442
Natural gas sales	802	1,876	(57)	1,657
Total petroleum and natural gas revenue	5,731	11,075	(48)	8,099
Funds from operations ¹	1,966	6,203	(68)	1,987
Per share basic ¹	0.05	0.17	(71)	0.05
Per share diluted ¹	0.05	0.16	(69)	0.05
Net Income (loss)	(1,290)	1,645	(178)	(772)
Per share basic and diluted	(0.03)	0.04	(175)	(0.02)
Capital expenditures – cash	3,177	9,556	(67)	9,980
Total Assets	150,398	133,213	13	149,724
Total Liabilities	63,264	51,126	24	61,493
Shareholders' equity	87,133	82,087	6	88,231
Bank Loan	41,194	22,574	82	29,633
Net debt and working capital	42,073	33,495	26	40,405
Operating, General and Administrative (G&A)				
Production:				
Crude oil (bbls per day)	1,110	1,083	2	1,102
Natural gas (mcf per day)	1,444	2,366	(39)	2,199
Total (boe per day) (6:1)	1,350	1,477	(9)	1,468
Average realized price:				
Crude oil (\$ per bbl)	49.36	93.32	(47)	63.55
Natural gas (\$ per mcf)	6.17	8.72	(29)	8.19
Combined average (incl. processing revenue) (\$ per boe)	47.16	82.37	(43)	59.95
Netback (\$ per boe)				
Petroleum and natural gas sales	47.16	82.37	(43)	59.95
Royalties	(10.51)	(17.70)	(41)	(13.93)
Operating and transportation expenses	(11.12)	(11.20)	(1)	(17.88)
Operating netback	25.53	53.47	(52)	28.15
G&A expenses – cash	(7.11)	(5.07)	40	(9.67)
Interest expense – net	(2.23)	(2.01)	11	(2.15)
Corporate netback	16.19	46.39	(65)	16.32
Common Shares (000s)				
Shares outstanding, end of period	37,869	37,827	0	37,869
Weighted average shares – basic	37,829	36,716	3	37,829
Weighted average shares – diluted ²	37,829	37,664	0	37,829

1 The reader is referred to the section – “Non-GAAP Measurements” in this MD&A.

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

Overview

The world remains cautious however it appears that pessimism is slowly being reduced. Arcan's management believes recent market activity has been translated as a possible completion of the bottom in the markets and might be a reversal of the downward trend. For Arcan, the first quarter of 2009 marked significant reductions in commodity prices, the implementation of the new royalty rates in Alberta, global financial liquidity crises and massive sell-offs in equity markets as well as significant new lows in Arcan's share trading price. The market for junior energy stocks has rebounded sharply off the lows, moving Arcan into the \$1.00 per share trading range, still at a deep discount to year end and strip pricing net asset value.

Arcan's light oil provides solid netbacks as oil prices have moved in an upward direction from US \$40 to \$60 WTI while natural gas pricing continues to be far more challenging and may face price fluctuations for a period of time to come. Through this turbulent period Arcan continues to focus on building long-term value for the future. Arcan expects to operate through 2009 on cash flow from operations and its bank line which has been reviewed and is secured until April 2010. To support its cash flow, Arcan entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009.

Arcan expended \$3.2 million on its properties and infrastructure during the quarter ended March 31, 2009. During the first quarter of 2009, Arcan focused on its core light oil properties. In February 2009 Arcan received GPP in its Hamburg GG pool. Arcan pipelined and converted one well to a water injector well, installed pump jacks on two other producing wells and built an all season light vehicle access road. After final injection approvals were received in early May in Hamburg injection levels have climbed to over 2,000 bbls per day. When gas/oil ratios have stabilized in Hamburg, Arcan expects to increase its production from existing producing wells. Also, Arcan is reviewing drilling plans in light of the recent Alberta royalty reduction incentives, with the possibility of drilling its first well as early as August 2009 within the Hamburg GG pool. Arcan exited the quarter with \$42.1 million in debt and working capital and plans to prudently invest in capital items within its cash flow and its \$50 million secure bank lines for the balance of the year.

Production was 1,350 boe per day in the first quarter of 2009, down approximately 118 boe per day from the fourth quarter of 2008, due mainly to the sale of a gas well at the end of 2008 which produced approximately 70 boe per day, as well as shut in production in Hamburg as wells were re-worked and pump jacks were being installed. Production was elevated to over 1,700 boe per day in April as the new Hamburg 50% working interest natural gas well commenced production on April 1, 2009 to take advantage of the new royalty incentives. This well was on production for approximately two weeks before being shut-in for a build up test, and is now back on production. Arcan is estimating average production of 1,300 to 1,700 boe per day for 2009.

Hamburg, McLeod and Deer Mountain are accessible for drilling in late July and Arcan is currently reviewing its development plans for that timeframe. If commodity prices warrant, Arcan will take advantage of its infill drilling locations in the Hamburg GG pool as early as August as well productivity, current oil pricing and royalty incentives provide those wells with approximately a 100 day payout. As well, Arcan is working with its drilling partner to set drilling plans that would commence as early as the end of July 2009 on a number of exploration prospects. Finally, Arcan continues to explore for ways to continue development of the Deer Mountain assets, where ultimately cash flow from Hamburg may be the most prudent avenue for development.

Arcan expects to maintain its production base in 2009 through a prudent level of investment based on anticipated cash flow. Arcan's earlier investments provide the Company with a long-life, highly concentrated, Company-controlled asset base. Paramount to Arcan and to its management team, is adding value for the Company's shareholders. For 2009, Arcan is implementing plans to hold down costs and turn drilling success and water injection into solid reserve bookings, allowing Arcan to continue to solidify its value.

At March 31, 2009 Arcan had 13 full time office employees and 9 full time field employees.

OVERVIEW OF ARCAN'S CORE AREAS

Hamburg

In March 2009 Arcan drilled one (0.5 net) exploration wells in the Hamburg area. This well was placed on production on April 1, 2009, at rates exceeding 1,000 (500 net) boe per day. This well was on production for approximately two weeks before being shut-in for a build up test, and is now back on production. This well is expected to only pay a 5% royalty for its first 500 mmcf of production. Arcan estimates it will produce this well at 500 – 700 boe per day on recoverable reserves of 2 – 5 Bcf for this well.

“GG” pool highlights:

- Premium-priced light oil from prolific wells.
- On production in April 2006.
- Commenced the waterflood late in 2007.
- Under production rate limitations until GPP was received in February 2009.
- Light vehicle all season access road constructed in March 2009.
- 5 – 8 development wells to be drilled with commencement as early as August 2009.

In February 2006, Arcan discovered the Hamburg GG oil pool, a Slave Point Formation reservoir lying at 2,450 metres depth. Arcan is the operator of the pool and holds a 50.25 percent working interest in the oil battery and in six wells on the Northern end of the pool as well as a 100 percent working interest in a seventh well drilled into the south end of the pool. These wells are prolific, producing 41° API sweet oil and natural gas.

Late in 2007, the Alberta Energy Resources Conservation Board (the "ERCB", formerly the EUB) modified its pool boundary definition, resulting in the first two wells (one injector) being located within the GG pool, with the remainder of the wells being subject to rate limitations. On February 13, 2009, the ERCB modified the pool enhanced oil recovery ("EOR") boundary definition, resulting in all six 50 percent working interest wells being located within the EOR scheme with GPP status. Production from the 100 percent working interest remains restricted to approximately 100 boe per day. Subsequent to receiving GPP status, Arcan installed pump jacks on two producing wells, tied-in and converted one well to a water injector and commenced constructing an all-weather light vehicle access road to its wellsites. On May 6, 2009 approval was received to commence water injection into the new injector well with initial rates in excess of 2,000 boe per day.

The future – Once water injection has stabilized the gas/oil ratio in the pool, Arcan anticipates elevating production to stabilized well capabilities on the existing wells. In addition, Arcan currently has five to eight infill development opportunities to drill in the GG pool. Arcan plans to take advantage of increased production and implement the drilling plan as economic conditions warrant. Arcan plans to continue leveraging its technical team members' 18 years of previous experience drilling in this area and their 65 percent historical exploration drilling success ratio. Longer-term plans call for additional exploration tests that have been selected using 3D seismic, additional 3D seismic and possibly drilling shale gas targets as well as up-hole Bluesky natural gas targets, which competitors are producing in offsetting sections.

Arcan drilled one exploration well in January of 2008. Based on the distance to tie-in this well, Arcan requires an additional well to be drilled to justify economics. As such, completion operations are being delayed until another well can be drilled. Arcan is encouraged by the logs from the well, however, final results will not be available until completion operations are concluded.

Production averaged 593 boe per day on \$29.94 per boe operating netbacks for the quarter ended March 31, 2009 down from 716 boe per day and \$61.02 per boe operating netbacks in the quarter ended March 31, 2008 and almost flat from 597 boe per day and \$30.83 per boe operating netbacks in the quarter ended December 31, 2008.

McLeod

The McLeod property is characterized by medium-risk natural gas targets largely focused in Mannville Group and Jurassic-aged strata at depths of 1,800-2,200 metres. Since inception, Arcan has drilled seven (5.2 net) Gething natural gas wells with 90 percent success at McLeod. Arcan sold its interests in one well at the end of 2008. The McLeod wells, during the first quarter of 2009, were producing approximately 600 Mcf/d net, or approximately 100 boe per day in total, which is down from 2008 due to the normal declines of natural gas wells plus Arcan's well disposition. Arcan has reduced capital allocations to this area as natural gas prices have remained weak compared to oil.

The future – Arcan has a natural gas pool that could be down-spaced and infill drilled to add production and reserves. This pool will be developed when natural gas prices show signs of significant recovery. McLeod is a multi-zone West 5 area and is very attractive to the oil and natural gas industry, and hence highly competitive in a stronger natural gas pricing environment. Arcan competes by carefully targeting its farm-ins and land acquisitions to drill-ready prospects (as opposed to raw lands that may prove sterile). This "surgical" approach allows Arcan to run full economics and include risks for tie-ins and land expiries. Arcan plans to continue to lever the capabilities and expertise of its two geologists who previously worked this area for over 15 years with major companies, drilling in excess of 400 wells during that time period. This experience facilitates successful farm-ins and cultivates a high success ratio. Current plans call for farm-ins on lands holding a number of prospects at the 1,800-metre level that would support two years worth of activities plus two solid exploration test opportunities for deeper, high-impact drilling targets.

Arcan has farmed-out some lands in this area in combination with some of its land in the Hamburg area, upon which an exploration well was drilled in March 2009. This drilling partner has until July 15, 2009, to elect to drill a well in the McLeod area. If elected to drill Arcan will maintain a 50% working interest in the well.

Deer Mountain

The Deer Mountain Unit #2 highlights:

- Premium-priced light oil with a very long reserve life.
- GLJ petroleum Consultants Ltd. "GLJ" estimates a 9 percent recovery to date of the approximately 39 million boe of original-oil-in-place on the approximately 14 sections of land.
- Built a new battery capable of 4,000 bbls per day of fluid and high pressure injection lines (2006).
- Commenced the waterflood (2007).
- New 3D seismic identified the more prolific reef edge (2007).
- Implemented one flood pattern in 2007 and an additional one in 2008.
- 100+ development wells to be drilled on the Unit.

The Deer Mountain 56 section extension lands:

- Purchased interests in 56 sections of land offsetting the unit to the south.
- Farmed in to an additional 19 sections of land within this block.
- Drilled our first well in October 2008.

The Deer Mountain Unit #2 properties are located in north central Alberta approximately 200 kilometres northwest of Edmonton. Unit wells produce oil from the Beaverhill Lake A and B Formations. The Beaverhill Lake formations are a highly sought after, extremely high quality light oil reservoir with a long production history in Alberta. Production at Deer Mountain commenced in 1964 and unitization occurred in late 1984 when a water injection scheme was initiated.

The Deer Mountain Unit has recovered approximately 3.6 million boe or approximately 9 percent of GLJ's estimate for original-oil-in-place ("OOIP") of approximately 39 million boe. Arcan estimates there may be up to 60 million boe of OOIP on the approximately 14 sections of land that comprise Deer Mountain Unit #2. Offsetting pools have recovered more than 35 percent of their estimated original-oil-in-place, and are believed capable of 45 percent recovery. Recovery from the Deer Mountain Unit is low compared to offsetting pools in the field because of a historical lack of drilling and water injection. Arcan believes that ultimate recovery can be increased significantly by reinvigorating development of this high-quality reservoir, including additional drilling, increased water injection and systematic reservoir management.

To date at Deer Mountain, Arcan has invested significantly in this asset through:

- Fracture-stimulated, reworked and recompleted some existing wells;
- Drilled new oil wells, water source wells and new water injection wells;
- Tied-in the solution gas that was previously flared;
- Shot a new 3D seismic program covering approximately 18 square kilometres; and
- Constructed a new water handling facility and oil battery capable of 4,000 bbls/d of fluid throughput and installed high pressure injection lines throughout the field.

In 2008, Arcan acquired interests in 56 sections of adjacent lands south of Deer Mountain Unit #2. A continuous reef structure has been mapped extending from Deer Mountain Unit #2 through the newly acquired lands to other producing wells approximately 8 kilometers to the south. In 2008 Arcan successfully drilled its first well on these lands confirming its 3D seismic and pool extension interpretations. This first well has set the stage for drilling further producing wells and a water injection well to establish an injection pattern. Water injection remains the key to unlocking this significant reserve and production base.

Production averaged 643 boe per day with \$22.55 per boe operating netbacks for the quarter ended March 31, 2009 up from 460 boe per day with \$56.69 per boe operating netbacks in the quarter ended March 31, 2008 and almost the same production at 643 boe per day but higher operating netbacks at \$26.71 per boe in the quarter ended December 31, 2008.

The future – A large part of the future at Deer Mountain Unit #2 will revolve around waterflood enhancement and significant development drilling. New wells drilled in 2008 increased Arcan's confidence in its 3D seismic interpretation and its geological interpretation of the reef. This provides an analogue for future reserve additions outside of the boundaries of the current mapping used for reserve calculations. Based on current well spacing, Arcan estimates there is opportunity for several years worth of development activity, including a large number of additional oil-producing wells, water injection wells and further re-working of existing wellbores to increase rates and recoveries from the lands within the unit. The recovery factor of only 9 percent to date from these pools has been very low compared to proven results generated over many years at other Beaverhill Lake pools in the region.

In 2009, Arcan plans to focus on continued water injection, which is expected to maintain or increase production rates. Arcan considers Deer Mountain to be a legacy, long-life asset that is expected to produce for another 20 or more years at current production levels. The new battery and centralized water injection facilities will allow Arcan to implement a field-wide waterflood with drilling patterns of producing wells and water injection wells, the goal being to transform known resources into additional economic producing reserves. In addition, Arcan has opportunities to make new resource discoveries on its virtually unexplored new lands and plans to expand its interests through drilling its 56-section land block to the south of the unit. Based on values recognized in Deer Mountain Unit #2, expansion into the new lands may lead to significant future increases in production and reserves.

Arcan's existing infrastructure and the current trend of falling service costs continue to make investments in this area economic even at the current low commodity prices. With focused drilling activity, finding, development and operating costs are expected to continue to decline in the Deer Mountain area. In addition, Arcan believes there is potential for future carbon dioxide injection scheme and for coalbed methane drilling potential in the uphole Mannville coals.

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

Fiscal quarter ended	2009	2008				2007		
	March	Dec.	Sept.	June	March	Dec.	Sept.	June
Operating								
Oil and NGLs (bbls per day)	1,110	1,102	1,087	1,241	1,083	794	929	792
Price (\$/bbl)	49.36	63.55	118.63	118.48	93.32	81.88	75.47	70.35
Natural gas (mcf per day)	1,444	2,199	2,144	2,174	2,366	1,965	2,246	2,980
Price (\$/mcf)	6.17	8.19	9.26	12.17	8.72	6.93	6.51	8.09
Barrels of oil equivalent (boe per day)	1,350	1,468	1,444	1,604	1,477	1,122	1,304	1,289
Financial (\$000's, except per share amounts)								
REVENUES								
Petroleum and natural gas	5,731	8,099	13,690	15,793	11,075	7,238	7,796	7,265
Royalties	(1,277)	(1,881)	(3,681)	(2,876)	(2,380)	(1,658)	(1,694)	(1,718)
Interest and other income	1	(220)	207	14	28	2	2	5
Unrealized loss on commodities	(644)	-	-	-	-	-	-	-
Net revenues	3,810	5,998	10,216	12,931	8,723	5,582	6,104	5,552
EXPENSES								
Operating	1,352	2,416	2,482	1,832	1,506	2,563	1,128	873
General and administrative	863	1,086	672	1,089	682	662	722	1,482
Stock-based compensation	193	337	159	187	189	179	174	219
Interest	272	291	311	337	298	190	274	177
Accretion	101	99	88	85	83	78	73	71
Depletion and depreciation	2,720	3,036	3,553	3,960	3,679	2,779	3,448	3,210
Total Expenses	5,501	7,265	7,265	7,490	6,437	6,451	5,819	6,032
Income (loss) before income taxes	(1,690)	(1,269)	2,951	5,441	2,286	(869)	287	(481)
Future income tax expense (reduction)	400	(495)	806	1,458	641	(739)	135	(125)
Net income (loss)	(1,290)	(772)	2,145	3,983	1,645	(131)	152	(356)
Net income (loss) per share- basic	(0.03)	(0.02)	0.06	0.11	0.04	(0.00)	0.00	(0.01)
Net income (loss) per share- diluted	(0.03)	(0.02)	0.05	0.10	0.04	(0.00)	0.00	(0.01)
Funds from operations	1,966	1,987	6,747	9,617	6,203	2,167	3,981	3,020
Per share – basic	0.05	0.05	0.18	0.25	0.17	0.06	0.12	0.10
Cash flow from operating (GAAP)	1,361	4,590	7,150	9,665	2,564	4,599	3,414	2,595
Operating Netbacks (\$/boe)								
Petroleum and natural gas revenues	47.16	59.95	103.03	108.21	82.37	70.12	65.01	61.94
Royalties	10.51	13.93	27.71	19.71	17.70	16.06	14.12	14.64
Operating and transportation expenses	11.12	17.88	18.68	12.55	11.20	24.83	9.40	7.44
Operating Netbacks	25.53	28.15	56.64	75.95	53.47	29.23	41.49	39.86
Total assets (\$000's)	150,398	149,724	143,006	132,263	133,213	123,285	107,175	101,498
Capital expended (\$000's)	3,177	9,980	11,323	4,062	9,556	17,697	11,500	6,120
Debt and working capital (\$000's)	(42,073)	(40,406)	(32,412)	(27,835)	(33,495)	(30,141)	(14,585)	(16,964)
Shares (000's)	37,869	37,869	37,869	37,869	37,827	36,492	36,471	33,635

Arcan plans to continue mainly investing funds in its two core oil areas, as can be seen from the ongoing growth in total assets. It will re-evaluate its growth in natural gas when commodity conditions warrant it.

Results of Operations

Drilling				
	Drilling		Success rate (%) (gross)	Working interest (%)
	Gross	Net		
Q1 / 2009	1	0.5	100	50

In the first quarter of 2009, Arcan drilled one gross (0.5 net) exploration well, achieving a 100% success rate and invested \$3.2 million of capital. First quarter operations were mainly focused at Hamburg where, in addition to the exploration well that was drilled, one gross (0.5 net) well was re-completed and tied in as a water injection well, two new pump jacks were installed, and a light vehicle all season access road was constructed.

Production			
	Quarter ended		
	March 31, 2009	March 31, 2008	December 31, 2008
Crude Oil and NGLs (bbbls per day)	1,110	1,083	1,102
Natural gas (mcf per day)	1,444	2,366	2,199
Total oil equivalent (boe per day)	1,350	1,477	1,468
Oil as a % of total volumes	82	73	75

Arcan's average production rate for the first quarter of 2009 was 1,350 boe per day, a 9% decrease over the first quarter of 2008 average of 1,477 boe per day and a 8% decrease over the fourth quarter 2008 average of 1,468 boe per day. Production was lower as a 70 boe per day well was sold at the end of 2008 as well as two Hamburg wells were shut down for a period of time for re-completion and pump jack installations. Production is estimated for April at over 1,700 boe per day.

Arcan's capital expenditures continue to be focused towards our oil properties as oil prices have continued to remain stable and elevated as compared to natural gas prices. Arcan expects the balance of its efforts for the remainder of 2009 will be directed to expanding the Hamburg light oil production base and water injection in Deer Mountain. Arcan's oil and NGL weighting was 82% for the first quarter of 2009, although it is estimated to be 60-70% light oil in the second quarter of 2009 as the new gas well significantly expands our natural gas production rates.

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 minor volume decreases were the main factors causing the net loss for the first quarter of 2009. While Arcan expects commodity price fluctuations over the upcoming year, overall price levels are expected to remain relatively flat, royalty rates are expected to decrease (due to announced drilling incentives that help offset the Alberta royalty structure), and operating costs are expected to remain in the \$10-15 per boe range. These factors as well as our oil hedge, stable base production and the production from the new gas well are expected to increase the netbacks received by Arcan for the balance of 2009.

Netbacks	Quarter ended		
	\$ thousands	March 31, 2009	March 31, 2008
Revenue	5,731	11,075	8,099
Royalties	1,277	2,380	1,881
Operating expenses	1,352	1,506	2,416
Operating netbacks	3,102	7,189	3,802
G&A	863	682	1,307
Interest expense	273	271	291
Corporate netbacks	1,966	6,236	2,205
Netbacks - \$ per boe			
Revenue	47.16	82.37	59.95
Royalties	10.51	17.70	13.93
Operating expenses	11.12	11.20	17.88
Operating netbacks	25.53	53.47	28.15
G&A	7.11	5.07	9.67
Interest expense	2.23	2.01	2.15
Corporate netbacks	16.19	46.39	16.32

Arcan's operating netback, defined as sales revenue, less royalties and operating expenses, was \$3.1 million in the first quarter of 2009, a 57% percent decrease from \$7.2 million recorded in the first quarter of 2008. Arcan's operating netback on a per boe basis was \$25.53 in the first quarter of 2009, a 52% percent decrease from \$53.47 per boe recorded in the first quarter of 2008. The decrease in operating netback was due to a 43% decrease in price that more than offset decreases in royalties and operating costs on a per boe basis in the first quarter of 2009 as compared to the same period in 2008. The impact of these price decreases has been dampened by the falling Canadian dollar versus the increasing U.S. dollar. The moderate decrease in the operating netback over the fourth quarter ended December 2008, both on a dollar basis as well as a boe basis, is due to the decreases in volumes and prices more than offsetting the decreased royalty and operating costs. The move to oil weighting has significantly increased Arcan's exposure to price upside in oil both in 2009 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 higher netbacks from oil than would have been achieved through natural gas.

Operating netbacks from oil were \$26.10 per boe and natural gas were \$23.66 per boe in the first quarter of 2009 versus \$59.33 per boe for oil and \$30.13 per boe for natural gas in the first quarter of 2008. Operating netbacks from oil were \$28.69 per boe and natural gas were \$24.29 per boe during the fourth quarter ended December 2008. Arcan's oil netbacks were stronger than natural gas netbacks for all periods due mainly to commodity pricing.

Arcan's corporate netback, defined as operating netback, less G&A and interest (income less expense), was \$2.0 million in the first quarter of 2009 as compared to \$6.2 million in the first quarter of 2008. The large decrease from 2008 related mainly to commodity prices. On a per boe basis, the corporate netback was \$16.19 in the first quarter of 2009 as compared to \$46.39 per boe in the first quarter of 2008 and \$16.32 per boe in the fourth quarter of 2008. 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, 2009 and 2008 are as follows:

Operating Netbacks by Area						
(Per Boe)	Three months ended March 31, 2009			Three months ended March 31, 2008		
Area	Hamburg	Deer Mountain	McLeod	Hamburg	Deer Mountain	McLeod
Daily Production	593	643	112	716	460	298
Revenue	47.78	48.41	37.06	84.38	95.60	57.43
Royalties	9.92	12.39	3.99	13.71	26.73	13.56
Operating Costs	7.92	13.47	17.40	9.65	12.18	13.75
Operating Netbacks	29.94	22.55	23.66	61.02	56.69	30.13

Revenues

Arcan posted reduced production revenues for the quarter ended March 31, 2009. The 9% decrease in production and 43% decrease in price resulted in a decrease in revenue of 48% to \$5.7 million in the first quarter of 2009 from the \$11.1 million recorded in the first quarter of 2008 and was down from the \$8.1 million in the fourth quarter of 2008.

Revenue and Realized Prices			
	Quarter ended		
(\$000's)	March 31, 2009	March 31, 2008	December 31, 2008
Oil and NGL	4,929	9,199	6,442
Natural gas	802	1,876	1,657
Total petroleum and natural gas revenue	5,731	11,075	8,099
\$ per boe			
Oil and NGL (per boe)	49.36	93.32	63.55
Natural gas (per mcf)	6.17	8.72	8.19
Total petroleum and natural gas revenue (per boe)	47.16	82.37	59.95
Benchmarks			
WTI (U.S. \$ per bbl)	43.18	97.86	59.06
Edmonton Light Sweet (Cdn. \$ per bbl)	50.27	98.08	63.21
Alberta Plant Gate (per mcf)	4.79	7.77	6.42
Cdn \$ per U.S. \$	0.804	0.995	0.83

Based on estimated production volume and commodity prices, Arcan expects to post higher revenues in the second quarter of 2009.

Commodity Prices

In the first quarter of 2009, Arcan realized average revenue per boe of \$47.16 as compared to \$82.37 per boe recorded in the first quarter of 2008 and \$59.95 in the fourth quarter of 2008. Arcan realized an average of \$49.36 per bbl of oil and NGL in the first quarter of 2009, a decrease of 47 percent from the \$93.32 per bbl realized in the first quarter of 2008 and down from the \$63.55 per bbl received in the fourth quarter of 2008. This compares to an average Edmonton Light Sweet price of \$50.27 per bbl in the first quarter of 2009. Oil and NGL prices received by the Company moved consistent with benchmark prices for the relative periods. The Company realized an average natural gas price of \$6.17 per mcf in the first quarter of 2009, a 29 percent decrease from the \$8.72 per mcf averaged in the first quarter of 2008 and a decrease from the \$8.19 per mcf received in the fourth quarter of 2008. This is consistent with the price changes at the Alberta Plant gate for the same periods. Arcan continues to receive a premium for its heat content on natural gas. Arcan anticipates oil prices will remain above US \$50 WTI and that gas prices may remain soft into the fall of 2009 at or lower than current levels. The weakness in the commodity prices has been mitigated somewhat by the weakness in the Canadian dollar. Based on anticipated production volumes Arcan expects to post higher revenues for the balance of 2009. Pricing may average over 20% higher in the second quarter of 2009 based on WTI pricing exceeding US \$50.00 per barrel.

All of Arcan's production to date has been sold on the spot market. Arcan had no hedged volumes during the quarter ended March 31, 2009. In March of 2009, Arcan entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. The Company recorded an unrealized loss on this oil contract of \$0.6 million for the quarter ended March 31, 2009. In Q1, 2009, oil continued to grow as a percent of Arcan's total revenues as Arcan invested in increasing its oil production.

Royalties

Royalty expense in the first quarter of 2009 was \$1.3 million or 22% of revenue, compared to \$2.4 million or 21% of revenue in the first quarter of 2008 and was \$1.9 million or 23% of revenue in the fourth quarter of 2008. Royalty structures changed due to the New Royalty Framework for Alberta ("NRF") implemented by the Alberta Government effective January 1, 2009. On a percentage of revenue basis royalties have remained relatively consistent compared to the first quarter of 2008 as reduced pricing has lowered royalty rates applicable under the NRF. Arcan anticipates that royalty rates will remain in the 20 – 30% of revenue range for the balance of 2009 if the commodity prices remain at current ranges and development drilling creates royalty credits to offset existing royalty structures.

Royalties	Quarter ended		
	March 31, 2009	March 31, 2008	December 31, 2008
Total (\$000s)	1,277	2,380	1,881
% of revenue	22	21	23
Per boe (\$)	10.51	17.70	13.93

Royalty rates fluctuate with the price of oil and gas and also when higher rates of production are experienced. The NRF applies significant royalty increases to higher rate producing wells, of which Arcan has a number. Subsequent to the NRF announcement the Alberta Government has offered drilling incentives that act as short term royalty reductions. Arcan continues to monitor and plan for the impact of the NRF.

Unrealized loss on commodity contracts

Unrealized loss on commodity contracts were \$0.6 million at March 31, 2009. Arcan will mark to market the fixed price swap and record gains and losses to the statement of operations for each reporting period. In March, Arcan entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009 totalling 137,500 barrels. The purpose of the contract is to protect a portion of Arcan's cash flows until the end of the year. Arcan purchased this contract from its bankers, the Alberta Treasury Branches. There are no amounts in prior periods as this is Arcan's first commodity contract.

Unrealized loss on commodity contracts	Quarter ended		
	March 31, 2009	March 31, 2008	December 31, 2008
Total (\$000s)	644	-	-
Per boe (\$)	5.30	-	-

Operating Expense (Including Transportation)

Lower costs offset reduced production volumes in the first quarter of 2009 resulting in a decrease in per boe operating costs of 1% to \$11.12 per boe of production from the \$11.20 per boe recorded in the first quarter of 2008. Total operating expenses in the first quarter of 2009 were \$1.4 million, down 10% from \$1.5 million in the first quarter of 2008 and were down from the \$2.4 million in the fourth quarter of 2008 as a result of cost control programs during the first quarter period.

Arcan's operating expenses have increased since 2006 due to Arcan moving toward oil-weighted production. Going forward through 2009, 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, 2009	March 31, 2008	December 31, 2008
Total (\$000s)	1,352	1,506	2,416
Per boe (\$)	11.12	11.20	17.88

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

Cash G&A expenses for the first quarter of 2009 increased on a per boe basis to \$7.11 per boe from \$5.07 per boe in the first quarter of 2008 and decreased from \$8.04 per boe in the fourth quarter of 2008. The change year over year for the first quarter periods, on a per boe basis, resulted from a 11% cost increase as well as a 59% decrease in recoveries associated with lower capital expenditure activities. Total cash G&A expenses for the first quarter of 2009, net of recoveries of \$0.1 million, were \$0.9 million, compared to \$0.8 million in the first quarter of 2008 after recoveries of \$0.2 million. In the fourth quarter of 2008, cash G&A was \$1.1 million net of recoveries of \$0.2 million. Arcan had 22 full-time employees as at March 31, 2009 as compared to fourteen employees as at March 31, 2008. Cash G&A expense per boe is forecast to remain flat on average for 2009 as volumes remain flat and costs are controlled.

Total cash G&A for three months ended March 31, 2009 of \$0.8 million was mainly comprised of wages of \$0.4 million, bank fees for the loan of \$0.1 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, 2009	March 31, 2008	December 31, 2008
Total	863	682	1,087
Per boe (\$)	7.11	5.07	8.04

Interest Expense

Interest expense in the first quarter of 2009 was \$0.3 million or \$2.23 per boe as compared to \$0.3 million or \$2.01 per boe in the first quarter of 2008 and \$2.15 per boe in the fourth quarter of 2008. The impact on interest expense from the increase in debt levels from \$22.6 million at March 31, 2008 to \$41.2 million at March 31, 2009 was offset by reduced interest rates. Arcan's management increased debt levels based on operational success. Arcan forecasts that the debt to annualized first quarter 2009 cash flow ratio is elevated at six to one. Arcan estimates that interest expense will increase as higher debt levels are maintained and interest rates increase. Arcan had an effective interest rate of 5.0% on its debt facility at March 31, 2009 compared to 5.5% at March 31, 2008.

Interest Expense, Net	Quarter ended		
	March 31, 2009	March 31, 2008	December 31, 2008
Total (\$000s)	272	271	291
Per boe (\$)	2.23	2.01	2.15

Funds from Operations

Funds from operations decreased by 68% in the first quarter of 2009 to \$2.0 million from \$6.2 million in the first quarter of 2008, and were flat from \$2.0 million in the last quarter of 2008. On a diluted per share basis, funds from operations decreased to \$0.05 in the first quarter of 2009 from \$0.16 in the same period of 2008.

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		
	March 31, 2009	March 31, 2008	December 31, 2008
(\$000's except per share and per boe)			
Cash flow from operating activities (per GAAP)	1,361	2,564	4,590
Change in non-cash working capital	605	3,639	(2,603)
Funds from operations	1,966	6,203	1,987
Per share	0.05	0.17	0.05
Per share – diluted	0.05	0.16	0.05
Per boe (Corporate Netbacks)	16.19	46.39	16.32

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 2009, calculated using the Black-Scholes option-pricing model. During the first quarter of 2009 Arcan granted no options. In 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. Changes to the various periods are as a result of inputs for calculations, varied amounts of option grants as well as relative numbers of options vesting during the periods.

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, 2009	March 31, 2008	December 31, 2008
Total	193	189	337
Per boe	1.59	1.40	2.50

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

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Arcan recorded \$2.7 million or \$22.38 per boe in depletion and depreciation expense in the first quarter of 2009 based on production volumes of 121,517 boe. The 26% decrease in depletion expense per boe as compared to the first quarter of 2008 is primarily the result of expanded reserves recognized in the fourth quarter of 2008. Depletion per boe was flat over the fourth quarter of 2008, where Arcan recorded \$22.47 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 \$11.4 million and included future development costs of \$38.2 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 decreased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Arcan recorded \$0.83 per boe of accretion expense in the first quarter of 2009, an increase from \$0.62 per boe in the first quarter of 2008 as a result of decreased volumes and higher accumulating obligations in 2009 compared to 2008.

Depletion, Depreciation and Accretion Expense			
	Quarter ended		
(\$000's except per boe)	March 31, 2009	March 31, 2008	December 31, 2008
Total	2,821	3,762	3,135
Per boe	23.21	27.98	23.20

Income and Other Taxes

A future tax reduction of approximately \$0.4 million has been recognized in the financial statements for the first quarter of 2009, which relates to the Company experiencing a pre-tax loss of \$1.7 million for the quarter. This differs from the first quarter of 2008 comparative period when pre-tax income was generated and a future tax expense of \$0.6 million was recorded. The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2009, which was 29.0% to pre-tax income due to non-deductible stock-based compensation and future tax rate differences.

As at March 31, 2009 the Company has no flow-through obligations outstanding.

Arcan estimates it has approximately \$110 million in tax pools. With capital spending in 2009 and reduced commodity prices, Arcan does not expect to be in a taxable position until late 2010 at the earliest.

Tax Expense (Reduction)			
	Quarter ended		
(\$000's except per boe)	March 31, 2009	March 31, 2008	December 31, 2008
Total	(400)	641	(496)
Per boe	(3.29)	4.77	(3.67)

Net Income (Loss)

The net loss for the first quarter of 2009 was \$1.3 million or \$0.03 per basic and diluted share, down from the \$1.6 million of net income created in the first quarter of 2008. 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, 2009	March 31, 2008	December 31, 2008
Total	(1,290)	1,645	(772)
Per share and diluted	(0.03)	0.04	(.02)
Per boe	(10.62)	12.23	(5.71)

Capital Expenditures

The first quarter of 2009 was focused on our Hamburg area. Capital expenditures for the first quarter of 2009 were \$3.2 million. This was down from the \$9.6 million spent in the first quarter of 2008. The capital program consisted of drilling and tying in one (0.5 net) exploration gas well, building access roads, installing pump jacks and converting one well to a water injector.

Capital Expenditure Summary	
(\$ millions)	Q1 2009
Land and seismic	0.2
Drilling and intangibles	1.1
Facilities and equipment	1.9
Total Capital – Cash expended	3.2

Share Capital and Option Activity

Share Capital (000s)	Q1 2009	Year 2008	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Weighted basic shares outstanding	37,829	37,543	37,829	37,829	37,793	36,716
Stock option dilution (treasury method)	-	982	-	1,267	1,680	948
Weighted diluted shares outstanding	37,829	38,525	37,829	39,096	39,473	37,664

On March 13, 2008, Arcan converted each of the 6,550,400 outstanding performance shares into 0.20380435 of a common share of the Company for an aggregate of 1,335,005 common shares of the Company.

Liquidity and Capital Resources

As at March 31, 2009, the Company had drawn \$41.1 million on its bank line and had a working capital deficit including bank debt of \$42.1 million. Arcan's management increased debt levels based on operational success in 2008. 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 2008 to accommodate operational successes while still maintaining adequate flexibility within the higher bank lines that also became available with the operational success. Arcan estimates 2009 annualized cash flow to 2009 net debt will remain high in the current commodity price environment. As at the date hereof, the Company has a \$50.0 million revolving credit facility with a Canadian chartered bank and is within its banking covenant. Arcan expects to be in a net debt position throughout 2009 and expects to be able to meet all of its obligations as they come due.

Capital expenditures in the second quarter are expected to be significantly less than cash flow, reducing Arcan's net debt position. Increases in production and prices will serve to increase cash flow for the second quarter. Arcan will review its capital expenditures for the second half of 2009 based on commodity prices, drilling costs and market outlook.

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 in the longer term is to achieve a ratio of less than 2 to 1. This ratio may increase at certain times as a result of operations and acquisitions, or significant commodity price declines as we have witnessed. 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, 2009, the Company's ratio of net debt to quarterly annualized funds from operations was 5.3 to 1. The Company's ratio increase at March 31, 2009 compared to December 31, 2008 is primarily a result of decreased 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 MD&A, Arcan is committed to drill and complete one (1.0 net) farm-in well for approximately \$2 million in the Deer Mountain area. 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 19, 2009, due to its capital expenditures and cash flow from wells, its debt and working capital deficiency is slightly improved at approximately \$41.0 million, which is also below its current debt facility. Arcan estimates that it will have capital expenditures less than cash flow in the second quarter of 2009.

Arcan expects its capital expenditure program to be significantly lower in 2009 than in 2008 and expects the expenditures to be financed through its bank facility, and available funds from operations. Additional equity may be available later in 2009 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 2009	Quarter Ended March 2008	Quarter Ended December 2008
Current assets	10,017	8,745	9,886
Less:			
Accounts payable and accrued liabilities	10,252	19,666	20,659
Bank loan	41,194	22,574	29,633
Fair value of commodity contracts	644	-	-
Working capital (deficiency)	(42,073)	(33,495)	(40,406)

Related Party Transactions

There were no related party transactions in the first quarter of 2009 or all of 2008.

A share purchase loan of \$100,000 (2008 - \$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 2%, on or before April 3, 2009. This loan is secured by the underlying shares.

Contractual Obligations

The Company has entered into, or is involved in, farm-in and/or farm-out agreements in the normal course of its business in 2009. As of the date of this MD&A, Arcan is committed to drill and complete one (1.0 net) farm-in well for approximately \$2 million in the Deer Mountain area.

Arcan has the following commitments:

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

	\$
2009	178,875
2010	238,500
2011	244,125
2012	249,750
2013	249,750
2014 and thereafter	624,375

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

	\$
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, 2009.

Outstanding Share Data

Arcan's issued share capital consists of:

	Quarter Ended March 31, 2009	Year Ended December 2008	May 19, 2009
Common shares	37,868,560	37,868,560	37,868,560
Warrants	586,631	586,631	586,631
Performance options	1,500,000	1,500,000	750,000
Stock options	3,638,500	3,638,500	3,638,500

On May 1, 2009 performance options issuable into 750,000 common shares at a \$1.00 exercise price expired unexercised. The remaining 750,000 performance warrants expire on March 1, 2010.

None of the officers or directors of Arcan at March 31, 2009 exercised any options or sold any shares of Arcan during the quarter ended March 31, 2009 or the year ended December 31, 2008 or during the period ended the date hereof.

OUTLOOK

Enhanced recovery schemes require up-front capital investments, with returns being generated over a period of years. Successful water injection operations at Hamburg and Deer Mountain were major milestones and are expected to generate increased recoveries over the longer term, creating significantly enhanced reserves and net asset value. With significant investments in infrastructure in place, Arcan now looks to continue to take advantage of its deep development inventory to continue to increase net asset value per share. Arcan's anticipated plans for 2009 and beyond include:

- Infill development drilling in the Hamburg GG pool in conjunction with our waterflood is aimed at increasing production and significantly extending the life and value of the asset. Arcan has had exploration successes over the past year and it is expanding its exploration base for next winter as Arcan moves into B.C. to take advantage of the more favourable royalty regime.
- At McLeod, Arcan has not focused on natural gas drilling since 2007 but continue to accumulate deeper, higher-impact targets for future drilling when natural gas prices improve. Arcan, if the farm-out is elected by its industry partner, may drill one play in this area whereby Arcan will earn 50% of a well, if successful. Drilling is anticipated to start in the third quarter of 2009.
- Expand Deer Mountain through the combination of Arcan's new battery, full water handling facility, expanded water injection scheme, drilling of new injection/production patterns in the unit and drilling of new patterns located off the unit on our 56 sections of undeveloped lands along the reef.

Arcan's 2009 capital program is expected to remain within cash flow and debt capacities and will continue to focus on growth through exploration and development in its three core areas of Deer Mountain, McLeod and Hamburg. The Company's strengths include \$110 million of tax pools, a strong slate of directors, experienced staff, excess productive capacity for tie-in, recently initiated and growing waterfloods, new drilling plans and growth potential. Arcan is building for the future!

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 forward-looking information in this MD&A.

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 also faces business risk in access to capital. 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. Current economic conditions involving significant negative global impacts to credit and equity markets have elevated the risks associated with this aspect of Arcan's business. To mitigate capital risks Arcan has negotiated its loan for renewal April 30, 2010, has reduced capital investments for 2009 to remain within its cash flow and available bank lines and is focusing operations on cost reductions.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, and currency exchange rates. Arcan may use hedging instruments to manage these risks at the direction and under the supervision of the Board of Directors. To support its 2009 cash flow, Arcan has entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. 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 has constructed a light vehicle all-weather road into its GG pool to allow it to mitigate some operation risk through increased access.

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.

Critical Accounting Estimates

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of Arcan. A comprehensive discussion of Arcan's significant accounting policies is contained in note 2 to the annual financial statements for the year ended December 31, 2008. For a discussion on critical accounting estimates the reader is directed to the annual MD&A for the year ended December 31, 2008. These documents are available under Arcan's SEDAR profile at www.sedar.com.

International financial reporting standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and reported results of operations.

In response, the Company has completed its high-level IFRS changeover plan and established a preliminary timeline for the execution and completion of the conversion project. The changeover plan was determined following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company. During the next phase of the project, scheduled to take place during 2009, the Company will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements. External advisors have been retained and will assist management with the project on an as needed basis. Staff training programs will continue in 2009 and be ongoing as the project unfolds.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

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.

Please refer to the "Abbreviations and Conversions" in the AIF for meanings of certain abbreviations used in this MD&A.

Forward-Looking Information and Statements

This management's discussion and analysis ("MD&A") contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "guidance", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: Arcan's income taxes, tax liabilities and tax pools; the volume and product mix of Arcan's oil and gas production; oil and natural gas prices and Arcan's risk management programs; the amount of asset retirement obligations; future liquidity and financial capacity and resources; cost and expense estimates; results from operations and financial ratios; cash flow sensitivities; royalty rates and their impact on Arcan's operations and results; future growth including development, exploration, and acquisition and development activities and related expenditures.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of Arcan including, without limitation: that Arcan will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; availability of debt and/or equity sources to fund Arcan's capital and operating requirements as needed; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the accuracy of the estimates of Arcan's reserve volumes; and certain commodity price and other cost assumptions. Arcan believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable at this time but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; unanticipated operating results or production declines; changes in tax or environmental laws or royalty rates; increased debt levels or debt service requirements; inaccurate estimation of Arcan's oil and gas reserves volumes; limited, unfavourable or no access to debt or equity capital markets; increased costs and expenses; the impact of competitors; reliance on industry partners; and certain other risks detailed from time to time in Arcan's public disclosure documents including, without limitation, those risks identified in this MD&A, and in Arcan's Annual Information Form for the year ended December 31, 2008, copies of which are available on Arcan's SEDAR profile at www.sedar.com.

The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and Arcan does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

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, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable	\$ 9,101,372	\$ 9,067,668
Prepays and deposits	728,859	817,944
Future income taxes	186,886	—
	<u>10,017,117</u>	<u>9,885,612</u>
Property, plant, and equipment (note 1)	140,380,481	139,838,263
	<u>\$ 150,397,598</u>	<u>\$ 149,723,875</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,251,927	\$ 20,658,604
Bank loan (note 2)	41,194,171	29,632,687
Fair value of commodity contracts (note 6)	644,434	—
	<u>52,090,532</u>	<u>50,291,291</u>
Asset retirement obligations (note 3)	4,971,119	4,785,428
Future income taxes	6,202,512	6,415,927
	<u>63,264,163</u>	<u>61,492,646</u>
Shareholders' equity:		
Share capital (note 4)	81,677,404	81,677,404
Share purchase loan (note 4)	(100,000)	(100,000)
Contributed surplus (note 5)	3,330,509	3,137,804
Retained earnings	2,225,522	3,516,021
	<u>87,133,435</u>	<u>88,231,229</u>
Commitments (note 7)		
	<u>\$ 150,397,598</u>	<u>\$ 149,723,875</u>

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit)

For the three months ended March 31,
(Unaudited)

	2009	2008
Revenue:		
Petroleum and natural gas	\$ 5,730,967	\$11,074,986
Interest and other revenue	665	27,619
Royalties	(1,277,489)	(2,380,139)
Unrealized loss on commodity contracts (note 6)	(644,434)	—
	<u>3,809,709</u>	<u>8,722,466</u>
Expenses:		
Operating	1,351,735	1,505,786
General and administrative	1,056,253	870,707
Interest	272,291	298,314
Accretion	100,803	82,818
Depletion and depreciation	2,719,427	3,678,828
	<u>5,500,509</u>	<u>6,436,453</u>
Income (loss) before income taxes	(1,690,800)	2,286,013
Future income tax reduction (expense)	400,301	(641,156)
Net income (loss) and comprehensive income (loss)	<u>(1,290,499)</u>	<u>1,644,857</u>
Retained earnings (deficit), beginning of period	3,516,021	(3,484,595)
Retained earnings (deficit), end of period	<u>\$ 2,225,522</u>	<u>\$(1,839,738)</u>
Net income (loss) per share (note 4):		
Basic and diluted	\$ (0.03)	\$ 0.04

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Cash Flows

For the three months ended March 31,
(Unaudited)

	2009	2008
Cash provided by (used in):		
Operating:		
Net income (loss)	\$(1,290,499)	\$ 1,644,857
Items not involving cash:		
Depletion and depreciation	2,719,427	3,678,828
Stock-based compensation	192,705	188,538
Accretion	100,803	82,818
Unrealized loss on commodity contracts	644,434	—
Future income tax expense (reduction)	(400,301)	641,156
Reclamation costs	—	(33,559)
	1,966,569	6,202,638
Change in non-cash working capital	(605,239)	(3,638,626)
	1,361,330	2,564,012
Financing:		
Bank loan	11,561,484	8,668,323
Investing:		
Property, plant and equipment	(3,176,757)	(9,556,341)
Change in non-cash working capital	(9,746,057)	(1,675,994)
	(12,922,814)	(11,232,335)
Change in cash	—	—
Cash, beginning of period	—	—
Cash, end of period	\$ —	—
Supplementary disclosure:		
Interest paid	\$ 291,383	\$ 426,856

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, 2009 and 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, 2008. The following disclosure is incremental to the disclosure included with the December 31, 2008 financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2008.

1. Property, plant and equipment:

	March 31, 2009	December 31, 2008
Petroleum and natural gas properties	\$ 175,939,336	\$ 172,677,691
Accumulated depletion and depreciation	(35,558,855)	(32,839,428)
	<u>\$ 140,380,481</u>	<u>\$ 139,838,263</u>

At March 31, 2009, petroleum and natural gas properties included undeveloped properties of \$11.4 million (March 31, 2008 - \$10.0 million), which have been excluded from the depletion calculation. Future development costs for proved reserves of \$38.2 million (March 31, 2008 - \$22.4 million) have been included in the depletion calculation.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 2

Three months ended March 31, 2009 and 2008
(Unaudited)

2. Bank loan:

	March 31, 2009	December 31, 2008
Bank loan	\$41,194,171	\$ 29,632,687

Arcan has a \$50 million operating revolving loan facility. This facility is with a Canadian chartered bank. Interest on the facility is calculated at the bank prime rate of interest, plus an applicable facility margin depending upon certain ratios. A re-determination of the borrowing base will occur on or before April 30, 2010. As the available lending limits of the facility is based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of the facility that will be determined at each scheduled review. The loan facility is secured by a general security agreement and is payable in full on demand. Pursuant to the terms of the credit facilities, the Company has provided the covenant that at all times its working capital ratio shall be not less than 1 to 1. The working capital ratio is defined under the terms of the facilities as current assets, including the undrawn portion of the revolving credit facility, to current liabilities, excluding any current bank indebtedness. The Company is compliant with this covenant at March 31, 2009. This facility had an effective interest rate of 5% at March 31, 2009 (March 31, 2008 – 5.50%).

3. 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, 2009 is \$11.2 million (December 31, 2008 - \$11.1 million), which will be incurred between 2010 and 2019. The majority of the costs will be incurred between 2010 and 2016. An inflation rate of 2% (2008 – 2%) was used to inflate the costs, and a credit-adjusted risk-free rate of 8% - 10% (2008 – 8% - 10%) was used to calculate the fair value of the asset retirement obligations.

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 4,785,428	\$ 4,169,384
Liabilities incurred	84,888	613,877
Liabilities eliminated on disposal	—	(41,152)
Accretion expense	100,803	354,657
Reclamation costs	—	(311,338)
Balance, end of period	\$ 4,971,119	\$ 4,785,428

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 3

Three months ended March 31, 2009 and 2008
(Unaudited)

4. 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, 2007	36,491,555	\$ 80,761,100
Issued pursuant to performance share conversion	1,335,005	2,136,008
Exercise of warrants	12,000	24,000
Exercise of stock options	30,000	80,000
Stock-based compensation on exercise of warrants and stock options	—	28,913
Share issue costs	—	(155)
Tax effect of share issue costs	—	40
Tax effect of flow-through shares issued in 2007	—	(1,352,502)
Balance, December 31, 2008 and March 31, 2009	37,868,560	\$ 81,677,404

(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, at December 31, 2007	1.93	598,631
Exercise of warrants	2.00	(12,000)
Balance, December 31, 2008 and March 31, 2009	1.93	586,631

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 4

Three months ended March 31, 2009 and 2008
(Unaudited)

4. Share capital (continued):

(c) Warrants (continued):

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

	Exercise Price (\$)	Number of Warrants
Issued July 2004	2.00	481,000
Issued April 2005	1.60	105,631
	1.93	586,631

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

(d) 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 2%, on or before April 3, 2009. This loan is secured by the underlying shares.

(e) Stock options:

	Three months ended March 31, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	3,638,500	\$ 2.27	3,265,000	\$ 2.51
Granted	—	—	1,039,000	1.95
Exercised	—	—	(30,000)	2.67
Forfeited	—	—	(58,500)	2.83
Cancelled	—	—	(577,000)	2.95
Stock options outstanding, end of period	3,638,500	\$ 2.27	3,638,500	\$ 2.27
Exercisable at period-end	2,165,667	\$ 2.06	2,034,000	\$ 2.04

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 5

Three months ended March 31, 2009 and 2008
(Unaudited)

4. Share capital (continued):

(f) Stock-based compensation:

There were no new options granted during the three months ended March 31, 2009.

The fair value of each option granted during the three months ended March 31, 2008 was estimated on the date of grant using the Black- Scholes option pricing model with the following weighted average assumptions:

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

(g) Performance options:

	March 31, 2009	December 31, 2008
Number outstanding	1,500,000	1,500,000
Exercisable	1,500,000	1,500,000
Weighted average remaining contractual life (years)	0.50	0.75
Weighted average exercise price (\$/share)	1.00	1.00

(h) Per share amounts:

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

	2009	2008
Weighted average shares outstanding:		
Basic	37,828,560	36,715,622
Diluted	37,828,560	37,663,614

In computing diluted per share amounts at March 31, 2009, 3,638,500 options (March 31, 2008 - 2,301,500 options), 1,500,000 performance options (March 31, 2008 - nil performance options), and 586,631 warrants (March 31, 2008 - 493,000 warrants) were excluded for the calculation as their effect was anti-dilutive.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 6

Three months ended March 31, 2009 and 2008
(Unaudited)

5. Contributed surplus:

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 3,137,804	\$ 2,294,064
Stock-based compensation	192,705	872,653
Transfer to share capital on exercise of warrants and options	—	(28,913)
Balance, end of period	\$ 3,330,509	\$ 3,137,804

6. Financial instruments:

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, 2009 the Company's receivables consisted of \$6.3 million (December 31, 2008 - \$6.6 million) from joint venture partners, \$2.1 million (December 31, 2008 - \$1.9 million) of receivables from petroleum and natural gas marketers and \$0.7 million (December 31, 2008 - \$0.6 million) of other trade receivables.

The carrying amount of accounts receivable represents the maximum credit exposure. The Company has an allowance for doubtful accounts as at March 31, 2009 of \$0.1 million, consistent with the amount provided during the year ended December 31, 2008.

As at March 31, 2009 and December 31, 2008 the Company considers its receivables to be aged as follows:

Aging	March 31, 2009	December 31, 2008
Not past due (less than 120 days)	\$ 6,672,288	\$ 6,993,229
Past due (over 120 days)	2,429,084	2,074,439
Total	\$ 9,101,372	\$ 9,067,668

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 7

Three months ended March 31, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

Liquidity risk

Accounts payable and the fair value of commodity contracts are considered due to or to be settled with suppliers or counterparties 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.

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.

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.

The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2009 or the year ended December 31, 2008.

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.

During the three months ended March 31, 2009 the Company entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. The Company recognized an unrealized loss of \$644,434 on the contract as at March 31, 2009.

The Company has assessed the sensitivity of the fair value of the oil commodity contract to fluctuations in forward crude oil prices. As at March 31, 2009, if the forward price of crude had been \$1.00 higher, net income for the period would have been approximately \$98,000 lower, due to higher unrealized loss on commodity contracts. An equal and opposite impact would have occurred to net income had the forward price of crude been \$1.00 lower.

The Company had no derivative contracts in place as at or during the year ended December 31, 2008.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 8

Three months ended March 31, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

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, 2009, 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 \$69,000 (2008 - \$38,000) higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been one hundred basis points higher. The sensitivity is higher in 2009 as compared to 2008 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, 2009 or the year ended December 31, 2008.

Capital management

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 of \$87.1 million (December 31, 2008 - \$88.2 million), bank debt of \$41.2 million (December 31, 2008 - \$29.6 million) and a working capital deficiency excluding bank debt, of \$0.9 million (December 31, 2008 - \$10.8 million). 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, 2009 and December 31, 2008, the Company's ratio of net debt to quarterly annualized funds from operations was 5.3 to 1 and 5.1 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at quarter end and year end was above the 2 to 1 ratio that management strives to maintain due to significant capital spending in 2008 and decreased commodity prices in the first quarter of 2009.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 9

Three months ended March 31, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

As a result of the global economic downturn, there is uncertainty in capital markets and as a result Arcan anticipates that it and others in the oil and gas sector will have limited access to capital and an increased cost of capital. Although the business and assets of the Company have not changed, financial institutions and investors have increased their risk premiums and their overall lending capacity and equity investment has diminished. The Company's bank completed its semi-annual borrowing base review on March 27, 2009, and the bank credit facility has been established at \$50 million. The next scheduled renewal is on or before April 30, 2010. The Company continually monitors its financing alternatives, and expects to finance its 2009 cash capital expenditures program from internally generated funds from operations.

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

	March 31, 2009	December 31, 2008
Working capital deficiency (including bank debt)	\$ 42,073,415	\$ 40,405,679
Cash flow from operating activities	1,361,330	4,590,366
Change in non-cash operating working capital	605,239	(2,603,621)
Funds from operations	1,966,569	1,986,745
Annualizing factor	x4	x4
Annualized funds from operations	\$ 7,866,276	\$ 7,946,980
Ratio	5.3 to 1	5.1 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 2). 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.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 10

Three months ended March 31, 2009 and 2008
(Unaudited)

7. Financial instruments (continued):

Fair value of financial instruments

The Company's financial instruments as at March 31, 2009 and December 31, 2008 includes accounts receivable, accounts payable and accrued liabilities, commodity contracts 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.

The fair value of financial contracts is determined by discounting the difference between the contracted price and published forward price rate curves as at the balance sheet date, using the remaining contracted notional volumes.

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

8. Commitments:

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

2009	\$ 178,875
2010	238,500
2011	244,125
2012	249,750
2013	249,750
2014 and thereafter	624,375

(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 two year period on a declining basis as follows:

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

Independent Businessman

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

President, Koa Resources Ltd.

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

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Registrar and Transfer Agent

Valiant Trust Company

Stock Exchange Listing

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