



INTERIM REPORT

Three and six months ended June 30, 2008



ARCAN RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

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

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

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

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

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

Non-GAAP Measurements

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

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

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

Funds from Operations				
	Three Months Ended		Six Months Ended	
(\$000's)	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Cash flow from operating activities (per GAAP)	9,665	2,595	12,229	3,417
Change in non-cash working capital	(48)	426	3,591	1,362
Funds from operations	9,617	3,021	15,820	4,779

Second Quarter 2008 Highlights

- ☆ The Company experienced record production, revenue, cash flow from operating activities, funds from operations, netbacks and net income;
- ☆ The Company increased production to 1,604 boe per day for the three months ended June 30, 2008 up 24% over the 1,289 boe per day in Q2, 2007 and 9% over Q1, 2008;
- ☆ Operating netbacks of \$75.95 per boe (revenue of \$108.21 per boe and operating cost of \$12.55 per boe) were up 91% from \$39.86 per boe in Q2, 2007 and up 42% from \$53.47 per boe in Q1, 2008;
- ☆ Funds from operations increased 218% to \$9.6 million (\$0.24 per diluted share) from \$3.0 million (\$0.10 per diluted share) in Q2, 2007 and up 55% from the \$6.2 million (\$0.16 diluted per share) in Q1, 2008;
- ☆ Drilled one (0.5 net) gas well in McLeod, drilled one (0.8 net) well and started drilling another (0.8 net) well in Deer Mountain;
- ☆ Expanded Deer Mountain with the acquisition of varied interests (30% to 100%) in over 50 sections of land in addition to a 19.5 section farm-in on lands immediately to the south of our unit; and
- ☆ Expanded its 2008 capital budget by approximately 50% from \$26 million to \$40 million, deploying these additional funds into expansion at Deer Mountain.

Financial and Operating Summary

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Financials (\$000s except per share amounts)				
Oil and NGL sales	13,385	5,072	22,583	8,861
Natural gas sales	2,408	2,193	4,285	3,610
Total petroleum and natural gas revenue	15,793	7,265	26,868	12,471
Funds from operations ¹	9,617	3,021	15,820	4,779
Per share basic ¹	0.25	0.10	0.42	0.16
Per share diluted ¹	0.24	0.10	0.41	0.16
Net Income (loss)	3,983	(356)	5,628	(932)
Per share basic	0.11	(0.01)	0.15	(0.03)
Per share diluted	0.10	(0.01)	0.15	(0.03)
Capital expenditures – cash	4,062	6,120	13,618	20,368
Total Assets	132,263	101,498	132,263	101,498
Total Liabilities	45,901	32,485	45,901	32,485
Shareholders' equity	86,362	69,013	86,362	69,013
Bank Loan, net of cash and cash equivalents	26,829	11,911	26,829	11,911
Net debt and working capital	27,835	16,964	27,835	16,964
Operating, General and Administrative (G&A)				
Production:				
Crude oil (bbls per day)	1,241	792	1,162	734
Natural gas (mcf per day)	2,174	2,980	2,270	2,454
Total (boe per day) (6:1)	1,604	1,289	1,541	1,143
Average realized price:				
Crude oil (\$ per bbl)	118.48	70.35	106.76	66.73
Natural gas (\$ per mcf)	12.17	8.09	10.37	8.13
Combined average (incl. processing revenue) (\$ per boe)	108.21	61.94	95.82	60.30
Netback (\$ per boe)				
Petroleum and natural gas sales	108.21	61.94	95.82	60.30
Royalties	19.71	14.64	18.74	15.32
Operating and transportation expenses	12.55	7.44	11.90	8.83
Operating netback	75.95	39.86	65.18	36.15
G&A expenses – cash	7.46	12.64	6.32	11.43
Interest expense – net	2.21	1.47	2.12	1.62
Corporate netback	66.28	25.75	56.74	23.10
Common Shares (000s)				
Shares outstanding, end of period	37,869	33,635	37,869	33,635
Weighted average shares ² - basic	37,793	31,721	37,254	30,318
- diluted	39,473	31,721	38,568	30,318

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

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

Overview

Light oil price increases and record oil production lifted Arcan's funds from operations for the three and six month periods ended June 30, 2008, to \$9.6 million and \$15.8 million, respectively, based on operating netbacks of \$75.95 and \$65.18, respectively. For the three months ended June 30, 2008 production was 1,604 boe per day which is 24% higher than the 1,289 boe per day average production for the three months ending June 30, 2007. The higher Q2, 2008 production levels incorporated elevated production from the test period for the new well in Hamburg which more than offset marginal declines due to the impact of the mid-June gas shut-in from McLeod. Production in Deer Mountain continues to perform well as we see pressure response from injection and new drilling locations being tied-in.

The increased cash flow allows Arcan to announce an increase to its budgeted capital program by 50% to \$40.0 million from \$26.0 million at the start of 2008. The expanded budget is mainly focused in Deer Mountain, increasing the drill program to 10 - 15 wells from the original 6 wells. The additional wells are expected to be mainly oriented at pool expansion and extension, both on the existing unit and onto the newly acquired lands.

In the second quarter of 2008, Arcan expended \$4.1 million of capital drilling one well and commencing a second well in Deer Mountain in addition to farming-in on 19.5 sections of land as well as purchasing varied interests (from 30% to 100%) on over 50 sections of land to the south and immediately adjacent to our Deer Mountain unit. As well, Arcan participated in drilling a partner operated gas well (0.5 net) in McLeod. Our investments currently have Arcan with a 70-80% weighting towards light oil as the Company continues to benefit from record oil prices.

Production is expected to be hampered in Q3, 2008 in McLeod as all production was shut-in for the month of July relating to a Nova Gas Transmission Limited ("Nova") outage and only re-commenced at the start of August. In Hamburg, a prolific new well was producing in Q2, 2008, during its new oil period, and will be shut in for the majority of the third quarter of 2008. Arcan continues its efforts to have its Hamburg Maximum Rate limitations ("MRL's"), and thereby production, lifted. Accounting for the impact of these issues, and unless the MRL's in Hamburg are lifted, Arcan expects to produce between 1,200 and 1,500 boe per day in the third quarter of 2008. Arcan anticipates wells drilled in Deer Mountain will be completed and will add to production late in Q3 and into Q4 of 2008, reducing the negative impact of the Nova outage. Arcan's production and investment in drilling continues to be levered to high netback light oil.

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

At June 30, 2008 Arcan had 19 full time employees.

OVERVIEW OF ARCAN'S CORE AREAS

Hamburg

Production averaged 975 boe per day with \$81.94 per boe operating netbacks for the three months ended June 30, 2008 up from 393 boe per day and \$57.08 per boe operating netbacks in the three months ended June 30, 2007. For the six months ended June 30, 2008 production averaged 846 boe per day with \$73.08 per boe operating netbacks up from 303 boe per day and \$50.08 per boe operating netbacks in the six months ended June 30, 2007. Strong production rates in the second quarter reflected the capability of our new well at 13-17, which was drilled in the first quarter of 2008. The new well produced at high rates during its new oil well production period and was shut-in due to over production.

Arcan has drilled a total of seven wells in the area of the GG Pool located in Twp. 096 Range 09W6M. So far, only three (two producers and one injector) of these wells are within the boundaries of the approved Enhanced Recovery Scheme and have Good Production Practice ("GPP") status with the balance of the wells remaining on limited rates by MRL's.

In addition to the five to six additional locations identified within the area of the GG Pool which could be drilled this coming winter, Arcan anticipates completing the exploration well it drilled at the end of last winter. Arcan has numerous ready to drill exploration plays in the Hamburg area, both in Alberta and in British Columbia and continues to add to its drill ready inventory for this winter's exploration. Arcan is assessing budget availability as well as other avenues to facilitate its exploration programs.

McLeod

Production averaged 140 boe per day with \$48.72 per boe operating netbacks for the three months ended June 30, 2008, down from 497 boe per day with \$32.07 per boe netbacks in the three months ended June 30, 2007. Production averaged 219 boe per day with \$36.07 per boe operating netbacks for the six months ended June 30, 2008, down from 416 boe per day with \$30.43 per boe netbacks in the six months ended June 30, 2007. Production declines reflect both shut in periods as well as normal declines from lack of investment. Over the past eighteen months Arcan has reduced drilling in McLeod to focus on higher netback oil.

In mid-June 2008, Nova commenced a planned shut down in the McLeod area which shut-in Arcan's production from McLeod until the start of August. The production impact will be reflected in the third quarter of 2008. The majority of these wells, plus an additional 100 boe per day well that has been shut-in since March, are back on production now. With the wells back on-line, production from the area is now averaging approximately 250 boe per day.

Arcan participated in drilling one (0.5 net) well in McLeod during the second quarter of 2008. The well has been subsequently completed and should be on-stream in Q4, 2008 at an initial rate of 200-300 (100-150 net) boe per day, subject to pipeline capacity. Arcan anticipates drilling additional wells to offset the most recent development well. Four additional locations with proposed drilling depths of around 2,500 meters have been surveyed in the McLeod Area and other deeper opportunities in the area are being accumulated.

Deer Mountain

Production averaged 485 boe per day with \$81.42 per boe operating netbacks for the three months ended June 30, 2008 up from 398 boe per day with \$38.08 per boe operating netbacks in the three months ended June 30, 2007. Production averaged 473 boe per day with \$69.39 per boe operating netbacks for the six months ended June 30, 2008 up from 395 boe per day with \$36.43 per boe operating netbacks in the six months ended June 30, 2007. In Deer Mountain pressure maintenance remains the key to maximizing asset potential. Arcan has been injecting over 1,000 boe of water per day for the majority of the second quarter of 2008 and has subsequently drilled an additional water source well.

Arcan drilled one (0.8 net) oil well and commenced drilling one (0.8 net) step out well in Deer Mountain in the second quarter of 2008. Subsequent to the end of the second quarter the two wells have been completed and another (0.8 net) step out well has been drilled. The two step out wells, drilled on the northern lobe of the reef off of our proprietary 3D seismic, have verified the presence of reservoir to the east of the existing productive wells and have established further drilling locations on the eastern edge of the field as well as adding additional validity to our seismic interpretation. These three new wells are anticipated to be on production by the end of August 2008. One well on the new eastern edge will likely be turned into an injector and Arcan anticipates that the production and related injection system should be on-stream by the end of 2008. These successful wells have lead to an expanded drilling and capital budget in this area for 2008.

During the second quarter of 2008 Arcan expanded its interests in the area with the acquisition of varied interests (30% to 100%) in over 50 sections and a 19.5 section farm-in on lands immediately to the south of our unit. Arcan plans to drill its first test well on these new lands late in the third quarter of 2008. A successful well could generate an extensive oil resource play and generate significant follow-up and extension opportunities.

Arcan plans to employ a second rig to expedite the drilling process as we have lined up an eight to ten well development and step-out program based on the expanded capital budget. Arcan's Deer Mountain property contains a large inventory of low risk development infill oil wells with high reserve impact and high netbacks. Additional success on the newly acquired lands would add significantly to that inventory.

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

Fiscal quarter ended	2008		2007				2006	
	June	March	Dec.	Sept.	June	March	Dec.	Sept.
Operating								
Oil and NGLs (bbls per day)	1,241	1,083	794	929	792	674	531	221
Price (\$/bbl)	118.48	93.32	81.88	75.47	70.35	62.42	63.02	73.07
Natural gas (mcf per day)	2,174	2,366	1,965	2,246	2,980	1,922	1,466	1,303
Price (\$/mcf)	12.17	8.72	6.93	6.51	8.09	8.19	7.46	6.47
Barrels of oil equivalent (boe per day)	1,604	1,477	1,122	1,304	1,289	995	775	438
Financial (\$000's, except per share amounts)								
REVENUES								
Petroleum and natural gas	15,793	11,075	7,238	7,796	7,265	5,206	4,042	2,262
Royalties	(2,876)	(2,380)	(1,658)	(1,694)	(1,718)	(1,451)	(978)	(460)
Interest income	14	28	2	2	5	1	1	76
Net revenues	12,931	8,723	5,582	6,104	5,552	3,756	3,065	1,878
EXPENSES								
Operating	1,832	1,506	2,563	1,128	873	954	552	239
General and administrative	1,089	682	662	722	1,482	881	776	576
Stock-based compensation	187	189	179	174	219	138	156	221
Interest	337	298	190	274	177	163	108	4
Accretion	85	83	78	73	71	67	62	30
Depletion and depreciation	3,960	3,679	2,779	3,448	3,210	2,315	1,689	1,017
Total Expenses	7,490	6,437	6,451	5,819	6,032	4,518	3,343	2,087
Income (loss) before income taxes	5,441	2,286	(869)	287	(481)	(761)	(278)	(209)
Future income tax expense (reduction)	1,458	641	(739)	135	(125)	(185)	(147)	(22)
Net income (loss)	3,983	1,645	(131)	152	(356)	(576)	(131)	(187)
Net income (loss) per share- basic	0.11	0.04	(0.00)	0.00	(0.01)	(0.02)	(0.01)	(0.01)
Net income (loss) per share- diluted	0.10	0.04	(0.00)	0.00	(0.01)	(0.02)	(0.01)	(0.01)
Funds from operations	9,617	6,203	2,167	3,981	3,020	1,758	1,629	1,060
Per share - basic	0.25	0.17	0.06	0.12	0.10	0.06	0.06	0.04
Operating Netbacks (\$/boe)								
Petroleum and natural gas revenues	108.21	82.37	70.12	65.01	61.94	58.14	57.27	56.10
Royalties	19.71	17.70	16.06	14.12	14.64	16.20	13.86	11.40
Operating and transportation expenses	12.55	11.20	24.83	9.40	7.44	10.65	7.82	5.92
Operating Netbacks	75.95	53.47	29.23	41.49	39.86	31.29	35.59	38.78
Total assets (\$000's)	132,263	133,213	123,285	107,175	101,498	97,745	82,019	69,372
Capital expended (\$000's)	4,062	9,556	17,697	11,500	6,120	23,590	10,369	23,407
Debt and working capital (\$000's)	(27,835)	(33,495)	(30,141)	(14,585)	(16,964)	(29,144)	(15,745)	(12,031)
Shares (000's)	37,869	37,827	36,492	36,471	33,635	29,013	26,534	24,858

Results of Operations

Drilling				
	Drilling		Success rate (%) (gross)	Working interest (%)
	Gross	Net		
Q1 / 2008	1	1.0	100	100
Q2 / 2008	3	2.1	100	71

In the second quarter of 2008, Arcan drilled three gross (2.1 net) development wells, achieving a 100% success rate and investing \$4.1 million of capital. Operations were focused at Deer Mountain where one gross (0.8 net) well was drilled and one gross (0.8 net) well commenced drilling. Arcan also participated in one partner operated gas well (0.5 net) in McLeod during the quarter. Additional capital was expended acquiring lands immediately to the south of our Deer Mountain unit.

Production						
	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Oil and NGL (bbls per day)	1,241	792	57	1,162	734	58
Natural gas (mcf per day)	2,174	2,980	(27)	2,270	2,454	(7)
Total (boe per day)	1,604	1,289	24	1,541	1,143	35
Oil as a % of total volumes	77	61	-	75	64	-

Arcan's average production rate for the second quarter of 2008 was 1,604 boe per day, a 24% increase over the second quarter of 2007 average of 1,289 boe per day and a 9% increase over the first quarter 2008 average of 1,477 boe per day as production was added in Hamburg and Deer Mountain areas offsetting reductions in McLeod. Arcan's average production rate for the first half of 2008 was 1,541 boe per day, a 35% increase over the first half of 2007 where Arcan averaged 1,143 boe per day as production was added in Arcan's Deer Mountain and Hamburg areas.

Production is estimated to be lower in the third quarter of 2008 as McLeod was shut-in for a month and we await GPP approvals for MRL restricted wells in Hamburg. Arcan expects the majority of its efforts for the remainder of 2008 will be directed to expanding the Deer Mountain light oil base. Arcan's oil and NGL weighting remains well over 70% and Arcan estimates that this weighting towards oil and NGL's will continue for the balance of 2008.

Netbacks

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

Corporate Average Netbacks						
	Three Months Ended			Six Months Ended		
\$ thousands	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Revenue	15,793	7,265	117	26,868	12,471	115
Royalties	2,876	1,718	67	5,256	3,168	66
Operating expenses	1,832	873	110	3,338	1,827	83
Operating netbacks	11,085	4,674	137	18,274	7,476	144
G&A - cash	1,089	1,482	(27)	1,771	2,363	(25)
Interest expenses - net	323	172	88	594	334	78
Corporate netbacks	9,673	3,020	220	15,909	4,779	233
Netbacks - \$ per boe						
Revenue	108.21	61.94	75	95.82	60.30	59
Royalties	19.71	14.64	35	18.74	15.32	22
Operating expenses	12.55	7.44	69	11.90	8.83	35
Operating netbacks	75.95	39.86	91	65.18	36.15	80
G&A - cash	7.46	12.64	(41)	6.32	11.43	(45)
Interest expenses	2.21	1.47	50	2.12	1.62	31
Corporate netbacks	66.28	25.75	157	56.74	23.10	146

Arcan's operating netback, defined as sales revenue, less royalties and operating expenses, was \$11.1 million in the second quarter of 2008, a 137% percent increase from \$4.7 million recorded in the second quarter of 2007. Arcan's operating netback was \$18.3 million in the first half of 2008, a 144% percent increase from \$7.5 million recorded in the first half of 2007. The increase in operating netback was based on a 117% increase in revenue for the quarterly comparisons and a 115% increase in revenue from the first half of 2008 versus the same period in 2007. The operating netback for all 2008 periods are higher than in 2007 as increased volumes and commodity prices more than offset increases in royalties and operating costs. The impact of these price increases has been dampened by the increase in the value of the Canadian dollar versus the U.S. dollar.

Arcan's operating netback on a per boe basis was \$75.95 in the second quarter of 2008, a 91% percent increase from \$39.86 per boe recorded in the second quarter of 2007. The increase in operating netback was due to a 75% increase in price that more than offset increases in royalties and operating costs on a per boe basis in the second quarter of 2008 as compared to the same period in 2007. The increase in the operating netback over the first quarter ended March 31, 2008, both on a dollar basis as well as a boe basis, is due to the increases in volumes and prices more than offsetting the increased royalty and operating costs. Arcan's operating netback on a per boe basis was \$65.18 for the six months ended June 30, 2008 versus \$36.15 for the six month period ended June 30, 2007. This 80% percent increase on a year over year basis was due to a 59% increase in price that more than offset increases in royalties and operating costs on a per boe basis. The move to oil weighting has significantly increased Arcan's exposure to price upside both in 2007 and particularly in 2008. However, oil properties do present additional operating costs which can be large on a boe basis in the early stages of a waterflood. The net effect to Arcan was significantly higher netbacks from oil than would have been achieved through natural gas.

Operating netbacks from oil were \$81.76 per boe and natural gas were \$48.72 per boe in the second quarter of 2008 versus \$45.62 per boe for oil and \$30.08 per boe for natural gas in the second quarter of 2007. Operating netbacks from oil were \$71.76 per boe and natural gas were \$36.07 per boe in the first half of 2008 versus \$40.16 per boe for oil and \$29.21 per boe for natural gas in the first half of 2007. Operating netbacks from oil were \$59.33 per boe and natural gas were \$30.13 per boe during the first quarter ended March 31, 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 \$9.7 million in the second quarter of 2008 as compared to \$3.0 million in the second quarter of 2007. Arcan's corporate netback was \$15.9 million in the first half of 2008 as compared to \$4.8 million in the first half of 2007. The large increase from the 2007 periods related mainly to volumes and commodity prices. On a per boe basis, the corporate netback was \$66.28 in the second quarter of 2008 as compared to \$25.75 per boe in the second quarter of 2007 and \$46.39 per boe in the first quarter of 2008. On a per boe basis, the corporate netback was \$56.74 in the first half of 2008 as compared to \$23.10 per boe in the first half of 2007. Changes in netbacks and the components thereof are detailed by category in the above table.

Operation details by area for the three months ended June 30, 2008 and 2007 are as follows:

Operating Netbacks by Area						
(Per Boe)	Three months ended June 30, 2008			Three months ended June 30, 2007		
Area	Hamburg	Deer Mountain	McLeod	Hamburg	Deer Mountain	McLeod
Daily Production	975	485	140	393	398	497
Revenue	105.90	129.12	73.97	69.64	69.98	49.96
Royalties	15.85	29.90	11.65	6.62	19.04	13.44
Operating Costs	8.11	17.80	13.59	5.94	12.86	4.45
Operating Netbacks	81.94	81.42	48.73	57.08	38.08	32.07

Arcan focused on its oil properties in 2007 and into 2008 as netbacks from its oil properties continue to outpace natural gas netbacks. On a year to date basis Hamburg is 846 boe per day, McLeod is 219 boe per day and Deer Mountain is 473 boe per day, changing 179%, (47%) and 20%, respectively over the same period in 2007.

Revenues

Arcan posted record production revenues for the three and six month periods ended June 30, 2008. The 24% increase in production over the same quarter in 2007 resulted in an increase in revenue of 117% to \$15.8 million from the \$7.3 million recorded in the second quarter of 2007 and was up from the \$11.1 million in the first quarter of 2008. Year to date Arcan also posted record production revenues with a 35% increase in production over the same six month period in 2007. The year to date production increases resulted in an increase in revenue of 115% to \$26.9 million from the \$12.5 million recorded in the first half of 2007.

Revenue and Realized Prices						
	Three Months Ended			Six Months Ended		
(\$000's)	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Oil and NGL	13,385	5,072	164	22,583	8,861	155
Natural gas	2,408	2,193	10	4,285	3,610	19
Total petroleum and natural gas revenue	15,793	7,265	117	26,868	12,471	115
\$ per boe						
Oil and NGL (per boe)	118.48	70.35	68	106.76	66.73	60
Natural gas (per mcf)	12.17	8.09	50	10.37	8.13	28
Total petroleum and natural gas revenue (per boe)	108.21	61.94	75	95.82	60.30	59
Benchmarks						
WTI (\$U.S. per bbl)	123.80	64.95	91	111.14	61.58	80
Edmonton Light Sweet (\$Cdn. per bbl)	126.41	72.69	74	112.26	70.14	60
Alberta Plant Gate (per mcf)	10.08	6.94	45	8.96	7.30	23
Cdn \$ per U.S. \$.9938	.9111	9	.9948	.8708	14

Based on currently dropping commodity prices and estimated lower production volumes from the shut in well in Hamburg and the shut in gas wells for all of July in McLeod, Arcan expects to post lower revenues in the second half of 2008.

Commodity Prices

In the second quarter of 2008, Arcan realized average revenue per boe of \$108.21 as compared to \$61.94 per boe recorded in the second quarter of 2007 and \$82.37 per boe in the first quarter of 2008. Arcan realized an average of \$118.48 per bbl of oil and NGL in the second quarter of 2008, an increase of 68 percent from the \$70.35 per bbl realized in the second quarter of 2007 and up from the \$93.32 per bbl received in the first quarter of 2008. This compares to an average Edmonton Light Sweet price of \$126.41 per bbl in the second quarter of 2008. The Company realized an average natural gas price of \$12.17 per mcf in the second quarter of 2008, a 50% increase from the \$8.09 per mcf averaged in the second quarter of 2007 and an increase from the \$8.72 per mcf received in the first quarter of 2008. This is consistent with the price changes at the Alberta Plant gate of \$10.08 per mcf for the same period and is up from \$7.77 per mcf in the first quarter of 2008.

In the first half of 2008, Arcan realized average revenue per boe of \$95.82 up 59% as compared to \$60.30 per boe recorded in the first half of 2007. Arcan realized an average of \$106.76 per bbl of oil and NGL in the first half of 2008, an increase of 60% from the \$66.73 per bbl realized in the first half of 2007. This compares to an average Edmonton Light Sweet price of \$112.26 per bbl in the first half of 2008. The Company realized an average natural gas price of \$10.37 per mcf in the first half of 2008, a 28% increase from the \$8.13 per mcf averaged in the first half of 2007.

Based on anticipated production volumes and reduced commodity prices, Arcan expects to post lower revenues for Q3, 2008 and awaits GPP in Hamburg to make volume predictions for Q4, 2008. Pricing may average lower than the Q2, 2008 Edmonton Light Sweet price of \$126.41 per bbl in Q3, 2008 based on WTI pricing going below \$120.00 per barrel and Nymex gas going under \$9.00 per mcf.

All of Arcan's production to date has been sold on the spot market. Arcan had no hedging during the quarter ended June 30, 2008 and has no hedging in place at this time. Oil continues to grow as a percent of Arcan's total revenues as Arcan invests in increasing its oil production. Arcan's revenue would have been higher except for the impact in the erosion of the Canadian dollar versus the U.S. currency as the average price for WTI has climbed 91% in the second quarter of 2008 versus the same quarter in 2007, while Edmonton par has only increased 74% in the second quarter of 2008 versus the same quarter in 2007 due to the impact of the softening U.S. currency against the Canadian dollar.

Royalties

Royalty expense in the second quarter of 2008 was \$2.9 million or 18% of revenue, compared to \$1.7 million or 24% of revenue in the second quarter of 2007 and was \$2.4 million or 21% of revenue in the first quarter of 2008. Royalty expense in the first half of 2008 was \$5.3 million or 20% of revenue, compared to \$3.2 million or 25% of revenue in the first half of 2007. The increase in total royalties was primarily the result of increased revenues. On a percentage of revenue basis royalties have decreased compared to the second quarter of 2007 as during the 2007 year to date periods and the first quarter of 2008 as Arcan was receiving royalty holidays on a number of productive wells and is also receiving Gas Cost Allowance credits on a monthly basis. Arcan anticipates that royalty rates will remain in the 21 – 28% of revenue range for the balance of 2008, as a number of wells have completed their royalty holidays.

Royalties						
	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Total (\$000s)	2,876	1,718	67	5,256	3,168	66
% of revenue	18	24	-	20	25	-
Per boe (\$)	19.71	14.64	35	18.74	15.32	22

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

Operating Expense (Including Transportation)

Higher volumes only partially offset the generally rising costs in the second quarter of 2008 resulting in an increase in per boe operating costs of 69% to \$12.55 per boe of production from the \$7.44 per boe recorded in the second quarter of 2007. Total operating expenses in the second quarter of 2008 were \$1.8 million, up 110% from \$0.9 million in the second quarter of 2007 and were up from the \$1.5 million in the first quarter of 2008 as a result of non-capitalized work-overs and generally higher field costs. Operating expense in the first half of 2008 was \$3.3 million or \$11.90 per boe, compared to \$1.8 million or \$8.83 per boe in the first half of 2007. Operating costs have increased due to volume increases, the shift to a higher oil weighting of production and busy industry conditions causing price inflation.

Arcan's operating expenses have increased since 2007 due to Arcan moving toward oil-weighted production. Going forward through 2008, Arcan's continued transition towards oil-weighted production, including costs to operate the enhanced recovery, is anticipated to result in \$10 - \$15 per boe average operating costs per unit of production.

Operating Expenses (Including Transportation)						
	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Total (\$000s)	1,832	873	110	3,338	1,827	83
Per boe (\$)	12.55	7.44	69	11.90	8.83	35

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

Cash G&A expenses for the second quarter of 2008 decreased on a per boe basis to \$7.46 per boe from \$12.64 per boe in the second quarter of 2007 and increased from \$5.07 per boe in the first quarter of 2008. The change on a per boe basis resulted primarily from higher volumes and no executive bonuses paid in 2008. Total cash G&A expenses for the second quarter of 2008, net of recoveries and capitalized amounts of \$0.1 million, were \$1.1 million, compared to \$1.5 million in the second quarter of 2007 after recoveries and capitalized amounts of \$0.1 million. In the first quarter of 2008, cash G&A was \$0.8 million net of recoveries and capitalized amounts of \$0.2 million. Staff bonuses elevated Q2, 2008 cash G&A over Q1, 2008. Arcan had 19 full-time employees as at June 30, 2008 as compared to fourteen employees as at June 30, 2007.

Cash G&A expenses for the first half of 2008 decreased on a per boe basis to \$6.32 per boe from \$11.43 per boe in the first half of 2007. The change on a per boe basis resulted primarily from higher volumes and no executive bonuses. Total cash G&A expenses for the first half of 2008, net of recoveries and capitalized amounts of \$0.2 million, were \$1.8 million, compared to \$2.4 million in the first half of 2007 after recoveries and capitalized amounts of \$0.3 million.

Total cash G&A for the three months ended June 30, 2008 of \$1.1 million was mainly comprised of wages of \$0.5 million and rent of \$0.1 million. For the six months ended June 30, 2008 cash G&A totalled \$1.8 million, and was comprised mainly of wage costs of \$0.9 million and rent of \$0.2 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 decline as production increases.

G&A Expenses						
	Three Months Ended			Six Months Ended		
(\$000s except per boe)	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Total	1,144	1,575	(27)	1,981	2,659	(25)
Recoveries and capitalized amounts	55	93	(41)	210	296	(29)
Net G&A	1,089	1,482	(27)	1,771	2,363	(25)
Net G&A expense per boe (\$)	7.46	12.64	(41)	6.32	11.43	(45)

Interest Expense

Interest expense in the second quarter of 2008 was \$0.3 million or \$2.31 per boe as compared to \$0.2 million or \$1.51 per boe in the second quarter of 2007 and \$2.22 per boe in the first quarter of 2008. Interest expense for the six month period ended June 30, 2008 was \$0.6 million or \$2.27 per boe as compared to \$0.3 million or \$1.65 per boe in the six month period ended June 30, 2007. The increase in interest expense primarily resulted from an increase in debt levels. Arcan's management increased debt levels based on operational success. Arcan expects that the debt to annualized third quarter 2008 cash flow ratio will be less than two to one. Arcan estimates that interest expense will increase as higher debt levels are maintained but expects interest per boe to decrease as production volumes are elevated. The increase in interest expense from the prior year resulted from an increase in average debt levels. Arcan had an effective interest rate of 4.75% on its debt facility at June 30, 2008 compared to 6.25% at June 30, 2007.

Interest Expense						
	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Total (\$000s)	337	177	90	636	340	87
Per boe (\$)	2.31	1.51	53	2.27	1.65	38

Funds from Operations

Funds from operations increased by 218% in the second quarter of 2008 to \$9.6 million from \$3.0 million in the second quarter of 2007, and increased from \$6.2 million in the first quarter of 2008. On a diluted per share basis, funds from operations increased by 140% to \$0.24 in the second quarter of 2008 from \$0.10 in the same period of 2007. Funds from operations increased by 231% in the first half of 2008 to \$15.8 million from \$4.8 million in the first half of 2007. On a diluted per share basis, funds from operations increased by 156% to \$0.41 in the first half of 2008 from \$0.16 in the same period of 2007.

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

Funds from Operations						
(\$000's except per share and per boe)	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Cash flow from operating activities (per GAAP)	9,665	2,595	272	12,229	3,417	258
Change in non-cash working capital	(48)	426	(111)	3,591	1,362	163
Funds from operations	9,617	3,021	218	15,820	4,779	231
Per share (\$)	0.25	0.10	150	0.42	0.16	163
Per share – diluted (\$)	0.24	0.10	140	0.41	0.16	156
Per boe (\$)	65.89	25.75	156	56.42	23.10	144

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

Stock-Based Compensation

Arcan recorded stock-based compensation expense of \$0.2 million in the second quarter of 2008, calculated using the Black-Scholes option-pricing model. During the first half of 2008 Arcan granted 419,500 options at a weighted average exercise price of \$2.23 per option. The following assumptions were used to calculate stock-based compensation for the first half of 2008: zero dividend yield; expected volatility of 40%; risk-free rate of 3.33%; and expected life of five years. In 2007 and 2008 all options granted have vesting terms with one-third of the options vesting on each of the first three anniversary dates and expire after five years.

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

Stock-Based Compensation Expense						
	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Total (\$000's)	187	219	(15)	376	357	5
Per boe (\$)	1.28	1.87	(32)	1.34	1.73	(23)

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

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Arcan recorded \$4.0 million or \$27.13 per boe in depletion expense in the second quarter of 2008 based on production volumes of 145,949 boe. The 1% decrease in depletion expense per boe as compared to the second quarter of 2007 is primarily the result of 2007 facility investment activities. Depletion per boe decreased from the first quarter of 2008, where Arcan recorded \$27.36 per boe. Arcan recorded \$7.6 million or \$27.24 per boe in depletion expense in the first half of 2008 based on production volumes of 280,399 boe. The 2% increase in depletion expense per boe as compared to the first half of 2007 is primarily the result of facility investment activities in 2007. The Company plans to decrease the depletion per boe amount in future years by adding reserves through an effective exploration and development program.

The Company excluded from its depletion and depreciation calculation costs associated with undeveloped land and seismic of \$10.7 million and included future development costs of \$21.9 million.

Arcan uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Arcan recorded \$0.58 per boe of accretion expense in the second quarter of 2008, a decrease from \$0.61 per boe in the second quarter of 2007 as a result of increased volumes in 2008 compared to 2007.

Depletion, Depreciation and Accretion Expense						
	Three Months Ended			Six Months Ended		
(\$000's except per boe)	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Depletion and depreciation	3,960	3,210	23	7,638	5,526	38
Per boe (\$)	27.13	27.37	(1)	27.24	26.71	2
Accretion	85	71	20	168	138	22
Per boe (\$)	0.58	0.61	(5)	0.60	0.67	(10)

Income and Other Taxes

A future tax expense of \$1.5 million for the second quarter of 2008 and \$2.1 million for the year to date 2008 has been recognized in the financial statements which relates to the Company experiencing pre-tax income of \$5.4 million for the quarter and \$7.7 million for the year to date. The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2008, which was 29.50% to pre-tax income due to non-deductible stock-based compensation and future tax rate differences.

On the balance sheet the future tax liability was increased by \$4.2 million from December 31, 2007 due to \$2.1 million of future tax expense related to operations and \$0.8 million incurred as part of the conversion of Arcan's performance shares (including tax spiral) in Q1, 2008 as there were no associated tax pools. As well, Arcan issued \$5.2 million of flow-through shares in September 2007, which were renounced in the first quarter of 2008 with the tax effect of \$1.4 million recognized. As at June 30, 2008 the Company had incurred \$5.2 million of qualifying expenditures and is not required to incur any additional expenditure.

Arcan estimates it has approximately \$96 million in tax pools. With the current estimated capital spending in 2008 Arcan does not expect to be in a taxable position until late 2010 at the earliest.

Tax Expense (Reduction)						
	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Total (\$000's)	1,458	(125)	-	2,099	(310)	-
Per boe (\$)	9.99	(1.07)	-	7.49	(1.50)	-

Net Income (Loss)

The net income for the second quarter of 2008 was a record \$4.0 million or \$0.11 per basic and \$0.10 per diluted share, up from the \$0.4 million net loss created in the second quarter of 2007. The net income for the first half of 2008 was \$5.6 million or \$0.15 per basic and diluted share, up from the \$0.9 million net loss created in the first half of 2007. The increases in commodity pricing and production volumes were the primary contributor to this change.

Net Income (Loss)						
	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Total (\$000's)	3,983	(356)	-	5,628	(932)	-
Per share - basic	0.11	(0.01)	-	0.15	(0.03)	-
- diluted	0.10	(0.01)	-	0.15	(0.03)	-
Per boe (\$)	27.29	(3.03)	-	20.07	(4.50)	-

Capital Expenditures

The second quarter of 2008 was focused on our Deer Mountain area. Capital expenditures for the second quarter of 2008 were \$4.1 million. This was down from the \$6.1 million spent in the second quarter of 2007. Arcan invested \$2.8 million to drill and complete one well and spud one well in Deer Mountain and drill one (0.5 net) well in McLeod, \$0.2 million on facilities and equipment and \$1.1 million on a property acquisition. Year to date Arcan has invested \$13.7 million in capital projects, excluding \$2.9 million recorded on the conversion of Arcan's performance shares, down from \$20.4 million expended in 2007. The decline year over year reflects significant facility investments in 2007.

Capital Expenditure Summary			
(\$ millions)	Q2 2008	Q1 2008	YTD June 30 2008
Land and seismic	-	0.1	0.1
Acquisitions	1.1	-	1.1
Drilling and intangibles	2.8	6.0	8.8
Facilities and equipment	0.2	3.5	3.7
Total Cash expended on Capital	4.1	9.6	13.7
Performance share conversion (including the future tax impact)	-	2.9	2.9
Total Capital	4.1	12.5	16.6

March 13, 2008 - Conversion of Performance Shares

Pursuant to the amalgamation of Arcan Resources Ltd. ("Arcan Privateco") and Desco Energy Ltd. ("Desco"), each outstanding common share of Desco was exchanged for 0.36231884 of a common share of the Company and one performance share of the Company. On March 13, 2008, each performance share was converted into 0.20380435 of a common share of the Company, based on reserve increases in Hamburg. The conversion was approved by the board of directors for an aggregate of 1,335,005 common shares of the Company. In the first quarter of 2008 Arcan recorded \$2.1 million to share capital, \$0.8 million to future income taxes and \$2.9 million to property, plant and equipment as a result of the conversion.

Share Capital and Option Activity

Share Capital (000s)	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Weighted basic shares outstanding	37,793	36,716	36,440	33,744	31,721
Stock option dilution (treasury method)	1,680	948	-	2,626	-
Weighted diluted shares outstanding	39,473	37,664	36,440	36,370	31,721

Liquidity and Capital Resources

As at June 30, 2008, the Company had drawn \$26.8 million on its bank line and had a working capital deficit including bank debt of \$27.8 million. Arcan's management decreased debt levels from the first quarter of 2008 based on operational success. With its solid asset base Arcan estimates that it has the ability to generate short-term and long-term cash flow to meet obligations as they become due. At the end of the second quarter, Arcan had debt to annualized cash flow of under one to one based on strong cash flows. Arcan estimates 2008 cash flow to 2008 debt will be under two to one in the current commodity price environment. As at the date hereof, the Company has a \$40.0 million revolving credit facility with a Canadian chartered bank and is within its banking covenants. Arcan expects to be in a net debt position throughout 2008 and expects to be able to meet all of its obligations as they come due.

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

As at June 30, 2008 and December 31, 2007, the Company's ratio of net debt to quarterly annualized funds from operations was 0.7 to 1 and 3.5 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at December 31, 2008 was above the 2 to 1 ratio that management strives to maintain due to heavy capital spending in the fourth quarter of 2007. The Company's ratio decreased at June 30, 2008 compared to December 31, 2007 primarily as a result of decreased capital spending and an increase in cash flow from increased commodity prices and production volumes over the first half of 2008.

Arcan is engaged in a substantial capital expenditure program to develop its three core oil and natural gas properties to their full potential. As of the date of this report Arcan is committed to drill and complete one (1.0 net) farm-in well for approximately \$2 million in the Deer Mountain area. 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 August 21, 2008, due to its capital expenditures and cash flow from wells, its debt and working capital deficiency is approximately \$29 million, which is below its current debt facility. Arcan estimates that it will have capital expenditures exceeding cash flow in the third quarter of 2008.

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

The Company has recently experienced a collection issue with one of its marketers of natural gas who sold to SemCanada Energy Company. SemCanada Energy Company is a Canadian subsidiary of SemGroup, L.P., which recently filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States. As of June 30, 2008, the Company has a receivable owing from its natural gas marketer indirectly related to SemCanada Energy Company of \$0.1 million. It is not certain what portion, if any, of this receivable will be collectible.

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

(\$ 000's)	Three Months Ended June 2008	Three Months Ended June 2007	Year Ended December 2007
Current assets	7,627	9,160	7,597
Less:			
Accounts payable and accrued liabilities	8,634	12,623	23,832
Bank loan	26,829	13,500	13,906
Working capital (deficiency)	(27,836)	(16,963)	(30,141)

Contractual Obligations

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

In 2007, the Company issued 1,200,000 flow-through common shares for gross proceeds of \$5.2 million. Under the terms of the flow-through share agreement, the Company renounced \$5.2 million of qualifying petroleum and natural gas expenditures in 2008 and has until December 31, 2008 to incur the expenditures. As at June 30, 2008 the Company had incurred \$5.2 million of qualifying expenditures and is not required to incur any additional expenditures.

Arcan has the following commitments:

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

To December 31,	\$
2008	119,250
2009	238,500
2010	238,500
2011	244,125
2012	249,750
2013 and thereafter	874,125

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

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

Off-Balance Sheet Obligations

There were no off-balance sheet obligations at June 30, 2008.

Outstanding Share Data

Arcan's issued share capital consists of:	June 30, 2008	December 31, 2007	August 21, 2008
Common shares	37,868,560	36,491,555	37,868,560
Warrants	586,631	598,631	586,631
Performance options	1,500,000	1,500,000	1,500,000
Stock options	3,654,500	3,265,000	3,713,667
Performance shares	-	6,550,400	-

Common shares increased by 1,335,005 and performance shares decreased by 6,550,400 from December 31, 2007 to June 30, 2008 as a result of the conversion of the performance shares to common shares. They were converted as the performance terms associated with those performance shares had been completed. Stock options increased by 389,500 since December 31, 2007 as 30,000 options were exercised and 419,500 options were granted.

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

Outlook

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

Business Risks

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

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

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

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

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

Two of Arcan's core assets are under waterflood and as such there are risks associated with finding and injecting suitable quantities of water to maintain operations. Arcan's Chinchaga (Hamburg) oil and natural gas property is in a winter access only area. This results in a limited time frame available to conduct Arcan's annual capital expenditure program in this area. This creates risks for cost overruns when operations have to be rushed. Time overruns can also happen whereby spring breakup occurs before a newly drilled well is completed and tied in, resulting in a one year delay in being able to put the well on production and have it generate revenue for Arcan.

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

NEW ACCOUNTING POLICIES

Changes in accounting policies

On January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentation. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Company's financial results, however did result in additional disclosures – refer to the June 30, 2008 notes to the financial statements.

Future Accounting Policies

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially effect the Company's reported financial position and results of operations. The Company cannot reasonably estimate the effect on the Company's financial statements at this time.

The International Accounting Standards Board ("IASB") has stated that it plans to issue an exposure draft relating to certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in the transition from the current Canadian Accounting Guideline 16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the proviso that a ceiling test, under IFRS standards, be conducted at the transition date.

Although, the Company has not completed development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the fourth quarter of 2008.

Legal Advisories

Oil, NGLs, and Natural Gas conversions to BOEs

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

Forward Looking Statements

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

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

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

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

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

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

ARCAN RESOURCES LTD.

Balance Sheets
(Unaudited)

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Accounts receivable	\$ 6,963,426	\$ 6,966,470
Prepays and deposits	663,943	630,501
	<u>7,627,369</u>	<u>7,596,971</u>
Property, plant, and equipment (note 3)	124,635,312	115,688,102
	<u>\$ 132,262,681</u>	<u>\$ 123,285,073</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,633,976	\$ 23,832,419
Bank loan (note 4)	26,828,796	13,905,831
	<u>35,462,772</u>	<u>37,738,250</u>
Asset retirement obligations (note 5)	4,332,165	4,169,384
Future income taxes	6,106,011	1,906,870
	<u>45,900,948</u>	<u>43,814,504</u>
Shareholders' equity:		
Share capital (note 6)	81,677,519	80,761,100
Share purchase loan (note 6)	(100,000)	(100,000)
Contributed surplus (note 7)	2,641,061	2,294,064
Retained earnings (deficit)	2,143,153	(3,484,595)
	<u>86,361,733</u>	<u>79,470,569</u>
Commitments (note 9)		
	<u>\$ 132,262,681</u>	<u>\$ 123,285,073</u>

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Revenue:				
Petroleum and natural gas	\$ 15,793,235	\$ 7,265,224	\$ 26,868,221	\$ 12,470,735
Interest and other revenue	14,264	5,062	41,883	6,338
Royalties	(2,876,124)	(1,717,510)	(5,256,263)	(3,168,167)
	12,931,375	5,552,776	21,653,841	9,308,906
Expenses:				
Operating	1,832,161	873,065	3,337,947	1,826,653
General and administrative	1,275,982	1,701,597	2,146,689	2,720,097
Interest	337,384	177,042	635,698	340,351
Accretion	84,870	71,328	167,688	137,897
Depletion and depreciation	3,959,587	3,210,398	7,638,415	5,525,805
	7,489,984	6,033,430	13,926,437	10,550,803
Income (loss) before income taxes	5,441,391	(480,654)	7,727,404	(1,241,897)
Future income tax expense (reduction)	1,458,500	(124,944)	2,099,656	(310,281)
Net income (loss) and comprehensive income (loss)	3,982,891	(355,710)	5,627,748	(931,616)
Deficit, beginning of period	(1,839,738)	(3,150,610)	(3,484,595)	(2,574,704)
Retained earnings (deficit), end of period	\$ 2,143,153	\$ (3,506,320)	\$ 2,143,153	\$ (3,506,320)
Net income (loss) per share (note 6):				
Basic	\$ 0.11	\$ (0.01)	\$ 0.15	\$ (0.03)
Diluted	\$ 0.10	\$ (0.01)	\$ 0.15	\$ (0.03)

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Cash Flows
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ 3,982,891	\$ (355,710)	\$ 5,627,748	\$ (931,616)
Items not involving cash:				
Depletion and depreciation	3,959,587	3,210,398	7,638,415	5,525,805
Stock-based compensation	187,372	219,377	375,910	357,011
Accretion	84,870	71,328	167,688	137,897
Reclamation costs	(56,088)	—	(89,647)	—
Future income tax expense (reduction)	1,458,500	(124,944)	2,099,656	(310,281)
	9,617,132	3,020,449	15,819,770	4,778,816
Change in non-cash working capital	47,882	(425,772)	(3,590,744)	(1,362,402)
	9,665,014	2,594,677	12,229,026	3,416,414
Financing:				
Bank loan	4,254,642	3,134,667	12,922,965	1,997,779
Issue of common shares, net of costs	104,000	15,280,066	104,000	15,320,438
	4,358,642	18,414,733	13,026,965	17,318,217
Investing:				
Property, plant and equipment	(3,000,786)	(6,120,046)	(12,557,127)	(21,075,762)
Property acquisition (note 3)	(1,060,767)	—	(1,060,767)	—
Cash from business acquisition, net of costs (note 2)	—	—	—	707,353
Change in non-cash working capital	(9,962,103)	(13,300,434)	(11,638,097)	1,222,708
	(14,023,656)	(19,420,480)	(25,255,991)	(19,145,701)
Change in cash	—	1,588,930	—	1,588,930
Cash, beginning of period	—	—	—	—
Cash, end of period	\$ —	\$ 1,588,930	\$ —	\$ 1,588,930
Supplementary disclosure:				
Interest paid	\$ 258,160	\$ 256,716	\$ 685,016	\$ 420,025

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Notes to Interim Financial Statements

Three and six months ended June 30, 2008 and 2007
(Unaudited)

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

1. Changes in accounting policies:

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

Future Accounting Policies:

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The International Accounting Standards Board ("IASB") has stated that it plans to issue an exposure draft relating to certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in the transition from the current Canadian Accounting Guideline 16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 2

Three and six months ended June 30, 2008 and 2007
(Unaudited)

retrospective assessment of capitalized exploration and development expenses, with the proviso that a ceiling test, under IFRS standards, be conducted at the transition date.

1. Changes in accounting policies (continued):

Although, the Company has not completed development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the fourth quarter of 2008.

2. Business acquisition:

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

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

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 3

Three and six months ended June 30, 2008 and 2007
(Unaudited)

2. Business acquisition (continued):

The following table outlines the purchase price allocation as of January 1, 2007.

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

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

During the six months ended June 30, 2008, the 6,550,400 performance shares were converted into 1,335,005 common shares. Arcan recorded \$2.1 million to share capital, \$0.8 million to future income taxes and \$2.9 million to property, plant and equipment as a result of the conversion. The impact of the conversion has not been included in the above table.

3. Property, plant and equipment:

	June 30, 2008	December 31, 2007
Petroleum and natural gas properties	\$ 150,885,977	\$ 134,300,352
Accumulated depletion and depreciation	(26,250,665)	(18,612,250)
	\$ 124,635,312	\$ 115,688,102

At June 30, 2008, petroleum and natural gas properties included undeveloped properties of \$10.7 million (June 30, 2007 - \$7.9 million), which have been excluded from the depletion calculation. Future development costs for proved reserves of \$21.9 million (June 30, 2007 - \$12.4 million) have been included in the depletion calculation.

During the six months ended June 30, 2008, the Company acquired certain interests in petroleum and natural gas properties for cash of \$1,060,767.

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 4

Three and six months ended June 30, 2008 and 2007
(Unaudited)

4. Bank loan:

	June 30, 2008	December 31, 2007
Bank loan	\$26,828,796	\$ 13,905,831

Arcan has a \$40 million operating revolving loan facility. Interest on the facility is calculated at the bank prime rate of interest, plus an applicable facility margin depending upon the Company's Net Debt to Trailing Cash Flow ratio. A re-determination of the borrowing base will occur on or before April 30, 2009. The loan facility is secured by a general security agreement, and is payable in full on demand. This facility had an effective interest rate of 4.75% at June 30, 2008 (June 30, 2007 – 6.25%).

5. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2008 is \$9.8 million (December 31, 2007 - \$9.6 million), which will be incurred between 2009 and 2019. The majority of the costs will be incurred between 2010 and 2016. An inflation rate of 2% (2007 – 2%) was used to inflate the costs, and a credit-adjusted risk-free rate of 8% (2007 – 8%) was used to calculate the fair value of the asset retirement obligations.

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ 4,169,384	\$ 3,268,469
Liabilities incurred	84,740	354,022
Liabilities incurred on acquisitions (notes 2 and 3)	—	257,787
Accretion expense	167,688	289,106
Reclamation costs	(89,647)	—
Balance, end of period	\$ 4,332,165	\$ 4,169,384

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 5

Three and six months ended June 30, 2008 and 2007
(Unaudited)

6. Share capital:

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Common shares issued and outstanding:

	Number of Shares	Amount
Balance, December 31, 2006	26,534,045	\$ 49,047,817
Issued pursuant to business acquisition (note 2)	2,373,331	6,645,327
Issued pursuant to private placement	4,000,000	15,200,000
Issued pursuant to private placement	1,500,000	5,175,000
Issued pursuant to flow-through private placement	1,200,000	5,220,000
Exercise of warrants	689,179	974,715
Exercise of stock options	195,000	312,000
Stock-based compensation on exercise of warrants and stock options	—	172,458
Share issue costs	—	(1,690,851)
Tax effect of share issue costs	—	501,819
Tax effect of flow-through shares issued in 2006	—	(797,185)
Balance, December 31, 2007	36,491,555	\$ 80,761,100
Issued pursuant to performance share conversion (note 2)	1,335,005	2,136,008
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
Tax effect of flow-through shares issued in 2007	—	(1,352,502)
Balance, June 30, 2008	37,868,560	\$ 81,677,519

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 6

Three and six months ended June 30, 2008 and 2007
(Unaudited)

6. Share capital (continued):

(c) Warrants:

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

	Weighted average Exercise Price (\$)	Number of Warrants
Balance, at December 31, 2007	1.93	598,631
Exercise of warrants	2.00	(12,000)
Balance, June 30, 2008	1.93	586,631

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) Flow-through shares:

In 2007, the Company issued 1,200,000 flow-through common shares for gross proceeds of \$5.2 million. Under the terms of the flow-through share agreement, the Company renounced \$5.2 million of qualifying petroleum and natural gas expenditures in 2008 and has until December 31, 2008 to incur the expenditures. As at June 30, 2008 the Company had incurred \$5.2 million of qualifying expenditures and is not required to incur any additional expenditures.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 7

Three and six months ended June 30, 2008 and 2007
(Unaudited)

6. Share capital (continued):

(e) Share purchase loan:

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

(f) Stock options:

	Six months ended June 30, 2008		Year ended December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	3,265,000	\$ 2.51	2,483,500	\$ 1.95
Granted	419,500	2.23	1,176,500	3.59
Exercised	(30,000)	2.67	(195,000)	1.60
Forfeited	—	—	(200,000)	2.87
Stock options outstanding, end of period	3,654,500	\$ 2.47	3,265,000	\$ 2.51
Exercisable at period-end	2,451,000	\$ 2.17	1,805,167	\$ 1.83

(g) Stock-based compensation:

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

	June 30, 2008	June 30, 2007
Fair value of options granted (\$/option)	\$ 0.89	\$ 1.54
Expected life of options (years)	5	5
Expected volatility (%)	40	40
Risk free rate of return (%)	3.33	4.11
Expected dividend yield (%)	Nil	Nil

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 8

Three and six months ended June 30, 2008 and 2007
(Unaudited)

6. Share capital (continued):

(h) Performance options:

	June 30, 2008	December 31, 2007
Number outstanding	1,500,000	1,500,000
Exercisable	1,500,000	1,500,000
Weighted average remaining contractual life (years)	1.25	1.75
Weighted average exercise price (\$/share)	1.00	1.00

(i) Per share amounts:

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Weighted average number of shares – basic	37,793,033	31,720,870	37,254,327	30,317,575
Effect of dilutive securities	1,679,979	—	1,313,986	—
Weighted average number of shares - diluted	39,473,012	31,720,870	38,568,313	30,317,575

In computing diluted per share amounts at June 30, 2008, 1,671,000 options (June 30, 2007 -3,140,000 options), nil performance options (June 30, 2007 – 1,500,000 performance options), and nil warrants (June 30, 2007 – 754,810 warrants) were excluded for the calculation as their effect was anti-dilutive.

7. Contributed surplus:

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ 2,294,064	\$ 1,757,255
Stock-based compensation	375,910	709,267
Transfer to share capital on exercise of warrants and options	(28,913)	(172,458)
Balance, end of period	\$ 2,641,061	\$ 2,294,064

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 9

Three and six months ended June 30, 2008 and 2007
(Unaudited)

8. Financial instruments:

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at June 30, 2008 the Company's receivables consisted of \$2.9 million (December 31, 2007 - \$3.4 million) from joint venture partners, \$3.9 million (December 31, 2007 - \$2.1 million) of receivables from petroleum and natural gas marketers and \$0.2 million (December 31, 2007 - \$1.5 million) of other trade receivables.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers. The Company has recently experienced a collection issue with one of its marketers of natural gas who sold to SemCanada Energy Company. SemCanada Energy Company is a Canadian subsidiary of SemGroup, L.P., which recently filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States. As of June 30, 2008, the Company has a receivable owing from its natural gas marketer indirectly related to SemCanada Energy Company of \$0.1 million. It is not certain what portion, if any, of this receivable will be collectible. After reviewing the facts and sequence of events in this issue, the Company's management has concluded that these events could not have been detected, or detected earlier, by a standard credit risk program.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 10

Three and six months ended June 30, 2008 and 2007
(Unaudited)

8. Financial instruments (continued):

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

The carrying amount of accounts receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts, as at June 30, 2008 and December 31, 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the six months ended June 30, 2008 and 2007.

As at June 30, 2008 and December 31, 2007 the Company considers its receivables to be aged as follows:

Aging	June 30, 2008	December 31, 2007
Not past due (less than 120 days)	\$ 6,003,584	\$ 5,652,229
Past due (over 120 days)	959,842	1,314,241
Total	\$ 6,963,426	\$ 6,966,470

Liquidity risk

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

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 11

Three and six months ended June 30, 2008 and 2007
(Unaudited)

8. Financial instruments (continued):

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

Market risk

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

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

Foreign currency exchange rate risk

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

The Company had no forward exchange rate contracts in place as at or during the six months ended June 30, 2008 and 2007.

Commodity price risk

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

The Company had no derivative contracts in place as at or during the six months ended June 30, 2008 and 2007.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 12

Three and six months ended June 30, 2008 and 2007
(Unaudited)

8. 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 June 30, 2008, if interest rates had been one hundred basis points lower with all other variables held constant, net income for the three and six months ended would have been approximately \$46,000 (2007 - \$19,000) and \$84,000 (2007 - \$34,000) higher, respectively, due to lower interest expense. An equal opposite impact would have occurred to net income had interest rates been one hundred basis points higher. The sensitivity is higher in 2008 as compared to 2007 because of an increase in outstanding bank debt, slightly offset by a decrease in interest rates.

The Company has no interest rate swap or financial contracts in place as at or during the six months ended June 30, 2008 and 2007.

Capital management

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

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

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 13

Three and six months ended June 30, 2008 and 2007
(Unaudited)

8. Financial instruments (continued):

As at June 30, 2008 and December 31, 2007, the Company's ratio of net debt to quarterly annualized funds from operations was 0.7 to 1 and 3.5 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at year end was above the 2 to 1 ratio that management strives to maintain due to heavy capital spending in the fourth quarter of 2007. The Company's ratio decreased at June 30, 2008 compared to December 31, 2007 primarily as a result of decreased capital spending and an increase in commodity prices and production volumes over the first half of 2008.

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

	June 30, 2008	December 31, 2007
Working capital deficiency (including bank debt)	\$ 27,835,403	\$ 30,141,279
Cash flow from operating activities	9,665,014	4,598,576
Change in non-cash operating working capital	(47,882)	(2,431,488)
Funds from operations	9,617,132	2,167,088
Annualizing factor	x4	x4
Annualized funds from operations	\$ 38,468,528	\$ 8,668,352
Ratio	0.7 to 1	3.5 to 1

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

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

Fair value of financial instruments

The Company's financial instruments as at June 30, 2008 and December 31, 2007 includes accounts receivable, accounts payable and accrued liabilities and bank debt. The fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 14

Three and six months ended June 30, 2008 and 2007
(Unaudited)

9. Commitments:

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

2008	\$ 119,250
2009	238,500
2010	238,500
2011	244,125
2012	249,750
2013 and thereafter	874,125

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

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

Arcan Resources Ltd.

Corporate Information

Directors

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Chairman, Harvest Energy Trust

Robert J. Dales

Director, Celtic Exploration Ltd.

Andy Fisher

Executive Vice President, Arcan Resources Ltd.

Ed Gilmet

President and CEO, Arcan Resources Ltd.

Michael J. Laffin

Partner, Blake, Cassels & Graydon LLP

J. Terry McCoy

Calvalley Petroleum Inc.

Hank B. Swartout

Independent Businessman

Auditors

KPMG LLP

Evaluation Engineers

GLJ Petroleum Consultants Ltd.

Banker

Alberta Treasury Branches

Legal Counsel

Blake, Cassels & Graydon LLP

Officers

Ed Gilmet

President and CEO

Andy Fisher

Executive Vice President

Doug Penner

CFO and V.P. Finance

Graeme Ryder

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