



INTERIM REPORT

Three and six months ended June 30, 2009



ARCAN RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

Arcan Resources Ltd. ("we", "Arcan" or the "Company") is engaged in the exploration for, and the development and production of, petroleum and natural gas in Western Canada. Arcan was incorporated on October 9, 2003 and conducted operations as a private company until January 1, 2007 maintaining a June 30 year end. On January 1, 2007 Arcan amalgamated with Desco Energy Ltd. ("Desco") with the amalgamated entity's year end established as December 31. The amalgamation resulted in Arcan becoming a public company and a reporting issuer, with its shares trading on the TSX Venture Exchange under the symbol 'ARN' beginning on January 9, 2007.

This Management's Discussion and Analysis ("MD&A") is an explanation, through the eyes of management, of how Arcan performed during the periods covered by the unaudited interim financial statements of Arcan filed concurrently with this MD&A, and of Arcan's financial condition and future prospects. This MD&A is for the three month and six months ended June 30, 2009 as compared to the three and six month months ended June 30, 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, 2009 and 2008 together with the notes thereto as well as the audited financial statements for the year ended December 31, 2008 and 2007, together with the notes related thereto and other documents filed on SEDAR, including historical financial statements, the information circular dated April 9, 2009 and the Company's Annual Information Form ("AIF") dated April 3, 2009 for the year ended December 31, 2008. These documents are available at www.sedar.com under the Company's SEDAR profile.

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

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

Arcan's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A for the three and six months ended June 30, 2009. This MD&A is dated August 19, 2009.

Non-GAAP Measurements

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

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, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash flow from operating activities (per GAAP)	2,102	9,665	3,463	12,229
Change in non-cash working capital	578	(48)	1,183	3,591
Funds from operations	2,680	9,617	4,646	15,820

Second Quarter 2009 Highlights

- ☆ Operating netbacks of \$31.31 per boe (revenue of \$52.01 per boe and operating cost of \$11.50 per boe) was down 59% from \$75.95 per boe in the second quarter of 2008 but was up 23% from \$25.53 per boe in the first quarter of 2009;
- ☆ Arcan's realized oil and NGL prices declined to \$63.98 and \$56.55 per bbl, respectively, down 46% and 48%, for the three and six months ended June 30, 2009, respectively, versus the same periods in 2008. Arcan's realized natural gas prices declined to \$4.09 and \$4.80 per mcf, down 66% and 54%, for the three and six months ended June 30, 2009, respectively, versus the same periods in 2008. However, oil prices have increased significantly from the first quarter of 2009 realized oil price of \$49.36 per bbl while natural gas has further declined from the \$6.17 per mcf recognized in the first quarter;
- ☆ Production decreased 5% to 1,523 boe per day for the three months ended June 30, 2009 down from the 1,604 boe per day for the three months ended June 30, 2008 but was up 13% from the first quarter of 2009, mainly as a result of the new 50% gas well in Hamburg which is producing at a stabilized rate of approximately 300 net boe per day including approximately 40 net bbls of liquids;
- ☆ Funds from operations decreased 72% to \$2.7 million (\$0.07 per diluted share) in the second quarter of 2009 from \$9.6 million (\$0.24 per diluted share) in the second quarter of 2008 but was up 36% from \$2.0 million (\$0.05 per diluted share) in the first quarter of 2009; and
- ☆ Subsequent to the end of the second quarter of 2009 Arcan commenced drilling its development program in its Hamburg GG light oil pool with up to three 50% interest wells expected to be drilled by the end of Q4, 2009. As well, Arcan expended \$0.2 million on one dry and abandoned exploration well in its McLeod Area in August 2009.

Financial and Operating Summary

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Financials (\$000s except per share amounts)				
Oil and NGL sales	6,178	13,385	11,107	22,583
Natural gas sales	1,031	2,408	1,833	4,285
Total petroleum and natural gas revenue	7,209	15,793	12,940	26,868
Funds from operations ¹	2,680	9,617	4,646	15,820
Per share basic ¹	0.07	0.25	0.12	0.42
Per share diluted ¹	0.07	0.24	0.12	0.41
Net income (loss)	(1,314)	3,983	(2,605)	5,628
Per share basic	(0.03)	0.11	(0.07)	0.15
Per share diluted	(0.03)	0.10	(0.07)	0.15
Capital expenditures – cash	229	4,062	3,406	13,618
Total assets	145,729	132,263	145,729	132,263
Total liabilities	59,716	45,901	59,716	45,901
Shareholders' equity	86,012	86,362	86,012	86,362
Bank loan	39,627	26,829	39,627	26,829
Net debt and working capital	40,414	27,835	40,414	27,835
Operating, General and Administrative (G&A)				
Production:				
Crude oil (bbls per day)	1,061	1,241	1,085	1,162
Natural gas (mcf per day)	2,772	2,174	2,112	2,270
Total (boe per day) (6:1)	1,523	1,604	1,437	1,541
Average realized price:				
Crude oil (\$ per bbl)	63.98	118.48	56.55	106.76
Natural gas (\$ per mcf)	4.09	12.17	4.80	10.37
Combined average (incl. processing revenue) (\$ per boe)	52.01	108.21	49.75	95.82
Netback (\$ per boe)				
Petroleum and natural gas sales	52.01	108.21	49.75	95.82
Royalties	9.20	19.71	9.81	18.74
Operating and transportation expenses	11.50	12.55	11.32	11.90
Operating netback	31.31	75.95	28.62	65.18
Realized economic hedging losses – cash	1.60	-	0.85	-
G&A expenses – cash	6.92	7.46	7.01	6.32
Interest expense – net	2.86	2.21	2.57	2.12
Corporate netback	19.93	66.28	18.19	56.74
Common Shares (000s)				
Shares outstanding, end of period	37,869	37,869	37,869	37,869
Weighted average shares ² - basic	37,829	37,793	37,829	37,254
- diluted	37,829	39,473	37,829	38,568

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

2 In computing the net loss per diluted share in the respective 2009 periods, nil shares were added to the weighted average number of shares outstanding because in 2009 they were anti-dilutive.

Overview

Equity markets remain cautious although it appears that pessimism is slowly being reduced and some economists are indicating that a slow recovery process may have commenced. Through this turbulent period Arcan continues to focus on building long-term value for the future. Since inception Arcan has remained focused on its original growth strategy and over the last three years Arcan has implemented this strategy through the long term waterflood development of its two light oil properties. Arcan now benefits from the low decline rates and higher netbacks that surround long life light oil. Arcan expects to operate through out 2009 on cash flow from operations and its bank line, which has been reviewed and is secured until April 2010. For Arcan, the second quarter of 2009 provided significant increases in crude oil prices as well as a move upwards of Arcan's per share trading price off of the first quarter 2009 lows. However, Arcan's trading price of approximately \$1.40 per share still remains at a deep discount to its

year end 2008 net asset value and Arcan's management believes that it does not reflect the stability of its sweet light oil production with low decline rates.

Arcan's light oil continues to provide solid netbacks with oil prices moving in an upward direction from US \$40 to \$70 WTI. Natural gas pricing is far more challenging at under \$20 per boe and may continue at this or lower prices for a period of time to come. Equity markets remain concerned about natural gas weighted energy companies as they continue to face severe cash flow reductions under current pricing and will continue to face challenges if pricing for 2010 hovers near \$30 per boe, based on ongoing surplus natural gas supplies. Arcan received \$63.98 per bbl of oil in Q2, 2009, down significantly from the \$118.48 per bbl in Q2, 2008 but up 30% from \$49.36 per bbl in the first quarter of this year. Operating netbacks were also up in the second quarter of 2009 to \$31.31 per boe from \$25.53 per boe in the first quarter of the year, as oil properties continue to show solid netbacks on the strength of crude oil prices. To support its cash flow, Arcan entered into a fixed price oil swap contract at the end of March 2009 to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009.

In the second quarter of 2009 Arcan expended \$0.2 million in capital while bringing in \$2.7 million in funds from operations. As a result, Arcan exited the second quarter with \$40.4 million in debt and working capital, well within its \$50 million of secured bank lines. With oil near \$70 per barrel, Arcan has elected to commence drilling its development program in the Hamburg GG light oil pool with the first well spud on August 5, 2009. The journey to development of the GG light oil pool began with the discovery wells in January 2006 and culminated with the full approval of the waterflood and all weather access in the first quarter of this year. Since receiving the long awaited approvals, Arcan has been injecting approximately 2,000 bbls of water per day in an effort to catch up to some of the historic voidage. Arcan has budgeted 2 to 3 (1 to 2 net) wells to be drilled by the end of 2009 as part of a program that may include up to eight wells (5 net), as well as one water source well and the conversion of one well to an injector. Estimated current facility capacity and production from this pool, under full development, is estimated to be over 3,000 (1,500 net) bbls per day of low decline, 41 API light sweet oil with an estimated 8-12 year reserve life index. With current royalty incentives and commodity prices Arcan estimates pay-out for these wells in approximately 100 days.

Arcan and its partner drilled and abandoned an exploration test in the McLeod area. The well was spud on August 1, 2009 at an estimated net cost of \$0.2 million to Arcan.

Finally, Arcan continues to explore for ways to continue development of the 15 kilometres of oil bearing Devonian Reef that comprise the Deer Mountain assets. Ultimately cash flow generated from the production at Hamburg may prove to be the most cost effective avenue to accomplish this development. Arcan anticipates it will drill one additional well by December 31, 2009, just to the south of its Deer Mountain Unit #2 as part of its rolling option farm-in obligation.

Production was 1,523 boe per day in the second quarter of 2009, up 173 boe per day from the first quarter of 2009, as the new Hamburg 50% working interest natural gas well commenced production on April 1, 2009 also receiving the benefit of the new royalty incentives. The new well is producing at a stabilized rate of approximately 300 net boe per day including approximately 40 net bbls of liquids. Arcan is estimating average production of 1,300 to 1,700 boe per day for 2009. Arcan expects to maintain its production base in 2009 through a prudent level of investment based on anticipated cash flow. Arcan's earlier investments provide the Company with a concentrated asset base with its two main assets being Hamburg and Deer Mountain both characterized as high working interest operated properties with long reserve lives and newly commenced waterfloods, capable of producing high netback light oil with a large inventory of additional development opportunities. Paramount to Arcan and to its management team, is adding value for the Company's shareholders. For 2009, Arcan is implementing plans to reduce costs and turn drilling success and continued waterflood implementation into solid reserve bookings.

At June 30, 2009 Arcan had 13 full time office employees and 9 full time field employees.

OVERVIEW OF ARCAN'S CORE AREAS

Hamburg

In March 2009 Arcan drilled one (0.5 net) exploration wells in the Hamburg area. This well was placed on production on April 1, 2009, and is producing at stabilized rates of approximately 600 (300 net) boe per day. This well is expected to only pay a 5% royalty for its first 500 mmcf of production from this well. The 3D seismic that has been utilized to drill this well indicates another drillable feature to the south. This prospect may be drilled during the fourth quarter of 2009, on election to do so, by our drilling partner.

“GG” pool highlights:

- Operated, premium-priced light oil from prolific wells.
- Discovered in January 2006 and on production in April 2006.
- Full waterflood approval was received in February 2009, lifting existing production rate limitations.
- Second water injection well commenced in Q2, 2009.
- Light vehicle all season access road constructed in March 2009.
- 5 – 8 infill development wells to be drilled, with the first well spud August 5, 2009.
- Production under full development could reach 3,000 – 4,000 boe per day.
- Reserve life under full development may be 8 – 12 years.

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

Late in 2007, the Alberta Energy Resources Conservation Board (the "ERCB", formerly the EUB) modified its pool boundary definition, resulting in the first two wells (one injector) being located within the GG pool, with the remainder of the wells being subject to rate limitations. On February 13, 2009, the ERCB modified the pool enhanced oil recovery ("EOR") boundary definition, resulting in all six 50 percent working interest wells being located within the EOR scheme with GPP status. Arcan's 100 percent interest lands are not yet included in the waterflood approved area of the pool and are subjected to production rate restrictions of approximately 100 boe per day. On May 6, 2009 approval was received to commence water injection into the new injector.

The future – Arcan currently has five to eight infill development opportunities to drill in the GG pool. The first well in this program has now been drilled and cased, with completion operations commencing on August 5, 2009. Currently three (1.5 net) oil wells and one (0.5 net) water source well are budgeted to the end of 2009. Completion of the drilling program may occur by the end of the first quarter of 2010, based on commodity prices and bank lines.

Production averaged 805 boe per day on \$32.84 per boe operating netbacks for the quarter ended June 30, 2009 down from 975 boe per day and \$81.94 per boe operating netbacks in the quarter ended June 30, 2008 and up from 593 boe per day and \$29.94 per boe operating netbacks in the quarter ended March 31, 2009.

McLeod

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

Arcan and its partner have drilled and abandoned one exploration test well in this area during August 2009. Arcan's drilling partner paid 95% of the exploration drilling costs to test the feature as part of a deal where Arcan would be required to pay 95% of the completion costs in the event of a successful well.

The future – Arcan has one natural gas pool that could be down-spaced and infill drilled to add production and reserves. This pool is expected to be developed when natural gas prices show signs of significant recovery. Arcan expects to continue to acquire lands on exploration opportunities in this area and may drill new wells in this area when natural gas prices have recovered.

Deer Mountain

The Deer Mountain Unit #2 highlights:

- Operated, premium-priced light oil with a very long reserve life.
- GLJ Petroleum Consultants Ltd. 'GLJ' estimates, based on the December 31, 2008 year end reserve report that there has been only a 9% recovery to date of the approximately 39 million boe of original-oil-in-place on the approximately 10 sections of land.
- Built a new battery capable of 4,000 bbls per day of fluid and high pressure injection lines (2006).
- Commenced the waterflood (2007).
- New 3D seismic identified the more prolific reef edge (2007).
- Implemented one flood pattern in 2007 and an additional one in 2008.
- 100+ development wells to be drilled on the Unit.

The Deer Mountain 56 section extension lands:

- Purchased varying working interests in 56 sections of land offsetting the unit to the south.
- Farmed in to an additional 19 sections of land within this block.
- Drilled our first well in October 2008.
- Committed to the second well by December 31, 2009.

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

The Deer Mountain Unit has recovered approximately 3.6 million boe or approximately 9 percent of GLJ's estimate for original-oil-in-place ("OOIP") of approximately 39 million boe. Arcan estimates there may be up to 60 million boe of OOIP on the approximately 10 sections of land that comprise Deer Mountain Unit #2. Offsetting pools have recovered more than 35 percent of their estimated original-oil-in-place, and are believed capable of 45 percent recovery. Recovery from the Deer Mountain Unit is low compared to offsetting pools in the field because of a historical lack of drilling and water injection. Arcan believes that

ultimate recovery can be increased significantly by reinvigorating development of this high-quality reservoir, including additional drilling, increased water injection and systematic reservoir management.

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

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

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

Production averaged 627 boe per day with \$39.07 per boe operating netbacks for the quarter ended June 30, 2009 up from 485 boe per day with \$81.42 per boe operating netbacks in the quarter ended June 30, 2008 and almost the same production at 643 boe per day but higher operating netbacks at \$22.55 per boe in the quarter ended March 31, 2009.

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

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

Arcan's existing infrastructure and the current trend of falling service costs continue to make investments in this area economic even at the current low commodity prices. With focused drilling activity, finding, development and operating costs are expected to continue to decline in the Deer Mountain area. Arcan continues to explore for ways to continue development of its 15 kilometre long Deer Mountain assets, where ultimately cash flow from Hamburg may be the most prudent avenue for development. Arcan anticipates it will drill one additional well by December 31, 2009, just to the south of its Deer Mountain Unit #2 as part of its rolling option farm-in obligation. In addition, Arcan believes there is potential for future carbon dioxide injection scheme and for coalbed methane drilling potential in the uphole Mannville coals.

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

Fiscal quarter ended	2009		2008		2007			
	June	March	Dec.	Sept.	June	March	Dec.	Sept.
Operating								
Oil and NGLs (bbls per day)	1,061	1,110	1,102	1,087	1,241	1,083	794	929
Price (\$/bbl)	63.98	49.36	63.55	118.63	118.48	93.32	81.88	75.47
Natural gas (mcf per day)	2,772	1,444	2,199	2,144	2,174	2,366	1,965	2,246
Price (\$/mcf)	4.09	6.17	8.19	9.26	12.17	8.72	6.93	6.51
Barrels of oil equivalent (boe per day)	1,523	1,350	1,468	1,444	1,604	1,477	1,122	1,304
Financial (\$000's, except per share amounts)								
REVENUES								
Petroleum and natural gas	7,209	5,731	8,099	13,690	15,793	11,075	7,238	7,796
Royalties	(1,275)	(1,277)	(1,881)	(3,681)	(2,876)	(2,380)	(1,658)	(1,694)
Interest and other income	2	1	(220)	207	14	28	2	2
Realized loss on commodity contracts	(222)	-	-	-	-	-	-	-
Unrealized loss on commodity contracts	(1,115)	(644)	-	-	-	-	-	-
Net revenues	4,599	3,810	5,998	10,216	12,931	8,723	5,582	6,104
EXPENSES								
Operating	1,593	1,352	2,416	2,482	1,832	1,506	2,563	1,128
General and administrative	959	863	1,086	672	1,089	682	662	722
Stock-based compensation	193	193	337	159	187	189	179	174
Interest	398	272	291	311	337	298	190	274
Accretion	105	101	99	88	85	83	78	73
Depletion and depreciation	3,098	2,720	3,036	3,553	3,960	3,679	2,779	3,448
Total Expenses	6,346	5,501	7,265	7,265	7,490	6,437	6,451	5,819
Income (loss) before income taxes	(1,747)	(1,690)	(1,269)	2,951	5,441	2,286	(869)	287
Future income tax expense (reduction)	(433)	(400)	(495)	806	1,458	641	(739)	135
Net income (loss)	(1,314)	(1,290)	(772)	2,145	3,983	1,645	(131)	152
Net income (loss) per share- basic	(0.03)	(0.03)	(0.02)	0.06	0.11	0.04	(0.00)	0.00
Net income (loss) per share- diluted	(0.03)	(0.03)	(0.02)	0.05	0.10	0.04	(0.00)	0.00
Funds from operations	2,680	1,966	1,987	6,747	9,617	6,203	2,167	3,981
Per share – basic	0.07	0.05	0.05	0.18	0.25	0.17	0.06	0.12
Cash flow from operating activities (GAAP)	2,102	1,361	4,590	7,150	9,665	2,564	4,599	3,414
Operating Netbacks (\$/boe)								
Petroleum and natural gas revenues	52.01	47.16	59.95	103.03	108.21	82.37	70.12	65.01
Royalties	9.20	10.51	13.93	27.71	19.71	17.70	16.06	14.12
Operating and transportation expenses	11.50	11.12	17.88	18.68	12.55	11.20	24.83	9.40
Operating Netbacks	31.31	25.53	28.15	56.64	75.95	53.47	29.23	41.49
Total assets (\$000's)	145,729	150,398	149,724	143,006	132,263	133,213	123,285	107,175
Capital expended (\$000's)	229	3,177	9,980	11,323	4,062	9,556	17,697	11,500
Debt and working capital (\$000's)	(40,414)	(42,073)	(40,406)	(32,412)	(27,835)	(33,495)	(30,141)	(14,585)
Shares (000's)	37,869	37,869	37,869	37,869	37,869	37,827	36,492	36,471

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

Results of Operations

	Drilling		Success rate (%) (gross)	Working interest (%)
	Gross	Net		
Q1 / 2009	1	0.5	100	50
Q2 / 2009	-	-	-	-

Arcan did not drill any wells in the second quarter of 2009. Arcan did spud one 50% well in Hamburg and one 50% well in McLeod in August of 2009.

Production						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Oil and NGL (bbls per day)	1,061	1,241	(15)	1,085	1,162	(7)
Natural gas (mcf per day)	2,772	2,174	28	2,112	2,270	(7)
Total (boe per day)	1,523	1,604	(5)	1,437	1,541	(7)
Oil as a % of total volumes	70	77	-	76	75	-

Arcan's average production rate for the second quarter of 2009 was 1,523 boe per day, a 5% decrease from the second quarter of 2008 average of 1,604 boe per day but a 13% increase over the first quarter 2009 average of 1,350 boe per day. Arcan's average production rate for the first half of 2009 was 1,437 boe per day, a 7% decrease from the first half of 2008 average of 1,541 boe per day. Production was lower in the 2009 periods over the 2008 periods due to natural declines and as a result of a gas well that was sold at the end of 2008. Production increased in the second quarter of 2009 over the first quarter of 2009 as the new 50% interest gas well in Hamburg commenced production on April 1, 2009.

Arcan only expended \$0.2 million of capital in the second quarter of 2009. Year to date capital expenditures continue to be focused towards our oil properties as oil prices have continued to remain stable and elevated as compared to natural gas prices. Arcan tied-in one liquids rich gas well at the end of the first quarter as well. Arcan expects the majority of its efforts for the remainder of 2009 will be directed to expanding the Hamburg light oil production base and water injection in Deer Mountain and tie-ins for successful exploration wells drilled by its drilling partner. Arcan's oil and NGL weighting was 70% for the second quarter of 2009, and it is estimated to be 70-80% light oil in the last half of 2009 as the anticipated drilling results from the GG pool in Hamburg comes online, offsetting the additional weighting created by the natural gas production increase from the new gas well in Hamburg.

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. Lower commodity prices and slightly lower volumes were the main factors causing the net loss for the second quarter of 2009 as compared to net income in the second quarter of 2008. While Arcan expects commodity price fluctuations over the upcoming year, overall price levels are expected to remain relatively flat, royalty rates are expected to decrease (due to announced royalty incentives that help offset the New Alberta royalty structure), and operating costs are expected to remain in the \$10-15 per boe range. These factors as well as our oil commodity contract, stable base production and the production resulting from the Hamburg oil development program are expected to increase the netbacks received by Arcan for the balance of 2009.

Netbacks						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
\$ thousands						
Revenue	7,209	15,793	(54)	12,940	26,868	(52)
Royalties	1,275	2,876	(56)	2,552	5,256	(51)
Operating expenses	1,593	1,832	(13)	2,945	3,338	(12)
Operating netbacks	4,341	11,085	(61)	7,443	18,274	(59)
Realized economic hedging loss	222	-	-	222	-	-
G&A - cash	959	1,089	(12)	1,822	1,771	3
Interest expenses - net	396	323	23	669	594	13
Corporate netbacks	2,764	9,673	(71)	4,730	15,909	(70)
Netbacks - \$ per boe						
Revenue	52.01	108.21	(52)	49.75	95.82	(48)
Royalties	9.20	19.71	(53)	9.81	18.74	(48)
Operating expenses	11.50	12.55	(8)	11.32	11.90	(5)
Operating netbacks	31.31	75.95	(59)	28.62	65.18	(56)
Realized economic hedging loss	1.60	-	-	0.85	-	-
G&A - cash	6.92	7.46	(7)	7.01	6.32	11
Interest expenses	2.86	2.21	29	2.57	2.12	21
Corporate netbacks	19.93	66.28	(70)	18.19	56.74	(68)

Arcan's operating netback, defined as revenue, less royalties and operating expenses, was \$4.3 million in the second quarter of 2009, a 61% percent decrease from \$11.1 million recorded in the second quarter of 2008. Arcan's operating netback on a per boe basis was \$31.31 in the second quarter of 2009, a 59% percent decrease from \$75.95 per boe recorded in the second quarter of 2008. The decrease in operating netback was due to a 52% decrease in price that more than offset decreases in royalties and operating costs on a per boe basis in the second quarter of 2009 as compared to the same period in 2008. The impact of these price decreases has been dampened by the falling Canadian dollar versus the increasing U.S. dollar in 2008. The 23% increase in the operating netback over the first quarter ended March 31, 2009, both on a dollar basis as well as a boe basis, is due to the increases in volumes and prices and decreases in royalties more than offsetting the small increase in operating costs. The move to oil weighting has significantly increased Arcan's exposure to price upside in oil both in 2009 and in 2008. However, oil properties do present additional operating costs which can be large on a boe basis in the early stages of a waterflood. The net effect to Arcan was higher netbacks from oil than would have been achieved through natural gas as natural gas prices continue to wane below \$20 per boe.

Operating netbacks from oil were \$35.57 per boe and natural gas were (\$14.63) per boe in the second quarter of 2009 versus \$81.76 per boe for oil and \$48.73 per boe for natural gas in the second quarter of 2008. Operating netbacks from oil were \$31.21 per boe and natural gas were \$6.72 per boe in the first half of 2009 versus \$71.76 per boe for oil and \$36.07 per boe for natural gas in the first half of 2008. Operating netbacks from oil were \$26.10 per boe and natural gas were \$23.66 per boe during the first quarter ended March 31, 2009. 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 realized economic hedging gains and losses, G&A and interest (income less expense), was \$2.8 million in the second quarter of 2009 as compared to \$9.7 million in the second quarter of 2008. The large decrease from 2008 related mainly to commodity prices. On a per boe basis, the corporate netback was \$19.93 per boe in the second quarter of 2009 as compared to \$66.28 per boe in the second quarter of 2008 and \$16.19 per boe in the first quarter of 2009. 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, 2009 and 2008 are as follows:

Operating Netbacks by Area						
Area	Three months ended June 30, 2009			Three months ended June 30, 2008		
	Hamburg	Deer Mountain	McLeod	Hamburg	Deer Mountain	McLeod
Daily Production (boe)	805	627	88	975	485	140
Revenue (\$ per boe)	45.32	63.98	30.06	105.90	129.12	73.97
Royalties (\$ per boe)	5.03	15.49	(8.72)	15.85	29.90	11.65
Operating Costs (\$ per boe)	7.45	9.42	53.40	8.11	17.80	13.59
Operating Netbacks (\$ per boe)	32.84	39.07	(14.63)	81.94	81.42	48.73

During the quarter Arcan received \$0.3 million in operating cost adjustments related to prior periods for McLeod production. These adjustments impacted McLeod operating costs by \$37.99 per boe for the quarter. Excluding these adjustments operating costs in McLeod would have been \$15.41 per boe in the quarter.

Arcan focused on its oil properties in 2008 and into 2009 as netbacks from its oil properties continue to outpace natural gas netbacks. On a year to date basis production from Hamburg is 699 boe per day, McLeod is 100 boe per day and Deer Mountain is 635 boe per day, reducing (17%) and (54%) and increasing 34%, respectively over the same period in 2008.

Revenues

Arcan posted reduced production revenues for the quarter ended June 30, 2009 versus the same quarter in 2008. The 5% decrease in production volumes and 52% decrease in price resulted in a decrease in revenue of 54% to \$7.2 million in the second quarter of 2009 from the \$15.8 million recorded in the second quarter of 2008 but was up from the \$5.7 million in the first quarter of 2009. Year to date 2009 production revenues were reduced versus the same period in 2008. The 7% decrease in production volumes and 48% decrease in price resulted in a decrease in revenue of 52% to \$12.9 million in the first half of 2009 from the \$26.9 million recorded in the first half of 2008.

Revenue and Realized Prices						
	Three Months Ended			Six Months Ended		
(\$000's)	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Oil and NGL	6,178	13,385	(54)	11,107	22,583	(51)
Natural gas	1,031	2,408	(57)	1,833	4,285	(57)
Total petroleum and natural gas revenue	7,209	15,793	(54)	12,940	26,868	(52)
\$ per boe						
Oil and NGL (per boe)	63.98	118.48	(46)	56.55	106.76	(47)
Natural gas (per mcf)	4.09	12.17	(66)	4.80	10.37	(54)
Total petroleum and natural gas revenue (per boe)	52.01	108.21	(52)	49.75	95.82	(48)
Benchmarks						
WTI (\$U.S. per bbl)	59.69	123.80	(52)	51.57	111.14	(54)
Edmonton Light Sweet (\$Cdn. per bbl)	66.11	126.41	(48)	58.25	112.26	(48)
Alberta Plant Gate (per mcf)	3.30	10.08	(67)	4.05	8.96	(55)
Cdn \$ per U.S. \$.8579	.9938	(14)	.8312	.9948	(16)

Commodity Prices

In the second quarter of 2009, Arcan realized average revenue per boe of \$52.01 as compared to \$108.21 per boe recorded in the second quarter of 2008 and \$47.16 per boe in the first quarter of 2009. Arcan realized an average of \$63.98 per bbl of oil and NGL in the second quarter of 2009, a decrease of 46% from the \$118.48 per bbl realized in the second quarter of 2008 but up from the \$49.36 per bbl received in the first quarter of 2009. This compares to an average Edmonton Light Sweet price of \$66.11 per bbl in the second quarter of 2009. Oil and NGL prices received by the Company moved consistent with benchmark prices for the relative periods. The Company realized an average natural gas price of \$4.09 per mcf in the second quarter of 2009, a 66% decrease from the \$12.17 per mcf averaged in the second quarter of 2008 and a decrease from the \$6.17 per mcf received in the first quarter of 2009. This is consistent with the price changes at the Alberta Plant gate for the same periods.

In the first half of 2009, Arcan realized average revenue per boe of \$49.75 as compared to \$95.82 per boe recorded in the first half of 2008. Arcan realized an average of \$56.55 per bbl of oil and NGL in the first half of 2009, a decrease of 47% from the \$106.76 per bbl realized in the first half of 2008. This compares to an average Edmonton Light Sweet price of \$58.25 per bbl in the first half of 2009. Oil and NGL prices received by the Company moved consistent with benchmark prices for the relative periods. The Company realized an average natural gas price of \$4.80 per mcf in the first half of 2009, a 54% decrease from the \$10.37 per mcf averaged in the first half of 2008. This is consistent with the price changes at the Alberta Plant gate for the same periods.

Arcan continues to receive a premium for its heat content on natural gas. Arcan anticipates oil prices will remain above US \$50 WTI and that gas prices may remain soft into the late fall of 2009 at or lower than current levels, and recovering to the \$5.00 - \$6.00 per mcf over the winter period. The weakness in the commodity prices has been mitigated somewhat by the weakness in the Canadian dollar over 2008. Based on anticipated production volumes Arcan expects to post higher revenues for the balance of 2009 over the first quarter if WTI pricing exceeds US \$65.00 per barrel.

Until April 1, 2009 all of Arcan's production to date had been sold on the spot market. In March of 2009, Arcan entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. The Company recorded realized loss of \$0.2 million in the second quarter of 2009 and an unrealized loss on this oil contract of \$1.1 million for the quarter ended June 30, 2009. At June 30, 2009 the unrealized loss recognized on the balance sheet totalled \$1.8 million on this contract.

Royalties

Royalty expense in the second quarter of 2009 was \$1.3 million or 18% of revenue, compared to \$2.9 million or 18% of revenue in the second quarter of 2008 and was \$1.3 million or 22% of revenue in the first quarter of 2009. Royalty expense in the first half of 2009 was \$2.6 million or 20% of revenue, compared to \$5.3 million or 20% of revenue in the first half of 2008. Royalty structures changed due to the New Royalty Framework for Alberta ("NRF") implemented by the Alberta Government effective January 1, 2009. On a percentage of revenue basis royalties have remained relatively consistent compared to the second quarter and first half of 2008 as reduced pricing and \$0.7 million in gas cost allowance has lowered royalty rates applicable under the NRF. Arcan anticipates that royalty rates will remain in the 10 – 20% of revenue range for the balance of 2009 if the commodity prices remain at current ranges and development drilling creates royalty credits to offset existing royalty structures.

Royalties						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Total (\$000s)	1,275	2,876	(56)	2,552	5,256	(51)
% of revenue	18	18	-	20	20	-
Per boe (\$)	9.20	19.71	(53)	9.81	18.74	(48)

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

Realized and unrealized loss on commodity contracts and financial instruments

The realized loss on commodity contracts was \$0.2 million and the unrealized loss totalled \$1.1 million for the quarter ended June 30, 2009. At June 30, 2009 the unrealized loss recognized on the balance sheet totalled \$1.8 million. There are no realized amounts in prior periods as this is Arcan's first commodity contract and it commenced on April 1, 2009. In March 2009, Arcan entered into its first ever commodity contract via a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009 totalling 137,500 barrels. The purpose of the contract is to protect a portion of Arcan's cash flows until the end of the year. Arcan purchased this contract from its bankers, the Alberta Treasury Branches. Arcan will mark to market the fixed price swap and record gains and losses to the statement of operations for each reporting period.

Realized and Unrealized losses on commodity contracts						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Realized loss (\$000's)	222	-	-	222	-	-
Per boe (\$)	1.60	-	-	0.85	-	-
Unrealized loss (\$000's)	1,115	-	-	1,759	-	-
Per boe (\$)	8.04	-	-	6.76	-	-

Operating Expense (Including Transportation)

Lower costs more than offset reduced production volumes in the second quarter of 2009 resulting in a decrease in per boe operating costs of 8% to \$11.50 per boe of production from the \$12.55 per boe recorded in the second quarter of 2008. Total operating expenses in the second quarter of 2009 were \$1.6 million, down 13% from \$1.8 million in the second quarter of 2008 and were up slightly from the \$1.4 million in the first quarter of 2009 as a result of higher volumes as well as a retroactive cost adjustment in the McLeod area for historic gas processing. Lower costs more than offset reduced production volumes in the first half of 2009 resulting in a decrease in per boe operating costs of 5% to \$11.32 per boe of production from the \$11.90 per boe recorded in the first half of 2008. Total operating expenses in the first half of 2009 were \$2.9 million, down 12% from \$3.3 million in the first half of 2008 as a result of ongoing cost control measures including the savings from the all-weather road constructed in the GG pool in Hamburg.

Arcan's operating expenses have increased since 2006 due to Arcan moving toward oil-weighted production. Going forward through 2009, Arcan's continued transition towards oil-weighted production, including costs to operate the enhanced recovery, is anticipated to result in \$10 - \$15 per boe average operating costs per unit of production.

Operating Expenses (Including Transportation)						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Total (\$000s)	1,593	1,832	(13)	2,945	3,338	(12)
Per boe (\$)	11.50	12.55	(8)	11.32	11.90	(5)

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

Cash G&A expenses for the second quarter of 2009 decreased on a per boe basis to \$6.92 per boe from \$7.46 per boe in the second quarter of 2008 and decreased from \$7.11 per boe in the first quarter of 2009. The change year over year for the second quarter periods, on a per boe basis, resulted from a 16% cost decrease as well as a small decrease in recoveries associated with lower capital expenditure activities. Total cash G&A expenses for the second quarter of 2009, net of recoveries of \$0.1 million, were \$1.0 million, compared to \$1.1 million in the second quarter of 2008 after recoveries of \$0.1 million. In the first quarter of 2009, cash G&A was \$0.9 million net of recoveries of \$0.1 million. Arcan had 22 full-time employees as at June 30, 2009 as compared to nineteen employees as at June 30, 2008. Cash G&A expenses for the first half of 2009 increased on a per boe basis to \$7.01 per boe from \$6.32 per boe in the first half of 2008. The change year over year for the periods, on a per boe basis, resulted from an 11% cost increase mainly based on lower production volumes. The first half of 2009 was \$1.8 million versus the first half of 2008 where cash G&A totalled \$1.8 million. Cash G&A expense per boe is forecast to remain flat on average for 2009 as volumes remain flat and costs are controlled.

Total cash G&A for three months ended June 30, 2009 of \$1.0 million was mainly comprised of wages of \$0.4 million, legal fees of \$0.1 million and rent of \$0.1 million.

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

G&A Expenses						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Total(\$000s boe)	959	1,089	(12)	1,822	1,771	3
Per boe (\$)	6.92	7.46	(7)	7.01	6.32	11

Interest Expense

Interest expense in the second quarter of 2009 was \$0.4 million or \$2.87 per boe as compared to \$0.3 million or \$2.31 per boe in the second quarter of 2008 and \$2.23 per boe in the first quarter of 2009. Interest expense in the first half of 2009 was \$0.7 million or \$2.58 per boe as compared to \$0.6 million or \$2.27 per boe in the first half of 2008. The impact on interest expense from the increase in bank debt levels from \$26.9 million at June 30, 2008 to \$39.6 million at June 30, 2009 was offset by reduced interest rates. Arcan's management increased debt levels based on operational success. Arcan forecasts that the debt to annualized second quarter 2009 cash flow ratio is elevated at four to one. Arcan estimates that interest expense will increase as higher debt levels are maintained and interest rates increase. Arcan had an effective interest rate of 4.75% on its debt facility at June 30, 2009 compared to 4.75% at June 30, 2008.

Interest Expense						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Total (\$000s)	398	337	18	670	636	5
Per boe (\$)	2.87	2.31	24	2.58	2.27	14

Funds from Operations

Funds from operations decreased by 72% in the second quarter of 2009 to \$2.7 million from \$9.6 million in the second quarter of 2008, mainly due to commodity price declines, but were up from \$2.0 million in the first quarter of 2009, as oil prices rebounded. On a diluted per share basis, funds from operations decreased to \$0.07 in the second quarter of 2009 from \$0.24 in the same period of 2008. Funds from operations decreased by 71% in the first half of 2009 to \$4.6 million from \$15.8 million in the first half of 2008, mainly due to commodity price declines. On a diluted per share basis, funds from operations decreased to \$0.12 in the second quarter of 2009 from \$0.41 in the same period of 2008.

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

Funds from Operations						
	Three Months Ended			Six Months Ended		
(\$000's except per share and per boe)	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Cash flow from operating activities (per GAAP)	2,102	9,665	(78)	3,463	12,229	(72)
Change in non-cash working capital	578	(48)	(1,304)	1,183	3,591	(67)
Funds from operations	2,680	9,617	(72)	4,646	15,820	(71)
Per share (\$)	0.07	0.25	(72)	0.12	0.42	(71)
Per share – diluted (\$)	0.07	0.24	(71)	0.12	0.41	(71)
Per boe (\$ corporate netbacks less reclamation costs)	19.33	65.89	(71)	17.86	56.42	(68)

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

Stock-Based Compensation

Arcan recorded stock-based compensation expense of \$0.2 million in the second quarter of 2009, calculated using the Black-Scholes option-pricing model. During the second quarter of 2009 Arcan granted no options. In 2008 all options granted have vesting terms with one-third of the options vesting on each of the first three anniversary dates and expire after five years. Changes to the various periods are as a result of inputs for calculations, varied amounts of option grants as well as relative numbers of options vesting during the periods.

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

Stock-Based Compensation Expense						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Total (\$000's)	193	187	3	386	376	3
Per boe (\$)	1.39	1.28	9	1.48	1.34	10

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

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Arcan recorded \$3.1 million or \$22.35 per boe in depletion and depreciation expense in the second quarter of 2009 based on production volumes of 138,596 boe. The 22% decrease in depletion expense per boe as compared to the second quarter of 2008 is primarily the result of expanded reserves recognized in the fourth quarter of 2008. Depletion per boe was flat over the first quarter of 2009, where Arcan recorded \$22.38 per boe. Arcan recorded \$5.8 million or \$22.37 per boe in depletion and depreciation expense in the first half of 2009 based on production volumes of 260,113 boe. The 18% decrease in depletion expense per boe in the first half of 2009 as compared to the first half of 2008 is primarily the result of expanded reserves recognized in the fourth quarter of 2008. The Company plans to decrease the depletion per boe amount in future years by adding reserves through an effective exploration and development program.

The Company excluded from its depletion and depreciation calculation costs associated with undeveloped land and seismic of \$11.6 million and included future development costs of \$38.2 million.

Arcan uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is decreased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Arcan recorded \$0.76 per boe of accretion expense in the second quarter of 2009, an increase from \$0.58 per boe in the second quarter of 2008 as a result of decreased volumes and higher accumulating obligations in 2009 compared to 2008. Arcan recorded \$0.79 per boe of accretion expense in the first half of 2009, an increase from \$0.60 per boe in the first half of 2008 as a result of decreased volumes and higher accumulating obligations in 2009 compared to 2008.

Depletion, Depreciation and Accretion Expense						
(\$000's except per boe)	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Depletion and depreciation	3,098	3,960	(22)	5,818	7,638	(24)
Per boe (\$)	22.35	27.13	(18)	22.37	27.24	(18)
Accretion	105	85	24	206	168	23
Per boe (\$)	0.76	0.58	31	0.79	0.60	32

Income and Other Taxes

A future tax reduction of approximately \$0.4 million has been recognized in the financial statements for the second quarter of 2009, which relates to the Company experiencing a pre-tax loss of \$1.7 million for the quarter. This differs from the second quarter of 2008 comparative period when pre-tax income was generated and a future tax expense of \$1.5 million was recorded. A future tax reduction of approximately \$0.8 million has been recognized in the financial statements for the first half of 2009, which relates to the Company experiencing a pre-tax loss of \$3.4 million for the first half of 2009. This differs from the first half of 2008 comparative period when pre-tax income was generated and a future tax expense of \$2.1 million was recorded. The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2009, which was 29.0% to pre-tax income due to non-deductible stock-based compensation and future tax rate differences.

As at June 30, 2009 the Company has no flow-through obligations outstanding.

Arcan estimates it has approximately \$108 million in tax pools. With capital spending in 2009 and reduced commodity prices, Arcan does not expect to be in a taxable position until late 2010 at the earliest.

Tax Expense (Reduction)						
	Three Months Ended			Six Months Ended		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Total (\$000's)	(433)	1,458	(130)	(833)	2,099	(140)
Per boe (\$)	(3.13)	9.99	(131)	(3.20)	7.49	(143)

Net Income (Loss)

The net loss for the second quarter of 2009 was \$1.3 million or \$0.03 per basic and diluted share, down from the \$4.0 million of net income created in the second quarter of 2008. The net loss for the first half of 2009 was \$2.6 million or \$0.07 per basic and diluted share, down from the \$5.6 million of net income created in the first half of 2008. The change in operating netbacks was the primary contributor to these changes.

Net Income (Loss)						
Three Months Ended				Six Months Ended		
(\$000's except per boe)	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Total	(1,314)	3,983	(133)	(2,604)	5,628	(146)
Per share - basic	(0.03)	0.11	(127)	(0.07)	0.15	(147)
- diluted	(0.03)	0.10	(130)	(0.07)	0.15	(147)
Per boe (\$)	(9.48)	27.29	(135)	(10.01)	20.07	(150)

Capital Expenditures

Capital Expenditure Summary			
(\$ millions)	Q2 2009	Q1 2009	YTD June 30 2009
Land and seismic Acquisitions	0.2	0.2	0.4
Drilling and intangibles	-	1.1	1.1
Facilities and equipment	-	1.9	1.9
Total Capital – cash expended	0.2	3.2	3.4

Arcan spent \$0.2 million in the second quarter of 2009 bringing year to date capital expenditures to \$3.4 million. Capital spending in 2009 has been focused on drilling and tying in one (0.5 net) exploration gas well, building access roads, installing pump jacks and converting one well to a water injector.

Share Capital and Option Activity

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

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

Liquidity and Capital Resources

As at June 30, 2009, the Company had drawn \$39.6 million on its bank line and had a working capital deficit including bank debt of \$40.4 million. Arcan's management increased debt levels based on operational success in 2008 and 2009. With its solid asset base Arcan estimates that it has the ability to generate short-term and long-term cash flow to meet obligations as they become due. Arcan's management decreased debt levels from the first quarter of 2009 through capital expenditures being lower than cash flow. Arcan estimates 2009 annualized cash flow to 2009 net debt will remain high in the current commodity price environment. As at the date hereof, the Company has a \$50.0 million revolving credit facility with a Canadian chartered bank and is within its banking covenant. Arcan expects to be in a net debt position throughout 2009 and expects to be able to meet all of its obligations as they come due.

Capital expenditures in the third quarter are expected to be higher than cash flow, increasing Arcan's net debt position. Arcan has budgeted drilling 3 wells in Hamburg, one well in McLeod and one well in Deer Mountain for the last half of 2009 and expects working capital deficit including bank debt to maximize at approximately \$46.0 million based on commodity prices, drilling costs and market outlook.

The Company monitors capital based on the ratio of net debt to quarterly annualized funds from operations. In this ratio net debt is defined as outstanding bank debt plus or minus working capital, divided by funds from operations for the most recent calendar quarter, annualized (multiplied by four). The Company's strategy in the longer term is to achieve a ratio of less than 2 to 1. This ratio may increase at certain times as a result of operations and acquisitions, or significant commodity price declines as we have witnessed. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at June 30, 2009, the Company's ratio of net debt to quarterly annualized funds from operations was 3.8 to 1.

Arcan would need to engage in a substantial capital expenditure program to develop its three core oil and natural gas properties to their full potential. As of the date of this MD&A, Arcan anticipates drilling one (1.0 net) farm-in well for approximately \$2 million in the Deer Mountain area. As well Arcan anticipates drilling up to three (1.5 net) wells in the Hamburg GG pool before the end of the fourth quarter. 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 19, 2009, due to its capital expenditures, hedging program and cash flow from wells, its debt and working capital deficiency is approximately \$42.0 million, which is also below its current debt facility. Arcan estimates that it will have capital expenditures exceeding cash flow in the third and fourth quarters of 2009 and expects net debt to peak at \$46 million, still within the \$50 million of available banking facilities. To support its cash flow, Arcan entered into a fixed price oil swap contract at the end of March 2009 to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009.

Arcan expects its capital expenditure program to be significantly lower in 2009 than in 2008 and expects the expenditures to be financed through its bank facility, and available funds from operations. Additional equity may be available later in 2009 if the condition of equity markets permit, however, the Company does not forecast requiring this cash inflow to complete its budgeted capital program.

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

(\$ 000's)	Quarter Ended June 2009	Quarter Ended June 2008	Quarter Ended December 2008
Current assets	8,184	7,627	9,886
Less:			
Accounts payable and accrued liabilities	7,212	8,364	20,659
Bank loan	39,627	26,829	29,633
Fair value of commodity contracts	1,759	-	-
Working capital (deficiency)	(40,414)	(27,836)	(40,406)

Related Party Transactions

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

A share purchase loan of \$100,000 (2008 - \$100,000) is outstanding between Arcan and Mr. Penner, the Vice President Finance and Chief Financial Officer of Arcan, and was used by Mr. Penner for the purchase of 40,000 common shares of Arcan 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 1%, on or before April 3, 2012. This loan is secured by the underlying shares.

Contractual Obligations

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

Arcan has the following commitments:

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

	\$
2009	119,250
2010	238,500
2011	244,125
2012	249,750
2013	249,750
2014 and thereafter	624,375

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

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

Off-Balance Sheet Obligations

There were no off-balance sheet obligations at June 30, 2009.

Outstanding Share Data

Arcan's issued share capital consists of:

	Quarter Ended June 30, 2009	Year Ended December 2008	August 19, 2009
Common shares	37,868,560	37,868,560	37,868,560
Warrants	586,631	586,631	586,631
Performance options	750,000	1,500,000	750,000
Stock options	3,631,000	3,638,500	3,631,000

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

None of the officers or directors of Arcan at June 30, 2009 exercised any options or sold any shares of Arcan during the quarter ended June 30, 2009 or the year ended December 31, 2008 or during the period ended the date hereof.

OUTLOOK

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

- Infill development drilling in the Hamburg GG pool in conjunction with our waterflood is aimed at increasing production and significantly extending the life and value of the asset. Arcan has had exploration successes over the past year and it is expanding its exploration base for next winter as Arcan moves into B.C. to take advantage of the more favourable royalty regime.
- At McLeod, Arcan has not focused on natural gas drilling since 2007 but continues to accumulate deeper, higher-impact targets for future drilling when natural gas prices improve.
- Expand Deer Mountain through the combination of Arcan's new battery, full water handling facility, expanded water injection scheme, drilling of new injection/production patterns in the unit and drilling of new patterns located off the unit on Arcan's 56 sections of undeveloped lands along the reef.

Arcan's 2009 capital program is expected to remain within cash flow and debt capacities and will continue to focus on growth through exploration and development in its three core areas of Deer Mountain, McLeod and Hamburg. The Company's strengths include \$108 million of tax pools, a strong slate of directors, highly experienced technical staff, Arcan operated facilities with ample capacity for growth and recently implemented waterfloods. The Arcan team since inception has demonstrated the ability to successfully explore develop and exploit its core properties and will continue to grow Arcan's asset base through the drill bit and targeted accretive acquisitions. Arcan's unwavering commitment to its growth strategy has created a solid platform for Arcan to experience continued strong sustainable growth through out 2009 and into the future.

Business Risks

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

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

Arcan also faces business risk in access to capital. Arcan's need for capital will be both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition, exploration and development of oil and natural gas properties requires substantial amounts of long-term capital. Arcan uses several sources of financing, including new equity, when available on favourable terms, as well as internally generated cash flow, and bank debt. Current economic conditions involving significant negative global impacts to credit and equity markets have elevated the risks associated with this aspect of Arcan's business. To mitigate capital risks Arcan has negotiated its loan for renewal on April 30, 2010, has reduced capital investments for 2009 to remain within its cash flow and available bank lines and is focusing operations on cost reductions.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, and currency exchange rates. Arcan may use financial hedging instruments to manage these risks at the direction and under the supervision of the Board of Directors. To support its 2009 cash flow, Arcan has entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory and taxation environment and safety concerns.

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

Arcan's Chinchaga (Hamburg) oil and natural gas property is in a winter access only area. This results in a limited time frame available to conduct Arcan's annual capital expenditure program in this area. This creates risks for cost overruns when operations have to be rushed. Time overruns can also happen whereby spring breakup occurs before a newly drilled well is completed and tied in, resulting in a one year delay in being able to put the well on production and have it generate revenue for Arcan. Arcan has constructed a light vehicle all-weather road into its GG pool to allow it to mitigate some operation risk through increased access.

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

Critical Accounting Estimates

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

International financial reporting standards

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

The International Accounting Standards Board ("IASB") in July 2009 approved certain amendments and exemptions to IFRS 1. The amendments permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

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

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

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

Future accounting policies

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for Arcan on December 31, 2009.

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. Operating and corporate netbacks as well as other metrics are presented in this MD&A on a boe basis by dividing the related inputs by the respective period's boe production numbers.

Finding and Development Costs

The aggregate of the exploration and development costs incurred in the most recent fiscal year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

Please refer to the "Abbreviations and Conversions" in the AIF dated April 3, 2009 for the year ended December 31, 2008, and available on SEDAR, for meanings of certain abbreviations used in this MD&A.

Forward-Looking Information and Statements

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

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

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

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

ARCAN RESOURCES LTD.

Balance Sheets
(Unaudited)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable	\$ 6,792,309	\$ 9,067,668
Prepays and deposits	881,864	817,944
Future income taxes	510,206	—
	<u>8,184,379</u>	<u>9,885,612</u>
Property, plant, and equipment (note 1)	137,544,159	139,838,263
	<u>\$ 145,728,538</u>	<u>\$ 149,723,875</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,211,829	\$ 20,658,604
Bank loan (note 2)	39,627,362	29,632,687
Fair value of commodity contracts (note 6)	1,759,331	—
	<u>48,598,522</u>	<u>50,291,291</u>
Asset retirement obligations (note 3)	5,024,912	4,785,428
Future income taxes	6,092,695	6,415,927
	<u>59,716,129</u>	<u>61,492,646</u>
Shareholders' equity:		
Share capital (note 4)	81,677,404	81,677,404
Share purchase loan (note 4)	(100,000)	(100,000)
Contributed surplus (note 5)	3,523,628	3,137,804
Retained earnings	911,377	3,516,021
	<u>86,012,409</u>	<u>88,231,229</u>
Commitments (note 7)		
	<u>\$ 145,728,538</u>	<u>\$ 149,723,875</u>

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Revenue:				
Petroleum and natural gas	\$ 7,209,028	\$ 15,793,235	\$ 12,939,995	\$ 26,868,221
Interest and other revenue	1,527	14,264	2,192	41,883
Royalties	(1,274,877)	(2,876,124)	(2,552,366)	(5,256,263)
Unrealized loss on commodity contracts (note 6)	(1,114,897)	—	(1,759,331)	—
Realized loss on commodity contracts (note 6)	(221,836)	—	(221,836)	—
	4,598,945	12,931,375	8,408,654	21,653,841
Expenses:				
Operating	1,593,425	1,832,161	2,945,160	3,337,947
General and administrative	1,152,050	1,275,982	2,208,303	2,146,689
Interest	397,616	337,384	669,907	635,698
Accretion	104,948	84,870	205,751	167,688
Depletion and depreciation	3,098,188	3,959,587	5,817,615	7,638,415
	6,346,227	7,489,984	11,846,736	13,926,437
Income (loss) before income taxes	(1,747,282)	5,441,391	(3,438,082)	7,727,404
Future income tax reduction (expense)	433,137	(1,458,500)	833,438	(2,099,656)
Net income (loss) and comprehensive income (loss)	(1,314,145)	3,982,891	(2,604,644)	5,627,748
Retained earnings (deficit), beginning of period	2,225,522	(1,839,738)	3,516,021	(3,484,595)
Retained earnings, end of period	\$ 911,377	\$ 2,143,153	\$ 911,377	\$ 2,143,153
Net income (loss) per share (note 4):				
Basic	\$ (0.03)	\$ 0.11	\$ (0.07)	\$ 0.15
Diluted	\$ (0.03)	\$ 0.10	\$ (0.07)	\$ 0.15

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Cash Flows
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ (1,314,145)	\$ 3,982,891	\$ (2,604,644)	\$ 5,627,748
Items not involving cash:				
Depletion and depreciation	3,098,188	3,959,587	5,817,615	7,638,415
Stock-based compensation	193,119	187,372	385,824	375,910
Accretion	104,948	84,870	205,751	167,688
Unrealized loss on commodity contracts	1,114,897	—	1,759,331	—
Future income tax expense (reduction)	(433,137)	1,458,500	(833,438)	2,099,656
Reclamation costs	(84,271)	(56,088)	(84,271)	(89,647)
	2,679,599	9,617,132	4,646,168	15,819,770
Change in non-cash working capital	(577,403)	47,882	(1,182,642)	(3,590,744)
	2,102,196	9,665,014	3,463,526	12,229,026
Financing:				
Bank loan	(1,566,809)	4,254,642	9,994,675	12,922,965
Issue of common shares, net of costs	—	104,000	—	104,000
	(1,566,809)	4,358,642	9,994,675	13,026,965
Investing:				
Property, plant and equipment	(228,750)	(3,000,786)	(3,405,507)	(12,557,127)
Property acquisition (note 1)	—	(1,060,767)	—	(1,060,767)
Change in non-cash working capital	(306,637)	(9,962,103)	(10,052,694)	(11,638,097)
	(535,387)	(14,023,656)	(13,458,201)	(25,255,991)
Change in cash	—	—	—	—
Cash, beginning of period	—	—	—	—
Cash, end of period	\$ —	\$ —	\$ —	\$ —
Supplementary disclosure:				
Interest paid	\$ 309,965	\$ 258,160	\$ 601,348	\$ 685,016

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Notes to Financial Statements

Three and six months ended June 30, 2009 and 2008
(Unaudited)

Arcan Resources Ltd. ("Arcan" or the "Company") is a publicly listed company involved in the business of oil and natural gas exploration, development and production in Canada. The interim financial statements of Arcan have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2008. The following disclosure is incremental to the disclosure included with the December 31, 2008 financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2008.

Future accounting policies:

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for Arcan on December 31, 2009.

1. Property, plant and equipment:

	June 30, 2009	December 31, 2008
Petroleum and natural gas properties	\$ 176,201,202	\$ 172,677,691
Accumulated depletion and depreciation	(38,657,043)	(32,839,428)
	<u>\$ 137,544,159</u>	<u>\$ 139,838,263</u>

At June 30, 2009, petroleum and natural gas properties included undeveloped properties of \$11.6 million (June 30, 2008 - \$10.7 million), which have been excluded from the depletion calculation. Future development costs for proved reserves of \$38.2 million (June 30, 2008 - \$21.9 million) have been included in the depletion calculation.

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 2

Three and six months ended June 30, 2009 and 2008
(Unaudited)

2. Bank loan:

	June 30, 2009	December 31, 2008
Bank loan	\$39,627,362	\$ 29,632,687

Arcan has a \$50 million operating revolving loan facility. This facility is with a Canadian chartered bank. Interest on the facility is calculated at the bank prime rate of interest, plus an applicable facility margin depending upon certain ratios. A re-determination of the borrowing base will occur on or before April 30, 2010. As the available lending limits of the facility is based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of the facility that will be determined at each scheduled review. The loan facility is secured by a general security agreement and is payable in full on demand. Pursuant to the terms of the credit facilities, the Company has provided the covenant that at all times its working capital ratio shall be not less than 1 to 1. The working capital ratio is defined under the terms of the facilities as current assets, including the undrawn portion of the revolving credit facility, to current liabilities, excluding any current bank indebtedness. The Company is compliant with this covenant at June 30, 2009. This facility had an effective interest rate of 4.75% at June 30, 2009 (June 30, 2008 – 4.75%).

3. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2009 is \$11.1 million (December 31, 2008 - \$11.1 million), which will be incurred between 2010 and 2019. The majority of the costs will be incurred between 2010 and 2016. An inflation rate of 2% (2008 – 2%) was used to inflate the costs, and a credit-adjusted risk-free rate of 8% - 10% (2008 – 8% - 10%) was used to calculate the fair value of the asset retirement obligations.

	June 30, 2009	December 31, 2008
Balance, beginning of period	\$ 4,785,428	\$ 4,169,384
Liabilities incurred	84,888	613,877
Liabilities eliminated on disposal	—	(41,152)
Accretion expense	205,751	354,657
Change in estimates	33,116	—
Reclamation costs	(84,271)	(311,338)
Balance, end of period	\$ 5,024,912	\$ 4,785,428

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 3

Three and six months ended June 30, 2009 and 2008
(Unaudited)

4. Share capital:

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Common shares issued and outstanding:

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

(c) Warrants:

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

	Weighted average Exercise Price (\$)	Number of Warrants
Balance, at December 31, 2007	1.93	598,631
Exercise of warrants	2.00	(12,000)
Balance, December 31, 2008 and June 30, 2009	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.

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 4

Three and six months ended June 30, 2009 and 2008
(Unaudited)

4. Share capital (continued):

(d) Share purchase loan:

A share purchase loan of \$100,000 (December 31, 2008 - \$100,000) is due from an officer of the Company for the purchase of 40,000 common shares at a price of \$2.50 per common share. This loan is repayable, with interest calculated at the "Prescribed Rate" as determined by the Canada Revenue Agency, currently 1%, on or before April 3, 2012. This loan is secured by the underlying shares.

(e) Stock options:

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	3,638,500	\$ 2.27	3,265,000	\$ 2.51
Granted	—	—	1,039,000	1.95
Exercised	—	—	(30,000)	2.67
Forfeited	(7,500)	2.02	(58,500)	2.83
Cancelled	—	—	(577,000)	2.95
Stock options outstanding, end of period	3,631,000	\$ 2.27	3,638,500	\$ 2.27
Exercisable at period-end	2,421,667	\$ 2.24	2,034,000	\$ 2.04

(f) Stock-based compensation:

There were no new options granted during the six months ended June 30, 2009.

The fair value of each option granted during the six months ended June 30, 2008 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

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

ARCAN RESOURCES LTD.

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Three and six months ended June 30, 2009 and 2008
(Unaudited)

4. Share capital (continued):

(g) Performance options:

	June 30, 2009	December 31, 2008
Number outstanding	750,000	1,500,000
Exercisable	750,000	1,500,000
Weighted average remaining contractual life (years)	0.67	0.75
Weighted average exercise price (\$/share)	1.00	1.00

During the six months ended June 30, 2009, 750,000 performance options exercisable at \$1.00 per performance option expired unexercised.

(h) 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,	
	2009	2008	2009	2008
Weighted average number of shares – basic	37,828,560	37,793,033	37,828,560	37,254,327
Effect of dilutive securities	–	1,679,979	–	1,313,986
Weighted average number of shares - diluted	37,828,560	39,473,012	37,828,560	38,568,313

In computing diluted per share amounts at June 30, 2009, 3,631,000 options (June 30, 2008 – 1,671,000 options), 750,000 performance options (June 30, 2008 – nil performance options), and 586,631 warrants (June 30, 2008 – nil warrants) were excluded for the calculation as their effect was anti-dilutive.

5. Contributed surplus:

	June 30, 2009	December 31, 2008
Balance, beginning of period	\$ 3,137,804	\$ 2,294,064
Stock-based compensation	385,824	872,653
Transfer to share capital on exercise of warrants and options	–	(28,913)
Balance, end of period	\$ 3,523,628	\$ 3,137,804

ARCAN RESOURCES LTD.

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Three and six months ended June 30, 2009 and 2008
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6. Financial instruments:

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at June 30, 2009 the Company's receivables consisted of \$4.5 million (December 31, 2008 - \$6.6 million) from joint venture partners, \$2.1 million (December 31, 2008 - \$1.9 million) of receivables from petroleum and natural gas marketers and \$0.2 million (December 31, 2008 - \$0.6 million) of other trade receivables.

The carrying amount of accounts receivable represents the maximum credit exposure. The Company has an allowance for doubtful accounts as at June 30, 2009 of \$0.1 million, consistent with the amount provided during the year ended December 31, 2008.

As at June 30, 2009 and December 31, 2008 the Company considers its receivables to be aged as follows:

Aging	June 30, 2009	December 31, 2008
Not past due (less than 120 days)	\$ 4,831,088	\$ 6,993,229
Past due (over 120 days)	1,961,221	2,074,439
Total	\$ 6,792,309	\$ 9,067,668

Liquidity risk

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 7

Three and six months ended June 30, 2009 and 2008
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6. Financial instruments (continued):

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net income or the value of financial instruments.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks.

The Company had no forward exchange rate contracts in place as at or during the six months ended June 30, 2009 or the year ended December 31, 2008.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices.

During the six months ended June 30, 2009 the Company entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. The Company recognized an unrealized loss of \$1,759,331 on the contract as at and for the six months ended June 30, 2009. The Company also realized loss on the contract of \$221,836 for the six months ended June 30, 2009.

The Company has assessed the sensitivity of the fair value of the oil commodity contract to fluctuations in forward crude oil prices. As at June 30, 2009, if the forward price of crude had been \$1.00 higher, net income for the period would have been approximately \$69,000 lower, due to a higher unrealized loss on commodity contracts. An equal and opposite impact would have occurred to net income had the forward price of crude been \$1.00 lower.

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 8

Three and six months ended June 30, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

Capital management

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholder's equity of \$86.0 million (December 31, 2008 - \$88.2 million), bank debt of \$39.6 million (December 31, 2008 - \$29.6 million) and a working capital deficiency excluding bank debt, of \$0.8 million (December 31, 2008 - \$10.8 million). In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

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

As at June 30, 2009 and December 31, 2008, the Company's ratio of net debt to quarterly annualized funds from operations was 3.8 to 1 and 5.1 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at quarter end and year end was above the 2 to 1 ratio that management targets to maintain due to significant capital spending in 2008 and decreased commodity prices in the first half of 2009.

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

ARCAN RESOURCES LTD.

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Three and six months ended June 30, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

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

	June 30, 2009	December 31, 2008
Working capital deficiency (including bank debt)	\$ 40,414,143	\$ 40,405,679
Cash flow from operating activities	2,102,196	4,590,366
Change in non-cash operating working capital	577,403	(2,603,621)
Funds from operations	2,679,599	1,986,745
Annualizing factor	x4	x4
Annualized funds from operations	\$ 10,718,396	\$ 7,946,980
Ratio	3.8 to 1	5.1 to 1

The Company's share capital is not subject to external restrictions, however the bank debt facility is based on petroleum and natural gas reserves and subject to certain financial covenants (see note 2). The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

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

Fair value of financial instruments

The Company's financial instruments as at June 30, 2009 and December 31, 2008 includes accounts receivable, accounts payable and accrued liabilities, commodity contracts and bank debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

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

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 10

Three and six months ended June 30, 2009 and 2008
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7. Commitments:

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

2009	\$ 119,250
2010	238,500
2011	244,125
2012	249,750
2013	249,750
2014 and thereafter	624,375

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

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

Arcan Resources Ltd.

Corporate Information

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Robert J. Dales

Independent Businessman

Andy Fisher

Executive Vice President, Arcan Resources Ltd.

Ed Gilmet

President and CEO, Arcan Resources Ltd.

Michael J. Laffin

Partner, Blake, Cassels & Graydon LLP

J. Terry McCoy

President, Koa Resources Ltd.

Officers

Ed Gilmet

President and CEO

Andy Fisher

Executive Vice President

Doug Penner

CFO and V.P. Finance

Graeme Ryder

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Valiant Trust Company

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