RESOURCES LTD
ARCAN

INTERIM REPORT

Three and nine months ended September 30, 2008

ARCAN RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

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

This Management's Discussion and Analysis ("MD&A") is an explanation, through the eyes of management, of how Arcan performed during the periods covered by the quarterly financial statements of Arcan filed concurrently with this MD&A, and of Arcan's financial condition and future prospects. This MD&A is for the three and nine month periods ending September 30, 2008 as compared to the three and nine month periods ending September 30, 2007 and compared to the three month period 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 nine month periods ended September 30, 2008 and 2007 together with the notes thereto, the unaudited interim financial statements for the periods ended March 31 and June 30, 2008 and 2007 together with the notes thereto, as well as the audited financial statements for the year ended December 31, 2007, the six months ended December 31, 2006 and the year ended June 30, 2006, together with the notes related thereto and other documents filed on SEDAR, including historical financial statements, the Company’s management information circular dated April 22, 2008 and the Company’s Annual Information Form ("AIF") dated April 3, 2008 for the year ended December 31, 2007. These documents are available at www.sedar.com under Arcan’s 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. This MD&A is dated November 21, 2008.

Non-GAAP Measurements

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

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

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

Funds from Operations				
	Three Months Ended		Nine Months Ended	
($000's)	**September 30, 2008**	September 30, 2007	**September 30, 2008**	September 30, 2007
Cash flow from operating activities (per GAAP)	**7,150**	3,414	**19,379**	6,830
Change in non-cash working capital	**(403)**	567	**3,188**	1,930
Funds from operations	**6,747**	3,981	**22,567**	8,760

Third Quarter 2008 Highlights

- ☆ The Company increased production, revenue, cash flow from operating activities, funds from operations, netbacks and net income over Q3, 2007;
- ☆ The Company increased production to 1,444 boe per day for the three months ended September 30, 2008 up 11% over the 1,304 boe per day in Q3, 2007 and down 10% from 1,604 boe per day in Q2, 2008;
- ☆ Operating netbacks of $56.64 per boe (revenue of $103.03 per boe and operating cost of $18.68 per boe) were up 37% from $41.49 per boe in Q3, 2007 and down 25% from $75.95 per boe in Q2, 2008;
- ☆ Funds from operations increased 69% to $6.7 million ($0.17 per diluted share) from $4.0 million ($0.11 per diluted share) in Q3, 2007 and down 30% from the $9.6 million ($0.24 diluted per share) in Q2, 2008;
- ☆ Drilled five (4.0 net) oil wells including one water source well in Deer Mountain;
- ☆ Bank line increased to $50 million from $40 million with net debt and working capital of $32.4 million at September 30, 2008; and
- ☆ In early Q4 2008, successfully drilled its first oil well on its new 59 section block of lands south and adjacent to its Deer Mountain Unit property. Arcan’s management expects that this well will prove up additional reserves and demonstrate drilling opportunities south and east of Arcan’s existing unit

Financial and Operating Summary	**Three Months Ended**		**Nine Months Ended**	
	September 30, 2008	September 30, 2007	**September 30, 2008**	September 30, 2007
Financials ($000s except per share amounts)				
Oil and NGL sales	**11,863**	6,452	**34,447**	15,313
Natural gas sales	**1,827**	1,344	**6,111**	4,953
Total petroleum and natural gas revenue	**13,690**	7,796	**40,558**	20,226
Cash flow from operating (GAAP)	**7,150**	3,414	**19,379**	6,830
Funds from operations [1]	**6,747**	3,981	**22,567**	8,760
Per share basic [1]	**0.18**	0.12	**0.60**	0.28
Per share diluted [1]	**0.17**	0.11	**0.58**	0.28
Net Income (loss)	**2,145**	152	**7,772**	(779)
Per share basic	**0.06**	0.00	**0.21**	(0.02)
Per share diluted	**0.05**	0.00	**0.20**	(0.02)
Capital expenditures – cash	**11,323**	11,500	**24,941**	41,039
Total Assets	**143,006**	107,175	**143,006**	107,175
Total Liabilities	**54,340**	27,747	**54,340**	27,747
Shareholders' equity	**88,666**	79,427	**88,666**	79,427
Bank Loan, net of cash and cash equivalents	**22,919**	8,619	**22,919**	8,619
Net debt and working capital	**32,412**	14,585	**32,412**	14,585
Operating, General and Administrative (G&A)				
Production:				
Crude oil (bbls per day)	**1,087**	929	**1,137**	800
Natural gas (mcf per day)	**2,144**	2,246	**2,228**	2,384
Total (boe per day) (6:1)	**1,444**	1,304	**1,508**	1,197
Average realized price:				
Crude oil ($ per bbl)	**118.63**	75.47	**110.57**	70.15
Natural gas ($ per mcf)	**9.26**	6.51	**10.01**	7.61
Combined average (incl. processing revenue) ($ per boe)	**103.03**	65.01	**98.14**	62.02
Netback ($ per boe)				
Petroleum and natural gas sales	**103.03**	65.01	**98.14**	62.02
Royalties	**27.71**	14.12	**21.63**	14.88
Operating and transportation expenses	**18.68**	9.40	**14.08**	9.04
Operating netback	**56.64**	41.49	**62.43**	38.10
G&A expenses – cash	**5.06**	6.02	**5.91**	9.44
Interest expense – net	**0.78**	2.26	**1.69**	1.85
Corporate netback	**50.80**	33.21	**54.83**	26.81
Common Shares (000s)				
Shares outstanding, end of period	**37,869**	36,471	**37,869**	36,471
Weighted average shares [2] - basic	**37,829**	33,744	**37,448**	31,472
- diluted	**39,096**	36,370	**38,746**	31,472

1 The reader is referred to the section – "Non-GAAP Measurements".
2 In computing the net loss per diluted share in the nine month 2007 period, nil shares were added to the weighted average number of shares outstanding because they were anti-dilutive.

Overview

Global equity markets have contracted significantly and this has been, and may continue to be, very challenging for smaller producers. This volatile and uncertain environment poses new challenges, including the assessment of when a recovery will occur and what other unpredictable series of events could precede it. To deal with these uncertainties Arcan is utilizing the knowledge of its Board of Directors and financial partners, and is assessing all operating and capital needs on an ongoing basis. Arcan continues to work closely with its financiers and lenders to keep abreast of external credit issues as well as keeping our lenders informed of Arcan's ongoing operations and plans. Oil and gas prices now hover near Q4, 2006 levels with oil near $60 per boe Edmonton and gas near $40 per boe for Alberta spots. At these prices Arcan has adequate cash resources to complete the $4.0 million in capital commitments it has outstanding as well as fund operations and working capital requirements. Arcan's common shares have traded recently at levels that management considers do not reflect the full value of the Company. Arcan is reviewing all areas of its operations to generate cost reductions in order to remain competitive in this restrictive environment. Arcan's production base should remain relatively stable as its largest asset at Deer Mountain is part of a large very mature and predictable oil field. The majority of Arcan's assets are under waterflood, which should assist in limiting production decline rates. Under a stable production base, Arcan estimates that it would remain cash flow positive even at $30.00 per boe oil prices. Arcan will continue to adjust to commodity and market conditions and modify its spending accordingly.

Strong oil production combined with price for light oil provided Arcan with funds from operations for the three and nine month periods ended September 30, 2008, of $6.7 million and $22.6 million, respectively, a 70% and 159% increase over the $4.0 million and $8.8 million, respectively, for the three and nine month periods ended September 30, 2007. For the three months ended September 30, 2008 production was 1,444 boe per day which is 11% higher than the 1,304 boe per day average production for the three months ending September 30, 2007.

Production levels for Q3, 2008 incorporated elevated production, for part of the quarter, from the test period for the new well in Hamburg. Production was reduced by the impact of natural gas which was shut-in due to a third party turn-around in the McLeod area for all of July and part of August. Successful drilling in Deer Mountain lifted production at the end of the third quarter, with current production from Deer Mountain exceeding 1,000 (800 net) boe per day. Deer Mountain continues to perform well as we see reservoir pressure response from water injection and new drilling locations being tied-in.

During 2008 Arcan increased its budgeted capital program to $40.0 million from $26.0 million at the start of 2008 based on higher cash flows than anticipated. In the third quarter of 2008, Arcan expended $11.3 million of capital on five wells and commencing two additional wells in Deer Mountain. Subsequent to the third quarter, Arcan drilled its first well on its new 59 section block of lands immediately adjacent to the south of Deer Mountain Unit 2. The new well is on production at over 75 (50 net) boe per day and Arcan's management expects that this well will prove up additional reserves and demonstrate productivity extensions south and east of Arcan's existing unit. Arcan has further option wells that it may embark upon to expand this play and has elected to shoot further 3D seismic to the south to delineate additional drilling locations. Successful wells would add to our extensive oil resource play and generate significant follow-up. These new reef edge wells drilled in 2008 may have provided pool expansion and extension.

Arcan continues its efforts to have its Maximum Rate Limitations ("MRL's"), and thereby production, lifted in Hamburg. Arcan expects to produce between 1,600 and 1,800 boe per day in the fourth quarter of 2008 taking into consideration the impact of new production in Deer Mountain, however providing no increases for potential MRL's being lifted in Hamburg. Arcan's production and investment in drilling continues to be levered towards light oil. Arcan operates its core properties and is able to re-allocate capital expenditures among exploration and development drilling for both oil and natural gas. Arcan has a large inventory of infill oil locations with low risk profiles and high reserve potential. Paramount to Arcan and to its management team is adding value for the Company's shareholders.

At September 30, 2008 Arcan had 20 full time employees.

Overview of Arcan's Core Areas

Hamburg

Production averaged 775 boe per day with $55.95 per boe operating netbacks for the three months ended September 30, 2008 up from 491 boe per day and $45.73 per boe operating netbacks in the three months ended September 30, 2007. For the nine months ended September 30, 2008 production averaged 822 boe per day with $67.66 per boe operating netbacks up from 367 boe per day and $48.11 per boe operating netbacks in the nine months ended September 30, 2007. Production rates in the third quarter partially reflected the capability of our new well at 13-17, which was drilled in the first quarter of 2008. The new well produced at high rates during a portion of the third quarter and was shut-in due to over production and will likely be converted into a water injection well as part of an expanded Enhanced Recovery Scheme ("ER Scheme"). Elevated operating costs in the third quarter reflected an expensive work-over performed by helicopter on one of the wells. Arcan is investigating all weather roads to limit the high costs of summer access.

Arcan has drilled a total of seven wells in the area of the GG Pool located in Twp. 096 Range 09W6M. As of the date hereof, only three (two producers and one injector) of these wells are within the boundaries of the approved ER Scheme and have Good Production Practice ("GPP") status with the balance of the wells remaining on limited rates by MRL's. Recently Arcan, together with its partner, have filed a joint application to expand the ER Scheme to include all producing wells. As well, Arcan's partner has filed a letter of non-objection. Arcan anticipates that this may expedite the final approval process.

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

McLeod

Production averaged 145 boe per day with $18.96 per boe operating netbacks for the three months ended September 30, 2008, down from 359 boe per day with $22.97 per boe operating netbacks in the three months ended September 30, 2007. Production averaged 194 boe per day with $31.78 per boe operating netbacks for the nine months ended September 30, 2008, down from 397 boe per day with $28.15 per boe operating netbacks in the nine months ended September 30, 2007. Production declines reflect both shut in periods as well as normal declines from lack of investment. Higher operating costs reflected work done related to operations to re-commence production from the area after the shut-in period as well as $188,000 in retro-active processing cost adjustments.

In mid-June 2008, a third party operator commenced a planned shut down its infrastructure which shut-in Arcan's production from McLeod until the start of August. These wells, one (0.5 net) new well that was drilled late in Q2, 2008 plus an additional well that has been shut-in since March, are now on production and are averaging approximately 200-300 boe per day under continued facility capacity constraints.

Arcan is evaluating further delineation drilling and down-space drilling in our main pool in McLeod. However, additional drilling would cause further pipeline capacity issues and would involve expending capital for any production additions. Arcan's budget remains restricted in the McLeod areas and has been restricted over the past eighteen months to focus on its higher netback oil properties. In the McLeod area Arcan has a further four locations with proposed drilling depths of around 2,500 meters which have been surveyed and other deeper opportunities in the area are being accumulated.

Deer Mountain

Production averaged 521 boe per day with $62.93 per boe operating netbacks for the three months ended September 30, 2008 up from 444 boe per day with $53.75 per boe operating netbacks in the three months ended September 30, 2007. Production averaged 489 boe per day with $67.08 per boe operating netbacks for the nine months ended September 30, 2008 up from 412 boe per day with $40.45 per boe operating netbacks in the nine months ended September 30, 2007. In Deer Mountain development drilling followed by reservoir pressure maintenance through water pressure remain the keys to maximizing asset potential.

Since early June, 2008 Arcan has drilled nine (8.1 net) wells in Deer Mountain Unit 2. Six of the new unit wells are on production as oil wells, one well has been completed as a water injector, one well was drilled off reef and abandoned, and one well is awaiting tie-in as a water source well. The newly completed oil wells are on-stream at initial rates between 60 - 250 (50 - 200 net) boe per day each of flush production. Arcan has been encouraged by the north eastern reef edge extension wells delineated by its proprietary 3D seismic. These wells have indicated the presence of economic reservoir and established further drilling locations on the eastern edge of the field, as well as adding validity to Arcan's seismic interpretation. Arcan anticipates drilling additional wells into this newly defined reef edge extension followed by subsequent reservoir pressure support through increased water injection.

In addition to the drilling in Deer Mountain Unit 2, Arcan has drilled and completed its first well in early Q4, 2008 on its new lands immediately to the south of Deer Mountain Unit 2. Earlier in 2008, Arcan expanded its interests in the area with the acquisition of varied interests (30% to 100%) in over 59 sections and a 19.5 section farm-in on lands immediately adjacent to the south of its Deer Mountain Unit. The new well is on production at over 75 (50 net) boe per day and Arcan's management expects that this well will prove up additional reserves as well as productivity extensions south and east of Arcan's existing unit. Arcan has further option wells that it may embark upon to expand this play. Arcan has proprietary 3D seismic over this first drilling location and has elected to shoot further 3D seismic to the south to delineate additional drilling locations. Further successful wells could add to Arcan's extensive oil resource play and generate significant follow-up and extension opportunities. Arcan's Deer Mountain property contains a large inventory of low risk development infill oil wells with high reserve impact and light oil netbacks.

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

	2008			2007				2006
Fiscal quarter ended	**Sept.**	June	March	Dec.	Sept.	June	March	Dec.
Operating								
Oil and NGLs (bbls per day)	**1,087**	1,241	1,083	794	929	792	674	531
Price ($/bbl)	**118.63**	118.48	93.32	81.88	75.47	70.35	62.42	63.02
Natural gas (mcf per day)	**2,144**	2,174	2,366	1,965	2,246	2,980	1,922	1,466
Price ($/mcf)	**9.26**	12.17	8.72	6.93	6.51	8.09	8.19	7.46
Barrels of oil equivalent (boe per day)	**1,444**	1,604	1,477	1,122	1,304	1,289	995	775
Financial ($000's, except per share amounts)								
REVENUES								
Petroleum and natural gas	**13,690**	15,793	11,075	7,238	7,796	7,265	5,206	4,042
Royalties	**(3,681)**	(2,876)	(2,380)	(1,658)	(1,694)	(1,718)	(1,451)	(978)
Interest income	**207**	14	28	2	2	5	1	1
Net revenues	**10,216**	12,931	8,723	5,582	6,104	5,552	3,756	3,065
EXPENSES								
Operating	**2,482**	1,832	1,506	2,563	1,128	873	954	552
General and administrative	**672**	1,089	682	662	722	1,482	881	776
Stock-based compensation	**159**	187	189	179	174	219	138	156
Interest	**311**	337	298	190	274	177	163	108
Accretion	**88**	85	83	78	73	71	67	62
Depletion and depreciation	**3,553**	3,960	3,679	2,779	3,448	3,210	2,315	1,689
Total Expenses	**7,265**	7,490	6,437	6,451	5,819	6,032	4,518	3,343
Income (loss) before income taxes	**2,951**	5,441	2,286	(869)	287	(481)	(761)	(278)
Future income tax expense (reduction)	**806**	1,458	641	(739)	135	(125)	(185)	(147)
Net income (loss)	**2,145**	3,983	1,645	(131)	152	(356)	(576)	(131)
Net income (loss) per share- basic	**0.06**	0.11	0.04	(0.00)	0.00	(0.01)	(0.02)	(0.01)
Net income (loss) per share- diluted	**0.05**	0.10	0.04	(0.00)	0.00	(0.01)	(0.02)	(0.01)
Funds from operations	**6,747**	9,617	6,203	2,167	3,981	3,020	1,758	1,629
Per share - basic	**0.18**	0.25	0.17	0.06	0.12	0.10	0.06	0.06
Cash flow from operating (GAAP)	**7,150**	9,665	2,564	4,599	3,414	2,595	822	1,186
Operating Netbacks ($/boe)								
Petroleum and natural gas revenues	**103.03**	108.21	82.37	70.12	65.01	61.94	58.14	57.27
Royalties	**27.71**	19.71	17.70	16.06	14.12	14.64	16.20	13.86
Operating and transportation expenses	**18.68**	12.55	11.20	24.83	9.40	7.44	10.65	7.82
Operating Netbacks	**56.64**	75.95	53.47	29.23	41.49	39.86	31.29	35.59
Total assets ($000's)	**143,006**	132,263	133,213	123,285	107,175	101,498	97,745	82,019
Capital expended ($000's)	**11,323**	4,062	9,556	17,697	11,500	6,120	23,590	10,369
Debt and working capital ($000's)	**(32,412)**	(27,835)	(33,495)	(30,141)	(14,585)	(16,964)	(29,144)	(15,745)
Shares (000's)	**37,869**	37,869	37,827	36,492	36,471	33,635	29,013	26,534

Results of Operations

Drilling

	Drilling		Success rate (%) (gross)	Working interest (%)
	Gross	Net		
Q1 / 2008	1	1.0	100	100
Q2 / 2008	3	2.1	100	71
Q3 / 2008	5	4.0	80	81

In the third quarter of 2008, Arcan drilled five gross (4.0 net) development wells, achieving an 80% success rate and investing $11.3 million of capital. Operations were focused at Deer Mountain where five gross (4.0 net) wells were drilled. Three of the wells were successful oil wells, one was successfully drilled as a water source well, and one well was dry and abandoned.

Production

	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Oil and NGL (bbls per day)	**1,087**	929	17	**1,137**	800	42
Natural gas (mcf per day)	**2,144**	2,246	(4)	**2,228**	2,384	(7)
Total (boe per day)	**1,444**	1,304	11	**1,508**	1,197	26
Oil as a % of total volumes	**75**	71	-	**75**	67	-

Arcan's average production rate for the third quarter of 2008 was 1,444 boe per day, an 11% increase over the third quarter of 2007 average of 1,304 boe per day and a 10% decrease from the second quarter 2008 average of 1,604 boe per day. Volumes increased from the third quarter of 2007 as production was added in the Hamburg and Deer Mountain areas offsetting reductions in McLeod. The decrease in volumes from the second quarter of 2008 was due to McLeod being shut in for a month in the third quarter and Arcan being required to shut in a well in Hamburg that had been producing under the new oil production period in the second quarter due to allowable limits being produced. Arcan's average production rate for the first nine months of 2008 was 1,508 boe per day, a 26% increase over the first nine months of 2007 where Arcan averaged 1,197 boe per day as production was added in Arcan's Deer Mountain and Hamburg areas.

Production is estimated to be higher in the fourth quarter of 2008 as McLeod is back on production and the new Deer Mountain wells have commenced production. Arcan expects the majority of its efforts for the remainder of 2008 will be directed to expanding the Deer Mountain light oil base. Arcan's oil and NGL weighting remains well over 70% and Arcan estimates that this weighting towards oil and NGL's will continue for the balance of 2008.

Netbacks

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

Corporate Average Netbacks						
	Three Months Ended			Nine Months Ended		
$ thousands	**September 30, 2008**	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Revenue	**13,690**	7,796	76	**40,558**	20,266	100
Royalties	**3,681**	1,693	117	**8,938**	4,862	84
Operating expenses	**2,482**	1,128	120	**5,820**	2,954	97
Operating netbacks	**7,526**	4,975	51	**25,800**	12,450	107
G&A - cash	**672**	722	(7)	**2,443**	3,085	(21)
Interest expenses - net	**104**	272	(62)	**698**	605	15
Corporate netbacks	**6,750**	3,981	70	**22,659**	8,760	159
Netbacks - $ per boe						
Revenue	**103.03**	65.01	58	**98.14**	62.02	58
Royalties	**27.71**	14.12	96	**21.63**	14.88	45
Operating expenses	**18.68**	9.40	99	**14.08**	9.04	56
Operating netbacks	**56.64**	41.49	37	**62.43**	38.10	64
G&A - cash	**5.06**	6.02	(16)	**5.91**	9.44	(37)
Interest expenses	**0.78**	2.26	(65)	**1.69**	1.85	(9)
Corporate netbacks	**50.80**	33.21	53	**54.83**	26.81	105

Arcan's operating netback, defined as sales revenue, less royalties and operating expenses, was $7.5 million in the third quarter of 2008, a 51% percent increase from $5.0 million recorded in the third quarter of 2007. Arcan's operating netback was $25.8 million in the first nine months of 2008, a 107% percent increase from $12.5 million recorded in the first nine months of 2007. The increase in operating netback was based on a 76% increase in revenue for the quarterly comparisons and a 100% increase in revenue from the first nine months of 2008 versus the same period in 2007. The operating netback for all 2008 periods are higher than in 2007 as increased volumes and commodity prices more than offset increases in royalties and operating costs. The impact of these price increases has been dampened by a strong Canadian dollar relative to the U.S. dollar.

Arcan's operating netback on a per boe basis was $56.64 in the third quarter of 2008, a 37% percent increase from $41.49 per boe recorded in the third quarter of 2007. The increase in operating netback was due to a 58% increase in price that more than offset increases in royalties and operating costs on a per boe basis in the third quarter of 2008 as compared to the same period in 2007. The decrease in the Q3 2008 operating netback over the second quarter ended June 30, 2008 netback of $11.1 million or $75.95 per boe, both on a dollar basis as well as a boe basis, is due to the decreases in volumes impacted further by increased royalty and operating costs. Arcan's operating netback on a per boe basis was $62.43 for the nine months ended September 30, 2008 versus $38.10 for the nine month period ended September 30, 2007. This 64% percent increase on a year over year basis was due to a 58% increase in price that more than offset increases in royalties and operating costs on a per boe basis. The move to oil weighting has significantly increased Arcan’s exposure to price upside both in 2007 and particularly in 2008. However, oil properties do present additional operating costs which can be large on a boe basis in the early stages of a waterflood. The net effect to Arcan was significantly higher netbacks from oil than would have been achieved through natural gas over the last 12 - 18 months..

Operating netbacks from oil were $58.76 per boe and natural gas were $18.96 per boe in the third quarter of 2008 versus $49.53 per boe for oil and $22.97 per boe for natural gas in the third quarter of 2007. Operating netbacks from oil were $67.44 per boe and natural gas were $31.78 per boe in the first nine months of 2008 versus $44.06 per boe for oil and $28.15 per boe for natural gas in the first nine months of 2007. Operating netbacks from oil were $81.76 per boe and natural gas were $48.72 per boe during the second quarter ended June 30, 2008. Arcan's oil netbacks were stronger than natural gas netbacks for all periods due mainly to commodity pricing.

Arcan's corporate netback, defined as operating netback, less cash G&A and net interest (income less expense), was $6.8 million in the third quarter of 2008 as compared to $4.0 million in the third quarter of 2007. Arcan's corporate netback was $22.7 million in the first nine months of 2008 as compared to $8.8 million in the first nine months of 2007. The large increase from the 2007 periods related mainly to volumes and commodity prices. On a per boe basis, the corporate netback was $50.80 in the third quarter of 2008 as compared to $33.21 per boe in the third quarter of 2007 and $66.28 per boe in the second quarter of 2008. On a per boe basis, the corporate netback was $54.83 in the nine months of 2008 as compared to $26.81 per boe in the first nine months of 2007. Changes in netbacks and the components thereof are detailed by category in the above table.

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

Operating Netbacks by Area						
(Per Boe)	**Three months ended September 30, 2008**			Three months ended September 30, 2007		
Area	**Hamburg**	**Deer Mountain**	**McLeod**	Hamburg	Deer Mountain	McLeod
Daily Production	**775**	**521**	**145**	491	444	359
Revenue	**102.86**	**112.06**	**52.48**	69.74	75.84	46.35
Royalties	**26.94**	**34.54**	**7.86**	18.84	8.68	13.05
Operating Costs	**19.97**	**14.59**	**25.66**	5.17	13.41	10.33
Operating Netbacks	**55.95**	**62.93**	**18.96**	45.73	53.75	22.97

Arcan focused on its oil properties in 2007 and into 2008 as netbacks from its oil properties continue to outpace natural gas netbacks. On a year to date basis Hamburg is 822 boe per day, McLeod is 194 boe per day and Deer Mountain is 489 boe per day, changing 124%, (51%) and 19%, respectively over the same period in 2007.

Revenues

The 11% increase in production and 58% increase in price over the same quarter in 2007 resulted in an increase in revenue of 76% to $13.7 million from the $7.8 million recorded in the third quarter of 2007 and was down due principally to volume declines from the $15.8 million in the second quarter of 2008. Year to date Arcan also posted record production revenues with a 26% increase in production over the same nine month period in 2007. The year to date production increases resulted in an increase in revenue of 100% to $40.6 million from the $20.3 million recorded in the first nine months of 2007.

Revenue and Realized Prices						
	Three Months Ended			Nine Months Ended		
($000's)	**September 30, 2008**	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Oil and NGL	**11,863**	6,452	84	**34,447**	15,313	125
Natural gas	**1,827**	1,344	36	**6,111**	4,953	23
Total petroleum and natural gas revenue	**13,690**	7,796	76	**40,558**	20,266	100
$ per boe						
Oil and NGL (per boe)	**118.63**	75.47	57	**110.57**	70.15	58
Natural gas (per mcf)	**9.26**	6.51	42	**10.01**	7.61	32
Total petroleum and natural gas revenue (per boe)	**103.03**	65.01	58	**98.14**	62.02	58
Benchmarks						
WTI ($U.S. per bbl)	**118.23**	75.24	57	**113.54**	66.18	72
Edmonton Light Sweet ($Cdn. per bbl)	**122.74**	80.67	52	**115.83**	73.65	57
Alberta Plant Gate (per mcf)	**7.69**	5.07	52	**8.52**	6.58	30
Cdn $ per U.S. $	**.9609**	.9562	1	**.9822**	.9069	8

Based on the rapid decline in commodity prices offsetting increased production estimated for the fourth quarter, Arcan expects to post lower revenues in the final quarter of 2008 compared to the third quarter of 2008.

Commodity Prices

In the third quarter of 2008, Arcan realized average revenue per boe of $103.03 as compared to $65.01 per boe recorded in the third quarter of 2007 and $108.21 per boe in the second quarter of 2008. Arcan realized an average of $118.63 per bbl of oil and NGL in the third quarter of 2008, an increase of 57 percent from the $75.47 per bbl realized in the third quarter of 2007 and up slightly from the $118.48 per bbl received in the second quarter of 2008. This compares to an average Edmonton Light Sweet price of $122.74 per bbl in the third quarter of 2008. The Company realized an average natural gas price of $9.26 per mcf in the third quarter of 2008, a 42% increase from the $6.51 per mcf averaged in the third quarter of 2007 and a decrease from the $12.17 per mcf received in the second quarter of 2008. This is consistent with the price changes at the Alberta Plant gate of $7.69 per mcf for the same period and is down from $10.08 per mcf in the second quarter of 2008.

In the first nine months of 2008, Arcan realized average revenue per boe of $98.14 up 58% as compared to $62.02 per boe recorded in the first nine months of 2007. Arcan realized an average of $110.57 per bbl of oil and NGL in the first nine months of 2008, an increase of 58% from the $70.15 per bbl realized in the first nine months of 2007. This compares to an average Edmonton Light Sweet price of $115.83 per bbl in the first nine months of 2008. The Company realized an average natural gas price of $10.01 per mcf in the first nine months of 2008, a 32% increase from the $7.61 per mcf averaged in the first nine months of 2007.

Based on anticipated increases in production volumes more than offset with reduced commodity prices, Arcan expects to post lower revenues for Q4, 2008 and awaits GPP in Hamburg to make volume predictions for exit 2008 as well as Q1, 2009. Pricing will average lower than the Q3, 2008 as the Edmonton Light Sweet price of $122.74 per bbl in Q3, 2008 was based on WTI pricing which has gone from in excess of $140 in July to under $60 in November similar to the levels that they were at a year ago while natural gas is under $7.00 per mcf.

All of Arcan's production to date has been sold on the spot market. Arcan had no hedging during the quarter ended September 30, 2008 and has no hedging in place at this time. Oil continues to grow as a percent of Arcan's total revenues as Arcan invests in increasing its oil production. Arcan's revenue is now being positively impacted by a strengthening U.S. currency versus the Canadian dollar.

Royalties

Royalty expense in the third quarter of 2008 was $3.7 million or 27% of revenue, compared to $1.7 million or 22% of revenue in the third quarter of 2007 and was $2.9 million or 18% of revenue in the second quarter of 2008. Royalty expense in the first nine months of 2008 was $8.9 million or 22% of revenue, compared to $4.9 million or 24% of revenue in the first nine months of 2007. The increase in total royalties was primarily the result of increased revenues. On a percentage of revenue basis royalties have increased compared to the third quarter of 2007 due to higher product prices in 2008. Royalties as a percentage of revenue on a year to date basis have decreased compared to the prior year as Arcan received a large Gas Cost Allowance credit adjustment in the first nine months of 2008 and a number of productive wells were on royalty holiday for the first nine months of 2008. Arcan anticipates that royalty rates will remain in the 25 – 30% of revenue range for the balance of 2008, as a number of wells have completed their royalty holidays.

Royalties						
	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Total ($000s)	**3,681**	1,694	117	**8,938**	4,862	84
% of revenue	**27**	22	-	**22**	24	-
Per boe ($)	**27.71**	14.12	96	**21.63**	14.88	45

Royalty rates fluctuate with the price of oil and gas and also when higher rates of production are experienced. On October 25, 2007 the Alberta Government released the New Royalty Framework for Alberta ("NRF") with a proposed effective date of January 1, 2009. This new framework applies significant royalty increases to higher rate producing wells, of which Arcan has a number. The impact of the NRF is already factored into Arcan's $50 million bank line. Arcan continues to monitor and plan for the impact of the NRF.

Operating Expense (Including Transportation)

Higher volumes only partially offset the generally rising costs in the third quarter of 2008 resulting in an increase in per boe operating costs of 99% to $18.68 per boe of production from the $9.40 per boe recorded in the third quarter of 2007. Total operating expenses in the third quarter of 2008 were $2.5 million, up 120% from $1.1 million in the third quarter of 2007 and were up from the $1.8 million in the second quarter of 2008 as a result of non-recurring non-capitalized work-overs in Hamburg, production re-start costs as well as some retro-active processing cost adjustments in McLeod, and generally higher field costs. Operating expense in the first nine months of 2008 was $5.8 million or $14.08 per boe, compared to $3.0 million or $9.04 per boe in the first nine months of 2007. Operating costs have increased due to volume increases, the shift to a higher oil weighting of production and busy industry conditions causing price inflation. Arcan is now implementing company-wide cost reduction initiatives to ensure ongoing competitiveness and profitability.

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

Operating Expenses (Including Transportation)						
	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Total ($000s)	**2,482**	1,128	120	**5,820**	2,954	97
Per boe ($)	**18.68**	9.40	99	**14.08**	9.04	56

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

Cash G&A expenses for the third quarter of 2008 decreased on a per boe basis to $5.06 per boe from $6.02 per boe in the third quarter of 2007 and decreased from $7.46 per boe in the second quarter of 2008. The change, compared to the same period in 2007, on a per boe basis resulted primarily from higher production volumes. Total cash G&A expenses for the third quarter of 2008, net of recoveries and capitalized amounts of $0.2 million, were $0.7 million, compared to $0.7 million in the third quarter of 2007 after recoveries and capitalized amounts of $0.1 million. In the second quarter of 2008, cash G&A was $1.1 million net of recoveries and capitalized amounts of $0.1 million. Staff bonuses elevated Q2, 2008 cash G&A over Q3, 2008. Arcan had 20 full-time employees as at September 30, 2008 as compared to fourteen employees as at September 30, 2007.

Cash G&A expenses for the first nine months of 2008 decreased on a per boe basis to $5.91 per boe from $9.44 per boe in the first nine months of 2007. The change on a per boe basis resulted primarily from higher volumes and no executive bonuses. Total cash G&A expenses for the first nine months of 2008, net of recoveries and capitalized amounts of $0.4 million, were $2.4 million, compared to $3.1 million in the first nine months of 2007 after recoveries and capitalized amounts of $0.4 million.

Total cash G&A for the three months ended September 30, 2008 of $0.7 million was mainly comprised of wages of $0.5 million and rent of $0.1 million. For the nine months ended September 30, 2008 cash G&A totalled $2.4 million, and was comprised mainly of wage costs of $1.5 million and rent of $0.3 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 remain flat in the face of slowing levels, however per boe numbers should decline as production increases.

G&A Expenses						
	Three Months Ended			Nine Months Ended		
($000s except per boe)	**September 30, 2008**	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Total	**863**	805	7	**2,845**	3,464	(18)
Recoveries and capitalized amounts	**191**	83	130	**402**	379	6
Net G&A	**672**	722	(7)	**2,443**	3,085	(21)
Net G&A expense per boe ($)	**5.06**	6.02	(16)	**5.91**	9.44	(37)

Interest Expense

Interest expense in the third quarter of 2008 was $0.3 million or $2.34 per boe as compared to $0.3 million or $2.28 per boe in the third quarter of 2007 and $2.31 per boe in the second quarter of 2008. Interest expense for the nine month period ended September 30, 2008 was $0.9 million or $2.29 per boe as compared to $0.6 million or $1.88 per boe in the nine month period ended September 30, 2007. The increase in interest expense in the nine month periods primarily resulted from an increase in average debt levels in 2008 compared to 2007. Arcan's management increased debt levels based on operational success. Arcan expects that the debt to annualized third quarter 2008 cash flow ratio will be less than two to one. Arcan estimates that interest expense will increase as higher debt levels are maintained. Arcan had an effective interest rate of 4.90% on its debt facility at September 30, 2008 compared to 6.40% at September 30, 2007. The new bank facility has higher interest rates that are incurred as leverage to cash flow is increased.

Interest Expense						
	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Total ($000s)	**311**	274	14	**947**	614	54
Per boe ($)	**2.34**	2.28	3	**2.29**	1.88	22

Funds from Operations

Funds from operations increased by 69% in the third quarter of 2008 to $6.7 million from $4.0 million in the third quarter of 2007, but decreased from $9.6 million in the second quarter of 2008. On a diluted per share basis, funds from operations increased by 55% to $0.17 in the third quarter of 2008 from $0.11 in the same period of 2007. Funds from operations increased by 158% in the first nine months of 2008 to $22.6 million from $8.8 million in the first nine months of 2007. On a diluted per share basis, funds from operations increased by 107% to $0.58 in the first nine months of 2008 from $0.28 in the same period of 2007. The primary reason for the increases quarter over quarter and year to date compared to 2007 is an increase in volumes and the prices received for those volumes.

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			Nine Months Ended		
($000's except per share and per boe)	**September 30, 2008**	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Cash flow from operating activities (per GAAP)	**7,150**	3,414	109	**19,379**	6,830	184
Change in non-cash working capital	**(403)**	567	(171)	**3,188**	1,930	65
Funds from operations	**6,747**	3,981	69	**22,567**	8,760	158
Per share ($)	**0.18**	0.12	50	**0.60**	0.28	114
Per share – diluted ($)	**0.17**	0.11	55	**0.58**	0.28	107
Per boe ($)	**50.78**	33.20	53	**54.61**	26.81	104

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

Stock-Based Compensation

Arcan recorded stock-based compensation expense of $0.2 million in the third quarter of 2008, calculated using the Black-Scholes option-pricing model. During the first nine months of 2008 Arcan granted 462,000 options at a weighted average exercise price of $2.21 per option. The following assumptions were used to calculate stock-based compensation for the first nine months of 2008: zero dividend yield; expected volatility of 40%; weighted average risk-free rate of 3.31%; and expected life of five years. In 2007 and 2008 all options granted have vesting terms with one-third of the options vesting on each of the first three anniversary dates and expire after five years.

Subsequent to September 30, 2008 the Company cancelled options to purchase 577,000 common shares at a weighted average price of $2.95 per share and granted replacement options to purchase 577,000 common shares at a price of $1.75 per share to certain non-executive employees. Additional stock-based compensation will be recorded over the vesting life of these new options.

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. Stock-based compensation expense decreased in the third quarter of 2008 compared to the same period in 2007 due to past option issues becoming fully vested. Arcan expects stock-based compensation to increase based on re-pricing of options or as new options are issued. No stock based compensation is capitalized.

Stock-Based Compensation Expense						
	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Total ($000's)	**159**	174	(9)	**535**	531	1
Per boe ($)	**1.20**	1.45	(17)	**1.30**	1.62	(20)

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

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Arcan recorded $3.6 million or $26.74 per boe in depletion expense in the third quarter of 2008 based on production volumes of 132,870 boe. The 7% decrease in depletion expense per boe as compared to the third quarter of 2007 is primarily the result of high facility investment activities in the third quarter of 2007 with no associated reserve additions. Depletion per boe decreased from the second quarter of 2008, where Arcan recorded $27.16 per boe. Arcan recorded $11.2 million or $27.08 per boe in depletion expense in the first nine months of 2008 based on production volumes of 413,268 boe. The 1% decrease in depletion expense per boe as compared to the first nine months of 2007 is primarily the result of high facility investment activities in the last two quarters of 2007 now being offset by 2008 reserve additions. The Company plans to decrease the depletion per boe amount in future years by adding reserves through an effective exploration and development program.

The Company excluded from its depletion and depreciation calculation costs associated with undeveloped land and seismic of $10.7 million and included future development costs of $21.1 million.

Arcan uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Arcan recorded $0.66 per boe of accretion expense in the third quarter of 2008, an increase from $0.61 per boe in the third quarter of 2007 as a result of an increased asset retirement obligation liability.

Depletion, Depreciation and Accretion Expense						
	Three Months Ended			Nine Months Ended		
($000's except per boe)	**September 30, 2008**	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Depletion and depreciation	**3,553**	3,448	3	**11,191**	8,974	25
Per boe ($)	**26.74**	28.75	(7)	**27.08**	27.46	(1)
Accretion	**88**	73	21	**256**	211	21
Per boe ($)	**0.66**	0.61	8	**0.62**	0.64	(3)

Income and Other Taxes

A future tax expense of $0.8 million for the third quarter of 2008 and $2.9 million for the year to date 2008 has been recognized in the financial statements which relates to the Company generating pre-tax income of $3.0 million for the quarter and $10.7 million for the year to date. The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2008, which was 29.50% to pre-tax income due to non-deductible stock-based compensation and future tax rate differences.

On the balance sheet the future tax liability was increased by $5.0 million from December 31, 2007 due to $2.9 million of future tax expense related to operations and $0.8 million incurred as part of the conversion of Arcan's performance shares (including tax spiral) in Q1, 2008 as there were no associated tax pools. As well, Arcan issued $5.2 million of flow-through shares in September 2007, which were renounced in the first quarter of 2008 with the tax effect of $1.4 million recognized. As at September 30, 2008 the Company had incurred $5.2 million of qualifying expenditures and is not required to incur any additional expenditure.

Arcan estimates it has approximately $101 million in tax pools. With the current estimated capital spending in 2008 Arcan does not expect to be in a taxable position until late 2010 at the earliest.

Tax Expense (Reduction)						
	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Total ($000's)	**806**	135	497	**2,905**	(176)	1,751
Per boe ($)	**6.06**	1.12	441	**7.03**	(0.54)	1,402

Net Income (Loss)

The net income for the third quarter of 2008 was $2.1 million or $0.06 per basic and $0.05 per diluted share, up from the $0.2 million net income created in the third quarter of 2007. The net income for the first nine months of 2008 was $7.8 million or $0.21 per basic and $0.20 per diluted share, up from the $0.8 million net loss created in the first nine months of 2007. The increases in commodity pricing and production volumes were the primary contributor to this change.

Net Income (Loss)						
	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	% Change	**September 30, 2008**	September 30, 2007	% Change
Total ($000's)	**2,145**	152	1,311	**7,772**	(779)	1,098
Per share - basic	**0.06**	0.00	-	**0.21**	(0.02)	1,150
- diluted	**0.05**	0.00	-	**0.20**	(0.02)	1,100
Per boe ($)	**16.14**	1.27	1,171	**18.81**	(2.38)	890

Capital Expenditures

The third quarter of 2008 was focused on our Deer Mountain area. Capital expenditures for the third quarter of 2008 were $11.3 million. This was down from the $11.5 million spent in the third quarter of 2007. Arcan invested $7.9 million to drill and complete five wells and $2.9 million on tie-ins, facilities and equipment. Year to date Arcan has invested $25.0 million in capital projects, excluding $2.9 million recorded on the conversion of Arcan's performance shares, down from $41.0 million expended in 2007. The decline year over year reflects significant facility investments in 2007.

Capital Expenditure Summary				
($ millions)	**Q3 2008**	Q2 2008	Q1 2008	**YTD September 30, 2008**
Land and seismic	**0.5**	-	0.1	**0.6**
Acquisitions	-	1.1	-	**1.1**
Drilling and intangibles	**7.9**	2.8	6.0	**16.7**
Facilities and equipment	**2.9**	0.2	3.5	**6.6**
Total Cash expended on Capital	**11.3**	4.1	9.6	**25.0**
Performance share conversion (including the future tax impact)	**-**	-	2.9	**2.9**
Total Capital	**11.3**	4.1	12.5	**27.9**

March 13, 2008 - Conversion of Performance Shares

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

Share Capital and Option Activity

Share Capital (000s)	**Q3 2008**	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Weighted basic shares outstanding	**37,829**	37,793	36,716	36,440	33,744
Stock option dilution (treasury method)	**1,267**	1,680	948	-	2,626
Weighted diluted shares outstanding	**39,096**	39,473	37,664	36,440	36,370

Liquidity and Capital Resources

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 continually monitors its financing alternatives, and expects to finance its 2008 cash capital expenditures program from internally generated funds from operations. Arcan continues to work with its bank to ensure that Arcan’s credit and banking relationship evolve to address issues originating from the the macro and micro global credit and financial crisis.

As at September 30, 2008, the Company had drawn $22.9 million on its bank line and had a working capital deficit including bank debt of $32.4 million. Arcan's management increased debt levels from the second quarter of 2008 based on operational success. With its solid asset base Arcan estimates that it has the ability to generate short-term and long-term cash flow to meet obligations as they become due. At the end of the third quarter, Arcan had debt to annualized cash flow of approximately 1.2 to one based on strong cash flows. Arcan entered into a $50.0 million revolving credit facility with the Alberta Treasury Branches, up from $40.0 million and is within its banking covenants. Arcan estimates 2008 cash flow to 2008 debt is approximately two to one in the current commodity price environment. Arcan expects to be in a net debt position throughout 2008 and expects to be able to meet all of its obligations as they come due.

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

As at September 30, 2008 and December 31, 2007, the Company's ratio of net debt to quarterly annualized funds from operations was 1.2 to 1 and 3.5 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at December 31, 2007 was above the 2 to 1 ratio that management strives to maintain due to heavy capital spending in the fourth quarter of 2007. The Company's ratio decreased at September 30, 2008 compared to December 31, 2007 primarily as a result of decreased capital spending and an increase in cash flow from increased commodity prices and production volumes over the first nine months of 2008.

Arcan is engaged in a substantial capital expenditure program to develop its three core oil and natural gas properties to their full potential. As of the date of this MD&A Arcan is committed to drill one (1.0 net) farm-in well for approximately $1 million in the Deer Mountain area and acquire an approximately 8 square kilometre 3D seismic program at an estimated cost of $2.0 million. Arcan anticipates that future capital requirements will be funded through internal cash flow, but may consider increasing 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 November 21, 2008, due to its capital expenditures and cash flow from wells, its debt and working capital deficiency is approximately $40 million, which is below its current debt facility. Arcan estimates that it will have capital expenditures exceeding cash flow in the fourth quarter of 2008.

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

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

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

($ 000's)	**Three Months Ended September 2008**	Three Months Ended September 2007	Year Ended December 2007
Current assets	**10,126**	6,536	7,597
Less:			
Accounts payable and accrued liabilities	**19,619**	12,502	23,832
Bank loan	**22,919**	8,619	13,906
Working capital (deficiency)	**(32,412)**	(14,585)	(30,141)

Contractual Obligations

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

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

Arcan has the following commitments:

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

To December 31,	$
2008	59,625
2009	238,500
2010	238,500
2011	244,125
2012	249,750
2013 and thereafter	874,125

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

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

(c) The Company is committed to spend approximately $3.0 million under certain farm-in agreements on drilling and related seismic costs in one of its core areas.

Off-Balance Sheet Obligations

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

Outstanding Share Data

Arcan's issued share capital consists of:	**September 30, 2008**	December 31, 2007	**November 21, 2008**
Common shares	**37,868,560**	36,491,555	**37,868,560**
Warrants	**586,631**	598,631	**586,631**
Performance options	**1,500,000**	1,500,000	**1,500,000**
Stock options	**3,673,667**	3,265,000	**3,656,000**
Performance shares	**-**	6,550,400	**-**

Common shares increased by 1,335,005 and performance shares decreased by 6,550,400 from December 31, 2007 to September 30, 2008 as a result of the conversion of the performance shares to common shares. They were converted as the performance terms associated with those performance shares had been completed. Stock options increased by 408,667 since December 31, 2007 as 30,000 options were exercised, 23,333 were forfeited and 462,000 options were granted.

None of the current officers or directors of Arcan exercised any options or sold any shares of Arcan during the nine month period ended September 30, 2008 or the twelve month period ended December 31, 2007.

Subsequent to September 30, 2008 the Company cancelled options to purchase 577,000 common shares at a weighted average price of $2.95 per share and granted replacement options to purchase 577,000 common shares at a price of $1.75 per share to certain non-executive employees. Additional stock-based compensation will be recorded over the vesting life of these new options.

Outlook

The significant reductions in commodity prices combined with the impact of the securities market fluctuations in the fourth quarter of 2008 make forecasting as difficult as it has ever been. To ensure maximization of value to Arcan shareholders, cost reduction measures and increased scrutiny of capital and related controls will be paramount. Arcan’s capital plan for the balance of 2008 and into 2009 is to develop and expand the assets we already own and have invested in. Arcan expects that will lead it to drill reserve development wells and pool delineation wells in Deer Mountain, additional development gas wells and exploration wells in McLeod, and development wells in our Hamburg pool. Arcan may also look to add and possibly consolidate interests in its core areas. These activities are expected to add production and value on a very capital effective basis. Arcan continues to consider possible opportunities for strategic acquisitions or other business transactions. On the operations side we expect to continue to focus on water injection in Hamburg and in Deer Mountain which remain the key driver to increasing value. Arcan is maximizing its daily production and taking advantage of the high netback environment.

For the balance of 2008 we intend to stay within our bank lines, drill expansion wells in Deer Mountain and build up our exploration opportunities and our platform for continued growth. We are oil weighted and continue to direct our investments into these areas as oil prices and netbacks continue to outperform those of natural gas on a per boe basis. We are monitoring and planning for the impact of the changes and the modifications to the Alberta royalty rates.

Business Risks

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

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

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

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, and currency exchange rates. Arcan could use hedging instruments to manage these risks at the direction and under the supervision of the Board of Directors. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory and taxation environment and safety concerns. Arcan attempts to mitigate sales receivables risks by marketing to 6 – 10 different buyers, thereby offsetting risks such as those witnessed in the Semcanada Energy loss, where Arcan only lost approximately 15% of its gas sales revenue through diversification.

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

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

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

NEW ACCOUNTING POLICIES

Changes in accounting policies

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

Future Accounting Policies

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

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

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

Legal Advisories

Oil, NGLs, and Natural Gas conversions to BOEs

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

Forward Looking Statements

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

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

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

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

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

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

ARCAN RESOURCES LTD.

Balance Sheets
(Unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Accounts receivable	$ 9,333,432	$ 6,966,470
Prepaids and deposits	792,952	630,501
	10,126,384	7,596,971
Property, plant, and equipment (note 3)	132,879,990	115,688,102
	$ 143,006,374	$123,285,073
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 19,619,317	$ 23,832,419
Bank loan (note 4)	22,919,055	13,905,831
	42,538,372	37,738,250
Asset retirement obligations (note 5)	4,890,515	4,169,384
Future income taxes	6,911,658	1,906,870
	54,340,545	43,814,504
Shareholders' equity:		
Share capital (note 6)	81,677,404	80,761,100
Share purchase loan (note 6)	(100,000)	(100,000)
Contributed surplus (note 7)	2,800,540	2,294,064
Retained earnings (deficit)	4,287,885	(3,484,595)
	88,665,829	79,470,569
Commitments (note 9)		
	$ 143,006,374	$123,285,073

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue:				
Petroleum and natural gas	$ 13,689,838	$ 7,795,763	$ 40,558,059	$ 20,266,498
Interest and other revenue	207,402	2,119	249,285	8,457
Royalties	(3,681,469)	(1,693,527)	(8,937,732)	(4,861,694)
	10,215,771	6,104,355	31,869,612	15,413,261
Expenses:				
Operating	2,481,882	1,127,681	5,819,829	2,954,334
General and administrative	831,641	895,273	2,978,330	3,615,370
Interest	311,300	273,698	946,998	614,049
Accretion	87,864	72,754	255,552	210,651
Depletion and depreciation	3,552,665	3,448,009	11,191,080	8,973,814
	7,265,352	5,817,415	21,191,789	16,368,218
Income (loss) before income taxes	2,950,419	286,940	10,677,823	(954,957)
Future income tax expense (reduction)	805,687	134,577	2,905,343	(175,704)
Net income (loss) and comprehensive income (loss)	2,144,732	152,363	7,772,480	(779,253)
Retained earnings (deficit), beginning of period	2,143,153	(3,506,320)	(3,484,595)	(2,574,704)
Retained earnings (deficit), end of period	$ 4,287,885	$ (3,353,957)	$ 4,287,885	$ (3,353,957)
Net income (loss) per share (note 6):				
Basic	$ 0.06	$ 0.00	$ 0.21	$ (0.02)
Diluted	$ 0.05	$ 0.00	$ 0.20	$ (0.02)

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Cash Flows
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Cash provided by (used in):				
Operating:				
Net income (loss)	$ 2,144,732	$ 152,363	$ 7,772,480	$ (779,253)
Items not involving cash:				
Depletion and depreciation	3,552,665	3,448,009	11,191,080	8,973,814
Stock-based compensation	159,479	173,626	535,389	530,637
Accretion	87,864	72,754	255,552	210,651
Reclamation costs	(3,564)	–	(93,211)	–
Future income tax expense (reduction)	805,687	134,577	2,905,343	(175,704)
	6,746,863	3,981,329	22,566,633	8,760,145
Change in non-cash working capital	402,977	(567,699)	(3,187,767)	(1,930,101)
	7,149,840	3,413,630	19,378,866	6,830,044
Financing:				
Bank loan	(3,909,741)	(4,881,298)	9,013,224	(2,883,519)
Issue of common shares, net of costs	(155)	9,897,158	103,845	25,217,596
	(3,909,896)	5,015,860	9,117,069	22,334,077
Investing:				
Property, plant and equipment	(11,323,293)	(8,855,327)	(23,880,420)	(29,075,126)
Property acquisition (note 3)	–	(2,643,788)	(1,060,767)	(3,499,751)
Cash from business acquisition, net of costs (note 2)	–	–	–	707,353
Change in non-cash working capital	8,083,349	1,480,695	(3,554,748)	2,703,403
	(3,239,944)	(10,018,420)	(28,495,935)	(29,164,121)
Change in cash	–	(1,588,930)	–	–
Cash, beginning of period	–	1,588,930	–	–
Cash, end of period	$ –	$ –	$ –	$ –
Supplementary disclosure:				
Interest paid	$ 341,189	$ 227,386	$ 1,026,205	$ 647,411

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

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

1. Changes in accounting policies:

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

Future Accounting Policies:

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

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

1. Changes in accounting policies (continued):

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

2. Business acquisition:

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

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

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

2. Business acquisition (continued):

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

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

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

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

3. Property, plant and equipment:

	September 30, 2008	December 31, 2007
Petroleum and natural gas properties	$ 162,683,320	$ 134,300,352
Accumulated depletion and depreciation	(29,803,330)	(18,612,250)
	$ 132,879,990	$ 115,688,102

At September 30, 2008, petroleum and natural gas properties included undeveloped properties of $10.7 million (September 30, 2007 - $8.0 million), which have been excluded from the depletion calculation. Future development costs for proved reserves of $21.1 million (September 30, 2007 - $8.0 million) have been included in the depletion calculation.

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

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

4. Bank loan:

	September 30, 2008	December 31, 2007
Bank loan	$22,919,055	$ 13,905,831

Arcan has a $50 million operating revolving loan facility. Interest on the facility is calculated at the bank prime rate of interest, plus an applicable facility margin depending upon the Company's Net Debt to Trailing Cash Flow ratio. A re-determination of the borrowing base will occur on or before April 30, 2009. The loan facility is secured by a general security agreement, and is payable in full on demand. This facility had an effective interest rate of 4.90% at September 30, 2008 (September 30, 2007 – 6.40%).

5. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at September 30, 2008 is $11.0 million (December 31, 2007 - $9.6 million), which will be incurred between 2009 and 2019. The majority of the costs will be incurred between 2010 and 2016. An inflation rate of 2% (2007 – 2%) was used to inflate the costs, and a credit-adjusted risk-free rate of 8% (2007 – 8%) was used to calculate the fair value of the asset retirement obligations.

	September 30, 2008	December 31, 2007
Balance, beginning of period	$ 4,169,384	$ 3,268,469
Liabilities incurred	558,790	354,022
Liabilities incurred on acquisitions (notes 2 and 3)	–	257,787
Accretion expense	255,552	289,106
Reclamation costs	(93,211)	–
Balance, end of period	$ 4,890,515	$ 4,169,384

6. Share capital:

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Common shares issued and outstanding:

	Number of Shares	Amount
Balance, December 31, 2006	26,534,045	$ 49,047,817
Issued pursuant to business acquisition (note 2)	2,373,331	6,645,327
Issued pursuant to private placement	4,000,000	15,200,000
Issued pursuant to private placement	1,500,000	5,175,000
Issued pursuant to flow-through private placement	1,200,000	5,220,000
Exercise of warrants	689,179	974,715
Exercise of stock options	195,000	312,000
Stock-based compensation on exercise of warrants and stock options	–	172,458
Share issue costs	–	(1,690,851)
Tax effect of share issue costs	–	501,819
Tax effect of flow-through shares issued in 2006	–	(797,185)
Balance, December 31, 2007	36,491,555	$ 80,761,100
Issued pursuant to performance share conversion (note 2)	1,335,005	2,136,008
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, September 30, 2008	37,868,560	$ 81,677,404

6. Share capital (continued):

(c) Warrants:

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

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

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

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

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

(d) Flow-through shares:

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

6. Share capital (continued):

(e) Share purchase loan:

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

(f) Stock options:

	Nine months ended September 30, 2008		Year ended December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	3,265,000	$ 2.51	2,483,500	$ 1.95
Granted	462,000	2.21	1,176,500	3.59
Exercised	(30,000)	2.67	(195,000)	1.60
Forfeited	(23,333)	3.10	(200,000)	2.87
Stock options outstanding, end of period	3,673,667	$ 2.47	3,265,000	$ 2.51
Exercisable at period-end	2,455,667	$ 2.17	1,805,167	$ 1.83

Subsequent to September 30, 2008 the Company cancelled options to purchase 577,000 common shares at a weighted average price of $2.95 per share and granted replacement options to purchase 577,000 common shares at a price of $1.75 per share to certain non-executive employees.

6. Share capital (continued):

(g) Stock-based compensation:

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

	September 30, 2008	September 30, 2007
Fair value of options granted ($/option)	$ 0.88	$ 1.54
Expected life of options (years)	5	5
Expected volatility (%)	40	40
Risk free rate of return (%)	3.31	4.11
Expected dividend yield (%)	Nil	Nil

(h) Performance options:

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

6. Share capital (continued):

(i) Per share amounts:

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Weighted average number of shares – basic	37,828,560	33,743,858	37,447,500	31,472,220
Effect of dilutive securities	1,267,671	2,626,139	1,298,435	–
Weighted average number of shares - diluted	39,096,231	36,369,997	38,745,935	31,472,220

In computing diluted per share amounts at September 30, 2008, 2,360,167 options (September 30, 2007 – nil options), nil performance options (September 30, 2007 – nil performance options), and nil warrants (September 30, 2007 – nil warrants) were excluded for the calculation as their effect was anti-dilutive.

7. Contributed surplus:

	September 30, 2008	December 31, 2007
Balance, beginning of period	$ 2,294,064	$ 1,757,255
Stock-based compensation	535,389	709,267
Transfer to share capital on exercise of warrants and options	(28,913)	(172,458)
Balance, end of period	$ 2,800,540	$ 2,294,064

8. Financial instruments:

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at September 30, 2008 the Company's receivables consisted of $4.6 million (December 31, 2007 - $3.4 million) from joint venture partners, $3.8 million (December 31, 2007 - $2.1 million) of receivables from petroleum and natural gas marketers and $0.9 million (December 31, 2007 - $1.5 million) of other trade receivables.

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

8. Financial instruments (continued):

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

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

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

Aging	September 30, 2008	December 31, 2007
Not past due (less than 120 days)	$ 7,998,580	$ 5,652,229
Past due (over 120 days)	1,334,852	1,314,241
Total	$ 9,333,432	$ 6,966,470

Liquidity risk

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

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

8. Financial instruments (continued):

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

Market risk

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

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

Foreign currency exchange rate risk

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

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

Commodity price risk

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

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

8. Financial instruments (continued):

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. As at September 30, 2008, if interest rates had been one hundred basis points lower with all other variables held constant, net income for the three and nine months ended would have been approximately $44,000 (2007 - $24,000) and $127,000 (2007 - $58,000) higher, respectively, due to lower interest expense. An equal an opposite impact would have occurred to net income had interest rates been one hundred basis points higher. The sensitivity is higher in 2008 as compared to 2007 because of an increase in outstanding bank debt, slightly offset by a decrease in interest rates.

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

Capital management

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

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 September 22, 2008, and the bank credit facility has been established at $50 million. The Company continually monitors its financing alternatives, and expects to finance its 2008 cash capital expenditures program from internally generated funds from operations.

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 $88.7 million (2007 - $79.5 million), bank debt of $22.9 million (2007 - $13.9 million) and a working capital deficiency excluding bank debt of $9.5 million (2007 - $16.2 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.

8. Financial instruments (continued):

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 September 30, 2008 and December 31, 2007, the Company's ratio of net debt to quarterly annualized funds from operations was 1.2 to 1 and 3.5 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at year end was above the 2 to 1 ratio that management strives to maintain due to heavy capital spending in the fourth quarter of 2007. The Company's ratio decreased at September 30, 2008 compared to December 31, 2007 primarily as a result of decreased capital spending and an increase in commodity prices and production volumes over the nine months of 2008.

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

	September 30, 2008	December 31, 2007
Working capital deficiency (including bank debt)	$ 32,411,988	$ 30,141,279
Cash flow from operating activities	7,149,840	4,598,576
Change in non-cash operating working capital	(402,977)	(2,431,488)
Funds from operations	6,746,863	2,167,088
Annualizing factor	x4	x4
Annualized funds from operations	$ 26,987,452	$ 8,668,352
Ratio	1.2 to 1	3.5 to 1

8. Financial instruments (continued):

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

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

Fair value of financial instruments

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

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

9. Commitments:

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

2008	$ 59,625
2009	238,500
2010	238,500
2011	244,125
2012	249,750
2013 and thereafter	874,125

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

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

(c) The Company is committed to spend approximately $3.0 million under certain farm-in agreements on drilling and related seismic costs in one of its core areas.

Arcan Resources Ltd.
Corporate Information

Directors

M. Bruce Chernoff
Chairman, Harvest Energy Trust

Robert J. Dales
Director, Celtic Exploration Ltd.

Andy Fisher
Executive Vice President, Arcan Resources Ltd.

Ed Gilmet
President and CEO, Arcan Resources Ltd.

Michael J. Laffin
Partner, Blake, Cassels & Graydon LLP

J. Terry McCoy
Calvalley Petroleum Inc.

Hank B. Swartout
Independent Businessman

Officers

Ed Gilmet
President and CEO

Andy Fisher
Executive Vice President

Doug Penner
CFO and V.P. Finance

Graeme Ryder
Controller

Michael J. Laffin
Corporate Secretary

Corporate Office

Suite 3200, 450 - 1st Street SW
Calgary, AB T2P 5H1
(403) 262-0321

Auditors

KPMG LLP

Evaluation Engineers

GLJ Petroleum Consultants Ltd.

Banker

Alberta Treasury Branches

Legal Counsel

Blake, Cassels & Graydon LLP

Registrar and Transfer Agent

Valiant Trust Company

Stock Exchange Listing

TSX-V (symbol "ARN")

Investor Relations Contact

Doug Penner
dpenner@arcanres.com
(403) 513-7234