



INTERIM REPORT

Three and nine months ended September 30, 2009



ARCAN RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

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

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

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Readers should carefully 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 MD&A and for the consistency between the MD&A and financial statements. In the preparation of these statements, estimates are necessary. Management believes these estimates have been based on careful judgments and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Arcan's financial position, results of operations and funds from operations.

Arcan's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A for the three and nine months ended September 30, 2009. This MD&A is dated November 23, 2009.

Non-GAAP Measurements

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

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

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

Funds from Operations (\$000's)	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Cash flow from operating activities (per GAAP)	1,235	7,150	4,699	19,379
Change in non-cash working capital	(1,203)	(403)	(21)	3,188
Funds from operations	32	6,747	4,678	22,567

Third Quarter 2009 Highlights

- ☆ Funds from operations decreased to \$32,000 (nil per diluted share) in the third quarter of 2009 reflecting a minor well blow-out in Hamburg, a fire and a plant turn-around at the Hamburg battery, work-overs in Deer Mountain, shut in production in McLeod, higher NRF royalties and realized economic hedging losses;
- ☆ Average production decreased 12% to 1,274 boe per day for the three months ended September 30, 2009 down from the 1,444 boe per day for the three months ended September 30, 2008 and down 16% from the second quarter of 2009 due to the Hamburg fire and shut in production;
- ☆ Operating netbacks of \$17.67 per boe (revenue of \$55.85 per boe and operating cost of \$21.03 per boe) was down 69% from \$56.64 per boe in the third quarter of 2008 and was down 44% from \$31.31 per boe in the second quarter of 2009;
- ☆ During the third quarter of 2009, Arcan drilled two (0.55 net) wells. The first well was an (0.05 net) exploration well at Mahaska that was abandoned. The second well was in the Hamburg GG light oil pool and commenced production on November 1, 2009. Subsequent to the quarter Arcan drilled its next development well (0.50 net) in the GG pool. This well is currently being completed and the initial 25 hour test had rates averaging in excess of 1,000 (500 net) boe per day;
- ☆ Arcan is plans to drill its first horizontal multi-stage frac well in Deer Mountain Unit #2. Also, on November 14, 2009 the next earning well was spud on the Deer Mountain South lands;
- ☆ On October 29, 2009 Arcan issued 9,000,000 common shares at \$1.25 per common share for gross proceeds of \$11,250,000;
- ☆ Arcan signed a letter of intent with its drilling partner for up to three exploration prospects;
- ☆ On November 19, 2009 Arcan issued 1,191,000 options exercisable at \$1.30 per common share;
- ☆ On November 19, 2009 Mr. Bruce Chernoff resigned as a director of the Company; and
- ☆ On November 20, 2009 Arcan issued 1,071,500 common shares on a "flow through" basis at \$1.40 per common share.

Financial and Operating Summary

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Financials (\$000s except per share amounts)				
Oil and NGL sales	5,894	11,863	17,001	34,447
Natural gas sales	652	1,827	2,485	6,111
Total petroleum and natural gas revenue	6,546	13,690	19,486	40,558
Cash flow from operating activities (per GAAP)	1,235	7,150	4,699	19,379
Funds from operations ¹	32	6,747	4,678	22,567
Per share basic ¹	0.00	0.18	0.12	0.60
Per share diluted ¹	0.00	0.17	0.12	0.58
Net income (loss)	(1,408)	2,145	(4,013)	7,772
Per share basic	(0.04)	0.06	(0.11)	0.21
Per share diluted	(0.04)	0.05	(0.11)	0.20
Capital expenditures – cash	3,111	11,323	6,516	24,941
Total assets	146,130	143,006	146,130	143,006
Total liabilities	61,360	54,340	61,360	54,340
Shareholders' equity	84,770	88,666	84,770	88,666
Bank loan	41,360	22,919	41,360	22,919
Net debt and working capital	42,622	32,412	42,622	32,412
Operating, General and Administrative (G&A)				
Production:				
Crude oil (bbls per day)	913	1,087	1,027	1,137
Natural gas (mcf per day)	2,166	2,144	2,130	2,228
Total (boe per day) (6:1)	1,274	1,444	1,382	1,508
Average realized price:				
Crude oil (\$ per bbl)	70.18	118.63	60.63	110.57
Natural gas (\$ per mcf)	3.27	9.26	4.27	10.01
Combined average (incl. processing revenue) (\$ per boe)	55.85	103.03	51.64	98.14
Netback (\$ per boe)				
Petroleum and natural gas sales	55.85	103.03	51.64	98.14
Royalties	17.15	27.71	12.09	21.63
Operating and transportation expenses	21.03	18.68	14.34	14.08
Operating netback	17.67	56.64	25.21	62.43
Realized economic hedging losses – cash	4.11	-	1.86	-
G&A expenses – cash	9.07	5.06	7.65	5.91
Interest expense – net	4.21	0.78	3.07	1.69
Corporate netback	0.28	50.80	12.63	54.83
Common Shares (000s)				
Shares outstanding, end of period	37,869	37,869	37,869	37,869
Weighted average shares ² - basic	37,829	37,829	37,829	37,448
- diluted	37,829	39,096	37,829	38,746

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

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

Overview

The third quarter of 2009 continued to be turbulent for junior energy companies. Ongoing weakness in natural gas prices and looming bank reviews are increasing the likelihood of mergers and bankruptcies. Arcan's third quarter presented numerous operating challenges including: cost issues attributed to the treater fire in Hamburg that shut in production for three weeks, a plant turn-around at Hamburg, a blow-out of a well in the GG pool while it was shut in, strategic shut ins of production in the McLeod area and work-overs in the Deer Mountain area. Although still positive, Arcan's cash flow was negatively impacted by all of these operating challenges. To offset risks associated with unanticipated operational issues and

to ensure that Arcan will have the opportunity to pursue operations that are expected to add value, Arcan issued 9,000,000 common shares at \$1.25 per share on October 29, 2009 for gross proceeds of \$11,250,000 pursuant to a bought deal prospectus offering with a syndicate of underwriters. After evaluating the balance sheet risk and the opportunities of Arcan, the board of directors and management determined that this financing provided Arcan with the financial flexibility to take advantage of its existing asset base as well as potential additional opportunities in the later part of 2009 and the first quarter of 2010. Arcan's growth strategy remains unchanged, focused at developing long life light oil properties supplemented through high reward exploration opportunities as well as potential accretive acquisitions, should they arise.

Arcan has signed a letter of intent with its drilling partner to drill up to three exploration prospects in the Hamburg area. It is intended that Arcan will pay a lower portion of the drilling costs and a higher portion of the tie-in costs and operate to keep a 50% interest in the plays. To fund its portion of these projects Arcan issued 1,071,500 common shares on a "flow-through" basis on November 20, 2009 at \$1.40 per common share for gross proceeds of \$1,500,100 pursuant to a non-brokered private placement offering that closed on November 20, 2009. Arcan has agreed to make expenditures qualifying as "Canadian exploration expenses" under the *Income Tax Act* (Canada) on or before December 31, 2010 in an amount equal to the aggregate subscription proceeds of the flow-through common shares effective on or before December 31, 2009. All of the flow-through common shares issued in connection with this offering are subject to a four month hold period under applicable securities laws and the policies of the TSX Venture Exchange. This offering is subject to final approval by the TSX Venture Exchange.

Arcan's light oil continues to provide positive netbacks with oil prices remaining strong and moving in an upward direction from US \$40 to over \$70 WTI. Equity markets remain concerned about natural gas weighted energy companies as they continue to face severe cash flow reductions under current pricing and will continue to face challenges based on ongoing surplus natural gas supplies. Arcan received \$70.18 per bbl of oil in Q3, 2009, down significantly from the \$118.63 per bbl in Q3, 2008 but up 10% from \$63.98 per bbl in the second quarter of this year.

In the third quarter of 2009 Arcan expended \$3.1 million in capital, net of \$0.5 million in drilling credit recoveries. These expenditures included drilling and abandoning one (0.05 net) well at Mahaska and drilling the first well in the development program in the Hamburg GG light oil pool. The new GG pool well was on-stream on November 1, 2009. Arcan has estimated it could drill one to two (0.5 to 1 net) wells by the end of 2009, as part of a program that may include up to five wells (2.5 net), as well as one water source well and the conversion of one well to an injector. Production from this pool is low decline, 41 API light sweet oil with an estimated 8-12 year reserve life index. Arcan has been injecting approximately 2,000 bbls of water per day in an effort to catch up to some of the historic voidage. Arcan spud one new well in the GG pool subsequent to the end of the quarter and that well is currently being completed with the initial 25 hour test averaging rates in excess of 1,000 (500 net) boe per day and is estimated to be on-stream by the end of the year.

Production was 1,274 boe per day in the third quarter of 2009, down 249 boe per day from the second quarter of 2009. Production was down as a result of the fire and related shut ins at Hamburg as well as the economic shut ins at McLeod. Arcan chose to shut in these wells for the third quarter when pricing was close to \$3.00 per mcf AECO and Arcan turned these wells back on at the start of the fourth quarter at prices over \$4.00 per mcf AECO, to realize significantly higher prices and thus significantly enhance net cash flows. Deer Mountain production was flat, as anticipated, during the third quarter of 2009.

Production for the first three quarters of 2009 has averaged 1,382 boe per day and Arcan is estimating average production of 1,400 to 1,500 boe per day for 2009, well within its original 2009 guidance. Arcan's earlier investments provide the Company with a concentrated asset base with its two main assets being Hamburg and Deer Mountain both characterized as high working interest operated properties with long reserve lives and newly commenced waterfloods, capable of producing high netback light oil with a large inventory of additional development opportunities. Arcan also continues its exploration exposure through a letter of intent signed with its drilling partner which anticipates drilling up to 3 wells with significant reward potential. Paramount to Arcan and to its management team is adding value for the Company's shareholders. For the remainder of 2009, Arcan is implementing plans to reduce costs and turn drilling success and continued waterflood implementation into solid reserve bookings.

On November 19, 2009, Mr. Bruce Chernoff resigned from the Board of Directors of Arcan. Arcan's Board of Directors, management and staff would like to sincerely thank him for his contributions to the Company and wish him well in his future endeavours.

At September 30, 2009 Arcan had 13 full time office employees and 7 full time field employees.

OVERVIEW OF ARCAN'S CORE AREAS

Hamburg

Exploration highlights:

In March 2009, Arcan drilled one (0.5 net) exploration well in the Hamburg area. This well was placed on production on April 1, 2009 and had produced over its first 500 mmcf of cumulative production to the end of the third quarter and maximized its 5% royalty rate credits. The 3D seismic that has been utilized to drill this well indicates another drillable feature to the south. Arcan has signed a letter of intent with its drilling partner to drill up to three exploration wells in the Hamburg area and, based upon a final deal, drilling could commence on the first exploration test by the end of the fourth quarter of 2009.

“GG” pool highlights:

- Operated, premium-priced light oil from prolific wells.
- Discovered in January 2006 and on production in April 2006.
- Full waterflood approval on the pool was received in February 2009.
- Second water injection well commenced in Q2, 2009.
- Light vehicle all season access road constructed in March 2009.
- 3 – 5 development wells expected to be drilled, with the first well on-stream on November 1, 2009 and the second well currently undergoing completion operations.
- Reserve life under full development estimated to be 8 – 12 years.

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

Arcan placed one (0.5 net) new well on-stream on November 1, 2009 and recently commenced completion operations on a second (0.5 net) and over the initial 25 hour test period the well averaged test rates in excess of 1,000 (500 net) boe per day. The well is free flowing and encountered 25 meters of reservoir, the thickest pay in the pool by a large margin. This well is just outside of the currently defined pool boundary and Arcan intends to submit the application to have it included in the pool boundary as soon as possible. It is anticipated that this well will be on-stream by the end of 2009.

Production averaged 625 boe per day on \$8.00 per boe operating netbacks for the quarter ended September 30, 2009 down from 775 boe per day and \$55.95 per boe operating netbacks in the quarter ended September 30, 2008 and down from 805 boe per day and \$32.84 per boe operating netbacks in the quarter ended June 30, 2009. Production and netbacks were down due to the treater fire and a minor well blow-out.

The future – Arcan currently has four to six remaining development locations to drill in the GG pool as well as drilling one (0.5 net) water source well and converting one (0.5 net) existing well into a water injection well. The first development well in this winter program was placed on production on November 1, 2009 and the second well is currently undergoing completion operations. One to two more (0.5 – 1.0 net) oil wells and one (0.5 net) water source well are anticipated to the end of 2009. The completion of the all weather access roads will make this property available for drilling and operations all year round.

McLeod

Arcan and its partner drilled and abandoned one (0.05 net) exploration test well on its Mahaska lands during August 2009. Arcan was operator and participated for 5% of the drilling dollars to maintain its 50% interest in the property. Arcan has reduced capital allocations to this area for the past two years as natural gas prices have remained weak compared to oil. On July 1, 2009 Arcan shut in the majority of its gas production from this area due to the current low natural gas prices and the resultant poor netbacks. Production resumed in Q4, 2009 as natural gas prices recovered up over 20% to \$4.00 AECO per mcf from the \$3.00 AECO per mcf in Q3, 2009. Arcan continues to monitor pricing to determine if production should again be shut in.

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

Deer Mountain

The Deer Mountain Unit #2 highlights:

- Operated, premium-priced light oil with a very long reserve life.
- GLJ Petroleum Consultants Ltd. (“GLJ”) estimates, based on the December 31, 2008 year end reserve report that there has been only a 9% recovery to date of the approximately 39 million boe of original-oil-in-place on the approximately 10 sections of land.
- Built a new battery capable of 4,000 bbls per day of fluid and high pressure injection lines (2006).
- Commenced the waterflood (2007). New 3D seismic (2007).
- Horizontal well with multi-stage fracs planned for late in the fourth quarter of 2009.
- 20+ potential horizontal development wells expected to be drilled on the Unit.

Deer Mountain South:

- Own 30% to 100% working interests in 60 sections of land offsetting the unit to the south.
- Farmed in on 19 sections of land within this block to ultimately increase working interests.
- Drilled our first well in October 2008, Commenced drilling the second well on November 14, 2009.
- 100+ potential horizontal development well locations recognized.

The Deer Mountain Unit #2 properties are located in north central Alberta approximately 200 kilometres northwest of Edmonton. Unit wells produce oil from the Beaverhill Lake Formations. Production at Deer Mountain commenced in 1964 and unitization occurred in late 1984 when a water injection scheme was initiated.

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

To date at Deer Mountain Unit #2, Arcan has invested significantly in this asset through:

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

In 2008, Arcan successfully drilled its first well south of the unit confirming its 3D seismic and pool extension interpretations. A second well was spud on November 14, 2009. Arcan's management believes that water injection remains the key to unlocking this significant reserve and production base.

Production averaged 634 boe per day with \$27.68 per boe operating netbacks for the quarter ended September 30, 2009 up from 521 boe per day with \$62.93 per boe operating netbacks in the quarter ended September 30, 2008 and almost the same production at 627 boe per day but higher operating netbacks at \$39.07 per boe in the quarter ended June 30, 2009.

The future – Arcan considers Deer Mountain to be a legacy, long-life asset that is expected to produce for another 20 or more years at current production levels. A large part of the future at Deer Mountain Unit #2 will revolve around waterflood enhancement and significant development drilling, including the application of horizontal multi-stage fracturing technology, both on and off of the unit. The recovery factor of approximately 9 percent to date from the unit pools has been very low compared to proven results generated over many years at other Beaverhill Lake properties in the region. The new battery and centralized water injection facilities will allow Arcan to implement a field-wide waterflood.

Arcan has opportunities to make new resource discoveries on its virtually unexplored new lands and plans to expand its production and reserve base through drilling its 60-section land block to the south of the unit. To this end, Arcan has spud the second well just to the south of its Deer Mountain Unit #2 as part of its rolling option farm-in obligation. For the remainder of 2009, Arcan plans to focus on continued water injection, which is expected to maintain or increase existing production rates. Arcan is also planning to drill its first horizontal well utilizing multi-stage acid fracture completion techniques in the Unit late in the year or early in 2010.

Arcan's existing infrastructure and the current trend of falling service costs continue to make investments in this area economic even at the current low commodity prices. With focused drilling activity, finding, development and operating costs are expected to continue to decline in the Deer Mountain area. Arcan continues to pursue the most prudent avenues to enable the continued development of its 15 kilometre long Deer Mountain assets. In addition, Arcan believes there is potential for coal bed methane drilling potential in the uphole Mannville coals as well as significant potential for carbon dioxide ("CO₂") injection schemes. Larger industry participants in the offsetting reefs have already announced capital commitments and are discussing successful pilot test results from CO₂ flooding.

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

Fiscal quarter ended	2009			2008			2007	
	Sept.	June	March	Dec.	Sept.	June	March	Dec.
Operating								
Oil and NGLs (bbls per day)	913	1,061	1,110	1,102	1,087	1,241	1,083	794
Price (\$/bbl)	70.18	63.98	49.36	63.55	118.63	118.48	93.32	81.88
Natural gas (mcf per day)	2,166	2,772	1,444	2,199	2,144	2,174	2,366	1,965
Price (\$/mcf)	3.27	4.09	6.17	8.19	9.26	12.17	8.72	6.93
Barrels of oil equivalent (boe per day)	1,274	1,523	1,350	1,468	1,444	1,604	1,477	1,122
Financial (\$000's, except per share amounts)								
REVENUES								
Petroleum and natural gas	6,546	7,209	5,731	8,099	13,690	15,793	11,075	7,238
Royalties	(2,010)	(1,275)	(1,277)	(1,881)	(3,681)	(2,876)	(2,380)	(1,658)
Interest and other income	-	2	1	(220)	207	14	28	2
Realized loss on commodity contracts	(481)	(222)	-	-	-	-	-	-
Unrealized gain (loss) on commodity contracts	1,228	(1,115)	(644)	-	-	-	-	-
Net revenues	5,283	4,599	3,810	5,998	10,216	12,931	8,723	5,582
EXPENSES								
Operating	2,465	1,593	1,352	2,416	2,482	1,832	1,506	2,563
General and administrative	1,063	959	863	1,086	672	1,089	682	662
Stock-based compensation	166	193	193	337	159	187	189	179
Interest	494	398	272	291	311	337	298	190
Accretion	104	105	101	99	88	85	83	78
Depletion and depreciation	2,680	3,098	2,720	3,036	3,553	3,960	3,679	2,779
Total Expenses	6,972	6,346	5,501	7,265	7,265	7,490	6,437	6,451
Income (loss) before income taxes	(1,689)	(1,747)	(1,690)	(1,269)	2,951	5,441	2,286	(869)
Future income tax expense (reduction)	(281)	(433)	(400)	(495)	806	1,458	641	(739)
Net income (loss)	(1,408)	(1,314)	(1,290)	(772)	2,145	3,983	1,645	(131)
Net income (loss) per share- basic	(0.04)	(0.03)	(0.03)	(0.02)	0.06	0.11	0.04	(0.00)
Net income (loss) per share- diluted	(0.04)	(0.03)	(0.03)	(0.02)	0.05	0.10	0.04	(0.00)
Funds from operations	32	2,680	1,966	1,987	6,747	9,617	6,203	2,167
Per share – basic	0.00	0.07	0.05	0.05	0.18	0.25	0.17	0.06
Cash flow from operating activities (per GAAP)	1,235	2,102	1,361	4,590	7,150	9,665	2,564	4,599
Operating Netbacks (\$/boe)								
Petroleum and natural gas revenues	55.85	52.01	47.16	59.95	103.03	108.21	82.37	70.12
Royalties	17.15	9.20	10.51	13.93	27.71	19.71	17.70	16.06
Operating and transportation expenses	21.03	11.50	11.12	17.88	18.68	12.55	11.20	24.83
Operating Netbacks	17.67	31.31	25.53	28.15	56.64	75.95	53.47	29.23
Total assets (\$000's)	146,130	145,729	150,398	149,724	143,006	132,263	133,213	123,285
Capital expended (\$000's)	3,111	229	3,177	9,980	11,323	4,062	9,556	17,697
Debt and working capital (\$000's)	(42,622)	(40,414)	(42,073)	(40,406)	(32,412)	(27,835)	(33,495)	(30,141)
Shares (000's)	37,869	37,869	37,869	37,869	37,869	37,869	37,827	36,492

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

Results of Operations

Drilling				
	Drilling		Success rate (%) (gross)	Working interest (%)
	Gross	Net		
Q1 / 2009	1	0.5	100	50
Q2 / 2009	-	-	-	-
Q3 / 2009	2	1.0	50	50

Arcan drilled one 50% well in Hamburg, which came on-stream on November 1, 2009 and one 5% well that was dry and abandoned at Mahaska in August of 2009. Completion operations have commenced on another Hamburg well and one well (drill cost 100%) has just spud offsetting the Deer Mountain Unit on our Deer Mountain South lands.

Production						
	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Oil and NGL (bbls per day)	913	1,087	(16)	1,027	1,137	(10)
Natural gas (mcf per day)	2,166	2,144	1	2,130	2,228	(4)
Total (boe per day)	1,274	1,444	(12)	1,382	1,508	(8)
Oil as a % of total volumes	72	75	(4)	74	75	(1)

Production in the third quarter was impacted by a treater fire at the Hamburg battery that shut in production in the Hamburg area for three weeks, impacting the quarter by approximately 100 boe per day. As well, production was negatively impacted as most of the natural gas in the McLeod area was shut in for the entire quarter, negatively impacting the quarter by approximately 100 boe per day, as Arcan awaited significantly increased returns through natural gas price recoveries. Arcan's average production rate for the third quarter of 2009 was 1,274 boe per day, a 12% decrease from the third quarter of 2008 average of 1,444 boe per day and a 16% decrease over the second quarter of 2009 average of 1,523 boe per day. Arcan's average production rate for the first three quarters of 2009 was 1,382 boe per day, an 8% decrease from the first three quarters of 2008 average of 1,508 boe per day. Production was lower in the 2009 periods over the 2008 periods and the second quarter of 2009 due to the fire, voluntary shut ins, natural declines and as a result of a gas well that was sold at the end of 2008. After turning on the McLeod gas production in October, production for the fourth quarter has been averaging over 1,450 boe per day.

Netbacks

The Company considers corporate netbacks to be an indication of ability to produce oil and natural gas profitably to earn a return on capital invested and is one of the three sources of funding, the others being raising debt and equity. Lower commodity prices and slightly lower volumes were the main factors causing the net loss for the third quarter of 2009 as compared to net income in the third quarter of 2008. While Arcan expects commodity price fluctuations over the upcoming year, overall price levels are expected to remain relatively flat, royalty rates are expected to decrease (due to announced royalty incentives that help offset the New Alberta royalty structure), and operating costs are expected to remain in the \$10-15 per boe range. These factors as well as our oil commodity contract, stable base production and the production resulting from the Hamburg oil development program are expected to increase the netbacks received by Arcan for the balance of 2009.

Netbacks						
\$ thousands	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Revenue	6,546	13,690	(52)	19,486	40,558	(52)
Royalties	2,010	3,681	(45)	4,563	8,938	(49)
Operating expenses	2,465	2,482	(1)	5,410	5,820	(7)
Operating netbacks	2,071	7,526	(72)	9,513	25,800	(63)
Realized economic hedging loss	481	-	-	703	-	-
G&A - cash	1,063	672	58	2,886	2,443	18
Interest expenses - net	494	104	374	1,161	698	66
Corporate netbacks	33	6,750	(100)	4,763	22,659	(79)
Netbacks - \$ per boe						
Revenue	55.85	103.03	(46)	51.64	98.14	(47)
Royalties	17.15	27.71	(38)	12.09	21.63	(44)
Operating expenses	21.03	18.68	13	14.34	14.08	2
Operating netbacks	17.67	56.64	(69)	25.21	62.43	(60)
Realized economic hedging loss	4.11	-	-	1.86	-	-
G&A - cash	9.07	5.06	79	7.65	5.91	29
Interest expenses	4.21	0.78	440	3.07	1.69	82
Corporate netbacks	0.28	50.80	(99)	12.63	54.83	(77)

Arcan's operating netback, defined as revenue, less royalties and operating expenses, was \$2.1 million in the third quarter of 2009, a 72% decrease from \$7.5 million recorded in the third quarter of 2008. Arcan's operating netback on a per boe basis was \$17.67 in the third quarter of 2009, a 69% decrease from \$56.64 per boe recorded in the third quarter of 2008. The decrease in operating netback was due to a 46% decrease in price and a 13% increase in operating costs that more than offset a decrease in royalties on a per boe basis in the third quarter of 2009 as compared to the same period in 2008. The 52% decrease in the operating netback over the second quarter ended June 30, 2009, both on a dollar basis as well as a boe basis, is due to the decreases in volumes and natural gas prices and increases in royalties and operating costs. The move to oil weighting has significantly increased Arcan's exposure to price upside in oil both in 2009 and in 2008. However, oil properties do present additional operating costs which can be large on a boe basis in the early stages of a waterflood. The net effect to Arcan was higher netbacks from oil than would have been achieved through natural gas as natural gas prices continue to wane below \$20 per boe.

Operating netbacks from oil were \$17.91 per boe and natural gas were negative in the third quarter of 2009 versus \$58.76 per boe for oil and \$18.96 per boe for natural gas in the third quarter of 2008. Operating netbacks from oil were \$26.90 per boe and natural gas were almost zero in the first three quarters of 2009 versus \$67.44 per boe for oil and \$31.78 per boe for natural gas in the first three quarters of 2008. Operating netbacks from oil were \$35.57 per boe and natural gas was negative during the second quarter ended June 30, 2009. Arcan's oil netbacks were stronger than natural gas netbacks for all periods due mainly to commodity pricing.

Arcan's corporate netback, defined as operating netback, less realized economic hedging gains and losses, G&A and interest (income less expense), was \$33,000 in the third quarter of 2009 as compared to \$6.8 million in the third quarter of 2008. The large decrease from 2008 related mainly to commodity prices. On a per boe basis, the corporate netback was only \$0.28 per boe in the third quarter of 2009 as compared to \$50.80 per boe in the third quarter of 2008 and \$19.93 per boe in the second quarter of 2009. Changes in netbacks and the components thereof are detailed by category in the above table.

Operation details by area for the three months ended September 30, 2009 and 2008 are as follows:

Operating Netbacks by Area						
Area	Three months ended September 30, 2009			Three months ended September 30, 2008		
	Hamburg	Deer Mountain	McLeod	Hamburg	Deer Mountain	McLeod
Daily Production (boe)	625	634	11	775	521	145
Revenue (\$ per boe)	42.71	69.93	NM	102.86	112.06	52.48
Royalties (\$ per boe)	10.94	24.69	NM	26.94	34.54	7.86
Operating Costs (\$ per boe)	23.77	17.56	NM	19.97	14.59	25.66
Operating Netbacks (\$ per boe)	8.00	27.68	NM	55.95	62.93	18.96

NM = Not meaningful based on 11 boe per day.

During the quarter Arcan shut in the majority of its gas production in the McLeod area.

Arcan focused on its oil properties in 2008 and into 2009 as netbacks from its oil properties continue to outpace natural gas netbacks. On a year to date basis, production from Hamburg is 674 boe per day, McLeod is 70 boe per day and Deer Mountain is 635 boe per day, reducing (18%) and (64%) and increasing 30%, respectively for these properties over the same period in 2008.

Revenues

Arcan production revenues were reduced for the quarter ended September 30, 2009 versus the same quarter in 2008. The 12% decrease in production volumes and 46% decrease in price resulted in a decrease in revenue of 52% to \$6.5 million in the third quarter of 2009 from the \$13.7 million recorded in the third quarter of 2008 and was down from the \$7.2 million in the second quarter of 2009. Year to date 2009, production revenues reflected an 8% decrease in production volumes and 47% decrease in price resulting in a decrease in revenue of 52% to \$19.5 million in the first three quarters of 2009 from the \$40.6 million recorded in the first three quarters of 2008.

Revenue and Realized Prices						
	Three Months Ended			Nine Months Ended		
(\$000's)	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Oil and NGL	5,894	11,863	(50)	17,001	34,447	(51)
Natural gas	652	1,827	(64)	2,485	6,111	(59)
Total petroleum and natural gas revenue	6,546	13,690	(52)	19,486	40,558	(52)
\$ per boe						
Oil and NGL (per boe)	70.18	118.63	(41)	60.63	110.57	(45)
Natural gas (per mcf)	3.27	9.26	(65)	4.27	10.01	(57)
Total petroleum and natural gas revenue (per boe)	55.85	103.03	(46)	51.64	98.14	(47)
Benchmarks						
WTI (\$U.S. per bbl)	68.14	118.23	(42)	57.21	113.54	(50)
Edmonton Light Sweet (\$Cdn. per bbl)	71.74	122.74	(42)	62.82	115.83	(46)
Alberta Plant Gate (per mcf)	2.83	7.69	(63)	3.64	8.52	(57)
Cdn \$ per U.S. \$.9100	.9609	(5)	.8580	.9822	(13)

Commodity Prices

In the third quarter of 2009, Arcan realized average revenue per boe of \$55.85 as compared to \$103.03 per boe recorded in the third quarter of 2008 and \$52.01 per boe in the second quarter of 2009. Arcan realized an average of \$70.18 per bbl of oil and NGL in the third quarter of 2009, a decrease of 41% from the \$118.63 per bbl realized in the third quarter of 2008 but up from the \$63.98 per bbl received in the second quarter of 2009. This compares to an average Edmonton Light Sweet price of \$71.74 per bbl in the third quarter of 2009. Oil and NGL prices received by the Company moved consistent with benchmark prices for the relative periods. The Company realized an average natural gas price of \$3.27 per mcf in the third quarter of 2009, a 65% decrease from the \$9.26 per mcf averaged in the third quarter of 2008 and a decrease from the \$4.09 per mcf received in the second quarter of 2009. This is consistent with the price changes at the Alberta Plant gate for the same periods.

In the first three quarters of 2009, Arcan realized average revenue per boe of \$51.64 as compared to \$98.14 per boe recorded in the first three quarters of 2008. Arcan realized an average of \$60.63 per bbl of oil and NGL in the first three quarters of 2009, a decrease of 45% from the \$110.57 per bbl realized in the first three quarters of 2008. This compares to an average Edmonton Light Sweet price of \$62.82 per bbl in the first three quarters of 2009. Oil and NGL prices received by the Company moved consistent with benchmark prices for the relative periods. The Company realized an average natural gas price of \$4.27 per mcf in the first three quarters of 2009, a 57% decrease from the \$10.01 per mcf averaged in the first three quarters of 2008. This is consistent with the price changes at the Alberta Plant gate for the same periods.

Arcan anticipates oil prices will remain above US \$60 WTI and that gas prices may remain soft into late 2009 and then recovering into the \$5.00 - \$6.00 per mcf range over the winter period. The weakness in the commodity prices was mitigated earlier in the year by the weakness in the Canadian dollar over 2008, but that benefit has now been mostly eroded as the Canadian dollar approaches par to the US dollar. Based on anticipated production volumes Arcan expects to post higher revenues for the balance of 2009 over the third quarter if WTI pricing continues to exceed US \$75.00 per barrel.

Until April 1, 2009 all of Arcan's production to date had been sold on the spot market. In March of 2009, Arcan entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. The Company recorded a realized economic hedging loss of \$0.5 million in the third quarter of 2009 and an unrealized gain on this oil contract of \$1.2 million for the quarter ended September 30, 2009. At September 30, 2009 the unrealized loss recognized on the balance sheet totalled \$0.5 million on this contract.

Royalties

Royalty expense in the third quarter of 2009 was \$2.0 million or 31% of revenue, compared to \$3.7 million or 27% of revenue in the third quarter of 2008 and was \$1.3 million or 18% of revenue in the second quarter of 2009. Royalty expense in the first three quarters of 2009 was \$4.6 million or 23% of revenue, compared to \$8.9 million or 22% of revenue in the first three quarters of 2008. Royalty structures changed due to the New Royalty Framework for Alberta ("NRF") implemented by the Alberta Government effective January 1, 2009. Although, on a percentage of revenue basis, royalties have remained relatively consistent compared to the third quarter of 2008, as well as the year to date 2009 as compared to the year to date of 2008, they would have been lower had there been no NRF. Under the NRF we currently have the same royalty percentages per boe and yet commodity prices are significantly lower in 2009. Arcan anticipates that royalty rates will remain in the 25 – 35% of revenue range for the balance of 2009 if the commodity prices remain at current ranges and development drilling creates lower royalty production to offset existing royalty structures. Royalty rates fluctuate with the price of oil and gas and also when higher rates of production are experienced. The NRF applies significant royalty increases to higher rate producing wells, of which Arcan has a number.

Royalties						
	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Total (\$000s)	2,010	3,681	(45)	4,563	8,938	(49)
% of revenue	31	27	15	23	22	5
Per boe (\$)	17.15	27.71	(38)	12.09	21.63	(44)

Subsequent to the NRF announcement the Alberta Government has offered drilling incentives that act as short term royalty reductions to 5% and capital reductions of \$200 / meter drilled. Arcan's first royalty credit well received a 5% production royalty from April 1, 2009 to the end of the third quarter, when it had maximized its low royalty production limits. Arcan also expects to receive \$0.5 million in drilling refunds for the two wells it participated in during the third quarter. As well, the new Hamburg GG pool oil wells will receive 5% production royalty until the 50,000 bbls maximum production or time limits are reached.

Realized and unrealized (gain) loss on commodity contracts and financial instruments

The realized loss on commodity contracts was \$0.5 million and the unrealized gain totalled \$1.2 million for the quarter ended September 30, 2009. The realized loss on commodity contracts was \$0.7 million and the unrealized loss totalled \$0.5 million for the nine months ended September 30, 2009. At September 30, 2009 the unrealized loss recognized on the balance sheet totalled \$0.5 million. There are no realized amounts in the prior year's periods as this is Arcan's first commodity contract and it commenced on April 1, 2009. In March 2009, Arcan entered into its first ever commodity contract via a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009 totalling 137,500 barrels. The purpose of the contract is to protect a portion of Arcan's cash flows until the end of the year. Arcan purchased this contract from its bankers, the Alberta Treasury Branches. Arcan will mark to market the fixed price swap and record gains and losses to the statement of operations for each reporting period.

Realized and Unrealized losses on commodity contracts						
	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Realized loss (\$000's)	481	-	-	703	-	-
Per boe (\$)	4.11	-	-	1.86	-	-
Unrealized loss / (gain) (\$000's)	(1,228)	-	-	531	-	-
Per boe (\$)	(10.48)	-	-	1.41	-	-

Operating Expense (Including Transportation)

Costs were elevated by reduced production volumes in the third quarter of 2009 resulting in an increase in per boe operating costs of 13% to \$21.03 per boe of production from the \$18.68 per boe recorded in the third quarter of 2008. Total operating expenses in the third quarter of 2009 were \$2.5 million, down 1% from \$2.5 million in the third quarter of 2008 and were up significantly from the \$1.6 million in the second quarter of 2009 as a result of a minor well blow-out and a plant turn-around in the Hamburg area, shut ins in McLeod and three work-overs in Deer Mountain. Lower costs were more than offset by reduced production volumes in the first three quarters of 2009, resulting in an increase in per boe operating costs of 2% to \$14.34 per boe of production from the \$14.08 per boe recorded in the first three quarters of 2008. Total operating expenses in the first three quarters of 2009 were \$5.4 million, down 7% from \$5.8 million in the first three quarters of 2008 as a result of ongoing cost control measures including the savings from the all-weather road constructed in the GG pool in Hamburg offset somewhat by the non-recurring items.

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

Operating Expenses (Including Transportation)						
	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Total (\$000s)	2,465	2,482	(1)	5,410	5,820	(7)
Per boe (\$)	21.03	18.68	13	14.34	14.08	2

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

Cash G&A expenses for the third quarter of 2009 increased on a per boe basis to \$9.07 per boe from \$5.06 per boe in the third quarter of 2008 and increased from \$6.92 per boe in the second quarter of 2009. The change year over year for the third quarter periods, on a per boe basis, resulted from a 58% cost increase as well as a small decrease in recoveries associated with lower capital expenditure activities. Total cash G&A expenses for the third quarter of 2009, net of recoveries of \$0.1 million, were \$1.1 million, compared to \$0.7 million in the third quarter of 2008 increasing due to cost increases as well as a decrease in recoveries associated with lower capital expenditure activities. Arcan had twenty full-time employees as at September 30, 2009 and 2008. Cash G&A expenses for the first three quarters of 2009 increased on a per boe basis to \$7.65 per boe from \$5.91 per boe in the first three quarters of 2008. The change year over year for the periods, on a per boe basis, resulted from an 18% cost increase. The first three quarters of 2009 was \$2.9 million versus the first three quarters of 2008 where cash G&A totalled \$2.4 million. Cash G&A expense per boe is forecast to remain flat on average for 2009 as volumes remain flat and costs are controlled.

Total cash G&A for three months ended September 30, 2009 of \$1.1 million was mainly comprised of bonuses related to 2008 of \$0.2 million, wages of \$0.4 million, software licenses of \$0.1 million and rent of \$0.1 million.

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

G&A Expenses						
	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Total(\$000s boe)	1,063	672	58	2,886	2,443	18
Per boe (\$)	9.07	5.06	79	7.65	5.91	29

Interest Expense

Interest expense in the third quarter of 2009 was \$0.5 million or \$4.21 per boe as compared to \$0.3 million or \$2.34 per boe in the third quarter of 2008 and \$2.87 per boe in the second quarter of 2009. Interest expense in the first three quarters of 2009 was \$1.2 million or \$3.08 per boe as compared to \$0.9 million or \$2.29 per boe in the first three quarters of 2008. The impact on interest expense from the increase in bank debt levels from \$22.9 million at September 30, 2008 to \$41.4 million at September 30, 2009 was partially offset by reduced interest rates. Arcan's management increased debt levels based on operational success. Arcan forecasts that the debt to annualized third quarter 2009 cash flow ratio is significantly elevated due to negative impacts of commodity prices and operating costs on cash flow. Arcan estimates that interest expense will increase as higher debt levels are maintained and interest rates increase. Arcan had an effective interest rate of 4.75% on its debt facility at September 30, 2009 compared to 4.90% at September 30, 2008.

Interest Expense						
	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Total (\$000s)	494	311	59	1,164	947	23
Per boe (\$)	4.21	2.34	80	3.08	2.29	34

Funds from Operations

Funds from operations decreased by approximately 100% in the third quarter of 2009 to \$32,000 from \$6.7 million in the third quarter of 2008, mainly due to commodity price declines, and were down from \$2.7 million in the second quarter of 2009, as gas prices declined and costs increased. On a diluted per share basis, funds from operations decreased to nil in the third quarter of 2009 from \$0.17 in the same period of 2008. Funds from operations decreased by 79% in the first three quarters of 2009 to \$4.7 million from \$22.6 million in the first three quarters of 2008, mainly due to commodity price declines. On a diluted per share basis, funds from operations decreased to \$0.12 in the third quarter of 2009 from \$0.58 in the same period of 2008.

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

Funds from Operations						
	Three Months Ended			Nine Months Ended		
(\$000's except per share and per boe)	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Cash flow from operating activities (per GAAP)	1,235	7,150	(83)	4,699	19,379	(76)
Change in non-cash working capital	(1,203)	(403)	199	(21)	3,188	(101)
Funds from operations	32	6,747	(100)	4,678	22,567	(79)
Per share (\$)	0.00	0.18	(100)	0.12	0.60	(80)
Per share – diluted (\$)	0.00	0.17	(100)	0.12	0.58	(79)
Per boe (\$ corporate netbacks less reclamation costs)	0.27	50.78	(99)	12.40	54.61	(77)

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

Stock-Based Compensation

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

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

Stock-Based Compensation Expense						
	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Total (\$000's)	166	159	4	552	535	3
Per boe (\$)	1.41	1.20	18	1.46	1.30	12

On November 19, 2009 Arcan granted 1,191,000 stock options of the Company exercisable at \$1.30 per common share to directors, officers and employees of the Company.

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

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Arcan recorded \$2.7 million or \$22.87 per boe in depletion and depreciation expense in the third quarter of 2009 based on production volumes of 117,199 boe. The 14% decrease in depletion expense per boe as compared to the third quarter of 2008 is primarily the result of expanded reserves recognized in the fourth quarter of 2008. Depletion per boe was flat over the second quarter of 2009, where Arcan recorded \$22.35 per boe. Arcan recorded \$8.5 million or \$22.52 per boe in depletion and depreciation expense in the first three quarters of 2009 based on production volumes of 377,311 boe. The 17% decrease in depletion expense per boe in the first three quarters of 2009 as compared to the first three quarters of 2008 is primarily the result of expanded reserves recognized in the fourth quarter of 2008. The Company plans to decrease the depletion per boe amount in future years by adding reserves through an effective exploration and development program.

The Company excluded from its depletion and depreciation calculation costs associated with undeveloped land and seismic of \$10.6 million and included future development costs of \$37.0 million.

Arcan uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is decreased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Arcan recorded \$0.89 per boe of accretion expense in the third quarter of 2009, an increase from \$0.66 per boe in the third quarter of 2008 as a result of decreased volumes and higher accumulating obligations in 2009 compared to 2008. Arcan recorded \$0.82 per boe of accretion expense in the first three quarters of 2009, an increase from \$0.62 per boe in the first three quarters of 2008 as a result of decreased volumes and higher accumulating obligations in 2009 compared to 2008.

Depletion, Depreciation and Accretion Expense						
Three Months Ended				Nine Months Ended		
(\$000's except per boe)	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Depletion and depreciation	2,680	3,553	(25)	8,498	11,191	(24)
Per boe (\$)	22.87	26.74	(14)	22.52	27.08	(17)
Accretion	104	88	19	310	256	21
Per boe (\$)	0.89	0.66	35	0.82	0.62	32

Income and Other Taxes

A future tax reduction of approximately \$0.3 million has been recognized in the financial statements for the third quarter of 2009, which relates to the Company experiencing a pre-tax loss of \$1.7 million for the quarter. This differs from the third quarter of 2008 comparative period when pre-tax income was generated and a future tax expense of \$0.8 million was recorded. A future tax reduction of approximately \$1.1 million has been recognized in the financial statements for the first three quarters of 2009, which relates to the Company experiencing a pre-tax loss of \$5.1 million for the first three quarters of 2009. This differs from the first three quarters of 2008 comparative period when pre-tax income was generated and a future tax expense of \$2.9 million was recorded. The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2009, which was 29.0% to pre-tax income due to non-deductible stock-based compensation and future tax rate differences.

As at September 30, 2009 the Company had no flow-through obligations outstanding. In connection with the non-brokered private placement that closed on November 20, 2009, Arcan has a \$1.5 million flow-through obligation that must be completed by December 31, 2010.

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

Tax Expense (Reduction)						
Three Months Ended				Nine Months Ended		
	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Total (\$000's)	(281)	806	(135)	(1,114)	2,905	(138)
Per boe (\$)	(2.40)	6.06	(140)	(2.95)	7.03	(142)

Net Income (Loss)

The net loss for the third quarter of 2009 was \$1.4 million or \$0.04 per basic and diluted share, down from the \$2.1 million of net income created in the third quarter of 2008. The net loss for the first three quarters of 2009 was \$4.0 million or \$0.11 per basic and diluted share, down from the \$7.8 million of net income created in the first three quarters of 2008. The change in operating netbacks was the primary contributor to these changes.

Net Income (Loss)						
Three Months Ended				Nine Months Ended		
(\$000's except per boe)	September 30, 2009	September 30, 2008	% Change	September 30, 2009	September 30, 2008	% Change
Total	(1,408)	2,145	(166)	(4,013)	7,772	(152)
Per share - basic	(0.04)	0.06	(167)	(0.11)	0.21	(152)
- diluted	(0.04)	0.05	(180)	(0.11)	0.20	(155)
Per boe (\$)	(12.02)	16.14	(174)	(10.64)	18.81	(157)

Capital Expenditures

Capital Expenditure Summary				
(\$ millions)	Q3 2009	Q2 2009	Q1 2009	YTD Sept. 30, 2009
Land and seismic	0.3	0.2	0.2	0.7
Drilling and intangibles	1.9	-	1.1	3.0
Facilities and equipment	0.9	-	1.9	2.8
Total Capital – cash expended	3.1	0.2	3.2	6.5

Arcan spent \$3.1 million in the third quarter of 2009 bringing year to date capital expenditures to \$6.5 million, net of \$0.5 million in estimated drilling credit recoveries. Capital spending to September 30, 2009 has been focused on drilling and tying in one (0.5 net) exploration gas well and one (0.5 net) development oil well, building access roads, installing pump jacks and converting one well to a water injector. Year to date capital expenditures continue to be focused towards our oil properties as oil prices have continued to remain stable and elevated as compared to natural gas prices. Arcan expects the majority of its efforts for the remainder of 2009 will be directed to expanding the Hamburg light oil production base and drilling in Deer Mountain. Arcan's oil and NGL weighting was 72% for the third quarter of 2009, and it is estimated to be 70-80% light oil in the final quarter of 2009 as the anticipated drilling results from the GG pool in Hamburg comes online.

Share Capital and Option Activity

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

On October 29, 2009 Arcan issued 9,000,000 common shares for gross proceeds of \$11,250,000 in a bought deal equity offering.

On November 20, 2009 Arcan closed a 1,071,500 flow-through common share private placement offering at \$1.40 per share for gross proceeds of \$1,500,100.

On November 19, 2009 Arcan granted 1,191,000 stock options of the Company exercisable at \$1.30 per common share to directors, officers and employees of the Company.

Liquidity and Capital Resources

As at September 30, 2009, the Company had drawn \$41.4 million on its bank line and had a working capital deficit including bank debt of \$42.6 million. Arcan's management increased debt levels based on operational success in 2008 and 2009. With its solid asset base Arcan estimates that it has the ability to generate short-term and long-term cash flow to meet obligations as they become due. Arcan's management increased debt levels from the second quarter of 2009 through capital expenditures being higher than cash flow. Arcan estimates 2009 annualized cash flow to 2009 net debt will remain high in the current commodity price environment. As at the date hereof, the Company has a \$50.0 million revolving credit facility with a Canadian chartered bank and is within its banking covenant. Arcan expects to be in a net debt position throughout 2009 and expects to be able to meet all of its obligations as they come due.

Capital expenditures in the fourth quarter are expected to be higher than cash flow, increasing Arcan's net debt position. This will be offset by the bought deal equity financing which brought in gross proceeds of \$11.25 million during the fourth quarter as well as the flow-through private placement which brought in gross proceeds of approximately \$1.5 million during the fourth quarter. Arcan estimates it may drill up to two wells in Hamburg, no wells in McLeod and one vertical and one horizontal well in Deer Mountain in the last quarter of 2009 and expects working capital deficit including bank debt to reduce after taking into account the proceeds of the equity deal million based on commodity prices, drilling costs and market outlook.

The Company monitors capital based on the ratio of net debt to quarterly annualized funds from operations. In this ratio net debt is defined as outstanding bank debt plus or minus working capital, divided by funds from operations for the most recent calendar quarter, annualized (multiplied by four). The Company's strategy in the longer term is to achieve a ratio of less than 2 to 1. This ratio may increase at certain times as a result of operations and acquisitions, or significant commodity price declines as we have witnessed. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at September 30, 2009, the Company's ratio of net debt to quarterly annualized funds from operations was 337 to 1 due to debt levels and low cash flow.

Arcan would need to engage in a substantial capital expenditure program to develop its three core oil and natural gas properties to their full potential. Arcan anticipates that future capital requirements will be funded through a combination of internal cash flow, debt and equity financing. There is no assurance that debt or equity financing will be available on terms acceptable to the Company to meet its capital requirements.

Arcan estimates that at November 23, 2009, due to its recent equity offerings, capital expenditures, hedging program and cash flow from wells, its debt and working capital deficiency is approximately \$33.0 million, which is also below its current debt facility. Arcan estimates that it will have capital expenditures exceeding cash flow in the fourth quarter of 2009 and expects net debt to be within the \$50 million of available banking facilities. To support its cash flow, Arcan entered into a fixed price oil swap contract at the end of March 2009 to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009.

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

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

(\$ 000's)	Quarter Ended September 2009	Quarter Ended September 2008	Quarter Ended December 2008
Current assets	8,130	10,126	9,886
Less:			
Accounts payable and accrued liabilities	8,861	19,619	20,659
Bank loan	41,360	22,919	29,633
Fair value of commodity contracts	531	-	-
Working capital (deficiency)	(42,622)	(32,412)	(40,406)

Related Party Transactions

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

A share purchase loan of \$100,000 (2008 - \$100,000) is outstanding between Arcan and Mr. Penner, the Vice President Finance and Chief Financial Officer of Arcan, and was used by Mr. Penner for the purchase of 40,000 common shares of Arcan at a price of \$2.50 per common share. This loan is repayable, with interest calculated at the "Prescribed Rate" as determined by the Canada Revenue Agency, currently 1%, on or before April 3, 2012. This loan is secured by the underlying shares.

Contractual Obligations

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

Arcan has the following commitments:

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

	\$
2009	59,625
2010	238,500
2011	244,125
2012	249,750
2013	249,750
2014 and thereafter	624,375

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

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

Off-Balance Sheet Obligations

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

Outstanding Share Data

Arcan's issued share capital consists of:	Quarter Ended September 30, 2009	Year Ended December 2008	November 19, 2009
Common shares	37,868,560	37,868,560	46,868,560
Warrants	586,631	586,631	586,631
Performance options	750,000	1,500,000	750,000
Stock options	3,536,000	3,638,500	4,682,000

The 481,000 outstanding warrants issued in July 2004 with a \$2.00 exercise price expire on October 22, 2010 and the 105,631 outstanding warrants issued in April 2005 with a \$1.60 exercise price expire on April 22, 2010.

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

On November 19, 2009, Arcan granted options to certain directors, officers, employees and consultants to purchase an aggregate of 1,191,000 common shares of the Company, including 1,050,000 options granted to directors and officers of Arcan, each exercisable at a price of \$1.30 per share for a period of five years. All options granted to directors and officers vest on October 1, 2010 and options granted to employees and consultants vested on the date of issuance.

On November 20, 2009 Arcan issued 1,071,500 flow-through common shares upon closing a private placement offering at \$1.40 per share for gross proceeds of \$1,500,100.

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

OUTLOOK

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

- Development drilling in the Hamburg GG pool in conjunction with Arcan's waterflood is aimed at increasing production and significantly extending the life and value of the asset. Arcan has had exploration successes over the past year and it is expanding its exploration base for the winter as Arcan may move into B.C. to take advantage of the more favourable royalty regime.
- At McLeod, Arcan has not focused on natural gas drilling since 2007 but continues to accumulate deeper, higher-impact targets for future drilling when natural gas prices improve.
- Expand Deer Mountain as Arcan tests the application of its first horizontal multi-stage well supported by its infrastructure investments in the new battery, full water handling facility, expanded water injection scheme and drilling of new injection/production patterns in the unit. Arcan spud one vertical farm-in well to the south of its Deer Mountain Unit #2 as part of its rolling option farm-in obligation. Successful application of the horizontal drilling in the unit and extensive drilling opportunities off the unit on Arcan's 60 sections of largely undeveloped lands along the reef, could provide significant net asset value appreciation to Arcan's shareholders.

Arcan's 2009 capital program is expected to remain within cash flow and debt capacities and will continue to focus on growth through exploration and development in its three core areas of Deer Mountain, McLeod and Hamburg. The Company's strengths include \$110 million of tax pools, a strong slate of directors, highly experienced technical staff, Arcan operated facilities with ample capacity for growth and recently implemented waterfloods. The Arcan team since inception has demonstrated the ability to successfully explore, develop and exploit its core properties and will continue to grow Arcan's asset base through the drill bit and targeted accretive acquisitions. Arcan's unwavering commitment to its growth strategy has created a solid platform for Arcan to experience continued strong sustainable growth throughout 2009 and into the future. Arcan is taking advantage of the current royalty incentives and oil commodity prices by implementing its drilling programs.

Business Risks

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

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

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

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

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

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

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

Critical Accounting Estimates

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

International financial reporting standards

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

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

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

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

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

Future accounting policies

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

Legal Advisories

Oil, NGLs and Natural Gas conversions to BOEs

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

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

Finding and Development Costs

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

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

Forward-Looking Information and Statements

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

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

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

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

ARCAN RESOURCES LTD.

Balance Sheets
(Unaudited)

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable	\$ 7,176,839	\$ 9,067,668
Prepays and deposits	799,408	817,944
Future income taxes	154,134	—
	<u>8,130,381</u>	<u>9,885,612</u>
Property, plant, and equipment (note 1)	137,999,474	139,838,263
	<u>\$ 146,129,855</u>	<u>\$ 149,723,875</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,860,821	\$ 20,658,604
Bank loan (note 2)	41,359,698	29,632,687
Fair value of commodity contracts (note 6)	531,496	—
	<u>50,752,015</u>	<u>50,291,291</u>
Asset retirement obligations (note 3)	5,152,846	4,785,428
Future income taxes	5,455,280	6,415,927
	<u>61,360,141</u>	<u>61,492,646</u>
Shareholders' equity:		
Share capital (note 4)	81,677,404	81,677,404
Share purchase loan (note 4)	(100,000)	(100,000)
Contributed surplus (note 5)	3,689,336	3,137,804
Retained earnings (deficit)	(497,026)	3,516,021
	<u>84,769,714</u>	<u>88,231,229</u>
Commitments (note 7)		
Subsequent event (note 8)		
	<u>\$ 146,129,855</u>	<u>\$ 149,723,875</u>

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenue:				
Petroleum and natural gas	\$ 6,545,846	\$ 13,689,838	\$ 19,485,841	\$ 40,558,059
Interest and other revenue	254	207,402	2,446	249,285
Royalties	(2,010,170)	(3,681,469)	(4,562,536)	(8,937,732)
Unrealized gain (loss) on commodity contracts (note 6)	1,227,835	—	(531,496)	—
Realized loss on commodity contracts (note 6)	(481,180)	—	(703,016)	—
	5,282,585	10,215,771	13,691,239	31,869,612
Expenses:				
Operating	2,464,765	2,481,882	5,409,925	5,819,829
General and administrative	1,228,950	831,641	3,437,253	2,978,330
Interest	493,630	311,300	1,163,537	946,998
Accretion	104,746	87,864	310,497	255,552
Depletion and depreciation	2,680,240	3,552,665	8,497,855	11,191,080
	6,972,331	7,265,352	18,819,067	21,191,789
Income (loss) before income taxes	(1,689,746)	2,950,419	(5,127,828)	10,677,823
Future income tax reduction (expense)	281,343	(805,687)	1,114,781	(2,905,343)
Net income (loss) and comprehensive income (loss)	(1,408,403)	2,144,732	(4,013,047)	7,772,480
Retained earnings (deficit), beginning of period	911,377	2,143,153	3,516,021	(3,484,595)
Retained earnings (deficit), end of period	\$ (497,026)	\$ 4,287,885	\$ (497,026)	\$ 4,287,885
Net income (loss) per share (note 4):				
Basic	\$ (0.04)	\$ 0.06	\$ (0.11)	\$ 0.21
Diluted	\$ (0.04)	\$ 0.05	\$ (0.11)	\$ 0.20

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Statements of Cash Flows
(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ (1,408,403)	\$ 2,144,732	\$ (4,013,047)	\$ 7,772,480
Items not involving cash:				
Depletion and depreciation	2,680,240	3,552,665	8,497,855	11,191,080
Stock-based compensation	165,708	159,479	551,532	535,389
Accretion	104,746	87,864	310,497	255,552
Unrealized loss (gain) on commodity contracts	(1,227,835)	—	531,496	—
Future income tax expense (reduction)	(281,343)	805,687	(1,114,781)	2,905,343
Reclamation costs	(1,487)	(3,564)	(85,758)	(93,211)
	31,626	6,746,863	4,677,794	22,566,633
Change in non-cash working capital	1,203,517	402,977	20,875	(3,187,767)
	1,235,143	7,149,840	4,698,669	19,378,866
Financing:				
Bank loan	1,732,336	(3,909,741)	11,727,011	9,013,224
Issue of common shares, net of costs	—	(155)	—	103,845
	1,732,336	(3,909,896)	11,727,011	9,117,069
Investing:				
Property, plant and equipment	(3,110,880)	(11,323,293)	(6,516,387)	(23,880,420)
Property acquisition (note 1)	—	—	—	(1,060,767)
Change in non-cash working capital	143,401	8,083,349	(9,909,293)	(3,554,748)
	(2,967,479)	(3,239,944)	(16,425,680)	(28,495,935)
Change in cash	—	—	—	—
Cash, beginning of period	—	—	—	—
Cash, end of period	\$ —	\$ —	\$ —	\$ —
Supplementary disclosure:				
Interest paid	\$ 607,587	\$ 341,189	\$ 1,208,935	\$ 1,026,205

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

ARCAN RESOURCES LTD.

Notes to Financial Statements

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

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

Future accounting policies:

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

1. Property, plant and equipment:

	September 30, 2009	December 31, 2008
Petroleum and natural gas properties	\$ 179,336,757	\$ 172,677,691
Accumulated depletion and depreciation	(41,337,283)	(32,839,428)
	<u>\$ 137,999,474</u>	<u>\$ 139,838,263</u>

At September 30, 2009, petroleum and natural gas properties included undeveloped properties of \$10.6 million (September 30, 2008 - \$10.7 million), which have been excluded from the depletion calculation. Future development costs for proved reserves of \$37.0 million (September 30, 2008 - \$21.1 million) have been included in the depletion calculation.

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 2

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

2. Bank loan:

	September 30, 2009	December 31, 2008
Bank loan	\$41,359,698	\$ 29,632,687

Arcan has a \$50 million operating revolving loan facility. This facility is with a Canadian chartered bank. Interest on the facility is calculated at the bank prime rate of interest, plus an applicable facility margin depending upon certain ratios. A re-determination of the borrowing base will occur on or before April 30, 2010. As the available lending limits of the facility is based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of the facility that will be determined at each scheduled review. The loan facility is secured by a general security agreement and is payable in full on demand. Pursuant to the terms of the credit facilities, the Company has provided the covenant that at all times its working capital ratio shall be not less than 1 to 1. The working capital ratio is defined under the terms of the facilities as current assets, including the undrawn portion of the revolving credit facility, to current liabilities, excluding any current bank indebtedness. The Company is compliant with this covenant at September 30, 2009. This facility had an effective interest rate of 4.75% at September 30, 2009 (September 30, 2008 – 4.90%).

3. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at September 30, 2009 is \$11.2 million (December 31, 2008 - \$11.1 million), which will be incurred between 2010 and 2019. The majority of the costs will be incurred between 2010 and 2016. An inflation rate of 2% (2008 – 2%) was used to inflate the costs, and a credit-adjusted risk-free rate of 8% - 10% (2008 – 8% - 10%) was used to calculate the fair value of the asset retirement obligations.

	September 30, 2009	December 31, 2008
Balance, beginning of period	\$ 4,785,428	\$ 4,169,384
Liabilities incurred	109,563	613,877
Liabilities eliminated on disposal	—	(41,152)
Accretion expense	310,497	354,657
Change in estimates	33,116	—
Reclamation costs	(85,758)	(311,338)
Balance, end of period	\$ 5,152,846	\$ 4,785,428

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 3

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

4. Share capital:

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Common shares issued and outstanding:

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

(c) Warrants:

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

	Weighted average Exercise Price (\$)	Number of Warrants
Balance, at December 31, 2007	1.93	598,631
Exercise of warrants	2.00	(12,000)
Balance, December 31, 2008 and September 30, 2009	1.93	586,631

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 4

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

4. Share capital (continued):

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

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

The warrants issued in July 2004 expire on October 22, 2010 and the warrants issued in April 2005 expire on April 22, 2010.

(d) Share purchase loan:

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

(e) Stock options:

	Nine months ended September 30, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	3,638,500	\$ 2.27	3,265,000	\$ 2.51
Granted	—	—	1,039,000	1.95
Exercised	—	—	(30,000)	2.67
Forfeited	(102,500)	2.92	(58,500)	2.83
Cancelled	—	—	(577,000)	2.95
Stock options outstanding, end of period	3,536,000	\$ 2.26	3,638,500	\$ 2.27
Exercisable at period-end	2,368,333	\$ 2.22	2,034,000	\$ 2.04

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 5

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

4. Share capital (continued):

(f) Stock-based compensation:

There were no new options granted during the nine months ended September 30, 2009.

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

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

(g) Performance options:

	September 30, 2009	December 31, 2008
Number outstanding	750,000	1,500,000
Exercisable	750,000	1,500,000
Weighted average remaining contractual life (years)	0.42	0.75
Weighted average exercise price (\$/share)	1.00	1.00

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 6

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

4. Share capital (continued):

(h) Per share amounts:

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

	Three months ended September 30, 2009		Nine months ended September 30, 2008	
Weighted average number of shares – basic	37,828,560	37,828,560	37,828,560	37,447,500
Effect of dilutive securities	–	1,267,671	–	1,298,435
Weighted average number of shares - diluted	37,828,560	39,096,231	37,828,560	38,745,935

In computing diluted per share amounts at September 30, 2009, 3,536,000 options (September 30, 2008 – 2,360,167 options), 750,000 performance options (September 30, 2008 – nil performance options), and 586,631 warrants (September 30, 2008 – nil warrants) were excluded for the calculation as their effect was anti-dilutive.

5. Contributed surplus:

	September 30, 2009	December 31, 2008
Balance, beginning of period	\$ 3,137,804	\$ 2,294,064
Stock-based compensation	551,532	872,653
Transfer to share capital on exercise of warrants and options	–	(28,913)
Balance, end of period	\$ 3,689,336	\$ 3,137,804

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 7

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

6. Financial instruments:

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at September 30, 2009 the Company's receivables consisted of \$4.4 million (December 31, 2008 - \$6.6 million) from joint venture partners, \$1.6 million (December 31, 2008 - \$1.9 million) of receivables from petroleum and natural gas marketers and \$1.2 million (December 31, 2008 - \$0.6 million) of other trade receivables.

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

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

Aging	September 30, 2009	December 31, 2008
Not past due (less than 120 days)	\$ 5,628,341	\$ 6,993,229
Past due (over 120 days)	1,548,498	2,074,439
Total	\$ 7,176,839	\$ 9,067,668

Liquidity risk

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 8

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

Market risk

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

Foreign currency exchange rate risk

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

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

Commodity price risk

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

During the nine months ended September 30, 2009 the Company entered into a fixed price oil swap contract to receive \$64.40 per barrel in exchange for Canadian dollar WTI on oil production of 500 barrels per day for the period from April 1 to December 31, 2009. The Company recognized an unrealized loss of \$531,496 on the contract as at and for the nine months ended September 30, 2009. The Company also realized a loss on the contract of \$703,016 for the nine months ended September 30, 2009.

The Company has assessed the sensitivity of the fair value of the oil commodity contract to fluctuations in forward crude oil prices. As at September 30, 2009, if the forward price of crude had been \$1.00 higher, net income for the period would have been approximately \$34,500 lower, due to a higher unrealized loss on commodity contracts. An equal and opposite impact would have occurred to net income had the forward price of crude been \$1.00 lower.

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 9

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. As at September 30, 2009, 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 \$74,000 (2008 - \$44,000) and \$214,000 (2008 - \$127,000) higher, respectively, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been one hundred basis points higher. The sensitivity is higher in 2009 as compared to 2008 because of an increase in outstanding bank debt, slightly offset by a decrease in interest rates.

The Company has no interest rate swap or financial contracts in place as at or during the nine months ended September 30, 2009 or the year ended December 31, 2008.

Capital management

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholder's equity of \$84.8 million (December 31, 2008 - \$88.2 million), bank debt of \$41.4 million (December 31, 2008 - \$29.6 million) and a working capital deficiency excluding bank debt, of \$1.3 million (December 31, 2008 - \$10.8 million). In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

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

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 10

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

6. Financial instruments (continued):

As at September 30, 2009 and December 31, 2008, the Company's ratio of net debt to quarterly annualized funds from operations was 336.9 to 1 and 5.1 to 1, respectively. The Company's ratio of net debt to quarterly annualized funds from operations at quarter end and year end was above the 2 to 1 ratio that management targets to maintain due to significant capital spending in 2008 and decreased commodity prices in the first nine months of 2009. The Company's ratio was particularly high at the end of the quarter due to unusually low funds from operations due to high operating costs from a number of plant turn-arounds and workovers that were completed during the quarter. The Company raised \$11,250,000 subsequent to the end of the quarter (note 8) that reduced debt levels.

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

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

	September 30, 2009	December 31, 2008
Working capital deficiency (including bank debt)	\$ 42,621,634	\$ 40,405,679
Cash flow from operating activities	1,235,143	4,590,366
Change in non-cash operating working capital	(1,203,517)	(2,603,621)
Funds from operations	31,626	1,986,745
Annualizing factor	x4	x4
Annualized funds from operations	\$ 126,504	\$ 7,946,980
Ratio	336.9 to 1	5.1 to 1

ARCAN RESOURCES LTD.

Notes to Financial Statements, Page 11

Three and nine months ended September 30, 2009 and 2008
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6. 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 and subject to certain financial covenants (see note 2). The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

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

Fair value of financial instruments

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

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

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

7. Commitments:

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

2009	\$ 59,625
2010	238,500
2011	244,125
2012	249,750
2013	249,750
2014 and thereafter	624,375

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

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

ARCAN RESOURCES LTD.

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Three and nine months ended September 30, 2009 and 2008
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8. Subsequent event:

Subsequent to September 30, 2009, the Company issued 9,000,000 common shares at a price of \$1.25 per share for gross proceeds of \$11,250,000, and 1,071,500 flow-through shares at a price of \$1.40 per share for gross proceeds of \$1,500,000.

Arcan Resources Ltd.

Corporate Information

Directors

J. Terry McCoy

President, Koa Resources Ltd.

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

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