ARCAN RESOURCES LTD.

Management's Discussion and Analysis

Basis of Presentation

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

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

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Estimates of reserves and future net revenue from Arcan’s oil and natural gas reserves are based on the independent oil and gas reserve report described in the AIF. Estimates of future net revenue do not represent fair market value. Readers should read the legal advisories at the end of this MD&A.

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

Arcan's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated April 3, 2008.

Non-GAAP Measurements

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

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)**	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Cash flow from operating activities (per GAAP)	**4,599**	1,186	**11,429**	2,348	2,882
Change in non-cash working capital Funds from operations	**(2,431)**	442	**(501)**	341	455
	2,167	1,629	**10,927**	2,689	3,336

2007 Highlights

- Raised net asset value 49% to $3.34 per diluted share from $2.24 per diluted share;
- Achieved operating netbacks of $35.97 per boe (revenue of $63.97 per boe);
- Increased proved and probable reserve boes by 49% and estimated present value of future net revenue by 131% (proved plus probable, discounted at 10%);

- Created 1.5 times recycle ratio on 2.5 mboe proved plus probable reserve additions and a $24.11 FD&A cost (with significant investments in waterflood infrastructure), providing the Company with a 5.8 times replacement ratio and a 17.5 year reserve life index;
- Production more than doubled to an average of 1,178 boe per day for 2007 from an average of 581 boe per day for the 12 months ended December 31, 2006 with increases coming from each of the three core areas;
- Recorded record revenues of $27.5 million and annual funds from operations of $10.9 million or $0.33 per diluted share;
- Purchased an additional five percent interest in the Deer Mountain Unit #2;
- Commenced water injection and acquired operatorship of a battery in Hamburg and advanced the development of the waterflood in Deer Mountain;
- Completed the Desco transaction and listed the Company's shares on the TSX Venture exchange;
- Increased bank lines from $20 million to $40 million; and
- Q1, 2008 production is estimated at just under 1,500 boe per day with March 2008 averaging over 1,700 boe per day.

Highlights	**Year Ended December 31, 2007**	Six Months Ended December 31, 2006	Year Ended June 30, 2006
Financial ($000's, except per share amounts)			
Oil and natural gas revenues	**27,505**	6,304	6,699
Cash provided by operating activities	**11,429**	2,348	2,882
Funds flow from operations (1)	**10,927**	2,689	3,336
Per share – basic (1)	**0.33**	0.11	0.23
Net loss	**(910)**	(318)	(1,563)
Per share – basic and diluted	**(0.03)**	(0.01)	(0.11)
Bank loan	**13,906**	11,502	-
Total assets	**123,285**	82,019	57,854
Total liabilities	**43,815**	33,888	14,802
Shareholders' equity	**79,471**	48,130	43,052
Capital expenditures – cash	**50,272**	33,776	34,149
Common shares outstanding	**36,492**	26,534	24,542
Weighted average - basic	**32,724**	25,295	14,508
Weighted average – diluted (3)	**32,724**	25,295	14,508
Sales Volumes			
Crude oil and NGLs (bbls per day)	**798**	373	127
Natural gas (mcf per day)	**2,278**	1377	1,209
Barrels of oil equivalent (boe per day) (2)	**1,178**	603	329

(1) The reader is referred to the section - "Non-GAAP Measurements".
(2) The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to BOEs".
(3) Basic and diluted weighted average shares are the same as the Company has a loss.

Net Asset Value

As detailed in the table below, net asset value (NAV) of $3.34 per diluted share at December 31, 2007 (on the basis of proved plus probable reserves discounted at 10%) has increased by 49% over December 31, 2006. This calculation is presented for December 31, 2007 and December 31, 2006 and incorporates estimates that may not be comparable year-over-year and are only at one point in time. An independent evaluation was performed for reserves, however, land values and seismic values are based on management's estimates. The reader is cautioned that the presentation does not reflect all aspects of the Company.

Net Asset Value	**December 31, 2007**		December 31, 2006	
($000s except number of shares and per share)	**(P+P discounted at 5%)**	**(P+P discounted at 10%)**	(P+P discounted at 5%)	(P+P discounted at 10%)
Present value of reserves	**197,937**	**153,572**	100,510	72,863
Undeveloped acreage (2007 - $290 per acre)	**9,542**	**9,542**	4,000	4,000
Seismic	**1,000**	**1,000**	1,700	1,700
Working capital deficit	**(30,141)**	**(30,141)**	(15,745)	(15,745)
Dilution proceeds *	**8,162**	**8,162**	8,468	8,468
Estimated value	**186,500**	**142,135**	98,933	71,286
Shares (thousands)	**42,538***	**42,538***	31,805	31,805
Estimated NAV per share *	**4.38**	**3.34**	3.11	2.24

* Includes all dilutive securities namely: 36,491,555 common shares; the Performance Shares convertible into 1,335,005 common shares (which conversion was affected in March, 2008); 1,500,000 performance warrants exercisable at $1.00 per share; 598,631 warrants exercisable at $1.93 per share; and 2,612,500 stock options that are in the money at their average exercise price of $2.11 (these were all options exercisable below the $3.32 NAV above) (2006 - 2,483,500 options at $1.95, 1,500,000 performance warrants at $1.00 and 1,287,810 warrants at $1.65. These values were used as Arcan was not public at that time).

The growth in net asset value can be mainly attributed to increased commodity pricing, to value unlocked as a result of our investment in two waterfloods, and the 9.2 net wells drilled by Arcan in 2007. Arcan invested $59.3 million and grew the present value of the Company's reserves by $96.2 million (proved plus probable discounted at 10%) ($153.6 million closing reserves plus $15.5 million in operating netbacks less $72.9 million opening reserves). Arcan expects that 2007 facility investments will continue to add value for 2008 and beyond from our current 17.5 year reserve life.

Finding Development and Acquisition Costs (FD&A)

Arcan added 2.5 mboe of reserves in 2007 (7.2 mboe closing reserves plus 0.4 mboe production less 5.1 mboe opening reserves) on a $60.5 million capital program ($59.3 million capital per the December 31, 2007 financial statements plus $30.2 million of closing future capital in the

December 31, 2007 reserve report (proved plus probable 10% discounted) less $29.0 million closing future capital in the December 31, 2006 reserve report (proved plus probable 10% discounted)) to calculate a $24.11 FD&A cost per proved plus probable boe. 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.

FD&A Costs	Proved (10% discounted)	Proved plus Probable (10% discounted)
Capital expended ($millions)	59.3	59.3
Change in future capital ($millions)	1.7	1.2
Total Capital ($millions)	61.0	60.5
2007 reserve additions (mboe)	1.9	2.5
2007 FD&A ($ per boe)	**$31.51**	**$24.11**

Arcan invested substantially in infrastructure in 2007 through facilities, drilling water source wells, converting some of our best producing wells into injector wells (the best producers also normally make the best injectors) and converting a producing oil well to water source well. In waterflood projects the majority of the capital is invested at the front end to produce results over a long term. We have made the bulk of these investments already and that is reflected in our 2007 FD&A costs. Going forward we see a higher ratio of investments in drilling development wells to fully capture the resources related to our waterfloods. Costs were well above last years levels, on a FD&A basis, but the investment has been in long life oil projects that in their early stages already provide a $35.97 per boe netback. This translates to a 1.5 times recycle ratio (see "Recycle Ratio" below). Simply put if 2007's averages were applied to the future, for every dollar we invested we would expect a return of $1.50.

For the six month period ended December 31, 2006, Arcan estimated that it had a 2.3 times recycle ratio on 2.2 mboe proved plus probable reserve additions and a $15.92 FD&A cost (using a 10% discount factor) and a 17.9 year reserve life index . With proved reserve additions of 1.6 mboe, Arcan estimated a proved FD&A cost of $21.86 per boe (using a 10% discount factor) for the six month period ended December 31, 2006. Life to date, Arcan estimates it has 1.8 times recycle ratio based on a $24.11 per boe proved FD&A and a $21.08 proved plus probable FD&A (discounted at 10%) and a $37.21 operating netback.

For 2008 we expect a notable transition as commodity prices are well above the average 2007 price of $63.97 per boe of revenue and production for Q1 is estimated to average approximately 1,500 boe per day, well above the yearly average of 1,178 boe per day in 2007.

Recycle Ratio

The recycle ratio is a measure for evaluating the effectiveness of a Company's reinvestment program. The ratio measures how well the Company replaced every boe of production. The table below depicts that Arcan received a net $35.97 per boe it sold and it cost $24.11 to find a replacement boe. Arcan strives for a recycle ratio of 2.0, but the investment in the two waterfloods in 2007 resulted in a lower ratio of 1.5.

Recycle Ratio	**2007 (6:1)**
Operating netback ($/boe)	**35.97**
Proven finding and development costs ($/boe)	31.51
Proven reinvestment efficiency ratio	**1.1**
Proven plus probable finding and development costs ($/boe)	24.11
Proven plus probable reinvestment efficiency ratio	**1.5**

Reserve Life Index

Using the fourth quarter ended December 31, 2007 average production of 1,122 boe per day and December 31, 2007 year-end reserves, Arcan has a reserve life of 17.5 years.

Production (Fourth Quarter ended December 31, 2007 average boe per day)	1,122
Proved reserves (mboe)	4,922
Proved reserve life index (years)	**12.0**
Proved plus probable reserves (mboe)	7,156
Proved plus probable reserve life index (years)	**17.5**

Reserves Replacement

As depicted below, Arcan added 5.8 boe for every 1 boe it produced in 2007.

	2007
Oil (bbls)	291,375
Natural gas (mcf)	831,594
Equivalent barrels (boe)	429,974
Reserve additions – Proven (mboe)	1,935
Reserves Replacement – Proven	**4.5**
Reserve additions – Proven + Probable (mboe)	2,511
Reserves Replacement - Proven + Probable	**5.8**

Overview

The industry struggled in 2007 as we started the year under pressure from the effect of the changes to the tax treatment of royalty trusts announced in October 2006 and low natural gas prices, with an additional blow from the announcement of proposed higher royalties by the Alberta government in October 2007. In the fifteen months since Arcan became a publicly traded company, we have built up reserves, overcome production hurdles, made significant investments in infrastructure in the two waterflood projects, and increased the Company's net asset value per share by 49% to $3.34 per diluted share (proved plus probable discounted at 10%). Net asset value continues to be our primary focus. In Hamburg, Arcan has foregone numerous short-term production gains to maximize pool recovery and long term net asset value. In Deer Mountain, water injection and extensive development drilling remains the key to adding significant shareholder value. Arcan has invested in two major waterflood projects on high quality Devonian oil pools over the last two years. These enhanced recovery (ER) schemes require an intensive up-front investment of time and capital. These operations were major milestones which are expected to significantly increase recoverable reserves and ultimately net asset value.

Arcan expended $57.8 million ($59.3 million including future tax on the Desco acquisition) on its properties and infrastructure during the year ended December 31, 2007, expanding net asset value by $95.7 million and replacing production by 5.8 times over December 31, 2006. Our investments left Arcan with at 17.5 year reserve life weighted 76% towards light oil and an inventory of 7.2 mboe of proved plus probable reserves. For 2007 Arcan had record funds from operations of $10.9 million and a recycle ratio of 1.5 times based on proved plus probable FD&A costs of $24.11 per boe and a 2007 corporate netback of $35.97 per boe. Arcan exited 2007 with $30.1 million in debt and working capital and for 2008 anticipates spending within cash flow and its new $40 million in bank lines.

Arcan started 2007 with production of 800 boe per day and exited with a number of very productive wells under regulatory limitations, holding our production to just over 1,100 boe per day. Delays of this nature are related to the timing of implementation, rather than being related to problems with the assets themselves. Production rates for 2007 were less than management had expected. The timeline to convert those maximum rate limitations (MRLs) to good production practices (GPP) in Hamburg, which would add significant production volumes, is largely beyond the control of the Company. We are taking every measure available to minimize those delays.

Production from 2007 was fairly evenly split between Arcan's three core areas totalling to a net 1,178 boe per day, a 103% increase from 581 boe per day average production for the 12 months ended December 31, 2006. For the three months ended December 31, 2007 production was 1,122 boe per day which is higher than the 775 boe per day average production for the three months ending December 31, 2006. Since the end of the year Arcan has tied in two (1.0 net) productive wells in the Hamburg GG pool and installed a new treater. Production has risen to average over 1,700 boe per day in March but ultimately, both the timing of GPP status on the remaining Hamburg wells and pressure response in Deer Mountain will have a significant impact on Arcan's 2008 production profile.

Arcan is now the operator of the majority of its three core properties, which are located in West Central and Northwest Alberta. Arcan is able to re-allocate capital expenditures within its 3 core areas among exploration and development drilling for both oil and/or natural gas. Arcan has a large inventory of infill oil locations with low risk profiles, high reserve potential and high operating netbacks. Paramount to Arcan and to its management team is adding value for the Company's shareholders. With significant infrastructure investments in place we foresee adding production and reserves at lower capital cost during 2008. We are oil weighted and will continue to benefit from record oil prices as we direct our investments into these areas. We are monitoring and planning for the impact of the proposed changes to the Alberta royalty rates.

At December 31, 2007 Arcan had 17 full time employees.

Overview of Arcan's Core Areas

Hamburg

Arcan has drilled a total of seven wells in the area of the GG Pool located in Twp. 096 Range 09W6M (the new 13-17 well is not yet recognized by the Alberta Energy Resource Conservation Board ("ERCB") as being part of the pool). So far, only three (two producers and one injector) of the six wells recognized in the pool are within the boundaries of the approved ER Scheme and hence have GPP status. The next step in the development of the waterflood is to obtain approval from the ERCB to include the remaining wells in the GG Pool into the ER Scheme and to have the recently drilled 13-17 well added to the GG Pool then to the ER Scheme. When the boundaries of the ER Scheme are amended these wells will be expected to have GPP status resulting in relief from the current MRLs and add approximately 300-400 boe per day. Production from Hamburg averaged over 900 boe per day in March, 2008. Arcan has produced the 13-17 well at higher rates during its new oil well production period and expects to lower production, under MRLs, after the first quarter of 2008.

On November 1, 2007 Arcan acquired operatorship and a 50.25% working interest in the oil battery which services the oil wells located in the area of the GG Pool. This followed commencement of water injection into the pool in late October and significantly increases the control we have over our assets. Since October, 2007, Arcan has drilled two (1.0 net) wells in the area of the GG Pool and two (2.0 net) exploration wells in the Hamburg area. The two developments wells were successfully completed and are now on-stream. One exploration well was abandoned and the other was successfully logged and cased. Weather related issues restricted tie-in of this exploration well so completion operations are being delayed until next winter. Arcan is encouraged by the logs from this well, however, final results will not be available until completion operations are concluded.

Production averaged 387 boe per day on $41.15 per boe operating netbacks for the twelve months ended December 31, 2007 up from 170 boe per day and $33.25 per boe operating netbacks in the twelve months ended December 31, 2006.

Arcan has recently installed a new treater at the Hamburg battery which has increased both battery handling capacity and reliability. At least two to four more locations have been identified in the area of the GG Pool but further drilling is not anticipated until the results of the last two wells are evaluated and further modeling of the waterflood has been completed. Arcan has numerous exploration plays in the area, both in Alberta and in British Columbia.

McLeod

Production averaged 370 boe per day with $28.47 per boe operating netbacks for the twelve months ended December 31, 2007 up from 245 boe per day with $28.69 per boe netbacks in the twelve months ended December 31, 2006. Early in 2007, Arcan reduced drilling in McLeod to focus on higher netback oil. Although Arcan considers this to have been prudent given softening natural gas prices, this has resulted in significantly lower than anticipated production volumes coming out of the McLeod area. Four additional locations with proposed drilling depths of around 2,500 meters have been surveyed in McLeod and other deeper opportunities in the area are being accumulated. Arcan anticipates drilling two prospects in this area in 2008 including one 50% non-operated well.

Deer Mountain

Arcan drilled four (3.2 net) wells into the field in Deer Mountain in 2007, converted one well to an injector, re-entered one well as a source well and has been injecting over 1,000 boe per day for a period of approximately three months. In Deer Mountain, pressure maintenance remains the key to maximizing asset potential. Arcan experienced significant delays to its water injection due to new consultation requirements. Arcan has complied with these requirements and does not anticipate further delays as projects are now drill ready and future projects have these lead times built in. Production from the pool had been lower at the end of 2007, however production rates are averaging above 500 net boe per day as producing wells start to respond to water injection. Arcan continues to monitor pool performance and there are short-term steps Arcan could take to increase injections if pressure response requires it. An additional three to eight well program is scheduled for the second half of 2008. Arcan's Deer Mountain property contains a large inventory of low risk development infill oil wells with high reserve impact and high net backs. A total of 29 locations have been or are in the process of being surveyed, with room for further development.

Production averaged 406 boe per day with $38.39 per boe operating netbacks for the twelve months ended December 31, 2007 up from 166 boe per day with $42.74 per boe operating netbacks in the twelve months ended December 31, 2006.

Results of Operations

Volumes

Sales Volumes	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Crude oil and NGLs (bbls per day)	**794**	531	**798**	373	127
Natural gas (mcf per day)	**1,965**	1,466	**2,278**	1,377	1,209
Total oil equivalent (boe per day)	**1,122**	775	**1,178**	603	329
Oil as a % of total volumes	**71%**	68%	**68%**	62%	39%

Arcan produced 1,122 boe per day in the fourth quarter of 2007, a 45% percent increase from 775 recorded in the fourth quarter of 2006. Production for the year ended December 31, 2007 averaged 1,178 boe per day up 95% from the 603 boe per day for the six month period ended December 31, 2006 and up 258% from the 329 boe per day for the twelve months ended June 30, 2006. Production from McLeod was up approximately 50% while production from Hamburg and Deer Mountain more than doubled for the 2007 year versus the 12 months ended December 31, 2006. These increases were as a result of capital employed in our three core areas.

Production is estimated for January 2008 at 1,150 boe per day, February at 1,500 boe per day and March peaked above 2,200 boe per day and is estimated to average 1,700 boe per day to give a first quarter average of just under 1,500 boe per day. The annual average for 2008 is estimated to be 1,500 to 2,200 boe per day with the variance in the range based on flush production from new wells and the timing of GPP approval in Hamburg and the response to water injection in Deer Mountain. Arcan's production has been moving towards a higher oil weighting over the past twelve months as we have focused our capital expenditures towards our oil properties as oil prices have continued to rise to record highs. Arcan expects to focus the bulk of its efforts for the balance of 2008 expanding the Deer Mountain light oil base. Arcan has a substantial inventory of development wells to drill to further develop the Deer Mountain Unit.

Netbacks

The Company considers corporate netbacks to be an indication of ability to produce oil and natural gas profitably to earn a return on capital invested and is one of the three sources of funding (the others being raising debt and equity). Commodity price and volume increases were the main factors in the changes to the Company's bottom line for 2007. While Arcan expects commodity price fluctuations over the upcoming year, overall price levels are expected to remain higher, royalty rates are expected to remain relatively stable in 2008 and increase in 2009 (due to the new Alberta royalty structure), and operating costs are expected to remain in the $10-15 per boe range. These factors and targeted production increases are expected to increase the netbacks received by Arcan for 2008.

Netbacks **$ thousands**	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Revenue	**7,238**	4,042	**27,505**	6,304	6,699
Royalty, net of ARTC	**1,658**	978	**6,520**	1,437	1,753
Operating expenses	**2,563**	552	**5,517**	791	691
Operating netbacks	**3,017**	2,512	**15,468**	4,076	4,255
G&A	**662**	776	**3,746**	1,352	1,097
Interest expenses	**188**	107	**794**	35	(179)
Corporate netbacks	**2,167**	1,629	**10,928**	2,689	3,337
$ per boe					
Revenue	**70.12**	57.27	**63.97**	56.85	55.83
Royalty, net of ARTC	**16.06**	13.86	**15.17**	12.96	14.61
Operating expenses	**24.83**	7.82	**12.83**	7.13	5.76
Operating netbacks	**29.23**	35.59	**35.97**	36.76	35.46
G&A	**6.41**	10.99	**8.71**	12.19	9.14
Interest expenses	**1.82**	1.52	**1.85**	0.32	(1.49)
Corporate netbacks	**21.00**	23.08	**25.41**	24.25	27.81

Arcan's operating netback, defined as sales revenue, less royalties and operating expenses, was $3.0 million in the fourth quarter of 2007, a 20% percent increase from $2.5 million recorded in the fourth quarter of 2006. The increase in operating netback over 2006 was based on a 79% increase in revenue from higher volumes and prices, more than offsetting increases in royalties and operating costs. Operating netbacks for the year ended December 2007 was $15.5 million, up from $4.1 million for the six month period ended December of 2006 and up from the $4.3 million for the twelve months ended June 30, 2006. The increase in the operating netback for the year ended December 2007 over these other periods is due to the increases in volumes and prices more than offsetting the increased royalty and operating costs. The impact of these price increases has been dampened by the rising Canadian dollar versus the decreasing U.S. dollar.

Arcan's operating netback on a per boe basis was $29.23 in the fourth quarter of 2007, an 18% percent decrease from $35.59 recorded in the fourth quarter of 2006. The decrease in operating netback was due to a 22% increase in price, more than offset by increases in royalties and operating costs on a per boe basis in the fourth quarter of 2007 as compared to the same period of 2006. Operating netbacks per boe for the year ended December 2007 was $35.97 down 2% from $36.76 for the six month period ended December of 2006 and up 1% from the $35.46, for the twelve months ended June 30, 2006. The decrease in the operating netback for the year ended December 31, 2007 versus the six month period ended December 31, 2006 is due to the increase in prices being more than offset by the increased royalty and operating cost rates. The increase in operating netback over June 30, 2006 is largely related to price increases, offset by increased royalties and operating costs. The decrease in operating netback in the fourth quarter of 2007 compared to the third quarter of 2007 of $33.21 was primarily from higher operating costs. The move to oil weighting has significantly increased Arcan’s exposure to price upside both in 2007 and particularly in 2008. However, oil properties do present additional operating costs which can be large on a boe basis in the early stages of a waterflood. The net effect to Arcan was significantly higher netbacks from oil than would have been achieved through natural gas.

Operating netbacks from oil were $27.83 per boe and natural gas were $22.33 per boe in the fourth quarter of 2007 versus $37.95 for oil and $28.92 for natural gas in the fourth quarter of 2006. Operating netbacks from oil were $38.79 per boe and natural gas were $27.13 per boe during the twelve month period ended December 2007 versus $43.72 for oil and $30.92 for natural gas for the six month period ended December 31, 2006 and $37.31 for oil and $33.91 for natural gas for the twelve month period ended June 30, 2006. Arcan's oil netbacks were stronger than natural gas netbacks for all periods due mainly to commodity pricing.

Arcan's corporate netback, defined as operating netback, less G&A and interest (revenue less expense), was $2.2 million in the fourth quarter of 2007 as compared to $1.6 million in the fourth quarter of 2006. Corporate netback was $10.9 million for the twelve months ended December 31, 2007 versus $2.7 million for the six months ended December 31, 2006 and $3.3 million for the twelve months ended June 30, 2006. The large increases for 2007 related mainly to volumes and commodity prices. On a per boe basis, the corporate netback was $21.00 in the fourth quarter of 2007 as compared to $23.08 in the fourth quarter of 2006 and $33.21 in the third quarter of 2007. Changes in netbacks and the components thereof are detailed by category below.

Operations by area for the twelve months ended December 31, 2007 and 2006 are as follows:

Operating Netbacks by Area		
(Per Boe)	**Twelve months ended December 31,**	Twelve months ended December 31,

	2007			2006		
Area	**Hamburg**	**Deer Mountain**	**McLeod**	Hamburg	Deer Mountain	McLeod
Daily Production	**387**	**406**	**370**	170	166	245
Revenue	**69.85**	**72.10**	**48.56**	60.32	67.10	46.30
Royalties	**14.75**	**17.85**	**12.86**	19.25	16.96	13.29
Operating Costs	**13.95**	**15.86**	**7.23**	7.82	7.40	4.32
Operating Netbacks	**41.15**	**38.39**	**28.47**	33.25	42.74	28.69

Arcan focused on its oil properties in 2007 and into 2008 as netbacks from its oil properties continue to provide higher margins than the natural gas properties.

Revenues

Petroleum and Natural Gas Revenues ($)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Oil and liquids (000's)	**5,985**	3,046	**21,298**	4,533	3,160
Per barrel	**81.88**	63.02	**73.09**	66.00	68.09
Natural gas (000's)	**1,253**	995	**6,207**	1,771	3,538
Per mcf	**6.93**	7.46	**7.46**	6.99	8.02
Oil and liquids as a % of total revenue	**83%**	75%	**77%**	72%	47%
Benchmark Prices					
WTI ($U.S. per bbl)	**90.57**	59.96	**72.33**	65.22	64.27
Edmonton Light Sweet ($Cdn. per bbl)	**86.89**	64.94	**77.00**	72.31	74.19
Alberta Plant Gate (per mcf)	**6.01**	6.77	**6.32**	6.18	8.48
Cdn $ per U.S. $	**1.02**	0.88	**0.94**	0.88	0.87

Arcan posted record production revenues for the year ended December 31, 2007. Production increases combined with the increase in the price Arcan received for its products resulted in an increase in revenue in the twelve month period ended December 31, 2007 compared to the six month period ended December 31, 2006 and the year ended June 30, 2006. In the fourth quarter of 2007 revenues increased 79% to $7.2 million from the $4.0 million recorded in the fourth quarter of 2006 and increased to $27.5 million from $6.3 million for the twelve months ended December 31, 2007 compared to the six months ended December 31, 2006. Revenues decreased in the fourth quarter from the $7.8 million in the third quarter of 2007 due to decreased production offsetting price increases. Based on estimated production volume and price increases

Arcan expects to post higher revenues in the first quarter of 2008 as well as the year ended December 31, 2008.

Commodity Prices

All of Arcan's production to date has been sold on the spot market. Arcan had no hedging during the quarter or the year ended December 31, 2007 and has no hedging in place at this time. Oil continues to grow as a percent of Arcan's total revenues as Arcan invests in increasing its oil production. Arcan's revenue would have been higher except for the impact in the erosion of the Canadian dollar versus the U.S. currency as the average price for WTI has climbed 51% in the fourth quarter 2007 versus the same quarter in 2006 and 11% in the twelve months ended December 31, 2007 over the twelve months ended December 31, 2006, while Edmonton par has only increased 34% in the fourth quarter 2007 versus the same quarter in 2006 and 7% in the twelve months ended December 31, 2007 over the twelve months ended December 31, 2006 due to the impact of the softening U.S. currency against the Canadian dollar.

In the fourth quarter of 2007, Arcan realized average revenue per boe of $70.12 as compared to $57.27 recorded in the fourth quarter of 2006 and $65.01 in the third quarter of 2007. Arcan realized an average of $81.88 per bbl of oil and NGL in the fourth quarter of 2007, an increase of 30 percent from the $63.02 per bbl realized in the fourth quarter of 2006 and up from the $75.47 per bbl received in the third quarter of 2007. The increase in Arcan's oil price for the fourth quarter of 2007 compared to 2006 is consistent with the increase in the Edmonton Light Sweet price for the same period as is the change from the third quarter of 2007 to the fourth. The Company realized an average natural gas price of $6.93 per mcf in the fourth quarter of 2007, a 7% decrease from the $7.46 per mcf averaged in the fourth quarter of 2006 and an increase from the $6.51 per mcf received in the third quarter of 2007. This is consistent with the price changes at the Alberta Plant gate for the same periods. The changes in Arcan's oil and gas prices for the twelve months ended December 31, 2007 compared to the six months ended December 2006 are also consistent with the changes shown in the Edmonton Light Sweet price and the Alberta Plant Gate price. Arcan anticipates oil prices will remain above $90 US WTI and that gas prices may soften into the summer of 2008 from current levels. Additionally, commodity prices realized by Arcan are being dampened by the significant and continued rise in the Canadian dollar.

Royalty Expense ($ 000's except per boe)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Royalties, net of ARTC	**1,658**	978	**6,520**	1,437	1,753
Per boe	**16.06**	13.86	**15.17**	12.96	14.61
Royalties as a % of revenue	**22.9%**	24.2%	**23.7%**	22.8%	26.2%

Royalty expense in the fourth quarter of 2007 was $1.7 million, compared to $1.0 million in the fourth quarter of 2006, and for the twelve months ended December 31, 2007 was $6.5 million, compared to $1.4 million for the six months ended December 31, 2006. These royalty rates are consistent on a percentage of revenue basis and per boe basis from the prior year, but would have been higher compared to the prior year had the Company not received a $330,000 gas cost allowance credit in the second quarter of 2007. In the third and fourth quarters of 2007 high productivity wells were producing under MRL rates and therefore attracted lower royalties for these periods. The increase in the gross royalty amounts was primarily the result of increased revenues. On a per boe basis changes were attributable to higher well productivities and changes to commodity weightings. Royalties were $1.7 million or 22% of revenue in the third quarter of 2007 compared to $1.7 million or 23% of revenue in the fourth quarter. Royalties have decreased on a percentage of revenue basis from the third quarter as a result of lower gas production and higher prices. Arcan has transitioned from a gas weighted producer with a few high productivity wells for the year ended December 31, 2006 to an oil weighted producer with more production from a larger number of wells which has lead to an overall decline in royalties as a percentage of revenue. Arcan anticipates that royalty rates will remain in the 22-28% of revenue range for the balance of 2008.

Royalty rates fluctuate with the price of oil and gas and also when higher rates of production are experienced. The Alberta Government eliminated the Alberta Royalty Tax Credit ("ARTC") effective January 1, 2007. This had the effect of increasing Arcan's royalty rate. On October 25, 2007 the Alberta Government released the New Royalty Framework for Alberta ("NRF") with a proposed effective date of January 1, 2009. This new framework applies significant royalty increases to higher rate producing wells, of which Arcan has a number. The province has not introduced the enabling legislation and there remain a number of significant outstanding uncertainties and interpretation issues. However, to assess the impact of the NRF Arcan engaged its independent reserves engineers, GLJ Petroleum Consultants ("GLJ"), to prepare a sensitivity using Arcan's December 31, 2007 reserve report under the NRF. As a result, the new royalty regime is expected to reduce the present value of Arcan's reserves between 15% and 17% (based on the pre-tax 10% discounted value of proved plus probable reserves). This reduction has increased from previously announced figures due to the increased reserves profile and advancing the cash flow stream by one year. The impact of the NRF is already factored into Arcan's new $40 million bank line. Arcan continues to monitor and plan for the impact of the NRF.

Operating Expenses ($ 000's except per boe)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Total	**2,563**	552	**5,517**	791	691
Per boe	**24.83**	7.82	**12.83**	7.13	5.76

In the fourth quarter of 2007 Arcan incurred significant charges related to electric submersible pumps and costs related to commencing control of the battery at Hamburg and accrued significant charges related to unforeseen third party processing combined with costly winter operations as late fourth quarter production issues were managed. Lower volumes exacerbated the generally rising costs and non-capitalized workovers in the fourth quarter and twelve months ended December 2007. This resulted in an increase in operating costs to $24.83 per boe or $2.6 million for the fourth quarter of 2007 from the $7.82 per boe or $0.6 million recorded in the fourth quarter of 2006. Operating costs increased to $5.5 million or $12.83 per boe for the twelve months ended December 2007 from $0.8 million or $7.13 per boe for the six month period ended December 31, 2006. Operating costs on a per boe basis increased from the $9.40 per boe experienced in the third quarter of 2007 due primarily to pump issues and accrued charges.

Arcan expects that its per boe operating expenses will decrease in 2008, as higher volumes and cost-saving measures are anticipated to continue to offset rising costs. Arcan's operating expenses have increased since December 31, 2006 due to Arcan moving toward oil-weighted production. Going forward through 2008, Arcan's continued transition towards oil-weighted production, including costs to operate the enhanced recovery, is anticipated to result in $10 - $15 per boe average operating costs per unit of production.

Cash General and Administrative ("G&A") ($ 000's except per boe)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Total	**662**	776	**3,746**	1,352	1,097
Per boe	**6.41**	10.99	**8.71**	12.19	9.14

Cash G&A for 2007 of $3.7 million was mainly comprised of wages of $1.8 million, bonuses of $0.6 million, rent of $0.4 million, and software, legal, reserve evaluations, and audit fees of approximately $150,000 each. These costs were all higher than prior periods as we had a significant increase in activity. Cash G&A expenses for the fourth quarter of 2007 decreased on a per boe basis to $6.41 per boe from $10.99 per boe in the fourth quarter of 2006. The cash G&A expense in total in the fourth quarter of 2007 was lower than in the fourth quarter of 2006 but the decrease in the per boe was mainly related to volume increases. The twelve month period of 2007 had higher cash G&A expenses than the six month period ended December 31, 2007 but lower cash G&A per boe numbers again resulted from the increased production volumes.

Cash G&A per boe increased to $6.41 in the fourth quarter of 2007 compared to $6.02 per boe in the third quarter of 2007 due mainly to decreased volumes. Cash G&A expense per boe is expected to decrease per boe on average for 2008 due to higher volumes. Arcan does not capitalize any G&A. 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.

Interest Expense ($ 000's except per boe)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Total	**190**	108	**804**	113	-

Historically, Arcan's management increased debt levels based on operational success and has subsequently reduced those debt levels through equity issues. As Arcan has grown its asset base the related borrowing capacity has increased. Arcan will carry higher debt loads as its ability to service that debt increases. Arcan expects that the debt to 2008 cash flow ratio will be elevated as raising equity has been more difficult and expensive in the current environment than in prior periods. Arcan estimates that interest expense will increase with higher debt levels but expects these to decrease on a boe basis as production volumes are elevated.

Interest expense in the fourth quarter of 2007 was lower than the third quarter of 2007. This was due to higher average bank debt in the third quarter of 2007 compared to the second quarter as Arcan received its $10.4 million in equity financing at the end of September and paid down debt for the first part of the fourth quarter. The increase in interest expense from the prior year resulted from an increase in average debt levels. Arcan had an effective interest rate of 6.25% on its debt facility at December 31, 2007 compared to 6.40% at December 31, 2006.

Subsequent to year end, Arcan has continued to increase its draws on its bank facility and expects to carry bank debt as required as part of routine operations on an ongoing basis. Based on Arcan’s assets the bank line has been increased from $20 million at the start of 2007 to $40 million.

Stock-Based Compensation ($ 000’s except per boe)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Total	**179**	156	**709**	377	1,020
Per boe	**1.73**	2.22	**1.65**	3.40	8.50

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.

Arcan recorded stock-based compensation expense of $0.2 million in the fourth quarter of 2007, calculated using the Black-Scholes option-pricing model. During the fourth quarter of 2007 Arcan granted 125,000 options. The stock-based compensation expense increased for the three month period ended December 2007 compared to the same period in 2006 due to the option grants in 2006 either vesting fully upon grant or with a third of the options vesting upon grant and one-third on each of the first two anniversary dates. In 2007 all options granted have vesting terms with one-third of the options vesting on each of the first three anniversary dates.

Depletion, Depreciation and Accretion ("DD&A") ($ 000’s except per boe)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Depletion and	**2,779**	1,689	**11,753**	2,706	4,115

depreciation					
Accretion	**78**	62	**289**	93	18
Total	**2,857**	1,751	**12,042**	2,799	4,133
Per boe	**27.68**	24.81	**28.01**	25.24	34.45

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Arcan recorded $2.9 million or $27.68 per boe in depletion, depreciation, and accretion expense in the fourth quarter of 2007 based on production volumes of 103,223 boe. The 12% increase in depletion and depreciation expense per boe as compared to the fourth quarter of 2006 and the 10% increase per boe from $25.24 for the six month ended December 31, 2006 is a result of facility investments in 2007. Depletion and depreciation per boe decreased over the third quarter of 2007, where Arcan recorded $29.36 per boe due to expanded reserves in the fourth quarter that had not been recognised in previous periods. Arcan's DD&A rate is high and reflects proportionately higher cumulative capital expenditures, including significant facility investments, relative to recognized reserves. Arcan's two main properties are in the early stages of enhanced recovery schemes and substantial amounts of capital have been invested in infrastructure. The Company expects to decrease the depletion per boe amount in future years by adding reserves through a development program that has a lower capital intensity as the majority of the infrastructure investments have already been incurred.

The Company excluded from its depletion and depreciation calculation costs associated with undeveloped land and seismic of $9.5 million and included future development costs of $23.4 million.

Arcan uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period.

Income Taxes ($ 000's)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Future income tax (expense) recovery	**739**	147	**914**	169	254

The difference between the expected income tax provision based on the combined federal and provincial statutory tax rate and the amount actually provided for is as follows:

($ 000's)	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Combined federal and provincial statutory rate	**32.12%**	34.50%	16.12%
Expected future income tax recovery	**(586)**	(168)	(293)
Non-deductible crown payments (net of provincial		68	108

credits)			
Stock-based compensation	**228**	130	164
Resource allowance	**–**	(76)	(77)
Future tax rate reductions and other	**(556)**	(123)	(140)
Change in valuation allowance		-	(16)
Future income tax reduction	**(914)**	(169)	(254)

A future tax recovery of approximately $0.7 million has been recognized in the financial statements for the fourth quarter of 2007, which relates to the Company experiencing a pre-tax loss of $0.9 million for the quarter. The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2007, which was 32.12% and is calculated on the income before income taxes. The difference is mainly due to non-deductible stock-based compensation and future tax rate differences.

The change on the balance sheet in the future tax liability of $0.9 million from December 31, 2006 is primarily due to the future tax effect of the Desco transaction (tax spiral of $1.5 million) as tax pools were less than booked assets. As well, Arcan recorded the tax effect of $0.8 million during the first quarter of 2007 when the renouncement was made on the $2.7 million of flow-through shares issued in November 2006. Prior to the December 31, 2007 deadline Arcan had completed all of the qualifying expenditures required to meet its 2006 flow-through share obligations. Arcan issued $5.2 million of flow-through shares in September 2007. In the period that the pools are renounced, being the first quarter of 2008, Arcan will record the related future tax liability.

Prior to January 1, 2007, Arcan was classified under the *Income Tax Act* (Canada) as a Canadian Controlled Private Company, which enabled it to use the Small Business Deduction to reduce its income tax rate. Since Arcan has become a public company on January 1, 2007, it has lost access to the Small Business Deduction, which has increased its future income tax rate.

The components of the future income taxes are as follows:

($ 000's)	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Share issue costs	**(707)**	(497)	(586)
Asset retirement obligations	**(1,042)**	(971)	(224)
Non-capital losses	**(839)**	–	–
Property, plant and equipment	**4,495**	2,479	1,993
Future income taxes	**1,907**	1,010	1,184

Arcan has not paid any cash taxes since inception and has accumulated sufficient tax deductions such that it does not anticipate paying any taxes for the next few years. However, Arcan is not able to forecast future possible changes in Federal and Provincial tax regimes. Arcan estimates its tax pools as follows:

Estimated Tax Pools

($ 000's)		
Type	**December 31, 2007**	**Rate of Claim (%)**
Canadian exploration expense	22,729	100
Non-capital losses	3,239	100
Canadian development expense	27,901	30
UCC	27,589	20 - 100
Share issue	2,467	20
Canadian oil and natural gas property expense	19,817	10
Total	103,742	

With capital spending in 2008 Arcan does not feel it will be in a taxable position until late 2010 at the earliest.

Net Loss and Funds From Operations

($ 000's except per share)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Net loss	**131**	131	**910**	318	1,563
Per share	**0.00**	0.01	**0.03**	0.01	0.11
Funds from operations	**2,167**	1,629	**10,927**	2,689	3,336
Per share	**0.06**	0.06	**0.33**	0.11	0.23
Cash flow from operating activities (per GAAP)	**4,599**	1,186	**11,429**	2,348	2,882
Per share	**0.13**	0.05	**0.35**	0.09	0.20

Arcan is generating funds from the operations of its three core properties. A net loss has been realized due to non-cash items as stock-based compensation and depletion, depreciation, and accretion charges. As Arcan continues to develop these properties, it anticipates that additional revenues will be generated resulting in increased funds from operations as well as net earnings.

Liquidity and Capital Resources

Arcan expended $59.3 million on its properties during the 12 month period ended December 31, 2007 compared to $33.8 million for the six months ended December 31, 2006. Arcan generated $10.9 million in funds from operations, and at December 31, 2007 had borrowed $13.9 million from its bank loan facility and had a working capital deficit including bank debt of $30.1 million. With its solid asset base Arcan estimates that it has the ability to generate short-term and long-term cash flow to meet obligations as they become due. Arcan's management increased debt levels from the fourth quarter of 2006 to accommodate operational successes while still maintaining adequate flexibility within the higher bank lines that also became available with the operational success. Arcan had debt to annualized cash flow of under three to one based on unanticipated lower cash flow. Arcan estimates 2008 cash flow to 2008 debt will be under two to one in the current commodity price environment.

As at the date hereof, the Company has a $40.0 million revolving credit facility with a Canadian chartered bank, based on a December 31, 2007 reserve report, and is in compliance with its banking covenants. Arcan has received a waiver letter from its bank for non-compliance with certain covenants at December 31, 2007 and has subsequently increased its debt facility to $40.0 million. Arcan expects to be in a net debt position of $30 – $40 million throughout 2008 and expects to be able to meet all of its obligations as they come due.

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

Arcan estimates that at March 31, 2008, due to rapid growth in its capital expenditures, coupled with delays in generating cash flow from wells, its debt and working capital deficiency is approximately $35 million, which is below its current debt facility. Arcan estimates that it will have cash flow in excess of capital expended in the second quarter of 2008.

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

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

($ 000's)	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Current assets	**7,597**		
Less:		13,865	23,236
Accounts payable and accrued liabilities	**23,832**	18,108	12,908
Bank loan	**13,906**	11,502	-
Working capital (deficiency)	**(30,141)**	(15,745)	10,328

Arcan completed a private placement on September 27, 2007 of 1,500,000 common shares at $3.45 per share and 1,200,000 flow-through shares at $4.35 per flow through share for gross proceeds of $10,395,000. Arcan has until December 31, 2008 to incur $5,220,000 of qualifying flow-through expenditures which will be renounced to the flow-through investors. Arcan estimates that it has expended approximately $4.5 million by the end of March 2008.

Capital Expenditures ($ 000's)	**Quarter Ended December 2007**	Quarter Ended December 2006	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006
Geological and geophysical	**90**	(9)	**1,751**	41	521
Land	**2,319**	411	**4,979**	1,821	3,338
Acquisitions	**–**	863	**11,149**	10,405	8,769
Drilling and completions	**9,441**	5,536	**26,610**	12,860	15,399
Equipment and facilities	**5,750**	3,414	**14,284**	8,241	4,985
Corporate assets	**97**	154	**(37)**	408	1,137
Total	**17,697**	10,369	**58,736**	33,776	34,149

Arcan increased its capital expenditure program considerably for the year ended December 31, 2007. During the period, Arcan purchased additional interests in the Deer Mountain Unit No. 2, drilled twelve (9.2 net) wells, which resulted in eight (5.7 net after earned interest) oil wells, one (1.0 net) gas wells, two (1.5 net) unsuccessful exploration wells, and one (0.5 net) water source well. In addition, Arcan purchased land, shot seismic, built facilities, converted three (2.6 net) oil wells to injectors, converted one (0.8 net) oil well to a source well and worked over several wells. Arcan has budgeted capital expenditures to remain within cash flow and bank line limitations for 2008 to achieve its growth program.

Capital expenditures for the fourth quarter of 2007 were $17.7 million. This was up from the $10.4 million spent in the fourth quarter of 2006. Arcan spent $9.4 million drilling three (2.4 net) wells in Deer Mountain, two (1.0 net) development wells in Hamburg and one (1.0 net) unsuccessful exploration well in Hamburg. As well, Arcan continued completing facilities in Hamburg which accounted for the majority of expenditures during the quarter. Land purchases and purchased seismic accounted for the $2.4 million of fourth quarter capital.

Capital Expenditure Summary					
($ millions)	**Q4 2007**	Q3 2007	Q2 2007	Q1 2007	**YTD 2007**
Land and seismic	**2.4**	0.5	1.7	2.1	**6.7**
Drilling and intangibles	**9.4**	5.1	3.4	9.2	**27.1**
Acquisitions	**–**	2.6	0.9	–	**3.5**
Facilities and equipment	**5.9**	3.3	0.1	4.4	**13.7**
Desco Transaction (including the future tax impact)	**–**	–	–	7.7	**7.7**
Total Capital	**17.7**	11.5	6.1	23.4	**58.7**

2007 Drilling Activity

	Exploration		Development		Total		Success Rate %	W.I. %
	Gross	Net	Gross	Net	Gross	Net		
Q1	1.0	0.5	4.0	3.3	5.0	3.8	80	76
Q2	-	-	-	-	-	-	-	-
Q3	-	-	1.0	1.0	1.0	1.0	100	100
Q4	1.0	1.0	5.0	3.4	6.0	4.4	83	73
Total	**2.0**	**1.5**	**10.0**	**7.7**	**12.0**	**9.2**	**88**	**77**

During the three month period ended December 31, 2007, Arcan drilled six (4.4 net) wells, which resulted in five (3.4 net) oil wells and one (1.0 net) dry and abandoned exploration well.

During the three months ended March 31, 2008 Arcan drilled one (1.0 net) exploration well in Hamburg which was cased and will be completed next winter.

Insurance

Arcan purchases insurance to protect corporate assets from significant catastrophic events. There are many factors to consider when looking for insurance levels including risks, probability and costs. Arcan carries $15 million in per well drilling and by area production insurance, $25 million in general corporate liability insurance, as well as $15 million in directors and officers insurance. Insurance levels are reviewed and modified as required to maintain reasonable coverage for a range of possible situations and are similar to coverage levels maintained by our peer groups.

Desco Transaction

On January 1, 2007, Arcan Resources Ltd. ("Arcan Privateco"), a private oil and gas company, and Desco Energy Ltd. ("Desco"), a publicly traded oil and gas company, completed an amalgamation of the two companies. The amalgamated company continued as a public oil and gas company under the name Arcan Resources Ltd. (“Arcan”). Pursuant to the amalgamation Desco shareholders received 2,373,331 common shares and Arcan Privateco shareholders received 26,534,045 common shares, respectively of Arcan. Immediately prior to the amalgamation two officers of Arcan Privateco owned 2.2 million shares of Desco. As part of the amalgamation these two officers cancelled 1.3 million of their Desco share holdings for nil consideration. This cancellation (as well as a similar cancellation by the directors of Desco) was transacted to the benefit of the remaining Desco shareholders. After the cancellation the two officers owned 994,400 or 15.2% of the outstanding shares of Desco.

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

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

Net assets acquired:	
Working capital (including cash of $1,422,956)	$ 473,469
Property, plant and equipment	8,464,246
Asset retirement obligations	(60,896)
Future income taxes	(1,515,889)
Total net assets acquired	$ 7,360,930
Consideration:	
Common shares issued to Desco shareholders (2,373,331)	$ 6,645,327
Transaction costs	715,603
Total consideration	$ 7,360,930

Subsequent to year-end, the 6,550,400 performance shares were converted into 1,335,005 common shares. In the first quarter of 2008 Arcan will record $2.1 million to share capital, $0.8 million to future income taxes and $2.9 million to property, plant and equipment as a result of the conversion.

Related Party Transactions

The following transactions with related parties were recorded at the exchange amount which was done on a fair value basis defined as the amounts that would be agreed upon in an arm's length transaction between knowledgeable, willing parties, who are under no compulsion to act.

In October 2005, the Company sold a 0.5% Unit interest for cash consideration of $88,000 to a company owned by the President and CEO of Arcan (the "Purchaser"). The Company had the option to repurchase the 0.5% Unit interest for a period of 30 months for $88,000 plus any additional costs or charges incurred by the Purchaser, less any related cash flow accruing to the Purchaser. On April 1, 2007 the Company exercised this option at cost plus additional charges incurred by the Purchaser totalling $204,025.

In conjunction with the equity issuance in September 2007, certain officers and directors acquired 480,000 common shares at $3.80 per share and 150,500 flow-through common shares at $4.35 per share.

Contractual Obligations

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

On September 27, 2007, the Company issued 1,200,000 flow-through common shares for gross proceeds of $5.2 million. The Company intends to renounce expenses effective December 31, 2007 and will have until December 31, 2008 to incur eligible exploration expenditures to satisfy the terms of the flow-through share offering. Arcan estimates that it has expended approximately $4.5 million by the end of March 2008.

Arcan has the following commitments:

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

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

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

	$
March 2007 to February 2008	240,000
March 2008 to February 2009	180,000
March 2009 to February 2010	120,000
March 2010 to February 2011	60,000

Off-Balance Sheet Obligations

There were no off-balance sheet obligations at December 31, 2007.

Outstanding Share Data

Arcan's issued share capital consists of:	**Year Ended December 2007**	Six Months Ended December 2006	Year Ended June 2006	**April 3, 2008**
Common shares	**36,491,555**	26,534,045	24,542,105	**37,826,560**
Warrants	**598,631**	1,287,810	1,287,810	**598,631**
Performance options	**1,500,000**	1,500,000	1,500,000	**1,500,000**
Stock options	**3,265,000**	2,483,500	2,263,500	**3,440,000**
Performance shares	**6,550,400**	-	-	-
Stock option dilution (treasury method)*				

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

Basic shares increased by 1,335,005 and performance shares decreased by 6,550,400 from December 31, 2007 to April 3, 2008 as a result of the conversion of the performance shares to common shares. They were converted as the performance terms associated with those performance shares had been completed. Stock options increased by 175,000 since December 31, 2007 as options exercisable at $1.50 were granted to a new employee.

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

Outlook

The capital plan for the balance of 2008 is to develop the assets we already own and have invested in. That leads us to drill reserve development wells in Deer Mountain, one development (0.5 net) gas well in McLeod, an exploration in McLeod and look to add to possibly consolidate interests in our core areas. These activities are expected to add production and value on a very capital effective basis. On the operations side we will remain focused on water injection in Hamburg and in Deer Mountain which remain the key driver to harvesting value. Arcan is maximizing our daily production and taking advantage of the high netback environment. For the balance of 2008 we intend to stay within our bank lines, build up our exploration opportunities and our platform for continued growth. We are oil weighted and will continue to benefit from record oil prices as we direct our investments into these areas and we are monitoring and planning for the impact of the changes to the Alberta royalty rates.

Business Risks

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

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

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

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

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

Arcan's Chinchaga (Hamburg) oil and natural gas property is in a winter access only area. This results in a limited time frame available to conduct Arcan's annual capital expenditure program in this area. This creates risks for cost overruns when operations have to be rushed. Time overruns can also happen whereby spring breakup occurs before a newly drilled well is completed and tied in, resulting in a one year delay in being able to put the well on production and have it generate revenue for Arcan.

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

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. The following is a discussion of the accounting estimates that are critical in determining Arcan's financial results.

(a) Full cost accounting

Arcan follows the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproven properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion and depreciation expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point the costs are included in the total cost base for purposes of calculating depletion and for evaluating impairment.

(b) Oil and natural gas reserves

Arcan's proved oil and natural gas reserves are 100 percent evaluated and reported by an independent petroleum engineering consultant. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to a number of uncertainties and various interpretations.

Arcan expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion and depreciation. A revision to the reserve estimate could result in a higher or lower DD&A charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of oil and natural gas property, plant and equipment under the ceiling test.

(c) Full cost accounting ceiling test

The carrying value of property, plant and equipment is reviewed annually for impairment. Impairment is determined when the carrying value of Arcan's property, plant and equipment exceeds the sum of the undiscounted cash flows expected to result from Arcan's proved reserves. Cash flows are calculated based on third-party quoted forward prices and are adjusted for Arcan's contract prices and quality differentials.

If impairment is deemed to occur, the magnitude is calculated by comparing the carrying value of property, plant and equipment to the estimated net present value of future cash flows from proved plus probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the Statement of Operations. No write-down was required at December 31, 2007.

(d) Asset retirement obligations

Arcan recognizes the fair value of its asset retirement obligations ("ARO") in the period in which it is incurred and when a reasonable estimate of its obligations can be made. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period with the passage of time and the amount of this accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. The liability is also impacted by estimates of inflation, discount rates and timing to abandonment.

Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Determinations of the original undiscounted costs are based on engineering estimates using current costs and technology in accordance with existing legislation and industry practice. The estimation of these costs can be affected by factors such as the number of wells drilled, well depth and area-specific environmental legislation. The liability is also impacted by estimates of inflation and discount rates and timelines to abandonment.

(e) Future income tax

Arcan follows the liability method of accounting for income taxes. Under this method income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax base, using substantively enacted future income tax rates.

The impact of the Federal legislation requires Arcan to schedule all existing temporary differences, identify the accounting and tax values during the phase-in period for the declining tax rates and recalculate the future income tax balance using tax rates in effect when temporary differences reverse. The above-noted forecasts of estimated net revenue streams are utilized to calculate the future tax provision and, as such, are subject to revisions, both upwards and downwards, that are not known at this time. In addition to these revisions, future capital activities can impact the timing of the reversal of any temporary differences. These differences can have an impact on the amount of future taxes determined at a point in time. To the extent that these differences are created, they can impact the charge against earnings for future income taxes.

(f) Stock-based compensation

Arcan's Stock Option Plan provides for the granting of options to directors, officers and employees. Arcan uses the fair value method for valuing stock option grants. Compensation costs attributable to share options granted are measured at fair value at the grant date and are expensed over the expected vesting time-frame with a corresponding increase to contributed surplus. Upon exercise of stock options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital.

New Accounting Policies

Changes in accounting policies

On January 1, 2007, the Company adopted the new Canadian accounting standards for financial instruments – recognition and measurement, financial instruments – presentations and disclosures, hedging and comprehensive income. Adopting these standards had no impact on the measurement of existing financial assets and liabilities.

Pending Accounting Pronouncements

Financial Instruments – Disclosures and Presentation

In December 2006, the Accounting Standards Board ("AcSB") issued the Canadian Institute of Chartered Accountants ("CICA") section 3862, "Financial Instruments – Disclosure and Presentation." Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. Specifically, section 3862 requires disclosure of the significance of financial instruments for a company's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments.

Sections 3862 and 3863 are effective for Arcan on January 1, 2008. Arcan is currently determining the impact of these additional disclosure requirements.

Capital Disclosures

In December 2006, the AcSB issued new CICA section 1535, "Capital Disclosures" requiring disclosures regarding an entity's objectives, policies and processes for managing capital. These disclosures include a description of what Arcan manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into Arcan's management of capital, whether the requirements have been complied with or consequences of non-compliance, and an explanation of how Arcan is meeting its objective for managing capital. In addition, quantitative data about capital and whether Arcan has complied with all capital requirements are also required.

Section 1535 is effective for Arcan on January 1, 2008. Arcan is currently determining the impact of these additional disclosure requirements.

International Financial Reporting Standards ("IFRS")

In 2005, the AcSB announced that accounting standards of Canada are to converge with IFRS. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further while the IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed.

Arcan is currently assessing the impact of these new standards on its financial statements. Early guidance indicates that disclosure of a transition plan and the anticipated effects may need to be disclosed in 2009. On January 1, 2010 the opening balance sheet will need to be IFRS compliant. Experience from Europe and Australia indicated that companies generally underestimated the work involved and that junior to mid sized companies under full cost accounting (like Arcan) were most significantly impacted.

Legal Advisories

Oil, NGLs, and Natural Gas conversions to BOEs

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

Forward Looking Statements

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

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

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

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

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Arcan believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and Arcan does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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

	2007				2006			
Fiscal quarter ended	December	September	June	March	December	September	June	March

	2007				2006			
Fiscal quarter ended	December	September	June	March	December	September	June	March
Operating								
Oil and NGLs (bbls per day)	794	929	792	674	531	221	268	131
Price ($/bbl)	81.88	75.47	70.35	62.42	63.02	73.07	76.64	61.26
Natural gas (mcf per day)	1,965	2,246	2,980	1,922	1,466	1,303	1,908	2,406
Price ($/mcf)	6.93	6.51	8.09	8.19	7.46	6.47	6.74	8.11
Barrels of oil equivalent (boe per day)	1,122	1,304	1,289	995	775	438	586	532
Price ($/boe)								
Financial ($000's, except per share amounts)								
REVENUES								
Petroleum and natural gas	7,238	7,796	7,265	5,206	4,042	2,262	3,041	2,476
Royalties	(1,658)	(1,694)	(1,718)	(1,451)	(978)	(460)	(741)	(681)
Interest income	2	2	5	1	1	76	69	11
Net revenues	5,582	6,104	5,552	3,756	3,065	1,878	2,369	1,806
EXPENSES								
Operating	2,563	1,128	873	954	552	239	276	318
General and administrative	662	722	1,482	881	776	576	729	164
Stock-based compensation	179	174	219	138	156	221	419	157
Interest	190	274	177	163	108	4	-	-
Accretion	78	73	71	67	62	30	8	6
Depletion and depreciation	2,779	3,448	3,210	2,315	1,689	1,017	1,776	1,850
Total Expenses	6,451	5,819	6,032	4,518	3,343	2,087	3,208	2,495
Net earnings (loss) before income taxes	(869)	287	(481)	(761)	(278)	(209)	(839)	(689)
Future income tax recovery (expense)	739	(135)	125	185	147	22	83	171
Net earnings (loss) for the period	(131)	152	(356)	(576)	(131)	(187)	(756)	(518)
Earnings (loss) per share - basic	(0.00)	0.00	(0.01)	(0.02)	(0.01)	(0.01)	(0.04)	(0.04)
Funds flow from operations	2,167	3,981	3,020	1,758	1,629	1,060	1,364	1,325
Per share - basic	0.06	0.12	0.10	0.06	0.06	0.04	0.07	0.10
Operating Netbacks ($/boe)								
Petroleum and natural gas revenues	70.12	65.01	61.94	58.14	57.27	56.10	57.00	51.74
Royalties	16.06	14.12	14.64	16.20	13.86	11.40	13.89	14.23
Operating and transportation expenses	24.83	9.40	7.44	10.65	7.82	5.92	5.17	6.63
Operating Netbacks	29.23	41.49	39.86	31.29	35.59	38.78	37.94	30.88
Total assets ($000's)	123,285	107,175	101,498	97,745	82,019	69,372	57,854	35,804
Capital expended ($000's)	17,697	11,500	6,120	23,590	10,369	23,407	8,939	12,118
Debt and working capital ($000's)	(30,141)	(14,585)	(16,964)	(29,144)	(15,745)	(12,031)	(10,328)	(10,052)
Shares (000's)	36,492	36,471	33,635	29,013	26,534	24,858	24,542	13,342

Arcan plans to continue investing funds in its three core areas, as can be seen from the ongoing growth in total assets. Arcan's sales have also been increasing, although the fourth quarter declined due to some temporary production and regulatory issues. Arcan expects that sales volumes will continue to grow in subsequent quarters. Oil and gas prices continue to fluctuate and have increased in 2008 to record high levels.

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

MANAGEMENT'S REPORT

To the Shareholders of Arcan Resources Ltd.

Management is responsible for the preparation of the financial statements and for the consistency of all other financial and operating data presented in this annual report. Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

Arcan's external auditors, KPMG LLP, Chartered Accountants, have audited the financial statements. The Audit Committee has reviewed the financial statements with management and the auditors and has recommended their approval to the Board of Directors. The Board of Directors has subsequently approved the financial statements.

(signed)
Ed Gilmet
President and CEO

(signed)
Douglas N. Penner
CFO and V.P. Finance

Calgary, Alberta, Canada
April 3, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Arcan Resources Ltd. as at December 31, 2007 and 2006 and the statements of operations, comprehensive loss and deficit and cash flows for the year ended December 31, 2007 and for the six month period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and for the six month period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2006 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report dated November 3, 2006.

Chartered Accountants

Calgary, Canada
April 3, 2008

Directors

M. Bruce Chernoff
Chairman of Harvest Operations Corp.

Robert J. Dales
Director, Celtic Exploration Ltd.

Andy Fisher
Executive Vice President, Arcan Resources Ltd.

Ed Gilmet
President and CEO, Arcan Resources Ltd.

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

J. Terry McCoy
Vice President, Calvalley Petroleum Inc.

Hank B. Swartout

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

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Auditors

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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

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