LETTER TO THE SHAREHOLDERS

Less than eighteen months ago, Arcan Resources Ltd. ("**Arcan**" or the "**Corporation**") tested its first horizontal multi-stage fractured well drilled in the Swan Hills Beaverhill Lake play with initial test rates in excess of 600 barrels of oil equivalent ("**BOE**") per day. Since the well began producing in March 2010 it has produced over 100,000 BOE comprised 90 percent of light oil. This well has performed as expected in initial simulation forecasts, and with pressure support from nearby water injectors, is producing approximately 200 BOE per day. Since the commencement of its horizontal multi-stage fracture program Arcan has drilled 26 (23.1 net) wells, performed two (2.0 net) re-entry multi-stage fracture completions with two (2.0 net) additional re-entries awaiting fracture and is currently drilling wells number 31 and 32. Of these 32 (29.1 net) horizontal wells, 22 (19.5 net) are currently on production with one well shut in to allow for completion of another well on that pad-site and Arcan expects to complete the remaining nine (8.6 net) wells, including the two wells currently drilling, in the second and third quarters of 2011.

Arcan's initial strategy was to drill the majority of its wells in the northern portion of its land base at Deer Mountain Unit #2 (the "**Unit**") in order to reduce risk and provide data within the more mature portion of the property under an active waterflood. Given the results to date, it is our belief that Arcan has demonstrated not only the production capabilities of horizontally fractured wells, but also that horizontal producers and vertical injectors can be effectively spaced and paired to maximize results.

The Corporation has spearheaded the development of the Swan Hills Beaverhill Lake play, drilling more wells in the area than any of its competitors. This success has been achieved and continues despite unexpected production declines in some of Arcan's horizontal wells. In order to rectify the unexpected declines, the Corporation conducted a thorough analysis of its drilling, completion and production operations, and as a result, made a number of changes, the most significant of which has been to design and implement a new oil pumping system. Arcan has re-configured a total of ten wells with this new pump design and estimates that the pump changes will be completed on all existing horizontal wells by the end of the second quarter of 2011, weather conditions permitting. These re-configured wells have an average production increasing from 66 BOE per day to 166 BOE per day each, at an average cost of $150,000 per well and five days of lost production per well. Below is a table outlining results to date on the ten reconfigured wells:

Well UWI	Optimization Completed	30-Day Average Daily Production Prior to Optimization (Gross BOE)	Current Daily Production After Optimization (Gross BOE)
00/05-28-068-08W5/00	14-April-2011	35	160
00/13-30-068-08W5/00	8-May-2011	120	280
00/11-17-068-08W5/00	6-May-2011	50	140
00/06-30-068-08W5/00	16-May-2011	100	145
00/12-11-067-08W5/00	18-May-2011	85	190
00/12-16-067-08W5/00	18-May-2011	120	185
00/13-17-068-08W5/00	21-May-2011	30	125
00/06-20-068-08W5/00	22-May-2011	55	160
00/01-17-068-08W5/00	25-May-2011	45	110
00/09-30-068-08W5/00	22-May-2011	20	165

As at the date hereof, Arcan's production has grown to 3,900 BOE per day with additional production increases expected from pump modifications to the remaining existing wells and production additions from the seven wells that are currently awaiting fracturing plus the two wells that are currently drilling. Arcan anticipates it will commence multi-stage fracture completions on these wells in the first week of June, 2011. Going forward, Arcan will continue to make changes and improvements to its drilling and completion techniques all of which the Corporation anticipates will have a positive effect on production while simultaneously reducing drilling and completion costs.

- Highlights since December 31st, 2010:

  - Spudded four (3.6 net) horizontal wells and completed eight (7.4 net) horizontal multi-stage fractured oil wells during the first quarter;

  - Re-configured ten horizontal wells with a new pumping system which has increased production rates;

  - Produced 2,551 BOE per day for the three months ended March 31, 2011, up 74 percent from 1,468 BOE per day for the three months ended March 31, 2010, but down from 2,800 BOE per day in the fourth quarter of 2010;

  - Production was restricted by 600 BOE per day for most of the first quarter due to a non-operated pipeline failure combined with some mechanical well performance issues, both of which have now been rectified;

  - Increased operating netbacks to $43.63 per BOE (revenue of $79.74 per BOE and operating costs of $19.46 per BOE), up 36 percent from $32.18 per BOE in the first quarter of 2010 and up 25 percent from $34.97 per BOE in the fourth quarter of 2010;

  - Increased funds from operations 214 percent to $8.9 million ($0.10 per diluted share) in the first quarter of 2011 from $2.8 million ($0.06 per diluted share) in the first quarter of 2010 and 14 percent from $7.8 million ($0.09 per diluted share) in the fourth quarter of 2010;

  - Completed a capital expenditure program of $44.2 million, mainly in the Swan Hills area, including a 3D seismic shoot over a large portion of the Corporation's undeveloped land base. Capital expenditures are anticipated to be $135 million overall for 2011;

  - Raised $86.3 million through the issuance of 6.25 percent convertible unsecured subordinated debentures that are due on February 28, 2016 (the "**Debentures**"); and

  - Increased Arcan's credit facilities from $100 million to $120 million.

In the first quarter of 2011, Arcan's funds from operations were $8.9 million on a 2,551 BOE per day basis with an operating netback of $43.63 per BOE. Operating netbacks increased as a result of oil prices rising to over $83.33 per barrel with royalties at $16.65 per BOE and operating costs of $19.46 per BOE. These results compare to operating netbacks of $32.18 per BOE in the first quarter of 2010 and $34.97 per BOE in the fourth quarter of 2010. Operating costs were higher in the first quarter of 2011 based on ongoing well repair and work-over activity initiated during that time period.

Arcan's first quarter production for 2011 decreased by approximately 600 BOE per day due to mechanical well performance issues and the previously announced third party pipeline failure. Also, in the second quarter of 2011, the Corporation has experienced minor production issues in both Hamburg and the Swan Hills areas. In Hamburg, the Rainbow pipeline failed in late April, and as a result, Arcan had to truck its oil production out of the area. In the Swan Hills area, there was significant wildfire activity, culminating in the destruction of a portion of the town of Slave Lake. Consequently the Corporation evacuated drilling crews and field staff from the area, and continues to monitor the spread of fires with the potential for additional production shut-ins. Arcan is providing support to its staff and consultants, their families and affected communities. Due to these wildfires, Arcan experienced a few days of shut-in production, minor drilling delays, and fire damage to two power poles on its property. The Corporation anticipates production in the second quarter to average approximately 3,200 BOE per day.

As at March 31, 2011, Arcan had a $4.4 million working capital deficiency plus $86.3 million in Debentures outstanding. The Corporation issued the Debentures in February 2011 to provide it with five year convertible debt with no covenants. The funds from this financing will allow Arcan to expand its drilling program and prove up reserves without front-end dilution. The Debentures carry an interest rate of 6.25 percent and are convertible into Arcan shares at $8.75 per share. Arcan has also increased its syndicated credit facilities to $120 million from $100 million, and is now fully funded through 2011, having the potential for growth within its credit facility and cash flow.

I encourage you to carefully read Arcan's MD&A together with the first quarter financial statements which, as of January 1, 2011, now employ International Financial Reporting Standards ("**IFRS**"). Arcan has provided IFRS accounting policies and prepared reconciliations between previous Canadian generally accepted accounting principles ("**GAAP**") and IFRS in the notes to its first quarter financial statements. Comparative numbers for 2010 have also been updated to reflect IFRS changes. These changes have not had an impact on the operating assets of Arcan but have significantly modified Arcan's financial statements and related notes. Further information on the impact of the changeover to IFRS is provided in the "Accounting Policies" section of the MD&A.

For 2011, Arcan has budgeted capital expenditures of $135 million of which $44.2 million was spent in the first quarter. The Corporation's 2011 budget contemplates adding 20 to 25 horizontal wells, as well as, building pipeline and waterflood infrastructure. Arcan estimates average production for 2011 to reach 4,000 BOE per day with an exit rate of 5,000 BOE per day, and also expects that by early in 2012, it will significantly expand its water injection from the Unit into the Ethel area. In preparation for this expansion, Arcan has begun construction of production infrastructure to tie Ethel wells into the Unit's existing oil handling facilities. Drilling operations for 2011 will be focused on undeveloped lands covering a large portion of township 67 which surrounds Arcan's Ethel oil pool. With only two horizontal wells both drilled by Arcan in this eight mile long stretch of the Swan Hills play at the end of 2010, the Corporation believes that it will enhance its reserve bookings by the end of 2011 while continuing to expand outside the main area of activities for 2010.

The essence of Arcan's story is simple, but with impressive upside. The Corporation owns 150 net sections of land on the Swan Hills Beaverhill Lake light oil play that has been well-established since the 1960's, and waterflood recoveries of 40 percent of the original oil-in-place have been demonstrated throughout the area. The Swan Hills play was economically viable prior to Arcan's application of its horizontal, multi-stage fracture program and the application of this new technology has provided robust additions to the economics of the play. There have been, and likely will continue to be, modifications to the application of these new technologies as well. Early in 2010, Arcan focused its drilling efforts close to existing facilities, and is now expanding into its undeveloped Ethel area land. Furthermore, to determine whether the horizontal multi-stage fracture application would be effective in different areas over its land block, Arcan drilled or re-entered old well bores over 30 kilometres across the Swan Hills play with positive results. Additional time, talent and modifications applied to drilling and completions by Arcan and others will continue to directly benefit the Corporation's asset base. Arcan estimates that the combination of increased cash flow, larger credit facilities, and funds from the Debenture financing will provide the necessary resources to support its ongoing use of two drilling rigs. With these two rigs currently drilling and a large, defined inventory at the forefront of an emerging light oil play, the Swan Hills area will continue to transform Arcan through 2011 and beyond.

On behalf of the Board of Directors,

(Signed) *"Ed Gilmet"*

President, Chief Executive Officer and Director

May 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Basis of Presentation

This Management's Discussion and Analysis ("**MD&A**") is an explanation, through the eyes of Management, of how Arcan performed during the periods covered by the unaudited 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 months ended March 31, 2011 as compared to the three months ended March 31, 2010 and the three months ended December 31, 2010.

The unaudited financial statements to which this MD&A relates have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The Corporation adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Previously, Arcan had prepared its financial statements in accordance with Canadian generally accepted accounting principles ("**GAAP**"). The Corporation has provided IFRS accounting policies and prepared reconciliations between GAAP and IFRS in the notes to its unaudited interim financial statements for the three months ended March 31, 2011. Further information on the impact of IFRS is provided in the "Accounting Policies" section of this MD&A.

The MD&A complements and supplements the unaudited interim financial statements of Arcan. For a full understanding of the financial position and results of operations of the Corporation, the MD&A should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2011 and 2010, together with the notes thereto, as well as the audited financial statements for the years ended December 31, 2010 and 2009, together with the notes thereto, prepared in accordance with GAAP and other documents filed on SEDAR, including historical financial statements, the information circular dated April 27, 2011 relating to the Corporation's annual general and special meeting of shareholders to be held on June 1, 2011 and the Corporation's annual information form for the year ended December 31, 2010 (the "**AIF**"). These documents are available under the Corporation's profile on SEDAR at www.sedar.com.

Arcan's management is responsible for the integrity of the information contained in this report and for consistency between the MD&A and the unaudited interim financial statements. In preparing these statements estimates are necessary and management believes any estimates have been based on careful judgments and are properly presented. The unaudited interim 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. In this MD&A, unless otherwise indicated, all monetary amounts are in Canadian dollars as are all references to "$". Arcan's Board of Directors and Audit Committee have reviewed and approved the unaudited interim financial statements and MD&A for the three months ended March 31, 2011. This MD&A is dated May 31, 2011.

Readers should carefully read the section "Non-IFRS Measurements" below and the sections "Legal Advisories" and "Forward-Looking Information and Statements" at the end of this MD&A.

Non-IFRS 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 IFRS as an indicator of Arcan's performance. Arcan also presents "funds from operations per share", whereby funds from operations are divided by the basic weighted average number of common shares of Arcan (each, a "**share**") outstanding to determine per share amounts. Operating and corporate netbacks are also presented. "Operating netbacks" represent Arcan's revenue, less royalties and operating expenses, and "corporate netbacks" represent Arcan's operating netback, realized economic hedging losses, general and administrative ("**G&A**") and interest expenses, in order to determine the amount of funds generated by production. Operating and corporate netbacks have been presented on a per barrel of oil equivalent ("**BOE**") basis, as well.

The measures referenced above do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes that funds from operations and both operating and corporate netbacks are useful supplemental measures as they indicate Arcan's ability to fund future growth through capital investment and/or to 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 other companies, and as such, may not be comparable. Please see the section "Results of Operations – Netbacks" for reconciliations between both operating netbacks and corporate netbacks to revenue.

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

Funds from Operations

$ thousands	**Quarter ended March 31, 2011**	**Quarter ended March 31, 2010**	**Quarter ended December 31, 2010**
Cash flow from (used in) operating activities (per IFRS)	**8,889**	2,549	8,044
Change in non-cash working	**(9)**	(278)	(285)
Funds from operations	**8,880**	2,827	7,759

Corporate Summary for the Three Months Ended March 31, 2011

	Quarter Ended March 31, 2011	**Quarter Ended March 31, 2010[4]**	**Quarter Ended December 31, 2010[4]**
Financial ($000's, except per share amounts)			
Petroleum and natural gas revenues	**18,306**	8,992	18,420
Cash provided by operating activities	**8,889**	2,549	8,044
Funds from operations [1]	**8,880**	2,827	7,759
Per share – basic [1]	**0.10**	0.06	0.09
Net income (loss)	**(2,560)**	(2,127)	(2,377)
Per share – basic	**(0.03)**	(0.04)	(0.03)
Per share – diluted	**(0.03)**	(0.04)	(0.03)
Bank loan	**-**	26,760	20,823
Working capital deficiency	**4,397**	14,148	28,362
6.25% Debentures maturing February 28, 2016	**86,250**	-	-
Total assets	**364,753**	227,164	291,228
Total liabilities	**149,101**	72,324	84,003
Shareholders' equity	**215,652**	154,840	207,225
Capital expenditures, net – cash	**44,160**	70,835	27,874
Shares outstanding	**88,100**	74,928	87,670
Weighted average – basic	**88,072**	48,320	82,204
Weighted average – diluted [3]	**88,072**	48,320	82,204

	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010[(4)]	Quarter Ended December 31, 2010[(4)]
Operations			
Crude oil and NGLs (bbls per day)	**2,390**	1,142	2,572
Natural gas (Mcf per day)	**968**	1,951	1,373
BOE per day [(2)]	**2,551**	1,468	2,800
Crude oil and NGLs (price per bbl)	**$83.33**	$77.35	$75.58
Natural gas (price per Mcf)	**$4.42**	$5.91	$4.26
Combined price per BOE	**$79.74**	$68.07	$71.50
Operating Netback ($/BOE)	**$43.63**	$32.18	$34.97

Notes:

(1) The reader is referred to the section "Non-IFRS Measurements".

(2) The reader is referred to the section "Legal Advisories".

(3) Basic and diluted weighted average shares are the same in the first quarter of 2011 and the first and last quarters of 2010 as the Corporation incurred a loss in these periods.

(4) The quarters ended March 31, 2010 and December 31, 2010 have been restated for the effect of adopting IFRS. Further information on the impact of IFRS is provided in the unaudited financial statements for those periods and in the "Accounting Policies" section.

Overview of Arcan's Core Areas

Swan Hills, Alberta

The Swan Hills reef complex is located in north central Alberta, approximately 200 kilometres northwest of Edmonton. The main portion of Swan Hills was discovered and developed through vertical drilling in the 1950's and 1960's. This reef complex is over 50 miles long, covering more than 24 townships of land and is recognized as having a very large accumulation of 40º API light sweet oil-in-place. The main portion of the reef has undergone extensive waterflood operations, and in many of its pools, has recovered over 40 percent of the oil-in-place.

Arcan first purchased interests in the Swan Hills play in 2005, and has accumulated 160 gross (150 net) sections of land on the play, built new facilities to handle a large production base, and implemented a waterflood in the northern portion of its land base. Rising oil prices since 2005 have helped solidify the economics in this area; however, significant change has occurred with the Corporation's successful application of horizontal drilling and multi-stage fracture technology. The use of multi-stage fractured wells represents a shift in the exploitation of the Swan Hills reef complex. Arcan completed its first horizontal multi-stage fractured well in February 2010 and is utilizing 70 pre-existing vertical well bores, along with a new 3D seismic program shot in the first quarter of 2011, to delineate its horizontal drilling activity. Operations for the first quarter of 2011 focused more heavily on the central portion of the Corporation's land block in the Ethel area. For the remainder of the year, Arcan plans to work towards proving reserves by drilling in the Ethel area, in the Morse River Unit #1 and on its undeveloped land base in the Virginia Hills and South Swan Hills land blocks. By drilling in these relatively undeveloped areas, Arcan anticipates future reserve additions.

Arcan has drilled 26 (23.1 net) horizontal wells and has fractured 23 of these wells. Additionally, Arcan has re-entered and fractured two (2.0 net) older horizontal wellbores and has two (2.0 net) re-entry horizontal wells awaiting multi-stage fracture completions and is now drilling wells number 31 and 32. Of these 32 (29.1 net) horizontal wells, 22 (19.5 net) are currently on production, with one well shut in to allow for completion operations on an offsetting well. The Corporation expects to fracture the five newly drilled wells, the two wells that are currently drilling and the two re-entry wells in the second and third quarter of 2011. Of the 17 (16.2 net) new horizontal wells since the year ended December 31, 2010, four (3.2 net) were drilled in the Unit, ten (10.0 net) were drilled or are drilling in the Ethel area and three (3.0 net) are re-entries on other Swan Hills lands. Arcan anticipates that it will continue to utilize two rigs during the break-up period, and expects to have approximately 40 horizontal multi-stage fractured wells in the Swan Hills play by the end of 2011. The Corporation has also identified several additional re-entry candidates and plans to re-complete these wellbores in the third or fourth quarters of 2011.

Arcan has two types of well production profiles consisting of: (i) wells on enhanced oil recovery ("**EOR**") which are fully supported by waterflood; and (ii) new Ethel wells producing on primary recovery which are awaiting anticipated future implementation of an EOR scheme by the first quarter of 2012. Arcan's operations are focused on drilling followed by EOR to achieve maximum production results. The Corporation believes that once these additional wells are fully supported by waterflood, their production patterns will modify and move to a higher recovery of the original oil-in-place. Arcan's 9-29-68-8W5 well was its first horizontal multi-stage fractured well and has the longest production history of just over one year. This well is tied into Arcan's operated facilities, fully supported by waterflood and has generated cumulative production of approximately 100,000 BOE. Arcan estimates that its new wells will reach pay-out at approximately 60,000 barrels ("**bbls**") factoring oil at $100 per barrel ("**bbl**") less a $5 royalty rate and operating costs of $15 per bbl. Arcan's second well, Ethel (5-34) 10-27-67-8W5 is producing under primary recovery without EOR. This well came on-stream in May 2010 and averaged approximately 450 BOE per day over the first 30 days, 200 BOE per day for the first six months with cumulative production of almost 50,000 BOE on primary recovery in the first year. Given the current economics, Arcan estimates that its first quarter 2011 drilling program focused in Ethel will pay-out in approximately one year or less, on primary recovery, and under a fully developed waterflood recovery, could ultimately recover 35 to 40 percent of the oil-in-place.

Arcan's horizontal wells' average production for 30 days was 360 BOE per day, for 60 days was 280 BOE per day, for 90 days was 330 BOE per day, and for 180 days was 200 BOE per day. On average, Arcan's wells are drilled to a total depth of approximately 4,000 meters with 1,000 to 1,500 meter horizontal legs and multi-stage acid fractures utilizing ten to 15 stages with 40 to 60 cubic meters of acid per stage. Arcan plans to continue to modify its completion techniques, including utilizing up to 120 cubic meters of acid per stage, to determine which techniques will maximize well results. The average cost per well for drilling and multi-stage fracturing, along with all associated equipment and tie-in was approximately $4.7 million in the Deer Mountain Unit #2 (the "**Unit**"). These wells typically exhibit productive capability of up to eight times that of an average vertical producer at only two times the cost. To date, Arcan's wells have utilized Arcan-operated existing facilities including the recently upgraded 8,000 BOE per day oil battery at the Unit.

Production in the Swan Hills area declined by approximately 600 BOE per day as a result of a third party pipeline failure in the first quarter of 2011, as well as, some mechanical issues. The pipeline has been fixed and Arcan has resolved the mechanical issues on the six wells most impacted. The Corporation will continue to replace original pump systems on its older wells. Arcan's production in Swan Hills area averaged 2,036 BOE per day on $47.95 per BOE operating netbacks for the quarter ended March 31, 2011, up from 696 BOE per day on $34.70 per BOE operating netbacks for the first quarter ended March 31, 2010 and down from 2,349 BOE per day on $44.71 per BOE operating netbacks in the fourth quarter ended December 31, 2010. Arcan's wells in the Swan Hills area produced approximately 1,648 BOE per day on average in 2010 and 623 BOE per day on average in 2009. Production increases were mainly attributable to the impact of drilling the new horizontal multi-stage fractured oil wells.

The significant growth achieved by Arcan in 2010 represents only the beginning of the development of its 160 (150 net) sections of land. The Corporation has 30 new horizontal wells, and estimates that it may have up to 400 additional drilling locations. The Swan Hills reef has long life, light sweet 40˚ API oil that historically has provided 40 percent recoveries under waterflood. Arcan continues to work towards unlocking the potential of reserves through drilling and waterflood activities, and expects to repeat its success in implementing horizontal drilling and multi-stage fracturing technology to convert the Swan Hills play from a legacy resource play to a robust growth opportunity. Vertical well control combined with recent 3D seismic and geological mapping, has increased Arcan's confidence in its development program. Competitors in the area continue to provide drilling, completion and operations data that the Corporation will be able to utilize to maximize its own understanding of the reef.

Hamburg, Alberta

Arcan has a 50.25 percent working interest in this pool, and operates the oil battery and waterflood for the Hamburg GG oil pool. Arcan's wells in the Hamburg GG oil pool produce light sweet 41º API oil and natural gas, the majority of which are located within the waterflood scheme. Arcan owns a 100 percent interest in the three sections of land immediately offsetting the Hamburg GG oil pool on the southern boundary, and drilled one well on these lands in December 2010. At this time, Arcan is trucking its oil production from the area as the main third party oil pipeline in the area experienced a pipeline failure in late April 2011.

Arcan is assessing two to four in-fill development drilling opportunities for the Hamburg GG oil pool, and will evaluate this program as economic conditions warrant with longer-term plans calling for additional exploration tests based on 3D seismic. This area also provides potential for up-hole Duvernay, Bluesky and Montney natural gas targets.

Production averaged 465 BOE per day on $27.96 per BOE operating netbacks for the quarter ended March 31, 2011 in Hamburg, down from 652 BOE per day on $31.74 per BOE operating netbacks for the first quarter ended March 31, 2010, and down from 390 BOE per day on negative ($17.29) per BOE operating netbacks for the fourth quarter ended December 31, 2010. The Hamburg area produced approximately 509 BOE per day on average in 2010 and 675 BOE per day on average in 2009. Production declines were mainly attributable to natural declines from a high rate gas well that Arcan drilled in 2009. Arcan is currently producing 400 BOE per day net from this area.

McLeod, Alberta

Arcan's McLeod property is characterized by medium-risk, multi-zone liquids rich natural gas targets largely in Mannville Group and Jurassic-aged strata at depths of 1,800 to 2,200 metres. Arcan has drilled seven (5.2 net) Gething natural gas wells to date with 90 percent success at McLeod. These wells produced approximately 50 BOE per day on average in the first quarter of 2011, 86 BOE per day on average in 2010, and 75 BOE per day on average in 2009. Declining production is due to the normal declines of natural gas wells. The Corporation has reduced capital allocations to this area as natural gas prices have remained weak compared to oil prices.

Employees

As at March 31, 2011, Arcan had 18 full-time office employees and four full-time operating employees. Since the end of the year, Arcan has added two new engineering staff, two geologists, one assistant controller and one land person to its office employee roster, as well as numerous consulting professionals, to manage anticipated growth.

Results of Operations

Production Volumes

Sales Volumes	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010	Quarter Ended December 31, 2010
Crude oil and NGLs (bbls per day)	**2,390**	1,142	2,572
Natural gas (Mcf per day)	**968**	1,951	1,373
Total oil equivalent (BOE per day)	**2,551**	1,468	2,800
Oil as a percent of total volumes	**94%**	78%	92%

Arcan produced 2,551 BOE per day in the first quarter of 2011, a 74 percent increase from 1,468 recorded in the first quarter of 2010, primarily as a result of the new horizontal wells drilled in the Swan Hills area during the period. Production was down from 2,800 BOE per day produced in the fourth quarter of 2010 mainly as a result of a non-operated pipeline failure that forced Arcan to shut-in approximately 600 BOE per day for most of the first quarter.

As at the date hereof, the Corporation's stabilized production rate is currently 3,900 BOE per day with seven wells awaiting fracture completions and existing wells awaiting pump system modifications. Arcan's average production for the second quarter of 2011 is expected to be approximately 3,200 BOE per day.

Netbacks

The Corporation considers corporate netbacks to be a good indicator of its ability to produce oil and natural gas profitably and to earn a return on capital invested. Netbacks are one of three possible sources of funding, the others being debt and new equity. The largest impact to Arcan's netbacks for the first quarter of 2011 compared to the first quarter of 2010 came from an increase in overall production. Netbacks were higher in the first quarter of 2011 due to commodity price increases for Arcan of eight percent on oil which were only slightly offset by a 25 percent decrease on natural gas. These results are consistent with the Edmonton Par price increase from an average of $80.44 per bbl for the first quarter of 2010 to an average of $88.48 per bbl for the first quarter of 2011, and Arcan's low weighting to natural gas.

Netbacks

$ thousands	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Revenue	**18,306**	8,992	18,420
Royalties	**3,822**	2,352	5,843
Operating expenses	**4,468**	2,387	3,567
Operating netbacks	**10,016**	4,253	9,010
Interest income	**57**	3	20
Realized economic hedging loss	**29**	-	-
G&A	**328**	1,035	658
Finance expenses	**854**	382	506
Corporate netbacks	**8,862**	2,839	7,866
$ per BOE			
Revenue	**79.74**	68.07	71.50
Royalties	**16.65**	17.81	22.68
Operating expenses	**19.46**	18.08	13.85
Operating netbacks	**43.63**	32.18	34.97
Interest income	**0.25**	0.03	0.08
Realized economic hedging loss	**0.13**	-	-
G&A	**1.43**	7.83	2.55
Finance expenses	**3.72**	2.90	1.96
Corporate netbacks	**38.60**	21.48	30.54

Arcan's operating netback, defined as revenue, less royalties and operating expenses, was $10.0 million in the first quarter of 2011 up from $4.3 million recorded in the first quarter of 2010 and up from $9.0 million in the fourth quarter of 2010. The increase in operating netback for the first quarter of 2011 versus the first quarter of 2010 was based on a 74 percent increase in production volumes and a 17 percent increase in prices leading to a 104 percent increase in revenues, somewhat offset by increases in royalties and operating costs. Arcan's operating netback was up from $9.0 million in the fourth quarter of 2010 due to a $1.2 million negative royalty adjustment recorded in the fourth quarter of 2010, partially offset by higher operating costs in the first quarter of 2011. Price increases almost exactly offset volume declines to leave revenue flat from the fourth quarter of 2010 as compared to the first quarter of 2011.

Arcan's operating netback on a per BOE basis was $43.63 in the first quarter of 2011, representing a 36 percent increase from $32.18 recorded in the first quarter of 2010. The increase in operating netback was due to higher volumes from the new horizontal Swan Hills wells and increased oil prices in the first quarter of 2011 compared to the same period of 2010. Operating netbacks per BOE were up 25 percent from the fourth quarter ended December 31, 2010 which was $34.97 per BOE. This increase in the operating netback per BOE over the fourth quarter of 2010 related mainly to the negative royalty adjustment recorded in the fourth quarter of 2010. The move to oil weighting has continued to assist Arcan's exposure to price upside in the last few years which is expected to continue through 2011 however, oil properties present additional operating costs that can be higher on a BOE basis in the early stages of a waterflood than in natural gas. The net effect to Arcan was higher netbacks from oil in 2011 than would have been achieved through natural gas.

Operating netbacks from oil were $44.24 per BOE and from natural gas were $12.96 per BOE in the first quarter of 2011 versus $33.26 for oil and $22.69 for natural gas in the first quarter of 2010 and compared to the $35.87 per BOE from oil and the negative ($15.97) per BOE from natural gas in the fourth quarter of 2010. Arcan's oil netbacks have been stronger than its natural gas netbacks for all periods since 2007 due primarily to commodity pricing.

Arcan's corporate netback, defined as operating netback, plus interest income, less realized economic hedging losses, G&A and the interest expense portion of finance expenses, was up to $8.9 million in the first quarter of 2011 as compared to $2.8 million in the first quarter of 2010 due primarily to higher volumes and prices. The Corporation's corporate netbacks were also up from the $7.9 million in the fourth quarter of 2010 due mainly to the fourth quarter 2010 royalty adjustment. On a per BOE basis, Arcan's corporate netback was $38.60 in the first quarter of 2011 compared to $21.48 in the first quarter of 2010 and $30.54 in the fourth quarter of 2010. Changes in netbacks and the components thereof are detailed by category in the above table.

Operation details by area for the three months ended March 31, 2011 and 2010 are as follows:

	Three months ended March 31, 2011			**Three months ended March 31, 2010**		
Operating Netbacks by Area	**Swan Hills**	**Hamburg**	**McLeod**	**Swan Hills**	**Hamburg**	**McLeod**
Daily Production (BOE per day)	**2,036**	**465**	**50**	696	652	117
Revenue ($/BOE)	**82.36**	**73.02**	**34.94**	77.93	62.29	42.37
Royalties ($/BOE)	**16.86**	**17.42**	**0.80**	22.38	15.88	1.66
Operating Costs ($/BOE)	**17.55**	**27.64**	**21.18**	20.85	14.67	18.02
Operating Netbacks ($/BOE)	**47.95**	**27.96**	**12.96**	34.70	31.74	22.69

Arcan has focused on its oil properties since 2007, as netbacks from its oil properties provided higher margins than the natural gas properties.

Revenues

Petroleum and Natural Gas Revenues ($)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Oil and liquids (000's)	**17,922**	7,953	17,882
Per bbl	**83.33**	77.35	75.58
Natural gas (000's)	**384**	1,039	538
Per Mcf	**4.42**	5.91	4.26
Oil and liquids as a percent of total revenue	**98%**	88%	97%
Benchmark Prices			
WTI (U.S.$ per bbl)	**94.46**	78.84	85.16
Edmonton Light Sweet (Cdn$ per bbl)	**88.48**	80.44	80.70
Alberta Plant Gate (per Mcf)	**3.64**	4.78	3.47
Cdn$ per U.S.$	**1.01**	0.96	0.99

Arcan posted higher production revenues for the quarter ended March 31, 2011 than those experienced in the quarter ended March 31, 2010. A 74 percent increase in production volume combined with a 17 percent increase in prices resulted in an increase in revenue for the first quarter ended March 31, 2011 as compared to the first quarter ended March 31, 2010 however, revenues were relatively flat as compared to the fourth quarter of 2010 as minor volume reductions were offset by slightly higher oil prices. Based on estimated production volumes and prices, Arcan expects to have stronger revenues in the second quarter of 2011. The Corporation expects ongoing improvements in production volumes for the balance of 2011, and anticipates that overall production in 2011 will be higher than 2010.

Commodity Prices

Arcan's first quarter of 2011 oil production continues to grow as a percentage of its total revenues currently weighted 94 percent towards light oil. The average price for West Texas Intermediate ("**WTI**") gained 20 percent in the first quarter of 2011 versus the same quarter in 2010 and gained 11 percent over the fourth quarter ended December 31, 2010. Meanwhile, the Edmonton Light Sweet price has only increased ten percent in the first quarter of 2011, as compared to the same quarter in 2010 and gained ten percent over the fourth quarter ended December 31, 2010 due to the impact of the weakening U.S. currency against the Canadian dollar in the last year.

In the first quarter of 2011, Arcan realized average revenue per BOE of $79.74 compared to $68.07 recorded in the first quarter of 2010 and $71.50 in the fourth quarter of 2010. Arcan received an average of $83.33 per bbl of oil and natural gas liquids in the first quarter of 2011, an increase from $77.35 per bbl realized in the first quarter of 2010 and up from the $75.58 per bbl received in the fourth quarter of 2010. The increase in Arcan's oil price for the first quarter of 2011 compared to 2010 is consistent with the increase in the Edmonton Light Sweet price for the same period as is the change from the fourth quarter of 2010. The Corporation realized an average natural gas price of $4.42 per thousand cubic feet ("**Mcf**") in the first quarter of 2011, a 25 percent decrease from the $5.91 per Mcf averaged in the first quarter of 2010 but a slight increase from the $4.26 per Mcf received in the fourth quarter of 2010. This is consistent with the price changes at the Alberta Plant Gate for the same periods. Arcan anticipates oil prices will remain in the range of U.S.$75 to U.S.$100 WTI for 2011 due to issues in the Middle East and uncertainty with respect to global economic growth and that gas prices will remain at 2010 price levels through 2011.

Royalty Expense ($ 000's except per BOE)	**Quarter Ended** **March 31, 2011**	**Quarter Ended** **March 31, 2010**	**Quarter Ended** **December 31, 2010**
Total	**3,822**	2,352	5,843
Per BOE	**16.65**	17.81	22.68
Royalties as a percent of revenue	**20.9%**	26.2%	31.7%

The Corporation's royalty expense in the first quarter of 2011 was $3.8 million, as compared to $2.4 million in the first quarter of 2010 and to $5.8 million in the fourth quarter of 2010. Royalties were unexpectedly high in the fourth quarter of 2010 as two wells that had been given royalty-free status were re-classified by the Crown and Arcan thereby incurred a $1.2 million royalty adjustment during the period. The increase in Arcan's gross royalty amounts, year over year, is primarily the result of increased revenues based on higher commodity prices and volumes. On a per BOE basis, changes attributable to decreases in royalty rates in Alberta for 2011 were partially offset by price increases Arcan received which amounted to 17 percent year over year. Arcan's royalties are currently decreasing on a percentage of revenue basis due to new wells experiencing a five percent royalty rate for the first 50,000 to 100,000 BOE of production.

Royalty rates fluctuate with the price of oil and gas, as well as when higher rates of production are experienced. There have been a number of changes to royalty rates in the last few years; however, the largest impact is the allowance of a five percent royalty applied up to the first 90,000 bbls of production on wells that Arcan is drilling in the Swan Hills area. Accordingly, Arcan anticipates its royalty rates for

2011 to be 20 percent to 30 percent of revenue depending on drilling activity, production volumes, and prices.

Operating Expenses ($ 000's except per BOE)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Total	**4,468**	2,387	3,567
Per BOE	**19.46**	18.08	13.85

In the first quarter of 2011, Arcan incurred operating costs of $19.46 per BOE or $4.5 million, up from the $18.08 per BOE or $2.4 million in the first quarter of 2010 and $13.85 per BOE or $3.6 million recorded in the fourth quarter of 2010. A significant portion of the overall increase in operating costs per BOE over the first and the fourth quarters of 2010 related to the well work-overs and pump modifications that were required to remedy production declines in the first quarter of 2011, and to tough winter conditions and higher snow volumes experienced this year.

Arcan expects that it's per BOE operating expenses will decrease in 2011 as a result of increased production volumes. Going forward through 2011, Arcan's continued transition towards oil-weighted production, including costs to operate the EOR, is anticipated to result in $10 to $15 per BOE average operating costs per unit of production.

Realized and unrealized losses on commodity contracts and financial instruments ($ 000's except per BOE)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Total realized losses	**29**	-	-
Per BOE	**0.13**	-	-
Total unrealized losses	**3,822**	-	1,215
Per BOE	**16.65**	-	4.71

Periodically, Arcan utilizes economic hedges to protect a portion of its cash flows. The Corporation has hedged 2,000 bbls per day from January 1, 2011 to December 31, 2011 by purchasing Canadian dollar WTI put contracts establishing a $70.00 floor. As payment Arcan sold four 500 bbls per day Canadian dollar WTI call contracts, two of which are at $100.00, one at $100.05 and the last, priced at $100.30. Arcan also has hedged 1,000 bbls per day from January 1, 2012 to December 31, 2012 by purchasing Canadian dollar WTI put contracts establishing a $75.00 floor. As payment, Arcan sold two 500 bbl per day Canadian dollar WTI call contracts, one of which is at $126.00 and one priced at $127.50. Arcan recognized a realized loss of $29,000 and an unrealized loss of $3.8 million during the quarter related to these hedges. The Corporation will mark-to-market these contracts at the end of each quarter with realized and/or unrealized gain or losses, if any, recorded in the statement of operations for each reporting period, using the price curve for that instrument on the last day of that month and comparing it to the price curve on the day the hedge was acquired. There were no hedging contracts for 2010 production volumes. All hedges are approved by the Board of Directors of Arcan.

There was a small realized loss on commodity contracts for the first quarter ended March 31, 2011 as the price of oil stayed below the hedged ceiling during much of the quarter. At March 31, 2011, Arcan had outstanding hedge contracts for 2011 that were recorded as an unrealized loss of $3.8 million or $16.65 per bbl for the quarter ended March 31, 2011 and $1.2 million or $4.71 per bbl for the quarter ended December 31, 2010.

Contract period	**Pricing (Cdn$ WTI)**	**Volume per day**
January 2011 – December 2011	Collar $70.00 floor – $100.00 ceiling	1,000 bbls
January 2011 – December 2011	Collar $70.00 floor – $100.05 ceiling	500 bbls
January 2011 – December 2011	Collar $70.00 floor – $100.30 ceiling	500 bbls
January 2012 – December 2012	Collar $75.00 floor – $126.00 ceiling	500 bbls
January 2012 – December 2012	Collar $75.00 floor – $127.50 ceiling	500 bbls

The Corporation has assessed the sensitivity of the fair value of the oil commodity contracts to fluctuations in forward crude oil prices. As at March 31, 2011, if the forward price of crude had been $1.00 higher, net income for the period would have been approximately $0.7 million lower, due to a higher unrealized loss on the commodity contracts. An equal and opposite impact would have occurred to net income had the forward price of crude been $1.00 lower.

Exploration and Evaluation Expense ($ 000's)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Total	**3**	2,258	1,337
Per BOE	**0.01**	17.10	5.30

Exploration and evaluation expenses relate to exploration and evaluation capital projects or undeveloped land that the Corporation determines to no longer be viable capital projects. This capital spending is expensed through the statement of income in the period that management determines the exploration and evaluation expenditures are no longer viable projects. In the first quarter of 2011, Arcan spent the majority of its capital on development property, plant and equipment and determined that no exploration and evaluation assets required expensing. In the first quarter of 2010 Arcan drilled an unsuccessful well and expensed $2.3 million of exploration and evaluation assets, and in the fourth quarter of 2010, Arcan expensed $1.3 million of exploration and evaluation assets relating mostly to its undeveloped land in the McLeod area. Arcan expects exploration and evaluation expenses to remain low for the remainder of the year as the Corporation anticipates the majority of its capital spending to relate to development property, plant and equipment.

Cash G&A ($ 000's except per BOE)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Total	**328**	1,035	658
Per BOE	**1.43**	7.83	2.55

Cash G&A for the first quarter of 2011 amounting to $0.3 million net of $1.2 million of recoveries, was primarily comprised of wages of $0.6 million, bank charges of $0.1 million, rent of $0.1 million, software of $0.1 million, legal of $0.1 million, and consulting fees of $0.1 million. In the first quarter of 2011, cash G&A decreased 68 percent from the same period last year as recoveries were $1.2 million for the first quarter of 2011 versus recoveries of $0.2 million for the same period in 2010.

Cash G&A expenses for the fourth quarter of 2010 were $0.7 million net of $1.0 million of recoveries. Cash G&A expenses for the three months ended March 31, 2011 decreased 50 percent from the fourth quarter of 2010 mainly due to higher recoveries in the first quarter of 2011. For 2011, cash G&A expense is expected to increase overall due to Arcan's activity levels, but is expected to decline on a per BOE basis as a result of higher anticipated production.

Finance Expenses ($ 000's)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Convertible debenture interest	**664**	–	–
Bank debt interest	**190**	381	506
Accretion of convertible debenture liability	**220**	–	–
Accretion of decommissioning obligations	**142**	77	131
Total	**1,216**	458	637

Finance Expenses $ per BOE	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Convertible debenture interest	**2.89**	–	–
Bank debt interest	**0.83**	2.90	1.96
Accretion of convertible debenture liability	**0.96**	–	–
Accretion of decommissioning obligations	**0.62**	0.58	0.51
Total	**5.30**	3.48	2.47

Historically, Arcan's management has increased debt levels based on operational success and has subsequently reduced those debt levels through equity issuances. As Arcan's asset base has grown, its related borrowing capacity and ability to carry and service higher debt levels has increased. To provide stable and secure longer term financing, Arcan completed an offering of convertible debentures (the "**Debentures**") in February 2011 for gross proceeds to Arcan of $86.3 million. These funds are in addition to Arcan's existing credit facility of $120 million (the "**Credit Facility**"). Arcan expects that its debt to cash flow ratio in 2011 will be higher as it continues to grow and that its interest expense will increase as a result of higher debt levels and possible bank rate increases in addition to the inclusion of the Debentures.

Finance expenses in the first quarter of 2011 of $1.2 million were 166 percent higher than $0.5 million in the first quarter of 2010 due primarily to the interest and accretion related to the $86.3 million aggregate amount of Debentures that Arcan issued in February 2011. Arcan also recorded higher accretion in the first quarter of 2011 as compared to the first quarter of 2010, due to the increased decommissioning obligations related to the wells drilled and acquired in 2010. Bank interest was 50 percent lower in the first quarter of 2011, compared to the same period of 2010 due to Arcan's maintenance of lower average bank debt levels in 2011 (as a result of the additional funds received upon the issuance of the Debentures). The lower average bank debt levels were slightly offset by an increase in interest rates in the first quarter of 2011 versus the same period in 2010. Arcan had an effective interest rate of 5.25 percent on its Credit Facility at March 31, 2011 and 4.75 percent at March 31, 2010.

Finance expenses in the first quarter of 2011 were 91 percent higher than the $0.6 million recognized in the fourth quarter of 2010. The increase was due primarily to the interest and accretion related to the $86.3 million aggregate amount of Debentures that Arcan issued in February 2011. Arcan also recorded slightly higher accretion in the first quarter of 2011 compared to the fourth quarter of 2010 due to the increased decommissioning obligations related to the wells drilled in the fourth quarter of 2010. Bank interest was 62 percent lower in the first quarter of 2011 compared to the fourth quarter of 2010 due to Arcan's maintenance of lower average bank debt levels in 2011 as a result of the additional funds received upon the issuance of the Debentures. Arcan experienced similar bank interest rates in the first quarter of 2011 as the fourth quarter of 2010.

Based on Arcan's assets, the Corporation's Credit Facility was increased from $100 million to $120 million at the start of 2011. The only financial covenant prescribed by the Credit Facility is that Arcan's combined debt and working capital cannot exceed $120 million. There are no financial covenants associated with the Debentures. As at March 31, 2011, the Corporation was in compliance with its financial covenant under the Credit Facility.

Stock-Based Compensation ($ 000's except per BOE)	**Quarter Ended** **March 31, 2011**	**Quarter Ended** **March 31, 2010**	**Quarter Ended** **December 31, 2010**
Total	**2,320**	325	1,951
Per BOE	**10.10**	2.46	7.57

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 that its stock-based compensation will increase as options that have been issued are expensed and new options are issued. This increase may be further magnified as a result of share price volatility.

Arcan recorded stock-based compensation expense of $2.3 million in the first quarter of 2011, calculated using the Black-Scholes option-pricing model. During the first quarter of 2011 Arcan granted 500,000 options, 430,000 options were exercised and Arcan cancelled 10,000 options that were forfeited. Arcan's stock-based compensation expense increased significantly for the first quarter of 2011 compared to the same period in 2010 due to the additional options granted in the last three quarters of 2010 and the first quarter of 2011, and the escalated fair value of the new options due to the increase in Arcan's share trading price on the TSX Venture Exchange over that period. Stock-based compensation also increased in the first quarter of 2011 compared to the fourth quarter of 2010 due to options that were granted part way through the fourth quarter of 2010 and options granted in the first quarter of 2011.

Depletion and Depreciation ("D&D") ($ 000's except per BOE)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Total	**5,072**	2,551	5,574
Per BOE	**22.10**	19.31	21.63

Depletion is calculated for each component deemed to be an area based upon capital expenditures, production rates and proved plus probable reserves. Arcan recorded $5.1 million or $22.10 per BOE in D&D expense in the first quarter of 2011 based on production volumes of 229,588 BOE. The increase in D&D expense per BOE as compared to the first quarter of 2010 is due to acquisitions completed during 2010, including the acquisition of interests in 102 gross (81 net) sections of land with approximately 500 BOE per day of existing production for a cash purchase price of $52.8 million in March of 2010 (the "**Acquisition**"), as well as an increase in capital intensity for reserves found in 2010. The slight increase in D&D expense as compared to the fourth quarter of 2010 is due to $5.4 million spent shooting seismic on Arcan's Swan Hills development property in the first quarter of 2011 and $3.8 million spent on facilities. Under IFRS, Arcan now uses proved plus probable reserves in its depletion calculations versus the use of proved reserves under previous GAAP.

Arcan's D&D rate reflects proportionately higher cumulative capital expenditures, including significant facility and seismic investments and the Acquisition, 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 and land. The Corporation 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 a large portion of infrastructure investments have already been incurred.

The calculation of depletion includes estimated future development costs of $183.0 million associated with the development of the Corporation's proved plus probable reserves and excludes salvage value of $1.7 million.

Income Taxes ($ 000's)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Deferred tax reduction (expense)	**157**	244	(6)

A deferred tax reduction of approximately $0.2 million has been recognized in the unaudited financial statements for the first quarter of 2011, which relates to the Corporation experiencing a pre-tax loss of $2.7 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 2011, which was 26.5 percent and is calculated on the loss before income taxes. The difference is primarily due to non-deductible stock-based compensation and future tax rate differences.

The deferred income tax liability on Arcan's balance sheet increased by $2.5 million in the first quarter of 2011 due to a $2.7 million liability being booked on the equity component of the Debentures. This increase in tax liability was offset by a $0.2 million deferred tax reduction.

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 2011. 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
($ millions)

Type	**March 31, 2011**	**Rate of Claim (%)**
Canadian exploration expense	**21.7**	100
Non-capital losses	**53.2**	100

Canadian development expense	**95.0**	30
Undepreciated capital costs	**52.6**	20 - 100
Share issue	**6.7**	20
Canadian oil and natural gas property expense	**53.3**	10
Total	**282.5**	

With estimated capital spending in 2011 and 2012, Arcan does not believe it will be in a taxable position until late 2013 at the earliest. Arcan does not have a tax partnership in place.

Net Income (Loss), Funds From Operations and Cash Flow From Operating Activities ($ 000's except per share)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Net loss	**(2,560)**	(2,127)	(2,377)
Per share	**(0.03)**	(0.04)	(0.03)
Funds from operations	**8,880**	2,827	7,759
Per share	**0.10**	0.06	0.09
Cash flow from operating activities	**8,889**	2,549	8,044
Per share	**0.10**	0.05	0.10

Arcan is generating funds from the operations of its three properties. A net loss has been realized in the first quarter of 2011 as higher commodity prices and volumes combined with decreased exploration and evaluation impairments were more than offset by higher losses on commodity contracts, royalties and operating costs as well as non-cash items such as stock-based compensation and depletion and depreciation and accretion charges. As Arcan continues to develop its properties, it anticipates that additional revenues will be generated resulting in additional funds from operations as well as additional net earnings.

Summary of Quarterly Operating and Financial Results for the Eight Most Recent Quarters

Fiscal quarter ended ($000's, except per share amounts)	**2011**	2010				2009[1]		
	March	Dec.	Sept.	June	March	Dec.	Sept.	June
Total revenue	**18,306**	18,420	17,107	11,056	8,992	7,804	6,546	7,209
Net income (loss)	**(2,560)**	(2,377)	(1,988)	(627)	(2,127)	(1,730)	(1,408)	(1,314)
Net income (loss) per share – basic	**(0.03)**	(0.03)	(0.03)	(0.01)	(0.04)	(0.04)	(0.04)	(0.03)
Net income (loss) per share – diluted	**(0.03)**	(0.03)	(0.03)	(0.01)	(0.04)	(0.04)	(0.04)	(0.03)

Notes:

(1) Arcan's IFRS transition date was January 1, 2010, therefore 2009 comparative information has not been restated.

Liquidity and Capital Resources

Arcan spent $44.2 million of capital on its properties during the three months ended March 31, 2011, down significantly from $70.8 million for the three months ended March 31, 2010. The decrease in capital expenditures is primarily due to the closing of the Acquisition in the first quarter of 2010. Arcan generated $8.9 million in funds from operations in the first quarter of 2011, raised $86.3 million through the issuance of the Debentures and at March 31, 2011, no amounts were drawn on its Credit Facility and Arcan had a working capital deficit of $76.4 million, including convertible debt. 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 2010 through increased capital expenditures in the first quarter of 2011. Arcan's March 31, 2011 funds from operations to net debt was 2.2 to one. The Corporation expects the ratio to increase but remain under three to one by the end of 2011.

On February 14, 2011, Arcan issued $75,000,000 aggregate amount of Debentures and on February 22, 2011 issued an additional $11,250,000 aggregate amount of Debentures pursuant to the exercise of an over-allotment option by the underwriters. The Debentures are convertible into shares at a price of $8.75 per share and mature on February 28, 2016.

As at the date hereof, the Corporation has $120.0 million available under its Credit Facility. The Credit Facility is comprised of a $110 million syndicated revolving credit facility and a $10 million revolving operating facility which is based on Arcan's 2010 reserves report. The Credit Facility has a revolving period of 364 days from the closing date and is extendible annually. If not extended, the Credit Facility will automatically convert to a one year non-revolving term loan. Arcan is currently in compliance with its financial covenant to keep debt and working capital under the $120 million loan maximum and the renewal date for the Credit Facility is May 29, 2012. The Credit Facility is secured by a charge on all of Arcan's assets. As at the date hereof, there are no amounts drawn on the Credit Facility and Arcan has $19.2 million in cash in the bank. As well, Arcan has $206.3 million in total credit capacity comprised of the $120.0 million Credit Facility and the $86.3 million in Debentures outstanding. Arcan estimates that as at the date hereof, due to capital expenditures in the Swan Hills, the total net debt of its Debentures, debt and working capital deficiency is approximately $105 million. Arcan estimates that it will have capital expended in excess of cash flow in the second quarter of 2011 and expects to be in a total net debt position of $50 to $150 million throughout 2011. With the new Debentures Arcan expects that it will maintain a net debt and working capital deficiency position for the next five years.

Arcan was previously engaged in a substantial capital expenditure program to develop its Swan Hills core oil property. Arcan anticipates that future capital requirements will be funded through a combination of internal cash flow, debt and/or equity financing.

Arcan expects its capital expenditure program to total $135 million for 2011 and to have a total net debt at the end of 2011 of approximately $75 million. Capital expenditures for drilling, completions and facilities are expected to increase in 2011 from 2010 but overall capital spending is anticipated to be lower than in 2010 as the Acquisition was completed in the first quarter of 2010. Arcan expects expenditures for 2011 to be financed through its Credit Facility and available funds from operations. Additional equity may be available later if the condition of the equity markets permit; however, the Corporation does not currently forecast requiring such a cash in-flow to complete its capital program. Arcan has no fixed capital commitments and the capital program can be curtailed to ensure management of net debt levels. A number of factors and circumstances may impact Arcan's funds from operations and capital program. See the "Business Risks" section of this MD&A.

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

($ 000's)	**Quarter Ended March 31, 2011**	**Year Ended December 31, 2010**
Current assets	**51,624**	17,138
Less:		
Accounts payable and accrued liabilities	**56,021**	45,500
Bank loan	**-**	20,823
Working capital (deficiency)	**(4,397)**	(49,185)
Debenture	**(71,982)**	-
Working capital (deficiency) including Debenture	**(76,379)**	(49,185)

Capital Expenditures ($ 000's)	**Quarter Ended March 31, 2011**	**Quarter Ended March 31, 2010**	**Quarter Ended December 31, 2010**
Geological and geophysical	**5,435**	101	940
Land	**772**	4,222	748
Acquisitions	–	52,775	7
Drilling and completions	**33,844**	9,052	19,008
Equipment and facilities	**3,821**	4,674	7,151
Corporate assets	**288**	11	20
Total	**44,160**	70,835	27,874

Excluding the Acquisition, Arcan significantly increased its capital expenditure program for the three months ended March 31, 2011 compared to the same period in 2010. During the three months ended March 31, 2011 Arcan drilled four (3.6 net) successful horizontal multi-stage fracture wells on its Swan Hills play. Arcan has, as it did in 2010, budgeted capital expenditures to remain within cash flow and Credit Facility limitations for 2011. Arcan's budget will be reassessed during the summer period based on Arcan's success and expansion in the Swan Hills reef light oil play. As at March 31, 2011 Arcan does not have any commitments for capital expenditures.

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

2011 Drilling Activity (wells spudded)

	Exploration		Development		Total		Success	Working
2011	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Rate %**	**interest %**
Q1	0	0	4	3.6	4	3.6	100	90

Related Party Transactions

In conjunction with an equity issuance pursuant to a short form prospectus during the year ended December 31, 2010, certain officers and directors acquired 68,000 shares at a price of $2.50 per share.

In conjunction with the Debenture issuance in February 2011, certain officers and directors acquired $1,335,000 aggregate amount of Debentures.

The share purchase loan of $100,000 due from an officer of the Corporation for the purchase of 40,000 shares at a price of $2.50 per share was repaid in December 2010.

Contractual Obligations

The Corporation has previously entered into, or is involved in, farm-in and/or farm-out agreements in the normal course of business in 2011. As of the date of this MD&A, Arcan has no farm-in and/or farm-out commitments.

Arcan has the following commitments:

	Payments Due by Period				
Contractual Obligations ($ 000's)	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Debt	-	-	-	-	-
Finance Lease Obligations	-	-	-	-	-
Operating Leases	5,542	952	2,193	2,193	204
Purchase Obligations	-	-	-	-	-
Debenture Obligations	113,442	5,630	10,781	97,031	-
Total Contractual Obligations	118,984	6,582	12,974	99,224	204

Off-Balance Sheet Arrangements

There were no off-balance sheet obligations at March 31, 2011.

Outstanding Share and Debenture Data

	As of May 31, 2011	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010	Quarter Ended Dec. 31, 2010
Common shares	**88,313**	88,100	74,928	87,670
Warrants	**-**	-	459	-
Stock options	**8,576**	8,450	4,497	8,390
Debentures (face value)	**$86,250**	$86,250	-	-

In the first quarter of 2011, Arcan's number of issued and outstanding shares increased by 430,000 shares as a result of employee and officer option exercises. The Corporation also issued 500,000 options to employees and officers, and cancelled 10,000 options due to forfeiture during the quarter. Arcan also issued $86.3 million aggregate amount of Debentures.

In 2010, Arcan's number of issued and outstanding shares increased by 39.7 million shares. The number of issued and outstanding shares increased as a result of offerings of 26.0 million shares in March 2011 and 10.4 million shares in November 2010 and various warrant, option and performance share exercises throughout 2010 for an aggregate of 3.3 million shares. All warrants and performance shares outstanding at the end of 2009 were exercised or cancelled during 2010. The number of outstanding options changed primarily as a result of the issuance of 2.9 million options in the second quarter and the issuance of 2.9 million options in the fourth quarter of 2010 to officers, directors and employees of the Corporation.

Officers or directors of Arcan exercised 1.3 million options and sold the shares issued pursuant to such exercises during the year ended December 31, 2010. An officer of Arcan exercised 0.4 million options and sold the shares issued pursuant thereto in January 2011. Two officers and one employee of the Corporation exercised 0.8 million performance warrants prior to their expiry on March 1, 2010. Other than the 0.4 million options exercised by an officer and 2,000 shares sold by a Director, there have been no other sales or exercises of options in 2011 by officers or directors of Arcan. Officers of the Corporation purchased $1.3 million aggregate amount of Debentures in the February, 2011 financing.

Arcan has used the funds received from the November 2010 equity offering and the February 2011 Debenture offering to fund its drilling and waterflood activities in the Swan Hills light oil play as originally disclosed per the use of proceeds.

Outlook

The application of the horizontal multi-stage fractured wells to the Swan Hills reef property is changing Arcan's asset base. Drilling combined with water injection is expected to generate significantly increased production and recoveries, creating enhanced reserves and net asset value ("**NAV**"). With significant investments in infrastructure in place, Arcan now looks to continue to rapidly take advantage of its deep development inventory to continue to increase NAV per share through horizontal multi-stage acid fracture wells in the Swan Hills reef play. Arcan's plans for 2011 and beyond include:

- significant expansion of drilling horizontal multi-stage fracture wells in the Swan Hills reef light oil play on its 150 net sections of land. Arcan also intends increase and expand the existing water injection scheme;

- continued development and water injection in the Hamburg GG pool;

- ongoing review of opportunities at in the McLeod area; and

- evaluation of potential new core areas.

Arcan's 2011 capital program is expected to remain within cash flow, the Debenture issuance and expanded debt capacities and will continue to focus mainly on rapid growth in the Swan Hills area. Arcan is currently developing a strategy to best exploit its land base over the long term. The Corporation's strengths include over $282 million of tax pools, a strong slate of directors, experienced staff, excess productive capacity for tie-in, recently initiated and growing waterfloods, new drilling plans and significant growth potential.

Industry Trends

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business.

The first trend currently affecting the oil and gas industry, as well as many other industries, is the impact on capital markets caused by investor uncertainty in the credit markets and the global economy through 2010 and into 2011. Global economics ultimately dictate commodity demand and therefore prices. Arcan realizes that it is dependent on price fluctuations as a price taker and therefore must maintain the financial flexibility to deal with uncertain commodity prices. The current optimistic nature of the oil and gas industry has resulted in numerous opportunities for equity financings. Arcan has participated in these financings as it is unable to estimate the timing or magnitude of stock market corrections in the context of the evolving current global economic situation.

A second trend is the volatility of commodity prices. Crude oil is influenced by the world economy and the ability of the Organization of Petroleum Exporting Countries (OPEC) to adjust supply to world demand. Recently, crude oil prices have been kept high by increased demand from growing economies in China and India as well as the ongoing political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East. More recently, volatility has increased over short term supply concerns as a result of unrest in the Middle East. Concerns continue to rise regarding geopolitical control of energy resources and the relative stability of those energy sources. Significant concerns have also arisen on oil demands both in the short and medium term as impacts on economic development are uncertain related to the disastrous earthquake, tsunami and nuclear facility issues in Japan. Demands are also being questioned as the world endures financial uncertainty and possible bankruptcies of certain countries inside of the European Union.

Natural gas is a commodity that has been strongly influenced by intensive shale gas drilling within North America, significant long term investments and commitments in energy from foreign state petroleum companies and producers drilling for liquids rich gas that remain economic in this pricing environment. In addition, North American fluctuations in supply, influenced by drilling activity, natural gas storage levels, imports and demand (which is impacted both by weather and by economic factors) has resulted in significant volatility in the price of natural gas in Canada and the United States.

The impact on the oil and gas industry from commodity price volatility is significant. Historically, during periods of high prices, producers generated higher cash flows and conducted active exploration programs without external capital. Higher commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increased in price during these periods. More recently rising oil prices has dramatically increased activity as producers have increased access to capital. With increased activity, the prices charged by the various service suppliers have and will continue to rise.

A third trend has been has been the rapid adoption of the use of horizontal drilling, employing multi-stage fracturing techniques for completions. Significant but less productive previously discovered oil and natural gas reservoirs in tight formations such as the Bakken, Montney, Doig, Cardium and the Beaverhill Lake are being revitalized based on the tremendous increases in productive rates. Arcan has been positively impacted by this trend in the drilling of its horizontal wells (and the Acquisition) and announcing those results. Arcan plans to continue to develop and expand its current acreage and drilling inventory position

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. In addition to equity financing, Arcan uses several sources of financing, including internally generated cash flow, debentures and bank debt. Current economic conditions including the variable global credit and equity markets have elevated the risks associated with this aspect of Arcan's business.

A fourth trend, and one that will continue to garner heightened attention and consequently increased governmental intervention, is an increasing call for carbon capture due to greenhouse gas emissions. Capital requirements to meet emission standards are potentially enormous and are directly impacted by events such as the Kyoto Protocol. Arcan realizes that it will be required to meet governmental standards as they are introduced and must maintain the financial flexibility to do so. A longer term advantage may be derived from the waterflood activities and related increased recoveries in the Swan Hills property, as Arcan is likely a leading candidate for CO_2 flooding.

Business Risks

Arcan is engaged in the business of exploration, development, production and acquisition of crude oil and natural gas. This business has many risks that even a combination of knowledge, experience and careful evaluation may not be able to overcome. These risks may cause Arcan's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by forward-looking information in this MD&A. For a comprehensive discussion of the risk factors affecting Arcan and its business and operations, readers are encouraged to review the risks covered in Arcan's AIF under the heading "Risk Factors", which risk factors are incorporated by reference herein.

Arcan's principal business risks are related to finding and developing economic hydrocarbon reserves efficiently and its ability 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 Arcan's 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.

In addition to the risks outlined above with respect to commodity prices, financial risks associated with the petroleum industry include fluctuations in interest rates, and currency exchange rates. Arcan may use hedging instruments to manage these risks at the direction and under the supervision of the Board of Directors.

Operational risks faced by Arcan 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 the reserves 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 longest producing Swan Hills horizontal well has been on-stream since February 23, 2010. This limited time frame for data creates risks for unexpected production profiles.

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.

Application of Critical Accounting Estimates

The significant accounting policies used by Arcan are disclosed in note 3 to the unaudited interim financial statements for the periods ended March 31, 2011 and 2010. Certain accounting policies require that Management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates. The following discussion identifies the accounting policies and practices of the Corporation and helps if an assessment of the likelihood of materially different results being reported.

Accounting Policies

International Financial Reporting Standards

On January 1, 2011, IFRS became the generally accepted accounting principles in Canada for profit-oriented publicly accountable enterprises and Arcan adopted IFRS for financial reporting purposes, using a transition date of January 1, 2010. The adoption of IFRS required the restatement of comparative amounts reported by Arcan for the three months ended March 31, 2010, the year ended December 31, 2010, as well as the presentation of an opening balance sheet as at January 1, 2010. As a result, the Corporation's financial results for the first quarter ended March 31, 2011 and comparative periods are reported under IFRS while selected historical data prior to January 1, 2010 continues to be reported under former GAAP.

While the adoption of IFRS did not have a material impact on reported net cash flows, it did have a material impact on certain accounting policies, and Arcan's reported financial position and results of operations. None of the changes have led to any technical violations of the Credit Facility. The most significant areas of impact for Arcan include property, plant and equipment, decommissioning obligations (formerly "asset retirement obligations"), accounting for share-based payments, and deferred taxes (formerly "future taxes").

Petroleum and Natural Gas Assets

IFRS standards require that a Corporation choose to report their petroleum and natural gas ("**P&NG**") assets either at the amount which would have been recorded had the Corporation always followed current IFRS standards or at fair value on the date of adoption of IFRS. Alternatively, IFRS standards allow for a conversion exemption whereby companies can choose to record opening petroleum and natural gas properties at a deemed cost equal to historic cost as calculated under GAAP. Arcan recorded P&NG assets at historic cost as calculated under GAAP on January 1, 2010. The Corporation, under the exemption, allocated historic costs to cash generating units and components subject to depletion based on reserve values.

Under GAAP, all P&NG assets are accounted for under the full cost accounting guideline. Under IFRS, P&NG assets are divided into exploration and evaluation properties ("**E&E assets**") and petroleum and natural gas properties and equipment ("**development assets**"). E&E assets are initially capitalized and accumulated pending determination of technical feasibility and economic viability. E&E assets are not depreciated and are carried at cost less any accumulated impairment losses. Development assets are measured at cost less accumulated depletion and depreciation and any accumulated impairment losses. The Corporation has determined that it has $9.8 million of E&E assets with the balance of $130.5 million considered to be development assets on transition to IFRS as of January 1, 2010. For the first quarter ended March 31, 2010, the Corporation has determined that it has $22.7 million of E&E assets with the balance of $189.5 million considered to be development assets. For the year ended December 31, 2010 the Corporation has determined that it has $23.9 million of E&E assets with the balance of $250.2 million considered to be development assets.

Both E&E assets and development assets were assessed to determine whether impairment losses exist under IFRS as at January 1, 2010. These impairment tests differed from the GAAP full cost ceiling test in several significant ways. Assets (including goodwill) were allocated to cash generating units ("**CGUs**") and a separate impairment test was completed for each CGU identified. Under GAAP, the ceiling test was a two step test. The carrying value of assets was first compared to the undiscounted future cash flows. If the carrying value of the assets exceeded the undiscounted future cash flows, then the second step of the test was required whereby the assets were written down to the value of the discounted future cash flows. Under IFRS, the impairment test compares the carrying value of the assets to the greater of the fair value of the assets and the value-in-use of the assets, which is a discounted cash flow measure. As a result, impairments are recorded more frequently under IFRS. Future impairment tests may be required when Management determines that indicators of impairment exist. Should impairment losses be recorded in accordance with IFRS, certain of those losses can reverse in the future if facts and circumstances change. On transition, the Corporation did not recognize any impairment in its E&E assets or development assets. Due to the change in accounting policy, for the first quarter ended March 31, 2010, the Corporation recognized an impairment of $2.3 million in its E&E assets with no impairment in the development assets. For the year ended December 31, 2010 the Corporation recognized an impairment of $4.0 million in its E&E assets with a $1.3 million impairment in its development assets.

Depreciation under GAAP was calculated using a unit-of-production method based on total proved reserves for all accumulated costs (excluding unproved properties). Under IFRS, the net carrying value of development assets are still depleted using a unit of production method; however, significant components with different useful lives are accounted for as separate items and depreciated separately. In addition, IFRS allows depreciation to be calculated using either proved reserves or proved plus probable reserves. Arcan has determined that depreciation will be calculated using proved plus probable reserves which resulted in a reduction to depreciation and depletion expense. Due to the change in accounting policy, for the three months ended March 31, 2010, depreciation and depletion decreased to $2.6 million from $3.2 million. For the year ended December 31, 2010 depreciation and depletion decreased to $16.8 million from $21.5 million.

Under the full cost accounting guideline, gains or losses were not recognized upon the disposition of P&NG assets unless the disposition results in a significant change in the depletion rate. Under IFRS, gains and losses are recognized in net income on the disposal of an item of P&NG assets. The amount of the gain or loss is determined by comparing the proceeds from disposal with the carrying amount of the item. This will include transactions such as sales of assets, farm-outs, asset swaps and other non-monetary transactions which typically did not result in gains or losses being recorded under GAAP. There was no impact to Arcan during the transition period for these types of transactions.

Decommissioning Liabilities

Under IFRS, decommissioning liabilities (referred to as "asset retirement obligations" under GAAP) have increased as a result to the change from a credit-adjusted risk-free rate of eight to ten percent to a risk-free rate of approximately four percent in the discounting of the liabilities to their present value. In addition, any change to the discount rate affected the entire liability and not just current period additions. Upon transition to IFRS this resulted in a $2.3 million increase in the decommissioning obligations with a corresponding decrease in retained earnings. As a result of the change in the risk free rate the decommissioning obligations increased by $1.6 million for the three months ended March 31, 2010 with a corresponding increase in property, plant and equipment. At December 31, 2010 this resulted in a $2.4 million increase in the decommissioning obligations with a corresponding increase in property, plant and equipment. For the three months ended March 31, 2010 and for the year ended December 31, 2010 accretion expense has decreased.

Stock - Based Compensation

IFRS standards require stock-based awards that vest in instalments, such as on anniversaries of the grant date, to be accounted for as though each instalment or vesting date were a separate award. This resulted in stock-based compensation expense increasing in the earlier vesting periods immediately following new grants. Under IFRS, estimates of the number of stock-based awards expected to vest or expected to be forfeited prior to their expiry also have a quantitative impact on the amount of stock-based compensation expense recorded over the vesting period. GAAP allowed for forfeitures to be recorded as they occurred and for the expense to be recognized on a straight line basis for the entire award. The Corporation recognized an increase of $0.2 million to contributed surplus with the offset to the deficit on transition. For the quarter ended March 31, 2010, stock-based compensation expense decreased by $0.1 million and for the year ended December 31, 2010, stock-based compensation increased by $1.5 million.

Business Combinations

Accounting for business combinations also differs under IFRS. Arcan elected not to restate business combinations recorded prior to January 1, 2010 in accordance with IFRS standards. Any goodwill recognized in business combinations after January 1, 2010 recorded under IFRS will represent the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity. When the excess is negative, it will be recognized immediately in profit and loss. In addition, transaction costs which are included in the cost of the acquisition will be expensed under IFRS.

Deferred Taxes

GAAP and IFRS follow the liability method of accounting for income taxes whereby tax liabilities and assets are recognized on temporary differences. The Corporation's deferred tax liability was affected by the tax effects resulting from the IFRS changes discussed in this section. In addition, while GAAP separated future income taxes between current and non-current, IFRS allows only for the presentation of non-current deferred tax assets and liabilities.

IFRS also differs in the measurement of flow-through shares by the Corporation, with the premium initially set-up as a liability when the flow-through shares are issued and then released through earnings subsequently when the tax impact is recorded. This change resulted in a deferred flow-through share premium of $0.1 million being recognized on transition, an increase to share capital of $2.3 million with the offsetting $2.2 million recognized against the deficit. For the first quarter ended March 31, 2010 this change resulted in a decrease to the deferred flow-through share premium of $0.1 million being recognized on transition, resulting in a balance of nil at March 31, 2010.

Future Accounting Changes

The following pronouncements from the International Accounting Standards Board will become effective for financial reporting periods beginning on or after January 1, 2013 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets.

IFRS 10 - Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

IFRS 11 - Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 - Disclosure of Interests in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 - Fair Value Measurement defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 27 - Separate Financial Statements revised the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has not completed its evaluation of the effect of adopting these standards on its financial statements.

Legal Advisories

BOEs may be misleading, particularly if used in isolation. The calculation of BOEs is based on a conversion ratio of six Mcf of natural gas to one bbl of oil based on an energy equivalency conversion primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Please refer to the "Abbreviations" in the Corporation's AIF for meanings of certain abbreviations used in this MD&A.

Additional information about the Corporation, including the Corporation's AIF for the year ended December 31, 2010, is available under Arcan's profile on SEDAR at www.sedar.com.

Forward-Looking Information and Statements

*This management's discussion and analysis ("**MD&A**") contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "guidance", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "possible" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A*

contains forward-looking information and statements pertaining to, among other things, the following: the timing, method and results of drilling and waterflood operations; anticipated production; estimated additional drilling locations; Arcan's new pump design and the timing and reconfiguration on Arcan's wells; impact of and estimated waterflood of CO_2 *recoveries; future liquidity and financial capacity and resources; the potential inherent in Arcan's Swan Hills land base; expectations relating to increased shareholder value; results from operations and financial ratios; the volume and product mix of Arcan's oil and gas production; cost and expense estimates and expectations; the application and modification of horizontal, multi-stage fracture technologies; Arcan's expansion into the Ethel area; changes and improvements to Arcan's drilling and completion techniques; Arcan's income taxes, tax liabilities and tax pools; oil and natural gas prices and Arcan's risk management programs; recovery; the amount of asset retirement obligations; future seismic and geological mapping plans; cash flow ratios and sensitivities; royalty rates and their impact on Arcan's operations and results; capital expenditures; the Credit Facility; Arcan's 2011 budget; industry trends; expectations respecting Arcan's transition to IFRS and the impact of the transition to IFRS on Arcan and its financial statements; the Corporation's use of hedges; future accounting changes; future growth including development, exploration, acquisition, construction and operational activities and related expenditures.*

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of Arcan including, without limitation: that Arcan will continue to conduct its operations in a manner consistent with past operations; the accuracy of current horizontal production data, historical well production and waterflood results from the Unit; the general continuance of current or, where applicable, assumed industry conditions; continuity of reservoir conditions across Arcan's Swan Hills land base; availability of debt and/or equity sources to fund Arcan's capital and operating requirements as needed; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the continuance of laws and regulations relating to environmental matters; ability to retain key employees and executives; the accuracy of the estimates of Arcan's reserve volumes; the accuracy of current horizontal production data; and certain commodity price and other cost assumptions.

Arcan believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable at this time but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; unanticipated operating results or production declines; for reasons currently unforeseen, the current drilling locations identified by Arcan may prove to be unsuitable or unavailable and drilling on the locations identified may not occur; Arcan may be unable to solve mechanical or operational issues in the manner anticipated or at all; shareholder value may not be maximized in the manner suggested by Arcan or at all; changes in tax or environmental laws or royalty rates; increased debt levels or debt service requirements; inaccurate estimation of Arcan's oil and gas reserves volumes; limited, unfavourable or no access to debt or equity capital markets; increased costs and expenses; the impact of competitors; reliance on industry partners; circumstances may arise, including changes in accounting policies, regulations or economic conditions, which could change the assumptions, estimates or expectations or the information provided; and certain other risks detailed from time to time in Arcan's public disclosure documents including, without limitation, those risks identified in this MD&A, and in the AIF, copies of which are available on Arcan's SEDAR profile at www.sedar.com.

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

Directors

Robert J. Dales
Independent Director

Andy Fisher
Executive Vice President, Arcan Resources Ltd.

Ed Gilmet
President and CEO, Arcan Resources Ltd.

Michael J. Laffin
Independent Director

J. Terry McCoy
Independent Director

Murray Hinz
Independent Director

Officers

Ed Gilmet
President and CEO

Andy Fisher
Executive Vice President

Doug Penner
CFO and Vice President Finance

Graeme Ryder
Controller

Michael J. Laffin
Corporate Secretary

Auditors

KPMG LLP

Evaluation Engineers

GLJ Petroleum Consultants Ltd.

Banking Syndicate Led By

Alberta Treasury Branches

Legal Counsel

Blake, Cassels & Graydon LLP

Corporate Office

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

Registrar and Transfer Agent

Valiant Trust Company

Stock Exchange Listings

TSX-V (symbol "**ARN**") – Common Shares

TSX-V (symbol "**ARN.DB**") – Debentures

Investor Relations Contact

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