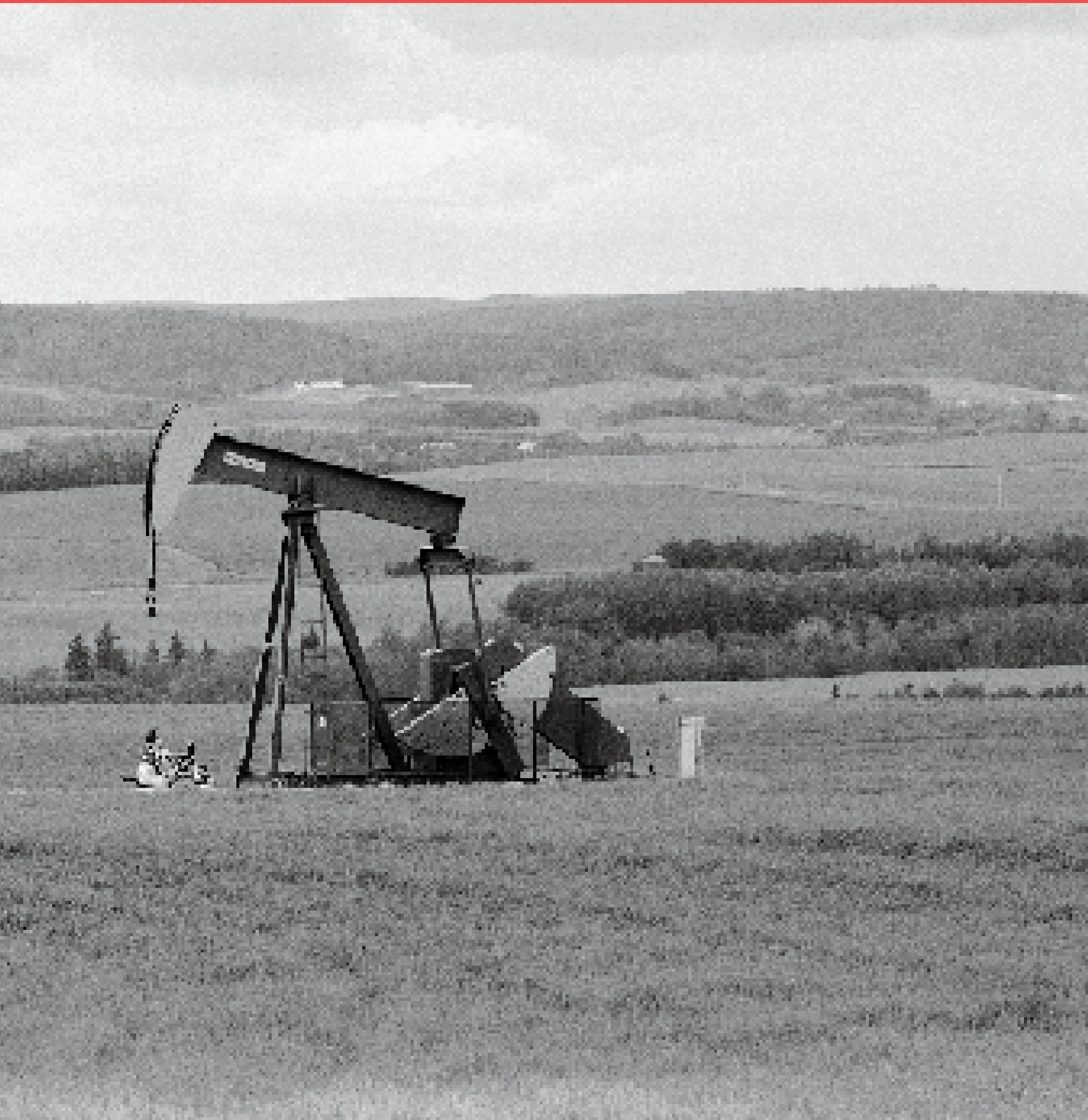
ARC ENERGY TRUST

1996 ANNUAL REPORT



NOTICE OF ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of unitholders will be held on May 6, 1997 at 3:30 pm at the Westin Hotel, Lakeview Room, 320 – 4th Avenue S.W., Calgary, Alberta.

CORPORATE PROFILE

ARC Energy Trust is a closed-end investment trust which offers investors indirect ownership in cash-generating assets plus the market liquidity of a publicly-traded security. The royalty trust structure allows net cash flow from oil and gas properties to flow directly to unitholders in a tax-efficient manner. Business risk is minimized through the avoidance of exploration and related high risk reinvestment activities, and through property and commodity diversification.

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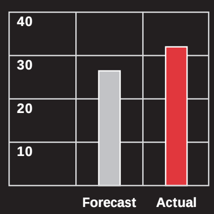
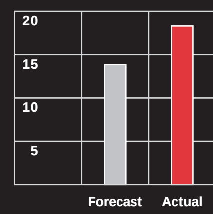
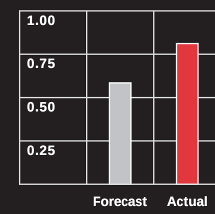
Revenue Before Royalties ($ Millions)



Cash Flow ($ Millions)



Cash Distributions ($/Unit)



HIGHLIGHTS

FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 1996

FINANCIAL

($ thousands, except per unit amounts)	
Revenue Before Royalties	31,908
Per Unit	1.77
Cash Flow	18,315
Per Unit	1.02
Net Income	7,108
Per Unit	0.39
Cash Distributions	14,580
Per Unit	0.81
Working Capital	1,647
Long Term Liabilities	37,998
Unitholders' Equity	160,834
Units Outstanding at Year-end	18,000,000

OPERATING

Production	
Crude Oil (Bbls/d)	2,922
Natural Gas (Mmcf/d)	29.47
Natural Gas Liquids (Bbls/d)	1,732
Total (Boe/d)	7,600
Average Prices	
Crude Oil ($/Bbl)	29.76
Natural Gas ($/Mcf)	1.61
Natural Gas Liquids ($/Bbl)	20.31
Oil Equivalent ($/Boe)	22.31

TRUST UNIT TRADING

(based on daily closing price)	*Third Quarter*	*Fourth Quarter*
Prices ($)		
High	11.75	12.85
Low	9.90	11.10
Close	11.10	12.25
Volume (millions)	5.31	6.19

John Dielwart
Director and President

Mac Van Wielingen
Director, Vice-Chairman and Chief Executive Officer

MESSAGE TO UNITHOLDERS

We would like to welcome all unitholders who invested in ARC Energy Trust (the Trust) in 1996, the inaugural year of operations. The Trust was created with the vision to become the premier "blue chip" conventional oil and gas royalty trust in Canada as measured by quality of assets, management expertise and long term investor returns. Your manager is ARC Financial Corporation (ARC Financial). As this is our first annual report, we would like to provide you with some background information on both ARC Financial and on the initial assets acquired by the Trust.

The Manager

ARC Financial, a private company established in 1989 and based in Calgary, is a specialized oil and gas financial company with established expertise in three key business areas: Advisory, Research and Capital.

ARC Financial's Advisory business involves offering financial advice on oil and gas corporate mergers, acquisitions, divestments, restructurings and valuations. As one of the most active financial advisors in Canada in this business area, within the last eight years, ARC Financial has been directly involved in 46 successful assignments representing approximately $7 billion worth of transactions. ARC Financial is uniquely well positioned to source new acquisition opportunities for the Trust.

ARC Financial also has an established, high-quality Research Service which is offered on a private client basis to over 85 clients. ARC Financial follows, on an in-depth and continuous basis, world oil markets, North American natural gas markets, all key aspects of industry fundamentals and financial markets relating to the oil and gas sector. ARC Financial's ongoing research activities provide unique industry intelligence and a base of information which will be of great benefit to the ongoing management of the Trust.

In its Capital business, ARC Financial has proven expertise in all aspects of oil and gas acquisitions and property management. Prior to the formation of the Trust, ARC Financial managed production of 4,500 barrels of oil equivalent per day on behalf of itself and its partners. The creation of the Trust was a natural extension of ARC Financial's established production management operations. ARC Financial has the management expertise, infrastructure and systems in place to manage and grow the Trust in a cost effective manner.

ARC Financial also has an active equity investment and merchant banking business directed towards the oil and gas sector in Canada. This area of business provides increased deal flow exposure for the Trust.

The Initial Acquisition

ARC Resources Ltd. (ARC Resources) was formed to acquire oil and natural gas properties and to grant a royalty to ARC Energy Trust. The Trust was launched with the acquisition of 21 properties (18 areas) from Mobil Oil Canada (Mobil) and the units commenced trading on The Toronto Stock Exchange on July 11, 1996. The Trust was built on a foundation of strong core properties complemented by other diverse properties to balance the portfolio. The acquired assets are characterized by :

high-quality core areas;

long life reserves;

extensive production histories;

low decline rates, resulting in stable near-term distributions;

low operating costs, resulting in attractive netbacks; and

a diversified property mix, reducing technical risk.

The Trust's core areas consist of three properties in the Pembina area, the largest oil field ever discovered in Canada, and an interest in the Caroline Swan Hills Unit, the largest gas pool discovered in Canada in the last twenty years. Combined, these two areas account for almost 60 percent of the total reserves in the Trust. A good commodity balance has been achieved with a current production split of approximately 60 percent crude oil and natural gas liquids and 40 percent natural gas. The reserve life index of the Trust's properties, 12.2 years on a proved plus half probable basis, is among the highest of all conventional oil and gas trusts. Approximately 20 percent of the production from the properties acquired from Mobil is operated by the Trust.

1996 Results

During 1996, ARC Financial concentrated on integrating the Trust's assets into its systems and increasing staff to manage the assets. A number of potential acquisitions were pursued without success although certain of these initiatives remain active.

Production during 1996 was slightly below the initial public offering prospectus forecast due to the deferral of capital programs in several properties and routine operational maintenance. Notwithstanding the slightly lower production volumes, strong commodity prices, combined with the Board of Director's decision not to repay any principal on debt, resulted in total distributions to unitholders of $0.81 per unit for the six month period ending December 31, 1996. This represented a 41 percent increase over the prospectus forecast of $0.58 per unit.

ARC Energy Trust Units were issued at $10.00 per unit, traded in a range from $9.70 to $13.00 and closed the year at $12.25. Combined with the $0.81 per unit distribution, investor returns for the first six months of operations were very strong. The Trust has developed a high level of support in the market and was one of the top performers among all conventional oil and gas trusts in 1996.

1997 Outlook

During 1996, 10 new conventional oil and gas royalty trusts entered the market through initial public offerings (IPOs); this trend is expected to continue in 1997, albeit at a much slower pace. In many cases, the IPOs were priced at significant premiums to their underlying net asset value. It appears that the financial market's almost absolute focus on initial year cash flow for the purpose of IPO pricing, versus a full reserve life valuation approach, has created price distortions and is sustaining an environment in which vendors can maximize sale proceeds through IPO transactions. This reduces the supply of properties available for acquisition by existing trusts, including ARC Energy Trust, and also introduces new entrants to the marketplace who are committed to going concern, acquisition-based strategies. The result is increased buyer competition for a limited supply of properties which could increase the risk that the going concern strategies of many trusts do not satisfy investor expectations.

This business environment heightens the necessity for investors to differentiate among existing trusts. Not all trusts are created equal. Compared to all other new large capitalization conventional oil and gas trusts created in 1996, ARC Energy Trust paid the smallest premium to net asset value in its initial acquisition. The Trust also has the lowest cost structure among existing conventional oil and gas trusts in terms of combined management fees and general and administrative expenses. This provides ARC Energy Trust with a significant advantage when competing with other trusts for acquisitions. The quality of the assets in the Trust, specifically the long life reserves and low decline rates, is another important positive in this business environment. Lastly, ARC Financial's extensive contacts through its wide range of activities in the oil and gas sector creates a high level of exposure to opportunities for ARC Energy Trust.

On February 28, 1997, ARC Financial announced the acquisition of a group of mature, long life, non-operated properties for $61.5 million. We believe these properties represent the highest quality properties from a trust perspective which have been available in the market since ARC Energy Trust was formed and which did not spawn a new royalty trust IPO. Acquisition of these properties will increase cash distributions per unit in 1997 and the returns to unitholders over the life of the reserves, and will also increase the Trust's already high reserve life index. This acquisition reaffirms the demonstrated ability of our management to grow the Trust with high quality properties and to enhance unitholder value.

We are confident that ARC Energy Trust will continue to perform well in 1997, and through inevitable market cycles, and will provide superior long term returns for our investors.

On behalf of the Board of Directors

M Van Wielingen

John Dielwart

Mac Van Wielingen
Director, Vice-Chairman
and Chief Executive Officer

John P. Dielwart
Director and President

WHAT IS A ROYALTY TRUST?

A Royalty Trust is a tax-advantaged investment vehicle which allows investors to beneficially own oil and gas properties. Unitholders receive the cash flow from mature, low risk production in a tax-efficient manner that avoids corporate taxation and allows for the deferral of personal income tax. Royalty Trusts are managed to reduce business risk by limiting capital reinvestment and avoiding exploration activities. Royalty Trust units can be considered high yield oil and gas equities that provide investors with the same market liquidity as other publicly-traded securities.

WHAT ARE THE COMMON CHARACTERISTICS OF ROYALTY TRUSTS?

- Regular cash distributions
- Tax-efficient treatment of distributions
- Limited capital reinvestment and no exploration risk
- Market liquidity

HOW DOES A TRUST UNIT DIFFER FROM A BOND?

Royalty Trust units provide investors with a steady stream of income from oil and gas properties. The cash distributions represent both a return of capital and a return on capital. The non-taxable portion of the distributions is a return of capital which reduces the cost base of the unit. Tax is deferred until the unit is sold, at which time any capital gains which may be incurred are taxed at a lower rate than regular income. Bonds provide investors with a stream of income and the guarantee of return of principal upon maturity. The income from bonds is strictly a return on capital and is fully taxable as regular income.

WHAT ARE THE DISTINGUISHING FEATURES OF THE ARC ENERGY TRUST?

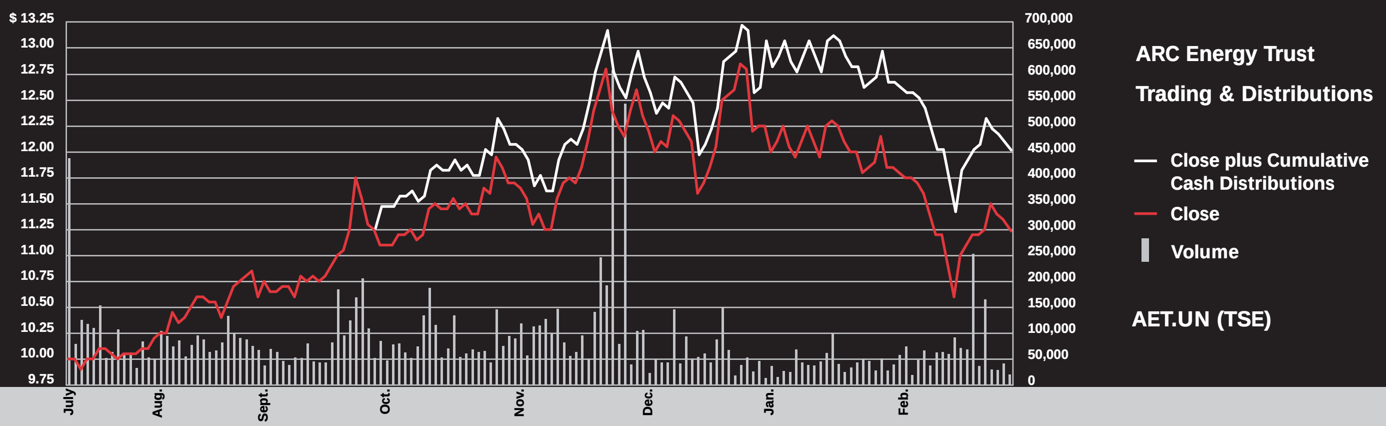
1. A Clearly Defined Strategic Vision

ARC Financial's vision is to establish and maintain ARC Energy Trust as the premiere "blue chip" conventional oil and gas trust in Canada as measured by quality of assets, management expertise and long term investor returns.

2. A Manager with Unique Expertise

ARC Financial Corporation, Manager of ARC Energy Trust and ARC Resources Ltd., is a Calgary-based, specialized, oil and gas advisory and investment company. ARC Financial offers Advisory, Research and Capital services to investors and corporations in the oil and gas sector.

ARC Financial is one of the most active financial advisors in the oil and gas sector in Canada relating to merger, acquisition and divestment activities. ARC Financial also maintains a high quality investment research service offered to oil and gas companies, financial institutions and governments



and has an established capital services business focused on equities and production. The production business originated in 1990 and provides proven expertise in all aspects of oil and gas acquisitions and property management activities. Unlike many new trusts where new management companies were created to manage the assets, ARC Financial is a well established firm with a proven track record of managing oil and gas properties and growing production through acquisitions.

3. Premier, High-Quality Assets

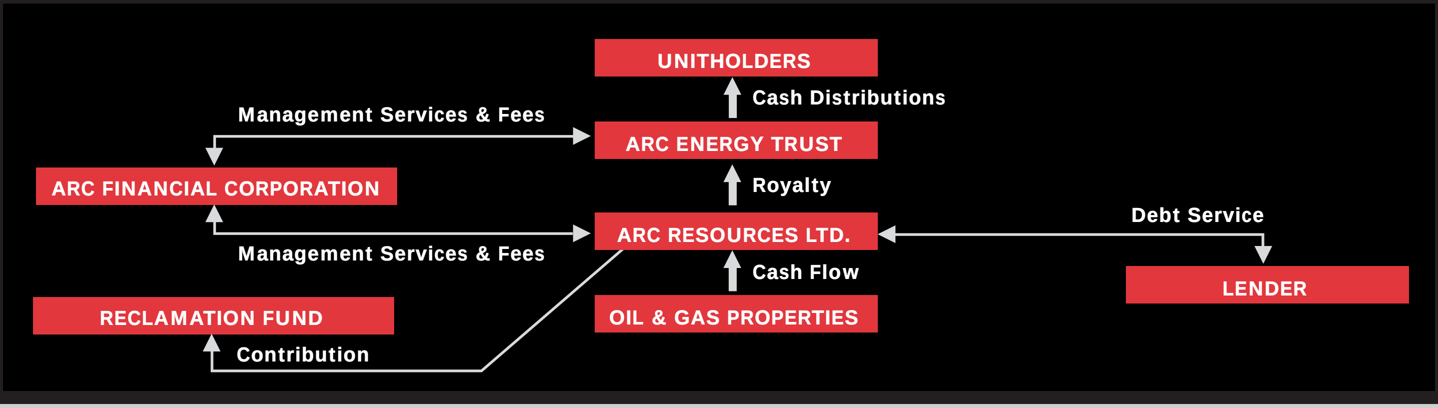
ARC Energy Trust's main core area is in Pembina, which is Canada's largest conventional oil field and which ARC Financial believes represents some of the most secure oil production in Canada. The second core asset is an interest in the Caroline Swan Hills Gas Unit No. 1 which is the largest gas pool discovered in Canada in the last 20 years.

4. A Low Cost Structure

The cost structure of ARC Energy Trust, comprised of general and administrative expenses and management fees, is among the lowest of all existing conventional oil and gas trusts. As these costs must be incorporated into the acquisition economics of all existing trusts, a low cost structure represents a competitive advantage for ARC Energy Trust.

HOW HAS THE ARC ENERGY TRUST PERFORMED?

ARC Energy Trust's market performance has been strong since the initial public offering at $10.00 per unit closed on July 11, 1996. In the six months ended December 31, 1996, unitholders earned total cash distributions of $0.81 per unit and realized significant capital growth. It is important to recognize that, unlike oil and gas exploration and development companies that reinvest their cash flow, royalty trusts provide unitholders with substantial current income through cash distributions. Share price expectations for both royalty trusts and oil and gas companies should be considered in the context of total returns realized through both income and growth in capital.



From Left to Right: Nancy Lever, Vice-President, Planning; John Stewart, Senior Vice-President; Philip Swift, Director

ARC Energy Trust is a closed-end investment trust which offers investors indirect ownership in cash generating assets plus the market liquidity of a publicly-traded security. The royalty trust structure allows net cash flow from oil and gas properties to flow directly to unitholders in a tax-efficient manner. Business risk is minimized through the avoidance of exploration and related high risk reinvestment activities, and through property and commodity diversification.

ARC Energy Trust is the beneficial owner of cash generating oil and gas properties. The royalty trust structure is used specifically to facilitate the flow of funds and to satisfy regulatory and tax considerations. ARC Resources Ltd. was formed to acquire oil and natural gas producing properties and to grant a royalty to ARC Energy Trust. ARC Resources closed its first acquisition from Mobil Oil Canada for approximately $205 million on July 11, 1996. The transaction was financed with net proceeds of an initial public offering of 18 million ARC Energy Trust units at $10.00 per unit plus the use of $38 million in bank debt.

Manager and Trustee

ARC Financial Corporation is Manager of ARC Energy Trust and ARC Resources Ltd., providing both advisory and management services. Montreal Trust Company of Canada is Trustee of ARC Energy Trust.

Cash Distributions

All net cash flow from the acquired oil and gas properties is paid to ARC Energy Trust through a 99 percent royalty. Net cash flow is production revenue less operating costs, royalties, general and administrative expenses, management fees, interest charges and any taxes payable by ARC Resources. The residual one percent income from ARC Resources is offset against the general and administrative expenses and management fee, thereby increasing distributions to unitholders.

Cash distributions are paid to unitholders on a quarterly basis after deductions for debt principal repayments, capital expenditures and reclamation fund contributions. Subject to unitholder approval, it is ARC Financial's intent to move from quarterly to monthly distributions beginning in July 1997.

Capital Expenditures

Capital expenditure deductions will not exceed 10 percent of annual net cash flow from the oil and gas properties; capital requirements in excess of this level will be financed with bank debt or through the issuance of additional Trust units. Capital expenditures will generally be directed towards maintaining or improving production from the oil and gas properties. ARC Resources will not initiate any exploratory drilling, but may participate in exploration activities initiated by other operators on existing ARC Resources' lands if participation is considered to be in the best interests of the Trust.

Borrowing

ARC Resources may borrow funds to purchase additional oil and gas properties or for capital expenditures on existing assets. The revolving credit facility which stood at $60 million as at December 31, 1996 has been increased to $100 million to accommodate the $61.5 million first quarter 1997 acquisition. The credit facility permits borrowing at the bank's prime rate or at bankers' acceptance rates plus 60 basis points. ARC Resources intends to repay this debt from time to time through the issuance of additional Trust units in conjunction with the financing of new acquisitions.

Reclamation Fund

ARC Resources established a reclamation fund to which it will make annual contributions of up to $1.9 million less current year site reclamation and abandonment costs to ensure that future liabilities will be fully funded. Contributions to the fund may be adjusted from time to time based on revised assessments of the environmental obligations.

Tax Considerations for ARC Energy Trust

Under the Income Tax Act, the Trust is entitled to claim various tax deductions such as Canadian Oil and Gas Property Expense, resource allowance and issue expenses. These deductions will be used to shelter most, if not all, of the Trust's income. Any remaining taxable income will be allocated to unitholders on a pro rata basis such that ARC Energy Trust will not pay income taxes.

Personal Tax Considerations for Unitholders

ARC Energy Trust's cash distributions were fully tax deferred in 1996, so unitholders will not be required to report any taxable income on their personal income tax returns for 1996.

At this time, it is anticipated that the majority of 1997 cash distributions will be tax deferred, with approximately 15 percent being taxable for unitholders. The amount of taxable income in 1997 may be reduced if acquisitions funded by newly issued Trust units increase the royalty granted to ARC Energy Trust and result in additional income tax deductions. Conversely, the taxable portion of income could increase if commodity prices are strong and distributions exceed current expectations.

Disposition of ARC Energy Trust Units

The tax deferred or non-taxable portion of cash distributions received by a unitholder is considered a return of capital. The adjusted cost base of an ARC Energy Trust unit is calculated by deducting all tax deferred distributions received by the unitholder from the original cost of the unit. Capital gains or losses relative to this adjusted cost base will be realized by the unitholder upon the actual sale or deemed disposition of the ARC Energy Trust unit.

Distribution Reinvestment Plan and Cash Investment Program

Unitholders may elect to participate in a cash distribution reinvestment plan that will automatically reinvest all or part of the distributions from ARC Energy Trust in additional Trust units. An optional cash investment program is also available to allow cash payments of up to $3,000 per distribution. Both plans facilitate investment in additional Trust units at prevailing market prices with no brokerage commission or Trust fees.

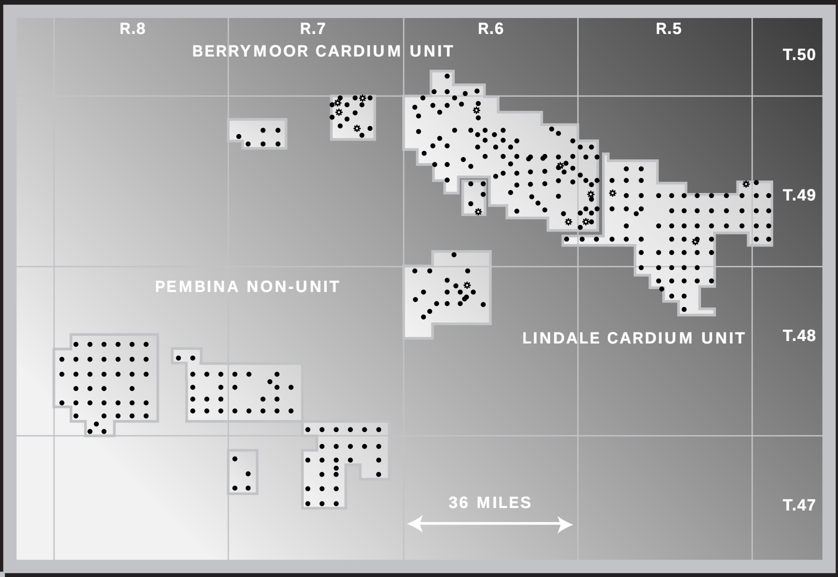
An application form for this purpose and a brochure detailing the terms of these programs are available from Montreal Trust Company of Canada (the Trustee) in Calgary, Alberta. Unitholders who are interested in these plans should complete the form and return it directly to the Trustee.

In the first six months of operation, development capital expenditures of $1.2 million were undertaken to enhance asset value and increase unitholder distributions. Drilling, production optimization and well tie-ins were initiated in Minnehik Buck Lake, Medicine River, Buick Creek, Pembina, Elmworth/Wapiti, Progress, Sylvan Lake, Wilson Creek, and Innisfail. Major facilities construction was undertaken in Caroline, Progress, Inga, and Buick Creek.

Natural gas production averaged 29.47 million cubic feet per day, crude oil production averaged 2,922 barrels per day and natural gas liquids volumes averaged 1,732 barrels per day. On a 10:1 equivalence basis for natural gas, total production averaged 7,600 barrels of oil equivalent per day. Operating costs, net of processing income, were $4.49 per barrel of oil equivalent.

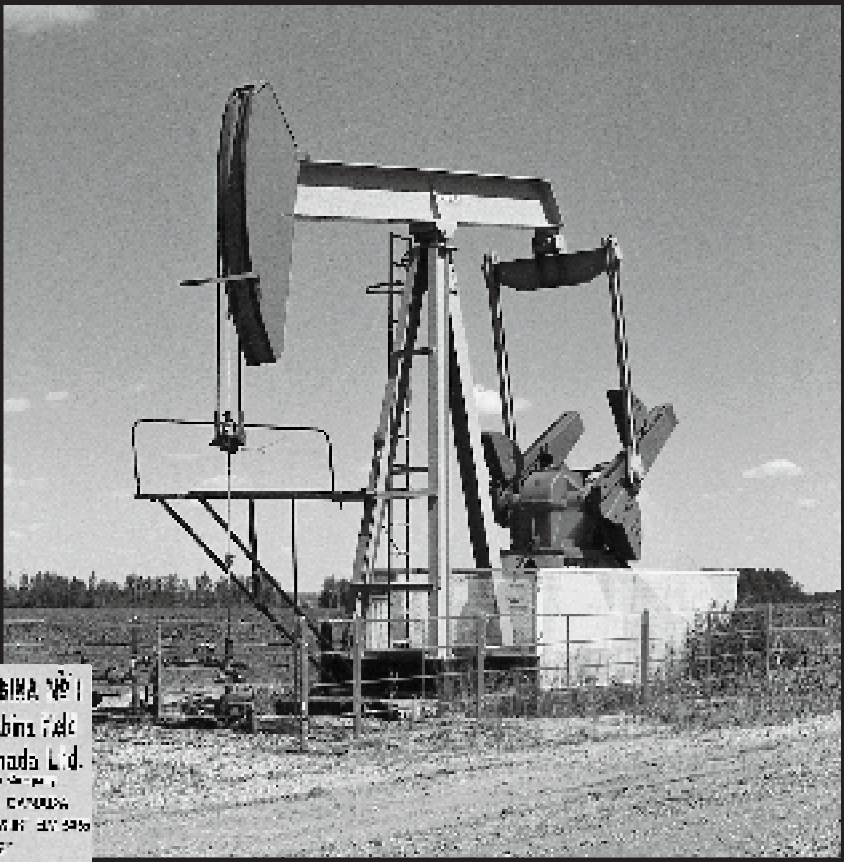
Production by Area

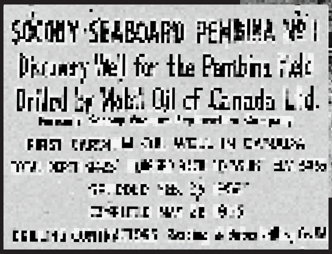
	Oil (Bbls/d)	*Gas (Mcf/d)*	*NGLs (Bbls/d)*	*Total (Boe/d)*
Pembina Area	1,681	1,335	117	1,932
Caroline	–	2,321	1,149	1,381
Elmworth/Wapiti	–	1,620	40	202
Progress	–	5,534	63	617
Buick	–	4,498	40	490
Mitsue	334	667	72	472
Medicine River	171	1,355	43	350
Innisfail	284	418	19	345
Meekwap	257	168	33	307
Savanna	–	2,656	–	266
Marten Hills	–	2,387	–	239
Minnehik	–	1,520	59	211
Sylvan Lake	2	1,326	51	185
Inga	–	1,494	24	173
Olds	95	316	15	140
Mel	–	1,340	–	134
Evi	94	–	–	94
Wilson Creek	4	510	7	62
Total	2,922	29,465	1,732	7,600



PEMBINA

Anchoring the ARC Energy Trust, the Pembina light oil assets are located in West Central Alberta, near Drayton Valley. The Trust now operates the original Cardium discovery well which continues to produce 44 years after first being drilled.





1. Pembina Area

As part of the initial ARC Energy Trust offering, the Pembina area properties were a strategic acquisition. In this area, primary and secondary oil production is obtained mainly from the Cardium formation. Varying interests were acquired in a number of individual properties including:

Pembina Four Way Properties (50.0%);

Berrymoor Cardium Unit (27.4%);

Lindale Cardium Unit (38.0%);

Pembina Cardium Project 126 (50.0%); and

Pembina Belly River Project 15 (50.0%).

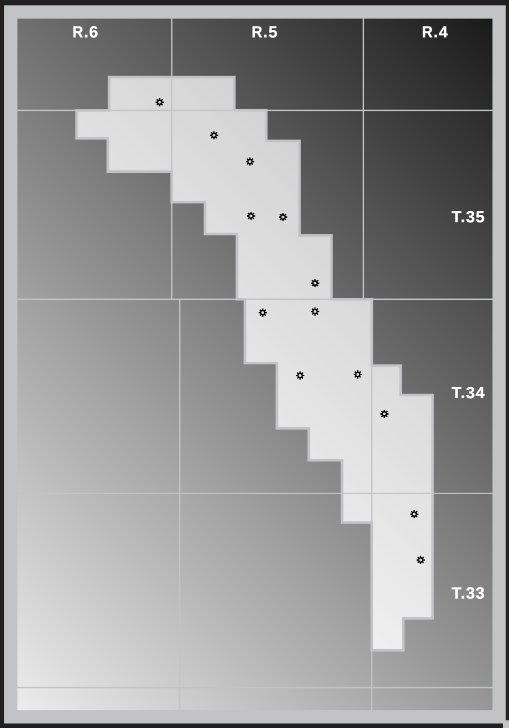
The Pembina oil field, which extends over 800 square miles and contains an estimated 7.4 billion barrels of original oil in place, is the largest conventional oil field ever discovered in Canada and represents the Trust's largest holding on a reserve and asset value basis.

Located approximately 75 miles southwest of Edmonton near Drayton Valley, the Pembina Cardium reservoir is composed of interbedded sandstones and shales at an average depth of 5,050 feet. The reservoir contains sweet, light crude oil (39°API) with no associated gas cap or underlying aquifer.

For the six months ended December 31, 1996, the Pembina area properties contributed production of approximately 1,800 barrels per day of oil and natural gas liquids and 1.3 million cubic feet per day of natural gas.

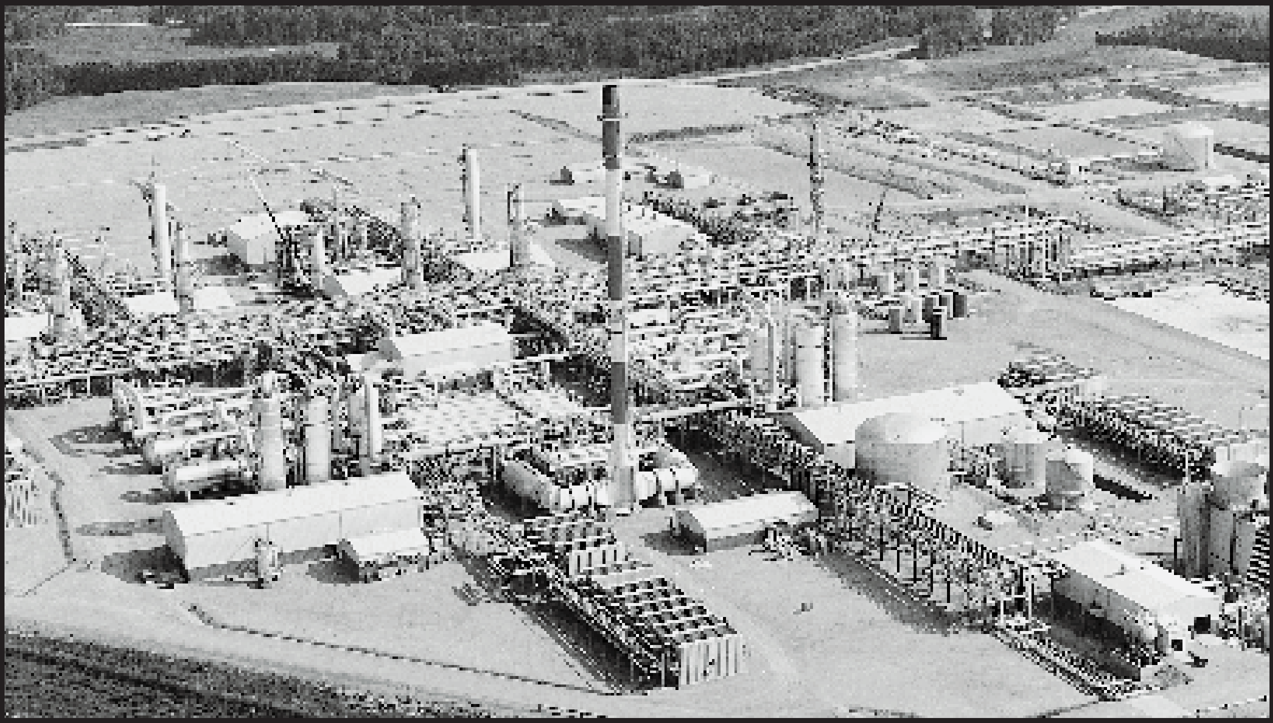
ARC Resources operates the initial discovery well in the Pembina Cardium field. Discovered in 1953, the well initially produced 132 barrels of oil per day. Originally produced under primary recovery methods, the area was subsequently converted to waterflood in the mid 1950's. Today, some 44 years after being brought on production, the well still produces in the order of 20 barrels of oil per day, illustrating the longevity of Pembina area oil production. The Trust's Pembina area assets are forecast to continue producing in excess of 50 more years.

A Pembina Cardium Renewal Consortium project was initiated in 1994 by the major operators in the field to evaluate technical and economic opportunities to maximize economic oil recovery, improve profitability, and investigate the possibility of forming a single company to operate the entire Pembina area. After cost/benefit evaluations were completed, the existing operating companies decided in late 1996 not to proceed with the project. As a result, ARC Resources will retain operatorship of the Four Way Properties and the Lindale Cardium Unit. The numerous production and revenue enhancement opportunities identified during the project will now be pursued by ARC Resources. It is anticipated that several infill wells will be drilled and waterflood optimization efforts will be initiated on ARC Resources operated properties in 1997.



CAROLINE

The Caroline Unit, located in West Central Alberta is a core strategic natural gas producing property rich in natural gas liquids. Gas is processed through one of Canada's largest and most sophisticated gas plant and field facilities complexes.



2. Caroline Swan Hills Unit

ARC Resources owns 2.2 percent of the Caroline Swan Hills Unit operated by Shell Canada Limited. The Unit, encompassing 40,320 (893 net) acres in the Beaverhill Lake A pool, is the largest gas pool discovered in Canada in the last 20 years. Production is from the Swan Hills formation of the Beaverhill Lake group and is processed through one of Canada's largest and most sophisticated gas plant and field facility complexes. The complex was constructed in the early 1990's at a cost of approximately one billion dollars.

During 1996, the operator undertook a detailed study to determine if plant capacity could be increased by de-bottlenecking the gathering system and plant facilities. The results of the study indicated that a significant productivity increase could be achieved and that, with relatively minor modifications, the plant could produce on a sustained basis at 120 percent of its original design capacity, increasing raw gas throughput by 60 million cubic feet per day. As a result, the operator initiated and completed the Caroline Additional Plant Cooling and Liquids Acceleration Projects in 1996 to increase the plant's capacity to process raw gas volumes from 300 to 360 million cubic feet per day.

Caroline's gas stream is particularly rich in natural gas liquids yielding over 160 barrels of liquid for every million cubic feet of gas produced. As a result, the natural gas liquids value is the largest component of the revenue received from this property.

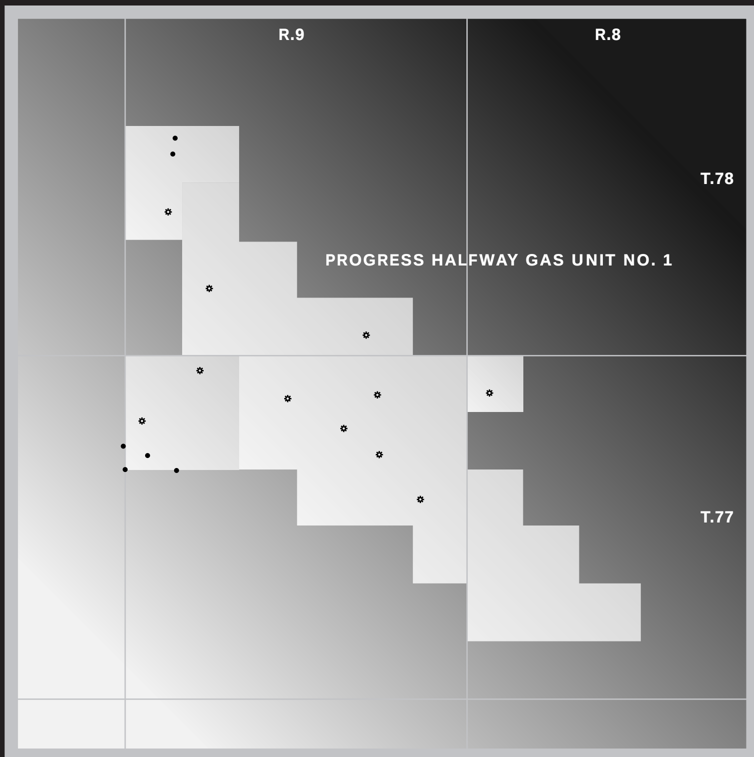
ARC Resources' share of production for the six months ended December 31, 1996, was 2.3 million cubic feet per day of natural gas and approximately 1,150 barrels per day of natural gas liquids. It is anticipated that in 1997 further well completions, tie-ins and workovers will be conducted to maintain field deliverability to sustain the plant at its full expanded capacity, extending the field's producing flat life, and accelerating condensate, natural gas liquids, natural gas and sulphur revenues.

3. Elmworth/Wapiti Area

ARC Resources has varying working interests (averaging 33 percent) and overriding royalty interests in the Elmworth/Wapiti area as well as gathering system, facility, and plant working interests.

Production from the various Cretaceous zones averaged 1.6 million cubic feet per day of natural gas and 40 barrels per day of natural gas liquids for the six months ended December 31, 1996.

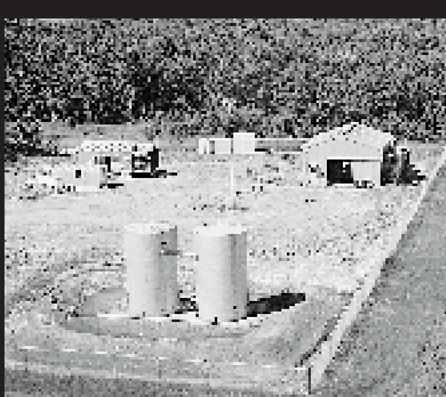
In 1997, at least one additional ARC Resources interest well will be tied-in to the Elmworth gathering system. ARC Resources has interests in a number of other shut-in wells and in undeveloped lands.

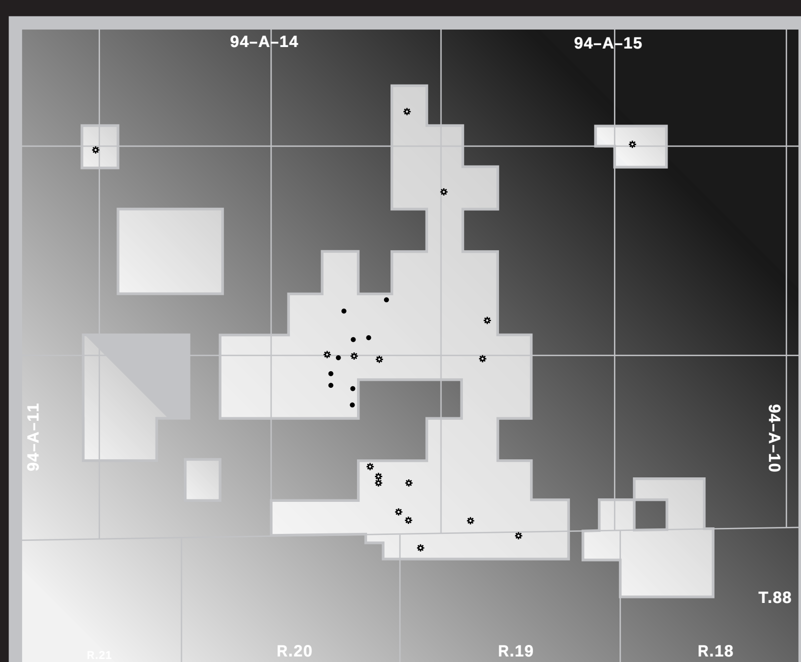


PROGRESS

Located in the Peace River Arch area of northwest Alberta, the Progress natural gas facilities and production form a significant part of the ARC Energy Trust.

BUICK CREEK





In northeast British Columbia, Buick Creek provides a substantial revenue stream from natural gas and natural gas liquids production. As part of the acquisition, an extensive undeveloped land position was obtained and is available for potential development.

4. Progress Area

ARC Resources owns various working and royalty interests in the Progress area including a 10.1 percent working interest in the Progress Halfway Unit No. 1 and a 7.26 percent working interest in the Progress Gas Plant operated by Norcen Energy Resources Limited.

In addition to processing gas from the Progress Unit, the Progress Gas Plant processes excess gas produced by plant working interest owners and custom processes third-party gas. In 1996, the operator commenced an upgrade of the plant inlet compression and the tie-in of an additional unit well.

Net production to ARC Resources for six months ended December 31, 1996 averaged 5.5 million cubic feet per day of natural gas and 63 barrels per day of natural gas liquids. The operator is projecting an aggressive development drilling program for 1997 to maintain gas deliverability.

5. Buick Creek Area

In British Columbia, ARC Resources owns working interests ranging from 12.5 percent to 75 percent in 18 (5.88 net) producing gas wells, one royalty interest producing well and eight (2.9 net) suspended wells in the Buick Creek property. The wells produce from the Bluesky, Buick Creek and North Pine formations and are operated by BC Star Partners and Rigel Oil and Gas Ltd. ARC Resources also holds interests in four field compression facilities in the area. After compression, the raw gas is processed at Westcoast Energy Inc.'s McMahon Plant where natural gas liquids are removed and subsequently sold.

Net production from the Buick Creek area for the six months ended December 31, 1996, totaled 4.5 million cubic feet per day of natural gas and 40 barrels per day of natural gas liquids.

In 1996, a major compressor and engine overhaul was completed as well as a flowline installation and well reperforation program that should help maintain production levels in 1997.

6. Other Properties

ARC Resources owns a 2.18 percent working interest in the Mitsue Gilwood Sand Unit No. 1 located 120 miles northwest of Edmonton. Chevron Canada Resources operates the oil unit and is responsible for the waterflood pressure maintenance scheme and hydrocarbon miscible flood projects. The operator has been drilling horizontal re-entries to optimize the waterflood and to further delineate the reservoir. Production averaged 334 barrels per day of oil, 72 barrels per day of natural gas liquids and 0.7 million cubic feet per day of natural gas.

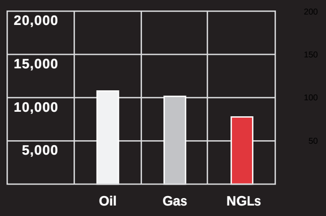
The Medicine River area combines both oil and natural gas properties and is located in central Alberta 85 miles northwest of Calgary. ARC Resources owns a 34.19 percent working interest in the AEC West-operated Medicine River Glauconite A Unit No. 4, a 6.91 percent working interest in the Medicine River Unit No. 2 and a 1.117 percent working interest in the Hespero Unit (both operated by Suncor Inc.), as well as miscellaneous non-unit interests. Production from the area was 171 barrels per day of oil, 43 barrels per day of natural gas liquids, and 1.4 million cubic feet per day of gas.

In addition to some non-unit oil and gas working interests, ARC Resources has a 33.20 percent working interest in the Innisfail Leduc Reef Unit operated by Samson Resource Company. The unitized Leduc D-3 oilfield is located 60 miles north of Calgary. Average production for 1996 was 284 barrels per day of oil, 19 barrels per day of natural gas liquids, and 0.4 million cubic feet per day of gas.

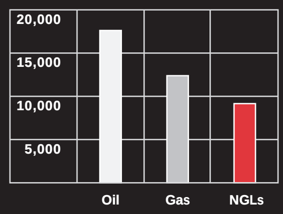
The Meekwap D-2A Unit No. 1 is operated by Tusk Energy Incorporated and ARC Resources has a working interest of 10.23 percent. The unit is located 135 miles northwest of Edmonton and oil production is from the Nisku D-2A pool. Production through 1996 was 257 barrels per day of oil, 33 barrels per day of natural gas liquids, and 0.2 million cubic feet per day of gas.

Total Proved Reserves

(Mboe)

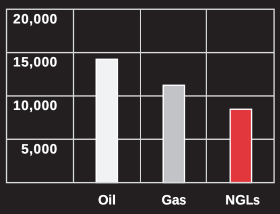


Proved Plus Probable Reserves (Mboe)



Established Reserves

(Mboe)



Left to Right: Doug Bonner, Manager, Engineering; Susan Healy, Manager, Contracts and Land Administration; Steven Sinclair, Vice-President, Finance

Based upon an independent engineering evaluation conducted by Sproule Associates Limited (Sproule) effective December 31, 1996, ARC Resources had proved reserves of 100.5 billion cubic feet of natural gas and 18.4 million barrels of crude oil and natural gas liquids. On a barrel of oil equivalent basis, approximately 78 percent of the proved and risked probable (established) reserves were in the core areas of Pembina, Caroline, Elmworth/Wapiti, Progress, and Buick Creek.

The following tables present ARC Resources reserves of natural gas, crude oil, and natural gas liquids as evaluated by Sproule. Reserves are Company interest before royalties and probable reserves are risked at 50 percent. All estimates of future net cash flow in these tables are calculated without any provision for income taxes, general and administrative expenses, or management fees, but include provisions for future abandonment liabilities.

Reserves Summary

December 31, 1996	*Crude Oil (Mbbl)*	*Natural Gas (Bcf)*	*NGLs (Mbbl)*	*Total (Mboe)*
Proved Producing	10,729	76.52	6,868	25,249
Proved Non-Producing	–	23.95	819	3,214
Total Proved	10,729	100.47	7,687	28,463
Probable (Risked at 50%)	3,418	11.49	680	5,247
Established	14,147	111.96	8,367	33,710

Reserves Reconciliation

	Crude Oil (Mbbl)		*Natural Gas (Bcf)*		*NGLs (Mbbl)*		*Total (Mboe)*	
December 31, 1996	*Proved*	*Risked Probable*	*Proved*	*Risked Probable*	*Proved*	*Risked Probable*	*Proved*	*Risked Probable*
Opening Reserves [(1)]	11,315	3,419	106.60	11.51	8,016	680	29,991	5,250
Acquisitions and Divestments	–	–	–	–	–	–	–	–
Drilling and Development [(2)]	–	–	–	–	–	–	–	–
Production [(3)]	(538)	–	(5.42)	–	(319)	–	(1,399)	–
Revisions [(4)]	(48)	(1)	(0.71)	(0.02)	(10)	–	(129)	(3)
Year End Reserves	10,729	3,418	100.47	11.49	7,687	680	28,463	5,247

(1) Pursuant to the Mobil properties acquired July 11, 1996
(2) New wells have not been evaluated by Sproule
(3) For the six months ended December 31, 1996
(4) Revisions and production adjustment

Estimated Future Net Cash Flow Before Income Taxes

Effective December 31, 1996

($ thousands) *Present worth discounted at*	*10%*	*12%*	*15%*
Proved Producing	$ 192,352	$ 173,201	$ 151,036
Proved Non-producing	24,921	22,389	19,285
Total Proved	217,273	195,590	170,321
Probable (Risked at 50%)	21,999	18,068	14,156
Established	$ 239,272	$ 213,658	$ 184,478

Net Asset Value

December 31, 1996 *($ thousands, except per unit amounts)*	*10%*	*Discount Rate* *12%*	*15%*
Value of Established Oil and Gas Reserves	$ 239,272	$ 213,658	$ 184,478
Add: Undeveloped Lands	1,800	1,800	1,800
Working Capital	1,647	1,647	1,647
Reclamation Fund	908	908	908
Less: Debt	(37,998)	(37,998)	(37,998)
Net Asset Value	205,629	180,015	150,835
Per Unit*	$ 11.42	$ 10.00	$ 8.38

** Based on 18,000,000 units outstanding*

Pricing Assumptions

To estimate the present worth of future net cash flow, Sproule's October 1, 1996 price forecast for crude oil and natural gas was used.

	Crude Oil		Natural Gas
Year	*WTI [1]* *Cushing* *Oklahoma* *$US/Bbl*	*Light [2]* *Crude* *Edmonton* *$Cdn/Bbl*	*TCGSL [3]* *Average Plant* *Gate Price* *$Cdn/MmBtu*
1997	20.00	26.58	1.65
1998	20.39	26.85	1.80
1999	21.27	27.77	2.08
2000	22.18	29.00	2.19
To 2010 [4]	+4.25%	+4.25%	+3.00 to +6.00%
Thereafter	+3.00%	+3.00%	+3.00%

[1] *West Texas Intermediate*
[2] *Edmonton refinery postings for 40° API, 0.4% sulphur content crude*
[3] *TransCanada Gas Services Limited*
[4] *Average percentage escalations per year*

MARKETING AND HEDGING

The average natural gas price received for the six months ended December 31, 1996 was $1.61 per thousand cubic feet. This price was achieved with a portfolio mix that, on average through the year, moved 75 percent of its volume to a direct market indexed to TransCanada Gas Services Limited sales and the remaining 25 percent into the spot market.

Natural gas prices have historically shown a high degree of volatility. To manage this volatility and to stabilize the revenue streams, ARC Resources is developing a natural gas portfolio that provides:

1. A balanced price matrix between U.S. and Canadian markets;

2. market sensitive pricing and contract flexibility;

3. a high utilization of our contracted pipeline capacity; and

4. creditworthy buyers.

For the six months ended December 31, 1996, the Trust received an average sales price of $29.76 Cdn per barrel of oil and $20.31 per barrel of natural gas liquids. Crude oil is sold under 30 day evergreen contracts while natural gas liquids are sold under annual arrangements. ARC Resources continuously monitors industry pricing benchmarks for crude oil and natural gas liquids to ensure optimal netbacks.

During 1996, ARC Financial did not hedge the Trust's oil and gas production and has a bias towards remaining open in the market. Although ARC Financial does not plan to implement a major hedging program, the markets are monitored continuously for opportunities to maximize unitholder distributions which could result in short term hedges being put into place on a portion of the Trust's production.

ENVIRONMENT AND SAFETY

ARC Resources is firmly committed to conducting its operations in a safe and environmentally responsible manner. Management, staff and contractors are responsible for ensuring that operations are conducted in accordance with all current environmental and occupational health and safety laws and regulations.

Training and awareness are important components of ARC Resources' environmental and safety efforts, and staff are encouraged to continually upgrade their skills. Meetings are held throughout the year with office and field staff to ensure that all parties are aware of the importance of good safety and environmental operating practices and are familiar with ARC Resources' Emergency Response Procedures.

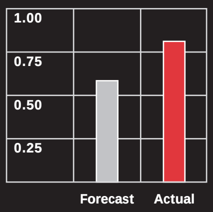
A Reclamation Fund has been established to ensure that funds are available for future reclamation and abandonment of all wells, plants and facilities. The balance of the Fund at year end was $908,000. ARC Resources has a continuing program of well-site abandonment, cleanup and restoration to reduce future environmental liabilities.

CORPORATE GOVERNANCE

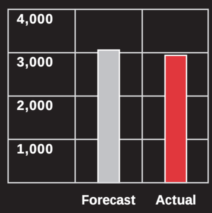
ARC Resources' disclosure of corporate governance practices is set out in the management proxy circular which has been mailed to unitholders with the Notice of Annual and Special Meeting.

Cash Distributions

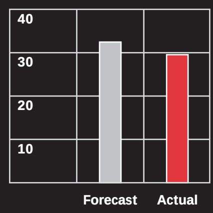
($/Unit)



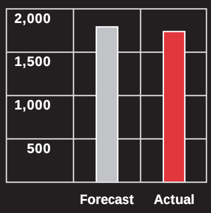
Average Daily Oil Production
(Bbls/d)



Average Daily Gas Production
(Mmcf/d)



Average Daily NGLs Production
(Bbls/d)



Highlights

For the six months ending December 31, 1996

Production revenues up 22% over forecast to $31.9 million

Cash flow from operations up 33% over forecast to $18.3 million

Net income up 129% over forecast to $7.1 million

Distributions up 41% over forecast to $14.6 million ($0.81 per unit)

Market capitalization of ARC Energy Trust Units up 22.5% to $ 220.5 million as at December 31, 1996

Cash Distributions

Cash distributions were 41 percent higher than the initial public offering prospectus forecast due primarily to higher than forecast commodity prices. On a per unit basis, cash distributions for the six months ended December 31, 1996 totaled $0.81, $0.23 higher than forecast. Field oil prices averaged $29.76 per barrel for the six month period, well above the $24.40 per barrel price assumed in the forecast. Similarly, natural gas and natural gas liquids prices of $1.61 per thousand cubic feet and $20.31 per barrel respectively, were higher than forecast amounts of $1.45 and $16.72.

Production

Average production volumes totaled 7,600 barrels of oil equivalent per day, slightly below the forecast which was based on the proved plus risked probable reserves estimated by Sproule Associates Ltd. Gas production was impacted by numerous plant turnarounds which reduced short term production rates. Oil production was affected by the deferral of drilling programs in several areas.

Revenue and Cash Flow

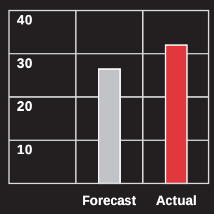
Higher than forecast commodity prices more than offset the slightly lower production volumes, increasing both revenue and cash flow well above forecast. For the six month period ended December 31, 1996, revenue was $31.9 million and cash flow was $18.3 million, up 22 percent and 33 percent over forecast, respectively.

In the six month period ending December 31, 1996, strong commodity prices resulted in very attractive netbacks for all commodities. Royalty rates averaged 16 percent and operating costs, net of processing income, averaged $4.49 per barrel of oil equivalent.

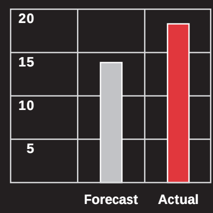
Netbacks

	Oil ($/Bbl)	*NGLs ($/Bbl)*	*Gas ($/Mcf)*	*Total ($/Boe)*
Selling Price	$ 29.76	$ 20.31	$ 1.61	$ 22.31
Royalties	(4.89)	(4.50)	(0.18)	(3.61)
Operating Costs	(5.81)	(4.37)	(0.32)	(4.49)
Netback	$ 19.06	$ 11.44	$ 1.11	$ 14.21

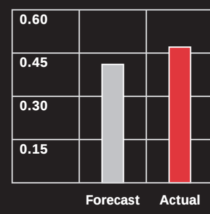
Revenue Before Royalties
($ Millions)



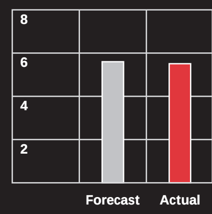
Cash Flow
($ Millions)



General & Administrative Expenses
($/Boe)



Depletion, Depreciation & Amortization Expense
($/Boe)



General and Administrative Expenses

General and administrative expenses were $0.47 per barrel of oil equivalent in the six month period ending December 31, 1996, reflecting the phase-in of new staff to manage the assets. Ongoing general and administrative expenses are expected to be in the $0.70 to $0.80 range per barrel of oil equivalent, which is among the lowest of all conventional oil and gas trusts.

Management Fees

ARC Financial, as manager of the Trust, receives a management fee equal to three percent of net operating revenue. In the six month period ending December 31, 1996, management fees totaled $628,000. The three percent management fee is at the low end of the effective management fees of all conventional oil and gas trusts.

Interest Expense

The debt incurred to finance the initial property acquisitions from Mobil Oil Canada was $38 million. With all of the cash being distributed to unitholders, debt remained unchanged during the period. The average borrowing rate for the six month period was 5.2 percent.

Interest expense ($ thousands)	920
Average debt outstanding ($ millions)	35
Average interest rate (%)	5.2

Capital and Deferred Taxes

Capital taxes are paid by ARC Resources Ltd. and are based on year end debt and equity levels. For the six months ended December 31, 1996, capital taxes totaled $62,400.

Deferred taxes are not computed for ARC Energy Trust as any taxable income is allocated to unitholders on a pro rata basis to distributions. A small portion of cash distributions may become taxable in the hands of unitholders in 1997.

Depletion, Depreciation and Future Site Restoration Expenses

The depletion and depreciation rate was $5.54 per barrel of oil equivalent, based on gas converted to a barrel of oil equivalent using a 6:1 energy equivalent factor. This rate included an estimated $8.0 million for future development costs of proved undeveloped reserves and excluded $7.0 million for future net realization value of production equipment and facilities along with $1.8 million for undeveloped petroleum and natural gas properties. The provision for future site restoration and abandonment equaled $0.82 per barrel of oil equivalent.

Liquidity and Capital Resources

The most significant transaction of the period was the acquisition of the initial properties from Mobil for $205 million plus acquisition costs. This acquisition was financed by the issuance of 18 million ARC Energy Trust Units at $10.00 per Unit for net proceeds, after issue and other expenses, of $168 million and $38 million in proceeds from a bank loan.

Capital expenditures on land, drilling and facilities totaled $1.2 million for the six month period and were primarily incurred on non-operated properties with the largest expenditure at Caroline for plant expansion and for well workovers to more efficiently produce the reserves.

The Trust will continue to finance capital expenditures from cash flow. As outlined in the initial offering prospectus, capital expenditures in excess of 10 percent of net cash flow will be financed by debt.

Sensitivity Analysis

	Cash Distributions		*Net Income*	
	Amount ($ Thousands)	*Per Unit ($/Unit)*	*Amount ($ Thousands)*	*Per Unit ($/Unit)*
Operational Variances:				
Change of 100 Bbls/d in oil production	$ 351	$ 0.02	$ 203	$ 0.01
Change of 2,500 Mcf/d in gas production	511	0.03	143	0.01
Financial Variances:				
Change of $1.00 U.S. in the price of oil	942	0.05	942	0.05
Change of $0.10 in the price of gas	481	0.03	481	0.03
Change of $0.01 in the $U.S./$Canadian exchange rate	180	0.01	180	0.01
Change of 1% in interest rates	192	0.01	192	0.01

Business Risks

The oil and gas business is subject to numerous risks, including, but not limited to, the following:

Operational risk associated with the production of oil and natural gas

Reserve risk in respect to the quantity and quality of recoverable reserves

Market risk relating to the availability of transportation systems to move the product to market

Commodity risk as oil and gas prices fluctuate due to market forces

Financial risks such as the $U.S./$Canadian exchange rate, interest rates and debt service obligations

Environmental and safety risks associated with well and production facilities

Changing Government royalty legislation, income tax laws and incentive programs relating to the oil and gas industry

The Trust's policies and procedures to mitigate these risks are as follows:

Acquire mature production to reduce technical risks and long life reserves to reduce the economic risks associated with commodity price cycles

Diversify properties to mitigate individual property risk

Seek to maintain a relatively balanced commodity exposure

Subject all property acquisitions to rigorous review

Closely monitor pricing trends and develop a mix of contractual arrangements for the marketing of products

Implement a diversified strategy of managing foreign currency and interest rate transactions

Continuously search for ways to reduce costs and to increase profitability

Hire, train and supervise highly qualified staff and obtain the services of technical experts when required

Ensure strong third-party operators for non-operated properties

Adhere to the Trust's safety program and keep abreast of current operating practices.

Carry insurance to cover losses and business interruption

Establish and build cash resources to pay for future abandonment and site restoration costs

Actual to Forecast Comparisons

In the initial public offering prospectus, a forecast of projected cash distributions for the Trust was included for the first six months of operations. Summarized below are actual to forecast comparisons highlighting positive revenue variances due to the strong commodity prices which offset slightly lower than forecast production.

For the six months ended December 31, 1996 ($ thousands, except per unit amounts)	*Actual*	*Forecast*	*Variance (%)*
Production Volume (Boe/d)	7,600	8,076	–6
Prices			
Oil ($/Bbl)	29.76	24.40	+22
Gas ($/Mcf)	1.61	1.45	+11
NGLs and Condensate ($/Bbl)	20.31	16.72	+22
Revenue net of royalties	26,851	22,252	+21
Operating expenses	6,274	6,082 [1]	
General and administrative, net of recoveries	652	607	
Management fee	628	483	
Interest	920	1,249	
Capital taxes	62	34	
Depletion, depreciation and amortization	11,207	10,699	
Total expenses	19,743	19,154	+3
Net income	7,108	3,098	
Depletion, depreciation and amortization		11,207	10,699
Debt repayment	–	(1,149)	
Reclamation fund contributions	(908)	(671)	
Site restoration costs paid	(46)	(279) [1]	
Capital expenditures	(1,166)	(1,348)	
Working capital accruals	(1,615)	–	
Cash available for distributions	14,580	10,350	+41
Per unit cash distributions	0.81	0.58	+41

[1] *Abandonment costs have been reclassified for presentation purposes*

MANAGEMENT'S RESPONSIBILITY

ARC Financial Corporation, as manager of ARC Energy Trust and ARC Resources Ltd., is responsible for the preparation of the accompanying combined financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. The statements have been prepared in accordance with the accounting policies detailed in the accounting policies note to the combined financial statements. In the manager's opinion, the combined financial statements are in accordance with the generally accepted accounting principles, have been prepared with acceptable limits of materiality, and have utilized supportable reasonable estimates.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable and timely information.

Arthur Andersen & Co., independent auditors appointed by the Trustee, have examined the combined financial statements of the Trust. The Audit Committee, consisting of non-management directors of ARC Resources Ltd., has reviewed these statements with Management and the auditors, and has recommended their approval to the Board of Directors. The Board has approved the combined financial statements of the Trust.

John Dielwart
John P. Dielwart
President & Director

Steven W Sinclair
Steven W. Sinclair
Vice-President, Finance

AUDITORS' REPORT

To the Trustee of ARC Energy Trust:

We have audited the combined balance sheet of ARC Energy Trust as at December 31, 1996 and the combined statements of income and accumulated earnings, royalty distributions and accumulated royalty distributions, and changes in financial position for the six month period ended December 31, 1996. These financial statements are the responsibility of the Trust's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1996 and the results of its operations and the changes in its financial position for the six month period ended December 31, 1996 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Alberta,
February 28, 1997.

COMBINED BALANCE SHEET

AS AT DECEMBER 31, 1996

($ thousands)	
Assets	
Current assets	
Cash	$ 8,132
Accounts receivable	8,109
	16,241
Reclamation fund (Note 3)	908
Property, plant and equipment (Notes 4, 10)	197,676
Total assets	$ 214,825
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	$ 6,316
Royalty distributions payable	8,100
Payable to the manager (Note 9)	178
	14,594
Long term debt (Notes 5, 10)	37,998
Future site restoration and abandonment	1,399
Total liabilities	53,991
Unitholders' Equity	
Unitholders' capital (Note 6)	168,306
Accumulated earnings	7,108
Accumulated royalty distributions	(14,580)
Total unitholders' equity	160,834
Total liabilities and unitholders' equity	$ 214,825

COMBINED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 1996

($ thousands)	
Revenue	
Oil, natural gas, natural gas liquids and sulphur sales	$ 31,908
Royalties	(5,057)
	26,851
Expenses	
Operating	6,274
General and administrative, net of recoveries	652
Management fee (Note 9)	628
Interest	920
Capital taxes (Note 8)	62
Depletion, depreciation and amortization	11,207
	19,743
Net income and accumulated earnings, end of the period (Note 7)	$ 7,108

COMBINED STATEMENT OF ROYALTY DISTRIBUTIONS AND ACCUMULATED ROYALTY DISTRIBUTIONS

FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 1996

($ thousands, except per unit amounts)	
Net income	$ 7,108
Add: Depletion, depreciation and amortization	11,207
Less: Capital expenditures	(1,166)
Reclamation fund contributions	(908)
Site restoration costs paid	(46)
Current period accruals	(1,615)
Royalty distributions and accumulated royalty distributions, end of the period	$ 14,580
Per unit	$ 0.81

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 1996

($ thousands)	
Operating activities	
Net income	$ 7,108
Add items not involving cash:	
Depletion, depreciation and amortization	11,207
	18,315
Increase in non-cash working capital accounts	6,485
	24,800
Financing activities	
Issue of Trust units, net of expenses	168,306
Increase in long term debt	37,998
Royalty entitlements	(14,580)
	191,724
Investing activities	
Initial acquisition of properties	(206,231)
Reclamation fund contributions	(908)
Purchase of capital assets	(1,202)
Site restoration and abandonment	(51)
	(208,392)
Increase in cash and Cash, end of period	$ 8,132

1. Structure of the Trust

ARC Energy Trust ("the Trust") is a closed-end investment trust formed under the laws of the Province of Alberta pursuant to a trust indenture (the "Trust Indenture") dated May 7, 1996 between the Trust and Montreal Trust Company of Canada (the "Trustee"). The beneficiaries of the Trust, which commenced operations on July 11, 1996, are the holders of the Trust units (the "Unitholders"). Operations of the Trust consist of acquiring and holding, as the Trust's principal asset, a royalty in the properties of ARC Resources Ltd. ("ARC Resources").

ARC Resources acquires oil and gas properties and grants a royalty to the Trust. The royalty in producing oil and gas properties acquired from ARC Resources effectively transfers the economic interest in the properties acquired by ARC Resources to the Trust. The royalty constitutes a contractual interest in revenues from the oil and gas properties owned by ARC Resources but does not confer ownership in the underlying resource properties.

2. Summary of Accounting Policies

The Trust's financial statements have been prepared following accounting policies generally accepted in Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated. The following significant account policies are presented to assist the reader in evaluating these statements.

Basis of Accounting

The Trust's combined financial statements include the accounts of the Trust and the accounts of ARC Resources. All inter-entity transactions have been eliminated.

Property, plant and equipment

The Trust follows the full cost method of accounting. All costs of acquiring oil and natural gas properties and related development costs are capitalized and accumulated in one cost center. Maintenance and repairs are charged against earnings, and renewals and enhancements which extend the economic life of the property, plant and equipment are capitalized. Gains and losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would alter the rate of depletion by 20% or more.

Depletion, depreciation and amortization

Depletion of petroleum and natural gas properties and depreciation of production equipment, except for major gas plant facilities which are depreciated on a straight-line basis over their estimated useful life, are calculated on the unit-of-production method based on:

a) total estimated proven developed and undeveloped reserves net of royalties,

b) total capitalized costs plus estimated future development costs of proven undeveloped reserves less estimated salvage value of production equipment and facilities after the proven reserves are fully produced; and

c) relative volumes of oil and natural gas reserves and production converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Future site restoration and abandonment provisions are calculated on the unit-of-production method. Actual site restoration costs are charged against the future site restoration and abandonment liability.

Ceiling test

The Trust places a limit on the aggregate cost of property, plant and equipment which may be carried forward for amortization against revenues of future periods (the “ceiling test”). The ceiling test is a cost recovery test whereby the capitalized costs less accumulated depletion and site restoration are limited to an amount equal to estimated undiscounted future net revenues from proven reserves less recurring general and administrative expenses, site restoration, management fees, future financing costs and income taxes. Costs and prices at the balance sheet dates are used. Any capitalized costs in excess of the ceiling test limitation are charged to earnings.

Income Taxes

The Income Tax Act (Canada) requires the Trust compute its income or loss for a taxation year as though it were an individual. The taxation year of the Trust is the calendar year. Each year the Trustee has agreed to designate the full amount of taxable income to the Unitholders (less any amount the Trust may want to bring into income to utilize loss carry-forwards). As such, no accounting for deferred income taxes is provided in these combined financial statements as future tax liabilities will be borne by the Unitholders.

Periodically, current taxes may be payable by ARC Resources depending on the timing of income tax deductions and the timing of debt repayments. Should these taxes prove to be unrecoverable, they will be deducted from royalty distributions in accordance with the Royalty Agreement.

3. Reclamation Fund

December 31, 1996 ($ thousands)	
Contributions to reclamation fund	$ 904
Interest income earned on cash contributions	4
Reclamation fund, end of year	$ 908

A reclamation fund requiring an annual contribution of up to $1.9 million less current year site restoration costs was established by the Trust to finance future site restoration and abandonment costs. Contributions to the reclamation fund have been deducted from cash distributions to the Unitholders.

4. Property Plant & Equipment

December 31, 1996 ($ thousands)	
Property, plant and equipment at cost	$ 207,433
Accumulated depletion and depreciation	(9,757)
Property, plant and equipment, net	$ 197,676

The calculation of 1996 depletion, depreciation and amortization included an estimated $8.0 million for future development costs of proven undeveloped reserves and excluded $7.0 million for future net realizable value of production equipment and facilities along with $1.8 million for undeveloped petroleum and natural gas properties.

5. Long Term Debt

Long term debt consists of a demand revolving credit facility with the Royal Bank of Canada to a maximum of $60 million and is reviewed each year by July 1 by the Bank in order to extend the revolving period for another year. In the event that the revolving period is not extended the principal amount of the loan is repayable over five years in equal quarterly amounts. The loan bears interest at bank prime (4.75% at December 31, 1996) or at the Company's option, Bankers Acceptance plus 6/10 of 1%.

The loan is the legal obligation of ARC Resources, which has granted security in the form of a floating charge on all lands and an assignment and negative pledge on specific oil and gas properties. The Unitholders have no direct liability to ARC Resources should the properties securing this debt generate insufficient revenue to repay this loan. The payment of the principal and interest are allowable deductions in the calculation of the royalty available for distribution to the Unitholders.

6. Unitholders' Capital

Under the initial public offering 18 million of the 650 million authorized Trust units were issued at $10 per unit, which netted the Trust $9.40 after brokerage commission, except for 200,000 shares purchased by the Manager on which the Trust received the full $10. Issue costs of $1,013,000 have been deducted from Unitholders' capital. Under the Trust Unit Incentive Plan, 925,000 of a maximum 1,500,000 Trust units reserved for issuance were issued to the Manager and the Independent Directors and are exercisable within a five year period. The options are non-transferable and non-assignable and the initial options contained an exercise price of $10.00.

The 500,000 options granted to the Manager will terminate upon the earlier of five years from the date of grant and termination of the Management Agreement.

7. Net Income and Cash Flow From Operations per Unit

	Basic	*Fully Diluted*
Net Income	$ 0.40	$ 0.40
Cash flow from Operations [1]	$ 1.01	$ 0.98

[1] *Calculated by adding depletion, depreciation and amortization back to net income and dividing by the number of units*

The fully diluted per share calculations include imputed interest at 8% per annum on the proceeds from the exercise of unit options.

8. Taxes

ARC Resources is subject to both the large corporations tax and income taxes. No current income taxes were payable in 1996 but $62,000 of capital taxes were payable at year end and deducted from the royalty distribution payable.

The Trust had no taxable income in 1996 and therefore 1996 distributions of $0.36 per unit for the quarter ended September 30 and $0.45 per unit for the quarter ended December 31 are both deemed to be a return of capital to unitholders. As at December 31, 1996 the Trust had the following income tax pools:

December 31, 1996 ($ thousands)	
Canadian Oil & Gas Property Expense (1)	$ 154,464
Issue costs and management fee (2)	2,186
Total Tax Pools	$ 156,650

(1) Deductible at 10% per year declining balance
(2) Deductible over 5 years

9. Related Party Transactions

On July 11, 1996, a management agreement was entered into with ARC Financial Corporation (“the Manager”) to provide management, advisory and administration services. The fees payable to the Manager include: a fee equal to 3% of net production revenue; and fees of 1.5%, and 1.25%, of the purchase price of acquisitions and selling price of dispositions, respectively.

A management fee of $1.45 million was paid to the Manager at the closing of the Mobil property acquisition. This amount has been capitalized as part of Property, Plant and Equipment.

The Manager was reimbursed $586,471, during the period ending December 31, 1996, for general and administrative expenses incurred on behalf of the Trust.

10. Subsequent Event

On February 28, 1997, ARC Resources entered into an agreement to acquire a package of nine major and 25 minor producing oil and gas properties in Alberta and Saskatchewan for the sum of $61.5 million. The acquisition is to be financed initially by debt and subsequently by the issuance of additional Trust units. ARC Resources increased its credit facility with the Royal Bank of Canada from $60 million to $100 million to accommodate the purchase of the new properties.

CORPORATE INFORMATION

Directors and Officers of ARC Resources Ltd.

Walter DeBoni [1]
Chairman

Mac Van Wielingen
Director, Vice-Chairman and Chief Executive Officer

John P. Dielwart
Director and President

John M. Beddome [1]
Director

Frederic C. Coles [1]
Director

Michael M. Kanovsky [1]
Director

Philip C. Swift
Director

John M. Stewart
Senior Vice-President

Nancy V. Lever
Vice-President, Planning

Steven W. Sinclair
Vice-President, Finance

[1] *Member of Audit Committee*

Trustee

Montreal Trust Company of Canada
Corporate Trust Department
600, 530 – 8th Avenue S.W.
Calgary, Alberta
T2P 3S8

Bankers

Royal Bank of Canada
Calgary, Alberta

Auditors

Arthur Andersen & Co.
Calgary, Alberta

Engineering Consultants

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

Sproule Associates Limited
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: AET.UN

Executive Office

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For Investor Information Contact:

Steven W. Sinclair
Vice-President, Finance

Abbreviations

Bbl	barrels
Mbbls	thousand barrels
Bbls/d	barrels per day
Mcf	thousand cubic feet
Mmcf	million cubic feet
Mmcf/d	million cubic feet per day
Bcf	billion cubic feet
Boe	barrels of oil equivalent
Mboe	thousand barrels of oil equivalent
Boe/d	barrels of oil equivalent per day
Barrels of oil equivalence:	10 Mcf = 1 Bbl

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