



performance

ARC

ENERGY TRUST

ARC Energy Trust

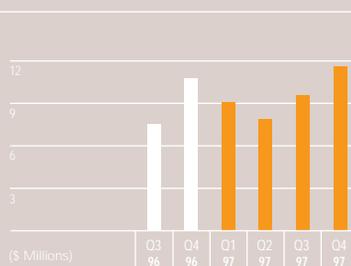
vision

ARC Energy Trust (the "Trust") was formed in 1996 with the vision of becoming the premier "blue chip" conventional oil and gas trust in Canada as measured by quality of assets, management expertise and long term investor returns. As Manager of the Trust, ARC Financial Corporation is absolutely committed to delivering superior returns and value to unitholders. The Trust's performance to date is evidence of our success in realizing our vision.

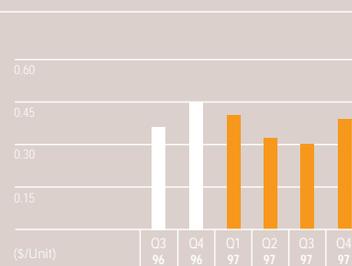
Revenue Before Royalties



Cash Flow



Cash Distributions



Notice of Annual Meeting: The Annual Meeting of unitholders will be held on May 12, 1998 at 3:30 pm at the Westin Hotel, Lakeview Room, 320 - 4th Avenue S.W., Calgary, Alberta.

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HIGHLIGHTS

<i>(\$ thousands, except per unit amounts)</i>	Year Ended December 31, 1997	Six Months Ended December 31, 1996 *
Financial		
Revenue before royalties	74,103	31,908
Per unit	3.24	1.77
Cash flow	37,757	18,315
Per unit	1.65	1.02
Net income	9,165	7,108
Per unit	0.40	0.39
Cash distributions	33,242	14,580
Per unit**	1.40	0.81
Working capital	4,647	1,647
Long term debt	65,955	37,998
Unitholders' equity	212,140	160,834
Weighted average units	22,836,888	18,000,000
Units outstanding at year-end	25,604,000	18,000,000

* From inception at July 1, 1996

** Based on the number of units outstanding at each cash distribution date

Operating

Production		
Crude oil (Bbls/d)	3,656	2,922
Natural gas (Mmcf/d)	38.40	29.47
Natural gas liquids (Bbls/d)	1,929	1,732
Total (Boe/d)	9,425	7,600
Average prices		
Crude oil (\$/Bbl)	26.35	29.76
Natural gas (\$/Mcf)	1.82	1.61
Natural gas liquids (\$/Bbl)	18.27	20.31
Oil equivalent (\$/Boe)	21.54	22.31

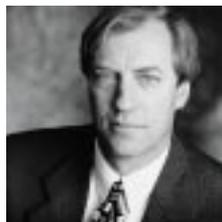
<i>(based on daily closing price)</i>	1996	1997 First Quarter	1997 Second Quarter	1997 Third Quarter	1997 Fourth Quarter
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Trust Unit Trading

Prices (\$)					
High	12.85	12.30	12.00	13.00	12.95
Low	9.90	10.60	10.35	11.95	10.15
Close	12.25	10.90	11.95	13.00	10.45
Average daily volume (000s)	98	47	61	63	48

ARC
E N E R G Y T R U S T

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



*John P. Dielwart
Director and President*

M E S S A G E T O U N I T H O L D E R S

We have selected “performance” as the theme for this year’s annual report to highlight our results to date and to re-emphasize our commitment to generating superior returns for our unitholders. We are unequivocal in communicating to our unitholders that 1997 was a year of very strong performance. In creating ARC Energy Trust (the “Trust”), our vision was to build the premier “blue chip” conventional oil and gas trust in Canada. We have stated that our progress towards this goal would be measured by the quality of the assets acquired by the Trust, the development and application of management and technical expertise in all areas of the Trust’s activities and through generating superior long term investor returns. Based upon the results in each of these areas, we believe our progress towards realizing our vision is now well established.

A key element of our performance in 1997 related to the implementation of a successful acquisition based going concern strategy which enhanced unitholder distributions and value. The Trust completed a number of transactions which resulted in a total net acquisition of \$94.4 million of new oil and gas properties. Critical to the ongoing success of the Trust is the financial market support required to finance our acquisition program. The Trust was highly successful in receiving market support during 1997 with two equity financings completed for gross proceeds of \$80.0 million.

Another significant event was our decision to take over operatorship of the main producing properties in our Pembina core area. Field optimization activities and cost control measures which were initiated have already resulted in increased production and reduced operating costs. This improved performance will be of long term financial benefit to our unitholders.

The ultimate measure of performance is investor returns. Our strategies and decisions have resulted in total returns to our unitholders that have been the highest among all new conventional oil and gas royalty trusts. Unitholder distributions generated in 1997 were \$1.40 per unit, bringing total distributions during the Trust’s first 18 months of operation to \$2.21 per unit. Including capital appreciation, this represents a 26 percent total return in the 18 months from inception to year end 1997 for our initial investors. As Manager of the Trust, we are committed to generating superior investor returns and our 1997 results demonstrate that we are performing well on that critical measure.

Acquisition Activity

Management of the Trust’s assets involves both the acquisition and disposition of oil and gas properties to capitalize on opportunities which develop in the market. The Trust had a very successful year in 1997 completing two major and two minor acquisitions for a total of \$105.5 million. These transactions added 4,325 barrels of oil

equivalent per day of production and 18.5 million barrels of oil equivalent of reserves to the Trust at an average purchase price of \$5.42 per barrel of oil equivalent, net of Alberta Royalty Tax Credit expected to be received. In addition, the Trust completed three minor dispositions for a total of \$11.1 million which included 425 barrels of oil equivalent per day of production and 1.7 million barrels of oil equivalent of reserves at an average sale price of \$6.46 per barrel of oil equivalent. The result of these transactions was a net acquisition of \$94.4 million for 3,900 barrels of oil equivalent per day of production and 16.8 million barrels of oil equivalent of reserves at an average price of \$5.32 per barrel of oil equivalent. The net acquisitions replaced 490 percent of the Trust's 1997 production and increased the Trust's reserves and production by approximately 40 percent.

The assets acquired in 1997 were very attractive in that they included additional interests in our core area of Pembina as well as interests in a number of high quality units in Alberta and Saskatchewan. The risked reserve life index of the new properties is 11.7 years which is consistent with that of our initial properties. At year end, the risked reserve life index for the Trust's properties was 12.0 years.

Our acquisition strategy will continue to be focused on acquiring additional interests in our existing core properties as well as establishing new core areas for the Trust.

Financing Activity

A crucial component of the Trust's going concern strategy is the financial market support to finance growth through acquisitions. Market support for the Trust was demonstrated during 1997 with the completion of two financings, a private placement of

1.1 million special warrants at \$11.00 per warrant for gross proceeds of \$12.1 million which closed on March 25, 1997, and the issue of 6.5 million new trust units at \$10.45 per unit for gross proceeds of \$67.9 million which closed on May 21, 1997. At year end 1997, the number of outstanding units of the Trust was 25.6 million.

Financial and Operating Performance

Production during 1997 increased 24 percent to 9,425 barrels of oil equivalent per day from 7,600 barrels of oil equivalent per day in 1996 as a result of acquisitions completed during the year as well as positive results from field optimization efforts and infill drilling programs within existing properties. The Trust completed 1997 with an exit production rate of 10,750 barrels of oil equivalent per day, a 41 percent increase over the 1996 exit production rate of 7,650 barrels of oil equivalent per day. The exit 1997 production mix was 59 percent crude oil and natural gas liquids and 41 percent natural gas.

Crude oil and natural gas liquids prices for the year were \$26.35 per barrel and \$18.27 per barrel, respectively, while the average natural gas price was \$1.82 per thousand cubic feet. Revenues for the year totaled \$74.1 million, reflecting an overall average selling price of \$21.54 per barrel of oil equivalent. Royalties and operating costs of \$3.56 and \$5.16 per barrel of oil equivalent resulted in an average netback of \$12.82 per barrel of oil equivalent.

Earnings and cash flow totaled \$9.2 million (\$0.40 per unit) and \$37.8 million (\$1.65 per unit) respectively for the year, resulting in total cash distributions to unitholders of \$1.40 per unit for 1997.

1998 Outlook

Since inception, we have demonstrated our ability to deliver value to unitholders. The price paid for the Trust's initial properties was the lowest among all of the new conventional oil and gas trusts. Our 1997 acquisitions were completed at a price well below the industry average. The Trust's cost structure, including general and administrative expenses and management fees, continues to be among the lowest of all conventional oil and gas trusts. The combination of these factors has resulted in very strong financial performance and financial market support for the Trust which is a strategic advantage for us as we plan for the future.

As we begin 1998, the equity market is dramatically different from the past two years. A major market correction has occurred in the oil and gas sector and world oil prices have fallen to their lowest level in four years. As a consequence, investors are now more focused on quality, with ARC Energy Trust being recognized as a leader in this respect. The Trust continues to be the top performer in terms of total returns to unitholders among all new conventional oil and gas trusts which have entered the market since 1995.

The current environment in the oil and gas sector will provide numerous opportunities for the continued growth of the Trust. The availability of quality assets is expected to remain strong while the competition for these assets is expected to diminish. With the continued strong market

performance of the Trust, particularly relative to all of the other conventional oil and gas trusts, we are well positioned to capitalize on the opportunities which become available. As Manager of the Trust, we are absolutely committed to generating superior financial returns to our unitholders and will continue to aggressively pursue opportunities to acquire additional high quality assets which will further enhance unitholder returns and value. We will also continue to manage our existing asset base to capitalize on rationalization opportunities for non-strategic assets.

We are confident that ARC Energy Trust will continue to perform well through the current and subsequent market cycles, providing superior long term returns to our investors.

Respectfully submitted on behalf of the Board of Directors.

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

John P. Dielwart
Director and President

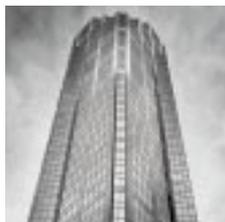


ARC Energy Trust

strategy

ARC Energy Trust's strategy is to build the Trust on a strong foundation of high quality assets and to grow through value-adding acquisitions. Fundamental to long term performance of the Trust is the success of our going concern strategy with growth funded through financial market support. The acquisitions and financings completed to date demonstrate the successful implementation of our strategy.

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ARC ENERGY TRUST STRUCTURE

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 Resources Ltd. was formed to acquire oil and natural gas producing properties and to grant a royalty to ARC Energy Trust. The royalty paid to unitholders consists of 99 percent of the net cash flow generated by the properties acquired by ARC Resources. 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 also accrues to the benefit of the Trust as it is used by ARC Resources to defray general and administrative costs and management fees.

ARC Resources made its first acquisition from Mobil Oil Canada for approximately \$205 million on July 11, 1996. During 1997, ARC Resources completed a number of additional transactions for total net acquisitions of \$94.4 million.

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.

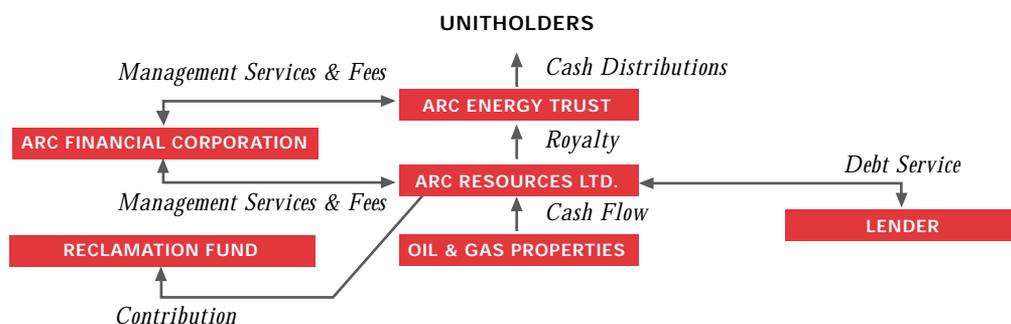
Cash Distributions

Cash distributions of royalty income are paid to unitholders after deductions for debt principal repayments, capital expenditures and reclamation fund contributions. Cash distributions were made on a quarterly basis to June 30, 1997, before monthly cash distributions commenced in July 1997.

Capital Expenditures

Under the terms of the royalty agreement, 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

ARC Energy Trust Structure



financed with bank debt or through the issuance of additional Trust units. Capital expenditures are generally directed towards maintaining or improving production from the oil and gas properties. ARC Resources does not initiate any exploratory drilling, nor does it participate in exploration activities initiated by other operators.

Borrowing

ARC Resources may borrow funds to purchase additional oil and gas properties or for capital expenditures on existing assets. The revolving credit facility stands at \$100 million as at December 31, 1997. 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 cash flow and 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 currently makes annual contributions of \$2.4 million (increased from \$1.9 million effective July 1, 1997), less current year site reclamation and abandonment costs. The intent of the fund is to ensure that estimated future environmental and reclamation obligations associated with ARC Resources' properties are funded over 20 years. Contributions to the fund may be adjusted from time to time based on revised assessments of the environmental obligations or as a result of new acquisitions.

Tax Considerations for ARC Energy Trust

Under the *Income Tax Act of Canada*, 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 of the Trust's income. Any remaining taxable income is allocated to unitholders on a pro rata basis such that ARC Energy Trust does not pay income taxes.

Tax Considerations for Unitholders

ARC Energy Trust's 1997 cash distributions were 78 percent tax deferred. Unitholders are required to report the remaining 22 percent of 1997 cash distributions as taxable income on their 1997 income tax returns.

At this time, it is anticipated that the majority of 1998 cash distributions will also be tax deferred, with approximately 15 to 20 percent expected to be taxable for unitholders. The amount of taxable income in 1998 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.

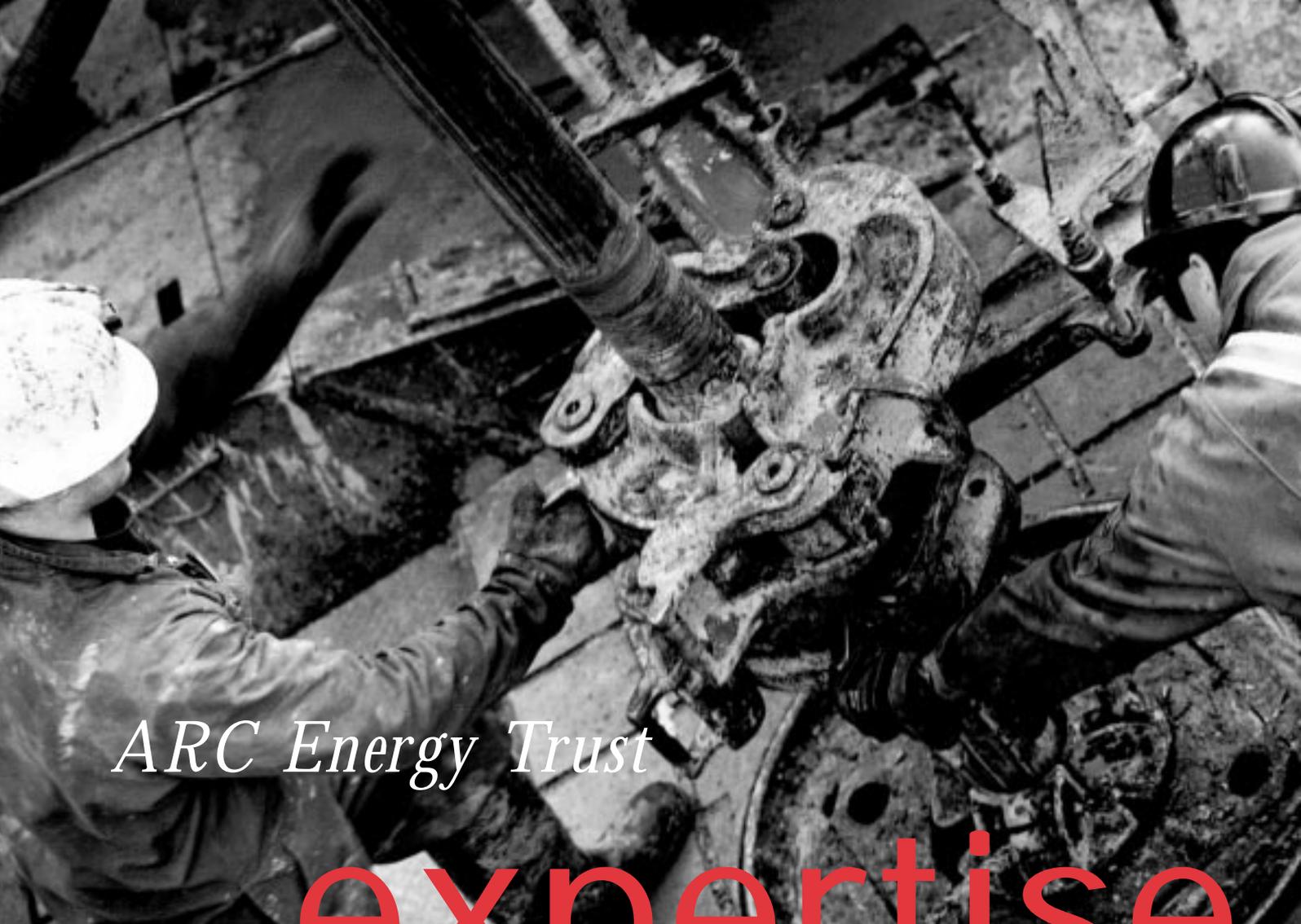
Disposition of ARC Energy Trust Units

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.



ARC Energy Trust

expertise

ARC Financial Corporation, Manager of ARC Energy Trust and ARC Resources Ltd., is an established manager with unique expertise. The proven technical and management expertise of ARC Financial produces superior growth and performance in ARC Energy Trust. We see our expertise as our competitive advantage. In each of the past four years, ARC Financial Corporation has been cited as one of Canada's 50 Best Managed Private Companies in a comprehensive survey led by Arthur Andersen & Co.

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OPERATIONS REVIEW

During the course of the year, production volumes increased as a result of acquisition and development activities. The 1997 exit rate was 10,750 barrels of oil equivalent per day, compared to 7,650 barrels of oil equivalent per day in 1996.

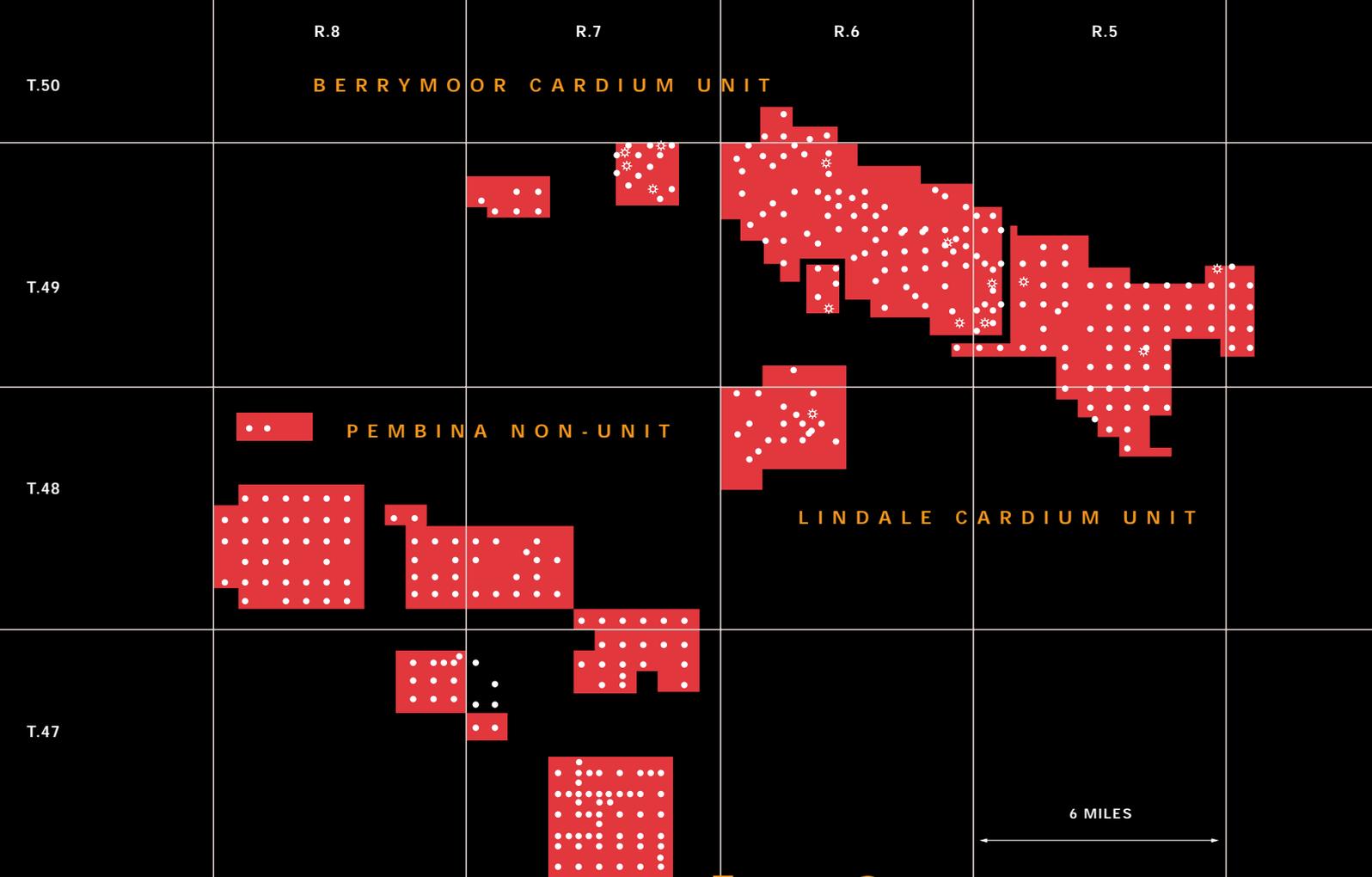
Over the year natural gas sales averaged 38.4 million cubic feet per day, oil production averaged 3,656 barrels per day and condensate and natural gas liquids volumes averaged 1,929 barrels per day. Operating costs, net of processing income, averaged \$5.16 per barrel of oil equivalent for the year.

In 1997, expenditures of \$8.8 million were undertaken to maintain existing facilities and increase production and reserves, thereby strengthening unitholder distributions and increasing asset values. Numerous initiatives including drilling, completion, tie-ins, facility modifications and production optimization were undertaken through many of our properties including Caroline, Pembina, Progress, Inga, Elmworth, Wilson Creek, Meekwap, Minnehik Buck Lake, Sylvan Lake, House Mountain, Midale, Niton and Innisfail.

Production by Area

	Oil (Bbls/d)	Gas (Mcf/d)	NGLs (Bbls/d)	Total (Boe/d)
Pembina area	1,688	1,284	107	1,923
Caroline	–	2,457	1,211	1,457
Progress	–	4,598	61	521
Buick Creek	–	4,048	39	444
Mitsue	299	468	46	392
Innisfail	246	415	21	308
Med River	145	1,095	29	284
Inga	–	2,412	42	283
House Mountain*	239	33	11	253
Marten Hills	–	2,393	–	239
Meekwap	208	110	11	230
Minnehik	–	1,633	58	221
Niton*	19	1,455	32	197
Elmworth	–	1,631	28	191
Sylvan Lake	2	1,302	49	181
Harmattan Elkton*	23	1,051	35	163
Midale*	127	23	–	129
Pouce Coupe	112	55	10	127
Other areas	548	11,936	139	1,882
Total	3,656	38,399	1,929	9,425

* Acquired in 1997



pembina

Pembina is the Trust's major strategic asset. In close proximity to Edmonton, the area contains light, premium-quality sweet crude oil that is recovered via primary and secondary recovery techniques from the Cardium formation. The Pembina Cardium oilfield is the largest conventional oilfield ever discovered in Canada and represents the Trust's largest holding on a reserve and asset value basis.



MAJOR PROPERTY REVIEW

PEMBINA

Several strategic initiatives were undertaken in Pembina during 1997:

1. Acquired new assets and incremental working interests in existing properties;
2. Assumed operatorship of high working interest properties;
3. Initiated production optimization activities;
4. Implemented cost-cutting initiatives; and
5. Developed long term focus for capital expenditures and operational activities.

1. Acquired New Assets And Incremental Working Interests In Existing Properties

The plan for the Pembina area is to acquire assets at a reasonable cost and then enhance value through integrating the new properties into our operations in the most cost effective manner. Specifically, this includes utilizing economy of scale advantages, using existing infrastructure and staff where possible and undertaking exploitation and operational efforts which will reduce costs and increase value and production.

Successful acquisitions in the Pembina area during 1997 included additional working interests in our two main operated properties, Pembina Four Way and Lindale Cardium Unit. A new operated area, Block C of Pembina Five Way, was also acquired. In addition, new non-operated working and royalty interests were acquired in a number of unit and non-unit Pembina area properties.

2. Assumed Operatorship Of High Working Interest Properties

ARC Resources replaced Mobil as operator of the Pembina Four Way property and the Lindale Cardium Unit and opened a field office in Drayton Valley in October 1997. Operatorship of these higher working interest properties will benefit the Trust since it allows dedication of our own staff to our core assets and to the efforts further described below.

3. Initiated Production Optimization Activities

Numerous initiatives were undertaken in 1997 to optimize and increase production including:

- *Well reperfusions to access unswept oil and increase oil production;*
- *Addition and optimization of chemical treatments at the plant, field and well level in order to reduce operational downtime, increase production, eliminate damage and reduce workover frequency;*
- *Reallocation of injection water to sweep oil more effectively to production wells;*
- *Review of geological and reservoir potential for possible infill drilling; and*
- *Returning selected suspended wells to production.*

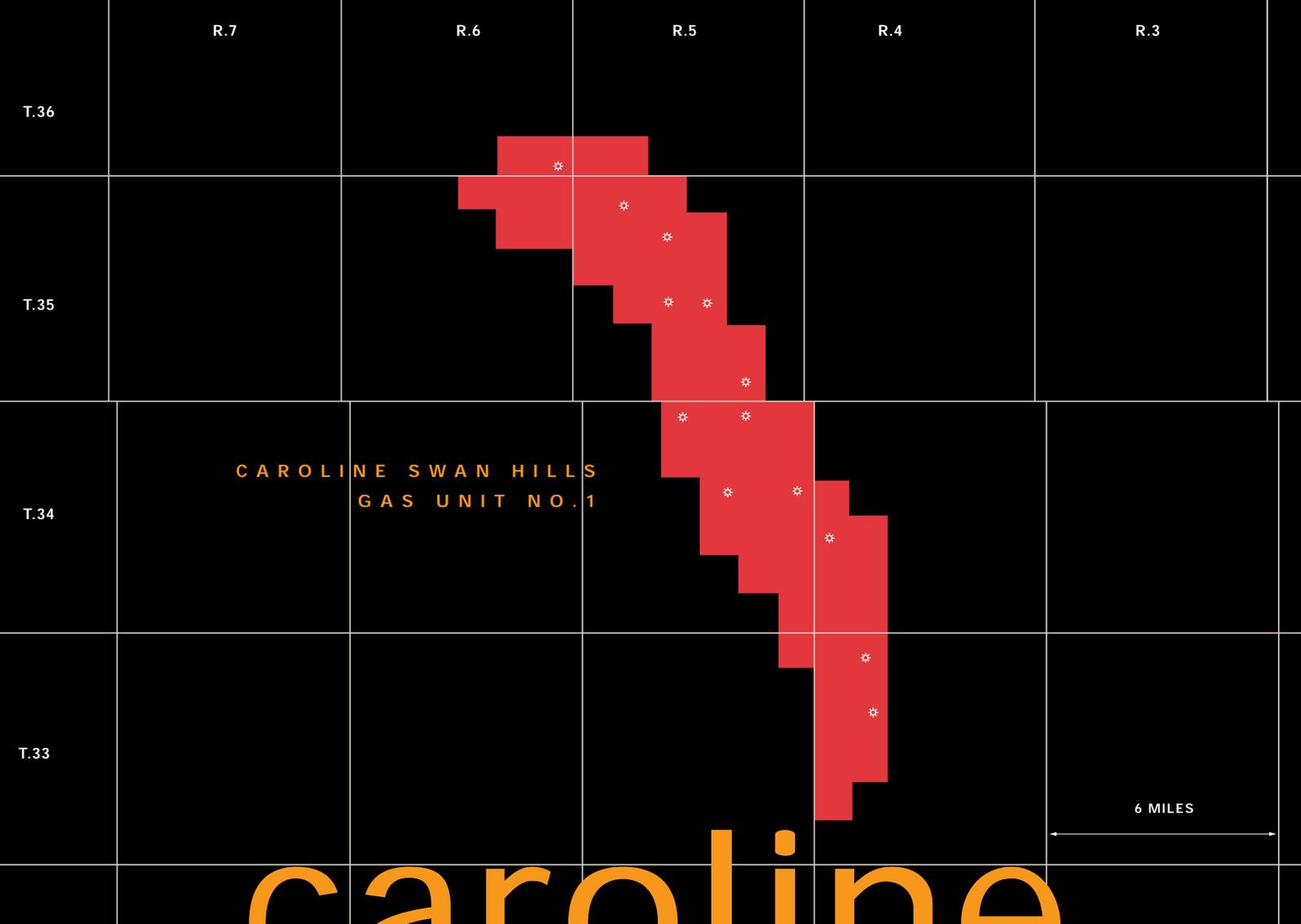
4. Implemented Cost-Cutting Initiatives

We have focused on reducing ongoing operating costs in order to increase netbacks from the area. Favourable results were achieved during 1997 in reducing area power costs, utilizing staff on a more cost effective basis and simultaneously performing repair work and production enhancement to reduce maintenance costs.

5. Developed Long Term Focus For Capital Expenditures And Operational Activities

- *Invested in water injection pipe liners to eliminate corrosion and improve the integrity of the system. The result is a reduction in future operational complexities, environmental liabilities and high cost liabilities associated with salt water spills; and*
- *Proactively conducted turnarounds on field and plant equipment to identify and address problems in order to maintain high reliability.*

By year end 1997, as a result of acquisition and optimization activities in the Pembina area, ARC Resources' net production had increased to 1,941 barrels per day of oil and natural gas liquids and 1.5 million cubic feet per day of natural gas.



caroline

ARC Resources owns 2.2 percent of the Caroline Swan Hills Unit which produces liquids-rich sour gas from the Beaverhill Lake formation. The gas is processed through one of Canada's largest and most sophisticated gas plant and field facility complexes. ARC Resources' share of production during 1997 was 2.5 million cubic feet per day of natural gas and 1,211 barrels per day of natural gas liquids.



CAROLINE SWAN HILLS UNIT

During 1997, ARC Resources continued to participate in the value-adding activities initiated in 1996 at the Caroline Swan Hills Unit operated by Shell Canada Limited.

The operator completed a significant project in late 1996 to debottleneck the gathering system and plant facilities. In conjunction with the debottlenecking, the operator completed, worked over and tied-in additional wells in 1997 to take advantage of the increased plant throughput opportunity. The plant is now capable of sustaining production at 120 percent of its original design capacity, which has increased raw gas throughput by 60 million cubic feet per day. Total plant capacity now allows for processing raw gas volumes of 360 million cubic feet per day and the Unit has sufficient production volumes to maintain full plant utilization for several years into the future.

These efforts add significant value to the Trust by extending the field's flat producing life and accelerating condensate, natural gas liquids, natural gas, and sulphur revenues.

PROGRESS

Norcen Energy Resources Limited, as operator of the Progress Halfway Unit No. 1, continued to aggressively pursue optimization activities in the area during 1997 on behalf of the Unit working interest owners. ARC Resources owns various working and royalty interests in Progress area properties including a 10.1 percent working interest in the Unit. Net production from the property during 1997 averaged 4.6 million cubic feet per day of natural gas and 61 barrels per day of natural gas liquids.

During 1997, the operator tied-in a new well, fracture treated and tested an existing well for possible tie-in and mail balloted another new drilling location. The operator is also pursuing the possibility of bringing third-party gas into the plant thereby reducing unit operating costs.

BUICK CREEK

In British Columbia, ARC Resources owns interests varying from 12.5 percent to 75 percent in 18 (5.9 net) producing gas wells in Buick Creek. The wells produce from the Bluesky, Buick Creek and North Pine formations.

Remington Energy Ltd. acquired certain Buick Creek assets from BC Star in 1997 and now operates some wells on behalf of ARC Resources. Other wells are operated by Rigel Oil and Gas Limited as well as Canadian Natural Resources Limited. ARC Resources has interests in four field compression facilities in the area and the gas is processed at Westcoast's McMahon Plant.

Activity has increased somewhat in the area with ARC Resources participating in several completion, workover and stimulation programs. Net production from the Buick Creek area during 1997 was 4.0 million cubic feet per day of natural gas and 39 barrels per day of natural gas liquids.

INGA

ARC Resources owns a 19.83 percent working interest in Inga Unit 3 operated by Talisman Energy Inc. Various interests offsetting the Unit were acquired from Canadian Hunter Exploration Ltd. The wells acquired were in a competitive drainage situation with the Unit wells, so the acquisition was made in conjunction with the Unit operator to protect production from the Unit.

The operator has recently been modifying compression facilities and tying-in wells to optimize and increase area production. Inga production net to ARC Resources was 2.4 million cubic feet per day of natural gas and 42 barrels per day of natural gas liquids during 1997.

HOUSE MOUNTAIN UNIT 1

In 1997, ARC Resources acquired a 9.2 percent working interest in the House Mountain Unit 1 operated by Shell Canada Limited. Oil production is from the Swan Hills Beaverhill Lake formation and recovery is enhanced by waterflooding.

The operator has been active in the area proposing a number of facility upgrades to optimize the waterflood as well as utilizing horizontal drilling and re-entry technology to improve production levels and increase reserves. The operator is conducting a 3D seismic survey to aid in identifying future infill drilling locations. The operator anticipates drilling five infill wells in 1998 and converting other wells to water injection to provide pressure support. House Mountain Unit production averaged 239 barrels per day of oil during 1997 net to ARC Resources.

NITON

ARC Resources acquired a 6.83 percent working interest in the Niton Unit during 1997 as well as various Niton non-unit interests, all of which are operated by Crestar Energy Inc. The Niton production comes from a number of zones including the Basal Quartz, Rock Creek and Cardium formations.

The operator has been optimizing the unit waterflood by drilling infill wells and fracturing existing production wells. The operator has proposed drilling 14 infill wells and fracture treating eight existing wells in 1998. ARC Resources' share of Niton area production was 51 barrels per day of oil and natural gas liquids and 1.46 million cubic feet per day of natural gas during 1997.

ELMWORTH/WAPITI

ARC Resources has varying working interests averaging 33 percent in the Elsworth/Wapiti area as well as gathering, facility and plant interests. Ulster Petroleum Ltd. acquired Imperial Oil's interests in the area and now operates some of ARC Resources' wells. Ulster has commenced an active program to add production volumes for processing at the Wapiti plant. Canadian Hunter Exploration Ltd. operates other ARC Resources' interest wells and facilities in the area.

Both operators are actively exploring for and exploiting gas reserves to fill surplus capacity in the two area plants. ARC Resources participated in the tie-in of one new well and the drilling of another new well, but has been selective in its project participation in the area. There were several locations ARC Resources chose not to participate in due to the perceived high risk or potential low rate of return.

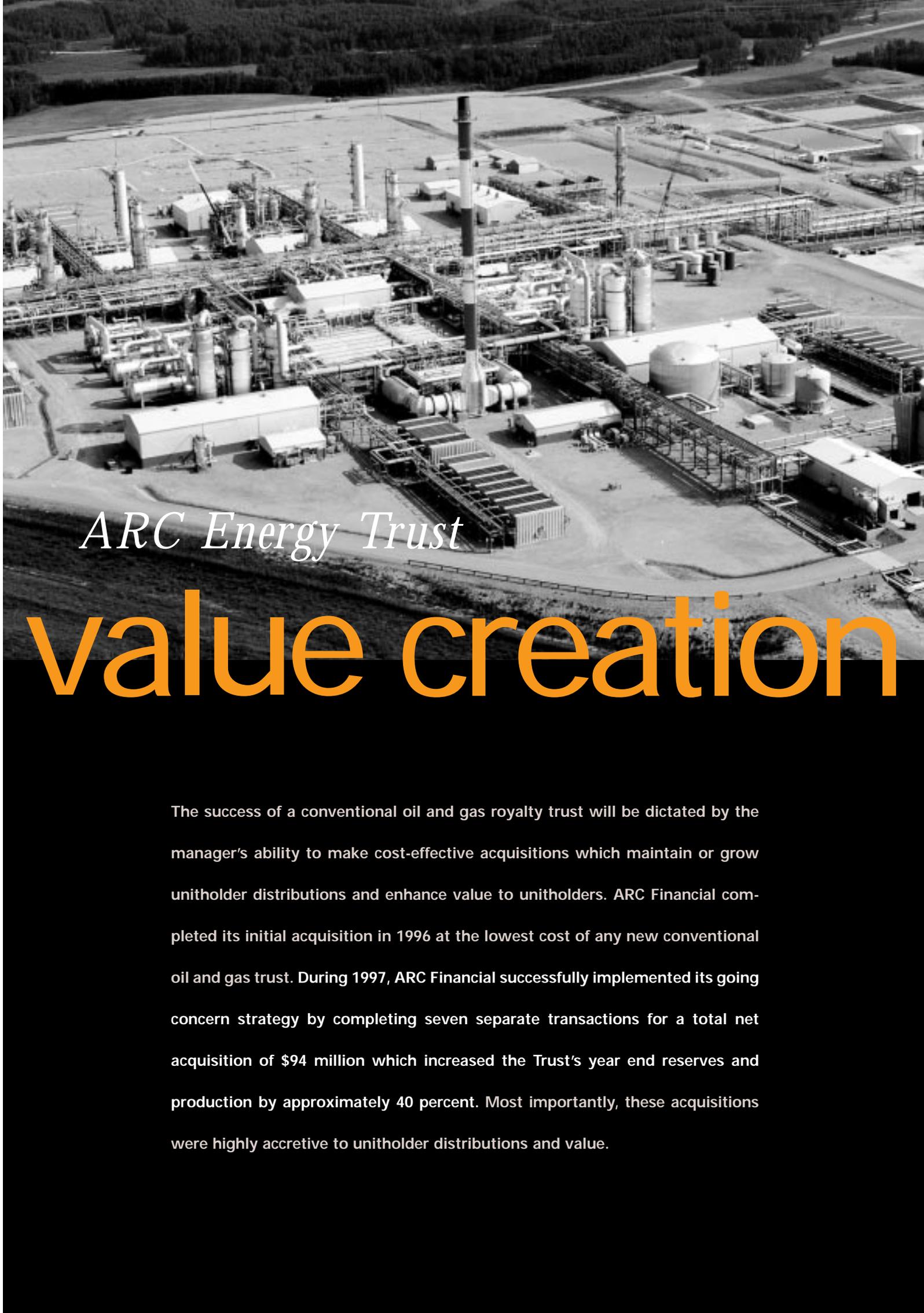
Net production in 1997 averaged 1.6 million cubic feet per day of natural gas and 28 barrels per day of natural gas liquids.

MIDALE UNIT

In 1997, ARC Resources acquired a 3.95 percent working interest in the Midale Unit operated by Shell Canada Limited. Oil production is from the Midale formation and both waterflooding and carbon dioxide injection are used to improve oil recovery.

The operator has made extensive use of horizontal drilling and re-entry technology to improve production levels and increase reserves. Anticipated 1998 spending includes the drilling of 11 infill wells and further optimization of plant and injection facilities to support production and injection needs. The Midale Unit produced 127 barrels per day of oil during 1997 net to ARC Resources.

ARC Resources acquired a further 1.62 percent working interest in the Midale Unit in January 1998.



ARC Energy Trust

value creation

The success of a conventional oil and gas royalty trust will be dictated by the manager's ability to make cost-effective acquisitions which maintain or grow unitholder distributions and enhance value to unitholders. ARC Financial completed its initial acquisition in 1996 at the lowest cost of any new conventional oil and gas trust. During 1997, ARC Financial successfully implemented its going concern strategy by completing seven separate transactions for a total net acquisition of \$94 million which increased the Trust's year end reserves and production by approximately 40 percent. Most importantly, these acquisitions were highly accretive to unitholder distributions and value.

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ACQUISITIONS AND DIVESTMENTS

Management of the Trust's assets involves both the acquisition and disposition of oil and gas assets to capitalize on opportunities which develop in the market. ARC Financial was very active on behalf of the Trust during 1997, completing two major and two minor acquisitions as well as three minor dispositions.

Total acquisitions added 18.5 million barrels of oil equivalent at an average price of \$5.42 per barrel of oil equivalent which is well below the industry average acquisition price. The acquired assets were high quality and had an average reserve life index of 11.7 years. Total dispositions

resulted in the sale of 1.7 million barrels of oil equivalent at an average price of \$6.46 per barrel of oil equivalent. Net acquisitions of \$94.4 million were at an average price of \$5.32 per barrel of oil equivalent. The net acquisitions replaced 490 percent of the Trust's 1997 production and increased the Trust's reserves and production by approximately 40 percent.

The Trust's 1997 acquisition activity was partially financed through two separate equity issues which resulted in gross proceeds of \$80 million to the Trust.

	Purchase Price \$Millions	Adjusted Purchase Price ⁽¹⁾ \$Millions	Risked ⁽²⁾ Reserves Mboe	Reserve Purchase Price \$/Boe	Production Rate Boe/d	Reserve Life Index Years
Major acquisitions	95.6	90.6	15,821	5.73	3,800	11.4
Minor acquisitions	9.9	9.9	2,716	3.65	525	14.2
Total acquisitions	105.5	100.5	18,537	5.42	4,325	11.7
Dispositions	(11.1)	(11.1)	(1,724)	6.46	(425)	11.1
Net acquisitions	94.4	89.4	16,813	5.32	3,900	11.7

⁽¹⁾ Net of Alberta Royalty Tax Credit expected to be received over the life of the reserves

⁽²⁾ Manager's view of proved plus risked probable reserves

RESERVES

Based upon independent engineering evaluations conducted by Sproule Associates Limited ("Sproule") and Gilbert Laustsen Jung Associates Ltd. ("GLJ") effective December 31, 1997, ARC Resources had proved plus risked probable reserves of 148.2 billion cubic feet of natural gas and 32.4 million barrels of crude oil and natural gas liquids. On an oil equivalent basis, ARC Resources' reserves at December 31, 1997, are 40 percent greater than as at December 31, 1996. Approximately 69 percent of ARC Resources' reserves are crude oil and natural gas liquids and

31 percent are natural gas on a 10:1 barrel of oil equivalent basis.

The following tables summarize ARC Resources' reserves of natural gas, crude oil and natural gas liquids as evaluated by Sproule and GLJ. 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 costs or management fees but include provisions for future abandonment liabilities.

Reserves Summary

	Crude Oil (Mbbbl)	Natural Gas (Bcf)	NGL (Mbbbl)	Total (Mboe)
<i>December 31, 1997</i>				
Proved producing	18,554	97.86	6,959	35,300
Proved non-producing	394	29.81	500	3,875
Total proved	18,948	127.68	7,459	39,175
Probable (risked at 50 percent)	5,207	20.49	759	8,015
Established (proved plus risked probable)	24,155	148.17	8,218	47,190

Reserves Reconciliation

	Crude Oil (Mbbbl)		Natural Gas (Bcf)		NGL (Mbbbl)		Total (Mboe)	
	Proved	Risked Probable	Proved	Risked Probable	Proved	Risked Probable	Proved	Risked Probable
<i>December 31, 1997</i>								
Opening reserves	10,729	3,418	100.5	11.5	7,687	680	28,463	5,247
Acquisitions and divestments ⁽¹⁾	7,961	1,552	38.8	10.3	1,104	232	12,943	2,809
Drilling and development	176	13	4.7	0.3	49	5	695	46
Production	(1,334)	-	(14.0)	-	(704)	-	(3,440)	-
Revisions ⁽²⁾	1,416	224	(2.3)	(1.6)	(677)	(158)	514	(87)
Year end reserves	18,948	5,207	127.7	20.5	7,459	759	39,175	8,015

⁽¹⁾ As evaluated by GLJ/Sproule at the time of the acquisition/divestment

⁽²⁾ Revisions and production adjustment

Estimated Future Net Cash Flow Before Income Tax

Effective December 31, 1997 (\$ thousands)

Present worth discounted at

	10 percent	12 percent	15 percent
Proved producing	258,290	236,639	210,767
Proved non-producing	27,670	24,945	21,523
Total proved	285,960	261,584	232,290
Probable (risked at 50 percent)	34,063	28,656	22,845
Established (proved plus risked probable)	320,024	290,240	255,136

Net Asset Value

December 31, 1997 (\$ thousands, except per unit amounts)

	10 percent	12 percent	15 percent
Value of established oil and gas reserves	320,024	290,240	255,136
Add: Undeveloped lands	1,500	1,500	1,500
Working capital	4,647	4,647	4,647
Reclamation fund	3,016	3,016	3,016
Deduct: Debt	(65,955)	(65,955)	(65,955)
Net asset value	262,232	233,448	198,344
Per unit	\$ 10.24	\$ 9.12	\$ 7.75

Pricing Assumptions – Industry Consensus (1)

	WTI ⁽²⁾ Cushing Oklahoma \$US/Bbl	Light Crude ⁽³⁾ Edmonton \$Cdn/Bbl	Natural Gas TCGSL ⁽⁴⁾ Average Plant Gate Price \$Cdn/MmBtu	Exchange Rate \$Cdn/\$US
1998	20.31	26.71	1.86	0.732
1999	20.85	27.15	1.97	0.737
2000	21.44	27.79	2.11	0.738
To 2014 ⁽⁵⁾	+3%	+3%	+2-5%	0.743
Thereafter	+1.3%	+1.3%	+1.3%	0.743

⁽¹⁾ Average of GLJ, Sproule and McDaniel & Associates Consultants Ltd. then current price forecasts

⁽²⁾ West Texas Intermediate

⁽³⁾ Edmonton Refinery Postings for 40 degree API, 0.4 percent sulphur content crude

⁽⁴⁾ TransCanada Gas Services Limited

⁽⁵⁾ Average percentage escalations per year

MARKETING AND HEDGING

The average natural gas price received for the year ended December 31, 1997, was \$1.82 per thousand cubic feet. This price was achieved with a portfolio mix that on average through the year received AECO pricing for 75 percent of its volume, Sumas Index pricing for 15 percent of its volume and NYMEX related pricing for the remaining 10 percent of the volume.

To balance ARC Resources' natural gas portfolio, new long term contractual arrangements were entered into effective November 1, 1997, which increased exposure to NYMEX pricing by 20 percent and reduced AECO price exposure by a corresponding amount.

To manage natural gas price volatility and to stabilize the revenue stream, ARC Resources has developed a natural gas portfolio directed towards maintaining:

1. A balanced exposure to both U.S. and Canadian markets;

2. Market sensitive pricing and contract flexibility; and
3. A high utilization of contracted pipeline capacity.

During 1997, the Trust received an average sales price of \$26.35 per barrel of oil and \$18.27 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.

ARC Resources has had a general bias towards remaining open in the market with respect to commodity pricing. During 1997, ARC Resources selectively entered into short term fixed price natural gas contracts, which in all cases outperformed the market indices for the corresponding period. ARC Resources has not entered into any long term contractual arrangements for any of its crude oil or natural gas liquids production to date.

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. During 1997, all operations were safely conducted with zero lost time accidents.

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' Operations Safety Policies and Guidelines and with ARC Resources' Emergency Response procedure.

A reclamation fund has been established to ensure that the necessary funds are available for future reclamation and abandonment of all wells, plants and facilities. Total funding during the year net of actual abandonment expenditures amounted to \$2.1 million, increasing the balance in the fund at December 31, 1997 to \$3.0 million. ARC Resources has a continuing program of well-site abandonment, cleanup and restoration to reduce future environmental liabilities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Highlights

- The Trust completed seven separate transactions during the year for net acquisitions of \$94.4 million which increased year-end reserves and production by approximately 40 percent.
- The Trust's 1997 acquisition activity was financed through the issuance of 7.6 million new Trust units for gross proceeds of \$80 million as well as incremental bank debt.
- Production volumes averaged 9,425 barrels of oil equivalent per day for 1997, representing a 24 percent increase over 1996 average volumes of 7,600 barrels of oil equivalent per day.
- Cash flow from operations totaled \$1.65 per unit and cash distributions totaled \$1.40 per unit for the year.

Significant Transactions

In the first quarter of 1997 the Trust completed the acquisition of a group of high quality, long life oil and gas properties for \$63.9 million in two separate transactions which closed on March 19

and April 1, 1997. The impact of the additional production and cash flow was reflected in the second quarter of 1997.

On August 15, 1997, the Trust completed the acquisition of a group of oil and gas properties in Alberta, British Columbia and Saskatchewan for \$34.1 million. The acquisition, which was funded from ARC Resources' credit facility, was effective July 1, 1997.

During the fourth quarter of 1997, the Trust completed another property acquisition for \$7.5 million in addition to three dispositions of minor properties for proceeds of \$11.1 million.

The Trust's 1997 acquisition activity was partially financed through two separate equity issues which resulted in gross proceeds of \$80.0 million.

As a result of the new Trust unit issues detailed below, the total number of outstanding units at December 31, 1997 was 25,604,000.

		Issue Price	Trust Units Issued	Gross Proceeds	Closing Date
Special warrants ⁽¹⁾	\$	11.00	1,100,000	\$ 12,100,000	March 25, 1997
New Trust units		10.45	6,500,000	67,925,000	May 21, 1997
Directors' options		10.00	4,000	40,000	October 2, 1997
Total	\$	10.53	7,604,000	\$ 80,065,000	

⁽¹⁾ Cleared by prospectus dated May 9, 1997

Production

Production volumes for 1997 averaged 9,425 barrels of oil equivalent per day with an exit rate of 10,750 barrels of oil equivalent per day, compared to an average of 7,600 barrels of oil equivalent per day in 1996. The Trust's two major properties, Pembina and Caroline, accounted for 36 percent of total production.

Production levels were hampered slightly by severe winter weather early in 1997. In mid-1997, plant turnarounds were conducted to perform maintenance at several of the Trust's major gas facilities during a time of seasonal low prices. These turnarounds, in conjunction with unscheduled plant shutdowns at two major facilities during the year, also reduced production volumes.

Revenue and Cash Flow

1997 revenues increased to \$74.1 million compared to \$31.9 million for the six-month period of operations in 1996. Royalties increased to 16.5 percent of revenues from 15.8 percent in 1996, due primarily to higher gas prices. A portion of the properties that were acquired in 1997 qualify for Alberta Royalty Tax Credit, which is retained by ARC Resources and used to reduce crown royalty expenses. Operating costs incurred in 1997 totaled \$17.8 million, compared to \$6.3 million for the 1996 six-month period. At \$5.16 per barrel of oil equivalent, 1997 operating costs are consistent with industry average operating costs. In 1996, operating costs averaged \$4.49 per barrel of oil equivalent.

Netbacks

Operating netbacks declined slightly in 1997 over 1996 as shown below:

(\$/Bbl)	1997	1996	Change
Selling price	\$ 21.54	\$ 22.31	\$ (0.77)
Royalties	(3.56)	(3.61)	(0.05)
Operating costs	(5.16)	(4.49)	0.67
Netback	\$ 12.82	\$ 14.21	\$ (1.39)

Netbacks by Product

	Oil (\$/Bbl)	NGL (\$/Bbl)	Gas (\$/Mcf)	Total (\$/Boe)
1997				
Selling price	\$ 26.35	\$ 18.27	\$ 1.82	\$ 21.54
Royalties	(3.37)	(3.66)	(0.36)	(3.56)
Operating costs	(7.69)	(2.91)	(0.39)	(5.16)
Netback	\$ 15.29	\$ 11.70	\$ 1.07	\$ 12.82

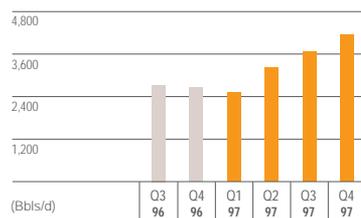
1996

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

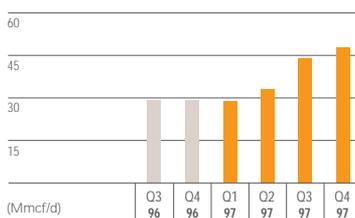
General and Administrative Expenses

General and administrative expenses were consistent with our 1997 budget while those incurred in 1996 were abnormally low due to the start-up phase for the Trust. No amounts were capitalized for accounting purposes in respect of general and administrative expenses in the financial statements.

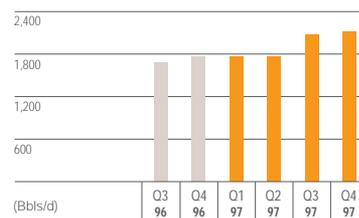
Average Daily Oil Production



Average Daily Gas Production



Average Daily NGLs Production



General and Administrative Expenses

(\$000s except \$/Boe)	1997	1996
General and administrative expenses	2,735	652
Residual 1 percent of income retained by the Trust	(377)	(184)
Net general and administrative expenses	2,358	468
Per Boe	\$ 0.69	\$ 0.34

Management Fees

ARC Financial, as Manager of the Trust, receives a management fee of three percent of net operating revenue which equaled \$1,351,000 or \$0.39 per barrel of oil equivalent in 1997 bringing the total G&A and management fee costs for 1997 to \$1.08 per barrel of oil equivalent. In 1996, total management fees were \$628,000 for the six month period.

Interest Expense

Interest expense increased to \$2.1 million for 1997 up from the six month period in 1996 as shown below:

	1997	1996
Interest expense (\$ thousands)	2,109	920
Average debt outstanding (\$ millions)	52	38
Average interest rate	4.1%	4.8%

Capital and Deferred Taxes

Capital taxes are paid by ARC Resources and are based on debt and equity levels at the end of each quarter.

	1997	1996
Capital taxes (\$ thousands)	137	62

Liquidity and Capital Resources

The Trust closed two major and five minor transactions in 1997. The minor transactions involved swaps or dispositions in five producing areas in order to enhance the Trust's oil and gas reserve base and reduce the number of non-core properties.

Capital Expenditures

(\$ thousands)	1997	1996
Lease rentals and acquisition	857	109
Geological and geophysical expenditures	74	-
Development drilling	7,362	116
Plant and facilities	462	977
Producing property acquisitions, net	93,962	206,231
Total capital	102,717	207,433

Development drilling occurred in a number of properties to maintain or increase production. Plant expenditures were concentrated in Caroline to increase throughput and processing capacity at the plant. Total reserve replacement costs for 1997 were \$5.43 per barrel of oil equivalent based upon total capital expenditures of \$97.7 million (excludes \$5.0 million for expected Alberta Royalty Tax Credit from the acquired properties) and total reserve additions and revisions of 18.0 million barrels of oil equivalent which reflects the Manager's view of reserves for our acquisitions.

Capital expenditures were financed by equity and debt. Equity financings raised \$80 million of gross proceeds. The Trust utilized a portion of its \$100 million line of credit to finance the remaining portion of the 1997 capital program. At year end, bank debt stood at 18.6 percent of the Trust's total capitalization which is a reasonable level considering the low risk, long life nature of the assets.

Long Term Debt

(\$ thousands)	1997	1996
Bank debt	65,955	37,998
Working capital (including cash)	(4,647)	(1,647)
Net obligations	61,308	36,351
Current year cash flow (annualized)	37,757	36,630
Payout period (years)	1.6	1.0
Net obligations	61,308	36,351
Market value of unitholders' equity*	267,562	220,500
Total capitalization	328,870	256,851
Debt as a percentage of total capitalization	18.6%	14.2%

* Based on December 31, 1997 and 1996 unit closing prices of \$10.45 and \$12.25 respectively

During the year, the bank line of credit for ARC Resources was increased from \$60 million to \$100 million, resulting in an unutilized line of credit of approximately \$34 million as of December 31, 1997.

Depletion, Depreciation and Future Site Reclamation Expenses

The 1997 depletion and depreciation rate was \$5.70 per barrel of oil equivalent, based on a 6:1 energy equivalent factor, compared to the 1996 rate of \$5.54 per barrel of oil equivalent. This rate

included an estimated \$18.3 million for future development costs of proved undeveloped reserves and excluded \$7.8 million for future net realizable salvage value of existing production facilities, and \$1.5 million for undeveloped land. The provision for future site reclamation and abandonment equaled \$0.83 per barrel of oil equivalent in 1997 comparable to the \$0.82 per barrel of oil equivalent in 1996.

Cash Distributions

Cash distributions totaled \$1.40 in 1997. The Trust changed from quarterly to monthly distributions effective July 1, 1997 and declared a regular distribution of \$0.10 per month which will be subject to change from time to time depending on the business environment. Actual cash available for distribution will be reviewed each quarter and, to the extent excess undistributed cash is available, it will be distributed to unitholders as an extra distribution.

Sensitivity Analysis

	Cash Distributions Per Unit (\$/Unit)	Net Income Per Unit (\$/Unit)
Operational variances:		
Change of 100 Bbls/d in oil production	0.02	0.01
Change of 1,000 Mcf/d in gas production	0.02	0.01
Financial variances:		
Change of \$1.00 US in the price of oil	0.08	0.08
Change of \$0.10 in the price of gas	0.05	0.05
Change of \$0.01 in the \$US/\$Cdn exchange rate	0.02	0.02
Change of 1 percent in interest rates	0.03	0.03

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 natural gas prices fluctuate due to market forces;
- Financial risks such as the \$Canadian/\$US exchange rate, interest rates and debt service obligations;
- Environmental and safety risks associated with well and production facilities; and
- 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 acquire 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 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; and
- Establish and build cash resources to pay for future abandonment and site restoration costs.

Actual to Forecast Comparisons

For the nine months ended December 31, 1997
(\$ thousands, except per unit amounts)

	Actuals	Forecast	Variance	Percent
Revenue				
Oil, natural gas, natural gas liquids and sulphur sales	57,771	51,262		
Royalties	(9,649)	(7,080)		
	48,122	44,182	3,940	9%
Expenses				
Operating	14,144	12,298		
General and administrative	2,324	1,764		
Management fee	1,040	973		
Interest	1,797	1,308		
Capital taxes	113	42		
Depletion, depreciation and amortization	23,252	22,111		
	42,670	38,496	4,174	11%
Net income	5,452	5,686	(234)	(4%)
Depletion, depreciation and amortization	23,252	22,111		
Cash flow	28,704	27,797	907	3%
Disposition of royalty interests	10,074	-		
Discretionary debt repayment	(6,513)	-		
Reclamation fund contributions and actual reclamation costs	(1,438)	(1,195)		
Capital expenditures	(2,179)	(2,289)		
Distributable income	28,648	24,313	4,335	18%
Per unit distributable income	\$ 1.12	\$ 1.02	\$ 0.10	10%
Current period accruals	(3,047)	1,799		
Cash distributions	25,601	26,112	(511)	(2%)
Per unit distributions	\$ 1.00	\$ 1.02	\$ (0.02)	(2%)

Actual results were consistent with the financial forecast included in the May 9, 1997 prospectus. Additional properties were acquired effective July 1, 1997 which contributed to higher revenues, royalties and operating expenses. The additional properties were partially financed by debt causing interest expense to be higher than forecast.

Cash flow in the nine month period was \$28.7 million or three percent higher than forecast. Cash available for distribution exceeded the forecast as shown above by \$0.10 per unit. Actual distributions were \$0.02 lower than forecast due to the retention of more working capital than originally forecast.

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 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 the independent directors of ARC Resources Ltd., has reviewed these statements with Management and the auditors, and has recommended their approval to the Board of Directors and the Trustee. The Board and the Trustee have approved the combined financial statements of the Trust.

John P. Dielwart
President & Director

Steven W. Sinclair
Vice-President Finance

AUDITORS' REPORT

To the Unitholders of ARC Energy Trust:

We have audited the combined balance sheet of ARC Energy Trust as at December 31, 1997 and 1996 and the combined statements of income and accumulated earnings, royalty distributions and accumulated royalty distributions and changes in financial position for the year ended December 31, 1997 and 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 audits.

We conducted our audits 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, 1997 and 1996 and the results of its operations and the changes in its financial position for the year ended December 31, 1997 and the six month period ended December 31, 1996 in accordance with generally accepted accounting principles.

Calgary, Alberta,
February 3, 1998.

Arthur Anderson & Co.
Chartered Accountants

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COMBINED BALANCE SHEET

<i>(\$ thousands)</i>	December 31, 1997	December 31, 1996
Assets		
Current assets		
Cash	\$ 2,983	\$ 8,132
Accounts receivable	12,767	8,109
	15,750	16,241
Reclamation fund (Note 3)	3,016	908
Property, plant and equipment (Note 4)	275,402	197,676
Total assets	\$ 294,168	\$ 214,825
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,015	\$ 6,316
Royalty distributions payable	2,560	8,100
Payable to the Manager (Note 9)	528	178
	11,103	14,594
Long term debt (Note 5)	65,955	37,998
Future site reclamation and abandonment	4,970	1,399
Total liabilities	82,028	53,991
Unitholders' equity		
Unitholders' capital (Note 6)	243,689	168,306
Accumulated earnings	16,273	7,108
Accumulated royalty distributions	(47,822)	(14,580)
Total unitholders' equity	212,140	160,834
Total liabilities and unitholders' equity	\$ 294,168	\$ 214,825

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COMBINED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

<i>(\$ thousands)</i>	Year ended December 31, 1997	Six months ended December 31, 1996
Revenue		
Oil, natural gas, natural gas liquids and sulphur sales	\$ 74,103	\$ 31,908
Royalties	(12,254)	(5,057)
	61,849	26,851
Expenses		
Operating	17,760	6,274
General and administrative (Note 9)	2,735	652
Management fee (Note 9)	1,351	628
Interest on long term debt	2,109	920
Capital taxes (Note 8)	137	62
Depletion, depreciation and amortization	28,592	11,207
	52,684	19,743
Net income	9,165	7,108
Accumulated earnings, beginning of period	7,108	-
Accumulated earnings, end of period	\$ 16,273	\$ 7,108

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**COMBINED STATEMENT OF ROYALTY DISTRIBUTIONS
AND ACCUMULATED ROYALTY DISTRIBUTIONS**

<i>(\$ thousands, except for per unit amounts)</i>	Year ended December 31, 1997	Six months ended December 31, 1996
Net income	\$ 9,165	\$ 7,108
Depletion, depreciation and amortization	28,592	11,207
Cash from operations	37,757	18,315
Cash from operations (99 percent)	37,380	18,131
Add: General and administrative expense reimbursement (residual 1%)	377	184
Disposition of royalty interests	10,074	-
Deduct: Capital expenditures	(3,324)	(1,166)
Discretionary debt repayment	(6,513)	-
Reclamation fund contributions and actual reclamation costs	(2,143)	(954)
Current period accruals	(2,609)	(1,615)
Royalty distributions	33,242	14,580
Accumulated royalty distributions, beginning of period	14,580	-
Accumulated royalty distributions, end of period	\$ 47,822	\$ 14,580
Royalty distributions per unit	\$ 1.40	\$ 0.81

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COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

<i>(\$ thousands)</i>	Year ended December 31, 1997	Six months ended December 31, 1996
Operating activities		
Net income	\$ 9,165	\$ 7,108
Add items not involving cash:		
Depletion, depreciation and amortization	28,592	11,207
	37,757	18,315
Increase in non-cash working capital	(8,149)	6,485
	29,608	24,800
Financing activities		
Issue of Trust units, net of expenses	75,383	168,306
Increase in long term debt, net	27,957	37,998
Royalty distributions	(33,242)	(14,580)
	70,098	191,724
Investing activities		
Acquisition of properties, net	(93,962)	(206,231)
Reclamation fund contributions and expenditures	(2,138)	(959)
Purchase of capital assets	(8,755)	(1,202)
	(104,855)	(208,392)
Increase (decrease) in cash	(5,149)	8,132
Cash, beginning of period	8,132	-
Cash, end of period	\$ 2,983	\$ 8,132

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NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 1997 and 1996

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. In particular, the amount recorded for depletion and depreciation of the petroleum and natural gas properties and for site restoration and reclamation are based on estimates of reserves and future costs. By their nature, these estimates and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

The following significant accounting 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.

Financial instruments

Financial instruments of the Company consist mainly of the accounts receivable, reclamation fund investments, accounts payable and accrued liabilities and the long term bank debt. Except where disclosed otherwise, as at December 31, 1997 and December 31, 1996 there are no significant differences between the carrying values of these amounts and their estimated market values.

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 percent 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 proved developed and undeveloped reserves net of royalties;
- b) total capitalized costs plus estimated future development costs of proved undeveloped reserves less estimated salvage value of production equipment and facilities after the proved 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 reclamation and abandonment provisions are calculated on the unit-of-production method. Actual site reclamation costs are charged against the future site reclamation 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, depreciation and site reclamation are limited to an amount equal to estimated undiscounted future net revenues from proved reserves less recurring general and administrative expenses, site reclamation management fees, future financing costs and income taxes. Average prices received over the last year are used in estimating future net revenues. Any capitalized costs in excess of the ceiling test limitation are charged to earnings in the period. As at December 31, 1997 the ceiling test calculation resulted in future net revenues, net of costs noted above, exceeding the capitalized costs utilizing both average prices received over the year and prices in effect as at December 31, 1997.

Income taxes

The *Income Tax Act (Canada)* requires that 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 available deductions and loss carryforwards). 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 result in 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

<i>(\$ thousands)</i>	December 31, 1997	December 31, 1996
Opening balance	\$ 908	-
Contributions net of actual site reclamation costs	2,081	904
Interest income on fund	27	4
Ending balance	\$ 3,016	\$ 908

A reclamation fund requiring a minimum annual contribution of \$1.9 million was established by the Trust to finance future site reclamation and abandonment costs. The contributions were increased in 1997 due to the property acquisitions made during the year. The Board has approved contributions over a 20 year period which result in future contributions of \$2.4 million per year less current year site reclamation costs based on properties owned as of December 31, 1997. Contributions to the reclamation fund have been deducted from cash distributions to the Unitholders.

4. Property, Plant and Equipment

<i>(\$ thousands)</i>	December 31, 1997	December 31, 1996
Property, plant and equipment at cost	\$ 310,150	\$ 207,433
Accumulated depletion and depreciation	(34,748)	(9,757)
Property, plant and equipment, net	\$ 275,402	\$ 197,676

The calculation of 1997 depletion and depreciation included an estimated \$18.3 million (\$8.0 million in 1996) for future development costs of proved undeveloped reserves and excluded \$7.8 million (\$7.0 million in 1996) for future net realizable value of production equipment and facilities along with \$1.5 million (\$1.8 million in 1996) for unevaluated 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 \$100 million. The credit facility is reviewed by the Bank each year by July 1 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 instalments.

The loan bears interest at bank prime (6 percent at December 31, 1997, 4.75 percent at December 31, 1996) or at the Company's option, Bankers' Acceptance plus 6/10 of 1 percent.

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 Trust's initial public offering 18 million of the 650 million authorized Trust units were issued at \$10 per unit, for net proceeds of \$168.3 million after issue costs. Under the Trust Unit Incentive Plan options for 925,000 of a maximum 1,500,000 Trust units reserved for issuance were issued to the Manager and the independent directors, exercisable within a five year period. The options are non-transferable and non-assignable and the options have 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.

During 1997, the Trust issued 1.1 million special warrants at \$11.00 per warrant which were converted into units for no additional consideration under a private placement, and closed a public issue of 6.5 million units at \$10.45 per unit for net proceeds of \$75.3 million after issue costs.

Number of Trust Units

	Number of Trust Units (thousands)	\$ thousands
Initial public offering and balance as at December 31, 1996	18,000	168,306
Private placement of special warrants	1,100	11,466
Public offering	6,500	63,877
Exercise of directors' options	4	40
Balance as at December 31, 1997	25,604	\$ 243,689

7. Net Income and Cash Flow From Operations per Unit

	December 31, 1997	December 31, 1996
Net income – basic	\$ 0.40	\$ 0.40
– fully diluted	0.40	0.40
Cash flow from operations ⁽¹⁾ – basic	1.65	1.01
– fully diluted	1.62	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 percent 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 1997 but \$137,000 (1996 – \$62,000) of large corporations tax was payable at year end, and deducted from royalty distributions.

(\$ thousands)	December 31, 1997	December 31, 1996
Canadian oil & gas property expense ⁽¹⁾	\$ 199,116	\$ 154,464
Issue costs and management fee ⁽²⁾	1,676	2,186
Total tax pools	\$ 200,792	\$ 156,650

⁽¹⁾ Deductible at 10 percent per year on the declining balance

⁽²⁾ Deductible over five years

9. Related Party Transactions

A management agreement was signed on July 11, 1996 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 percent of net production revenue; and fees of 1.5 percent and 1.25 percent of the purchase price of acquisitions and the selling price of dispositions, respectively.

A management fee of \$1.45 million was paid to the Manager in July 1996 upon the closing of the Mobil property acquisition. This amount has been capitalized for accounting purposes as part of Property, Plant and Equipment. In 1997, total acquisition and disposition fees paid to the Manager were \$1,639,000.

The Manager was reimbursed \$2,578,000 in 1997 (\$586,000 in 1996) for general and administrative expenses incurred on behalf of the Trust.

During 1997, in connection with the acquisition of oil and gas properties, a company which was controlled by the same company that controls the Manager sold its 10.5 percent interest in the properties to the Trust for \$3.6 million. The acquisition price to the Trust was based on the same reserve value, and on the same terms and conditions, as agreed to with the independent owner of the remaining 89.5 percent interest in the properties.

CORPORATE INFORMATION

Directors, Officers and Senior Personnel of ARC Resources Ltd.

Walter DeBoni (1)
Chairman

Mac H. 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

John M. Stewart
Director

Allan R. Twa
Secretary

Nancy V. Lever
Senior Vice-President, Planning

Steven W. Sinclair
Vice-President, Finance

Doug J. Bonner
Vice-President, Engineering

Susan D. Healy
Manager, Land

Myron M. Stadnyk
Manager, Operations

(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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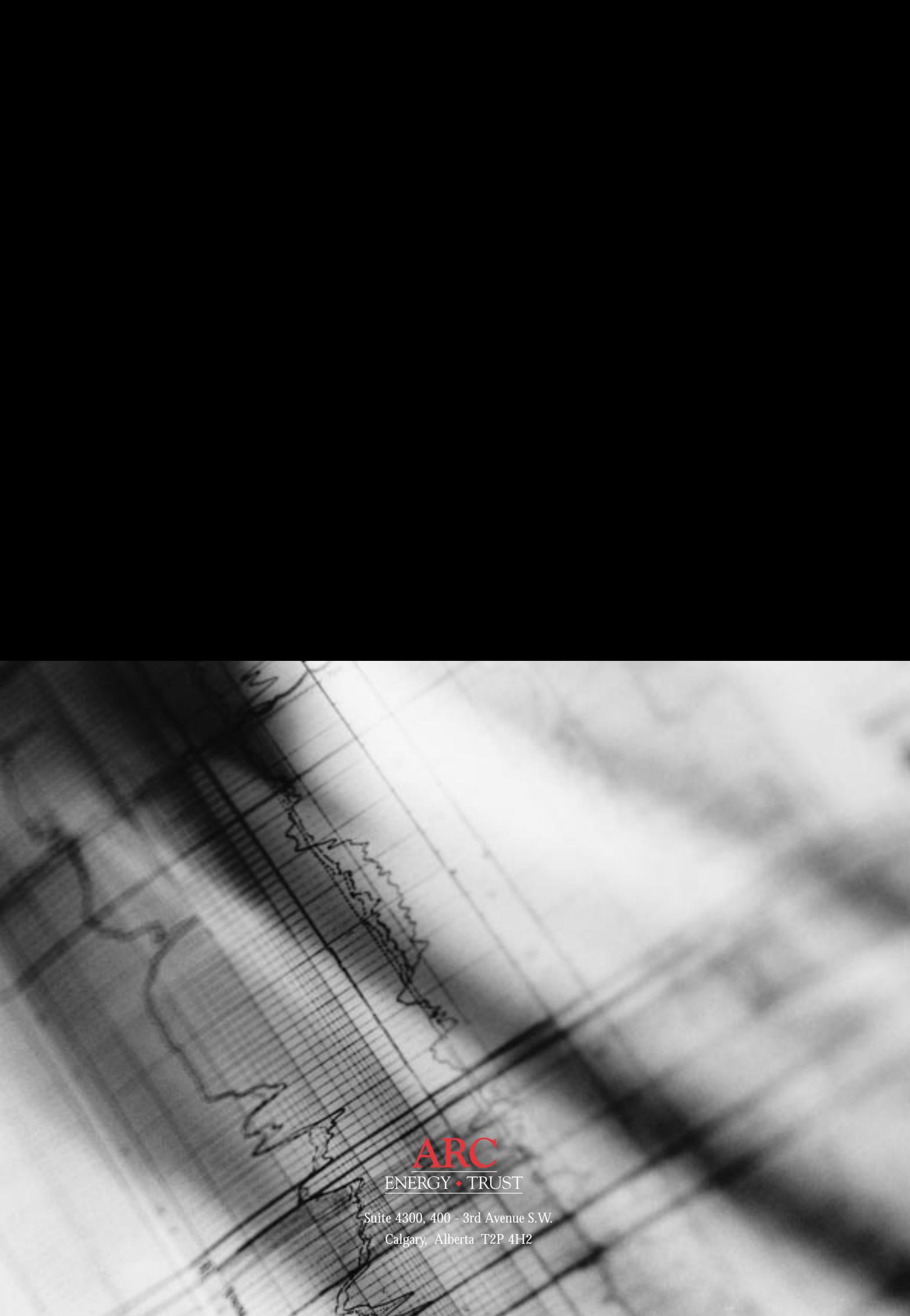
Facsimile: (403) 292-0577

For Investor Information Contact:

Steven W. Sinclair
Vice-President, Finance

Abbreviations

Bbl	barrels
Mbbls	thousand barrels
Bbbls/d	barrels per day
Mcf	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
Barrel of oil equivalence	10 Mcf = 1 Bbl



ARC
ENERGY ♦ TRUST

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