

ARC Energy Trust

Interim Report for the Six Months Ended June 30, 1999

Q2

The Manager of the ARC Energy Trust (the "Trust") was successful in maintaining monthly distributions through the most depressed oil price environment in twenty years. The acquisitions of Starcor Energy Royalty Fund ("Starcor") and Orion Energy Trust ("Orion") occurred at the bottom of this price cycle and just prior to the dramatic price recovery which has occurred since the first quarter. The Trust has never been better positioned to maximize distributions and long-term investor returns.

(\$ thousands, except per unit amounts)	Three Months Ended	
	June 30, 1999	June 30, 1998
Financial		
Revenue before royalties	35,811	16,474
Per unit	0.74	0.64
Cash flow	17,211	7,801
Per unit	0.36	0.30
Net income	3,636	287
Per unit	0.08	0.01
Cash distributions	14,396	7,681
Per unit*	0.30	0.30
Working capital	230	8,389
Long-term debt	168,135	63,296
Unitholders' equity	297,811	197,501
Weighted average units (thousands)	48,249	25,604
Units outstanding at end of period (thousands)	48,276	25,604
* Based on the number of units outstanding at each cash distribution date		
Operating		
Production		
Crude oil (Bbl/d)	9,005	4,472
Natural gas (Mmcf/d)	71.93	38.74
Natural gas liquids (Bbl/d)	2,778	1,834
Total (Boe/d)	18,975	10,180
Average prices		
Crude oil (\$/Bbl)	20.45	18.85
Natural gas (\$/Mcf)	2.32	1.88
Natural gas liquids (\$/Bbl)	15.10	13.09
Oil equivalent (\$/Boe)	20.74	17.78

As manager of ARC Energy Trust, ARC Financial Corporation (the "Manager") focussed its activities and initiatives on maintaining distributions through the most depressed oil price environment in twenty years. With the strong recovery in oil prices since the first quarter, distributable income will increase during the balance of the year thereby allowing for increased distributions to unitholders as well as to further strengthen the Trust's financial position.

After averaging only \$13.13 US per barrel in the first quarter of 1999, the price of oil rebounded sharply in the second quarter to \$17.60 US per barrel, its highest level since the fourth quarter of 1997. This price recovery was the result of OPEC instituting a new round of production cuts which took effect on April 1, 1999. As a result of strong compliance by OPEC members to the pledged cuts, oil prices have climbed to \$21.50 US per barrel by mid-August. With this recovery in oil prices, ARC Energy Trust (the "Trust") maintained its distributions at \$0.10 per unit per month for the eighth consecutive quarter with increased distributions forecast for the second half of the year. The Trust's distributions have been the most stable of all the conventional oil and gas royalty trusts during the past two years. As a result, the Trust continued to be one of the top performers among all of the conventional oil and gas royalty trusts on the basis of total returns. Also, for the eighth straight quarter, the Trust outperformed oil and gas equities in general, as measured by the TSE Oil and Gas Producers Index, again on the basis of total returns. As manager of the Trust, ARC Financial Corporation is continuing to deliver superior returns for its investors and is strongly committed to maintaining this performance.

In March of this year, the Trust completed the acquisitions of Starcor Energy Royalty Fund ("Starcor") and Orion Energy Trust ("Orion"). The Trust's second quarter results reflect the impact of these acquisitions for the first full quarter.

Financial and Operating Performance

Production during the second quarter was 18,975 barrels of oil equivalent per day which was 86 percent greater than 1998 second quarter production of 10,180 barrels of oil equivalent per day. Year to date production of 16,139 barrels of oil equivalent per day was 55 percent greater than the comparable period in 1998. For the first six months of 1999, oil production increased 72 percent to 7,606 barrels per day, natural gas production increased 51 percent to 60.1 million cubic feet per day and natural gas liquids production increased 28 percent to 2,521 barrels per day.

In the second quarter, the Trust drilled three vertical wells and recompleted another well in the first stage of a multi-well program in the Trust operated Lindale Cardium Unit. In addition, two additional horizontal wells were drilled in southeast Saskatchewan on 100 percent Trust owned Midale non-unit lands. Collectively, these wells will add approximately 600 barrels per day of net production to the Trust during the third quarter.

Other second quarter activities included development drilling, recompletions, compressor installations, and tie-ins at Buick Creek, Minnehik Buck Lake, Niton, Edson and YoYo.

Oil prices increased 16 percent while natural gas liquids prices increased 31 percent relative to the first quarter to \$20.45 per barrel and \$15.10 per barrel, respectively. Natural gas prices increased to \$2.32 per thousand cubic feet, 5 percent greater than the first quarter level. Revenues for the three months totaled \$35.8 million for an overall average selling price of \$20.74 per barrel of oil equivalent which was 17 percent greater than the \$17.78 per barrel received in the equivalent period in 1998.

Royalties and operating costs of \$3.02 and \$5.52 per barrel of oil equivalent, respectively, resulted in an average netback of \$12.20 per barrel of oil equivalent for the quarter. Cash flow and earnings for the quarter totaled \$17.2 million and \$3.6 million, respectively.

Crude Oil Pricing

During the first quarter when oil prices were still depressed, a series of short-term, fixed price oil contracts were entered into in order to ensure our monthly distributions were maintained. A total of 5,400 barrels per day of the Trust's second quarter oil production was locked in at \$15.00 US per barrel; the actual average price for the quarter was \$17.60 US per barrel. During the second quarter, a comparable volume was fixed for the third quarter at an average price of \$18.00 US per barrel. No fixed price crude oil contracts are currently in place for the fourth quarter or beyond.

Acquisition and Disposition Activity

On March 12, 1999, the Trust completed the acquisitions of Starcor and Orion which increased the Trust's reserves and production by approximately 90 percent. The integration of these assets into the Trust is complete and we are currently pursuing optimization and development opportunities on the properties which have been identified by our technical staff.

As part of the normal course management of our assets, the increased size of the asset base has prompted a review of all of the Trust's properties. As a result of this review, we have identified a number of minor and non-core properties which are candidates for disposition. Accordingly, we are pursuing activities to divest up to \$30 million of such properties during the second half of the year.

Cash Distributions

With the recovery of oil prices during the quarter, the Trust easily maintained its regular monthly distributions to unitholders of \$0.10 per unit during the second quarter. As at June 30, 1999, the Trust had accumulated an undistributed working capital surplus of \$2.3 million or \$0.05 per unit. To date in the third quarter, additional working capital surpluses have been generated. The Trust will not be adjusting its regular monthly distributions but will provide unitholders with extra distributions during the fourth quarter. The Manager will use this period of strong commodity prices to make dis-

cretionary debt repayments to strengthen the Trust's already strong balance sheet. The special distributions will consist of the working capital surplus less any discretionary debt repayments which are made.

Issue of New Units

Subsequent to the second quarter, the Trust entered into a bought-deal financing under which 4.6 million new trust units were issued at a price of \$7.90 per unit for total gross proceeds of \$36.3 million. The net proceeds of this financing will be used to fund the Trust's 1999 capital program with the balance applied against the Trust's existing debt. As a result, the Manager will not be reducing distributions by 10 percent during 1999 to fund a portion of the capital program which makes the financing non-dilutive. At August 19, 1999, the Trust's debt was approximately \$135 million.

In conjunction with the acquisitions of Starcor and Orion, 4.3 million warrants were issued. These warrants are exercisable until June 15, 2000 at \$7.25 per unit and trade on the Toronto Stock Exchange under the symbol AET.WT. As at June 30, 1999, 75,000 warrants had been exercised.

Year 2000 Plan Update

The Manager has completed its review of Year 2000 computer issues for the Trust and has completed the required upgrades for all but one of its information systems. The lone outstanding system upgrade is scheduled to be complete by the end of the third quarter. Although the Manager expects to be fully Year 2000 compliant within its own administrative and field operations, it remains susceptible to potential problems with third-party vendors including outside operators of facilities.

Outlook

As of late August, oil prices were very strong at \$21.50 US per barrel while Canadian natural gas prices are at their highest sustained levels since deregulation. The Canadian oil and gas industry has never before experienced the combination of strong prices for both oil and gas as well as production essentially at maximum capability. As we expect prices to remain strong for the foreseeable future, the Trust's performance and cash available for distribution is expected to be at its highest level since inception in 1996. The Manager will use this opportunity to balance the short-term interest to maximize distributions with the longer term interest to maintain financial strength and stability for the benefit of all unitholders.

Respectfully submitted on behalf of the Board of Directors.

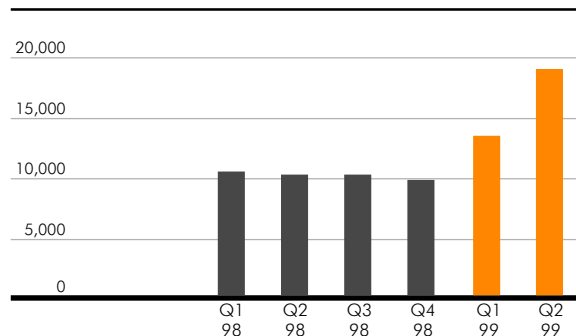


Mac H. Van Wielingen
Director, Vice-Chairman
and Chief Executive Officer

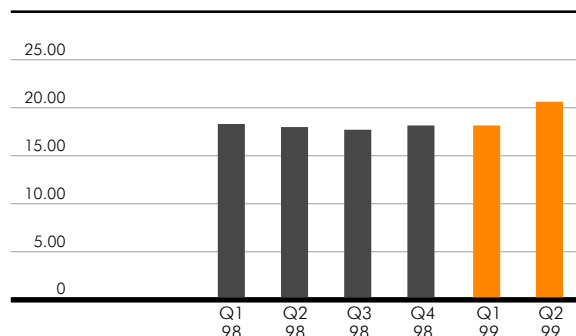


John P. Dielwart
Director and President

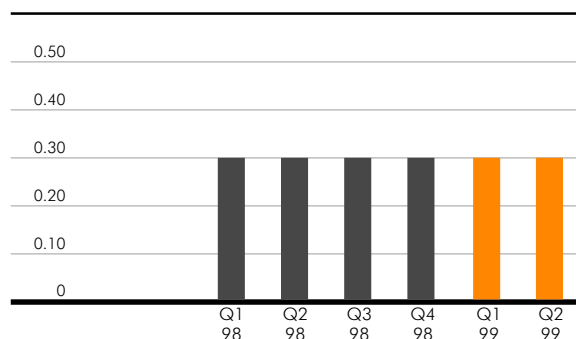
Production (Boe/d)



Sales Price (\$/Boe)



Cash Distributions (\$/unit)



Trust Unit Trading (AET.UN)

(based on daily closing price)	Year Ended December 31, 1998	Three Months Ended	
		March 31, 1999	June 30, 1999
Prices (\$)			
High	11.40	7.50	8.00
Low	6.10	6.15	7.80
Close	6.15	7.30	8.00
Average daily volume (000s)	32	55	85

Trust Warrant Trading (AET.WT)

(based on daily closing price)	Three Months Ended	
	March 31, 1999*	June 30, 1999
Prices (\$)		
High	.80	1.03
Low	.11	.55
Close	.55	.93
Average daily volume (000s)	34	24

* Warrants began trading on March 17th, 1999

COMBINED BALANCE SHEET

(\$ thousands)	As at June 30, 1999	As at December 31, 1998
Assets		
Current assets		
Cash	\$ 874	\$ 1,390
Accounts receivable	19,648	7,747
	20,522	9,137
Reclamation fund	4,621	4,504
Property, plant and equipment	471,956	245,374
Total assets	\$ 497,099	\$ 259,015
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,456	\$ 7,535
Royalty distributions payable	4,828	2,560
Payable to the Manager	8	730
	20,292	10,825
Long-term debt	168,135	72,499
Future site reclamation and abandonment	10,861	8,368
Total liabilities	199,288	91,692
Unitholders' Equity		
Unitholders' capital	394,633	243,689
Accumulated earnings	6,022	2,180
Accumulated royalty distributions	(102,844)	(78,546)
Total unitholders' equity	297,811	167,323
Total liabilities and unitholders' equity	\$ 497,099	\$ 259,015

COMBINED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

(\$ thousands)	Three Months Ended		Six Months Ended	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
Revenue				
Oil, natural gas, natural gas liquids and sulphur sales	\$ 35,811	\$ 16,474	\$ 57,695	\$ 33,995
Royalties	(5,220)	(2,218)	(8,288)	(4,989)
	30,591	14,256	49,407	29,006
Expenses				
Operating	9,529	4,416	16,207	8,853
General and administrative	1,029	802	1,955	1,605
Management fee	688	305	1,027	621
Interest on long-term debt	2,041	896	3,300	1,804
Capital taxes	93	36	144	70
Depletion, depreciation and amortization	13,575	7,514	22,932	15,330
	26,955	13,969	45,565	28,283
Net income	3,636	287	3,842	723
Accumulated earnings, beginning of period	2,386	16,709	2,180	16,273
Accumulated earnings, end of period	\$ 6,022	\$ 16,996	\$ 6,022	\$ 16,996

COMBINED STATEMENT OF CASH FLOW

(\$ thousands)	Six Months Ended	
	June 30, 1999	June 30, 1998
Cash flow from operating activities		
Net income	\$ 3,842	\$ 723
Add items not involving cash:		
Depletion, depreciation and amortization	22,932	15,330
	26,774	16,053
Change in non-cash working capital accounts	(5,331)	2,976
	21,443	19,029
Cash flow from financing activities		
Increase (decrease) in long term debt, net	21,636	(2,659)
Royalty distributions	(22,030)	(15,362)
	(394)	(18,021)
Cash flow from investing activities		
Acquisition of properties, net of dispositions	(14,765)	11,523
Reclamation fund contributions and actual costs incurred	(151)	(535)
Purchase of capital assets	(6,549)	(6,143)
Purchase of working capital in conjunction with property acquisitions	(100)	-
	(21,565)	4,845
Increase/(decrease) in cash	(516)	5,853
Cash, beginning of period	1,390	2,983
Cash, end of period	\$ 874	\$ 8,836

At June 30, 1999 interest paid was \$4,933,000 compared to \$1,813,000 at June 30, 1998. The increase in 1999 is due to prepaid interest on bankers' acceptances and increased bank debt. Taxes paid totalled \$129,000 in 1999 and \$156,000 in 1998.

The Trust has adopted the Canadian Institute of Chartered Accountants' accounting recommendations regarding cash flow statements effective January 1, 1999.

COMBINED STATEMENT OF ROYALTY DISTRIBUTIONS AND ACCUMULATED ROYALTY DISTRIBUTIONS

(\$ thousands, except per unit amounts)	Three Months Ended		Six Months Ended	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
Net income	\$ 3,636	\$ 287	\$ 3,842	\$ 723
Depletion, depreciation and amortization	13,575	7,514	22,932	15,330
Cash from operations	17,211	7,801	26,774	16,053
Cash from operations (99 percent)	17,039	7,723	26,506	15,892
Add (deduct):				
General and administrative expense reimbursement (residual 1 percent)	172	78	268	161
Capital expenditures	-	(768)	-	(1,536)
Proceeds from disposition of royalty interests	-	12,942	-	12,942
Discretionary debt payment	-	(6,891)	-	(7,781)
Reclamation fund contributions and actual reclamation costs incurred	(20)	(60)	(151)	(535)
Current period accruals	(2,795)	(5,343)	(2,326)	(3,781)
Royalty distributions	14,396	7,681	24,297	15,362
Accumulated royalty distributions, beginning of period	88,447	55,503	78,546	47,822
Accumulated royalty distributions, end of period	\$ 102,843	\$ 63,184	\$ 102,843	\$ 63,184
Royalty distributions per unit	\$ 0.30	\$ 0.30	\$ 0.60	\$ 0.60

Distribution Reinvestment and Optional Cash Payment Program

New ARC Energy Trust unitholders should be aware of the Trust Distribution Reinvestment Program (DRIP) under which a unitholder can elect to reinvest cash distributions into new ARC Energy Trust units. Irrespective of whether distributions are reinvested, a unitholder can elect to make optional cash payments under the DRIP plan to acquire up to \$3,000 of additional trust units per distribution date. All units purchased under the DRIP program are made at prevailing market prices without any additional fees or commissions. For further details on the DRIP program contact Montreal Trust.



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CORPORATE INFORMATION

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Director and President

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Frederic C. Coles ⁽¹⁾⁽²⁾
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Michael M. Kanovsky ⁽¹⁾⁽²⁾
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John M. Stewart
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Allan R. Twa
Secretary

Doug J. Bonner
Vice-President, Engineering

Susan D. Healy
Vice-President, Land

Nancy V. Lever
Vice-President, Planning

Steven W. Sinclair
Vice-President, Finance

Myron M. Stadnyk
Vice-President, Operations

(1) Member of Audit Committee

(2) Member of Reserve Audit Committee

Trustee

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Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: AET.UN
AET.WT

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