



# ARC ENERGY TRUST

INTERIM REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2000

## Q 1

**Strong first quarter commodity prices provided for an exceptionally positive business environment resulting in record levels of distributable income and earnings for the Trust. The Manager of the Trust capitalized on a significant opportunity during the quarter by completing the acquisition of 4,700 boe/d of production for \$135 million. Despite a weak equity market for the oil and gas sector, the Trust successfully completed a \$55 million equity financing to partially finance this acquisition with the balance funded by debt. These transactions will further enhance the Trust's already strong performance and long-term unitholder returns.**

(\$ thousands, except per unit amounts)	Three Months Ended	
	March 31, 2000	March 31, 1999
<b>Financial</b>		
Revenue before royalties	<b>54,446</b>	21,884
Per unit	<b>0.97</b>	0.66
Cash flow	<b>31,486</b>	9,562
Per unit	<b>0.56</b>	0.29
Net income	<b>17,471</b>	206
Per unit	<b>0.31</b>	0.01
Cash distributions	<b>24,930</b>	9,901
Per unit*	<b>0.45</b>	0.30
Working capital (deficiency)	<b>9,897</b>	(2,473)
Long-term debt	<b>95,000</b>	162,351
Unitholders' equity	<b>372,523</b>	307,997
Weighted average units (thousands)	<b>56,107</b>	33,386
Units outstanding at end of period (thousands)	<b>60,486</b>	48,197
* Based on the number of units outstanding at each cash distribution date		
<b>Operating</b>		
Production		
Crude oil (Bbl/d)	<b>8,661</b>	6,192
Natural gas (Mmcf/d)	<b>69.3</b>	48.2
Natural gas liquids (Bbl/d)	<b>2,761</b>	2,262
Total (Boe/d)	<b>18,357</b>	13,270
Average prices		
Crude oil (\$/Bbl)	<b>36.19</b>	17.69
Natural gas (\$/Mcf)	<b>2.98</b>	2.21
Natural gas liquids (\$/Bbl)	<b>27.24</b>	11.54
Oil equivalent (\$/Boe)	<b>32.59</b>	18.32

**Cash available for distribution increased to a record level of \$32.9 million (\$0.59 per unit) resulting in actual distributions for the quarter of \$24.9 million (\$0.45 per unit) and discretionary debt repayments of \$8.1 million (\$0.14 per unit). The Manager's debt reduction activities during 1999 and the Trust's resulting strong balance sheet created the flexibility to pursue the major acquisition completed during the first quarter. With the continued strength in commodity prices, the current policy of applying 50 percent of the monthly cash available for distribution above \$0.10 per unit against the Trust's debt will be continued in order to further strengthen the balance sheet.**

First quarter prices for West Texas Intermediate crude oil averaged \$28.72 US per barrel which represents the highest peacetime prices since deregulation of the industry in Canada in 1986. With an average exchange rate of \$0.689 US per \$Cdn., the Edmonton light, sweet oil reference price achieved a record level of \$41.35 per barrel. With regard to natural gas, despite the warmest winter in over 100 years in the United States, storage inventory levels are significantly below levels of a year ago which has resulted in continued strengthening of the gas price. First quarter natural gas prices for NYMEX and AECO were \$2.58 US per mcf and \$3.32 Cdn. per mcf, respectively. The combination of these commodity prices created the strongest business environment experienced to date by the Trust.

A comparison of first quarter 2000 commodity prices versus the comparable period in 1999 is as follows:

	Q1 1999	Q2 2000	Current May 15, 2000
W.T.I. (\$US/ bbl)	13.13	28.72	29.92
Edm. (\$Cdn/ bbl)	18.48	41.35	43.65
NYMEX (\$US/ mmbtu)	1.80	2.60	3.40
AECO (\$Cdn/ mcf)	2.36	3.32	4.24

A series of short-term oil and gas price hedges were implemented for the first quarter to protect unitholder distributions. Approximately 45 percent of the Trust's total first quarter liquids production was hedged at an average price of \$25.95 US per barrel compared to an average market price of \$28.72 US per barrel. Approximately 33 percent of first quarter natural gas production was hedged at an average AECO price of \$3.13 per mcf compared to an average market price of \$3.32 per mcf.

#### **Financial and Operating Performance**

Production during the first quarter was 18,357 barrels of oil equivalent per day which was 38 percent greater than 1999 first quarter production of 13,270 barrels of oil equivalent per day. In the first three months of 2000, oil production increased 40 percent to 8,661 barrels per day, natural gas production increased 44 percent to 69.3 million cubic feet per day and natural gas liquids production increased 22 percent to 2,761 barrels per day.

First quarter activities included the completion of an active winter drilling program as well as continued optimization activities. Extensive infill and stepout drilling was conducted in various third party operated areas including Marten Hills, Wildmere, Valhalla, Midale and House Mountain. Within our operated properties, two additional infill wells were drilled in the ongoing rejuvenation of the Lindale Cardium Unit. In the Sundre/Caroline area, one additional well was brought on production in Caroline Cardium E Unit and high volume submersible pumps were installed in Sundre Unit 1 to improve production.

An extensive review of the recently acquired assets has commenced with a number of optimization and drilling opportunities identified.

Oil prices during the quarter increased 105 percent while natural gas liquids prices increased 136 percent relative to the first quarter of 1999 to \$36.19 per barrel and \$27.24 per barrel, respectively. Natural gas prices increased to \$2.98 per thousand cubic feet, 35 percent greater than the first quarter 1999. Revenues for the three months totaled \$54.5 million for an overall average selling price of \$32.59 per barrel of oil equivalent which was 78 percent greater than the \$18.32 per barrel received in the equivalent period in 1999.

Royalties and operating costs of \$5.79 and \$5.54 per barrel of oil equivalent, respectively, resulted in an average netback of \$21.26 per barrel of oil equivalent for the quarter. Cash flow and earnings for the quarter totaled \$31.5 million and \$17.5 million, respectively.

#### **Cash Distributions**

With the strong commodity prices, cash available for distribution during the quarter increased to a record \$32.9 million (\$0.59 per unit) resulting in actual distributions of \$24.9 million (\$0.45 per unit) and discretionary debt repayments of \$8.1 million (\$0.14 per unit). As indicated above, the previously announced policy of splitting the cash available for distribution in excess of the regular monthly distribution of \$0.10 per unit equally between additional distributions to Unitholders and discretionary debt payments, remained in effect for the quarter.

As at the time of writing this report, it is expected that the second quarter distribution will be comparable to the first quarter with an extra distribution of \$.15 per unit to be paid on June 15, 2000. These extra distributions result in the trust units trading at approximately a 17% cash on cash yield on a trailing twelve month basis assuming a \$9.90 unit price.

#### **Issue of New Units**

In the first quarter, the Trust completed a financing under which 6.4 million new trust units were issued at a price of \$8.65 per unit for total gross proceeds of \$55.4 million (\$52.6 million net). The net proceeds of this financing were used to fund a portion of the \$135 million acquisition of new properties.

## Exercise of Warrants

In conjunction with the acquisitions of Starcor Energy Royalty and Orion Energy Trust in 1999, 4.3 million warrants were issued and listed for trading on the Toronto Stock Exchange under the symbol AET.WT. These warrants are exercisable at any time until June 15, 2000 at \$7.25 per unit. As at March 31, 2000, 1.2 million warrants had been exercised leaving 3.1 million warrants outstanding. The warrants, if exercised, would provide \$22.2 million of proceeds which will be applied against the Trust's outstanding debt.


On June 15, 2000, the holders of the remaining ARC Energy Trust warrants must make a decision to let the warrant expire or exercise them by 4:30 p.m. mountain daylight time. For most warrant holders, this will require informing their investment advisor of their intent to exercise and make the payment of \$7.25 per warrant which will entitle the warrant holder to one Trust unit. For registered warrant holders who hold their certificates outside of the Canadian Depository System, Montreal Trust must be advised in writing prior to 4:30 p.m. on June 15, 2000 of their request to exercise their warrants with a cheque attached for \$7.25 per warrant.

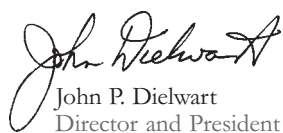
## Outlook

On January 31, 2000 the Trust entered into an agreement to acquire two major and eleven minor producing oil and gas properties in Alberta and Saskatchewan for \$135 million. Key attributes of the purchase which closed on April 4, 2000 are: (a) an acquisition cost on an established reserve basis of \$4.93 per barrel of oil equivalent; (b) increased production of 4,700 barrels of oil equivalent per day at a cost of \$28,700 per producing barrel; (c) a reserve life index of 13.0 years for proved reserves and 15.6 years for established reserves; and (d) acquisition of four 90 to 100 percent working interest properties with significant identified development and exploitation opportunities. As a result of this transaction, the Trust's production will exceed 22,000 barrels of oil equivalent per day. The Manager will continue its program of optimizing the Trust's asset base by divesting of up to \$30 million of minor, non-core properties during the balance of the year.

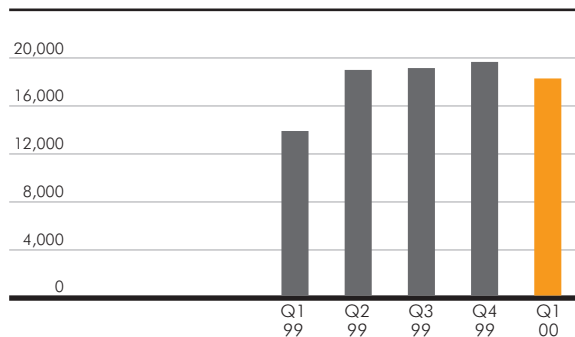
Our ability to source and complete asset acquisitions on attractive terms in all phases of the market has firmly established the Trust as a leader in the royalty trust sector. The Manager will continue to opportunistically pursue additional acquisitions in order to continue to deliver superior returns to the Trust's unitholders.

Respectfully submitted on behalf of the Board of Directors.

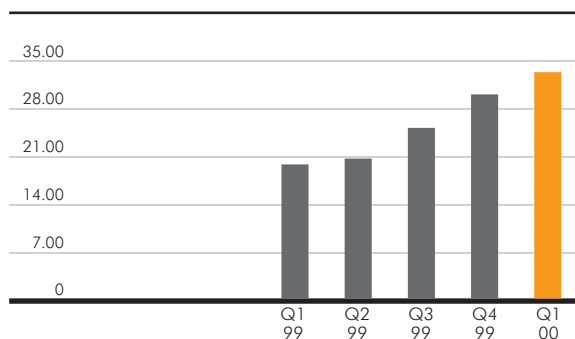
  
Mac H. Van Wielingen  
Director, Vice-Chairman  
and Chief Executive Officer

  
John P. Dielwart  
Director and President

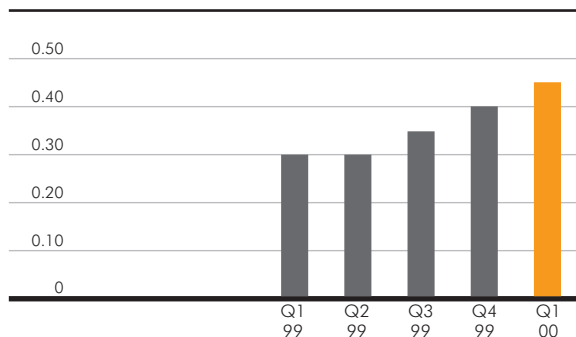
## Production (Boe/d)



## Sales Price (\$/Boe)



## Cash Distributions (\$/unit)



## Trust Unit Trading (AET.UN)

	Three Months Ended			
	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	March 31, 2000
(based on daily closing price)				
Prices (\$)				
High	8.25	9.25	9.20	9.20
Low	7.15	7.85	8.40	8.55
Close	8.00	9.25	8.75	8.75
Average daily volume (000s)	63	101	51	88

## Trust Warrant Trading (AET.WT)

	Three Months Ended			
	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	March 31, 2000
(based on daily closing price)				
Prices (\$)				
High	1.03	1.95	1.94	1.84
Low	.55	.86	1.01	1.05
Close	.93	1.95	1.30	1.31
Average daily volume (000s)	24	21	8	70

# COMBINED BALANCE SHEET

(\$ thousands)	As at March 31, 2000	As at December 31, 1999
<b>Assets</b>		
Current assets		
Cash	\$ 4,945	\$ 9,240
Properties held for sale	-	4,800
Accounts receivable	27,007	29,145
	<b>31,952</b>	43,185
Reclamation fund	8,684	7,165
Property, plant and equipment	463,327	455,269
<b>Total assets</b>	<b>503,963</b>	\$ 505,619
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	15,620	\$ 21,386
Royalty distributions payable	6,049	5,361
Payable to the Manager	386	677
	<b>22,055</b>	27,424
Long-term debt	95,000	141,000
Future site reclamation and abandonment	14,385	13,185
<b>Total liabilities</b>	<b>131,440</b>	181,609
<b>Unitholders' Equity</b>		
Unitholders' capital	490,286	434,314
Accumulated earnings	49,486	32,015
Accumulated royalty distributions	(167,249)	(142,319)
<b>Total unitholders' equity</b>	<b>372,523</b>	324,010
<b>Total liabilities and unitholders' equity</b>	<b>503,963</b>	\$ 505,619

# COMBINED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

(\$ thousands)	Three Months Ended	
	March 31, 2000	March 31, 1999
<b>Revenue</b>		
Oil, natural gas, natural gas liquids and sulphur sales	\$ 54,446	\$ 21,884
Royalties	(9,676)	(3,068)
	<b>44,770</b>	18,816
<b>Expenses</b>		
Operating	9,257	6,678
General and administrative	1,245	926
Management fee	1,089	339
Interest on long-term debt	1,600	1,259
Capital taxes	93	52
Depletion, depreciation and amortization	14,015	9,356
	<b>27,299</b>	18,610
<b>Net income</b>	<b>17,471</b>	206
<b>Accumulated earnings, beginning of period</b>	<b>32,015</b>	2,180
<b>Accumulated earnings, end of period</b>	<b>\$ 49,486</b>	\$ 2,386

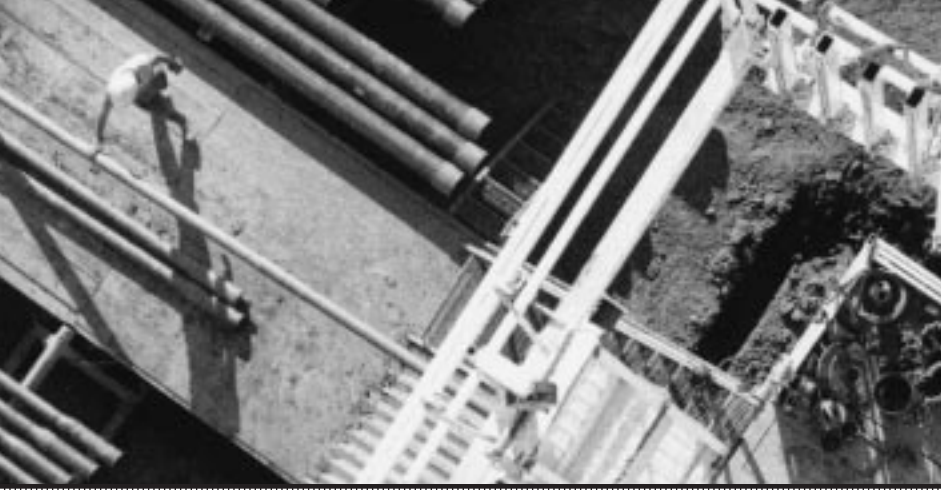
# COMBINED CASH FLOW STATEMENT

(\$ thousands)	Three Months Ended	
	March 31, 2000	March 31, 1999
<b>Cash flow from operating activities</b>		
Net income	\$ 17,471	\$ 206
Add items not involving cash:		
Depletion, depreciation and amortization	14,015	9,356
	<b>31,486</b>	9,562
Increase in non-cash working capital accounts	994	(4,197)
	<b>32,480</b>	5,365
<b>Cash flow from financing activities</b>		
Increase (decrease) in long term debt, net	(46,000)	15,852
Issue of Trust units, net of expenses	55,971	-
Royalty distributions	(24,242)	(7,681)
	<b>(14,271)</b>	8,171
<b>Cash flow from investing activities</b>		
Acquisition of properties, net of dispositions	(12,479)	(9,383)
Reclamation fund contributions and actual costs incurred	(1,685)	(69)
Purchase of capital assets	(8,340)	(2,630)
Purchase of working capital in conjunction with property acquisitions	-	(2,289)
	<b>(22,504)</b>	(14,371)
<b>Increase/(decrease) in cash</b>	<b>(4,295)</b>	(835)
<b>Cash, beginning of period</b>	<b>9,240</b>	1,390
<b>Cash, end of period</b>	<b>\$ 4,945</b>	\$ 555

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

# COMBINED STATEMENT OF ROYALTY DISTRIBUTIONS AND ACCUMULATED ROYALTY DISTRIBUTIONS

(\$ thousands, except per unit amounts)	Three Months Ended	
	March 31, 2000	March 31, 1999
<b>Net income</b>	\$ 17,471	\$ 206
Depletion, depreciation and amortization	14,015	9,356
<b>Cash from operations</b>	<b>31,486</b>	9,562
<b>Cash from operations (99 percent)</b>	<b>31,171</b>	9,466
Add (deduct):		
General and administrative expense reimbursement (residual 1 percent)	315	96
Capital expenditures	(2,980)	-
Proceeds from the disposition of royalty interests	2,784	-
Discretionary debt payment	(5,669)	-
Reclamation fund contributions and actual reclamation costs incurred	(1,685)	(69)
Current period accruals	994	408
<b>Royalty distributions</b>	<b>24,930</b>	9,901
<b>Accumulated royalty distributions, beginning of period</b>	<b>142,319</b>	78,546
<b>Accumulated royalty distributions, end of period</b>	<b>\$ 167,249</b>	\$ 88,447
<b>Royalty distributions per unit</b>	<b>\$ 0.45</b>	\$ 0.30



## CORPORATE INFORMATION

### Directors, Officers and Senior Personnel of ARC Resources Ltd.

Walter DeBoni <sup>(1)(2)</sup>  
Chairman

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

John P. Dielwart  
Director and President

John M. Beddome <sup>(1)(2)</sup>  
Director

Frederic C. Coles <sup>(1)(2)</sup>  
Director

Michael M. Kanovsky <sup>(1)(2)</sup>  
Director

John M. Stewart  
Director

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 and  
Chief Financial Officer

Myron M. Stadnyk  
Vice-President, Operations

(1) Member of Audit Committee

(2) Member of Reserve Audit Committee

### Trustee

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

### Auditors

Arthur Andersen LLP  
Calgary, Alberta

### Engineering Consultants

Gilbert Laustsen Jung Associates Ltd.  
Calgary, Alberta

### Legal Counsel

Burnet, Duckworth & Palmer  
Calgary, Alberta

### Stock Exchange Listing

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

### Executive Office

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1-888-272-4900  
Facsimile: (403) 503-8609  
Website: [www.arcfinancial.com](http://www.arcfinancial.com)  
E-Mail Address:  
[arc\\_energy\\_trust@arcfinancial.com](mailto:arc_energy_trust@arcfinancial.com)

### 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.

### For Investor Information

Visit our Website at [www.arcfinancial.com](http://www.arcfinancial.com)  
or Contact:

Steven W. Sinclair  
Vice-President, Finance and  
Chief Financial Officer

**ARC**  
ENERGY ♦ TRUST

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