



# ARC ENERGY TRUST

INTERIM REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

## Q3

The Trust achieved record distributions of \$0.52 per unit in the third quarter and will achieve record full year distributions of \$1.93 per unit based upon the current declared monthly distributions. On September 18, 2000, the Trust entered into an agreement to issue 8.7 million units at \$11.65 per unit to a group of underwriters resulting in gross proceeds of \$101 million being received on October 10, 2000. The proceeds of this financing were used to partially fund the Trust's 2000 forecast capital expenditures of \$200 million and resulted in the Trust having debt equal to approximately 6 months cash flow. The Trust also revised its distribution policy resulting in an increase in monthly distributions to \$0.17 per unit per month for at least the balance of the year.

(\$ thousands, except per unit amounts) Three Months Ended  
September 30, 2000    September 30, 1999

### Financial

Revenue before royalties	<b>77,326</b>	43,849
Per unit	<b>1.21</b>	0.85
Cash flow	<b>40,362</b>	23,223
Per unit - basic	<b>0.63</b>	0.45
Per unit - fully diluted	<b>0.62</b>	0.44
Net income	<b>22,702</b>	9,549
Per unit - basic	<b>0.36</b>	0.19
Per unit - fully diluted	<b>0.35</b>	0.19
Cash distributions	<b>33,173</b>	18,099
Per unit*	<b>0.52</b>	0.35
Working capital	<b>5,253</b>	(1,958)
Long-term debt	<b>189,777</b>	130,870
Unitholders' equity	<b>387,049</b>	325,508
Weighted average units (thousands)	<b>63,791</b>	51,469
Units outstanding at end of period (thousands)	<b>63,809</b>	53,153

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

### Operating

Production		
Crude oil (Bbl/d)	<b>12,240</b>	9,250
Natural gas (Mmcf/d)	<b>79.22</b>	71.66
Natural gas liquids (Bbl/d)	<b>3,053</b>	2,614
Total (Boe/d)	<b>23,215</b>	19,030
Average prices		
Crude oil (\$/Bbl)	<b>34.08</b>	25.33
Natural gas (\$/Mcf)	<b>4.22</b>	2.70
Natural gas liquids (\$/Bbl)	<b>29.75</b>	18.75
Oil equivalent (\$/Boe)	<b>36.21</b>	25.05

**During the quarter, the Trust completed a review of its distribution policy which included the allocation of 50 percent of distributable income above \$0.10 per month to debt repayment. This component of the policy was suspended effective October 1, 2000. The Trust's revised policy results in 100 percent of cash flow being paid to unitholders subject to a current deduction of \$2.8 million annually for contribution to the reclamation fund and a deduction of up to 20 percent (previously 10 percent) to fund a portion of the Trust's annual capital expenditures. These changes resulted in an increase in the monthly distribution to \$0.17 per unit after issuance of the new units in the equity financing. Commodity prices of \$28 US per barrel for WTI and \$5.00 Cdn. per gigajoule for AECO gas are required to maintain the \$0.17 in the fourth quarter of 2000; quarter to date prices materially exceed these levels. Excess undistributed cash for the fourth quarter will be distributed equally over the first three months of 2001.**

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

Production during the third quarter was a record 23,215 barrels of oil equivalent per day which was 22 percent greater than 1999 third quarter production of 19,030 barrels of oil equivalent per day. In the first nine months of 2000, oil production increased 36 percent to 11,135 barrels per day, natural gas production increased 18 percent to 75.1 million cubic feet per day and natural gas liquids production increased 14 percent to 2,906 barrels per day.

Oil and natural gas liquids prices were \$34.08 and \$29.75 per barrel, respectively, which represented increases of 35 percent and 59 percent compared to prices in the third quarter of 1999. Natural gas prices increased to \$4.22 per thousand cubic feet, 56 percent greater than the third quarter 1999. Revenues for the three months totaled \$77.3 million for an overall average selling price of \$36.21 per barrel of oil equivalent which was 45 percent greater than the \$25.05 per barrel received in the equivalent period in 1999.

Third quarter prices for West Texas Intermediate crude oil averaged \$31.65 US per barrel, an increase of \$2.70 US per barrel from the price achieved in the second quarter. AECO natural gas prices increased \$0.69 Cdn. per mcf during the third quarter to \$5.38 per mcf as shown in the table below:

	Q3 1999	Q1 2000	Q2 2000	Q3 2000
WTI (\$US/bbl)	21.72	28.91	28.95	31.65
Edm. (\$Cdn/bbl)	30.72	41.70	41.65	46.55
NYMEX (\$US/mmbtu)	2.55	2.75	3.67	4.49
AECO (\$Cdn/mcf)	3.23	3.35	4.69	5.38
Cdn/US Exchange Rate	0.68	0.69	0.67	0.67

A series of short-term oil and gas price hedges were implemented in late 1999 and early 2000 for the third quarter to protect unitholder distributions. Approximately 39 percent of the Trust's

total third quarter liquids production was hedged at an average price of \$24.23 US per barrel compared to an average market price of \$31.65 US per barrel. In September, the Trust put in place price protection by paying a fee of \$2.3 million to purchase a \$27.00 US per barrel floor on approximately 18 percent of its oil production for calendar 2001 while retaining 100 percent of the upside above that level. Approximately 36 percent of third quarter natural gas production was hedged at an average AECO price of \$3.32 per mcf compared to an average market price of \$5.38 per mcf.

Royalties and operating costs of \$8.29 and \$5.93 per barrel of oil equivalent, respectively, resulted in an average netback of \$21.98 per barrel of oil equivalent for the quarter. Cash flow and earnings for the quarter totaled \$40.4 million and \$22.7 million, respectively.

#### **Exploitation and Development Activity**

Third quarter activities included five ARC operated oil wells drilled and brought to production in Pembina at a combined rate of 350 barrels of oil per day. In our Jenner core area, 12 successful gas development wells were drilled. Field optimization activities continue in the Lindale Cardium Unit where production has increased 80 percent over the past 18 months to 1,080 barrels of oil equivalent per day (ARC interest is 53 percent). Numerous other drilling and production enhancement efforts commenced or continue on smaller operated and non-operated fields.

Acquisition activities included increasing our working interests in the Pembina Berrymoor Cardium Unit to 39.1 percent and to 100 percent in 34 wells in our Jenner core area.

#### **Equity Offering**

On September 18, 2000, the Trust entered into an agreement to sell 6.5 million trust units at \$11.65 per unit with an option granted to the underwriters to purchase up to an additional 2.2 million trust units at the same price. All 8.7 million units were purchased resulting in \$101.4 million of gross proceeds (\$96.3 million net). The proceeds of the financing were used to partially fund the Trust's 2000 forecast capital expenditures of \$200 million. As a result of this offering, the Trust's debt was reduced to \$88.3 million resulting in a debt to cash flow ratio of 0.5 years.

(\$ millions)	Nine Months		
	1999	Ending Sept. 2000	with Equity Offering*
Capital expenditures	255.7	168.8	168.8
Equity offerings/ warrant exercises	189.0	80.0	176.3
Ending long term debt (net of working capital)	125.2	184.6	88.3
Cash flow	80.8	117.9	117.9
Debt to annualized cash flow	1.5	1.2	0.5

\* the net proceeds of \$96.3 million were not received until October 10, 2000. The number of trust units outstanding increased from 63.8 to 72.5 million.

## Cash Distributions

With the continued strong commodity prices, cash available for distribution during the quarter was \$36.4 million (\$0.57 per unit) resulting in record actual distributions of \$33.2 million (\$0.52 per unit) and discretionary debt repayments of \$6.1 million (\$0.10 per unit).


As announced on September 18, 2000, the fourth quarter distribution will be \$0.17 per unit per month. These distributions will result in 2000 distributions at a record level of \$1.93 per unit resulting in the trust units trading at approximately a 17 percent cash on cash yield based on the Trust's November 15, 2000 closing price of \$11.30 per unit. The Trust's actual cash available for distribution during the twelve month period ending September 30, 2000 totaled \$2.35 per unit which represents a cash on cash yield of 21 percent if we followed similar distribution policies as some other trusts. With the high level of cash flow and distributions, the taxable portion of distributions in 2000 is expected to be in the range of 40 to 45 percent.

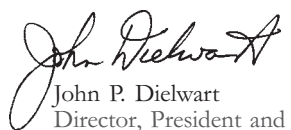
## Outlook

With the start of the winter heating season, commodity prices remain at exceptionally high levels. At the time of writing, spot oil is in excess of \$35 US per barrel for WTI and natural gas is trading in excess of \$7.50 per mcf at the AECO Hub in Alberta. At these levels, significant surplus cash is being generated which will be distributed in 2001. As significant volatility exists in commodity prices, the Manager of the Trust continues to actively hedge 2001 production in an attempt to ensure the current monthly distribution of \$0.17 per unit can be maintained throughout the year. The primary financial instruments being used are price floors and collars in order that unitholders can participate in price upside while protecting downside risk.

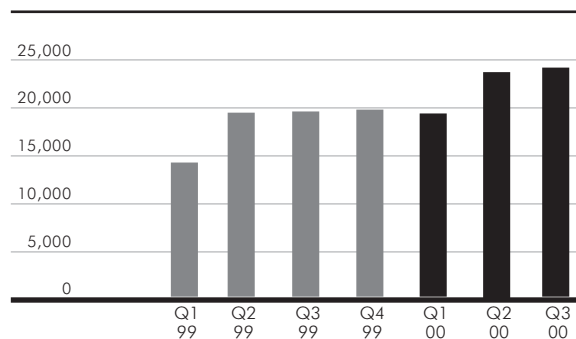
As part of our ongoing asset rationalization plans, a number of minor non-core property dispositions will be completed in the fourth quarter. These sales are expected to reduce first quarter 2001 production by up to 5 percent. The proceeds of these dispositions will be applied against the Trust's debt and further strengthen its already strong balance sheet.

Respectfully submitted on behalf of the Board of Directors.

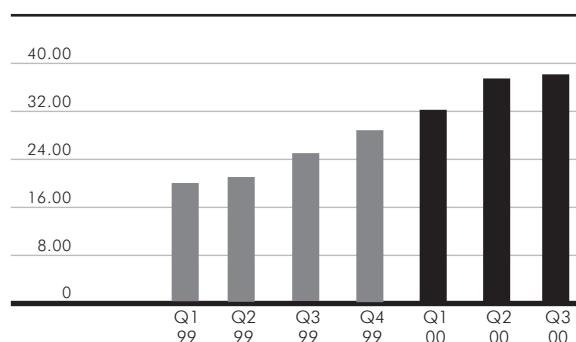
  
Mac H. Van Wielingen  
Director and Vice-Chairman

  
John P. Dielwart  
Director, President and  
Chief Executive Officer

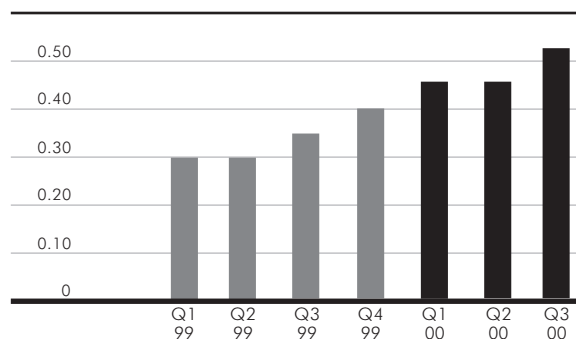
## Production (Boe/d)



## Sales Price (\$/Boe)



## Cash Distributions (\$/unit)



## Trust Unit Trading (AET.UN)

(based on daily closing price)	Three Months Ended			
	Dec. 31, 1999	March 31, 2000	June 30, 2000	Sept. 30, 2000
Prices (\$)				
High	9.20	9.20	10.95	12.15
Low	8.40	8.55	8.65	10.15
Close	8.75	8.75	10.80	11.30
Average daily volume (000s)	51	88	194	143

## COMBINED BALANCE SHEET

(\$ thousands)	As at September 30, 2000		As at December 31, 1999	
<b>Assets</b>				
Current assets				
Cash	\$	829	\$	9,240
Properties held for sale		-		4,800
Accounts receivable		46,395		29,145
		<b>47,224</b>		43,185
Reclamation fund		9,615		7,165
Property, plant and equipment		579,263		455,269
<b>Total assets</b>	<b>\$</b>	<b>636,102</b>	<b>\$</b>	<b>505,619</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$	30,766	\$	21,386
Royalty distributions payable		10,848		5,361
Payable to the Manager		357		677
		<b>41,971</b>		27,424
Long-term debt		189,777		141,000
Future site reclamation and abandonment		17,305		13,185
<b>Total liabilities</b>		<b>249,053</b>		181,609
<b>Unitholders' Equity</b>				
Unitholders' capital		514,402		434,314
Accumulated earnings		101,135		32,015
Accumulated royalty distributions		(228,488)		(142,319)
<b>Total unitholders' equity</b>		<b>387,049</b>		324,010
<b>Total liabilities and unitholders' equity</b>	<b>\$</b>	<b>636,102</b>	<b>\$</b>	<b>505,619</b>

## COMBINED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

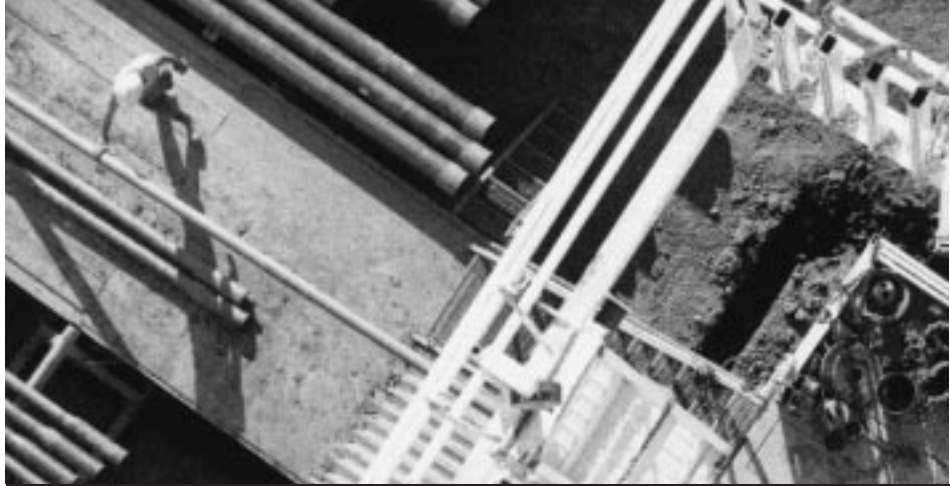
(\$ thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2000	1999	2000	1999
<b>Revenue</b>				
Oil, natural gas, natural gas liquids and sulphur sales	\$ 77,326	\$ 43,849	\$ 209,896	\$ 101,544
Royalties	(17,712)	(6,820)	(41,550)	(15,108)
	<b>59,614</b>	<b>37,029</b>	<b>168,346</b>	<b>86,436</b>
<b>Expenses</b>				
Operating	12,677	9,842	33,419	26,049
General and administrative	2,064	1,162	4,901	3,117
Management fee	1,433	835	4,121	1,862
Interest on long-term debt	2,962	1,882	7,618	5,182
Capital taxes	116	85	275	229
Depletion, depreciation and amortization	17,660	13,674	48,892	36,606
	<b>36,912</b>	<b>27,480</b>	<b>99,226</b>	<b>73,045</b>
<b>Net income</b>	<b>22,702</b>	<b>9,549</b>	<b>69,120</b>	<b>13,391</b>
<b>Accumulated earnings, beginning of period</b>	<b>78,433</b>	<b>6,022</b>	<b>32,015</b>	<b>2,180</b>
<b>Accumulated earnings, end of period</b>	<b>\$ 101,135</b>	<b>\$ 15,571</b>	<b>\$ 101,135</b>	<b>\$ 15,571</b>

# COMBINED CASH FLOW STATEMENT

(\$ thousands)	Nine Months Ended	
	September 30, 2000	September 30, 1999
<b>Cash flow from operating activities</b>		
Net income	\$ 69,120	\$ 13,391
Add items not involving cash:		
Depletion, depreciation and amortization	48,892	36,606
	<b>118,012</b>	49,997
Increase in non-cash working capital accounts	(5,386)	(8,106)
	<b>112,626</b>	41,891
<b>Cash flow from financing activities</b>		
Increase (decrease) in long term debt, net	48,777	(15,629)
Issue of Trust units, net of expenses	80,088	36,978
Royalty distributions	(80,682)	(36,983)
	<b>48,183</b>	(15,634)
<b>Cash flow from investing activities</b>		
Acquisition of properties, net of dispositions	(141,987)	(13,071)
Reclamation fund contributions and actual costs incurred	(2,856)	(1,549)
Purchase of capital assets	(24,377)	(11,972)
Purchase of working capital in conjunction with property acquisitions	-	(100)
	<b>(169,220)</b>	(26,692)
<b>Increase/(decrease) in cash</b>	<b>(8,411)</b>	(435)
<b>Cash, beginning of period</b>	<b>9,240</b>	1,390
<b>Cash, end of period</b>	<b>\$ 829</b>	\$ 955

## COMBINED STATEMENT OF ROYALTY DISTRIBUTIONS AND ACCUMULATED ROYALTY DISTRIBUTIONS

(\$ thousands, except per unit amounts)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
<b>Net income</b>	\$ 22,702	\$ 9,549	\$ 69,120	\$ 13,391
Depletion, depreciation and amortization	17,660	13,674	48,892	36,606
<b>Cash from operations</b>	<b>40,362</b>	23,223	<b>118,012</b>	49,997
<b>Cash from operations (99 percent)</b>	<b>39,958</b>	22,991	<b>116,832</b>	49,497
Add (deduct):				
General and administrative expense reimbursement (residual 1 percent)	404	232	1,180	500
Capital expenditures	(3,642)	-	(11,141)	-
Proceeds from disposition of royalty interests	(286)	5,050	7,785	5,050
Discretionary debt payment	(6,094)	(2,996)	(31,638)	(2,996)
Reclamation fund contributions and actual reclamation costs incurred	(274)	(1,398)	(2,876)	(1,549)
Current period accruals	3,107	(5,780)	6,027	(8,106)
<b>Royalty distributions</b>	<b>33,173</b>	18,099	<b>86,169</b>	42,396
<b>Accumulated royalty distributions, beginning of period</b>	<b>195,315</b>	102,843	<b>142,319</b>	78,546
<b>Accumulated royalty distributions, end of period</b>	<b>\$ 228,488</b>	\$ 120,942	<b>\$ 228,488</b>	\$ 120,942
<b>Royalty distributions per unit</b>	<b>\$ 0.52</b>	\$ 0.35	<b>\$ 1.42</b>	\$ 0.95



## CORPORATE INFORMATION

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

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

Mac H. Van Wielingen  
Director and Vice-Chairman

John P. Dielwart  
Director, President and  
Chief Executive Officer

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

**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

### 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

### Executive Office

ARC Energy Trust  
c/o ARC Resources Ltd.  
2100, 440 - 2nd Avenue S.W.  
Calgary, Alberta  
T2P 5E9  
Telephone: (403) 503-8600  
Toll Free in Canada:  
1-888-ARC-4900  
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.

**ARC**  
ENERGY ♦ TRUST

2100, 440 - 2nd Avenue S.W.  
Calgary, Alberta  
T2P 5E9

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