

**THE TRUST SIGNIFICANTLY IMPROVED ITS BALANCE SHEET IN THE QUARTER, ISSUING \$120.5 MILLION OF EQUITY AND REDUCING LONG-TERM DEBT BY \$103 MILLION FROM MARCH 31, 2002.**

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
<b>FINANCIAL</b>				
(\$CDN thousands, except per unit amounts)				
Revenue before royalties	<b>112,707</b>	132,287	<b>213,571</b>	296,680
Per unit <sup>(1)</sup>	<b>0.98</b>	1.29	<b>1.88</b>	3.03
Per boe	<b>29.69</b>	34.53	<b>27.60</b>	37.96
Cash flow	<b>56,677</b>	67,478	<b>105,871</b>	156,759
Per unit <sup>(1)</sup>	<b>0.49</b>	0.66	<b>0.93</b>	1.60
Per boe	<b>14.93</b>	17.61	<b>13.68</b>	20.06
Net income	<b>28,831</b>	42,119	<b>43,801</b>	95,090
Per unit <sup>(1)</sup>	<b>0.25</b>	0.41	<b>0.39</b>	0.97
Cash distributions	<b>44,684</b>	65,938	<b>87,913</b>	124,703
Per unit	<b>0.39</b>	0.66	<b>0.78</b>	1.26
Working capital	<b>3,690</b>	3,617	<b>3,690</b>	3,617
Long-term debt	<b>213,364</b>	287,012	<b>213,364</b>	287,012
Unitholders' equity	<b>891,259</b>	797,258	<b>891,259</b>	797,258
<b>OPERATING</b>				
Production				
Crude oil (bbl/d)	<b>20,366</b>	20,202	<b>20,779</b>	20,407
Natural gas (mmcf/d)	<b>106.9</b>	112.8	<b>110.4</b>	116.9
Natural gas liquids (bbl/d)	<b>3,527</b>	3,090	<b>3,578</b>	3,295
Total (boe/d)	<b>41,713</b>	42,097	<b>42,753</b>	43,178
Average prices				
Crude oil (\$/bbl)	<b>32.40</b>	33.79	<b>31.30</b>	33.17
Natural gas (\$/mcf)	<b>4.67</b>	5.86	<b>4.13</b>	7.19
Natural gas liquids (\$/bbl)	<b>23.38</b>	35.95	<b>21.76</b>	37.10
Oil equivalent (\$/boe)	<b>29.69</b>	34.53	<b>27.60</b>	37.96
<b>SUPPLEMENTAL</b>				
(Thousands except exchange ratio)				
Trust units outstanding at end of period	<b>121,405</b>	100,180	<b>121,405</b>	100,180
Exchangeable shares outstanding at end of period	<b>763</b>	2,824	<b>763</b>	2,824
Exchange ratio at end of period	<b>1.24982</b>	1.08691	<b>1.24982</b>	1.08691
Trust units issuable for Exchangeable shares	<b>954</b>	3,069	<b>954</b>	3,069
Trust units & Exchangeable shares at end of period <sup>(2)</sup>	<b>122,359</b>	103,249	<b>122,359</b>	103,249
Weighted average units & Exchangeable shares	<b>115,235</b>	102,942	<b>113,546</b>	97,942

<sup>(1)</sup> Per unit amounts (with the exception of per unit distributions) are based on the weighted average units.

<sup>(2)</sup> Includes Exchangeable shares converted at the end of period exchange ratio.

**JULY 11, 2002 MARKED THE COMPLETION OF ARC'S SIXTH YEAR IN BUSINESS. SINCE INCEPTION ARC HAS BEEN A TOP QUARTILE PERFORMER IN THE ROYALTY TRUST SECTOR, SIGNIFICANTLY OUTPERFORMING THE TSX 300 INDEX, THE OIL AND GAS PRODUCERS' INDEX AND THE ROYALTY TRUST INDEX.**

## **HIGHLIGHTS**

- Second quarter operational activities focused on the continued development of ARC's core properties, preventative maintenance programs and environmental stewardship.
- Entered into agreements to purchase \$47 million of oil and gas properties in several core areas to offset natural decline of existing properties.
- Total cumulative cash distributions of \$9.86 per trust unit to the end of the second quarter have now been paid to unitholders since inception.
- A trust unit offering which raised gross proceeds of \$120.5 million was completed during the second quarter.

## **OPERATIONAL & DEVELOPMENT ACTIVITIES**

Capital expenditures for the second quarter were \$17.3 million with the focus on continued development in core areas and bringing production on stream from the previous winter development-drilling program.

Production volumes declined slightly from first quarter 2002 levels, due primarily to seasonal maintenance activity at ARC facilities and on partner operated properties.

### ***Central Alberta Area:***

At Youngstown in Central Alberta, production increased 220 boe/d as a result of a successful three well drilling program. This exceeded original expectations, thereby identifying additional development drilling opportunities in the area. A recently completed technical study incorporating 3D seismic technology, geological mapping and reservoir simulation identified an opportunity to increase waterflood reserve development in the Sindre area. Pipeline installation and waterflood modifications were completed by converting an existing producer and a suspended well to water injection.

### ***Northern Alberta Area:***

The installation of production equipment on wells drilled during the first quarter at Ante Creek resulted in a modest production increase to 3,100 boe/d, from the first quarter average volume of 3,000 boe/d.

### ***Southeast Saskatchewan Area:***

ARC conducted its first underbalanced drilling program at Lougheed in Southeast Saskatchewan. Two new oil

wells were drilled using this technique, which improves production performance by eliminating the invasion of potentially damaging drilling fluids into the formation. Initial indications of production enhancement are positive and ARC will select additional locations to employ this technology, with the expectation of increasing initial production and ultimate reserve recovery.

**Facility Maintenance:**

Routine maintenance activities were completed at a number of ARC operated and non-operated facilities during the second quarter. Maintenance activities at the EnCana operated Sexsmith plant, the ARC operated Ante Creek facility and the partner operated Caroline facilities resulted in a quarterly average reduction of 470 boe/d in production volumes. Innovative turnaround management techniques mitigated the shut-in of production at Jenner area facilities.

**Environment and Safety Management:**

ARC completed the Canadian Association of Petroleum Producers (CAPP) stewardship initiative reporting program, resulting in the recognition of ARC's outstanding performance of safety and environmental management when benchmarked against peer companies. ARC continues with its proactive approach to environmental stewardship by remediating flare pits, conducting well abandonments and reclamation activities. Detailed air monitoring of ARC's sour gas plant at Loughheed confirmed that the plant emissions are significantly lower than those allowed under regulatory requirements.

**Acquisitions and Dispositions:**

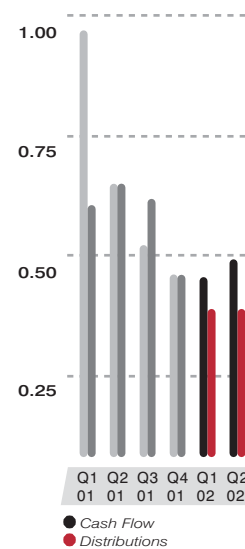
Year-to-date, the Trust has entered into agreements for \$55 million in net acquisitions, the majority of which occurred in the second quarter and closed subsequent to quarter end. The average price paid was \$6.90 per boe for established reserves and \$23,100 per boe of daily production. The properties have an average reserve life index of 9.2 years.

**CASH DISTRIBUTIONS AND UNITHOLDER RETURNS**

During the second quarter, ARC distributed \$0.39 per trust unit bringing cash distributions for the first half of the year to \$0.78 per trust unit.

Although higher commodity prices were realized in the second quarter, in keeping with our distribution policy of withholding up to 20 per cent of cash flow to ensure stability of cash distributions, second quarter distributions remained unchanged from first quarter 2002. For the second quarter, 79 per cent of distributable cash flow was paid to unitholders, as compared to an 88 per cent payout in the first quarter.

**CASH DISTRIBUTIONS AND CASH FLOW**  
(\$CDN/unit)



The portion withheld was used to partially fund the \$45 million capital expenditure program and to make the Reclamation Fund contribution of \$1.3 million. For the year-to-date, 83 per cent of net cash flow for the first half of 2002 has been distributed to unitholders.

On July 18th, 2002, the Trust announced that an August 15th distribution of \$0.13 per trust unit will be made and that subject to change, the September and October distribution is expected to be \$0.13 per unit per month. The August 2002 distribution brings total distributions to date to \$9.99 or 99.9 per cent of the \$10.00 purchase price of a trust unit from the July 11th, 1996 Initial Public Offering.

## DISTRIBUTION POLICY OBJECTIVES

- Provide ability to manage distributions
- Provide stability to distributions especially during periods of commodity price volatility
- Maintain a strong balance sheet
- Maintain a vibrant, growing oil and gas producer by investing to replace production
- Set aside cash for future reclamation costs

## PRICE RISK / PROTECTION MANAGEMENT PROGRAM

The Manager of the Trust maintains an active hedging program to enhance the stability and predictability of cash distributions. For the remainder of calendar year 2002, approximately 55 per cent of crude oil and natural gas liquids production and 38 per cent of natural gas production has been hedged for price protection against falling commodity prices. During the second quarter as commodity prices fluctuated widely, particularly for natural gas, the Trust's hedging program maintained the stability of distributions for unitholders.

## TAXABILITY OF 2002 CASH DISTRIBUTIONS

The taxable portion of unitholder cash distributions for year 2002 is expected to be in the 60-70 per cent range. The balance is deemed return of capital and is tax

deferred. Information that provides year-by-year taxability of distributions may be found in the Investor Relations section of our website [www.arcreources.com](http://www.arcreources.com).

	Total <sup>(1)</sup> Distribution	Return of Capital		Taxable Portion	
		\$/unit	%	\$/unit	%
2002 <sup>(2)</sup>	\$0.93 <sup>(3)</sup>	\$0.33	35%	\$0.60	65%
2001	\$2.41	\$0.77	32%	\$1.64	68%
2000	\$1.86	\$1.02	55%	\$0.84	45%
1999	\$1.25	\$0.99	79%	\$0.26	21%
1998	\$1.20	\$1.08	90%	\$0.12	10%
1997	\$1.40	\$1.09	78%	\$0.31	22%
1996	\$0.81	\$0.81	100%	-	-

<sup>(1)</sup> Based on cash payments in the respective calendar year.

<sup>(2)</sup> Estimated taxable portion of 2002 distributions is 60 to 70 per cent.

<sup>(3)</sup> 2002 total distributions based on payments to July 15, 2002.

## DISTRIBUTION RE-INVESTMENT AND OPTIONAL CASH PAYMENT PROGRAM

Unitholders may participate in our Distribution Re-investment Plan (DRIP) whereby a unitholder may elect to re-invest cash distributions into new trust units. Additionally, a unitholder may elect to make optional cash payments as a Registered unitholder, acquiring up to \$3,000 per month of additional trust units per distribution date. All DRIP units purchased are made at prevailing market prices and without any additional fees or commissions. Information and the DRIP form may be accessed at the Investor Relations section of our website.

Ex-Distribution Date	Record Date	Distribution Payment Date	Total Distribution
December 27, 2001	December 31, 2001	January 15, 2002	\$0.15
January 29, 2002	January 31, 2002	February 15, 2002	\$0.13
February 26, 2002	February 28, 2002	March 15, 2002	\$0.13
March 26, 2002	March 31, 2002	April 15, 2002	\$0.13
April 26, 2002	April 30, 2002	May 15, 2002	\$0.13
May 29, 2002	May 31, 2002	June 17, 2002	\$0.13
June 26, 2002	June 30, 2002	July 15, 2002	\$0.13
July 29, 2002	July 31, 2002	August 15, 2002	\$0.13
August 28, 2002	August 31, 2002	September 16, 2002	\$0.13*
September 26, 2002	September 30, 2002	October 15, 2002	\$0.13*
October 29, 2002	October 31, 2002	November 15, 2002	
November 27, 2002	November 30, 2002	December 16, 2002	

\*Estimate based on current market outlook and subject to change based on actual market conditions.

## MESSAGE TO UNITHOLDERS

Now in our seventh year of operation, the Trust's leadership, innovation and strong performance continues.

ARC Energy Trust remains the second largest conventional oil and gas royalty trust in Canada and, with a total capitalization of approximately \$1.8 billion, is Canada's thirteenth largest publicly traded oil and gas producing company.

Through continuously fluctuating commodity price cycles and ever-increasing competition for both assets and capital, ARC has provided unitholders, re-investing their distributions, with a total return of 229 per cent, representing a 22 per cent compound annual return over the last six years.

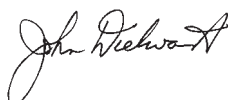
ARC has been consistently recognized as a leader in the royalty trust sector through its policies regarding distributions, commodity price risk management and future environmental reclamation funding. ARC has further demonstrated its leadership role in the sector by entering into an agreement with the Manager to eliminate the Management Contract structure and all related fees, subject to approval by unitholders at a Special Meeting to be held on August 28, 2002.

The elimination of external management and transaction fees will result in accretion to per unit cash flow, distributions and net asset value, particularly in future years. The transaction re-enforces the alignment of management with unitholder interests through management's increased ownership of trust units. It also serves to improve corporate governance by allowing unitholders to elect all seven members of the Board of Directors versus only four at present, and removes barriers that could have been construed as an entrenchment of management.

We also believe this restructuring will lead to a broadening of the investor base that could lead to a lower cost of capital and increased competitiveness for the Trust in the acquisition market.

Most importantly, as structured, the transaction will provide for continuity of the Trust's proven, performance-oriented and highly successful management team. ARC remains absolutely committed to the vision of providing outstanding value to unitholders as measured by quality of assets, unitholder returns and superior management of the business.

On behalf of the Board of Directors,



JOHN P. DIELWART

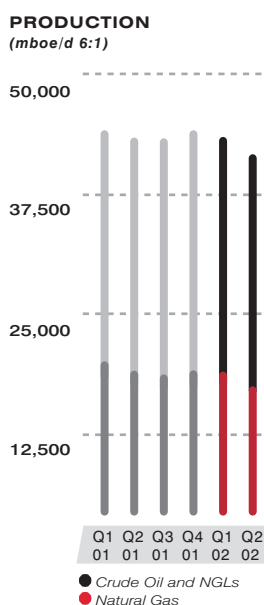
*Director, President and  
Chief Executive Officer*

August 7, 2002

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements as at and for the three months ended June 30, 2002 and the audited consolidated financial statements and MD&A for the year ended December 31, 2001.

**Production:** Production volumes during the second quarter of 2002 averaged 41,713 boe/d compared to 42,097 boe/d for the same period in 2001. This represents a one per cent decrease from the second quarter of 2001 and a 4.8 per cent decrease from first quarter 2002 production of 43,805 boe/d. This decrease is due mainly to June 2002 plant and battery turnarounds at Caroline, Ante Creek, Jenner and Pouce Coupe. Temporary production outages on certain facilities due to the tie-in of new wells also contributed to the production decline in the second quarter of 2002. For the second quarter of 2002, oil production was 20,366 barrels per day, natural gas production was 106.9 million cubic feet per day and natural gas liquids production was 3,526 barrels per day. Year-to-date 2002 Production on a boe equivalent was 42,753 compared to 43,178 for the same period in 2001.

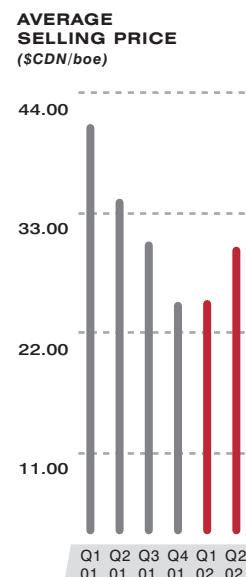


**Prices:** Second quarter prices for West Texas Intermediate crude oil averaged \$26.25 US per barrel, six per cent lower than the \$27.84 US per barrel realized during the second quarter of 2001.

Natural gas prices have decreased sharply in 2002 compared to first half of 2001. AECO hub prices were \$4.44/mcf for the second quarter, down 37 per cent from \$7.08 for the same period in 2001. 2002 year-to-date AECO hub prices averaged \$3.90/mcf, a 57 per cent

decrease from \$8.98/mcf for the first half of 2001.

The combined effect of the decline in oil and gas prices resulted in a realized price for the second quarter of \$29.69/boe, down 14 per cent from the \$34.53/boe realized in the second quarter of 2001. For the first half of 2002, realized prices have declined 27 per cent from the first half of 2001 to \$27.60/boe.



**Hedging:** ARC's second quarter 2002 prices include a hedging gain of \$0.42/mcf for natural gas and a hedging loss of \$3.44/barrel of oil and liquids.

This compares to a hedging gain in the second quarter of 2001 of \$0.15/mcf for natural gas and hedging loss of \$2.64/barrel of oil and liquids. First half 2002 hedging activities yielded a \$0.84/barrel loss on liquids and \$0.61/mcf gain on gas, compared to hedging losses of \$2.94/barrel and \$0.31/mcf on oil and liquids and gas respectively in the same period of 2001.

For 2002, ARC has hedged approximately 55 per cent of oil volumes and 47 per cent of natural gas volumes utilizing a variety of contracts under which the quantity and price of amounts hedged vary depending on the market price (see Note 3 to the Financial Statements).

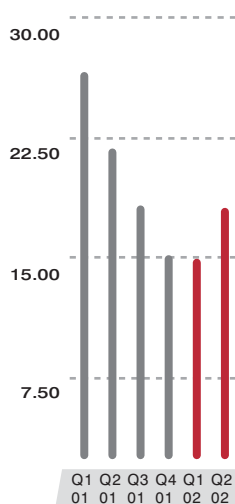
**Revenue:** Revenue, prior to hedging transactions, decreased to \$116.2 million (\$112.7 million after hedging) for the second quarter of 2002 compared to \$136.4 million (\$132.3 million after hedging) for the second quarter of 2001. For the first half of 2002, revenue after hedging has decreased by 28 per cent to \$213.6 million. The decreases are attributed mainly to commodity price declines.

### Operating Netbacks:

The components of operating netbacks are shown below:

(\$/boe)	Q2 2002	Q2 2001	H1 2002	H1 2001
Market price	\$ 30.60	\$ 35.60	\$ 26.50	\$ 40.41
Cash hedging gain/(loss)	(1.36)	(2.49)	0.86	(3.93)
Non-cash hedging gain/(loss)	0.45	1.42	0.24	1.48
Selling price	29.69	34.53	27.60	37.96
Royalties	(5.58)	(7.45)	(5.01)	(8.65)
Operating costs	(6.30)	(5.51)	(6.36)	(5.30)
Netbacks	\$ 17.81	\$ 21.57	\$ 16.23	\$ 24.02

**NETBACK**  
(\$/boe)



Operating netbacks for the second quarter declined 17 per cent to \$17.81/boe from \$21.57/boe for the same period last year. On a year-to-date basis, operating netbacks declined in 2002 by 32 per cent to \$16.23/boe. These decreases are due to the drop in commodity prices coupled with increased operating costs.

Total Royalties (net of Alberta Royalty Tax Credit), as a percentage of pre-hedged revenue

decreased in the second quarter to 18.2 per cent from 20.9 per cent for the same period in 2001. This is due primarily to lower gas royalty rates in 2002. 2002 year-to-date royalties were 18.9 per cent of pre-hedged revenue, down from 21.4 per cent in 2001.

Operating costs, net of processing income, increased by 13.3 per cent to \$23.9 million (\$6.30/boe) for the second quarter from \$21.1 million (\$5.51/boe) for the same period in 2001. For the first half of 2002, operating costs are \$49.2 million (\$6.36/boe), an 18.8 per cent increase from the same period in 2001. The increase in operating costs is concentrated in ARC's non-operated properties and is a result of a general increase in all cost categories coupled with one-time costs billed to the Trust by operators of non-operated properties that relate

to prior periods. The increase in operating costs per boe is in line with overall industry trends.

### General & Administrative Expenses & Management Fees:

General and administrative expenses, net of operating recoveries on operated properties, increased in the second quarter 2002 to \$1.01/boe from \$0.83/boe for the same period in 2001. Year-to-date general and administrative expenses were \$7.5 million (\$0.97/boe), up from the \$5.9 million (\$0.75/boe) incurred in the first half of 2001. This increase is due primarily to increases in short-term consulting and office expenses which are expected to decrease in the second half of 2002.

The Manager receives three per cent of net operating revenue. Management fees amounted to \$2.0 million (\$0.54/boe) for the three months ending June 30, 2002 compared to \$2.4 million (\$0.62/boe) for the same period in 2001. Fees for the first six months were down 24 per cent to \$3.8 million from \$5.0 million for the same period in 2001 (see Note 6 to the Financial Statements - Subsequent Events for additional comments on Management Fees).

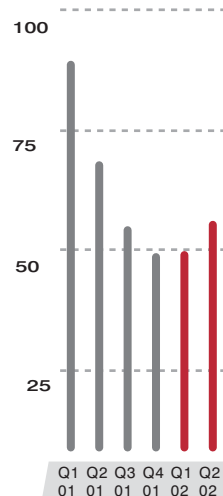
**Interest Expense:** Interest expense decreased to \$3.1 million for the second quarter of 2002 from \$4.4 million for the same period in 2001. Interest expense for the first six months of 2002 was \$6.1 million, 33 per cent lower than the previous year. This decrease is due to lower interest rates in the current period coupled with lower debt levels. The proceeds from the June equity offering were used to reduce outstanding indebtedness.

**Depletion, Depreciation & Future Site Reclamation Expenses:**

The depletion, depreciation and amortization (DD&A) rate of \$10.42/boe for the three months ended June 30, 2002 increased slightly from \$10.28/boe in the second quarter of 2001.

**Cash Flow and Earnings:** The total change in revenue net of expenses resulted in declines in cash flow and earnings for the second quarter and the first half of 2002. Second quarter earnings decreased to \$28.8 mil-

**CASH FLOW**  
(\$CDN millions)



lion (\$42.1 million in second quarter 2001) and cash flow was \$56.7 million compared to \$67.5 million in the second quarter of 2001.

**Cash Distributions:** Total cash distributions of \$0.39 per trust unit were made in the second quarter of 2002 (\$0.66 in second quarter 2001) for total cumulative distributions since inception of \$593.3 million (\$9.86 per trust unit). In the second quarter of 2002, 79 per cent of cash flow was distributed

to unitholders. The remaining 21 per cent (\$12.0 million) was used to fund a portion of current period capital

expenditures and to contribute to the reclamation fund. For the first half of 2002, 83 per cent of cash flow was distributed to shareholders as compared to 80 per cent for the same period in 2001.

For Q1/2002 and Q2/2002 cash flow and cash distributions were as follows:

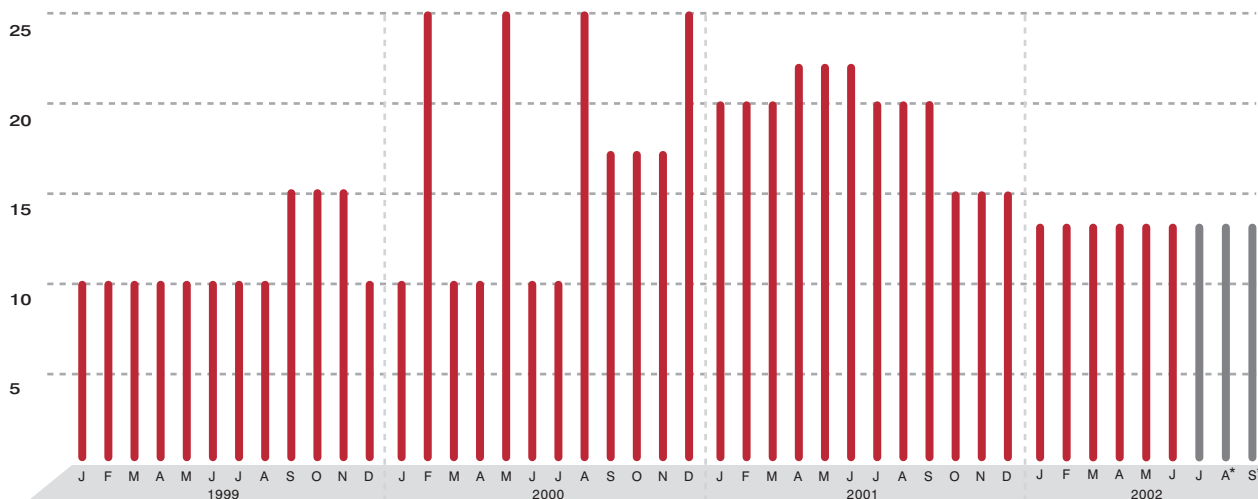
	Q2 2002		Q1 2002	
	\$ millions	per unit*	\$ millions	per unit*
Cash flow	\$ 56.7	\$0.49	\$ 49.2	\$0.44
Reclamation fund contributions	(1.3)	(0.01)	(1.1)	(0.01)
Capital expenditures funded by cash flow	(10.7)	(0.09)	(4.9)	(0.04)
Cash distributions	\$ 44.7	\$0.39	\$ 43.2	\$0.39

\*number of units excludes exchangeable shares

ARC's distribution policy is to withhold up to 20 per cent of year-to-date cash flow, net of the reclamation fund contributions, to fund capital expenditures. The actual amount withheld is dependent on the commodity price environment and is at the discretion of the Board of Directors.

Monthly cash distributions for the third quarter have been set at \$0.13 per unit subject to commodity price fluctuations.

**MONTHLY CASH DISTRIBUTIONS**  
(CDN cents/trust unit)



8 \*Estimate based on current market outlook and subject to change based on actual market conditions.



**Capital Expenditures:** Capital expenditures were \$45.4 million in the first half of 2002 with \$15.6 million financed from cash flow and the remaining portion financed by debt. In addition to the capital program, acquisitions net of dispositions in the first half of 2002 equalled \$11.1 million.

**Capitalization and Financial Resources:** Working capital at June 30, 2002 was \$3.7 million. Total debt outstanding was \$213.4 million on \$400 million of existing credit facilities.

At June 30, 2002 net debt to total capitalization was 11.5 per cent (17.6 per cent at December 31, 2001).

On May 10th, 2002, the Trust entered into an agreement to sell eight million units at \$12.05 per unit with an option granted to the underwriters to purchase an additional two million units at the same price. Ten million units were taken up by the syndicate and the financing closed on June 3rd resulting in \$120.5 million of gross proceeds (\$114.3 million net to the Trust). The net proceeds were used to repay debt and will fund \$35 million of acquisitions which were pending at the end of the second quarter. The Trust's Balance sheet was strengthened considerably by this financing which will facilitate future acquisitions and development activities.

On May 7th, 2002 the Board of Directors of ARC Resources Ltd. authorized the issuance of up to 1,450,000 additional Rights under the Trust Unit Incentive Plan. On May 8th, 2002, 1,228,000 Rights were issued to employees, officers and directors with the remaining 222,000 authorized Rights being held in reserve. This issue of Rights increased the total Rights outstanding to 3,192,797 (2.6 per cent of the outstanding units) as at June 30, 2002. The total number of Rights issued and the allocation of Rights to each individual was based on recommendations from an independent compensation consulting firm and approved by the Trust's Compensation Committee.

In accordance with the Trust unit incentive plan, distributions in excess of approximately \$.09 per unit per month will reduce the exercise price of the outstanding rights.

**Subsequent Events:** On July 9th, 2002 it was announced that ARC Energy Trust would be the first conventional oil and gas trust to eliminate the external management contract structure and all related fees. Under the terms of the agreement, a corporate subsidiary of the Trust will purchase all of the shares of ARC Resources Management Limited (ARML) for \$4.25 million in cash, the assumption of the ARML obligation to pay \$5.0 million of future retention bonuses for senior management of the Trust and the issuance of 3.58 million Trust units or Exchangeable shares. The agreement calls for escrow and forfeiture provisions for most of the 73 shareholders of ARML. These are intended to ensure the long-term continuity of management.

Effective July 1st, 2002 the Trust and its subsidiaries completed an internal corporate reorganization. The reorganization will simplify the corporate structure and administration of the Trust and enhance the tax efficient distribution of future cash flows to unitholders.

On July 9th, 2002 the Board of Directors of ARC accepted the resignation of Arthur Andersen LLP as auditors of the Trust and appointed Deloitte & Touche LLP as auditors of the Trust.

## CONSOLIDATED BALANCE SHEET

(\$CDN thousands) (unaudited)	As at June 30, 2002	As at December 31, 2001
<b>ASSETS</b>		
Current assets		
Cash	\$ -	\$ 646
Accounts receivable	43,593	51,875
Prepaid expenses	6,453	6,030
	<b>50,046</b>	<b>58,551</b>
Reclamation fund	12,525	10,147
Property, plant and equipment	1,292,340	1,311,306
<b>Total assets</b>	<b>\$ 1,354,911</b>	<b>\$ 1,380,004</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 29,973	\$ 35,595
Cash distributions payable	15,788	16,594
Payable to the Manager	595	557
	<b>46,356</b>	<b>52,746</b>
Long-term debt (Note 2)	213,364	294,489
Site reclamation and abandonment	33,465	28,837
Commodity and foreign currency contracts (Note 3)	10,525	13,107
Future income taxes	159,942	174,703
<b>Total liabilities</b>	<b>463,652</b>	<b>563,882</b>
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital (Note 4)	1,150,507	1,029,538
Exchangeable shares (Note 4)	8,671	10,392
Accumulated earnings (Note 1)	325,324	281,522
Accumulated cash distributions	(593,243)	(505,330)
<b>Total unitholders' equity</b>	<b>891,259</b>	<b>816,122</b>
<b>Total liabilities and unitholders' equity</b>	<b>\$ 1,354,911</b>	<b>\$ 1,380,004</b>


See accompanying notes to consolidated financial statements.

Approval on behalf of the Board:



MAC H. VAN WIELINGEN

Director



JOHN P. DIELWART

Director

## CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

(\$CDN thousands, except per unit amounts) (unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
<b>Revenue</b>				
Oil, natural gas, natural gas liquids and sulphur sales	\$ 112,707	\$ 132,287	\$ 213,571	\$ 296,680
Royalties	(21,195)	(28,544)	(38,756)	(67,568)
	<b>91,512</b>	<b>103,743</b>	<b>174,815</b>	<b>229,112</b>
<b>Expenses</b>				
Operating	23,917	21,102	49,205	41,390
General and administrative	3,826	3,163	7,520	5,870
Management fee	2,040	2,381	3,821	4,993
Interest on long-term debt	3,086	4,346	6,076	9,107
Depletion, depreciation and amortization	39,563	39,379	80,942	79,218
Capital taxes	418	213	802	423
(Gain)/loss on foreign exchange (Note 1)	(2,614)	(2,090)	(2,591)	701
	<b>70,236</b>	<b>68,494</b>	<b>145,775</b>	<b>141,702</b>
Income before provision for income taxes	21,276	35,249	29,040	87,410
Future income tax recovery	7,555	6,870	14,761	7,680
Net income (Note 1)	28,831	42,119	43,801	95,090
Accumulated earnings, beginning of period (Note 1)	296,493	196,964	281,523	143,993
Accumulated earnings, end of period	\$ 325,324	\$ 239,083	\$ 325,324	\$ 239,083
Net income per unit (Note 5)				
Basic	\$ 0.25	\$ 0.41	\$ 0.39	\$ 0.97
Diluted	\$ 0.25	\$ 0.41	\$ 0.38	\$ 0.96

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH DISTRIBUTIONS AND ACCUMULATED CASH DISTRIBUTIONS

(\$CDN thousands, except per unit amounts) (unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
<b>Net income</b>	\$ 28,831	\$ 42,119	\$ 43,801	\$ 95,090
Future income tax recovery	(7,555)	(6,870)	(14,761)	(7,680)
Depletion, depreciation and amortization	39,563	39,379	80,942	79,218
Amortization of commodity and foreign currency contracts	(1,538)	(5,046)	(1,518)	(10,560)
Unrealized (gain)/loss on foreign exchange (Note 1)	(2,624)	(2,104)	(2,593)	691
<b>Cash from operations</b>	<b>56,677</b>	<b>67,478</b>	<b>105,871</b>	<b>156,759</b>
<b>Cash from operations</b> (99 per cent)	<b>56,110</b>	<b>66,803</b>	<b>104,812</b>	<b>155,191</b>
Add (deduct):				
General and administrative reimbursement (residual one per cent)	567	675	1,059	1,568
Capital expenditures	(10,728)	(10,852)	(15,618)	(27,471)
Proceeds from disposition of royalty interests	1,105	307	1,504	7,029
Discretionary debt repayment	(1,105)	(307)	(1,504)	(7,029)
Reclamation fund contributions and actual costs incurred	(1,265)	(325)	(2,378)	(4,142)
Current period accruals	-	9,637	38	(443)
<b>Cash distributions</b>	<b>44,684</b>	<b>65,938</b>	<b>87,913</b>	<b>124,703</b>
<b>Accumulated cash distributions, beginning of period</b>	<b>548,559</b>	<b>330,042</b>	<b>505,330</b>	<b>271,277</b>
<b>Accumulated cash distributions, end of period</b>	<b>\$ 593,243</b>	<b>\$ 395,980</b>	<b>\$ 593,243</b>	<b>\$ 395,980</b>
<b>Cash distributions per unit</b>	<b>\$ 0.39</b>	<b>\$ 0.66</b>	<b>\$ 0.78</b>	<b>\$ 1.26</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(\$CDN thousands, except per unit amounts) (unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
<b>Cash flow from operating activities</b>				
Net income	\$ 28,831	\$ 42,119	\$ 43,801	\$ 95,090
Add items not involving cash:				
Future income tax recovery	(7,555)	(6,870)	(14,761)	(7,680)
Depletion, depreciation and amortization	39,563	39,379	80,942	79,218
Amortization of commodity and foreign currency contracts	(1,538)	(5,046)	(1,518)	(10,560)
Unrealized (gain)/loss on foreign exchange (Note 1)	(2,624)	(2,104)	(2,593)	691
	<b>56,677</b>	<b>67,478</b>	<b>105,871</b>	<b>156,759</b>
Change in non-cash working capital	1,714	601	138	2,499
	<b>58,391</b>	<b>68,079</b>	<b>106,009</b>	<b>159,258</b>
<b>Cash flow from financing activities</b>				
Borrowing (repayments) of long-term debt, net	(100,458)	12,177	(78,532)	12,150
Issue of trust units (Note 4)	123,280	2,759	125,588	2,786
Trust unit issue costs (Note 4)	(6,184)	(8)	(6,340)	(108)
Cash distributions paid	(46,027)	(63,793)	(87,107)	(120,794)
	<b>(29,389)</b>	<b>(48,865)</b>	<b>(46,391)</b>	<b>(105,966)</b>
<b>Cash flow from investing activities</b>				
Acquisition of Startech, net of cash received	-	-	-	(7,707)
Acquisition of properties	(10,449)	(1,962)	(12,647)	(5,858)
Proceeds on disposition of properties	1,105	308	1,504	7,029
Purchase of capital assets	(18,253)	(21,069)	(45,949)	(45,945)
Reclamation fund contributions and actual costs incurred	(1,405)	(325)	(3,172)	(4,142)
	<b>(29,002)</b>	<b>(23,048)</b>	<b>(60,264)</b>	<b>(56,623)</b>
<b>Increase (decrease) in cash</b>	<b>-</b>	<b>(3,834)</b>	<b>(646)</b>	<b>(3,331)</b>
<b>Cash, beginning of period</b>	<b>-</b>	<b>3,834</b>	<b>646</b>	<b>3,331</b>
<b>Cash, end of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash flow from operations per unit (Note 5)</b>				
<b>Basic</b>	<b>\$ 0.49</b>	<b>\$ 0.66</b>	<b>\$ 0.93</b>	<b>\$ 1.60</b>
<b>Diluted</b>	<b>\$ 0.49</b>	<b>\$ 0.65</b>	<b>\$ 0.93</b>	<b>\$ 1.59</b>

See accompanying notes to consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2002

(all tabular amounts in \$CDN thousands, except per unit and volume amounts)

(Unaudited)

### 1. ACCOUNTING POLICIES

These interim financial statements follow the same accounting policies as the most recent annual financial statements except as noted below. The note disclosure requirements for annual financial statements provide additional disclosure to that required for interim financial statements. Accordingly, these interim financial statements should be read in conjunction with the financial statements included in the Trust's 2001 annual report.

- a) Effective for fiscal years beginning on or after January 1, 2002, the Canadian Institute of Chartered Accountants ("CICA") introduced new recommendations for the accounting for foreign exchange translation gains and losses on long-term monetary items. Such translation gains and losses are no longer to be deferred and amortized over the remaining term but rather are to be reflected in the statement of income in the period incurred. This change in accounting policy has been applied retroactively with restatement of prior periods.

The effect of this change in accounting policy was a decrease in opening accumulated earnings of \$2,052,476 in 2002 and an increase in opening 2001 accumulated earnings of \$1,105,908.

Net income for the three and six months ended June 30, 2002 increased by \$2,578,137 and \$2,661,619, respectively from the net income which would have been reported under the previous accounting policy. Net income for the three months ended June 30, 2001 increased by \$2,094,685 and net income for the six months ended June 30, 2001 decreased by \$678,638 from the previously reported net income as a result of the change in accounting policy relating to the translation gain/loss on foreign-denominated long-term debt.

- b) Effective for fiscal years beginning on or after January 1, 2002, the Trust adopted the recommendations of the CICA on accounting for stock-based compensation which apply to new rights granted on or after January 1, 2002. The Trust has elected to continue to measure compensation cost based on the intrinsic value of the award at the date of the grant and recognize that cost over the vesting period. As the exercise price of the rights granted approximates the market price of the trust units at the time of the grant date, no compensation cost has been provided in the statement of income.

The exercise price of the rights granted under the Trust's rights plan may be reduced in future periods in accordance with the terms of the rights plan. The amount of the reduction cannot be reasonably estimated as it is dependent upon a number of factors including, but not limited to, future prices received on the sale of oil and natural gas, future production of oil and natural gas, determination of amounts to be withheld from future distributions to fund capital expenditures and the purchase and sale of property, plant and equipment. Therefore, it is not possible to determine a fair value for the rights granted under the plan.

As it is not possible to determine the fair value of rights granted under the plan, compensation cost for proforma disclosure purposes has been determined based on the excess of the unit price over the exercise price at the date of the financial statements. For the three and six months ended June 30, 2002, net income would be reduced by \$19,994 and \$20,722, respectively for the estimated compensation cost associated with rights granted under the plan on or after January 1, 2002.

### 2. LONG-TERM DEBT

Effective May 1, 2002, the revolving period of the existing credit facilities was extended for an additional 364 days to April 30, 2003. In the event that the revolving period is not extended in the future, the loan balance becomes repayable over a two year term period with 20 per cent of the loan balance payable on April 30, 2004 followed by three quarterly payments of 5 per cent of the loan balance and a lump sum payment of 65 per cent of the loan balance at the end of the term period.

### 3. FINANCIAL INSTRUMENTS

The following contracts were outstanding as at June 30, 2002. Settlement of these contracts, which have no book value, would have resulted in a net payment by the Trust of \$5.1 million as at June 30, 2002.

<b>Commodity Contracts</b>	Daily Quantity	Average Contract Prices (\$) <sup>(1)</sup>	Price Index	Term
Crude oil fixed price contracts	4,000 bbls	38.42	WTI	January 2003 - June 2003
Crude oil fixed price contracts (embedded put option) <sup>(2)</sup>	1,000 bbls	42.12 (35.80) <sup>(2)</sup>	WTI	July 2002 - December 2002
	4,000 bbls	39.16 (31.31) <sup>(2)</sup>	WTI	January 2003 - December 2003
Crude oil fixed price contracts (embedded double put option) <sup>(3)</sup>	2,000 bbls	41.83 (31.87) <sup>(3)</sup>	WTI	July 2002 - December 2002
Crude oil fixed price contracts (embedded "cancel level") <sup>(4)</sup>	10,000 bbls	37.17 (27.07) <sup>(4)</sup>	WTI	July 2002 - December 2002
Crude oil call option	5,000 bbls	41.00	WTI	July 2002 - December 2002
Natural gas fixed price contracts	15,000 GJ	3.91	AECO	July 2002 - October 2002
	5,000 GJ	4.00	AECO	November 2002 - October 2003
Natural gas collared contracts	5,000 GJ	3.50 - 5.64	AECO	July 2002 - October 2002
Natural gas collared contracts (embedded put option) <sup>(5)</sup>	10,000 GJ	3.50 - 4.00 (2.50) <sup>(5)</sup>	AECO	July 2002 - December 2002

The Trust fixed the price of electricity on 5 megawatts per hour ("MW/h") through December 31, 2010 at a price of \$63.00/MW/h. Settlement of this contract would have required a net payment by the Trust of \$5.8 million as at June 30, 2002.

The following contracts, with a liability book value of \$10.5 million, were outstanding as at June 30, 2002. These contracts were acquired in conjunction with the Startech acquisition effective January 31, 2001 at which time the market value of the contracts was a liability of \$33.1 million. Settlement of these contracts would have resulted in a net payment by the Trust of \$8.5 million as at June 30, 2002.

<b>Commodity Contracts</b>	Daily Quantity	Average Contract Prices (\$) <sup>(1)</sup>	Price Index	Term
Crude oil fixed price contracts	5,000 bbls	37.53	WTI	July 2002 - December 2002
Natural gas fixed price contracts	20,750 GJ	4.57	AECO	July 2002 - October 2002
	4,000 GJ	2.71	AECO	November 2002 - October 2004
	750 GJ	3.33	San Juan	July 2002 - October 2002
	1,500 GJ	3.61	Ventura	July 2002 - October 2002
Natural gas collared contracts	2,000 GJ	2.30 - 3.10	AECO	July 2002 - October 2002

<b>Foreign Currency Contracts</b>	Monthly Contract Amount (US\$000)	Average Contract Rate	Term
Fixed rate foreign exchange contracts (sell)	2,000	1.4335	July 2002 - December 2002
	1,500	1.4106	January 2003 - December 2003

(1) Commodity contracts denominated in US\$ have been converted to CDN\$ at the period end exchange rate.

(2) Counterparty may exercise a put option if index falls below the specified price (as denoted in brackets) on a monthly settlement basis.

(3) Counterparty may exercise a put option if index falls below the specified price (as denoted in brackets) on a monthly settlement basis. The put option is exercisable at \$0.02/bbl for each \$0.01/bbl that the index price falls below the specified price.

(4) Contract is neutral if index falls below the "cancel level" price (as denoted in brackets) on a daily settlement basis.

(5) Counterparty may exercise a put option at \$2.50/GJ if index falls below specified price on a monthly settlement basis.

#### 4. UNITHOLDERS' CAPITAL AND EXCHANGEABLE SHARES

On June 3rd, 2002, the Trust issued 10,000,000 Trust units at \$12.05 per unit for proceeds of \$120,500,000 (\$114,315,799 net of issue costs) pursuant to a public offering prospectus dated May 22, 2002. The proceeds of the equity offering were used to repay a portion of outstanding indebtedness and to partially finance future capital expenditures.

During the quarter, 34,014 Exchangeable shares were converted to trust units at an average exchange ratio of 1.23320 trust units for each Exchangeable share. At June 30, 2002, the exchange ratio was 1.24982 to 1.

<b>TRUST UNITS</b>	Number of units	\$
Balance, beginning of period	110,609	1,029,538
Issued for cash	10,000	120,500
Issued on exercise of employee rights	499	3,659
Issued on conversion of Exchangeable shares	181	1,721
Distribution re-investment program	116	1,429
Trust unit issue costs	-	(6,340)
Balance, end of period	121,405	1,150,507

<b>EXCHANGEABLE SHARES</b>	Number of shares	\$
Balance, beginning of period	915	10,392
Exchanged for trust units	(152)	(1,721)
Balance, end of period	763	8,671
Exchange ratio, end of period	1.24982	-
Trust units issuable upon conversion	954	8,671
Trust unitholders' capital as at June 30, 2002	122,359	1,159,178

During the quarter, 4,000,000 Trust units were authorized for issuance under the Trust Unit Incentive Plan. A total of 1,228,000 rights were issued to employees, officers and directors at a price of \$12.60 on May 8th, 2002.

At June 30th, 2002 there were 3,192,797 trust unit rights outstanding of which 757,855 were exercisable.

<b>RIGHTS</b>	Number of rights	\$
Balance, beginning of period	2,509	9.05
Granted	1,235	12.60
Exercised	(499)	7.33
Cancelled	(52)	11.26
Balance before reduction of exercise price	3,193	10.65
Reduction of exercise price	-	(0.15)
Balance, end of period	3,193	10.50

## **5. NET INCOME AND CASH FLOW FROM OPERATIONS PER TRUST UNIT**

Basic per unit amounts have been computed on the basis that the outstanding exchangeable shares have been converted at the average exchange ratio during the period.

Basic per unit calculations for the six month period ended June 30, 2002 were based on weighted average trust units outstanding of 113,545,832 (97,941,675 in 2001). Diluted per unit calculations for the six month period ended June 30, 2002 included 684,381 additional trust units for the dilutive impact of employee rights (686,502 in 2001).

## **6. SUBSEQUENT EVENTS**

- a) On July 9th, 2002, the Trust announced that it had entered into an agreement to eliminate the external management contract structure and all related fees. The Trust reached an agreement with ARC Resources Management Ltd. ("ARML") to purchase all of the outstanding shares of ARML for \$4.25 million in cash, the assumption of an obligation of ARML to pay retention bonuses in the amount of \$5.0 million, plus an aggregate of 3.58 million Trust units or at the option of the holder, Exchangeable shares. The agreement calls for certain escrow and forfeiture provisions for a portion of the Trust units and Exchangeable shares issued to ARML shareholders. The transaction is expected to close on August 29, 2002 subject to unitholder and regulatory approval.
  
- b) Effective July 1st, 2002, the Trust and its' subsidiaries completed an internal corporate reorganization. The reorganization will simplify the corporate structure and administration of the Trust and enhance the tax efficient distribution of future cash flows to unitholders.



## CORPORATE AND UNITHOLDER INFORMATION

### DIRECTORS

Walter DeBoni <sup>(1) (3) (4)</sup>

Chairman

Mac H. Van Wielingen

Vice-Chairman

John P. Dielwart

President and Chief Executive Officer

John M. Beddome <sup>(1) (3) (4)</sup>

Frederic C. Coles <sup>(1) (2) (3) (4)</sup>

Michael M. Kanovsky <sup>(1) (2) (4)</sup>

John M. Stewart

(1) Member of Audit Committee

(2) Member of Reserve Audit Committee

(3) Member of Compensation Committee

(4) Member of Policy and Board  
Governance Committee

### OFFICERS

John P. Dielwart

President and Chief Executive Officer

Steven W. Sinclair

Vice-President, Finance and  
Chief Financial Officer

Susan D. Healy

Vice-President, Land

Doug J. Bonner

Vice-President, Engineering

Myron M. Stadyk

Vice-President, Operations

David P. Carey

Vice-President, Business Development

Allan R. Twa

Corporate Secretary

### EXECUTIVE OFFICE

ARC Resources Ltd.

2100, 440 – 2 Avenue S.W.

Calgary, Alberta T2P 5E9

Telephone: (403) 503-8600

Toll Free: 1-888-272-4900

Facsimile: (403) 503-8609

Website: [www.arcresources.com](http://www.arcresources.com)

Email:

[arc\\_energy\\_trust@arcresources.com](mailto:arc_energy_trust@arcresources.com)

### TRUSTEE AND TRANSFER AGENT

Computershare Trust Company  
of Canada and Montreal Trust Company  
of Canada

600, 530 – 8 Avenue S.W.

Calgary, Alberta T2P 3S8

Telephone: (403) 267-6800

### AUDITORS

Deloitte & Touche LLP

Calgary, Alberta

### ENGINEERING CONSULTANTS

Gilbert Laustsen Jung Associates Ltd.

Calgary, Alberta

### LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

Calgary, Alberta

### CORPORATE CALENDAR

Announcement on or before:

#### 2002

October 17 Announcement of 2002  
Q4 Monthly Distribution  
Amounts

November 8 2002 Q3 Results

#### 2003

January 16 Announcement of 2003  
Q1 Monthly Distribution  
Amounts

February 14 2002 Financial Results

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Trading Symbols:

AET.UN (Trust Units)

ARX (Exchangeable Shares)

### INVESTOR INFORMATION

Visit our website

[www.arcresources.com](http://www.arcresources.com)

or contact:

#### Investor Relations

(403) 509-6418 or

1-888-272-4900 (Toll Free)



Canada's Climate Change Voluntary  
Challenge and Registry  
The industry's voluntary effort to  
reduce greenhouse gas emissions and  
document the efforts year over year.



For further information about ARC Energy Trust  
please visit our website [www.arcresources.com](http://www.arcresources.com)  
or contact:

Jan Young, Manager, Investor Relations  
E-mail: [jyoung@arcresources.com](mailto:jyoung@arcresources.com)  
Telephone: (403) 509-6418 Fax: (403) 509-6417  
Toll Free 1-888-272-4900

ARC Resources Ltd.  
2100, 440 - 2nd Avenue S.W.  
Calgary, Alberta T2P 5E9  
Tel: (403) 503-8600

