ARC ENERGY TRUST

First Quarter Interim Report

For The Three Months Ended March 31, 2004

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	Three Months Ended March 31 2004	2003 (5)
FINANCIAL		
($CDN thousands, except per unit and per boe amounts)		
Revenue before royalties (5)	**205,594**	177,917
Per unit (1)	**1.12**	1.35
Per boe	**39.58**	44.61
Cash flow (3)	**108,014**	102,506
Per unit (1)	**0.59**	0.78
Per boe	**20.80**	25.70
Net income (6)	**40,122**	66,042
Per unit (1) (6)	**0.22**	0.50
Cash distributions	**81,215**	59,340
Per unit (1)	**0.45**	0.45
Net debt outstanding (4)	**284,001**	226,583
OPERATING		
Production		
Crude oil (bbl/d)	**23,663**	21,065
Natural gas (mmcf/d)	**174.53**	117.31
Natural gas liquids (bbl/d)	**4,323**	3,696
Total (boe/d)	**57,075**	44,313
Average prices (5)		
Crude oil ($/bbl)	**40.41**	40.92
Natural gas ($/mcf)	**6.64**	8.16
Natural gas liquids ($/bbl)	**32.30**	39.99
Oil equivalent ($/boe)	**39.58**	44.61
TRUST UNITS		
(thousands)		
Units outstanding, end of period	**180,951**	136,187
Units issuable for exchangeable shares	**3,029**	3,051
Total units outstanding and issuable for exchangeable shares, end of period	**183,980**	139,239
Weighted average units (2)	**183,314**	131,379
TRUST UNIT TRADING STATISTICS		
($CDN, except volumes) based on intra-day trading		
High	**15.74**	12.34
Low	**13.50**	10.89
Close	**15.64**	11.59
Average daily volume	**501,643**	313,161

(1) Per unit amounts (with the exception of per unit distributions) are based on weighted average units.
(2) Includes exchangeable shares converted at the end of period exchange ratio.
(3) Management uses cash flow (before changes in non-cash working capital) to analyze operating performance and leverage. Cash flow as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Cash flow as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to cash flow throughout this report are based on cash flow before changes in non-cash working capital.
(4) The 2004 net debt outstanding excludes unrealized commodity and foreign exchange contracts asset and liability, $6.6 million and $37.7 million, respectively and the deferred hedge loss and deferred commodity and foreign currency contracts, $7.5 million and $2.5 million respectively.
(5) 2003 prices and revenue have been reclassified to reflect prices prior to transportation charges in accordance with CICA section 1100 that was implemented on January 1, 2004.
(6) Net income and net income per unit for 2003 have been restated for the adoption of new accounting standards for asset retirement obligations and stock based compensation. See Note 2 of the unaudited interim consolidated financial statements for details of the restatement.

MESSAGE TO UNITHOLDERS

The first quarter of 2004 was eventful for the trust industry on various fronts. New reporting guidelines known as National Instrument 51-101 ("NI 51-101") came into effect at year-end 2003 with all oil and gas reporting issuers releasing their 2003 reserves under the new rules during the first quarter. As a result of NI 51-101, numerous trusts reported reserve write-downs for 2003, especially for proved reserves. In contrast, ARC Energy Trust ("ARC" or "the Trust") had positive reserve revisions for the seventh consecutive year and posted among the lowest reserve replacement costs in the sector for 2003. On a political level, concern about possible changes to the tax treatment for trusts were put to rest as the new federal budget announced no changes in how trusts are to be taxed. In addition, the Alberta government followed Ontario's lead and announced plans to introduce legislation to limit liability for unitholders.

ARC realized higher revenue and cash flow for the first quarter of 2004 over first quarter 2003, due to increased production levels and strong commodity prices. ARC enjoyed near-record cash flow of $108 million and, as a result, maintained distributions at $0.15 per unit through the first quarter of 2004 marking fifteen consecutive months of constant distributions. ARC's payout ratio was 75 per cent, with the remainder of the cash flow directed toward funding a portion of ARC's internal development program. On April 27, the Trust completed the issuance of US$125 million of long-term debt by means of a private placement of notes to a number of U.S. financial institutions. The interest rate on the notes was priced at an average spread of 90 basis points over U.S. treasuries, which is very favourable relative to precedent transactions in the royalty trust sector. The issuance of the long-term U.S. notes provides added stability in the Trust's capital structure. The proceeds from issuance of the notes were used to repay bank indebtedness. The issuance of debt in U.S dollars acts as a natural hedge against the Trust's revenue stream that is impacted by movements in the Canadian dollar.

ARC's average production level of 57,075 boe/d in the first quarter of 2004 was 29 per cent greater than the first quarter of 2003 as a result of the acquisition of Star Oil and Gas Ltd. in the second quarter of 2003 and the ongoing development activity on ARC's properties. ARC is on track with its $175 million internal development program for 2004 with drilling activity taking place in all of ARC's core areas in the first quarter. A total of 21 net wells were drilled in the first quarter, primarily in the Ante Creek and Dawson areas. In preparation for an active summer drilling program, 41 shallow gas drilling locations have been surveyed and internally approved in the Hatton area and 57 shallow gas drilling locations have been approved and are currently being surveyed in the Jenner area.

ARC's strategy includes the continuous review of all of its assets which, from time to time, leads to the disposition of properties that are no longer considered core to its operations. Subsequent to the first quarter of 2004, the Trust entered into agreements to dispose of certain properties for total consideration of approximately $56 million. The transaction is expected to close in the second quarter. These non-core high operating cost properties included production of approximately 1,800 boe/d and proved plus probable reserves of 9.2 million boe. The disposition of these properties will allow ARC to focus on development opportunities in its core areas.

Several events occurred on the political front affecting all trusts and income funds. The federal budget brought down in March, clearly indicated that the federal government would not be making changes to the tax treatment of trusts. The budget did, however, deal with the issue of increasing foreign ownership in the trust sector by clearly stating that to retain mutual fund status, trusts must not exceed 50 per cent foreign ownership levels as directed by Revenue Canada. Those trusts or income funds who are above the stipulated levels have until January 1, 2007 to deal with the issue and to lower their foreign ownership content to below 50 per cent. Mutual fund trust status must be maintained for trusts to remain eligible to be held in registered retirement accounts. As ARC does not have a U.S. listing, it does not have a foreign ownership issue at this time. ARC's level of foreign ownership at the end of the first quarter was approximately 22 per cent. The budget also stipulated that the 15 per cent withholding tax must now be withheld on the full amount of distributions to non-resident unitholders and not just on the return on capital portion as had previously been the case. During 2003, only 15 per cent of ARC's distributions were considered return of capital to which the expanded withholding tax would now apply so we do not believe the new tax treatment of distributions will materially affect ARC. The third point directed to trusts and income funds in the budget was that pension funds are restricted to holding only one per cent of their portfolio in income funds and cannot exceed over five per cent ownership in any one fund. Oil and gas royalty trusts and real estate investment trusts were expressly excluded from this new restriction which could mean that, in the future, some oil and gas royalty trusts may be included in pension fund portfolios, where in the past that was not the case.

The Alberta budget addressed the issue of legislated liability protection for unitholders of trusts. Following Ontario's lead, Alberta announced that it will be introducing limited liability legislation in the spring sitting of the legislature. This is positive for the trust sector as unitholders will soon have similar legislated liability protection as do shareholders of public corporations. Limited liability should remove the final barrier for royalty trust units to be held by pension funds and perhaps will enable certain trusts to be considered for inclusion in the S&P index. ARC took a leading role in discussions with the Alberta government on this matter and we are pleased that action will soon be taken to enact the required legislation. We expect that it will open doors for new investors into our sector in general and ARC in particular.

John P. Dielwart
Director, President and
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2004 and the audited consolidated financial statements and MD&A for the year-ended December 31, 2003.

This MD&A was written on April 29, 2004.

Management uses cash flow (before changes in non-cash working capital) to analyze operating performance and leverage. Cash flow as presented does not have any standardized meaning prescribed by Canadian generally accepted accounting principles, ("GAAP") and therefore it may not be comparable with the calculation of similar measures for other entities. Cash flow as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to cash flow throughout this MD&A are based on cash flow before changes in non-cash working capital.

Management uses certain key performance indicators ("KPI's") and industry benchmarks such as operating netbacks ("netbacks") and total capitalization to analyze financial and operating performance. These KPI's and benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

This discussion and analysis contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of ARC. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in the MD&A as at and for the year ended December 31, 2003, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

Highlights

CDN$ millions, except per unit and volume data		**Q1 2004**		Q1 2003[1]
Cash flow from operations [2]	**$**	**108.0**	$	102.5
Cash flow from operations per unit	**$**	**0.59**	$	0.78
Net income	**$**	**40.1**	$	66.0
Net income before non-cash fair value adjustments [3]	**$**	**55.5**	$	66.0
Distributions per unit	**$**	**0.45**	$	0.45
Daily production (boe/d) [4]		**57,075**		44,313

(1) 2003 net income has been restated for changes in accounting policies relating to asset retirement obligations and stock based compensation.
(2) Before changes in non-cash working capital.
(3) Net income is after non-cash charges of $15.4 million ($23.6 million net of a future income tax recovery of $8.2 million) relating to fair value adjustments pursuant to hedge accounting.
(4) Reported production amount is based on company interest before royalty burdens.

- Continued production growth from the Trust's diversified property base resulted in near-record cash flow of $108 million ($0.59 per unit) in the first quarter of 2004 compared to $102.5 million ($0.78 per unit) for the same period of 2003. As a result of the strong cash flow in the quarter, the Trust declared distributions of $81.2 million ($0.45 per unit), funded $25.1 million (44 per cent) of its first quarter capital program with cash flow, and made a $1.7 million contribution to the reclamation fund (including interest earned on the fund).

- Despite increases in the U.S. denominated oil price during the first quarter, the strength of the Canadian dollar relative to the U.S. dollar continued to have a negative impact on revenue in the first quarter of 2004 compared to the first quarter of 2003. Although the U.S. oil price was four per cent higher than the first quarter of 2003, the Canadian denominated oil price decreased by nine per cent as a result of a 15 per cent higher average CDN/USD exchange rate in the first quarter of 2004 compared to the first quarter of 2003.

- On April 27, the Trust completed the issuance of USD$125 million of notes by means of a private placement. The proceeds from issuance of the notes were used to repay bank indebtedness.

- Subsequent to the first quarter of 2004, the Trust entered into agreements to dispose of certain properties for total consideration of approximately $56 million. The disposition of these properties will enable the Trust to focus on development opportunities in its core areas. The transactions are expected to close in the second quarter.

- Net income of $40.1 million included a $15.4 million non-cash after tax loss ($23.6 million before future income tax recovery of $8.2 million) relating to commodity and foreign exchange contracts under new hedge accounting. Net income before the non-cash charges relating to hedge accounting was $55.5 million ($0.30 per unit).

New Accounting Policies Impacting First Quarter Results

In the first quarter of 2004, the Trust implemented the following new accounting policies and instruments pursuant to requirements of the Canadian Institute of Chartered Accountants ("CICA") and national securities regulators. The implementation of these new policies impacted the financial results for the first quarter of 2004 and comparative results for the first quarter of 2003 as follows:

Hedge Accounting - In December 2001, the CICA issued Accounting Guideline 13 "Hedging Relationships" and EIC-128 "Accounting for Trading, Speculative, or Non-Hedging Derivative Financial Instruments" that deals with the identification, designation, documentation and measurement of effectiveness of hedging relationships for the purposes of applying hedge accounting. Accounting Guideline 13 ("AcG-13") is intended to harmonize Canadian GAAP with SFAS No.133 "Accounting for Derivatives Instruments and Hedging Activities". AcG-13 is effective for fiscal years beginning on or after July 1, 2003 and upon implementation of AcG-13, accounting in accordance with EIC-128 is required.

The Trust implemented AcG-13 in the first quarter of 2004 along with accounting in accordance with EIC-128. As a result, certain of the Trust's derivative contracts were designated as effective hedges for accounting purposes at January 1, 2004. Commodity and foreign currency contracts that were designated as effective hedges continue to be accounted for in the same manner as in previous periods whereby realized gains and losses on effective hedges are netted against the item to which they relate in the statement of income. Commodity and foreign currency contracts that were not designated as effective hedges for accounting purposes are subject to fair value accounting in accordance with EIC-128 which requires that changes in the fair value of these derivative contracts be reported as income or expense in each reporting period. The income or expense relating to the change in fair value of the derivative contracts is a non-cash (unrealized) expense that has no impact on cash flow but may result in significant fluctuations in net income due to volatility in the underlying market commodity prices and foreign exchange rates.

Prior to implementation of AcG-13 and EIC-128, the Trust accounted for all derivative contracts as effective hedges whereby realized gains and losses on such contracts were included in the statement of income within the corresponding item to which the hedge pertained. Following implementation, realized and unrealized gains and losses on derivative contracts that do not qualify as effective hedges are reported as a separate expense in the statement of income. In accordance with the transitional provisions of AcG-13 and EIC-128, this new guideline has been applied prospectively whereby prior periods have not been restated.

As an example of a commodity derivative contract, the Trust enters into oil and natural gas put options as part of its commodity risk management portfolio. The Trust considers such a transaction to be an effective economic hedge as it reduces exposure to decreases in commodity prices that would adversely impact cash flow. Per new hedge accounting requirements, this transaction does not qualify as an effective accounting hedge and therefore is subject to fair value accounting.

As a result of implementation of this new standard, net income for the first quarter of 2004 decreased by $15.4 million ($23.6 million before a future income tax recovery of $8.2 million). The entire $15.4 million decrease in net income was the result of non-cash losses due to changes in the fair value of the contracts. On initial implementation of this standard on January 1, 2004, the Trust recorded an opening deferred charge of $14.6 million equal to the fair value of derivative contracts at that time. The deferred charge is being amortized to earnings over the life of the respective contracts in place at January 1, 2004. In the first quarter of 2004, $7.1 million of the deferred charge was expensed. The Trust recorded a derivative asset of $6.6 million and a derivative liability of $37.7 million for the fair value of the derivative contracts as at March 31, 2004 (nil impact on 2003). There was no impact on cash flow as a result of implementing this new standard.

Transportation Costs – Effective in 2004, the Trust revised its presentation of transportation costs in accordance with CICA Handbook Section 1100 "Generally Accepted Accounting Principles". As a result, revenue has been presented prior to transportation costs and a separate expense for transportation costs has been presented in the statement of income. The Trust has reclassified previously reported amounts to be consistent with the presentation under this new policy. Revenue and transportation costs both increased by $3.8 million and $1.3 million in the first quarters of 2004 and 2003, respectively, as a result of this new policy. There was no impact on net income or cash flow in the first quarter of 2004 nor did it impact restated net income or cash flow for the first quarter of 2003.

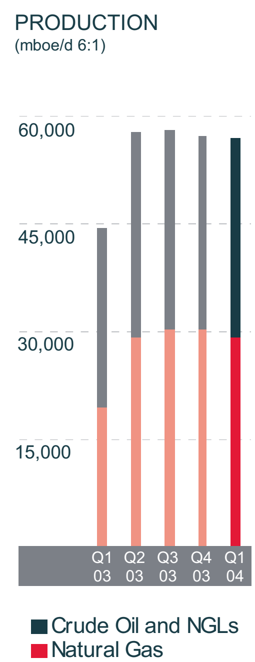
Continuous Disclosure Obligations – Effective March 31, 2004, the Trust and all reporting issuers in Canada are subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102"). This new instrument is effective for fiscal years beginning on or after January 1, 2004. The instrument proposes shorter reporting periods for filing of annual and interim financial statements, MD&A and the Annual Information Form ("AIF"). The instrument also proposes enhanced disclosure in the annual and interim financial statements, MD&A and AIF. Under this new instrument, it will no longer be mandatory for the Trust to mail annual and interim financial statements and MD&A to unitholders, but rather these documents will be provided on an "as requested" basis. The Trust implemented this new instrument in the first quarter of 2004 which resulted in enhanced MD&A and Financial Statement disclosure along with shorter reporting and filing deadlines for the first quarter of 2004.

Production

Production volumes averaged 57,075 boe/d for the first quarter of 2004, a 29 per cent increase over the 44,313 boe/d produced in the first quarter of 2003. The increase in production was primarily attributed to the acquisition of Star Oil & Gas Ltd. ("Star") in the second quarter of 2003 and the results of the Trust's winter drilling program.

First quarter production of 57,075 boe/d was one per cent higher than exit 2003 production of approximately 56,500 boe/d. First quarter average production includes approximately 1,200 boe/d of capital development production that came on stream during the quarter. The incremental production was partially offset by natural production declines on existing properties.

During the first quarter of 2004, the Trust drilled 21 net wells on operated properties, 11 oil wells and 10 natural gas wells. Five of these wells came on-stream during the quarter at an approximate rate of 850 boe/d and the remaining wells will be tied-in during the second quarter. In addition, wells drilled late in 2003 came on-stream in the first quarter at an approximate rate of 1,100 boe/d.



Production	Q1 2004	Q1 2003	% Change
Crude oil (bbl/day)	**23,663**	21,065	12
Gas (mcf/day)	**174,534**	117,310	49
NGL (bbl/day)	**4,323**	3,696	17
Total Production (boe/d)	**57,075**	44,313	29

Natural gas production increased to 175 Mmcf per day in the first quarter of 2004, an increase of 49 per cent from the first quarter of 2003. Natural gas production comprised approximately 51 per cent of the Trust's production portfolio compared to 44 per cent in the comparative period of 2003.

Production split (per cent)	**Q1 2004**	Q1 2003
Crude oil and NGL's	**49**	56
Natural gas	**51**	44
Total per cent	**100**	100

Northern Alberta and British Columbia is the largest of the Trust's five core areas, accounting for 32 per cent of the Trust's first quarter production. No one property comprised more than seven per cent of total production. This diversification of production minimizes the risk that operating problems at a specific property will materially impact the Trust.

The following table summarizes the Trust's production and reserves by core area and for the first quarter of 2004:

Core areas (1)	Q1 2004 Production Mboe/d	January 1, 2004 Proved plus probable reserves Mmboe (2)	% of Total reserves	RLI (3) years
Northern AB & BC	18.4	85.5	34.2	12.7
Southeast Sask.	10.3	44.6	17.9	11.9
Southeast AB & Southwest Sask.	10.9	51.0	20.4	12.8
Central AB	10.5	30.7	12.3	8.0
Pembina	7.0	37.9	15.2	14.8
Total	57.1	249.7	100.0	12.0

(1) Provincial references: AB is Alberta, BC is British Columbia, Sask. is Saskatchewan.

(2) Proved plus probable reserves are calculated in accordance with NI 51-101 and represent company interest reserves before royalty burdens.

(3) RLI is calculated based on reserves divided by first quarter 2004 average production.

Commodity Prices and Hedging

Benchmark prices	**Q1 2004**	Q1 2003	% Change
AECO gas ($/mcf) (1)	**$ 6.60**	$ 7.95	(17)
WTI oil (U.S.$/bbl) (2)	**$ 35.16**	$ 33.80	4
CDN/USD foreign exchange rate	**0.759**	0.662	15
WTI oil (CDN$/bbl)	**$ 46.32**	$ 51.04	(9)

(1) Represents the AECO monthly posting.

(2) WTI represents West Texas Intermediate posting as denominated in US$.

ARC's realized price decreased to $39.58 per boe in the first quarter of 2004 compared to $44.61 per boe in the first quarter of 2003. The realized prices prior to any hedging activities decreased 17 per cent to $39.58 per boe from $47.53 per boe from the first quarter of 2003. The first quarter 2003 realized price includes a hedging loss of $11.6 million ($2.92 per boe) of which $11 million ($5.83 per barrel of oil) was netted against oil revenue and $0.6 million ($0.06 per mcf of gas) was netted against gas revenue. There were no corresponding hedging gains or losses included in the first quarter 2004 price of $39.58 per boe as a result of new presentation under hedge accounting effective January 1, 2004.

ARC Realized Prices [1]	Q1 2004	Q1 2003 [2]	% Change
Oil ($ per bbl)	**$ 40.41**	$ 40.92	(1)
Natural gas ($/mcf)	**6.64**	8.16	(19)
NGL's ($/bbl)	**32.30**	39.99	(19)
Total commodity revenue ($/boe)	**$ 39.52**	$ 44.38	(11)
Other revenue ($/boe)	**0.06**	0.23	(74)
Total revenue ($/boe)	**$ 39.58**	$ 44.61	(11)
Total revenue before hedging ($/boe)	**$ 39.58**	$ 47.53	(17)

(1) 2004 revenue and prices as reported above are prior to hedging gains and losses. All gains and losses on 2004 contracts are included in " loss on commodity and foreign currency contracts" in the statement of income as these contracts have not been designated as accounting hedges. 2003 reported prices are net of hedging gains and losses.
(2) 2003 prices have been reclassified to reflect prices prior to transportation costs.

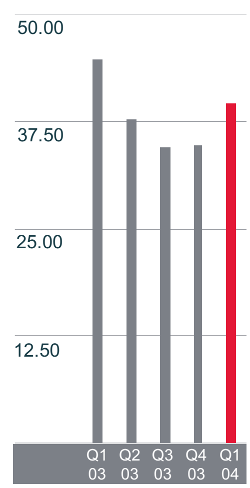
The Canadian denominated oil price received by ARC and other Canadian energy companies was negatively impacted by the continued strength of the CDN/USD exchange rate. Despite the four per cent increase in the USD WTI oil price in the first quarter of 2004 relative to the first quarter of 2003, the Canadian denominated oil price received by the Trust decreased by nine per cent to $46.32 per barrel in the first quarter of 2004 compared to $51.04 per barrel in the first quarter of 2003. The Trust's realized oil price decreased by one per cent to $40.41 per barrel in the first quarter of 2004 compared to $40.92 per barrel in the first quarter of 2003.

Alberta AECO Hub prices were $6.60 per mcf and $7.95 per mcf for the first quarters of 2004 and 2003, respectively, representing a decrease of 17 per cent. ARC's realized gas price decreased by 19 per cent to $6.64 per mcf in the first quarter of 2004 from $8.16 per mcf in the first quarter of 2003.

The Trust has entered into foreign currency hedging contracts to somewhat mitigate the impact that fluctuations in the CDN/USD exchange rate have on cash flow. In addition, certain of the Trust's transactions are denominated in U.S. dollars that partially offset the negative impact of CDN/USD exchange rate fluctuations.

Reported prices reflect field prices net of quality differentials and prior to transportation costs. Commencing in 2004, the Trust has reclassified the presentation of revenue to reflect revenue and prices prior to transportation charges. Prices reported in 2003 have been reclassified to reflect the same presentation.

AVERAGE SELLING PRICE
($CDN/boe)



Risk Management and Hedging Activities

The Trust uses a variety of commodity and foreign currency contracts including fixed price swaps, collared contracts, max payouts and three-way collars to manage the Trust's exposure to fluctuations in commodity prices and foreign exchange rates. The Trust considers these contracts to be effective economic hedges.

The Trust's commodity and foreign currency contract portfolio is undertaken with financially sound counterparties to reduce the Trust's exposure to credit risk. The Trust does not enter into contracts directly but facilitates such contracts through an approved counterparty such as a Chartered Bank. All contracts require approval of the Trust's Risk Management Committee prior to execution.

Following is a summary of contracts in place for the first quarter of 2004 and the remainder of the contract period as at March 31, 2004:

	Q1 2004		Remaining Contract Term (3)	
	Total Contract Volume(2)	Average Contract Price CDN$(1)	Total Contract Volume(2)	Average Contract Price CDN$(1)
Oil (bbls)	1,395,000	$ 35.90	5,125,000	$ 38.90
Natural gas (mcf)	2,565,000	6.40	4,038,000	6.00
Total boe	1,822,500	36.50	5,800,000	38.60
Foreign currency (sell US$) (4)	US$45.1 Million	0.74	US$100 Million	0.74
Electricity (MW/h)	10,920	63.00	295,800	63.00

(1) Contracts denominated in US$ have been converted to the CDN$ equivalent at the period end foreign exchange rate. Prices represent average prices as of March 31, 2004.
(2) Volumes represent total volume for oil and natural gas and total megawatts for electricity for the first quarter of 2004.
(3) The amounts presented for the remaining contract period represent contracts in place for commodity contracts to June 2005 and for electricity until 2010.
(4) Average volume for foreign currency contracts represents the monthly average US$ sell amount.

For the first quarter of 2004, the Trust had contracts in place for approximately 65 per cent of oil production and 41 per cent of natural gas production. For the remainder of 2004, the Trust has contracts in place for 3,665,000 barrels of oil (13,300 barrels per day) at an average price of $39.40 per barrel, 4,112,000 mcf of gas (15,000 mcf per day) at an average price of $6.10 per mcf, foreign exchange contracts to sell US$100 million at an average exchange rate of $0.74, and an electricity contract for 5 MW/h at a fixed price of $63 per MW/h. The Trust's oil contracts are based on the WTI index and the majority of the Trust's natural gas contracts are based on the AECO monthly index.

Revenue

Revenue increased to $205.6 million in the first quarter of 2004 compared to $177.9 million in the same period of 2003. Higher production volumes as a result of the acquisition of Star more than offset the lower commodity prices to arrive at higher revenue in the first quarter of 2004 relative to 2003. In addition, revenue in the first quarter of 2003 was reduced by hedging losses of $11.6 million ($2.92 per boe). Hedging losses in 2004 have been presented as an expense in the statement of income rather than being netted against revenue.

A breakdown of revenue is as follows:

Revenue ($ thousands)	Q1 2004	Q1 2003 [1] [2]	% Change
Oil revenue	**$ 87,025**	$ 77,573	12
Natural gas revenue	**105,536**	86,112	23
NGL's revenue	**12,708**	13,304	(4)
Total commodity revenue	**$ 205,269**	$ 176,989	16
Other revenue	**325**	928	(65)
Total revenue	**$ 205,594**	$ 177,917	16

(1) 2003 revenue has been reclassified to reflect revenue prior to transportation costs. Revenue and transportation both increased by $1.3 million in the first quarter of 2003 as a result of the reclassification.

(2) Included in 2003 revenue are cash hedging losses of $13.1 million ($3.28 per boe) and non-cash hedging gains of $1.4 million ($0.35 per boe). There are no hedging gains or losses in the reported 2004 revenue amounts. Gains and losses on hedging contracts in 2004 have been reported separately in the statement of income.

Gain or Loss on Commodity and Foreign Exchange Contracts

Gain or loss on commodity and foreign exchange contracts is comprised of realized and unrealized gains or losses on commodity and foreign currency contracts that do not meet the requirements of an effective accounting hedge, even though the Trust considers all commodity and foreign currency contracts to be effective economic hedges. Accordingly, gains and losses on such contracts are shown as a separate expense in the statement of income.

The Trust recorded a loss on commodity and foreign exchange contracts of $34.8 million ($6.69 per boe) in the first quarter of 2004. This consisted of a realized (cash) loss of $13.6 million ($2.61 per boe), an unrealized (non-cash) fair value loss of $23.6 million ($4.07 per boe over the remaining contracted volume), and a non-cash gain of $2.4 million ($0.46 per boe). The unrealized loss on commodity and foreign currency contracts of $16.5 million reflects the change in the fair value of commodity and foreign exchange contracts from January 1, 2004 to March 31, 2004.

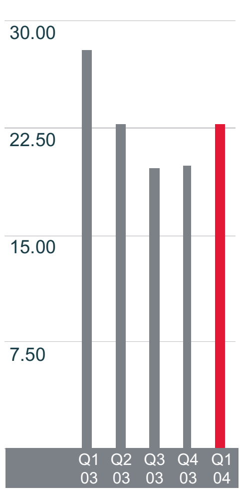
In 2003, there were no unrealized gains or losses on commodity and foreign currency contracts, as all contracts were deemed to be effective accounting hedges up to December 31, 2003. Realized cash and non-cash hedging losses of $11.6 million ($2.92 per boe) on commodity and foreign currency contracts in the first quarter of 2003 were net against revenue.

Following is a summary of realized and unrealized gains and losses on all commodity and foreign exchange contracts in 2004. Gains and losses on hedge contracts were included in revenue in 2003. The hedge accounting standard does not allow restatement:

Commodity and foreign exchange contracts ($ thousands except per BOE amounts)		**2004**
Total cash loss on contracts [1]		**(13,556)**
Per boe [5]	$	(2.61)
Non-cash gain on contracts [2]		**2,414**
Per boe [5]	$	0.46
Non-cash amortization of opening deferred hedge loss [3]		(7,130)
Unrealized loss on contracts, change in fair value [4]		(16,475)
Total non-cash fair value loss on contracts		**(23,605)**
Per boe [5]	$	(4.07)
Total loss on commodity and foreign exchange contracts		**(34,747)**
Per boe [5]	$	(6.69)

(1) The cash loss on derivative contracts consisted of a cash loss of $12.7 million ($5.90 per barrel of oil) on oil and a cash loss of $0.8 million ($0.05 per mcf of gas) on gas.
(2) Non-cash gain of $2.4 million represents non-cash amortization of deferred commodity and foreign currency contracts.
(3) Represents non-cash amortization of the opening deferred hedge loss of $14.6 million to income over the terms of the contracts in place at January 1, 2004.
(4) The unrealized loss on contracts represents the change in fair value of the contracts from the January 1, 2004 (loss of $14.6 million) to the March 31, 2004 (loss of $31 million).
(5) Per boe amounts were based on quarterly production for the realized cash losses and the non-cash losses. The per boe amount for total fair value loss on contracts was calculated based on the total hedged volume for the remainder of the contract term of 5,800,000 boe.

NETBACK
($CDN/boe)



Operating Netbacks

The Trust's operating netback decreased 18 per cent to $22.78 per boe in the first quarter of 2004 compared to $27.89 per boe in the first quarter of 2003. The decrease is primarily the result of lower commodity prices in the first quarter of 2004 whereby the Canadian denominated WTI decreased by nine per cent and the AECO monthly posting decreased by 17 per cent compared to the corresponding period of 2003. The decreases in commodity prices were somewhat offset by a 18 per cent reduction in per boe royalties and an 11 per cent reduction in per boe operating costs, respectively, in the first quarter of 2004.

In the first quarter of 2003, the netback was reduced by $2.15 per boe for cash and non-cash losses on commodity and foreign exchange contracts. Fair value losses on commodity and foreign exchange contracts of $23.6 million in the first quarter of 2004 were not recorded as a reduction of the netback.

The components of operating netbacks are shown below:

Netback Q1 2004	Oil ($/bbl)	Gas ($/mcf)	NGL ($/boe)	Total ($/boe)
Market price (1)	40.41	6.64	32.30	39.52
Realized loss on commodity and foreign currency contracts (2)	(5.26)	0.01	-	(2.15)
Selling price	35.15	6.65	32.30	37.37
Other revenue	-	-	-	0.06
Royalties	(7.49)	(1.20)	(9.03)	(7.46)
Transportation (1)	(0.23)	(0.21)	-	(0.74)
Operating costs (4)	(7.47)	(0.95)	(5.81)	(6.45)
Netback	19.96	4.29	17.46	22.78
Commodity revenue subject to royalties (3)	40.18	6.43	32.30	38.78
Royalties as a percentage of revenue (per cent)	18.6	18.7	28.0	19.2

Netback Q1 2003	Oil ($/bbl)	Gas ($/mcf)	NGL ($/boe)	Total ($/boe)
Market price (1)	46.75	8.22	39.99	47.30
Realized loss on commodity and foreign currency contracts (2)	(5.83)	(0.06)	-	(2.92)
Selling price	40.92	8.16	39.99	44.38
Other revenue	-	-	-	0.23
Royalties	(8.96)	(1.54	(9.45)	(9.14)
Transportation (1)	(0.05)	(0.11)	-	(0.32)
Operating costs (4)	(8.41)	(1.00)	(7.27)	(7.26)
Netback	23.50	5.51	23.27	27.89
Commodity revenue subject to royalties (3)	46.70	8.11	39.99	46.98
Royalties as a percentage of revenue (per cent)	19.2	19.0	23.6	19.5

(1) 2003 revenue and transportation costs have been reclassified to reflect revenue prior to transportation costs. Previously, revenue was presented net of transportation costs. This reclassification did not impact the netback.
(2) Excludes fair value losses of $23.6 million on commodity and foreign currency contracts.
(3) Based on commodity field price before hedging and net of transportation costs.
(4) Operating expenses are composed of direct costs incurred to operate both oil and gas wells. A number of assumptions have been made in allocating these costs between oil, natural gas and natural gas liquids production.

Royalties decreased to $7.46 per boe in the first quarter of 2004 compared to $9.14 per boe in 2003. Royalties are calculated and paid based on commodity revenue net of associated transportation costs and before any commodity hedging gains or losses. Royalties as a percentage of pre-hedged commodity revenue net of transportation costs decreased slightly to 19.2 per cent for the first quarter of 2004 compared to 19.5 per cent for the same period in 2003. The decline in royalty rate is attributed to the lower commodity price environment in the first quarter of 2004 relative to the same period in 2003.

Operating costs, net of processing income, increased in total to $33.5 million in the first quarter of 2004 from $29 million for the same period in 2003. The 16 per cent increase in the dollar amount of operating costs was primarily due to a 29 per cent increase in production volumes attributed to the acquisition of Star and development activities throughout 2003 and 2004. Operating costs per boe decreased by 11 per cent to $6.45 per boe in the first quarter of 2004 from $7.26 per boe in the first quarter of 2003. The decrease in per boe operating costs was attributed to the divestment of 3,700 boe-per-day of higher cost properties in the third quarter of 2003, the higher natural gas weighting of the Trust's production following the Star acquisition, and lower well service and work-over activity in the first quarter of 2004 relative to the first quarter of 2003. In addition, cost adjustments on ARC's non-operated properties for pre-2003 production periods negatively impacted the Trust's operating costs in the first quarter of 2003.

Due to the cyclical nature of operating costs, the Trust expects operating costs to increase in the second and third quarters of 2004 due to the increase in planned well service and work-over activity. ARC continues to closely manage and monitor costs on operated and non-operated properties to maximize the cost-effectiveness of the Trust's operations while maintaining field safety as its number one priority.

ARC expects 2004 operating costs of approximately $7.00 to $7.15 per boe for the year incorporating the impact of the pending property divestiture that is expected to close in the second quarter.

Effective for 2004, ARC's transportation costs have been presented as an expense in the statement of income whereas previously they were recorded as a reduction of revenue. For comparative purposes, 2003 amounts have been reclassified. Transportation costs as presented in the statement of income are defined by the point of legal transfer of the product. Transportation costs are dependent upon sales markets where product is sold, product split, location of properties, and industry transportation rates that are driven by supply and demand of available transport capacity. For gas production, legal title transfers at the intersection of major pipelines (referred to as "the Hub") whereas the majority of ARC's oil production is sold at the wellhead. Consequently, there are higher transportation costs incurred with gas production due to the distance from the wellhead to the Hub where legal title is passed.

Transportation costs increased from $0.32 per boe in the first quarter of 2003 to $0.74 per boe in the first quarter of 2004. The increase in ARC's transportation costs per boe is due to a higher proportion of natural gas production and a higher volume of gas being transported for sale at Hubs in eastern Canada and the United States. Natural gas sold at these points incurs higher transportation costs but also typically yields a higher sales price.

General and Administrative Expenses and Non-Cash Trust Unit Incentive Compensation

General and administrative expenses ("G&A"), net of overhead recoveries on operated properties, increased 22 per cent in the first quarter of 2004 to $4.9 million ($0.94 per boe) from $4 million ($1.01 per boe) in the first quarter of 2003. In the first quarter of 2004 a non-cash expense of $2.8 million ($0.55 per boe) has been recorded for the value of rights given to officers, directors, employees and contract employees under the Trust Unit Incentive Rights Plan.

The decrease in cash G&A expenses per boe was attributed to higher operating recoveries per boe due to the significant increase in capital and field operating activity in 2004 relative to 2003. Operating recoveries are charged to partners on capital projects and field operations operated by ARC. The recoveries are recorded as a reduction of G&A expenses as they represent a recovery of administrative costs incurred by ARC on behalf of partners for joint working interest projects.

The $2.8 million value of the rights is determined based on the rights outstanding that are subject to valuation and the market price of the trust units. Of the 4.2 million rights outstanding under the plan, only the three million rights that were issued on or after January 1, 2003, are subject to valuation and expense. Given the record high trust unit price at March 31, 2004 of $15.64, the value of the rights increased significantly in the first quarter of 2004. There was no expense associated with rights in the first quarter of 2003.

	Q1 2004		Q1 2003	
G&A and Trust Unit Incentive Compensation Expense	**$ millions**	**$ per Boe**	$ millions	$ per Boe
Cash G&A expenses	**$ 7.4**	**$ 1.42**	$ 5.5	$ 1.38
Operating recoveries	**$ (2.5)**	**$ (0.48)**	$ (1.5)	$ (0.37)
Total cash G&A expenses	**$ 4.9**	**$ 0.94**	$ 4.0	$ 1.01
Non-cash trust unit incentive compensation	**$ 2.8**	**$ 0.55**	$ -	$ -
Total G&A and compensation expenses	**$ 7.7**	**$ 1.49**	$ 4.0	$ 1.01

The Trust expects 2004 G&A costs excluding non-cash G&A to increase slightly in 2004 to approximately $1.05 - $1.10 per boe for the year with the introduction of a new Long–Term Incentive Plan.

Interest Expense

Interest expense decreased to $2.6 million in the first quarter of 2004 from $3.8 million in the first quarter of 2003. The Trust's effective interest rate decreased to 4.5 per cent in the first quarter 2004 compared to 5.6 per cent in the corresponding period of 2003. The reduction in the average prime interest rate to 4.2 per cent in the first quarter of 2004 from 4.6 per cent in the first quarter of 2003 contributed to the lower interest as the Trust's variable rate debt is indexed to the prime rate. The decrease in the Trust's weighting of fixed rate debt in proportion to total debt outstanding also resulted in lower interest expense as the fixed rate debt carries a higher proportionate rate of interest at 6.6 per cent compared to 3.1 per cent on the Trust's short term variable rate debt. The Trust's variable rate debt consists primarily of short term bankers' acceptances that are issued at a discount to the prime interest rate.

Interest expense ($ millions except per cent)	**March 31, 2004**	December 31, 2003
Period end debt balance [1]	**$ 245.2**	$ 232.4
Fixed rate debt	**85.2**	84.0
Floating rate debt	**160.0**	148.4
Period end prime interest rate	**4.0%**	4.5%
Period average prime interest rate	**4.2%**	4.6%
ARC's effective interest rate	**4.5%**	5.6%

(1) Includes both long-term and current portions of debt.

Foreign Exchange Gains and Losses

For the first quarter of 2004, the Trust recorded a loss of $0.7 million ($0.13 per boe) on foreign exchange transactions compared to a gain of $7.5 million ($1.88 per boe) in the first quarter of 2003. Included in this amount is a realized gain of $0.2 million on U.S. denominated transactions such as interest payments, hedging settlements, revenue receipts and unitholder payments. In addition, an unrealized foreign exchange loss of $0.9 million is included in this amount and relates to the impact of changes in foreign exchange rates on U.S.

denominated debt balances. The relative stability of the Canadian dollar in 2004 compared to 2003 resulted in the significant change in the unrealized foreign exchange gain/loss from 2003. The unrealized gain/loss impacts net income but does not impact cash flow as it is a non-cash amount.

Following is a breakdown of the total foreign exchange gain (loss):

Foreign exchange gain (loss) ($ thousands except per boe)	**Q1 2004**	Q1 2003
Unrealized gain (loss) on U.S. denominated debt	**$ (943)**	$ 7,402
Realized gain on U.S. denominated transactions	**243**	93
Total Foreign exchange gain (loss)	**$ (700)**	$ 7,495
Total Foreign exchange gain (loss) per boe	**$ (0.13)**	$ 1.88

Taxes

Capital taxes paid or payable by ARC, based on debt and equity levels at the end of the year, amounted to $0.7 million in the first quarter of 2004 compared to $0.1 million in the first quarter of 2003. The increase in 2004 capital taxes was attributed to the higher taxable capital base as a result of the Star acquisition as well as a lower installment base for the first quarter of 2003 due to prior year excess installments having been made.

In the first quarter of 2004, a future income tax recovery of $15.7 million was included in income compared to a $3.3 million expense in the first quarter of 2003. Included in the $15.7 million future income tax recovery for the first quarter of 2004 is a $3.2 million recovery due to the change in Alberta corporate income tax rates and recovery of $8.2 million due to the net derivative liability recorded on the balance sheet at March 31, 2004 pursuant to hedge accounting.

In the first quarter of 2004, the Alberta government passed legislation to reduce provincial corporate income tax rates to 11.5 per cent from 12.5 per cent effective April 1, 2004. ARC's expected future income tax rate incorporating this rate reduction is approximately 35 per cent compared to the current year rate of approximately 39 per cent applicable to the 2004 tax year.

In the Trust's structure, payments are made between ARC Resources and the Trust, transferring both income and future tax liability to the unitholders. At the current time, ARC does not anticipate any cash taxes will be paid by ARC Resources.

Depletion, Depreciation and Accretion of Asset Retirement Obligation

The depletion, depreciation and accretion ("DD&A") rate increased to $11.29 per boe in the first quarter of 2004 from $10.40 per boe in the first quarter of 2003. The increase in the DD&A rate from the first quarter of 2003 to the first quarter of 2004 is primarily due to the acquisition of Star on April 16, 2003. As a result of the Star acquisition, the depletable base increased in total by approximately $882 million consisting of an increase in the PP&E balance of $794 million for the fair value of the acquired assets and an increase of $88 million for the incremental future development costs net of undeveloped land value and salvage values of the acquired assets.

A breakdown of the DD&A rate is a follows:

DD&A Rate ($ thousands except per BOE amounts)	Q1 2004	Q1 2003
Depletion of oil & gas assets [1]	**$ 57,445**	$ 40,922
Accretion of asset retirement obligation [2]	**1,167**	562
Total DD&A	**$ 58,612**	$ 41,484
DD&A Rate per boe	**$ 11.29**	$ 10.40

[1] Includes depletion of the capitalized portion of the asset retirement obligation that was capitalized to the property, plant and equipment ("PP&E") balance and is being depleted over the life of the reserves.
[2] Represents the accretion expense on the asset retirement obligation during the period.

The costs subject to depletion include $41.1 million relating to the capitalized portion of the asset retirement obligation in the first quarter of 2004 compared to $26.7 million in the first quarter of 2003. The retroactive application of the new accounting policy for asset retirement obligations in 2003 required restatement of prior periods, which resulted in a decrease in the first quarter 2003 DD&A rate to $10.40 per boe from the previously reported DD&A rate of $10.72 per boe.

Goodwill

The goodwill balance of $157.6 million arose as a result of the acquisition of Star and was determined based on the excess of total consideration paid plus the future income tax liability less the fair value of the Star assets.

Accounting standards require that the goodwill balance be assessed for impairment at least annually and if such an impairment exists that it be charged to income in the period in which the impairment occurs. The Trust has determined that there was no goodwill impairment as of March 31, 2004.

Capital Expenditures and Net Acquisitions

Total capital expenditures, excluding net property and corporate acquisitions, aggregated to $56.6 million in the first quarter of 2004 compared to $22.5 million in the first quarter of 2003. This amount was incurred on drilling and completions, geological, geophysical and facilities expenditures, as ARC continues to develop its asset base. The significant increase in capital expenditures in the first quarter of 2004 relative to 2003 is due to the acquisition of Star which significantly increased the Trust's development opportunities. The high level of capital activity was also influenced by strong commodity prices that enhance the economic benefit of such development projects.

In addition to the capital expenditures, the Trust also completed $1.6 million of net property acquisitions in the first quarter of 2004 compared to $3 million net property acquisitions in the first quarter of 2003.

A breakdown of capital expenditures and net property acquisitions (dispositions) is shown below:

Capital expenditures ($ thousands)	Q1 2004	Q1 2003
Geological and geophysical	**$ 2,320**	$ 998
Drilling and completions	**37,942**	17,037
Plant and facilities	**15,956**	4,204
Other capital	**341**	224
Total capital expenditures	**$ 56,559**	$ 22,463
Producing property acquisitions [1]	**1,679**	3,000
Producing property dispositions [1]	**(105)**	-
Total capital expenditures and net property acquisitions	$ **58,133**	$ 25,463
Total capital expenditures financed with cash flow	$ **25,124**	$ 22,463
Total capital expenditures financed with debt & equity	$ **33,009**	**$** 3,000

[1] Value is net of post-closing adjustments.

ARC estimates 2004 capital expenditures, excluding net property acquisitions, of approximately $175 million. The Trust intends to withhold approximately 20 per cent of 2004 cash flow to fund the 2004 capital expenditure program with the remainder to be funded with debt.

Asset Retirement Obligation and Reclamation Fund

At March 31, 2004, the Trust had recorded an asset retirement obligation of $66.9 million for future abandonment and reclamation of the Trust's properties. The asset retirement obligation increased by $1.2 million and was reduced by $0.9 million for accretion expense and actual abandonment expenditures, respectively, in the first quarter of 2004. The Trust did not record a gain or loss on actual abandonment expenditures incurred in the first quarter of 2004 as the costs incurred closely approximated the liability value included in the asset retirement obligation.

Previously reported amounts for the period ended March 31, 2003, have been restated for the impact of the change in accounting policy for asset retirement obligation that was implemented in 2003 and required retroactive application with restatement of prior periods.

ARC contributed $1.5 million cash to its reclamation fund ($1 million in the first quarter of 2003) and earned $0.2 million of interest income during the first quarter of 2004 ($0.1 million in the first quarter of 2003). At March 31, 2004, there was a fund balance of $18.9 million. This fund, invested in money market instruments, is established to provide for future abandonment and reclamation liabilities. Future contributions are currently set at approximately $6 million per year ($1.5 million per quarter) in order to provide for the total estimated future abandonment and reclamation costs.

Capitalization, Financial Resources and Liquidity

A breakdown of the Trust's capital structure is as follows:

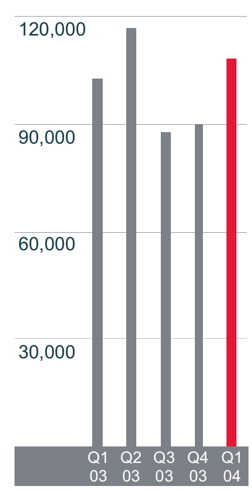
($ thousands except per unit and per cent amounts)	March 31, 2004	December 31, 2003
Long-term debt	**236,622**	223,355
Short-term debt	**9,174**	9,047
Working capital deficit excluding short-term debt (2)	**38,205**	29,669
Net debt obligations	**284,001**	262,071
Units outstanding and issuable for exchangeable shares (thousands)	**183,980**	182,777
Market price at end of period	**$15.64**	$14.74
Market value of trust units and exchangeable shares	**2,877,447**	2,694,133
Total capitalization (1)	**3,161,448**	2,956,204
Net debt as a percentage of total capitalization	**9%**	8.9%
Net debt obligations	**284,001**	262,071
Cash flow	**108,014**	396,180
Net debt to annualized cash flow	**0.7**	0.7

(1) Total capitalization as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Total capitalization is not intended to represent the total funds from equity and debt received by the Trust.

(2) The 2004 working capital deficit excludes unrealized commodity and foreign exchange contracts asset and liability, $6.6 million and $37.7 million, respectively and the deferred hedge loss and deferred commodity and foreign currency contracts, $7.5 million and $2.5 million respectively.

As at March 31, 2004, the Trust had a working capital deficiency excluding short-term debt, of $64.3 million compared to $29.7 million as at December 31, 2003. The working capital deficit is a result of normal operating conditions in periods when the Trust incurs significant capital expenditures. ARC participated in significant capital projects throughout the first quarter of 2004, resulting in accrued capital expenditures of $32.3 million at March 31, 2004. In addition, as a result of fair value accounting for commodity and foreign currency contracts, the Trust recorded a net current liability of $23.6 million at March 31, 2004. Excluding the Trust's net current liability for commodity and foreign currency contracts the working capital deficit excluding short term debt would be $38.2 million at March 31, 2004.

CASH FLOW
($CDN millions)



The Trust recently completed its annual credit review with its lenders that resulted in the Trust's credit lines remaining unchanged at $620 million until the next annual credit review in April 2005. In addition, the Trust recently consolidated its five credit facilities into one syndicated credit facility. The syndication of the credit facilities did not impact the Trust's borrowing base nor did it impact other key terms of the credit facility such as security or covenants. Borrowing rates under the syndicated facility decreased slightly. ARC Resources' oil and gas properties continue to secure the debt.

Total debt outstanding, inclusive of short and long-term debt, at March 31, 2004 was $245.8 million, which includes Canadian dollar bank debt of $121.2 million, U.S. dollar bank debt of US$30.5 million (CDN$39.4 million) and US$65 million (CDN$85.2 million) of Senior Secured Notes ("Notes"). The current portion of long-term debt represents the first US$7 million (CDN$9.2 million) payment due in November 2004 on the Notes. Based on low debt levels, the repayment on the Notes will be financed by a draw on the existing credit facilities. At March 31, 2004, approximately 35 per cent of the Trust's total debt balance was locked-in at fixed interest rates averaging 6.6 per cent and the remaining 65 per cent at floating rates based upon Canadian and U.S. banker's acceptance rates plus a bank stamping fee.

March 31, 2004 net debt to total capitalization was 9 per cent and net debt to annualized cash flow approximated 0.7 times, both relatively unchanged from year-end 2003.

On April 27, 2004, the Trust completed the issuance of US$125 million of long-term secured notes via a private placement. The notes were issued in two tranches of US$62.5 million each. The first tranche of US$62.5 million has a final life of 10 years (average life of 7.5 years) and pays a semi-annual coupon of 4.62 per cent per annum. The second tranche of US$62.5 million has a final life of 12 years (average life of 10 years) and pays a semi-annual coupon of 5.10 per cent per annum. Repayments of the notes will occur in years 2009 through 2016.

Concurrent with the issuance of the notes, the Trust entered into interest rate swap transactions to effectively convert the fixed interest rate on the first US$62.5 million tranche into a floating rate in order to capitalize on historic low interest rates in the United States. The floating rate applicable to the US$62.5 million note is the three month LIBOR rate plus 38.25 basis points. As a result, the Trust has effectively issued US$125 million notes at an average rate of 3.3 per cent, with this rate increasing by one half of a percentage point for every one percentage point increase in short term U.S. interest rates.

The Trust intends to finance the remainder of the 2004 capital program with a combination of cash flow and debt.

Unitholders' Equity

At March 31, 2004, there were 184 million trust units issued, issuable for exchangeable shares and outstanding, a slight increase from the 182.8 million trust units issued, issuable and outstanding at December 31, 2003. The increase in the number of trust units outstanding is attributable to approximately 547,178 trust units issued pursuant to the Distribution Reinvestment Incentive Plan ("DRIP") at an average price of $14.04 per trust unit, 565,350 trust units issued pursuant to the exercise of employee rights at an average price of $9.33 per trust unit, and the conversion of exchangeable shares which resulted in the issuance of 58,705 trust units.

Unitholders electing to reinvest distributions or make optional cash payments to acquire trust units from treasury under the DRIP may do so at a five per cent discount to the prevailing market price with no additional fees or commissions.

The Trust issued 27,000 additional rights under the Trust Unit Incentive Rights Plan ("Rights Plan") during the first quarter of 2004. There will be no issuances of rights in the future as the rights plan is to be replaced with a new Whole Trust Unit Incentive Plan in the second quarter of 2004. The existing rights plan will be in place until the remaining 4.2 million rights outstanding as of March 31, 2004 are exercised. The exercise price of the rights is adjusted downward over time by the amount, if any, that annual distributions exceed 10 per cent of the net book value of property, plant and equipment. The rights have a five-year term and vest equally over three years from the date of grant. Rights to purchase 4.2 million trust units at an average adjusted exercise price of $11.39 were outstanding at March 31, 2004. These rights have an average remaining contractual life of 3.7 years and expire at various dates to March 22, 2009. Of the rights outstanding at March 31, 2004, a total of 388,000 were exercisable at that time.

In March 2004, the Board of Directors upon recommendation of the Compensation Committee, approved a new Whole Trust Unit Incentive Plan ("LTIP") to replace the existing Trust Unit Incentive Rights Plan for new awards granted subsequent to the first quarter of 2004. The new LTIP will result in employees receiving cash compensation in relation to the value of a specified number of underlying trust units. The Trust has made provisions whereby employees may elect to have trust units purchased for them on the market rather than receiving cash upon vesting. The LTIP plan consists of Restricted Trust Units ("RTU's") for which the number of trust units is fixed and that will vest over a period of three years and Performance Trust Units ("PTU's) for which the number of trust units is variable and will vest at the end of three years. The cash compensation issued for the PTU's is dependent upon the future performance of the Trust compared to its peers based on certain key industry benchmarks. The value associated with the RTU's and PTU's will be expensed in the statement of income over the vesting period. As the value of the RTU's and PTU's is dependent upon the trust unit price, the expense recorded in the statement of income may fluctuate over time.

Cash Distributions

ARC declared cash distributions of $81.2 million ($0.45 per unit), representing 75 per cent of first quarter 2004 cash flow compared to cash distributions of $59.3 million ($0.45 per unit) in the first quarter of 2003. The remaining 25 per cent of cash flow ($26.8 million) was used to fund 44 per cent of ARC's first quarter capital expenditures ($25.1 million), and make contributions, including interest, to the reclamation fund ($1.7 million). The actual amount withheld is dependent on the commodity price environment and is at the discretion of the Board of Directors. This holdback policy differs among the conventional oil and gas trusts.

Cash flow and cash distributions per unit were as follows:

	Q1 2004		Q1 2003	
Cash flow and distributions	**$ millions**	**per unit**	$ millions	per unit
Cash flow	**$ 108.0**	**$ 0.59**	$ 102.5	$ 0.78
Reclamation fund contributions, including interest	**(1.7)**	**(0.01)**	(1.2)	(0.01)
Capital expenditures funded with cash flow	**(25.1)**	**(0.14)**	(20.1)	(0.15)
Discretionary debt repayments	**-**	**-**	(21.9)	(0.17)
Other	**-**	**0.01**	-	-
Cash distributions	**$ 81.2**	**$ 0.45**	$ 59.3	$ 0.45

Monthly cash distributions for the second quarter of 2004 have been set at $0.15 per trust unit subject to monthly review based on commodity price fluctuations. Revisions, if any, to the monthly distribution are normally announced on a quarterly basis in the context of prevailing and anticipated commodity prices at that time. The Trust expects to fund the 2004 cash distributions from cash flow.

Cash Distributions by Calendar Year

The following table presents cash distributions paid in each calendar period. Cash distributions for 2004 include distributions paid up to and including April 15, 2004:

Calendar Year	Distributions [1]	Taxable Portion	Return of Capital
YTD 2004 [2]	0.60	0.54 [3]	0.06 [3]
2003	1.78	1.51	0.27
2002	1.58	1.07	0.51
2001	2.41	1.64	0.77
2000	1.86	0.84	1.02
1999	1.25	0.26	0.99
1998	1.20	0.12	1.08
1997	1.40	0.31	1.09
1996	0.81	-	0.81
Cumulative	**$12.89**	**$6.29**	**$6.60**

(1) Based on cash distributions paid in the calendar year.
(2) Based on cash distributions paid in 2004 up to and including April 15, 2004.
(3) Based on estimated taxable portion of 2004 distributions of 90 per cent.

Cash Distribution Dates for 2004

Actual and estimated cash distributions paid and announced to date for 2004 along with relevant payment dates are as follows:

Ex-Distribution Date	Record Date	Distribution Payment Date	Total Distribution
December 29, 2003	December 31, 2003	January 15, 2004	0.15
January 28, 2004	January 31, 2004	February 16, 2004	0.15
February 25, 2004	February 29, 2004	March 15, 2004	0.15
March 29, 2004	March 31, 2004	April 15, 2004	0.15
April 28, 2004	April 30, 2004	May 17, 2004	0.15
May 27, 2004	May 31, 2004	June 15, 2004	0.15*
June 28, 2004	June 30, 2004	July 15, 2004	0.15*
July 28, 2004	July 31, 2004	August 16, 2004	
August 27, 2004	August 31, 2004	September 15, 2004	
September 28, 2004	September 30, 2004	October 15, 2004	
October 27, 2004	October 31, 2004	November 15, 2004	
November 26, 2004	November 30, 2004	December 15, 2004	

* Estimated

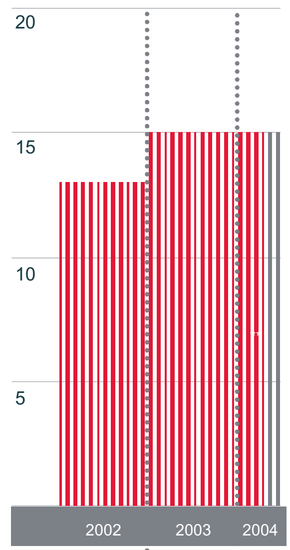
Taxation of Cash Distributions

Cash distributions comprise a return of capital portion (tax deferred) and a return on capital portion (taxable). The return of capital component reduces the cost basis of the trust units held. For a more detailed breakdown, please visit our website at www.arcresources.com.

For 2004, ARC estimates that cash distributions paid in the calendar year will be 90 per cent return on capital (taxable) and 10 per cent return of capital (tax deferred). The increase in the taxable portion of distributions to 90 per cent is the result of increasing commodity prices and in turn increasing cash flow of the Trust. Actual taxable amounts may differ from the estimated amount as they are dependent on commodity prices experienced throughout the year. Changes in the estimated taxable and deferred portion of the distributions will be announced quarterly.

The exchangeable shares of ARC Resources Ltd. (“ARL”), a corporate subsidiary of the Trust, may provide a more tax-effective basis for investment in the Trust. The ARL exchangeable shares are traded on the TSX under the symbol “ARX” and are convertible into trust units, at the option of the shareholder, based on the then current exchange ratio. Exchangeable shareholders are not eligible to receive monthly cash distributions, however the exchange ratio increases on a monthly basis by an amount equal to the current month’s trust unit distribution multiplied by the then current exchange ratio and divided by the 10 day weighted average trading price of the trust units at the end of each month. The gain realized as a result of the monthly increase in the exchange ratio is taxed, in most circumstances, as a capital gain rather than income and is therefore subject to a lower effective tax rate. Tax on the exchangeable shares is deferred until the exchangeable share is sold or converted into a trust unit.

MONTHLY CASH DISTRIBUTIONS
(CDN cents/trust unit)



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

Contractual Obligations and Commitments

The Trust has contractual obligations in the normal course of operations including purchase of assets and services, operating agreements, transportation commitments and sales commitments. These obligations are of a recurring and consistent nature and impact cash flow in an ongoing manner.

Following is a summary of the Trust’s contractual obligations and commitments:

		Payments Due By Period			
($ millions)	Total	2004	2005-2006	2007-2008	2009 and thereafter
Debt repayments (1)	85.2	9.2	26.2	34.0	15.8
U.S. Note repayments (2)	163.8	-	-	-	163.8
Operating leases	24.8	3.2	8.9	7.5	5.2
Purchase commitments	40.2	4.8	9.8	6.5	19.1
Retention bonuses	4.0	1.0	2.0	1.0	-
Asset retirement obligations (3)	66.9	4.1	4.7	4.3	53.8
Total contractual obligations	384.9	22.3	51.6	53.3	257.7

(1) Represents US$65 million of senior secured notes and excludes balance outstanding under the credit facility as the US$125 million proceeds received from the private placement of U.S. notes were applied to reduce all outstanding indebtedness under the credit facility subsequent to quarter end.

(2) Repayments on US$125 million notes issued subsequent to quarter end and were not outstanding as of March 31, 2004. However, due to execution of the note agreement on April 27, 2004, the repayments of the notes are a contractual obligation at the date of release of this report.

(3) Based on estimated timing of expenditures to be made in future periods.

Off Balance Sheet Arrangements

The Trust has certain lease agreements that are entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases in the balance sheet as of March 31, 2004.

The Trust has not entered into any guarantee or off balance sheet arrangements that would adversely impact the Trust's financial position or results of operations.

Financial Reporting Update

There have been several changes in the financial reporting and securities regulatory environment in 2003 and 2004 that have impacted the Trust and all public companies. Canadian securities regulators and the Canadian Institute of Chartered Accountants ("CICA") are undertaking these measures to increase investor confidence through increased transparency, consistency and comparability of financial statements and financial information. As well, the goal of these changes is to align Canadian standards more closely with those in the United States.

In the first quarter of 2004, the Trust implemented new accounting policies and complied with regulations for Hedge accounting, Transportation costs, and Continuous disclosure obligations. See "New Accounting Policies Impacting First Quarter Results" earlier in this MD&A for a detailed discussion of the impact of the new policies.

In addition to the new policies implemented in the first quarter of 2004, the following standards that were implemented by the Trust in 2003. Due to the transitional provisions of these standards that required retroactive application and restatement of prior periods, previously reported financial results for the first quarter of 2003 were restated to give effect to the new standards as follows:

Asset Retirement Obligations - The Trust implemented this standard in 2003 in accordance with the early adoption provisions of the standard. As a result of the retroactive application, first quarter 2003 comparative numbers included in this report have been restated to reflect the impact of this standard on the first quarter 2003 financial statements, note disclosures and MD&A. Previously reported net income for the first quarter of 2003 increased by $1.1 million ($1.3 million before a future income tax expense of $0.2 million) and opening 2003 accumulated earnings increased by $12.1 million net of applicable income taxes. There was no impact on previously reported cash flow.

Stock Based Compensation and Other Stock Based Payments - The Trust implemented this amended standard in 2003 in accordance with the early adoption provisions. As a result, first quarter 2003 financial results were restated to give effect to the standard as at January 1, 2003. There was no change in previously reported net income or cash flow for the first quarter of 2003 as there was no compensation expense associated with rights outstanding during the first quarter of 2003.

The following new draft standard is being monitored to assess the applicability and potential impact to the Trust in 2004 as follows:

Exchangeable Share Accounting – On November 10, 2003, the CICA issued a draft EIC (D37) on "Income Trusts – Exchangeable Units". The EIC proposes that the retained interest of the exchangeable shareholders should be presented on the balance sheet as a non-controlling interest separate and distinct from unitholders equity. This draft EIC is currently under review and was not enacted in final form as of the time of publication of the Trust's unaudited interim consolidated financial statements for the first quarter of 2004.

Critical Accounting Estimates

The Trust has continuously evolved and documented its management and internal reporting systems to provide assurance that accurate, timely internal and external information is gathered and disseminated.

The Trust's financial and operating results incorporate certain estimates including:

a) estimated revenues, royalties and operating costs on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
b) estimated capital expenditures on projects that are in progress;
c) estimated depletion, depreciation and accretion that are based on estimates of oil and gas reserves that the Trust expects to recover in the future;
d) estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices and foreign exchange rates; and
e) estimated value of asset retirement obligations that are dependent upon estimates of future costs and timing of expenditures.

The Trust has hired individuals and consultants who have the skill set to make such estimates and ensures individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results in order to make more informed decisions on future estimates.

The ARC management team's mandate includes ongoing development of procedures, standards and systems to allow ARC staff to make the best decisions possible and ensuring those decisions are in compliance with the Trust's environmental, health and safety policies.

2004 Cash Flow Sensitivity

Below is a table which illustrates sensitivities to pre-hedging cash flow with operational changes and changes to the business environment:

			Impact on Annual Cash Flow		Impact on Annual Distributions [2]
	Assumption	Change	$/Unit	%	$/Unit
Business environment					
Price per barrel of oil (US$WTI) [1]	$30.00	$1.00	$0.05	3.2%	$0.04
Price per mcf of natural gas (CDN$AECO) [1]	$5.25	$0.10	$0.03	1.6%	$0.02
CDN/USD exchange rate	$0.75	$0.01	$0.05	2.0%	$0.04
Interest rate on debt	4.2%	1.0%	$0.01	1.0%	$0.01
Operational					
Liquids production volume	27,000	1.0%	$0.01	0.5%	$0.01
Gas production volumes	168,000	1.0%	$0.02	0.6%	$0.01
Operating expenses per boe	$7.00	1.0%	$0.01	0.4%	$0.01
Cash G&A expenses per boe	$1.15	10.0%	$0.01	0.7%	$0.01

(1) Analysis does not include the effect of hedging.
(2) Analysis assumes a 20 per cent holdback on distributions.

Assessment of Business Risks

The ARC management team is focused on long-term strategic planning and has identified the key risks, uncertainties and opportunities associated with the Trust's business that can impact the financial results. See "Assessment of Business Risks" in the Trust's 2003 Annual Report MD&A for a detailed assessment.

Outlook

It is the Trust's objective to provide the highest possible long-term returns to unitholders by focusing on the key strategic objectives of the business plan. This focus has resulted in ARC Energy Trust achieving excellent results from which the unitholders of the Trust have directly benefited. During the first quarter, the Trust provided unitholders with distributions of $0.45 per trust unit. To the end of the first quarter of 2004, the Trust has provided cash distributions of $12.89 per trust unit and capital appreciation of $5.64 per trust unit for a total return of $18.53 per trust unit (23.5 per cent annualized total return) for unitholders who invested in the Trust at inception.

During the first quarter of 2004 and for the remainder of the year, ARC was and will continue to be active with a robust drilling and development program on its diverse asset base. The $175 million capital expenditure budget for 2004 is the largest in the Trust's history excluding acquisitions. The Trust will prudently deploy capital with a balanced drilling program of low and moderate risk wells as it did in 2003 with a 99 per cent success rate. The Trust continues to focus on major properties with significant upside, with the objective to replace production declines with internal development opportunities.

The low debt levels provide the Trust with the financial flexibility to fund the 2004 capital expenditure program and be poised to take advantage of positive acquisition opportunities.

See "Outlook" in the Trust's 2003 Annual Report MD&A for additional discussion of the Trust's key future objectives.

Additional Information

Additional information relating to ARC can be found on SEDAR at www.sedar.com.

QUARTERLY REVIEW

	2004		2003				2002	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
($CDN thousands, except per unit amounts)								
Revenue before royalties	**205,594**	182,558	184,166	198,542	177,917	118,865	114,873	113,922
Per unit [(1)]	**1.12**	1.04	1.11	1.36	1.35	0.94	0.92	0.99
Cash flow	**108,014**	89,617	87,511	116,546	102,506	61,495	56,603	56,677
Per unit [(1)]	**0.59**	0.51	0.53	0.80	0.78	0.49	0.45	0.49
Net income (loss) [(5)]	**40,122**	54,465	41,535	128,159	66,042	28,374	(2,739)	29,643
Per unit [(5) (6)]	**0.22**	0.31	0.25	0.85	0.50	0.22	(0.02)	0.26
Cash distributions	**81,215**	78,603	73,890	67,495	59,340	48,060	47,644	44,684
Per unit [(2)]	**0.45**	0.45	0.45	0.45	0.45	0.39	0.39	0.39
Net debt outstanding [(4)]	**284,001**	262,071	412,686	466,988	226,583	347,795	271,203	209,674
Weighted average units (thousands) [(3)]	**183,314**	174,991	166,365	145,546	131,379	126,370	124,794	115,235
Units outstanding and issuable at period end [(3)]	**183,982**	182,777	167,530	163,184	139,239	126,444	126,270	122,359
CAPITAL EXPENDITURES								
($ thousands)								
Geological and geophysical	**2,320**	2,846	1,171	656	998	556	619	519
Drilling and completions	**37,942**	37,738	31,661	23,834	17,037	21,047	12,025	13,538
Plant and facilities	**15,956**	15,512	11,917	4,831	4,204	4,265	3,115	2,944
Other capital	**341**	1,418	391	1,325	224	861	380	285
Total capital expenditures	**56,559**	57,515	45,140	30,646	22,463	26,729	16,139	17,286
Producing acquisitions (dispositions), net	**1,574**	(3,693)	(81,166)	(79,750)	3,000	61,952	46,018	9,344
Corporate acquisitions	**-**	-	258	721,332	-	-	-	-
Total capital expenditures and net acquisitions	**58,133**	53,822	(35,768)	672,228	25,463	88,681	62,157	26,630
OPERATING								
Production								
Crude oil (bbl/d)	**23,663**	22,851	23,522	24,078	21,065	20,256	20,809	20,366
Natural gas (mmcf/d)	**174.5**	180.8	182.0	175.7	117.3	109.2	109.1	106.9
Natural gas liquids (bbl/d)	**4,323**	4,140	4,105	4,397	3,696	3,355	3,408	3,527
Total (boe/d 6:1)	**57,075**	57,120	57,968	57,759	44,313	41,808	42,394	41,713
Average prices [(7)]								
Crude oil ($/bbl)	**40.41**	35.21	35.33	36.62	40.92	30.00	33.57	32.10
Natural gas ($/mcf)	**6.64**	5.85	5.64	6.59	8.16	5.37	4.22	4.78
Natural gas liquids ($/bbl)	**32.30**	30.14	30.92	28.83	39.99	27.49	25.23	23.38
Oil equivalent ($/boe)	**39.58**	34.74	34.53	37.78	44.61	30.90	29.45	30.01
TRUST UNIT TRADING (based on intra-day trading)								
Unit prices								
High	**15.74**	14.87	13.88	12.84	12.34	12.74	12.98	13.44
Low	**13.50**	13.31	12.51	11.29	10.89	11.04	11.05	11.85
Close	**15.64**	14.74	13.55	12.50	11.59	11.90	12.80	12.77
Average daily volume (thousands)	**502**	395	551	503	313	269	256	252

(1) Based on weighted average trust units and exchangeable shares.
(2) Based on number of trust units outstanding at each cash distribution date.
(3) Includes trust units issuable for outstanding exchangeable shares based on the period end exchange ratio.
(4) Total current and long-term debt net of working capital. The 2004 net debt outstanding excludes unrealized commodity and foreign exchange contracts asset and liability, $6.6 million and $37.7 million, respectively and the deferred hedge loss and deferred commodity and foreign currency contracts, $7.5 million and $2.5 million respectively.
(5) Net income and net income per unit have been restated due to the retroactive application of the change in accounting policies relating to asset retirement obligations and stock based compensation that were implemented in 2003.
(6) Net income in the basic per trust unit calculation has been reduced by interest in the convertible debentures.
(7) Average prices have been restated to be prior to transportation costs in order to be consistent with 2004 presentation.

CONSOLIDATED BALANCE SHEET

As at March 31 and December 31 (unaudited)
($CDN thousands)

	2004	2003
ASSETS		
Current assets		
Cash	**$ 4,391**	$ 12,295
Accounts receivable	**56,939**	68,768
Prepaid expenses	**10,547**	10,400
Deferred hedge loss (Note 5)	**7,446**	-
Commodity and foreign currency contracts (Note 5)	**6,609**	-
	85,932	91,463
Reclamation fund	**18,857**	17,181
Property, plant and equipment	**2,016,227**	2,015,539
Goodwill	**157,592**	157,592
Total assets	**$ 2,278,608**	$ 2,281,775
LIABILITIES		
Current liabilities		
Accounts payable	**$ 82,919**	$ 94,152
Cash distributions payable	**27,163**	26,980
Current portion of long-term debt (Note 4)	**9,174**	9,047
Commodity and foreign currency contracts (Note 5)	**37,660**	-
Deferred commodity and foreign currency contracts (Note 5)	**2,470**	-
	159,386	130,179
Long-term debt (Note 4)	**236,622**	223,355
Asset retirement obligation	**66,893**	66,657
Deferred commodity and foreign currency contracts (Note 5)	**-**	4,883
Retention bonuses	**3,000**	3,000
Future income taxes	**286,265**	301,965
Total liabilities	**752,166**	730,039
UNITHOLDERS' EQUITY		
Unitholders' capital (Note 6)	**1,852,103**	1,838,580
Exchangeable shares (Note 7)	**29,087**	29,656
Contributed surplus	**6,316**	3,471
Accumulated earnings	**688,426**	648,304
Accumulated cash distributions (Note 3)	**(1,049,490)**	(968,275)
Total unitholders' equity	**1,526,442**	1,551,736
Total liabilities and unitholders' equity	**$ 2,278,608**	$ 2,281,775

See accompanying notes to consolidated financial statements.

Approval on behalf of the Board:

M Van Wielingen

MAC H. VAN WIELINGEN
Director

John Dielwart

JOHN P. DIELWART
Director

CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

For the three months ended March 31 (unaudited)
($CDN thousands, except per unit amounts)

		2004		2003
				Restated (Note 2)
Revenue				
Oil, natural gas, natural gas liquids and sulphur sales	**$**	**205,594**	$	177,917
Royalties		**(38,757)**		(36,439)
		166,837		141,478
Loss on commodity and foreign currency contracts (Note 5)		**(34,747)**		-
		132,090		141,478
Expenses				
Transportation (Note 1)	**$**	**3,829**	$	1,288
Operating		**33,522**		28,959
General and administrative		**4,879**		4,009
Non-cash trust unit incentive compensation (Note 8)		**2,845**		-
Interest on long-term debt		**2,618**		3,825
Depletion, depreciation and accretion		**58,612**		41,484
Capital taxes		**663**		100
(Gain) loss on foreign exchange		**700**		(7,495)
		107,668		72,170
Income before future income tax		**24,422**		69,308
Future income tax (expense) recovery		**15,700**		(3,266)
Net income		**40,122**		66,042
Accumulated earnings, beginning of period		**648,304**		350,088
Retroactive application of change in accounting policy (Note 2)		**-**		12,085
Accumulated earnings, beginning of period as restated		**648,304**		362,173
Accumulated earnings, end of period		**688,426**		428,215
Net income per unit (Note 9)				
Basic		**0.22**		0.50
Diluted		**0.22**		0.50

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31 (unaudited) ($CDN thousands)	2004	2003 Restated (Note 2)
Cash flow from operating activities		
Net income	**$ 40,122**	$ 66,042
Add items not involving cash:		
Future income tax expense (recovery)	**(15,700)**	3,266
Depletion, depreciation and accretion	**58,612**	41,484
Non-cash loss on commodity and foreign currency contracts (Note 5)	**21,192**	(883)
Unrealized gain (loss) on foreign exchange	**943**	(7,403)
Non-cash trust unit incentive compensation (Note 8)	**2,845**	-
Cash flow before changes in non-cash working capital	**108,014**	102,506
Change in non-cash working capital	**3,749**	(7,223)
	111,763	95,283
Cash flow from financing activities		
Borrowing of long-term debt	**12,451**	(110,418)
Issue of trust units (Note 6)	**12,954**	145,615
Trust unit issue costs	-	(7,438)
Cash distributions paid	**(81,032)**	(54,943)
	(55,627)	(27,184)
Cash flow from investing activities		
Deposit for Star acquisition	**-**	(40,000)
Acquisition of petroleum and natural gas properties	**(1,679)**	(2,939)
Proceeds on disposition of petroleum and natural gas properties	**105**	(61)
Capital expenditures	**(59,860)**	(21,089)
Reclamation fund contributions and actual expenditures	**(2,606)**	(1,544)
	(64,040)	(65,633)
Increase (decrease) in cash	**(7,904)**	2,466
Cash, beginning of period	**12,295**	835
Cash, end of period	**4,391**	3,301

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004 and 2003 (unaudited)

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

1. SUMMARY OF ACCOUNTING POLICIES

The unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual audited financial statements except as discussed below. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles ("GAAP") applicable for annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Trust's 2003 annual report.

a) ***Hedge Accounting -*** The CICA issued Accounting Guideline 13 ("AcG – 13") "Hedging relationships", effective January 1, 2004, to clarify circumstances in which hedge accounting is appropriate. In addition, the CICA simultaneously amended EIC 128, "Accounting for Trading, Speculative or Non Trading derivative Financial Instruments" to require that all derivative instruments that do not qualify as a hedge under AcG – 13, or are not designated as a hedge, be recorded in the balance sheet as either as asset or a liability with the changes in fair value recognized in earnings.

The Trust uses derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange, and interest rates. The Trust formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Trust also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains and losses associated with hedging instrumentsthat have been terminated or cease to be effective prior to maturity, are deferred on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized.

For transactions that do not qualify for hedge accounting the Trust applies the fair value method of accounting by recording an asset or liability on the consolidated balance sheet and recognizing changes in the fair value of the instruments in the current period statement of income.

As a result of this change in accounting policy, the Trust's net income for the quarter ended March 31, 2004, decreased by $15.4 million ($23.6 million net of a future tax recovery of $8.2 million), total assets increased by $14.1 million and total liabilities increased by $29.5 million ($37.7 million net of a future tax recovery of $8.2 million). Cash flow was not impacted by this change.

b) ***Transportation Costs -*** Effective for fiscal years beginning on or after October 1, 2003, the CICA issued Handbook Section 1100 "Generally Accepted Accounting Principles", which defines the sources of GAAP that companies must use and effectively eliminates industry practice as a source of GAAP. In prior years, it had been industry practice for companies to net transportation charges against revenue rather than showing transportation as a separate expense on the income statement. Beginning January 1, 2004, the Trust has recorded revenue gross of transportation charges and a transportation expense on the income statement. Prior periods have been reclassified for comparative purposes. This adjustment has no impact on net income per trust unit calculations, or cash flow for the Trust.

2. RESTATEMENT OF PRIOR PERIODS DUE TO CHANGES IN ACCOUNTING POLICIES

At December 31, 2003, the Trust adopted two new accounting policies that required restatement of prior quarters in 2003. The following explains the impact of these restatements on the Trust's previously reported Q1 2003 results.

a) ***Asset Retirement Obligations -*** At December 31, 2003, the Trust adopted CICA Handbook Section 3110 "Asset Retirement Obligations" in accordance with the early adoption provisions. The transitional provisions of this section required that the standard be applied retroactively with restatement of comparative periods. As a result of the retroactive application, previously reported net income for the first quarter of 2003 increased by $1.1 million ($1.3 million before a future tax expense of $0.2 million) and opening 2003 accumulated earnings increased by $12.1 million ($20.9 million before a future tax expense of $8.8 million). There was no impact on cash flow as a result of adopting this policy. Basic and diluted per trust unit calculations for the first quarter of 2003 increased by $0.01 as a result of adopting this new policy.

b) ***Unit Based Compensation -*** At December 31, 2003, the Trust early adopted the amendments to CICA Handbook Section 3870 "Stock based compensation and other stock based payments". Under the transitional provisions of the standard, the Trust is required to record compensation expense in the statement of income for rights issued on or after January 1, 2003. As a result of the implementation of this amended standard at year end 2003, previously reported 2003 amounts have been restated to give effect to the standard as at January 1, 2003. There was no change in previously reported net income or the per trust unit calculations for the first quarter of 2003 as there was no compensation expense associated with rights outstanding during the first quarter of 2003. There was no impact on cash flow as a result of adopting this policy.

3. RECONCILIATION OF CASH FLOW AND DISTRIBUTIONS

	2004	2003
Cash flow before changes in non-cash working capital	**108,014**	102,506
Add (deduct):		
Cash withheld to fund capital expenditures	**(25,123)**	(20,243)
Reclamation fund contributions and interest earned on fund	**(1,676)**	(1,129)
Discretionary debt repayments	**-**	(21,794)
Cash distributions	**81,215**	59,340
Accumulated cash distributions, beginning of period	**968,275**	688,947
Accumulated cash distributions, end of period	**1,049,490**	748,287
Cash distributions per unit	**0.45**	0.45
Accumulated cash distributions per unit, beginning of period	**12.44**	10.64
Accumulated cash distributions per unit, end of period	**12.89**	11.09

Cash distributions per trust unit reflect the sum of the per trust unit amounts paid monthly to unitholders.

4. LONG-TERM DEBT

The Trust has US$65 million (CDN$85.2 million) of senior secured notes (the "Notes") and one syndicated credit facility that provide the Trust with a combined maximum borrowing base of $620 million as at March 31, 2004.

The Trust recently completed its annual credit review with its lenders that resulted in the Trust's credit facilities remaining unchanged at $620 million. The lenders review the credit facilities by April 30 each year and determine whether they will extend the revolving period for another year. In the event that the revolving period is not extended, the loan balance will become repayable over a two year term period with 20 per cent of the loan balance payable in April 2006 followed by three quarterly payments of five 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.

In April 2004, the Trust consolidated its credit facilities into one syndicated facility. The syndication did not impact security or covenants under the credit facility.

5. FINANCIAL INSTRUMENTS

The Trust uses a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices and foreign exchange rates. The Trust considers all of these transactions to be effective economic hedges, however under the new guideline for hedge accounting (AcG-13), the majority of the Trust's contracts do not qualify as effective accounting hedges.

Following is a summary of all derivative contracts in place as at March 31, 2004:

Commodity Contracts	Daily Quantity	Average Contract Prices ($) (1)	Price Index	Term
Crude oil fixed price contracts	10,000 bbls	38.40	WTI	April 2004 – June 2004
	3,000 bbls	40.63	WTI	July 2004 – September 2004
	3,000 bbls	40.63	WTI	October 2004 – December 2004
Crude oil fixed price contracts (embedded put option) (2)	11,000 bbls	37.93 (37.29)	WTI	April 2004
	11,000 bbls	38.00 (37.29)	WTI	May 2004 – June 2004
	8,000 bbls	39.00 (32.93)	WTI	July 2004 – September 2004
	5,000 bbls	37.24 (31.45)	WTI	October 2004 – December 2004
	4,000 bbls	37.94 (34.07)	WTI	January 2005 – June 2005
Crude oil collared contracts (embedded put option) (2)	2,000 bbls	31.45 – 36.04 (26.21)	WTI	January 2004 – June 2004
	4,000 bbls	36.04 – 42.10 (30.80)	WTI	July 2004 – September 2004
	2,000 bbls	31.45 – 36.04 (26.21)	WTI	October 2004 – December 2004
Crude oil fixed price contracts (embedded exercise option) (3)	4,000 bbls	37.94	WTI	July 2005 – December 2005
Natural gas fixed price contracts	5,000 GJ	6.25	AECO	April 2004 – October 2004
	10,000 mmbtu	4.65	NYMEX	April 2004 – October 2004
Natural gas collared contracts	15,000 GJ	5.00 – 6.63	AECO	April 2004 – October 2004
Natural gas fixed price physical Delivery contract	10,000 GJ	6.00	AECO	April 2004 – December 2004

Foreign Currency Contracts	Average Monthly Contract Amount (US$000)	Average Contract Rate	Term
Fixed rate foreign exchange contracts (sell)	4,272	1.3569	April 2004 – December 2004
Fixed rate foreign exchange contracts (sell) (embedded put option) (2)	6,845	1.3418 (1.2686)	April 2004 – December 2004

(1) Commodity contracts denominated in US$ have been converted to CDN$ at the period end exchange rate of 1.3105.
(2) Counterparty may exercise a put option if index falls below the specified price (as denoted in brackets) on a monthly settlement basis.
(3) Swaption: Counterparty can exercise their option on June 30, 2005 for a fixed price swap at US$28.95 for the period July through December 2005.

The $2.5 million balance for commodity and foreign currency contracts on the consolidated balance sheet relates to a natural gas fixed price derivative contract that was assumed in conjunction with the acquisition of Startech Energy Inc. The contract has a daily quantity of 4,000 GJ at a contract price of $2.71/GJ based on the AECO monthly price index. The remaining contract term is April 2004 to October 2004.

The Trust has a fixed price electricity contract for 5MW/h at a fixed rate of $63.00 per MW/h for the period of April 2004 to December 2010.

The Trust has designated its fixed price electricity contract as an effective accounting hedge as at January 1, 2004. A loss of $0.2 million on the electricity contract has been included in operating costs in the period. The fair value of the electricity contract of $3.9 million loss has not been recorded on the balance sheet at March 31, 2004.

None of the Trust's commodity and foreign currency contracts have been designated as accounting hedges. Accordingly, all commodity and foreign currency contracts have been accounted for based on the fair values.

The following table reconciles the movement in the fair value of the Trust's financial commodity and foreign currency contracts that have not been designated as accounting hedges:

Fair value at January 1, 2004[1]	(14,575)
Change in fair value of contracts in the period	(30,032)
Realized losses in the period	13,556
Fair value at March 31, 2004 [1]	(31,051)
Commodity and foreign currency contracts liability at March 31, 2004	(37,660)
Commodity and foreign currency contracts asset at March 31, 2004	6,609

(1) Excludes the electricity contract that was accounted for as an accounting hedge.

Upon implementation of the new hedge accounting guideline on January 1, 2004, the Trust recorded a liability and corresponding deferred hedge loss of $14.6 million for the fair value of the contracts at that time. The opening deferred hedge loss is being amortized to income over the terms of the contracts in place at January 1, 2004. In the first quarter, $7.1 million of the opening deferred hedge loss was recorded as an expense. The remaining $7.5 million will be expensed to earnings over the remainder of 2004. At March 31, 2004, the fair value of the contracts which were not designated as accounting hedges was $31.1 million.

The Trust recorded a loss on commodity and foreign currency contracts of $34.7 million in the statement of income. This amount includes the realized and unrealized gains and losses on derivative contracts which do not qualify as effective accounting hedges. Included in this amount is unrealized loss of $16.5 million due to the change in fair value of the contracts in the period. Realized cash losses on contracts in the period of $13.6 million and amortization expense of $7.1 million of the opening deferred hedge loss have been included in this amount. In addition, this amount includes a non-cash amortization gain of $2.4 million relating to contracts that were previously recorded on the balance sheet.

6. UNITHOLDERS' CAPITAL

TRUST UNITS	Number of Trust Units	$
Balance, beginning of period	179,780	1,838,580
Issued on conversion of ARL exchangeable shares (Note 7)	59	569
Issued on exercise of employee rights (Note 8)	565	5,274
Distribution reinvestment program	547	7,680
Balance, end of period	180,951	1,852,103

7. EXCHANGEABLE SHARES

ARL EXCHANGEABLE SHARES	Number of Shares	$
Balance, beginning of period	2,011	29,656
Exchanged for trust units [1]	(39)	(569)
Balance, end of period	1,972	29,087
Exchange ratio, end of period	1.53618	-
Trust units issuable upon conversion	3,029	29,087

(1) During the quarter 38,610 exchangeable shares were converted to trust units at an average exchange ratio of 1.5205.

8. UNIT BASED COMPENSATION PLAN

	Number of Rights	Weighted Average Exercise Price
Balance, beginning of period	4,869	$ 11.29
Granted	27	15.64
Exercised	(565)	9.33
Cancelled	(99)	11.62
Balance before reduction of exercise price	4,232	11.57
Reduction of exercise price	-	(0.18)
Balance, end of period	4,232	$ 11.39

The Trust recorded compensation expense and contributed surplus of $2.9 million, based on the March 31, 2004 unit price of $15.64, for three million rights issued on or after January 1, 2003. This compensation amount was reduced by $0.01 million for rights issued on or after January 1, 2003 that were subsequently cancelled prior to vesting. None of the rights included in the compensation expense have been exercised by March 31, 2004 and therefore no reduction of contributed surplus has been recorded.

For rights granted in 2002, the Trust has disclosed proforma results as if the amended accounting standard had been applied retroactively.

Pro Forma Results	**2004**	2003
Net income as reported	**40,122**	66,042
Less: compensation expense for rights issued in 2002 [1]	**1,070**	-
Pro forma net income	**39,052**	66,042
Basic net income per trust unit		
As reported	**$ 0.22**	$ 0.50
Pro forma	**0.21**	0.50
Diluted net income per trust unit		
As reported	**$ 0.22**	$ 0.50
Pro forma	**0.21**	0.50

(1) No compensation expense has been recorded for 2003 as the adjusted exercise price of the rights exceeded the market price of the trust units.

9. NET INCOME PER TRUST UNIT

Net income per trust unit has been determined based on the following:

	2004	2003
Weighted average trust units	**180,285**	128,328
Trust units issuable on conversion of exchangeable shares	**3,029**	3,051
Weighted average trust units and exchangeable shares	**183,314**	131,379
Dilutive impact of rights	**1,682**	384
Dilutive trust units and exchangeable shares	**184,996**	131,763

10. INCOME TAXES

During the first quarter of 2004, the Alberta government enacted a reduction in corporate income tax rates. Effective April 1, 2004 the provincial corporate income tax rate decreased to 11.5 per cent from 12.5 per cent. As a result of this reduction, the Trust's income tax rate applied to temporary differences decreased to approximately 34.5 per cent compared to approximately 35 per cent as at December 31, 2003.

The future income tax recovery of $15.7 million in the second quarter consisted of a recovery of $3.2 million attributed to the reduction in future income tax rates and an $8.2 million recovery due to a net liability for financial commodity and foreign currency contracts of $23.6 million under new hedge accounting standards.

11. SUBSEQUENT EVENT

Subsequent to quarter end, on April 27, 2004, the Trust completed the issuance of US$125 million of long term secured notes ("U.S. Notes") by means of a private placement. The U.S. Notes were issued in two tranches of US$62.5 million each. The first tranche of US$62.5 million has a final life of ten years (average life of 7.5 years) and pays a semi-annual coupon of 4.6 per cent per annum. The second tranche of US$62.5 million has a final life of 12 years (average life of 10 years) and pays a semi-annual coupon of 5.1 per cent per annum. Repayments of the notes will occur in years 2009 through 2016.

Concurrent with the issuance of the notes, the Trust entered into interest rate swap transactions to effectively convert the fixed interest rate on the first tranche into a floating rate. The floating rate applicable to the U.S. $62.5 million U.S. Notes is the U.S. LIBOR rate plus 38.25 basis points.

CORPORATE AND UNITHOLDER INFORMATION

DIRECTORS

Mac H. Van Wielingen (1) (3) (4) (5)
Chairman

Walter DeBoni (1) (3) (4)
Vice-Chairman

John P. Dielwart
President and Chief Executive Officer

John M. Beddome (2) (4)

Frederic C. Coles (2) (3)

Fred J. Dyment (1) (2)

Michael M. Kanovsky (1) (2)

John M. Stewart (3) (4) (5)

(1) **Member of Audit Committee**
(2) **Member of Reserve Audit Committee**
(3) **Member of Human Resources and Compensation Committee**
(4) **Member of Policy and Board Governance Committee**
(5) **Member of Management Advisory Committee**

OFFICERS

John P. Dielwart
President and Chief Executive Officer

Doug J. Bonner
Vice-President, Engineering

David P. Carey
Vice-President, Business Development

Susan D. Healy
Vice-President, Land

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

Myron M. Stadnyk
Vice-President, Operations

Allan R. Twa
Corporate Secretary

Danny G. Geremia
Treasurer

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Calgary, Alberta

Gold™ Champion Level Reporter

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.

CORPORATE CALENDAR

2004	
July 17	Announcement of Q3 Distribution Monthly Amounts
August 5	2004 Q2 Results
October 17	Announcement of Q4 Distribution Monthly Amounts

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Trading Symbols:
AET.UN **(Trust Units)**
ARX **(Exchangeable Shares)**

INVESTOR INFORMATION

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2003 Member of CAPP Stewardship Initiative

Members commit to continuous improvement in the responsible management, development and use of our natural resources; protection of our environment; and, the health and safety of our workers and the general public

NOTES

NOTES

ARC ENERGY TRUST

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