

ARC ENERGY TRUST

1996 INCOME TAX INFORMATION

THE INFORMATION CONTAINED HEREIN IS BASED ON ARC ENERGY TRUST'S UNDERSTANDING OF THE INCOME TAX ACT (CANADA) AND THE REGULATIONS THEREUNDER. UNITHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR PARTICULAR CIRCUMSTANCES.

- ARC Energy Trust ("the Trust") is a legal entity and is subject to Canadian income tax on a similar basis to that of an individual. The Trust has a December 31 year end and each year the Trust must perform an income tax calculation and allocate the taxable income to Unitholders of record on December 31.
- The Trust had income tax deductions in excess of its royalty income received in 1996 allowing the Trust to file a nil tax return with Revenue Canada for 1996. Therefore, both cash distributions declared by the Board of Directors in 1996; the first distribution of \$.36 for the three months ended September 30, 1996 which was paid on October 15, 1996, and the second distribution of \$.45 for the three months ended December 31, 1996 which paid on January 15, 1997; are deemed to be a return of capital to Unitholders (alternatively called a capital distribution) and SHOULD NOT BE CLASSIFIED AS INCOME FOR CANADIAN TAX PURPOSES .
- Since the Trust has no taxable income, no T3 Supplementary Slip will be issued by ARC Energy Trust to Unitholders for 1996.
- In most circumstances both the \$.36 and \$.45 capital distributions will reduce the Unitholder's cost base of their units. The cost base of the unit is required in the calculation of a capital gain or capital loss (assuming the Units are capital property of the Unitholder) upon the disposition of the Trust units. Unitholders should maintain a record of all distributions that are classified as partially or entirely a capital distribution while holding ARC Energy Trust units.
- Due to higher than expected commodity prices the Trust anticipates a portion of 1997 distributions will be taxable.
- For further information please contact Michael (Mick) MacBean or Steven Sinclair at:

ARC Energy Trust
c/o ARC Financial Corporation
Suite 4301, 400 -3rd Avenue S.W.
Calgary, Alberta T2P 4H2
Toll Free in Canada 1-888-292-4900
In Calgary at 292-0680
Facsimile 1-403-292-0693

