



EXPERTISE

+

QUALITY ASSETS

+

COMMITMENT

=

SUPERIOR RETURNS



ENERGY TRUST ANNUAL REPORT 2001

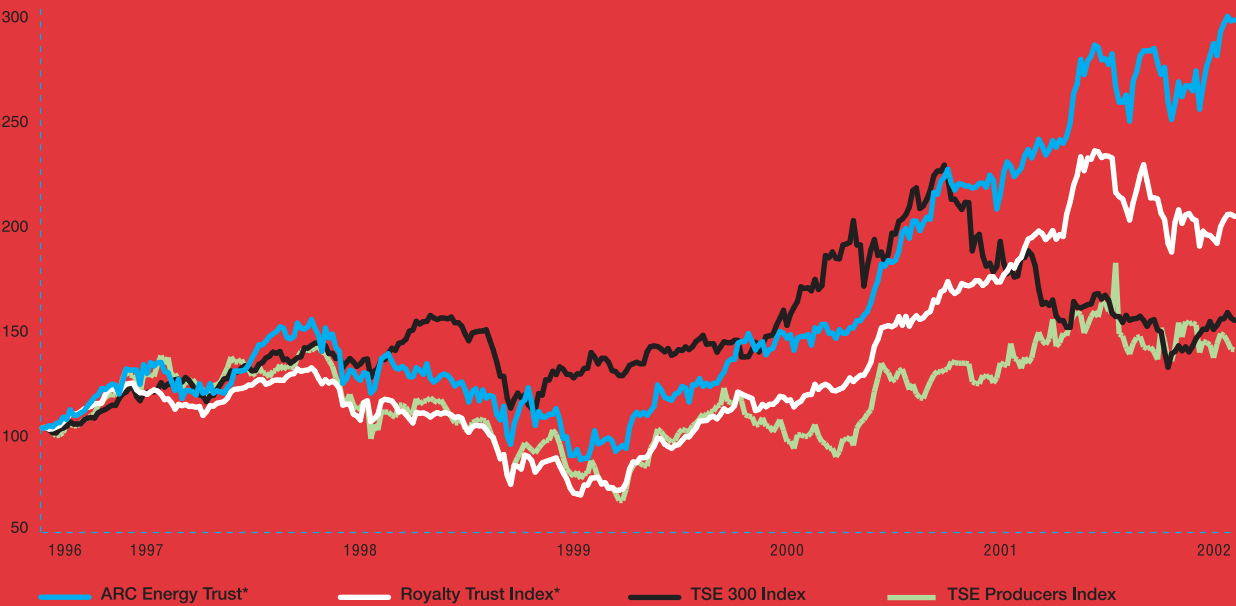
## WHY INVEST IN ARC ENERGY TRUST?

**SINCE INCEPTION IN 1996 OUR STRATEGY HAS BEEN CLEAR AND CONSISTENT: TO UTILIZE OUR UNIQUE MANAGERIAL AND TECHNICAL EXPERTISE TO ACQUIRE AND DEVELOP QUALITY ASSETS IN THE CONTEXT OF AN ABSOLUTE COMMITMENT TO MAXIMIZE VALUE TO UNITHOLDERS.**

THROUGHOUT OUR SIX-YEAR HISTORY, AND THROUGH EVERY PHASE OF THE BUSINESS CYCLE, ARC'S MANAGEMENT TEAM HAS APPLIED ITS EXPERTISE TO CONSISTENTLY DELIVER SUPERIOR RETURNS. DURING 2001, UNITHOLDERS REALIZED A TOTAL RETURN ON INVESTMENT (ROI) OF 28 PER CENT; IN 2000 WE DELIVERED A 55 PER CENT ROI. IN FACT, WE HAVE GENERATED A CUMULATIVE 172 PER CENT ROI OVER THE PAST SIX YEARS. WE HAVE CONSISTENTLY OUTPERFORMED OUR PEERS WITHIN THE ROYALTY TRUST SECTOR AS WELL AS THE TSE'S OIL AND GAS PRODUCERS INDEX.

CAN ARC CONTINUE TO DELIVER THIS KIND OF OUTPERFORMANCE? WE SAY YES. AN INVESTMENT IN ARC IS AN INVESTMENT IN A PORTFOLIO OF PREMIUM, LONG-LIFE ASSETS, ONE OF THE STRONGEST BALANCE SHEETS IN OUR SECTOR AND A MANAGEMENT TEAM WITH A PROVEN HISTORY OF GENERATING SUPERIOR RETURNS TO UNITHOLDERS. THIS STRATEGY HAS BUILT ONE OF CANADA'S LARGEST OIL AND GAS TRUSTS AND IT WILL CONTINUE TO DRIVE OUR PERFORMANCE IN THE FUTURE.

TOTAL RETURN PERFORMANCE  
(per cent)



\*Source: ARC Energy Trust

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*Photo: Drilling in the Drayton Valley area.*

## FINANCIAL HIGHLIGHTS

Years ended December 31

(\$ thousands, except per unit amounts)	2001	2000	% Change
<b>INCOME STATEMENT</b>			
Revenue before royalties	515,458	316,270	63
Per unit	5.05	4.97	2
Cash flow	260,270	179,349	45
Per unit	2.55	2.82	(10)
Net income	140,688	110,872	27
Per unit	1.38	1.74	(21)
Payout ratio (per cent)	90	72	25
Cash distributions	234,053	128,958	81
Per unit <sup>(1)</sup>	2.31	2.01	15
Weighted average units outstanding (thousands)	101,979	63,681	60
<b>UNITS AND UNITS ASSOCIATED WITH EXCHANGEABLE SHARES OUTSTANDING AT YEAR-END</b>			
	111,692	72,524	54
<b>BALANCE SHEET</b>			
Working capital	5,805	6,339	(8)
Property, plant, equipment and other assets	1,311,306	600,813	118
Long-term debt	294,489	115,068	156
Unitholders' equity	818,175	482,255	70
LONG-TERM DEBT AS A RATIO OF CASH FLOW	1.1	0.6	83
MARKET CAPITALIZATION AS AT DECEMBER 31	1,350,950	819,521	65
TOTAL CAPITALIZATION <sup>(2)</sup>	1,639,634	928,250	77
<b>TRUST UNIT TRADING</b> (based on daily closing price)			
Prices (\$)			
High	13.50	12.15	11
Low	10.41	8.45	23
Close	12.10	11.30	7
Average daily volume (thousands)	414	155	167

<sup>(1)</sup> Based on the number of units outstanding at each cash distribution date

<sup>(2)</sup> Equity market capitalization plus net long-term debt

OPERATING HIGHLIGHTS

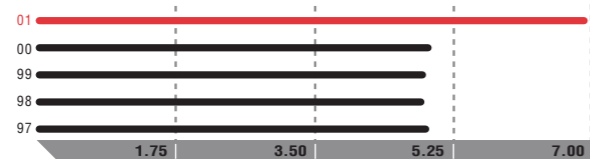
Years ended December 31

	2001	2000	% Change
PRODUCTION			
Crude oil (bbls/d)	20,408	11,528	77
Natural gas (mmcf/d)	115.15	77.17	49
Natural gas liquids (bbls/d)	3,511	2,965	18
Total production (boe/d 6:1)	43,111	27,355	58
TOTAL ANNUAL PRODUCTION (mboe)	15,736	10,011	58
AS A PERCENTAGE OF TOTAL PRODUCTION			
Crude oil	47	42	5
Natural gas	45	47	(2)
Natural gas liquids	8	11	(3)
AVERAGE PRICES			
Crude oil (\$/bbl)	31.70	36.74	(14)
Natural gas (\$/mcf)	5.72	4.48	28
Natural gas liquids (\$/bbl)	31.03	31.52	(2)
Oil equivalent (\$/boe 6:1)	32.76	31.59	4
RESERVES			
PROVED (mboe 6:1)	147,739	108,437	36
PROVED PLUS RISKED PROBABLE			
Crude oil and natural gas liquids (mbbls)	114,243	82,419	39
Natural gas (bcf)	385.5	286.4	35
TOTAL OIL EQUIVALENT (mboe 6:1)	178,496	130,147	37
OPERATING COSTS			
Total (\$ thousands)	86,108	49,268	75
Per boe (\$)	5.47	4.92	11
GENERAL & ADMINISTRATIVE COSTS			
Total (\$ thousands)	11,812	6,956	70
Per boe (\$)	0.75	0.69	9
FINDING, DEVELOPMENT & ACQUISITION COSTS <sup>(1)</sup>			
Per boe (\$)	9.75	5.16	89
Three-year average (\$/boe)	6.94	4.95	40

(1) Established reserves

CONVERSION: Natural gas is converted to barrels of oil equivalent at 6:1 throughout this document unless otherwise noted.

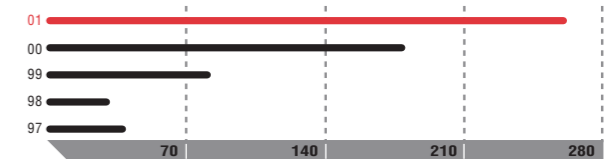
FINDING, DEVELOPMENT AND ACQUISITION COSTS  
(\$/boe three-year average for established reserves)



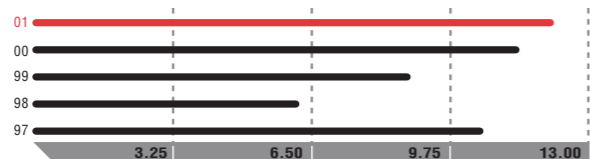
RECYCLE RATIO  
(Current netback/three-year average FD&A for established reserves)



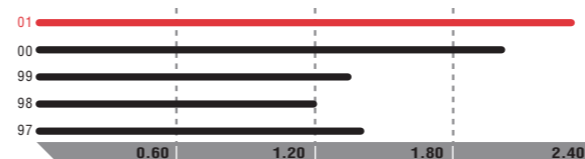
CASH FLOW  
(\$ millions)



UNIT MARKET PRICE  
(\$/unit at December 31)



CASH DISTRIBUTIONS  
(\$/unit)



TOTAL CAPITALIZATION  
(\$ billions)





**AT THE TIME OF OUR INITIAL PUBLIC OFFERING IN 1996, WE IDENTIFIED THREE CRITERIA FOR SUCCESS WHICH WE BELIEVED WOULD GENERATE SUPERIOR UNITHOLDER RETURNS. THESE CRITERIA REMAIN UNCHANGED AS WE MOVE FORWARD. OUR SUPERIOR RESULTS TO DATE CONFIRM OUR SUCCESS IN PURSUING THIS STRATEGY.**

**MANAGEMENT EXPERTISE** Excellence in management in the royalty trust sector requires a unique blend of financial acumen and oil and gas technical expertise. At ARC, we have systematically built a team of individuals who are leaders in these two areas of competency. This team has established a reputation for translating its expertise into measurable results: well-structured acquisitions have turned into value-added opportunities; innovative financial policies have allowed ARC to excel through all phases of the business cycle; and our technical competence has made a strong contribution to our return on investment. The key measurement of ARC’s management expertise is the consistent superior returns which have been delivered to unitholders.

**QUALITY ASSETS** We have established a portfolio of high quality assets through a series of strategic acquisitions. We are disciplined about the quality and characteristics of assets that we acquire. ARC’s ability to identify quality acquisitions is enhanced by our association with ARC Financial Corporation, a leading private equity investor in the Canadian oil and gas industry. Through this relationship, we are uniquely positioned to identify and pursue acquisition opportunities. Once we acquire an asset, our work has just begun. ARC’s technical teams add value by optimizing production and increasing reserves through low risk development activities. The success of their efforts can be seen by the low cost of production and reserve additions since inception.

**COMMITMENT TO STAKEHOLDER INTERESTS** ARC is committed to serving the best interests of all stakeholders including landowners, governments, our communities, and, of course, our unitholders. ARC believes that its decisions must be anchored in serving the interests of its stakeholders. That is the challenge – and mandate – for every employee at ARC. When it comes to our unitholders, generating superior returns is a universal commitment across the company. It drives our dedication to management expertise and our focus on acquiring and developing quality assets. Our decisions are driven by an absolute commitment to maximize distributions and long-term value to our unitholders.



FEATURE:

## management expertise

### **AN INNOVATIVE ACQUISITION - AND A NEW BUSINESS MODEL FOR THE INDUSTRY**

ANY ACQUISITION IS A COMPLEX PROCESS, BUT THE STARTECH ENERGY INC. (STARTECH) ACQUISITION COMPLETED IN JANUARY 2001 REQUIRED A UNIQUELY STRUCTURED SOLUTION THAT ACCESSED MANY ELEMENTS OF ARC'S EXPERTISE. AS A ROYALTY TRUST, WE DO NOT EXPLORE FOR OIL AND GAS; THE RISK IS TOO HIGH. OUR MANDATE IS TO GENERATE A SUPERIOR RETURN ON INVESTMENT SO OUR DEVELOPMENT PROGRAMS ARE LIMITED TO LOW RISK ACTIVITIES THAT HAVE A HIGHER PROBABILITY OF ADDING VALUE. AS AN EXPLORATION AND PRODUCTION COMPANY, STARTECH HAD SIGNIFICANT EXPLORATION PLAYS. THE CHALLENGE WAS HOW TO CREATE A WIN/WIN SCENARIO - FOR ARC AND OUR UNITHOLDERS AND STARTECH AND ITS SHAREHOLDERS.

## A UNIQUE TRANSACTION

IN 2000, WE IDENTIFIED STARTECH AS AN ATTRACTIVE ACQUISITION OPPORTUNITY. THE COMPANY HAD HIGH QUALITY PROPERTIES WITH WELL DEFINED SYNERGIES WITH OUR EXISTING LANDHOLDINGS. HOWEVER, WE WERE UNWILLING TO PURCHASE STARTECH'S HIGHER-RISK EXPLORATION PLAYS WHICH FELL OUTSIDE OF OUR INVESTMENT CRITERIA.



WE APPROACHED STARTECH'S MANAGEMENT WITH A UNIQUE PROPOSITION. ARC WOULD ACQUIRE THE COMPANY, BUT THE ASSETS WOULD BE SPLIT. THE HIGHER-RISK EXPLORATION PLAYS WOULD GO TO A NEW COMPANY TO BE HELD BY STARTECH'S EXISTING SHAREHOLDERS. WE WOULD TAKE CONTROL OF STARTECH'S PRODUCING PROPERTIES, INCLUDING THE RESERVES AND ADJACENT UNDEVELOPED LANDS. THE OFFER WAS PARTICULARLY ATTRACTIVE AS IT CREATED A WIN/WIN SCENARIO FOR ALL PARTIES. STARTECH SHAREHOLDERS WOULD KEEP THE EXPLORATION UPSIDE, WHILE ARC WOULD ACQUIRE A LARGE BASE OF PRODUCTION, RESERVES AND UNDEVELOPED LANDS UNDER ATTRACTIVE TERMS FOR OUR UNITHOLDERS.

*Photo: Susan Healy, Doug Bonner, John Dielwart, David Carey, Steve Sinclair, Myron Stadnyk*

**EXPERTISE THAT SETS NEW STANDARDS**

THE STARTECH ACQUISITION CLOSED IN JANUARY 2001, BUT ONLY AFTER RELYING ON MANY MEMBERS OF THE ARC TEAM AND THEIR THINKING-OUT-OF-THE-BOX EXPERTISE. ARC'S KNOWLEDGE OF THE OIL AND GAS INDUSTRY WAS CRITICAL IN IDENTIFYING STARTECH AS A CLOSE FIT TO OUR EXISTING OPERATIONS AND ASSET BASE.




CONSIDERABLE FINANCIAL ACUMEN WAS NEEDED TO STRUCTURE AND NEGOTIATE SUCH A UNIQUE TRANSACTION – AND TO ENSURE THAT ALL PARTIES WERE FAIRLY COMPENSATED. THE TRANSACTION IS ALSO A SNAPSHOT OF ARC'S WILLINGNESS TO COOPERATE WITH ITS PEERS TO MAXIMIZE VALUE FOR ALL INVESTORS. PERHAPS THE GREATEST ACKNOWLEDGEMENT TO ARC'S EXPERTISE HAS COME FROM THE INDUSTRY ITSELF. THE STRUCTURE OF THE STARTECH ACQUISITION HAS BECOME A BUSINESS MODEL, STUDIED AND COPIED BY OTHER COMPANIES LOOKING FOR AN INNOVATIVE SOLUTION TO A COMPLEX ISSUE.

*Top: Charlene Bagu, Ed Fong, Van Dafoe, Niki Cote  
Bottom: Dan Geremia, Lloyd Martin, Loughheed Gas Plant*

A portrait of John P. Dielwart, a middle-aged man with short brown hair, wearing a white dress shirt and a dark tie. He is seated at a desk, holding a document with the ARC Energy Trust logo on it. The background is a plain, light-colored wall.

*John P. Dielwart  
Director, President  
and Chief Executive Officer*

A portrait of Mac H. Van Wielingen, a middle-aged man with short grey hair, wearing a blue suit jacket, a white shirt, and a patterned tie. He is smiling and looking towards the camera. The background is a plain, light-colored wall.

*Mac H. Van Wielingen  
Director and Vice-Chairman*

“ARC Energy Trust (our top pick in 2001) continues to top this list as a very well run company, with the best expected 2001 recycle ratio (over two times) and the highest percentage of 2002 oil and gas hedged of the large cap trusts.”

STEVE LARKE, ANALYST, TD NEWCREST, JANUARY 2002

## MESSAGE TO UNITHOLDERS

ONCE AGAIN, WE HAVE

excellent

RESULTS FOR 2001, OUR SIXTH YEAR OF OPERATION, PARTICULARLY IN

DELIVERING superior returns TO OUR UNITHOLDERS.

Total cash distributions increased 81 per cent to \$234 million. On a per unit basis, cash distributions increased 15 per cent to \$2.31, the highest in our history. Cumulative distributions to December 31, 2001 totalled \$9.08, which represents 91 per cent of our initial public offering price of \$10.00 per unit.

Behind these superior returns were activities to position ARC for further strong performance. Through the Startech acquisition in January and a Trust unit offering in November, we increased the units outstanding by about 50 per cent to 111.7 million. Funds from the November equity offering were used to reduce debt and to establish a source of capital for future development expenditures. The benefits of the Startech acquisition are evident in the Trust's significant operational growth. Overall production increased 58 per cent during the year and total oil equivalent reserves were up 37 per cent. There is more to come. We believe the assets acquired will provide significant additional reserve additions in 2002 and beyond.

**OPPORTUNITIES IN THE NEW INDUSTRY ENVIRONMENT**

The past year saw many changes within the oil and gas industry. The beginning of the year saw high commodity prices and aggressive spending on mergers and acquisitions by the energy sector followed by a transition to lower commodity prices and a reduction in capital expenditures. As a result, a number of interesting events and trends have emerged that will affect the industry going forward.

We have witnessed dramatic consolidation in the industry, with a significant reduction in the number of active companies, particularly the so-called “intermediates” and “seniors” which are loosely categorized as those companies producing 25,000 to 100,000 barrels of oil equivalent per day. The companies sold in 2001 have been acquired by many organizations, a number of them US-based companies with global assets.

The consolidation of so many Canadian operating companies has produced a new wave of asset sales as companies are evaluating recently acquired assets and are rationalizing their property portfolios. We believe this will lead to significant new acquisition opportunities for ARC. With such opportunities in sight, there is growing investor interest in the royalty trust sector. We see another factor behind this trend of increasing favour of royalty trusts – the benefits to investors from the trust structure. ARC’s 28 per cent total return on investment for 2001 is superior to many alternative investment vehicles. In fact, based on the Trust’s formula for success – superior financial and operating expertise; acquiring high quality assets; applying technical expertise to maximize production and cash flow – the result has been superior rates of return since inception in 1996.

At this point in time, the level and stability of returns provided by ARC is proving to be attractive to existing and new unitholders alike. Looking forward, however, the test is not what we have done, but what we will do. We want to share with you our plans for continuing this superior performance.

#### **TURN STRATEGIC ANALYSIS INTO ACTION**

Commodity price volatility is an enduring industry condition. At inception, ARC resolved to provide superior long-term returns to investors and ARC management also identified the need to stabilize distributions and enhance the ability to capture opportunities throughout all phases of the business cycle. It was for this reason that we have always withheld a portion of our cash flow for reinvestment in our business. In 2000, we revised our distribution policy to withhold up to 20 per cent of cash flow for reinvestment. This allows us to maintain more stable distributions during all phases of the commodity price cycle, facilitate opportunistic and accretive acquisitions and maintain a strong balance sheet.

Commodity price volatility will continue and it appears that cycles will be shorter with higher peaks and lower valleys. Managing effectively in this environment requires an in-depth understanding of both commodity and financial markets and a proven analytical and decision making capability.

#### **BUILD A TEAM OF EXCELLENT PEOPLE**

Put simply, we apply ARC's expertise to transform quality assets into value for our unitholders. We have developed a highly effective team of geologists, geophysicists, engineers, landmen, accountants and business experts to identify and evaluate opportunities and optimize every property we operate. We believe good people make good decisions, so we set out to hire and retain the best people in our business. Our ability to tap into the advice and expertise at ARC Financial Corporation lends depth and insight to our financial decision-making. Since 1994, ARC Financial Group, which encompasses ARC Resources Management Ltd., the manager of the Trust, and ARC Financial Corporation, has been cited as one of Canada's 50 Best Managed Private Companies based on an annual comprehensive survey led by Arthur Andersen LLP and sponsored by CIBC World Markets, Queen's School of Business and the National Post.



#### **ACQUISITIONS MUST MEET THE TEST**

To maximize unitholder value, we look for high quality producing properties with upside reserve potential. Ideal characteristics include high netbacks, extensive production histories to reduce technical risk and low decline rates which translates into more stable distributions. To further reduce risk, we have assembled a diverse portfolio of assets to ensure that no one property accounts for a significant portion of reserves or value.

The key criteria for ongoing success is low finding, development and acquisition costs for high netback properties which translates into a high recycle ratio. Since inception, our FD&A costs have been among the lowest in the industry and our recycle ratio among the highest. Our 2001 FD&A costs of \$9.75 were high relative to our exceptionally low inception to date costs of \$6.32/boe. Our acquisition criteria have not changed, the increased FD&A costs reflect the relatively higher commodity price

environment which is expected to prevail in the future. The costs in 2001 also reflect a higher component of capital expenditures directed to converting reserves from undeveloped to producing. Given the variability which can exist in annual FD&A costs, three-year rolling average costs are considered more representative of our ongoing cost structure. At \$6.94/boe, our three-year average FD&A costs remain among the lowest in the industry while our recycle ratio remains among the highest.

The Startech acquisition in 2001 has been our most significant transaction to date. This acquisition provided ARC with complementary oil and gas assets, as well as a significant entry into several new core areas. More importantly, this transaction was completed early in the cycle of corporate acquisitions before the market became expensive later in the year. Rather than participate in the overheated acquisition market during the balance of 2001, ARC focused on the acquisition and consolidation of smaller interests in existing assets, integrating the Startech assets and identifying development opportunities on existing lands to maximize long-term value.

Looking forward, we believe the opportunity for new acquisitions has never been brighter. The consolidation of our industry during 2000 and 2001 was, in many cases, driven by the desire to expand natural gas asset portfolios. Today, many of these companies are left with a material component of assets that are not core to their longer-term strategy and some are dealing with weak balance sheets in the lower end of the commodity price cycle. This should result in major near-term property dispositions, particularly of oil assets. While we strive for a relatively balanced commodity exposure, we have a technical bias to crude oil assets, as the reserves tend to demonstrate a longer reserve life and long-term reserve upside. Therefore, we expect significant opportunities to develop to acquire attractive assets in this new wave of rationalization activity.

**“We view the \$500 million acquisition of Startech Energy  
by ARC Energy Trust in January as perhaps the  
smartest corporate transaction completed within the  
Royalty Trust sector in 2001.”**

BRIAN ECTOR, ANALYST, SCOTIA CAPITAL EQUITY RESEARCH, SEPTEMBER 2001



### **OPTIMIZE ASSETS TO MAXIMIZE ECONOMIC RETURNS**

It is not enough to acquire the best possible asset for the best possible price; that is just the beginning. Once a property has been integrated into our portfolio, our team focuses on optimizing its value on a continual basis. While the tools we use are unique to each property or process, our methodology is always the same. We identify the challenge or opportunity, we assemble a team of experts to determine the most economic solution and then we implement that solution as cost effectively and efficiently as possible.

Part of our optimization strategy involves vigilant cost control. In evaluating acquisition opportunities, we assess operating costs. We look for synergistic opportunities as our large operating base creates economies of scale to enhance cost control and improve netbacks. Typically, as a property matures and its remaining reserve life declines, operating costs on a per unit of production basis escalate. Our minor property disposition program works to identify properties with high costs and limited upside and targets these for disposition. In fact, every asset in our portfolio is reviewed annually to determine its continuing fit in our asset portfolio. As properties decline in value, they become candidates for disposition.

Our management team works to reduce commodity price risk by maintaining a portfolio of sales contracts with diverse counterparties and different terms of varying duration. Depending on the relative strength or weakness of commodity prices, we seek to protect prices on up to 50 per cent of our production. Our objective is to manage risk and ensure a more stable, predictable stream of revenue.

### **EVALUATE ALL DECISIONS BASED ON DELIVERING UNITHOLDER VALUE**

Our objective is as clear today as it was on July 11, 1996 when ARC was established: we are resolved to be the top performing, highest return conventional oil and gas royalty trust in Canada. To achieve that goal, we recognize the need for deliberate and disciplined decision-making at all levels of the organization. We attempt to make every decision add value over the long term, from hiring new staff to evaluating acquisition opportunities.

*Photo: Jan Young, Jay Billesberger, Lou Barron*

We recognize the true measure of our success is long-term, consistent, superior returns to unitholders. As a result of our corporate-wide focus on this commitment, ARC has delivered superior performance in every year since our inception. We have recorded six consecutive years of strong results consistently outperforming our peers in the royalty trust sector, the TSE's Oil and Gas Producers Index and the TSE 300 Index. Throughout every phase of the commodity price cycle, ARC has thrived, providing unitholders with returns averaging 15 per cent per year for those unitholders receiving cash distributions and returns exceeding 20 per cent per year for investors enrolled in the Distribution Reinvestment Plan.

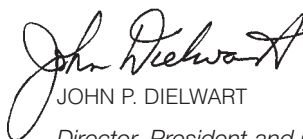
As one of Canada's top performing royalty trusts, our resolve to deliver value to unitholders is as strong today as it was at our inception. Our industry has changed considerably over the past six years, but our goal has not. It has been proven in our results over the past six years and how ARC applies its expertise – in the success of our distribution policy, the quality of our acquisitions and in our ability to consistently transform potential into value. We remain absolutely committed to continuing our superior performance.

Respectfully submitted on behalf of the Board of Directors,



MAC H. VAN WIELINGEN

*Director and Vice-Chairman*



JOHN P. DIELWART

*Director, President and Chief Executive Officer*

February 25, 2002

**“ARC appears to have been anointed as the – ‘new market darling’ ... a title ARC worked hard to earn. For investors looking for a –“safe trust” – in a difficult environment, ARC is a great choice.”**

**DIRK LEVER, ANALYST, NATIONAL BANK FINANCIAL, DECEMBER 2001**



FEATURE:

## quality assets

### **ANTE CREEK, A NEW PROPERTY – BUT HOW BEST TO TAP THE UNDEFINED POTENTIAL?**

IN MARCH 2000, ARC ACQUIRED AN INTEREST IN THE PARTIALLY DEVELOPED ANTE CREEK PROPERTY WHICH PRESENTED UNIQUE CHALLENGES COMPARED TO MOST OF THE TRUST'S OTHER ASSETS. THE FIELD IS RELATIVELY IMMATURE, PROVIDING MANY DEVELOPMENT POSSIBILITIES. THE OPPORTUNITY LAY IN THE DEVELOPMENT AND EXECUTION OF A PLAN TO CAPTURE THE FULL UPSIDE POTENTIAL OF THIS ASSET.

**A CLOSE-UP ANALYSIS**

SUBSEQUENT TO ACQUIRING THE PROPERTY, ARC COMPLETED A DETAILED TECHNICAL REVIEW. SEVEN MONTHS AFTER GAINING OPERATORSHIP, ARC COMMENCED DRILLING THE FIRST OF SEVEN DEVELOPMENT WELLS. EACH WELL WAS SUCCESSFUL AND, MORE IMPORTANTLY, THE RESULTS CONFIRMED ARC'S EXPECTATIONS, WHICH LED TO PLANS FOR ADDITIONAL PHASES OF DEVELOPMENT.



WITH NEW INFORMATION GAINED FROM THE SUCCESS OF THE INITIAL DRILLING PROGRAM, WORK CONTINUED ON REFINING THE MAPPING OF THE RESERVOIR.

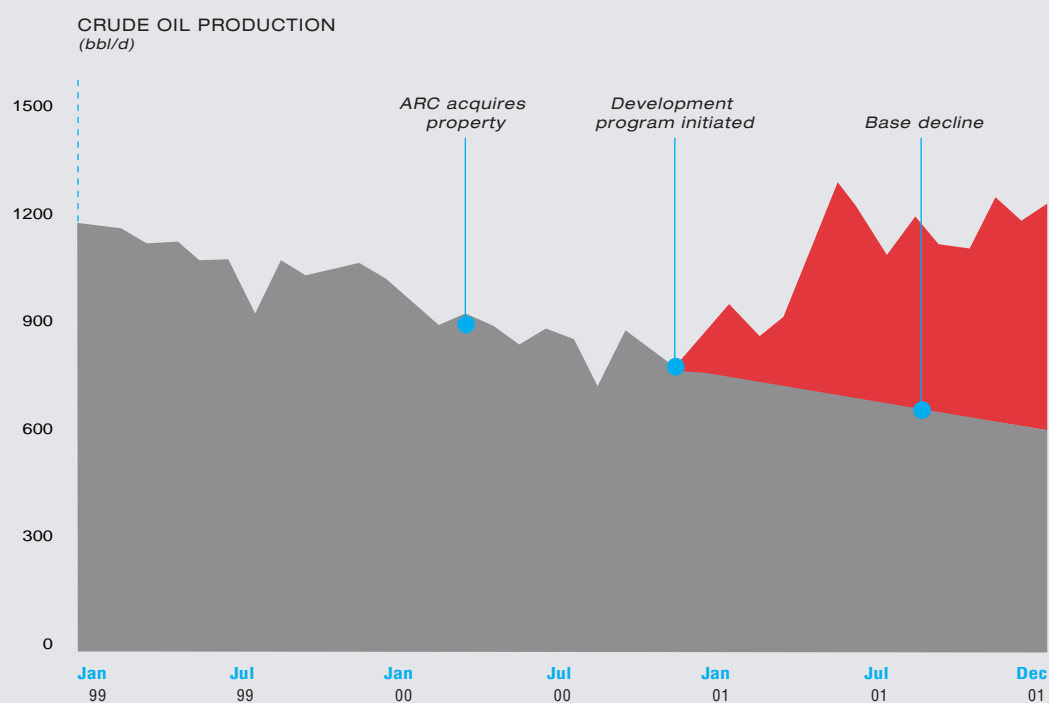
WHILE THE TECHNICAL TEAM WAS ASSESSING THE AREA'S ULTIMATE POTENTIAL, THE PROPERTY'S PRODUCTION INCREASED AS A RESULT OF THE RECENTLY DRILLED WELLS. HIGHER GAS PRODUCTION RESULTED FROM THE EASING OF FACILITY CONSTRAINTS THROUGH ADDITIONAL COMPRESSION.

*Group: Scott Reynolds, Bruce Hall, Brad Wilson*

*Inset: Diana Meads*

## THE DEVELOPMENT PLAN

THE TEAM DESIGNED AND EXECUTED A SUCCESSFUL SECOND PHASE OF DEVELOPMENT WHICH INCLUDED AN ADDITIONAL SEVEN WELLS. DRILLING AT ANTE CREEK IS CONTINUING TO DELINEATE THE MONTNEY RESERVOIR. IN ADDITION, A PILOT WATERFLOOD IS PLANNED WHICH IS ANTICIPATED TO IMPROVE ULTIMATE RECOVERY FROM THE POOL AND MATERIALLY INCREASE REMAINING RESERVES.



THE DEVELOPMENT PLAN IS IN PLACE, BUT IT IS ALWAYS BEING REFINED AS NEW RESERVOIR INFORMATION BECOMES AVAILABLE AND NEW TECHNOLOGY AND TECHNIQUES PROVE TO BE THE BEST SOLUTION FOR UNLOCKING THE RESERVE POTENTIAL.



*Top: Deanna Kalenchuk, Wayne Lentz, Cory Stewart*

*Middle: Jocelyn Ford, Lorna Nelson*

*Bottom: Loughheed Gas Plant, Laura Lockhart*

## OPERATIONS REVIEW

**DURING 2001, ARC CONTINUED WITH ONE OF THE MOST ACTIVE DEVELOPMENT AND EXPLOITATION PROGRAMS IN THE ROYALTY TRUST SECTOR. AS PART OF THIS THRUST TO ADD VALUE THROUGH INTERNAL TECHNICAL EXPERTISE, KEY PEOPLE WERE ADDED IN SUCH AREAS AS GEOLOGY, GEOPHYSICS, FACILITIES DESIGN AND ENVIRONMENTAL CONTROL.**

In 2001, ARC replaced 407 per cent of production at a net effective cost of \$9.75/boe. Since inception, ARC's aggregate finding, development and acquisition cost has averaged \$6.32/boe. The Startech acquisition in January 2001 significantly increased ARC's production volumes and expanded the opportunity base in existing areas of operation and in new areas that ARC had targeted for development.

Production volumes for 2001 increased 58 per cent to 43,111 boe/d. Natural gas volumes grew 49 per cent to 115 mmcf/d; oil production increased 77 per cent to 20,408 bbl/d while production of natural gas liquids grew 18 per cent to 3,511 bbl/d.

Total capital expenditures for 2001 rose significantly to \$102 million from \$54 million in 2000. The major focus of expenditures was continued development on ARC's assets along with the pursuit of new opportunities on the Startech properties once they were assimilated and technically reviewed.

### **COST CONTROL**

As always, cost control was a primary focus of operations during 2001. Rigorous attention was paid to tracking, reviewing and reducing operating expenses wherever possible which resulted in operating costs of \$5.47/boe. Although operating costs were up 11 per cent for the year, the increase was due almost exclusively to increased power costs. All other costs were held firm or declined for the year.

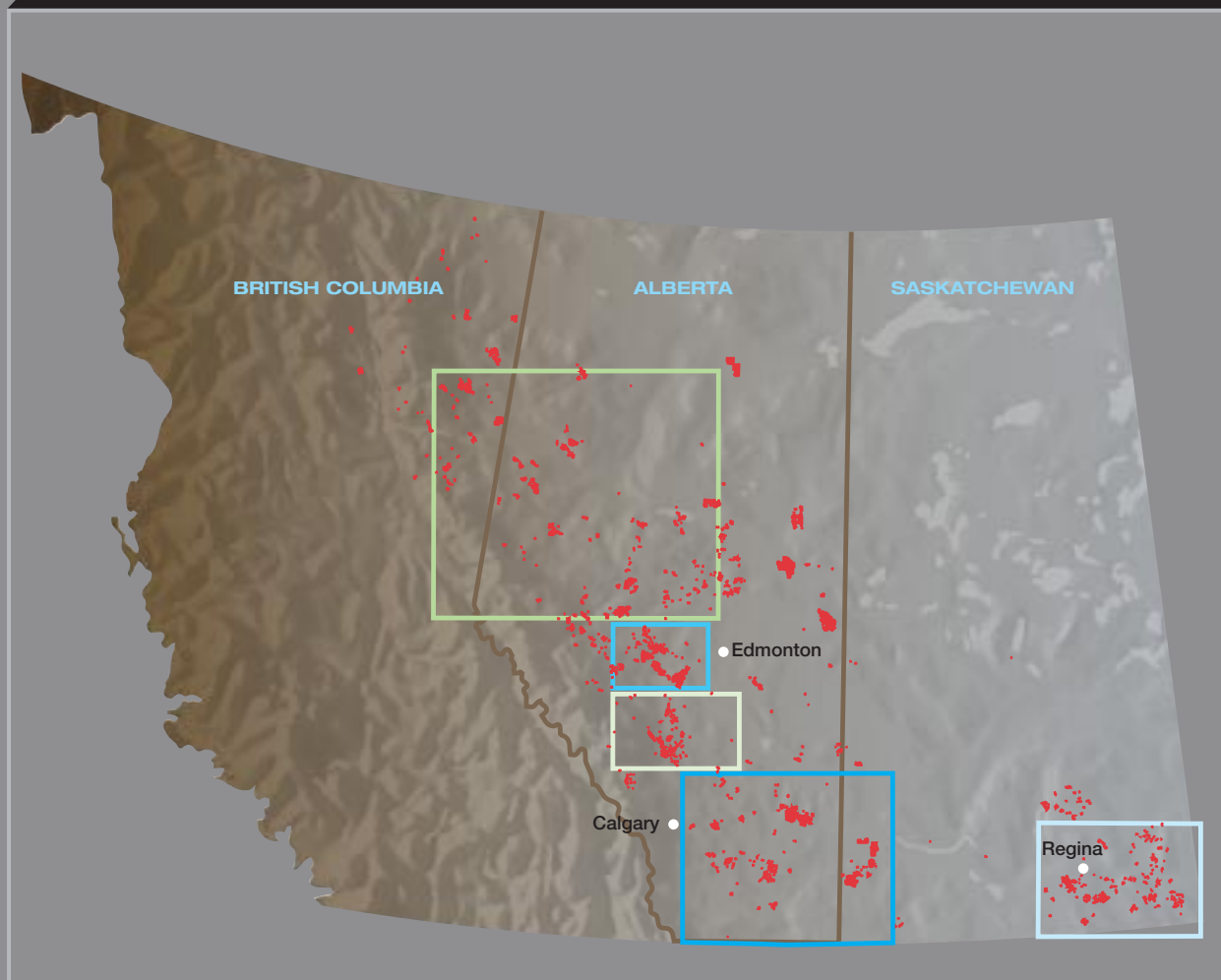
## DEVELOPMENT PROGRAM - ARC OPERATED PROPERTIES

ARC successfully drilled 115 operated wells in 2001 with an equal focus on oil and gas production. The main areas for drilling were Ante Creek with 15 oil wells and southeast Alberta with 60 shallow gas and 10 oil wells. Another active area was southeast Saskatchewan where 16 oil wells were drilled and increased utilization of horizontal drilling technology led to increases in production and reserves. Drilling programs also continued at Pembina and at Sundre in Central Alberta, while waterflood optimization took place in several ARC-operated areas.

	Established Reserves	Total Reserves	2001 Average Production	Total Production	Netback	Lifting Costs
	(mboe)	(%)	(boe/d)	(%)	(\$/boe)	(\$/boe)
<b>Northern Alberta &amp; BC</b>	<b>48,072</b>	<b>27</b>	<b>10,106</b>	<b>23</b>	<b>22.13</b>	<b>4.82</b>
Ante Creek	14,190	8	1,927	5	22.85	2.73
Dunvegan Gas Unit No. 1	4,565	3	643	2	20.51	2.09
House Mountain Unit No. 1	2,470	1	430	1	26.21	5.97
<b>Pembina</b>	<b>29,875</b>	<b>17</b>	<b>8,696</b>	<b>20</b>	<b>19.93</b>	<b>6.82</b>
MIPA	12,682	7	1,758	4	22.16	11.33
Berrymoor Cardium Unit	5,585	3	659	2	24.03	7.32
Lindale Cardium Unit	3,102	2	581	1	24.18	8.14
<b>Central Alberta</b>	<b>27,609</b>	<b>16</b>	<b>7,122</b>	<b>17</b>	<b>19.45</b>	<b>5.82</b>
Sundre	7,186	4	1,278	3	16.30	8.90
East Garrington	3,414	2	877	2	21.59	3.72
Caroline Swan Hills Unit No. 1	3,200	2	1,445	3	19.42	3.22
Caroline Cardium E Pool Unit	2,248	1	657	2	19.53	7.82
<b>Southeast Alberta &amp;</b>						
<b>Southwest Saskatchewan</b>	<b>28,672</b>	<b>16</b>	<b>7,950</b>	<b>18</b>	<b>20.50</b>	<b>4.80</b>
Jenner	12,703	7	2,584	6	21.49	6.21
Brooks	6,751	4	2,350	6	23.01	2.89
<b>Southeast Saskatchewan</b>	<b>44,267</b>	<b>25</b>	<b>9,237</b>	<b>21</b>	<b>17.71</b>	<b>4.80</b>
Lougheed	10,492	6	3,111	7	17.54	2.90
Weyburn Unit	9,931	6	1,448	3	19.36	3.64
Midale Unit	6,654	4	985	2	22.21	1.49
<b>Total</b>	<b>178,496</b>		<b>43,111</b>		<b>20.15</b>	<b>5.47</b>

ARC's established reserve life index is 11.5 years.

## MAJOR PROPERTIES



QUALITY ASSETS ARE THE BACKBONE OF ARC'S SUCCESS. PRIOR TO ACQUISITION, PROPERTIES MUST MEET SPECIFIC CHARACTERISTICS TO ENSURE A STRONG FIT WITHIN THE TRUST'S ASSET PORTFOLIO. ONCE ACQUIRED, ARC'S TECHNICAL TEAMS BEGIN WORK ON ASSIMILATION OF A PROPERTY – APPLYING TECHNICAL EXPERTISE TO IMPROVE PRODUCTION, INCREASE RESERVES THROUGH LOW RISK DEVELOPMENT ACTIVITIES AND REDUCE COSTS. THE RESULT IS A GROUP OF STRONG FOCUS AREAS CHARACTERIZED BY STABLE PRODUCTION, A PORTFOLIO OF LONG-LIFE RESERVES BALANCED BETWEEN OIL AND GAS WITH LOW OPERATING COSTS AND HIGH NETBACKS.

**Northern Alberta & B.C.**  
Ante Creek  
Dunvegan  
House Mountain

**Pembina**  
Berrymoor  
Lindale  
MIPA

**Central Alberta**  
Caroline  
East Garrington  
Sundre

**Southeast Alberta & Southwest Saskatchewan**  
Brooks  
Jenner

**Southeast Saskatchewan**  
Lougheed  
Midale  
Weyburn

## **NORTHERN ALBERTA & B.C.**

NORTHERN ALBERTA AND B.C. IS ARC'S LARGEST FOCUS AREA AND IS LOCATED IN ONE OF THE MOST ACTIVE OIL AND GAS AREAS IN CANADA. THE AREA BECAME A MAJOR GROWTH CENTER IN 2000 WITH THE ACQUISITION OF PRODUCING ASSETS AT SWAN HILLS AND ANTE CREEK. THE AREA IS A PRIME TRUST ASSET DUE TO THE RELATIVELY LOW-RISK DRILLING TARGETS, LOW OPERATING COSTS, HIGH NETBACKS AND A DIVERSE BASE OF OPERATED AND NON-OPERATED ASSETS. THE PLAYS DEVELOPED BY THE ARC TECHNICAL TEAM ALSO BENEFIT FROM THE STRENGTHS AND SYNERGIES OF THE TRUST'S PARTNERS IN NON-OPERATED PROPERTIES.

### **CORE PROPERTIES**

#### **ANTE CREEK**

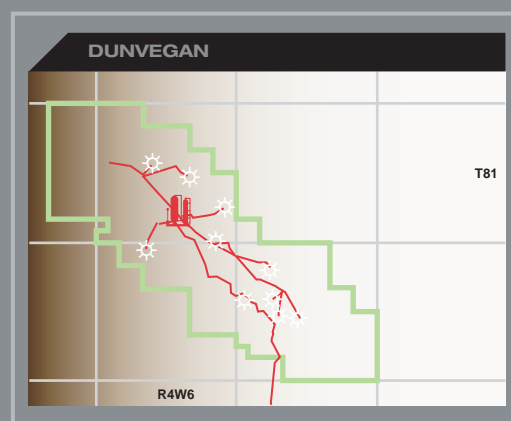
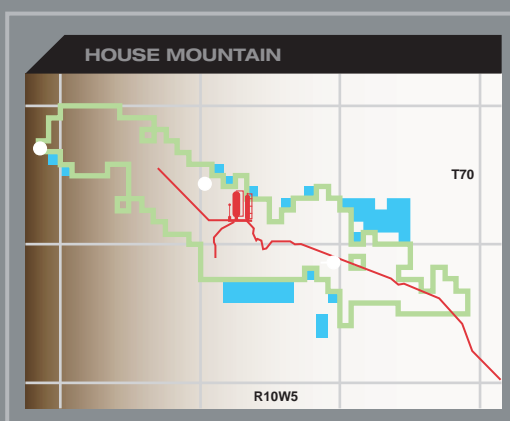
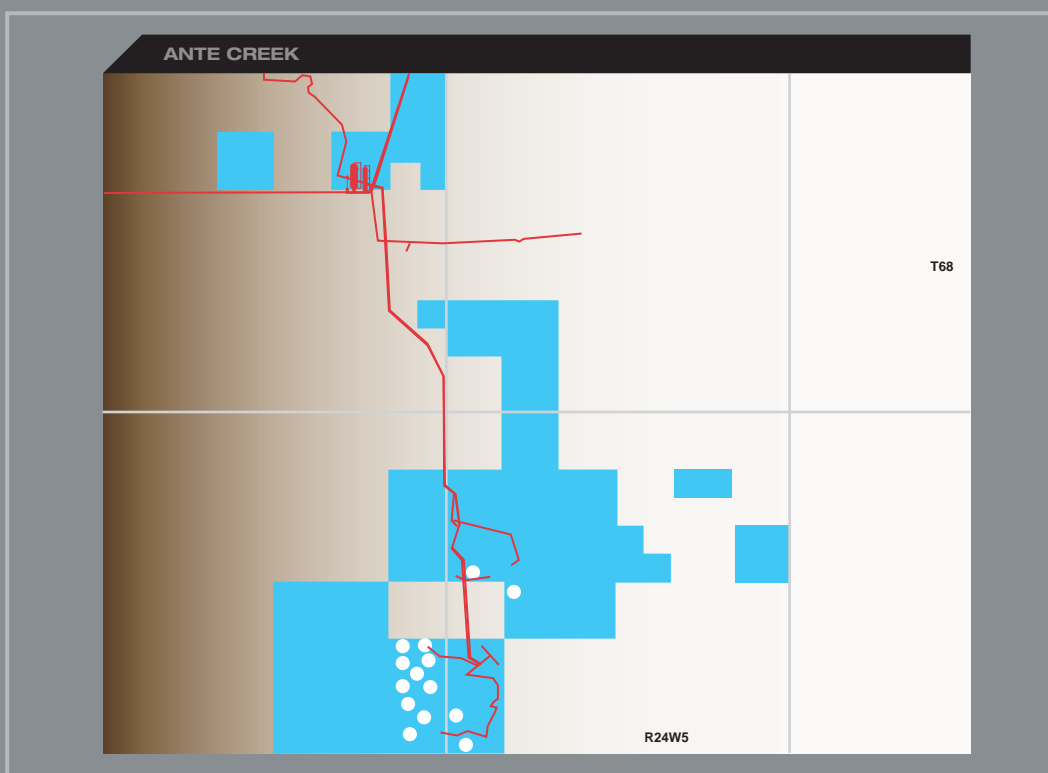
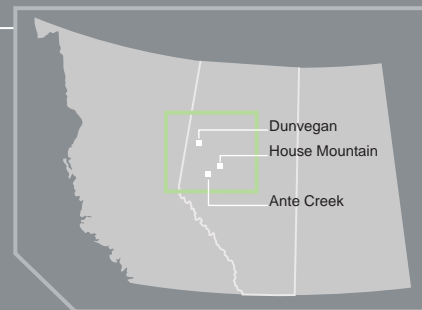
ARC owns an average working interest of 92 per cent in 19,360 gross acres in the partially developed Ante Creek Montney A pool, which produces sweet light crude oil. In 2001, ARC recorded 100 per cent drilling success in a three-phase development program that saw 15 wells drilled. Seven oil wells were drilled and tied-in early in 2001, followed by a second seven-well phase at mid-year. The first of six wells planned for the third phase of the program was drilled in late 2001 and the program continued in 2002. Future development will also include production of a well defined gas cap.

#### **DUNVEGAN GAS UNIT NO. 1**

Through the Startech acquisition in 2001, ARC increased its working interest in this natural gas unit to 5.1 per cent. The Dunvegan field was discovered in the early 1970s, and remains a hub of development activity. A total of 18 development wells and recompletions were undertaken in 2001, resulting in net production of 643 boe/d to ARC. Development drilling is expected to continue in 2002.

#### **HOUSE MOUNTAIN UNIT NO. 1**

ARC owns a 9.2 per cent working interest in this light crude oil unit in the Beaverhill Lake formation operated by Apache Canada Ltd. ARC's share of net production was 430 boe/d in 2001 following a program of horizontal re-entry drilling and waterflood optimization. Development activities are continuing in 2002 and will include further horizontal re-entry drilling, well re-activations, fracture stimulations and further waterflood optimization.



ARC non-unit lands

Unit outline

ARC production facility

2001 oil wells

2001 gas wells

## PEMBINA

PEMBINA WAS ARC'S FIRST FOCUS AREA AND IT CONTINUES TO POSSESS THE CHARACTERISTICS OF A STRONG TRUST ASSET — A MATURE PRODUCTION BASE OF HIGH QUALITY SWEET OIL AND AN ECONOMIC RESERVE LIFE IN EXCESS OF 50 YEARS. MOST OF THE PROPERTIES ARE UNDER WATERFLOOD, WHICH CONTRIBUTES TO HIGH ULTIMATE RESERVE RECOVERY, STABLE PRODUCTION RATES AND SHALLOW PRODUCTION DECLINES.

### CORE PROPERTIES

#### MIPA

Through a series of acquisitions, ARC now holds close to a 100 per cent working interest in the MIPA producing properties. Development activity during the year focused on maintaining production through a well optimization program, improving water injection support and reducing operating expenses. These efforts will continue in 2002 along with further detailed engineering and geological work to identify drilling and recompletion opportunities. Net production to ARC is 1,758 boe/d.

#### BERRYMOOR CARDIUM UNIT

ARC owns a 41.3 per cent working interest in the Berrymoor Cardium Unit which is operated by Imperial Oil. The unit produces high quality 40° API crude oil from the Cardium formation and is under waterflood. ARC's net production from the unit is 659 boe/d. Annual oil well and injection well workover/stimulation programs are scheduled to maintain production and injection rates.

#### LINDALE CARDIUM UNIT

With its 53.8 per cent working interest, ARC operates the Lindale Cardium Unit. The property includes 84 producing Cardium oil wells on 13,760 gross acres which are under waterflood. In 2001, five successful wells were drilled, eight existing wells were refractured and two wells were converted to water injection wells. In addition, solution gas compression was added to lower the gathering system pressure and increase production. Development plans for 2002 include identification of further drilling and stimulation opportunities and expansion of the waterflood to support increased production. This area contributes 581 boe/d of production to ARC.

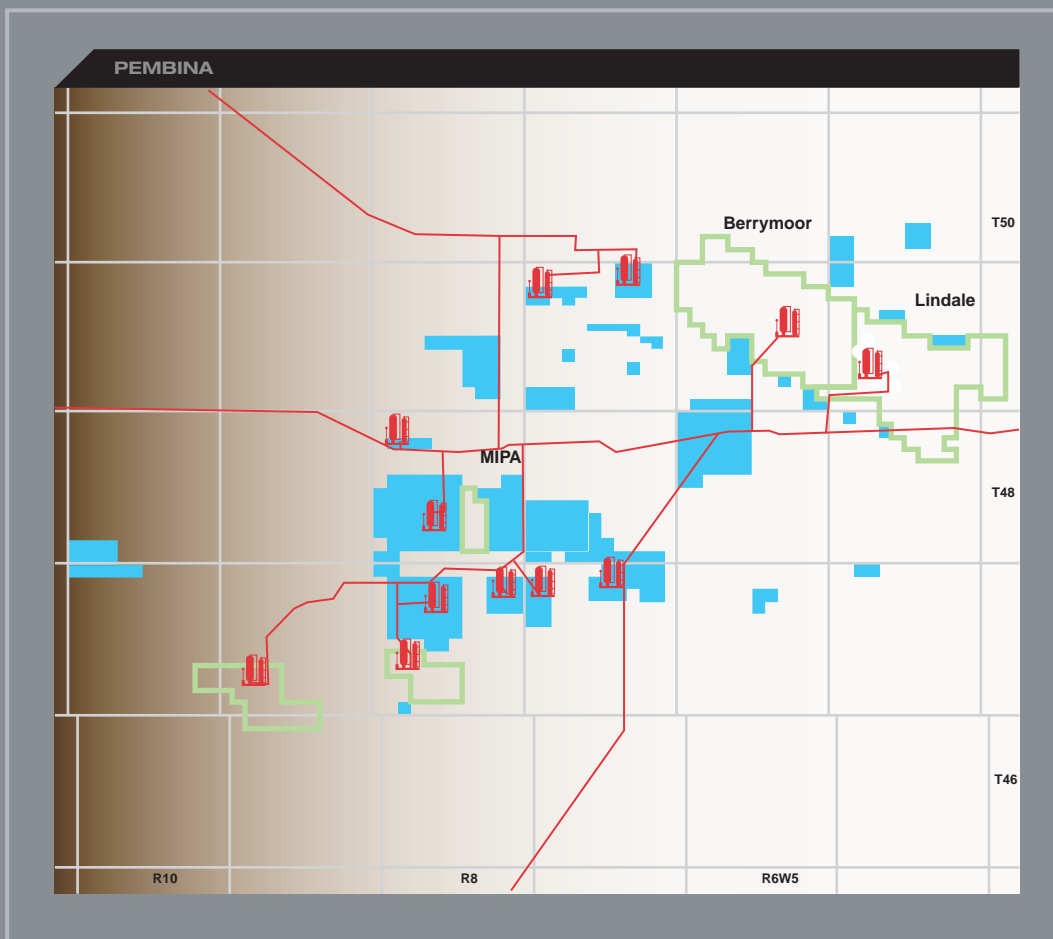





Photo: Pembina, Bill Turko, Pembina Drilling, Jason Kaluski

 ARC non-unit lands

 Unit outline

 ARC production facility

 2001 oil wells

## CENTRAL ALBERTA

CENTRAL ALBERTA IS COMPRISED OF SEVERAL ADJACENT FIELDS PRODUCING FROM A VARIETY OF GEOLOGICAL HORIZONS CONTAINING A STRONG INVENTORY OF DEVELOPMENT PROSPECTS. ARC'S CENTRAL ALBERTA ASSETS CONTINUE TO PERFORM WELL AND PROVIDE A STEADY BASE OF BOTH OIL AND GAS PRODUCTION FOR THE TRUST.

### CORE PROPERTIES

#### SUNDRE ELKTON UNITS

The Sundre Rundle B Unit and Sundre Unit No.1 are both operated by ARC with an average working interest of 75 per cent. These units produce oil from the Elkton formation, have been under waterflood since the 1960s and contribute net production of 1,278 boe/d to the Trust.

During 2001, a 3-D seismic program was completed and interpreted, which has led to a revised geological interpretation and allowed further optimization of the waterfloods. Production was enhanced through stimulations, pump upgrades and well workovers. In addition, the first horizontal re-entry well drilled in eight years was brought on production and was stabilized at a rate of 80 boe/d.

#### EAST GARRINGTON

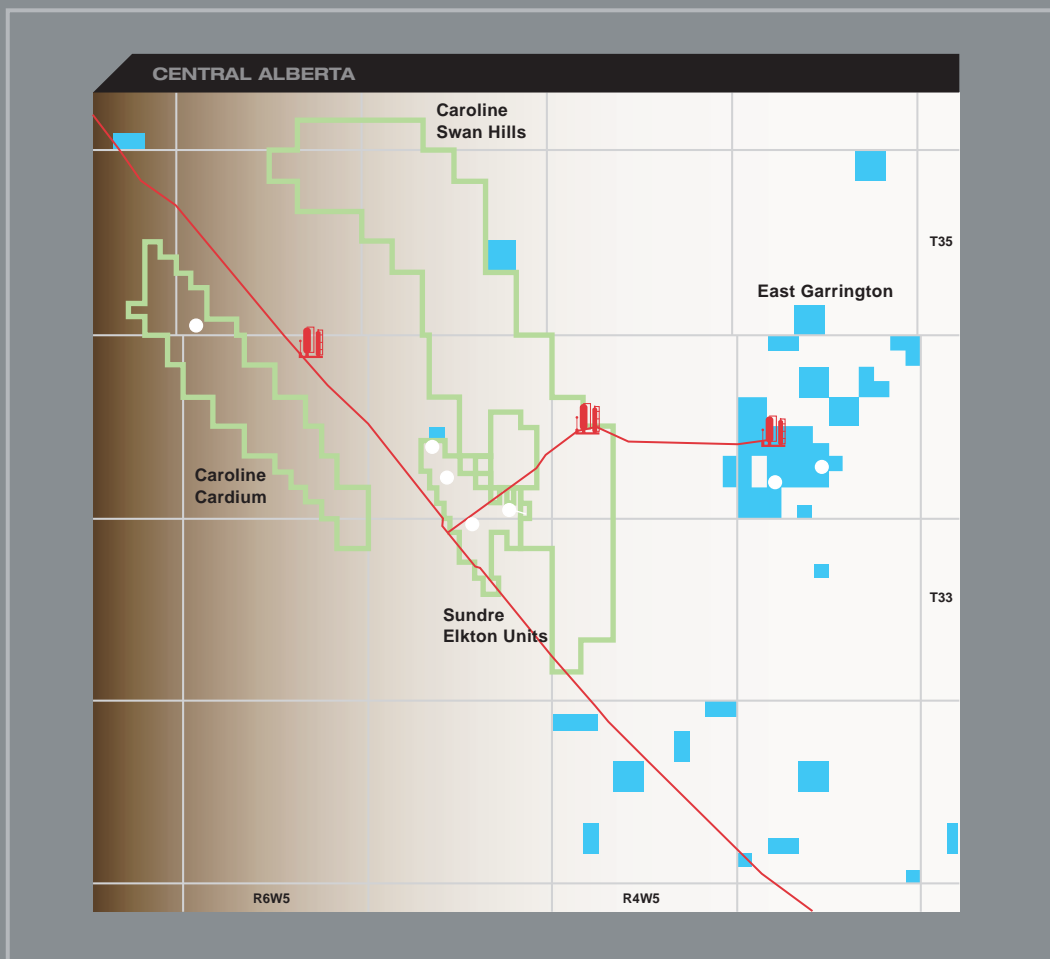
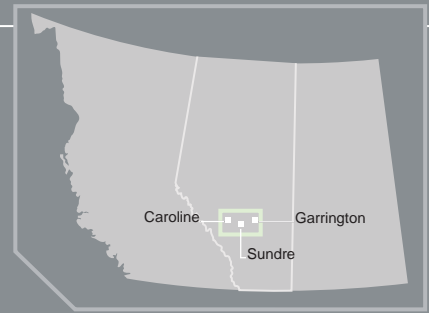
East Garrington produces sweet, liquids-rich gas and sweet light crude oil from the Mannville and Cardium formations. ARC operates production in the area, with an average working interest of 90 per cent. Net production volume to ARC is 877 boe/d.

#### CAROLINE SWAN HILLS BEAVERHILL LAKE UNIT NO. 1

Shell Canada Ltd. operates this major natural gas unit. ARC's working interest of 2.2 per cent contributes 1,445 boe/d net to ARC. Gas production was maintained in 2001 and the gas plant was kept at capacity through facility modifications and the completion and tie-in of a prolific natural gas well that was drilled in late 2000. Gas production should be maintained through 2002, as plans call for the drilling of one additional well in the unit.

#### CAROLINE CARDIUM E POOL SOUTH UNIT

This property is operated by ARC and produces light sweet crude oil with associated gas and liquids. ARC has over a 94 per cent working interest and net production amounts to 657 boe/d. A fracture stimulation program has increased net production to its highest level since 1997.



Photos: John McMullen, Sundre Battery, Doris Ivers, Jan Thue

ARC non-unit lands

Unit outline

ARC production facility

2001 oil wells

## **SOUTHEAST ALBERTA & SOUTHWEST SASKATCHEWAN**

DEVELOPMENT IN THIS FOCUS AREA BEGAN IN 1999 WITH THE ACQUISITION OF THE JENNER SHALLOW GAS ASSETS, WHICH ARE IDEAL FOR A TRUST. ARC'S PROPERTIES CONTAIN LOW RISK AND LOW OPERATING COST OPPORTUNITIES IN SWEET GAS FIELDS. THERE IS ALSO A WELL-DEVELOPED INFRASTRUCTURE AND EASY ACCESS TO PIPELINE TRANSPORTATION. WITH THE 2001 ACQUISITION OF THE BROOKS FIELD FROM STARTECH, THIS AREA HAS RAPIDLY GROWN INTO THE FOURTH LARGEST PRODUCTION AREA IN ARC'S PORTFOLIO. THE BROOKS AREA COMPLEMENTS THE EXISTING JENNER SWEET SHALLOW GAS FIELDS; COLLECTIVELY, THESE AREAS PRODUCE 30 MMCF/D.

### **CORE PROPERTIES**

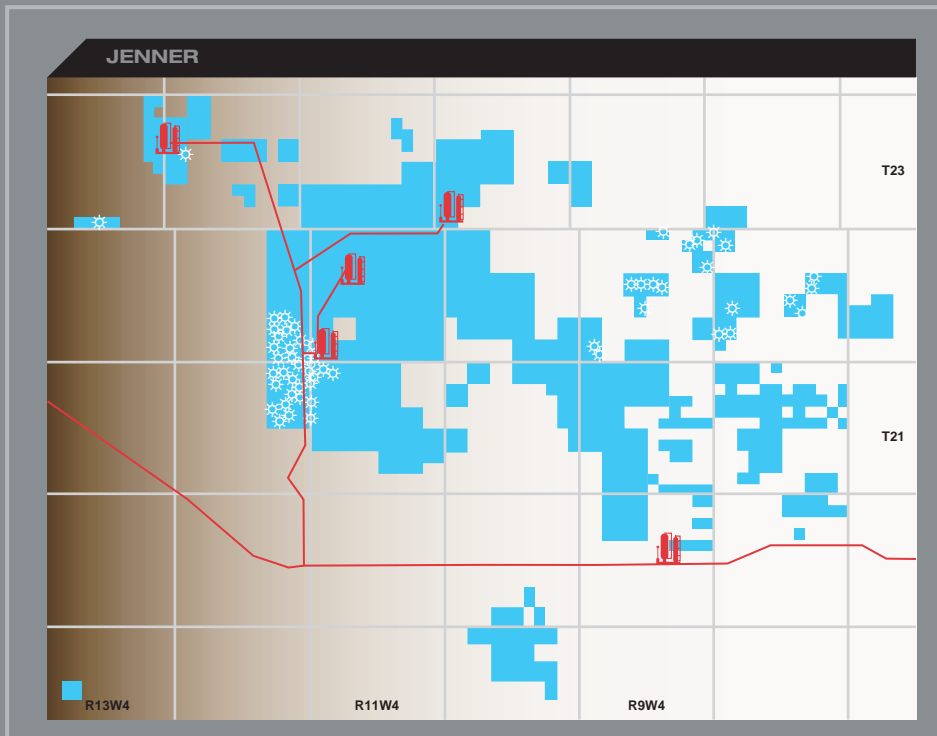
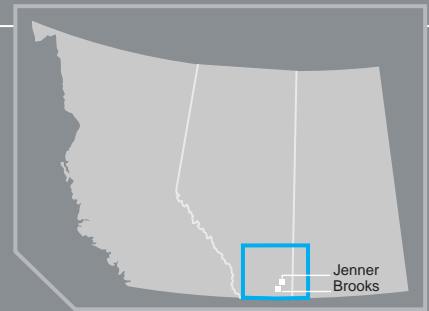
#### **JENNER**

Jenner is the Trust's second largest producing property with daily production volumes now exceeding 16 mmcf/d from 800 producing gas wells. ARC holds an average working interest of 90 per cent in this area.

During 2001, 36 shallow gas infill wells were drilled on 80-acre spacing. The wells were completed and brought on production in the fourth quarter, adding a total of 3 mmcf/d. This volume filled unutilized capacity in existing infrastructure. In 2002, ARC plans to drill additional 80-acre infill wells and will continue to incorporate deeper targets within its shallow gas drilling programs.

#### **BROOKS**

The Brooks shallow gas field is the Trust's third largest production area at 14 mmcf/d. ARC operates with an average 92 per cent working interest in the area. Activity in 2001 centered on a farm-in agreement which has given ARC the rights to deeper horizons below its existing shallow gas holdings. In addition, ARC shot and interpreted six square miles of seismic and drilled four deeper wells. The number of farm-in wells drilled now totals six, with five new pool discoveries earning six sections of deeper rights. Gas production from these six wells currently exceeds 2 mmcf/d. ARC has the option to continue drilling to earn deep rights until May 2002.



Dave Hudson  
Pat Mills  
Terry Anderson

ARC non-unit lands

Unit outline

ARC production facility

2001 gas wells

## SOUTHEAST SASKATCHEWAN

AFTER SEVERAL YEARS OF PROGRESSIVELY BUILDING TECHNICAL KNOWLEDGE THROUGH OWNERSHIP IN PARTNER-OPERATED ASSETS, THE STARTECH ACQUISITION IN 2001 PROVIDED ARC A MAJOR STRATEGIC ENTRY AND SIGNIFICANT PRESENCE IN SOUTHEAST SASKATCHEWAN. THESE PROPERTIES PROVIDED ARC WITH NUMEROUS DEVELOPMENT OPPORTUNITIES DURING 2001. ARC NOW OPERATES A SIGNIFICANT PORTFOLIO OF HIGH QUALITY, LOW OPERATING COST OIL PRODUCING PROPERTIES IN THIS AREA.

### CORE PROPERTIES

#### LOUGHEED

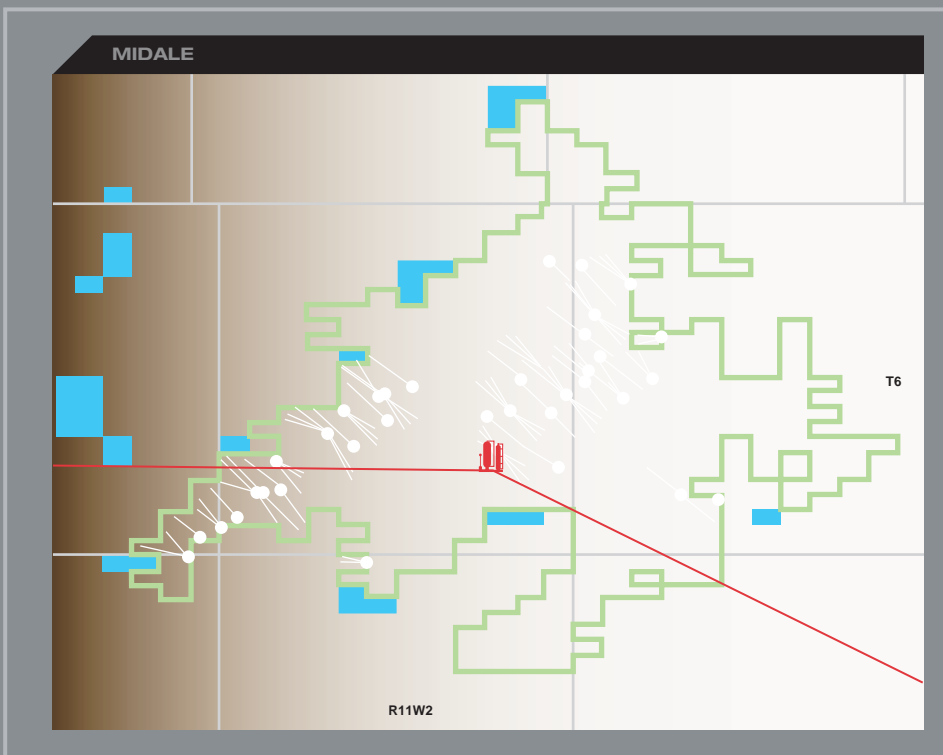
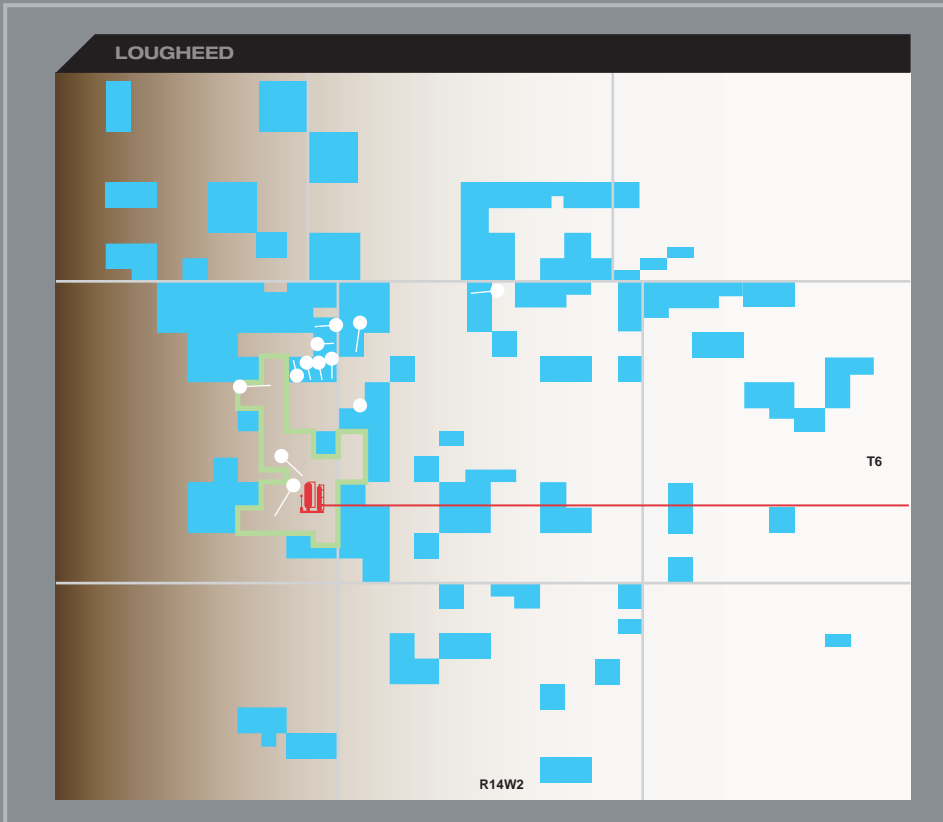
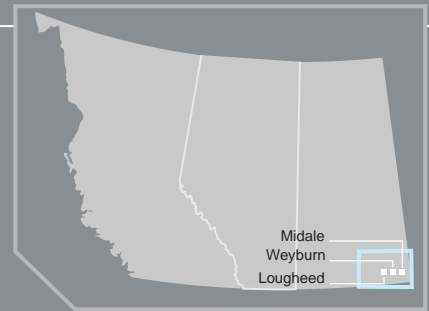
The Lougheed area has become the Trust's highest volume producing property at net 3,111 boe/d and a major focus of development activity. The Trust has a high working interest in the area, including 98.6 per cent in the ARC-operated Lougheed Unit.

The past year saw the drilling of six operated and six non-operated joint interest horizontal wells. A gas plant was also built which will add significant value via liquids recovery from rich solution gas. In addition to development work, ARC's growth strategy for the area resulted in several minor acquisitions and swaps to consolidate working interests and gain additional interests in operated lands.

The Trust believes there is significant upside potential at Lougheed and is conducting a full field reservoir simulation in an effort to increase recovery through the improvement and implementation of a full waterflood. The current recovery factor recognized by ARC's independent engineers is 24 per cent as compared to 36 and 41 per cent for the adjacent Midale and Weyburn units, respectively. Based upon comparable reservoir characteristics relative to Weyburn and Midale, significant additional reserves are expected to be realized at Lougheed.

#### MIDALE UNIT

ARC is now the second largest working interest owner in the Midale Unit at 15.5 per cent with net production volumes of 985 boe/d to ARC. Operated by Apache Canada Ltd., activities have focused on development and horizontal drilling to enhance the performance of the waterflood. Drilling of infill development wells continued in 2001 along with monitoring and optimization of the waterflood.



Yvan Chretien  
Dave Vogelsang  
Dave Sorkilmo

ARC non-unit lands

Unit outline

ARC production facility

2001 oil wells

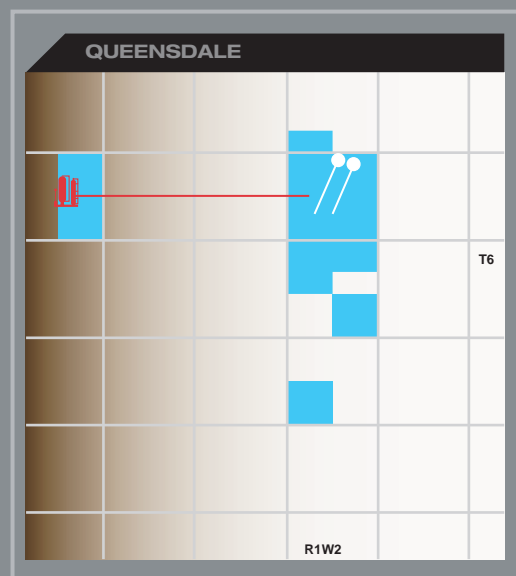
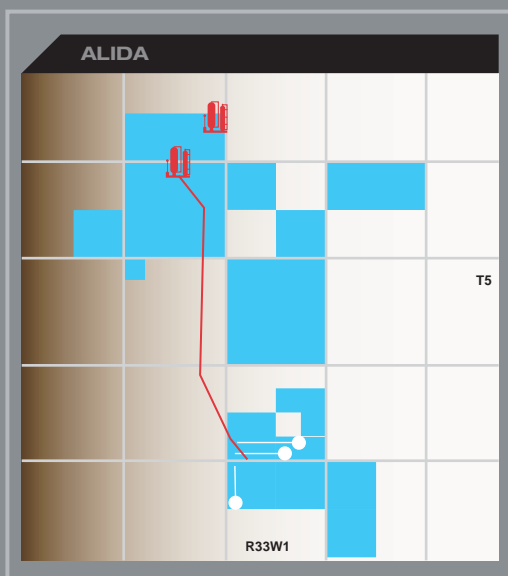
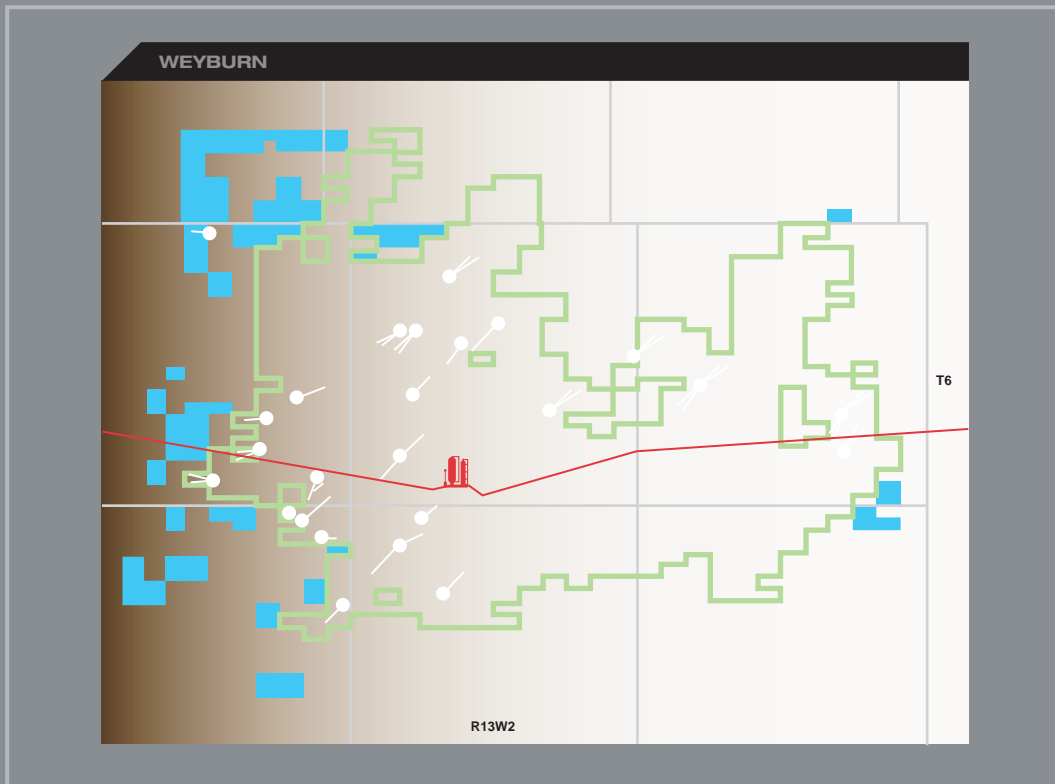
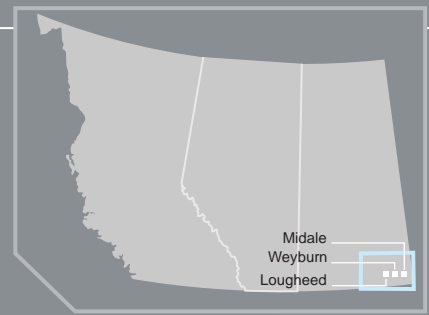
**WEYBURN UNIT**

ARC is the third largest working interest owner in the Weyburn Unit, which is operated by PanCanadian Petroleum Ltd. In 2001, through the Startech acquisition, ARC increased its interest to 6.5 per cent, which nets a production volume to ARC of 1,448 boe/d.

The operator recently initiated a large-scale CO<sub>2</sub> tertiary recovery scheme in one area of this large field to augment an existing waterflood program. Optimization of the waterflood has continued, including infill drilling to improve waterflood and CO<sub>2</sub> flood production and recoveries. PanCanadian will continue to monitor the performance of the flood, adjust injection practices and drill additional infill wells in 2002. The success of the CO<sub>2</sub> recovery scheme is expected to lead to further phases of tertiary recovery in this large field.

**SOUTHEAST SASKATCHEWAN - OTHER PROPERTIES**

ARC currently produces 3,693 boe/d from other southeast Saskatchewan properties. Alida and Queensdale are representative of several smaller properties that produce high quality 30° to 42° API crude oil from various formations. ARC drilled eight horizontal wells on a number of properties in southeast Saskatchewan in 2001 with a 100 per cent success rate. These new wells added 900 bbl/d to ARC's production in 2001. ARC's working interests in the new wells range from 50 to 100 per cent.



ARC non-unit lands

Unit outline

ARC production facility

2001 oil wells

## ACQUISITIONS AND DIVESTMENTS

### STARTECH ACQUISITION

The acquisition of Startech Energy Inc. completed in January 2001 was the largest acquisition in ARC's history and one that has provided tremendous new opportunities in pre-existing and new focus areas. ARC's daily production volumes increased by 58 per cent and significant reserves and undeveloped land were added to the Trust's portfolio. Of particular importance was Startech's major presence in southeast Saskatchewan, an area that ARC had targeted as a strategic area for expansion. The acquisition enabled ARC to gain a major foothold in this area, create an important new focus area and acquire a portfolio of development opportunities.

### OTHER ACQUISITIONS

As the cost of acquiring reserves and production increased over the remainder of 2001, ARC focused on having the individual area teams seek opportunities within core areas to acquire land and reserves at lower prices. Focused acquisitions in core areas resulted in an additional 4.2 mmboe being purchased for \$29.9 million.

### DISPOSITIONS

Every year, ARC reviews its asset base to identify non-core assets for potential disposition. Divested properties typically have higher operating costs, lower netbacks, limited upside potential or marginal remaining reserve life that can create a near-term abandonment liability.

As part of ARC's active management of its asset base, a number of minor non-core assets were sold in 2001 resulting in the disposition of 3.4 mmboe of reserves for \$21 million.

### 2001 Acquisition/Disposition Summary

	Purchase/Sale Price	Established Reserves	Reserve Purchase/Sale Price	Production Rate	Production Purchase/Sale Price	Reserve Life Index
	(\$ millions)	(mmboe)	(\$/boe)	(boe/d)	(\$/boe/d)	(years)
Acquisitions	544.0	59.16	\$ 9.20	15,539	\$ 35,009	10.4
Dispositions	(21.3)	(3.40)	\$ 6.26	(1,024)	\$ 20,801	9.1
Net acquisitions	522.7	55.76	\$ 9.37	14,515	\$ 36,011	10.5

**Summary of Finding, Development and Acquisition Costs**

(\$ thousands)	2001	2000	1999	1998	1997	1996
Total capital expenditures	<b>624,877</b>	207,917	255,731	10,595	102,717	207,433
Net change in established reserves						
after production	<b>48,344</b>	30,268	44,528	(1,722)	15,892	41,181
Annual production	<b>15,736</b>	10,012	8,093	4,649	4,375	1,751
Annual reserve additions	<b>64,080</b>	40,280	52,621	2,927	20,267	42,932
Annual finding, development and						
acquisition costs (\$/boe)	<b>9.75</b>	5.16	4.86	3.62	5.07	4.83
Three year rolling average	<b>6.94</b>	4.95	4.87	4.85	4.91	4.83
Cumulative since inception	<b>6.32</b>	4.93	4.85	4.85	4.91	4.83

ARC's 2001 overall finding, development and acquisition costs were \$9.75/boe, an increase from \$5.16 in 2000.

Not unexpectedly, the costs to acquire oil and gas assets increased with the strengthening in commodity prices. ARC's purchase of Startech and other assets continued to meet all of our stringent acquisition criteria. On a three-year average basis, ARC's FD&A costs increased to \$6.94/boe in 2001.

On both an annual and three-year average basis, ARC expects its FD&A costs to remain among the lowest for both royalty trusts and conventional E&P companies.

THE ACQUISITION OF STARTECH ENERGY COMPLETED IN JANUARY 2001 WAS THE

**largest acquisition**

IN **ARC's** HISTORY AND ONE THAT HAS PROVIDED

TREMENDOUS **new opportunities** FOR THE TRUST.

## RESERVES

Based on an independent engineering evaluation conducted by Gilbert Laustsen Jung Associates Ltd. (GLJ) effective December 31, 2001, ARC had proved plus risked probable reserves of 386 bcf of natural gas and 114 mmbbls of crude oil and natural gas liquids. Approximately 64 per cent of ARC's reserves are crude oil and natural gas liquids and 36 per cent are natural gas on a 6:1 boe conversion basis. Total reserves at December 31, 2001 were 178.5 mmboe, an increase of 37 per cent from the previous year.

The following tables summarize ARC's reserves of natural gas, crude oil, and natural gas liquids as evaluated by GLJ. These reserves reflect ARC's interest before royalties. Probable reserves are risked at 50 per cent to calculate the established reserves. All estimates of future net cash flow in these tables are calculated without any provision for income taxes, general and administrative costs, or management fees, but include provisions for future well abandonment liabilities.

Reserve Life Index (RLI) is calculated by dividing the reserves by annual production (either current year annual production or the independent evaluator's forecast of the first year's production). This provides a simplified representation of the number of years of reserves remaining if production remained constant. The actual productive life of the reserves is significantly longer due to a declining production rate over time. To account for the impact and timing of acquisition and divestment activity, the tables use the independent evaluator's forecast of the first year's production in determining RLI, as this results in a more consistent representation over time.

## Reserves Summary and Reserve Life Index

December 31	2001	2000	1999	1998	1997
<b>Crude Oil</b>					
Proved producing (mbbl)	68,408	46,075	32,454	20,090	18,554
Proved non-producing (mbbl)	14,287	12,438	7,541	2,677	394
Total proved (mbbl)	82,695	58,513	39,995	22,767	18,948
Proved reserve life index (years)	11.2	12.3	12.1	12.1	11.3
Established (mbbl)	102,632	71,663	50,245	27,896	24,155
Established reserve life index (years)	13.5	14.7	14.8	14.8	14.5
<b>Natural Gas Liquids</b>					
Proved producing (mbbl)	8,823	8,175	7,774	6,066	6,956
Proved non-producing (mbbl)	1,139	1,137	389	475	500
Total proved (mbbl)	9,962	9,311	8,163	6,542	7,459
Proved reserve life index (years)	8.3	8.6	8.1	8.7	8.8
Established (mbbl)	11,611	10,753	9,467	7,138	8,218
Established reserve life index (years)	9.5	9.7	9.2	9.5	9.7
<b>Natural Gas</b>					
Proved producing (bcf)	279.5	202.4	184.2	83.9	97.9
Proved non-producing (bcf)	51.0	41.3	19.7	19.7	29.8
Total proved (bcf)	330.5	243.7	203.9	103.6	127.7
Proved reserve life index (years)	8.5	8.8	7.4	7.2	7.9
Established (bcf)	385.5	286.4	241.0	121.9	148.2
Established reserve life index (years)	9.6	10.0	9.0	8.5	8.6
<b>Oil Equivalent (6:1)</b>					
Proved producing (mboe)	123,810	87,987	70,928	40,139	41,827
Proved non-producing (mboe)	23,929	20,450	11,213	6,435	5,861
Total proved (mboe)	147,739	108,437	82,141	46,576	47,690
Proved reserve life index (years)	9.8	10.4	10.1	10.0	10.9
Established (mboe)	178,496	130,147	99,879	55,351	57,073
Established reserve life index (years)	11.5	12.1	12.0	11.9	13.0

Reserve life index is calculated using independent evaluator's forecast of production. Established = proved plus 50 per cent probable.

## Pricing Assumptions <sup>(1)</sup>

Year	WTI Crude Oil	Edmonton Crude Oil <sup>(2)</sup>	Natural Gas <sup>(3)</sup>
	(\$US/bbl)	(\$Cdn/bbl)	(\$Cdn/mmbtu)
2002	20.00	30.75	3.95
2003	21.00	31.25	4.35
2004	21.00	30.50	4.45
2005	21.00	29.50	4.50
2006	21.25	29.50	4.50
2007	21.75	30.00	4.50
2008	22.00	30.50	4.50
2009	22.25	31.00	4.55
2010	22.50	31.50	4.60
2011	23.00	32.00	4.70
2012	23.25	32.50	4.75
Thereafter	1.5%/yr	1.5%/yr	1.5%/yr

<sup>(1)</sup> GLJ's January 1, 2002 price forecast

<sup>(2)</sup> Edmonton Refinery Postings for 40° API, 0.3 per cent sulphur content crude

<sup>(3)</sup> Average Alberta plantgate price

## Reserves Reconciliation

	Crude Oil (mbbl)		Natural Gas (bcf)		Natural Gas Liquids (mbbl)		Total (mboe)	
	Proved	Risked Probable	Proved	Risked Probable	Proved	Risked Probable	Proved	Risked Probable
<b>Reserves at December 31, 1996</b>	10,729	3,418	100.5	11.5	7,687	680	35,166	6,015
Acquisitions and divestments	7,961	1,552	38.8	10.3	1,104	232	15,532	3,501
Drilling and development	176	13	4.7	0.3	49	5	1,008	68
Production	(1,334)	–	(14.0)	–	(704)	–	(4,371)	–
Revisions	1,416	224	(2.3)	(1.6)	(677)	(158)	355	(201)
<b>Reserves at December 31, 1997</b>	18,948	5,207	127.7	20.5	7,459	759	47,690	9,383
Acquisitions and divestments	2,465	648	(15.1)	(2.7)	(195)	(36)	(247)	162
Drilling and development	981	844	4.0	1.2	7	(104)	1,655	940
Production	(1,620)	–	(13.8)	–	(737)	–	(4,657)	–
Revisions	1,993	(1,570)	0.8	(0.6)	8	(23)	2,134	(1,693)
<b>Reserves at December 31, 1998</b>	22,767	5,129	103.6	18.4	6,542	596	46,576	8,792
Acquisitions and divestments	17,769	4,286	118.0	15.4	3,375	476	40,817	7,320
Drilling and development	1,992	631	5.8	1.7	204	1	3,168	912
Production	(3,069)	–	(24.3)	–	(981)	–	(8,100)	–
Revisions	536	204	0.7	1.7	(977)	232	(320)	713
<b>Reserves at December 31, 1999</b>	39,995	10,250	203.9	37.1	8,163	1,304	82,141	17,737
Acquisitions and divestments	18,650	3,860	47.7	8.0	1,911	328	28,517	5,527
Drilling and development	2,283	(693)	12.9	1.3	119	(25)	4,556	(497)
Production	(4,219)	–	(28.2)	–	(1,085)	–	(10,012)	–
Revisions	1,805	(268)	7.4	(3.8)	203	(166)	3,235	(1,057)
<b>Reserves at December 31, 2000</b>	58,513	13,149	243.7	42.7	9,311	1,442	108,437	21,710
Acquisitions and divestments	27,932	7,124	101.9	11.1	1,643	241	46,551	9,211
Drilling and development	2,641	275	12.7	3.1	437	81	5,191	865
Production	(7,449)	–	(42.0)	–	(1,282)	–	(15,736)	–
Revisions	1,057	(610)	14.3	(1.8)	(148)	(117)	3,295	(1,029)
<b>Reserves at December 31, 2001</b>	<b>82,695</b>	<b>19,937</b>	<b>330.5</b>	<b>55.0</b>	<b>9,962</b>	<b>1,649</b>	<b>147,739</b>	<b>30,757</b>

## Present Value of Reserves

(\$ thousands before income taxes)						
Discount Factor	2001			2000		
	10%	12%	15%	10%	12%	15%
Proved producing	955,706	886,964	803,266	732,530	685,315	626,836
Proved non-producing	111,778	96,477	78,222	100,389	86,651	70,391
Total proved	1,067,484	983,441	881,488	832,918	771,966	697,227
Risked probable	148,509	126,642	102,463	111,886	96,105	78,461
Established	1,215,993	1,110,083	983,951	944,804	868,071	775,688

**Net Asset Value**

(\$thousands, except per unit amounts)

December 31	2001		2000		1999		1998	
Discount Factor	10%	12%	10%	12%	10%	12%	10%	12%
Value of established oil								
and gas reserves	<b>1,215,993</b>	<b>1,110,083</b>	944,804	868,071	530,400	484,309	278,353	253,529
Add: Undeveloped lands	<b>22,293</b>	<b>22,293</b>	5,698	5,698	11,994	11,994	2,655	2,655
Working capital	<b>5,805</b>	<b>5,805</b>	6,339	6,339	15,761	15,761	(1,688)	(1,688)
Reclamation fund	<b>10,147</b>	<b>10,147</b>	9,897	9,897	7,165	7,165	4,504	4,504
Deduct: Debt	<b>(294,489)</b>	<b>(294,489)</b>	(115,068)	(115,068)	(141,000)	(141,000)	(72,499)	(72,499)
Net asset value	<b>959,749</b>	<b>853,839</b>	851,670	774,937	424,320	378,229	211,325	186,501
Units outstanding (thousands) <sup>(1)</sup>	<b>111,693</b>	<b>111,693</b>	72,524	72,524	53,607	53,607	25,604	25,604
Per unit	<b>\$ 8.59</b>	<b>\$ 7.64</b>	\$ 11.74	\$ 10.69	\$ 7.92	\$ 7.06	\$ 8.25	\$ 7.28

<sup>(1)</sup> Includes units associated with exchangeable shares.

The table above shows what is normally referred to as a “produce-out” net asset value calculation under which the current value of the Trust’s reserves would be produced at future prices and costs as projected by GLJ. The value is a snapshot in time and is based on various assumptions including commodity prices that vary over time.

In the absence of adding reserves to the Trust, the net asset value will decline as the reserves are produced out. The cash flow generated by the production relates directly to the cash distributions paid to unitholders. The evaluation includes future capital expenditure expectations required to bring undeveloped reserves on production.

As noted in the property description section of this report, ARC’s technical team is working on a number of areas, including Loughheed and Ante Creek, which are expected to result in future reserve additions that would add to the Trust’s net asset value.

In order to determine the “going concern” value of the Trust, a more detailed assessment would be required of the upside potential of specific properties and the ability of the ARC team to continue to make value-added capital expenditures. At inception on July 11, 1996 the net asset value was determined to be \$10.26 per trust unit and, since that time, the Trust has distributed \$9.08 per unit to unitholders, while the net asset value has only declined by \$2.62 to \$7.64 at December 31, 2001. This demonstrates the value that can be added through active management.

## ENVIRONMENT, HEALTH AND SAFETY

ARC'S COMMITMENT TO SAFETY IS REFLECTED IN ITS SIXTH CONSECUTIVE YEAR OF NO LOST-TIME ACCIDENTS FOR EMPLOYEES. WE REMAIN COMMITTED TO CONDUCTING ALL ASPECTS OF OUR BUSINESS IN A SAFE AND ENVIRONMENTALLY RESPONSIBLE MANNER. AS WE EXPAND OUR OPERATIONS, WE ENSURE THAT ALL NEW EMPLOYEES UNDERSTAND THAT CONDUCTING OUR OPERATIONS IN A SAFE AND RELIABLE MANNER IS OF UTMOST IMPORTANCE. THE DEDICATION OF ARC'S STAFF AND CONSULTANTS HAS RESULTED IN MANAGING EXCEPTIONAL GROWTH WHILE MAINTAINING EXCELLENCE IN SAFETY PERFORMANCE AND RESPONSIBLE CARE OF THE ENVIRONMENT.

### HEALTH, SAFETY AND ENVIRONMENTAL STEWARDSHIP

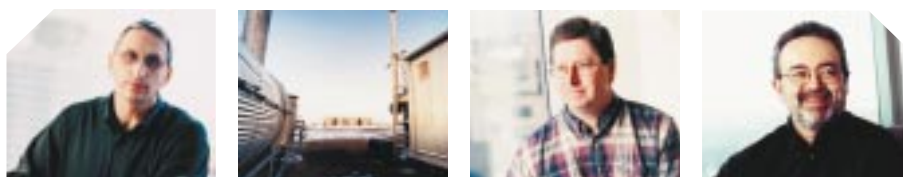
During 2001, ARC remained committed to the principles set out by the Canadian Association of Petroleum Producers (CAPP) Environment, Health and Safety Stewardship Program. Participation in this program is a commitment to environmental protection, public and worker health and safety and annual reporting of progress. ARC has participated in this benchmarking analysis since the program's inception in 1999. ARC currently operates at CAPP's Gold Level.

### SAFETY

ARC has a high level of commitment to protecting the health and safety of employees, contractors and the public. ARC successfully and safely integrated all Startech properties in 2001. Significant increases in construction and drilling were completed safely including several large projects such as the Loughheed gas plant, Jenner compressor station and Youngstown blending facility.

### RECLAMATION FUND

ARC established a reclamation fund in 1996 with annual contributions to ensure that the necessary funds are available for future reclamation of wells and facilities once they have reached the end of their economic lives. During 2001, ARC expended \$4.1 million to address environmental issues including abandonments and reclamations for wells and flare pits. The balance in the fund as of December 31, 2001 was \$10 million. Throughout the year, ARC continued to proactively address abandonments and reclamations to reduce future environmental liabilities.



## ENVIRONMENT

ARC conducts activities in accordance with Trust policies and environmental guidelines with the objective of protection of the environment.

### Air

ARC's focus on air quality issues continued with our second submission to Canada's Climate Change – Voluntary Challenge and Registry program. This report details emission reductions and future objectives. ARC has been recognized as a "Silver Champion Level Reporter". Some of the significant accomplishments in the reduction of emissions are:

- Continued reductions in flaring and greenhouse gas emissions through improved flare technology, vapour recovery installation and gas plant enhancements.
- A 30 per cent overall reduction in emissions from operated properties resulting primarily from installing solution gas conservation facilities at the recently acquired Lougheed battery.
- Minimized flaring during testing of newly drilled wells. Advance planning and installation of pipelines and/or compression also reduced flaring at Sundre, Caroline, Pembina and Ante Creek.

### Land and Water

ARC continued its commitment to protect land and water. Policies and procedures demonstrating leadership in this area were maintained and further developed in 2001. ARC continued to participate in key local groups that provide expertise and training in risk management. Examples of accomplishments during 2001 included:

- Utilizing technology to minimize future environmental exposure to land and water. As one example, we installed liners in existing pipelines to reduce the risk of leaks.
- Remaining committed to immediate surface reclamation following completion of well abandonments.
- Remaining aware and sensitive to the importance of wildlife habitat concerns.
- Continuing risk management efforts with participation in oil spill co-operatives and detailed emergency response planning.

*Photo: Al Roberts, Lougheed Gas Plant, Jeff Wickens, Bruce Riep*

## COMMUNITY INVOLVEMENT

ARC places high value on community participation and encourages employees to contribute to the communities in which they live and work. In 2001, ARC's support of the United Way topped \$150,000 in combined corporate and employee contributions.

ARC gainfully employs residents of local communities with over 100 field staff and consultants operating in its five core areas. ARC undertakes financial commitments to these communities and encourages active volunteer involvement and participation in local initiatives. The Trust also provided financial support to various charities in the communities in which we operate including Sundre, Grande Prairie, Medicine Hat, Drayton Valley, Estevan, Carnduff, Lougheed and Oungre.

In September 2001, ARC was presented with an award from the Sundre Petroleum Operators Group recognizing its contributions as an "industry member with vision" for work in building relationships with industry partners, government and regulatory agencies and the community based on mutual trust, honesty and respect.

ARC PLACES HIGH VALUE ON  
**community participation**  
AND ENCOURAGES EMPLOYEES TO contribute to  
the communities IN WHICH THEY LIVE AND WORK.



FEATURE:

# commitment

## **LEADERSHIP IN ENVIRONMENTAL PROTECTION... WHILE CREATING ADDITIONAL VALUE FOR UNITHOLDERS**

WITH THE STARTECH ACQUISITION IN JANUARY 2001, ARC BECAME OPERATOR OF A CRUDE OIL PROCESSING FACILITY IN THE LOUGHEED AREA IN SOUTHEASTERN SASKATCHEWAN. THE BATTERY HAD A LARGE NATURAL GAS FLARE WHICH WAS GENERATING SIGNIFICANT EMISSIONS. THE ARC TEAM RECOGNIZED AN OPPORTUNITY TO DEMONSTRATE ENVIRONMENTAL LEADERSHIP AND, AT THE SAME TIME, AN OPPORTUNITY TO CAPTURE THE MARKET VALUE OF THE HYDROCARBONS BEING FLARED. THE INSTALLATION OF SUCH A FACILITY WAS A CHALLENGE INVOLVING AN EXTENSIVE APPROVAL PROCESS REQUIRING THE INVOLVEMENT OF LOCAL AND PROVINCIAL AUTHORITIES IN ADDITION TO THE TECHNICAL CHALLENGES ASSOCIATED WITH THE DESIGN, CONSTRUCTION AND COMMISSIONING OF A NEW SOUR GAS PROCESSING PLANT.

## DEFINING THE PROJECT SPECS

THE ARC TEAM FIRST EXAMINED THE RESERVES THAT COULD BE CAPTURED BY A NEW PROCESSING FACILITY. AFTER ANALYZING THE UNIQUE COMPOSITION OF THE LIQUIDS-RICH GAS, IT WAS DETERMINED THAT A NEW FACILITY COULD REALIZE 200 BBL/D OF ADDITIONAL PRODUCTION, WITH THE POSSIBILITY OF HIGHER VOLUMES FROM OTHER AREA OPERATORS. A SIGNIFICANT REDUCTION IN EMISSIONS WAS ALSO PROJECTED AS THE PLANT COULD BE ENGINEERED WITH EMISSION LEVELS WELL BELOW REGULATORY REQUIREMENTS.



BY AUGUST, ARC HAD COMPLETED A DETAILED COMMUNITY CONSULTATION PROCESS AND HAD RECEIVED ALL THE NECESSARY REGULATORY APPROVALS. PLANT CONSTRUCTION COMMENCED IMMEDIATELY AND STARTUP BEGAN IN JANUARY 2002. THE PROJECT WAS COMPLETED AT A COST OF \$5 MILLION.

Group: George Gervais, Wayne Lentz, Andy Magee, Dave Kehrig  
Inset: Mary Lawrence

**ONGOING OPPORTUNITIES AND LEADERSHIP**

NEW BUSINESS OPPORTUNITIES ARE EXPECTED TO ARISE AS SEVERAL THIRD PARTY PRODUCERS IN THE AREA HAVE SHOWN INTEREST IN PROCESSING THEIR PRODUCTION THROUGH ARC'S NEW FACILITY. EQUALLY IMPORTANT IS THAT ARC WAS ABLE TO DEMONSTRATE ITS LONG-TERM COMMITMENT TO THE ENVIRONMENT AND DEMONSTRATE ITS ABILITY TO PLAY A LEADERSHIP ROLE IN THE INDUSTRY.



*Top: Paul Fladeland*

*Bottom: Loughheed Gas Plant, Les Avery*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results should be read in conjunction with the audited consolidated financial statements for the year end December 31, 2001 and is based on information available to February 7, 2002.

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### GLOSSARY OF ABBREVIATIONS

API	American Petroleum Institute	mcf	thousand cubic feet
bbls	barrels	mcf/d	thousand cubic feet per day
bbls/d	barrels per day	mmbbls	million barrels
bcf	billion cubic feet	mmboe*	million barrels of oil equivalent
boe*	barrels of oil equivalent	mmbtu	million British Thermal Units
boe/d*	barrels of oil equivalent per day	mmcf	million cubic feet
Capex	capital expenditures	mmcf/d	million cubic feet per day
FD&A costs	finding, development and acquisition costs	NAV	net asset value
GAAP	generally accepted accounting principles	NGL	natural gas liquids
G&A	general and administrative	NYMEX	New York Mercantile Exchange
GJ	gigajoule	RLI	reserve life index
mmbbls	thousand barrels	WTI	West Texas Intermediate
mboe*	thousand barrels of oil equivalent		

\*6 mcf of gas = 1 barrel of oil

### FORWARD-LOOKING STATEMENTS

This disclosure contains certain forward-looking estimates that involve substantial known and unknown risks and uncertainties, certain of which are beyond ARC's control, including: the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities. In addition there are risks and uncertainties associated with oil and gas operations, therefore ARC's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking estimates will transpire or occur, or if any of them do so, what benefits, including the amounts of proceeds, that ARC will derive therefrom.

# management's discussion and analysis

THE MANAGER OF THE TRUST MET OR EXCEEDED ALL OF ITS KEY STRATEGIC OBJECTIVES FOR 2001.

**OBJECTIVE:** REPLACE ANNUAL PRODUCTION THROUGH COST EFFECTIVE ACQUISITIONS AND DEVELOPMENT ACTIVITIES.

**ACCOMPLISHMENT:** In January, ARC closed the acquisition of all outstanding shares of Startech Energy Inc. ("Startech"), using a unique plan of arrangement under which the Trust acquired virtually all of the producing oil and gas assets and the Startech shareholders retained several minor producing properties and the higher risk exploration prospects for total consideration of \$510 million. The Trust conducted an active development drilling and exploitation program in 2001 directed towards enhancing the Trust's proven producing reserves and future production base. The acquisition and development programs added 64 mmboe of established reserves replacing 407 per cent of production at a cost of \$9.75/boe. Since the Trust's Initial Public Offering on July 11, 1996, the Trust has acquired and developed 223 mmboe of established reserves at a total cost of \$1.4 billion resulting in a finding, development and acquisition (FD&A) cost since inception of \$6.32/boe.

**OBJECTIVE:** MAINTAIN AN ACTIVE HEDGING PROGRAM TO ENHANCE THE STABILITY AND PREDICTABILITY OF THE TRUST'S DISTRIBUTIONS.

**ACCOMPLISHMENT:** Hedging has and will continue to play a key role in the management of the Trust. In addition to production levels, the major variables impacting future distributions and unitholder returns are commodity prices in conjunction with the Canadian/US exchange rate. The Manager of the Trust has developed a hedging program approved by the Board (detailed later in this section) in order to provide stability and greater certainty of distributions to unitholders. During 2001, the Trust's distributions ranged from \$0.22 per month early in the year to \$0.15 per month during the last quarter. This 32 per cent decrease in distributions compares very favourably to the 54 per cent decline in average commodity prices over the year from a high of \$45.04/boe in the first quarter to a low of \$20.51/boe in the fourth quarter. For 2002, the Trust has hedged approximately 56 per cent of oil production and 41 per cent of gas production at prices materially greater than current market expectations. The main focus for 2002 will be to take advantage of commodity price spikes which may occur to lock-in a comparable portion of 2003 production at favourable prices.

**OBJECTIVE:** FOCUS ON COST CONTROL TO ENHANCE THE TRUST'S POSITION AS ONE OF THE LEADING OIL AND GAS ROYALTY TRUSTS IN CANADA.

**ACCOMPLISHMENT:** Operating costs have remained low with total corporate operating costs averaging \$5.47/boe in 2001, a \$0.55/boe increase over 2000 costs of \$4.92/boe. The major reason for the year-over-year increase, especially in the first half of 2001, was increased electricity costs which were experienced in Alberta. General and Administrative (G&A) expenses have been held in line as well at \$0.75/boe, a modest increase over the \$0.69/boe incurred in 2000. The Manager believes that the Trust requires a complete technical team to properly manage the assets and unlock the future potential of the asset base. In 2001, development geological and geophysical staff additions were made and key management positions were filled in the areas of Human Resources, Investor Relations and Business Development.

**OBJECTIVE:** MAINTAIN A CONSERVATIVE DEBT MANAGEMENT POLICY TO EXECUTE THE TRUST'S COUNTER-CYCLICAL STRATEGY OF ACQUIRING ASSETS WHERE POSSIBLE IN THE LOW POINT OF THE COMMODITY PRICE CYCLE AND REDUCING DEBT IN PERIODS OF HIGH CASH FLOW.

**ACCOMPLISHMENT:** The Trust's objective is to be one of the most conservatively capitalized conventional oil and gas trusts by controlling the use of debt. At year-end 2001, debt was \$294 million or 1.1 times 2001 cash flow. With 2001 cash flow buoyed by strong commodity prices, the Trust is expecting the debt to cash flow ratio to increase to approximately 1.5 times 2002 cash flow with debt representing approximately 20 per cent of total capitalization. In October 2001, the Trust issued 8.05 million new trust units and raised \$84 million of net proceeds under an equity offering. These proceeds temporarily reduced debt and are earmarked to fund the Trust's 2002 capital program. In addition, the Trust made a deliberate move to revise its distribution policy in October of 2000 under which the Trust now may withhold up to 20 per cent of cash flow to finance capital expenditures in order to assist in the replacement of a portion of production.

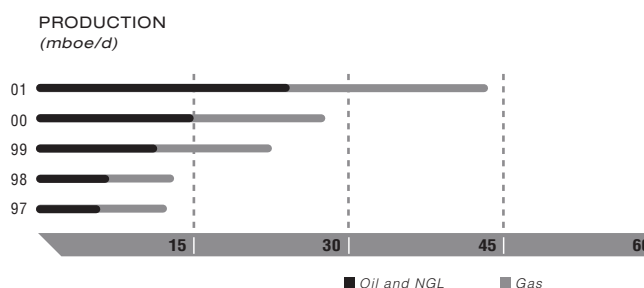
#### **SUMMARY OF OTHER OBJECTIVES**

The Trust had many other objectives in 2001 that were fulfilled, including those centered around retaining and increasing the expertise of its workforce, the development of key business relationships, prudent use of new technology and further development and expansion of the Trust's environmental, health and safety programs in order to be a leader in the Canadian oil and gas industry.

## PRODUCTION

Production volumes for 2001 averaged 43,111 boe/d, representing an increase of 58 per cent from the 2000 average of 27,355 boe/d. This increase is a result of the Startech acquisition. Crude oil and natural gas liquids represented 55 per cent of production in 2001, with natural gas accounting for the remaining 45 per cent.

In 2001, ARC had 72 properties producing in excess of 100 boe/d with no one property accounting for more than eight per cent of total production.



## MARKETING AND PRICES

### Crude Oil Pricing

West Texas Intermediate (WTI) is the benchmark for North American oil prices and is the crude type that the NYMEX futures contract is based upon. The WTI oil price averaged US\$25.93/bbl in 2001, down from US\$30.35/bbl in 2000. Canadian crude oil prices are based upon refiners' postings, primarily at Edmonton, Alberta and represent the WTI price at Cushing, Oklahoma adjusted for transportation, quality differences and the Canadian/US exchange rate. ARC's average field price reflects the refiners' posted price at Edmonton, Alberta less deductions for transportation from the field and adjustments for ARC's product quality relative to the posted price. ARC's average field price in 2001 was \$33.00/bbl as compared to \$39.29 for the average of the light sweet postings at Edmonton. This modest discount to the average Edmonton posted price reflects the high quality of ARC's crude oil mix, which is comprised of 68 per cent light sweet (greater than 35° API) crude, 26 per cent medium gravity and 6 per cent heavy gravity oil (less than 23° API). Crude oil prices decreased throughout 2001 with WTI prices in December being 34 per cent lower than January. ARC's average oil price, net of all hedging transactions, decreased 14 per cent in 2001 to \$31.70/bbl as compared to \$36.74/bbl in 2000. Crude oil is sold under 30 day evergreen contracts while natural gas liquids are sold under annual arrangements.

### Natural Gas Pricing

US natural gas prices are typically referenced off NYMEX at Henry Hub, Louisiana, while Alberta and British Columbia prices are referenced off Alberta Energy Company's AECO Hub and Sumas, Washington, respectively. The addition of new pipeline capacity from Alberta has dramatically reduced the differential between Henry Hub and AECO prices over the last two years.

Natural gas prices were very strong in the first quarter of 2001, but weakened through the year. Despite the weakening trend, ARC's average wellhead gas price increased by 28 per cent to \$5.72/mcf in 2001 from \$4.48/mcf in 2000. ARC's prices are net of hedging and transportation costs. AECO Hub prices were \$6.28 and \$4.92/mcf for 2001 and 2000, respectively.

During 2001, ARC continued to follow a marketing strategy of diversifying its sales and transportation portfolio in order to maximize production netbacks in combination with diversification of contracts amongst a variety of credit worthy counterparties in accordance with the Trust's risk management policies.

### HEDGING

In 1998, ARC established a Risk Management Committee to conduct its hedging program with the following objectives:

- \* protect unitholder return on investment;
- \* stabilize monthly distributions;
- \* employ a portfolio approach to hedging – enter into a number of small positions that build upon each other;
- \* participate in commodity price upturns to the greatest extent possible, while limiting exposure to price downturns;
- \* ensure profitability of specific oil and gas properties that are more sensitive to changes in market conditions.

The 2001 prices include a hedging gain of \$0.22/mcf for natural gas and a loss of \$1.30/bbl for oil.

For 2002, ARC has hedged approximately 56 per cent of oil production volumes and 41 per cent of natural gas production volumes utilizing a variety of contracts under which the quantity and price of amounts hedged vary depending on the market price of the commodity as detailed in the tables below.

#### Crude Oil

WTI (US\$/bbl)	Hedged Price (US\$/bbl)	% Hedged
\$ 16.00	\$ 21.93	43
\$ 18.00	\$ 24.26	56
\$ 20.00	\$ 26.00	56
\$ 22.00	\$ 25.47	56
\$ 24.00	\$ 24.77	56
\$ 26.00	\$ 24.02	56

#### Natural Gas

AECO (CDN\$/mcf)	Hedged Price (CDN\$/mcf)	% Hedged
\$ 2.50	\$ 4.00	41
\$ 3.00	\$ 4.01	41
\$ 3.50	\$ 4.02	41
\$ 4.00	\$ 4.16	41
\$ 4.50	\$ 4.21	41

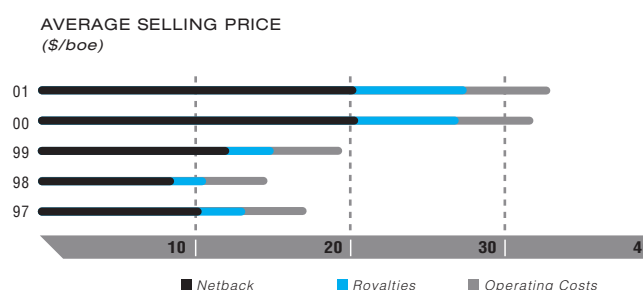
## REVENUE

Revenues, prior to hedging transactions, increased to \$516.5 million in 2001 compared to \$354.7 million in 2000. The increase was due to higher production volumes as a result of the Startech acquisition. Hedging losses declined to \$1.0 million in 2001 compared to \$38.4 million in 2000. Production revenue net of hedging losses was \$515.5 million in 2001 and \$316.3 million in 2000.

## NETBACKS

Operating netbacks were relatively unchanged at \$20.15/boe in 2001 compared to \$20.26/boe in 2000 as the increase in royalties and operating costs offset the increase in commodity prices. As a result of the 28 per cent increase in natural gas prices, royalties, net of Alberta Royalty Tax Credit, increased to 21.7 per cent of revenues prior to hedging transactions in 2001 from 18.1 per cent in 2000. Operating costs, net of processing income, in 2001 increased to \$5.47/boe up from \$4.92/boe in 2000. This increase can primarily be attributed to higher costs for electricity in Alberta. The components of operating netbacks are shown below:

(\$/boe)	2001	2000	1999	1998	1997	1996
Market price	<b>32.82</b>	35.43	20.25	14.43	16.94	18.13
Hedging loss	<b>(0.06)</b>	(3.84)	(1.07)	—	—	—
Selling price	<b>32.76</b>	31.59	19.18	14.43	16.94	18.13
Royalties	<b>(7.14)</b>	(6.41)	(2.92)	(2.06)	(2.80)	(2.87)
Operating costs	<b>(5.47)</b>	(4.92)	(4.42)	(4.04)	(4.06)	(3.57)
Netbacks	<b>20.15</b>	20.26	11.84	8.33	10.08	11.69



## RECYCLE RATIO

A key indicator of profitability in the oil and gas sector is the recycle ratio which is defined as operating netback divided by three-year average FD&A costs. ARC's recycle ratio continues to be one of the highest in the industry.

	2001	2000	1999	1998	1997	1996
Netback (\$/boe)	<b>20.15</b>	20.26	11.84	8.33	10.08	11.69
Three-year average FD&A (\$/boe)	<b>6.94</b>	4.95	4.87	4.85	4.91	4.83
Recycle ratio	<b>2.9</b>	4.1	2.4	1.7	2.1	2.4
Inception to date FD&A (\$/boe)	<b>6.32</b>	4.93	4.85	4.85	4.91	4.83
Recycle ratio	<b>3.2</b>	4.1	2.4	1.7	2.1	2.4

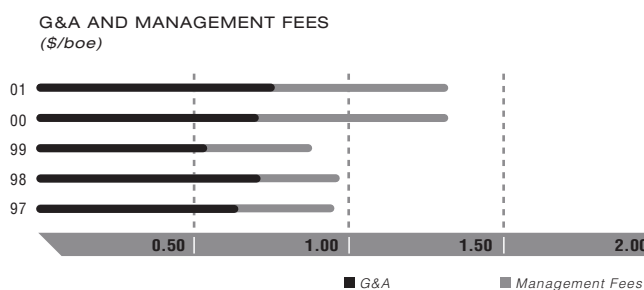
### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses, net of overhead recoveries on operated properties, increased in 2001 to \$0.75/boe from \$0.69/boe in 2000.

(\$ thousands, except boe amounts)	2001	2000	1999	1998	1997	1996
General and administrative expenses	11,812	6,956	4,381	3,246	2,735	652
Per boe	0.75	0.69	0.54	0.70	0.63	0.37

### MANAGEMENT FEES

The Manager receives a management fee of three per cent of net operating revenue. Management fees amounted to \$8.8 million or \$0.56/boe in 2001 compared to \$6.2 million or \$0.62/boe in 2000. The increase in absolute management fees is attributed to the higher production volumes, while the decrease on a per boe basis is the result of the marginal reduction in netback. Combined 2001 management fees and general and administrative expenses were unchanged from 2000 at \$1.31/boe.



### INTEREST EXPENSE

Interest expense increased to \$17.1 million in 2001 from \$10.1 million in 2000 as a result of a higher monthly average debt balance attributed to the Startech acquisition and increased capital expenditures. This was partially offset by declining interest rates. Long-term debt was reduced in November with net proceeds of \$84 million from the issue of 8.05 million trust units. Interest expense was minimized over the course of the year by the Manager choosing to finance debt through the issuance of lower cost bankers' acceptances as opposed to borrowing at the prevailing bank prime interest rates.

## TAXES

Capital taxes paid or payable by ARC based on debt and equity levels at the end of the year amounted to \$1.8 million in 2001 versus \$0.2 million in 2000. The increase is a direct result of ARC becoming a much larger corporation in 2001.

As a result of the Startech acquisition, a future income tax liability of \$203 million was set up. This liability is due to the difference between the purchase price of the Startech assets and the amount of tax pools at the date of the acquisition. A future income tax recovery of \$28 million in 2001 has left a future income tax liability of \$175 million at December 31, 2001. The future tax liability was recorded in accordance with Canadian GAAP, which states that a future liability must be recorded when a corporation purchases assets with tax pools less than the associated purchase price. In the Trust's structure, payments are made between ARC Resources and the Trust transferring both income and future tax liability from ARC Resources to the individual unitholders. Therefore, it is the opinion of the Manager, that no cash income taxes will be paid by ARC Resources but rather a higher percentage of distributions will be taxable due to the purchase of Startech compared to an asset purchase under which ARC Resources would have tax pools equal to the purchase price. The important point with the Startech acquisition is that the tax pools as a percentage of the purchase price closely approximated the percentage of existing tax pools to the value of the Trust and ARC Resources' assets immediately prior to the acquisition and, as such, there is no expected future increase in the taxable portion of distributions relative to what existed prior to the acquisition.

At year-end 2001, the Trust had \$657.4 million (\$430.2 million in 2000) in income tax pools which will be utilized to reduce the taxable portion of future cash distributions. In addition, ARC Resources had \$203.6 million of income tax pools as at December 31, 2001 which will be utilized to minimize, and potentially eliminate, future corporate income taxes.

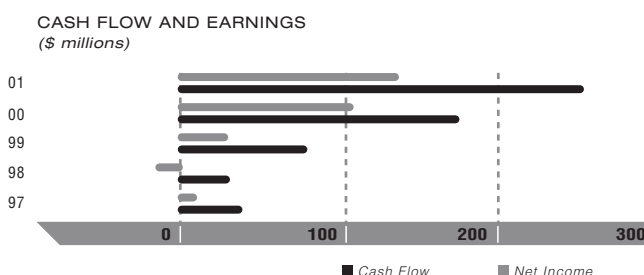
## DEPLETION, DEPRECIATION AND FUTURE SITE RECLAMATION EXPENSES

The 2001 depletion, depreciation and amortization (DD&A) rate increased to \$10.49/boe from \$6.23/boe in 2000. The DD&A rate includes a provision for future site reclamation and abandonment of \$0.59/boe in 2001 compared to \$0.61/boe in 2000. The increase in the DD&A rate in 2001 reflects the accounting treatment for the Startech acquisition. Assets to be depleted were increased by \$203 million for potential future income taxes and \$33 million for deferred hedging losses that would have been incurred had ARC collapsed the hedges at closing.

It is not anticipated ARC Resources will pay taxes in the future and therefore the future income tax liability will be brought into income over time, offsetting the higher DD&A rate. In 2001, the tax recovery was \$1.79/boe for an effective net DD&A rate of \$8.70/boe.

## CASH FLOW AND EARNINGS

The total changes in revenue less expenses resulted in record cash flow and earnings for 2001. Earnings increased to \$140.7 million in 2001 from \$110.9 in 2000; while cash flow increased by 45 per cent to \$260.3 million from \$179.4 million in 2000.



## CAPITAL EXPENDITURES

Total capital expenditures including acquisitions increased to \$625 million in 2001 from \$208 million in 2000. The majority of the increase was due to a \$369 million increase in net acquisition expenditures. Substantial increases also occurred in development drilling, geological, geophysical and facilities expenditures as ARC continues to develop its asset base. Total reserve acquisition and development costs for 2001 were \$9.75/boe compared to \$5.16/boe in 2000. A breakdown of capital expenditures by category is shown below:

(\$ thousands)	2001	2000	1999	1998	1997	1996
Geological and geophysical expenditures	2,215	466	186	339	74	—
Development drilling	73,147	39,021	20,974	6,967	7,362	116
Plant facilities	22,970	13,999	2,743	2,636	462	977
Other capital expenditures	3,886	544	347	593	857	109
Producing property net acquisitions (value net of post-closing adjustments)	522,659	153,887	231,482	60	93,962	206,231
<b>Total capital expenditures</b>	<b>624,877</b>	<b>207,917</b>	<b>255,731</b>	<b>10,595</b>	<b>102,717</b>	<b>207,433</b>
Net change in established reserves						
after production	48,344	30,268	44,528	(1,722)	15,892	41,181
Annual production	15,736	10,012	8,093	4,649	4,375	1,751
Annual reserve additions	64,080	40,280	52,621	2,927	20,267	42,932
Annual finding, development and acquisition costs (\$/boe)	9.75	5.16	4.86	3.62	5.07	4.83
Three year rolling average (\$/boe)	6.94	4.95	4.87	4.85	4.91	4.83
Cumulative since inception (\$/boe)	6.32	4.93	4.85	4.85	4.91	4.83

## ABANDONMENTS

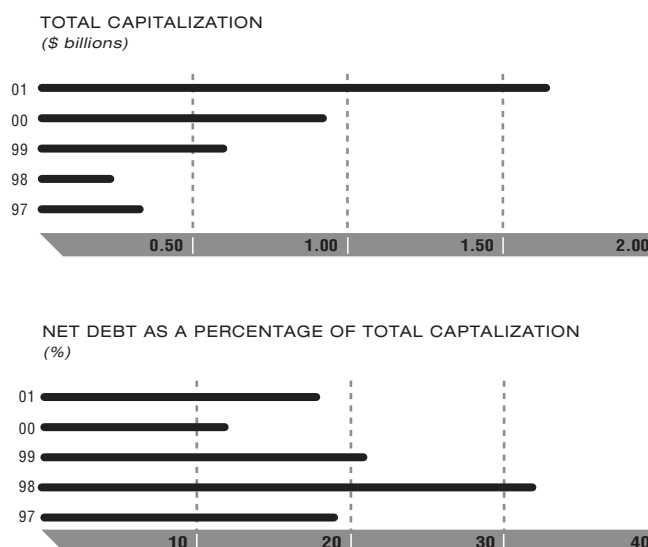
ARC takes a proactive approach when dealing with the abandonment and reclamation of associated well and facility sites, as well as other environmental issues. In 2001, the Trust hired an environmental coordinator to embark on a proactive program to abandon and reclaim wells and facilities which have reached the end of their economic lives. ARC Resources has established a reclamation fund into which \$4.1 million cash and interest income was contributed during the year. The balance in the fund was reduced for actual reclamation expenditures of \$3.8 million thereby resulting in a fund balance of \$10.1 million as at December 31, 2001. This fund is invested in short-term market instruments to provide for future abandonment liabilities. Future contributions are currently set at approximately \$4.0 million per year in order to provide for the total estimated future abandonment and site reclamation costs. ARC has been active in improving the quality of its oil and gas reserve base by purchasing properties and then selling smaller, lower quality reserves which tend to have a shorter reserve life and therefore a shorter time period prior to the eventual abandonment of the property. This practise will continue in the future in order to mitigate actual future abandonment costs.

## CAPITALIZATION AND FINANCIAL RESOURCES

Working capital at December 31, 2001 was \$5.8 million. Total debt outstanding at December 31, 2001 was \$294 million which includes bank debt of \$238.7 million and a US\$35 million Senior Secured Note. Unutilized bank lines of credit of \$111 million were available pursuant to \$350 million credit facilities in place with four major Canadian financial institutions. ARC's diverse, high-quality, long-life assets support the debt.

End-of-year net debt to total capitalization was approximately 17.6 per cent (11.7 per cent in 2000) and debt to cash flow payout was approximately 1.1 years (four months in 2000) based upon cash flow of \$260 million and net debt of \$289 million.

(\$ thousands, except per boe amounts)	2001	2000	1999	1998	1997	1996
Bank debt	<b>294,489</b>	115,068	141,000	72,499	65,955	37,998
Less: Working capital (deficiency)	<b>5,805</b>	6,339	15,761	(1,688)	4,647	1,647
Net debt obligations	<b>288,684</b>	108,729	125,239	74,187	61,308	36,351
<b>Units</b>						
Outstanding units (thousands)	<b>110,609</b>	72,524	53,607	25,604	25,604	18,000
Market price at end of period	<b>\$ 12.10</b>	\$ 11.30	\$ 8.75	\$ 6.15	\$ 10.45	\$ 12.25
<b>Exchangeable Shares</b>						
Outstanding shares (thousands)	<b>915</b>	—	—	—	—	—
Market price at end of period	<b>\$ 13.75</b>	—	—	—	—	—
Total ARC capitalization	<b>1,639,634</b>	928,250	594,300	231,651	328,870	256,851
Net debt as a percentage of total capitalization (per cent)	<b>17.6</b>	11.7	21.1	32.0	18.6	14.2



Subsequent to year-end, the Board of Directors approved the removal of the debt covenants in the Royalty Agreement between ARC Resources Ltd. and the Trust. As the Trust holds a significant portion of its assets outside of ARC Resources, most significantly its Saskatchewan assets in ARC (Sask) Energy Trust, the debt covenant did not achieve the purpose it was originally intended to serve. After careful consideration, it was decided to remove the debt covenant and substitute overall Board approval as the overriding approval on the Manager's use of debt. The Manager has consistently stated that the objectives of ARC Energy Trust in respect to the use of debt are as follows:

- to be one of the most conservatively capitalized conventional oil and gas trusts;
- to consider the commodity price cycles and manage debt so that debt to equity and debt to cash flow are at low levels during periods of high commodity prices. This ensures that in periods of declining commodity prices debt to cash flow remains at acceptable levels; and
- to finance the major portion of acquisitions with equity.

Currently several Canadian conventional oil and gas trusts have obtained US stock exchange listings in order to make their trust units more accessible to US investors. We are monitoring this situation and at this time have chosen not to pursue a US listing until it is evident that the advantages outweigh the costs of obtaining and maintaining a US listing. The Trust has become a Securities and Exchange Commission ("SEC") registrant under which we are making the necessary regulatory filings to provide easier access to the Trust's financial information for US investors purchasing units on the Toronto Stock Exchange.

### UNITHOLDERS' EQUITY

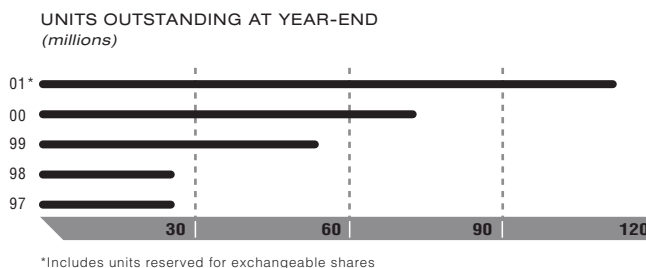
ARC's total capitalization increased 76 per cent to \$1.6 billion during 2001 with the market value of trust units representing 82 per cent of total capitalization. Debt, net of working capital, represented 18 per cent of total capitalization. During 2001, the market price of the trust units increased from \$11.30 to \$12.10.

In conjunction with the Startech acquisition, ARC Resources issued 7.4 million Exchangeable Shares. The Exchangeable Shares can be converted, at the option of the shareholder, into trust units. The number of trust units issuable upon conversion is based on the exchange ratio in effect at the conversion date. The exchange ratio is calculated monthly based on the cash distribution paid divided by the 10-day weighted average price preceding the record date. The Exchangeable Shares are not eligible for distributions. During the year, 6.5 million Exchangeable Shares were converted into 6.8 million trust units.

Unitholders electing to reinvest distributions or make optional cash payments to acquire trust units from treasury under the Distribution Reinvestment Plan (DRIP) resulted in an additional 57,117 trust units being issued in 2001. The units were issued at an average price of \$11.38 raising a total of \$650,453.

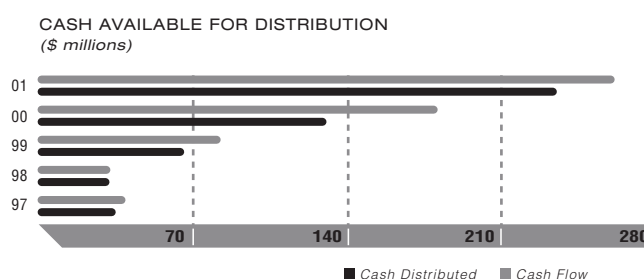
During 2001, as part of ARC's long-term incentive plan, 1,509,517 trust unit incentive rights (804,000 in 2000) were issued to office and field employees, long-term consultants and independent directors at prices ranging from \$10.49 – \$12.70 per trust unit (\$9.10 – \$11.65 in 2000). The exercise price is adjusted downward over time by the amount, if any, that annual distributions exceed 10 per cent of 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 2,509,000 trust units at an average adjusted exercise price of \$9.05 were outstanding at December 31, 2001. These rights have an average remaining contractual life of 3.8 years and expire at various dates to November 2006. Of the rights outstanding at December 31, 2001, 218,000 were exercisable at that time.

In November 2001, ARC completed an equity financing which raised \$88.6 million of gross proceeds (\$84.0 million net) on the issuance of 8.05 million trust units at \$11.00 per trust unit. The proceeds were used to reduce existing debt levels on an interim basis and to partially fund 2001 and 2002 capital expenditures.



## CASH DISTRIBUTIONS

Total cash distributions of \$2.31 per trust unit were made in fiscal year 2001 (\$2.01 in 2000) for total cumulative distributions since inception of \$505.3 million (\$9.08 per trust unit). This record distribution level was a result of continued strong performance of the Trust. In 2001, 90 per cent of cash flow was distributed to unitholders. The remaining 10 per cent (\$26.2 million) was used to fund capital expenditures and to make the annual contribution to the reclamation fund. ARC's distribution policy is to withhold up to 20 per cent of cash flow net of the reclamation fund contributions to fund capital expenditures. The actual amount withheld is dependant on the commodity price environment and is at the discretion of the Board of Directors. This holdback policy is a key difference between ARC and other conventional oil and gas trusts. We believe it is essential to focus on production replacement activities partially funded by cash flow in order to enhance long-term unitholder returns.



Monthly cash distributions for the first quarter of 2002 were set at \$0.13 per unit subject to 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. During periods of volatile commodity prices, the Trust may vary the distribution rate monthly. Any differences between cash available for distribution and actual cash distributions in any quarter are adjusted for in the ensuing quarter's monthly distribution.

### Historical Distributions by Calendar Year

(\$)	Distributions	Taxable	Return of Capital
<b>Calendar Year</b>			
2002	0.15 <sup>(1)</sup>	0.09 <sup>(2)</sup>	0.06 <sup>(2)</sup>
2001	2.41 <sup>(3)</sup>	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	9.08	3.26	5.82

(1) The distribution based upon December 2001 cash flow and paid on January 15, 2002 is subject to tax in 2002.

(2) The estimated taxable portion of distributions in 2002 is 60 to 65 per cent.

(3) Calendar year distributions were \$0.10 greater than the fiscal year distributions, due to the passage of time from accounting month end to distribution payments.

### 2001 Distributions by Month

(\$)	Taxable Amount	Tax Deferred Amount (Return of Capital)	Total Distribution
<b>Payment Date</b>			
January 15, 2001	0.1700	0.0800	0.25
February 15, 2001	0.1360	0.0640	0.20
March 15, 2001	0.1360	0.0640	0.20
April 16, 2001	0.1360	0.0640	0.20
May 15, 2001	0.1496	0.0704	0.22
June 15, 2001	0.1496	0.0704	0.22
July 16, 2001	0.1496	0.0704	0.22
August 15, 2001	0.1360	0.0640	0.20
September 17, 2001	0.1360	0.0640	0.20
October 15, 2001	0.1360	0.0640	0.20
November 15, 2001	0.1020	0.0480	0.15
December 17, 2001	0.1020	0.0480	0.15
<b>Total</b>	<b>1.6388</b>	<b>0.7712</b>	<b>2.41</b>

### ASSESSMENT OF BUSINESS RISKS

The ARC management team is focused on long-term strategic planning and has identified the following items as risks and in certain cases opportunities associated with the Trust's business: (a) operational risk associated with the production of oil and natural gas; (b) reserve risk in respect to the quantity and quality of recoverable reserves; (c) market risk relating to the availability of transportation systems to move the product to market; (d) commodity price risk as oil and natural gas prices fluctuate due to market forces; (e) financial risks such as the Canadian/US dollar exchange rate, interest rates and debt service obligations; (f) environmental and safety risks associated with well and production facilities; and (g) changing government royalty legislation, income tax laws and incentive programs relating to the oil and gas industry.

The Trust's policies and procedures to mitigate these risks include: (a) acquire mature production to reduce technical uncertainty; (b) acquire long-life reserves to ensure more stable production and to reduce the economic risks associated with commodity price cycles; (c) maintain a low cost structure to maximize product netbacks; (d) diversify properties to mitigate individual property risk; (e) seek to maintain a relatively balanced commodity exposure; (f) subject all property acquisitions to rigorous review; (g) closely monitor pricing trends and develop a mix of contractual arrangements for the marketing of products with credit worthy counterparties; (h) maintain a hedging program to hedge commodity prices and foreign currency rates with credit worthy counterparties; (i) continuously retain the services of technical experts when required; (j) ensure strong third-party operators for non-operated properties; (k) adhere to the Trust's safety program and keep abreast of current operating practices; (l) carry insurance to cover losses and business interruption; and (m) establish and build cash resources to pay for future abandonment and site restoration costs.

## OUTLOOK

It is the Trust's objective to provide the highest possible long-term returns to unitholders, by focusing on the key strategic objective of the business plan which is to continue to achieve superior results as compared to other trusts and the oil and gas producing sector.

The key future objectives of the business plan include:

- annual reserve replacement;
- ensuring acquisitions are strategic and enhance unitholder returns;
- controlling costs – FD&A costs, operating costs and G&A expenses;
- actively hedging a portion of the Trust's production to enhance long-term returns and stabilize distributions;
- conservative utilization of debt;
- continuously developing the expertise of our staff and hire and retain the best in the industry;
- building business relationships so as to be viewed as fair and equitable in all business dealings;
- promoting the use of proven and effective technologies;
- being an industry leader in the environmental, health and safety area; and
- continuing to actively support local initiatives in the communities in which we operate and live.

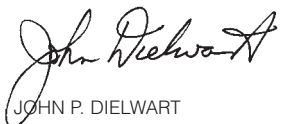
The fulfillment of these objectives should continue to generate superior returns to unitholders.

## MANAGEMENT'S RESPONSIBILITY

ARC Resources Management Ltd. (the "Manager"), as manager of ARC Energy Trust and ARC Resources Ltd., is responsible for the preparation of the accompanying consolidated financial statements. The statements have been prepared in accordance with the accounting policies detailed in the accounting policies note to the consolidated financial statements. In the Manager's opinion, the consolidated financial statements are in accordance with generally accepted accounting principles, have been prepared within acceptable limits of materiality, and have utilized supportable reasonable estimates.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information.

Arthur Andersen LLP, independent auditors appointed by the Trustee, has examined the consolidated financial statements of the Trust. The Audit Committee, consisting of the independent directors of ARC Resources Ltd., has reviewed these statements with management and the auditors, and has recommended them to the Board of Directors for approval. The Board has approved the consolidated financial statements of the Trust.



JOHN P. DIELWART  
*President and Chief Executive Officer*

Calgary, Alberta  
February 7, 2002



STEVEN W. SINCLAIR  
*Vice President Finance and Chief Financial Officer*

## AUDITORS' REPORT

### To the Unitholders of ARC Energy Trust,

We have audited the consolidated balance sheet of ARC Energy Trust as at December 31, 2001 and 2000 and the consolidated statements of income and accumulated earnings, cash flows and cash distributions and accumulated cash distributions for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



ARTHUR ANDERSEN LLP  
*Chartered Accountants*

Calgary, Alberta  
February 7, 2002

**CONSOLIDATED BALANCE SHEET**

As at December 31

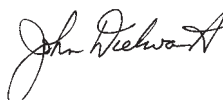
(CDN\$ thousands)	2001	2000
<b>ASSETS</b>		
Current assets		
Cash	\$ 646	\$ 3,331
Accounts receivable	51,875	43,260
Prepaid expenses	6,030	5,553
	58,551	52,144
Deferred foreign exchange translation loss (Note 6)	2,053	–
Reclamation fund (Note 4)	10,147	9,897
Property, plant and equipment (Notes 5 and 6)	1,311,306	600,813
Total assets	\$ 1,382,057	\$ 662,854
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 35,595	\$ 26,951
Cash distributions payable	16,594	18,131
Payable to the Manager (Note 11)	557	723
	52,746	45,805
Long-term debt (Note 6)	294,489	115,068
Deferred foreign exchange translation gain (Note 6)	–	1,106
Site reclamation and abandonment	28,837	18,620
Commodity and foreign currency contracts (Notes 3 and 7)	13,107	–
Future income taxes (Note 10)	174,703	–
Total liabilities	563,882	180,599
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital (Note 8)	1,029,538	610,645
Exchangeable shares (Note 8)	10,392	–
Accumulated earnings	283,575	142,887
Accumulated cash distributions	(505,330)	(271,277)
Total unitholders' equity	818,175	482,255
Total liabilities and unitholders' equity	\$ 1,382,057	\$ 662,854

See accompanying notes to consolidated financial statements

Approval on behalf of the Board:



MAC H. VAN WIELINGEN  
Director



JOHN P. DIELWART  
Director

**CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED EARNINGS**

For the years ended December 31

(CDN\$ thousands, except per unit amounts)	2001	2000
<b>Revenue</b>		
Oil, natural gas, natural gas liquids and sulphur sales	\$ 515,458	\$ 316,270
Royalties	(112,209)	(64,188)
	403,249	252,082
<b>Expenses</b>		
Operating	86,108	49,268
General and administrative (Note 11)	11,812	6,956
Management fee (Note 11)	8,789	6,193
Interest on long-term debt (Note 6)	17,138	10,088
Depletion, depreciation and amortization	165,050	68,494
Capital taxes	1,794	211
	290,691	141,210
Income before future income tax recovery	112,558	110,872
Future income tax recovery (Note 10)	28,130	—
Net income (Note 9)	140,688	110,872
Accumulated earnings, beginning of year	142,887	32,015
Accumulated earnings, end of year	\$ 283,575	\$ 142,887
Net income per unit (Note 9)		
Basic	\$ 1.38	\$ 1.74
Diluted	\$ 1.37	\$ 1.72

See accompanying notes to consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the years ended December 31

(CDN\$ thousands)	2001	2000
<b>Cash flow from operating activities</b>		
Net income	\$ 140,688	\$ 110,872
Add items not involving cash:		
Future income tax recovery	(28,130)	–
Depletion, depreciation and amortization	165,050	68,494
Amortization of commodity and foreign currency contracts	(17,497)	–
Amortization of deferred foreign exchange (gain) loss	159	(17)
	260,270	179,349
Change in non-cash working capital	(6,399)	(13,440)
	253,871	165,909
<b>Cash flow from financing activities</b>		
Borrowing (repayments) of long-term debt, net	13,103	(78,673)
Issue of Senior Secured Notes (Note 6)	–	53,864
Issue of Trust units	93,053	183,858
Trust unit issue costs	(4,654)	(8,317)
Cash distributions paid	(235,590)	(116,188)
	(134,088)	34,544
<b>Cash flow from investing activities</b>		
Acquisition of Startech, net of cash received (Note 3)	(7,970)	–
Acquisition of properties	(32,686)	(171,537)
Proceeds on disposition of properties	19,775	22,441
Purchase of capital assets	(97,207)	(53,848)
Reclamation fund contributions and actual expenditures	(4,380)	(3,418)
	(122,468)	(206,362)
<b>Decrease in cash</b>	<b>(2,685)</b>	<b>(5,909)</b>
<b>Cash, beginning of year</b>	<b>3,331</b>	<b>9,240</b>
<b>Cash, end of year</b>	<b>\$ 646</b>	<b>\$ 3,331</b>

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENT OF CASH DISTRIBUTIONS AND ACCUMULATED CASH DISTRIBUTIONS

For the years ended December 31

(CDN\$ thousands, except per unit amounts)	2001	2000
<b>Net income</b>	<b>\$ 140,688</b>	<b>\$ 110,872</b>
Future income tax recovery	(28,130)	–
Depletion, depreciation and amortization	165,050	68,494
Amortization of commodity and foreign currency contracts	(17,497)	–
Amortization of deferred foreign exchange (gain) loss	159	(17)
<b>Cash from operations</b> (Note 9)	<b>260,270</b>	<b>179,349</b>
<b>Cash from operations</b> (99 per cent)	<b>257,667</b>	<b>177,556</b>
Add (deduct):		
General and administrative reimbursement (residual one per cent)	2,603	1,793
Capital expenditures	(27,933)	(23,331)
Proceeds from disposition of royalty interests	19,775	17,614
Discretionary debt repayment	(19,775)	(41,466)
Reclamation fund contributions	(4,095)	(3,418)
Current period accruals	5,811	210
<b>Cash distributions</b>	<b>234,053</b>	<b>128,958</b>
<b>Accumulated cash distributions, beginning of year</b>	<b>271,277</b>	<b>142,319</b>
<b>Accumulated cash distributions, end of year</b>	<b>\$ 505,330</b>	<b>\$ 271,277</b>
<b>Cash distributions per unit</b> (Note 9)	<b>\$ 2.31</b>	<b>\$ 2.01</b>

See accompanying notes to consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (all tabular amounts in thousands, except per unit and volume amounts)

### 1. STRUCTURE OF THE TRUST

ARC Energy Trust ("the Trust") was formed on May 7, 1996 pursuant to a trust indenture (the "Trust Indenture"). Computershare Trust Company of Canada was appointed as Trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of the trust units.

The Trust was created for the purposes of issuing trust units to the public and investing the funds so raised to purchase a royalty in the properties of ARC Resources Ltd. ("ARC Resources"). The Trust Indenture was amended on June 7, 1999 to convert the Trust from a closed-end to an open-ended investment trust. The Trust Indenture was most recently amended on May 23, 2000 to expand the scope of the business to include the investment in all types of energy business-related assets including, but not limited to, petroleum and natural gas-related assets, oil sands interests, electricity or power generating assets and pipeline, gathering, processing and transportation assets. The operations of the Trust consist of the acquisition, development, exploitation and disposition of these assets and the distribution of net cash proceeds from these activities to the unitholders.

### 2. SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management following Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

In particular, the amounts recorded for depletion, depreciation and amortization of the petroleum and natural gas properties and for site reclamation and abandonment are based on estimates of reserves and future costs. By their nature, these estimates, and those related to future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Trust and its subsidiaries. All inter-entity transactions have been eliminated.

#### Property, Plant and Equipment

The Trust follows the full-cost method of accounting. All costs of acquiring petroleum and natural gas properties and related development costs are capitalized and accumulated in one cost centre. Maintenance and repairs are charged against income, and renewals and enhancements which extend the economic life of the property, plant and equipment are capitalized. Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion by 20 per cent or more.

### Depletion, Depreciation and Amortization

Depletion of petroleum and natural gas properties and depreciation of production equipment, except for major gas plant facilities which are depreciated on a straight-line basis over their estimated useful lives, are calculated on the unit-of-production method based on:

- (a) total estimated proved reserves;
- (b) total capitalized costs plus estimated future development costs of proved undeveloped reserves less estimated net realizable value of production equipment and facilities after the proved reserves are fully produced; and
- (c) relative volumes of petroleum and natural gas reserves and production converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

### Ceiling Test

The Trust places a limit on the aggregate carrying value of property, plant and equipment, which may be amortized against revenues of future periods (the "ceiling test"). The ceiling test is a cost recovery test whereby the capitalized costs less accumulated depletion, depreciation and amortization, site reclamation and abandonment and future income tax liabilities are limited to an amount equal to estimated undiscounted future net revenues from proved reserves less estimated recurring general and administrative expenses, future site reclamation and abandonment costs, management fees, future financing costs and income taxes.

### Future Site Reclamation and Abandonment

Provisions for future site reclamation and abandonment costs are calculated on the unit-of-production method over the life of the petroleum and natural gas properties based on estimated proved developed and undeveloped reserves. Actual site reclamation costs incurred are charged against the site reclamation and abandonment liability.

### Unit-Based Compensation Plan

The Trust has a unit-based compensation plan for employees, independent directors and long-term consultants, which is described in Note 8. No compensation expense is recognized when unit rights are issued. Any consideration received by the Trust on exercise of unit rights is credited to unitholders' capital.

### Income Taxes

The Trust follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of the Trust's corporate subsidiaries and their respective tax base, using enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. Temporary differences arising on acquisitions result in future income tax assets and liabilities.

The Trust is a taxable entity under the *Income Tax Act (Canada)* and is taxable only on income that is not distributed or distributable to the unitholders. As the Trust distributes all of its taxable income to the unitholders and meets the requirements of the *Income Tax Act (Canada)* applicable to the Trust, no provision for income taxes has been made in the Trust.

### Hedging

The Trust uses derivative instruments to reduce its exposure to commodity price fluctuations. Gains and losses on these contracts, all of which constitute effective hedges, are recognized as a component of the related transaction.

### Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the monthly average rates of exchange. Translation gains and losses are included in income, except for unrealized gains and losses on long-term monetary items with a fixed or determinable life which are deferred and amortized to income over their remaining term.

### 3. ACQUISITION

Effective January 31, 2001, the Trust acquired all of the issued and outstanding shares of Startech Energy Inc. ("Startech"). The transaction has been accounted for using the purchase method of accounting with the allocation of the purchase price and consideration paid as follows:

Net assets acquired:

Cash	\$	12,319
Working capital		1,770
Property, plant and equipment		751,198
Site reclamation liability		(5,130)
Commodity and foreign currency contracts (Note 8)		(33,149)
Future income taxes		(203,171)
Total net assets acquired	\$	523,837

Financed by:

Cash	\$	20,289
Trust units issued		256,051
Exchangeable shares issued		84,497
Debt assumed		163,000
Total purchase price	\$	523,837

### 4. RECLAMATION FUND

	2001	2000
Balance, beginning of year	\$ 9,897	\$ 7,165
Contributions, net of actual expenditures	(245)	2,274
Interest earned on fund	495	458
Balance, end of year	\$ 10,147	\$ 9,897

A reclamation fund was established to fund future site reclamation and abandonment costs. The Board has approved contributions over a 20-year period which results in minimum annual contributions of \$3.6 million (\$2.8 million in 2000) based upon properties owned as at December 31, 2001. Contributions to the reclamation fund have been deducted from the cash distributions to the unitholders. During the year, \$3.8 million (\$686,000 in 2000) of actual expenditures were charged against the reclamation fund.

## 5. PROPERTY, PLANT AND EQUIPMENT

	2001	2000
Property, plant and equipment, at cost	\$ 1,650,720	\$ 784,393
Accumulated depletion, depreciation and amortization	(339,414)	(183,580)
Property, plant and equipment, net	\$ 1,311,306	\$ 600,813

The calculation of 2001 depletion, depreciation and amortization included an estimated \$166.5 million (\$140.8 million in 2000) for future development costs associated with proved undeveloped reserves and excluded \$12.0 million (\$12.0 million in 2000) for future net realizable value of production equipment and facilities and \$22.3 million (\$5.7 million in 2000) for unproved properties.

## 6. LONG-TERM DEBT

	2001	2000
Revolving credit facilities	\$ 238,748	\$ 62,645
Senior Secured Notes (US\$35 million)	55,741	52,423
Total long-term debt	\$ 294,489	\$ 115,068

The Trust has four revolving credit facilities to a combined maximum of \$350 million and US\$35 million of Senior Secured Notes (the "Notes").

The revolving credit facilities each have a 364 day extendable revolving period and a two year term. Borrowings under the facilities bear interest at bank prime (4.0 per cent at December 31, 2001) or, at the Trust's option, bankers' acceptance plus a stamping fee. The lenders review the credit facilities by April 30 each year and determine whether they will extend the revolving periods for another year. In the event that the revolving periods are not extended, the Trust will finance the required quarterly installments using existing long-term facilities. Collateral for the loans is in the form of floating charges on all lands and assignments and negative pledges on specific petroleum and natural gas properties.

The Notes were issued during 2000 pursuant to an Uncommitted Master Shelf Agreement. The Notes bear interest at 8.05 per cent and require equal principal payments of US\$7 million over a five year period commencing in 2004. Security for the Notes is in the form of floating charges on all lands and assignments. The Uncommitted Master Shelf Agreement allows for the issuance of an additional US\$65 million of Notes at rates and maturity dates to be agreed upon at the date of issuance.

The Trust has not hedged its foreign exchange exposure on the Notes. A foreign exchange translation loss of \$2.1 million was deferred at December 31, 2001 (gain of \$1.1 million in 2000), and is being recognized over the term of the Notes.

The payment of principal and interest are allowable deductions in the calculation of cash available for distribution to unitholders. Should the properties securing this debt generate insufficient revenue to repay the outstanding balances, the unitholders have no direct liability.

Interest paid during the year did not differ significantly from interest expense.

## 7. FINANCIAL INSTRUMENTS

Financial instruments of the Trust carried on the balance sheet consist mainly of current assets, reclamation fund investments, current liabilities and long-term debt. As at December 31, 2001 and 2000, there were no significant differences between the carrying value of these financial instruments and their estimated fair value.

Substantially all of the Trust's accounts receivable are due from customers in the oil and gas industry and are subject to the normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risks.

The Trust utilizes a variety of derivative instruments to reduce its exposure to changes in commodity prices and foreign exchange rates. The fair values of these derivative instruments are based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity.

The Trust is exposed to losses in the event of default by the counterparties to these derivative instruments. The Trust manages this risk by diversifying its derivative portfolio amongst a number of financially sound counterparties.

Included in the total market value of all derivative instruments is a net gain of \$1.8 million for contracts with one counterparty for which there is uncertainty with respect to the counterparty's ability to fulfill the terms of the contracts.

The following contracts were outstanding as at December 31, 2001. Settlement of these contracts, which have no book value, would have resulted in a net receipt by the Trust of \$13.0 million as at December 31, 2001.

	Daily Quantity	Average Contract Prices (\$) <sup>(1)</sup>	Price Index	Term
Crude oil fixed price contracts (embedded put option) <sup>(2)</sup>	2,000 bbls	42.91 (36.63) <sup>(2)</sup>	WTI	January 2002 – March 2002
	1,000 bbls	42.12 (35.80) <sup>(2)</sup>	WTI	April 2002 – December 2002
Crude oil fixed price contracts (embedded double put option) <sup>(3)</sup>	2,000 bbls	41.81 (32.25) <sup>(3)</sup>	WTI	January 2002 – December 2002
Crude oil fixed price contracts (embedded "cancel level") <sup>(4)</sup>	10,000 bbls	40.17 (29.38) <sup>(4)</sup>	WTI	January 2002 – December 2002
Crude oil call option	5,000 bbls	43.00	WTI	January 2002 – December 2002
Natural gas fixed price contracts	12,500 GJ	3.66	AECO	January 2002 – March 2002
	10,000 GJ	3.62	AECO	April 2002 – October 2002
Natural gas collared contracts	5,000 GJ	3.50 – 5.64	AECO	April 2002 – October 2002
Natural gas put option (embedded 80 per cent put option) <sup>(5)</sup>	5,000 GJ	3.50 (3.50) <sup>(5)</sup>	AECO	January 2002 – March 2002
Natural gas collared contract (embedded put option) <sup>(6)</sup>	10,000 GJ	3.50 – 4.00 (2.50) <sup>(6)</sup>	AECO	January 2002 – December 2002

The Trust entered into a contract to fix the price of electricity on five megawatts per hour ("MW/h") for the period April 17, 2001 through December 31, 2010 at a price of \$63/MW/h. Settlement of this contract would have required a net payment by the Trust of \$6.7 million as at December 31, 2001.

In addition to the contracts described on the preceding page, the following contracts, with a liability book value of \$13.1 million, were outstanding as at December 31, 2001. These contracts were acquired in conjunction with the Startech acquisition at which time the market value of the contracts was a net liability of \$33.1 million. Settlement of these contracts would have resulted in a net receipt by the Trust of \$6.5 million as at December 31, 2001.

Commodity Contracts	Daily Quantity	Average Contract Prices (\$) <sup>(1)</sup>	Price Index	Term
Crude oil fixed price contracts	5,000 bbls	37.53	WTI	January 2002 – December 2002
Natural gas fixed price contracts	20,750 GJ	4.92	AECO	January 2002 – October 2002
	4,000 GJ	2.71	AECO	November 2002 – October 2004
	750 GJ	3.49	San Juan	January 2002 – October 2002
	1,500 GJ	3.79	Ventura	January 2002 – October 2002
Natural gas collared contracts	2,000 GJ	2.30 – 3.10	AECO	January 2002 – October 2002

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

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

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

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

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

(5) Counterparty may exercise a put option at \$3.50/GJ on 20 per cent of the contract volume if index is above the specified price on monthly settlement basis.

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

## 8. UNITHOLDERS' CAPITAL

On January 31, 2001, the Trust issued 22.5 million trust units and 7.4 million exchangeable shares of ARC Resources Ltd. at \$11.36 per unit/exchangeable share for a total of \$341 million as consideration for the Startech acquisition. The exchangeable shares can be converted (at the option of the holder) into trust units at any time on or after January 31, 2001. The number of trust units issuable upon conversion is based upon the exchange ratio in effect at the conversion date. The exchange ratio is calculated monthly based on the cash distribution paid divided by the ten day weighted average unit price preceding the record date. The exchangeable shares are not eligible for distributions and, in the event that they are not converted, any outstanding shares are redeemable by the Trust on or after February 1, 2004 until February 1, 2010.

During the year, 6,523,354 exchangeable shares were converted to trust units at an average exchange ratio of 1.05277 trust units for each exchangeable share. At December 31, 2001, the exchange ratio was 1.18422 to 1.

On November 5, 2001, the Trust issued 8,050,000 trust units at \$11.00 per trust unit for net proceeds of \$84,008,781 pursuant to a public offering prospectus dated October 29, 2001.

Trust Units	2001		2000	
	Number of Trust Units	\$	Number of Trust Units	\$
Balance, beginning of year	72,524	610,645	53,607	432,690
Issued on acquisition of Startech	22,540	256,051	—	—
Issued for cash	8,050	88,550	15,100	156,715
Issued on conversion of exchangeable shares	6,867	74,105	—	—
Issued on exercise of warrants	—	—	3,471	26,791
Issued on exercise of employee rights	571	4,191	266	1,976
Distribution reinvestment program	57	650	80	790
Trust unit issue costs	—	(4,654)	—	(8,317)
Balance, end of year	110,609	1,029,538	72,524	610,645

Exchangeable Shares	2001		2000	
	Number of Shares	\$	Number of Shares	\$
Balance, beginning of year	—	—	—	—
Issued on acquisition of Startech	7,438	84,497	—	—
Converted for trust units	(6,523)	(74,105)	—	—
Balance, end of year	915	10,392	—	—
Exchange ratio, end of year	1.18422	—	—	—
Trust units issuable upon conversion, end of year	1,083	10,392	—	—

Warrants which were issued upon the acquisition of Starcor Energy Royalty Fund and Orion Energy Trust in 1999 expired in 2000. At December 31, 1999 there were 3,494,951 warrants outstanding of which 3,471,281 were exercised during 2000. The remaining 23,670 warrants which had not been exercised as at June 15, 2000 were cancelled.

A Trust Unit Incentive Rights Plan (the "Plan") was established in 1999 and replaced the existing option plan. All options previously granted under the former plan were cancelled. The Trust is authorized to grant up to 3,163,108 rights to its employees, independent directors and long-term consultants to purchase trust units. The initial exercise price of rights granted under the plan may not be less than the current market price of the trust units as at the date of grant and the maximum term of each right is not to exceed ten years. The exercise price of the rights is to be adjusted downwards from time to time by the amount, if any, that distributions to unitholders in any calendar quarter exceed a percentage of the Trust's net book value of property, plant and equipment (the "Excess Distribution"), as determined by the Trust.

During the year, the Trust granted 1,509,517 rights (804,000 in 2000) to employees, independent directors and consultants to purchase trust units at exercise prices ranging from \$10.49 to \$12.70 per trust unit (\$9.10 to \$11.65 in 2000). Rights granted under the plan generally have a five year term and vest equally over three years commencing on the first anniversary date of the grant. In accordance with the Plan, the exercise price of the rights granted was reduced as a result of calendar year distributions to unitholders exceeding 10 per cent of the Trust's net book value of property, plant and equipment.

A summary of the changes in rights outstanding under the plan is as follows:

	2001		2000	
	Number of Rights	Weighted Average Exercise Price	Number of Rights	Weighted Average Exercise Price
Balance, beginning of year	1,722	\$ 7.48	1,192	\$ 7.86
Granted	1,510	11.71	804	9.20
Exercised	(571)	7.34	(266)	7.43
Cancelled	(152)	9.69	(8)	7.86
Balance before reduction of exercise price	2,509	9.92	1,722	8.55
Reduction of exercise price	–	(0.87)	–	(1.07)
Balance, end of year	2,509	\$ 9.05	1,722	\$ 7.48

A summary of the plan as at December 31, 2001 is as follows:

Exercise Price at Grant Date	Adjusted Exercise Price	Number of Rights Outstanding	Remaining Contractual Life of Right (years)	Number of Rights Exercisable
\$ 8.20	\$ 5.66	541	2.3	159
9.10	7.19	544	3.3	48
11.65	10.21	10	3.8	3
11.35	10.11	25	3.9	8
11.30	10.27	10	4.0	–
11.17	10.26	592	4.1	–
12.47	11.85	582	4.3	–
11.37	11.21	205	4.8	–
\$ 10.36	\$ 9.05	2,509	3.8	218

The Trust has adopted a Unitholders' Rights Plan which provides for the issuance of additional trust units in certain events when one party acquires more than 20 per cent of the outstanding units of the Trust.

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

Net income and cash flow from operations per trust unit are as follows:

	2001	2000
Net income		
Basic <sup>(1)</sup>	\$ 1.38	\$ 1.74
Diluted <sup>(2)</sup>	1.37	1.72
Cash flow from operations <sup>(3)</sup>		
Basic <sup>(1)</sup>	2.55	2.82
Diluted <sup>(2)</sup>	2.54	2.79

<sup>(1)</sup> Basic per unit calculations are based on the weighted average number of trust units outstanding in 2001 of 101,979,000 (63,681,000 in 2000) which includes outstanding exchangeable shares converted at the average exchange ratio during the period.

<sup>(2)</sup> Diluted calculations include 620,000 additional trust units in 2001 (623,000 additional trust units in 2000) for the dilutive impact of employee rights and warrants. There were no adjustments to net income or cash flow from operations in calculating diluted per share amounts.

<sup>(3)</sup> Calculated by adding future income tax recovery, amortization of deferred foreign exchange translation gain/loss, amortization of commodity and foreign currency contracts, and depletion, depreciation and amortization to net income and dividing by the weighted average number of trust units.

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

## 10. INCOME TAXES

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rate to income before future income tax recovery as follows:

	2001	2000
Income before future income tax recovery	\$ 112,558	\$ 110,872
Expected income tax expense at statutory rates	47,950	49,449
Effect on income tax of:		
Net income of the Trust	(72,852)	(44,381)
Effect of change in provincial tax rate	(9,111)	–
Resource allowance	(3,121)	(7,982)
Non-deductible crown charges	8,431	3,052
Alberta Royalty Tax Credit	(191)	(231)
Capital Tax	764	93
Future income tax recovery	\$ (28,130)	\$ –

The net future income tax liability is comprised of:

	2001	2000
Future tax liabilities:		
Capital assets in excess of tax value	\$ 192,679	–
Future tax assets:		
Attributed Canadian Royalty Income	(5,165)	–
Future removal and site restoration costs	(11,367)	–
Deductible share issue costs	(1,444)	–
Net future income tax liability	\$ 174,703	–

The petroleum and natural gas properties and facilities owned by the Trust's corporate subsidiaries have an approximate tax basis of \$203.6 million (\$159.6 million in 2000) available for future use as deductions from taxable income. Included in this tax basis are non-capital loss carryforwards of \$65.2 million (\$8.1 million in 2000) which expire in the years through 2008.

No current income taxes were paid or payable in 2001 or 2000.

**11. RELATED PARTY TRANSACTIONS**

Pursuant to a reorganization of the ARC Group of Companies on June 9, 2000, ARC Financial Corporation assigned its rights and obligations under the management agreement to ARC Resources Management Ltd. Fees payable to the Manager for management, advisory and administrative services include a fee equal to three per cent of net production revenue; and fees of 1.5 per cent, and 1.25 per cent of the purchase price of acquisitions and the net proceeds of dispositions, respectively. In 2001, total acquisition and disposition fees paid or payable to the Manager were \$7,926,798 (\$2,680,000 in 2000). These fees are accounted for as either part of the purchase price or as a reduction of the proceeds of disposition of property, plant and equipment.

During 2001, the Manager was reimbursed \$11,714,502 (\$5,016,949 in 2000) for general and administrative expenses incurred on behalf of the Trust.

**12. CONTINGENCIES**

The Trust is involved in litigation and claims associated with normal operations, and is of the opinion that any resulting settlements would not materially affect its financial position or reported results of operations.

**13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES  
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which differ in some respects to those in the United States. Any differences in accounting principles as they pertain to the accompanying consolidated financial statements are immaterial except as described below:

The application of US GAAP would have the following effect on net income as reported:

	2001	2000
Net income as reported	\$ 140,688	\$ 110,872
Adjustments (net of applicable income taxes):		
Write-down of property, plant and equipment (a)	(110,635)	—
Depletion, depreciation and amortization (a)	10,338	10,646
Unrealized gain on derivative instruments (d)	6,592	—
Foreign exchange translation gain (loss) (b)	(2,486)	1,106
Unit based compensation (c)	(4,474)	(4,402)
Net income under US GAAP	\$ 40,023	\$ 118,222

	2001	2000
Net income per trust unit under US GAAP		
Basic	\$ 0.39	\$ 1.86
Diluted	0.39	1.84

	2001	2000
Comprehensive Income:		
Net income under US GAAP	\$ 40,023	\$ 118,222
Unrealized gain on derivative instruments (net of future income taxes of \$6,125)	8,251	—
Other comprehensive income (d)	\$ 48,274	\$ 118,222

The application of US GAAP would have the following effect on the consolidated balance sheets as reported:

	2001		2000	
	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Property, plant and equipment	\$ 1,311,306	\$ 1,091,432	600,813	\$ 511,200
Deferred foreign exchange translation loss	2,053	–	–	–
Deferred foreign exchange translation gain	–	–	(1,106)	–
Commodity and foreign currency contracts	(13,107)	12,753	–	–
Future income taxes	(174,703)	(155,083)	–	–
Unitholders' capital	(1,029,538)	(1,038,849)	(610,645)	(615,482)
Accumulated earnings	(283,575)	(89,566)	(142,887)	(49,543)
Accumulated other comprehensive income	–	(8,251)	–	–

The above noted differences between Canadian GAAP and US GAAP are the result of the following:

- (a) The Trust performs a cost recovery ceiling test for each cost centre which limits net capitalized costs to the undiscounted estimated future net revenue from proved oil and gas reserves plus the cost of unproved properties less impairment, using year end prices or average prices in that year if appropriate. In addition, the aggregate value of all cost centres is further limited by including financing costs, general and administrative expenses, future removal and site restoration costs and income taxes. Under US GAAP, companies using the full cost method of accounting for oil and gas producing activities perform a ceiling test on each cost centre using discounted estimated future net revenue from proved oil and gas reserves using a discount factor of 10 per cent. Prices used in the US GAAP ceiling tests are those in effect at year end and financing and general and administrative expenses are excluded from the calculation. The amounts recorded for depletion, and depreciation have been adjusted in the periods following the additional write-downs taken under US GAAP to reflect the impact of the reduction of depletable costs.
- (b) US GAAP requires long-term debt denominated in foreign currencies to be translated at the rates of exchange in effect at the balance sheet date, with inclusion of the resulting gain or loss in the net income for the period. Canadian GAAP requires these gains or losses be deferred and amortized over the remaining term of the long-term debt.
- (c) Under Canadian GAAP, compensation expense is not recognized for rights granted to or exercised by employees, directors and long-term consultants of the Trust under its Trust Unit Incentive Rights Plan. For US GAAP purposes, the Trust uses the intrinsic value method of accounting for rights issued to its employees, directors and long-term consultants who meet the definition of employees. As the exercise price of the rights is subject to downward revisions from time to time, the rights plan is a variable compensation plan. Accordingly, compensation expense is determined as the excess of the market price over the exercise price of the rights at the end of each reporting period and is deferred and recognized in income over the vesting period of the rights.

- (d) Effective January 1, 2001, the Trust adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards requiring that all derivative instruments (including derivative instruments embedded in other contracts), as defined, be recorded on the balance sheet as either an asset or liability measured at fair value and requires that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Hedge accounting treatment allows unrealized gains and losses to be deferred in other comprehensive income (for the effective portion of the hedge) until such time as the forecasted transaction occurs, and requires that a company formally document, designate, and assess the effectiveness of derivative instruments that receive hedge accounting treatment. Upon adoption, the Trust formally documented and designated all hedging relationships and verified that its hedging instruments were effective in offsetting changes in actual prices and rates received by the Trust. Certain contracts entered into during 2001 were not eligible for hedge accounting treatment under US GAAP and the change in fair value of these contracts has been reported in net income under US GAAP. Hedge effectiveness is monitored and any ineffectiveness is reported in the Consolidated Statement of Income.

The Trust's derivative positions consist of contracts entered into by the Trust and derivative positions assumed in conjunction with the Startech acquisition.

On the transition date, the fair value of the Trust's derivative instruments represented a net liability of \$5.3 million. At December 31, 2001, the fair value of the Trust's derivative instruments represented a net liability of \$5.2 million.

On January 31, 2001, the \$33.1 million fair value of derivative positions assumed upon acquisition of Startech was recorded as a liability (see Note 3). At December 31, 2001, the fair value of these derivative instruments represented a net asset of \$6.5 million.

A reconciliation of the components of accumulated other comprehensive income related to all derivative positions is as follows:

	Gross	After-Tax
Cumulative effect of change in accounting principle	\$ (5,251)	\$ (3,014)
Reclassification of net realized losses into earnings	(6,969)	(4,000)
Net change in fair value of derivative instruments	26,596	15,265
<b>Accumulated other comprehensive income related to derivatives at December 31, 2001</b>	<b>\$ 14,376</b>	<b>\$ 8,251</b>

## HISTORICAL REVIEW

Years ended December 31

(\$ thousands, except per unit amounts)	2001	2000	1999	1998	1997
<b>FINANCIAL</b>					
Revenue before royalties	515,458	316,270	155,191	67,124	74,103
Per unit	\$ 5.05	\$ 4.97	\$ 3.34	\$ 2.62	\$ 3.24
Cash flow	260,270	179,349	80,814	30,040	37,757
Per unit	\$ 2.55	\$ 2.82	\$ 1.74	\$ 1.17	\$ 1.65
Net income	140,688	110,872	29,835	(14,093)	9,165
Per unit	\$ 1.38	\$ 1.74	\$ 0.64	\$ (0.55)	\$ 0.40
Cash distributions	234,053	128,958	63,773	30,724	33,242
Per unit*	\$ 2.31	\$ 2.01	\$ 1.35	\$ 1.20	\$ 1.40
Working capital	5,805	6,339	15,761	(1,688)	4,647
Long-term debt	294,489	115,068	141,000	72,499	65,955
Unitholders' equity	818,175	482,255	324,010	167,323	212,140
Weighted average units (thousands)	101,979	63,681	46,480	25,604	22,837
Trust units and units reserved for Exchangeable					
Shares outstanding at year-end (thousands)	111,692	72,524	53,607	25,604	25,604
*Based on the number of units outstanding at each cash distribution date					
<b>OPERATING</b>					
Production					
Crude oil (bbl/d)	20,408	11,528	8,408	4,439	3,656
Natural gas (mmcf/d)	115.15	77.17	66.46	37.68	38.40
Natural gas liquids (bbl/d)	3,511	2,965	2,687	2,018	1,929
Total (boe/d)	43,111	27,355	22,172	12,737	11,985
Average prices					
Crude oil (\$/bbl)	31.70	36.74	24.85	18.99	26.35
Natural gas (\$/mcf)	5.72	4.48	2.54	1.93	1.82
Natural gas liquids (\$/bbl)	31.03	31.52	17.43	13.17	18.27
Oil equivalent (\$/boe)	32.76	31.59	19.15	14.41	16.81
Established (proved plus risked probable) reserves					
Crude oil and NGL (mbbl)	114,243	82,419	59,712	35,034	32,373
Natural gas (bcf)	385.5	286.4	241	121.9	148.2
Total (mboe)	178,496	130,147	99,879	55,351	57,073
<b>TRUST UNIT TRADING</b> (based on daily closing price)					
Prices (\$)					
High	13.50	12.15	9.25	11.40	13.00
Low	10.41	8.45	6.15	6.10	10.15
Close	12.10	11.30	8.75	6.15	10.45
Average daily volume (thousands)	414	155	68	32	55

## QUARTERLY REVIEW

(\$ thousands, except per unit amounts)	2001				2000			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
<b>FINANCIAL</b>								
Revenue before royalties	102,518	116,281	132,283	164,376	106,374	77,326	78,124	54,446
Per unit	\$ 0.94	\$ 1.12	\$ 1.29	\$ 1.77	\$ 1.54	\$ 1.21	\$ 1.25	\$ 0.97
Cash flow	49,032	54,479	67,478	89,281	61,337	40,362	46,164	31,486
Per unit	\$ 0.45	\$ 0.53	\$ 0.66	\$ 0.96	\$ 0.89	\$ 0.63	\$ 0.74	\$ 0.56
Net income	12,444	32,474	40,025	55,745	41,752	22,702	28,947	17,471
Per unit	\$ 0.11	\$ 0.31	\$ 0.39	\$ 0.60	\$ 0.61	\$ 0.36	\$ 0.46	\$ 0.31
Cash distributions	48,537	60,813	65,938	58,765	42,789	33,173	28,066	24,930
Per unit*	\$ 0.45	\$ 0.60	\$ 0.66	\$ 0.60	\$ 0.59	\$ 0.52	\$ 0.45	\$ 0.45
Working capital	5,805	–	3,617	9,978	6,339	5,253	17,320	9,897
Long-term debt	294,489	338,135	287,012	280,837	115,068	189,777	189,935	95,000
Unitholders' equity	818,175	769,494	796,831	819,710	482,255	387,049	396,574	372,523
Weighted average units (thousands)	108,585	103,449	102,942	92,941	71,577	63,791	62,303	56,107
Trust units outstanding and units reserved for Exchangeable Shares at quarter-end	111,692	103,523	103,249	102,692	72,524	63,809	63,684	60,486

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

## OPERATING

## Production

Crude oil (bbl/d)	20,753	20,066	20,202	20,614	12,748	12,240	12,492	8,661
Natural gas (mmcf/d)	117.45	109.50	112.82	120.90	86.26	79.22	76.55	69.30
Natural gas liquids (bbl/d)	3,706	3,740	3,090	3,502	3,136	3,053	2,903	2,761
Total (boe/d)	44,034	42,056	42,097	44,271	30,261	28,496	28,153	22,972

## Average prices

Crude oil (\$/bbl)	27.33	33.27	33.79	32.57	39.11	34.08	37.15	36.19
Natural gas (\$/mcf)	4.04	4.45	5.86	8.45	6.46	4.22	3.95	2.98
Natural gas liquids (\$/bbl)	22.20	29.61	35.95	38.12	37.56	29.75	30.91	27.24
Oil equivalent (\$/boe)	25.31	30.05	34.53	41.26	38.78	29.56	30.41	25.91

## TRUST UNIT TRADING (based on daily closing price)

## Prices (\$)

High	12.10	12.59	13.50	11.89	10.60	12.15	10.95	9.20
Low	10.49	10.41	10.85	11.00	11.65	10.15	8.65	8.55
Close	12.10	10.61	11.55	11.24	11.30	11.30	10.80	8.75

Average daily volume (thousands)	316	391	447	499	189	143	194	88
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## DIRECTORS AND OFFICERS

### DIRECTORS

#### **John M. Beddome, B.Sc. Chem. Eng.**

Mr. Beddome has been responsible for many significant projects in oil and gas exploration, production, transportation and processing during a career that included assignments as President of Dome Petroleum Ltd., Chairman of TransCanada Pipelines Ltd., CEO of Alberta Natural Gas Company Ltd. and other executive positions in the industry. Now an independent businessman and consultant, Mr. Beddome recently retired as a Director of PanCanadian Petroleum Ltd. and Chairman of IPSCO Steel Inc. Mr. Beddome is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta. Mr. Beddome has been a Director of ARC since 1996.

#### **Fred C. Coles, B. Sc., P.Eng.**

Mr. Coles is the Executive Chairman of Applied Terravision Systems Inc. and had previously served as a reservoir engineer for a number of oil and gas companies prior to achieving the role of Chairman and President of an engineering consulting firm specializing in oil and gas. Mr. Coles also sits as a Director of a number of junior oil and gas companies. Mr. Coles is a member of the Association for Professional Engineers, Geologists, and Geophysicists of Alberta and the Canadian Institute of Mining Metallurgy and Petroleum. Mr. Coles has been a Director of ARC since 1996.

#### **Walter DeBoni, P.Eng., MBA**

Mr. DeBoni has held numerous top executive posts in the oil and gas industry with major corporations. He holds a B.A.Sc. Chem. Eng. from the University of British Columbia, a MBA degree with a major in Finance from the University of Calgary and is a graduate of the Harvard University Advanced Management Program. Mr. DeBoni is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and the Society of Petroleum Engineers. He is a past Chairman of The Petroleum Society of CIM and a past Director of the Society of Petroleum Engineers. He is Vice-Chairman and a Director of Bow Valley Energy Ltd. Mr. DeBoni has been a Director of ARC since 1996.

**John P. Dielwart, P.Eng.**

Mr. Dielwart is President and CEO of ARC Resources Ltd. and has overseen the growth of ARC Energy Trust from its inception in 1996. Previously Mr. Dielwart was a Senior Vice-President and Director of Coles Gilbert Associates Ltd., a major Calgary-based oil and gas independent engineering consulting firm. Mr. Dielwart is a past member of the Board of Governors of the Canadian Association of Petroleum Producers (CAPP) and a member of the CAPP Executive Committee for 2000-2001. Mr. Dielwart is a member of the Association of Professional Engineers, Geologists, and Geophysicists of Alberta, the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers. He holds a B.Sc. with Distinction from the University of Calgary and has been a Director of ARC since 1996.

**Michael M. Kanovsky, B.Sc., P.Eng., MBA**

Mr. Kanovsky graduated from Queen's University and the Ivey School of Business. Mr. Kanovsky's business career included the position of VP of Corporate Finance with a major Canadian investment dealer followed by co-founding Northstar Energy Corporation and PowerLink Corporation (electrical cogeneration) where he served as Senior Executive Board Chairman and Director. Mr. Kanovsky is a Director of Bonavista Petroleum Inc. and Devon Energy Corporation. He has been a Director of ARC since 1996.

**John M. Stewart, B.Sc., MBA**

Mr. Stewart is a Director of ARC Resources Ltd. and Vice-Chairman and a founder of ARC Financial Corporation. Mr. Stewart holds senior executive responsibilities focused primarily within the area of private equity investment management. He holds a B.Sc. in Engineering from the University of Calgary and a MBA from the University of British Columbia. Prior to ARC Financial, he was a Director and Vice-President of a major national investment firm. His career and experience span nearly thirty years with a focus on oil and gas and finance. Mr. Stewart has been a Director of ARC since 1996.

**Mac H. Van Wielingen**

Mr. Van Wielingen serves as Vice-Chairman and Director of ARC Resources Ltd. and is Chairman and a founder of ARC Financial Corporation. Previously Mr. Van Wielingen was a Senior Vice-President and Director of a major national investment dealer responsible for all corporate finance activities in Alberta. He has managed numerous significant corporate merger and acquisition transactions, capital raising projects and equity investments relating to the energy sector. Mr. Van Wielingen has been a Director of ARC since its formation in 1996. Mr. Van Wielingen holds an Honours Business Degree from the University of Western Ontario Business School and has studied post-graduate Economics at Harvard University.

## OFFICERS

In addition to John Dielwart who is a director and officer, the officers of ARC Resources are:

### **Doug J. Bonner, P.Eng.**

Mr. Bonner is Vice-President, Engineering of ARC Resources Ltd. and is responsible for all exploitation and development activities. He holds a B.Sc. in Geological Engineering from the University of Manitoba. Mr. Bonner's major area of expertise is reservoir engineering and he has extensive technical knowledge of oil and natural gas fields throughout western Canada, the east coast and northern Canada. Prior to joining ARC in 1996, Mr. Bonner spent 18 years with various major oil and natural gas companies in positions of increasing responsibility.

### **David P. Carey, P.Eng., MBA**

Mr. Carey is Vice-President, Business Development of ARC Resources Ltd. and is responsible for all facets of business development and investor relations. He holds both a B.Sc. in Geological Engineering and a MBA from Queen's University. Mr. Carey brings 20 years of diverse experience in the Canadian and International energy industries covering exploration, production and project evaluations in western Canada, oilsands, the Canadian frontiers and internationally. Prior to joining ARC Resources in 2001, Mr. Carey held senior positions with Athabasca Oil Sands Investments Inc. and a major Canadian oil and gas company.

### **Susan D. Healy, P. Land**

Ms. Healy is Vice-President, Land of ARC Resources Ltd. and is responsible for all of ARC's land-related activities. Prior to joining ARC Resources Ltd. in 1996, Ms. Healy had over 17 years industry experience with the most recent nine years with a senior oil and gas exploration and development company.

### **Steven W. Sinclair, B. Comm., CA**

Mr. Sinclair is Vice-President Finance and Chief Financial Officer of ARC Resources Ltd. and oversees all of the financial affairs of ARC Energy Trust. Mr. Sinclair has a Bachelor of Commerce from the University of Calgary, obtained his Chartered Accountant's designation in 1981 and has over 20 years experience within the finance, accounting and taxation areas of the oil and gas industry.

### **Myron M. Stadnyk, P.Eng.**

Mr. Stadnyk is Vice-President, Operations of ARC Resources Ltd. and is responsible for all of ARC's operational activities. He has 16 years experience in all aspects of oil and gas production operations. Prior to joining ARC Resources Ltd., Mr. Stadnyk worked with a major oil and gas company in both domestic and international operations and oil and gas facility design and construction. He has a B. Sc. in Mechanical Engineering and is a member of the Association of Professional Engineers in Alberta and Saskatchewan.

### **Allan R. Twa, Q.C.**

A member of the Alberta Bar since 1971, Mr. Twa is a partner in the law firm Burnet, Duckworth & Palmer LLP. Mr. Twa holds a B.A. (Political Science) from the University of Calgary, a LL.B. from the University of Alberta and a LL.M. from the University of London, England. Over the last 25 years, Mr. Twa has been engaged in a legal practice involving legal administration of public companies and trusts, corporate finance, and mergers and acquisitions. Mr. Twa is the Corporate Secretary.

## CORPORATE GOVERNANCE

In 1995, the Toronto Stock Exchange (the “TSE”) adopted a set of guidelines (the “Guidelines”), which were revised in 1999, relating to corporate governance matters. The Guidelines address such matters as the constitution and independence of boards of directors, the functions to be performed by boards and their committees, and the relationship among a corporation’s board, management and shareholders.

Set out below is a selection of the highlights of the Trust’s corporate governance practices which have been established by the terms of the Trust Indenture, Shareholder Agreement and Management Agreement and, as such, have been approved by the Board of Directors of ARC Resources. The complete text of the Trust’s corporate governance practices can be found in the management proxy circular.

### MANDATE OF THE BOARD OF ARC RESOURCES

The Board of Directors of ARC Resources has a mandate to supervise the management of the business and affairs of the Trust and ARC Resources and to act with a view to the best interests of the Trust and ARC Resources. Although the Manager provides certain advisory and management services to ARC Resources pursuant to the Management Agreement, the Board of Directors of ARC Resources supervises the management of the business and affairs of ARC Resources.

The Board of Directors' mandate includes: (a) the responsibility for managing its own affairs; (b) monitoring of management of the Trust; (c) reviewing strategic operating, capital and financial plans; (d) monitoring of activities of the Trust; and (e) compliance reporting and corporate communications.

In particular, significant operational decisions and all decisions relating to: (i) the acquisition and disposition of properties for a purchase price or proceeds in excess of \$10 million; (ii) the approval of capital expenditure budgets; and (iii) establishment of credit facilities are made by the Board of Directors of ARC Resources.

In addition, the Trustee has delegated certain matters to the Board of Directors of ARC Resources including all decisions relating to: (i) issuances of additional trust units; and (ii) the determination of the amount of distributable income. Any amendment to the Management Agreement or the Royalty Agreement between ARC Resources and the Trust requires the approval of the Board of Directors of ARC Resources on behalf of the Trust.

The Board of Directors of ARC Resources holds regularly scheduled meetings at least quarterly to review the business and affairs of ARC Resources and make any necessary decisions relating thereto.

#### **BOARD COMPOSITION**

The Board of Directors is presently comprised of seven members, four of whom are “unrelated directors” within the meaning of the TSE Guidelines.

#### **COMMITTEES**

The Board of Directors has established an audit committee comprised of the four unrelated directors, a reserve audit committee comprised of two unrelated directors and a compensation committee comprised of three unrelated directors.

## CORPORATE AND UNITHOLDER INFORMATION

## DIRECTORS

Walter DeBoni (1) (3)

Chairman

Mac H. Van Wielingen

Vice-Chairman

John P. Dielwart

President and Chief Executive Officer

John M. Beddome (1) (3)

Frederic C. Coles (1) (2) (3)

Michael M. Kanovsky (1) (2)

John M. Stewart

(1) Member of Audit Committee

(2) Member of Reserve Audit Committee

(3) Member of Compensation Committee

## OFFICERS

John P. Dielwart

President and Chief Executive Officer

Steven W. Sinclair

Vice-President, Finance and  
Chief Financial Officer

Susan D. Healy

Vice-President, Land

Doug J. Bonner

Vice-President, Engineering

Myron M. Stadnyk

Vice-President, Operations

David P. Carey

Vice-President, Business Development

Allan R. Twa

Corporate Secretary

## EXECUTIVE OFFICE

ARC Resources Ltd.

2100, 440 – 2 Avenue S.W.

Calgary, Alberta T2P 5E9

Telephone: (403) 503-8600

Toll Free: 1-888-272-4900

Facsimile: (403) 503-8609

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

Email:

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

TRUSTEE AND  
TRANSFER AGENT

Computershare Trust Company  
of Canada and Montreal Trust

Company of Canada

600, 530 – 8 Avenue S.W.

Calgary, Alberta T2P 3S8

Telephone: (403) 267-6800

## AUDITORS

Arthur Andersen LLP

Calgary, Alberta

ENGINEERING  
CONSULTANTS

Gilbert Laustsen Jung Associates Ltd.

Calgary, Alberta

## LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

Calgary, Alberta

STOCK EXCHANGE  
LISTING

The Toronto Stock Exchange

Trading Symbols:

AET.UN (trust units)

ARX (Exchangeable Shares)

## INVESTOR INFORMATION

Visit our website

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

or contact:

Investor Relations

(403) 509-6418 or

1-888-272-4900 (Toll Free)

NOTICE OF ANNUAL AND  
SPECIAL MEETING

The Annual and Special Meeting will be held on April 10, 2002 at 3:30 pm in the Belair Room at the Westin Hotel, 320 – 4 Avenue S.W., Calgary, Alberta.

DISTRIBUTION  
REINVESTMENT AND  
OPTIONAL CASH  
PAYMENT PROGRAM

New ARC Energy Trust unitholders should be aware of the Distribution Reinvestment Plan (DRIP) under which a unitholder can elect to reinvest cash distributions into new ARC Energy Trust units. If distributions are reinvested, a unitholder can elect to make optional cash payments under the DRIP to acquire up to \$3,000 of additional trust units per distribution date. All units purchased under the DRIP are made at prevailing market prices without any additional fees or commissions. For further details on the DRIP contact Computershare.

## CORPORATE CALENDAR

Announcement on or before:

## 2002

April 10	Annual Meeting
April 18	Announcement of 2002 Q2 Distribution Monthly Amounts
May 8	2002 Q1 Results
July 18	Announcement of 2002 Q3 Distribution Monthly Amounts
August 21	2002 Q2 Results
October 17	Announcement of 2002 Q4 Distribution Monthly Amounts
November 8	2002 Q3 Results

## 2003

January 16	Announcement of 2003 Q1 Distribution Monthly Amounts
February 14	2002 Financial Results

**THE PEOPLE OF ARC ENERGY TRUST WHO CONTRIBUTED TO OUR SUCCESS IN 2001 AND THE YEARS  
THEY JOINED THE COMPANY**

**PRE-1996** JOHN DIELWART ★ GAYLE COSGROVE ★ **1996** DOUG BONNER ★ SUSAN HEALY ★ STEVEN SINCLAIR  
★ JOCELYN FORD ★ VERNA MAH ★ ELIZABETH MARSHALL ★ **1997** MYRON STADNYK ★ JAYNA BARRIE ★  
WENDY BRUNEAU ★ DARIN DELEEUW ★ TED DOHERTY ★ DEBRA HARDEN ★ DILYS LUK ★ DON MCLEAN ★  
DIANA MEADS ★ ERWIN MELESKO ★ MARK MOIR ★ SABINE MUELLER ★ ROBERT NEWBERRY ★ LES REDER ★  
MARK REID ★ ALLAN ROBERTS ★ VESTA SHIPLACK ★ MARTINA SKVARIL ★ RANDY SONNENBERG ★ LISA VAN  
★ **1998** SHIRLEY HAIST ★ KELLY HASKELL ★ DAVE HUDSON ★ JOHN MCMULLEN ★ KAREN ROE ★ JOE  
STRAKA ★ **1999** BRYON BARTON ★ STEVEN BRACE ★ ANNETTE BROCK ★ DALE CADIEUX ★ CURTIS CEASOR ★  
MILES CHAPIN ★ DEAN CHAPMAN ★ GAY CHERVINSKI ★ JACQUELINE CONNERY ★ VAN DAFOE ★ BRUCE DONALD  
★ LES ENGMAN ★ DAN GEREMIA ★ NELLIE GRAVES ★ BRENDA GREEN ★ STEWART HANSON ★  
LAURIE HELLWIG ★ THOMAS HOUSMAN ★ WILF JOHNSON ★ KEVIN JONES ★ DWAIN KORSBREK ★  
TERRY KRAWEC ★ SHAWN LELEK ★ DEB LEMKE ★ WAYNE LENTZ ★ MILT MANSELL ★ KEN MCKELLAR ★  
BARBARA METTLER-JORDAN ★ STEPHEN MICHALSKY ★ HELEN O'BRIEN ★ NATASHA PAWLUK ★ DEAN  
POTTER ★ SCOTT SEWALL ★ JANEY SLENO ★ DAVID SORKILMO ★ CORY STEWART ★ WENDY TEARE ★ PETE  
TINDALL ★ REO VAN MAARION ★ JAY WILLIAMSON ★ **2000** TERRY ANDERSON ★ CHARLENE BAGU ★  
LELAND BAZIN ★ RANDY BIRNIE-BROWNE ★ JULIE BOLTER ★ LORI BRIGLEY ★ ROLAND CARON ★ DEAN  
EVANS ★ MARILYN GARDENER ★ GEORGE GERVAIS ★ JOHN GOLBY ★ DAVE GOURLAY ★ LORNA HAASE ★  
BRUCE HALL ★ GORDON HALLGREN ★ DAVID HARRIS ★ LAWRENCE HAUGEN ★ DORIS IVERS ★ JASON  
KALUSKI ★ LAURA LOCKHART ★ ROBERT MEADS ★ HARVEY PHILLIPS ★ TREVOR RICHELIS ★ PERRY ROY ★  
LESLEY SAMBU ★ KENNETH SAMPSON ★ MARIA SEDGWICK ★ PAMELA MAY STRAKA ★ BART THISTLETHWAITE  
★ BRADLEY TURNBULL ★ **2001** DAVID CAREY ★ CASSANDRA ANDREWS ★ LES AVERY ★ SAM BAILLIE ★  
LOU BARRON ★ STEVE BEBLOW ★ GLORIA BECKER ★ ALICIA BEIERBACH ★ RYAN BERRETT ★  
JAY BILLESBERGER ★ AMANDA BONNER ★ ERIN BUSCHERT ★ FLORENCE CAIRNS ★ NEIL CAMPBELL ★  
MICHAEL CAPON ★ YVAN CHRETIEN ★ REGINA CHUI ★ GARY COMEAU ★ TERESA CONTRADA ★  
TOM COPELAND ★ JENNIFERANNE CORBEIL ★ NIKI COTE ★ ROD COUTTS ★ SUSAN CUMMINGS ★  
JOE DAVIS ★ BOYD DAYMAN ★ PETER DICKSON ★ SCOTT EDWARDS ★ BEVERLEY EVANS ★ LARRY EWERT ★  
ANDREA FIEDLER ★ PAUL FLADELAND ★ JULIE FODE ★ EDWARD FONG ★ LIONEL FRADETTE ★  
PAUL FRADETTE ★ MARCEL GERARD ★ LERIZA GETUIZA ★ JAKE GIESBRECHT ★ TREVOR GOULD ★  
GRANT GREENSLADE ★ TODD HAGEN ★ JERRY HALL ★ GORDON HAMILTON ★ CHERIE HARRIS ★ GORDON HART  
★ JAMES HILLSTEAD ★ SANDY HINDS ★ MELISSA HINES ★ TRACEY HOLLOWAY ★ MAURY JACKSON ★  
ROB JACOBI ★ TODD JENSEN ★ BLAKE JOHNSON ★ ERIN JOHNSON ★ LINE JOHNSON ★ DEANNA KALENCHUK  
★ DAVID KEHRIG ★ DALE KIEFER ★ ERIN KNOWLES ★ DAVE KOSTIUK ★ PATRICK KUKURA ★ BRIAN LAMBE  
★ PAULA LANGE ★ MARY LAWRENCE ★ JOHN LINCOLN ★ MARYANN LUCAS ★ LAINE LUND ★ LORENA  
MABLEY ★ ANDY MAGEE ★ DORIS MAH ★ LLOYD MARTIN ★ DEREK MCCORMAC ★ JAMIE MCINTYRE ★  
EDWARD MCMILLEN ★ HEATHER MILLER ★ PATRICK MILLS ★ LYNNE MIZERA ★ MARSHALL MORIN ★  
LORNA NELSON ★ MARGO PAGONIS ★ KEN PETERSON ★ MORRIS PHILLIPS ★ CHRISTOPHER PIPER ★  
BRUCE PORTER ★ COREY QUINTON ★ AL RADBOURNE ★ ROBERT RAIWET ★ RANDY REYNOLDS ★  
SCOTT REYNOLDS ★ BRUCE RIECHERT ★ BRUCE RIEP ★ FRANCINE ROLLOCK ★ BLAIR ROSQUIST ★  
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