

**09**  
ANNUAL  
REPORT

ARC  
ENERGY  
TRUST



**VALUE**  
**DRIVEN**

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### INFORMATION REGARDING DISCLOSURE ON OIL AND GAS RESERVES, AND OPERATIONAL INFORMATION

This Annual Report describes certain information set forth in our news release dated February 9, 2010: ARC Energy Trust Releases 2009 Year-end Reserves Information and readers should refer to that news release, which is hereby incorporated by reference and found at SEDAR at [www.SEDAR.com](http://www.SEDAR.com).

All amounts in this Annual Report are stated in Canadian dollars unless otherwise specified. Where applicable, natural gas has been converted to barrels of oil equivalent ("BOE") based on 6 mcf:1 boe. The boe rate is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. Use of boe in isolation may be misleading. In accordance with Canadian practice, production volumes and revenues are reported on a company gross basis, before deduction of Crown and other royalties, unless otherwise stated. Unless otherwise specified, all reserves volumes in this Annual Report (and all information derived therefrom) are based on "company interest reserves" using forecast prices and costs. "Company interest reserves" consist of "company gross reserves" (as defined in National Instrument 51-101 adopted by the Canadian securities regulators ("NI 51-101") plus ARC's royalty interests in reserves. "Company interest reserves" are not a measure defined in NI 51-101 and does not have a standardized meaning under NI 51-101. Accordingly, our company interest reserves may not be comparable to reserves presented or disclosed by other issuers. Our oil and gas reserves statement for the year ended December 31, 2009, which will include complete disclosure of our oil and gas reserves and other oil and gas information in accordance with NI 51-101, will be contained within our Annual Information Form that will be available on our SEDAR profile at [www.sedar.com](http://www.sedar.com). In relation to the disclosure of estimates in the Montney Resource Discussion, such estimates for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation.

### NOTICE TO U.S. READERS

The oil and natural gas reserves contained in this press release have generally been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects of United States or other foreign disclosure standards. For example, the United States Securities and Exchange Commission (the "SEC") generally permits oil and gas issuers, in their filings with the SEC, to disclose only proved reserves (as defined in SEC rules). Canadian securities laws require oil and gas issuers, in their filings with Canadian securities regulators, to disclose not only proved reserves (which are defined differently from the SEC rules) but also probable reserves, each as defined in NI 51-101. Accordingly, proved reserves disclosed in this Annual Report may not be comparable to U.S. standards, and in this Annual Report, ARC has disclosed reserves designated as "probable reserves" and "proved plus probable reserves". Probable reserves are higher risk and are generally believed to be less likely to be accurately estimated or recovered than proved reserves. The SEC's guidelines strictly prohibit reserves in these categories from being included in filings with the SEC that are required to be prepared in accordance with U.S. disclosure requirements. In addition, under Canadian disclosure requirements and industry practice, reserves and production are reported using gross (or, as noted above, "company interest") volumes, which are volumes prior to deduction of royalty and similar payments. The practice in the United States is to report reserves and production using net volumes, after deduction of applicable royalties and similar payments. Moreover, ARC has determined and disclosed estimated future net revenue from its reserves using forecast prices and costs, whereas the SEC generally requires that prices and costs be averaged for the 12 months as of the date of the reserve report. As a consequence of the foregoing,

ARC's reserve estimates and production volumes in this Annual Report may not be comparable to those made by companies utilizing United States reporting and disclosure standards.

### FORWARD-LOOKING INFORMATION AND STATEMENTS

This Annual Report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this Annual Report contains forward-looking information and statements pertaining to the following: the volumes and estimated value of ARC's oil and gas reserves; the life of ARC's reserves; the volume and product mix of ARC's oil and gas production; future oil and natural gas prices and ARC's commodity risk management programs; future results from operations and operating metrics; and future development, exploration, acquisition and development activities (including drilling plans) and related production expectations.

The forward-looking information and statements contained in this Annual Report reflect several material factors and expectations and assumptions of ARC including, without limitation: that ARC will continue to conduct its operations in a manner consistent with past operations; results from drilling and development activities consistent with past results; the continued and timely development of infrastructure in areas of new production; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of ARC's reserve and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow to fund its plans expenditures. ARC believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this Annual Report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; the potential for variation in the quality of the Montney formation, changes in the demand for or supply of ARC's products; unanticipated operating results or production declines; unanticipated results from ARC's exploration and development activities; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of ARC or by third party operators of ARC's properties, increased debt levels or debt service requirements; inaccurate estimation of ARC's oil and gas reserve and resource volumes; limited, unfavourable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in this Annual Report and in ARC's Annual Information Form).

The forward-looking information and statements contained in this Annual Report speak only as of the date of this Annual Report, and none of ARC or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

# VALUE DRIVEN

## WE ARE

**A leading  
energy  
producer**

**Results focused  
through risk  
managed value  
creation**

**Committed  
to superior,  
long-term  
financial returns**

## WE

**Apply unique  
expertise and  
discipline**

**Recognize  
leadership  
development  
as critical  
to our success**

**Clearly  
communicate  
our strategies**

## WHERE

**Action and  
passion are  
rewarded**

**Respect  
of individuals  
is paramount**

**Community  
and environment  
are core  
commitments**



# ARC AT A GLANCE

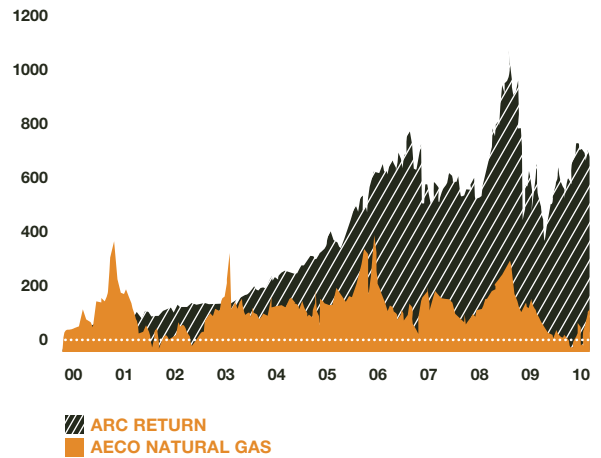
**ARC Energy Trust** (“ARC” or “the Trust”), is located in Calgary, Alberta and is one of Canada’s largest conventional oil and gas companies. Currently structured as a trust, ARC develops and acquires long-life oil and gas properties in western Canada. ARC’s unitholders receive a monthly cash distribution from the Trust’s producing oil and gas assets owned by ARC Resources Ltd. ARC plans to convert to a dividend-paying corporation on January 1, 2011, to address the new federal tax legislation for trusts effective that day.

**ARC Energy Trust** has, over the long-term, outperformed the S&P/TSX Composite Index and the S&P/TSX Explorations and Producers Index. During 2009, ARC’s annual total return was seven per cent and annual total return since inception is 19 per cent. ARC is committed to generating superior returns and long-term value.

**ARC Energy Trust** units trade on the Toronto Stock Exchange under the symbol AET.UN along with the exchangeable shares that trade under the symbol ARX.

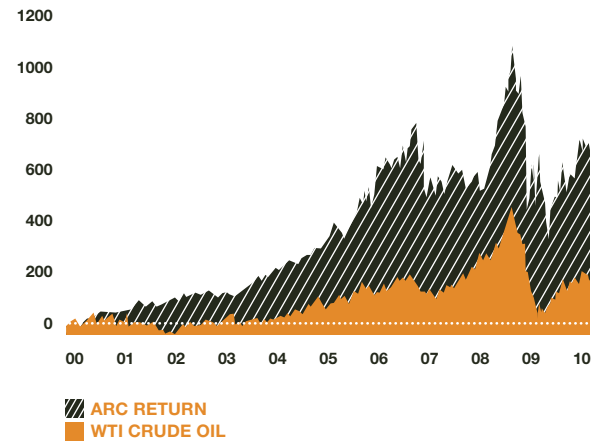
## TOTAL RETURN PERFORMANCE (%)

Dec 31/1999-Dec 31/2009  
ARC vs. AECO Natural Gas



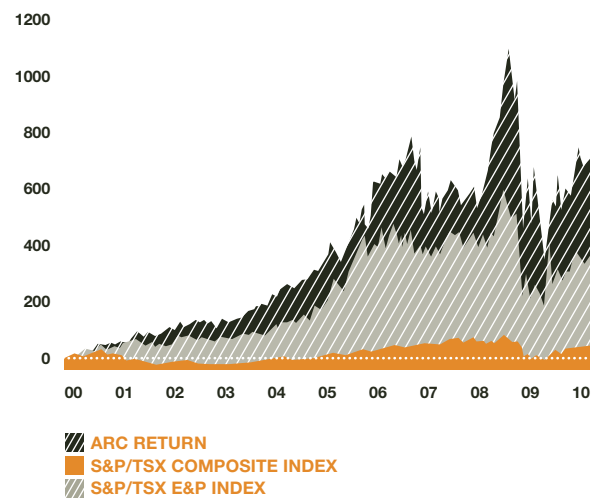
## TOTAL RETURN PERFORMANCE (%)

Dec 31/1999-Dec 31/2009  
ARC vs. WTI Crude Oil



## TOTAL RETURN PERFORMANCE (%)

Dec 31/1999-Dec 31/2009  
ARC vs. S&P/TSX Exploration & Producers  
(E&P) Index vs. S&P/TSX Composite Index



# FINANCIAL HIGHLIGHTS

TWELVE MONTHS ENDED DECEMBER 31	2009	2008
<b>FINANCIAL</b>		
(Cdn\$ millions, except per unit and per boe amounts)		
Revenue before royalties	978.2	1,706.4
Per unit <sup>(1)</sup>	4.16	7.90
Per boe	42.18	71.59
Cash flow from operating activities <sup>(2)</sup>	497.4	944.4
Per unit <sup>(1)</sup>	2.11	4.37
Per boe	21.45	39.62
Net income	222.8	533.0
Per unit <sup>(3)</sup>	0.96	2.50
Distributions	298.5	570.0
Per unit <sup>(1)</sup>	1.28	2.67
Per cent of cash flow from operating activities <sup>(2)</sup>	60	60
Net debt outstanding <sup>(4)</sup>	902.4	961.9
<b>OPERATING</b>		
<b>Production</b>		
Crude oil (bbl/d)	27,509	28,513
Natural gas (mmcf/d)	194.0	196.5
Natural gas liquids (bbl/d)	3,689	3,861
Total (boe/d)	63,538	65,126
<b>Average prices</b>		
Crude oil (\$/bbl)	62.24	94.20
Natural gas (\$/mcf)	4.18	8.58
Natural gas liquids (\$/bbl)	40.67	69.71
Oil equivalent (\$/boe)	42.07	71.25
<b>Operating netback (\$/boe)</b>		
Commodity and other revenue (before hedging)	42.17	71.59
Transportation costs	(0.89)	(0.80)
Royalties	(6.37)	(12.91)
Operating costs	(10.19)	(10.13)
Netback (before hedging)	24.72	47.75
<b>TRUST UNITS</b>		
(millions)		
Units outstanding, end of period <sup>(5)</sup>	239.0	219.2
Weighted average trust units <sup>(6)</sup>	235.4	216.0
<b>TRUST UNIT TRADING STATISTICS</b>		
(Cdn\$, except volumes - based on intra-day trading)		
High	21.89	33.95
Low	11.73	15.01
Close	19.94	20.10
Average daily volume (thousands)	1,057	975

(1) Per unit amounts (with the exception of per unit distributions) are based on weighted average trust units outstanding plus trust units issuable for exchangeable shares. Per unit distributions are based on the number of trust units outstanding at each distribution record date.

(2) Cash flow from operating activities is a GAAP measure. Historically, management has disclosed Cash Flow as a non-GAAP measure calculated using cash flow from operating activities less the change in non-cash working capital and the expenditures on site restoration and reclamation as they appear on the Consolidated Statements of Cash Flows. Cash Flow for the full year 2009 would be \$518 million (\$2.20 per unit). Distributions as a percentage of Cash Flow would be 58 per cent in 2009.

(3) Net income per unit is based on net income after non-controlling interest divided by weighted average trust units outstanding (excluding trust units issuable for exchangeable shares).

(4) Net debt excludes current unrealized amounts pertaining to risk management contracts and the current portion of future income taxes.

(5) For 2009, includes 0.9 million (1.1 million in 2008) exchangeable shares exchangeable into 2,720 trust units (2,517 in 2008) each for an aggregate 2.4 million (2.7 million in 2008) trust units.

(6) Includes trust units issuable for outstanding exchangeable shares at period end.



RESERVES <sup>(1)</sup>	2009 GROSS RESERVES	2009 COMPANY INTEREST RESERVES	2008 COMPANY INTEREST RESERVES
Proved reserves			
Crude oil and NGLs (mmbbl)	116,323	116,784	118,806
Natural gas (bcf)	907.3	916.5	746.9
Total oil equivalent (mboe)	267,543	269,535	243,292
Proved plus probable reserves			
Crude oil and NGLs (mmbbl)	152,834	153,413	153,020
Natural gas (bcf)	1,342.3	1,353.2	1,012.2
Total oil equivalent (mboe)	376,543	378,953	321,723
FINDING , DEVELOPMENT AND ACQUISITION COSTS (\$/boe) <sup>(1)</sup>			
Including future development capital			
Current year		11.56	17.00
Three year average		14.75	19.84
Excluding future development capital			
Current year		6.44	10.13
Three year average		9.57	14.70

(1) Based on proved plus probable company interest reserves before royalties. Additional information on reserves is available in the Annual Information Form and in the February 9, 2010 news release titled "ARC Energy Trust Releases 2009 Year-end Reserves Information".

# 2009/2010 GUIDANCE & FINANCIAL HIGHLIGHTS

Figure 1 is a summary of ARC's 2009 and 2010 Guidance and a review of 2009 actual results compared to guidance.

FIGURE 1	2009 GUIDANCE	2009 ACTUAL	% VARIANCE	2010 GUIDANCE
Production (boe/d)	63,000-64,000	63,538	-	70,500-72,500
Expenses (\$/boe):				
Operating costs	10.50	10.19	(3)	10.30
Transportation	0.90	0.89	(1)	1.00
G&A expenses (cash & non-cash) <sup>(1)</sup>	2.10	2.26	8	2.85
Interest	1.30	1.11	(15)	1.40
Capital expenditures (\$ millions)	365	360	(1)	610
Annual weighted average trust units and trust units issuable (millions) <sup>(2)</sup>	238	235	(1)	254

(1) 2009 G&A guidance amount of \$2.10 per boe included \$1.75 per boe for cash G&A costs, \$0.55 per boe for cash Whole Unit Plan costs and a recovery of \$0.20 per boe for the non-cash portion of the Whole Unit Plan. 2010 G&A guidance amount of \$2.85 per boe includes \$2.00 per boe for cash G&A costs, \$0.90 per boe for cash Whole Unit Plan costs and a recovery of \$0.05 per boe for the non-cash portion of the Whole Unit Plan.

(2) 2010 Annual weighted average trust units has been revised to reflect the increase in the equity offering that closed in January 2010 from 10.1 million to 13 million units.



**JOHN P. DIELWART**  
CHIEF EXECUTIVE OFFICER  
ARC ENERGY TRUST



# MESSAGE TO UNITHOLDERS

**During 2009, ARC Energy Trust demonstrated that a solid company with high quality assets, a strong leadership team and a disciplined approach to value creation can successfully navigate through challenging economic times. In fact, 2009 highlights the excellence of ARC's people and asset base. With a backdrop of industry volatility,**

**ARC added significant value through record reserve additions from our development program at our lowest cost in a decade. Proved plus probable ("P+P") finding and development costs ("F&D"), excluding future development capital ("FDC") were only \$5.45 per boe (\$10.54 per boe including FDC) ; P+P finding, development and acquisition costs**

**("FD&A") before FDC were \$6.44 per boe (\$11.56 including FDC). We have added some key lands in the greater Dawson area, completed an acquisition in Ante Creek, achieved targeted production, managed operating costs and paid a \$0.10 per unit per month distribution to our unitholders – all on a reduced capital budget.**

As developed economies continued their downward trend and demand for oil and natural gas declined, we took the actions required to manage the impact of the economic crisis and emerged from the year stronger than ever and ready for a significant phase of organic growth. To ensure that we maintained a strong balance sheet, we issued 15.4 million units in a bought deal offering in the first quarter of 2009 raising net proceeds of approximately \$240 million. These funds were used to partially finance our 2009 capital expenditure program and positioned us to move forward with our expansion plans at Dawson. Our strategy since inception of acquiring large-in-place resource properties, our focus on acquiring and consolidating the Montney gas assets in northern British Columbia and a significant step change in the completion technology used on long-reach horizontal wells, means that ARC's future has never been brighter. ARC has an enviable inventory of development opportunities and we are excited by the value and growth we expect to deliver to our investors over the next few years.

The effects of the global economic downturn that began in the latter part of 2008 and extended into 2009 impacted financial results for companies across a wide spectrum of sectors. Demand for oil and natural gas weakened, industrial activity declined and WTI oil prices hit a low of US\$33.98 per barrel. We did not see a significant recovery in WTI prices until the third quarter of 2009 when WTI oil prices recovered and stabilized in the mid to high US\$70 per barrel WTI range. Natural gas prices

were also affected and fell with the oil price. The decline in natural gas price was more severe and prolonged with AECO reaching a low of \$1.86 per mcf prior to reaching \$5 per mcf in the month of December 2009. ARC's total realized commodity price of \$42.07 per boe in 2009 was a 41 per cent decline over 2008. Our overall revenues were \$978 million, \$728 million lower than in 2008. Although oil prices did begin to recover, natural gas prices stayed stubbornly low showing only a slight recovery in December 2009 – not nearly soon enough in the year to have a positive impact on ARC's earnings. The low commodity prices and a challenging economy also impacted our stock price in the capital markets with ARC units hitting a low of \$11.73 per unit in the first quarter. As oil prices improved, ARC's unit price increased and closed at \$19.94 on December 31, 2009 down marginally from \$20.10 on December 31, 2008.

In spite of the economic uncertainty, we continued to execute our capital program, albeit at reduced levels. The economic and commodity price collapse necessitated the reduction of capital spending. ARC struck a balance by decreasing both distributions and capital with the largest capital reduction impacting our West Montney lands. While we cannot control the markets, we can control our costs and capital expenditures. We were disciplined in managing our operating costs and diligently reviewed our supply contracts to ensure we were getting the best value possible. We applied recently developed technologies and directed our technical expertise to production optimization



resulting in positive results in the areas we operate. Operational excellence is one of our key objectives. Moving into 2010, we have increased our capital budget to a record \$610 million to allow us to execute programs that will establish growth in production over the next three years in four of our seven core areas: Dawson and West Montney in northeast British Columbia and Ante Creek and Pembina/Garrington in Alberta.

ARC has an impressive inventory of high-quality, long-life oil and natural gas assets; however the properties with the potential to most significantly change ARC's reserve and production profile are the Montney gas areas in northeast British Columbia. ARC has committed over \$260 million of its \$610 million 2010 capital budget to increase production from the Montney assets. We are building a 60 mmcf per day gas plant in Dawson that is expected to be fully operational in the second quarter of 2010. We have also allocated funds to construct a second 60 mmcf per day gas plant in Dawson with start-up anticipated in early 2011. A third gas plant is planned for the Sunrise area in 2012. In the short-term, we expect corporate production to increase from the 63,538 boe per day produced in 2009 to average between 70,500 and 72,500 boe per day for 2010.

Another focus area for ARC is our Ante Creek field in northern Alberta. Ante Creek is a tight Montney oil and gas property where we have grown production from 1,500 boe per day in 2000 to over 5,300 boe per day in November 2009. In December 2009, ARC completed a \$180 million acquisition in the area, consolidating our ownership and expanding our total land holdings in Ante Creek by 70 per cent. On a corporate basis, this acquisition expands our undeveloped land base by 20 per cent. Additionally,

the acquisition increased ARC's average daily production by 2,000 boe per day and added 12 mmboe of P+P reserves as at year-end 2009. Concurrent with the acquisition, we entered into an agreement to sell 13 million trust units at \$19.40 and raised net proceeds of approximately \$240 million. These funds were used to reduce outstanding debt. Ante Creek is a key growth area for ARC with the potential to add significant value to our company through the application of horizontal drilling and completion technology. We expect to spend \$70 million in 2010 at Ante Creek and increase production to in excess of 7,500 boe per day. The assets we acquired in Ante Creek perfectly fit our strategy of focusing on large-in-place resource properties with opportunity for new technology application. Our adjacent lands in the area are proving very amenable to horizontal exploitation. The knowledge that we gained at Ante Creek provided the insight required to see value in the Montney tight gas area of Dawson. Now, we are taking our learnings from Dawson and transferring them back to Ante Creek and some of our other fields.

We can clearly quantify that our acquisition policies, operational excellence and managed approach to growth are working as we report our 13th consecutive year of aggregate positive reserve revisions. In 2009, we lowered our F&D costs to \$5.45 per boe (excluding FDC) and our FD&A costs (excluding FDC) to \$6.44 per boe – numbers we expect to be top quartile for the industry. These stellar F&D and FD&A numbers were achieved through large reserve additions and modest capital spending. Our reserves, on a P+P basis, increased 18 per cent relative to 2008 to 379 mmboe. The greatest reserve additions were in our Dawson and West Montney area where reserves grew 73 per cent over 2008. ARC's recycle ratio for 2009 was 3.8 times using the

\$6.44 per boe P+P FD&A costs prior to FDC (2.14 times including FDC). We strive for a recycle ratio of at least 2.0 times in positive economic and higher commodity price environments therefore we are pleased that our recycle ratio is materially above 2.0 times in a year of challenging commodity prices.

In 2008, we published our first Corporate Responsibility report. The Corporate Responsibility report also outlines in greater detail ARC's practices and policies in matters relating to health, safety and environment. We intend to publish our second Corporate Responsibility report in 2010. ARC has a proud history of responsible operations and health, safety and environment are at the top of our list. We commit to continue to improve our processes and policies in these key areas.

ARC's ability to deliver results derives from our core belief that outstanding people, combined with a great corporate culture, creates a winning environment. We have implemented a systematic set of processes (Succession, Progression and Development) to encourage the personal growth and development of our high potential employees. We believe in providing opportunities to our employees by promoting from within whenever possible. We also consistently strive to add expertise at both the corporate and board level. We are pleased to have added two new members to our Board of Directors in 2009 – Mr. Harold Kvisle and Ms. Kathleen O'Neill. Both of these directors bring a wide range of experience to our board and will be integral in leading ARC through its staged growth period in the future. We also take this opportunity to thank Mr. John Stewart, who retired from our board in 2009, for his service as a director and his valuable contribution and mentorship over the past 12 years.

Our team is committed to long-term performance and to strategic value creation. Our development opportunities have never been better. As we transition to a dividend-paying corporation on January 1, 2011, our business objectives will remain the same. With our exceptional opportunities to grow both our natural gas and oil production and our skilled technical team to execute the strategy, we are poised to continue to deliver value to our investors. Our future has never looked brighter.



**JOHN P. DIELWART**  
CHIEF EXECUTIVE OFFICER

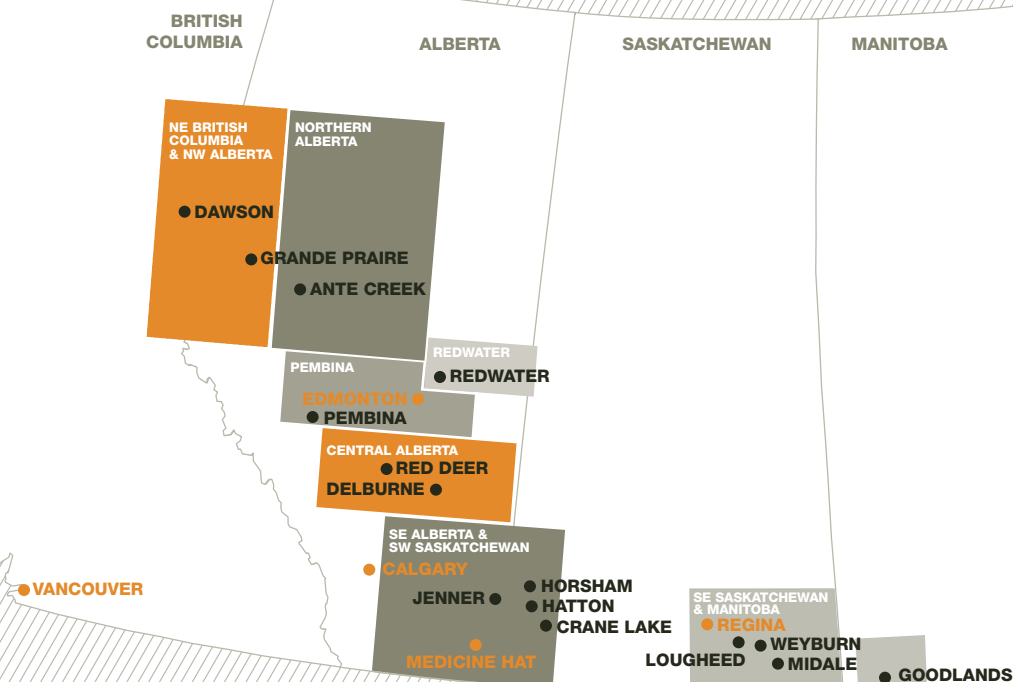


**MYRON M. STADNYK**  
PRESIDENT &  
CHIEF OPERATING OFFICER





# REVIEW OF OPERATIONS



2009 OPERATIONS	NE BRITISH COLUMBIA NW ALBERTA	NORTHERN ALBERTA	REDWATER	PEMBINA	CENTRAL ALBERTA	ALBERTA & SW SASKATCHEWAN	SE SASKATCHEWAN & MANITOBA
Wells Drilled <sup>(1)</sup>	29	6	3	9	40	44	15
Production (boe/d)	13,794	9,004	4,150	9,410	6,984	8,841	11,357
Netback (\$/boe)	16.01	24.51	35.90	29.80	18.83	15.09	38.16
Reserves (mboe) <sup>(2)</sup>	145,654	50,630	26,896	47,373	20,847	41,218	46,336
Reserve Life Index <sup>(3)</sup>	19.0	12.3	16.2	14.7	8.2	13.3	12.1

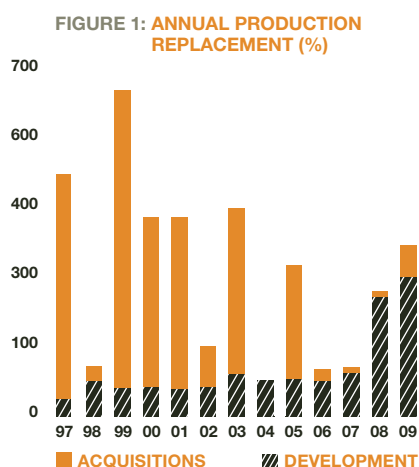
(1) Well counts are taken on a gross operated basis.

(2) Based on proved plus probable reserves before royalties. Additional information on reserves is available in the Annual Information Form and in the February 9, 2010 news release titled "ARC Energy Trust Releases 2009 Year-end Reserves Information".

(3) RLI is calculated based on forecast 2010 production numbers.

# RISK MANAGED VALUE CREATION

**We have always believed that top performing companies have three key attributes: great assets, low cost structure and management that delivers results. Value creation for our investors remains our primary objective.**



More importantly, we believe the objective is risk managed value creation. Our focus on risk managed value creation means that since ARC's inception in July 1996, our basic tenet when assembling and developing our asset base has been to focus on high-quality, long-life assets. The large in-place resources of these types of properties present a significant opportunity to add value over time as improvements in technology allow us to exploit the resources and add new reserves. This strategy has resulted in ARC achieving 13 consecutive years of positive aggregate reserve revisions and was a major factor in posting our lowest F&D costs in a decade. ARC was an early entrant into the Montney resource play in northeast British Columbia and is proud to have added the largest amount of reserves in its history in 2009 through the drill bit, at the lowest costs in a decade. For the second consecutive year, ARC replaced over 200 per cent of its production from internal opportunities on lands that were primarily acquired between 2003 and 2007 but whose true value is only starting to be identified. ARC has evolved from a company that replaced production through acquisition to a company that now replaces the majority of its production through internal development opportunities. (See Figure 1)

Assembling a portfolio of large-in-place resource properties was a foundation of our business plan and began right at ARC's inception with acquisitions of properties in Pembina comprising the first set of assets that ARC purchased. The Pembina Cadium field is over 50 years old and is the largest conventional and most extensive oil field in Canada spanning 3,000 km<sup>2</sup>. ARC operates approximately 25 per cent of the field with an average 65 per cent working interest.

The application of horizontal drilling with multi-stage fracturing technology has improved productivity from tight reservoirs across the Western Canada Sedimentary Basin – Pembina is now being targeted as a candidate for the application of these technologies. For 2010 we have budgeted \$54 million to drill

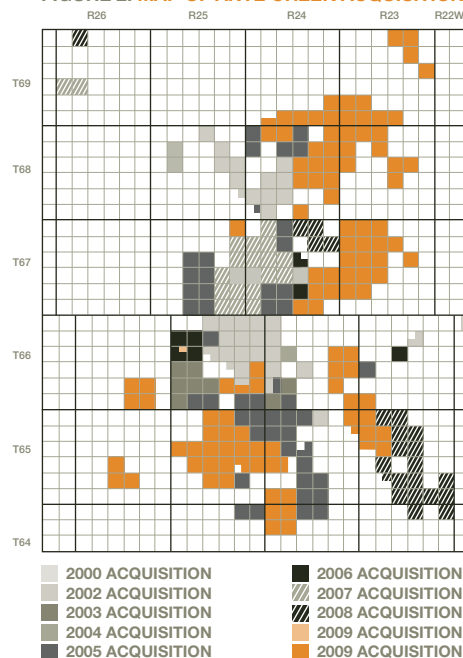
16 vertical and 16 horizontal wells in Pembina to test the application of horizontal multi-stage fracturing technology in a variety of geologic settings. Not all of the Cardium is the same – there are some areas that may be more amenable to horizontal drilling and completion technology compared to others. We have drilled and completed several horizontal wells at the North Pembina Cardium Unit (“NPCU”) and at the South Pembina Cardium Unit and while initial production data is encouraging, it is too soon to determine the applicability across the field. It will take some time to properly evaluate the efficiency of these various techniques in the varied geologic environments that span the Pembina field.

Another example that illustrates how we strategically buy and develop properties is the Ante Creek field in northern Alberta. We first acquired 55 sections of land in Ante Creek in May, 2000 with average daily production of approximately 1,500 boe per day. Since then we have increased our land base to 232 sections, at an average 98 per cent working interest and currently produce 7,000 boe per day in the area with plans to take production even higher. Ante Creek is a Montney oil play that initially was developed with vertical wells. Current production is approximately 50 per cent oil and natural gas liquids (“NGLs”) and 50 per cent natural gas. Figure 2 depicts ARC’s consolidation of assets in Ante Creek through the acquisition of properties surrounding our original land parcels. Our most recent acquisition in Ante Creek, in December 2009, added 1,000 boe per day of production and an additional 10 mmoe of reserves at year-end 2009. Figure 3 shows the production growth while Figure 4 plots the reserve growth in Ante Creek.

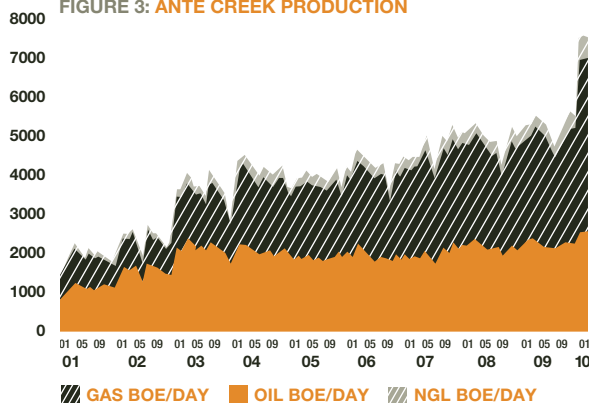
Early in 2009, ARC deployed horizontal drilling and multi-stage fracturing completion technology in Ante Creek similar to what we have used in the Montney formation at Dawson and have been very successful – our 30 day initial production rates have averaged 400 boe per day as compared to 100 boe per day rates with vertical wells. We believe that we will have significant growth in production and reserves in Ante Creek by applying these technologies. We have increased our budget for the area for 2010 and expect to spend approximately \$70 million in Ante Creek. We plan to drill two vertical wells and 14 horizontal wells in 2010 and expand our facilities to handle the increased production. In total we have identified approximately 80 horizontal drilling locations on our lands in Ante Creek.

Dawson is another area that demonstrates a deliberate strategy with a long-term value creation perspective. We entered this area through the acquisition of Star Oil and Gas Ltd. in 2003. One of the primary reasons we decided to acquire Star’s assets was the potential we identified in the Dawson Field. With the expertise in tight formation drilling and completion techniques we had gained in Ante Creek, we believed that given time and the right technology there was a tremendous potential to increase reserves and production from the Dawson field. In 2005, ARC was the first company to drill a horizontal well and apply isolated, multi-frac horizontal completion technology to the Montney reservoir in an attempt to unlock the reserves. That first well was expensive but proved to us and others that

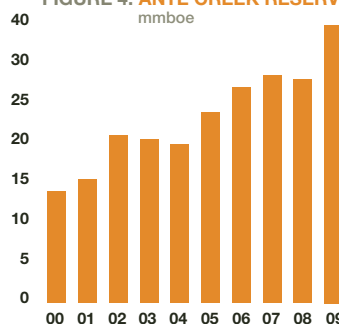
**FIGURE 2: MAP OF ANTE CREEK ACQUISITION HISTORY**



**FIGURE 3: ANTE CREEK PRODUCTION**

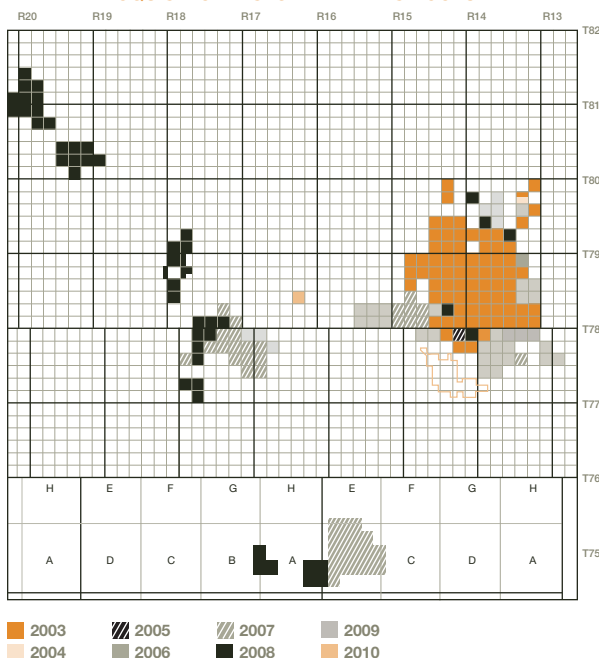


**FIGURE 4: ANTE CREEK RESERVE GROWTH**





**FIGURE 5: MAP OF THE MONTNEY PLAY  
ACQUISITION HISTORY IN BRITISH COLUMBIA**



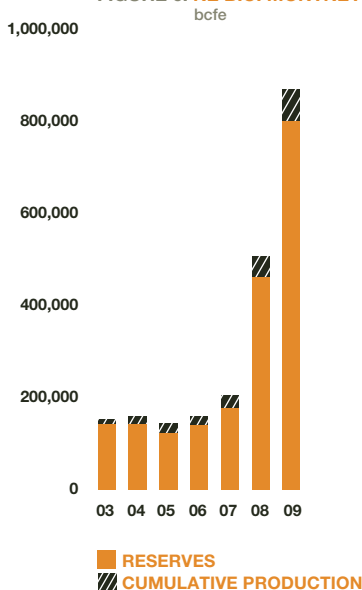
multi-stage fracturing technology was a viable completion technique to use in the Montney reservoir. After our successful horizontal well, others began using the technology and the Montney became one of the hottest natural gas plays in Canada. ARC was successful in acquiring many sections of land in the play prior to land prices sky-rocketing (see Figure 5). Our average cost to acquire our Montney holdings was approximately \$5,000 per hectare compared to costs that reached highs of approximately \$33,000 per hectare paid by others for lands surrounding us. In 2008 and 2009 ARC carried out extensive development drilling programs in the Dawson and West Montney gas fields and as a result, our independent reserve evaluators were able to assign significantly greater reserves. In 2009 ARC had one of its largest reserve additions in its history with 80 mmbcfe (480 bcfe) added substantially due to the increase in reserves in both our Dawson and West Montney areas (see Figure 6).

In addition to increasing reserves, we have also been able to reduce costs. Our first four horizontal wells in Dawson cost an average of \$7.5 million to drill and complete and had initial production ("IP") rates of approximately 4.1 mmcf per day. Our next six wells cost an average of \$6 million to drill and complete and IP rates averaged 4.9 mmcf per day. Our most recent wells cost approximately \$5 million and are being brought on stream at restricted rates of 5.5 mmcf per day with much higher actual production potential.

In Dawson we plan to drill 32 horizontal wells in 2010 in the main field and five horizontal wells in our West Montney lands. We are currently constructing a 60 mmcf per day gas plant expected to be in full operation in May of 2010. We have ordered the long-lead time items required for a second 60 mmcf per day plant for the same site, which we expect to have on stream early in 2011. We are also beginning preliminary work for the construction of a third gas plant for our West Montney lands, which is currently expected to be onstream in early 2012. With a total of 180 mmcf per day of processing capacity, either under construction or on the drawing board, we will be delivering enviable growth and value creation in the immediate future.

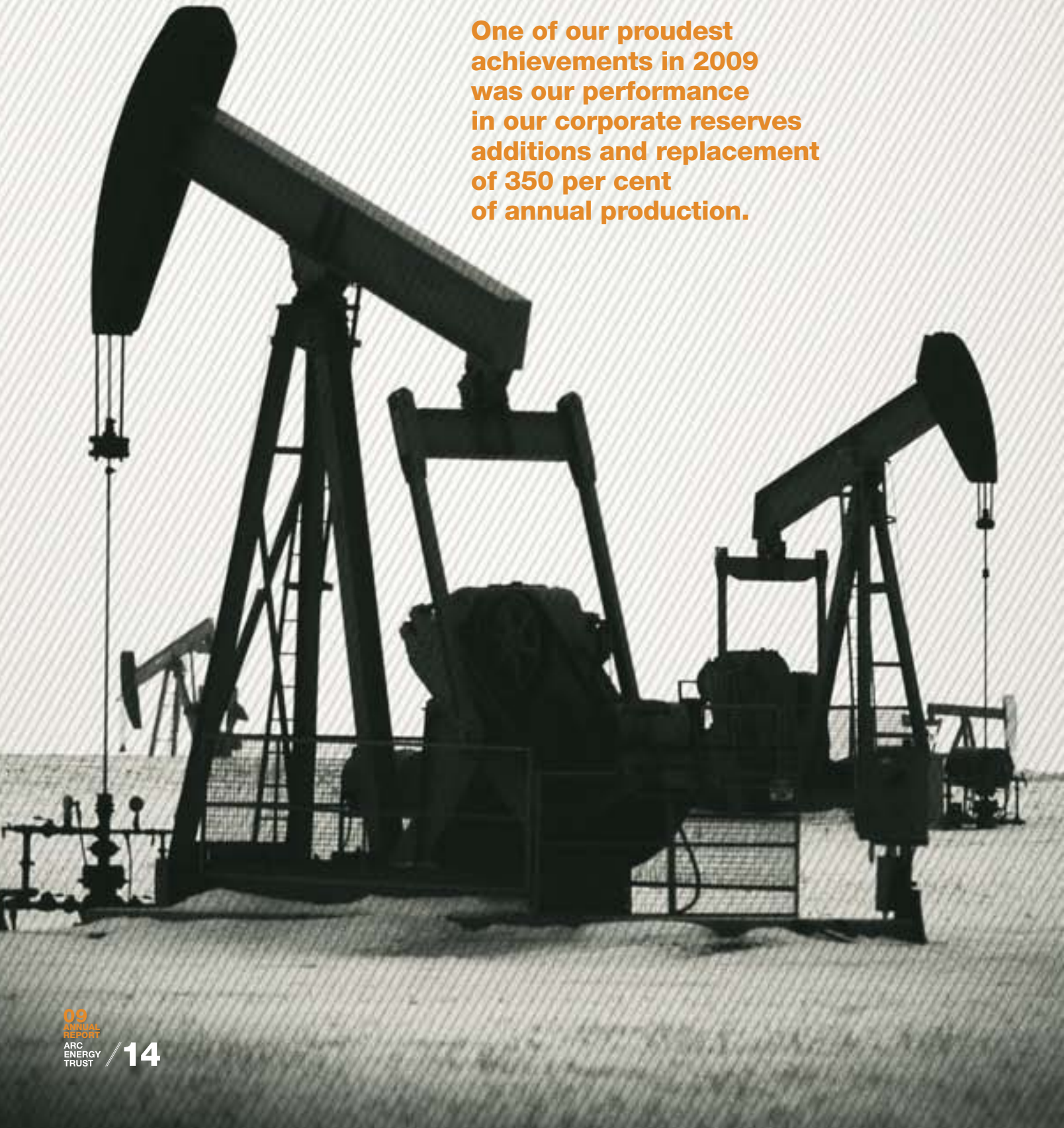
Pembina, Ante Creek and our Dawson area Montney properties illustrate our technical team's ability to identify properties with significant value potential and to efficiently and deliberately execute the necessary strategies to extract value from the assets that we acquire. When we make an acquisition, we have a clear, long-term strategy for the assets we are acquiring and believe that there will be value added for our investors for a number of years. This is the foundation that we have built our company on and will continue to pursue in our future.

**FIGURE 6: NE B.C. MONTNEY RESERVE GROWTH**



# CREATING VALUE THROUGH OUR RESERVES

One of our proudest achievements in 2009 was our performance in our corporate reserves additions and replacement of 350 per cent of annual production.



In 2009, ARC added 80 mmboe of proved plus probable ("P+P") reserves that replaced 347 per cent of its annual production of 23 mmboe, primarily from internal development activities (80 mmboe additions divided by the 23 mmboe produced in 2009). Our corporate reserves increased by 18 per cent on a P+P basis to 379 mmboe and 11 per cent on a proved basis to 270 mmboe over 2008. We are also pleased that this growth was achieved with finding, development and acquisition ("FD&A") costs that were lower than those in 2007 and 2008. ARC's FD&A costs before future development capital ("FDC") were \$6.44 per boe for the P+P category. This is the third consecutive year that ARC has had a reduction in FD&A costs and this has brought our three year average FD&A prior to FDC down to \$9.57 per boe. We were able to achieve these FD&A numbers by realizing our lowest P+P finding and development costs ("F&D") in the past 10 years of \$5.45 per boe.

A key indicator of profitability in the oil and gas sector is recycle ratio, which is defined as the operating netback divided by the FD&A. The 2009 reserve additions resulted in a one year recycle ratio of 3.8 times using the P+P FD&A cost of \$6.44 per boe and a recycle ratio of 2.6 times using the \$9.57 per boe three year average FD&A and using our 2009 netback of \$24.72 per boe.

ARC typically targets a recycle ratio of 2.0 times or more on a P+P basis and we are pleased that in 2009 we exceeded this target. ARC's P+P reserve life index ("RLI") has been relatively stable since our inception and has never been under 11.5 years. In 2009, our P+P RLI increased to 14.5 years and proved RLI remained approximately the same at 10.3 years based on mid-point 2010 production guidance of 71,500 per day.

Reserves data and discussions presented are primarily excerpts from the February 9, 2010 news release titled "ARC ENERGY TRUST RELEASES 2009 YEAR-END RESERVES INFORMATION". Data herein is stated on a company interest basis (before royalty burdens and including royalty interests) unless noted otherwise. All reserves information has been prepared in accordance with National Instrument ("NI") 51-101. In addition to the information disclosed more detailed information on a company gross basis (working interest before deduction of royalties without including any royalty interests) will be included in ARC's Annual Information Form ("AIF"). Numbers presented may not add due to rounding. All amounts are stated in Canadian dollars unless otherwise specified. Where applicable, natural gas has been converted to barrels of oil equivalent ("BOE") based on 6 Mcf:1 BOE

## RESERVES SUMMARY 2009 USING GLJ JANUARY 1, 2010 FORECAST PRICES AND COSTS

### COMPANY INTEREST (GROSS + ROYALTIES RECEIVABLE)

	LIGHT AND MEDIUM CRUDE OIL (mmbbl)	HEAVY CRUDE OIL (mmbbl)	TOTAL CRUDE OIL (mmbbl)	NGLS (mmbbl)	TOTAL NATURAL GAS (bcf)	OIL EQUIVALENT 2009 (mboe)	OIL EQUIVALENT 2008 (mboe)
Proved Producing	93,137	2,353	95,490	8,443	490.1	185,623	180,777
Proved Developed Non-Producing	1,113	13	1,126	420	37.9	7,863	7,794
Proved Undeveloped	8,667	0	8,667	2,636	388.5	76,048	54,719
Total Proved	102,917	2,366	105,284	11,500	916.5	269,535	243,292
Proved plus Probable	134,570	3,027	137,598	15,815	1,353.2	378,953	321,723

### GROSS INTEREST

	LIGHT AND MEDIUM CRUDE OIL (mmbbl)	HEAVY CRUDE OIL (mmbbl)	TOTAL CRUDE OIL (mmbbl)	NGLS (mmbbl)	TOTAL NATURAL GAS (bcf)	OIL EQUIVALENT 2009 (mboe)	OIL EQUIVALENT 2008 (mboe)
Proved Producing	92,989	2,199	95,187	8,299	481.1	183,663	178,659
Proved Developed Non-Producing	1,112	13	1,125	420	37.9	7,862	7,793
Proved Undeveloped	8,655	0	8,655	2,636	388.4	76,018	54,700
Total Proved	102,756	2,212	104,968	11,355	907.3	267,543	241,154
Proved plus Probable	134,363	2,834	137,197	15,637	1,342.3	376,543	319,114

### NET INTEREST

	LIGHT AND MEDIUM CRUDE OIL (mmbbl)	HEAVY CRUDE OIL (mmbbl)	TOTAL CRUDE OIL (mmbbl)	NGLS (mmbbl)	TOTAL NATURAL GAS (bcf)	OIL EQUIVALENT 2009 (mboe)	OIL EQUIVALENT 2008 (mboe)
Proved Producing	79,083	2,157	81,239	5,857	419.2	156,959	152,789
Proved Developed Non-Producing	921	12	933	297	29.8	6,194	5,604
Proved Undeveloped	7,151	0	7,151	2,062	319.9	62,525	41,350
Total Proved	87,154	2,168	89,322	8,216	768.8	225,678	199,742
Proved plus Probable	112,919	2,745	115,664	11,399	1,123.7	314,350	262,928



**ARC strives to maintain a well-balanced portfolio of oil and natural gas assets. In 2009, ARC's production mix was 51 per cent natural gas and 49 per cent oil and liquids.**

Approximately 40 per cent of ARC's current P+P reserves are crude oil and approximately 60 per cent are natural gas on a 6:1 conversion basis. Maintaining a balanced mix of assets helps to mitigate fluctuations in revenue resulting from volatility in one, but not both, commodities. We have seen our proved non-producing and probable categories of reserves increase as reserves from our Montney gas play in northeast British Columbia have been moved into those categories. Proved producing reserves represent almost 50 per cent to the total P+P amount and total proved reserves represent over 70 per cent of the total P+P balance.

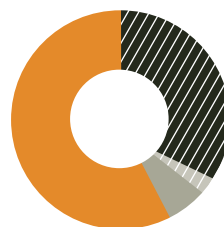
## RESERVE LIFE INDEX ("RLI")

ARC's proved plus probable RLI was 14.5 years at year-end 2009 while the proved RLI was 10.3 years based upon the GLJ reserves and the mid-point of ARC's 2010 production guidance of 71,500 boe per day. The following table summarizes ARC's historical RLI.

The RLI is a measure of the quality of assets that comprise an oil and gas company's portfolio of properties. The higher the RLI, the lower the decline rate for production. ARC intrinsically has a preference for longer life properties and, as such our RLI on a P+P basis has always been above 11 years. The growth in RLI in 2009 is a reflection of recognition of the resource potential of our Montney assets.

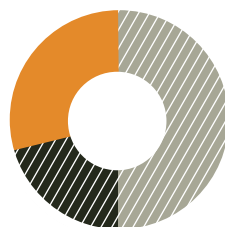
### RESERVE LIFE INDEX

	2009	2008	2007	2006	2005
Total Proved	10.3	10.4	9.8	9.8	10.3
Proved Plus Probable	14.5	13.8	12.5	12.4	12.9



**PROVED PLUS PROBABLE  
COMPANY INTEREST RESERVES  
BY COMMODITY**

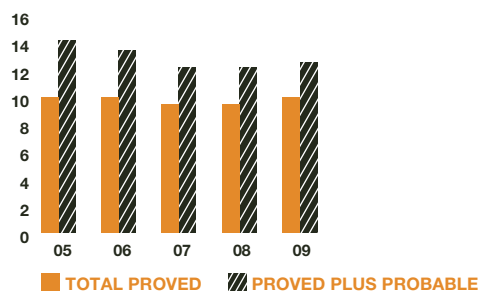
LIGHT/MED OIL	36%
HEAVY OIL	1%
NGLs	4%
NATURAL GAS	59%



**COMPANY INTEREST RESERVES  
BY CLASSIFICATION**

PROVED PRODUCING	49%
PROVED NON-PRODUCING	22%
PROBABLE	29%

### RESERVE LIFE INDEX



## NET PRESENT VALUE (“NPV”) SUMMARY

ARC's crude oil, natural gas and natural gas liquids reserves were evaluated using GLJ Petroleum Consultants Ltd's ("GLJ") product price forecasts effective January 1, 2010 prior to provision for

interest, debt service charges and general and administrative expenses. **It should not be assumed that the NPV estimated by GLJ represent the fair market value of the reserves.**

### NPV OF CASH FLOW BEFORE INCOME TAXES USING GLJ JANUARY 1, 2010 FORECAST PRICES AND COSTS <sup>(1)</sup>

NI 51-101 NET INTEREST	UNDISCOUNTED \$MM	DISCOUNTED AT 5% \$MM	DISCOUNTED AT 10% \$MM	DISCOUNTED AT 15% \$MM	DISCOUNTED AT 20% \$MM
Proved Producing	7,164	4,755	3,618	2,956	2,520
Proved Developed Non-Producing	230	157	119	96	80
Proved Undeveloped	1,889	1,219	847	615	458
Total Proved	9,283	6,130	4,584	3,666	3,058
Probable	4,285	2,072	1,222	806	569
Proved plus Probable	13,568	8,202	5,805	4,472	3,627

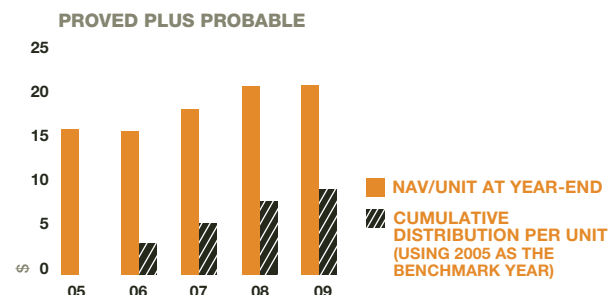
### NPV OF CASH FLOW AFTER INCOME TAXES USING GLJ JANUARY 1, 2010 FORECAST PRICES AND COSTS

NI 51-101 NET INTEREST	UNDISCOUNTED \$MM	DISCOUNTED AT 5% \$MM	DISCOUNTED AT 10% \$MM	DISCOUNTED AT 15% \$MM	DISCOUNTED AT 20% \$MM
Proved Producing	6,023	4,095	3,173	2,629	2,267
Proved Developed Non-Producing	177	121	92	74	62
Proved Undeveloped	1,416	891	598	415	291
Total Proved	7,616	5,107	3,863	3,118	2,621
Probable	3,220	1,548	903	588	409
Proved plus Probable	10,836	6,655	4,766	3,706	3,030

(1) Additional information on reserves is available in the Annual Information Form and in the February 9, 2010 news release titled "ARC Energy Trust Releases 2009 Year-end Reserves Information".

## NET ASSET VALUE (“NAV”)

The following net asset value ("NAV") table shows what is normally referred to as a "produce-out" NAV calculation under which the current value of the Trust's reserves would be produced at forecast future prices and costs and do not necessarily represent a "going concern" value of the Trust. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. **It should not be assumed that the net present values estimated by GLJ represent the fair market value of the reserves.**



### HISTORICAL NAV – DISCOUNTED AT 10 PER CENT <sup>(1)</sup>

(\$ MILLIONS, EXCEPT PER UNIT AMOUNTS)

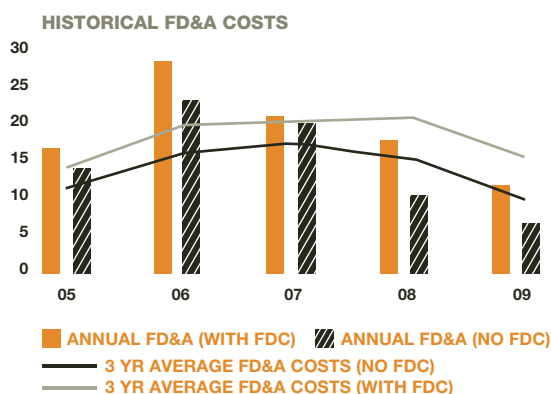
	2009	2008	2007	2006	2005
Value of NI 51-101 Net interest Proved plus Probable reserves	\$ 5,805	\$ 5,292	\$ 4,651	\$ 4,056	\$ 3,891
Undeveloped lands	359	428	229	109	59
Reclamation fund	33	28	26	31	23
Risk Management Contracts	(15)	1	(36)	(9)	(2)
Long term-debt, net of working capital	(902)	(962)	(753)	(739)	(578)
Asset retirement obligation	(27)	(57)	(26)	(62)	(35)
Net asset value	\$ 5,253	\$ 4,732	\$ 4,091	\$ 3,386	\$ 3,358
Units outstanding (000's)	238,984	219,182	213,179	207,173	202,039
NAV per unit	\$ 21.98	\$ 21.59	\$ 19.19	\$ 16.34	\$ 16.62

(1) Additional information on reserves is available in the Annual Information Form and in the February 9, 2010 news release titled "ARC Energy Trust Releases 2009 Year-end Reserves Information".

## FINDING, DEVELOPMENT AND ACQUISITION RESULTS

During 2009 ARC spent \$360 million on exploration, development and corporate activities and participated in 218 gross (132 net) wells. On operated lands, we drilled 146 gross (120 net) wells with a 99.3 per cent success rate. Positive results from the capital program and continued strong production results at Dawson resulted in ARC adding 66 mmbore of P+P reserves in 2009 prior to acquisitions. This represents a 285 per cent replacement of 2009 production of 23 mmbore prior to acquisitions and dispositions. This is the second year in a row that ARC has been able to replace greater than 200 per cent of production from drilling and development activities. Excluding changes in future development capital ARC's F&D costs were \$5.45/boe for P+P reserves and \$8.67/boe for total proved reserves. Including FDC, costs were \$10.54 per boe for P+P reserves and \$12.29 per boe for total proved.

In 2009, ARC spent \$158 million on acquisitions (net of dispositions). The two primary transactions were the purchase of assets in the Ante Creek Area of Alberta for \$178 million and the disposition of scattered Bakken assets in southeast Saskatchewan for \$34 million. A net total of 14 mmbore of proved plus probable and eight mmbore of total proved reserves were added from these activities. The net acquisition costs for the 2009 transactions were \$10.97 per boe for P+P reserves and \$19.87 per boe for total proved reserves prior to including FDC. Including FDC the net acquisition costs were \$16.25 per boe P+P and \$24.67 per proved boe.



### FD&A COSTS EXCLUDING FUTURE DEVELOPMENT CAPITAL <sup>(1)</sup>

	TOTAL PROVED			PROVED PLUS PROBABLE		
	CAPITAL \$ THOUSANDS	RESERVES mboe	\$/boe	CAPITAL \$ THOUSANDS	mboe	\$/boe
Exploration and Development	359,561	41,460	8.67	359,561	65,984	5.45
Net Acquisition	158,440	7,975	19.87	158,440	14,438	10.97
Total	518,001	49,435	10.48	518,001	80,422	6.44

### FD&A COST INCLUDING CHANGES FUTURE DEVELOPMENT CAPITAL

	TOTAL PROVED			PROVED PLUS PROBABLE		
	CAPITAL \$ THOUSANDS	RESERVES mboe	\$/boe	CAPITAL \$ THOUSANDS	mboe	\$/boe
Exploration and Development	509,741	41,460	12.29	695,364	65,984	10.54
Net Acquisition	196,761	7,975	24.67	234,677	14,438	16.25
Total	706,502	49,435	14.29	930,041	80,422	11.56

### HISTORICAL FD&A COSTS PROVED+PROBABLE

	2009	2008	2007	2006	2005
Annual FD&A (no FDC)	6.44	10.13	19.00	22.41	13.64
3 year Average FD&A costs (no FDC)	9.57	14.70	16.57	15.59	11.0
Annual FD&A (with FDC)	11.56	17.00	20.03	27.20	16.09
3 year Average FD&A costs (with FDC)	14.75	19.84	19.19	18.99	13.50

(1) Based on proved plus probable company interest reserves before royalties. Additional information on reserves is available in the Annual Information Form and in the February 9, 2010 news release titled "ARC Energy Trust Releases 2009 Year-end Reserves Information".





**DOUG J. BONNER**  
SENIOR VICE-PRESIDENT  
CORPORATE DEVELOPMENT

**INGRAM B. GILLMORE**  
VICE-PRESIDENT  
ENGINEERING

**NEIL GROENEVELD**  
VICE-PRESIDENT  
GEOSCIENCES

**MYRON M. STADNYK**  
PRESIDENT &  
CHIEF OPERATING OFFICER

**TERRY M. ANDERSON**  
VICE-PRESIDENT  
OPERATIONS

## RESERVES RECONCILIATION <sup>(1)</sup>

COMPANY INTEREST (GROSS INTEREST + ROYALTIES RECEIVABLE)

PROVED PLUS PROBABLE	LIGHT AND MEDIUM CRUDE OIL (mdbl)	HEAVY CRUDE OIL (mdbl)	TOTAL CRUDE OIL (mdbl)	NGLS (mdbl)	TOTAL NATURAL GAS (mmcf)	OIL EQUIVALENT (mboe)
Opening Balance	135,199	3,243	138,442	14,578	1,012,216	321,723
Exploration Discoveries	15	0	15	4	1,702	302
Drilling Extensions	1,021	0	1,021	589	220,516	38,363
Improved Recovery	2,268	18	2,286	19	896	2,454
Infill Drilling	2,404	14	2,418	750	94,646	18,942
Technical Revisions	660	80	740	206	34,972	6,776
Acquisitions	3,212	0	3,212	1,046	63,740	14,881
Dispositions	(424)	0	(424)	(1)	(114)	(443)
Economic Factors	(116)	45	(71)	(31)	(4,504)	(853)
Production	(9,667)	(374)	(10,041)	(1,346)	(70,824)	(23,191)
Closing Balance	134,571	3,027	137,598	15,815	1,353,245	378,954

(1) Based on proved plus probable company interest reserves before royalties. Additional information on reserves is available in the Annual Information Form and in the February 9, 2010 news release titled "ARC Energy Trust Releases 2009 Year-end Reserves Information".

# CORPORATE GOVERNANCE

ARC Energy Trust is committed to the highest standards for its governance practices and procedures. ARC's governance practices are routinely reviewed, appraised and modified to ensure that they are appropriate for a corporation of ARC's size and stature. ARC's approach to corporate governance meets the guidelines established by the Canadian Securities Administrators (CSA) as laid out in National Instrument 58-101. In 2009, ARC has added two new independent members to its Board of Directors – Mr. Harold Kvisle and Ms. Kathleen O'Neill. Both of these new directors bring a wealth of business knowledge and experience to our board. Mr. John Stewart retired from ARC's board in 2009. He had served on ARC's board since early 1998 and played a valuable role in ARC's growth and development.

## INDEPENDENCE OF THE BOARD

ARC's board comprises nine members, all of whom are "independent" directors, except for the Chief Executive Officer. ARC uses the definition of independence as defined in NI 58-101 that states that a director is independent if the member has no direct or indirect material relationship with the company. A material relationship means a relationship that could, in the opinion of the board of directors, reasonably interfere with the exercise of a member's independent judgement.

The board has determined that none of the directors who serve on its committees has a material relationship with ARC that could reasonably be expected to interfere with the exercise of a director's independent judgement. The Chairman of the board is an independent director and, in conjunction with the Vice-Chairman, is responsible for managing the affairs of the board and its committees, including ensuring the board is organized properly, functions effectively and independently of management and meets its obligations and responsibilities.

## MANDATE OF THE BOARD

The Board of Directors of ARC sees its primary role as the stewardship of ARC Resources and for overseeing the management of the business and affairs of ARC, with the goal of achieving the Trust's fundamental objective of providing long-term superior returns to unitholders. The board oversees the conduct of the business and management through its review and approval of strategic, operating, capital and financial plans; the identification of the principal risks of the Trust's business and oversight of the implementation of systems to manage such risks; the appointment and performance review of the Chief Executive Officer; the approval of communication policies for the Trust and the review of the integrity of the Trust's internal financial controls and management systems.

## COMMITTEES OF THE BOARD

The board has established an Audit Committee, a Reserves Committee, a Human Resources and Compensation Committee, a Policy and Board Governance Committee, a Health, Safety and

Environment Committee and a Risk Committee to assist it in the discharge of its duties and responsibilities. All of the committees are comprised of independent directors and report to the Board of Directors of ARC Resources.

### AUDIT COMMITTEE

Members: Fred Dymont (Chair), Walter DeBoni, James Houck and Kathleen O'Neill.

The Audit Committee assists the board in fulfilling its oversight responsibilities with respect to the integrity and completeness of the annual and quarterly financial statements and accompanying management discussion and analysis provided to unitholders and regulatory bodies; compliance with accounting and finance based legal and regulatory requirements; review of the independence and performance of the external auditor, internal accounting systems and procedures. The committee reviews the audit plans of the external auditors and meets with them at the time of each committee meeting, independently of management.

There were five meetings of the committee in 2009.

### RESERVES COMMITTEE

Members: James Houck (Chair), Fred Dymont, and Michael Kanovsky.

The Reserves Committee assists the board in meeting their responsibilities to review the qualifications, experience, reserve evaluation approach and costs of the independent engineering firm that performs ARC's reserve evaluation and to review the annual independent engineering report. The committee reviews and recommends for approval by the board on an annual basis the statements of reserve data and other information specified in National Instrument 51-101. The committee also reviews any other oil and gas reserve report prior to release by ARC to the public and reviews all of the disclosure in the Annual Information Form and elsewhere, related to the oil and gas activities of ARC.

There were five meetings of the committee in 2009.

### HUMAN RESOURCES AND COMPENSATION COMMITTEE

Members: Herb Pinder (Chair), Kathleen O'Neill and Mac Van Wielingen.

The Human Resources and Compensation Committee assists the board in fulfilling its oversight responsibilities with respect to overall human resource policies and procedures; the compensation program for ARC; and in consultation with the board, undertakes an annual performance review with the CEO, and reviews and approves the CEO's appraisal of the other executive officers' performance. The committee also reviews and recommends for approval to the board the principal compensation plans of ARC, such as the long-term incentive program and any awards under such plans.

There were seven meetings of the committee in 2009.



**DAVID P. CAREY**  
SENIOR VICE-PRESIDENT  
CAPITAL MARKETS

**TERRY GILL**  
SENIOR VICE-PRESIDENT  
CORPORATE SERVICES

#### **HEALTH, SAFETY AND ENVIRONMENT COMMITTEE**

Members: Harold Kvisle (Chair), James Houck and Herb Pinder

The Health, Safety and Environment Committee assists the board in its responsibility for oversight and due diligence by reviewing, reporting and making recommendations to the board on the development and implementation of the policies and standards of ARC with respect to the areas of health, safety and environment. This committee meets separately with management of ARC who have responsibility for such matters and reports to the board.

There were four meetings of the committee in 2009.

#### **POLICY AND BOARD GOVERNANCE COMMITTEE**

Members: Walter DeBoni (Chair), Herb Pinder, Michael Kanovsky and Mac Van Wielingen.

The Policy and Board Governance Committee assists the board in fulfilling its oversight responsibilities with respect to reviewing the effectiveness of the board and its committees; developing and reviewing ARC's approach to board governance matters; and reviewing, developing and recommending to the board for approval procedures designed to ensure that the board can function independently of management. The committee annually reviews the need to recruit and recommend new members to fill board vacancies giving consideration to the competencies, skills and personal qualities of the candidates and of the existing board, and recommends to the board the nominees for election at each annual meeting. The effectiveness of individual board members and the board is reviewed through a yearly self assessment and inquiry questionnaire.

There were six meetings of the committee in 2009.

#### **RISK COMMITTEE**

Members: Michael Kanovsky (chair), Walter DeBoni, Fred Dymont and Mac Van Wielingen.

The risk committee was formed in early 2008 to assist the board in fulfilling its oversight responsibilities with respect to reviewing the principal business risks of the Trust and the actions taken by the Trust to mitigate the risks. Included in the mandate is the review of guidelines, policies and reports from management with respect to risk assessment, risk management and risk mitigation.

There were six meetings of the committee in 2009.

# DIRECTORS' BIOGRAPHIES

## **WALTER DEBONI P.ENG., MBA**

Mr. DeBoni is a corporate director and has extensive experience in the oil and gas industry. Mr. DeBoni retired from Husky Energy Inc. in 2005 where he held the position of VP, Canada Frontier & International Business. Prior to this Mr. DeBoni was CEO of Bow Valley Energy for a number of years. In addition to his time at Husky and Bow Valley he has also held numerous top executive posts in the oil and gas industry with major corporations. Mr. DeBoni holds a B.A.Sc. Chem. Eng. from the University of British Columbia, and a MBA degree with a major in Finance from the University of Calgary. He is a past Chairman of the Petroleum Society of CIM, a past director of the Society of Petroleum Engineers and has been a director of ARC Resources since 1996. Mr. DeBoni currently serves on the boards of Niko Resources Ltd., PetroWest Energy Services Ltd. and Sterling Resources Ltd.

## **JOHN P. DIELWART B.SC., P.ENG.**

Mr. Dielwart is Chief Executive Officer of ARC Resources Ltd. and has overall management responsibility for the Trust. Prior to joining ARC in 1994, Mr. Dielwart spent 12 years with a major Calgary based oil and natural gas engineering consulting firm, as senior vice-president and a director, where he gained extensive technical knowledge of oil and natural gas properties in western Canada. He began his career working for five years with a major oil and natural gas company in Calgary. Mr. Dielwart is a Past-Chairman of the board of governors for the Canadian Association of Petroleum Producers (CAPP). He holds a Bachelor of Science with Distinction (Civil Engineering) degree, University of Calgary. He has also been a director of ARC since 1996.

## **FRED DYMENT**

Mr. Dymont has extensive experience in the oil and gas business and is currently an independent businessman. His past business career included positions as President and CEO for Maxx Petroleum and President and CEO of Ranger Oil Limited. Mr. Dymont received a Chartered Accountant designation from the province of Ontario in 1972. Mr. Dymont currently sits as a director on the Boards of Tesco Corporation, Western Zagros Resources Ltd. and Transglobe Energy Corporation. He has been a director of ARC since 2003.

## **JAMES C. HOUCK B.SC., MBA**

Mr. Houck is the President & CEO of the Churchill Corporation. Prior to that, he was President & CEO of Western Oil Sands. The majority of his business career was spent with ChevronTexaco Inc, where he held a number of senior management and officer positions, including President, Worldwide Power and Gasification Inc, and Vice President and General Manager, Alternate Energy Dept. Earlier in his career, Mr. Houck held various positions of increasing responsibility in Texaco's conventional oil and gas operations. Mr. Houck currently serves as a director on the boards of the Churchill Corporation and WesternZagros Resources Ltd. Mr. Houck became a director of ARC in 2008.

## **MICHAEL M. KANOVSKY B.SC., P.ENG., MBA**

Mr. Kanovsky graduated from Queen's University and the Ivey School of Business and is an independent businessman. 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.



Subsequently he was Chairman, Taro Industries (oilfield manufacturing), Vice-Chairman, Precision Drilling and in 1996 founded Bonavista Energy. Mr. Kanovsky currently sits on the boards of Argosy Resources Ltd., Bonavista Energy Trust, Devon Energy Inc., Pure Technologies Inc. and TransAlta Inc. He has been a director of ARC since 1996.

**HAROLD N. KVISLE B.SC., P.ENG., MBA**

Mr. Kvisle is currently the President and CEO of TransCanada Corporation. Prior to joining TransCanada, Mr. Kvisle was the President of Fletcher Challenge Energy Canada Inc. (oil and gas) from 1990 to 1999. He has worked in the oil and gas industry since 1975 and in the utilities and power industries since 1999. He held engineering, finance and management positions with Dome Petroleum Limited, is former Chair of the Interstate Natural Gas Association of America (INGAA) and is former Chair of the Mount Royal College Board of Governors. Mr. Kvisle currently serves on the boards of Bank of Montreal and TransCanada Corporation. Mr. Kvisle joined the board of ARC in 2009.

**KATHLEEN M. O'NEILL B.COM, FCA**

Ms. O'Neill is a corporate director and has extensive experience in accounting and financial services. Prior to 2005, she was an Executive Vice-President of BMO Financial Group with accountability for a number of major business units. Prior to joining BMO Financial Group in 1994, she was a partner with PricewaterhouseCoopers. Ms. O'Neill is an FCA (Fellow of Institute of Chartered Accountants) and has her ICD.D designation from the Institute of Corporate Directors. Ms. O'Neill currently serves on the boards of Finning International, Invesco Trimark and TMX Group. Ms. O'Neill joined the board of ARC in 2009.

**HERB PINDER B.ARTS, LL.B., MBA**

Mr. Pinder is a non-practicing lawyer and a graduate of Harvard Business School. He formerly managed a family business, which included Pinders Drugs, and is currently the President of the Goal Group, a private equity management firm located in Saskatoon. He is an experienced corporate director and brings a varied business background to the Trust encompassing a variety of industries but with a focus on the energy sector. He is currently a director of Viterra, a number of private energy companies, the C. D. Howe Institute and the Fraser Institute as a Trustee. Mr. Pinder currently serves on the board of Viterra. Mr. Pinder became a director of ARC in 2006.

**MAC H. VAN WIELINGEN**

Mr. Van Wielingen has served as Vice-Chairman and director of ARC Resources Ltd. since its formation in 1996 and became Chairman in 2002. He is Co-Chairman and a founder of ARC Financial Corporation, a private equity investment management company focused on the energy sector in Canada. 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. 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.

# HEALTH, SAFETY AND ENVIRONMENT

**ARC has a long-standing tradition of leadership in all of its business and operating activities. Certain aspects of the oil and gas industry are inherently hazardous, hence a thorough and disciplined approach to health, safety and environmental issues is required and must be maintained. ARC strives to exhibit leadership in the health, safety and environment practices by meeting or exceeding regulations, by being prepared for emergencies, by monitoring and assessing our performance and by integrating environmental management measures into our activities.**

## HEALTH AND SAFETY

We strive to achieve a high level of health and safety through active management and engagement of all individuals involved in our operations. We accomplish this by focusing our health and safety efforts on reporting, awareness and education. By ensuring that information and training is available to all workers, the risk of incidents is greatly reduced. ARC performs safety audits on its operating facilities and lease sites to ensure the integrity of our systems and operations. ARC has a pre-approved contractor program that ensures the people working for us have health and safety programs in place that meet or exceed our requirements. ARC also conducts safety audits on these primary pre-approved contractors to verify the integrity of their health and safety programs. The audit program provides an opportunity to evaluate contractor performance and ensure ARC's high safety standards are met consistently and effectively at all sites.

ARC conducts emergency response training on a regular basis in all of its operating fields to ensure a high level of response capability when placed in challenging situations. This training allows our employees to be prepared for emergencies.

Our health, safety and environment team held its sixth annual consultant health and safety workshop in the spring of 2009. This annual workshop reinforces to contractors our expectations for a safe work environment and takes the opportunity to review safe work practices and procedures, changes to regulatory requirements and modifications to ARC's health and safety programs.

## ENVIRONMENT

We recognize that our operations may have an effect on the environment and on people so we work hard to mitigate the impact of our operations. ARC continues to work towards a reduction in its greenhouse gas ("GHG") emissions per unit of production as measured by production carbon intensity ("PCI"). This is accomplished through facility maintenance improvements, production efficiencies and individual capital projects. Last year marked the third year ARC voluntarily reported its emissions to the Carbon Disclosure Project ("CDP"). ARC was recognized by the CDP as one of the top 15 Canadian Climate Disclosure Leaders and ranked in the top 10 within the High-Carbon-Impact Sectors.

As part of its continuing efforts to measure and manage its greenhouse gas emissions, ARC launched its Eco-Efficiency Program in March, 2009. The program focuses on funding the development and implementation of energy efficiency projects (and emerging technologies) throughout ARC's operations. This includes projects that can reduce GHG emissions, reduce fuel and electricity consumption and/or utilize waste products while maintaining reliability and maximum production. The Eco-Efficiency Program aims to integrate GHG impact analysis into all future project evaluations, complement the industry's efforts to incorporate lowest-impact technologies, improve employee and stakeholder awareness of ARC's commitment to stewardship and position ARC to effectively respond to regulatory compliance requirements.

## CAPP STEWARDSHIP

ARC participates and contributes annually to the Canadian Association of Petroleum Producers ("CAPP") Stewardship Program and is committed to reporting at the platinum level, which is the highest reporting standard. CAPP defines stewardship as "analysis, planning, implementation, measurement and review of social, environmental and economic performance".

## RECLAMATION FUND

ARC effectively manages its liabilities through the controlled abandonment and reclamation of facilities, wells and leases. We maintain a reclamation fund to ensure that required funds are available for future reclamation of wells and facilities once they have reached the end of their economic life. The annual contribution to support this effort is currently \$11 million.

## LEARN MORE

ARC's environment, health and safety program and community involvement initiatives are explained in more detail in ARC's Corporate Responsibility report. ARC released its first Corporate Responsibility report in 2008; the report is available on the ARC corporate website [www.arcresources.com/about/responsibility](http://www.arcresources.com/about/responsibility).

# COMMUNITY INVOLVEMENT

**At ARC we believe that we share the responsibility for the well-being of those communities where we live and work. Since communities give so much to us in terms of infrastructure and access to resources,**

**we believe in supporting these communities by sponsoring and donating to community initiatives. In 2009, ARC contributed \$1.6 million to not-for-profit groups both in Calgary and in its field communities.**

ARC frequently partners with not-for-profit organizations by committing to donations for several years. This is done so that an organization can better budget to provide its services. We focus on programs that address community issues such as poverty, child hunger, family violence and homelessness to name a few. We also ensure that we support community health and wellness programs, arts and culture and education programs. ARC has formed partnerships with many organizations, some of which are as follows:

- The United Way, who gives individuals and families the opportunity to reach their potential and improve their quality of life. In 2009, ARC and its employees contributed approximately \$615,000 to the Calgary and area United Way Projects;
- The United Way "2335" Project is an initiative designed to engage individuals in the 23-35 age group in the work that the United Way does within communities. ARC contributed \$30,000 as part of a three year \$90,000 commitment in 2009;
- The Alberta Cancer Foundation raises funds to support cancer research projects, patient education and support programs, equipment and technology acquisition, and cancer treatment programs. ARC is supporting the Molecular Cancer Epidemiology Research Chair and has contributed \$500,000 to support this research;
- The Canadian Sport Centre Calgary ("CSCC") is one of the top training environments in the world for Olympic athletes. ARC has invested over \$200,000 to the CSCC as part of a mutually beneficial partnership;
- HomeFront is committed to breaking the cycle of domestic violence in Calgary. ARC has committed \$200,000 over four years;

- The Calgary Glenbow Museum combines intriguing stories from western Canada with extraordinary art and artifacts from around the world. ARC has committed \$125,000 to the Glenbow over five years to sponsor the Glenbow Museum Discovery Room;
- U of S Engineering Advancement Trust maintains the currency of the U of S College of Engineering's undergraduate program and provides assistance with the college and student initiatives;
- Calgary Philharmonic Orchestra (CPO) Golden Baton Award is given annually to an individual or family with a proven record of outstanding generosity who have demonstrated civic and charitable responsibility;
- Schulich School of Engineering (U of C) is one of the most progressive engineering schools in the country and the first choice for talented, creative and leadership-oriented engineers. ARC donated \$50,000 as part of a five year \$250,000 commitment in 2009;
- Redwater Health Centre – donation to help fund the costs associated with upgrades required to the heli-pad for air ambulance service. A similar contribution was made to the Drayton Valley Health Services; and
- City of Dawson Creek, Calvin Cruk Centre for the Arts – capital contribution for the construction of a centre for the arts.

ARC also contributes extensively to the communities it operates in with each field office deciding where community support monies are to be directed. Through its field offices, ARC supports community centres, youth sports programs, food banks, seniors outreach groups and many other community organizations across Alberta, British Columbia, Manitoba and Saskatchewan.

# CONSERVATIVE CAPITAL STRUCTURE

ARC's capital structure limits the amount of debt to help mitigate fluctuations in commodity cycles and positions ARC to benefit from the rewards of value creation on its properties. ARC's long-term strategy is to keep debt at less than 2.0 times cash flow from operating activities and under 20 per cent of total capitalization. This strategy resulted in manageable debt to cash flow levels in 2009. Debt to trailing cash flow from operating activities of 1.0 times at December 31, 2008 increased to 1.8 times with the significant decline in commodity prices and cash flow in 2009, but were well below the debt covenant levels of 3.0 times. In 2010, with closing of the equity offering the debt to cash flow from operating activities, ratio declined to 1.3 times.

At January 5, 2010, ARC had total credit facilities of \$1.3 billion with \$609.7 million outstanding as long term debt resulting in credit available of approximately \$710 million.

The weak global economic situation in 2009 impacted ARC along with all other oil and gas entities by restricting access to capital and increasing borrowing costs however, ARC's conservative capital structure allowed ARC to maintain financial flexibility during 2009 and emerge in a very strong financial position in 2010. The credit situation improved dramatically during the third and fourth quarters of 2009 in the three markets that ARC typically uses to raise capital; equity, bank debt and long-term notes.

## CAPITAL STRUCTURE AND LIQUIDITY <sup>(1)</sup>

(\$ MILLIONS EXCEPT PER CENT AND RATIO AMOUNTS)	JANUARY 5, 2010 <sup>(2)</sup>	DECEMBER 31, 2009	DECEMBER 31, 2008
Long term debt	609.7	846.1	901.8
Working capital deficit	56.3	56.3	60.1
Net debt obligations	666.0	902.4	961.9
Market value of trust units and exchangeable shares	5,207.0	4,765.7	4,405.9
Total capitalization	5,873.0	5,668.1	5,367.8
Net debt as a percentage of total capitalization	11.3%	15.9%	17.9%
Net debt to cash flow from operating activities	1.3	1.8	1.0

(1) For complete financial information please refer to the 2009 Audited Consolidated Financial Statements and the Management's Discussion and Analysis filed on SEDAR at [www.SEDAR.com](http://www.SEDAR.com)

(2) Calculated using December 31, 2009 results plus the impact of the equity issuance that closed on January 5, 2010.

In addition to the unused credit lines ARC has been able to successfully raise funds in the equity markets over its 13 year history.

The most recent two equity offerings were in January 2009 and December 2009. Each offering raised net proceeds of \$240 million. ARC currently has approximately 252 million units outstanding, which results in a market capitalization of \$5.3 billion at the current \$21 unit price.



# CORPORATE CONVERSION



**P. VAN R. DAFOE**  
VICE-PRESIDENT  
AND TREASURER

**STEVEN W. SINCLAIR**  
SENIOR VICE-PRESIDENT FINANCE  
AND CHIEF FINANCIAL OFFICER

Management continues to work on the plan for converting ARC Energy Trust to a corporation on January 1, 2011. After the conversion, the corporation would expect to allocate its cash flow towards funding a portion of capital expenditures, periodic debt repayments, site reclamation expenditures, and cash payments to shareholders in the form of dividends. Current taxes payable by ARC after converting to a corporation will be subject to normal corporate tax rates. Taxable income as a corporation will vary depending on total income and expenses and vary with changes to commodity prices, costs and claims for both accumulated tax pools and tax pools associated with current year expenditures. As ARC has accumulated \$2.2 billion of income tax pools, ARC expects that taxable income will be reduced or potentially eliminated for the initial period post conversion. The \$2.2 billion of income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time.

If a conversion from the trust structure to a corporation is approved by the unitholders, ARC expects there will be an opportunity to convert trust units to shares of the new corporation in a non-taxable manner. Over the long-term, we would expect Canadian investors who hold their trust units in a taxable account to be relatively indifferent on an after tax basis as to whether ARC is structured as a corporation or as a trust in 2011. However, Canadian tax deferred investors and foreign investors may realize reduced after tax returns due to their inability to claim the dividend tax credit if ARC converts to a corporation. Unitholders should consult their own tax advisor for details on the direct impact to themselves.



# CORPORATE AND UNITHOLDER INFORMATION

## DIRECTORS

**MAC H. VAN WIELINGEN** <sup>(3) (4) (6)</sup>  
CHAIRMAN

**WALTER DEBONI** <sup>(1) (4) (6)</sup>  
VICE-CHAIRMAN

**JOHN P. DELWART**  
CHIEF EXECUTIVE OFFICER

**FRED J. DYMENT** <sup>(1) (2) (6)</sup>

**JAMES C. HOUCK** <sup>(1) (2) (5)</sup>

**MICHAEL M. KANOVSKY** <sup>(2) (4) (6)</sup>

**HAL KVISLE** <sup>(5)</sup>

**KATHLEEN O'NEILL** <sup>(1) (3)</sup>

**HERB PINDER** <sup>(3) (4) (5)</sup>

<sup>(1)</sup> MEMBER OF AUDIT COMMITTEE

<sup>(2)</sup> MEMBER OF RESERVE COMMITTEE

<sup>(3)</sup> MEMBER OF HUMAN RESOURCES AND COMPENSATION COMMITTEE

<sup>(4)</sup> MEMBER OF POLICY AND BOARD GOVERNANCE COMMITTEE

<sup>(5)</sup> MEMBER OF HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

<sup>(6)</sup> MEMBER OF RISK COMMITTEE

## OFFICERS

**JOHN P. DELWART**  
CHIEF EXECUTIVE OFFICER

**MYRON M. STADNYK**  
PRESIDENT AND CHIEF OPERATING OFFICER

**DOUG J. BONNER**  
SENIOR VICE-PRESIDENT, CORPORATE DEVELOPMENT

**DAVID P. CAREY**  
SENIOR VICE-PRESIDENT, CAPITAL MARKETS

**TERRY GILL**  
SENIOR VICE-PRESIDENT, CORPORATE SERVICES

**STEVEN W. SINCLAIR**  
SENIOR VICE-PRESIDENT FINANCE AND CHIEF FINANCIAL OFFICER

**TERRY ANDERSON**  
VICE-PRESIDENT, OPERATIONS

**P. VAN R. DAFOE**  
VICE-PRESIDENT AND TREASURER

**INGRAM GILLMORE**  
VICE-PRESIDENT, ENGINEERING

**NEIL GROENEVELD**  
VICE-PRESIDENT, GEOSCIENCES

**ALLAN R. TWA**  
CORPORATE SECRETARY

## EXECUTIVE OFFICE

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CALGARY, ALBERTA

## ENGINEERING CONSULTANTS

GLJ PETROLEUM CONSULTANTS 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 AT  
**WWW.ARCRESOURCES.COM**  
OR CONTACT:  
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**TOLL FREE** 1.888.272.4900

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**TERRY GILL**  
[privacy@arcresources.com](mailto:privacy@arcresources.com)  
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# GLOSSARY

API	American Petroleum Institute
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe*	barrels of oil equivalent
boe/d*	barrels of oil equivalent per day
Capex	capital expenditures
FD&A	finding, development and acquisition costs
F&D	finding and development costs
FDC	future development costs
GAAP	generally accepted accounting principles
G&A	general and administrative
GJ	gigajoule
mbbls	thousand barrels
mboe*	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmboe*	million barrels of oil equivalent
mmbtu	million British Thermal Units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
NAV	net asset value
NGL	natural gas liquids
NYMEX	New York Mercantile Exchange
Oil Equivalent	barrels of oil and natural gas converted at 6:1
RLI	reserve life index
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate

\* Boe's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 mcf:1 bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

## NOTICE OF ANNUAL MEETING THE ANNUAL MEETING WILL BE HELD ON MAY 18, 2010 AT 3:30 PM AT THE METROPOLITAN CENTRE, 333 – 4 AVENUE SW, CALGARY, AB.

THE SAVINGS BELOW ARE A RESULT OF PRINTING THIS ANNUAL ON MOHAWK PAPERS.

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(GALLONS)

**6,014**



TREES  
PRESERVED

**14**



ENERGY REDUCED  
(BTU) (MILLIONS)

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WATERBORNE  
WASTE (LBS)

**41**



NET GREENHOUSE GAS  
EMISSIONS REDUCED (LBS)

**1,310**



SOLID WASTE  
(LBS)

**665**



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