Annual Report

'19

Creating energy for the world

ARC RESOURCES LTD

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Corporate Profile

ARX

ARC Resources Ltd. ("ARC") is a leading Canadian oil and gas producer committed to delivering strong operational and financial performance and upholding values of operational excellence and responsible development. With operations focused in western Canada, ARC's portfolio is made up of resource-rich properties that provide both near-term and long-term investment opportunities. ARC pays a quarterly dividend to shareholders and its common shares trade on the Toronto Stock Exchange under the symbol ARX.

Financial & Operational Highlights

Years Ended December 31
Cdn$ millions, except per share amounts, barrel of oil equivalent ("boe") amounts, and common shares outstanding

2019 Results

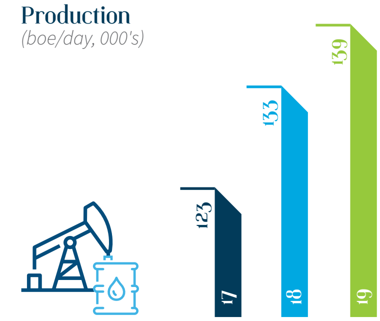
Financial Results	2019	2018	2017
Net income (loss)	(27.6)	213.8	388.9
Per share [(1)]	(0.08)	0.60	1.10
Funds from operations [(2)]	697.4	819.0	731.9
Per share [(1)]	1.97	2.31	2.07
Dividends	212.4	212.3	212.3
Per share [(1)]	0.60	0.60	0.60
Capital expenditures, before land and net property acquisitions (dispositions)	691.5	679.4	829.7
Total capital expenditures, including land and net property acquisitions (dispositions)	687.4	484.4	929.8
Net debt outstanding [(2)]	940.2	702.7	728.0
Common shares outstanding, weighted average diluted (millions)	353.4	353.8	353.9
Common shares outstanding, end of period (millions)	353.4	353.4	353.5

Operational Results	2019	2018	2017
Production			
Crude oil (bbl/day)	17,591	23,460	24,380
Condensate (bbl/day)	10,066	7,281	5,650
Crude oil and condensate (bbl/day)	27,657	30,741	30,030
Natural gas (MMcf/day)	623.3	570.2	525.8
Natural gas liquids ("NGLs") (bbl/day)	7,578	6,955	5,273
Total (boe/day)	139,126	132,724	122,937
Average realized prices, prior to gain or loss on risk management contracts			
Crude oil ($/bbl)	66.01	68.58	60.66
Condensate ($/bbl)	67.61	75.56	62.02
Natural gas ($/Mcf)	2.12	2.37	2.56
NGLs ($/bbl)	12.28	32.22	29.57
Oil equivalent ($/boe)	23.42	28.12	27.08
Netback ($/boe) [(3)]			
Commodity sales from production	23.42	28.12	27.08
Royalties	(1.39)	(2.39)	(2.29)
Operating expense	(4.97)	(5.95)	(6.55)
Transportation expense	(2.94)	(2.66)	(2.52)
Netback	14.12	17.12	15.72
Realized gain on risk management contracts	1.57	2.55	3.23
Netback including gain on risk management contracts	15.69	19.67	18.95

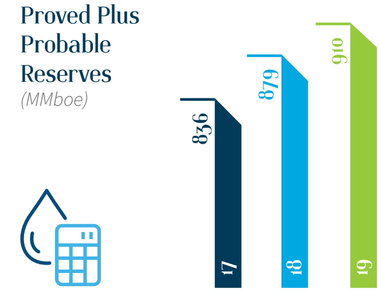
Trading Statistics [(4)]	2019	2018	2017
High price	10.49	15.90	23.70
Low price	5.37	7.38	13.64
Close price	8.18	8.10	14.75
Average daily volume (thousands of shares)	2,242	1,480	1,124

(1) Per share amounts (with the exception of dividends) are based on weighted average diluted common shares.
(2) Refer to the "Capital Management" note in ARC's financial statements and to the sections entitled, "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.
(3) Non-GAAP measure that does not have any standardized meaning under International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled, "Non-GAAP Measures" contained within ARC's MD&A.
(4) Trading prices are stated in Canadian dollars on a per share basis and are based on intra-day trading on the Toronto Stock Exchange.

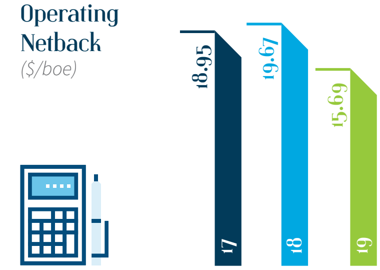
Production
(boe/day, 000's)



Proved Plus Probable Reserves
(MMboe)

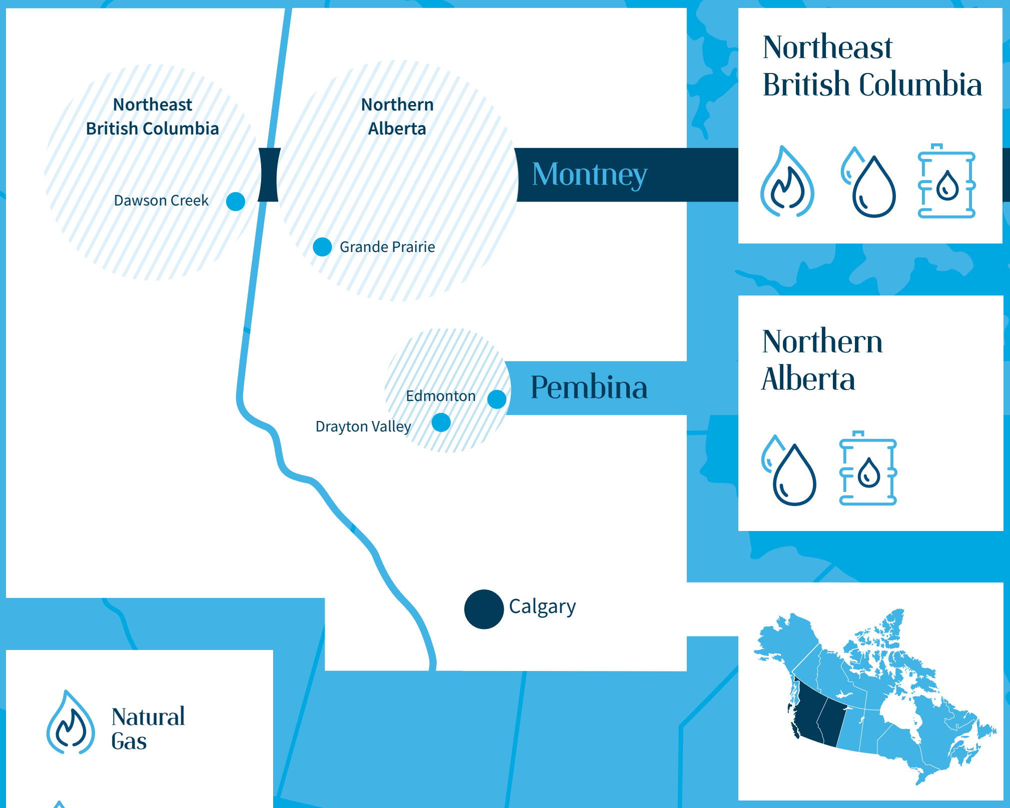


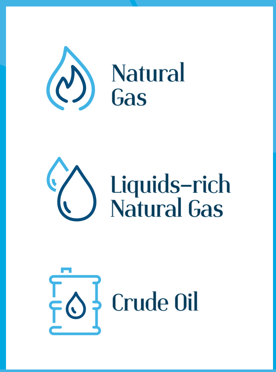
Operating Netback
($/boe)

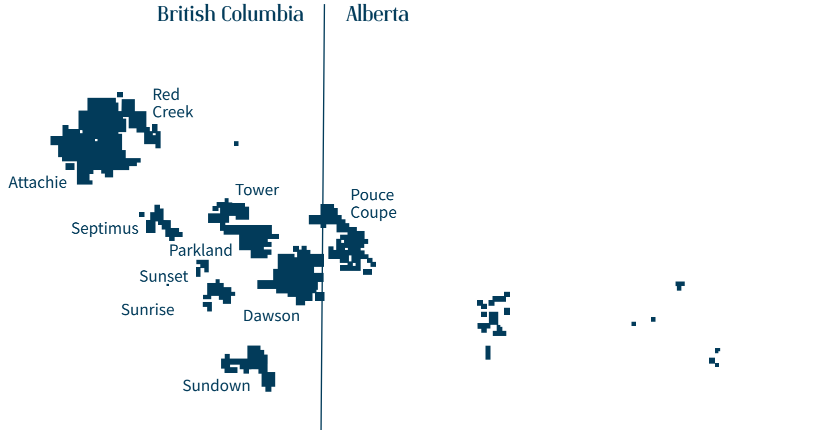


Where We Operate

ARC's concentrated asset base enables execution of larger-scale projects, supports the application of learnings across properties and asset teams, and facilitates excellent capital efficiencies and operating cost structures. ARC continues to apply innovation and technical expertise across its asset base.







The Montney generates competitive economics and ARC has many long-term, large-scale development opportunities that will deliver value for years to come. ARC has been active in the Montney since 2000, developing technical expertise in the play each year. The Montney is a key growth area for ARC, with great potential for continued reserves and production additions. ARC is a leading operator in Montney liquids production in the province of British Columbia.

Montney

Overview

128,479
Average Daily Production *(boe/day)*

611.7
Natural Gas *(MMcf/day)*

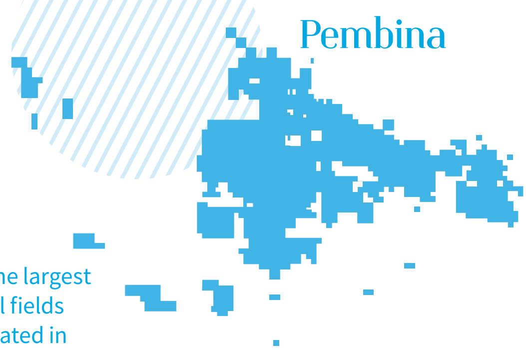
26,524
Crude Oil & Liquids *(bbl/day)*

978
Land Position *(net sections)*

850
2P Reserves *(MMboe)*

Cardium

Overview



The Pembina Cardium is one of the largest and most prolific conventional oil fields in western Canada. ARC has operated in the play since its inception in 1996 and continues to unlock value through time and technology. The Pembina Cardium properties generate significant cash flow from high-quality, light oil production and reserves.

10,336
Average Daily Production *(boe/day)*

11.2
Natural Gas *(MMcf/day)*

8,476
Crude Oil & Liquids *(bbl/day)*

217
Land Position *(net Cardium sections)*

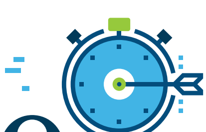
60
2P Reserves *(MMboe)*

Message to Shareholders

Terry Anderson
Chief Executive Officer

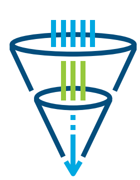
We find ourselves in a new energy era; the world's energy needs are evolving and at ARC, we are adapting to this new environment through prudent financial management, capital discipline, and furthering our leadership position in our environmental, social and governance ("ESG") practices. In 2019, our teams executed our capital expenditure plans and our base operations safely and efficiently while delivering strong financial and operational results.

I am honoured to lead this Company into the future and this new energy era as ARC's Chief Executive Officer. I have been a part of ARC's history for 20 years and am deeply immersed in the Company's long-term strategy of risk-managed value creation. I joined ARC in 2000 as an Operations Engineer when the Company's production was approximately 15,000 boe per day. My journey at ARC has had me transition through a variety of roles, taking on increasing levels of responsibility and having the opportunity to deepen my understanding of all facets of the business. At ARC, our absolute commitment is to create long-term value for our shareholders through strategic thinking and prudent decision-making. Over the last decade, ARC has completed its transition from a mature, higher-cost asset base into a focused, low-cost Montney business. We have seen the North American oil and gas industry change rapidly, from an era of resource scarcity to an era of resource abundance. We have transformed our Company into a highly efficient, concentrated asset base through a measured and balanced approach. This will support continued innovation and



zero
lost-time incidents

Continued emphasis and focus on safety, with zero lost-time incidents for employees in over six years.



50%
decrease in spills

Recorded a 50 per cent decrease in spill volumes and a greater than 50 per cent reduction in the number of reportable spills compared to 2018.

focused
on delivering returns

ARC remains focused on delivering returns to shareholders through investing in high-return projects and paying a meaningful dividend.

profitable development, leading to shareholder value.

At ARC, risk-managed value creation is achieved by delivering sustainable total returns through paying a dividend to our shareholders and through profit generation. Our low cost structure, supported by robust market diversification activities, disciplined capital allocation decisions, a moderate corporate production decline rate, and the maintenance of a strong balance sheet provides the foundation to ARC's resilient business plan. ARC has been a successful company for decades because of these foundational principles and because we invest in profitable growth when it makes sense to do so. These principles will continue to guide us into the future. Today, ARC's balance sheet is strong and our dividend is sustainable. With a strong base business in place, we are disciplined in investing capital to grow our production, progressing owned and operated infrastructure projects at Dawson and Ante Creek, and advancing our highly prospective Attachie asset to commercialization when the conditions indicate that full-scale development makes sense for our business in the long term.

The efficiency of our business continues to improve with the advancement of technology and innovation, and our integrated approach to ESG leadership has resulted in strong performance that benchmarks exceptionally well against both Canadian and global energy producers. Responsible development has shaped the Company we are today and underpins our thinking for continued long-term success. We are committed to corporate leadership through community engagement and investment, leading environmental practices, and transparency and accountability with all of our stakeholders.

> Our low cost structure, our enviable asset base, and our talented people will drive our business forward.

Our industry is currently facing extreme levels of uncertainty stemming from the crude oil price war and the COVID-19 pandemic. We have taken decisive actions to respond to these circumstances by reducing our planned capital expenditures and dividend, and remain well-positioned to deliver on our long-term strategy of risk-managed value creation. We believe that these actions will allow us to emerge from this period of economic uncertainty in a position of financial strength.

As we look to the future, ARC will continue to renew its business strategy, building on its many current strengths while pursuing new value creation opportunities. ARC will continue to pursue profitable growth and value creation in core business areas, grow funds from operations, maintain a strong balance sheet, and remain committed to paying a dividend. We believe that our low cost structure, our enviable asset base, and our talented people will drive our business forward, positioning us to succeed in this challenging commodity price environment and create optionality to pursue other value-enhancing opportunities. The world is changing, and for companies like ARC, along with delivering profitability, we must also continue to positively contribute to society. It is about profitability and creating value for shareholders while also making the world a better place through responsible energy creation. We thank you for your continued support as we strive to do just that – make the world a better place.

reserve replacement

ARC replaced 198 per cent of 2019 oil and NGLs production and 153 per cent of 2019 natural gas production through development activities.

strong performance

Recognized by the Carbon Disclosure Project for our strong performance in climate and water management.

GHG emissions intensity reduction

Relative to our 2017 greenhouse gas baseline, ARC is on track to exceed our emissions intensity reduction target of 25% by the year 2021, ahead of schedule.

'19 financial report

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of ARC Resources Ltd. ("ARC" or the "Company") is Management's analysis of the financial performance and significant trends and external factors that may affect future performance. It is dated February 6, 2020 and should be read in conjunction with the audited consolidated financial statements (the "financial statements") as at and for the year ended December 31, 2019, and the MD&A and unaudited condensed interim consolidated financial statements for the periods ended March 31, 2019, June 30, 2019, and September 30, 2019, as well as ARC's Annual Information Form ("AIF"), each of which is filed on SEDAR at www.sedar.com. All financial information is reported in Canadian dollars and all per share information is based on diluted weighted average common shares, unless otherwise noted.

Throughout this MD&A crude oil ("crude oil") refers to light crude oil, medium crude oil and heavy crude oil as defined by National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). ARC's production of heavy crude oil is considered to be immaterial. Condensate is a natural gas liquid as defined by NI 51-101. Throughout this MD&A, NGLs comprise all natural gas liquids as defined by NI 51-101 other than condensate which is disclosed separately. Crude oil and liquids ("crude oil and liquids") refers to crude oil, condensate and NGLs.

This MD&A contains non-GAAP measures and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with ARC's disclosure under the headings "Non-GAAP Measures", "Forward-looking Information and Statements", and "Glossary" included at the end of this MD&A.

ABOUT ARC RESOURCES LTD.

ARC is a dividend-paying Canadian energy company headquartered in Calgary, Alberta. ARC's activities focus on the exploration, development and production of conventional crude oil, condensate, natural gas liquids ("NGLs"), and natural gas in western Canada with an emphasis on the development of properties with a large volume of hydrocarbons in-place commonly referred to as "resource plays".

ARC has maintained its strategy of **risk-managed value creation** since inception which has delivered value to shareholders, including the payment of a regular dividend. ARC's low cost structure, disciplined capital allocation decisions, marketing strategies, portfolio management, low debt, and strategic optionality have all contributed to ARC's success.

Highlights

Corporate highlights for the years 2015 through 2019 are shown in Table 1:

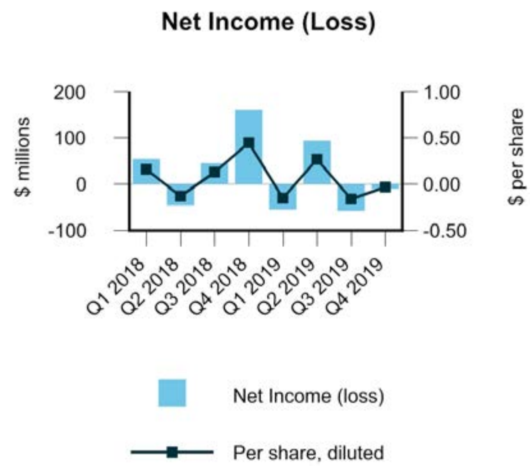
Table 1

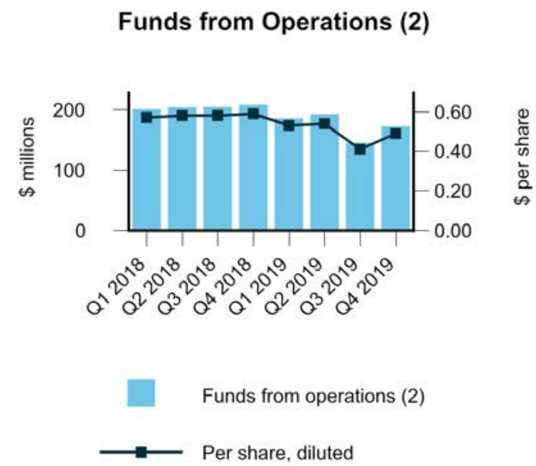
	2019	2018	2017	2016	2015
Production (1)					
Crude oil (bbl/d)	**17,591**	23,460	24,380	31,510	32,762
Condensate (bbl/d)	**10,066**	7,281	5,650	3,626	3,430
Crude oil and condensate (bbl/d)	**27,657**	30,741	30,030	35,136	36,192
Natural gas (MMcf/d)	**623.3**	570.2	525.8	475.6	444.9
NGLs (bbl/d)	**7,578**	6,955	5,273	4,274	3,819
Total production (boe/d)	**139,126**	132,724	122,937	118,671	114,167
Average daily production per thousand shares (2)	**0.39**	0.38	0.35	0.34	0.34
Net income (loss)	**(27.6)**	213.8	388.9	201.3	(342.7)
Net income (loss) per share	**(0.08)**	0.60	1.10	0.57	(1.01)
Funds from operations (3)	**697.4**	819.0	731.9	633.3	773.4
Funds from operations per share (3)	**1.97**	2.31	2.07	1.80	2.27
Capital expenditures (4)	**691.5**	679.4	829.7	453.4	541.6
Net debt (3)	**940.2**	702.7	728.0	356.5	985.1
Net debt to funds from operations (ratio) (3)	**1.3**	0.9	1.0	0.6	1.3
Return on average capital employed ("ROACE") (%) (5)	**(2)**	8	14	7	(7)
Proved plus probable reserves (MMboe) (6)(7)	**909.9**	878.9	836.1	736.7	686.9
Proved plus probable reserves per share (boe) (6)(7)	**2.6**	2.5	2.4	2.1	2.0

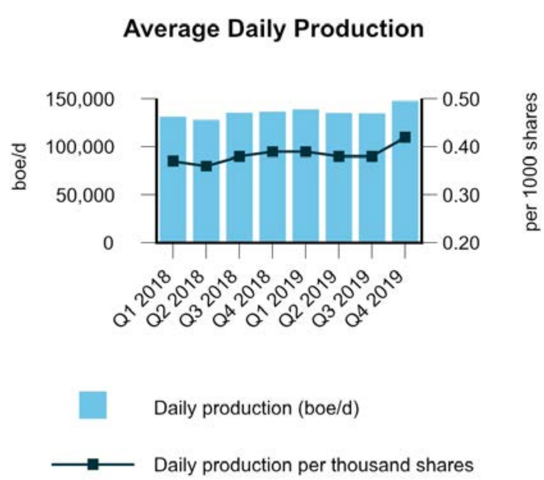
(1) Reported production amount is based on Company interest before royalty burdens.
(2) Daily production per thousand shares represents annual average daily production divided by the diluted weighted average common shares for the respective years ended December 31.
(3) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(4) Prior to expenditures for land purchases and property acquisitions and dispositions.
(5) Non-GAAP measure that does not have any standardized meaning under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.
(6) As determined by ARC's independent reserves evaluator with an effective date of December 31 for the years shown in accordance with the Canadian Oil and Gas Evaluation Handbook.
(7) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests. For more information, see ARC's AIF on SEDAR at www.sedar.com and the news release entitled *"ARC Resources Ltd. Reports Fourth Quarter and Year-end 2019 Financial and Operational Results and 2019 Reserves Results"* dated February 6, 2020.

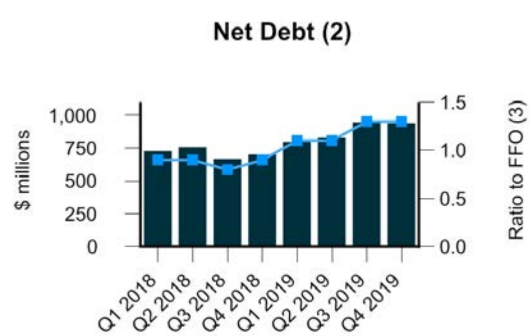
QUARTERLY RESULTS (1)

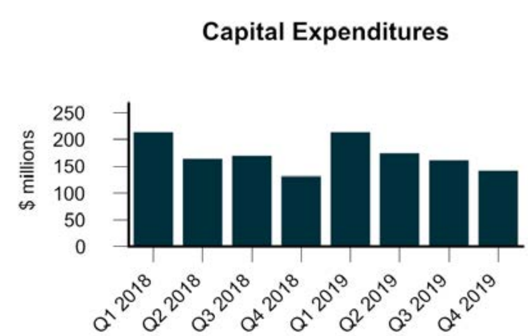
Exhibit 1











(1) The details contained in the graphs above are included in the section entitled "Quarterly Historical Review" contained within this MD&A.
(2) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(3) Net debt to annualized funds from operations. Refer to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.

Trends in earnings and funds from operations are primarily associated with fluctuations in revenues which reflect changes in production levels and commodity prices. Realized risk management gains and losses serve to partially mitigate the effect of volatile commodity prices and the impact on quarterly funds from operations, while changes in the Canadian value of ARC's US dollar-denominated long-term debt and unrealized risk management gains and losses also impact earnings. The following significant items impacted the Company's financial and operational results over the past eight quarters:

- In the fourth quarter of 2019, ARC recognized an unrealized loss on risk management contracts of $62.9 million.
- In the third quarter of 2019, ARC recognized an impairment charge of $39.2 million relating to financial assets. For more information, refer to the section entitled "ACCEL Canada Holdings Limited" contained within this MD&A and Note 6 "Financial Assets and Credit Risk" in the financial statements.
- In the second quarter of 2019, ARC recognized an income tax recovery of $63.9 million. Additionally an impairment charge of $8.5 million was recognized relating to financial assets. For more information, refer to the section entitled "ACCEL Canada Holdings Limited" contained within this MD&A and Note 6 "Financial Assets and Credit Risk" in the financial statements.
- In the first quarter of 2019, ARC recognized an unrealized loss on risk management contracts of $146.5 million.
- In the fourth quarter of 2018, ARC recognized an unrealized gain on risk management contracts of $194.9 million.
- In the third quarter of 2018, ARC disposed of its non-core Redwater assets for proceeds of $130.3 million, and recognized a $22.8 million reversal of impairment of Property, Plant and Equipment ("PP&E").
- In the second quarter of 2018, ARC recognized an unrealized loss on risk management contracts of $122.1 million.
- In the first quarter of 2018, ARC completed asset dispositions for proceeds of $98.3 million, and recognized a gain on disposal of $80.1 million.

ANNUAL GUIDANCE

ARC's $500 million capital program for 2020 centres around capital discipline and efficiency, balance sheet strength, delivering profitable projects to shareholders, and generating funds from operations to fully fund the Company's dividend and capital program. Notably, ARC will complete the Dawson Phase IV facility in the second quarter of 2020. Planned investment levels for 2020 represent a 28 per cent decrease from 2019. ARC plans to keep its gas plants at or near capacity through 2020 while maximizing liquids production and funds from operations. ARC expects that production will grow through the second half of the year and that annual average production will be in the range of 155,000 to 161,000 boe per day. For additional details on ARC's 2020 capital program, refer to the November 7, 2019 news release entitled, *"ARC Resources Ltd. Reports Third Quarter 2019 Financial and Operational Results and Announces $500 Million Capital Program for 2020"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

Table 2 is a summary of ARC’s 2019 and 2020 annual guidance and a review of 2019 actual results:

Table 2

	2020 Guidance	2019 Guidance	**2019 Actuals**	% Variance from 2019 Guidance
Production				
Crude oil (bbl/d)	15,000 - 17,000	17,000 - 19,000	**17,591**	—
Condensate (bbl/d)	12,000 - 14,000	9,000 - 11,000	**10,066**	—
Crude oil and condensate (bbl/d)	27,000 - 31,000	26,000 - 30,000	**27,657**	—
Natural gas (MMcf/d) (1)	715 - 725	620 - 630	**623.3**	—
NGLs (bbl/d)	8,500 - 9,000	6,500 - 7,000	**7,578**	8
Total (boe/d) (1)	155,000 - 161,000	136,000 - 142,000	**139,126**	—
Expenses ($/boe)				
Operating	4.55 - 4.95	5.00 - 5.35	**4.97**	(1)
Transportation	3.10 - 3.30	2.90 - 3.10	**2.94**	—
G&A expense before share-based compensation expense	1.00 - 1.20	1.10 - 1.30	**1.20**	—
G&A - share-based compensation expense (2)	0.30 - 0.45	0.20 - 0.35	**0.46**	31
Interest and financing (3)	0.65 - 0.80	0.75 - 0.90	**0.81**	—
Current income tax expense (recovery), as a per cent of funds from operations	(2) - 3	(3) - 2	**(2)**	—
Capital expenditures before land purchases and net property acquisitions (dispositions) ($ millions)	500	700	**691.5**	(1)
Weighted average shares (millions)	N/A	353	**353**	—

(1) Does not incorporate the potential impact that third-party transportation restrictions may have on ARC's natural gas production.
(2) Comprises expense recognized under the Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") Plans, Share Option Plan and Long-term Restricted Share Award ("LTRSA") Plan, and excludes compensation expense under the Deferred Share Unit ("DSU") Plan. In periods where substantial share price fluctuation occurs, ARC's general and administrative ("G&A") expense is subject to greater volatility.
(3) Excludes accretion of the asset retirement obligation ("ARO").

ARC's 2019 financial and operational results were generally within guidance. ARC's 2019 NGLs production was above the guidance range due to stronger-than-anticipated results from lower Montney development across ARC's asset base. ARC's 2019 operating expense was below the guidance range, reflecting diligent cost control efforts undertaken by ARC's field operations teams. ARC's 2019 G&A expense for share-based compensation was above the guidance range due to an increase in the value of the plans, driven primarily by the appreciation in ARC's share price late in 2019.

Exhibit 2

2019 Production Guidance

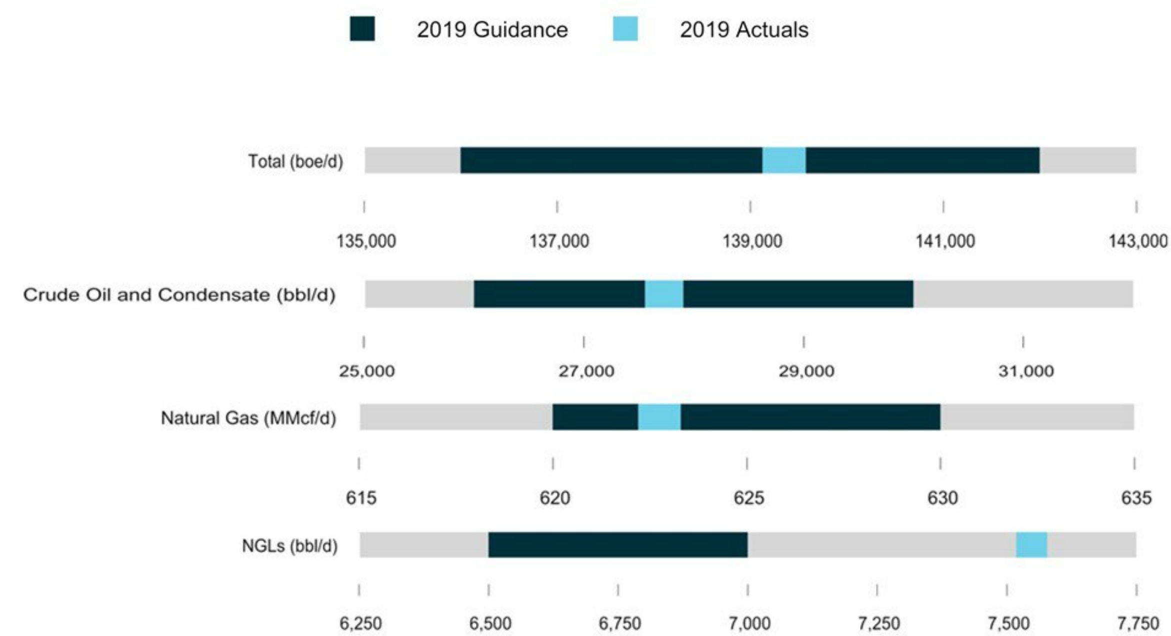
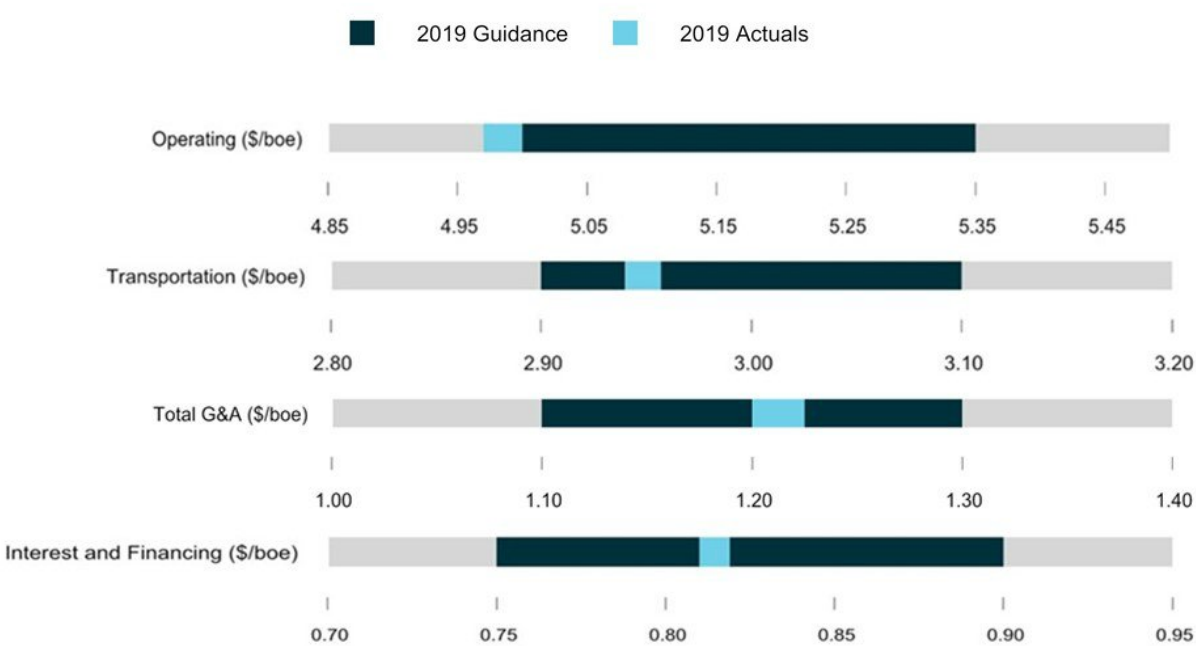


Exhibit 2a

2019 Expense Guidance



The guidance information presented for 2020 is intended to provide shareholders with information on Management's expectations for results from operations. Readers are cautioned that the guidance may not be appropriate for other purposes.

2019 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Financial Highlights

Table 3

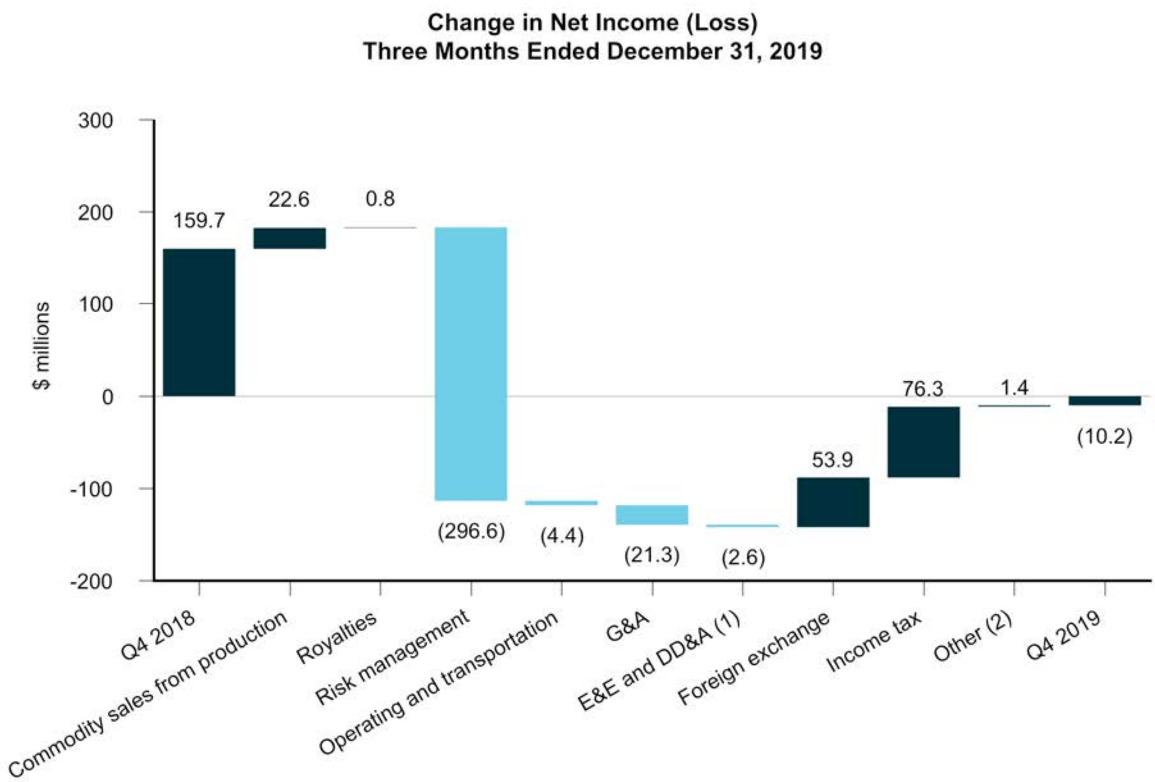
	Three Months Ended				Year Ended		
($ millions, except per share and volume data)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Net income (loss)	(57.2)	**(10.2)**	159.7	(106)	**(27.6)**	213.8	(113)
Net income (loss) per share	(0.16)	**(0.03)**	0.45	(107)	**(0.08)**	0.60	(113)
Funds from operations [1]	145.4	**172.8**	208.6	(17)	**697.4**	819.0	(15)
Funds from operations per share [1]	0.41	**0.49**	0.59	(17)	**1.97**	2.31	(15)
Dividends per share [2]	0.15	**0.15**	0.15	—	**0.60**	0.60	—
Average daily production (boe/d)	134,813	**147,650**	136,502	8	**139,126**	132,724	5

(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Dividends per share are based on the number of shares outstanding at each dividend record date.

Net Income (Loss)

In the fourth quarter of 2019, ARC recognized a net loss of $10.2 million (loss of $0.03 per share), a decrease of $169.9 million from ARC's fourth quarter 2018 net income of $159.7 million ($0.45 per share). The decrease in net income is primarily due to a loss recognized on risk management contracts of $240.3 million as compared to a gain on risk management contracts of $56.3 million in the fourth quarter of 2018. This was partially offset by a foreign exchange gain of $15.7 million compared to a foreign exchange loss of $38.2 million in the fourth quarter of 2018 and lower income tax expense of $76.3 million.

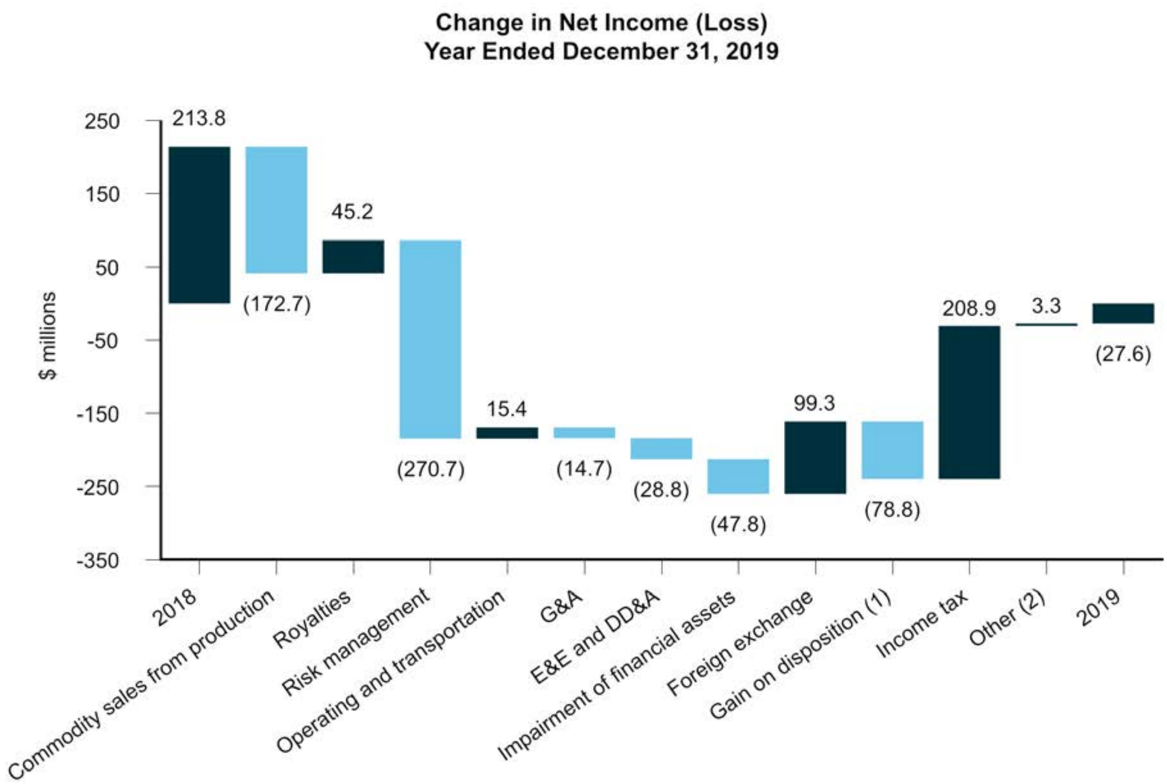
Exhibit 3



(1) Includes Exploration and evaluation ("E&E") and Depletion, depreciation and amortization ("DD&A") and impairment.
(2) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, interest and financing, impairment of financial assets, and gain on disposal of PP&E.

During the year ended December 31, 2019, ARC recognized a net loss of $27.6 million (loss of $0.08 per share) compared to net income of $213.8 million ($0.60 per share) for the prior year. The $241.4 million decrease in income is primarily attributed to lower revenue from commodity sales of $172.7 million, a loss recognized on risk management contracts of $175.9 million compared to a gain on risk management contracts of $94.8 million for the prior year, a recognition of impairment of financial assets of $47.8 million in 2019, and a lower gain on disposition of PP&E of $78.8 million. Partially offsetting these items are decreased royalties of $45.2 million, a foreign exchange gain of $35.5 million compared to a foreign exchange loss of $63.8 million in the prior year, and income tax recovery of $100.9 million compared to income tax expense of $108.0 million for the prior year.

Exhibit 3a



(1) Includes gain on disposal of PP&E.
(2) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, interest and financing, and gain on sale of reclamation fund.

Funds from Operations

ARC considers funds from operations to be a key measure of operating performance as it demonstrates ARC's ability to generate the necessary funds to maintain production at current levels and to repay debt. Management believes that such a measure provides an insightful assessment of the performance of ARC's operations on a continuing basis by eliminating certain non-cash charges and actual settlements of ARO, the timing of which is discretionary. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

ARC reports funds from operations in total and on a per share basis. Refer to Note 15 "Capital Management" in the financial statements. Table 4 is a reconciliation of ARC's net income (loss) to funds from operations and cash flow from operating activities:

Table 4

	Three Months Ended			Year Ended	
($ millions)	September 30, 2019	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
Net income (loss)	(57.2)	**(10.2)**	159.7	**(27.6)**	213.8
Adjusted for the following non-cash items:					
Impairment of financial assets	39.2	**0.1**	—	**47.8**	—
DD&A and impairment	132.4	**132.6**	125.6	**539.2**	494.7
Accretion of ARO	1.8	**1.7**	2.0	**7.3**	11.3
E&E expense	—	**—**	4.4	**—**	15.7
Deferred tax expense (recovery)	(12.0)	**2.7**	64.1	**(86.9)**	59.6
Unrealized loss (gain) on risk management contracts	30.8	**62.9**	(194.9)	**255.4**	28.6
Unrealized loss (gain) on foreign exchange	9.4	**(16.3)**	47.2	**(40.3)**	73.9
Gain on disposal of petroleum and natural gas properties	—	**(1.7)**	—	**(1.7)**	(80.5)
Other	1.0	**1.0**	0.5	**4.2**	1.9
Funds from operations	145.4	**172.8**	208.6	**697.4**	819.0
Net change in other liabilities	(1.5)	**8.3**	(12.1)	**(0.3)**	(20.9)
Change in non-cash working capital	6.1	**(14.4)**	28.1	**(58.3)**	64.7
Cash flow from operating activities	150.0	**166.7**	224.6	**638.8**	862.8

Details of the change in funds from operations from the three months and year ended December 31, 2018 to the three months and year ended December 31, 2019 are included in Table 5 below:

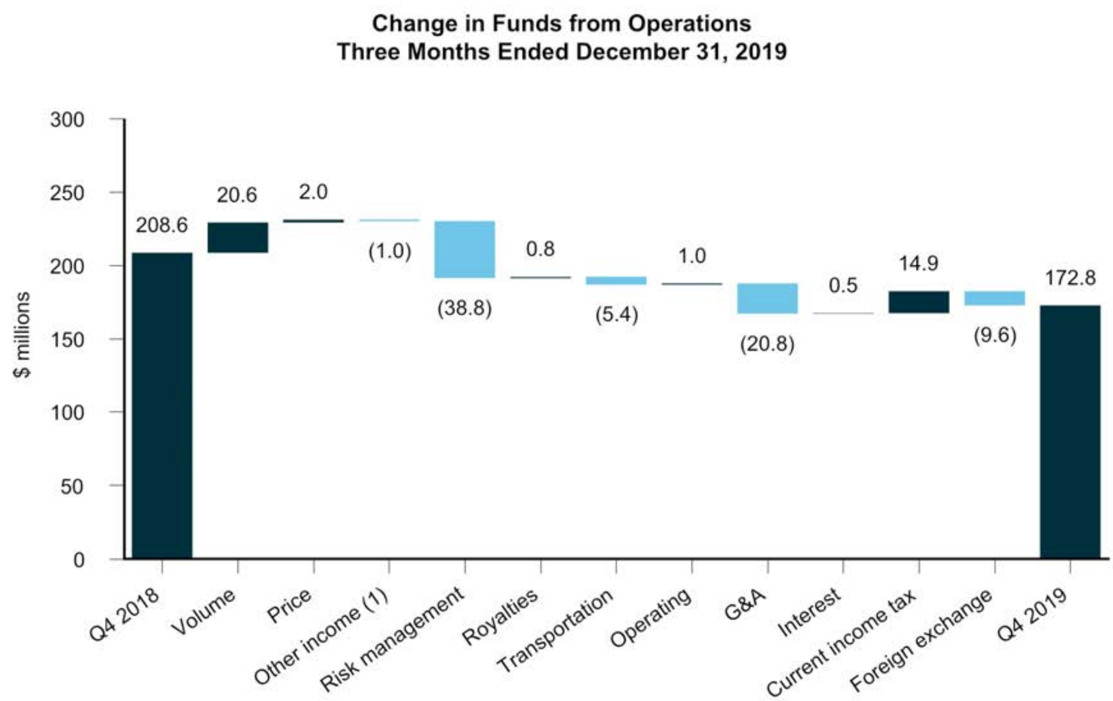
Table 5

	Three Months Ended December 31		Year Ended December 31	
	$ millions	$/Share	$ millions	$/Share
Funds from operations – 2018	208.6	0.59	819.0	2.31
Volume variance				
Crude oil and liquids	**2.9**	**0.02**	**(62.8)**	**(0.18)**
Natural gas	**17.7**	**0.05**	**47.0**	**0.13**
Price variance				
Crude oil and liquids	**32.2**	**0.10**	**(100.9)**	**(0.28)**
Natural gas	**(30.2)**	**(0.09)**	**(56.0)**	**(0.16)**
Sales of commodities purchased from third parties	**(16.1)**	**(0.05)**	**(48.0)**	**(0.14)**
Interest income	**(1.7)**	**—**	**(3.7)**	**(0.01)**
Other income	**0.5**	**—**	**1.9**	**0.01**
Realized gain on risk management contracts	**(38.8)**	**(0.11)**	**(43.9)**	**(0.12)**
Royalties	**0.8**	**—**	**45.2**	**0.13**
Expenses				
Commodities purchased from third parties	**16.3**	**0.05**	**48.4**	**0.14**
Operating	**1.0**	**—**	**36.0**	**0.10**
Transportation	**(5.4)**	**(0.02)**	**(20.6)**	**(0.06)**
G&A	**(20.8)**	**(0.06)**	**(13.3)**	**(0.04)**
Interest and financing (1)	**0.5**	**—**	**1.6**	**—**
Current income tax	**14.9**	**0.04**	**62.4**	**0.18**
Realized loss on foreign exchange	**(9.6)**	**(0.03)**	**(14.9)**	**(0.04)**
Funds from operations – 2019	**172.8**	**0.49**	**697.4**	**1.97**

(1) Excludes accretion of ARO.

Funds from operations decreased by 17 per cent in the fourth quarter of 2019 to $172.8 million ($0.49 per share) from $208.6 million ($0.59 per share) generated in the fourth quarter of 2018. The decrease in funds from operations for the three months ended December 31, 2019 primarily reflects a lower realized gain on risk management contracts and increased G&A expense. Increased natural gas and condensate production and current income tax recovery partially offset the decrease.

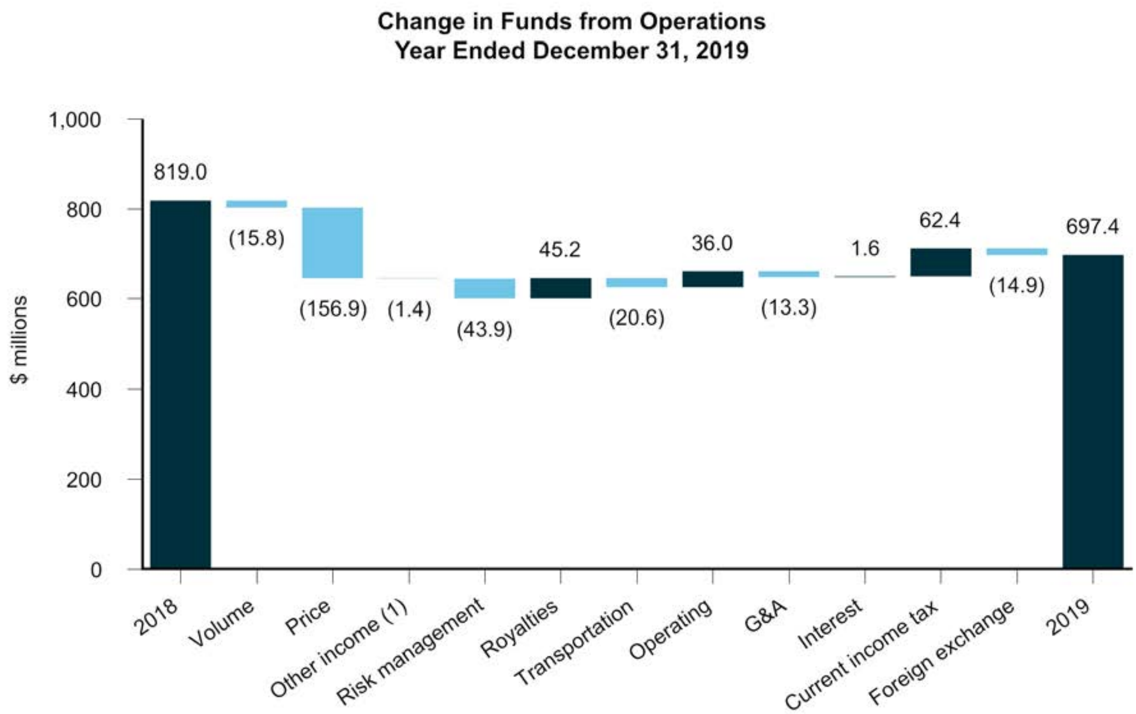
Exhibit 4



(1) Includes sales of commodities purchased from third parties, interest income, other income, and commodities purchased from third parties.

For the year ended December 31, 2019, funds from operations decreased by $121.6 million to $697.4 million ($1.97 per share) from $819.0 million ($2.31 per share) in 2018. This decrease primarily reflects lower average realized commodity prices and a lower realized gain on risk management contracts. Lower royalties, operating costs and current income tax recovery partially offset the decrease.

Exhibit 4a



(1) Includes sales of commodities purchased from third parties, interest income, other income, and commodities purchased from third parties.

Net Income (Loss) and Funds from Operations Sensitivity

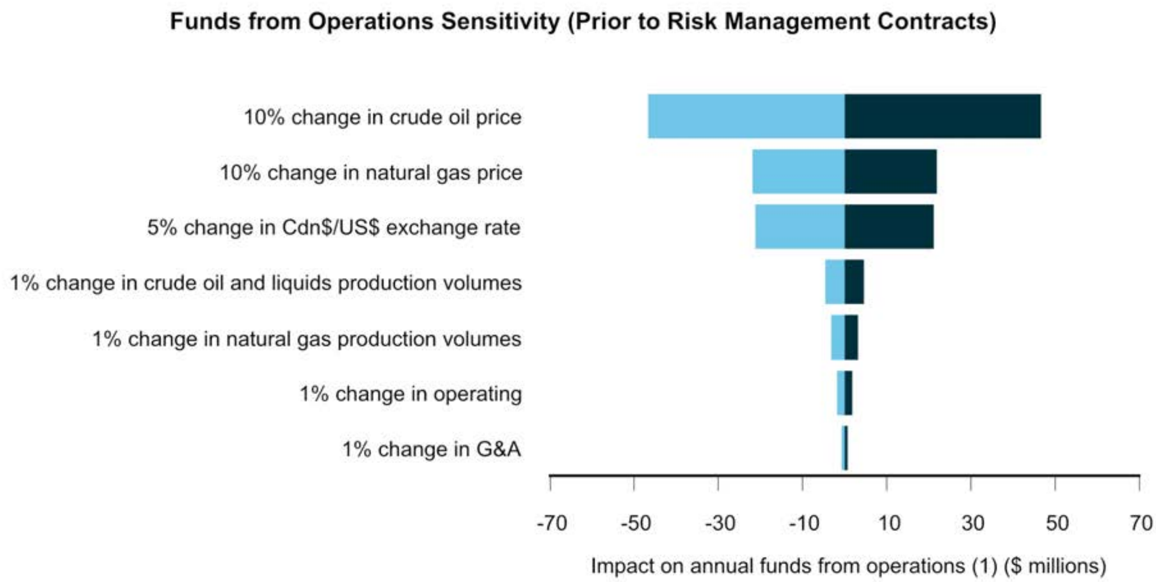
Table 6 illustrates sensitivities of operating items (prior to the impact of risk management contracts) to operational and business environment changes and the resulting impact on net income (loss) and funds from operations:

Table 6

			Impact on Annual Funds from Operations [6]		Impact on Annual Net Income (Loss)	
	Assumption	Change	Notional Amount ($ millions)	$/Share	Notional Amount ($ millions)	$/Share
Business Environment [1]						
Crude oil price [2][3]	66.01	10%	46.7	0.132	46.7	0.132
Natural gas price [2]	2.12	10%	21.9	0.062	21.9	0.062
Cdn$/US$ exchange rate [2][4]	1.33	5%	21.2	0.060	21.2	0.060
Interest rate on floating-rate debt [2]	3.6%	0.5%	0.1	—	0.1	—
Operational [5]						
Crude oil and liquids production (bbl/d)	35,235	1%	4.6	0.013	3.5	0.010
Natural gas production (MMcf/d)	623.3	1%	3.2	0.009	0.7	0.002
Operating ($/boe)	4.97	1%	1.8	0.005	1.8	0.005
G&A ($/boe)	1.66	1%	0.7	0.002	0.7	0.002

(1) Calculations are performed independently and may not be indicative of actual results that would occur when multiple variables change at the same time.
(2) Prices and rates are indicative of ARC's average realized prices for the year ended December 31, 2019. Refer to Table 11 contained within this MD&A for additional details. The calculated impact on funds from operations and net income (loss) would only be applicable within a limited range of these amounts.
(3) Includes the impact on crude oil, condensate, and NGLs prices.
(4) Includes impact of foreign exchange on natural gas, crude oil, condensate, and NGLs prices that are presented in US dollars.
(5) Operational assumptions are based upon results for the year ended December 31, 2019.
(6) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Exhibit 5



(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Production

Table 7

	Three Months Ended				Year Ended		
Production	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Light and medium crude oil (bbl/d)	16,224	**16,607**	19,229	(14)	**17,064**	22,601	(24)
Heavy crude oil (bbl/d)	558	**476**	863	(45)	**527**	859	(39)
Condensate (bbl/d)	10,846	**10,937**	8,458	29	**10,066**	7,281	38
NGLs (bbl/d)	7,952	**8,123**	7,402	10	**7,578**	6,955	9
Crude oil and liquids (bbl/d)	35,580	**36,143**	35,952	1	**35,235**	37,696	(7)
Natural gas (MMcf/d)	595.4	**669.0**	603.3	11	**623.3**	570.2	9
Total production (boe/d)	134,813	**147,650**	136,502	8	**139,126**	132,724	5
Natural gas production (%)	74	**76**	74	2	**75**	72	3
Crude oil and liquids production (%)	26	**24**	26	(2)	**25**	28	(3)

For the three months ended December 31, 2019, crude oil and liquids production increased one per cent as compared to the same period in the prior year. For the year ended December 31, 2019, crude oil and liquids production decreased seven per cent as compared to the same periods in the prior year. Increases in condensate and NGLs production were offset by lower crude oil production.

In the fourth quarter of 2019, crude oil and liquids production increased primarily at Parkland/Tower and Dawson resulting from continued development activities targeting the liquids-rich Lower Montney. These increases were partially offset by the impact of dispositions of non-core properties that occurred throughout 2018.

For the year ended December 31, 2019, the decrease in ARC's crude oil and liquids production was primarily due to the impact of dispositions of non-core properties throughout 2018 as well as natural declines of oil-producing properties where minimal development activity occurred in the current year.

For the three months and year ended December 31, 2019, natural gas production increased 11 per cent and nine per cent, respectively, as compared to the same periods in the prior year. The increases were both driven by increased volumes at Sunrise following the start-up of the Sunrise Phase II gas processing facility during the fourth quarter of 2019, as well as continued drilling and completions activity in northeast British Columbia.

Exhibit 6

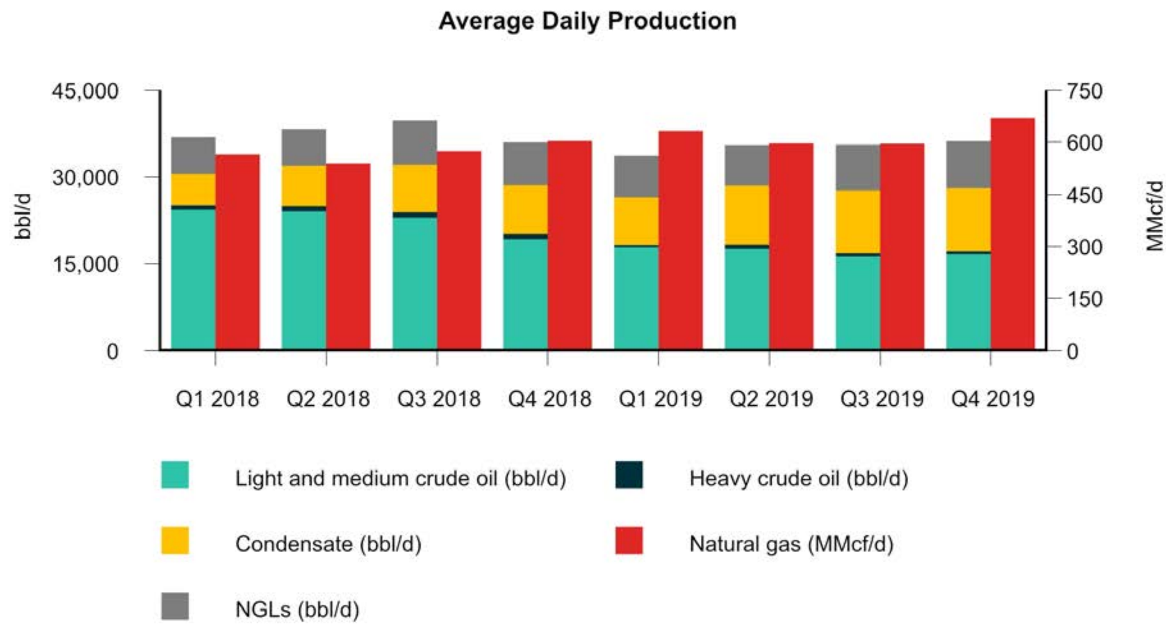

Average Daily Production
45,000
30,000
15,000
0
bbl/d
750
600
450
300
150
0
MMcf/d
Q1 2018
Q2 2018
Q3 2018
Q4 2018
Q1 2019
Q2 2019
Q3 2019
Q4 2019
Light and medium crude oil (bbl/d)
Heavy crude oil (bbl/d)
Condensate (bbl/d)
Natural gas (MMcf/d)
NGLs (bbl/d)

Table 8 summarizes ARC's production by core area for the fourth quarters of 2019 and 2018:

Table 8

	Three Months Ended December 31, 2019				
Production	**Total**	**Crude Oil**	**Condensate**	**Natural Gas**	**NGLs**
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	**43,014**	—	2,925	228.3	2,046
Parkland/Tower	**33,464**	3,062	4,802	128.7	4,158
Sunrise	**39,324**	—	50	235.5	26
Ante Creek	**15,199**	5,623	489	46.3	1,365
Pembina	**10,773**	8,288	156	11.4	422
Attachie West	**4,022**	—	2,349	9.7	61
All other	**1,854**	110	166	9.1	45
Total	**147,650**	**17,083**	**10,937**	**669.0**	**8,123**

	Three Months Ended December 31, 2018				
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	47,386	—	2,817	256.4	1,842
Parkland/Tower	30,232	5,603	2,496	111.8	3,503
Sunrise	25,572	—	148	152.4	21
Ante Creek	16,238	5,875	470	50.4	1,484
Pembina	10,664	8,248	158	11.0	424
Attachie West	4,119	—	2,133	11.5	75
All other	2,291	366	236	9.8	53
Total	136,502	20,092	8,458	603.3	7,402

Exhibit 7

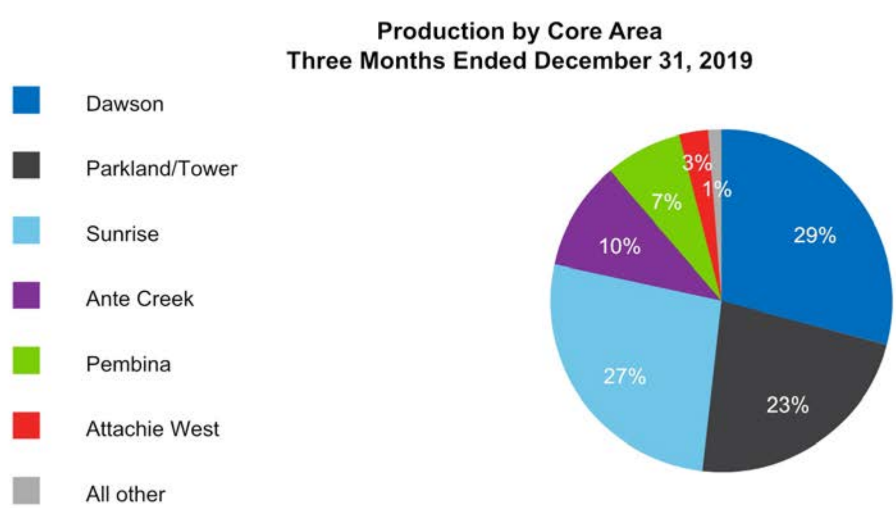


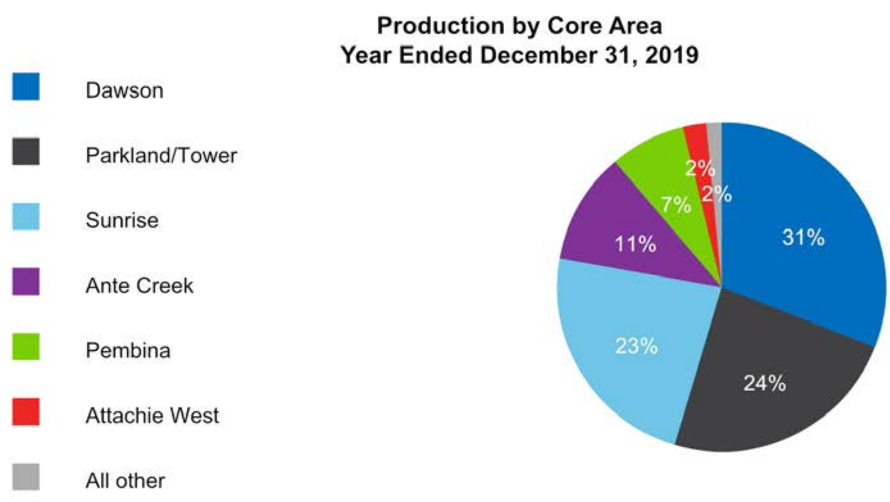
Table 8a summarizes ARC's production by core area for the years ended December 31, 2019 and 2018:

Table 8a

	Year Ended December 31, 2019				
Production	**Total**	**Crude Oil**	**Condensate**	**Natural Gas**	**NGLs**
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	**43,101**	—	2,567	232.5	1,792
Parkland/Tower	**32,996**	3,678	4,949	122.8	3,900
Sunrise	**32,278**	—	57	193.2	27
Ante Creek	**15,324**	5,789	449	46.5	1,341
Pembina	**10,336**	7,899	150	11.2	427
Attachie West	**3,194**	—	1,730	8.5	50
All other	**1,897**	225	164	8.6	41
Total	**139,126**	**17,591**	**10,066**	**623.3**	**7,578**

	Year Ended December 31, 2018				
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	45,408	—	2,619	246.3	1,741
Parkland/Tower	29,267	6,436	1,975	106.1	3,177
Sunrise	22,911	—	97	136.7	31
Ante Creek	16,136	6,239	476	48.6	1,323
Pembina	10,941	8,439	163	11.3	462
Attachie West	2,907	—	1,673	7.1	49
All other	5,154	2,346	278	14.1	172
Total	132,724	23,460	7,281	570.2	6,955

Exhibit 7a



Commodity Sales from Production

For the three months and year ended December 31, 2019, commodity sales from production increased by seven per cent and decreased by 13 per cent, respectively, as compared to the same periods in 2018. The increase in commodity sales for the three months ended December 31, 2019, primarily reflects higher realized crude oil and condensate prices, along with increased condensate production, partially offset by lower average realized natural gas and NGL prices. The decrease in commodity sales for the year ended December 31, 2019, primarily reflects lower average realized commodity prices and lower crude oil production, partially offset by increased natural gas and condensate production.

A breakdown of commodity sales from production by product is outlined in Table 9:

Table 9

	Three Months Ended				Year Ended		
Commodity Sales from Production ($ millions)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Crude oil	100.0	**102.3**	80.1	28	**423.8**	587.3	(28)
Condensate	65.6	**68.5**	44.5	54	**248.4**	200.8	24
Natural gas (1)	84.3	**145.5**	158.0	(8)	**483.3**	492.3	(2)
NGLs	3.8	**8.8**	19.9	(56)	**34.0**	81.8	(58)
Total commodity sales from production	253.7	**325.1**	302.5	7	**1,189.5**	1,362.2	(13)

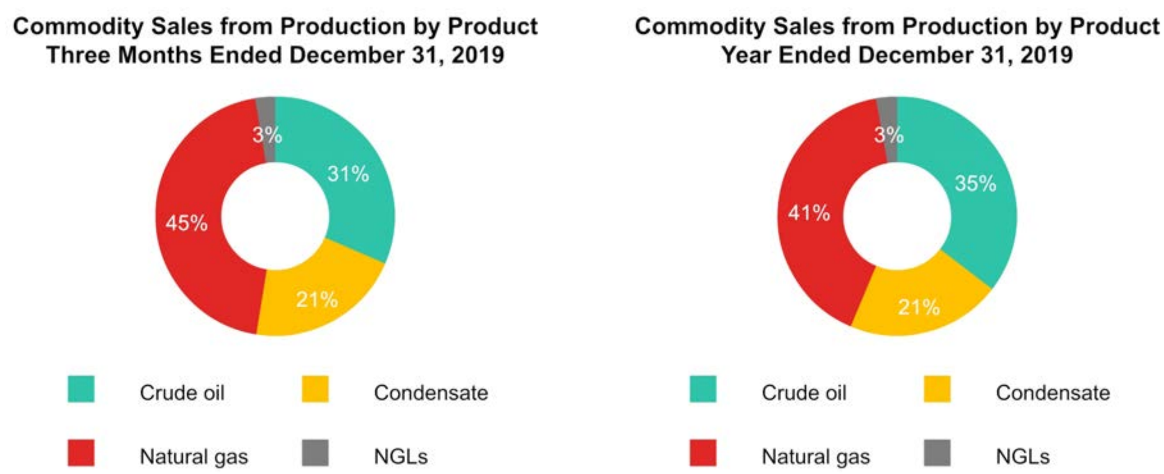
(1) Includes $3.5 million and $14.9 million of natural gas transportation revenue from contracts assigned temporarily to third parties for the three months and year December 31, 2019 ($nil for both the three months and year December 31, 2018), respectively.

While ARC's production mix, on a per boe basis, is weighted more heavily to natural gas than to crude oil and liquids, ARC's commodity sales contribution is typically more heavily weighted to its crude oil and liquids production as seen in Table 10:

Table 10

	Three Months Ended			Year Ended	
% of Commodity Sales from Production by Product Type	September 30, 2019	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
Crude oil and liquids	67	**55**	48	**59**	64
Natural gas	33	**45**	52	**41**	36
Total commodity sales from production	100	**100**	100	**100**	100

Exhibit 8



Commodity Prices

A listing of benchmark commodity prices and ARC's average realized commodity prices are outlined in Table 11:

Table 11

	Three Months Ended				Year Ended		
	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Average Benchmark Prices							
NYMEX Henry Hub Last Day Settlement (US$/MMBtu)	2.23	**2.50**	3.64	(31)	**2.63**	3.09	(15)
Chicago Citygate Monthly Index (US$/MMBtu)	2.03	**2.44**	3.63	(33)	**2.56**	3.06	(16)
AECO 7A Monthly Index (Cdn$/Mcf)	1.04	**2.34**	1.90	23	**1.62**	1.53	6
WTI crude oil (US$/bbl)	56.44	**56.87**	59.34	(4)	**57.04**	64.90	(12)
Cdn$/US$ exchange rate	1.32	**1.32**	1.32	—	**1.33**	1.30	2
WTI crude oil (Cdn$/bbl)	74.50	**75.07**	78.33	(4)	**75.86**	84.37	(10)
Mixed Sweet Blend ("MSW") Price at Edmonton (Cdn$/bbl)	68.35	**67.96**	43.63	56	**69.19**	69.65	(1)
Condensate Stream Price at Edmonton (Cdn$/bbl)	68.66	**69.83**	60.45	16	**70.13**	79.18	(11)
ARC Average Realized Prices Prior to Gain or Loss on Risk Management Contracts							
Crude oil ($/bbl)	64.79	**65.11**	43.30	50	**66.01**	68.58	(4)
Condensate ($/bbl)	65.70	**68.08**	57.25	19	**67.61**	75.56	(11)
Natural gas ($/Mcf)	1.54	**2.36**	2.85	(17)	**2.12**	2.37	(11)
NGLs ($/bbl)	5.25	**11.69**	29.12	(60)	**12.28**	32.22	(62)
Total average realized commodity price prior to gain or loss on risk management contracts ($/boe)	20.46	**23.93**	24.09	(1)	**23.42**	28.12	(17)

Benchmark Commodity Prices

WTI crude oil prices for the fourth quarter of 2019 were one per cent higher than the prior quarter and four per cent lower than the fourth quarter of 2018. Global macroeconomic and trade uncertainty continue to present the risk of an economic slowdown, but decreases in supply from both planned and unplanned production curtailments continue to support global oil balances. Geopolitical disruptions and tensions have led to significant market volatility, but the impact on oil prices has not been prolonged.

Canadian stream prices were relatively unchanged in the fourth quarter of 2019 compared to the prior quarter, but increased significantly compared to the fourth quarter of 2018. The continuance of the Alberta government-mandated, province-wide crude oil production curtailments, along with modest pipeline egress improvements and increasing exports of crude-by-rail are helping to keep the local market in balance.

NYMEX Henry Hub prices increased 12 per cent in the fourth quarter of 2019 compared to the prior quarter, but decreased 31 per cent from the fourth quarter of 2018. Despite a slowing of production growth and record levels of liquefied natural gas ("LNG") exports in the United States, a lack of cold weather at major demand centers resulted in prices trending lower for much of the period. Mild winter temperatures across the northern hemisphere have exacerbated global oversupply issues leading to weaker prices at international gas trading hubs. With LNG connecting the United States market to the global market, international gas price volatility has a growing influence on North American prices.

Western Canadian natural gas prices increased in the fourth quarter of 2019 compared to both the prior quarter and the fourth quarter of 2018. Recent temporary changes to service priority on TC Energy's Nova Gas Transmission Limited System have resulted in an improved balance at AECO. These system changes along with low seasonal inventory levels and elevated exports, resulted in a significantly narrower AECO basis differential to NYMEX Henry Hub during the quarter.

ARC's Average Realized Commodity Prices

For the three months and year ended December 31, 2019, ARC's average realized crude oil price increased 50 per cent and decreased four per cent, respectively, compared to the same periods in 2018. The increase for the three months ended December 31, 2019, reflects tighter differentials between WTI and MSW, while the decrease for the year ended December 31, 2019, reflects lower WTI benchmark prices partially offset by a tighter differential between WTI and MSW.

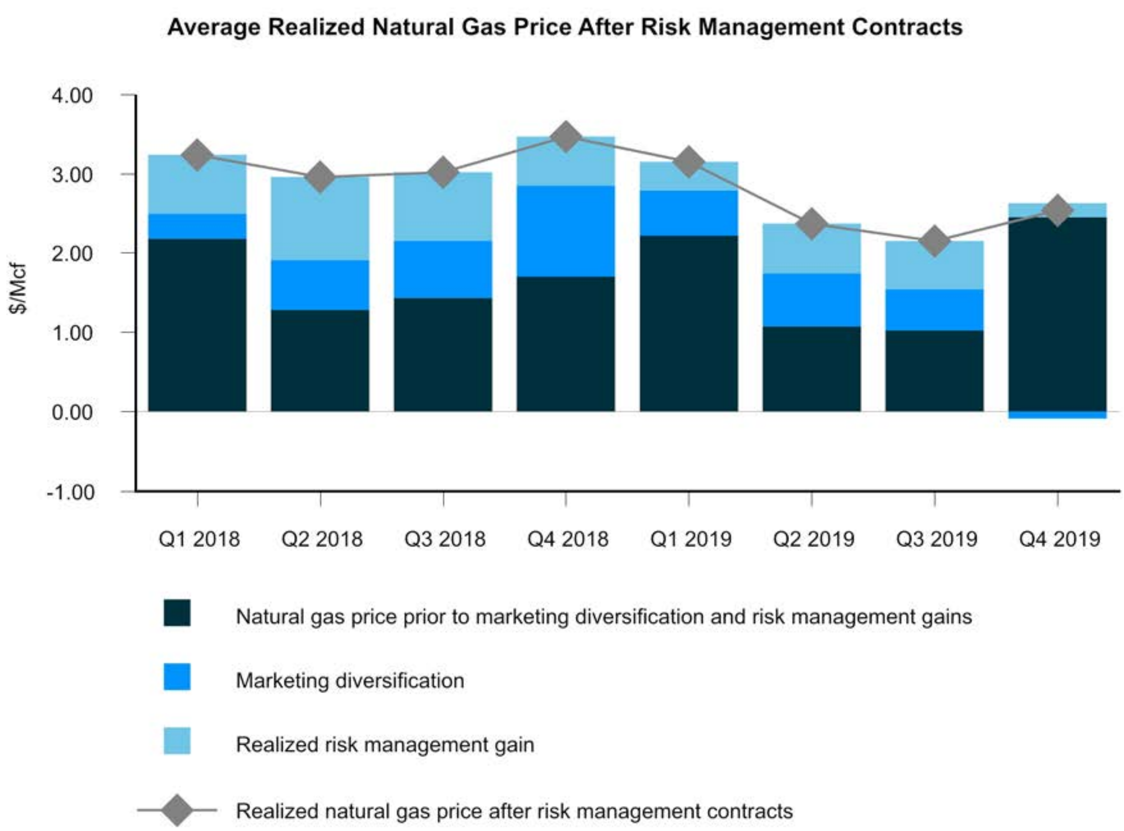
ARC's average realized condensate price for the three months and year ended December 31, 2019 increased 19 per cent and decreased 11 per cent, respectively, compared to the same periods in the prior year. The increase for the three months ended December 31, 2019, was primarily due to tighter Edmonton condensate differentials to WTI, while the decrease for the year ended December 31, 2019, primarily reflects a lower WTI benchmark price.

ARC's natural gas sales are physically and financially diversified to multiple sales points including AECO, Station 2, US Midwest, Dawn, and Malin hubs, each of which impact ARC's average realized natural gas price. ARC's average realized natural gas price for the three months and year ended December 31, 2019 decreased 17 per cent and 11 per cent, respectively, compared to the same periods in the prior year. The decrease for the three months and year ended December 31, 2019, is primarily due to lower pricing at markets beyond AECO and Station 2, primarily Chicago and NYMEX Henry Hub, compared to the same periods in 2018.

During the three months ended December 31, 2019, physical sales diversification activities reduced ARC's average realized natural gas price by $0.09 per Mcf compared to an addition of $1.15 per Mcf in the same period in 2018. For the year ended December 31, 2019, physical sales diversification activities added $0.40 per Mcf compared to $0.72 per Mcf in 2018. Additionally, the realized gain on natural gas risk management contracts added a further $0.18 per Mcf and $0.44 per Mcf for the three months and year ended December 31, 2019 ($0.62 per Mcf and $0.81 per Mcf for the same periods in 2018), respectively, which is not included in ARC's realized natural gas price.

Average realized pricing for NGLs decreased $17.43 per boe (60 per cent) and $19.94 per boe (62 per cent) for the three months and year ended December 31, 2019, respectively, compared to the same periods in the prior year. The decrease reflects broad weakness in North American supply and demand fundamentals for NGLs and is primarily related to lower propane and butane pricing. The decrease in NGLs pricing for the three months and year ended December 31, 2019, resulted in decreases in Commodity sales from production of $11.1 million and $47.8 million, respectively.

Exhibit 9



Risk Management Contracts

ARC's Management oversees the Company's risk management program and the program is governed by certain guidelines approved by the Risk Committee of ARC's Board of Directors ("the Board"). The objective of the risk management program is to support ARC's business plan by mitigating adverse changes in commodity prices, interest rates and foreign exchange rates in order to reduce the volatility of commodity sales, increase the certainty of cash flows from operating activities, and to protect acquisition and development economics. All risk management contracts are executed by specialist teams that have the appropriate skills, experience and supervision.

Tables 12 and 12a summarize the total gain or loss on risk management contracts for the three months and year ended December 31, 2019 compared to the same periods in 2018:

Table 12

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**Q4 2019 Total**	Q4 2018 Total
Realized gain (loss) on contracts [1]	(4.6)	11.3	(0.1)	**6.6**	45.4
Unrealized gain (loss) on contracts [2]	(25.2)	(37.0)	(0.7)	**(62.9)**	194.9
Gain (loss) on risk management contracts	**(29.8)**	**(25.7)**	**(0.8)**	**(56.3)**	240.3

(1) Represents actual cash settlements under the respective contracts.
(2) Represents the change in fair value of the contracts during the period.

Table 12a

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**2019 Total**	2018 Total
Realized gain (loss) on contracts [1]	(19.1)	99.1	(0.5)	**79.5**	123.4
Unrealized gain (loss) on contracts [2]	(49.9)	(208.0)	2.5	**(255.4)**	(28.6)
Gain (loss) on risk management contracts	**(69.0)**	**(108.9)**	**2.0**	**(175.9)**	94.8

(1) Represents actual cash settlements under the respective contracts.
(2) Represents the change in fair value of the contracts during the period.

For the three months and year ended December 31, 2019, ARC's realized gain on risk management contracts primarily reflects positive cash settlements received on AECO Basis, AECO, and NYMEX Henry Hub natural gas contracts. This is partially offset by cash payments made on WTI and MSW crude oil contracts related to higher WTI realized pricing and tighter MSW differentials during the period.

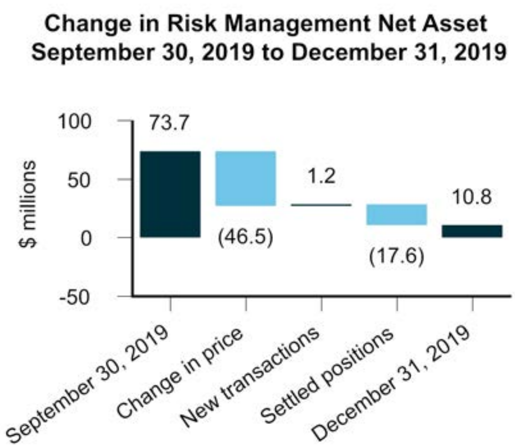
ARC's unrealized loss on crude oil contracts for the three months and year ended December 31, 2019 reflects higher forward curve pricing for WTI on outstanding contracts, as well as the settlement of positions that expired in the respective period.

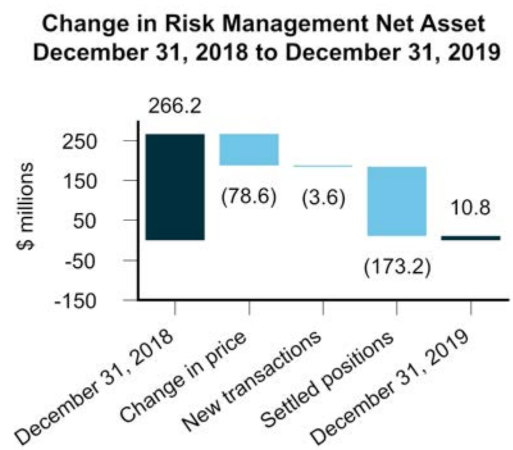
ARC's unrealized loss on natural gas contracts for the three months ended December 31, 2019, primarily reflects a narrowing of the AECO and Malin basis curves as well as the settlement of positions that expired in the period. During the year ended December 31, 2019, the unrealized loss on natural gas contracts primarily reflects higher forward curve pricing for AECO, a narrowing of the AECO and Malin basis curves, as well as the settlement of positions that expired in the period.

For more information, refer to Note 16 "Financial Instruments and Market Risk Management" in the financial statements.

The fair value of ARC's risk management contracts at December 31, 2019 was a net asset of $10.8 million, representing the expected value of settlement of ARC's contracts at the balance sheet date after adjustments for credit risk. This comprises a net asset of $10.3 million for natural gas contracts, a net asset of $1.3 million for crude oil contracts and a net liability of $0.8 million for foreign currency contracts.

Exhibit 10





Netback

The components of ARC's netback for the three months and year ended December 31, 2019 compared to the same periods in 2018 are summarized in Tables 13 and 13a:

Table 13

	Three Months Ended				Year Ended		
Netback ($ millions) (1)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Commodity sales from production	253.7	**325.1**	302.5	7	**1,189.5**	1,362.2	(13)
Royalties	(15.6)	**(20.2)**	(21.0)	(4)	**(70.5)**	(115.7)	(39)
Operating	(62.6)	**(62.3)**	(63.3)	(2)	**(252.5)**	(288.5)	(12)
Transportation	(36.8)	**(38.8)**	(33.4)	16	**(149.4)**	(128.8)	16
Netback	138.7	**203.8**	184.8	10	**717.1**	829.2	(14)
Realized gain on risk management contracts	28.4	**6.6**	45.4	(85)	**79.5**	123.4	(36)
Netback after realized gain on risk management contracts	167.1	**210.4**	230.2	(9)	**796.6**	952.6	(16)

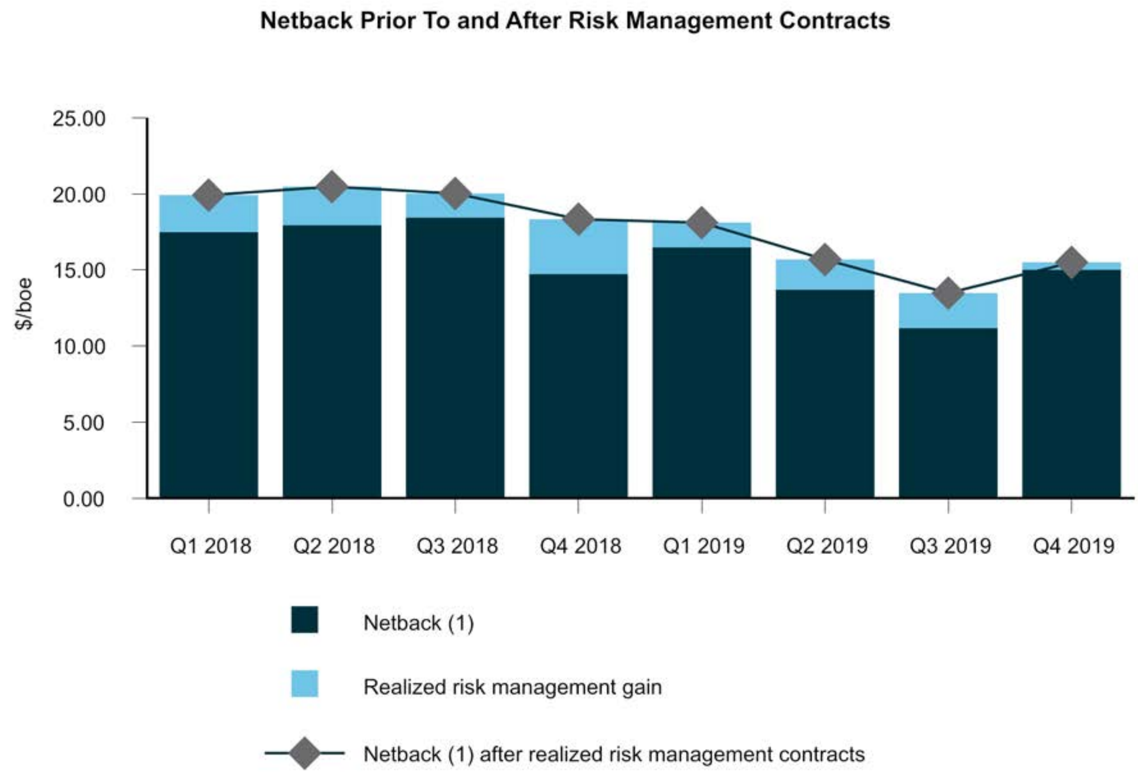
(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

Table 13a

	Three Months Ended				Year Ended		
Netback ($ per boe) (1)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Commodity sales from production	20.46	**23.93**	24.09	(1)	**23.42**	28.12	(17)
Royalties	(1.26)	**(1.48)**	(1.67)	(11)	**(1.39)**	(2.39)	(42)
Operating	(5.05)	**(4.59)**	(5.04)	(9)	**(4.97)**	(5.95)	(16)
Transportation	(2.97)	**(2.86)**	(2.66)	8	**(2.94)**	(2.66)	11
Netback	11.18	**15.00**	14.72	2	**14.12**	17.12	(18)
Realized gain on risk management contracts	2.29	**0.49**	3.62	(86)	**1.57**	2.55	(38)
Netback after realized gain on risk management contracts	13.47	**15.49**	18.34	(16)	**15.69**	19.67	(20)

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

Exhibit 11

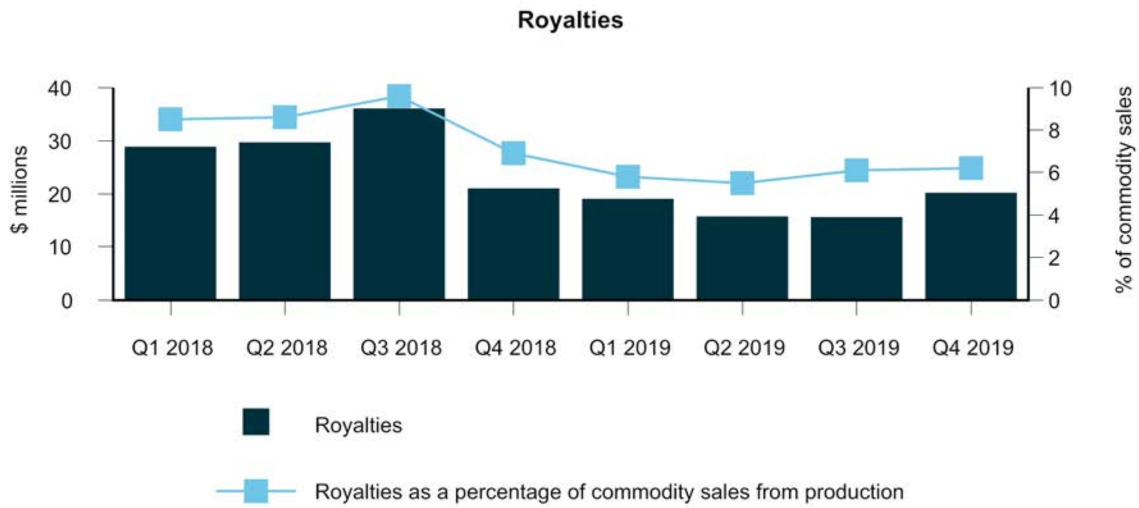


(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

Royalties

Total royalties for the three months and year ended December 31, 2019 were $20.2 million and $70.5 million ($21.0 million and $115.7 million for the same periods in 2018), respectively. As a percentage of commodity sales from production, royalties decreased to 6.2 per cent ($1.48 per boe) in the fourth quarter of 2019 from 6.9 per cent ($1.67 per boe) in the fourth quarter of 2018. For the year ended December 31, 2019, royalties represented 5.9 per cent of commodity sales from production ($1.39 per boe) as compared to 8.5 per cent ($2.39 per boe) in 2018. The decrease in total royalties and royalties as a percentage of commodity sales from production for the three months and year ended December 31, 2019, is primarily reflective of a lower royalty rate due to decreased commodity prices compared to the same periods in 2018.

Exhibit 12



Operating

Operating expense decreased by $1.0 million in the fourth quarter of 2019 to $62.3 million as compared to $63.3 million in the fourth quarter of 2018. For the year ended December 31, 2019, operating expense decreased by $36.0 million to $252.5 million as compared to $288.5 million in the prior year. The decrease in operating expense for the year ended December 31, 2019 is primarily due to various dispositions of non-core assets throughout 2018 that had higher average operating costs.

On a per boe basis, operating expense decreased $0.45 per boe to $4.59 per boe in the fourth quarter of 2019 compared to $5.04 per boe in the fourth quarter of 2018. For the year ended December 31, 2019, operating expense decreased by $0.98 per boe to $4.97 per boe compared to $5.95 per boe in the year ended December 31, 2018. Operating expense on a per boe basis continues to decrease as ARC grows production in the Montney which has lower average operating expense and disposes of non-core properties with higher average operating expense.

Lease payments of $0.4 million and $1.5 million for the three months and year ended December 31, 2019, respectively, which had previously been recognized as operating expense, are now classified as repayment of lease obligations following the Company's adoption of IFRS 16 *Leases* ("IFRS 16"). Refer to the section entitled "Financial Reporting Update" contained within this MD&A.

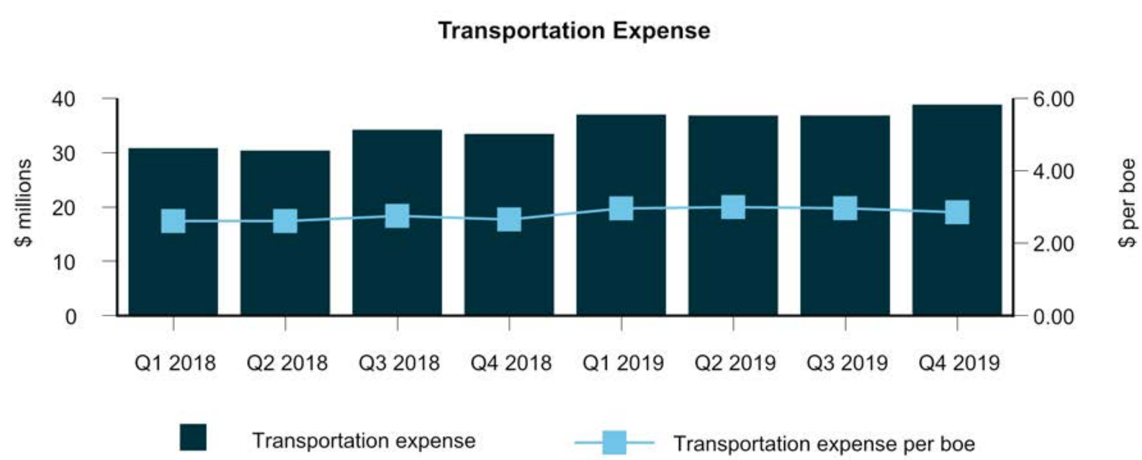
Exhibit 13

Transportation

Transportation expense for the three months and year ended December 31, 2019 was $38.8 million and $149.4 million ($33.4 million and $128.8 million for the three months and year ended December 31, 2018), respectively. On a per boe basis, transportation expense for the three months and year ended December 31, 2019, was $2.86 per boe and $2.94 per boe, respectively ($2.66 per boe for the three months and year ended December 31, 2018). The increase for the three months and year ended December 31, 2019 relative to the same periods in 2018 primarily reflects higher pipeline tariffs and trucking charges for increased natural gas and condensate volumes associated with new production in northeast British Columbia. Additionally, tariffs for transportation agreements, which have been temporarily assigned to a third party as part of ARC's physical marketing diversification efforts, increased transportation expense by $3.5 million and $14.9 million for the three months and year ended December 31, 2019, compared to the same periods in the prior year. There is no impact to ARC's netback or funds from operations as a result of these agreements.

ARC enters into firm transportation commitments in order to secure diversified market access for its current production as well as anticipated production from planned facility infrastructure to be operational in the future. For information regarding ARC's payment obligations under its future transportation commitments, refer to Note 21 "Commitments and Contingencies" in the financial statements.

Exhibit 14



G&A Expense and Share-Based Compensation

G&A expense before share-based compensation increased by 23 per cent to $17.4 million in the fourth quarter of 2019 from $14.2 million in the fourth quarter of 2018. The increase reflects higher directors compensation, which comprises both share-based and non share-based compensation. While the non share-based component remained unchanged, the share-based component under the DSU Plan increased in value due to appreciation in ARC's share price. During the fourth quarter of 2018, directors compensation was in a recovery position which has reversed in 2019. For the year ended December 31, 2019, ARC's G&A expense before share-based compensation was $60.8 million, a $1.0 million increase from $59.8 million in 2018.

Office lease payments of $2.0 million and $7.8 million for the three months and year ended December 31, 2019, respectively, which have previously been recognized in G&A, are now classified as repayments of lease obligations following the Company's adoption of IFRS 16. Refer to the section entitled "Financial Reporting Update" contained within this MD&A.

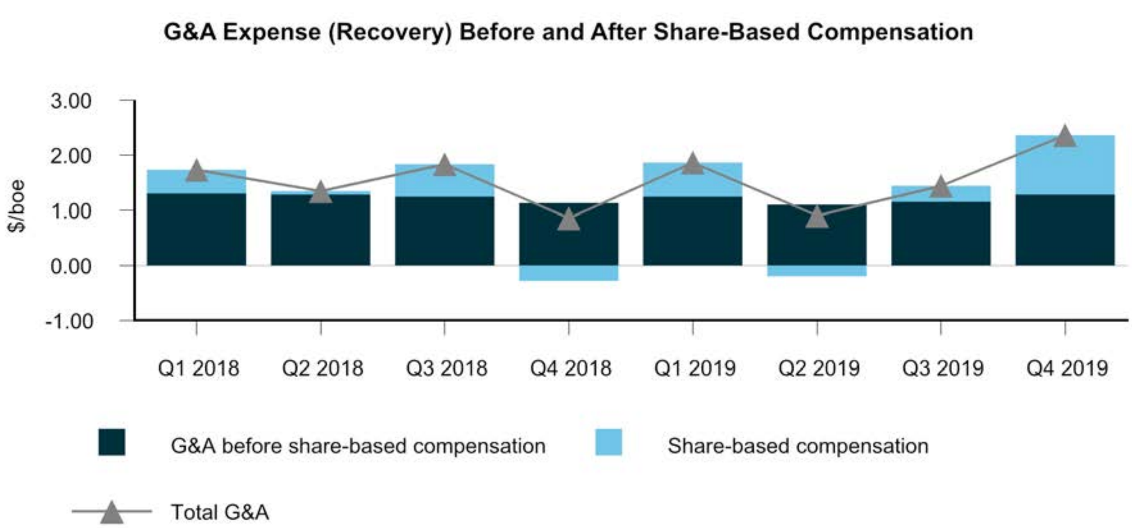
Table 14 is a breakdown of G&A and share-based compensation expense:

Table 14

	Three Months Ended				Year Ended		
G&A and Share-Based Compensation ($ millions, except per boe)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
G&A expense before share-based compensation expense (1)	14.3	**17.4**	14.2	23	**60.8**	59.8	2
G&A – share-based compensation expense (2)	3.6	**14.6**	(3.5)	(517)	**23.4**	9.7	141
Total G&A expense	17.9	**32.0**	10.7	199	**84.2**	69.5	21
G&A expense before share-based compensation expense per boe	1.15	**1.28**	1.13	13	**1.20**	1.23	(2)
G&A – share-based compensation expense per boe	0.29	**1.08**	(0.28)	(486)	**0.46**	0.20	130
Total G&A expense per boe	1.44	**2.36**	0.85	178	**1.66**	1.43	16

(1) Includes expense recognized under the DSU Plan.
(2) Comprises expense recognized under the RSU, PSU, Share Option, and LTRSA Plans.

Exhibit 15



Share-Based Compensation Plans

ARC's share-based long-term incentive plans result in employees, officers and directors (the "plan participants") receiving cash compensation in relation to the value of a specified number of underlying notional share units. During the three months and year ended December 31, 2019, ARC recognized G&A expense of $14.6 million and $23.4 million in respect of its share-based compensation plans, respectively, compared to a recovery of $3.5 million and expense of $9.7 million during the same periods of the prior year.

Restricted Share Unit and Performance Share Unit Plans

The RSU and PSU Plans consists of RSUs for which the number of share units is fixed and will vest evenly over a period of three years and PSUs for which the number of share units is variable and will vest at the end of three years.

Upon vesting of the RSUs, the plan participant receives a cash payment based on the fair value of the underlying share awards plus all dividends accrued since the grant date. The cash compensation of the PSUs issued upon vesting is further dependent upon an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier.

In 2018, the Human Resources and Compensation Committee of the Board engaged a third party to conduct an independent review of ARC's compensation philosophy, design and programs. Following this review, certain changes were made to ARC's PSU Plan. Following the implementation of the changes and effective commencing with PSU awards granted during the year ended December 31, 2019, performance multipliers associated with PSUs will be determined using two criteria; 50 per cent of the performance multiplier will be based on ARC's relative total shareholder return performance compared to a defined peer group, and 50 per cent of the performance multiplier will be dependent on an overall assessment of achievements based on a predetermined corporate scorecard. Performance multipliers associated with PSU awards that were granted prior to 2019 will continue to be determined solely on ARC's relative total shareholder return performance.

The performance multiplier is calculated at the time of payment and can result in cash compensation issued upon vesting of the PSUs ranging from zero to two times the value of the PSUs originally granted.

At December 31, 2019, ARC had 2.2 million RSUs and 3.4 million PSUs outstanding under these plans. For the three months and year ended December 31, 2019, ARC recognized G&A expense of $13.6 million and $18.2 million in relation to the RSU and PSU Plans (G&A recovery of $4.7 million and expense of $3.9 million for the three months and year ended December 31, 2018), respectively. The increase in expense recognized for the three months and year ended December 31, 2019 as compared to the same periods in 2018 is due to the change in valuation of awards outstanding throughout the respective periods. At December 31, 2019, ARC's share price on the Toronto Stock Exchange ("TSX") was $8.18, a 30 per cent increase from the share price of $6.31 at September 30, 2019, and a one per cent increase from $8.10 at December 31, 2018. This compares to a 44 per cent decrease and a 45 per cent decrease per share outstanding during the same periods of the prior year. ARC's performance multiplier, applicable to its PSU awards, also increased for the year ended December 31, 2019 compared to the prior year, primarily from the increase of ARC's total return performance relative to the total return performance of its peers.

During the year ended December 31, 2019, ARC made cash payments of $7.9 million in respect of the RSU and PSU Plans ($15.6 million for the year ended December 31, 2018). Of these payments, $6.1 million were in respect of amounts recognized as G&A ($12.6 million for the year ended December 31, 2018) and $1.8 million were in respect of amounts recognized as Operating and capitalized as PP&E and E&E ($3.0 million for the year ended December 31, 2018). These amounts were accrued in prior periods.

Table 15 shows the changes to the outstanding RSU and PSU awards during 2019:

Table 15

RSU and PSU Awards (number of awards, thousands)	**RSUs**	**PSUs Granted Prior to 2019** (1)	**PSUs Granted Subsequent to 2018** (1)	**Total RSUs and PSUs**
Balance, December 31, 2018	942	2,270	—	3,212
Granted (2)	**1,816**	**165**	**1,833**	**3,814**
Distributed	**(433)**	**(573)**	**—**	**(1,006)**
Forfeited	**(89)**	**(234)**	**(53)**	**(376)**
Balance, December 31, 2019	**2,236**	**1,628**	**1,780**	**5,644**

(1) Based on underlying awards before any effect of the performance multiplier.
(2) Grants for PSUs Granted Prior to 2019 relate to re-invested dividends.

Due to the variability in the expected future payments under the plans, ARC estimates that between $18.3 million and $74.0 million will be paid out in 2020 through 2022 based on the current share price, accrued dividends, ARC's market performance relative to its peers, and ARC's corporate scorecard achievements. Table 16 is a summary of the range of future expected payments under the RSU and PSU Plans based on variability of the performance multiplier and awards outstanding under the RSU and PSU Plans as at December 31, 2019:

Table 16

Value of RSU and PSU Awards as at December 31, 2019		**Performance Multiplier**	
(awards thousands and $ millions, except per share)	**—**	**1.0**	**2.0**
Estimated awards to vest (1)			
RSUs	2,236	2,236	2,236
PSUs (2)	—	3,408	6,816
Total awards	**2,236**	**5,644**	**9,052**
Share price (3)	8.18	8.18	8.18
Value of RSU and PSU awards upon vesting	**18.3**	**46.2**	**74.0**
2020	7.4	12.9	18.3
2021	6.2	14.1	21.9
2022	4.7	19.2	33.8

(1) Includes additional estimated awards to be issued under the RSU and PSU Plans for dividends accrued to-date.
(2) Includes all PSU awards.
(3) Per share outstanding. Values will fluctuate over the vesting period based on the volatility of the underlying share price. Assumes a future share price equal to the TSX closing share price at December 31, 2019.

Share Option Plan

In conjunction with the above-mentioned independent third-party review, ARC has suspended its Share Option Plan. No grants were made under the Share Option Plan in 2019. Share options previously granted to officers and certain employees of ARC vest evenly on the fourth and fifth anniversary of their grant date and have a maximum term of seven years. The option holder has the right to exercise the options and purchase one common share per option at the original grant price or at a reduced exercise price, equal to the grant price less all dividends paid subsequent to the grant date and prior to the exercise date.

At December 31, 2019, ARC had 5.1 million share options outstanding, representing 1.4 per cent of outstanding shares, with a weighted average exercise price of $17.27 per share. At December 31, 2019, approximately 1.3 million share options were exercisable with a weighted average exercise price of $23.01 per share. ARC recognized compensation expense of $0.7 million and $3.6 million relating to the Share Option Plan for the three months and year ended December 31, 2019 ($1.0 million and $4.3 million for the three months and year ended December 31, 2018), respectively.

Long-term Restricted Share Award Plan

ARC's LTRSA Plan awards shares of ARC to qualifying officers and employees and is intended to further align participant compensation with the interests of the Company and its shareholders over the long term. LTRSA grants consist of restricted common shares that are awarded at the date of grant and a cash payment made equal to the estimated personal tax obligation associated with the total award. The restricted shares issued on the grant date of the award are held in trust until the vesting conditions have been met.

While in trust, the restricted shares earn dividends which are reinvested into the purchase of ARC common shares that are also held in trust until vested. Each LTRSA has a 10-year term and vests evenly on the eighth, ninth, and tenth anniversaries of the grant date of the award. Restricted shares and any accrued dividends that are subject to forfeiture will be redeemed and cancelled by ARC.

Compensation expense associated with cash payments is recognized at the fair value on the grant date, while expense associated with the restricted common shares is estimated as the fair value of the award equal to the previous five-day weighted average trading price of ARC shares on the TSX on the grant date and is recognized over the vesting period.

At December 31, 2019, ARC had 0.7 million restricted shares outstanding under the LTRSA Plan. ARC recognized G&A expense of $0.3 million and $1.8 million relating to the LTRSA Plan during the three months and year ended December 31, 2019 ($0.2 million and $1.5 million for the three months and year ended December 31, 2018), respectively.

Deferred Share Unit Plan

ARC has a DSU Plan for its non-employee directors under which each director receives a minimum of 60 per cent of their total annual remuneration in DSUs. Each DSU fully vests on the date of grant but is settled in cash only when the director has ceased to be a member of the Board.

At December 31, 2019, ARC had 0.9 million DSUs outstanding under this plan. For the three months and year ended December 31, 2019, G&A expense of $2.1 million and $2.6 million was recognized in relation to the DSU Plan (G&A recovery of $3.2 million and $0.6 million for the same periods in 2018), respectively. Amounts related to the DSU Plan are recognized as G&A expense before share-based compensation expense.

During the year ended December 31, 2019, ARC made cash payments of $0.2 million in respect of the DSU Plan ($nil million for the year ended December 31, 2018).

Interest and Financing

A breakdown of interest and financing expense is shown in Table 17:

Table 17

	Three Months Ended				Year Ended		
Interest and Financing ($ millions)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Bank debt and long-term notes	9.5	**9.8**	10.7	(8)	**39.3**	42.6	(8)
Lease obligations	0.4	**0.4**	—	100	**1.7**	—	100
Accretion on ARO	1.8	**1.7**	2.0	(15)	**7.3**	11.3	(35)
Total interest and financing	11.7	**11.9**	12.7	(6)	**48.3**	53.9	(10)

Interest and financing expense decreased six per cent and 10 per cent for the three months and year ended December 31, 2019, compared to the same periods in the prior year from $12.7 million to $11.9 million and from $53.9 million to $48.3 million, respectively. The decrease for the three months and year ended December 31, 2019 compared to the same periods of the prior year is primarily due to principal repayments on long-term notes that were made throughout 2018 and 2019 as well as a decrease in accretion on ARO, stemming from the disposal of non-core properties in 2018 and 2019. Beginning in the first quarter of 2019, ARC recognizes interest on its lease obligations as part of Interest and financing following its adoption of IFRS 16. Refer to the section entitled "Financial Reporting Update" contained within this MD&A.

Foreign Exchange Gain and Loss

ARC recognized a foreign exchange gain of $15.7 million in the fourth quarter of 2019 compared to a loss of $38.2 million in the fourth quarter of 2018. During the three months ended December 31, 2019, the value of the US dollar relative to the Canadian dollar decreased to $1.30 from $1.32 at September 30, 2019. During the three months ended December 31, 2018, the value of the US dollar relative to the Canadian dollar increased to $1.36 from $1.29 at September 30, 2018.

ARC recognized a foreign exchange gain of $35.5 million for the year ended December 31, 2019 compared to a loss of $63.8 million for the year ended December 31, 2018. During the year ended December 31, 2019, the value of the US dollar relative to the Canadian dollar decreased to $1.30 from $1.36 at December 31, 2018. During the year ended December 31, 2018, the value of the US dollar relative to the Canadian dollar increased to $1.36 from $1.25 at December 31, 2017.

Table 18 shows the various components of ARC's foreign exchange gain and loss:

Table 18

	Three Months Ended				Year Ended		
Foreign Exchange Gain and Loss ($ millions)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Unrealized gain (loss) on US dollar-denominated debt	(9.1)	**16.7**	(45.9)	136	**41.2**	(74.3)	155
Unrealized gain (loss) on US dollar-denominated receivables	(0.3)	**(0.4)**	(1.3)	69	**(0.9)**	0.4	(325)
Realized gain (loss) on US dollar-denominated transactions	0.4	**(0.6)**	9.0	(107)	**(4.8)**	10.1	(148)
Total foreign exchange gain (loss)	(9.0)	**15.7**	(38.2)	141	**35.5**	(63.8)	156

Taxes

ARC recognized a current income tax recovery of $2.0 million and $14.0 million for the three months and year ended December 31, 2019, respectively, compared to income tax expense of $12.9 million and $48.4 million for the same periods in 2018. The income tax recovery is primarily related to the Accelerated Investment Incentive deductions announced in the 2018 Federal Fall Economic Statement becoming substantively enacted in the second quarter of 2019 for the 2019 taxation year. Additionally, ARC's average realized commodity prices have decreased, resulting in lower expected taxable income for the year ended December 31, 2019, as compared to the prior year.

For the three months and year ended December 31, 2019, deferred income tax expense of $2.7 million and deferred income tax recovery of $86.9 million were recognized, respectively, compared to deferred income tax expense of $64.1 million and $59.6 million for the same periods in 2018. The changes in deferred income tax recovery and expense for the three months and year ended December 31, 2019 is primarily related to an increase in the unrealized loss on risk management contracts from the comparable period, as well as a reduction in the deferred tax rate as a result of the Alberta general corporate income tax rate reductions that were substantively enacted in the second quarter of 2019. The Alberta general corporate income tax rate decreased to 11 per cent effective July 1, 2019, and will further decrease by one per cent on January 1 of each subsequent year to eight per cent in 2022.

The income tax pools, which are detailed in Table 19, are deductible at various rates and annual deductions associated with the initial tax pools will decline over time.

Table 19

Income Tax Pool Type ($ millions)	**December 31, 2019**	**Annual Deductibility**
Canadian oil and gas property expense	88.8	10% declining balance
Canadian development expense	787.3	30% declining balance
Canadian exploration expense	17.4	100%
Undepreciated capital cost	864.0	Primarily 25% declining balance
Other	22.2	Various rates, 5% declining balance to 20%, and capital losses
Total federal tax pools	1,779.7	
Additional Alberta tax pools	2.9	Various rates, 25% declining balance to 100%

DD&A Expense and Impairment

For the three months and year ended December 31, 2019, ARC recognized DD&A expense related to its PP&E assets before any impairment charges or related reversals of $131.0 million and $531.0 million, as compared to $126.3 million and $509.9 million for the three months and year ended December 31, 2018, respectively. The increase in DD&A for the three months and year ended December 31, 2019, compared to the same periods in the prior year primarily reflects an increase in production.

In conjunction with the adoption of IFRS 16, ARC recognized DD&A expense related to its right-of-use ("ROU") assets under lease of $1.6 million and $6.3 million for the three months and year ended December 31, 2019. Refer to the section entitled "Financial Reporting Update" contained within this MD&A.

During the year ended December 31, 2019, ARC recognized an impairment charge of $3.9 million compared to a reversal of impairment of $15.2 million recognized in 2018. Both the impairment charge in 2019 and impairment reversal recognized in 2018 related to the disposition of non-core assets completed in the periods.

A breakdown of DD&A expense and impairment charges (reversal) is summarized in Table 20:

Table 20

	Three Months Ended				Year Ended		
DD&A Expense ($ millions, except per boe amounts)	September 30, 2019	**December 31, 2019**	December 31, 2018	% Change	**December 31, 2019**	December 31, 2018	% Change
Depletion of crude oil and natural gas assets	129.5	**129.4**	124.8	4	**524.8**	504.0	4
Depreciation of corporate assets	1.6	**1.6**	1.5	7	**6.2**	5.9	5
Depreciation of ROU assets under lease	1.5	**1.6**	—	100	**6.3**	—	100
Impairment (reversal)	(0.2)	**—**	(0.7)	(100)	**1.9**	(15.2)	113
Total DD&A expense and impairment (reversal)	132.4	**132.6**	125.6	6	**539.2**	494.7	9
DD&A expense per boe, excluding impairment (reversal)	10.69	**9.76**	10.06	(3)	**10.58**	10.53	—

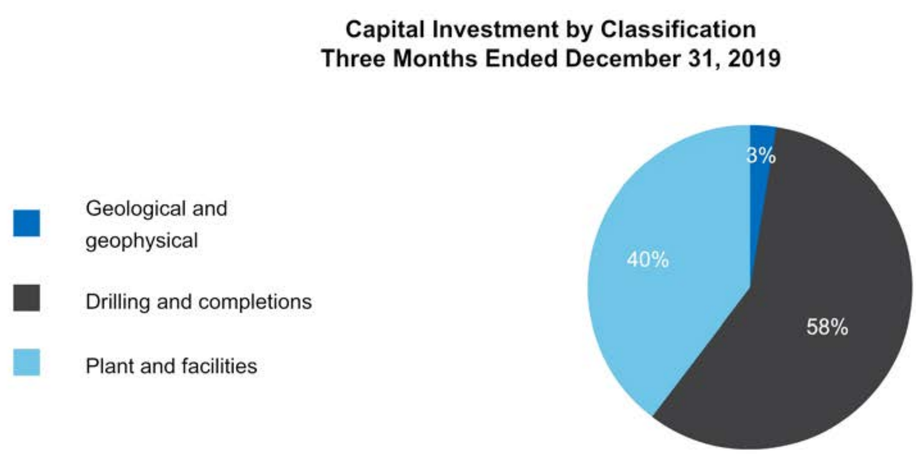
Capital Expenditures, Acquisitions and Dispositions

A breakdown of capital expenditures, acquisitions and dispositions for the fourth quarter of 2019 and 2018 is shown in Table 21:

Table 21

	Three Months Ended December 31						
	2019			2018			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**—**	**3.7**	**3.7**	0.3	1.0	1.3	185
Drilling and completions	**—**	**80.7**	**80.7**	3.6	56.9	60.5	33
Plant and facilities	**1.0**	**55.6**	**56.6**	(0.1)	69.7	69.6	(19)
Corporate assets	**—**	**0.7**	**0.7**	—	0.2	0.2	250
Total capital expenditures	**1.0**	**140.7**	**141.7**	3.8	127.8	131.6	8
Undeveloped land	**—**	**—**	**—**	0.2	—	0.2	100
Total capital expenditures including undeveloped land purchases	**1.0**	**140.7**	**141.7**	4.0	127.8	131.8	8
Dispositions	**—**	**(1.1)**	**(1.1)**	—	(0.9)	(0.9)	22
Total capital expenditures, land purchases, and net acquisitions and dispositions	**1.0**	**139.6**	**140.6**	4.0	126.9	130.9	7

Exhibit 16

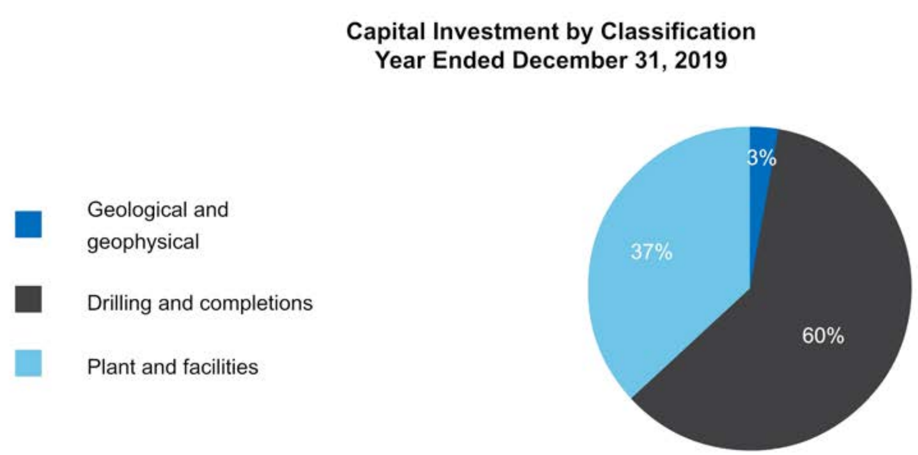


A breakdown of capital expenditures, acquisitions and dispositions for the year ended December 31, 2019 and 2018 is shown in Table 21a:

Table 21a

	Year Ended December 31						
	2019			2018			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**0.3**	**19.3**	**19.6**	2.1	8.7	10.8	81
Drilling and completions	**0.3**	**415.2**	**415.5**	46.4	370.0	416.4	—
Plant and facilities	**1.5**	**252.9**	**254.4**	11.0	238.6	249.6	2
Corporate assets	**—**	**2.0**	**2.0**	—	2.6	2.6	(23)
Total capital expenditures	**2.1**	**689.4**	**691.5**	59.5	619.9	679.4	2
Undeveloped land	**—**	**0.7**	**0.7**	0.6	0.3	0.9	(22)
Total capital expenditures including undeveloped land purchases	**2.1**	**690.1**	**692.2**	60.1	620.2	680.3	2
Acquisitions	**0.2**	**—**	**0.2**	—	0.2	0.2	—
Dispositions	**—**	**(5.0)**	**(5.0)**	—	(196.1)	(196.1)	(97)
Total capital expenditures, land purchases and net acquisitions and dispositions	**2.3**	**685.1**	**687.4**	60.1	424.3	484.4	42

Exhibit 16a



ARC invested $141.7 million and $691.5 million in capital expenditures, before land purchases and net property acquisitions and dispositions during the three months and year ended December 31, 2019, respectively. Investment activity included drilling and completions activities across ARC's asset base, with the drilling of 17 and 87 wells and the completion of 14 and 83 wells for the three months and year ended December 31, 2019, respectively. Capital investment was also focused on the ongoing construction of the Dawson Phase IV gas processing and liquids-handling facility, the Ante Creek facility expansion, initial investments for the first phase of development at Attachie West, as well as the development of water-handling and gas processing facilities at Tower, Dawson, and Ante Creek. The Dawson Phase I and II liquids-handling upgrade was commissioned early in the fourth quarter of 2019.

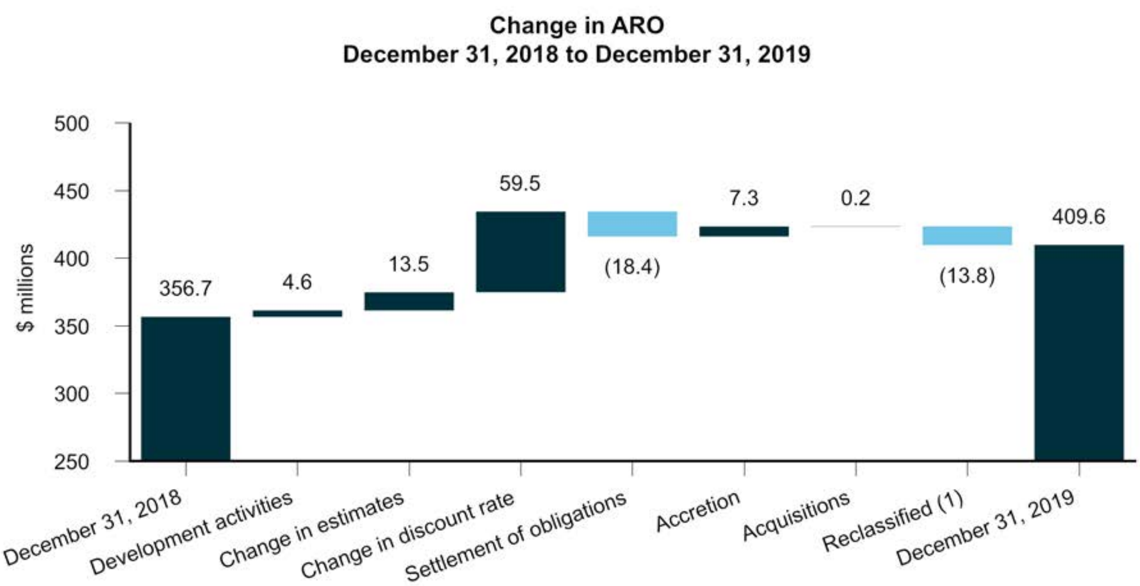
For information regarding ARC's planned capital expenditures for 2020, refer to the November 7, 2019 news release entitled *"ARC Resources Ltd. Reports Third Quarter 2019 Financial and Operational Results and Announces $500 Million Capital Program for 2020"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

Asset Retirement Obligation

At December 31, 2019, ARC has recognized ARO of $409.6 million ($356.7 million at December 31, 2018) for the future abandonment and reclamation of ARC's properties. The estimated ARO includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred, and annual inflation factors. The future liability has been discounted at a liability-specific risk-free rate of 1.8 per cent (2.2 per cent at December 31, 2018).

Accretion charges of $1.7 million and $7.3 million for the three months and year ended December 31, 2019 ($2.0 million and $11.3 million for the same periods in 2018), respectively, have been recognized in Interest and financing in the statements of income to reflect the increase in ARO associated with the passage of time. ARC has a planned and scheduled approach to its abandonment and reclamation activities. Actual spending under ARC's program for the three months and year ended December 31, 2019 was $4.0 million and $18.4 million ($6.1 million and $15.8 million for the same periods in 2018), respectively.

Exhibit 17



(1) Reclassified as liabilities associated with assets held for sale and disposed in the period.

Capitalization, Financial Resources and Liquidity

ARC's capital management objective is to fund dividend payments, current period reclamation expenditures and capital expenditures necessary for the replacement of production declines using only funds from operations. Profitable growth activities will be financed with a combination of funds from operations and other sources of capital.

ARC has three primary sources available to raise capital: share equity, bank debt and long-term notes. The cost of bank debt under the syndicated credit facility comprise two items: first, the underlying interest rate on Bankers' Acceptances and Prime Loans (Canadian dollar-denominated loans) or LIBOR Loans and US Base Rate Loans (US dollar-denominated borrowings) and second, ARC's credit spread. Long-term notes are issued to large institutional investors normally with an average term of five to 12 years. The cost of this debt is based upon two factors: the current rate of long-term government bonds and ARC's credit spread. Refer to Note 13 "Long-Term Debt" in the financial statements for additional information.

Following the adoption of IFRS 16, ARC now recognizes lease obligations in its determination of net debt. Lease obligations are affected by the amount of future lease payments, anticipated lease terms, and ARC's estimated incremental borrowing rate. Changes in ARC's lease obligations could have a significant impact on ARC's net debt to annualized funds from operations ratio in future periods. Refer to the section entitled "Financial Reporting Update" contained within this MD&A and to Note 4 "Changes in Accounting Policies" in the financial statements.

A breakdown of ARC's capital structure as at December 31, 2019 and December 31, 2018 is outlined in Table 22:

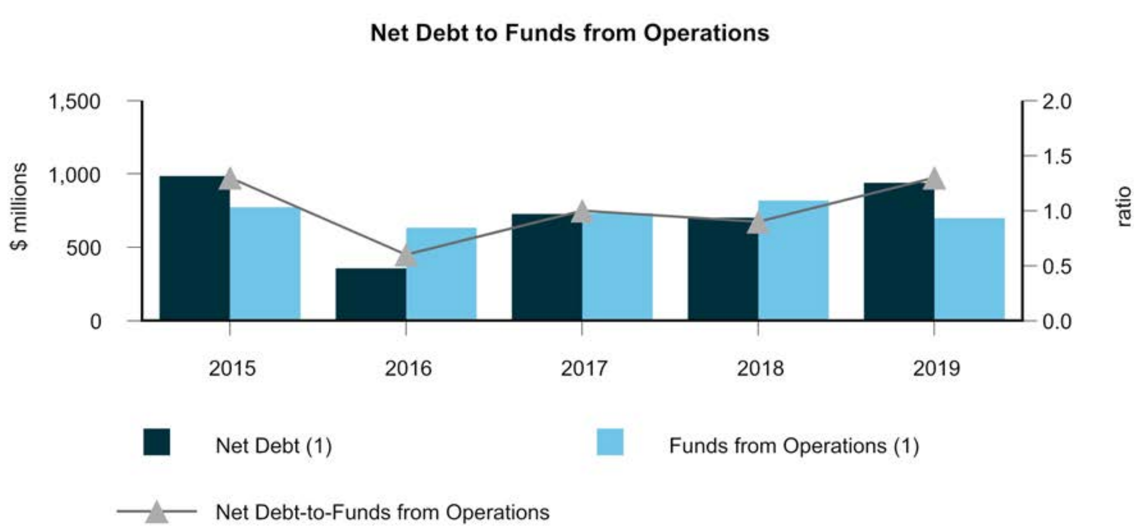
Table 22

Capital Structure and Liquidity ($ millions, except ratio amounts)	**December 31, 2019**	December 31, 2018
Long-term debt [(1)]	**877.6**	909.2
Lease obligations [(2)]	**46.2**	—
Accounts payable and accrued liabilities	**150.5**	166.5
Dividends payable	**17.7**	17.7
Cash and cash equivalents, accounts receivable, and prepaid expense	**(151.8)**	(390.7)
Net debt [(3)]	**940.2**	702.7
Net debt to funds from operations (ratio) [(3)]	**1.3**	0.9

(1) Includes a current portion of long-term debt of $148.9 million at December 31, 2019 and $80.5 million at December 31, 2018.
(2) Includes a current portion of lease obligations of $16.3 million at December 31, 2019.
(3) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Management's long-term strategy is to keep its net debt balance to a ratio of between 1.0 and 1.5 times annualized funds from operations. This strategy has resulted in manageable debt levels to-date and has positioned ARC to remain well within its debt covenants. Following the adoption of IFRS 16, ARC's net debt balance has increased with the inclusion of ARC's lease obligations though compliance with ARC's credit facility covenants is not expected to be impacted by this change. At December 31, 2019, ARC had $940.2 million of net debt outstanding and a net debt to 2019 funds from operations ratio of 1.3 times.

Exhibit 18



(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

At December 31, 2019, ARC had total credit capacity of approximately $2.1 billion with long-term debt of $877.6 million currently outstanding. ARC's long-term debt balance includes a current portion of $148.9 million at December 31, 2019 ($80.5 million at December 31, 2018), reflecting principal payments that are due to be paid within the next 12 months. ARC intends to finance these obligations by using cash on hand or drawing on its syndicated credit facility at the time the payments are due. ARC's long-term debt has a weighted average interest rate of 4.1 per cent. 91 per cent (US$617.5 million) of ARC's long-term debt outstanding at December 31, 2019 is denominated in US dollars.

ARC's debt agreements contain a number of covenants, all of which were met as at December 31, 2019. During the year ended December 31, 2019, ARC executed certain amendments to the note purchase agreements governing its senior notes. The amendments include additional language that modernize the agreements to align with current legislation as well as a modification of certain covenant calculations. It has been determined that these amendments do not comprise substantial modifications as they have not materially changed the future cash outflows of the senior notes. No significant financial covenants were impacted by the adoption of IFRS 16. These agreements are available on SEDAR at www.sedar.com. ARC calculates its covenants quarterly. The following table describes the financial covenants related to ARC's senior notes:

Table 23

Covenant Description (1)	Estimated Position at December 31, 2019 (2)
Total Indebtedness not to exceed 325 per cent total EBITDA for the most recently completed period of four consecutive quarters	219%
Total EBITDA not to be less than 400 per cent of Total Interest Charges for the most recently completed period of four consecutive quarters	1,236%
Total Priority Indebtedness not to exceed two per cent of Total Assets	0%
Total Indebtedness not to exceed 65 per cent of Present Asset Value (3)	28%
Total Indebtedness not to exceed 65 per cent of Present Asset Value (4)	32%

(1) Capitalized terms are as defined in the note purchase agreements.
(2) Estimated position, subject to final approval of the note holders.
(3) Pertains to senior notes issued under the 2009, 2010, and 2012 note agreements whereby the Present Asset Value is determined using a 10 per cent discount rate.
(4) Pertains to senior notes issued under the prior Master Shelf agreement whereby the Present Asset Value is determined using a 12 per cent discount rate.

On December 6, 2019, ARC extended its syndicated revolving credit facility for one additional year until December 15, 2023 at similar terms. The following table describes the financial covenants of the syndicated credit facility and the Master Shelf Agreement:

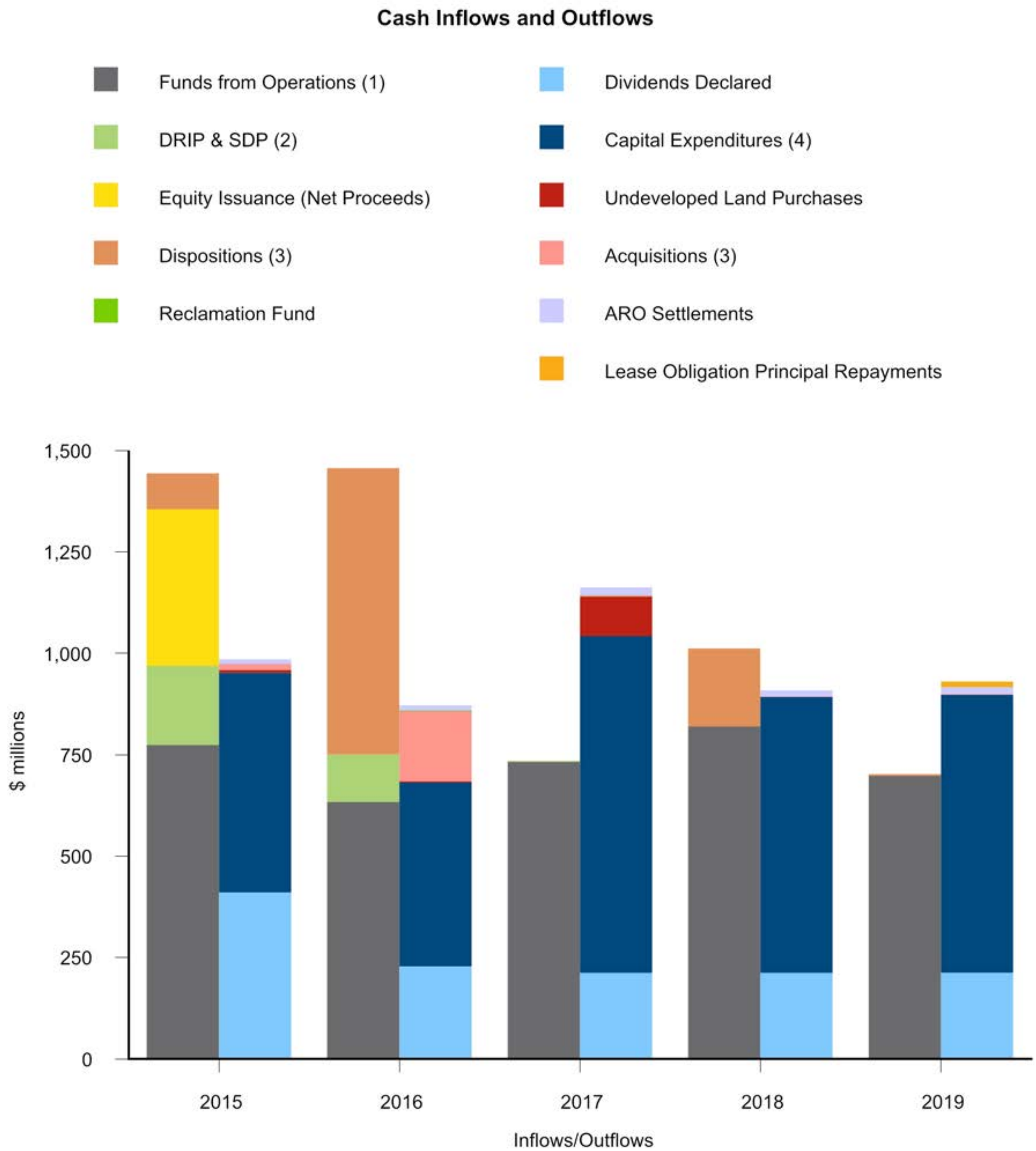
Table 23a

Covenant Description (1)	Estimated Position at December 31, 2019 (2)
Consolidated Senior Debt not to exceed 3.5 times Consolidated EBITDA	1.2
Consolidated Total Debt not to exceed 4.0 times Consolidated EBITDA	1.2
Consolidated Senior Debt not to exceed 55 per cent of Total Capitalization	20%
Consolidated Tangible Assets of the Restricted Group must exceed 85 per cent of Consolidated Tangible Assets	100%

(1) Capitalized terms are as defined in the credit facility agreement and the Master Shelf Agreement.
(2) Estimated position, subject to final approval of the syndicate.

The following illustrates the balance of cash inflows and outflows over the past five years. In any period when cash outflows exceed inflows, ARC's net debt balance will increase to cover the shortfall and will decrease in any period when inflows exceed outflows.

Exhibit 19



(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) On February 8, 2017, the Board approved the elimination of the Dividend Reinvestment Plan ("DRIP") and Stock Dividend Program ("SDP"), effective for the March dividend that was paid on April 17, 2017 to shareholders of record on March 31, 2017.
(3) Excludes non-cash property transactions.
(4) Excludes capital additions in respect of non-cash share options, lease depreciation, and asset retirement cost.

Table 24

($ millions)	**2019**	2018	2017	2016	2015
Cash Inflows					
Funds from operations (1)	**697.4**	819.0	731.9	633.3	773.4
DRIP & SDP (2)	**—**	—	3.0	117.1	195.5
Equity issuance (net proceeds)	**—**	—	—	—	386.1
Dispositions (3)	**5.0**	156.1	—	705.4	88.8
Disposition of reclamation fund	**—**	36.5	—	—	—
Reclamation fund withdrawals	**—**	1.1	—	—	0.9
Total	**702.4**	1,012.7	734.9	1,455.8	1,444.7
Cash Outflows					
Dividends declared	**212.4**	212.3	212.3	228.2	410.5
Capital expenditures (4)	**684.8**	679.3	829.4	452.9	541.2
Undeveloped land purchases	**0.7**	0.7	97.6	2.7	6.7
Acquisitions (3)	**0.2**	0.2	2.5	172.9	14.4
ARO settlements	**18.4**	15.8	19.8	13.0	12.3
Lease obligation principal repayments	**13.7**	—	—	—	—
Reclamation fund contributions	**—**	—	0.6	2.0	—
Total	**930.2**	908.3	1,162.2	871.7	985.1

(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) On February 8, 2017, the Board approved the elimination of the DRIP and SDP, effective for the March dividend that was paid on April 17, 2017 to shareholders of record on March 31, 2017.
(3) Excludes non-cash property transactions.
(4) Excludes capital additions in respect of non-cash share options, lease depreciation, and asset retirement cost.

Shareholders’ Equity

At December 31, 2019 and February 6, 2020, there were 353.4 million shares outstanding and 5.1 million share options outstanding under ARC's Share Option Plan. For more information on the Share Option Plan, refer to the section entitled "Share Option Plan” contained within this MD&A.

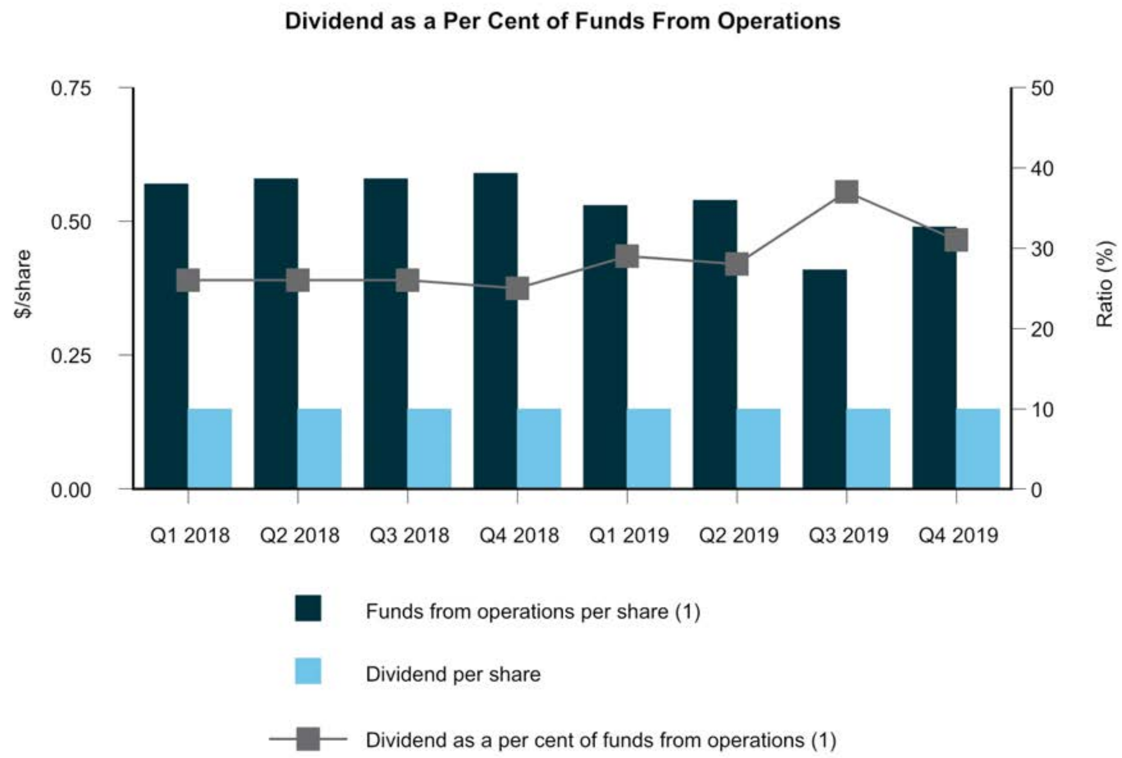
At December 31, 2019, ARC had 0.7 million restricted shares outstanding under its LTRSA Plan. For more information on the restricted shares outstanding and held in trust under ARC's LTRSA Plan, refer to the section entitled "Long-term Restricted Share Award Plan” contained within this MD&A.

Dividends

ARC's business strategy is focused on value creation and long-term returns to shareholders, with the dividend being an important component. In both of the fourth quarters of 2019 and 2018, ARC declared dividends totaling $53.1 million ($0.15 per share outstanding). ARC declared dividends of $212.4 million for the year ended December 31, 2019 ($0.60 per share outstanding) and $212.3 million for the year ended December 31, 2018 ($0.60 per share outstanding). At this time, ARC plans to sustain current dividend levels.

As a result of a decrease in funds from operations for the three months and year ended December 31, 2019 compared to the same periods of the prior year, ARC’s dividend as a per cent of funds from operations increased from an average of 25 per cent and 26 per cent to an average of 31 per cent and 30 per cent, respectively.

Exhibit 20



(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

The actual amount of future monthly dividends is proposed by Management and is subject to the approval and discretion of the Board. The Board reviews future dividends in conjunction with their review of quarterly financial and operating results. ARC has confirmed that a dividend of $0.05 per common share designated as an eligible dividend will be paid on February 14, 2020 to shareholders of record on January 31, 2020 with an ex-dividend date of January 30, 2020.

Please refer to ARC's website at www.arcresources.com for details of the estimated monthly dividend amounts and dividend dates for 2020.

ACCEL Canada Holdings Limited ("ACCEL")

In May 2018, ARC entered into a purchase and sale agreement (the "ACCEL PSA") with ACCEL to dispose of its interests in certain non-core assets located within the area of Redwater, Alberta (the "Transaction") for net proceeds of $130.3 million before post-closing adjustments. At closing, in August 2018, $90.3 million of the purchase price was received in cash with the remaining $40.0 million being recognized as deferred consideration payable on the earlier of January 2, 2020 or certain events of insolvency affecting ACCEL. Concurrent with closing, ARC and ACCEL executed a gross overriding royalty agreement providing for the reservation and grant of a gross overriding royalty payable on ACCEL's working interest in the hydrocarbons produced from the royalty lands included in the disposed assets in accordance with the royalty agreement.

In addition to the deferred consideration, ARC had recognized in its accounts receivable at December 31, 2018, amounts owing from ACCEL in relation to post-closing adjustments and cash payments made by ARC on behalf of ACCEL after closing of the Transaction and while ARC continued to act as operator of the disposed assets ("FSOA amounts"). On May 31, 2019, ARC initiated a lawsuit against ACCEL for approximately $12.0 million for failure to pay certain of these amounts.

On October 21, 2019, ACCEL filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the *Bankruptcy and Insolvency Act*. On November 22, 2019, proceedings were converted to proceedings under the *Companies' Creditors*

Arrangement Act. As a result of these proceedings ARC's contractual and enforcement rights in respect of the deferred consideration are stayed by orders of the insolvency court, notwithstanding that ARC is contractually entitled to enforce its rights to payment of the deferred consideration.

At December 31, 2019, had ARC recognized in its accounts receivable amounts owing from ACCEL in relation to both the FSOA amounts as well as the deferred consideration amount and accrued interest thereon. A provision for impairment of these financial assets of $47.7 million has been recognized against these receivables at period-end.

Refer to Note 6 "Financial Assets and Credit Risk" in the financial statements for further detail.

At December 31, 2019, the Alberta Energy Regulator had transferred substantially all relevant operating licenses of the assets under the ACCEL PSA from ARC to ACCEL. However, the operating licenses of certain assets (the "Outstanding Assets") remain with ARC as of the date of this MD&A. The potential obligation associated with the future decommissioning cost of the Outstanding Assets is estimated to be $11.7 million.

On October 23, 2019, ACCEL filed a counterclaim against ARC for $200.0 million for damages alleging breaches of contract or misrepresentation related to the ACCEL PSA. On January 3, 2020, ARC filed its Defence to the Counterclaim. Management does not expect the outcome of the counterclaim to result in a material outflow of resources by ARC.

Environmental Regulation Impacting ARC

ARC operates in jurisdictions that regulate greenhouse gas ("GHG") emissions and other air pollutants, including through the imposition of a price on GHG emissions. While some regulations are in effect at both the federal and provincial levels, further changes and amendments are at various stages of review, discussion, and implementation. There is uncertainty around the nature and scope of future regulations and the extent to which future federal legislation will harmonize with provincial regulation, as well as the timing and effects of such regulations. Climate change regulation at both the federal and provincial level has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Canada. In addition, the Supreme Court's decision in *Orphan Well Association v Grant Thornton Ltd* may impact the manner in which provincial regulators seek to regulate their liability management and end-of-life asset retirement regimes. Climate change and other environmental regulations impose certain costs and risks on the industry, and there remains some uncertainty with regard to the impacts of federal or provincial climate change and environmental laws and regulations, as ARC is unable to predict additional legislation or amendments that governments may enact in the future. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Company's operations and cash flow.

ARC's Liability Management Rating is well within both the British Columbia Oil and Gas Commission's and the Alberta Energy Regulator ("AER") requirements, such that no deposits were required at December 31, 2019 or at the date of this MD&A.

Additional information is available in ARC's AIF on SEDAR at www.sedar.com.

Contractual Obligations and Commitments

The following table is a summary of ARC's contractual obligations and commitments as at December 31, 2019:

Table 25

	Payments Due by Period				
	1 Year	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Debt repayments (1)	148.9	402.2	249.4	77.1	877.6
Interest payments (2)	31.2	42.8	20.1	4.3	98.4
Purchase and service commitments	33.4	18.5	10.3	0.8	63.0
Transportation commitments	153.7	291.4	259.5	743.3	1,447.9
Total contractual obligations and commitments	**367.2**	**754.9**	**539.3**	**825.5**	**2,486.9**

(1) Long-term and current portion of long-term debt.
(2) Fixed interest payments on senior notes.

ARC enters into commitments for business arrangements and capital expenditures in the normal course of operations in advance of expenditures being made. At a given point in time, it is estimated that ARC has committed to capital expenditures equal to approximately one quarter of its capital budget by means of giving the necessary authorizations to incur the expenditures in a future period.

ARC is involved in litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on ARC's results of operations or cash flows.

Operating leases previously included in ARC's contractual obligations and commitments are now disclosed on the balance sheets in conjunction with the adoption of IFRS 16. For more information, refer to Note 21 "Commitment and Contingencies" in the financial statements.

Off-Balance Sheet Financing

ARC does not have any guarantees or off-balance sheet arrangements that have been excluded from the balance sheet other than commitments disclosed in Note 21 "Commitments & Contingencies" of the financial statements.

Related Parties

Key Management Personnel Compensation

ARC has determined that the key management personnel of ARC consists of its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the RSU and PSU, DSU, LTRSA and Share Option Plans. For the year ended December 31, 2019, ARC recognized $21.8 million in total key management personnel compensation ($12.2 million for the year ended December 31, 2018).

Critical Accounting Estimates

ARC continuously refines and documents its management and internal reporting systems to ensure that accurate, timely, internal and external information is gathered and disseminated.

ARC's financial and operational results incorporate certain estimates including:

- estimated commodity sales, royalties, transportation, and operating expense on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- estimated capital expenditures on projects that are in progress;
- estimated DD&A charges that are based on estimates of crude oil, condensate, NGLs, and natural gas reserves that ARC expects to recover in the future;
- estimated fair values of financial instruments that are subject to fluctuation depending upon the underlying forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves and the risk of non-performance;
- estimated value of ARO that is dependent upon estimates of future costs and timing of expenditures;

- estimated value of ROU assets and lease obligations that are dependent upon estimates of discount rates and timing of lease payments;
- estimated future recoverable value of PP&E, E&E and goodwill and any associated impairment charges or reversals; and
- estimated compensation expense under ARC's share-based compensation plans including the PSUs awarded under the PSU Plan that is dependent on the final number of PSU awards that eventually vest based on a performance multiplier.

ARC has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements, refer to Note 5 "Management Judgments and Estimation Uncertainty" in the financial statements.

ASSESSMENT OF BUSINESS RISKS

The ARC management team is focused on long-term strategic planning and has identified the key risks, uncertainties, and opportunities associated with ARC's business that can impact the financial results. They include, but are not limited to:

Volatility of Crude Oil, Condensate, NGLs, and Natural Gas Prices

ARC's operational results and financial condition, and therefore its amount of capital investment and future dividend payments made to shareholders, are dependent on the prices received for crude oil, condensate, NGLs, and natural gas production. Decreasing crude oil and natural gas prices will reduce ARC's cash flow, impacting ARC's level of capital investment and may result in the shut-in of certain producing properties. Differentials on Canadian crude oil have also shown significant volatility throughout recent years due to pipeline and infrastructure constraints. Any movement in crude oil and natural gas prices will have an effect on ARC's ability to continue with its capital expenditure program and its ability to pay dividends. Future declines in crude oil and natural gas prices may result in future decreases in, or elimination of, any future dividends. Crude oil and natural gas prices are determined by economic and, in some circumstances, political factors. Political factors include foreign tax regimes and protectionist measures that could have the effect of closing off key markets. Supply and demand factors, including weather and general economic conditions as well as conditions in other crude oil and natural gas regions, impact prices. ARC may manage the risk associated with changes in commodity prices by entering into crude oil or natural gas price derivative contracts. If ARC engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity derivative contracts activities could expose ARC to losses. To the extent that ARC engages in risk management activities related to commodity prices, it will be subject to credit risks associated with counterparties with which it contracts.

Refinancing and Debt Service

ARC currently has a $950.0 million financial covenant-based syndicated credit facility with 11 banks. At the request of ARC, the lenders will review the credit facility each year and determine if they will extend for another year. In the event that the facility is not extended before December 15, 2023, indebtedness under the facility will become repayable at that date. There is also a risk that the credit facility will not be renewed for the same amount or on the same terms. Any of these events could affect ARC's ability to fund ongoing operations and make future dividend payments.

ARC currently has $789.4 million of long-term, fixed interest rate senior notes outstanding at December 31, 2019, which require principal repayments in 2020 through 2026. ARC intends to fund these principal repayments with existing credit facilities. In the event ARC is unable to fund future principal repayments, it may impact ARC's ability to fund its ongoing operations and make future dividend payments.

ARC is required to comply with covenants under its credit facility and senior notes. In the event that ARC does not comply with covenants, ARC's access to capital could be restricted or repayment could be required. ARC routinely reviews its covenants based on actual and forecast results and has the ability to make changes to its development plans and/or dividend policy to comply with covenants. If ARC becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, the lender may foreclose on such assets of ARC or sell the working interests.

Access to Capital Markets

ARC's capital expenditures are financed from funds from operations, borrowings, proceeds from property divestments and possible future equity issuances. ARC's ability to issue equity is dependent upon, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and ARC securities. Further, if revenues or reserves decline, ARC may not have access to the capital necessary to undertake or complete future drilling programs.

Additionally, ARC may issue additional common shares from treasury at prices which may result in a decline in production per common share and reserves per common share.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, ARC's ability to make capital investments and maintain or expand existing assets and reserves may be impaired and ARC's assets, liabilities, business, financial condition, results of operations and dividend payments may be materially or adversely affected as a result.

Retention of Key Personnel

A loss in the key personnel of ARC could delay the completion of certain projects or otherwise have a material adverse effect on the Company. Shareholders are dependent on ARC's management and staff in respect of the administration and management of all manners relating to ARC's assets. Any deterioration of ARC's corporate culture could adversely affect ARC's long-term success.

Operational Matters

The operation of oil and gas wells involves a number of operating and natural hazards that may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to ARC and possible liability to third parties. ARC maintains liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. ARC may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities may reduce dividend payments to shareholders.

Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property. Less than two per cent of ARC’s production is operated by third parties. ARC has limited ability to influence costs on partner-operated properties. Operating costs on most properties operated by third parties have increased steadily over recent years. To the extent the operator fails to perform these functions properly, ARC’s revenue from such property may be reduced. Payments from production generally flow through the operator and there is a risk of delayed payment, or non-payment and additional expense in recovering such revenues if the operator becomes insolvent. To mitigate this risk, all significant non-operated production is taken in-kind and marketed by ARC. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of ARC to certain properties. A reduction of future dividend payments to shareholders could result under such circumstances.

Availability of Third-Party Pipeline and Processing Infrastructure

A portion of ARC's production is delivered through processing facilities and pipeline systems owned by third parties over which ARC does not have control. The amount of oil and natural gas that ARC can produce and sell is subject to the accessibility, availability, proximity and capacity of these third-party processing facilities and pipeline systems. From time-to-time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on ARC's ability to process its production and deliver the same to market. The ongoing lack of availability of capacity in any of the third-party processing facilities and pipeline systems could result in ARC's inability to realize the full economic potential of its production, or in a reduction of the price offered for ARC's production.

Reserves Estimates

The reserves and recovery information contained in ARC’s independent reserves evaluation is only an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator. The reserves report has been prepared using certain commodity price assumptions. If lower prices for crude oil, natural gas, condensate and NGLs are realized by ARC and substituted for the price assumptions utilized in the reserves report, the present value of estimated future net cash flows for ARC’s reserves as well as the amount of ARC’s reserves would be reduced and the reduction could be significant.

Depletion of Reserves

ARC's future crude oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on ARC's success in exploiting its reserves base and acquiring additional reserves. Without reserves additions through acquisition or development activities, ARC's reserves and production will decline over time as the oil and natural gas reserves are produced out. There can be no assurance that ARC will make sufficient capital expenditures to maintain production at current levels. There can be no assurance that ARC will be successful in developing or acquiring additional reserves on terms that meet ARC's investment objectives.

Counterparty Risk

ARC assumes customer credit risk associated with commodity sales from production, transportation assignment agreements, financial hedging transactions and joint arrangement participants. In the event that ARC's counterparties default on payments to ARC, cash flows will be impacted and dividend payments to shareholders may be impacted. ARC has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and gas sales, financial hedging transactions and joint arrangement participants. A diversified sales customer base is maintained and exposure to individual entities is reviewed on a regular basis.

Variations in Interest Rates and Foreign Exchange Rates

Variations in interest rates could result in an increase in the amount ARC pays to service debt. Global oil prices and United States natural gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Cdn$/US$ exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact ARC's net production revenue. Volatility in interest rates and the Canadian dollar may affect future cash flows and reduce funds available for both dividends and capital expenditures. ARC may initiate certain derivative contracts to attempt to mitigate these risks. To the extent that ARC engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with counterparties with which it contracts. An increase in Cdn$/US$ exchange rates may impact future dividend payments to shareholders and the value of ARC's reserves as determined by independent evaluators.

Changes in Income Tax Legislation

In the future, income tax laws or other laws may be changed or interpreted in a manner that adversely affects ARC or its shareholders. Tax authorities having jurisdiction over ARC or its shareholders may disagree with how ARC calculates its income for tax purposes to the detriment of ARC and its shareholders.

Changes in Government Royalty Legislation

Provincial programs related to the oil and natural gas industry may change in a manner that adversely impacts shareholders. ARC currently operates in British Columbia and Alberta, both of which have different royalty programs that could be revised at any time. Future amendments to royalty programs in any of ARC's operating jurisdictions could result in reduced cash flow and reduced dividend payments to shareholders.

Environmental Concerns and Changes in Environmental Regulation

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of ARC or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations to ARC. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Furthermore, Management believes the federal and provincial governments appear to favor new programs for environmental laws and regulation, particularly in relation to the reduction of GHG emissions, and there is no assurance that any such programs or regulatory amendments, if enacted, will not contain GHG emission reduction targets that ARC cannot meet. Financial penalties or charges could be incurred as a result of the failure to meet such targets.

There is further uncertainty regarding the implementation of the Pan-Canadian Framework on Clean Growth and Climate change ("the Framework"), the Government of Canada's pledge to cut Canadian GHG emissions by 30 per cent from 2005 levels by 2030 and the various regulatory changes and challenges that may arise from federal and provincial efforts to meet this pledge.

The Government of Canada has, among other things, (i) enacted the *Greenhouse Gas Pollution Pricing Act*, which creates an emissions trading program on industrial facilities and imposes an escalating GHG-pricing strategy (measured in CO2 equivalent ("CO2e")) that will operate as a "federal backstop" in provinces that do not have equivalent pricing mechanisms in place; and (ii) enacted the *Regulations Respecting Reduction in the Release of Methane and Certain*

Volatile Organic Compounds (Upstream Oil and Gas Sector) (the "Federal Methane Regulations") that seek to reduce emissions of methane from the crude oil and natural gas sector. The Federal Methane Regulations came into effect on January 1, 2020. Both Alberta and British Columbia have, to varying degrees, developed and begun to implement similar provincial measures, but ARC cannot predict whether or how such measures will change in the future or the effect that such changes may have.

In this regard, the regulatory environment in Alberta continues to evolve. In 2015, the Government of Alberta released its Climate Leadership Plan ("CLP"). Under the CLP, the Government of Alberta enacted the *Climate Leadership Act* (the "CLA") and imposed a price on emissions from January 1, 2017 until May 29, 2019. On May 30, however, the Government of Alberta repealed the CLA. In response, the Government of Canada imposed a fuel charge of $20 per tonne of CO2e in Alberta, effective January 1, 2020. This price will increase to $30 per tonne on April 1, 2020. This will rise to $40 per tonne, and to $50 per tonne in 2022. In addition to repealing the CLA, the Government of Alberta introduced the *Technology Innovation and Emissions Reduction (TIER) Regulation* (the "TIER Regulation") to replace the *Carbon Competitiveness Incentive Regulation* that previously applied to industrial emitters in Alberta. The TIER Regulation came into effect on January 1, 2020 and satisfies the Government of Canada's equivalency requirement by imposing an effective price of $30 per tonne on CO2e emissions. To maintain equivalency with the federal backstop, this price will need to increase to $40 in 2021 and $50 in 2020. Finally, the Government of Alberta enacted the *Methane Emission Reduction Regulation* (the "Alberta Methane Regulations") on January 1, 2020 and the AER simultaneously released an updated edition of *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting* ("Directive 060"). The release of Directive 060 complements a previously released update to *Directive 017: Measurement Requirements for Oil and Gas Operations* that took effect in December 2018. The Government of Alberta and the federal government have not yet reached an equivalency agreement with respect to the Alberta Methane Regulations and the Federal Methane Regulations; however, the federal government has agreed to avoid duplicative processes through the initial stages of implementation by allowing companies with operations in Alberta to register under the Alberta Methane Regulations.

British Columbia has had a provincial levy on CO2e emissions since 2008. The British Columbia emissions levy is currently set at $40 per tonne. This will increase to $45 per tonne on April 1, 2020 and $50 per tonne on April 1, 2021. In addition, recent amendments to the *Drilling and Production Regulation (*the "BC Methane Regulations") designed to address and reduce methane emissions in British Columbia came into effect on January 1, 2020. The Government of Canada has proposed recognizing the BC Methane Regulations as equivalent to the Federal Methane Regulations, but a formal agreement has not yet been entered.

Fracture stimulations have been used in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells there is increased dialogue between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation, changes of law and third-party claims, which may make the conduct of ARC's business more expensive or prevent ARC from conducting its business as currently conducted. ARC focuses on conducting its operations in a safe, responsible and transparent manner in the communities in which it operates.

The provincial regulation of environmental liabilities and associated ARO in the oil and gas industry may face substantial changes in the near future. In 2016, the Alberta Court of Queen's Bench issued its decision in *Redwater Energy Corporation (Re)*, finding that receivers and trustees of insolvent entities have the right to renounce assets within insolvency proceedings. The Alberta Court of Appeal affirmed this decision. In response, several provincial regulators, most notably the AER, implemented a number of interim rule changes to the regulatory scheme pertaining to the ARO, licensing and liability management programs. On January 31, 2019, however, the Supreme Court of Canada released its decision in *Orphan Well Association v Grant Thornton Ltd*, overturning the decisions of the Alberta Court of Queen's Bench and the Alberta Court of Appeal to hold that receivers and trustees can no longer avoid the AER's legislated authority to impose abandonment orders against licensees or to require a licensee to pay a security deposit before approving a transfer when such a licensee is subject to formal insolvency proceedings. As a result, any financial resources of a bankrupt licensee will first be used to satisfy outstanding abandonment obligations in respect of its unproductive assets. Remaining amounts, if any, will then satisfy the claims of secured creditors in accordance with the *Bankruptcy and Insolvency Act*.

There remains a great deal of uncertainty as to what regulatory measures will be developed by the provinces or in concert with the federal government to address the *Orphan Well Association v Grant Thornton Ltd* decision. However, the Government of British Columbia has developed mandatory asset retirement timelines for "dormant sites", with the goal of reducing outstanding ARO and restoring 100 per cent of all currently dormant sites by 2036, with additional regulated timelines for sites that become dormant between 2019 and 2023 or become dormant after 2024. Further analysis of ARO are discussed in the section entitled "Asset Retirement Obligation" in this MD&A.

Transportation Constraints and Market Access

Lack of capacity and/or regulatory constraints on gathering and processing facilities, pipeline systems and railway lines may have a negative impact on ARC's ability to produce and sell its crude oil and natural gas. The amount of crude oil and natural gas that ARC can produce and sell is subject to the accessibility, availability, proximity and capacity of various gathering and processing facilities, pipeline systems and railway lines. The lack of availability or capacity in any of the gathering and processing facilities, pipeline systems and railway lines could result in ARC's inability to realize the full economic potential of its production or in a reduction of the price offered for ARC's production. The lack of firm pipeline capacity continues to affect the oil and gas industry and limit the ability to transport produced oil and gas to market. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability to export oil and natural gas. Unexpected shut-downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect ARC's production, operations and financial results. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays or uncertainty in constructing new infrastructure systems and facilities could harm ARC's business and, in turn, ARC's financial condition, operations and cash flows. Further analysis of transportation costs are discussed in the section entitled "Transportation" in this MD&A.

To mitigate the risk of transportation and market access constraints, ARC engages in long-term transportation commitments with various third parties. These arrangements result in ARC having future financial commitments as disclosed in the section entitled "Contractual Obligations and Commitments" in this MD&A.

Acquisitions

The price paid for acquisitions is based on engineering and economic estimates of the potential reserves made by independent engineers modified to reflect the technical views of Management. These assessments include a number of material assumptions regarding such factors as recoverability and marketability of crude oil, natural gas, condensate and NGLs, future prices of crude oil, natural gas, condensate and NGLs, and operating costs, future capital expenditures and royalties and other government levies that will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the operators of the working interests, Management and ARC. In particular, changes in the prices of and markets for crude oil, natural gas, condensate and NGLs from those anticipated at the time of making such assessments will affect the amount of future dividends and the value of the shares. In addition, all such estimates involve a measure of geological and engineering uncertainty that could result in lower production and reserves than attributed to the working interests. Actual reserves could vary materially from these estimates. Consequently, the reserves acquired may be less than expected, which could adversely impact cash flow and dividends to shareholders.

Cyber-Security

ARC employs and depends upon information technology systems to conduct its business. These systems have the potential to introduce information security risks, which are growing in both complexity and frequency and could include potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of ARC's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to our business activities or our competitive position. Further, disruption of critical information technology services, or breaches of information security, could have a negative effect on ARC's assets, performance and earnings, as well as on ARC's reputation. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on ARC's business, financial condition and results of operations.

Additional information is available in ARC's AIF on SEDAR at www.sedar.com.

PROJECT RISKS

ARC manages a variety of small and large projects and plans to continue with the development of several capital projects throughout 2020. Project delays may impact expected revenues from operations. Significant project cost overruns could make a project uneconomic. ARC's ability to execute projects and market crude oil, condensate, NGLs, and natural gas depends upon numerous factors beyond its control, including:

- availability and proximity of pipeline capacity;
- availability of processing capacity;

- availability of storage capacity;
- supply of and demand for crude oil, condensate, NGLs, and natural gas;
- availability of alternative fuel sources;
- effects of inclement weather;
- availability of drilling-related equipment and resources;
- unexpected cost increases;
- accidental events;
- changes in regulations; and
- availability and productivity of skilled labour.

Because of these factors, ARC could be unable to execute projects on time, on budget, or at all, and may not be able to effectively market the crude oil, condensate, NGLs, and natural gas that ARC produces.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

As of December 31, 2019, an internal evaluation was carried out of the effectiveness of ARC's disclosure controls and procedures as defined in Canada by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Based on that evaluation, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that ARC files or submits under Canadian Securities Legislation is recorded, processed, summarized and reported, within the time periods specified in the rules and forms therein. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by ARC in the reports that it files or submits under Canadian Securities Legislation is accumulated and communicated to ARC's Management, including the senior executive and financial officers, as appropriate to allow timely decisions regarding the required disclosure.

Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of ARC's internal control over financial reporting as defined in Canada by NI 52-109. The assessment was based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that ARC's internal control over financial reporting was effective as of December 31, 2019. No changes were made to ARC's internal control over financial reporting during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

FINANCIAL REPORTING UPDATE

New Accounting Policies

IFRS 16 *Leases*

Effective January 1, 2019, ARC adopted IFRS 16 which requires the recognition of an ROU asset and associated lease obligation for most leasing arrangements entered into by ARC. Prior to the adoption of this standard, identified leases were categorized as either operating or finance leases, and operating leases were not subject to balance sheet recognition.

ARC adopted IFRS 16 on a modified retrospective basis whereby an adjustment is made to the opening deficit at January 1, 2019 to reflect the cumulative earnings impact of the standard up to the date of adoption. No restatement of prior periods has been made. In conjunction with the adoption of IFRS 16, ARC has completed the implementation of necessary changes to accounting processes, internal controls, information systems, and business reporting that has been affected.

Table 26 details the impact of the adoption of IFRS 16 on the Company's balance sheet, as at January 1, 2019:

Table 26

	Impact on Balance Sheet Item	$ millions
ROU assets	Increase	43.1
Current portion of lease obligations	Increase	(13.5)
Long-term portion of lease obligations	Increase	(44.5)
Other deferred liabilities	Decrease	10.2
Deferred taxes	Decrease	4.0
Deficit	Increase	0.7

The Company's leases recognized on its balance sheet at January 1, 2019 include leases of buildings, land use rights, equipment, and vehicles. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the balance sheet recognition requirements. For full information regarding the effects of the adoption of IFRS 16 on ARC's financial statements, refer to Note 4 "Changes in Accounting Policies" in the financial statements.

Certain of ARC's performance measures including funds from operations, net debt, ROACE, and netback are impacted by the adoption of IFRS 16. Where lease payments made for certain operating items were previously included in operating expense and G&A, these payments are now reflected as payments of interest and lease obligations, which increases total funds from operations and netback. Lease obligations have been included to increase net debt. As IFRS 16 was adopted using a modified retrospective approach, prior period comparatives have not been restated and may not be comparable. For more information on funds from operations and net debt, refer to Note 15 "Capital Management" in the financial statements. For more information on ROACE and netback refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

Non-GAAP Measures

Throughout this MD&A, the Company uses certain measures to analyze operational and financial performance. These non-GAAP measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities.

Netback

ARC calculates netback on a total and per boe basis as commodity sales from production less royalties, operating, and transportation expense. ARC also discloses netback after the effect of realized gain or loss on risk management contracts. Realized gain or loss represents the portion of risk management contracts that have settled in cash during the period and disclosing this impact provides Management and investors with transparent measures that reflect how ARC's risk management program can impact its netback. Management believes that netback is a key industry benchmark and a measure of performance for ARC that provides investors with information that is commonly used by other crude oil and natural gas producers. The measurement on a per boe basis assists Management with evaluating operating performance on a comparable basis. ARC's netback is disclosed in Tables 13 and 13a within this MD&A.

Return on Average Capital Employed

ARC calculates ROACE, expressed as a percentage, as net income (loss) plus interest and total income taxes (recovery) divided by the average of the opening and closing capital employed for the 12 months preceding the period end. Capital employed is the total of net debt plus shareholders' equity. Refer to Note 15 "Capital Management" in the financial statements for additional discussion on net debt.

ARC uses ROACE as a measure of long-term operating performance, to measure how effectively Management utilizes the capital it has been provided and to demonstrate to shareholders that capital has been used wisely over the long term. ROACE is calculated by ARC for the 12 months preceding the period end, on an annual basis and a five-year basis in Table 27 of this MD&A.

Table 27

ROACE	2019	2018	2017	2016	2015	Five Year
Net income (loss)	**(27.6)**	213.8	388.9	201.3	(342.7)	86.7
Add: Interest	**41.0**	42.6	45.3	50.5	51.0	46.1
Add: Total income taxes (recovery)	**(100.9)**	108.0	135.9	41.4	(15.8)	33.7
Earnings before interest and taxes	**(87.5)**	364.4	570.1	293.2	(307.5)	166.5
Net debt - beginning of period	**702.7**	728.0	356.5	985.1	1,255.9	1,255.9
Shareholders' equity - beginning of period	**3,675.8**	3,668.9	3,484.8	3,388.5	3,551.8	3,551.8
Opening capital employed (A)	**4,378.5**	4,396.9	3,841.3	4,373.6	4,807.7	4,807.7
Net debt - end of period	**940.2**	702.7	728.0	356.5	985.1	940.2
Shareholders' equity - end of period	**3,439.9**	3,675.8	3,668.9	3,484.8	3,388.5	3,439.9
Closing capital employed (B)	**4,380.1**	4,378.5	4,396.9	3,841.3	4,373.6	4,380.1
Average capital employed (A+B)/2	**4,379.3**	4,387.7	4,119.1	4,107.5	4,590.7	4,593.9
ROACE (%)	**(2)**	8	14	7	(7)	4

Forward-looking Information and Statements

This MD&A 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 MD&A contains forward-looking information and statements pertaining to the following: ARC's 2020 capital program including guidance and planned operations for 2020 as well as expected trends during the course of the year with respect to production and expenses under the heading “Annual Guidance,” ARC’s view as to the estimated future payments under the RSU and PSU Plans under the heading “Share-Based Compensation Plans,” as to anticipated changes to the provincial corporate tax rate under the heading "Taxes," ARC's plans with respect to the financing of its operations and strategy regarding its net debt to annualized funds from operations and the sources of funds to repay principal payments due in the next 12 months under the heading "Capitalization, Financial Resources and Liquidity," ARC's plans in relation to future dividend levels under the heading "Dividends," as to ARC's potential obligation associated with the future decommissioning of the Outstanding Assets under the heading "ACCEL Canada Holdings Limited," changes to environmental legislation and regulation under the heading "Environmental Regulation Impacting ARC," and a number of other matters, including the amount of future asset retirement obligations, future liquidity and financial capacity (including sources of capital), future results from operations and operating metrics, timing of production coming on-stream, future costs, expenses and royalty rates, future interest costs, and future development, exploration, acquisition and development activities (including drilling plans), and related capital expenditures.

The forward-looking information and statements contained in this MD&A reflect 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; 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 reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned 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 MD&A 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; changes in the demand for or supply of ARC's products; changes to government regulations including royalty rates, taxes, and environmental and climate change regulation; market access constraints or transportation interruptions, unanticipated operating results or production declines; 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 reserve and resource volumes; limited, unfavorable 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 herein under the heading "Assessment of Business Risks" and from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in this MD&A and in ARC's most recent AIF).

The internal projections, expectations or beliefs are based on the 2020 capital budget which is subject to change in light of ongoing results, prevailing economic circumstances, commodity prices, and industry conditions and regulations. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. The forward-looking information contained in this MD&A speak only as of the date of this MD&A, and none of ARC or any 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.

GLOSSARY

The following is a list of abbreviations that may be used in this MD&A:

<u>Measurement</u>

bbl	barrel
bbl/d	barrels per day
Mbbl	thousand barrels
MMbbl	million barrels
boe (1)	barrels of oil equivalent
boe/d (1)	barrels of oil equivalent per day
Mboe (1)	thousands of barrels of oil equivalent
MMboe (1)	millions of barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
Bcf	billion cubic feet
MMBtu	million British thermal units
GJ	gigajoule

(1) ARC has adopted the standard of 6 Mcf:1 bbl when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of six Mcf per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.

<u>Financial and Business Environment</u>

ARO	asset retirement obligations
CGU	cash generating unit
COGE Handbook	The Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum
DD&A	depletion, depreciation and amortization
DRIP	Dividend Reinvestment Plan
DSU	Deferred Share Unit
E&E	exploration and evaluation
GAAP	generally accepted accounting principles
G&A	general and administrative
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LTRSA	Long-term Restricted Share Award
MSW	Mixed Sweet Blend
NGLs	natural gas liquids
NYMEX	New York Mercantile Exchange
PP&E	property, plant and equipment
PSU	Performance Share Unit
ROU	right-of-use
RSU	Restricted Share Unit
SDP	Stock Dividend Program
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate

ANNUAL HISTORICAL REVIEW

For the year ended December 31 ($ millions, except per share amounts)	2019	2018	2017	2016	2015
FINANCIAL					
Commodity sales from production [1]	**1,189.5**	1,362.2	1,215.2	1,063.5	1,193.7
Per share, basic [1]	**3.37**	3.85	3.44	3.03	3.51
Per share, diluted [1]	**3.37**	3.85	3.43	3.03	3.51
Net income (loss)	**(27.6)**	213.8	388.9	201.3	(342.7)
Per share, basic	**(0.08)**	0.60	1.10	0.57	(1.01)
Per share, diluted	**(0.08)**	0.60	1.10	0.57	(1.01)
Funds from operations [2]	**697.4**	819.0	731.9	633.3	773.4
Per share, basic	**1.97**	2.32	2.07	1.80	2.27
Per share, diluted	**1.97**	2.31	2.07	1.80	2.27
Dividends declared	**212.4**	212.3	212.3	228.2	410.5
Per share [3]	**0.60**	0.60	0.60	0.65	1.20
Total assets	**5,778.3**	6,016.2	6,224.0	5,990.5	5,932.2
Total liabilities	**2,338.4**	2,340.4	2,555.1	2,505.7	2,543.7
Net debt outstanding [4]	**940.2**	702.7	728.0	356.5	985.1
Weighted average shares, basic	**353.4**	353.5	353.4	350.9	340.5
Weighted average shares, diluted	**353.4**	353.8	353.9	351.3	340.5
Shares outstanding, end of period	**353.4**	353.4	353.5	353.3	347.1
CAPITAL EXPENDITURES					
Geological and geophysical	**19.6**	10.8	9.5	12.4	15.9
Drilling and completions	**415.5**	416.4	551.6	227.0	361.2
Plant and facilities	**254.4**	249.6	262.7	210.6	162.0
Corporate assets	**2.0**	2.6	5.9	3.4	2.5
Total capital expenditures	**691.5**	679.4	829.7	453.4	541.6
Undeveloped land	**0.7**	0.9	97.6	2.7	6.7
Total capital expenditures, including undeveloped land purchases	**692.2**	680.3	927.3	456.1	548.3
Acquisitions	**0.2**	0.2	2.5	172.9	14.4
Dispositions	**(5.0)**	(196.1)	—	(705.4)	(88.8)
Total capital expenditures, land purchases, and net acquisitions and dispositions	**687.4**	484.4	929.8	(76.4)	473.9
OPERATING					
Production					
Crude oil (bbl/d)	**17,591**	23,460	24,380	31,510	32,762
Condensate (bbl/d)	**10,066**	7,281	5,650	3,626	3,430
Crude oil and condensate (bbl/d)	**27,657**	30,741	30,030	35,136	36,192
Natural gas (MMcf/d)	**623.3**	570.2	525.8	475.6	444.9
NGLs (bbl/d)	**7,578**	6,955	5,273	4,274	3,819
Total (boe/d)	**139,126**	132,724	122,937	118,671	114,167
Average realized prices, prior to risk management contracts					
Crude oil ($/bbl)	**66.01**	68.58	60.66	50.34	53.53
Condensate ($/bbl)	**67.61**	75.56	62.02	50.98	53.84
Natural gas ($/Mcf)	**2.12**	2.37	2.56	2.23	2.88
NGLs ($/bbl)	**12.28**	32.22	29.57	13.85	10.70
Oil equivalent ($/boe)	**23.42**	28.12	27.08	24.35	28.57
RESERVES (company gross) [5]					
Proved plus probable reserves					
Crude oil and NGLs (Mbbl) [6]	**216,613**	205,577	203,210	195,500	199,826
Natural gas (Bcf)	**4,159.9**	4,039.8	3,797.4	3,247.4	2,922.1
Total (Mboe)	**909,930**	878,875	836,103	736,733	686,851
TRADING STATISTICS ($, based on intra-day trading) [7]					
High	**10.49**	15.90	23.70	24.94	25.87
Low	**5.37**	7.38	13.64	14.43	15.39
Close	**8.18**	8.10	14.75	23.11	16.70
Average daily volume (thousands)	**2,242**	1,480	1,124	986	1,093

(1) Comparatives prior to 2017 have not been restated for IFRS 15 *"Revenue from Contracts with Customers"*.
(2) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(3) Dividends per share are based on the number of shares outstanding at each dividend record date.
(4) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(5) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests.
(6) Is inclusive of crude oil, condensate and NGLs.
(7) Trading statistics denote trading activity on the TSX only.

QUARTERLY HISTORICAL REVIEW

($ millions, except per share amounts)	2019				2018			
FINANCIAL	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Commodity sales from production	**325.1**	253.7	282.9	327.8	302.5	375.1	344.4	340.2
Per share, basic	**0.92**	0.72	0.80	0.93	0.86	1.06	0.97	0.96
Per share, diluted	**0.92**	0.72	0.80	0.93	0.86	1.06	0.97	0.96
Net income (loss)	**(10.2)**	(57.2)	94.4	(54.6)	159.7	45.1	(45.9)	54.9
Per share, basic	**(0.03)**	(0.16)	0.27	(0.15)	0.45	0.13	(0.13)	0.16
Per share, diluted	**(0.03)**	(0.16)	0.27	(0.15)	0.45	0.13	(0.13)	0.16
Funds from operations [(1)]	**172.8**	145.4	193.0	186.2	208.6	205.0	204.4	201.0
Per share, basic	**0.49**	0.41	0.54	0.53	0.59	0.58	0.58	0.57
Per share, diluted	**0.49**	0.41	0.54	0.53	0.59	0.58	0.58	0.57
Dividends declared	**53.1**	53.1	53.1	53.1	53.1	53.0	53.1	53.1
Per share [(2)]	**0.15**	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Total assets	**5,778.3**	5,819.2	5,878.9	5,952.4	6,016.2	5,846.3	6,059.8	6,235.7
Total liabilities	**2,338.4**	2,317.1	2,267.7	2,383.6	2,340.4	2,278.3	2,485.8	2,563.8
Net debt outstanding [(3)]	**940.2**	945.5	829.2	796.3	702.7	667.8	757.0	728.0
Weighted average shares, basic	**353.4**	353.4	353.4	353.4	353.4	353.5	353.5	353.5
Weighted average shares, diluted	**353.4**	353.4	353.9	353.4	353.9	354.0	353.5	353.8
Shares outstanding, end of period	**353.4**	353.4	353.4	353.4	353.4	353.4	353.5	353.5
CAPITAL EXPENDITURES								
Geological and geophysical	**3.7**	2.7	1.3	11.9	1.3	3.4	2.1	4.0
Drilling and completions	**80.7**	98.6	107.0	129.2	60.5	114.2	102.6	139.1
Plant and facilities	**56.6**	60.0	65.5	72.3	69.6	51.2	58.8	70.0
Corporate assets	**0.7**	0.6	0.4	0.3	0.2	0.5	1.3	0.6
Total capital expenditures	**141.7**	161.9	174.2	213.7	131.6	169.3	164.8	213.7
Undeveloped land	**—**	0.7	—	—	0.2	—	—	0.7
Total capital expenditures, including undeveloped land purchases	**141.7**	162.6	174.2	213.7	131.8	169.3	164.8	214.4
Acquisitions	**—**	—	—	0.2	—	—	—	0.2
Dispositions	**(1.1)**	(2.8)	(0.9)	(0.2)	(0.9)	(96.2)	(0.7)	(98.3)
Total capital expenditures, land purchases, and net acquisitions and dispositions	**140.6**	159.8	173.3	213.7	130.9	73.1	164.1	116.3
OPERATING								
Production								
Crude oil (bbl/d)	**17,083**	16,782	18,272	18,251	20,092	23,867	24,893	25,037
Condensate (bbl/d)	**10,937**	10,846	10,230	8,210	8,458	8,158	6,960	5,505
Crude oil and condensate (bbl/d)	**28,020**	27,628	28,502	26,461	28,550	32,025	31,853	30,542
Natural gas (MMcf/d)	**669.0**	595.4	596.4	632.5	603.3	574.2	537.9	564.9
NGLs (bbl/d)	**8,123**	7,952	7,041	7,183	7,402	7,687	6,380	6,332
Total (boe/d)	**147,650**	134,813	134,938	139,054	136,502	135,410	127,879	131,016
Average realized prices, prior to risk management contracts								
Crude oil ($/bbl)	**65.11**	64.79	70.26	63.72	43.30	78.62	78.57	69.50
Condensate ($/bbl)	**68.08**	65.70	71.38	64.81	57.25	85.28	85.10	77.42
Natural gas ($/Mcf)	**2.36**	1.54	1.74	2.79	2.85	2.15	1.91	2.50
NGLs ($/bbl)	**11.69**	5.25	7.71	25.43	29.12	35.26	32.98	31.39
Oil equivalent ($/boe)	**23.93**	20.46	23.04	26.20	24.09	30.12	29.59	28.85
TRADING STATISTICS [(4)]								
($, based on intra-day trading)								
High	**8.26**	7.85	9.61	10.49	14.84	15.90	15.25	15.90
Low	**5.40**	5.37	6.37	7.82	7.38	12.70	12.71	11.88
Close	**8.18**	6.31	6.41	9.12	8.10	14.40	13.58	14.04
Average daily volume (thousands)	**2,583**	1,838	2,255	2,291	2,117	1,246	1,150	1,406

(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Dividends per share are based on the number of shares outstanding at each dividend record date.
(3) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(4) Trading statistics denote trading activity on the TSX only.

Management's Report

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

To ensure the integrity of our financial statements, we carefully select and train qualified personnel. We also ensure our organizational structure provides appropriate delegation of authority and division of responsibilities. Our policies and procedures are communicated throughout the organization including a written ethics and integrity policy that applies to all employees including the Chief Executive Officer and Chief Financial Officer.

The Board of Directors approves the consolidated financial statements. Their financial statement-related responsibilities are fulfilled primarily through the Audit Committee. The Audit Committee is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with Management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the internal control over financial reporting for ARC Resources Ltd. The assessment was based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

Myron M. Stadnyk	P. Van R. Dafoe
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer

Calgary, Alberta

February 6, 2020

Independent auditor's report

To the Shareholders of ARC Resources Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ARC Resources Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Don Althen.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 6, 2020

ARC RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS

As at

(Cdn$ millions)	**December 31, 2019**	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**8.5**	259.6
Accounts receivable (Note 6)	**134.4**	114.1
Prepaid expense	**8.9**	17.0
Risk management contracts (Note 16)	**41.4**	168.7
	193.2	559.4
Deferred consideration (Note 6)	**—**	40.0
Risk management contracts (Note 16)	**4.2**	102.1
Exploration and evaluation assets (Note 7)	**219.6**	217.1
Property, plant and equipment (Notes 8 and 10)	**5,074.3**	4,849.4
Right-of-use assets (Notes 4 and 9)	**38.8**	—
Goodwill (Note 10)	**248.2**	248.2
Total assets	**5,778.3**	6,016.2
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**150.5**	166.5
Current portion of lease obligations (Notes 4 and 12)	**16.3**	—
Current portion of long-term debt (Note 13)	**148.9**	80.5
Current portion of asset retirement obligation (Note 14)	**25.5**	19.5
Dividends payable (Note 18)	**17.7**	17.7
Risk management contracts (Note 16)	**6.1**	0.3
	365.0	284.5
Risk management contracts (Note 16)	**28.7**	4.3
Long-term portion of lease obligations (Notes 4 and 12)	**29.9**	—
Long-term debt (Note 13)	**728.7**	828.7
Long-term incentive compensation liability (Note 20)	**24.5**	12.4
Other deferred liabilities	**5.1**	10.1
Asset retirement obligation (Note 14)	**384.1**	337.2
Deferred taxes (Note 17)	**772.4**	863.2
Total liabilities	**2,338.4**	2,340.4
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 18)	**4,658.3**	4,658.5
Contributed surplus	**32.2**	27.2
Deficit	**(1,250.6)**	(1,009.9)
Total shareholders' equity	**3,439.9**	3,675.8
Total liabilities and shareholders' equity	**5,778.3**	6,016.2
Commitments and contingencies (Note 21)		

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Harold N. Kvisle
Chair of the Board of Directors and Director

Kathleen O'Neill

Kathleen M. O'Neill
Chair of the Audit Committee and Director

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31

(Cdn$ millions, except per share amounts)	2019	2018
Commodity sales from production (Note 19)	**1,189.5**	1,362.2
Royalties	**(70.5)**	(115.7)
Sales of commodities purchased from third parties	**95.0**	143.0
Revenue from commodity sales	**1,214.0**	1,389.5
Interest income	**4.8**	8.5
Other income	**8.3**	6.4
Gain (loss) on risk management contracts (Note 16)	**(175.9)**	94.8
Total revenue, interest and other income and gain (loss) on risk management contracts	**1,051.2**	1,499.2
Commodities purchased from third parties	**95.5**	143.9
Operating	**252.5**	288.5
Transportation	**149.4**	128.8
Exploration and evaluation	**—**	15.7
General and administrative	**84.2**	69.5
Interest and financing [(1)]	**48.3**	53.9
Impairment of financial assets (Note 6)	**47.8**	—
Depletion, depreciation, amortization and impairment (Notes 8, 9 and 10)	**539.2**	494.7
Loss (gain) on foreign exchange	**(35.5)**	63.8
Gain on sale of reclamation fund	**—**	(0.9)
Gain on disposal of petroleum and natural gas properties	**(1.7)**	(80.5)
Total expenses	**1,179.7**	1,177.4
Net income (loss) before income taxes	**(128.5)**	321.8
Provision for (recovery of) income taxes (Note 17)		
Current	**(14.0)**	48.4
Deferred	**(86.9)**	59.6
Total income taxes (recovery)	**(100.9)**	108.0
Net income (loss)	**(27.6)**	213.8
Net income (loss) per share (Note 18)		
Basic	**(0.08)**	0.60
Diluted	**(0.08)**	0.60

(1) Interest and financing was previously presented separately as Interest and financing charges and Accretion of asset retirement obligation in the audited consolidated statements of income for the year ended December 31, 2018.

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31

(Cdn$ millions)	**2019**	2018
Net income (loss)	**(27.6)**	213.8
Other comprehensive income		
Net unrealized gain on reclamation fund assets, net of tax	**—**	0.9
Realized gain on reclamation fund reclassified into earnings, net of tax	**—**	(0.8)
Other comprehensive income	**—**	0.1
Comprehensive income (loss)	**(27.6)**	213.9

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

(Cdn$ millions)	Shareholders' Capital (Note 18)	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
December 31, 2017	4,658.5	21.9	(1,011.4)	(0.1)	3,668.9
Total comprehensive income	—	—	213.8	0.1	213.9
Recognized under share-based compensation plans (Note 20)	—	5.3	—	—	5.3
Dividends declared (Note 18)	—	—	(212.3)	—	(212.3)
December 31, 2018	4,658.5	27.2	(1,009.9)	—	3,675.8
Impact of change in accounting policy (Note 4)	—	—	(0.7)	—	(0.7)
January 1, 2019	4,658.5	27.2	(1,010.6)	—	3,675.1
Total comprehensive loss	**—**	**—**	**(27.6)**	**—**	**(27.6)**
Recognized under share-based compensation plans (Note 20)	**(0.2)**	**5.0**	**—**	**—**	**4.8**
Dividends declared (Note 18)	**—**	**—**	**(212.4)**	**—**	**(212.4)**
December 31, 2019	**4,658.3**	**32.2**	**(1,250.6)**	**—**	**3,439.9**

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(Cdn$ millions)	**2019**	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	**(27.6)**	213.8
Add items not involving cash:		
Unrealized loss on risk management contracts	**255.4**	28.6
Accretion of asset retirement obligation (Note 14)	**7.3**	11.3
Impairment of financial assets (Note 6)	**47.8**	—
Depletion, depreciation, amortization and impairment (Notes 8, 9 and 10)	**539.2**	494.7
Exploration and evaluation	**—**	15.7
Unrealized loss (gain) on foreign exchange	**(40.3)**	73.9
Gain on disposal of petroleum and natural gas properties	**(1.7)**	(80.5)
Deferred taxes (Note 17)	**(86.9)**	59.6
Other (Note 23)	**4.2**	1.9
Net change in other liabilities (Note 23)	**(0.3)**	(20.9)
Change in non-cash working capital (Note 23)	**(58.3)**	64.7
Cash flow from operating activities	**638.8**	862.8
CASH FLOW USED IN FINANCING ACTIVITIES		
Draw of long-term debt under revolving credit facilities	**616.3**	—
Repayment of long-term debt	**(606.8)**	(76.4)
Repayment of principal relating to lease obligations (Notes 4 and 12)	**(13.7)**	—
Cash dividends paid	**(212.4)**	(212.3)
Cash flow used in financing activities	**(216.6)**	(288.7)
CASH FLOW USED IN INVESTING ACTIVITIES		
Acquisition of petroleum and natural gas properties (Note 7)	**(0.2)**	(0.2)
Disposal of petroleum and natural gas properties	**5.0**	156.1
Property, plant and equipment development expenditures (Note 8)	**(683.4)**	(619.9)
Exploration and evaluation asset expenditures (Note 7)	**(2.1)**	(60.1)
Net reclamation fund withdrawals	**—**	1.1
Disposition of reclamation fund	**—**	36.5
Change in non-cash working capital (Note 23)	**7.4**	(48.2)
Cash flow used in investing activities	**(673.3)**	(534.7)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(251.1)**	39.4
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**259.6**	220.2
CASH AND CASH EQUIVALENTS, END OF YEAR	**8.5**	259.6
The following are included in cash flow from operating activities:		
Income taxes paid in cash	**20.6**	14.6
Interest paid in cash	**42.9**	42.7

See accompanying notes to the consolidated financial statements.

1. STRUCTURE OF THE BUSINESS

The principal undertakings of ARC Resources Ltd. and any subsidiaries (collectively, "ARC" or the “Company”) are to carry on the business of acquiring, developing, and holding interests in petroleum and natural gas properties and assets.

ARC was incorporated in Alberta, Canada and the Company’s registered office and principal place of business is located at 1200, 308 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0H7. ARC's common shares are traded on the Toronto Stock Exchange under the symbol ARX.

2. BASIS OF PREPARATION

These consolidated financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board up to February 6, 2020. All financial information is reported in millions of Canadian dollars ("Cdn$"), unless otherwise noted. References to “US$” are to United States dollars.

The financial statements have been prepared on a historical cost basis, except for ARC's risk management contracts which are presented at fair value, as detailed in the accounting policies disclosed in Note 3 "Summary of Accounting Policies" and Note 4 "Changes in Accounting Policies".

All inter-entity transactions have been eliminated upon consolidation between ARC and any subsidiaries in these financial statements. ARC's operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

The preparation of financial statements requires Management to use judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the financial statements are detailed in Note 5 " Management Judgments and Estimation Uncertainty".

These financial statements were authorized for issue by ARC's Board of Directors on February 6, 2020.

3. SUMMARY OF ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and similar type instruments with an original maturity of three months or less at the time of purchase.

Financial Instruments

Classification and Measurement of Financial Instruments
ARC's financial assets and financial liabilities are classified into two categories: Amortized Cost and Fair Value through Profit and Loss (“FVTPL”). The classification of financial assets is determined by their context in ARC’s business model and by the characteristics of the financial asset’s contractual cash flows. ARC does not classify any of its financial instruments as Fair Value through Other Comprehensive Income.

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price, unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument’s classification.

- *Amortized Cost*
  Cash and cash equivalents, accounts receivable, deferred consideration, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

- *FVTPL*
  Risk management contracts, all of which are derivatives, are measured initially at FVTPL and are subsequently measured at fair value with changes in fair value immediately charged to the consolidated statements of income (the "statements of income").

Impairment of Financial Assets
Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Accounts receivable are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable. Deferred consideration is measured based on an initial recognition of the 12-month ECL and if credit risk increases significantly since initial recognition, a further lifetime ECL is required to be recognized. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection.

The ECL pertaining to accounts receivable and deferred consideration is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to ARC and the cash flows the Company expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, evidence of a debtor’s present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will, or has entered bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized as Impairment of financial assets in the statements of income.

Based on industry experience, the Company considers its commodity sales and joint interest accounts receivable to be in default when the receivable is more than 90 days past due. Based on contractual terms and conditions, the Company considers its deferred consideration to be in default when the counterparty fails to make contractual payments as required. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, ARC derecognizes the gross carrying amount of the financial asset and the associated allowance from the consolidated balance sheets (the "balance sheets").

Derecognition of Financial Liabilities
If an amendment to a contract or agreement comprises a substantial modification, ARC will derecognize the existing financial liability and recognize a new financial liability, with the difference recognized as a gain or loss in the statements of income. To determine whether a modification is substantial, ARC performs a quantitative and qualitative test. Quantitatively, if the present value of the cash flows under the new terms is at least 10 per cent different than the remaining cash flows of the original liability, the modification is deemed to be substantial. Qualitatively, the change is evaluated based on its impact to the economic risk associated with the liability and would be specific to the contract.

If the modification results in the derecognition of a liability any associated fees are recognized as part of the gain or loss. If the modification is not deemed to be substantial, any associated fees adjust the liability's carrying amount and are amortized over the remaining term.

Exploration and Evaluation (“E&E”) Assets

E&E costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the assignment of a sufficient amount of economically recoverable reserves relative to the estimated potential resources available and available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, and the estimate of any related asset retirement costs. Costs incurred prior to obtaining the legal right to explore are expensed as incurred. Assets classified as E&E may have sales of petroleum products associated with production from test wells. These operating results are recognized in the statements of income. A depletion charge, recognized as E&E expense, is recognized on these wells using a unit-of-production method based on:

(a) Total estimated proved plus probable reserves calculated in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101");
(b) Total capitalized cost plus estimated future development costs of proved plus probable reserves, including future estimated asset retirement costs, excluding costs of any associated undeveloped land; and

(c) Relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Non-producing assets classified as E&E are not depleted.

When a project classified as E&E is determined to be technically feasible and commercially viable, the relevant cost is transferred from E&E to Property, Plant and Equipment ("PP&E") on the balance sheets. The relevant assets are assessed for impairment prior to any such transfer, by comparing the carrying amount to the greater of the relevant assets' fair value less costs of disposal or value in use. If a decision is made by Management not to continue an E&E project, all associated costs are charged to the statements of income in E&E expense at that time.

Property, Plant and Equipment

Items of PP&E, which include oil and gas development and production assets and corporate assets, are measured at cost less accumulated depletion, depreciation and amortization ("DD&A") and accumulated impairment charges.

Lease Arrangements

When ARC is party to a lease arrangement as the lessee, it recognizes a right-of-use asset ("ROU asset") and a corresponding lease obligation on the balance sheets on the date that a leased asset becomes available for use. Interest associated with the lease obligation is recognized over the lease period with a corresponding increase to the underlying lease obligation. ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on ROU assets is recognized in DD&A and impairment. Where appropriate, depreciation charges to ROU assets may be capitalized as additions to either E&E or PP&E.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include: fixed lease payments, variable lease payments based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if ARC is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

In cases where the leased asset is used in the Company's jointly controlled operations, ARC, as the operator, is the obligor to the lessor and presents the full amount of the lease obligation and ROU asset at the commencement date of the lease. Certain payments relating to the Company's lease obligation may be recovered over time in accordance with billings for each partner's proportionate interest in the joint operation and are recognized in Other income.

Short-term leases and leases of low-value assets are not recognized on the balance sheets and lease payments are instead recognized in the financial statements as incurred. For certain classes of leases, ARC does not separate lease and non-lease components, accounting for these leases as a single lease component.

When ARC acts as a lessor, it determines at the inception of each lease whether it is a finance lease or an operating lease. The classification is dependent on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset; if this is the case, then the lease is a finance lease. When ARC acts as an intermediate lessor, ARC's interest in the head lease is accounted for separately from the sub-lease. ARC assesses the sub-lease classification as a finance or an operating lease with reference to the ROU asset arising from the head lease, rather than the underlying asset. ARC's lessor arrangements are classified as operating leases and lease payments received are recognized in Other income.

Goodwill

ARC recognizes goodwill relating to a business combination when the total purchase price exceeds the fair value of the identifiable assets and liabilities of the acquired business. Goodwill is stated at cost less any accumulated impairment charges.

Capitalization of Exploration and Development Costs

ARC capitalizes all costs that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by Management. These costs include certain overhead charges including cash and share-based compensation paid to ARC personnel dedicated to capital projects.

Impairment of Non-Financial Assets

PP&E

ARC's PP&E is grouped into cash generating units ("CGUs") for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company. Geological formation, product type, geographic location, and internal management are key factors considered when grouping ARC's petroleum and natural gas assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment and, in the case of previously impaired CGUs, reversal of impairment. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount, defined as the greater of a CGU's fair value less costs of disposal and its value in use. Any excess of carrying value over the recoverable amount is recognized in the statements of income as DD&A and impairment.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated DD&A, if no impairment charge had been recognized. A reversal of impairment of PP&E is recognized in the statements of income as DD&A and impairment.

E&E

E&E assets are assessed for impairment at the operating segment level and are reviewed at each reporting date for indicators of potential impairment, or in the case of previously impaired E&E assets, reversal of impairment. An impairment charge on E&E assets is recognized if the carrying value of the E&E assets exceeds the recoverable amount. Impairment of E&E assets is recognized in the statements of income as E&E expense.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant E&E asset is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated DD&A, if no impairment charge had been recognized. A reversal of impairment of E&E assets is recognized in the statements of income as E&E expense.

Goodwill

Goodwill is assessed for impairment at the operating segment level. Goodwill has not been attributed to individual CGUs as ARC believes the goodwill it has acquired enhances the value of all of its pre-existing CGUs through enhanced operational efficiencies. Goodwill is reviewed at each reporting date for indicators of potential impairment. If such indicators exist, an impairment test is performed. Additionally, goodwill is tested for impairment annually. An impairment on goodwill is recognized if the combined carrying amount of the CGUs including goodwill exceeds the aggregate recoverable amount of the CGUs determined as the greater of the combined fair value less costs of disposal and its value in use. Impairment of goodwill is recognized in the statements of income in DD&A and impairment. Once recognized, impairment of goodwill is not eligible for reversal.

Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing development or use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, Management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification. Certain events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year.

Immediately before PP&E and E&E are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying amount and recoverable amount, with any impairment charge or reversal of impairment recognized in the statements of income. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the balance sheets. Assets held for sale are not depleted, depreciated or amortized.

Dispositions

When assets are disposed, the proceeds from disposal are compared to the carrying amount of the assets held for sale. When the proceeds from disposal exceed the carrying amount, a gain on disposal is recognized separately in the statements of income.

Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured.

Depletion, Depreciation and Amortization

PP&E is organized into groups of assets with similar useful lives for the purposes of performing DD&A calculations. Depletion expense is measured using the unit-of-production method based on:

(a) total estimated proved plus probable reserves calculated in accordance with NI 51-101

(b) total capitalized costs plus estimated future development costs of proved plus probable reserves, including future estimated asset retirement costs; and

(c) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Depreciation and amortization of corporate assets is recognized on a straight-line basis over the estimated useful lives of the related assets, which range from three to 20 years.

Provisions and Contingent Liabilities

Provisions are recognized when ARC has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A provision for onerous contracts is recognized when the expected economic benefits to be derived by ARC from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost of the remaining term of the contract. Before a provision is established, ARC first recognizes any impairment charge on assets associated with the onerous contract.

A contingent liability is disclosed when ARC has a possible obligation arising from a past event and whose existence will be confirmed only by the occurence or non-occurence of one or more future events not wholly under its control, or when ARC has a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Asset Retirement Obligation ("ARO")

Provisions for decommissioning and restoration obligations associated with ARC's E&E and PP&E assets are recognized as ARO. ARO is measured at its present value at the balance sheet date, of Management's best estimate of expenditures required to settle the liability, at the end of the asset's useful life. On a periodic basis, Management reviews these estimates and changes, if any, are applied prospectively. These changes are recognized as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset. The capitalized amount in PP&E is depreciated on a unit-of-production basis over the life of the associated proved plus probable reserves. The long-term liability is increased each reporting period with the passage of time and the associated accretion charge is recognized in the statements of income. Periodic revisions to the liability-specific risk-free discount rate, estimated timing of cash flows or to the estimated undiscounted cost can also result in an increase or decrease to the ARO and the related asset. Actual costs incurred upon settlement of the obligation are recorded against the ARO to the extent of the liability recognized.

Income Taxes

Provision for (recovery of) income tax comprise current and deferred income taxes and is recognized in the statements of income, except to the extent that it relates to a business combination or items recognized directly in equity or in Other Comprehensive Income ("OCI").

Current tax is the expected tax payable on taxable income for the year, using enacted or substantively enacted tax rates at the reporting date, and any adjustment to tax payable in respect of previous years. ARC recognizes the financial statement impact of a tax filing position when it is probable that the position will be sustained upon audit. The liability is measured based on an assessment of possible outcomes and their associated probabilities. Claims made for scientific research and experimental development tax credits are offset against current tax expense.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. To estimate the fair value of its financial instruments, ARC uses quoted market prices when available, or third-party models and valuation methodologies that use observable market data. Fair value is measured using the assumptions that market participants would use, including transaction-specific details and non-performance risk. ARC's risk management contracts are carried at fair value on the balance sheets, all of which are transacted in active markets. Fair value less costs of disposal is also calculated to determine the recoverable amount of non-financial assets that are tested for impairment or reversal of impairment.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using a three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At each reporting date, ARC determines whether transfers have occurred between levels in the hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the financial statements based on the lowest level of input that is significant to the fair value measurement as a whole. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Revenue from Commodity Sales

ARC principally generates revenue from the sale of commodities, which include crude oil, natural gas, condensate and natural gas liquids ("NGLs"). Revenue associated with the sale of commodities is recognized when control is transferred from ARC to its customers. ARC's commodity sale contracts represent a series of distinct transactions. ARC considers its performance obligations to be satisfied and control to be transferred when all of the following conditions are satisfied:

- ARC has transferred title and physical possession of the commodity to the buyer;
- ARC has transferred the significant risks and rewards of ownership of the commodity to the buyer; and

- ARC has the present right to payment.

Revenue represents ARC's share of commodity sales net of royalty obligations to governments and other mineral interest owners. ARC sells its production pursuant to fixed and variable-priced contracts. The transaction price for variable-priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under these contracts, the Company is required to deliver a fixed volume of crude oil, natural gas, condensate or NGLs to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of ARC's variable revenue is considered to be constrained.

At times, ARC may purchase commodity products from third parties to fulfill sales commitments and to utilize in blending activities; ARC subsequently sells these products to its customers. These transactions are presented as separate revenue and expense items in the statements of income.

At times, ARC may exchange like commodities with other entities to facilitate ARC's sales to its customers. These non-monetary exchanges lack commercial substance and do not give rise to separate recognition of revenue and expense items in the statements of income.

Share-Based Compensation Plans

ARC's share-based compensation plans include both cash-settled awards and equity-settled awards.

Liabilities associated with cash-settled awards are determined based on the fair value of the award at grant date and are subsequently revalued at each period end. This valuation incorporates the period-end share price, dividends declared during the period, the number of awards outstanding at each period end, and certain Management estimates, such as a performance multiplier and estimated forfeiture. Compensation expense is recognized in the statements of income over the relevant service period with a corresponding increase or decrease in accrued liabilities. Classification of the associated short-term and long-term liabilities is dependent on the expected payout dates of the individual awards.

Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

Government Grants

Government grants are recognized when there is reasonable assurance that ARC will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the statements of income in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset and amortized into income on a systematic basis over the expected useful life of the underlying asset through DD&A.

Joint Arrangements

ARC may conduct its oil and gas production activities through jointly controlled operations and the financial statements reflect only ARC's proportionate interest in such activities. Joint control exists for contractual arrangements governing ARC's assets whereby ARC has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. ARC does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

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 period average rates of exchange. Translation gains and losses are included in earnings in the period in which they arise.

ARC's functional and presentation currency is Canadian dollars.

4. CHANGES IN ACCOUNTING POLICIES

IFRS 16 *Leases* ("IFRS 16")

Effective January 1, 2019, ARC adopted IFRS 16. The standard supersedes IAS 17 *Leases* ("IAS 17"), International Financial Reporting Interpretations Committee 4 *Determining whether an arrangement contains a lease*, and related interpretations. Under IAS 17, ARC determined all of its leases to be operating leases and as such there were no asset or liability values assigned to these leases on its balance sheet as at December 31, 2018.

IFRS 16 requires the recognition of an ROU asset and lease obligation on the balance sheets for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating or finance leases no longer exists, treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease. ARC is the lessee in the majority of its lease arrangements, however the Company does participate in certain lease arrangements where it acts as a lessor or intermediate lessor.

ARC elected to apply IFRS 16 using a modified retrospective approach which does not require the restatement of prior period financial information. Modified retrospective application recognizes the cumulative effect of IFRS 16 as an adjustment to opening deficit at January 1, 2019 and applies the standard prospectively. The following table details the impact of the adoption of IFRS 16 on the Company's balance sheet, as at January 1, 2019:

	Impact on Balance Sheet Item	$ millions
ROU assets	Increase	43.1
Current portion of lease obligations	Increase	(13.5)
Long-term portion of lease obligations	Increase	(44.5)
Other deferred liabilities	Decrease	10.2
Deferred taxes	Decrease	4.0
Deficit	Increase	0.7

At January 1, 2019, ARC applied the following optional expedients permitted under the standard:

- Leases whose terms end within 12 months of initial adoption have been recognized as short-term leases.
- Certain leases having similar characteristics are measured on transition as a portfolio by applying a single discount rate.
- Initial measurements of the ROU assets have excluded initial direct costs where applicable.
- At January 1, 2019, the provision for onerous contracts previously recognized was applied to the value of the associated ROU asset. In this case, no impairment assessment was performed under IAS 36 *Impairment of Assets*.
- At January 1, 2019, ARC recognized its ROU asset for the lease of its head office space having measured it as if IFRS 16 had been applied since inception, using the incremental borrowing rate at January 1, 2019. This resulted in the recognition of an ROU asset that is not equal to its corresponding lease obligation on transition.

On transition to IFRS 16 under the modified retrospective approach, lease payments were discounted using the Company's incremental borrowing rate as of January 1, 2019. ARC used a weighted average incremental borrowing rate of 3.3 per cent to measure the present value of the future lease payments on January 1, 2019.

5. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The timely preparation of financial statements in accordance with IFRS requires Management to use judgments, estimates and assumptions. These estimates and judgments are subject to change and actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingencies are discussed below.

Crude Oil and Natural Gas Reserves and Resources

There are a number of inherent uncertainties associated with estimating reserves and resources. Reserve and resource estimates are based on engineering data, estimated future prices, expected future rates of production and the timing and amount of future expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2019 and 2018, which could differ significantly from other points in time throughout the year, or future periods. Reserves and resources have been evaluated at December 31, 2019 and 2018 by ARC's independent qualified reserves evaluator.

Determination of Cash Generating Units

Determination of what constitutes a CGU is subject to Management judgment. The recoverability of development and production asset carrying values are assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

Recoverability of Asset Carrying Values

Management applies judgment in assessing the existence of indicators of impairment and reversal of impairment based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. The key estimates ARC applies in determining an acceptable range of recoverable amounts normally includes information on future commodity prices, expected production volumes, quantity of reserves and resources, future development and operating costs, discount rates, and income taxes.

In estimating the recoverable amount of a CGU, the following information is incorporated:

i) The net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by ARC’s independent reserves evaluator, adjusted for the net present value of the after-tax abandonment and reclamation costs on proved plus probable undeveloped oil and gas reserves. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years.

ii) The fair value of undeveloped land based on estimates provided by ARC’s independent land evaluator at period end.

iii) Where applicable, economic contingent resources associated with interests in certain of ARC's properties.

iv) Recent transactions completed within the industry on assets with similar geological and geographic characteristics within the relevant CGU.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

a) Reserves and resources – Assumptions that are valid at the time of reserve and resource estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and resources and may ultimately result in reserves and resources being revised.

b) Crude oil and natural gas prices – Forward price estimates of crude oil and natural gas prices are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

Depletion of Oil and Gas Assets

Depletion of oil and gas assets is determined based on total proved plus probable reserves as well as future development costs as estimated by ARC’s independent qualified reserves evaluator.

Oil and Gas Activities

The Company applies judgment when classifying the nature of oil and gas activities as E&E or PP&E, and when determining whether capitalization of the initial costs of these activities is appropriate. The Company uses historical drilling results, project economics, resource quantities, production technology expectations, production costs and future development costs to make judgments about future events and circumstances.

E&E Assets

The accounting for E&E assets requires Management to make judgments as to whether E&E activities have discovered a sufficient amount of economically recoverable reserves, which requires the quantity and realizable value of such petroleum products to be estimated. Previous estimates are sometimes revised as new information becomes available.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the petroleum products is technically feasible and commercially viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have E&E assets remain classified as such for several years while additional E&E activities are carried out or the Company seeks government, regulatory or internal approval for development plans. E&E assets are subject to ongoing Management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When Management is making this assessment, changes to project economics, expected capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions are important factors considered.

Lease Arrangements

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement, including lease term and discount rate. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations are estimated using a discount rate similar to ARC's company-specific incremental borrowing rate. This rate represents the rate that ARC would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

Provisions

The determination of provisions involves Management judgments about the probability of outcomes of future events and estimates on timing and amount of expected future cash flows.

Asset Retirement Obligations

The provision for site restoration and abandonment is based on current legal requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Fair Value of Financial Instruments

The estimated fair value of financial instruments is reliant upon a number of estimated variables including forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves and risk of non-performance. A change in any one of these factors could result in a change to the overall estimated valuation of the instrument.

Share-Based Compensation

Compensation expense accrued for Performance Share Units ("PSUs") awarded under ARC’s Performance Share Unit Plan (“PSU Plan”) is dependent on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier that is estimated by Management. Large fluctuations in compensation expense may occur due to changes in the underlying share price or revised Management estimates of relevant performance factors.

Compensation expense recognized for ARC’s Share Option Plan is based on a binomial-lattice option pricing model. The inputs to this model, including dividend yield, expected volatility, forfeitures and discount rates, rely on

Management judgment. Forfeitures are estimated through the vesting period based on past experience and future expectations, and adjusted upon actual forfeitures.

Compensation expense recognized for ARC's Long-term Restricted Share Award Plan ("LTRSA Plan") is dependent on Management's estimate of the number of restricted shares that will ultimately vest.

Income Taxes

Tax regulations and legislation are subject to change and there are differing interpretations requiring Management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires Management judgment. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods, which requires Management judgment. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the standards may result in a material increase or decrease in the Company’s provision for income taxes.

6. FINANCIAL ASSETS AND CREDIT RISK

Credit risk is the risk of financial loss to ARC if a joint interest partner or counterparty to a product sales contract, financial instrument, or other financial transaction fails to meet its contractual obligations. At December 31, 2019, ARC is exposed to credit risk with respect to its accounts receivable and risk management contracts.

Credit risk is typically considered to be very low for the Company's trade accounts receivable and risk management contracts due to ARC's processes for selecting only credit-worthy counterparties and continuously monitoring its credit exposure. Most of ARC’s accounts receivable relate to crude oil and liquids and natural gas sales and are subject to typical industry credit risks.

ARC manages its credit risk as follows:

- by entering into sales contracts with only established, credit-worthy counterparties as verified by a third-party rating agency, through internal evaluation or by requiring security such as letters of credit or parental guarantees;
- by limiting exposure to any one counterparty in accordance with ARC’s credit policy;
- by restricting cash equivalent investments and risk management transactions to counterparties that are not less than investment grade;
- by adding collateral and other credit enhancements to contractual terms related to its deferred consideration; and
- by subjecting all counterparties to regular credit reviews.

The majority of the credit exposure on accounts receivable at December 31, 2019 pertains to accrued sales revenue for December 2019 production volumes. ARC transacts with a number of crude oil and natural gas marketing companies and commodity end users ("commodity purchasers"), substantially all of which have investment-grade credit ratings. Commodity purchasers and marketing companies typically settle their obligations to ARC by the 25th day of the month following production. Joint interest receivables are typically collected within one to three months following production.

For the year ended December 31, 2019, ARC had one external customer that constituted more than 10 per cent of commodity sales from production with sales of $118.6 million. At December 31, 2018, ARC had one external customer that constituted more than 10 per cent of commodity sales from production, with sales of $141.0 million.

The following table details the composition of ARC's accounts receivable at December 31, 2019 and December 31, 2018:

Accounts Receivable Composition [1]	**December 31, 2019**	December 31, 2018
Commodity sales	**115.6**	84.9
Deferred consideration [2]	**10.0**	—
Joint interest and other	**8.8**	29.2
Balance	**134.4**	114.1

(1) Net of provision for ECL.
(2) At December 31, 2018, Deferred consideration was classified as a long-term asset.

Commodity Sales
At December 31, 2019, 85 per cent of ARC's accounts receivable were from commodity sales (74 per cent at December 31, 2018), of which approximately 85 per cent (approximately 85 per cent at December 31, 2018) were with customers who were considered to be investment-grade. At December 31, 2019 and at December 31, 2018, for accounts receivable of this type, ARC has recorded a nominal provision for its 12 month ECL.

Deferred Consideration
In May 2018, ARC entered into a purchase and sale agreement (the "ACCEL PSA") with ACCEL Canada Holdings Limited ("ACCEL") to dispose of its interests in certain non-core assets located within the area of Redwater, Alberta (the “Transaction”) for net proceeds of $130.3 million before post-closing adjustments. At closing, in August 2018, $90.3 million of the purchase price was received in cash with the remaining $40.0 million being recognized as deferred consideration.

On October 21, 2019, ACCEL filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the *Bankruptcy and Insolvency Act*. On November 22, 2019, proceedings were converted to fall under the *Companies' Creditors Arrangement Act*. As a result of these proceedings, ARC is contractually entitled to enforce its rights to payment of the deferred consideration but proceedings against ACCEL in this regard are now stayed by order of the courts.

As a result of these filings, ARC determined there was a significant increase in the credit risk associated with this counterparty and determined its lifetime ECL. At December 31, 2019, ARC estimated the likelihood of collection as a 25 per cent probability and recognized an impairment charge of $32.7 million with respect to the deferred consideration and accrued interest for the year ended December 31, 2019. The increased ECL is a result of the uncertainty as to the possible outcomes related to the insolvency proceedings involving the counterparty.

Joint Interest and Other
In addition to the deferred consideration, ARC also has recognized in its joint interest and other accounts receivable amounts owing from the same counterparty related to post-closing adjustments and cash payments made on their behalf following the transaction, and while ARC continued to act as operator of the disposed assets. At December 31, 2019, ARC estimated the likelihood of collection of these amounts as a zero per cent probability and recognized impairment charges of $15.0 million for the year ended December 31, 2019, with respect to the post-closing adjustments and cash payments due. In May 2019, ARC initiated a lawsuit against ACCEL for approximately $12.0 million for failure to pay certain of these amounts.

At December 31, 2019, for all other accounts receivable of this type ARC has recorded a nominal ECL provision (nominal at December 31, 2018). The total ECL provision recognized in ARC's accounts receivable balance at December 31, 2019 was $47.8 million (nominal at December 31, 2018).

At December 31, 2019, $10.0 million of accounts receivable are past due ($7.8 million at December 31, 2018). ARC's accounts receivable were aged as follows at December 31, 2019 and December 31, 2018:

Accounts Receivable Aging	**December 31, 2019**	December 31, 2018
Current (less than 30 days)	**122.8**	101.4
31 - 60 days	**1.0**	3.0
61 - 90 days	**0.6**	1.9
Past due (more than 90 days)	**10.0**	7.8
Balance	**134.4**	114.1

Maximum credit risk is calculated as the total recorded value, before an ECL provision, of accounts receivable, and risk management contracts at the balance sheet date. For additional information on financial instruments refer to Note 16 "Financial Instruments and Market Risk Management".

7. EXPLORATION AND EVALUATION ASSETS

Carrying Amount	
Balance at January 1, 2018	418.9
Additions	60.1
E&E expenses	(15.7)
Change in asset retirement cost	0.8
Transferred to PP&E	(247.0)
Balance, December 31, 2018	217.1
Additions	**2.1**
Acquisitions	**0.2**
Change in asset retirement cost	**0.2**
Balance, December 31, 2019	**219.6**

During the year ended December 31, 2018, ARC determined certain of its E&E assets to be technically feasible and commercially viable and transferred those assets to PP&E. An impairment test was conducted prior to the transfer, but no impairment was recognized as the recoverable amount of the asset exceeded its carrying value.

8. PROPERTY, PLANT AND EQUIPMENT

Cost	Development and Production Assets	Corporate Assets	Total
Balance, January 1, 2018	7,719.1	73.2	7,792.3
Additions	617.6	2.6	620.2
Acquisitions	0.2	—	0.2
Change in asset retirement cost	(37.8)	—	(37.8)
Assets reclassified as held for sale and disposed in period	(84.7)	—	(84.7)
Transferred from E&E	247.0	—	247.0
Other	0.2	—	0.2
Balance, December 31, 2018	8,461.6	75.8	8,537.4
Additions	**687.1**	**2.0**	**689.1**
Change in asset retirement cost	**77.6**	**—**	**77.6**
Assets reclassified as held for sale and disposed in period	**(71.6)**	**—**	**(71.6)**
Reclassification of lease payments, net of capitalized depreciation	**1.0**	**—**	**1.0**
Balance, December 31, 2019	**9,155.7**	**77.8**	**9,233.5**
Accumulated DD&A and Impairment			
Balance, January 1, 2018	(3,193.9)	(45.3)	(3,239.2)
DD&A and impairment	(504.0)	(5.9)	(509.9)
Accumulated DD&A and impairment reclassified as held for sale	60.9	—	60.9
Other	0.2	—	0.2
Balance, December 31, 2018	(3,636.8)	(51.2)	(3,688.0)
DD&A and impairment	**(517.7)**	**(6.1)**	**(523.8)**
Accumulated DD&A and impairment reclassified as held for sale and disposed in period	**52.6**	**—**	**52.6**
Balance, December 31, 2019	**(4,101.9)**	**(57.3)**	**(4,159.2)**
Carrying Amounts			
Balance, December 31, 2018	4,824.8	24.6	4,849.4
Balance, December 31, 2019	**5,053.8**	**20.5**	**5,074.3**

For the year ended December 31, 2019, $26.6 million of direct and incremental overhead charges were capitalized to PP&E ($27.6 million for the year ended December 31, 2018). Future development costs of $3.4 billion were included in the determination of DD&A for the year ended December 31, 2019 ($3.7 billion for the year ended December 31, 2018).

During the year ended December 31, 2019, ARC disposed of certain non-core assets located in Alberta and British Columbia for proceeds of $3.0 million, subject to post-closing adjustments. A gain on disposition of $1.7 million and impairment charges of $3.9 million were recognized in the statements of income for the year ended December 31, 2019. For further information regarding non-financial asset impairment, refer to Note 10 "Impairment".

During the year ended December 31, 2018, ARC disposed of certain non-core assets in Alberta and British Columbia for total net proceeds of $232.6 million, subject to post-closing adjustments. A gain on disposition of $80.5 million, a reversal of impairment of $22.8 million and impairment charges of $7.4 million were recognized in the statements of income for the year ended December 31, 2018.

9. RIGHT-OF-USE ASSETS

The following table details the cost and accumulated depreciation of ARC's ROU assets as at December 31, 2019:

	Leases		Other	
Cost	**Buildings and Land Use Rights**	**Equipment and Vehicles**	**Service Contracts** [1]	**Total**
Balance, January 1, 2019	27.6	15.5	8.2	51.3
Additions	**0.4**	**1.0**	**—**	**1.4**
Modifications	**0.2**	**—**	**—**	**0.2**
Terminations	**—**	**(0.1)**	**—**	**(0.1)**
Balance, December 31, 2019	**28.2**	**16.4**	**8.2**	**52.8**
Accumulated Depreciation				
Balance, January 1, 2019	—	—	—	—
Depreciation on ROU assets expensed	**(4.8)**	**(1.5)**	**(1.3)**	**(7.6)**
Depreciation on ROU assets capitalized to PP&E	**—**	**(6.4)**	**—**	**(6.4)**
Balance, December 31, 2019	**(4.8)**	**(7.9)**	**(1.3)**	**(14.0)**
Carrying Amounts				
Balance, January 1, 2019	27.6	15.5	8.2	51.3
Balance, December 31, 2019	**23.4**	**8.5**	**6.9**	**38.8**

(1) These assets were previously presented as Prepaid expense in the balance sheets for the year ended December 31, 2018.

10. IMPAIRMENT

PP&E

During the year ended December 31, 2019, an impairment test was conducted following decreases in the outlook of future natural gas prices and a reduction in market capitalization since the time of ARC's previous impairment test at December 31, 2018. The impairment test was conducted at June 30, 2019 and carried out over all its CGUs. No impairment was recognized as the estimated recoverable amount of each CGU exceeded its respective carrying value.

The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by ARC’s independent reserves evaluator at December 31, 2018, updated using forward commodity price estimates at July 1, 2019 provided by ARC's independent reserves evaluator and adjusted for the net present value of the after-tax abandonment and reclamation costs on properties without proved plus probable oil and gas reserves, as well as the fair value of undeveloped land based on estimates provided by ARC’s independent land evaluator at December 31, 2018. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted average cost of capital ranging from 9.5 to 10.5 per cent, depending on the resource composition of the assets in the CGU and an inflation rate of two per cent.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's CGUs at June 30, 2019:

Year	Edmonton Light Crude Oil (Cdn$/bbl) [(1)]	WTI Oil (US$/bbl) [(1)]	AECO Gas (Cdn$/MMBtu) [(1)]	NYMEX Henry Hub Gas (US$/MMBtu) [(1)]	Cdn$/US$ Exchange Rates [(1)]
2019	68.09	58.75	1.33	2.53	0.76
2020	72.08	62.50	1.90	2.80	0.77
2021	74.05	65.00	2.15	2.95	0.79
2022	76.88	67.50	2.40	3.10	0.80
2023	80.63	70.00	2.55	3.20	0.80
2024	83.75	72.50	2.75	3.30	0.80
2025	86.88	75.00	2.85	3.38	0.80
2026	90.00	77.50	2.95	3.45	0.80
2027	92.71	79.67	3.04	3.52	0.80
2028	94.71	81.27	3.11	3.58	0.80
Remainder	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.80

(1) Source: GLJ Petroleum Consultants price forecast effective July 1, 2019.

The following table demonstrates the sensitivity of the estimated recoverable amount at June 30, 2019, the date of ARC's last impairment test, from reasonably possible changes in key assumptions inherent in the estimate.

	Increase in Discount Rate of 1 Per Cent	Decrease in Discount Rate of 1 Per Cent	Decrease in Cash Flow Estimates of 5 Per Cent	Increase in Cash Flow Estimates of 5 Per Cent
Reversal of impairment (impairment), (net of tax)	(55.1)	58.5	(61.5)	58.4

The fair value less costs of disposal values used to determine the recoverable amounts of ARC's CGUs at June 30, 2019 were classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, Management's best estimates. Refer to Note 3 "Summary of Accounting Policies" for information on fair value hierarchy classifications.

The results of the impairment and impairment reversal tests performed are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development capital expenditures, or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or reversal of impairment charges.

Goodwill

At December 31, 2019 and 2018, ARC conducted an impairment test of its goodwill. The carrying value of goodwill at December 31, 2019 and 2018 was not determined to be impaired as the combined recoverable amount of ARC's CGUs exceeded the combined carrying value of ARC's operating segment.

At June 30 2019, ARC conducted an impairment test of its goodwill following decreases in the outlook of future natural gas prices and a reduction in market capitalization since the time of the last impairment test at December 31, 2018. The carrying value of goodwill at June 30, 2019 was not determined to be impaired as the combined recoverable amount of ARC's CGUs exceeded the combined carrying value of ARC's operating segment.

11. FINANCIAL LIABILITIES AND LIQUIDITY RISK

Liquidity risk is the risk that ARC will not be able to meet its financial obligations as they become due. ARC actively manages its liquidity at a reasonable cost through strategies such as continuously monitoring forecast and actual cash flows from operating, financing and investing activities, available credit and working capital facilities under existing banking arrangements, and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle ARC’s financial liabilities. Refer to Note 13 "Long-

Term Debt" for further details on available amounts under existing banking arrangements and Note 15 "Capital Management" for further details on ARC's capital management objectives and policies.

The following tables detail the undiscounted cash flows and contractual maturities of ARC's financial liabilities as at December 31, 2019 and 2018:

As at December 31, 2019	**Undiscounted Cash Flows** (1)	**1 Year**	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**
Accounts payable and accrued liabilities (2)	**131.1**	**131.1**	**—**	**—**	**—**
Dividends payable	**17.7**	**17.7**	**—**	**—**	**—**
Risk management contracts (3)	**34.8**	**6.1**	**28.7**	**—**	**—**
Lease obligations	**52.1**	**9.5**	**34.2**	**2.6**	**5.8**
Long-term debt	**877.6**	**148.9**	**402.2**	**249.4**	**77.1**
Interest payments	**98.4**	**31.2**	**42.8**	**20.1**	**4.3**
Total financial liabilities	**1,211.7**	**344.5**	**507.9**	**272.1**	**87.2**

As at December 31, 2018	Undiscounted Cash Flows (1)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years
Accounts payable and accrued liabilities (2)	150.2	150.2	—	—	—
Dividends payable	17.7	17.7	—	—	—
Risk management contracts (3)	4.6	0.3	4.3	—	—
Long-term debt	909.2	80.5	313.5	302.5	212.7
Interest payments	139.9	36.6	58.5	32.2	12.6
Total financial liabilities	1,221.6	285.3	376.3	334.7	225.3

(1) The undiscounted cash flows equal the carrying value, with the exception of lease obligations.
(2) Excludes the portion of the cash obligations associated with the Restricted Share Unit ("RSU") and PSU Plans that will be settled within one year, as well as interest payable at December 31, 2019 and 2018.
(3) Risk management contracts are derivatives. All other financial liabilities contained in this table are non-derivative liabilities.

12. LEASE ARRANGEMENTS

Lease Obligations

The following table details the movement in ARC's lease obligations for the period ended December 31, 2019:

Lease Obligations	
Balance, January 1, 2019	58.0
Additions	**1.4**
Modifications	**0.2**
Terminations	**(0.1)**
Interest	**1.3**
Repayments	**(14.6)**
Balance, December 31, 2019	**46.2**
Lease obligations due within one year	16.3
Lease obligations due beyond one year	29.9

Payments recognized in the financial statements relating to short-term leases and leases of low-value assets for the year ended December 31, 2019 were $2.2 million. ARC's short-term leases and leases of low-value assets consist of leases of information technology and office equipment, and equipment used in ARC's operations. Variable lease payments not included in the calculation of ARC's lease obligations were $3.1 million for the year ended December 31, 2019 and have been recognized in General and administrative ("G&A") expense in the statements of income.

The majority of ARC's lease arrangements are effective for periods of one to nine years but may have extension options. Potential future undiscounted cash outflows of $80.5 million have not been included in the measurement of ARC's lease obligation at December 31, 2019 because it is not reasonably certain that leases will be extended.

To optimize lease costs during the contract period, ARC may provide residual value guarantees in relation to certain leases. At December 31, 2019, $2.3 million of guaranteed residual value is not expected to be payable at the end of the contract term and has been excluded from the estimated value of applicable lease obligations.

Leases are negotiated on an individual basis and contain a wide range of differing terms and conditions. The Company's lease agreements do not impose any covenants, however leased assets are not to be used as security for borrowing purposes.

Lessor Accounting
ARC acts as a lessor of equipment assets included in ARC's PP&E carrying value and also sub-leases corporate office space. These leases are accounted for as operating leases. Income from operating leases for the year ended December 31, 2019 was $3.5 million and has been recognized in Other income in the statements of income.

Joint Arrangements
At December 31, 2019, ARC does not have any lease contracts that are entered into by a joint arrangement, or on behalf of the joint arrangement.

13. LONG-TERM DEBT

	US $ Denominated		**Canadian $ Amount**	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Syndicated credit facilities				
Cdn$ denominated	**N/A**	N/A	**36.9**	—
US$ denominated	**40.0**	—	**51.9**	—
Senior notes				
Master Shelf Agreement				
4.98% US$ note	**—**	10.0	**—**	13.6
3.72% US$ note	**149.9**	150.0	**194.3**	204.7
2009 note issuance				
8.21% US$ note	**14.0**	21.0	**18.1**	28.7
2010 note issuance				
5.36% US$ note	**89.9**	120.0	**116.6**	163.7
2012 note issuance				
3.31% US$ note	**24.0**	36.0	**31.1**	49.1
3.81% US$ note	**299.7**	300.0	**388.7**	409.4
4.49% Cdn$ note	**N/A**	N/A	**40.0**	40.0
Total long-term debt outstanding	**617.5**	637.0	**877.6**	909.2
Long-term debt due within one year			**148.9**	80.5
Long-term debt due beyond one year			**728.7**	828.7

Credit Facility
ARC has a $950.0 million financial covenant-based syndicated credit facility (“the facility”). The current maturity date of the facility is December 15, 2023. ARC also has in place a $40.0 million demand working capital facility and letter of credit facilities from two lenders. Both the working capital facility and the letter of credit facilities are subject to the same covenants as the syndicated credit facility.

Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at ARC’s option, Canadian dollar bankers’ acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 25 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 125 basis points and 315 basis points on Canadian dollar bankers’ acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 25 to 63 basis points.

Senior Note Issued Under a Master Shelf Agreement
The terms and rates are summarized below:

Issue Date	Remaining Principal	Coupon Rate	Maturity Date	Principal Payment Terms
September 25, 2014	US$150 million	3.72%	September 25, 2026	Five equal installments beginning September 25, 2022

Senior Notes Not Subject to the Master Shelf Agreement
The senior notes not subject to the Master Shelf Agreement were issued by way of private placements. The terms and rates are summarized below:

Issue Date	Remaining Principal	Coupon Rate	Maturity Date	Principal Payment Terms
April 14, 2009	US$14 million	8.21%	April 14, 2021	Five equal installments beginning April 14, 2017
May 27, 2010	US$90 million	5.36%	May 27, 2022	Five equal installments beginning May 27, 2018
August 23, 2012	US$24 million	3.31%	August 23, 2021	Five equal installments beginning August 23, 2017
August 23, 2012	US$300 million	3.81%	August 23, 2024	Five equal installments beginning August 23, 2020
August 23, 2012	Cdn$40 million	4.49%	August 23, 2024	Five equal installments beginning August 23, 2020

Credit Capacity
The following table summarizes ARC's available credit capacity and the current amounts drawn as at December 31, 2019:

	Credit Capacity	Drawn	Remaining
Syndicated credit facility	950.0	89.3	860.7
Working capital facility	40.0	—	40.0
Senior note subject to a Master Shelf Agreement	486.2	194.5	291.7
Senior notes not subject to a Master Shelf Agreement	594.9	594.9	—
Total	2,071.1	878.7	1,192.4

During the year ended December 31, 2019, ARC executed a new Master Shelf Agreement, increasing ARC's debt capacity by US$375 million (Cdn$501 million). At December 31, 2019, ARC's total debt capacity is $2,071.1 million ($1,899.2 million as at December 31, 2018).

Debt Covenants
The following are the financial covenants governing the revolving credit facilities and the Master Shelf Agreement, all capitalized terms are as defined in the respective agreements:

- Consolidated Senior Debt not to exceed 3.5 times Consolidated EBITDA;
- Consolidated Total Debt not to exceed 4.0 times Consolidated EBITDA;
- Consolidated Senior Debt not to exceed 55 per cent of Total Capitalization; and
- Consolidated Tangible Assets of the Restricted Group must exceed 85 per cent of Consolidated Tangible Assets.

During the year ended December 31, 2019, ARC executed certain amendments to the note purchase agreements governing its senior notes. The amendments include additional language that modernize the agreements to align with current legislation as well as a modification of certain covenant calculations. The amendments have not been determined to comprise substantial modifications as they have not materially changed the future cash outflows of the senior notes at the time of execution.

The following are the covenants governing ARC's other senior notes, all capitalized terms are as defined in the respective agreements:

- Total Indebtedness not to exceed 325 per cent total EBITDA for the most recently completed period of four consecutive quarters;
- Total EBITDA not to be less than 400 per cent of Total Interest Charges for the most recently completed period of four consecutive quarters;
- Total Priority Indebtedness not to exceed two per cent of Total Assets; and
- Total Indebtedness not to exceed 65 per cent of Present Asset Value.

As at December 31, 2019, ARC had $12.8 million in letters of credit ($20.0 million at December 31, 2018), no subordinated debt, and was in compliance with all covenants.

At December 31, 2019, the fair value of all long-term debt is $908.6 million ($881.7 million as at December 31, 2018), compared to a carrying value of $877.6 million ($909.2 million as at December 31, 2018).

14. ASSET RETIREMENT OBLIGATION

The total ARO was estimated by Management based on ARC's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. ARC has estimated the net present value of its total ARO to be $409.6 million as at December 31, 2019 ($356.7 million at December 31, 2018) based on a total future undiscounted liability of $856.5 million ($872.7 million at December 31, 2018). Management estimates that these payments are expected to be made over the next 67 years with the majority of payments being made in years 2069 to 2086. The Bank of Canada's long-term risk-free bond rate of 1.8 per cent (2.2 per cent at December 31, 2018) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2018) were used to calculate the present value of ARO at December 31, 2019.

The following table reconciles ARC's provision for its ARO:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance, beginning of year	356.7	402.8
Development activities	**4.6**	5.1
Change in estimates (1)	**13.5**	(57.1)
Change in discount rate	**59.5**	14.6
Settlement of obligations	**(18.4)**	(15.8)
Accretion	**7.3**	11.3
Acquisitions	**0.2**	0.4
Dispositions	**—**	(0.3)
Reclassified as liabilities associated with assets held for sale and disposed in period	**(13.8)**	(4.3)
Balance, end of year	**409.6**	356.7
Expected to be incurred within one year	**25.5**	19.5
Expected to be incurred beyond one year	**384.1**	337.2

(1) Relates to changes in costs of future obligations and anticipated settlement dates of ARO.

15. CAPITAL MANAGEMENT

ARC actively manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. ARC has the ability to change its capital structure by issuing new shares, new debt or changing its dividend policy.

ARC's objective when managing its capital is to maintain a conservative structure that will allow it to:

- fund its development and exploration programs;
- provide financial flexibility to execute on strategic opportunities; and
- maintain a dividend policy that is sustainable.

ARC manages its capital through:

- common shares and
- net debt.

When evaluating ARC's capital structure, Management's long-term strategy is to keep its net debt balance to a ratio of between 1.0 and 1.5 times annualized funds from operations. At December 31, 2019, ARC's net debt was 1.3 times its funds from operations.

Funds from Operations

ARC considers funds from operations to be a key measure of operating performance as it demonstrates ARC's ability to generate the necessary funds to maintain production at current levels, fund future growth through capital investment, and to repay debt. Management believes that such a measure provides an insightful assessment of ARC's operations on a continuing basis by eliminating certain non-cash charges and actual settlements of ARO, the timing of which is discretionary. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

Funds from operations for the years ended December 31, 2019 and 2018 is calculated as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Cash flow from operating activities	**638.8**	862.8
Net change in other liabilities (Note 23)	**0.3**	20.9
Change in non-cash operating working capital (Note 23)	**58.3**	(64.7)
Funds from operations	**697.4**	819.0

Net Debt

Net debt is used by Management as a key measure to assess the Company's liquidity. Net debt is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

The following table details the composition of ARC's net debt as at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Long-term debt (1)	**877.6**	909.2
Lease obligations (2)	**46.2**	—
Accounts payable and accrued liabilities	**150.5**	166.5
Dividends payable	**17.7**	17.7
Cash and cash equivalents, accounts receivable, and prepaid expense	**(151.8)**	(390.7)
Net debt	**940.2**	702.7
Net debt to funds from operations (ratio)	**1.3**	0.9

(1) Includes Current portion of long-term debt at December 31, 2019 and 2018 of $148.9 million and $80.5 million, respectively.
(2) Includes Current portion of lease obligations at December 31, 2019 of $16.3 million. Lease obligations were added to net debt effective January 1, 2019, in conjunction with the adoption of IFRS 16.

16. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instruments

At December 31, 2019, ARC's financial instruments include cash and cash equivalents, accounts receivable, risk management contracts, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt.

ARC's financial instruments that are carried at fair value on the balance sheets include cash and cash equivalents and risk management contracts. All of ARC's financial instruments carried at fair value are transacted in active markets.

ARC's cash and cash equivalents are classified as Level 1 measurements and its risk management contracts and fair value disclosure for its long-term debt are classified as Level 2 measurements in the three-level fair value measurement hierarchy. The fair value of ARC's long-term debt is disclosed in Note 13 "Long-Term Debt". ARC does not have any financial instruments classified as Level 3 that are carried at fair value. There were no transfers between levels in the fair value hierarchy for the year ended December 31, 2019.

The carrying values of ARC's accounts receivable, accounts payable and accrued liabilities, and dividends payable as at December 31, 2019 approximate their fair values due to the short-term nature of these instruments.

Financial Assets and Financial Liabilities Subject to Offsetting

The following is a summary of ARC's financial assets and financial liabilities that are subject to offsetting as at December 31, 2019 and December 31, 2018:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset on Balance Sheet	Net Amounts of Financial Assets (Liabilities) Recognized on Balance Sheet Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amounts of Financial Assets (Liabilities) Recognized on Balance Sheet
As at December 31, 2019					
Risk management contracts					
Current asset	**71.9**	**(30.3)**	**41.6**	**(0.2)**	**41.4**
Long-term asset	**21.9**	**(17.7)**	**4.2**	**—**	**4.2**
Current liability	**(36.6)**	**30.3**	**(6.3)**	**0.2**	**(6.1)**
Long-term liability	**(47.4)**	**17.7**	**(29.7)**	**1.0**	**(28.7)**
Net position	**9.8**	**—**	**9.8**	**1.0**	**10.8**
As at December 31, 2018					
Risk management contracts					
Current asset	191.1	(21.1)	170.0	(1.3)	168.7
Long-term asset	124.8	(22.0)	102.8	(0.7)	102.1
Current liability	(21.4)	21.1	(0.3)	—	(0.3)
Long-term liability	(26.5)	22.0	(4.5)	0.2	(4.3)
Net position	268.0	—	268.0	(1.8)	266.2

Market Risk Management

ARC is exposed to a number of market risks that are part of its normal course of business. Market risks that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk, interest rate risk, and foreign exchange risk. ARC has a risk management program in place that includes financial instruments as disclosed in the Risk Management Contracts section of this note.

ARC's Management oversees the Company's risk management program and the program is governed by certain guidelines approved by the Risk Committee of ARC's Board of Directors ("the Board"). The objective of the risk management program is to support ARC's business plan by mitigating adverse changes in commodity prices, interest rates and foreign exchange rates in order to reduce the volatility of commodity sales, increase the certainty of cash flows from operating activities, and to protect acquisition and development economics. All risk management contracts are executed by specialist teams that have the appropriate skills, experience and supervision.

ARC has prepared sensitivity analyses in an attempt to demonstrate the hypothetical effect of changes in these market risk factors on ARC's net income (loss). For the purposes of the sensitivity analyses, the effect of a variation in a particular variable is calculated independently of any change in another variable. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis are based on Management's assessment of reasonably possible changes that could occur at December 31, 2019. The results of the sensitivity analyses should not be considered to be predictive of future performance.

Commodity Price Risk

ARC's operational results and financial condition are largely dependent on the commodity prices received for its crude oil and natural gas production. Commodity prices have fluctuated widely during recent years due to global and regional factors including supply and demand fundamentals, regional egress constraints, inventory levels, weather, economic, and geopolitical factors. Movement in commodity prices could have a significant positive or negative impact on ARC's net income (loss).

The guidelines for ARC's risk management program currently restrict the amount of risk management contracts to a maximum of 60 per cent of production guidance over the next two years and 30 per cent of production guidance beyond two years and up to five years where a specific commodity (crude oil or natural gas) cannot exceed a maximum of 70 per cent over the next two years and 35 per cent for years three through five. ARC's risk management program guidelines allow for further risk management contracts on anticipated volumes associated with new production arising from specific capital projects and acquisitions or to further protect cash flows for a specific period with approval of the Board.

ARC manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts (see Risk Management Contracts section below). The following table illustrates the effects of movement in commodity prices on net income (loss) due to changes in the fair value of risk management contracts in place at December 31, 2019.

Sensitivity of Commodity Price Risk Management Contracts	Increase in Commodity Price				Decrease in Commodity Price			
	Crude Oil (1)		Natural Gas (2)		Crude Oil (1)		Natural Gas (2)	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Net income (loss) increase (decrease)	**(53.1)**	(57.2)	**(27.8)**	(119.3)	**41.2**	50.9	**17.3**	107.7

(1) Crude oil sensitivities are based on a US$10 per barrel increase and decrease in the price of West Texas Intermediate ("WTI").
(2) Natural gas sensitivities are based on a US$0.50 per MMBtu increase and decrease in the price of New York Mercantile Exchange ("NYMEX") natural gas.

ARC enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts, which are recognized at cost at the time of transaction.

Interest Rate Risk
ARC may manage its interest cost using a mix of both fixed and variable interest rates on its debt. Changes in interest rates could result in an increase or decrease in the amount ARC pays to service variable interest rate debt. At December 31, 2019, ARC is exposed to interest rate risk with respect to renewals of various debt instruments under its credit facility. If interest rates were to increase or decrease 50 basis points, the impact on interest expense in the statements of income would be $0.2 million. At December 31, 2018, ARC did not hold any variable interest rate debt.

Foreign Exchange Risk
North American crude oil and natural gas prices are based upon US dollar-denominated commodity prices. As a result, the price received by Canadian producers is affected by the Cdn$/US$ foreign exchange rate that may fluctuate over time. In addition, ARC has US dollar-denominated debt and interest obligations of which future cash repayments are directly impacted by the exchange rate in effect on the repayment date.

The following table demonstrates the effect of exchange rate movements on net income (loss) due to changes in the fair value of risk management contracts in place at December 31, 2019 as well as the unrealized gain or loss on revaluation of outstanding US dollar-denominated debt. The sensitivity is based on a $0.10 increase and decrease in the Cdn$/US$ foreign exchange rate.

Sensitivity of Foreign Exchange Exposure	Increase in Cdn$/US$ rate		Decrease in Cdn$/US$ rate	
	2019	2018	**2018**	2017
Risk management contracts	**(10.2)**	(9.2)	**(0.2)**	1.7
US dollar-denominated debt	**(43.1)**	(46.5)	**43.1**	46.5
Net income (loss) increase (decrease)	**(53.3)**	(55.7)	**42.9**	48.2

Increases and decreases in foreign exchange rates applicable to US dollar-denominated payables and receivables would have a nominal impact on ARC's net income (loss) for the year ended December 31, 2019.

Risk Management Contracts

The following table summarizes ARC's risk management contracts as at December 31, 2019:

Risk Management Contracts Positions Summary [1]

As at December 31, 2019	2020		2021		2022		2023		2024	
Crude Oil – WTI	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	61.59	6,500	61.92	5,500	—	—	—	—	—	—
Floor	54.23	6,500	54.64	5,500	—	—	—	—	—	—
Sold Floor	41.92	6,500	44.09	5,500	—	—	—	—	—	—
Swap	59.09	2,000	—	—	—	—	—	—	—	—
Sold Swaption [2]	—	—	60.03	2,000	—	—	—	—	—	—
Crude Oil – Cdn$ WTI [3]	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day
Ceiling	86.38	6,500	—	—	—	—	—	—	—	—
Floor	75.38	6,500	—	—	—	—	—	—	—	—
Sold Floor	60.38	6,500	—	—	—	—	—	—	—	—
Swap	—	—	—	—	—	—	—	—	—	—
Total Crude Oil Volumes (bbl/day)		**15,000**		**5,500**		**—**		**—**		**—**
Crude Oil – MSW (Differential to WTI) [4]	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	(7.00)	1,000	—	—	—	—	—	—	—	—
Floor	(10.20)	1,000	—	—	—	—	—	—	—	—
Swap	(8.31)	7,000	—	—	—	—	—	—	—	—
Natural Gas – NYMEX Henry Hub [5]	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Ceiling	3.05	105,000	3.32	50,000	3.43	25,000	—	—	—	—
Floor	2.62	105,000	2.75	50,000	2.66	25,000	—	—	—	—
Sold Floor	2.21	105,000	2.25	50,000	2.25	25,000	—	—	—	—
Swap	—	—	—	—	—	—	—	—	—	—
Natural Gas – AECO [6]	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day
Ceiling	3.60	30,000	—	—	—	—	—	—	—	—
Floor	3.08	30,000	—	—	—	—	—	—	—	—
Swap	3.35	22,541	2.00	10,000	—	—	—	—	—	—
Sold Swaption [2]	—	—	—	—	2.00	10,000	—	—	—	—
Total Natural Gas Volumes (MMBtu/day)		**154,799**		**59,478**		**25,000**		**—**		**—**
Natural Gas – AECO Basis (Differential to Henry Hub)	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Sold Swap	(0.81)	74,262	(0.95)	54,192	(0.90)	20,000	(0.93)	50,000	(0.93)	50,000
Total AECO Basis Volumes (MMBtu/day)		**74,262**		**54,192**		**20,000**		**50,000**		**50,000**
Natural Gas - Other Basis (Differential to Henry Hub) [7]		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day
Sold Swap		100,000		120,000		110,000		80,000		4,973

Foreign Exchange	Settlement Date	Notional (US$ millions)	Ceiling (Cdn$/US$)	Floor (Cdn$/US$)
Variable Rate Collar [8]	Aug 24, 2020	24	1.2771	1.3231

Interest Rate	Term	Receive Notional (US$ millions)	Fixed Rate	Pay Notional (Cdn$ millions)	Fixed Rate
Cross Currency Swap	Dec 2019 - Jan 2020	40	3.48%	52	3.14%

(1) The prices and volumes in this table represent averages for several contracts representing different periods. The average price for the portfolio of options listed above does not have the same payoff profile as the individual option contracts. Viewing the average price of a group of options is purely for indicative purposes. All positions are financially settled against the benchmark prices.
(2) The sold swaption allows the counterparty, at a specific future date, to enter into a swap with ARC at the above-detailed terms. These volumes are not included in the total commodity volumes until such time that the option is exercised.
(3) Crude oil prices referenced to WTI, multiplied by the WM/Reuters Intra-day Cdn$/US$ Foreign Exchange Spot Rate as of Noon Eastern Standard Time ("EST").
(4) MSW differential refers to the discount between WTI and the mixed sweet crude grade at Edmonton, calculated on a monthly weighted average basis in US$.
(5) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.
(6) Natural gas prices referenced to AECO 7A Monthly Index.
(7) ARC has entered into basis swaps at locations other than AECO.
(8) Variable rate collar whereby if Cdn$/US$ spot rate is below $1.2771 at expiry, the ceiling will re-adjust to $1.3058.

17. INCOME TAXES

The major components of income tax expense (recovery) for the years ended December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Current	**(14.0)**	48.4
Deferred:		
Origination and reversal of temporary differences	**(32.7)**	53.7
Adjustments for prior years	**4.5**	5.9
Changes in tax rates and legislation	**(58.7)**	—
	(86.9)	59.6
Total provision for income taxes (recovery)	**(100.9)**	108.0

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before income tax expense (recovery) as follows:

	December 31, 2019	December 31, 2018
Income (loss) before tax	**(128.5)**	321.8
Canadian statutory rate [(1)]	**26.69%**	27.00%
Expected income tax expense (recovery) at statutory rates	**(34.3)**	86.9
Effect on income tax of:		
Change in corporate tax rate	**(58.7)**	—
Non-deductible (non-taxable) portion of unrealized foreign exchange loss (gain)	**(7.7)**	8.2
Non-deductible portion of capital losses	**3.5**	1.8
Change in estimated pool balances	**(0.8)**	0.3
Change in unrecognized deferred tax asset on unrealized exchange and capital losses	**(6.1)**	9.8
Other	**3.2**	1.0
Total provision for income taxes (recovery)	**(100.9)**	108.0

(1) The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2019 and 2018. The combined federal and provincial rate decrease to 26.69 per cent in 2019 from 27.00 per cent in 2018 reflects the Alberta corporate income tax rate decrease from 12 per cent to 11 per cent effective July 1, 2019.

	December 31, 2019	December 31, 2018
Deferred tax liabilities:		
PP&E in excess of tax basis	**885.2**	894.6
Risk management contracts	**11.8**	73.1
ROU assets	**8.0**	—
Deferred tax assets:		
ARO	**(102.6)**	(96.3)
Long-term debt	**(18.7)**	(27.9)
Risk management contracts	**(9.0)**	(1.2)
Long-term incentive compensation expense	**(8.9)**	(5.1)
Lease obligations	**(11.6)**	—
Unrecognized deferred tax assets (1)	**23.7**	29.8
Other	**(5.5)**	(3.8)
Deferred taxes (2)	**772.4**	863.2

(1) The unrecognized deferred tax asset relates to an unrealized foreign exchange loss of $18.7 million and a realized capital loss of $5.0 million ($27.9 million and $1.9 million for 2018, respectively).

(2) The movement in the deferred tax liability in 2019 includes a $4.0 million deferred tax asset that was recorded as an adjustment to opening deficit at January 1, 2019 in conjunction with the adoption of IFRS 16. Refer to Note 4 "Changes in Accounting Policies" for further details.

At December 31, 2019, the petroleum and natural gas properties and facilities owned by ARC have an approximate federal tax basis of $1.8 billion ($1.8 billion at December 31, 2018) available for future use as deductions from taxable income.

The following is a summary of ARC's estimated tax pools as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Canadian oil and gas property expense	**88.8**	70.5
Canadian development expense	**787.3**	822.7
Canadian exploration expense	**17.4**	—
Undepreciated capital cost	**864.0**	857.6
Other	**22.2**	12.8
Total federal tax pools	**1,779.7**	1,763.6
Additional Alberta tax pools	**2.9**	3.8

A deferred tax asset has not been recognized with respect to a net capital loss in the amount of $20.0 million ($7.1 million in 2018), in addition to an unrealized capital loss relating to foreign exchange loss on US dollar-denominated debt in the amount of $148.8 million ($206.2 million in 2018), as it is not considered probable that the benefit of the capital loss will be realized. Recognition is dependent on the realization of future taxable capital gain.

18. SHAREHOLDERS' CAPITAL

ARC is authorized to issue an unlimited number of no par value common shares and 50 million preferred shares without nominal or par value. Common shares carry one vote per share and the right to any dividends declared. Preferred shares may be issued in series with rights and conditions to be determined by the Board prior to issuance and subject to the Company's articles. There are no preferred shares outstanding at December 31, 2019 or 2018.

(thousands of shares)	**Year Ended December 31, 2019**	Year Ended December 31, 2018
Common shares, beginning of year	353,443	353,457
Restricted shares issued pursuant to the LTRSA Plan	**284**	154
Forfeited and cancelled shares pursuant to the LTRSA Plan	**(26)**	(13)
Unvested restricted shares held in trust pursuant to the LTRSA Plan [1]	**(290)**	(155)
Common shares, end of year	**353,411**	353,443

(1) Unvested restricted shares held in trust pursuant to the LTRSA Plan includes restricted shares granted and purchased.

Net income (loss) per common share has been determined based on the following:

(thousands of shares)	**Year Ended December 31, 2019**	Year Ended December 31, 2018
Weighted average common shares	**353,411**	353,457
Dilutive impact of share-based compensation [1]	**—**	390
Weighted average common shares, diluted	**353,411**	353,847

(1) For the year ended December 31, 2019, 5.1 million share options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (4.5 million for the year ended December 31, 2018).

Dividends declared for the year ended December 31, 2019 were $0.60 per common share ($0.60 for the year ended December 31, 2018).

The Board has declared a dividend of $0.05 per common share designated as an eligible dividend, payable in cash to shareholders of record on January 31, 2020. The dividend payment date is February 14, 2020.

19. COMMODITY SALES FROM PRODUCTION

Payment terms for ARC's commodity sales contracts are on the 25th of the month following delivery. ARC does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year and therefore ARC does not adjust its revenue transactions for the time value of money.

ARC derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

Commodity Sales from Production, by Product	**Year Ended December 31, 2019**	Year Ended December 31, 2018
Crude oil	**423.8**	587.3
Condensate	**248.4**	200.8
Natural gas [1]	**483.3**	492.3
NGLs	**34.0**	81.8
Total commodity sales from production	**1,189.5**	1,362.2

(1) Includes $14.9 million of natural gas transportation revenue from contracts temporarily assigned to third parties for the year ended December 31, 2019 ($nil for the year ended December 31, 2018).

At December 31, 2019, receivables from contracts with customers, which are included in accounts receivable, were $115.6 million ($86.5 million at December 31, 2018).

ARC enters into contracts with customers that can have performance obligations that are unsatisfied, or partially unsatisfied, at the reporting date. At December 31, 2019, the Company has a number of unfulfilled performance obligations including fixed volume and index-based commodity sales contracts. These contracts have varying durations, the Company's longest individual commodity sales contract ends in October 2031.

20. SHARE-BASED COMPENSATION PLANS

RSU Plan and PSU Plan

ARC's share-based long-term incentive plans result in employees, officers and directors (the "plan participants") receiving cash compensation in relation to the value of a specified number of underlying notional share awards. The RSU and PSU Plans consists of RSUs for which the number of share awards is fixed and will vest evenly over a period of three years and PSUs for which the number of share awards is variable and will vest at the end of three years.

Upon vesting of the RSUs, the plan participant receives a cash payment based on the fair value of the underlying share awards plus all dividends accrued since the grant date. The cash compensation of the PSUs issued upon vesting is further dependent upon an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier.

In 2018, the Human Resources and Compensation Committee of the Board engaged a third party to conduct an independent review of ARC's compensation philosophy, design and programs. Following this review, certain changes were made to ARC's PSU Plan. Following the implementation of the changes and effective commencing with PSU awards granted during the year ended December 31, 2019, performance multipliers associated with PSUs will be determined using two criteria; 50 per cent of the performance multiplier will be based on ARC's relative total shareholder return performance compared to a defined peer group, and 50 per cent of the performance multiplier will be dependent on an overall assessment of achievements based on a predetermined corporate scorecard. Performance multipliers associated with PSU awards that were granted prior to 2019 will continue to be determined solely on ARC's relative total shareholder return performance.

The performance multiplier is calculated at the time of payment and can result in cash compensation issued upon vesting of the PSUs ranging from zero to two times the value of the PSUs originally granted.

Deferred Share Unit ("DSU") Plan

ARC offers a DSU Plan to non-employee directors, under which each director receives a minimum of 60 per cent of their total annual remuneration in the form of DSUs. Each DSU fully vests on the date of grant, but is distributed only when the director has ceased to be a member of the Board. Awards are settled in cash and are determined by the value of the underlying common shares.

Long-term Incentive Plans

The following table summarizes the RSU, PSU, and DSU movement for the years ended December 31, 2019 and 2018:

(number of awards, thousands)	RSUs	PSUs Granted Prior to 2019 (1)	PSUs Granted Subsequent to 2018 (1)	DSUs
Balance, January 1, 2018	780	1,912	—	481
Granted	643	1,283	—	190
Distributed	(375)	(854)	—	—
Forfeited	(106)	(71)	—	—
Balance, December 31, 2018	942	2,270	—	671
Granted (2)	**1,816**	**165**	**1,833**	**323**
Distributed	**(433)**	**(573)**	**—**	**(49)**
Forfeited	**(89)**	**(234)**	**(53)**	**—**
Balance, December 31, 2019	**2,236**	**1,628**	**1,780**	**945**

(1) Based on underlying awards before any effect of the performance multiplier.
(2) Grants for PSUs Granted Prior to 2019 relate to re-invested dividends.

Compensation charges relating to the RSU Plan, PSU Plan, and DSU Plan are reconciled as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
G&A	**21.1**	3.3
Operating	**2.4**	0.8
PP&E	**1.6**	—
Total compensation charges	**25.1**	4.1
Cash payments	**8.1**	15.6

At December 31, 2019, $11.1 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheets ($6.1 million at December 31, 2018) and $24.5 million was included in long-term incentive compensation liability ($12.4 million at December 31, 2018).

Share Option Plan

In conjunction with the above-mentioned independent third-party review, ARC has suspended its Share Option Plan. No grants were made under the Share Option Plan in 2019. Share options previously granted to officers and certain employees of ARC vest evenly on the fourth and fifth anniversary of their grant date and have a maximum term of seven years. The option holder has the right to exercise the options and purchase one common share per option at the original grant price or at a reduced exercise price, equal to the grant price less all dividends paid subsequent to the grant date and prior to the exercise date. The original grant price is calculated as the weighted average trading price of ARC common shares for the five days immediately preceding the grant date.

The changes in total share options outstanding and related weighted average exercise prices for the years ended December 31, 2019 and 2018 were as follows:

	Share Options (number of units, thousands)	**Weighted Average Exercise Price ($)**
Balance, January 1, 2018	4,893	19.47
Granted	1,483	13.21
Forfeited	(92)	19.01
Expired	(293)	19.96
Balance, December 31, 2018	5,991	17.36
Forfeited	**(199)**	**15.33**
Expired	**(695)**	**13.80**
Balance, December 31, 2019	**5,097**	**17.27**
Exercisable, December 31, 2019	**1,317**	**23.01**

The following table summarizes information regarding share options outstanding at December 31, 2019:

Range of exercise price per common share ($)	**Number of share options outstanding (thousands)**	**Weighted average exercise price per share for options outstanding ($)**	**Weighted average remaining term (years)**	**Number of share options exercisable (thousands)**	**Weighted average exercise price per share for options exercisable ($)**
12.31 - 20.00	4,180	15.61	4.2	398	18.76
20.01 - 25.00	496	21.65	0.5	496	21.65
25.01 - 28.64	421	28.64	1.5	423	28.64
Total	5,097	17.27	3.6	1,317	23.01

ARC estimates the fair value of share options granted on the date of grant using a binomial-lattice option pricing model. The following assumptions were used to arrive at the estimated fair value of the share options granted in 2018:

	Year Ended December 31, 2018
Grant date share price ($)	13.21
Exercise price ($) (1)	12.91
Expected annual dividends ($)	—
Expected volatility (%) (2)	31.00
Risk-free interest rate (%)	1.26
Expected life of share option (3)	5.5 to 6 years
Fair value per share option ($)	3.50

(1) Exercise price is reduced monthly by the amount of dividend declared.
(2) Expected volatility is determined by the average price volatility of the common shares over the expected life.
(3) Expected life of the share option is calculated as the mid-point between vesting date and expiry.

ARC recognized compensation expense of $3.6 million relating to the Share Option Plan for the year ended December 31, 2019 ($4.3 million for the year ended December 31, 2018). During the year ended December 31, 2019, $0.3 million of share option compensation charges were capitalized to PP&E ($0.3 million for the year ended December 31, 2018).

LTRSA Plan

LTRSA grants consist of restricted common shares that are awarded at the date of grant and a cash payment made equal to the estimated personal tax obligation associated with the total award. The restricted shares issued on the grant date of the award are held in trust until the vesting conditions have been met.

While in trust, the restricted shares earn cash dividends that are reinvested into the purchase of ARC common shares. These re-invested common shares issued are also held in trust until vested. Each LTRSA vests evenly on the eighth, ninth, and tenth anniversaries of their respective grant dates. Restricted shares and any accrued dividends that are subject to forfeiture will be redeemed and cancelled by ARC.

The estimated fair value of LTRSAs is determined as the weighted average trading price of ARC common shares on the TSX for the five days immediately preceding the grant date. The changes in total LTRSA outstanding and related fair value per restricted share for the years ended December 31, 2019 and 2018 were as follows:

	LTRSA (number of awards, thousands)	**Fair Value per Restricted Share ($)**
Balance, January 1, 2018	299	19.23
Restricted shares granted and purchased	168	13.03
Forfeited	(13)	19.98
Balance, December 31, 2018	454	16.91
Restricted shares granted and purchased	**314**	**6.55**
Forfeited	**(26)**	**16.26**
Balance, December 31, 2019	**742**	**12.64**

ARC recognized G&A expense of $1.8 million relating to the LTRSA Plan during the year ended December 31, 2019 ($1.5 million for the year ended December 31, 2018).

21. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2019:

	Payments Due by Period				
	1 Year	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Debt repayments [1]	148.9	402.2	249.4	77.1	877.6
Interest payments [2]	31.2	42.8	20.1	4.3	98.4
Purchase and service commitments	33.4	18.5	10.3	0.8	63.0
Transportation commitments	153.7	291.4	259.5	743.3	1,447.9
Total contractual obligations and commitments	**367.2**	**754.9**	**539.3**	**825.5**	**2,486.9**

(1) Long-term and current portion of long-term debt.
(2) Fixed interest payments on senior notes.

ARC enters into commitments for business arrangements and capital expenditures in the normal course of operations in advance of expenditures being made. At a given point in time, it is estimated that ARC has committed to capital expenditures equal to approximately one quarter of its capital budget by means of giving the necessary authorizations to incur the expenditures in a future period.

Previously ARC has disposed of certain non-core properties. The sales process involves the transfer of the operating licenses by the provincial regulator to the purchaser(s). While the Company believes the risk is low, if the licenses fail to transfer, ARC could be responsible to fund asset retirement obligations in the amount of $19.4 million, as at December 31, 2019, relating to disposed assets.

During the year ended December 31, 2018, ARC disposed of certain non-core assets to ACCEL. Refer to Note 6 "Financial Assets and Credit Risk". On October 23, 2019, ACCEL filed a counterclaim against ARC for $200.0 million for damages alleging breaches of contract or misrepresentation related to the ACCEL PSA. On January 3, 2020, ARC filed its Defence to the Counterclaim. Management does not expect the outcome of the counterclaim to result in a material outflow of resources by ARC.

ARC is involved in other litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on ARC's results of operations or cash flows.

The following table reconciles the Company's operating lease commitments disclosed at December 31, 2018 with lease obligations recognized on ARC's balance sheet at January 1, 2019. Refer to Note 4 "Changes in Accounting Policies" for further information.

Operating Lease Commitments	
As disclosed at December 31, 2018	68.3
Discounted using ARC's incremental borrowing rate of 3.3 per cent	(10.3)
Lease obligations recognized at January 1, 2019	**58.0**

22. RELATED PARTIES

Key Management Personnel Compensation

ARC has determined that the key management personnel of ARC consists of its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the RSU, PSU, DSU, LTRSA and Share Option Plans. The compensation relating to key management personnel is as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Short-term benefits	**6.4**	8.1
Share-based compensation	**15.4**	4.1
Total key management personnel compensation	**21.8**	12.2

23. SUPPLEMENTAL DISCLOSURES

Presentation in the Statements of Income

ARC's statements of income are prepared primarily by nature of item, with the exception of employee compensation expense which is included in both operating and G&A expense line items.

The following table details the amount of total employee compensation expense included in operating and G&A expense line items in the statements of income:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Operating	**35.3**	33.4
G&A	**70.7**	57.4
Total employee compensation expense	**106.0**	90.8

Cash Flow Statement Presentation

The following tables provide a detailed breakdown of certain line items contained within cash flow from operating and investing activities:

Change in Non-Cash Working Capital	**Year Ended December 31, 2019**	Year Ended December 31, 2018
Accounts receivable	**(35.1)**	18.6
Accounts payable and accrued liabilities	**(16.9)**	(3.2)
Prepaid expense	**1.1**	1.1
Total change in non-cash working capital	**(50.9)**	16.5
Relating to:		
Operating activities	**(58.3)**	64.7
Investing activities	**7.4**	(48.2)
Total change in non-cash working capital	**(50.9)**	16.5

Other Non-Cash Items	**Year Ended December 31, 2019**	Year Ended December 31, 2018
Amortization of other deferred liabilities	**(0.4)**	(2.2)
Gain on sale of reclamation fund	**—**	(0.9)
Share-based compensation expense	**4.5**	5.0
Amortization of debt issue fees	**0.1**	—
Total other non-cash items	**4.2**	1.9

Net Change in Other Liabilities	**Year Ended December 31, 2019**	Year Ended December 31, 2018
Long-term incentive compensation liability	**12.1**	(5.1)
ARO settlements	**(18.4)**	(15.8)
Other deferred liabilities	**5.7**	—
Accrued lease interest	**0.3**	—
Total net change in other liabilities	**(0.3)**	(20.9)

The following table provides a detailed breakdown of the cash and non-cash changes in financing liabilities arising from financing activities:

Financing Liabilities	**Current Financial Liabilities**	**Long-Term Financial Liabilities**	**Total Financial Liabilities from Financing Activities**
Balance, January 1, 2018	73.9	837.4	911.3
Cash flows	(76.4)	—	(76.4)
Reclassified to current	76.4	(76.4)	—
Unrealized foreign exchange loss	6.6	67.7	74.3
Balance, December 31, 2018	80.5	828.7	909.2
Impact of change in accounting policy (Note 4)	13.5	44.5	58.0
Balance, January 1, 2019	94.0	873.2	967.2
Cash flows			
Draw of long-term debt	**—**	**616.3**	**616.3**
Repayment of long-term debt	**(79.6)**	**(527.2)**	**(606.8)**
Repayment of lease obligations	**(13.7)**	**—**	**(13.7)**
Reclassified to current			
Long-term debt	**153.7**	**(153.7)**	**—**
Lease obligations	**16.1**	**(16.1)**	**—**
Non-cash changes			
Lease recognition	**0.2**	**1.4**	**1.6**
Lease termination	**(0.1)**	**—**	**(0.1)**
Accrued lease interest	**0.3**	**—**	**0.3**
Unrealized foreign exchange gain	**(5.8)**	**(35.5)**	**(41.3)**
Other	**0.1**	**0.2**	**0.3**
Balance, December 31, 2019	**165.2**	**758.6**	**923.8**

FORWARD-LOOKING INFORMATION AND STATEMENTS

Pages 1 through 5 of 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, pages 1 through 5 of this Annual Report contains forward-looking information and statements pertaining to the following: near and long-term investment and growth opportunities provided by ARC's properties; commitment to the payment of dividends; the anticipated benefits of ARC's strategy and business plan; and the pursuit of new value creation opportunities.

Such 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; that future results from drilling and development activities will be 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 ARC's plans and expenditures. ARC believes the material factors, expectations and assumptions reflected in such forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

Such 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 early stage of development of some areas in ARC's lands; the potential for variation in the quality of the applicable 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, unfavorable 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 ARC's Annual Information Form and in this Annual Report).

The internal projections, expectations or beliefs underlying the outlook for the future are subject to change in light of ongoing results, prevailing economic circumstances, commodity prices and industry conditions and regulations. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. 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.

NON-GAAP MEASURES

Pages 1 through 5 of this Annual Report reference netback which is a non-GAAP measure that ARC uses to analyze operational and financial performance. This non-GAAP measure does not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. Readers should refer to our MD&A included in this Annual Report for further details on this non-GAAP measure.

INFORMATION REGARDING DISCLOSURE ON OIL AND GAS RESERVES, RESOURCES, METRICS AND OPERATIONAL INFORMATION

The disclosures relating to reserves in this Annual Report are subject to a number of cautionary statements, assumptions and risks as set forth below in the Corporation's Annual Information Form for the year ended December 31, 2019, which is available on our SEDAR profile at www.sedar.com. Readers should also refer to the definitions of oil and gas reserves and resources found under "Glossary" in this Annual Report.

The reserves data set forth in pages 1 through 5 of this Annual Report is based upon an evaluation by GLJ Petroleum Consultants Ltd. ("GLJ") with an effective date of December 31, 2019 using forecast prices and costs. The reserves evaluation was prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Crude oil, natural gas and natural gas liquids benchmark reference pricing, and inflation and exchange rates used in the evaluation are based on GLJ's January 1, 2020 forecast pricing. Reserves included herein are stated on a company gross basis (working interest before deduction of royalties without including any royalty interests) using forecast prices and costs unless noted otherwise. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.

All amounts in this Annual Report are stated in Canadian dollars unless otherwise specified.

GLOSSARY

The following is a list of abbreviations that may be used in this Annual Report:

Measurement

bbl	barrels
bbl/d	barrels per day
Mbbl	thousand barrels
MMbbl	million barrels
boe (1)	barrels of oil equivalent
boe/d (1)	barrels of oil equivalent per day
Mboe (1)	thousand barrels of oil equivalent
MMboe (1)	million barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
Bcf	billion cubic feet
Tcf	trillion cubic feet
MMBtu	million British Thermal Units
GJ	gigajoule

(1) We have adopted the standard of 6 Mcf: 1 barrel when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.

GLOSSARY CONTINUED

Financial and Business Environment

ARO	asset retirement obligation
CGU	cash-generating unit
COGE HANDBOOK	The Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum
DD&A	depletion, depreciation and amortization
DRIP	Dividend Reinvestment Plan
DSU	Deferred Share Unit
E&E	exploration and evaluation
F&D	finding and development
GAAP	generally accepted accounting principles
G&A	general and administrative
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LTRSA	Long-term Restricted Share Award
MSW	Mixed Sweet Blend
NGLs	natural gas liquids
NYMEX	New York Mercantile Exchange
PP&E	property, plant and equipment
PSU	Performance Share Unit
RLI	reserve life index
RSU	Restricted Share Unit
SDP	Stock Dividend Program
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate
2P	Proved plus Probable

DEFINITIONS OF OIL AND GAS RESOURCES AND RESERVES

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates as follows:

> **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
>
> **Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Corporate & Shareholder Information

Directors

Harold N. Kvisle (1)
Board Chair

Farhad Ahrabi (1) (2)

David R. Collyer (1) (3)

John P. Dielwart (1) (2)

Fred J. Dyment (2) (4)

Kathleen O'Neill (4) (5)

Herbert C. Pinder Jr. (3) (4)

William G. Sembo (3) (5)

Nancy L. Smith (2) (5)

Myron M. Stadnyk

(1) Member of Safety, Reserves and Operational Excellence Committee
(2) Member of Risk Committee
(3) Member of Human Resources and Compensation Committee
(4) Member of Policy and Board Governance Committee
(5) Member of Audit Committee

Officers

Terry M. Anderson
Chief Executive Officer

Myron M. Stadnyk
President

Kris J. Bibby
Senior Vice President and Chief Financial Officer

Chris D. Baldwin
Vice President, Geosciences

Ryan V. Berrett
Vice President, Marketing

Sean R. A. Calder
Vice President, Production

Lara M. Conrad
Vice President, Development and Planning

Armin Jahangiri
Vice President, Operations

Lisa A. Olsen
Vice President, Human Resources

Grant A. Zawalsky
Corporate Secretary

Executive Office

ARC Resources Ltd.

1200, 308 – 4th Avenue S.W.
Calgary, Alberta T2P 0H7

T 403.503.8600
TOLL FREE 1.888.272.4900
F 403.503.8609
W www.arcresources.com

Transfer Agent

Computershare Trust Company of Canada
600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8

T 403.267.6800

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Engineering Consultants

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Legal Counsel

Burnet Duckworth & Palmer LLP
Calgary, Alberta

Corporate Calendar

May 6, 2020
Q1 2020 Results

May 7, 2020
Annual General Meeting

July 30, 2020
Q2 2020 Results

November 5, 2020
Q3 2020 Results

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: **ARX**

Investor Information

Visit our website at
www.arcresources.com
or contact:
Investor Relations
T 403.503.8600 or
TOLL FREE 1.888.272.4900

E ir@arcresources.com

JSI JANTZI SOCIAL INDEX
CDP DRIVING SUSTAINABLE ECONOMIES
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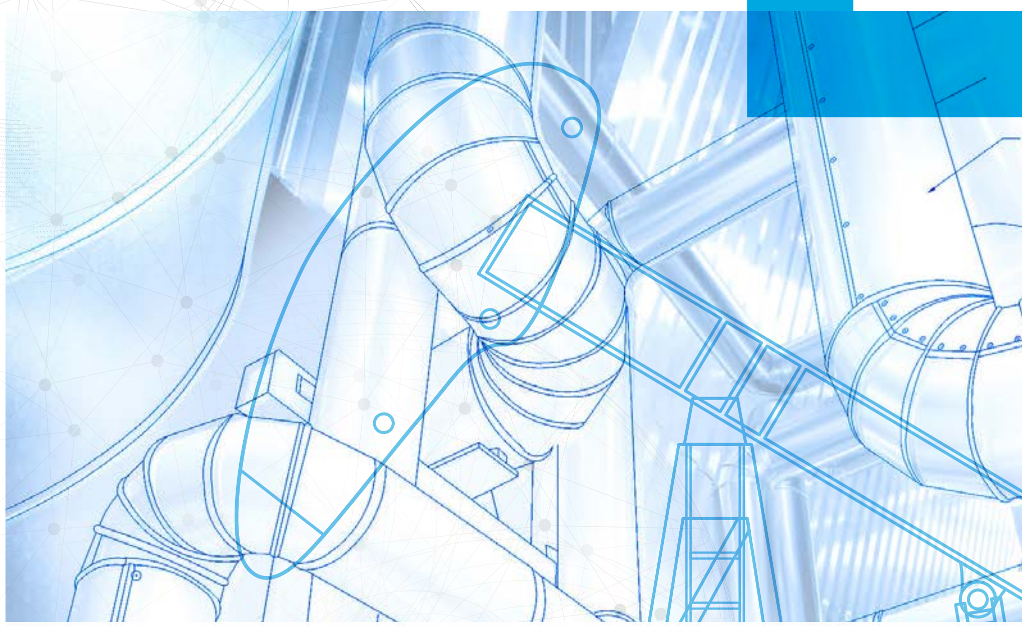
FSC www.fsc.org MIX Paper from responsible sources FSC® C020157
Design
ARTHUR / HUNTER



ARC Resources Ltd.
1200, 308 – 4th Avenue S.W.
Calgary, Alberta T2P 0H7

T 403.503.8600
TOLL FREE 1.888.272.4900

WWW.ARCRESOURCES.COM