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2019 SECOND QUARTER REPORT

ARC RESOURCES LTD

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CORPORATE PROFILE

ARC Resources Ltd. ("ARC") is a Canadian oil and gas producer committed to delivering strong operational and financial performance and upholding values of operational excellence and responsible development.

With operations 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 monthly dividend to shareholders and its common shares trade on the Toronto Stock Exchange under the symbol ARX.

NEWS RELEASE
July 31, 2019

ARC RESOURCES LTD. REPORTS SECOND QUARTER 2019 FINANCIAL AND OPERATIONAL RESULTS

Calgary, July 31, 2019 (ARX - TSX) ARC Resources Ltd. ("ARC" or the "Company") is pleased to report its second quarter 2019 financial and operational results. *ARC's unaudited condensed interim consolidated financial statements and notes ("financial statements") and ARC's Management's Discussion and Analysis ("MD&A") as at and for the three and six months ended June 30, 2019 are available on ARC's website at www.arcresources.com and as filed on SEDAR at www.sedar.com.*

ARC achieved strong financial and operational results in the second quarter of 2019, delivering average daily production of 134,938 barrels of oil equivalent ("boe") per day and generating net income of $94.4 million ($0.27 per share) and funds from operations [(1)] of $193.0 million ($0.54 per share). ARC's lower Montney development activities continue to grow the Company's high-value condensate production, driving a six per cent increase in crude oil and liquids production in the second quarter of 2019 relative to the first quarter of 2019 to total 35,543 barrels per day. As expected, the impacts of planned maintenance activities and third-party pipeline maintenance and outages in the second quarter of 2019 resulted in natural gas production decreasing six per cent relative to the first quarter of 2019 to total 596 MMcf per day.

During the period, ARC adjusted its planned 2019 capital expenditure program from $775 million to $700 million. The adjusted capital expenditure program is consistent with ARC's principles to maintain a strong balance sheet, deliver a sustainable dividend to shareholders, and demonstrate capital discipline amidst a volatile commodity price backdrop. The 2019 capital program advances construction of the Dawson Phase IV gas processing and liquids-handling facility, the Company's next major development project, which is anticipated to be brought on-stream in the second quarter of 2020. ARC plans to maintain production through existing facility infrastructure at or near capacity in 2019, with annual average production expected to be in the range of 136,000 to 142,000 boe per day.

ARC recently announced a reduction to its planned 2019 capital program from $775 million to $700 million and its planned 2020 capital program to a range of $550 million to $625 million. The Dawson Phase IV project will be completed by mid-year 2020. This new project will provide additional funds from operations to further strengthen ARC's long-term business. With this investment completed, excess funds from operations after dividends and sustaining capital [(2)] will be used to consider options such as debt reduction and future development opportunities.

(1) Refer to Note 12 *"Capital Management"* 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.
(2) Sustaining capital refers to estimated capital expenditures to maintain production from existing facilities at approximately current production levels. Sustaining capital does not have any standardized meaning and therefore may not be comparable to similar measures presented by other entities.

Key takeaways from ARC's financial and operational results for the second quarter of 2019 include:

Production	Delivered average daily production of 134,938 boe per day, which included a six per cent increase in crude oil and liquids production from the first quarter of 2019 due to strong oil production at Ante Creek and condensate production from the lower Montney. Natural gas production decreased six per cent relative to the first quarter of 2019 due to planned maintenance activities at Dawson and unplanned third-party pipeline outages at Sunrise.
Funds from Operations (1)	Funds from operations totaled $193.0 million ($0.54 per share), an increase of $6.8 million ($0.01 per share) from the first quarter of 2019. Increased current tax recoveries and lower general and administrative ("G&A") expense due to a reduction in the valuation in ARC's share-based compensation expense, and lower-than-expected operating expense were partially offset by lower commodity sales from production due to depressed natural gas prices.
Capital Program	Advanced Dawson Phase IV, ARC's next major phase of development, which is on schedule to be brought on-stream in the second quarter of 2020. Drilled 23 wells and completed six wells, and continued to progress lower Montney development across ARC's asset base. ARC adjusted its planned 2019 capital program to $700 million and its planned 2020 capital program to a range of between $550 million and $625 million.
Operational Excellence	Performed the first major turnaround at ARC's Dawson Phase III facility, ahead of schedule and under budget, and successfully redirected 60 MMcf per day of natural gas from a third-party facility to ARC's owned-and-operated Sunrise Phase II facility, thereby eliminating third-party processing fees in the area. ARC's second quarter 2019 operating expense was $5.05 per boe and 2019 guidance has been reduced to a range of $5.00 to $5.35 per boe.
Sustainability Performance	Delivered exceptional environmental performance, reducing corporate greenhouse gas ("GHG") emissions intensity levels by 17 per cent and reducing freshwater usage by 25 per cent, from 2017 to 2018, respectively.
Crude Oil and Condensate Pricing	Continued to benefit from improved crude oil and condensate fundamentals, with realized pricing for both commodities increasing 10 per cent relative to the first quarter of 2019.
Natural Gas Sales Diversification Strategy	Realized the benefits of ARC's physical and financial diversification program for natural gas, which protects ARC's commodity sales from single price hub exposure. ARC realized $0.67 per Mcf from diversification activities and recorded a realized gain on natural gas risk management contracts of $0.63 per Mcf in the second quarter of 2019.
Balance Sheet	Maintained capital discipline to maximize financial flexibility, resulting in a strong balance sheet with a net debt balance (1) of $829.2 million and a net debt to annualized funds from operations ratio of 1.1 times at June 30, 2019.
Returns to Shareholders	Committed to its monthly dividend, ARC distributed $53.1 million ($0.15 per share) to shareholders in the second quarter of 2019, and continued investing in ARC's profitable business to create shareholder value.

(1) Refer to Note 12 *"Capital Management"* 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.

FINANCIAL AND OPERATIONAL RESULTS

(Cdn$ millions, except per share amounts, boe amounts, and common shares outstanding)	Three Months Ended March 31, 2019	**June 30, 2019**	June 30, 2018	Six Months Ended **June 30, 2019**	June 30, 2018
FINANCIAL RESULTS					
Net income (loss)	(54.6)	**94.4**	(45.9)	**39.8**	9.0
Per share (1)	(0.15)	**0.27**	(0.13)	**0.11**	0.03
Funds from operations (2)	186.2	**193.0**	204.4	**379.2**	405.4
Per share (1)	0.53	**0.54**	0.58	**1.07**	1.15
Dividends	53.1	**53.1**	53.1	**106.2**	106.2
Per share (1)	0.15	**0.15**	0.15	**0.30**	0.30
Capital expenditures, before land and net property acquisitions (dispositions)	213.7	**174.2**	164.8	**387.9**	378.5
Total capital expenditures, including land and net property acquisitions (dispositions)	213.7	**173.3**	164.1	**387.0**	280.4
Net debt outstanding (2)	796.3	**829.2**	757.0	**829.2**	757.0
Common shares outstanding, weighted average diluted (millions)	353.4	**353.9**	353.5	**353.9**	353.8
Common shares outstanding, end of period (millions)	353.4	**353.4**	353.5	**353.4**	353.5
OPERATIONAL RESULTS					
Production					
Crude oil (bbl/day) (3)	18,251	**18,272**	24,893	**18,261**	24,965
Condensate (bbl/day)	8,210	**10,230**	6,960	**9,226**	6,236
Crude oil and condensate (bbl/day)	26,461	**28,502**	31,853	**27,487**	31,201
Natural gas (MMcf/day)	632.5	**596.4**	537.9	**614.2**	551.3
Natural gas liquids ("NGLs") (bbl/day)	7,183	**7,041**	6,380	**7,111**	6,356
Total (boe/day) (4)	139,054	**134,938**	127,879	**136,985**	129,439
Average realized prices, prior to gain or loss on risk management contracts					
Crude oil ($/bbl)	63.72	**70.26**	78.57	**67.01**	74.05
Condensate ($/bbl)	64.81	**71.38**	85.10	**68.47**	81.73
Natural gas ($/Mcf)	2.79	**1.74**	1.91	**2.28**	2.21
NGLs ($/bbl)	25.43	**7.71**	32.98	**16.61**	32.20
Oil equivalent ($/boe) (4)	26.20	**23.04**	29.59	**24.63**	29.22
Netback ($/boe) (4)(5)					
Commodity sales from production	26.20	**23.04**	29.59	**24.63**	29.22
Royalties	(1.52)	**(1.28)**	(2.55)	**(1.40)**	(2.50)
Operating expense	(5.24)	**(5.05)**	(6.50)	**(5.15)**	(6.40)
Transportation expense	(2.96)	**(3.00)**	(2.61)	**(2.97)**	(2.61)
Netback	16.48	**13.71**	17.93	**15.11**	17.71
Realized gain on risk management contracts	1.62	**1.97**	2.55	**1.79**	2.49
Netback including gain on risk management contracts	18.10	**15.68**	20.48	**16.90**	20.20
TRADING STATISTICS (6)					
High price	10.49	**9.61**	15.25	**10.49**	15.90
Low price	7.82	**6.37**	12.71	**6.37**	11.88
Close price	9.12	**6.41**	13.58	**6.41**	13.58
Average daily volume (thousands of shares)	2,291	**2,255**	1,150	**2,273**	1,276

(1) Per share amounts (with the exception of dividends) are based on weighted average diluted common shares.
(2) Refer to Note 12 *"Capital Management"* 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) Approximately 3,700 barrels per day of non-core crude oil production was divested in 2018.
(4) ARC has adopted the standard six thousand cubic feet of natural gas to one barrel of oil ratio when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 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.
(5) 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 ARC's MD&A.
(6) Trading prices are stated in Canadian dollars on a per share basis and are based on intra-day trading on the Toronto Stock Exchange.

The following financial and operational reviews provide further details to the above takeaways. For additional commentary on ARC's financial and operational results for the second quarter of 2019, please view the following videos: *"Myron's Minute"*, *"ARC Resources Q2 2019 Financial Review"*, and *"ARC Resources Q2 2019 Operations Review"* available on ARC's website at www.arcresources.com.

COMMODITY PRICE ENVIRONMENT

ARC employs an integrated approach to its physical marketing and financial risk management programs, which is underpinned by a strong understanding of market fundamentals. ARC uses market fundamental analysis to set a view on the outlook for commodity prices to drive decisions across the business. This detailed analysis provides the basis for ARC's financial hedging and physical marketing strategies, which help to reduce cash flow volatility, diversify price risk, and also supports ARC's strategic planning and budgeting processes. ARC regularly monitors commodity prices and market conditions and has the flexibility to adjust the investment levels and pace of development of its capital plans accordingly to protect its strong financial position.

Crude Oil and Condensate

Average global crude oil prices increased in the second quarter of 2019, with supply levels impacted by OPEC members' compliance with output cuts and US-imposed sanctions on Iran and Venezuela, and demand levels impacted by the ongoing trade dispute between China and the US. Locally, Canadian crude oil differentials remained relatively narrow throughout the period, with the Alberta government continuing to limit local producers' crude oil output. While ARC's physical oil production has not been impacted by the mandated production curtailment, its corporate crude oil and condensate realizations have benefited from the tighter differentials. The majority of ARC's crude oil production is made up of conventional light oil and condensate, which continue to realize premium pricing relative to heavier crude oil grades.

Natural Gas

US production neared record highs and western Canadian production was adversely impacted by third-party pipeline maintenance activities in the second quarter of 2019, causing relative weakness across all major North American natural gas benchmark prices. ARC maintains a strategy to physically and financially diversify its realized natural gas price to multiple North American downstream sales points in order to mitigate the impact of pricing volatility and to increase exposure to more attractive markets. Approximately 48 per cent of ARC's corporate natural gas volumes are exposed to a combination of US Midwest, Henry Hub, Malin, and Dawn pricing hubs in 2019, and 24 per cent of corporate natural gas volumes are exposed to AECO and Station 2 prices. The remaining 28 per cent is financially hedged. As a result of this diversification strategy, ARC seeks to capture higher margins for its natural gas production than if it were solely exposed to local markets.

FINANCIAL REVIEW

Balance Sheet and Capital Allocation

ARC is disciplined in maintaining financial flexibility through its strong balance sheet, with $829.2 million of net debt [(1)] outstanding at June 30, 2019, and a net debt to annualized funds from operations ratio of 1.1 times. Including its working capital surplus, ARC had an additional $1.3 billion of cash and credit capacity available at the end of the second quarter of 2019. ARC's credit facility was undrawn at June 30, 2019.

In 2019, ARC expects to generate funds from operations [(1)] in excess of its 2019 dividend obligations of approximately $210 million and its sustaining capital [(2)] requirements of approximately $400 million. Funds from operations in excess of dividend and sustaining capital requirements, and the redeployment of cash proceeds from previously completed non-core dispositions, are being invested in key development projects at Dawson and Ante Creek.

(1) Refer to Note 12 *"Capital Management"* in ARC's financial statements and to the section entitled, *"Capitalization, Financial Resources and Liquidity"* contained within ARC's MD&A.
(2) Sustaining capital refers to estimated capital expenditures to maintain production from existing facilities at approximately current production levels. Sustaining capital does not have any standardized meaning and therefore may not be comparable to similar measures presented by other entities.

Net Income (Loss)

ARC recognized net income of $94.4 million ($0.27 per share) in the second quarter of 2019 compared to net loss of $54.6 million ($0.15 per share) in the first quarter of 2019. The quarter-over-quarter increase in earnings is primarily attributed to a reduction in the unrealized loss recorded on the mark-to-market of ARC's risk management contracts, an increase in total income tax recoveries related to the benefit realized on the Accelerated Investment Incentive deductions and reduced provincial tax rates becoming substantively enacted in the period, and lower G&A expense, reflecting the decrease in the fair value of ARC's share-based compensation plans due to the depreciation in ARC's common share price during the second quarter of 2019. The impact of these items was partially offset by a decrease in commodity sales from production.

ARC recognized net income of $39.8 million ($0.11 per share) in the first half of 2019 compared to net income of $9.0 million ($0.03 per share) in the first half of 2018. The increase in earnings is primarily attributed to an increase in income tax recoveries and an increase in unrealized gain on foreign exchange resulting from the revaluation of ARC's US dollar-denominated debt. Partially offsetting these items was no recorded gain from the disposal of non-core assets in the first half of 2019 compared to a gain recorded in the first half of 2018, and lower commodity sales from production.

Funds from Operations

ARC recorded funds from operations of $193.0 million ($0.54 per share) in the second quarter of 2019, representing an increase of $6.8 million ($0.01 per share) relative to first quarter 2019 funds from operations of $186.2 million ($0.53 per share). The quarter-over-quarter increase was made up of several offsetting items, with increased cash tax recoveries ($0.07 per share), improved commodity sales revenue from crude oil and liquids ($0.06 per share), and lower G&A expense ($0.03 per share), all increasing funds from operations. Lower commodity sales revenue caused by lower natural gas prices ($0.18 per share) reduced funds from operations in the second quarter of 2019 relative to the first quarter of 2019.

ARC recorded funds from operations of $379.2 million ($1.07 per share) in the first half of 2019, a decrease of $26.2 million ($0.08 per share) relative to first half 2018 funds from operations of $405.4 million ($1.15 per share). Lower commodity sales from crude oil and liquids due to both a decrease in volumes and pricing, a reduced realized gain on risk management contracts, and increased transportation expense were the primary drivers in lower funds from operations year-over-year. Partially offsetting these items were higher commodity sales from natural gas due to higher volumes and improved pricing, and lower current tax expense, royalties and operating expense.

The following table details the change in funds from operations for the second quarter of 2019 relative to the first quarter of 2019 and the first half of 2019 relative to the first half of 2018.

Funds from Operations Reconciliation (1)	**Q1 2019 to Q2 2019**		**YTD 2018 to YTD 2019**	
	$ millions	$/share (2)	$ millions	$/share (2)
Funds from operations for the three months ended March 31, 2019	186.2	0.53		
Funds from operations for the six months ended June 30, 2018			405.4	1.15
Volume variance				
Crude oil and liquids	**13.6**	**0.04**	**(41.2)**	**(0.11)**
Natural gas	**(7.1)**	**(0.02)**	**25.0**	**0.07**
Price variance				
Crude oil and liquids	**5.6**	**0.02**	**(65.5)**	**(0.19)**
Natural gas	**(57.0)**	**(0.18)**	**7.8**	**0.02**
Sales of commodities purchased from third parties	**2.5**	**0.01**	**(14.7)**	**(0.04)**
Interest income	**(0.9)**	**—**	**0.8**	**—**
Other income	**0.7**	**—**	**1.0**	**—**
Realized gain on risk management contracts	**3.9**	**0.01**	**(13.8)**	**(0.04)**
Royalties	**3.3**	**0.01**	**23.9**	**0.07**
Expenses				
Commodities purchased from third parties	**(0.6)**	**—**	**15.1**	**0.04**
Operating	**3.6**	**0.01**	**22.4**	**0.06**
Transportation	**0.2**	**—**	**(12.6)**	**(0.04)**
G&A	**11.9**	**0.03**	**2.5**	**0.01**
Interest and financing (3)	**0.5**	**—**	**0.2**	**—**
Current tax	**23.0**	**0.07**	**31.0**	**0.09**
Realized gain (loss) on foreign exchange	**3.6**	**0.01**	**(8.1)**	**(0.02)**
Funds from operations for the three months ended June 30, 2019	**193.0**	**0.54**		
Funds from operations for the six months ended June 30, 2019			**379.2**	**1.07**

(1) Refer to Note 12 *"Capital Management"* 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.
(2) Per share amounts are based on weighted average diluted common shares.
(3) Excludes accretion of asset retirement obligations.

Physical Marketing and Financial Risk Management

Driven by the quarter-over-quarter increase in benchmark crude oil and condensate prices, ARC's crude oil and liquids production comprised 67 per cent of total commodity sales revenue in the second quarter of 2019. The majority of ARC's liquids production is made up of conventional light oil and condensate, which realized average pricing of $70.26 per barrel and $71.38 per barrel, respectively. For the first half of 2019, ARC's crude oil and condensate production comprised 58 per cent of total commodity sales revenue, and realized average pricing of $67.01 per barrel and $68.47 per barrel, respectively.

In managing its natural gas price risk exposure, ARC's physical diversification and financial risk management activities have helped to increase ARC's exposure to more attractive North American markets and enhance corporate natural gas price realizations. ARC's financial risk management program provides additional cash flow protection. Summarized in the following table are the positive impacts that ARC's physical natural gas diversification and financial risk management activities had on the Company's realized natural gas price for the three and six months ended June 30, 2019.

Realized Natural Gas Price Including Realized Gain on Risk Management Contracts ($/Mcf)	**Three Months Ended June 30, 2019**	**Six Months Ended June 30, 2019**
Average price before diversification activities	**1.07**	**1.66**
Diversification activities	**0.67**	**0.62**
Realized gain on risk management contracts (1)	**0.63**	**0.50**
Realized natural gas price including realized gain on risk management contracts	**2.37**	**2.78**

(1) Realized gain on risk management contracts is not included in ARC's realized natural gas price.

The total realized gain on risk management contracts for the three and six months ended June 30, 2019 was $24.2 million and $44.5 million, respectively, and the fair value of ARC's risk management contracts at June 30, 2019 was $104.5 million. ARC will continue to monitor commodity prices and execute on its risk management program to reduce the volatility of its funds from operations and to support its dividend and capital program. For details pertaining to ARC's risk management program and for a summary of the average oil and natural gas volumes associated with ARC's risk management contracts as at June 30, 2019, refer to Note 13 *"Financial Instruments and Market Risk Management"* in ARC's financial statements.

Netback

Summarized in the following table are the components of ARC's netback for the second quarter of 2019 relative to the first quarter of 2019 and the first half of 2019 relative to the first half of 2018.

	Three Months Ended			**Six Months Ended**		
Netback (1) ($/boe)	**June 30, 2019**	March 31, 2019	% Change	**June 30, 2019**	June 30, 2018	% Change
Commodity sales from production	**23.04**	26.20	(12)	**24.63**	29.22	(16)
Royalties	**(1.28)**	(1.52)	(16)	**(1.40)**	(2.50)	(44)
Operating expense	**(5.05)**	(5.24)	(4)	**(5.15)**	(6.40)	(20)
Transportation expense	**(3.00)**	(2.96)	1	**(2.97)**	(2.61)	14
Netback	**13.71**	16.48	(17)	**15.11**	17.71	(15)
Realized gain on risk management contracts	**1.97**	1.62	22	**1.79**	2.49	(28)
Netback including gain on risk management contracts	**15.68**	18.10	(13)	**16.90**	20.20	(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 ARC's MD&A.

ARC's netback and ARC's netback including gain on risk management contracts decreased 17 per cent and 13 per cent, respectively, in the second quarter of 2019 relative to the first quarter of 2019. The decrease in ARC's netback is primarily due to the weakening of natural gas prices in the period.

ARC's netback and ARC's netback including gain on risk management contracts decreased 15 per cent and 16 per cent, respectively, in the first half of 2019 relative to the first half of 2018. The decrease in ARC's netback is due to lower crude oil and liquids pricing, and is partially offset by a year-over-year decrease in ARC's royalties and operating expense.

ARC's royalties for the second quarter of 2019 decreased 16 per cent from the first quarter of 2019 and reflect the sliding scale effect that lower natural gas prices had on royalty rates. ARC's royalties for the first half of 2019 decreased 44 per cent from the first half of 2018 and reflect the sliding scale effect that lower crude oil and liquids prices had on royalty rates. The year-over-year decrease also reflects the increase in ARC's natural gas production, which is generally subject to lower relative royalty rates compared to crude oil and liquids production. ARC's royalties for the three and six months ended were $15.7 million and $34.7 million, respectively.

ARC's operating expense for the second quarter of 2019 decreased four per cent from the first quarter of 2019. Lower-than-expected costs incurred to conduct the first major turnaround at the Dawson Phase III facility, the successful repatriation of 60 MMcf per day of natural gas production at Sunrise, and the deferral of planned maintenance and workover activities due to wet weather conditions were the primary contributors to the quarter-over-quarter decrease in ARC's operating expense. ARC's operating expense for the first half of 2019 decreased 20 per cent from the first half of 2018 and is the combination of bringing on new Montney production with lower relative costs to operate, and disposing of non-core assets with higher relative costs to operate throughout 2018. ARC's operating expense for the three and six months ended June 30, 2019 was $62.0 million and $127.6 million, respectively.

ARC's transportation expense for the second quarter of 2019 was relatively unchanged from the first quarter of 2019, whereas ARC's transportation expense for the first half of 2019 increased 14 per cent relative to the first half of 2018. The year-over-year increase in transportation expense primarily reflects higher trucking charges and pipeline tariffs related to increased condensate and natural gas 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, however these costs are directly offset by increases to commodity sales from production. There is no impact to ARC's netback or funds from operations as a result of these agreements. ARC's transportation expense for the three and six months ended June 30, 2019 was $36.8 million and $73.8 million, respectively.

OPERATIONAL REVIEW

ARC's position in the Montney resource play is made up of approximately 1,100 net sections of land (approximately 707,000 net acres), with production from these assets representing greater than 90 per cent of total corporate production. ARC's history of disciplined execution in the Montney has positioned the Company to deliver excellent capital and operating efficiencies and generate strong rates of return on its projects. Owned-and-operated infrastructure affords ARC greater control over costs and the degree of its liquids recovery, strong safety and environmental performance, and the ability to manage a flexible pace of development. ARC looks to optimize well designs and maximize well value, pursue technological advancements, and work with service providers to preserve its competitively low cost structure. ARC is a leader in sustainability practices and is committed to reducing its GHG emissions intensity and freshwater usage through responsible development activities. ARC actively monitors market conditions and executes a strategy that proactively secures takeaway capacity for future development projects, mitigates the impact of third-party infrastructure outages, and diversifies ARC's sales portfolio to ensure that production gets to market at optimal pricing.

Capital Expenditures

ARC invested $174.2 million, before land and net property acquisitions and dispositions, to drill 23 liquids-rich wells and complete six wells, and invest in infrastructure in the second quarter of 2019. ARC's first half 2019 capital investment of $387.9 million, before land and net property acquisitions and dispositions, was directed at drilling 44 wells (32 liquids-rich wells and 12 oil wells) and completing 34 wells. ARC continues to invest in the advancement of ARC's next major phase of development at Dawson Phase IV, as well as the Dawson Phase I & II and Ante Creek 10-36 facility upgrades.

With its 2019 capital program of $700 million, ARC continues to focus on capital discipline, and will maintain production through existing facility infrastructure at or near capacity while investing in building out future processing capacity.

The following table outlines the number of wells drilled and completed in each of ARC's core operating areas for the first half of 2019.

	Six Months Ended June 30, 2019	
Area	**Wells Drilled**	**Wells Completed**
Dawson	20	5
Parkland/Tower	8	13
Sunrise	—	9
Attachie West	10	—
Ante Creek	6	7
Total	**44**	**34**

Sustainability Performance

Responsible development practices have been engrained in ARC's long-term strategy of risk-managed value creation since inception. Strong environmental and health and safety performance underpins ARC's sustainable future growth.

ARC continues to differentiate itself as a leader in producing some of the lowest GHG emissions per unit of boe production within the Canadian energy industry. Since 2017, ARC has invested in facility and multi-well pad electrification projects at its Dawson, Parkland, and Sunrise fields. As a result of these investments, ARC's GHG emissions intensity was reduced by 17 per cent relative to 2017, to 0.019 tonnes of CO_2 equivalent per boe in 2018. During this same time frame, absolute GHG emissions were reduced by 11 per cent despite production increasing by eight per cent. ARC is on track to achieve its 25 per cent GHG emissions intensity reduction target by the end of 2021, relative to its 2017 baseline levels.

ARC is committed to responsible water management. In the second quarter of 2019, ARC completed its three-year plan to invest $55 million on water-related projects, which were executed with the overall objective of improving capital efficiencies, reducing operational risks, and increasing the recycling of produced water for the Company's hydraulic fracturing operations. As part of this plan, ARC successfully constructed and added a combined 700,000 cubic metres of water storage capacity in the Ante Creek, Dawson, Parkland, and Sunrise fields. ARC also completed construction of an ARC owned-and-operated produced water recycling facility in Parkland, allowing for the reuse of nearly all of the produced water from the field. ARC expects robust economic returns on this investment and anticipates that it will reduce water access costs and risks as ARC continues to develop its core operating areas. As a result of these investments, ARC's freshwater usage was reduced by 25 per cent from 2017 to 2018, with now approximately 20 per cent of the Company's water requirements coming from non-produced sources.

Strong safety and spill management performance also continue to be critical components of ARC's strong sustainability performance. In 2018, ARC recorded zero lost-time incidents for its employees and contractors, and reduced the Company's total spill volumes by 65 per cent from 2017 to 2018.

For additional information on ARC's 2018 environmental, social, and governance performance, please refer to the sustainability performance tables available on ARC's website at www.arcresources.com/responsibility.

Production

ARC's average daily production in the second quarter of 2019 was 134,938 boe per day, comprised of 28,502 barrels per day of light oil and condensate, 7,041 barrels per day of NGLs, and 596 MMcf per day of natural gas. As expected, production was three per cent lower than the first quarter of 2019, with planned maintenance activities and third-party pipeline outages causing decreases in natural gas production at Dawson and Sunrise. Crude oil and liquids production was higher than the first quarter of 2019 due to increased light oil production at Ante Creek and increased condensate production at Parkland/Tower.

Average daily production of 136,985 boe per day in the first half of 2019 was made up of 27,487 barrels per day of light oil and condensate, 7,111 barrels per day of NGLs, and 614 MMcf per day of natural gas. Average daily production increased six per cent relative to the first half of 2018 and was predominantly the result of ARC's continued focus on the liquids-rich lower Montney horizon at Dawson and Parkland, and increased natural gas production at the Sunrise Phase II facility. Partially offsetting these increases to production was the disposal of approximately 4,700 boe per day of non-core production throughout 2018.

ARC anticipates that production will ramp up through the second half of 2019 with final transportation arrangements expected to come into effect at Sunrise in the second half of 2019, and with initial production from the first four wells of a new multi-well pad at the liquids-rich Attachie West area planned to be brought on-stream in the fourth quarter of 2019. Full-year 2019 average daily production is expected to be within the guidance range of 136,000 to 142,000 boe per day.

Dawson

ARC's flagship Dawson property in northeast British Columbia is a low-cost Montney natural gas and liquids-rich natural gas play where ARC has a land position of 137 net sections (approximately 89,000 net acres). The Dawson play delivers strong economics and cash flows at prevailing commodity prices.

ARC conducted its first major turnaround at the Dawson Phase III gas processing and liquids-handling facility in the second quarter of 2019. The turnaround, which was scheduled to coincide with third-party pipeline maintenance, was completed ahead of schedule and under budget. Due to the planned downtime associated with the turnaround, production at Dawson decreased eight per cent relative to the first quarter of 2019 to average 43,500 boe per day. Second quarter 2019 production was comprised of 237 MMcf per day of natural gas, 2,500 barrels per day of condensate, and 1,500 barrels per day of NGLs.

ARC continues to focus its development at Dawson on the higher liquids areas of the field, and invested $148 million during the first half of 2019 to drill 20 wells, complete five wells, and to advance work on the two key infrastructure projects being developed in the area. The Dawson Phase I & II liquids-handling upgrade is being developed to support ARC's broad shift to liquids-rich lower Montney development. A 10-day outage is planned at the facility during the third quarter of 2019 to allow for the completion of the upgrade, which is expected to be operational by year-end 2019. At Dawson Phase IV, pile driving activities and shop fabrication of major equipment continued in the second quarter of 2019. The facility remains on schedule to be brought on-stream in the second quarter of 2020.

Parkland/Tower

ARC's Parkland/Tower property is a Montney play in northeast British Columbia that consists of 94 net sections (approximately 61,000 net acres), which produce predominantly light oil and condensate with liquids-rich gas. With contiguous lands, the Parkland and Tower areas share ARC owned-and-operated infrastructure and processing capacity.

Production at Parkland/Tower averaged 32,600 boe per day in the second quarter of 2019, representing an eight per cent increase from the first quarter of 2019 due to new wells being brought on production during the period. Production was comprised of 9,200 barrels per day of light oil and condensate, 3,600 barrels per day of NGLs, and 119 MMcf per day of natural gas. Of the 32,600 boe per day produced in the second quarter of 2019, 5,000 boe per day (approximately 45 per cent condensate and NGLs) was directed to the Dawson Phase III facility for processing and sales via the Parkland-Dawson interconnect pipeline.

Capital investment at Parkland/Tower in 2019 is primarily focused on driving strong cash flow generation. ARC invested $112 million during the first half of 2019 to drill eight wells and complete 13 wells. New wells at Tower are now being classified as condensate-rich natural gas wells.

Sunrise

ARC has a land position of 32 net sections at Sunrise (approximately 21,000 net acres), a prolific dry natural gas Montney play in northeast British Columbia, where production averaged 165 MMcf per day in the second quarter of 2019. Second quarter production was 10 per cent lower than the first quarter of 2019 due to third-party pipeline restrictions and outages that affected ARC's operations in the period. To protect the area's netback, ARC continues to manage its Sunrise production levels depending on prevailing natural gas prices.

During the second quarter of 2019, ARC successfully redirected 60 MMcf per day of existing natural gas production that had previously been processed through a third-party facility to ARC's operated Sunrise Phase II gas processing facility. With the repatriation of these volumes, ARC expects to realize a significant reduction in the area's operating expense with the elimination of third-party processing fees. An additional 60 MMcf per day of incremental processing capacity at the Sunrise Phase II facility will be available once final transportation arrangements come into effect in the second half of 2019. The timing of the production being brought on-stream will be commodity-price dependent.

ARC invested $25 million at Sunrise during the first half of 2019 to complete and tie-in nine natural gas wells to the Sunrise Phase II facility.

Attachie

ARC's Attachie property is a Montney condensate and liquids-rich natural gas play located in northeast British Columbia where ARC has a land position of 308 net sections (approximately 202,000 net acres). With its condensate-rich production profile, significantly over-pressured reservoir, large contiguous land position, and proven multi-layer development potential, Attachie West remains an attractive investment opportunity within ARC's portfolio. Production at Attachie West averaged 3,000 boe per day in the second quarter of 2019, comprised of 1,500 barrels per day of condensate and 8 MMcf per day of natural gas.

The work currently being completed at Attachie West is advancing the asset towards commercialization in the most economic manner possible. ARC invested $47 million at Attachie West during the first half of 2019, which included the drilling of a 10-well pad in the second quarter of 2019 as well as infrastructure investments. The multi-well pad is focused on well design optimization to maximize well productivity and improve capital efficiencies. Completion activities for four of the 10 wells are scheduled to commence in the third quarter of 2019, with initial production expected in the fourth quarter of 2019. The liquids processing capacity at Attachie West's battery is 3,500 barrels per day and natural gas production is currently being processed through third-party infrastructure.

Capital investment in the first half of 2019 was also focused on advancing the planning for the Attachie West Phase I gas processing and liquids-handling facility. This included obtaining regulatory approval for construction of multiple phases of development in the area, as well as approval for the sales line that will tie into the North Montney Mainline. Construction of the ARC owned-and-operated access road, which extends over 20 kilometers and will help reduce the area's operating expense and improve capital efficiencies, is nearing completion.

Ante Creek

ARC has a land position of 314 net sections at Ante Creek (approximately 201,000 net acres), a Montney light oil play in northern Alberta that generates strong cash flows and profitable returns. Second quarter 2019 production increased 10 per cent relative to the first quarter of 2019 to average 16,400 boe per day (approximately 50 per cent light oil and liquids), which was the result of new wells being brought on production during the quarter.

ARC invested $41 million during the first half of 2019, which was directed at drilling six oil wells, completing seven wells, and advancing the Ante Creek 10-36 facility expansion project. The facility expansion, which will allow ARC to grow its light oil volumes in the area, remains on schedule to be brought on-stream in the second quarter of 2020.

Pembina

ARC's Alberta Cardium assets in Pembina deliver high-quality, light oil production, and generate attractive cash flows with major infrastructure already in place. ARC has a land position of 217 net Cardium sections in Pembina (approximately 139,000 net acres), where second quarter 2019 production averaged 10,100 boe per day, of which over 80 per cent was light oil and liquids production. Approximately $7 million of capital was invested during the first half of 2019, with ARC's current focus at Pembina being to manage production declines and maximize cash flow generation through modest drilling programs.

OUTLOOK

ARC's revised 2019 capital program of $700 million is focused on capital discipline and maintaining ARC's strong financial position and dividend. The 2019 budget includes investment in multi-year infrastructure development projects that will add facility capacity at Dawson in northeast British Columbia and at Ante Creek in northern Alberta; production associated with these infrastructure projects is expected to be added in 2020. ARC plans to maintain its existing facility infrastructure at or near capacity in 2019, with annual average production expected to be in the range of 136,000 to 142,000 boe per day. Additional details on ARC's 2019 revised capital program can be found in the June 20, 2019 news release entitled, *"ARC Resources Ltd. Updates Its 2019 and 2020 Capital Expenditure Plans"*. This news release was an update and did not restate all of the budgetary information that did not change from ARC's original 2019 budget. Please refer to the November 8, 2018 news release entitled, *"ARC Resources Ltd. Announces $775 Million Capital Program for 2019 That Will Advance Multi-year Infrastructure Development Projects at Attachie West, Dawson, and Ante Creek".* Both news releases are available on ARC's website at www.arcresources.com and as filed on SEDAR at www.sedar.com.

ARC will continue to take steps to mitigate expected commodity price volatility, including managing its pace of development, focusing on capital and operating efficiencies, executing financial and physical marketing diversification programs, and to protect its strong financial position, with a targeted net debt to annualized funds from operations ratio of between 1.0 and 1.5 times. ARC will continue to screen projects for profitability and will adjust investment levels and the pace of development, if required, to ensure balance sheet strength is protected.

ARC's capital budgets exclude land purchases and property acquisitions and dispositions. ARC will continue to pursue opportunities to consolidate its land position and grow its presence in key operating areas through land purchases and property acquisitions, and evaluate its asset portfolio on a continuous basis with a view to selling assets that do not meet ARC's investment guidelines. Through the normal course of business, acquisitions and dispositions may occur that could impact the expected production for the year.

The following revisions have been made to ARC's full-year 2019 guidance estimates:

- Total production is expected to be in the range of 136,000 to 142,000 boe per day, with crude oil and condensate production expected to be in the range of 26,000 to 30,000 barrels per day and NGLs production expected to be in the range of 6,500 to 7,000 barrels per day. The guidance for natural gas production is unchanged and is expected to be in the range of 620 to 630 MMcf per day.

- Operating expense has been reduced to a range of $5.00 to $5.35 per boe to reflect cost savings realized through the first half of 2019 and to better represent the Company's current operating expense levels.

- Transportation expense has been increased to a range of $2.90 to $3.10 per boe as ARC continues to mitigate the impact of third-party pipeline outages and optimize its netback by securing additional downstream transportation arrangements.

- G&A expense relating to ARC's share-based compensation expense has been reduced to a range of $0.20 to $0.35 per boe to reflect the impact that ARC's lower share price had on ARC's share-based compensation expense in the first half of 2019.
- Interest expense has been reduced to a range of $0.75 to $0.90 per boe to better represent ARC's anticipated interest expense for the balance of 2019.
- Current income taxes have been reduced to a range of a recovery of three per cent to an expense of two per cent of funds from operations due to the benefit realized on the Accelerated Investment Incentive deductions becoming substantively enacted in the first half of 2019, as well as an expected decrease in taxable income related to decreased commodity prices and a reduction in the Alberta general corporate income tax rate.

ARC's full-year 2019 guidance estimates and a review of 2019 year-to-date actual results are outlined in the following table.

	2019 Original Guidance	2019 Revised Guidance	**2019 YTD Actuals**	% Variance from Revised Guidance
Production				
Crude oil and condensate (bbl/day)	25,500 - 30,500	26,000 - 30,000	**27,487**	—
Natural gas (MMcf/day)	620 - 630	620 - 630	**614.2**	(1)
NGLs (bbl/day)	6,000 - 6,500	6,500 - 7,000	**7,111**	2
Total (boe/day)	135,000 - 142,000	136,000 - 142,000	**136,985**	—
Expenses ($/boe)				
Operating	5.30 - 5.70	5.00 - 5.35	**5.15**	—
Transportation	2.60 - 2.90	2.90 - 3.10	**2.97**	—
G&A expense before share-based compensation expense	1.10 - 1.30	1.10 - 1.30	**1.17**	—
G&A - share-based compensation expense (1)	0.35 - 0.50	0.20 - 0.35	**0.21**	—
Interest and financing (2)	0.70 - 0.90	0.75 - 0.90	**0.84**	—
Current income tax expense (recovery) as a per cent of funds from operations (3)	2 - 7	(3) - 2	**(3)**	—
Capital expenditures before land purchases and net property acquisitions (dispositions) ($ millions)	775	700	**387.9**	N/A
Weighted average shares (millions)	353	353	**353**	—

(1) Comprises expense recognized under the Restricted Share Unit and Performance Share Unit Plans, Share Option Plan, and Long-term Restricted Share Award Plan, and excludes compensation expense under the Deferred Share Unit Plan. In periods where substantial share price fluctuation occurs, ARC's G&A expense is subject to greater volatility.
(2) Excludes accretion of asset retirement obligations.
(3) The current income tax estimate varies depending on the level of commodity prices.

ARC's 2019 guidance is based on full-year 2019 estimates; certain variances exist between 2019 year-to-date actual results and 2019 full-year guidance estimates due to the cyclical and seasonal nature of operations. ARC expects full-year 2019 actual results to closely approximate revised guidance.

- 2019 year-to-date natural gas production is below the 2019 guidance range. As incremental production at Sunrise is brought on-stream through the second half of the year, ARC expects that natural gas production will trend towards guidance.
- 2019 year-to-date NGLs production is above the 2019 guidance range due to strong results from lower Montney development across ARC's Montney asset base.

FORWARD-LOOKING INFORMATION AND STATEMENTS

This news release 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 news release contains forward-looking information and statements pertaining to the following: as to ARC's infrastructure development plans and the timing for completion thereof; as to ARC's expected capital budget for 2019 and 2020 in the introductory paragraphs of this news release; as to ARC's views on future commodity prices and planned natural gas diversification activities under the heading *"Commodity Price Environment"*; as to the execution of its business plan, and guidance as to the capital expenditure plans of ARC in 2019 and beyond and its production expectations, and net debt to annualized funds from operations ratio for 2019 and beyond, as to plans to internally fund growth capital with funds from operations generated from ARC's existing businesses and proceeds from non-core dispositions; as to all matters in respect of 2019 guidance under the heading *"Outlook"*; as to plans to internally fund dividends and sustaining capital with funds from operations generated from ARC's existing businesses, as to plans to fund key development projects from both funds from operations and proceeds from non-core dispositions, as to reducing debt, pursuing future development opportunities with funds from operations, as to ARC's ability to satisfy its dividend and sustaining and growth capital once productive capacity at Dawson Phase IV is brought on-line, and as to its risk management and planned natural gas diversification activities for 2019 and beyond under the heading *"Financial Review"*; as to its production, exploration and development and infrastructure plans, and capital expenditures for 2019 and beyond, and as to the timing and regulatory approvals and as to future operational and capital expenditure plans by area (including planned capital expenditures, timing for completion of infrastructure and processing capacities), and as to planned production processing timelines under the heading *"Operational Review"*.

The forward-looking information and statements contained in this news release reflect several material factors, expectations and assumptions of ARC, including, without limitation: the production performance of ARC's oil and natural gas assets; the cost and competition for services throughout the oil and gas industry in 2019 and beyond; the results of exploration and development activities during 2019; the general continuance of current industry conditions including commodity and forward strip pricing; 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 for 2019 and beyond; the retention of ARC's key properties; ARC's knowledge and past experience with developing major infrastructure projects will be applicable to similar projects in the future; 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 news release 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 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 this news release and in ARC's Annual Information Form).

The internal projections, expectations or beliefs underlying the 2019 capital budget and corporate outlook from 2019 to 2021 are subject to change in light of ongoing results, prevailing economic circumstances, commodity prices and industry conditions and regulations. ARC's financial outlook for 2019 and beyond provides shareholders with relevant information on Management's expectations for results of operations, excluding any potential acquisitions or dispositions, for 2019 and beyond. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted and ARC's 2019 guidance may not be appropriate for other purposes. The forward-looking information and statements contained in this news release speak only as of the date of this news release, and ARC assumes no obligation to publicly update or revise such information or statements to reflect new events or circumstances, except as may be required pursuant to applicable laws.

ARC Resources Ltd. is one of Canada's largest conventional oil and gas companies with an enterprise value of approximately $3.2 billion. ARC's common shares trade on the Toronto Stock Exchange under the symbol ARX.

ARC RESOURCES LTD.
Myron M. Stadnyk
President and Chief Executive Officer

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MANAGEMENT'S DISCUSSION & ANALYSIS

2019 Q2

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 July 31, 2019 and should be read in conjunction with the unaudited condensed interim consolidated financial statements (the "financial statements") as at and for the three and six months ended June 30, 2019, and the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2018, 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.

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 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 annual periods of 2015 through 2018 and the six months ended June 30, 2019 are shown in Table 1:

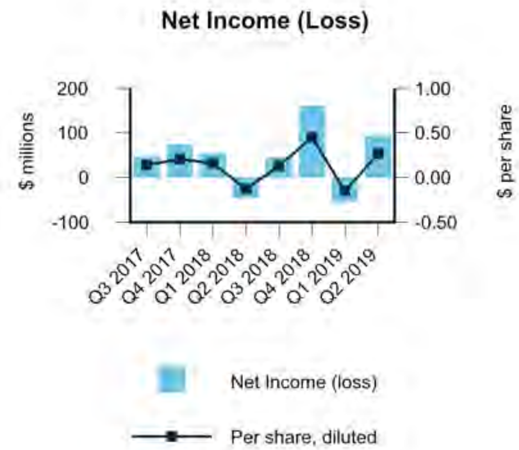
Table 1

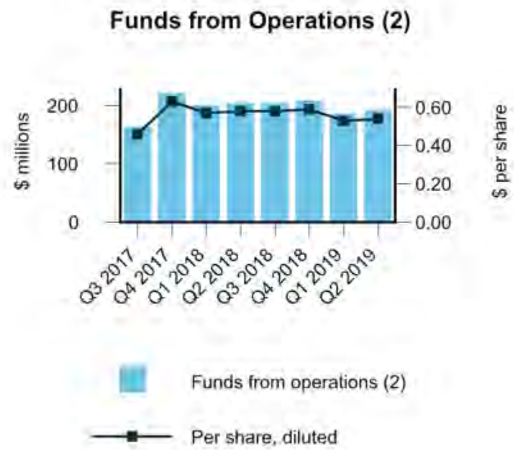
	2019 YTD	2018	2017	2016	2015
Production (1)					
Crude oil and condensate (bbl/d)	**27,487**	30,741	30,030	35,136	36,192
Natural gas (MMcf/d)	**614.2**	570.2	525.8	475.6	444.9
NGLs (bbl/d)	**7,111**	6,955	5,273	4,274	3,819
Total production (boe/d)	**136,985**	132,724	122,937	118,671	114,167
Daily production per thousand shares (2)	**0.39**	0.38	0.35	0.34	0.34
Net income (loss)	**39.8**	213.8	388.9	201.3	(342.7)
Net income (loss) per share	**0.11**	0.60	1.10	0.57	(1.01)
Funds from operations (3)	**379.2**	819.0	731.9	633.3	773.4
Funds from operations per share (3)	**1.07**	2.31	2.07	1.80	2.27
Capital expenditures (4)	**387.9**	679.4	829.7	453.4	541.6
Net debt (3)	**829.2**	702.7	728.0	356.5	985.1
Net debt to annualized funds from operations (ratio) (3)	**1.1**	0.9	1.0	0.6	1.3
Return on average capital employed (%) (5)(6)	**7**	8	14	7	(7)
Proved plus probable reserves (MMboe) (7)(8)	**n/a**	878.9	836.1	736.7	686.9
Proved plus probable reserves per share (boe) (7)(8)	**n/a**	2.5	2.4	2.1	2.0

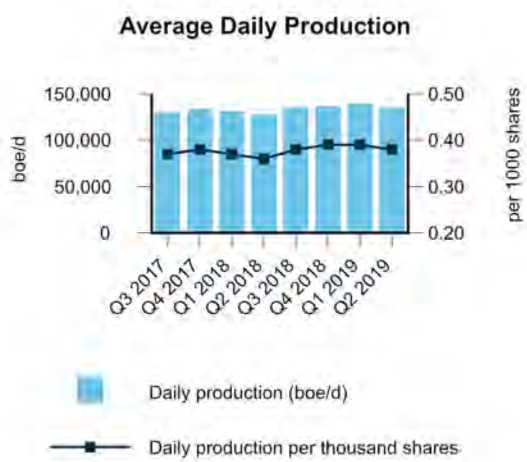
(1) Reported production amount is based on Company interest before royalty burdens.
(2) Daily production per thousand shares represents annual average daily production divided by the diluted weighted average common shares for the six months ended June 30, 2019 and for the respective annual periods ended December 31, 2018, 2017, 2016 and 2015.
(3) Refer to Note 12 "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) For the 2019 YTD period, Return on average capital employed ("ROACE") is calculated for the 12 months ended June 30, 2019.
(7) 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 ("COGE") Handbook.
(8) 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 as filed on SEDAR at www.sedar.com and the news release entitled *"ARC Resources Ltd. Announces 118 MMboe of Total Proved Plus Probable Reserve Additions in 2018, Replacing 245 Per Cent of Production, and Delivers Record Proved Producing Reserve Additions of 82 MMboe"* dated February 7, 2019.

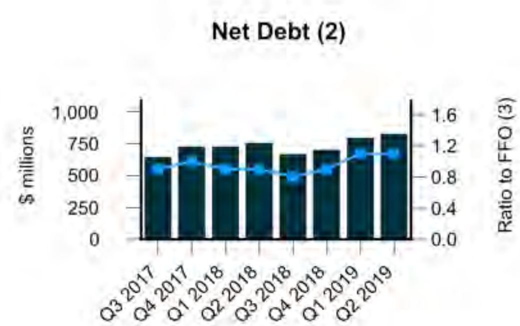
QUARTERLY RESULTS [1]

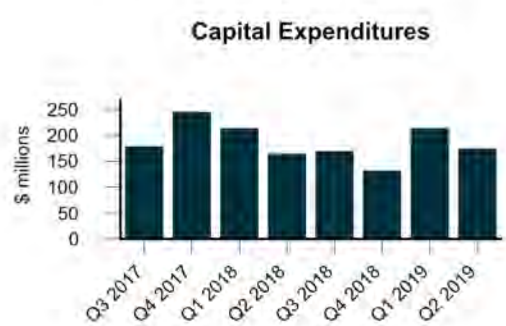
Exhibit 1











(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 12 "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 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 second quarter of 2019, ARC recognized an income tax recovery of $63.9 million.
- 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.
- 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.
- In the fourth quarter of 2017, ARC reclassified certain Exploration and evaluation ("E&E") assets in Alberta as held for sale and an associated impairment charge of $9.7 million was recognized in E&E expense.
- In the third quarter of 2017, ARC recognized an unrealized gain on foreign exchange of $33.6 million.

ANNUAL GUIDANCE

ARC's revised 2019 capital program of $700 million is focused on capital discipline and maintaining ARC's strong financial position and dividend. The 2019 budget includes investment in multi-year infrastructure development projects that will add facility capacity at Dawson in northeast British Columbia and at Ante Creek in northern Alberta; production associated with these infrastructure projects is expected to be added in 2020. ARC plans to maintain its existing facility infrastructure at or near capacity in 2019, with annual average production expected to be in the range of 136,000 to 142,000 boe per day. Additional details on ARC's 2019 revised capital program can be found in the June 20, 2019 news release entitled, *"ARC Resources Ltd. Updates Its 2019 and 2020 Capital Expenditure Plans"*. This news release was an update and did not restate all of the budgetary information that did not change from ARC's original 2019 budget. Please refer to the November 8, 2018 news release entitled, *"ARC Resources Ltd. Announces $775 Million Capital Program for 2019 That Will Advance Multi-year Infrastructure Development Projects at Attachie West, Dawson, and Ante Creek".* Both news releases are available on ARC's website at www.arcresources.com and as filed on SEDAR at www.sedar.com.

The following revisions have been made to ARC's full-year 2019 guidance estimates:

- Total production is expected to be in the range of 136,000 to 142,000 boe per day, with crude oil and condensate production expected to be in the range of 26,000 to 30,000 barrels per day and NGLs production expected to be in the range of 6,500 to 7,000 barrels per day. The guidance for natural gas production is unchanged and is expected to be in the range of 620 to 630 MMcf per day.
- Operating expense has been reduced to a range of $5.00 to $5.35 per boe to reflect cost savings realized through the first half of 2019 and to better represent the Company's current operating expense levels.
- Transportation expense has been increased to a range of $2.90 to $3.10 per boe as ARC continues to mitigate the impact of third-party pipeline outages and optimize its netback by securing additional downstream transportation arrangements.
- General and administrative ("G&A") expense relating to ARC's share-based compensation expense has been reduced to a range of $0.20 to $0.35 per boe to reflect the impact that ARC's lower share price had on ARC's share-based compensation expense in the first half of 2019.
- Interest expense has been reduced to a range of $0.75 to $0.90 per boe to better represent ARC's anticipated interest expense for the balance of 2019.
- Current income taxes have been reduced to a range of a recovery of three per cent to an expense of two per cent of funds from operations due to the benefit realized on the Accelerated Investment Incentive deductions

becoming substantively enacted in the first half of 2019, as well as an expected decrease in taxable income related to decreased commodity prices and a reduction in the Alberta general corporate income tax rate.

Table 2 is a summary of ARC's 2019 annual guidance and a review of 2019 year-to-date results:

Table 2

	2019 Original Guidance	2019 Revised Guidance	**2019 YTD Actual**	% Variance from Revised Guidance
Production				
Crude oil and condensate (bbl/d)	25,500 - 30,500	26,000 - 30,000	**27,487**	—
Natural gas (MMcf/d)	620 - 630	620 - 630	**614.2**	(1)
NGLs (bbl/d)	6,000 - 6,500	6,500 - 7,000	**7,111**	2
Total (boe/d)	135,000 - 142,000	136,000 - 142,000	**136,985**	—
Expenses ($/boe)				
Operating	5.30 - 5.70	5.00 - 5.35	**5.15**	—
Transportation	2.60 - 2.90	2.90 - 3.10	**2.97**	—
G&A expense before share-based compensation expense	1.10 - 1.30	1.10 - 1.30	**1.17**	—
G&A - share-based compensation expense (1)	0.35 - 0.50	0.20 - 0.35	**0.21**	—
Interest and financing (2)	0.70 - 0.90	0.75 - 0.90	**0.84**	—
Current income tax expense (recovery), as a per cent of funds from operations	2 - 7	(3) - 2	**(3)**	—
Capital expenditures before land purchases and net property acquisitions (dispositions) ($ millions)	775	700	**387.9**	N/A
Weighted average shares (millions)	353	353	**353**	—

(1) 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 G&A expense is subject to greater volatility.
(2) Excludes accretion of asset retirement obligations ("ARO").

ARC's 2019 guidance is based on full-year 2019 estimates; certain variances exist between 2019 year-to-date actual results and 2019 full-year guidance estimates due to the cyclical and seasonal nature of operations. ARC expects full-year 2019 actual results to closely approximate revised guidance.

Production variances from revised guidance at June 30, 2019 include:

- 2019 year-to-date natural gas production is below the 2019 guidance range. As incremental production at Sunrise is brought on-stream through the second half of the year, ARC expects that natural gas production will trend towards guidance.
- 2019 year-to-date NGLs production is above the 2019 guidance range due to strong results from lower Montney development across ARC's Montney asset base.

Exhibit 2

2019 Revised Production Guidance

Exhibit 2a

2019 Revised Expense Guidance

The guidance information presented 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 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Financial Highlights

Table 3

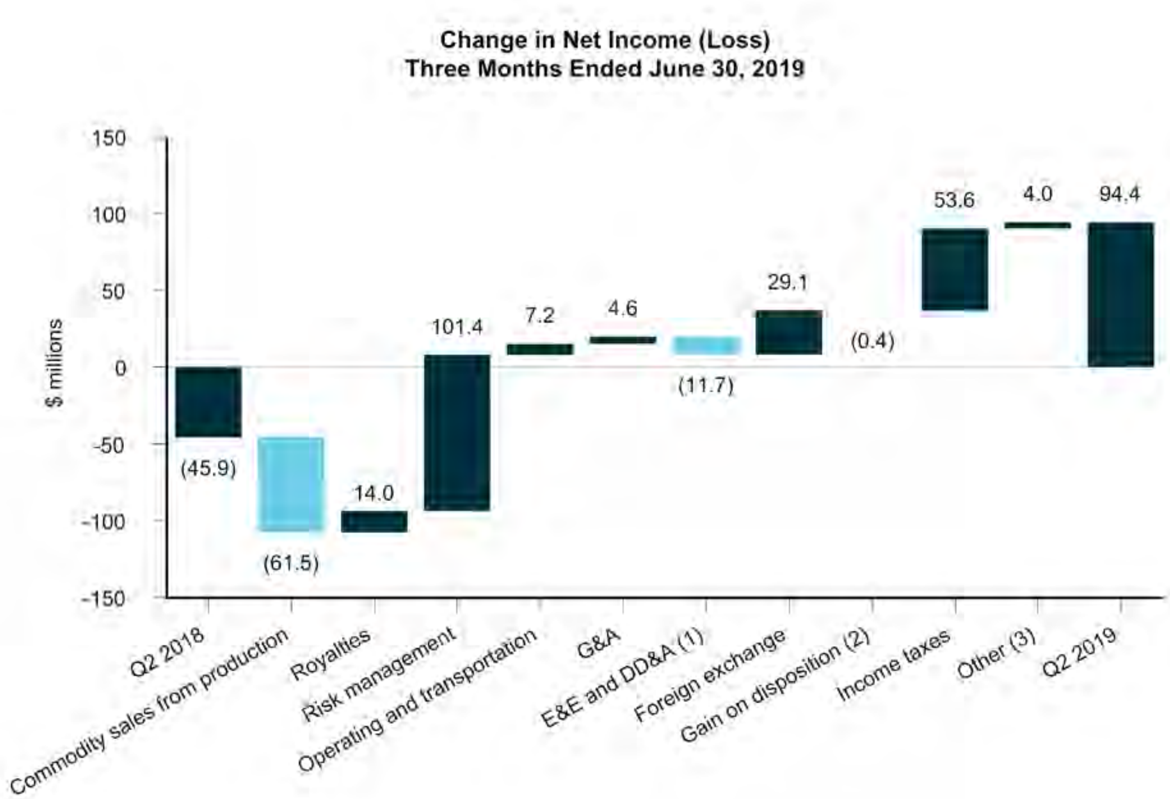
	Three Months Ended				Six Months Ended		
($ millions, except per share and volume data)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
Net income (loss)	(54.6)	**94.4**	(45.9)	306	**39.8**	9.0	342
Net income (loss) per share	(0.15)	**0.27**	(0.13)	308	**0.11**	0.03	267
Funds from operations (1)	186.2	**193.0**	204.4	(6)	**379.2**	405.4	(6)
Funds from operations per share (1)	0.53	**0.54**	0.58	(7)	**1.07**	1.15	(7)
Dividends per share (2)	0.15	**0.15**	0.15	—	**0.30**	0.30	—
Average daily production (boe/d)	139,054	**134,938**	127,879	6	**136,985**	129,439	6

(1) Refer to Note 12 "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 second quarter of 2019, ARC recognized net income of $94.4 million ($0.27 per share), an increase of $140.3 million over ARC's second quarter 2018 net loss of $45.9 million (loss of $0.13 per share). The increase in net income is primarily due to a gain on risk management contracts of $9.0 million compared to a loss of $92.4 million in the second quarter of 2018, as well as an increase in income tax recovery of $53.6 million from the second quarter of 2018. This was partially offset by a decrease in commodity sales from production of $61.5 million from the second quarter of 2018.

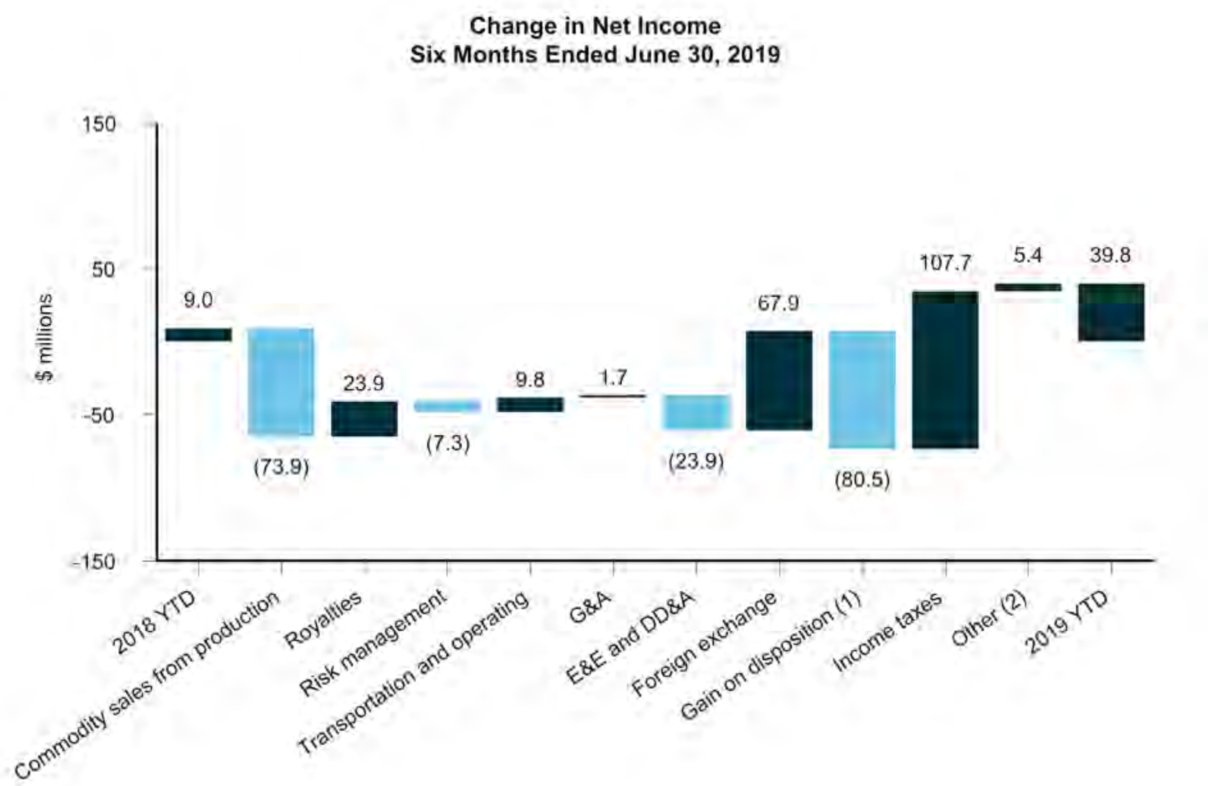
Exhibit 3



(1) Includes Depletion, depreciation and amortization ("DD&A") and impairment.
(2) Includes gains related to disposals of Property, plant and equipment ("PP&E").
(3) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, and interest and financing charges.

Net income for the six months ended June 30, 2019 was $39.8 million compared to $9.0 million during the first half of the prior year. The $30.8 million increase is primarily attributed to a foreign exchange gain of $28.8 million compared to a foreign exchange loss of $39.1 million in the prior year and an income tax recovery of $87.6 million compared to an income tax expense of $20.1 million in the first half of the prior year. Partially offsetting these items are lower revenue from commodity sales of $73.9 million and no recorded gain on disposition in the first half of 2019 compared to $80.5 million recognized in the first half of the prior year.

Exhibit 3a



(1) Includes gains related to disposals of PP&E.
(2) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, and interest and financing charges.

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.

ARC reports funds from operations in total and on a per share basis. Refer to Note 12 "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			Six Months Ended	
($ millions)	March 31, 2019	**June 30, 2019**	June 30, 2018	**June 30, 2019**	June 30, 2018
Net income (loss)	(54.6)	**94.4**	(45.9)	**39.8**	9.0
Adjusted for the following non-cash items:					
DD&A and impairment	139.0	**143.7**	128.5	**282.7**	254.6
Accretion of ARO	1.9	**1.9**	3.2	**3.8**	6.8
E&E expense	—	**—**	3.5	**—**	4.2
Deferred tax recovery	(30.2)	**(47.4)**	(23.0)	**(77.6)**	(0.9)
Unrealized loss on risk management contracts	146.5	**15.2**	122.1	**161.7**	168.2
Unrealized loss (gain) on foreign exchange	(17.7)	**(15.7)**	15.7	**(33.4)**	42.6
Gain on disposal of petroleum and natural gas properties	—	**—**	(0.4)	**—**	(80.5)
Other	1.3	**0.9**	0.7	**2.2**	1.4
Funds from operations	186.2	**193.0**	204.4	**379.2**	405.4
Net change in other liabilities	0.8	**(7.9)**	(0.4)	**(7.1)**	(6.4)
Change in non-cash working capital	(58.7)	**8.7**	4.6	**(50.0)**	9.2
Cash flow from operating activities	128.3	**193.8**	208.6	**322.1**	408.2

Details of the change in funds from operations from the three and six months ended June 30, 2018 to the three and six months ended June 30, 2019 are included in Table 5 below:

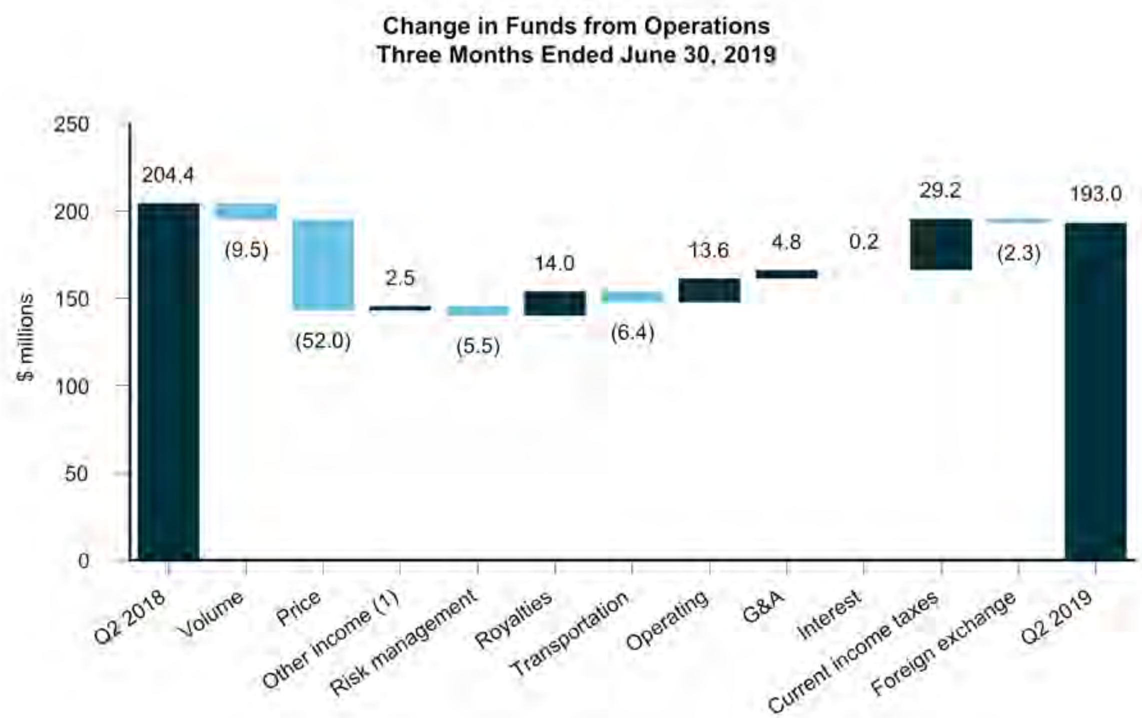
Table 5

	Three Months Ended June 30		Six Months Ended June 30	
	$ millions	$/Share	$ millions	$/Share
Funds from operations – 2018	204.4	0.58	405.4	1.15
Volume variance				
Crude oil and liquids	**(20.0)**	**(0.06)**	**(41.2)**	**(0.11)**
Natural gas	**10.5**	**0.03**	**25.0**	**0.07**
Price variance				
Crude oil and liquids	**(42.8)**	**(0.12)**	**(65.5)**	**(0.19)**
Natural gas	**(9.2)**	**(0.02)**	**7.8**	**0.02**
Sales of commodities purchased from third parties	**(5.3)**	**(0.01)**	**(14.7)**	**(0.04)**
Interest income	**0.2**	**—**	**0.8**	**—**
Other income	**0.9**	**—**	**1.0**	**—**
Realized gain on risk management contracts	**(5.5)**	**(0.02)**	**(13.8)**	**(0.04)**
Royalties	**14.0**	**0.04**	**23.9**	**0.07**
Expenses				
Commodities purchased from third parties	**6.7**	**0.02**	**15.1**	**0.04**
Operating	**13.6**	**0.04**	**22.4**	**0.06**
Transportation	**(6.4)**	**(0.02)**	**(12.6)**	**(0.04)**
G&A	**4.8**	**0.01**	**2.5**	**0.01**
Interest and financing (1)	**0.2**	**—**	**0.2**	**—**
Current income taxes	**29.2**	**0.08**	**31.0**	**0.09**
Realized gain on foreign exchange	**(2.3)**	**(0.01)**	**(8.1)**	**(0.02)**
Funds from operations – 2019	**193.0**	**0.54**	**379.2**	**1.07**

(1) Excludes accretion of ARO

Funds from operations decreased by six per cent in the second quarter of 2019 to $193.0 million ($0.54 per share) from $204.4 million ($0.58 per share) generated in the second quarter of 2018. The decrease primarily reflects weaker commodity prices, lower crude oil production, a lower realized gain on risk management contracts, and higher transportation expense. Increased natural gas production, lower royalties, operating and current income tax expense partially offset the decrease.

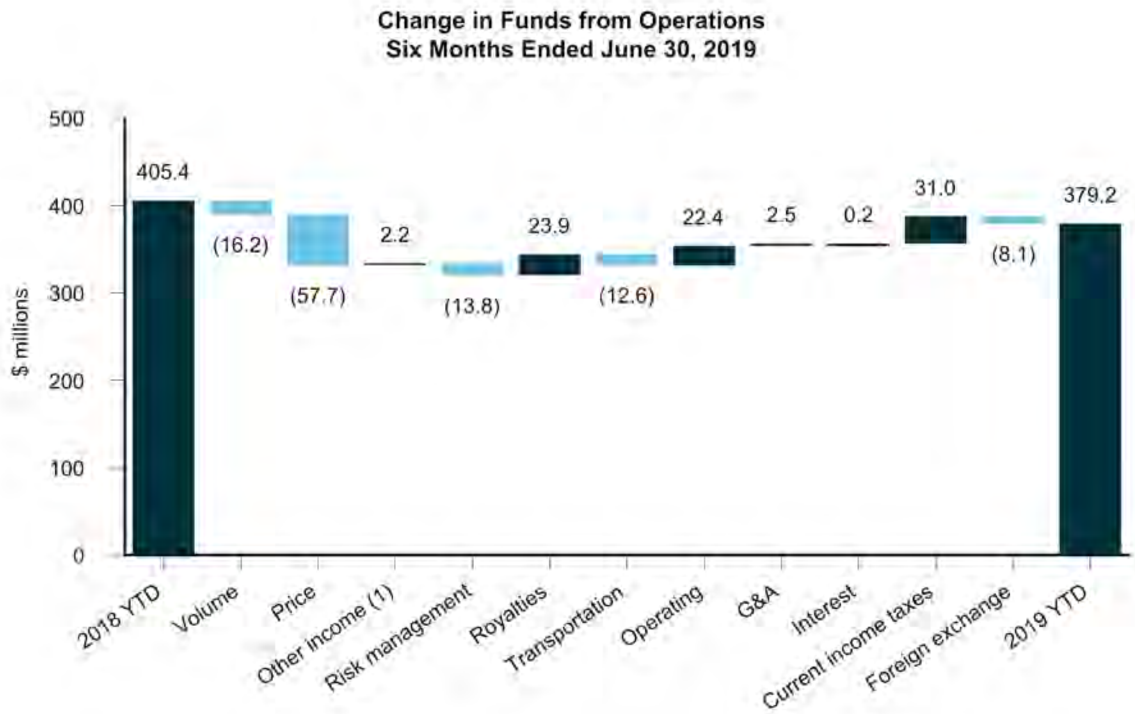
Exhibit 4



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

For the six months ended June 30, 2019, funds from operations decreased by $26.2 million to $379.2 million ($1.07 per share) from $405.4 million ($1.15 per share) in the same period of 2018. The decrease primarily reflects decreased crude oil production, decreased crude oil and liquids prices, a lower realized gain on risk management contracts, higher transportation expense and a lower realized foreign exchange gain. Higher natural gas prices and lower royalties, operating and current income tax expenses 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.

2019 Net Income and Funds from Operations Sensitivity

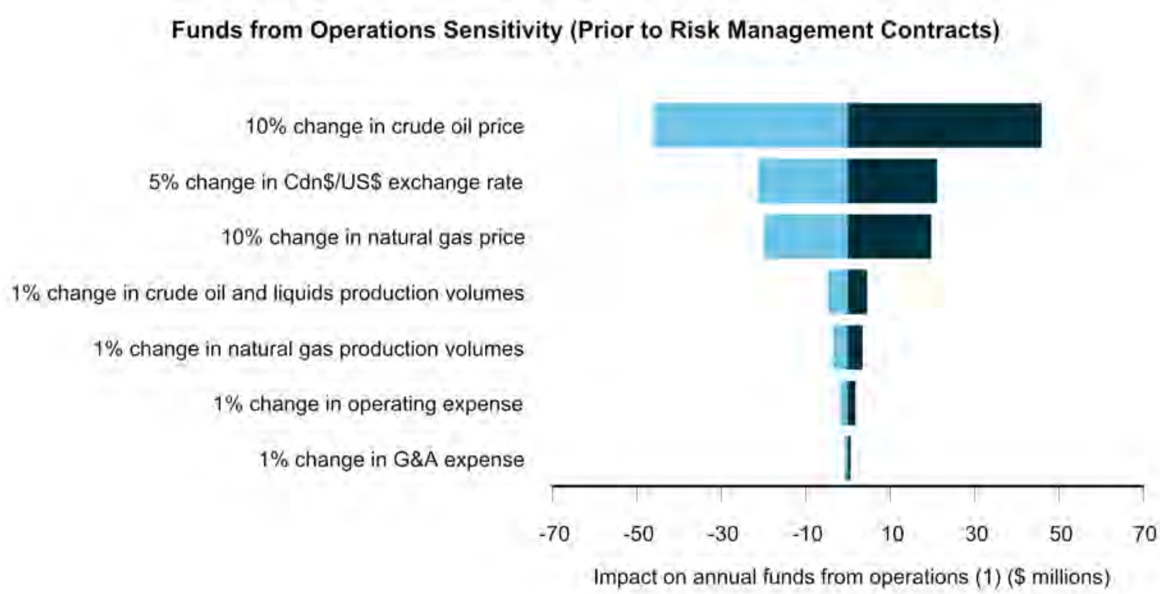
Table 6 illustrates sensitivities of operating items (prior to the impact of risk management contracts) to operational and business environment changes and the resulting impact on net income and funds from operations:

Table 6

			Impact on Annual Funds from Operations (5)		Impact on Annual Net Income	
	Assumption	Change	Notional Amount ($ millions)	$/Share	Notional Amount ($ millions)	$/Share
Business Environment (1)						
Crude oil price (2)	67.01	10%	46.0	0.130	46.0	0.130
Natural gas price (2)	2.28	10%	19.8	0.056	19.8	0.056
Cdn$/US$ exchange rate (2)(3)	1.33	5%	21.2	0.060	21.2	0.060
Operational (4)						
Crude oil and liquids production volumes (bbl/d)	34,598	1%	4.6	0.013	2.8	0.008
Natural gas production volumes (MMcf/d)	614.2	1%	3.5	0.010	1.1	0.003
Operating expense ($/boe)	5.15	1%	1.8	0.005	1.8	0.005
G&A expense ($/boe)	1.38	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 six months ended June 30, 2019. Refer to Table 11 contained within this MD&A for additional details. The calculated impact on funds from operations and net income would only be applicable within a limited range of these amounts.
(3) Includes impact of foreign exchange on natural gas, crude oil, condensate, and NGLs prices that are presented in US dollars.
(4) Operational assumptions are based upon results for the six months ended June 30, 2019.
(5) Refer to Note 12 "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 12 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Production

Table 7

Production	Three Months Ended March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	Six Months Ended **June 30, 2019**	June 30, 2018	% Change
Light and medium crude oil (bbl/d)	17,866	**17,585**	24,017	(27)	**17,724**	24,137	(27)
Heavy crude oil (bbl/d)	385	**687**	876	(22)	**537**	828	(35)
Condensate (bbl/d)	8,210	**10,230**	6,960	47	**9,226**	6,236	48
Natural gas (MMcf/d)	632.5	**596.4**	537.9	11	**614.2**	551.3	11
NGLs (bbl/d)	7,183	**7,041**	6,380	10	**7,111**	6,356	12
Total production (boe/d)	139,054	**134,938**	127,879	6	**136,985**	129,439	6
Natural gas production (%)	76	**74**	70	4	**75**	71	4
Crude oil and liquids production (%)	24	**26**	30	(4)	**25**	29	(4)

For the three and six months ended June 30, 2019, crude oil and liquids production decreased seven per cent and eight per cent, respectively, as compared to the same periods in the prior year. Increases in condensate and NGLs production were more than offset by lower crude oil production. The decrease in crude oil production is primarily due to the sale of non-core assets throughout 2018.

For both the three and six months ended June 30, 2019, natural gas production increased 11 per cent as compared to the same periods in the prior year. The increases were largely driven by the start-up of the Sunrise Phase II gas processing facility during the third quarter of 2018, as well as continued drilling and completions activity in northeast British Columbia and Ante Creek in Alberta.

Exhibit 6

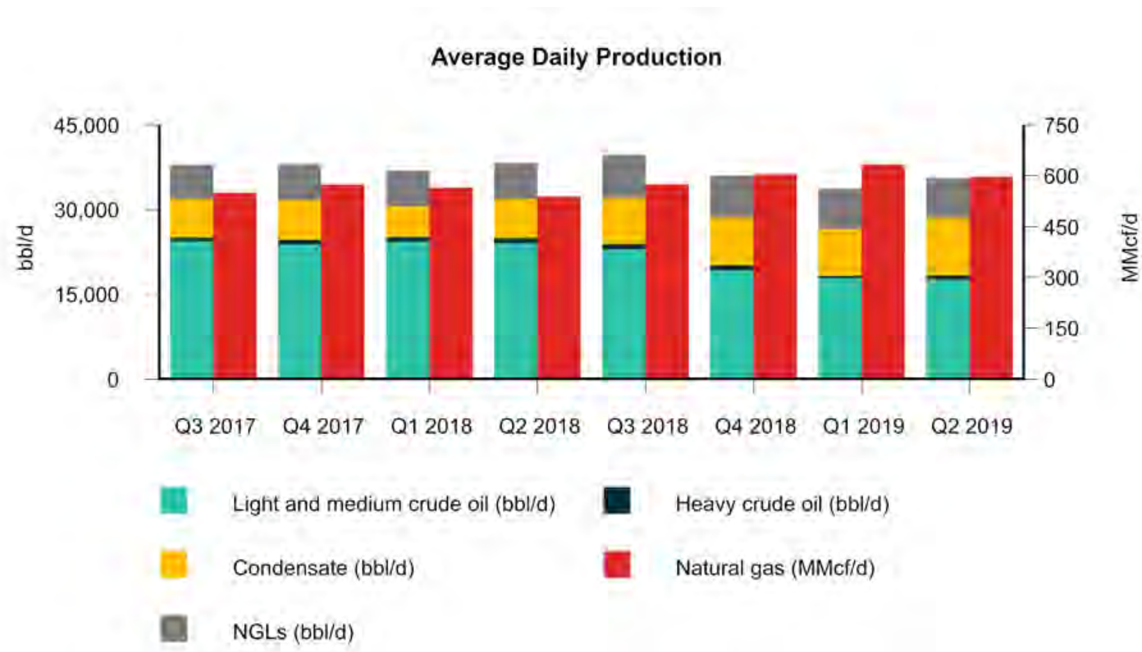


Table 8 summarizes ARC's production by core area for the second quarter of 2019 and 2018:

Table 8

	Three Months Ended June 30, 2019				
Production	**Total**	**Crude Oil**	**Condensate**	**Natural Gas**	**NGLs**
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	**43,527**	—	2,483	237.1	1,524
Parkland/Tower	**32,561**	3,720	5,439	118.7	3,614
Sunrise	**27,513**	—	67	164.5	29
Ante Creek	**16,359**	6,542	439	47.9	1,401
Pembina	**10,126**	7,731	138	11.2	395
Attachie West	**2,988**	—	1,541	8.4	46
All other	**1,864**	279	123	8.6	32
Total	**134,938**	**18,272**	**10,230**	**596.4**	**7,041**

	Three Months Ended June 30, 2018				
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	42,848	—	2,707	230.6	1,709
Parkland/Tower	26,631	6,184	1,718	96.7	2,613
Sunrise	22,519	—	102	134.3	34
Ante Creek	16,189	6,961	408	45.2	1,293
Pembina	11,122	8,575	165	11.3	491
Attachie West	2,514	—	1,594	5.4	16
All other	6,056	3,173	266	14.4	224
Total	127,879	24,893	6,960	537.9	6,380

Exhibit 7

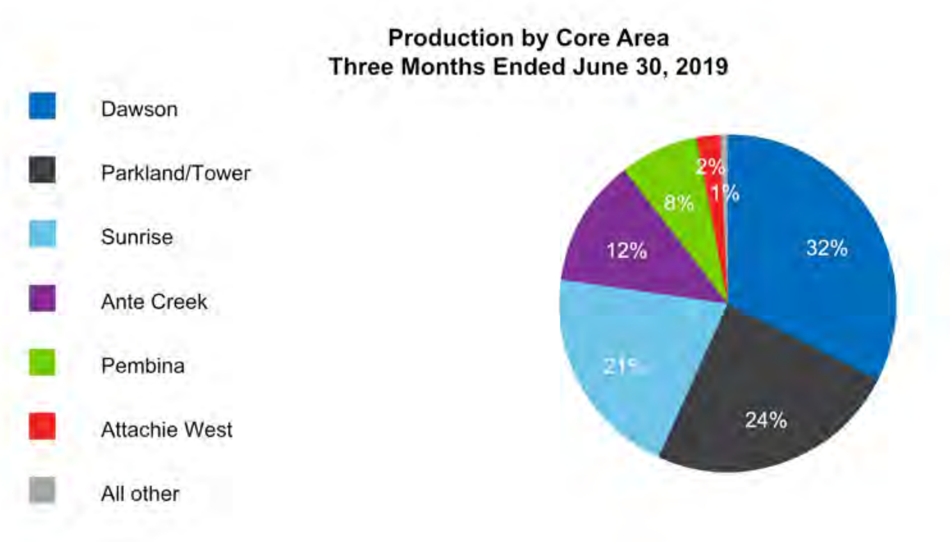


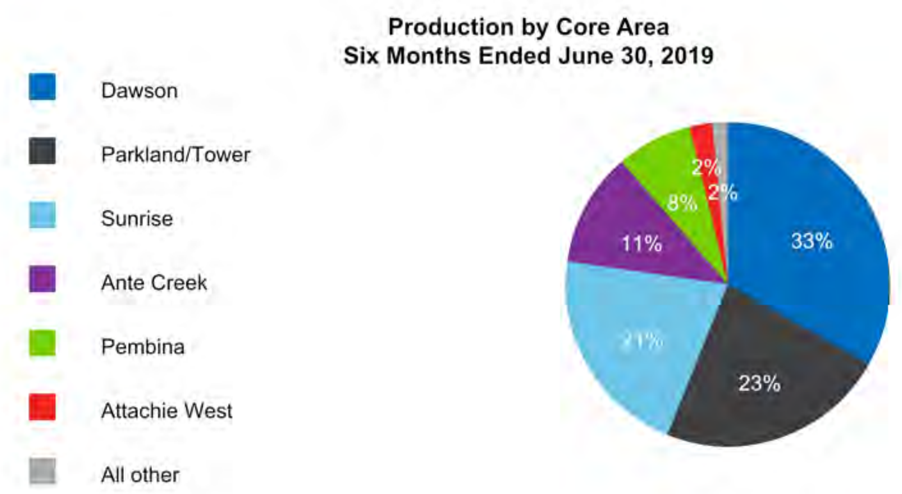
Table 8a summarizes ARC's production by core area for the six months ended June 30, 2019 and June 30, 2018:

Table 8a

	Six Months Ended June 30, 2019				
Production	**Total**	**Crude Oil**	**Condensate**	**Natural Gas**	**NGLs**
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	**45,476**	—	2,638	247.1	1,658
Parkland/Tower	**31,423**	4,115	4,157	117.5	3,564
Sunrise	**29,037**	—	56	173.7	28
Ante Creek	**15,592**	5,929	417	47.4	1,347
Pembina	**10,337**	7,895	145	11.1	442
Attachie West	**3,129**	—	1,656	8.6	34
All other	**1,991**	322	157	8.8	38
Total	**136,985**	**18,261**	**9,226**	**614.2**	**7,111**

	Six Months Ended June 30, 2018				
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Dawson	43,292	—	2,488	235.4	1,570
Parkland/Tower	28,074	6,312	1,831	103.3	2,722
Sunrise	22,242	—	75	132.8	31
Ante Creek	15,830	6,347	415	46.8	1,264
Pembina	11,230	8,696	162	11.4	477
Attachie West	1,550	—	944	3.6	12
All other	7,221	3,610	321	18.0	280
Total	129,439	24,965	6,236	551.3	6,356

Exhibit 7a



Commodity Sales from Production

During the three and six months ended June 30, 2019, commodity sales from production decreased by 18 per cent and 11 per cent compared to the same periods in 2018. The decrease primarily reflects lower average realized commodity prices and lower crude oil production, partially offset by increased condensate production.

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

Table 9

	Three Months Ended				Six Months Ended		
Commodity Sales from Production ($ millions)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
Crude oil	104.7	**116.8**	178.0	(34)	**221.5**	334.6	(34)
Condensate	47.9	**66.4**	53.9	23	**114.3**	92.3	24
Natural gas [(1)]	158.8	**94.7**	93.4	1	**253.5**	220.7	15
NGLs	16.4	**5.0**	19.1	(74)	**21.4**	37.0	(42)
Total commodity sales from production	327.8	**282.9**	344.4	(18)	**610.7**	684.6	(11)

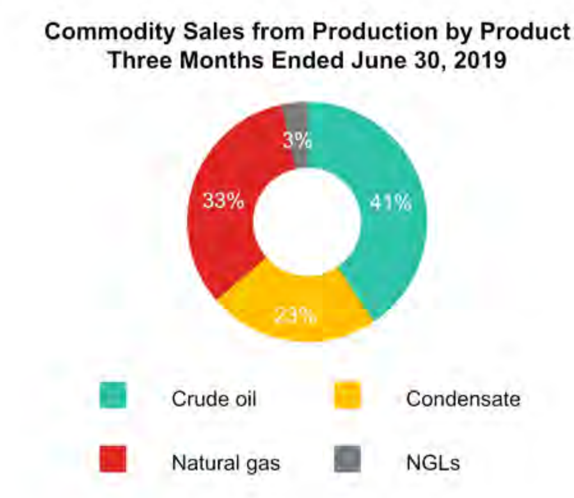
(1) Includes $3.4 million and $8.0 million of natural gas transportation revenue from contracts assigned temporarily to third parties for the three and six months ended June 30, 2019 ($nil for both the three and six months ended June 30, 2018), respectively.

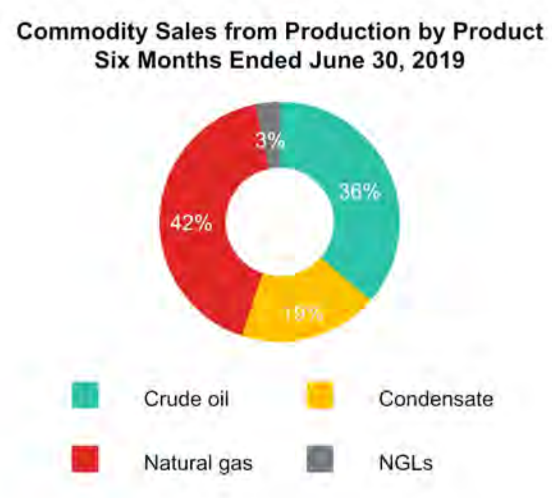
While ARC's production mix, on a per boe basis, is weighted more heavily to natural gas than to crude oil and liquids, ARC's commodity sales contribution is more heavily weighted to its crude oil and liquids production as seen in Table 10:

Table 10

	Three Months Ended			Six Months Ended	
% of Commodity Sales from Production by Product Type	March 31, 2019	**June 30, 2019**	June 30, 2018	**June 30, 2019**	June 30, 2018
Crude oil and liquids	52	**67**	73	**58**	68
Natural gas	48	**33**	27	**42**	32
Total commodity sales from production	100	**100**	100	**100**	100

Exhibit 8





Commodity Prices

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

Table 11

	Three Months Ended				Six Months Ended		
	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
Average Benchmark Prices							
NYMEX Henry Hub Last Day Settlement (US$/MMBtu)	3.15	**2.64**	2.80	(6)	**2.89**	2.90	—
Chicago Citygate Monthly Index (US$/MMBtu)	3.32	**2.45**	2.58	(5)	**2.89**	2.93	(1)
AECO 7A Monthly Index (Cdn$/Mcf)	1.94	**1.17**	1.03	14	**1.56**	1.44	8
WTI crude oil (US$/bbl)	54.90	**59.91**	67.91	(12)	**57.45**	65.46	(12)
Cdn$/US$ exchange rate	1.33	**1.34**	1.29	4	**1.33**	1.28	4
WTI crude oil (Cdn$/bbl)	73.02	**80.28**	87.60	(8)	**76.41**	83.79	(9)
Mixed Sweet Blend ("MSW") Price at Edmonton (Cdn$/bbl)	66.46	**73.98**	80.63	(8)	**64.07**	76.45	(16)
Condensate Stream Price at Edmonton (Cdn$/bbl)	67.14	**74.85**	88.54	(15)	**64.78**	83.88	(23)
ARC Average Realized Prices Prior to Gain or Loss on Risk Management Contracts							
Crude oil ($/bbl)	63.72	**70.26**	78.57	(11)	**67.01**	74.05	(10)
Condensate ($/bbl)	64.81	**71.38**	85.10	(16)	**68.47**	81.73	(16)
Natural gas ($/Mcf)	2.79	**1.74**	1.91	(9)	**2.28**	2.21	3
NGLs ($/bbl)	25.43	**7.71**	32.98	(77)	**16.61**	32.20	(48)
Total average realized commodity price prior to gain or loss on risk management contracts ($/boe)	26.20	**23.04**	29.59	(22)	**24.63**	29.22	(16)

Benchmark Commodity Prices

Average global crude oil prices increased in the second quarter of 2019 compared to the prior quarter, due to planned and unplanned global crude oil supply outages and dissipating concerns of an economic slowdown. Global crude oil prices decreased near the end of the quarter as weak economic indicators across the world revived concerns of a decrease in global crude oil demand. Global crude oil prices decreased in the second quarter of 2019 compared to the second quarter of 2018, as the impacts of US-imposed sanctions on Iran fell short of expectations and protectionist measures put downward pressure on global gross domestic product and crude oil demand.

Canadian stream prices improved throughout the second quarter of 2019 compared to the prior quarter due to the Alberta government-mandated, province-wide crude oil production curtailments which took effect in January 2019. MSW pricing in the second quarter of 2019 decreased relative to the second quarter of 2018 primarily due to a lower global benchmark price.

A transition to lower seasonal demand resulted in Henry Hub natural gas prices decreasing in the second quarter of 2019 compared to the prior quarter and the second quarter of 2018, due to a cooler-than-average start to the summer, which resulted in muted demand from the power generation sector. Weakness in near-term global gas prices has also put downward pressure on North American gas prices as an influx of new liquefied natural gas supply entered the world market during a period of tempered demand growth.

Western Canadian natural gas prices decreased in the second quarter of 2019 compared to the prior quarter, but increased compared to the second quarter of 2018. While local demand levels within the Western Canadian Sedimentary Basin are strong, elevated supply and egress constraints remain as ongoing issues. Third-party maintenance activities during the summer months continue to restrict flows and storage injections, putting downward pressure on local natural gas prices.

ARC's Realized Commodity Prices

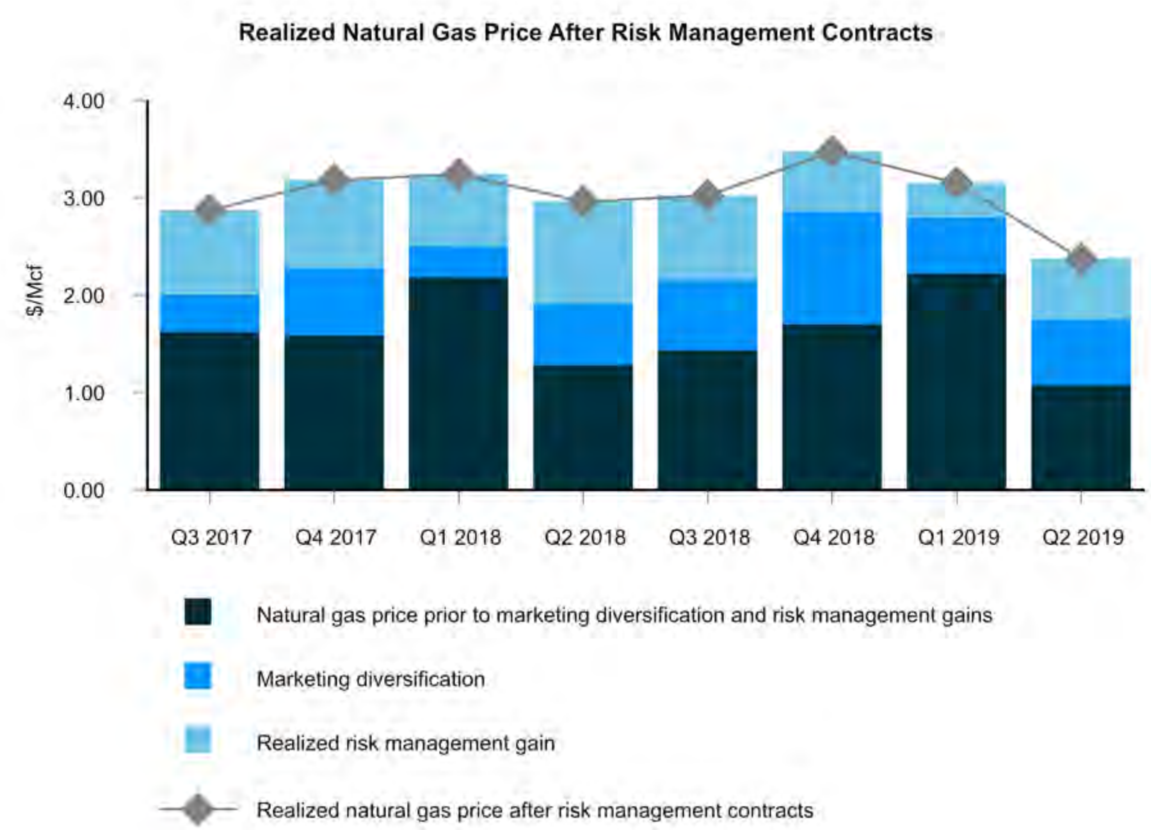
During the three and six months ended June 30, 2019, ARC's realized crude oil price decreased 11 per cent and 10 per cent, respectively, compared to the same periods in 2018. The decrease reflects a decrease of WTI benchmark prices of 12 per cent for both the three and six months ended June 30, 2019 compared to the same periods in 2018. ARC's realized condensate price for the three and six months ended June 30, 2019 decreased 16 per cent compared to the same periods in the prior year, due to lower WTI benchmark prices as well as wider condensate differentials.

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 realized natural gas price. ARC's realized natural gas price for the three and six months ended June 30, 2019 decreased by nine per cent and increased by three per cent, respectively, compared to the same periods in the prior year.

In the three and six months ended June 30, 2019, physical sales diversification activities added $0.67 per Mcf and $0.62 per Mcf as compared to $0.63 per Mcf and $0.48 per Mcf in the same periods in 2018. Additionally, a realized gain on natural gas risk management contracts added a further $0.63 per Mcf and $0.50 per Mcf for the three and six months ended June 30, 2019 ($1.05 per Mcf and $0.89 per Mcf for the same periods in 2018), which is not included in ARC's realized natural gas price. Including financial risk management contracts, less than 10 per cent of ARC's expected overall commodity sales revenue from production is exposed to the AECO and Station 2 markets for the balance of 2019.

Realized pricing for NGLs decreased $25.27 per boe (77 per cent) and $15.59 per boe (48 per cent) for the three and six months ended June 30, 2019 compared to the same periods in the prior year. The decrease reflects weaker supply and demand fundamentals for NGLs, and is primarily related to lower butane pricing in the Western Canadian market. The decrease in NGLs pricing from the three and six months ended June 30, 2018 to the three and six months ended June 30, 2019 resulted in decreases in Commodity sales from production of $14.1 million and $15.6 million, respectively.

Exhibit 9



Risk Management Contracts

Table 12 summarizes the total gain or loss on risk management contracts for the second quarter of 2019 compared to the same period in 2018:

Table 12

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**Q2 2019 Total**	Q2 2018 Total
Realized gain (loss) on contracts (1)	(9.6)	34.0	(0.2)	**24.2**	29.7
Unrealized gain (loss) on contracts (2)	29.2	(44.9)	0.5	**(15.2)**	(122.1)
Gain (loss) on risk management contracts	**19.6**	**(10.9)**	**0.3**	**9.0**	(92.4)

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

Table 12a summarizes the total gain or loss on risk management contracts for the six months ended June 30, 2019 compared to the same period in 2018:

Table 12a

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**2019 Total**	2018 Total
Realized gain (loss) on contracts (1)	(9.6)	54.3	(0.2)	**44.5**	58.3
Unrealized gain (loss) on contracts (2)	(47.6)	(117.2)	3.1	**(161.7)**	(168.2)
Gain (loss) on risk management contracts	**(57.2)**	**(62.9)**	**2.9**	**(117.2)**	(109.9)

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

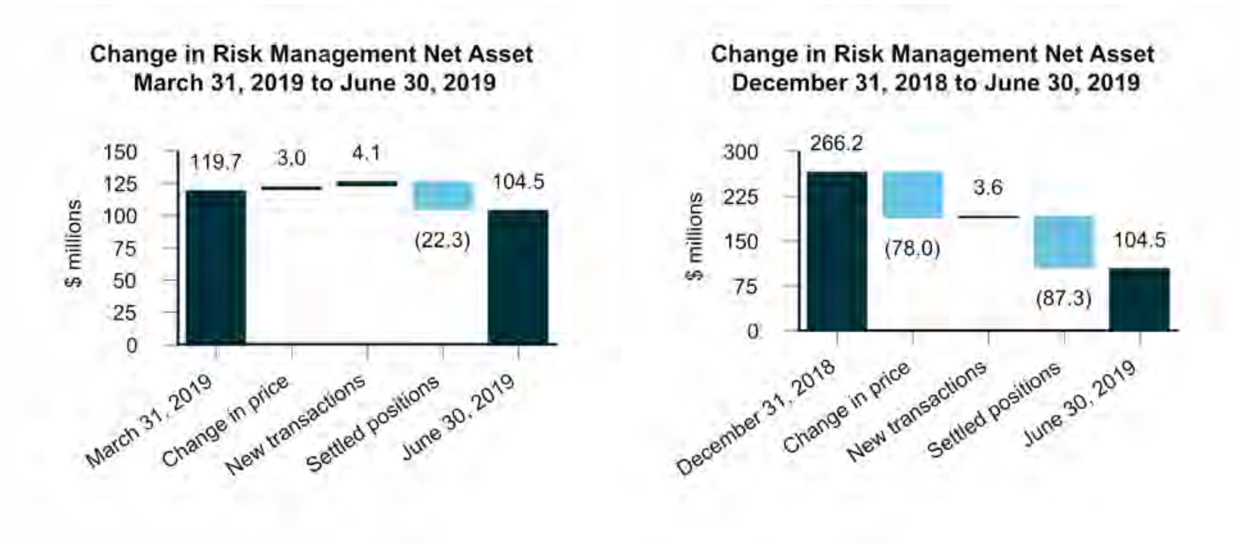
For the three and six months ended June 30, 2019, ARC's realized gain on risk management contracts primarily reflects positive cash settlements received on AECO and NYMEX Henry Hub natural gas contracts. This is partially offset by cash payments made on WTI crude oil contracts related to higher WTI realized pricing during the period.

ARC's unrealized gain on crude oil contracts for the three months ended June 30, 2019 reflects lower forward WTI pricing and a stronger Canadian dollar relative to the US dollar compared to the end of the previous quarter at March 31, 2019. During the six months ended June 30, 2019, the unrealized loss on crude oil contracts reflects higher forward WTI pricing compared to the end of the previous year at December 31, 2018.

ARC's unrealized loss on natural gas contracts for the three and six months ended June 30, 2019 reflects higher forward curves for AECO, a narrowing of the AECO, Chicago, and Malin basis curves as well as the positive settlement of expired positions. For more information, refer to Note 13 "Financial Instruments and Market Risk Management" in the financial statements.

The fair value of ARC's risk management contracts at June 30, 2019 was a net asset of $104.5 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 $101.0 million for natural gas contracts, a net asset of $3.7 million for crude oil contracts, and a net liability of $0.2 million for foreign currency contracts.

Exhibit 10



Netback

The components of netback for the three and six months ended June 30, 2019 compared to the same periods in 2018 are summarized in Tables 13 and 13a:

Table 13

	Three Months Ended				Six Months Ended		
Netback ($ millions) (1)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
Commodity sales from production	327.8	**282.9**	344.4	(18)	**610.7**	684.6	(11)
Royalties	(19.0)	**(15.7)**	(29.7)	(47)	**(34.7)**	(58.6)	(41)
Operating	(65.6)	**(62.0)**	(75.6)	(18)	**(127.6)**	(150.0)	(15)
Transportation	(37.0)	**(36.8)**	(30.4)	21	**(73.8)**	(61.2)	21
Netback	206.2	**168.4**	208.7	(19)	**374.6**	414.8	(10)
Realized gain on risk management contracts	20.3	**24.2**	29.7	(19)	**44.5**	58.3	(24)
Netback after gain on risk management contracts	226.5	**192.6**	238.4	(19)	**419.1**	473.1	(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.

Table 13a

	Three Months Ended				Six Months Ended		
Netback ($ per boe) (1)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
Commodity sales from production	26.20	**23.04**	29.59	(22)	**24.63**	29.22	(16)
Royalties	(1.52)	**(1.28)**	(2.55)	(50)	**(1.40)**	(2.50)	(44)
Operating	(5.24)	**(5.05)**	(6.50)	(22)	**(5.15)**	(6.40)	(20)
Transportation	(2.96)	**(3.00)**	(2.61)	15	**(2.97)**	(2.61)	14
Netback	16.48	**13.71**	17.93	(24)	**15.11**	17.71	(15)
Realized gain on risk management contracts	1.62	**1.97**	2.55	(23)	**1.79**	2.49	(28)
Netback after gain on risk management contracts	18.10	**15.68**	20.48	(23)	**16.90**	20.20	(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.

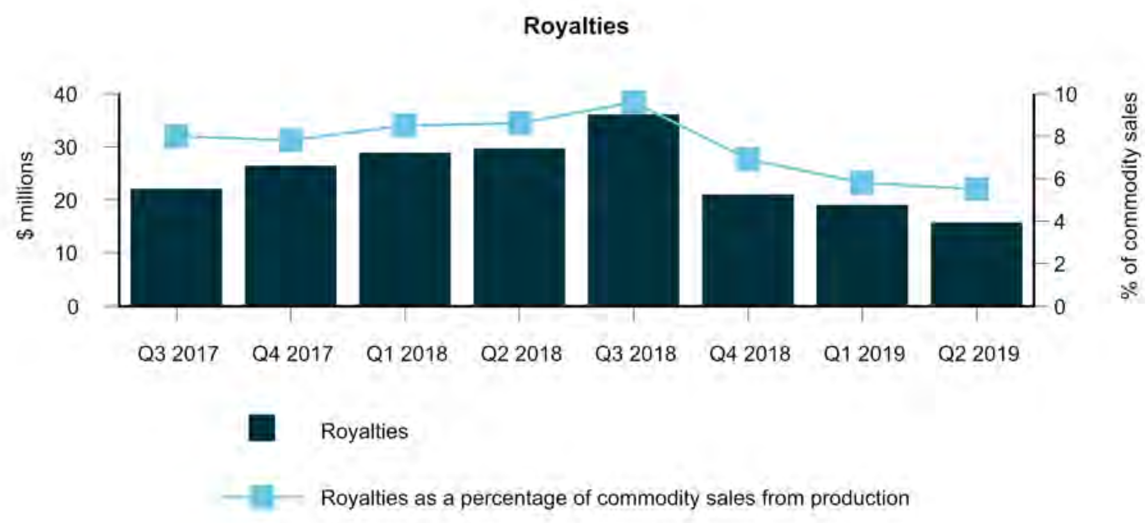
Exhibit 11

(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 and six months ended June 30, 2019 were $15.7 million and $34.7 million ($29.7 million and $58.6 million for the same periods in 2018), respectively. As a percentage of commodity sales from production, royalties decreased to 5.5 per cent ($1.28 per boe) in the second quarter of 2019 from 8.6 per cent ($2.55 per boe) in the second quarter of 2018. For the six months ended June 30, 2019, royalties represented 5.7 per cent of commodity sales from production ($1.40 per boe) as compared to 8.6 per cent ($2.50 per boe) in the same period in 2018. The decrease in total royalties and royalties as a percentage of commodity sales from production for the three and six months ended June 30, 2019, is reflective of a lower royalty rate for crude oil due to decreased commodity prices compared to the same period in 2018. The increase in ARC's natural gas production is also a contributing factor as natural gas is generally subject to lower royalty rates compared to crude oil and liquids.

Exhibit 12



Operating

Operating expense decreased by $13.6 million in the second quarter of 2019 to $62.0 million as compared to $75.6 million in the second quarter of 2018. For the six months ended June 30, 2019, operating expense decreased by $22.4 million to $127.6 million as compared to $150.0 million in the same period of the prior year. The decrease in operating expense for the three and six months ended June 30, 2019 is primarily due to various dispositions of non-core assets throughout 2018.

On a per boe basis, operating expense decreased $1.45 per boe to $5.05 per boe in the second quarter of 2019 compared to $6.50 per boe in the second quarter of 2018. For the six months ended June 30, 2019 operating expense decreased by $1.25 per boe to $5.15 per boe compared to $6.40 per boe in the six months ended June 30, 2018. Operating expense on a per boe basis continues to decrease as ARC grows production in areas with lower average operating expense and disposes of non-core properties with higher average operating expense.

Lease payments of $0.4 million and $0.8 million for the three and six months ended June 30, 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 and six months ended June 30, 2019 was $36.8 million and $73.8 million ($30.4 million and $61.2 million for the three and six months ended June 30, 2018), respectively. On a per boe basis, transportation expense for the three and six months ended June 30, 2019 was $3.00 per boe and $2.97 per boe ($2.61 per boe for both the three and six months ended June 30, 2018), respectively. The increase for the three and six months ended June 30, 2019 relative to the same periods in 2018 primarily reflects higher trucking charges and pipeline tariffs related to increased condensate and natural gas 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, however these costs are directly offset by increases to commodity sales from production. 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 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 18 "Commitments and Contingencies" in the financial statements.

Exhibit 14

G&A Expense and Share-Based Compensation

G&A expense before share-based compensation expense decreased by nine per cent to $13.5 million in the second quarter of 2019 from $14.9 million in the second quarter of 2018. For the six months ended June 30, 2019, ARC's G&A before share-based compensation was $29.1 million, a $1.1 million decrease from $30.2 million in the same period of 2018. Office lease payments of $1.9 million and $3.9 million for the three and six months ended June 30, 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. Additionally, there was a decrease in the value of the DSU Plan resulting in lower director's compensation expense, which was partially offset by lower capitalized G&A and increased corporate costs.

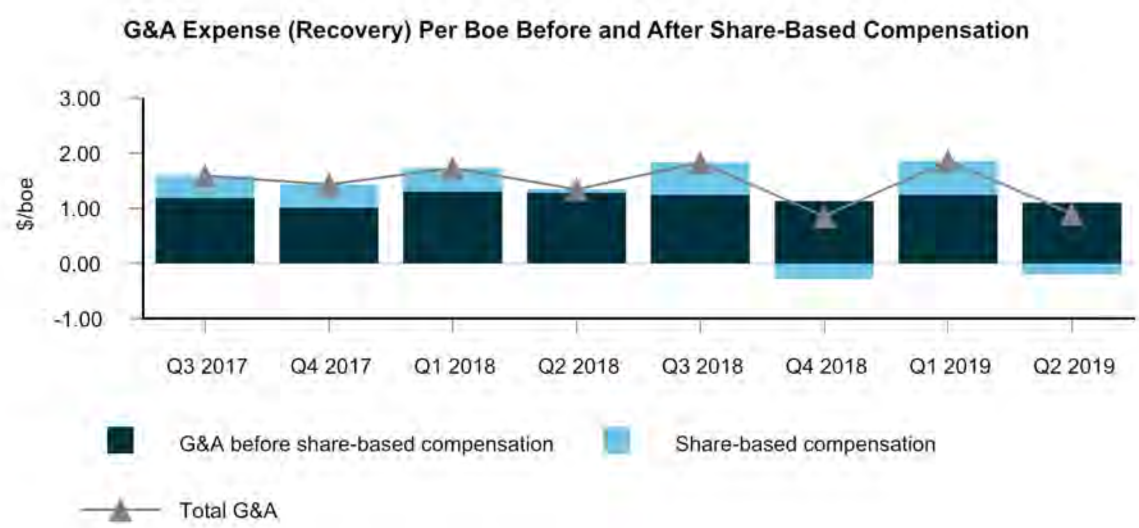
Table 14 is a breakdown of G&A and share-based compensation expense:

Table 14

	Three Months Ended				Six Months Ended		
G&A and Share-Based Compensation ($ millions, except per boe)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
G&A expense before share-based compensation expense [1]	15.6	**13.5**	14.9	(9)	**29.1**	30.2	(4)
G&A – share-based compensation expense [2]	7.7	**(2.5)**	0.7	(457)	**5.2**	5.8	(10)
Total G&A expense	23.3	**11.0**	15.6	(29)	**34.3**	36.0	(5)
G&A expense before share-based compensation expense per boe	1.24	**1.10**	1.28	(14)	**1.17**	1.29	(9)
G&A – share-based compensation expense per boe	0.62	**(0.20)**	0.06	(433)	**0.21**	0.25	(16)
Total G&A expense per boe	1.86	**0.90**	1.34	(33)	**1.38**	1.54	(10)

(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

For a description of ARC's various share-based compensation plans and related accounting policies, refer to Note 3 "Summary of Accounting Policies" and Note 21 "Share-Based Compensation Plans" of ARC's audited consolidated financial statements as at and for the year ended December 31, 2018.

Changes to Share-Based Compensation Plans

In 2018, the Human Resources and Compensation Committee of ARC's Board of Directors ("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 six months ended June 30, 2019, performance multipliers associated with PSUs will be determined using two criteria. 50 per cent will be awarded based on relative total shareholder return performance compared to a defined peer group and 50 per cent will be awarded dependent on an overall assessment of achievements based on a predetermined corporate scorecard. Performance multipliers associated with PSU awards that were granted prior to March 7, 2019 will not be affected by this change.

In conjunction with the independent third-party review, ARC has suspended its Share Option program. No grants will be made under the Share Option Plan in 2019. Outstanding share option grants will continue to vest on schedule.

Restricted Share Unit and Performance Share Unit Plans

At June 30, 2019, ARC had 1.6 million RSUs and 2.6 million PSUs outstanding under these plans. For the three and six months ended June 30, 2019, ARC recognized a G&A recovery of $4.5 million and G&A expense of $2.0 million in relation to the RSU and PSU Plans (G&A recovery of $1.3 million and G&A expense of $2.6 million for the three and six months ended June 30, 2018), respectively. The decrease in expense recognized for the three and six months ended June 30, 2019 as compared to the same periods in 2018 is due to the change in valuation of awards outstanding throughout the respective periods. At June 30, 2019, ARC's share price on the Toronto Stock Exchange ("TSX") was $6.41, a 30 per cent decrease from the share price of $9.12 at March 31, 2019 and a 21 per cent decrease from $8.10 at December 31, 2018. This compares to a three percent decrease and an eight per cent decrease per share outstanding during the same periods of the prior year. The value of ARC's performance multiplier, applicable to its PSU awards, also decreased for the three and six months ended June 30, 2019 compared to the prior year, primarily from the decline of ARC's total return performance relative to the total return performance of its peers.

During the six months ended June 30, 2019, ARC made cash payments of $4.5 million in respect of the RSU and PSU Plans ($8.1 million for the six months ended June 30, 2018). Of these payments, $3.5 million were in respect of amounts recognized as G&A ($6.4 million for the six months ended June 30, 2018) and $1.0 million were in respect of amounts recognized as Operating and capitalized as PP&E and E&E ($1.7 million for the six months ended June 30, 2018). These amounts were accrued in prior periods.

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

Table 15

RSU and PSU Plans (number of units, thousands)	**RSUs**	**PSUs Granted Prior to March 7, 2019** (1)	**PSUs Granted Subsequent to March 6, 2019** (1)	**Total RSUs and PSUs**
Balance, December 31, 2018	942	2,270	—	3,212
Granted	**924**	**—**	**824**	**1,748**
Distributed	**(217)**	**(273)**	**—**	**(490)**
Forfeited	**(46)**	**(217)**	**(35)**	**(298)**
Balance, June 30, 2019	**1,603**	**1,780**	**789**	**4,172**

(1) Based on underlying units before any effect of the performance multiplier.

Due to the variability in the expected future payments under the plans, ARC estimates that between $10.3 million and $43.2 million will be paid out in 2019 through 2022 based on the current share price, accrued dividends, and ARC’s market performance relative to its peers. 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 units outstanding under the RSU and PSU Plans as at June 30, 2019:

Table 16

Value of RSU and PSU Plans as at June 30, 2019	Performance Multiplier		
(units thousands and $ millions, except per share)	**—**	**1.0**	**2.0**
Estimated units to vest (1)			
RSUs	1,603	1,603	1,603
PSUs (2)	—	2,569	5,138
Total units	**1,603**	**4,172**	**6,741**
Share price (3)	6.41	6.41	6.41
Value of RSU and PSU Plans upon vesting	**10.3**	**26.7**	**43.2**
2019	1.4	3.2	5.0
2020	3.9	8.1	12.2
2021	3.1	9.0	14.9
2022	1.9	6.4	11.1

(1) Includes additional estimated units 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 of $6.41, which is based on the TSX closing share price at June 30, 2019.

Share Option Plan

At June 30, 2019, ARC had 5.1 million share options outstanding, representing 1.5 per cent of outstanding shares, with a weighted average exercise price of $17.56 per share. At June 30, 2019, approximately 1.3 million share options were exercisable with a weighted average exercise price of $23.31 per share. ARC recognized compensation expense of $0.9 million and $2.0 million relating to the Share Option Plan for the three and six months ended June 30, 2019 ($1.1 million and $2.1 million for the three and six months ended June 30, 2018), respectively.

Long-term Restricted Share Award Plan

At June 30, 2019, ARC had 0.7 million restricted shares outstanding under this plan. ARC recognized G&A expense of $1.1 million and $1.3 million relating to the LTRSA Plan during the three and six months ended June 30, 2019 ($0.9 million and $1.1 million for the three and six months ended June 30, 2018), respectively.

Deferred Share Unit Plan

At June 30, 2019, ARC had 0.8 million DSUs outstanding under this plan. For the three and six months ended June 30, 2019, a G&A recovery of $1.3 million and $nil was recognized in relation to the DSU Plan (G&A expense of $0.4 million and $1.3 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 six months ended June 30, 2019, ARC made cash payments of $0.1 million in respect of the DSU plan ($nil for the six months ended ended June 30, 2018).

Interest and Financing

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

Table 17

Interest and Financing ($ millions)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	June 30, 2019	June 30, 2018	% Change
	Three Months Ended				Six Months Ended		
Bank debt and long-term notes	10.2	**9.8**	10.4	(6)	20.0	21.1	(5)
Lease obligations	0.5	**0.4**	—	100	0.9	—	100
Accretion on ARO	1.9	**1.9**	3.2	(41)	3.8	6.8	(44)
Total interest and financing	12.6	**12.1**	13.6	(11)	24.7	27.9	(11)

Interest and financing expense decreased 11 per cent to $12.1 million in the second quarter of 2019 from $13.6 million in the second quarter of 2018. For the six months ended June 30, 2019, interest and financing expense was $24.7 million as compared to $27.9 million for the six months ended June 30, 2018, a decrease of 11 per cent. The decrease for the three and six months ended June 30, 2019 compared to the same periods of the prior year is primarily due to principal repayments that were made throughout 2018 and the second quarter of 2019 as well as a decrease in accretion on ARO, stemming from the disposal of non-core properties in 2018. 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

For the six months ended June 30, 2019 the Canadian dollar strengthened relative to the US dollar, as the US Federal Reserve shifted towards a more accommodative monetary policy due to global trade uncertainty. This compares to the same period in 2018, where the Canadian dollar weakened relative to the US dollar, as a result of weaker Canadian economic data and its influence on the Bank of Canada's monetary policy. The timing of changes in the value of the Canadian dollar, relative to the US dollar, can have a significant impact on ARC's foreign exchange gain and loss.

ARC recognized a foreign exchange gain of $15.2 million in the second quarter of 2019 compared to a loss of $13.9 million in the second quarter of 2018. During the three months ended June 30, 2019, the value of the US dollar relative to the Canadian dollar decreased to $1.31 from $1.34 at March 31, 2019. During the three months ended June 30, 2018, the value of the US dollar relative to the Canadian dollar increased to $1.31 from $1.29 at March 31, 2018. This resulted in an unrealized gain on the revaluation of ARC's US dollar-denominated debt in the second quarter of 2019 compared to a loss during the same period in 2018.

ARC recognized a foreign exchange gain of $28.8 million for the six months ended June 30, 2019 compared to a loss of $39.1 million for the six months ended June 30, 2018. During the six months ended June 30, 2019 the value of the US dollar relative to the Canadian dollar decreased to $1.31 from $1.36 at December 31, 2018. During the six months ended June 30, 2018 the value of the Canadian dollar increased to $1.31 from $1.25 at December 31, 2017. This resulted in an unrealized gain in the revaluation of ARC's US dollar-denominated debt in 2019, as compared to an unrealized loss for the same period in 2018.

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

Table 18

Foreign Exchange Gain and Loss ($ millions)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
	Three Months Ended				Six Months Ended		
Unrealized gain (loss) on US dollar-denominated debt	18.2	**15.4**	(15.4)	(200)	**33.6**	(42.3)	(179)
Unrealized gain (loss) on US dollar-denominated receivables	(0.5)	**0.3**	(0.3)	(200)	**(0.2)**	(0.3)	(33)
Realized gain (loss) on US dollar-denominated transactions	(4.1)	**(0.5)**	1.8	(128)	**(4.6)**	3.5	231
Total foreign exchange gain (loss)	13.6	**15.2**	(13.9)	(209)	**28.8**	(39.1)	(174)

Taxes

ARC recognized a current income tax recovery of $16.5 million and $10.0 million for the three and six months ended June 30, 2019, respectively, compared to an expense of $12.7 million and $21.0 million for the same periods in 2018. The current 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 current quarter. Additionally, commodity prices have decreased resulting in lower expected taxable income for the three and six months ended June 30, 2019 as compared to the same periods in the prior year.

For the three and six months ended June 30, 2019, a deferred income tax recovery of $47.4 million and $77.6 million was recognized, compared to a recovery of $23.0 million and $0.9 million for the same periods in 2018. The increase in the deferred tax recovery for both the three and six months ended June 30, 2019 is primarily related to 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 rates will decrease 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)	**June 30, 2019**	**Annual Deductibility**
Canadian oil and gas property expense	66.4	10% declining balance
Canadian development expense	828.9	30% declining balance
Canadian exploration expense	—	100%
Undepreciated capital cost	861.9	Primarily 25% declining balance
Other	21.9	Various rates, 7% declining balance to 20%
Total federal tax pools	1,779.1	
Additional Alberta tax pools	2.9	Various rates, 25% declining balance to 100%

DD&A Expense and Impairment

For the three and six months ended June 30, 2019, ARC recognized DD&A expense related to its PP&E assets before any impairment charges or related reversals of $131.4 million and $268.9 million, as compared to $120.6 million and $246.3 million for the three and six months ended June 30, 2018, respectively. The increase in DD&A for the three and six months ended June 30, 2019 compared to the same periods in the prior year primarily reflects increased production in 2019.

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 $3.2 million for the three and six months ended June 30, 2019. Refer to the section entitled "Financial Reporting Update" contained within this MD&A.

During the three and six months ended June 30, 2019, ARC recognized an impairment of $2.2 million related to the disposition of a non-core asset. Refer to Note 6 "Property, Plant and Equipment" in the financial statements. The remainder relates to the impairment of financial assets recognized at June 30, 2019.

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

Table 20

	Three Months Ended				Six Months Ended		
DD&A Expense ($ millions, except per boe amounts)	March 31, 2019	**June 30, 2019**	June 30, 2018	% Change	**June 30, 2019**	June 30, 2018	% Change
Depletion of crude oil and natural gas assets	136.0	**129.9**	119.3	9	**265.9**	243.6	9
Depreciation of corporate assets	1.5	**1.5**	1.3	15	**3.0**	2.7	11
Depreciation of ROU assets under lease	1.6	**1.6**	—	100	**3.2**	—	100
Impairment (reversal)	(0.1)	**10.7**	7.9	35	**10.6**	8.3	28
Total DD&A expense and impairment (reversal)	139.0	**143.7**	128.5	12	**282.7**	254.6	11
DD&A expense per boe, excluding impairment (reversal)	11.11	**10.83**	10.36	5	**10.97**	10.51	4

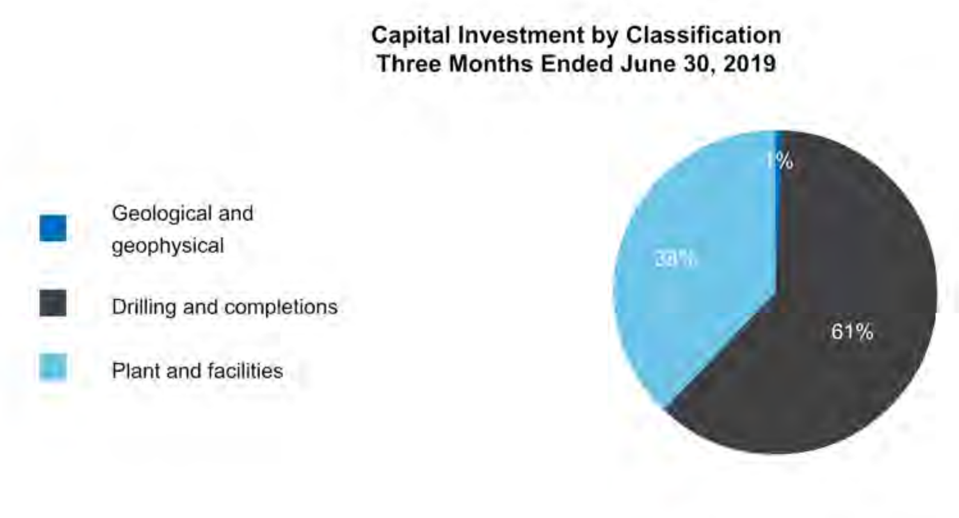
Capital Expenditures, Acquisitions and Dispositions

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

Table 21

	Three Months Ended June 30						
	2019			2018			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**—**	**1.3**	**1.3**	0.4	1.7	2.1	(38)
Drilling and completions	**(1.0)**	**108.0**	**107.0**	4.0	98.6	102.6	4
Plant and facilities	**1.2**	**64.3**	**65.5**	4.2	54.6	58.8	11
Corporate assets	**—**	**0.4**	**0.4**	—	1.3	1.3	(69)
Total capital expenditures	**0.2**	**174.0**	**174.2**	8.6	156.2	164.8	6
Undeveloped land	**—**	**—**	**—**	—	—	—	—
Total capital expenditures including undeveloped land purchases	**0.2**	**174.0**	**174.2**	8.6	156.2	164.8	6
Acquisitions	**—**	**—**	**—**	—	—	—	—
Dispositions	**—**	**(0.9)**	**(0.9)**	—	(0.7)	(0.7)	29
Total capital expenditures, land purchases and net acquisitions and dispositions	**0.2**	**173.1**	**173.3**	8.6	155.5	164.1	6

Exhibit 16



A breakdown of capital expenditures, acquisitions and dispositions for the six months ended June 30, 2019 and June 30, 2018 is shown in Table 21a:

Table 21a

	Six Months Ended June 30						
	2019			2018			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**0.2**	**13.0**	**13.2**	1.7	4.4	6.1	116
Drilling and completions	**(0.7)**	**236.9**	**236.2**	41.3	200.4	241.7	(2)
Plant and facilities	**0.5**	**137.3**	**137.8**	10.4	118.4	128.8	7
Corporate assets	**—**	**0.7**	**0.7**	—	1.9	1.9	(63)
Total capital expenditures	**—**	**387.9**	**387.9**	53.4	325.1	378.5	2
Undeveloped land	**—**	**—**	**—**	0.4	0.3	0.7	(100)
Total capital expenditures including undeveloped land purchases	**—**	**387.9**	**387.9**	53.8	325.4	379.2	2
Acquisitions	**0.2**	**—**	**0.2**	—	0.2	0.2	—
Dispositions	**—**	**(1.1)**	**(1.1)**	—	(99.0)	(99.0)	(99)
Total capital expenditures, land purchases and net acquisitions and dispositions	**0.2**	**386.8**	**387.0**	53.8	226.6	280.4	38

Exhibit 16a

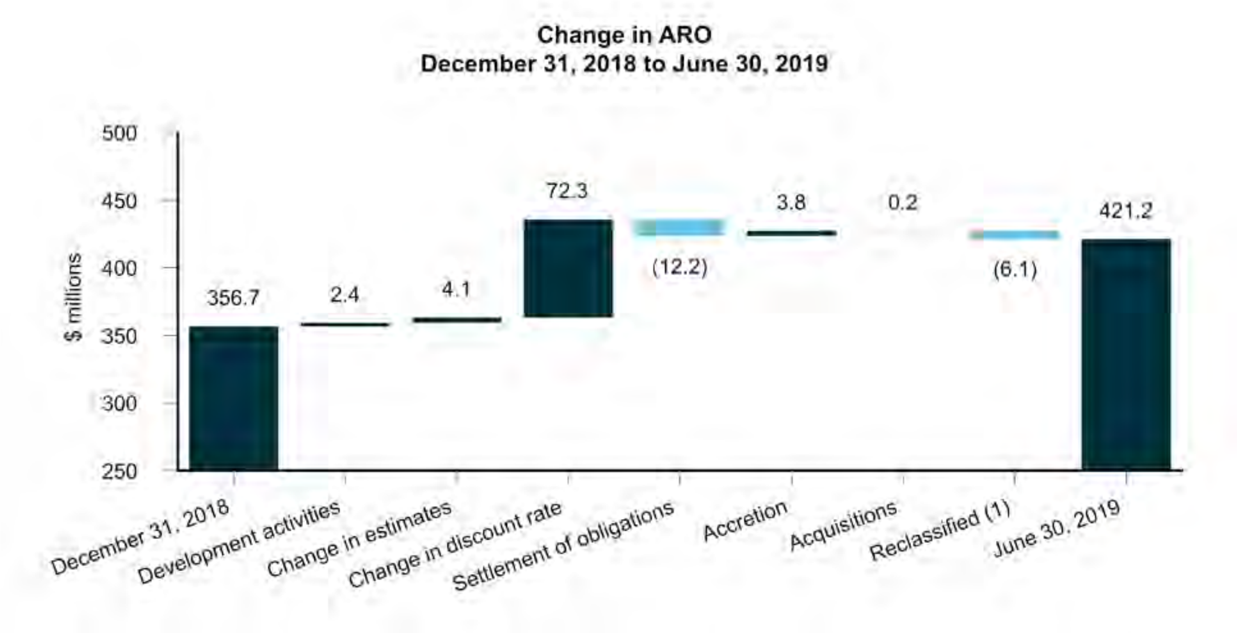
ARC invested $174.2 million and $387.9 million in capital expenditures, before land purchases and net property acquisitions and dispositions for the three and six months ended June 30, 2019, respectively. Investment activity included drilling and completion activities at Parkland/Tower, Dawson, Attachie West, Ante Creek, and Sunrise, with the drilling of 23 and 44 wells and the completion of six and 34 wells for the three and six months ended June 30, 2019, respectively. Capital investment was also focused on the Dawson Phase IV gas processing and liquids-handling facility, the Dawson Phase I and II liquids-handling facility upgrade, initial investments for the first phase of development at Attachie West, as well as water-handling and gas processing facilities at Tower, Dawson, and Ante Creek.

Asset Retirement Obligations

At June 30, 2019, ARC has recognized ARO of $421.2 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 or 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 1.7 per cent (2.2 per cent at December 31, 2018).

Accretion charges of $1.9 million and $3.8 million for the three and six months ended June 30, 2019 ($3.2 million and $6.8 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. Actual spending under ARC's abandonment and reclamation program for the three and six months ended June 30, 2019 was $3.4 million and $12.2 million ($0.6 million and $6.2 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 current period reclamation expenditures, dividend payments 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's long-term goal is to internally finance its dividend and both its capital expenditures necessary to sustain its business and those intended for growth.

ARC typically uses three sources to raise capital: equity, bank debt and long-term notes. 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.

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 3 "Changes in Accounting Policies" in the financial statements.

A breakdown of ARC's capital structure as at June 30, 2019 and December 31, 2018 is outlined in Table 22:

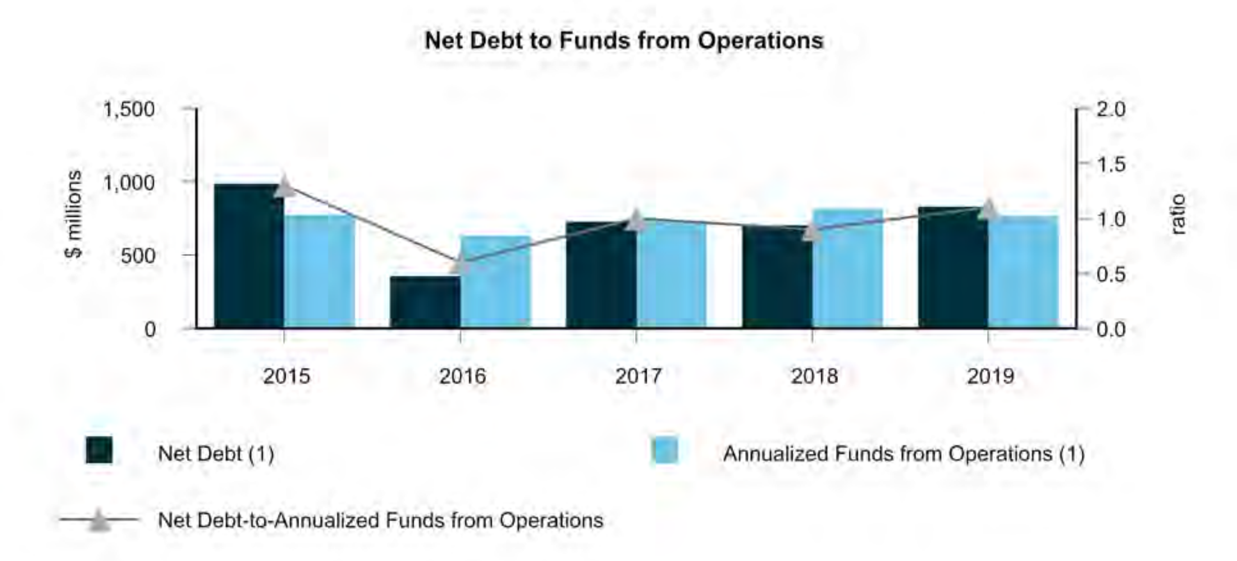
Table 22

Capital Structure and Liquidity ($ millions, except ratio amounts)	**June 30, 2019**	December 31, 2018
Long-term debt [(1)]	**812.3**	909.2
Lease obligations [(2)]	**49.9**	—
Accounts payable and accrued liabilities	**155.5**	166.5
Dividends payable	**17.7**	17.7
Cash and cash equivalents, accounts receivable, current deferred consideration, and prepaid expense	**(206.2)**	(390.7)
Net debt [(3)]	**829.2**	702.7
Net debt to annualized funds from operations (ratio) [(3)]	**1.1**	0.9

(1) Includes a current portion of long-term debt of $64.1 million at June 30, 2019 and $80.5 million at December 31, 2018.
(2) Includes a current portion of lease obligations of $8.9 million at June 30, 2019.
(3) Refer to Note 12 "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 June 30, 2019, ARC had $829.2 million of net debt outstanding and net debt to 2019 annualized funds from operations ratio of 1.1 times.

Exhibit 18



(1) Refer to Note 12 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

At June 30, 2019, ARC had total available credit capacity of approximately $2.1 billion with debt of $812.3 million currently outstanding. ARC's long-term debt balance includes a current portion of $64.1 million at June 30, 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 fixed weighted average interest rate of 4.1 per cent. 95 per cent (US$590.0 million) of ARC's long-term debt outstanding at June 30, 2019 is denominated in US dollars.

ARC's debt agreements contain a number of covenants, all of which were met as at June 30, 2019. 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 significant financial covenants of the syndicated credit facility are described below:

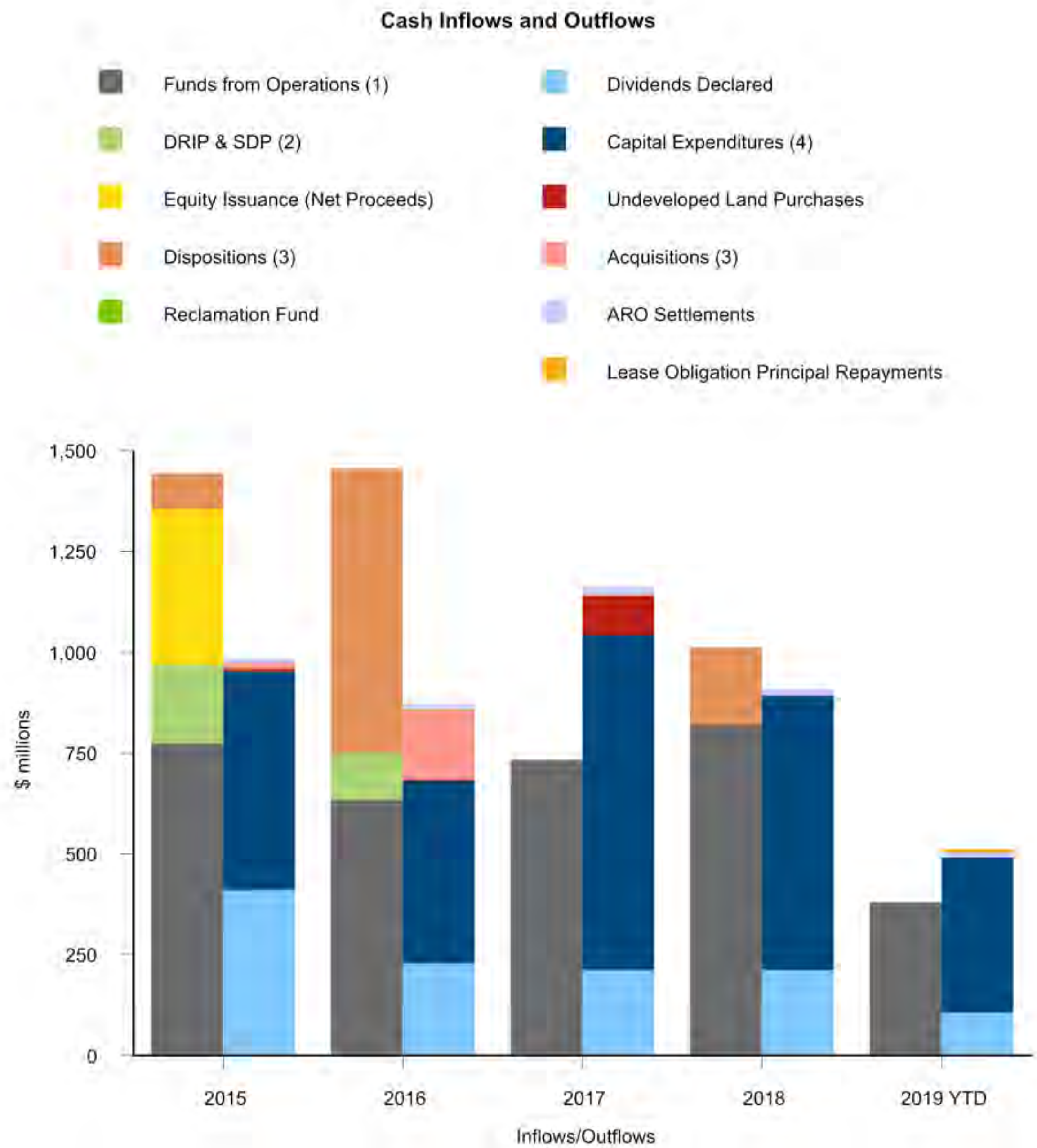
Table 23

Covenant Description	Estimated Position at June 30, 2019 (1)
Long-term debt and letters of credit not to exceed three-and-a-half times trailing 12-month net income before non-cash items, income taxes and interest expense	1.0
Long-term debt, letters of credit, and subordinated debt not to exceed four times trailing 12-month net income before non-cash items, income taxes and interest expense	1.0
Long-term debt and letters of credit not to exceed 55 per cent of the book value of shareholders' equity and long-term debt, letters of credit and subordinated debt	20%

(1) Estimated position, subject to final approval of the syndicate.

The following illustrates the balance of cash inflows and outflows over the past four years and the current year-to-date. 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 12 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) On February 8, 2017, ARC's Board of Directors 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 YTD**	2018	2017	2016	2015
Cash Inflows					
Funds from operations (1)	**379.2**	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)	**1.1**	156.1	—	705.4	88.8
Disposition of reclamation fund	**—**	36.5	—	—	—
Reclamation fund withdrawals	**—**	1.1	—	—	0.9
Total	**380.3**	1,012.7	734.9	1,455.8	1,444.7
Cash Outflows					
Dividends declared	**106.2**	212.3	212.3	228.2	410.5
Capital expenditures (4)	**384.6**	679.3	829.4	452.9	541.2
Undeveloped land purchases	**—**	0.7	97.6	2.7	6.7
Acquisitions (3)	**0.2**	0.2	2.5	172.9	14.4
ARO settlements	**12.2**	15.8	19.8	13.0	12.3
Lease obligation principal repayments	**9.1**	—	—	—	—
Reclamation fund contributions	**—**	—	0.6	2.0	—
Total	**512.3**	908.3	1,162.2	871.7	985.1

(1) Refer to Note 12 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) On February 8, 2017, ARC's Board of Directors 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 June 30, 2019 and July 31, 2019, 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 June 30, 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 second quarters of 2019 and 2018, ARC declared dividends totaling $53.1 million ($0.15 per share outstanding). At this time, ARC plans to sustain current dividend levels.

As a result of a decrease in funds from operations in the second quarter of 2019 and the six months ended June 30, 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 26 per cent to an average of 28 per cent.

Exhibit 20

(1) Refer to Note 12 "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. On July 15, 2019, ARC confirmed that a dividend of $0.05 per common share designated as an eligible dividend will be paid on August 15, 2019 to shareholders of record on July 31, 2019 with an ex-dividend date of July 30, 2019.

Please refer to ARC's website at www.arcresources.com for details of the estimated monthly dividend amounts and dividend dates for 2019.

Environmental Regulation Impacting ARC

ARC operates in jurisdictions that regulate greenhouse gas emissions and other air pollutants. While some regulations are in effect, further changes and amendments are at various stages of review, discussion and implementation. There is uncertainty around how any future federal legislation will harmonize with provincial regulation, as well as the timing and effects of 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 Limited* may impact the manner in which provincial regulators seek to regulate their liability management and end-of-life asset retirement regimes. Such 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's requirements, such that no deposits were required at June 30, 2019 or at the date of this MD&A.

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

Contractual Obligations and Commitments

At June 30, 2019, ARC's total contractual obligations and commitments were $2.4 billion ($2.7 billion at December 31, 2018). These include obligations and commitments in place at December 31, 2018, less debt and interest payments made in the six months ended June 30, 2019. Operating leases previously included in ARC's contractual obligations and commitments are now disclosed on the balance sheet in conjunction with the adoption of IFRS 16. For more information, refer to Note 18 "Commitments 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 18 "Commitments & Contingencies" of the financial statements.

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 operating 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 audited consolidated financial statements as at and for the year ended December 31, 2018 as well as Note 4 "Management Judgments and Estimation Uncertainty" in the financial statements as at and for the six months ended June 30, 2019.

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;
- refinancing and debt service;
- access to capital markets;
- retention of key personnel;
- operational matters;
- availability of third-party pipeline and processing infrastructure;
- reserves and resources estimates;
- depletion of reserves and maintenance of dividend;
- counterparty risk;
- variations in interest rates and foreign exchange rates;
- changes in income tax legislation;
- changes in government royalty legislation;
- environmental concerns and changes in environmental regulation;
- transportation constraints and market access;
- acquisitions; and
- cyber-security.

Additional information is available in ARC's AIF that is filed 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 2019. 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 of processing capacity;
- availability and proximity of pipeline 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

Internal Control over Financial Reporting

ARC is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The certification of interim filings for the interim period ended June 30, 2019 requires that ARC disclose in the interim MD&A any changes in ARC's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, ARC's internal controls over financial reporting. ARC confirms that no such changes were made to its internal controls over financial reporting during the three and six months ended June 30, 2019.

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

Table 25

	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 3 "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 12 "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 12 "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 four year basis in Table 26 of this MD&A.

Table 26

	Twelve Months Ended	Twelve Months Ended December 31				
ROACE	**June 30, 2019**	2018	2017	2016	2015	2015-2018 Average (1)
Net income (loss)	**244.6**	213.8	388.9	201.3	(342.7)	115.3
Add: Interest	**42.4**	42.6	45.3	50.5	51.0	47.4
Add: Total income taxes (recovery)	**0.3**	108.0	135.9	41.4	(15.8)	67.4
Earnings before interest and taxes	**287.3**	364.4	570.1	293.2	(307.5)	230.1
Net debt - beginning of period	**757.0**	728.0	356.5	985.1	1,255.9	1,255.9
Shareholders' equity - beginning of period	**3,574.0**	3,668.9	3,484.8	3,388.5	3,551.8	3,551.8
Opening capital employed (A)	**4,331.0**	4,396.9	3,841.3	4,373.6	4,807.7	4,807.7
Net debt - end of period	**829.2**	702.7	728.0	356.5	985.1	702.7
Shareholders' equity - end of period	**3,611.2**	3,675.8	3,668.9	3,484.8	3,388.5	3,675.8
Closing capital employed (B)	**4,440.4**	4,378.5	4,396.9	3,841.3	4,373.6	4,378.5
Average capital employed (A+B)/2	**4,385.7**	4,387.7	4,119.1	4,107.5	4,590.7	4,593.1
ROACE (%)	**7**	8	14	7	(7)	5

(1) Average ROACE for years ended December 31, 2015, 2016, 2017, and 2018.

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 2019 capital program including guidance and planned operations for 2019 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," anticipated debt repayments in the next 12 months under the heading "Interest and Financing," ARC's plans in relation to future dividend levels under the heading "Dividends," 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 from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in this MD&A and in ARC's AIF).

The internal projections, expectations or beliefs are based on the 2019 capital budget and year to date results which 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 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:

Measurement

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.

Financial and Business Environment

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

QUARTERLY HISTORICAL REVIEW

($ millions, except per share amounts)	2019		2018				2017	
FINANCIAL	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Commodity sales from production	**282.9**	327.8	302.5	375.1	344.4	340.2	337.3	276.5
Per share, basic	**0.80**	0.93	0.86	1.06	0.97	0.96	0.95	0.78
Per share, diluted	**0.80**	0.93	0.86	1.06	0.97	0.96	0.95	0.78
Net income (loss)	**94.4**	(54.6)	159.7	45.1	(45.9)	54.9	73.9	48.5
Per share, basic	**0.27**	(0.15)	0.45	0.13	(0.13)	0.16	0.21	0.14
Per share, diluted	**0.27**	(0.15)	0.45	0.13	(0.13)	0.16	0.21	0.14
Funds from operations (1)	**193.0**	186.2	208.6	205.0	204.4	201.0	221.1	163.8
Per share, basic	**0.54**	0.53	0.59	0.58	0.58	0.57	0.63	0.46
Per share, diluted	**0.54**	0.53	0.59	0.58	0.58	0.57	0.63	0.46
Dividends declared	**53.1**	53.1	53.1	53.0	53.1	53.1	53.1	53.0
Per share (2)	**0.15**	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Total assets	**5,878.9**	5,952.4	6,016.2	5,846.3	6,059.8	6,235.7	6,224.0	6,115.0
Total liabilities	**2,267.7**	2,383.6	2,340.4	2,278.3	2,485.8	2,563.8	2,555.1	2,468.2
Net debt outstanding (3)	**829.2**	796.3	702.7	667.8	757.0	728.0	728.0	645.1
Weighted average shares, basic	**353.4**	353.4	353.4	353.5	353.5	353.5	353.5	353.5
Weighted average shares, diluted	**353.9**	353.4	353.9	354.0	353.5	353.8	353.8	353.9
Shares outstanding, end of period	**353.4**	353.4	353.4	353.4	353.5	353.5	353.5	353.5
CAPITAL EXPENDITURES								
Geological and geophysical	**1.3**	11.9	1.3	3.4	2.1	4.0	2.5	1.8
Drilling and completions	**107.0**	129.2	60.5	114.2	102.6	139.1	154.8	119.3
Plant and facilities	**65.5**	72.3	69.6	51.2	58.8	70.0	87.2	55.5
Corporate assets	**0.4**	0.3	0.2	0.5	1.3	0.6	0.6	1.8
Total capital expenditures	**174.2**	213.7	131.6	169.3	164.8	213.7	245.1	178.4
Undeveloped land	**—**	—	0.2	—	—	0.7	0.4	77.3
Total capital expenditures, including undeveloped land purchases	**174.2**	213.7	131.8	169.3	164.8	214.4	245.5	255.7
Acquisitions	**—**	0.2	—	—	—	0.2	2.2	—
Dispositions	**(0.9)**	(0.2)	(0.9)	(96.2)	(0.7)	(98.3)	—	—
Total capital expenditures, land purchases and net acquisitions and dispositions	**173.3**	213.7	130.9	73.1	164.1	116.3	247.7	255.7
OPERATING								
Production								
Crude oil (bbl/d)	**18,272**	18,251	20,092	23,867	24,893	25,037	24,641	25,020
Condensate (bbl/d)	**10,230**	8,210	8,458	8,158	6,960	5,505	6,989	6,815
Crude oil and condensate (bbl/d)	**28,502**	26,461	28,550	32,025	31,853	30,542	31,630	31,835
Natural gas (MMcf/d)	**596.4**	632.5	603.3	574.2	537.9	564.9	572.4	549.6
NGLs (bbl/d)	**7,041**	7,183	7,402	7,687	6,380	6,332	6,380	6,091
Total (boe/d)	**134,938**	139,054	136,502	135,410	127,879	131,016	133,409	129,526
Average realized prices, prior to risk management contracts								
Crude oil ($/bbl)	**70.26**	63.72	43.30	78.62	78.57	69.50	67.29	54.50
Condensate ($/bbl)	**71.38**	64.81	57.25	85.28	85.10	77.42	69.04	54.35
Natural gas ($/Mcf)	**1.74**	2.79	2.85	2.15	1.91	2.50	2.27	2.00
NGLs ($/bbl)	**7.71**	25.43	29.12	35.26	32.98	31.39	35.31	28.37
Oil equivalent ($/boe)	**23.04**	26.20	24.09	30.12	29.59	28.85	27.48	23.20
TRADING STATISTICS (4)								
($, based on intra-day trading)								
High	**9.61**	10.49	14.84	15.90	15.25	15.90	18.34	18.31
Low	**6.37**	7.82	7.38	12.70	12.71	11.88	13.64	15.61
Close	**6.41**	9.12	8.10	14.40	13.58	14.04	14.75	17.19
Average daily volume (thousands)	**2,255**	2,291	2,117	1,246	1,150	1,406	1,114	1,008

(1) Refer to Note 12 "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 12 "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.

FINANCIAL STATEMENTS 2019 Q2

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(Cdn$ millions)	**June 30, 2019**	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**50.7**	259.6
Accounts receivable	**101.9**	114.1
Deferred consideration	**42.0**	—
Prepaid expense	**11.6**	17.0
Risk management contracts (Note 13)	**77.7**	168.7
	283.9	559.4
Deferred consideration	**—**	40.0
Risk management contracts (Note 13)	**39.4**	102.1
Exploration and evaluation assets (Note 5)	**218.0**	217.1
Property, plant and equipment (Note 6)	**5,044.4**	4,849.4
Right-of-use assets (Notes 3 and 7)	**45.0**	—
Goodwill	**248.2**	248.2
Total assets	**5,878.9**	6,016.2
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**155.5**	166.5
Current portion of lease obligations (Notes 3 and 9)	**8.9**	—
Current portion of long-term debt (Note 10)	**64.1**	80.5
Current portion of asset retirement obligations (Note 11)	**19.5**	19.5
Dividends payable (Note 15)	**17.7**	17.7
Risk management contracts (Note 13)	**3.5**	0.3
	269.2	284.5
Risk management contracts (Note 13)	**9.1**	4.3
Long-term portion of lease obligations (Notes 3 and 9)	**41.0**	—
Long-term debt (Note 10)	**748.2**	828.7
Long-term incentive compensation liability (Note 17)	**11.5**	12.4
Other deferred liabilities	**5.4**	10.1
Asset retirement obligations (Note 11)	**401.7**	337.2
Deferred taxes (Note 14)	**781.6**	863.2
Total liabilities	**2,267.7**	2,340.4
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 15)	**4,658.5**	4,658.5
Contributed surplus	**29.7**	27.2
Deficit	**(1,077.0)**	(1,009.9)
Total shareholders' equity	**3,611.2**	3,675.8
Total liabilities and shareholders' equity	**5,878.9**	6,016.2
Commitments and contingencies (Note 18)		

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions, except per share amounts)	**2019**	2018	**2019**	2018
Commodity sales from production (Note 16)	**282.9**	344.4	**610.7**	684.6
Royalties	**(15.7)**	(29.7)	**(34.7)**	(58.6)
Sales of commodities purchased from third parties	**23.0**	28.3	**43.5**	58.2
Revenue from commodity sales	**290.2**	343.0	**619.5**	684.2
Interest income	**1.3**	1.1	**3.5**	2.7
Other income	**2.6**	1.7	**4.5**	3.5
Gain (loss) on risk management contracts (Note 13)	**9.0**	(92.4)	**(117.2)**	(109.9)
Total revenue, interest and other income and gain (loss) on risk management contracts	**303.1**	253.4	**510.3**	580.5
Commodities purchased from third parties	**22.2**	28.9	**43.8**	58.9
Operating	**62.0**	75.6	**127.6**	150.0
Transportation	**36.8**	30.4	**73.8**	61.2
Exploration and evaluation	**—**	3.5	**—**	4.2
General and administrative	**11.0**	15.6	**34.3**	36.0
Interest and financing (1)	**12.1**	13.6	**24.7**	27.9
Depletion, depreciation, amortization and impairment (Notes 6 and 7)	**143.7**	128.5	**282.7**	254.6
Loss (gain) on foreign exchange	**(15.2)**	13.9	**(28.8)**	39.1
Gain on disposal of petroleum and natural gas properties	**—**	(0.4)	**—**	(80.5)
Total expenses	**272.6**	309.6	**558.1**	551.4
Net income (loss) before income taxes	**30.5**	(56.2)	**(47.8)**	29.1
Provision for (recovery of) income taxes (Note 14)				
Current	**(16.5)**	12.7	**(10.0)**	21.0
Deferred	**(47.4)**	(23.0)	**(77.6)**	(0.9)
Total income taxes (recovery)	**(63.9)**	(10.3)	**(87.6)**	20.1
Net income (loss)	**94.4**	(45.9)	**39.8**	9.0
Net income (loss) per share (Note 15)				
Basic	**0.27**	(0.13)	**0.11**	0.03
Diluted	**0.27**	(0.13)	**0.11**	0.03

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

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions)	**2019**	2018	**2019**	2018
Net income (loss)	**94.4**	(45.9)	**39.8**	9.0
Other comprehensive loss				
Net unrealized loss on reclamation fund assets, net of tax	**—**	(0.2)	**—**	(0.3)
Other comprehensive loss	**—**	(0.2)	**—**	(0.3)
Comprehensive income (loss)	**94.4**	(46.1)	**39.8**	8.7

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

For the six months ended June 30

(Cdn$ millions)	Shareholders' Capital (Note 15)	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
December 31, 2017	4,658.5	21.9	(1,011.4)	(0.1)	3,668.9
Total comprehensive income (loss)	—	—	9.0	(0.3)	8.7
Recognized under share-based compensation plans (Note 17)	—	2.6	—	—	2.6
Dividends declared (Note 15)	—	—	(106.2)	—	(106.2)
June 30, 2018	4,658.5	24.5	(1,108.6)	(0.4)	3,574.0
December 31, 2018	4,658.5	27.2	(1,009.9)	—	3,675.8
Impact of change in accounting policy (Note 3)	—	—	(0.7)	—	(0.7)
January 1, 2019	4,658.5	27.2	(1,010.6)	—	3,675.1
Total comprehensive income	**—**	**—**	**39.8**	**—**	**39.8**
Recognized under share-based compensation plans (Note 17)	**—**	**2.5**	**—**	**—**	**2.5**
Dividends declared (Note 15)	**—**	**—**	**(106.2)**	**—**	**(106.2)**
June 30, 2019	**4,658.5**	**29.7**	**(1,077.0)**	**—**	**3,611.2**

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions)	**2019**	2018	**2019**	2018
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss)	**94.4**	(45.9)	**39.8**	9.0
Add items not involving cash:				
Unrealized loss on risk management contracts	**15.2**	122.1	**161.7**	168.2
Accretion of asset retirement obligations (Note 11)	**1.9**	3.2	**3.8**	6.8
Depletion, depreciation, amortization and impairment (Notes 6 and 7)	**143.7**	128.5	**282.7**	254.6
Exploration and evaluation	**—**	3.5	**—**	4.2
Unrealized loss (gain) on foreign exchange	**(15.7)**	15.7	**(33.4)**	42.6
Gain on disposal of petroleum and natural gas properties	**—**	(0.4)	**—**	(80.5)
Deferred taxes (Note 14)	**(47.4)**	(23.0)	**(77.6)**	(0.9)
Other (Note 19)	**0.9**	0.7	**2.2**	1.4
Net change in other liabilities (Note 19)	**(7.9)**	(0.4)	**(7.1)**	(6.4)
Change in non-cash working capital (Note 19)	**8.7**	4.6	**(50.0)**	9.2
Cash flow from operating activities	**193.8**	208.6	**322.1**	408.2
CASH FLOW USED IN FINANCING ACTIVITIES				
Repayment of senior notes	**(49.7)**	(47.7)	**(63.1)**	(60.7)
Repayment of principal relating to lease obligations (Notes 3 and 9)	**(4.7)**	—	**(9.1)**	—
Cash dividends paid	**(53.1)**	(53.1)	**(106.2)**	(106.2)
Cash flow used in financing activities	**(107.5)**	(100.8)	**(178.4)**	(166.9)
CASH FLOW USED IN INVESTING ACTIVITIES				
Acquisition of petroleum and natural gas properties (Note 5)	**—**	—	**(0.2)**	(0.2)
Disposal of petroleum and natural gas properties	**0.9**	0.7	**1.1**	99.0
Property, plant and equipment development expenditures (Note 6)	**(172.4)**	(156.1)	**(384.6)**	(325.2)
Exploration and evaluation asset expenditures (Note 5)	**(0.2)**	(8.6)	**—**	(53.8)
Net reclamation fund withdrawals (contributions)	**—**	(0.2)	**—**	1.0
Change in non-cash working capital (Note 19)	**(11.8)**	(33.4)	**31.1**	(14.2)
Cash flow used in investing activities	**(183.5)**	(197.6)	**(352.6)**	(293.4)
DECREASE IN CASH AND CASH EQUIVALENTS	**(97.2)**	(89.8)	**(208.9)**	(52.1)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**147.9**	257.9	**259.6**	220.2
CASH AND CASH EQUIVALENTS, END OF PERIOD	**50.7**	168.1	**50.7**	168.1
The following are included in cash flow from operating activities:				
Income taxes paid in cash	**4.0**	3.7	**40.6**	12.9
Interest paid in cash	**6.8**	8.0	**21.2**	22.8

See accompanying notes to the unaudited condensed interim consolidated financial statements.

1. STRUCTURE OF THE BUSINESS

The principal undertakings of ARC Resources Ltd. and any subsidiaries (collectively, the “Company” or “ARC”) 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 unaudited condensed interim consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB"). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with ARC's audited consolidated financial statements for the year ended December 31, 2018. 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 as detailed in the accounting policies disclosed in Note 3 "Summary of Accounting Policies" of ARC's audited consolidated financial statements for the year ended December 31, 2018. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year, except as noted in Note 3 "Changes in Accounting Policies", and for income taxes. Income taxes on net income (loss) in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual net income (loss). There have been no significant changes to the use of estimate or judgments since December 31, 2018, except as noted in Note 4 "Management Judgments and Estimation Uncertainty".

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.

These financial statements were authorized for issue by ARC's Board of Directors on July 31, 2019.

3. CHANGES IN ACCOUNTING POLICIES

NEWLY ADOPTED ACCOUNTING POLICIES

IFRS 16 *Leases* ("IFRS 16")
Effective January 1, 2019, ARC adopted IFRS 16. The standard supersedes IAS 17 *Leases*, International Financial Reporting Interpretations Committee ("IFRIC") 4 *Determining whether an arrangement contains a lease*, and related interpretations. IFRS 16 requires the recognition of a right-of-use asset ("ROU asset") and lease obligation on the balance sheet 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.

Initial Adoption
ARC has 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 are 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.

Ongoing Recognition and Measurement
On the date that the leased asset becomes available for use, ARC recognizes an ROU asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to the statement of income over the lease period with a corresponding increase to the lease obligation. The lease obligation is reduced as payments are made against the principal portion of the lease. The ROU asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. Depreciation of the ROU asset is recognized in Depletion, depreciation, amortization ("DD&A") and impairment expense. Where appropriate, depreciation charges to the ROU asset are capitalized as additions to either Exploration and evaluation ("E&E") or Property, plant and equipment ("PP&E") depending on the nature of the underlying business activity.

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 that are 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 applying IFRS 16, ARC has applied a number of practical expedients identified in the standard as follows:

- Short-term leases and leases of low-value assets are not recognized on the balance sheet and lease payments are instead recognized in the financial statements as incurred.
- For certain classes of leases, ARC has elected not to separate lease and non-lease components (which transfer a separate good or service under the same contract) and instead ARC accounts for these leases as a single lease component.

Lessor Accounting
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.

Joint Arrangements
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. At June 30, 2019, ARC does not have any lease contracts that are entered into by a joint arrangement, or on behalf of the joint arrangement. ARC does not have any joint operations that are individually material to the Company or that are structured through joint venture arrangements or a separate legal entity.

Refer to Note 4 "Management Judgments and Estimation Uncertainty", Note 7 "Right-of-Use Assets", and Note 9 "Lease Arrangements" for further details on ARC's leasing activities.

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

Leases
Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement.

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. Potential future undiscounted cash outflows of $86.2 million have not been included in the measurement of ARC's lease obligation at June 30, 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 June 30, 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.

Lease obligations that are recognized at June 30, 2019 have been estimated using a discount rate equal 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.

5. EXPLORATION AND EVALUATION ASSETS

Carrying Amount	
Balance, December 31, 2018	217.1
Acquisitions	**0.2**
Change in asset retirement cost	**0.7**
Balance, June 30, 2019	**218.0**

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Development and Production Assets	Corporate Assets	Total
Balance, December 31, 2018	8,461.6	75.8	8,537.4
Additions	**388.7**	**0.7**	**389.4**
Change in asset retirement cost	**78.3**	**—**	**78.3**
Assets reclassified as held for sale and disposed in period	**(31.7)**	**—**	**(31.7)**
Reclassification of lease payments, net of capitalized depreciation	**(1.5)**	**—**	**(1.5)**
Other	**(0.1)**	**—**	**(0.1)**
Balance, June 30, 2019	**8,895.3**	**76.5**	**8,971.8**
Accumulated DD&A and Impairment			
Balance, December 31, 2018	(3,636.8)	(51.2)	(3,688.0)
DD&A and impairment	**(258.9)**	**(3.0)**	**(261.9)**
Accumulated DD&A and impairment reclassified as held for sale and disposed in period	**22.5**	**—**	**22.5**
Balance, June 30, 2019	**(3,873.2)**	**(54.2)**	**(3,927.4)**
Carrying Amounts			
Balance, December 31, 2018	4,824.8	24.6	4,849.4
Balance, June 30, 2019	**5,022.1**	**22.3**	**5,044.4**

For the three and six months ended June 30, 2019, $6.1 million and $13.4 million of direct and incremental overhead charges were capitalized to PP&E ($7.2 million and $15.1 million for the three and six months ended June 30, 2018), respectively. Future development costs of $3.7 billion were included in the determination of DD&A for the six months ended June 30, 2019 ($3.2 billion for the six months ended June 30, 2018).

During the six months ended June 30, 2019, ARC disposed of certain non-core assets located in Alberta for proceeds of $0.9 million, subject to post-closing adjustments. An impairment charge of $2.2 million was recognized on these assets in DD&A and impairment in the condensed interim consolidated statements of income ("statements of income") for the six months ended June 30, 2019. For further information regarding asset impairment, refer to Note 8 "Impairment".

7. RIGHT-OF-USE ASSETS

The following table details the cost and accumulated depreciation of ARC's ROU assets, as at June 30, 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	**0.2**	**0.3**	**—**	**0.5**
Modifications	**0.2**	**—**	**—**	**0.2**
Balance, June 30, 2019	**28.0**	**15.8**	**8.2**	**52.0**
Accumulated Depreciation				
Balance, January 1, 2019	—	—	—	—
Depreciation on ROU assets expensed	**(2.4)**	**(0.8)**	**(0.6)**	**(3.8)**
Depreciation on ROU assets capitalized to PP&E	**—**	**(3.2)**	**—**	**(3.2)**
Balance, June 30, 2019	**(2.4)**	**(4.0)**	**(0.6)**	**(7.0)**
Carrying Amounts				
Balance, January 1, 2019	27.6	15.5	8.2	51.3
Balance, June 30, 2019	**25.6**	**11.8**	**7.6**	**45.0**

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

8. IMPAIRMENT

E&E

At June 30, 2019, ARC evaluated its E&E properties for indicators of any potential impairment. As a result of this assessment, no indicators were identified and no impairment was recorded on ARC's E&E assets.

PP&E

At June 30, 2019, ARC evaluated its PP&E for indicators of any potential impairment or related impairment reversal. As a result of decreases in the outlook of future natural gas prices combined with a further reduction in market capitalization below its net asset value since the time of the last impairment test at December 31, 2018, ARC carried out an impairment test over all its cash-generating units ("CGUs"). No impairment was recognized as the estimated recoverable amount of each CGU exceeded its 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.

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.

Although no impairment or reversal of impairment was recognized on ARC's PP&E for the six months ended June 30, 2019, the following table demonstrates the sensitivity of the estimated recoverable amount 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 are 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" of ARC's audited consolidated financial statements for the year ended December 31, 2018 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 June 30, 2019, ARC conducted an impairment test of its goodwill. 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.

9. LEASE ARRANGEMENTS

Lease Obligations

The following table details the movement in ARC's lease obligations for the period ended June 30, 2019:

Lease Obligations	
Balance, January 1, 2019	58.0
Additions	**0.5**
Modifications	**0.2**
Interest	**0.9**
Repayments	**(9.7)**
Balance, June 30, 2019	**49.9**
Lease obligations due within one year	8.9
Lease obligations due beyond one year	41.0

Payments recognized in the financial statements relating to short-term leases and leases of low-value assets for the three and six months ended June 30, 2019 were $0.8 million and $2.1 million, respectively. 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 $0.8 million and $1.6 million for the three and six months ended June 30, 2019, respectively, and have been recognized in General and administrative ("G&A") expense the statements of income.

The majority of ARC's lease arrangements are effective for periods of one to eight years but may have extension options as described in Note 4 "Management Judgments and Estimation Uncertainty". 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.

The following table details the undiscounted cash flows and contractual maturities of ARC's lease obligations, as at June 30, 2019:

As at June 30, 2019	**Under 1 Year**	**1-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total Contractual Cash Flows**	**Carrying Amount**
Lease obligations	10.1	34.1	6.7	5.5	56.4	49.9

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 three and six months ended June 30, 2019 was $0.8 million and $1.8 million, respectively and has been recognized in Other income in the statements of income.

10. LONG-TERM DEBT

	US $ Denominated		Canadian $ Amount	
	June 30, 2019	December 31, 2018	**June 30, 2019**	December 31, 2018
Senior notes				
Master Shelf Agreement				
4.98% US$ note	**—**	10.0	**—**	13.6
3.72% US$ note	**150.0**	150.0	**196.4**	204.7
2009 note issuance				
8.21% US$ note	**14.0**	21.0	**18.3**	28.7
2010 note issuance				
5.36% US$ note	**90.0**	120.0	**117.8**	163.7
2012 note issuance				
3.31% US$ note	**36.0**	36.0	**47.1**	49.1
3.81% US$ note	**300.0**	300.0	**392.7**	409.4
4.49% Cdn$ note	**N/A**	N/A	**40.0**	40.0
Total long-term debt outstanding	**590.0**	637.0	**812.3**	909.2
Long-term debt due within one year			**64.1**	80.5
Long-term debt due beyond one year			**748.2**	828.7

At June 30, 2019, ARC was in compliance with all of its debt covenants. During the six months ended June 30, 2019, ARC executed a new Master Shelf Agreement, increasing ARC's debt capacity by US$375 million (Cdn$501 million). At June 30, 2019, ARC's total debt capacity is $2,097.0 million ($1,899.2 million as at December 31, 2018).

At June 30, 2019, the fair value of all senior notes is $819.1 million ($881.7 million as at December 31, 2018), compared to a carrying value of $812.3 million ($909.2 million as at December 31, 2018).

11. ASSET RETIREMENT OBLIGATIONS ("ARO")

ARC has estimated the net present value of its total ARO to be $421.2 million as at June 30, 2019 ($356.7 million at December 31, 2018) based on a total future undiscounted liability of $863.7 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 2085. The Bank of Canada's long-term risk-free bond rate of 1.7 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 June 30, 2019.

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

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
Balance, beginning of period	356.7	402.8
Development activities	**2.4**	5.1
Change in estimates (1)	**4.1**	(57.1)
Change in discount rate	**72.3**	14.6
Settlement of obligations	**(12.2)**	(15.8)
Accretion	**3.8**	11.3
Acquisitions	**0.2**	0.4
Dispositions	**—**	(0.3)
Reclassified as liabilities associated with assets held for sale and disposed in period	**(6.1)**	(4.3)
Balance, end of period	**421.2**	356.7
Expected to be incurred within one year	**19.5**	19.5
Expected to be incurred beyond one year	**401.7**	337.2

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

12. 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 June 30, 2019, ARC's net debt was 1.1 times its annualized 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 three and six months ended June 30, 2019 and 2018 is calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Cash flow from operating activities	**193.8**	208.6	**322.1**	408.2
Net change in other liabilities (Note 19)	**7.9**	0.4	**7.1**	6.4
Change in non-cash operating working capital (Note 19)	**(8.7)**	(4.6)	**50.0**	(9.2)
Funds from operations	**193.0**	204.4	**379.2**	405.4

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 June 30, 2019 and 2018:

	June 30, 2019	June 30, 2018
Long-term debt (1)	**812.3**	892.9
Lease obligations (2)	**49.9**	—
Accounts payable and accrued liabilities	**155.5**	186.3
Dividends payable	**17.7**	17.7
Cash and cash equivalents, accounts receivable, current deferred consideration and prepaid expense	**(206.2)**	(339.9)
Net debt	**829.2**	757.0
Net debt to annualized funds from operations (ratio)	**1.1**	0.9

(1) Includes current portion of long-term debt at June 30, 2019 and 2018 of $64.1 million and $77.5 million, respectively.

(2) Includes current portion of lease obligations at June 30, 2019 of $8.9 million. Lease obligations were added to net debt effective January 1, 2019, in conjunction with the adoption of IFRS 16.

13. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instruments

At June 30, 2019, ARC's financial instruments include cash and cash equivalents, accounts receivable, risk management contracts, deferred consideration, accounts payable and accrued liabilities, dividends payable, 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 10 "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 six months ended June 30, 2019.

The carrying values of ARC's accounts receivable, deferred consideration, accounts payable and accrued liabilities, and dividends payable as at June 30, 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 June 30, 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 June 30, 2019					
Risk management contracts					
Current asset	**98.5**	**(20.3)**	**78.2**	**(0.5)**	**77.7**
Long-term asset	**61.9**	**(22.3)**	**39.6**	**(0.2)**	**39.4**
Current liability	**(23.9)**	**20.3**	**(3.6)**	**0.1**	**(3.5)**
Long-term liability	**(31.6)**	**22.3**	**(9.3)**	**0.2**	**(9.1)**
Net position	**104.9**	**—**	**104.9**	**(0.4)**	**104.5**

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

Risk Management Contracts

The following table summarizes the average crude oil and natural gas volumes associated with ARC's risk management contracts as at June 30, 2019:

Risk Management Contracts Positions Summary (1)

As at June 30, 2019	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$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	65.78	4,000	62.53	4,000	63.69	3,500	—	—	—	—	—	—
Floor	52.50	4,000	53.75	4,000	55.00	3,500	—	—	—	—	—	—
Sold Floor	42.50	4,000	40.00	4,000	43.57	3,500	—	—	—	—	—	—
Swap	56.73	2,000	59.09	2,000	—	—	—	—	—	—	—	—
Crude Oil – Cdn$ WTI (2)	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day
Ceiling	88.00	1,000	86.38	6,500	—	—	—	—	—	—	—	—
Floor	80.00	1,000	75.38	6,500	—	—	—	—	—	—	—	—
Sold Floor	65.00	1,000	60.38	6,500	—	—	—	—	—	—	—	—
Swap	71.17	8,000	—	—	—	—	—	—	—	—	—	—
Total Crude Oil Volumes (bbl/day)		**15,000**		**12,500**		**3,500**		**—**		**—**		**—**
Crude Oil – MSW (Differential to WTI) (3)	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Swap	(9.40)	4,500	(9.97)	2,995	—	—	—	—	—	—	—	—
Natural Gas – NYMEX Henry Hub (4)	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Ceiling	3.38	120,000	3.32	50,000	3.32	50,000	3.43	25,000	—	—	—	—
Floor	2.78	120,000	2.75	50,000	2.75	50,000	2.66	25,000	—	—	—	—
Sold Floor	2.33	120,000	2.25	50,000	2.25	50,000	2.25	25,000	—	—	—	—
Swap	4.00	40,000	—	—	—	—	—	—	—	—	—	—
Natural Gas – AECO (5)	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day
Ceiling	3.30	10,000	3.60	30,000	—	—	—	—	—	—	—	—
Floor	3.00	10,000	3.08	30,000	—	—	—	—	—	—	—	—
Swap	3.16	20,000	3.35	30,000	—	—	—	—	—	—	—	—
Total Natural Gas Volumes (MMBtu/day)		**188,435**		**106,869**		**50,000**		**25,000**		**—**		**—**
Natural Gas – AECO Basis (Percentage of Henry Hub)	AECO/ Henry Hub	MMBtu/ day	AECO/ Henry Hub	MMBtu/ day	AECO/ Henry Hub	MMBtu/ day	AECO/ Henry Hub	MMBtu/ day	AECO/ Henry Hub	MMBtu/ day	AECO/ Henry Hub	MMBtu/ day
Sold Swap	81	40,000	—	—	—	—	—	—	—	—	—	—
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$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Sold Swap	(0.92)	133,424	(0.82)	98,361	(0.97)	34,192	—	—	—	—	—	—
Total AECO Basis Volumes (MMBtu/day)		**173,424**		**98,361**		**34,192**		**—**		**—**		**—**
Natural Gas - Other Basis (Differential to Henry Hub) (6)		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day
Sold Swap		60,000		100,000		120,000		110,000		80,000		4,973
Foreign Exchange (7)	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total
Sold Average Rate Forward	1.2907	11	—	—	—	—	—	—	—	—	—	—
Ceiling (8)	—	—	1.2748	6	—	—	—	—	—	—	—	—
Floor (8)	—	—	1.3250	6	—	—	—	—	—	—	—	—

(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) 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").
(3) MSW differential refers to the discount between WTI and the mixed sweet crude grade at Edmonton.
(4) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.
(5) Natural gas prices referenced to AECO 7A Monthly Index.
(6) ARC has entered into basis swaps at locations other than AECO.
(7) Cdn$/US$ referenced to WM/Reuters Intra-day Cdn$/US$ Foreign Exchange Spot Rate as of Noon EST.
(8) Variable rate collar whereby the ceiling will be adjusted to $1.3050 if the Cdn$/US$ spot rate is below $1.2748 at expiry.

14. INCOME TAXES

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 as follows:

	June 30, 2019	June 30, 2018
Income before tax	**(47.8)**	29.1
Canadian statutory rate [(1)]	**26.68%**	27.00%
Expected income tax expense at statutory rates	**(12.8)**	7.9
Effect on income tax of:		
Change in corporate tax rate	**(67.8)**	—
Non-deductible portion of unrealized foreign exchange loss (gain)	**(6.2)**	4.7
Change in estimated pool balances	**(0.8)**	0.2
Change in unrecognized deferred tax asset on foreign exchange	**(5.5)**	6.2
Other	**5.5**	1.1
Total provision for income taxes	**(87.6)**	20.1

(1) The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended June 30, 2019 and 2018. The combined federal and provincial rate decrease to 26.68 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 January 1, 2019.

	June 30, 2019	December 31, 2018
Deferred tax liabilities:		
PP&E in excess of tax basis	**868.2**	894.6
Risk management contracts	**29.0**	73.1
ROU assets	**9.3**	—
Deferred tax assets:		
ARO	**(104.4)**	(96.3)
Long-term debt	**(19.8)**	(27.9)
Risk management contracts	**(3.1)**	(1.2)
Long-term incentive compensation expense	**(4.1)**	(5.1)
Lease obligations	**(12.4)**	—
Unrecognized deferred tax assets [(1)]	**24.3**	29.8
Other	**(5.4)**	(3.8)
Deferred taxes [(2)]	**781.6**	863.2

(1) The unrecognized deferred tax asset relates to an unrealized foreign exchange loss of $19.8 million and a realized capital loss of $4.5 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 3 "Changes in Accounting Policies" for further details.

At June 30, 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 June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Canadian oil and gas property expense	**66.4**	70.5
Canadian development expense	**828.9**	822.7
Undepreciated capital cost	**861.9**	857.6
Other	**21.9**	12.8
Total federal tax pools	**1,779.1**	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 $17.9 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 $159.9 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.

15. SHAREHOLDERS' CAPITAL

(thousands of shares)	**Six Months Ended June 30, 2019**	Year Ended December 31, 2018
Common shares, beginning of period	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)	**(270)**	(155)
Common shares, end of period	**353,431**	353,443

(1) Unvested restricted shares held in trust pursuant to the Long-term Restricted Share Award ("LTRSA") Plan includes restricted shares granted and associated stock dividends.

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

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of shares)	**2019**	2018	**2019**	2018
Weighted average common shares	**353,431**	353,454	**353,431**	353,456
Dilutive impact of share-based compensation (1)	**455**	—	**448**	309
Weighted average common shares, diluted	**353,886**	353,454	**353,879**	353,765

(1) For both the three and six months ended June 30, 2019, 5.1 million share options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (4.9 million and 4.6 million for the three and six months ended June 30, 2018).

Dividends declared for the three and six months ended June 30, 2019 were $0.15 and $0.30 per common share ($0.15 and $0.30 for the three and six months ended June 30, 2018), respectively.

On July 15, 2019, the Board of Directors declared a dividend of $0.05 per common share designated as an eligible dividend, payable in cash to shareholders of record on July 31, 2019. The dividend payment date is August 15, 2019.

16. COMMODITY SALES FROM PRODUCTION

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	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Crude oil	**116.8**	178.0	**221.5**	334.6
Condensate	**66.4**	53.9	**114.3**	92.3
Natural gas (1)	**94.7**	93.4	**253.5**	220.7
Natural gas liquids ("NGLs")	**5.0**	19.1	**21.4**	37.0
Total commodity sales from production	**282.9**	344.4	**610.7**	684.6

(1) Includes $3.4 million and $8.0 million of natural gas transportation revenue from contracts temporarily assigned to third parties for the three and six months ended June 30, 2019 ($nil for the three and six months ended June 30, 2018), respectively.

At June 30, 2019, receivables from contracts with customers, which are included in accounts receivable, were $74.5 million ($121.8 million at June 30, 2018).

17. SHARE-BASED COMPENSATION PLANS

Changes to Share-Based Compensation Plans

In 2018, the Human Resources and Compensation Committee ("HRCC") of ARC's Board of Directors 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 Performance Share Unit ("PSU") Plan. Following the implementation of the changes and effective commencing with PSU awards granted during the six months ended June 30, 2019, performance multipliers associated with PSUs will be determined using two criteria. 50 per cent will be awarded based on relative total shareholder return performance compared to a defined peer group and 50 per cent will be awarded dependent on an overall assessment of achievements based on a predetermined corporate scorecard. Performance multipliers associated with PSU awards that were granted prior to March 7, 2019 will not be affected by this change.

In conjunction with the independent third-party review, ARC has suspended its Share Option Plan. No grants will be made under the Share Option Plan in 2019. Outstanding share option grants will continue to vest on schedule.

Long-term Incentive Plans

The following table summarizes the Restricted Share Unit ("RSU"), PSU, and Deferred Share Unit ("DSU") movement for the six months ended June 30, 2019:

(number of units, thousands)	**RSUs**	**PSUs Granted Prior to March 7, 2019** (1)	**PSUs Granted Subsequent to March 6, 2019** (1)	**DSUs**
Balance, December 31, 2018	942	2,270	—	671
Granted	**924**	**—**	**824**	**152**
Distributed	**(217)**	**(273)**	**—**	**(49)**
Forfeited	**(46)**	**(217)**	**(35)**	**—**
Balance, June 30, 2019	**1,603**	**1,780**	**789**	**774**

(1) Based on underlying units before any effect of the performance multiplier.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
G&A (recoveries)	**(5.8)**	(0.9)	**2.0**	4.1
Operating (recoveries)	**(0.3)**	0.3	**0.5**	0.8
PP&E (recoveries)	**(0.3)**	(0.2)	**0.2**	—
Total compensation charges (recoveries)	**(6.4)**	(0.8)	**2.7**	4.9
Cash payments	**—**	—	**4.6**	8.1

At June 30, 2019, $5.1 million of compensation amounts payable were included in Accounts payable and accrued liabilities on the balance sheet ($6.1 million at December 31, 2018) and $11.5 million was included in the long-term incentive compensation liability ($12.4 million at December 31, 2018). No recoverable amount was included in accounts receivable at June 30, 2019 ($0.1 million at December 31, 2018).

Share Option Plan

The changes in total share options outstanding and related weighted average exercise prices for the six months ended June 30, 2019 were as follows:

	Share Options (number of units, thousands)	**Weighted Average Exercise Price ($)**
Balance, December 31, 2018	5,991	17.36
Forfeited	**(163)**	**15.31**
Expired	**(695)**	**13.80**
Balance, June 30, 2019	**5,133**	**17.56**
Exercisable, June 30, 2019	**1,317**	**23.31**

The following table summarizes information regarding share options outstanding at June 30, 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 ($)**
12.61 - 20.00	4,216	15.91	4.75	400	19.06
20.01 - 25.00	496	21.95	0.98	496	21.95
25.01 - 28.94	421	28.94	1.97	421	28.94
Total	5,133	17.56	4.15	1,317	23.31

ARC recognized compensation expense of $0.9 million and $2.0 million relating to the Share Option Plan for the three and six months ended June 30, 2019 ($1.1 million and $2.1 million for the three and six months ended June 30, 2018), respectively. During the three and six months ended June 30, 2019, $nil and $0.1 million of share option compensation charges were capitalized to PP&E ($0.1 million and $0.2 million for the three and six months ended June 30, 2018), respectively.

LTRSA Plan

The changes in total LTRSA outstanding and related fair value per restricted share for the six months ended June 30, 2019 were as follows:

	LTRSA (number of units, thousands)	Fair Value per Restricted Share ($)
Balance, December 31, 2018	454	16.91
Restricted shares granted and purchased	**295**	**6.73**
Forfeited	**(26)**	**16.26**
Balance, June 30, 2019	**723**	**12.78**

ARC recognized G&A expense of $1.1 million and $1.3 million relating to the LTRSA Plan during the three and six months ended June 30, 2019 ($0.9 million and $1.1 million for the three and six months ended June 30, 2018), respectively.

18. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at June 30, 2019:

	Payments Due by Period				
	1 Year	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Debt repayments (1)	64.1	292.2	251.6	204.4	812.3
Interest payments (2)	33.2	49.5	25.1	8.3	116.1
Purchase and service commitments	49.3	10.5	8.7	0.2	68.7
Transportation commitments	139.3	274.3	256.8	748.2	1,418.6
Total contractual obligations and commitments	**285.9**	**626.5**	**542.2**	**961.1**	**2,415.7**

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

The following table reconciles the Company's operating lease commitments disclosed as at December 31, 2018 with lease obligations recognized on ARC's balance sheet at January 1, 2019. Refer to Note 3 "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 as at January 1, 2019	**58.0**

19. 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:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Operating	**6.5**	8.5	**18.5**	17.8
G&A	**9.2**	12.7	**29.0**	30.1
Total employee compensation expense	**15.7**	21.2	**47.5**	47.9

Cash Flow Statement Presentation

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

	Three Months Ended June 30		Six Months Ended June 30	
Change in Non-Cash Working Capital	**2019**	2018	**2019**	2018
Accounts receivable	**21.7**	(23.1)	**36.6**	(15.7)
Deferred consideration - current	**(0.6)**	—	**(42.0)**	—
Accounts payable and accrued liabilities	**(20.7)**	0.4	**(11.3)**	16.2
Prepaid expense	**(3.5)**	(6.1)	**(2.2)**	(5.5)
Total change in non-cash working capital	**(3.1)**	(28.8)	**(18.9)**	(5.0)
Relating to:				
Operating activities	**8.7**	4.6	**(50.0)**	9.2
Investing activities	**(11.8)**	(33.4)	**31.1**	(14.2)
Total change in non-cash working capital	**(3.1)**	(28.8)	**(18.9)**	(5.0)

	Three Months Ended June 30		Six Months Ended June 30	
Other Non-Cash Items	**2019**	2018	**2019**	2018
Other deferred liabilities	**(0.2)**	(0.5)	**(0.2)**	(1.0)
Share-based compensation expense	**1.1**	1.2	**2.4**	2.4
Total other non-cash items	**0.9**	0.7	**2.2**	1.4

	Three Months Ended June 30		Six Months Ended June 30	
Net Change in Other Liabilities	**2019**	2018	**2019**	2018
Long-term incentive compensation liability	**(4.6)**	0.2	**(0.9)**	(0.2)
ARO settlements	**(3.4)**	(0.6)	**(12.2)**	(6.2)
Other deferred liabilities	**—**	—	**5.7**	—
Accrued lease interest	**0.1**	—	**0.3**	—
Total net change in other liabilities	**(7.9)**	(0.4)	**(7.1)**	(6.4)

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, December 31, 2018	80.5	828.7	909.2
Impact of change in accounting policy (Note 3)	13.5	44.5	58.0
Balance, January 1, 2019	94.0	873.2	967.2
Cash flows			
Repayment of long-term debt	**(63.1)**	**—**	**(63.1)**
Repayment of lease obligations	**(9.1)**	**—**	**(9.1)**
Reclassified to current			
Long-term debt	**49.7**	**(49.7)**	**—**
Lease obligations	**4.0**	**(4.0)**	**—**
Lease recognition	**0.2**	**0.5**	**0.7**
Accrued lease interest	**0.3**	**—**	**0.3**
Unrealized foreign exchange gain	**(3.0)**	**(30.8)**	**(33.8)**
Balance, June 30, 2019	**73.0**	**789.2**	**862.2**

Financing Liabilities	Current Portion of Long-term Debt	Long-Term Debt	Total Financial Liabilities from Financing Activities
Balance, December 31, 2017	73.9	837.4	911.3
Cash flows	(60.7)	—	(60.7)
Reclassified to current	60.7	(60.7)	—
Unrealized foreign exchange loss	3.6	38.7	42.3
Balance, June 30, 2018	77.5	815.4	892.9

CORPORATE & SHAREHOLDER INFORMATION

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Chairman

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President and Chief Executive Officer

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

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CORPORATE CALENDAR 2019

November 7, 2019
Q3 2019 Results

STOCK EXCHANGE LISTING

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

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