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Resilience. Discipline. Focus.

Annual Report

ARC RESOURCES LTD

Corporate Profile

ARX

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

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Financial & Operational **Highlights**

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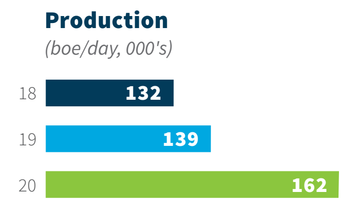
ARC strengthened its business in 2020 through prudent capital allocation decisions and excellent operational execution.

Record Annual Production

Delivered record annual production of

161,564 boe/day

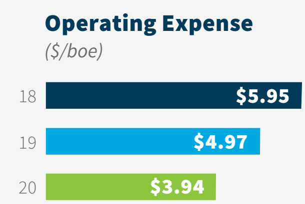


Record Operating Expense

Delivered an operating expense of

$3.94/boe

the lowest in ARC's 24-year history

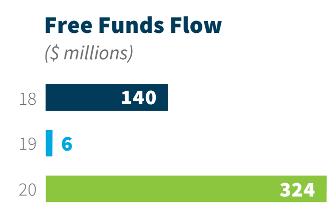


Strong Free Funds Flow Generation

Increased capital allocation optionality with

$324MM

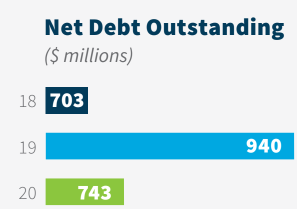
of free funds flow generated



Significant Debt Reduction

Reduced net debt by

$198MM



Message to **Shareholders**

Terry M. Anderson
President and Chief Executive Officer

Resilience. Discipline. Focus.

Three defining traits of ARC in 2020 – a year of prudent capital allocation, significant debt reduction, safe execution, and excellent operational performance.

Despite volatile and uncertain market conditions, we delivered record production by safely bringing our Dawson Phase IV facility on-stream, lowered our cost structure by driving down our operating expenses to record-low levels, and strengthened our financial position by generating significant free funds flow. We demonstrated our ongoing commitment to delivering leading environmental, social, and governance ("ESG") performance and reporting transparency with the release of our ESG Report, marking ARC's twelfth year of formal ESG reporting. Our integrated approach to ESG was reflected in strong performance across all ESG metrics, including delivering the lowest GHG emissions intensity amongst our peer group. We continue to set measurable targets to reduce our environmental impacts and advance our social and governance practices.

Our enviable Montney asset base and our network of owned-and-operated infrastructure allow us to control our destiny and deliver strong capital and operating efficiencies.

By swiftly adjusting our capital budget and dividend in early 2020 in response to the rapid decline in global commodity prices, we were able to continue paying a sustainable dividend to shareholders, expand the Company's low-cost Montney production base, and maintain our strong financial position throughout the year.

Major Facility

Brought On-stream

Focused

on delivering strong returns

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

We are excited for the opportunities that lie ahead as ARC moves forward with the strategic combination with Seven Generations Energy Ltd. It is a transformational transaction that will create superior and enduring value for our shareholders and theirs. The combination will enhance our existing commodity and geographic

Dawson

Phase IV

Ahead of schedule, under budget, and with a perfect safety record.

Dawson Phase IV

Our guiding principles have created a strong foundation for excellent business performance and make ARC a differentiated Canadian energy company as we continue developing low-carbon energy and contributing positively to society.

diversification, generate significant free funds flow to increase optionality in our capital allocation decisions, and elevate our standing as an ESG-focused energy company. As the premier Montney producer, ARC will become Canada's largest condensate producer, third-largest natural gas producer, and sixth-largest upstream energy company, increasing our relevance and improving our ability to compete on the global energy stage.

As ARC enters its 25th year, I am proud of our team's work to make our business more efficient and resilient. ARC's operational excellence, robust risk management program, and strong balance sheet have positioned us to prudently manage volatile market conditions. Our enviable Montney asset base and our network of owned-and-operated infrastructure allow us to control our destiny and deliver strong capital and operating efficiencies. Our sustainable business model is focused on financial discipline, ESG leadership, long-term corporate profitability, free funds flow generation, and paying a sustainable dividend to shareholders. These guiding principles have created a strong foundation for excellent business performance and make ARC a differentiated Canadian energy company as we continue developing low-carbon energy and contributing positively to society.

ARC is committed to playing a meaningful role in the transition to a lower-carbon economy. We will continue to pursue efficiencies across our business and proudly contribute to the Canadian economy. ARC is in an attractive position with a low cost structure, a strong asset base with tremendous optionality, and talented people who drive our business forward.

In closing, I want to recognize the dedication of our employees, whose focus and resilience delivered exceptional business results in 2020 and into 2021. Thank you to our board of directors for your guidance and our shareholders for your continued support. We look forward to ARC's exciting future.

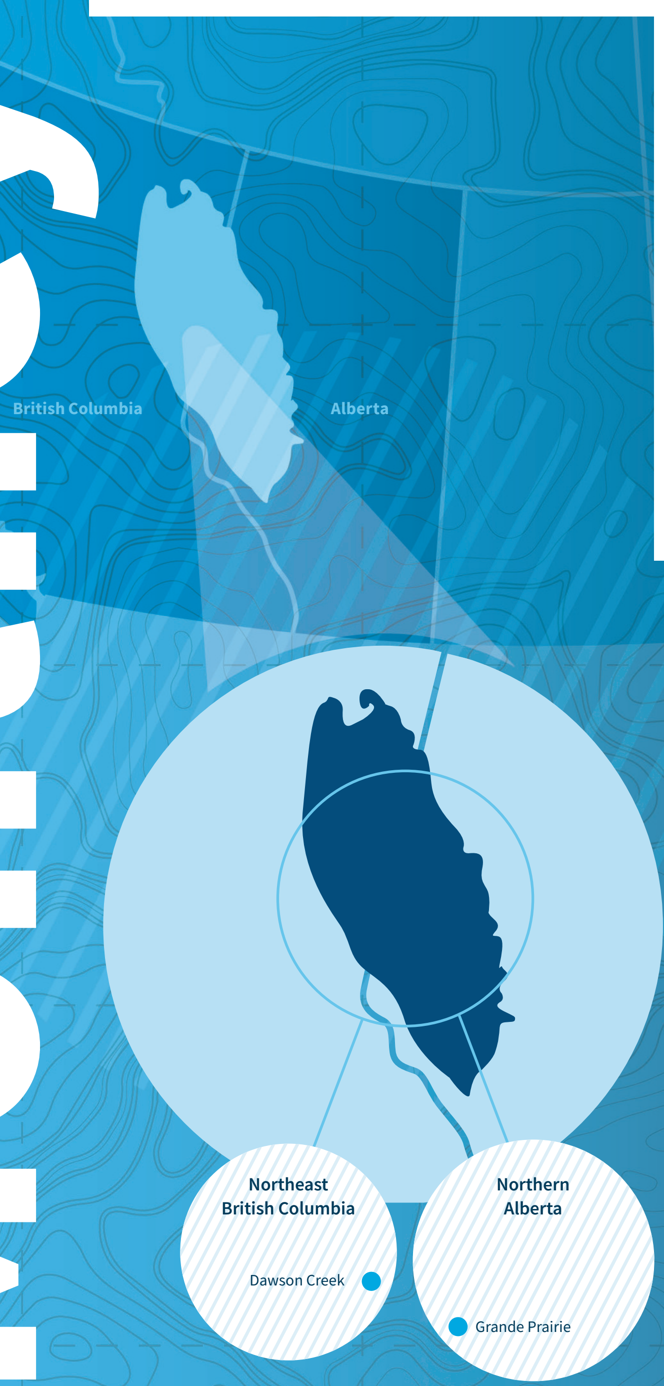
Terry M. Anderson
President & Chief Executive Officer

Montney

Where **We Operate**

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

The Montney fairway spans Alberta and British Columbia and within this geological formation, contains trillions of cubic feet of recoverable natural gas and billions of barrels of recoverable natural gas liquids, condensate, and oil. The Montney delivers competitive development economics and has many long-term, large-scale development opportunities that will create value for years to come. The Montney is a key growth area for ARC, with great potential for continued reserves and production additions.



ARC is one of the largest operators in the Montney

and has been active in the resource play since 2000. Each year, ARC advances its understanding and technical expertise in the Montney.

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Financial **Report**

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis ("MD&A") of ARC Resources Ltd. ("ARC" or the "Company") is Management’s analysis of the financial performance and significant trends and external factors that may affect future performance. It is dated February 10, 2021 and should be read in conjunction with the audited consolidated financial statements (the "financial statements") as at and for the year ended December 31, 2020, and the MD&A and unaudited condensed interim consolidated financial statements for the periods ended March 31, 2020, June 30, 2020, and September 30, 2020, as well as ARC’s Annual Information Form ("AIF"), each of which is available on ARC's website at www.arcresources.com and SEDAR at www.sedar.com. All financial information is reported in Canadian dollars and all per share information is based on diluted weighted average common shares, unless otherwise noted.

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

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

In March 2020, the World Health Organization declared the novel coronavirus COVID-19 ("COVID-19") a global pandemic. COVID-19 has had, and is anticipated to continue to have, a significant impact on the global economy, commodity prices, and ARC's business. At December 31, 2020, ARC's management has incorporated the current and anticipated impacts of COVID-19 in its preparation of the MD&A. Refer to the section entitled "Risk Factors" contained within this MD&A and Note 6 "Novel Coronavirus COVID-19" in the financial statements.

BUSINESS COMBINATION

On February 10, 2021, ARC and Seven Generations Energy Ltd. ("Seven Generations") jointly announced that they entered into a definitive agreement to combine the companies in an all-share transaction to create a new Canadian oil and natural gas company through a plan of arrangement. Upon completion of the transaction, which will require shareholder and regulatory approvals, the combined entity will operate as ARC. Refer to the joint February 10, 2021 news release entitled "*ARC Resources and Seven Generations Announce Strategic Montney Combination*" available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

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, and NGLs 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".

The guiding principles upon which ARC conducts its business have created a strong foundation for excellent business performance. ARC's operational excellence, robust risk management program, and strong balance sheet have positioned the Company to prudently manage volatile market conditions. The Company's concentrated Montney asset base, located in premier positions within the Montney fairway, and which includes commodity optionality and a network of owned-and-operated infrastructure, allows ARC to deliver strong capital and operating efficiencies. Exercising capital discipline and managing a moderate pace of development enables ARC to maintain a corporate decline rate of approximately 30 per cent. ARC's sustainable business model is focused on a strong balance sheet, ample liquidity, environmental, social, and governance ("ESG") leadership, long-term corporate profitability, generating free funds flow(1) at reasonable commodity prices, and paying a sustainable dividend to shareholders. In combination with the Company's premier land position in the Montney and significant resources in-place, these principles make ARC a differentiated company.

(1) 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.

Highlights

Corporate highlights for the years 2016 through 2020 are shown in Table 1:

Table 1

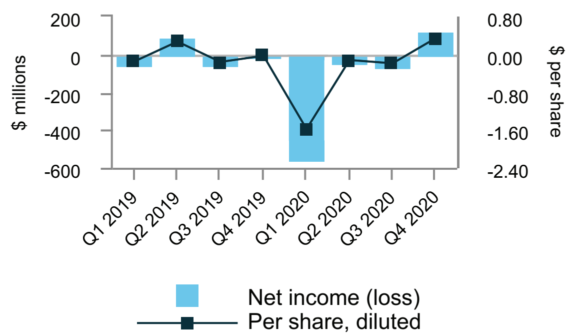
	2020	2019	2018	2017	2016
Production (1)					
Crude oil (bbl/d)	**15,726**	17,591	23,460	24,380	31,510
Condensate (bbl/d)	**13,519**	10,066	7,281	5,650	3,626
Crude oil and condensate (bbl/d)	**29,245**	27,657	30,741	30,030	35,136
Natural gas (MMcf/d)	**739.2**	623.3	570.2	525.8	475.6
NGLs (bbl/d)	**9,112**	7,578	6,955	5,273	4,274
Total production (boe/d)	**161,564**	139,126	132,724	122,937	118,671
Average daily production per thousand shares (2)	**0.46**	0.39	0.38	0.35	0.34
Net income (loss) (3)	**(547.2)**	(27.6)	213.8	388.9	201.3
Net income (loss) per share (3)	**(1.55)**	(0.08)	0.60	1.10	0.57
Funds from operations (4)	**667.6**	697.4	819.0	731.9	633.3
Funds from operations per share (4)	**1.89**	1.97	2.31	2.07	1.80
Free funds flow (5)	**324.4**	5.9	139.6	(97.8)	179.9
Capital expenditures (6)	**343.2**	691.5	679.4	829.7	453.4
Net debt (4)	**742.7**	940.2	702.7	728.0	356.5
Net debt to funds from operations (ratio) (4)	**1.1**	1.3	0.9	1.0	0.6
Return on average capital employed ("ROACE") (%) (5)	**(18)**	(2)	8	14	7
Proved plus probable reserves (MMboe) (7)(8)	**929.0**	909.9	878.9	836.1	736.7
Proved plus probable reserves per share (boe) (7)(8)	**2.6**	2.6	2.5	2.4	2.1

(1) Reported production amount is based on Company's interest before royalty burdens.
(2) Daily production per thousand shares represents annual average daily production divided by the diluted weighted average common shares for the respective years ended December 31.
(3) The 2020 net loss is primarily attributed to an after-tax impairment charge of $554.8 million ($1.57 per share). Refer to Note 11 "Impairment" in the financial statements.
(4) Refer to Note 16 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(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 this MD&A.
(6) Prior to expenditures for undeveloped land purchases and property acquisitions and dispositions.
(7) Crude oil, condensate, natural gas, and NGLs reserves ("reserves") as determined by ARC's independent qualified reserve evaluator with an effective date of December 31 for the years shown in accordance with the Canadian Oil and Gas Evaluation Handbook
(8) Reserves are the gross interest reserves before deduction of royalties and without including any royalty interests. For more information, see ARC's AIF and the February 10, 2021 news release entitled *"ARC Resources Ltd. Reports Fourth Quarter and Year-end 2020 Financial and Operational Results and Year-end 2020 Reserves Results"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

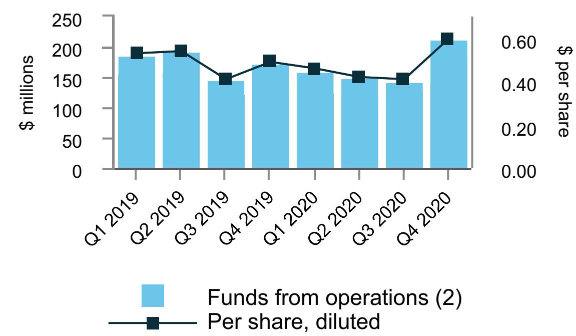
QUARTERLY RESULTS [1]

Exhibit 1

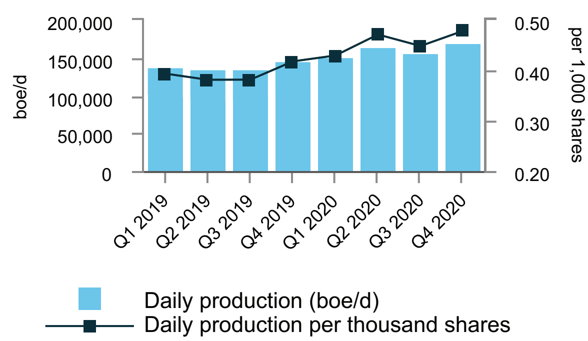
Net Income (Loss)



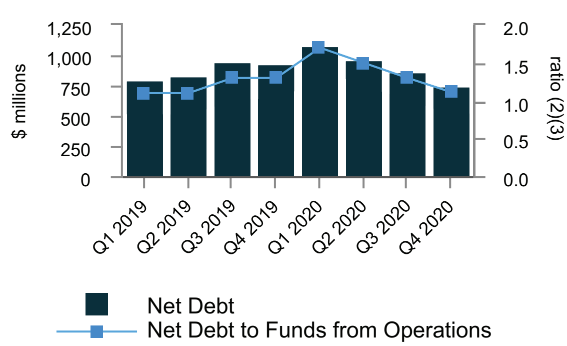
Funds from Operations (2)



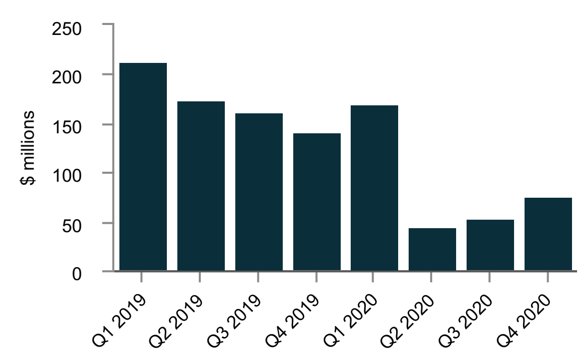
Average Daily Production



Net Debt (2)



Capital Expenditures



(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 16 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(3) Net debt to annualized funds from operations.

Trends in earnings and funds from operations are primarily associated with fluctuations in commodity sales from production which reflect changes in production levels and commodity prices. The following significant items further impacted the Company's net income (loss) over the past eight quarters:

- In the fourth quarter of 2020, ARC recognized a gain on risk management contracts of $49.3 million.
- In the third quarter of 2020, ARC recognized a loss on risk management contracts of $94.3 million.
- In the second quarter of 2020, ARC recognized a loss on risk management contracts of $70.7 million.
- In the first quarter of 2020, ARC recognized an impairment charge of $740.0 million ($554.8 million net of deferred tax recovery) related to its Northern Alberta cash-generating unit ("CGU"). Refer to the section entitled "Risk Factors" contained within this MD&A and Note 11 "Impairment" in the financial statements. Additionally, ARC recognized a gain on risk management contracts of $100.3 million.
- In the fourth quarter of 2019, ARC recognized a loss on risk management contracts of $56.3 million.
- In the third quarter of 2019, ARC recognized an impairment charge of $39.2 million relating to financial assets. Refer to the section entitled "ACCEL Canada Holdings Limited" contained within this MD&A and Note 7 "Financial Assets and Credit Risk" in the financial statements.
- In the second quarter of 2019, ARC recognized an income tax recovery of $63.9 million. Additionally, an impairment charge of $8.5 million was recognized relating to financial assets. Refer to the section entitled "ACCEL Canada Holdings Limited" contained within this MD&A and Note 7 "Financial Assets and Credit Risk" in the financial statements.
- In the first quarter of 2019, ARC recognized a loss on risk management contracts of $126.2 million.

ANNUAL GUIDANCE

ARC's capital budget for 2021 will range from $375 million to $425 million. The capital program centres around ARC's principles of capital discipline, profitability, and financial strength, and will deliver sustainable returns to shareholders through the continuation of ARC's quarterly dividend of $0.06 per share. Advancing the Company's ESG leadership and performance, and upholding ARC's strong safety culture, will continue to be top priorities in 2021.

ARC plans to sustain its production at Dawson, Sunrise, Parkland/Tower, and Ante Creek, with approximately 80 per cent of the 2021 capital budget directed at profitable half-cycle investments. Additionally, ARC plans to complete two small-scale facility optimization projects at Sunrise and Parkland/Tower to enhance the assets' overall deliverability and profitability. ARC expects to deliver average daily production of between 158,000 boe per day and 165,000 boe per day in 2021, of which approximately 80 per cent is natural gas and 20 per cent is crude oil and liquids.

Refer to the November 5, 2020 news release entitled *"ARC Resources Ltd. Reports Third Quarter 2020 Financial and Operational Results and Announces 2021 Capital Budget of $375 Million to $425 Million"* available on ARC's website at www.arcresources.com and SEDAR at www.sedar.com.

Table 2 is a summary of ARC's 2020 and 2021 annual guidance and a review of 2020 actual results:

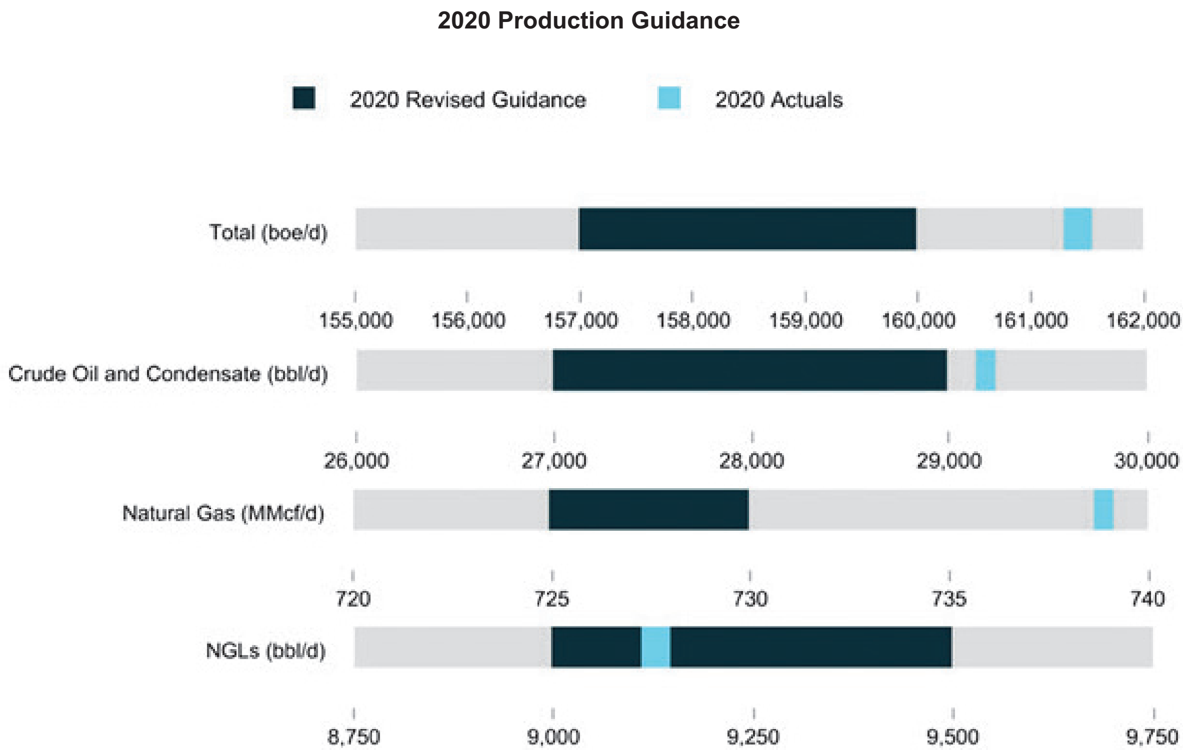
Table 2

	2020 Revised Guidance (4)	**2020 Actual**	% Variance from 2020 Revised Guidance	2021 Guidance (5)
Production				
Crude oil (bbl/d)	15,000 - 16,000	**15,726**	—	12,000 - 13,500
Condensate (bbl/d)	12,000 - 13,000	**13,519**	4	11,000 - 12,500
Crude oil and condensate (bbl/d)	27,000 - 29,000	**29,245**	1	23,000 - 26,000
Natural gas (MMcf/d) (1)	725 - 730	**739.2**	1	750 - 775
NGLs (bbl/d)	9,000 - 9,500	**9,112**	—	9,500 - 10,500
Total (boe/d) (1)	157,000 - 160,000	**161,564**	1	158,000 - 165,000
Expenses ($/boe)				
Operating	4.00 - 4.20	**3.94**	(2)	4.00 - 4.50
Transportation	3.00 - 3.20	**2.98**	(1)	3.00 - 3.50
G&A expense before share-based compensation expense	1.05 - 1.15	**1.12**	—	1.00 - 1.25
G&A - share-based compensation expense (2)	0.30 - 0.45	**0.43**	—	0.30 - 0.45
Interest and financing (3)	0.65 - 0.75	**0.66**	—	0.45 - 0.55
Current income tax expense (recovery), as a per cent of funds from operations	(5) - 0	**(4)**	—	3 - 7
Capital expenditures before land purchases and net property acquisitions (dispositions) ($ millions)	350	**343.2**	(2)	375 - 425

(1) Guidance does not incorporate the potential impact that third-party transportation restrictions may have on ARC's natural gas production.
(2) Comprises expense recognized under the Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") Plans, Share Option Plan, and Long-term Restricted Share Award ("LTRSA") Plan, and excludes compensation expense under the Deferred Share Unit ("DSU") Plan. In periods where substantial share price fluctuation occurs, ARC's general and administrative ("G&A") expense is subject to greater volatility.
(3) Excludes accretion of the asset retirement obligation ("ARO").
(4) 2020 Revised Guidance reflects updates made to ARC's 2020 guidance items in November 2020. Refer to the November 5, 2020 news release entitled *"ARC Resources Ltd. Reports Third Quarter 2020 Financial and Operational Results and Announces 2021 Capital Budget of $375 Million to $425 Million"* available on ARC's website at www.arcresources.com and SEDAR at www.sedar.com.
(5) Ongoing weakness in commodity prices resulting from COVID-19 impacts on demand and market volatility may impact ARC's future financial and operational results. ARC will continuously monitor its guidance and provide updates as deemed appropriate.

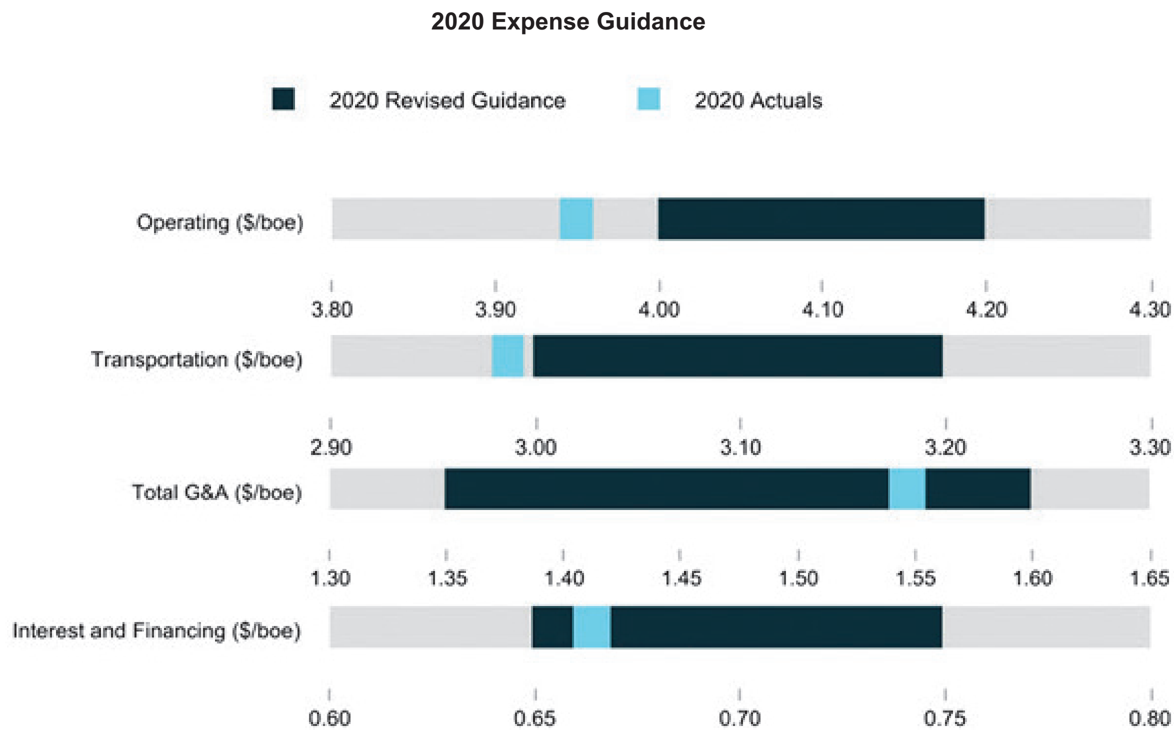
ARC's 2020 financial and operational results were within or exceeded guidance. Total production exceeded the guidance range due to strong operational execution and performance across the Company's Montney assets, resulting in higher-than-forecasted condensate and natural gas production for the year.

Exhibit 2



ARC's operating expense per boe was below the guidance range, reflecting diligent cost control efforts undertaken by ARC's field operations team and the deferral of some discretionary maintenance and workover activities.

Exhibit 2a



The guidance information presented for 2021 is intended to provide shareholders with information on Management's expectations of its results from operations. Readers are cautioned that the guidance may not be appropriate for other purposes.

2020 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Financial Highlights

Table 3

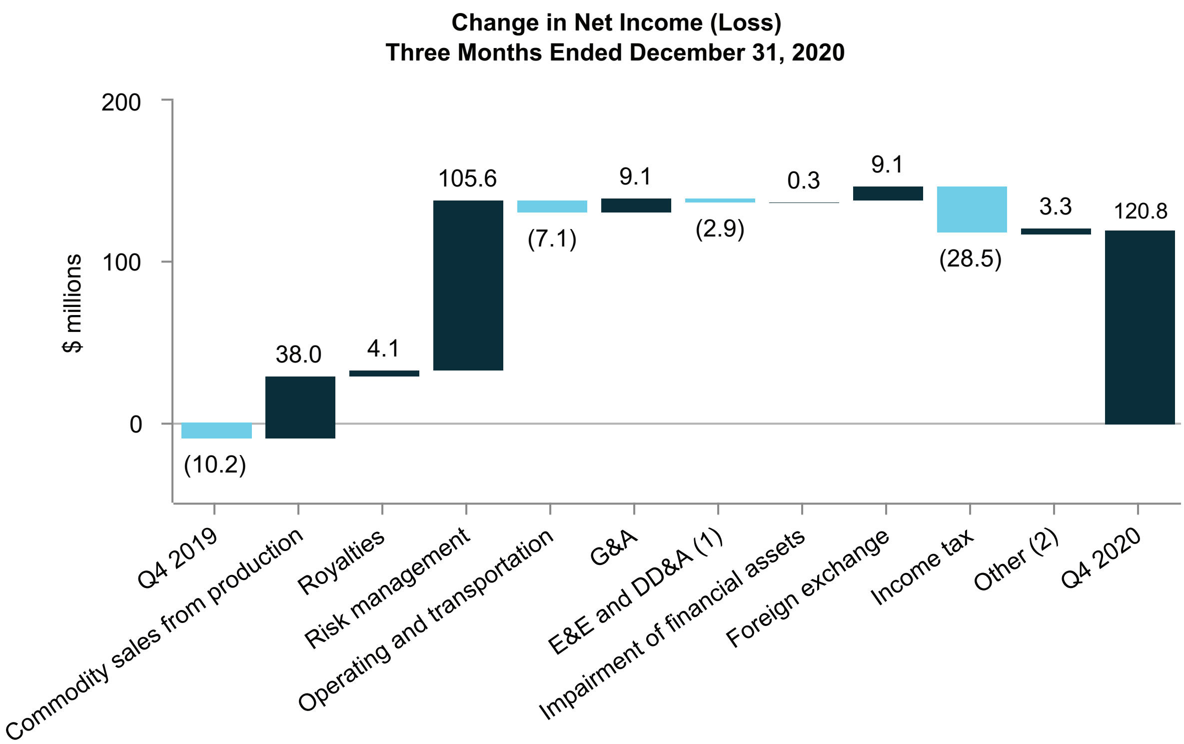
	Three Months Ended				Year Ended		
($ millions, except per share and volume data)	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
Net income (loss)	(66.1)	**120.8**	(10.2)	1,284	**(547.2)**	(27.6)	(1,883)
Net income (loss) per share	(0.19)	**0.34**	(0.03)	1,233	**(1.55)**	(0.08)	(1,838)
Funds from operations (1)	144.6	**212.0**	172.8	23	**667.6**	697.4	(4)
Funds from operations per share (1)	0.41	**0.60**	0.49	22	**1.89**	1.97	(4)
Free funds flow (2)	92.0	**135.3**	31.1	335	**324.4**	5.9	5,398
Dividends declared per share (3)	0.06	**0.06**	0.15	(60)	**0.30**	0.60	(50)
Average daily production (boe/d)	158,444	**169,468**	147,650	15	**161,564**	139,126	16

(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) 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.
(3) Dividends declared per share are based on the number of shares outstanding at each dividend record date.

Net Income (Loss)

In the fourth quarter of 2020, ARC recognized net income of $120.8 million ($0.34 per share), an increase of $131.0 million from ARC's fourth quarter 2019 net loss of $10.2 million ($0.03 per share). The increase in net income is primarily due to a gain recognized on risk management contracts of $49.3 million in the fourth quarter of 2020 as compared to a loss on risk management contracts of $56.3 million in the fourth quarter of 2019, as well as an increase in commodity sales from production of $38.0 million. This was partially offset by an increase in income tax expense of $28.5 million.

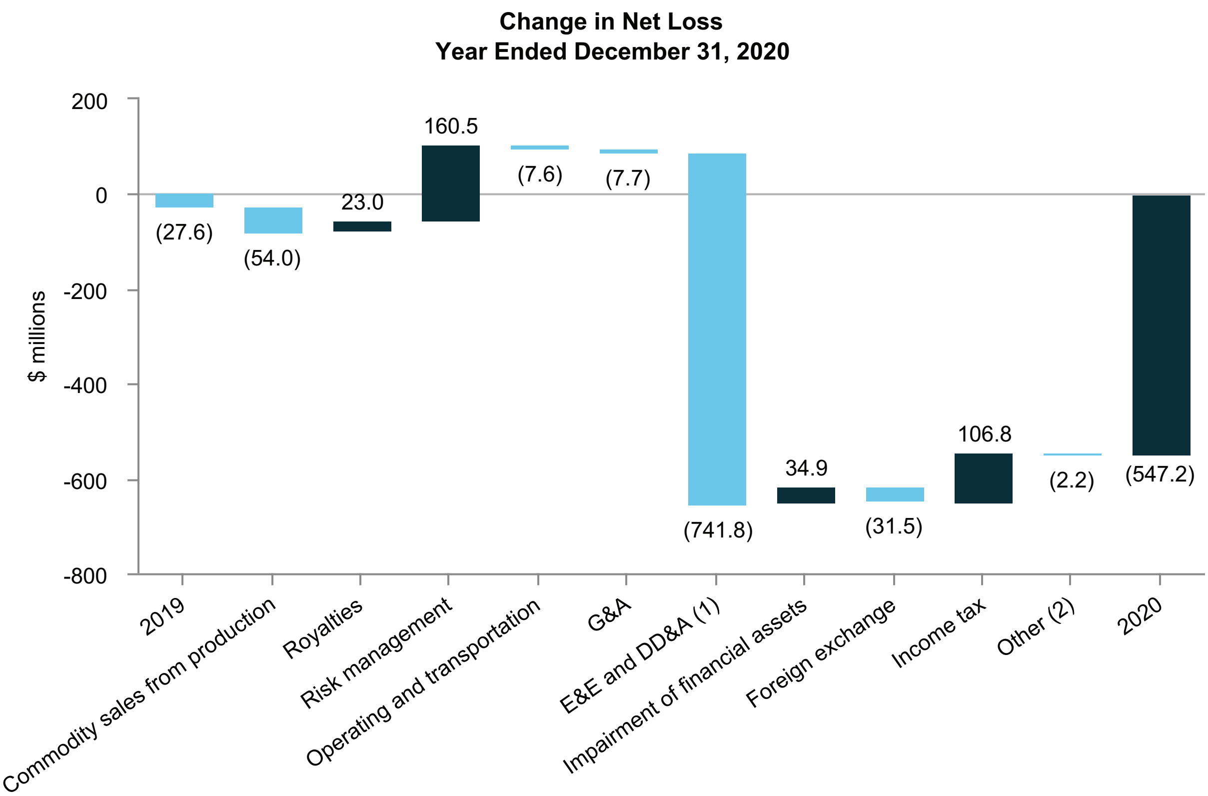
Exhibit 3



(1) Includes Exploration and Evaluation ("E&E") and depletion, depreciation and amortization ("DD&A") and impairment.
(2) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, interest and financing, and gain on disposal of crude oil and natural gas properties.

For the year ended December 31, 2020, ARC recognized a net loss of $547.2 million ($1.55 per share) compared to a net loss of $27.6 million ($0.08 per share) for the prior year. The $519.6 million increase in net loss is primarily attributed to an impairment charge of $740.0 million recognized in the first quarter of 2020. In addition, a decrease in commodity sales from production of $54.0 million as a result of lower average realized crude oil and condensate prices and a decrease in foreign exchange gain of $31.5 million also contributed to the increase in net loss. Partially offsetting these items are a decrease in the loss on risk management contracts of $160.5 million, an increase in income tax recovery of $106.8 million, and a decrease in impairment of financial assets of $34.9 million.

Exhibit 3a



(1) Includes E&E and DD&A and impairment.
(2) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, interest and financing, and gain on disposal of crude oil and natural gas properties.

Funds from Operations

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

ARC reports funds from operations in total and on a per share basis. Refer to Note 16 "Capital Management" in the financial statements. Table 4 is a reconciliation of ARC's net income (loss) to funds from operations and cash flow from operating activities:

Table 4

	Three Months Ended			Year Ended	
($ millions)	September 30, 2020	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
Net income (loss)	(66.1)	**120.8**	(10.2)	**(547.2)**	(27.6)
Adjusted for the following non-cash items:					
Impairment (reversal) of financial assets	1.4	**(0.2)**	0.1	**12.9**	47.8
DD&A and impairment	140.4	**128.4**	132.6	**1,273.9**	539.2
Accretion of ARO	1.4	**1.5**	1.7	**6.3**	7.3
E&E expense	—	**7.1**	—	**7.1**	—
Deferred tax expense (recovery)	(28.3)	**21.1**	2.7	**(180.9)**	(86.9)
Unrealized loss (gain) on risk management contracts	110.8	**(40.5)**	62.9	**89.6**	255.4
Unrealized loss (gain) on foreign exchange	(16.2)	**(26.3)**	(16.3)	**2.1**	(40.3)
Gain on disposal of crude oil and natural gas properties	—	**—**	(1.7)	**—**	(1.7)
Other	1.2	**0.1**	1.0	**3.8**	4.2
Funds from operations	144.6	**212.0**	172.8	**667.6**	697.4
Net change in other liabilities	6.0	**2.7**	8.3	**7.6**	(0.3)
Change in non-cash working capital	23.5	**(13.6)**	(14.4)	**(19.5)**	(58.3)
Cash flow from operating activities	174.1	**201.1**	166.7	**655.7**	638.8

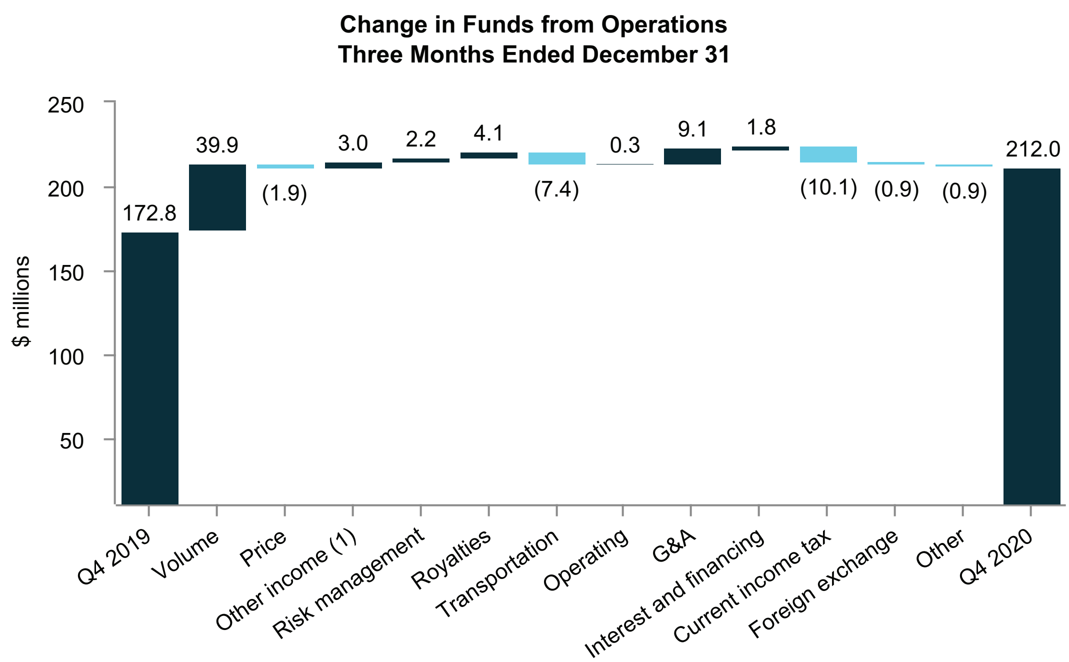
Details of the change in funds from operations from the three months and year ended December 31, 2019 to the three months and year ended December 31, 2020 are included in Table 5 below:

Table 5

	Three Months Ended December 31		Year Ended December 31	
	$ millions	$/Share	$ millions	$/Share
Funds from operations – 2019	172.8	0.49	697.4	1.97
Volume variance				
Crude oil and liquids	**15.1**	**0.04**	**49.2**	**0.14**
Natural gas	**24.8**	**0.07**	**91.3**	**0.26**
Price variance				
Crude oil and liquids	**(39.0)**	**(0.12)**	**(232.2)**	**(0.66)**
Natural gas	**37.1**	**0.10**	**37.7**	**0.11**
Sales of commodities purchased from third parties	**(7.9)**	**(0.02)**	**(57.3)**	**(0.16)**
Interest income	**(0.1)**	**—**	**(4.0)**	**(0.01)**
Other income	**2.6**	**0.01**	**0.4**	**—**
Realized gain on risk management contracts	**2.2**	**0.01**	**(5.3)**	**(0.01)**
Royalties	**4.1**	**0.01**	**23.0**	**0.07**
Expenses				
Commodities purchased from third parties	**8.4**	**0.02**	**57.7**	**0.16**
Operating	**0.3**	**—**	**19.2**	**0.05**
Transportation	**(7.4)**	**(0.02)**	**(26.8)**	**(0.08)**
G&A	**9.1**	**0.03**	**(7.7)**	**(0.02)**
Interest and financing	**1.8**	**0.01**	**1.7**	**—**
Current income tax	**(10.1)**	**(0.03)**	**12.8**	**0.04**
Realized gain (loss) on foreign exchange	**(0.9)**	**—**	**10.9**	**0.03**
Other	**(0.9)**	**—**	**(0.4)**	**—**
Funds from operations – 2020	**212.0**	**0.60**	**667.6**	**1.89**

Funds from operations generated in the fourth quarter of 2020 increased by 23 per cent to $212.0 million ($0.60 per share) from $172.8 million ($0.49 per share) generated in the fourth quarter of 2019. The increase in funds from operations for the three months ended December 31, 2020 primarily reflects an increase in natural gas, condensate, and NGLs production, and a decrease in G&A expense. This was partially offset by an increase in current income tax expense.

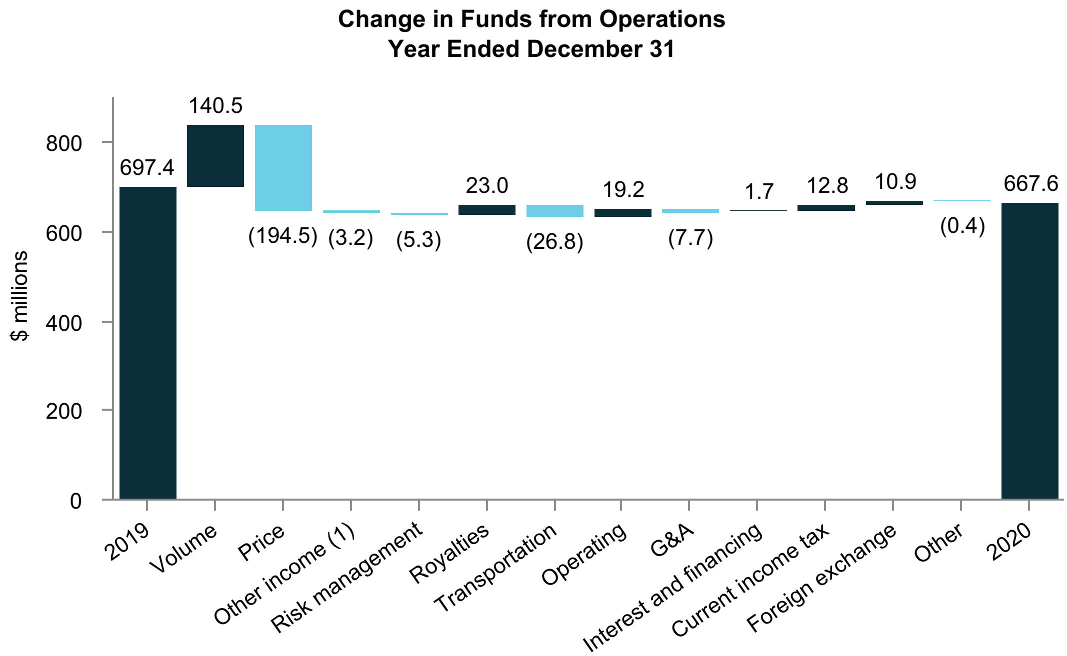
Exhibit 4



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

For the year ended December 31, 2020, funds from operations decreased by $29.8 million to $667.6 million ($1.89 per share) from $697.4 million ($1.97 per share) in 2019. The decrease primarily reflects lower average realized crude oil and condensate prices. This was partially offset by an increase in natural gas, condensate, and NGLs production.

Exhibit 4a



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

Net Loss and Funds from Operations Sensitivity

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

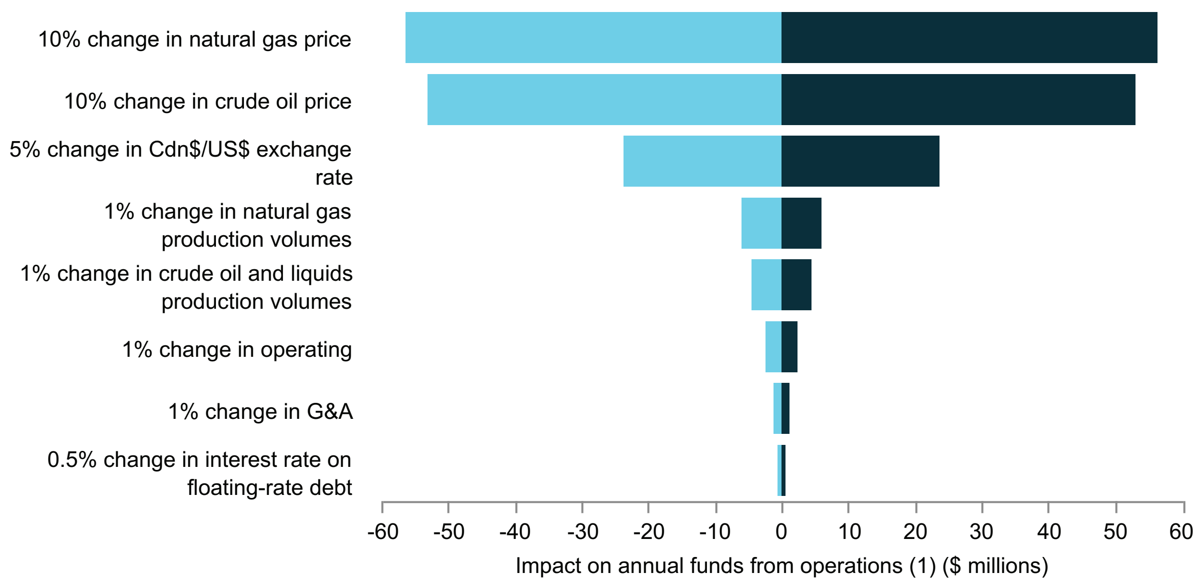
Table 6

			Impact on Annual Funds from Operations [6]		Impact on Annual Net Loss	
	Assumption	Change	Notional Amount ($ millions)	$/Share	Notional Amount ($ millions)	$/Share
Business Environment [1]						
Crude oil price ($/bbl) [2][3]	42.62	10 %	53.0	0.150	53.0	0.150
Natural gas price ($/Mcf) [2]	2.26	10 %	56.5	0.160	56.5	0.160
Cdn$/US$ exchange rate [2][4]	1.34	5 %	23.7	0.067	23.7	0.067
Interest rate on floating-rate debt [2]	2.5 %	0.5 %	0.7	0.002	0.7	0.002
Operational [5]						
Crude oil and liquids production (bbl/d)	38,357	1 %	4.6	0.013	2.5	0.007
Natural gas production (MMcf/d)	739.2	1 %	6.0	0.017	1.8	0.005
Operating ($/boe)	3.94	1 %	2.5	0.007	2.5	0.007
G&A ($/boe)	1.55	1 %	1.1	0.003	1.1	0.003

(1) Calculations are performed independently and may not be indicative of actual results that would occur when multiple variables change at the same time.
(2) Prices and rates are indicative of ARC's average realized prices for the year ended December 31, 2020. Refer to Table 11 contained within this MD&A for additional details. The calculated impact on funds from operations and net loss would only be applicable within a limited range of these amounts.
(3) Includes the impact on crude oil, condensate, and NGLs prices.
(4) Includes impact of foreign exchange on crude oil, condensate, natural gas, and NGLs prices that are presented in US dollars.
(5) Operational assumptions are based upon results for the year ended December 31, 2020.
(6) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Exhibit 5

Funds from Operations Sensitivity (Prior to Risk Management Contracts)



(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Production

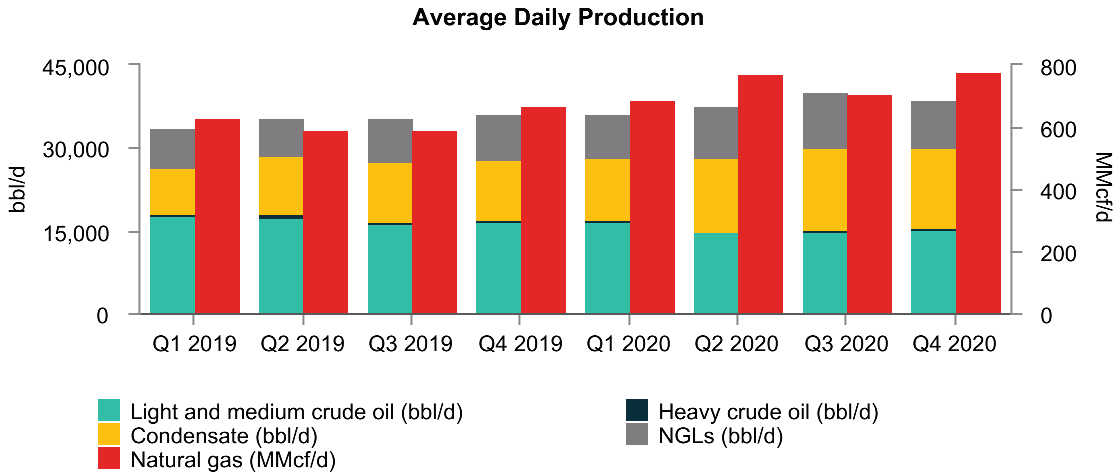
Table 7

Production	Three Months Ended September 30, 2020	Three Months Ended **December 31, 2020**	Three Months Ended December 31, 2019	% Change	Year Ended **December 31, 2020**	Year Ended December 31, 2019	% Change
Light and medium crude oil (bbl/d)	15,016	**15,318**	16,607	(8)	**15,470**	17,064	(9)
Heavy crude oil (bbl/d)	357	**236**	476	(50)	**256**	527	(51)
Condensate (bbl/d)	14,831	**14,715**	10,937	35	**13,519**	10,066	34
NGLs (bbl/d)	10,208	**8,678**	8,123	7	**9,112**	7,578	20
Crude oil and liquids (bbl/d)	40,412	**38,947**	36,143	8	**38,357**	35,235	9
Natural gas (MMcf/d)	708.2	**783.1**	669.0	17	**739.2**	623.3	19
Total production (boe/d)	158,444	**169,468**	147,650	15	**161,564**	139,126	16
Natural gas production (%)	74	**77**	76	1	**76**	75	1
Crude oil and liquids production (%)	26	**23**	24	(1)	**24**	25	(1)

For the three months and year ended December 31, 2020, crude oil and liquids production increased eight per cent and nine per cent, respectively, as compared to the same periods in the prior year. Increases in condensate and NGLs production were partially offset by lower crude oil production. The increases in condensate and NGLs production were primarily driven by the start-up of the Dawson Phase IV gas processing and liquids-handling facility, which came on-stream at the beginning of the second quarter of 2020, as well as increased production from Attachie West. The decrease in crude oil production is primarily attributable to natural declines of oil-producing properties where minimal development activity has occurred. In addition, certain properties shut in production during the second and third quarters of 2020 in response to low commodity prices and to perform maintenance activities, respectively. In each instance, production was mostly restored by the end of the quarter.

For the three months and year ended December 31, 2020, natural gas production increased 17 per cent and 19 per cent, respectively, compared to the same periods in the prior year. The increase was primarily driven by the start-up of the Dawson Phase IV gas processing and liquids-handling facility which came on-stream at the beginning of the second quarter of 2020. For the year ended December 31, 2020, production volumes also increased at Sunrise where facilities were utilized at full capacity for the majority of 2020.

Exhibit 6



Average Daily Production
45,000
30,000
15,000
0
bbl/d
800
600
400
200
0
MMcf/d
Q1 2019
Q2 2019
Q3 2019
Q4 2019
Q1 2020
Q2 2020
Q3 2020
Q4 2020
Light and medium crude oil (bbl/d)
Heavy crude oil (bbl/d)
Condensate (bbl/d)
NGLs (bbl/d)
Natural gas (MMcf/d)

Table 8 summarizes ARC's production by core area for the three months ended December 31, 2020 and December 31, 2019:

Table 8

	Three Months Ended December 31, 2020				
Production Core Area	**Total (boe/d)**	**Crude Oil (bbl/d)**	**Condensate (bbl/d)**	**Natural Gas (MMcf/d)**	**NGLs (bbl/d)**
Dawson	**61,834**	—	5,471	322.3	2,650
Sunrise	**39,098**	—	—	234.4	36
Parkland/Tower	**35,181**	2,126	5,414	142.9	3,819
Ante Creek	**18,274**	7,690	597	50.9	1,502
Pembina	**7,976**	5,737	143	10.4	363
Attachie West	**5,386**	—	2,966	13.5	166
All other	**1,719**	1	124	8.7	142
Total	**169,468**	**15,554**	**14,715**	**783.1**	**8,678**

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

Exhibit 7

Production by Core Area
Three Months Ended December 31, 2020

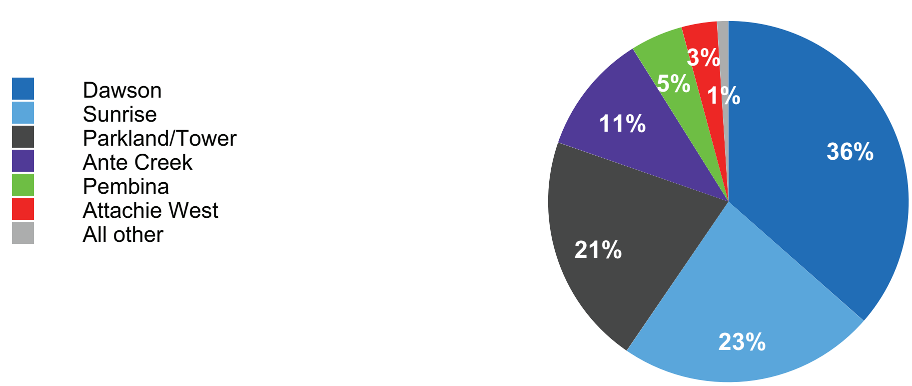


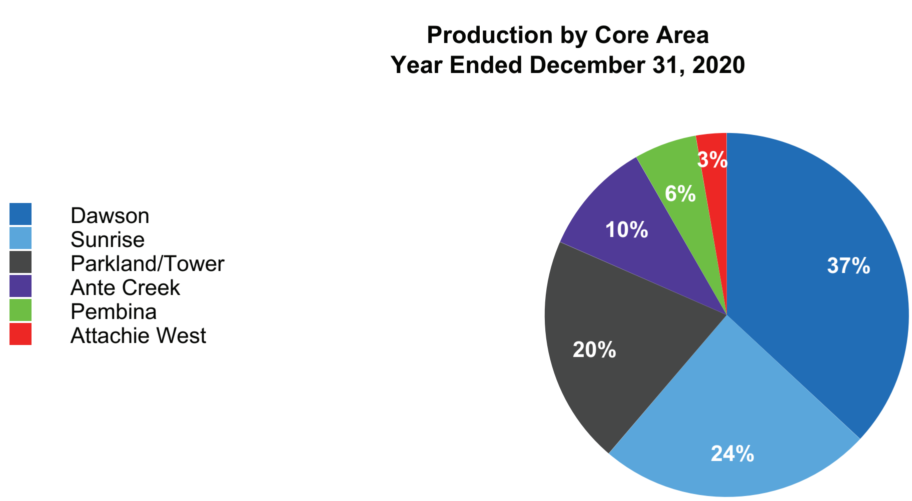
Table 8a summarizes ARC's production by core area for the years ended December 31, 2020 and December 31, 2019:

Table 8a

	Year Ended December 31, 2020				
Production Core Area	**Total (boe/d)**	**Crude Oil (bbl/d)**	**Condensate (bbl/d)**	**Natural Gas (MMcf/d)**	**NGLs (bbl/d)**
Dawson	**59,140**	—	5,431	303.0	3,216
Sunrise	**38,930**	—	—	233.5	22
Parkland/Tower	**32,564**	2,337	4,801	128.5	4,014
Ante Creek	**16,241**	6,882	467	45.0	1,386
Pembina	**8,900**	6,503	145	11.2	387
Attachie West	**4,356**	—	2,542	10.2	107
All other	**1,433**	4	133	7.8	(20)
Total	**161,564**	**15,726**	**13,519**	**739.2**	**9,112**

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

Exhibit 7a



Commodity Sales from Production

For the three months ended December 31, 2020, commodity sales from production increased by 12 per cent as compared to the same period in 2019. The increase is due to higher average realized natural gas and NGLs prices as well as an increase in natural gas, condensate, and NGLs production. This was partially offset by lower average realized crude oil and condensate prices and lower crude oil production.

For the year ended December 31, 2020, commodity sales from production decreased by five per cent as compared to 2019. The decrease is due to lower average realized crude oil and condensate prices, partially offset by an increase in natural gas, condensate, and NGLs production.

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

Table 9

	Three Months Ended				Year Ended		
Commodity Sales from Production ($ millions)	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
Crude oil	64.3	**68.9**	102.3	(33)	**245.3**	423.8	(42)
Condensate	66.2	**72.4**	68.5	6	**235.6**	248.4	(5)
Natural gas	140.6	**207.4**	145.5	43	**612.3**	483.3	27
NGLs	13.9	**14.4**	8.8	64	**42.3**	34.0	24
Total commodity sales from production	285.0	**363.1**	325.1	12	**1,135.5**	1,189.5	(5)

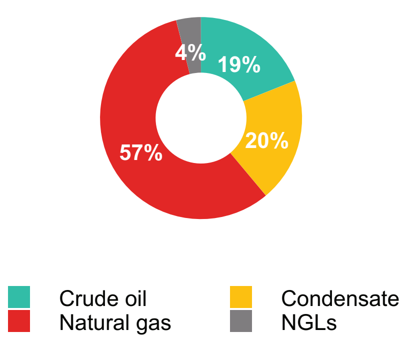
For the three months and year ended December 31, 2020, crude oil and liquids comprised 23 and 24 per cent of ARC's production. Historically, ARC's commodity sales contribution has been more heavily weighted to its crude oil and liquids production. However, for the three months and year ended December 31, 2020 ARC's commodity sales contribution was more heavily weighted to its natural gas production, as seen in Table 10:

Table 10

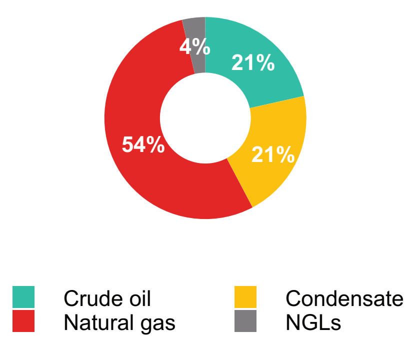
	Three Months Ended			Year Ended	
% of Commodity Sales from Production by Product Type	September 30, 2020	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
Crude oil and liquids	51	**43**	55	**46**	59
Natural gas	49	**57**	45	**54**	41
Total commodity sales from production	100	**100**	100	**100**	100

Exhibit 8

Commodity Sales from Production by Product Three Months Ended December 31, 2020



Commodity Sales from Production by Product Year Ended December 31, 2020



Commodity Prices

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

Table 11

	Three Months Ended				Year Ended		
	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
Average Benchmark Prices							
NYMEX Henry Hub Last Day Settlement (US$/MMBtu)	1.98	**2.66**	2.50	6	**2.08**	2.63	(21)
Chicago Citygate Monthly Index (US$/MMBtu)	1.87	**2.49**	2.44	2	**1.98**	2.56	(23)
AECO 7A Monthly Index (Cdn$/Mcf)	2.15	**2.77**	2.34	18	**2.24**	1.62	38
West Texas Intermediate ("WTI") crude oil (US$/bbl)	40.92	**42.70**	56.87	(25)	**39.34**	57.04	(31)
Cdn$/US$ exchange rate	1.33	**1.30**	1.32	(2)	**1.34**	1.33	1
WTI crude oil (Cdn$/bbl)	54.42	**55.51**	75.07	(26)	**52.72**	75.86	(31)
Mixed Sweet Blend ("MSW") Price at Edmonton (Cdn$/bbl)	49.84	**50.33**	67.96	(26)	**45.62**	69.19	(34)
Condensate Stream Price at Edmonton (Cdn$/bbl)	49.99	**55.47**	69.83	(21)	**49.74**	70.13	(29)
ARC Average Realized Prices Prior to Gain or Loss on Risk Management Contracts							
Crude oil ($/bbl)	45.45	**48.14**	65.11	(26)	**42.62**	66.01	(35)
Condensate ($/bbl)	48.49	**53.55**	68.08	(21)	**47.62**	67.61	(30)
Natural gas ($/Mcf)	2.16	**2.88**	2.36	22	**2.26**	2.12	7
NGLs ($/bbl)	14.85	**18.03**	11.69	54	**12.69**	12.28	3
Total average realized commodity price prior to gain or loss on risk management contracts ($/boe)	19.55	**23.29**	23.93	(3)	**19.20**	23.42	(18)

Benchmark Commodity Prices

In the fourth quarter of 2020, WTI crude oil prices increased four per cent from the prior quarter and decreased 25 per cent from the fourth quarter of 2019. The start of 2020 was marked by a sudden decline in global crude oil prices as several major oil-producing nations increased production at the same time as the COVID-19 pandemic began to severely impact crude oil demand. By mid-year, crude oil prices began a gradual rise as demand increased from its trough while coordinated production cuts removed excess supply from the market. Crude oil prices continued trending upwards for most of the fourth quarter of 2020 led by expectations for a recovery in global crude oil demand. The announcement and subsequent government approval of effective vaccines against COVID-19 helped to increase confidence that economic activity and crude oil demand could potentially recover to pre-pandemic levels. Supply trends also supported the crude oil market, as the coordinated production curtailments and capital discipline kept global supply well below the peak levels seen in prior years.

Locally, Canadian crude oil differentials were stable during the quarter as low levels of capital spending tempered supply growth while demand continued its gradual recovery. With sufficient egress capacity at current supply and demand levels in the Western Canadian Sedimentary Basin ("WCSB"), Canadian crude grades benefited from downstream pricing strength during the quarter. Canadian condensate differentials also strengthened during the quarter, primarily due to increased oil sands production as well as seasonal demand factors.

The value of the Canadian dollar increased in the fourth quarter of 2020, relative to the US dollar, to its highest level since 2018, as the optimism surrounding COVID-19 vaccines factored into relative currency valuations.

NYMEX Henry Hub natural gas prices increased 34 per cent in the fourth quarter of 2020 compared to the prior quarter and increased six per cent from the fourth quarter of 2019. Pandemic-related demand losses and high global inventory levels suppressed gas prices through the first half of 2020, however low commodity prices led to production declines that helped to offset some of these pressures. The price increase in the fourth quarter of 2020 was driven by rising structural demand that negated the impact of near-term downside pressures. A significant improvement in global gas market fundamentals that resulted in US liquefied natural gas ("LNG") exports reaching both full utilization rates and record absolute levels. This was partially offset by a rebound in US production along with a mild start to the winter that reduced heating demand below typical seasonal levels.

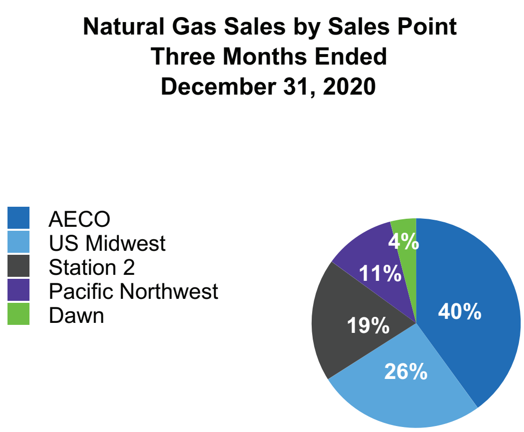
The AECO monthly index increased 29 per cent in the fourth quarter of 2020 compared to the prior quarter and increased 18 per cent compared to the fourth quarter of 2019. While AECO prices were impacted by weaker US markets through the first half of 2020, low Alberta inventory levels resulted in relative strength at AECO as compared to downstream hubs. During the fourth quarter of 2020, strong structural demand and high utilization of export pipeline capacity helped support prices during the quarter. Regional basis differentials widened as compared to the prior quarter due to a rise in WCSB production and lower demand as a result of mild weather.

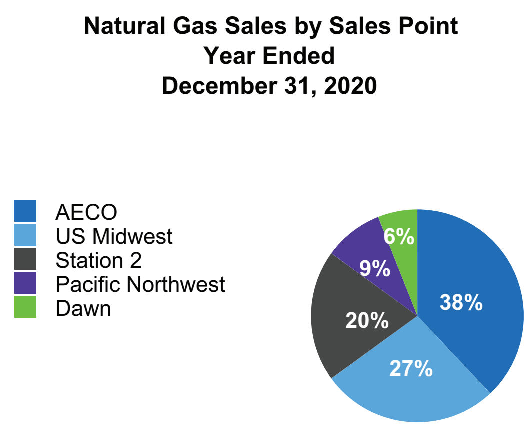
ARC's Average Realized Commodity Prices
For the three months and year ended December 31, 2020, ARC's average realized crude oil price decreased 26 per cent and 35 per cent, respectively, compared to the same periods in 2019. ARC's average realized condensate price for the three months and year ended December 31, 2020 decreased 21 per cent and 30 per cent, respectively, compared to the same periods in the prior year. For both crude oil and condensate, the decreases primarily reflect lower benchmark WTI prices.

ARC's natural gas sales are physically diversified to multiple sales points with different index-based pricing. ARC's average realized natural gas price for the three months ended December 31, 2020 increased 22 per cent compared to the same period in the prior year. The increase is primarily due to improved pricing at AECO and Station 2 sales points. ARC’s average realized natural gas price for the year ended December 31, 2020 increased seven per cent from the same period in the prior year. Higher pricing at AECO and Station 2 sales points was partially offset by lower prices at downstream sales points when compared to 2019.

During the three months ended December 31, 2020, physical sales diversification activities reduced ARC’s average realized natural gas price by $0.06 per Mcf compared to a reduction of $0.09 per Mcf in the fourth quarter of 2019. For the year ended December 31, 2020, physical sales diversification activities reduced ARC’s average realized natural gas price by $0.10 per Mcf compared to an addition of $0.40 per Mcf in the prior year.

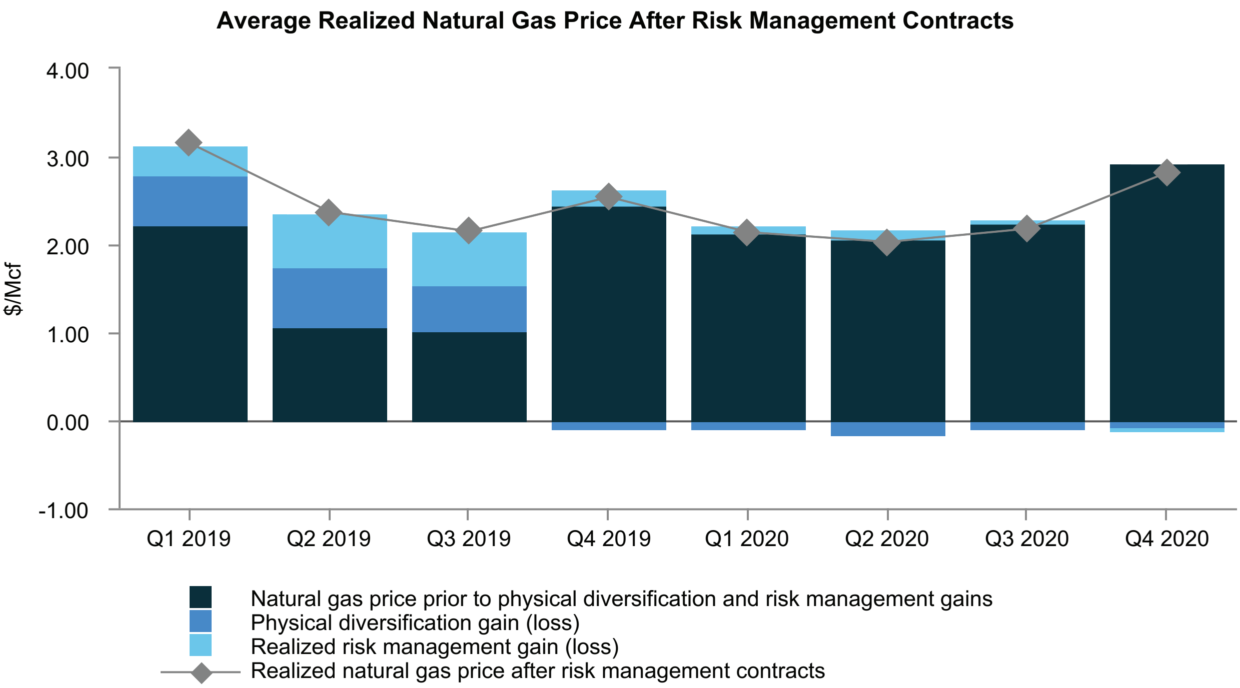
Exhibit 9





Average realized pricing for NGLs increased 54 per cent for the three months ended December 31, 2020 compared to the same period in the prior year, primarily due to improvements in contract term pricing and increased sales on the spot market at stronger prices. For the year ended December 31, 2020, ARC's average realized NGLs price increased three per cent due to receiving higher winter pricing for butane and propane sales relative to 2019.

Exhibit 10



Risk Management Contracts

Tables 12 and 12a summarize the total gain or loss on risk management contracts for the three months and year ended December 31, 2020, compared to the same periods in 2019:

Table 12

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**Q4 2020 Total**	Q4 2019 Total
Realized gain (loss) on contracts [1]	12.9	(4.1)	—	**8.8**	6.6
Unrealized gain (loss) on contracts [2]	(33.1)	73.7	(0.1)	**40.5**	(62.9)
Gain (loss) on risk management contracts	**(20.2)**	**69.6**	**(0.1)**	**49.3**	(56.3)

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

Table 12a

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**2020 Total**	2019 Total
Realized gain on contracts [1]	63.3	10.9	—	**74.2**	79.5
Unrealized gain (loss) on contracts [2]	(10.7)	(79.5)	0.6	**(89.6)**	(255.4)
Gain (loss) on risk management contracts	**52.6**	**(68.6)**	**0.6**	**(15.4)**	(175.9)

(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 months ended December 31, 2020, ARC's realized gain on risk management contracts primarily reflects positive cash settlements received on WTI crude oil contracts and NYMEX Henry Hub natural gas contracts, partially offset by cash payments made on MSW differential contracts and natural gas basis contracts referencing AECO and Malin. For the year ended December 31, 2020, ARC's realized gain on risk management contracts primarily reflects positive cash settlements received on WTI crude oil contracts and NYMEX Henry Hub and AECO fixed-price natural gas contracts. This was partially offset by cash payments made on MSW differential contracts and natural gas basis contracts referencing AECO, Chicago, and Malin, due to tighter differentials during the period.

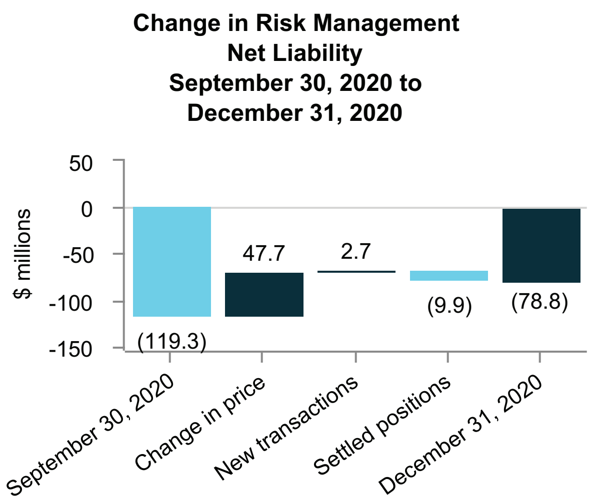
ARC's unrealized loss on crude oil contracts for the three months ended December 31, 2020 reflects the settlement of positions during the quarter as well as higher forward pricing for WTI crude oil contracts. ARC's unrealized loss on crude oil contracts for the year ended December 31, 2020 primarily reflects higher forward pricing for WTI crude contracts entered into in 2020.

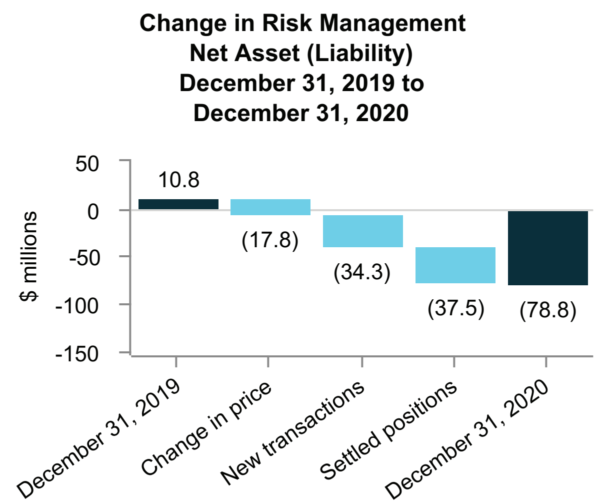
ARC's unrealized gain on natural gas contracts for the three months ended December 31, 2020 primarily reflects lower forward pricing for NYMEX Henry Hub and AECO, as well as a widening of the Chicago and long-term AECO basis curves. ARC's unrealized loss on natural gas contracts for the year ended December 31, 2020 primarily reflects higher forward pricing for NYMEX Henry Hub and AECO, as well as a narrowing of the AECO and Malin basis curves.

For more information, refer to Note 17 "Financial Instruments and Market Risk Management" in the financial statements.

The fair value of ARC's risk management contracts at December 31, 2020 was a net liability of $78.8 million, representing the expected value of settlement of ARC's contracts at the balance sheet date after adjustments for credit risk. This comprises a net liability of $9.5 million from crude oil contracts and a net liability of $69.3 million from natural gas contracts.

Exhibit 11





Netback

The components of ARC's netback for the three months and year ended December 31, 2020 compared to the same periods in 2019 are summarized in Tables 13 and 13a:

Table 13

	Three Months Ended				Year Ended		
Netback ($ millions) (1)	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
Commodity sales from production	285.0	**363.1**	325.1	12	**1,135.5**	1,189.5	(5)
Royalties	(10.5)	**(16.1)**	(20.2)	(20)	**(47.5)**	(70.5)	(33)
Operating	(60.2)	**(62.0)**	(62.3)	—	**(233.3)**	(252.5)	(8)
Transportation	(47.0)	**(46.2)**	(38.8)	19	**(176.2)**	(149.4)	18
Netback	167.3	**238.8**	203.8	17	**678.5**	717.1	(5)
Realized gain on risk management contracts	16.5	**8.8**	6.6	33	**74.2**	79.5	(7)
Netback after realized gain on risk management contracts	183.8	**247.6**	210.4	18	**752.7**	796.6	(6)

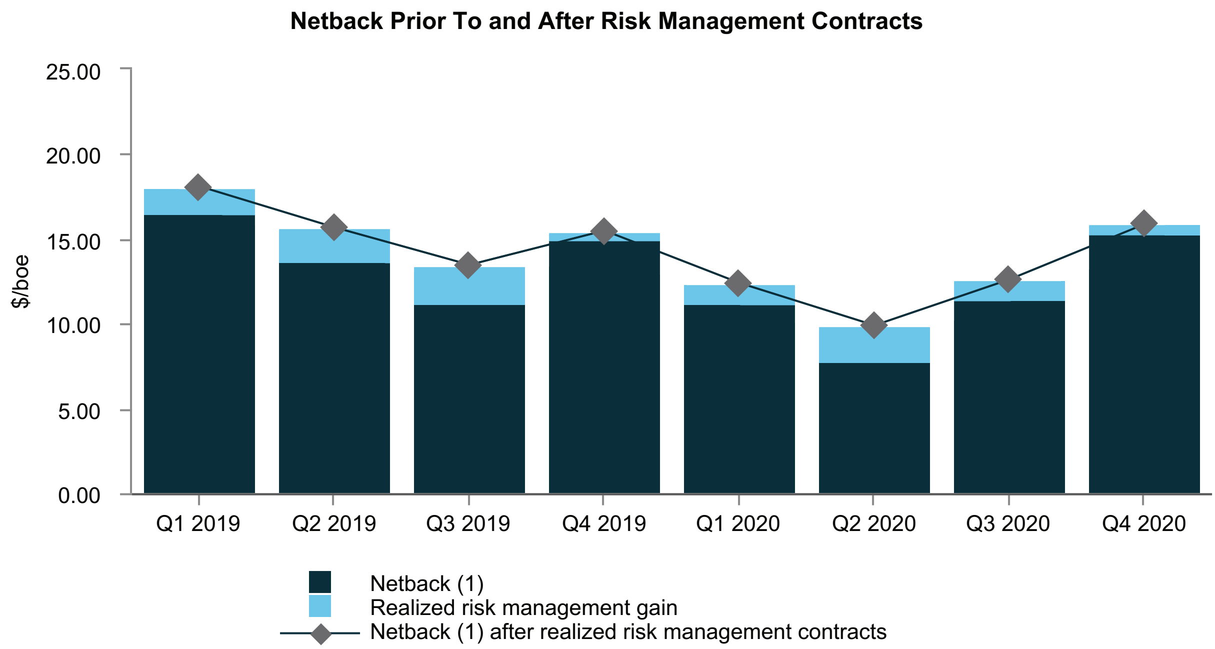
(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

Table 13a

Netback ($ per boe) [1]	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
	Three Months Ended				Year Ended		
Commodity sales from production	19.55	**23.29**	23.93	(3)	**19.20**	23.42	(18)
Royalties	(0.72)	**(1.04)**	(1.48)	(30)	**(0.81)**	(1.39)	(42)
Operating	(4.13)	**(3.97)**	(4.59)	(14)	**(3.94)**	(4.97)	(21)
Transportation	(3.22)	**(2.97)**	(2.86)	4	**(2.98)**	(2.94)	1
Netback	11.48	**15.31**	15.00	2	**11.47**	14.12	(19)
Realized gain on risk management contracts	1.13	**0.56**	0.49	14	**1.25**	1.57	(20)
Netback after realized gain on risk management contracts	12.61	**15.87**	15.49	2	**12.72**	15.69	(19)

(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 12

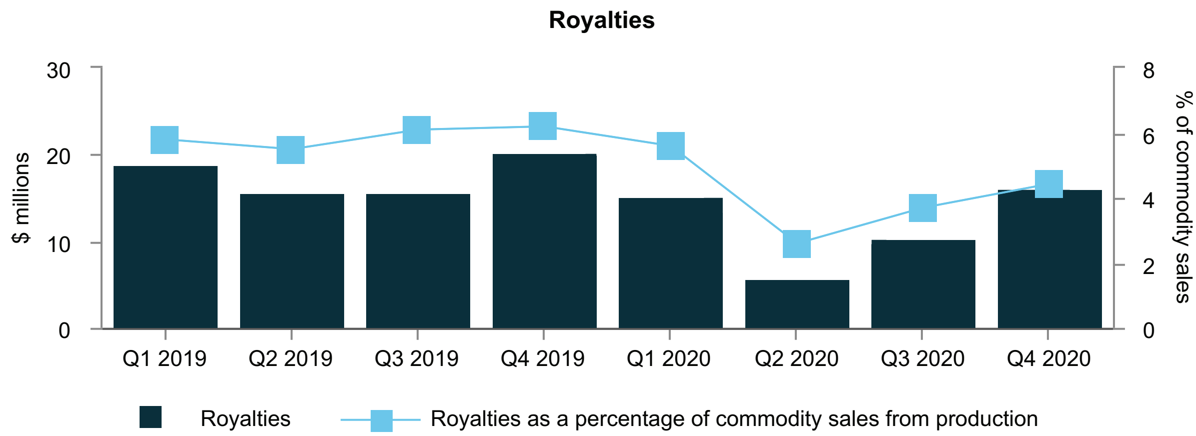


(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

Royalties

Total royalties for the three months and year ended December 31, 2020 were $16.1 million and $47.5 million ($20.2 million and $70.5 million for the same periods in 2019), respectively. As a percentage of commodity sales from production, royalties decreased to 4.4 per cent ($1.04 per boe) in the fourth quarter of 2020 from 6.2 per cent ($1.48 per boe) in the fourth quarter of 2019. For the year ended December 31, 2020, royalties represented 4.2 per cent of commodity sales from production ($0.81 per boe) as compared to 5.9 per cent ($1.39 per boe) for the year ended December 31, 2019. The decrease in total royalties and royalties as a percentage of commodity sales from production for the three months and year ended December 31, 2020, is primarily reflective of a lower average royalty rate due to decreased average realized crude oil and condensate prices compared to the same periods in 2019.

Exhibit 13

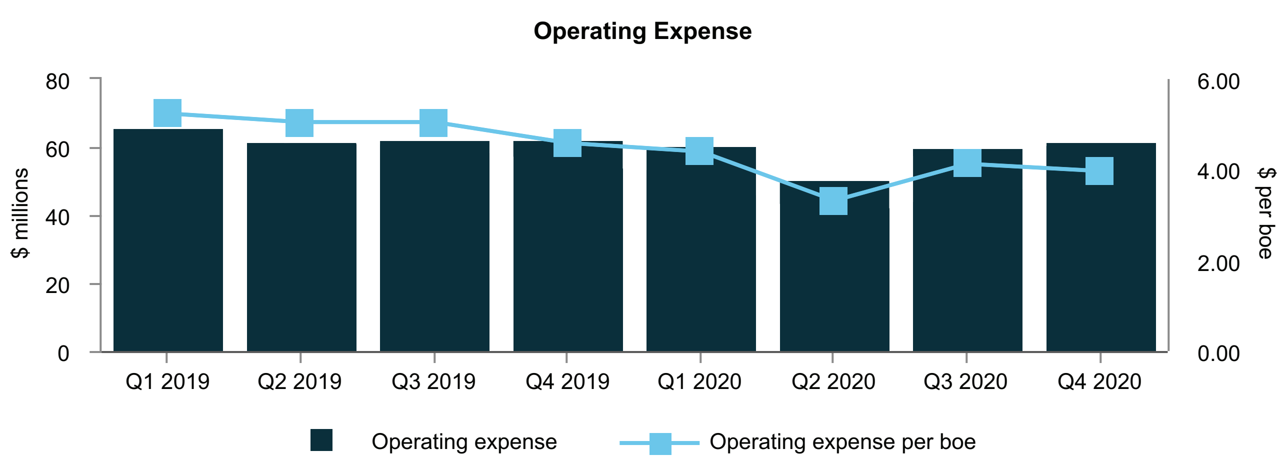


Operating

Operating expense decreased by $0.3 million in the fourth quarter of 2020 to $62.0 million as compared to $62.3 million in the fourth quarter of 2019. For the year ended December 31, 2020, operating expense decreased by $19.2 million to $233.3 million as compared to $252.5 million in the prior year. The decrease in operating expense for the year ended December 31, 2020 is primarily due to lower third-party natural gas processing fees as a result of repatriating natural gas volumes to ARC's Sunrise Phase II facility, reduced maintenance activity levels, diligent cost control efforts, as well as the disposition of non-core assets at the end of 2019 that had higher average operating costs.

On a per boe basis, operating expense decreased $0.62 per boe to $3.97 per boe in the fourth quarter of 2020 compared to $4.59 per boe in the fourth quarter of 2019. For the year ended December 31, 2020, operating expense decreased by $1.03 per boe to $3.94 per boe compared to $4.97 per boe for the year ended December 31, 2019. The decrease in operating expense on a per boe basis for the three months and year ended December 31, 2020 is a result of lower activity levels in areas with higher operating costs as well as increased production in the Montney which has a lower average operating expense.

Exhibit 14

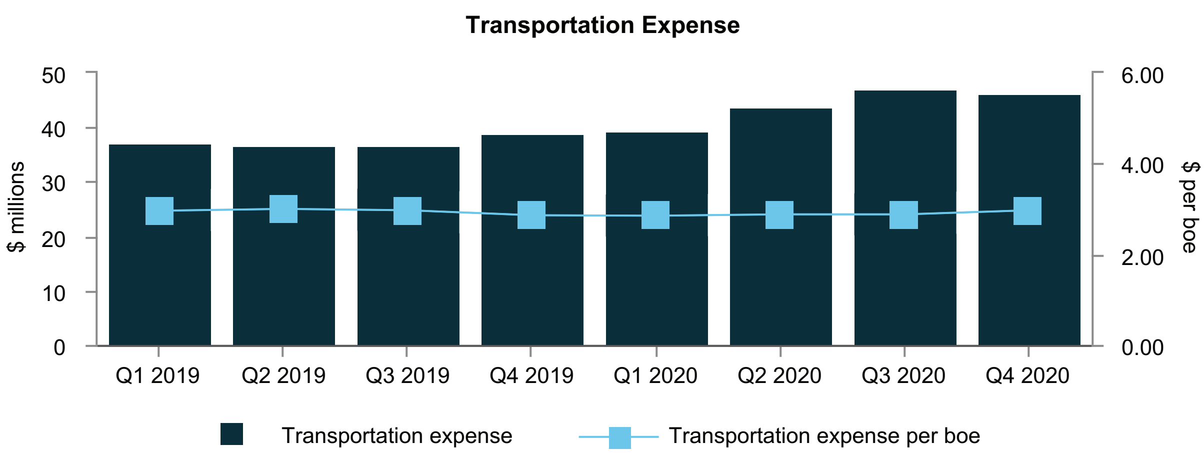


Transportation

Transportation expense for the three months and year ended December 31, 2020 was $46.2 million and $176.2 million ($38.8 million and $149.4 million for the three months and year ended December 31, 2019), respectively. On a per boe basis, transportation expense for the three months and year ended December 31, 2020, was $2.97 per boe and $2.98 per boe ($2.86 and $2.94 per boe for the three months and year ended December 31, 2019), respectively. The overall increase in transportation expense for the three months and year ended December 31, 2020, relative to the same periods in 2019, is due to increased natural gas, condensate, and NGLs production in northeast British Columbia and the additional pipeline tariffs associated with this production.

ARC enters firm transportation commitments in order to secure diversified market access for its current production as well as anticipated production from planned facility infrastructure to be operational in the future. For information regarding ARC's payment obligations under its future transportation commitments, refer to Note 22 "Commitments and Contingencies" in the financial statements.

Exhibit 15



G&A Expense and Share-Based Compensation

G&A expense before share-based compensation decreased by six per cent to $16.3 million in the fourth quarter of 2020 from $17.4 million in the fourth quarter of 2019. The decrease primarily reflects lower average directors' fees; these include a share-based component that is revalued as the underlying share price changes. Other factors include lower compensation costs and employee-related costs. This was partially offset by a reduction in amounts capitalized as direct overhead as a result of reduced capital spending in the period.

For the year ended December 31, 2020, ARC's G&A expense before share-based compensation was $66.3 million, a $5.5 million increase from $60.8 million in 2019. The increase primarily reflects a reduction in amounts capitalized as direct overhead in conjunction with lower year-over-year capital investment. This was partially offset by lower employee-related costs, directors' fees, and subsidized compensation costs through the Canadian Emergency Wage Subsidy program.

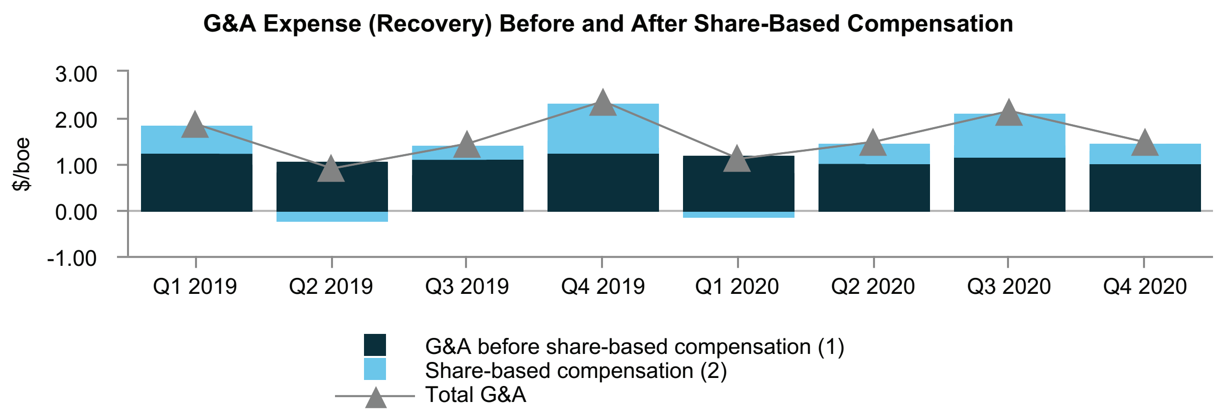
Table 14 is a breakdown of G&A and share-based compensation expense:

Table 14

G&A and Share-Based Compensation ($ millions, except per boe)	Three Months Ended September 30, 2020	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	% Change	Year Ended December 31, 2020	Year Ended December 31, 2019	% Change
G&A expense before share-based compensation expense (1)	17.1	**16.3**	17.4	(6)	**66.3**	60.8	9
G&A – share-based compensation expense (2)	14.2	**6.6**	14.6	(55)	**25.6**	23.4	9
Total G&A expense	31.3	**22.9**	32.0	(28)	**91.9**	84.2	9
G&A expense before share-based compensation expense per boe	1.18	**1.05**	1.28	(18)	**1.12**	1.20	(7)
G&A – share-based compensation expense per boe	0.97	**0.42**	1.08	(61)	**0.43**	0.46	(7)
Total G&A expense per boe	2.15	**1.47**	2.36	(38)	**1.55**	1.66	(7)

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

Exhibit 16



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

Share-Based Compensation Plans

ARC's share-based long-term incentive plans result in employees, officers, and directors (the "plan participants") receiving cash compensation in relation to the value of a specified number of underlying notional share units. During the three months and year ended December 31, 2020, ARC recognized G&A expense of $6.6 million and $25.6 million, respectively, in respect of its share-based compensation plans, compared to $14.6 million and $23.4 million during the same periods of the prior year.

Restricted Share Unit and Performance Share Unit Plans

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

Upon vesting of the RSUs, the plan participant receives a cash payment based on the fair value of the underlying share awards plus all dividends accrued since the grant date. The cash compensation of the PSUs issued upon vesting is further dependent upon an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier. The performance multiplier is determined using two criteria; 50 per cent of the performance multiplier is based on ARC's relative total shareholder return performance compared to a defined peer group, and 50 per cent of the performance multiplier is dependent on an overall assessment of achievements based on a predetermined corporate scorecard. Performance multipliers associated with PSU awards that were granted prior to 2019 are determined solely on ARC's relative total shareholder return performance.

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

At December 31, 2020, ARC had 3.8 million RSUs and 6.1 million PSUs outstanding under these plans.

For the three months and year ended December 31, 2020, ARC recognized G&A expense in relation to the RSU and PSU Plans of $5.2 million and $21.1 million ($13.6 million and $18.2 million for the three months and year ended December 31, 2019), respectively. The decrease in expense recognized for the three months ended December 31, 2020 and the increase in expense recognized for the year ended December 31, 2020, as compared to the same periods in 2019, is due to the change in valuation of awards outstanding throughout the respective periods.

At December 31, 2020, ARC's share price on the Toronto Stock Exchange ("TSX") was $6.00, a one per cent increase from the share price of $5.95 at September 30, 2020. This compares to a 30 per cent increase for the same period of the prior year. The value of ARC’s performance multiplier, applicable to its PSU awards, decreased seven per cent for the three months ended December 31, 2020, compared to a 105 per cent increase for the same period of the prior year.

For the year ended December 31, 2020, ARC's share price decreased 27 per cent from $8.18 at December 31, 2019. However, this was more than offset by an increase of 35 per cent in the performance multiplier. This compares to an increase in share price of 30 per cent and an increase of 37 per cent in the performance multiplier for the year ended December 31, 2019.

During the year ended December 31, 2020, ARC made cash payments of $11.3 million in respect of the RSU and PSU Plans ($7.9 million for the year ended December 31, 2019). Of these payments, $9.0 million were in respect of amounts recognized as G&A ($6.1 million for the year ended December 31, 2019) and $2.3 million were in respect of amounts recognized as operating and capitalized as property, plant and equipment ("PP&E") and E&E ($1.8 million for the year ended December 31, 2019). These amounts were accrued in prior periods.

Table 15 shows the changes to the outstanding RSU and PSU awards during 2020:

Table 15

RSU and PSU Awards (number of awards, thousands)	**RSUs**	**PSUs Granted Prior to 2019** (1)	**PSUs Granted Subsequent to 2018** (1)	**Total RSUs and PSUs**
Balance, December 31, 2019	2,236	1,628	1,780	5,644
Granted (2)	**2,603**	**759**	**3,352**	**6,714**
Distributed	**(914)**	**(1,378)**	**—**	**(2,292)**
Forfeited	**(89)**	**(11)**	**(29)**	**(129)**
Balance, December 31, 2020	**3,836**	**998**	**5,103**	**9,937**

(1) Based on underlying awards before any effect of the performance multiplier. The criteria for determining the performance multiplier changed for 'PSUs Granted Subsequent to 2018'.

(2) Grants for 'PSUs Granted Prior to 2019' relate to re-invested dividends and the effect of performance multiplier on grants that vested in the current period.

Due to the variability in the expected future payments under the plans, ARC estimates that between $23.0 million and $96.2 million will be paid out in 2021 through 2023 based on the current share price, accrued dividends, ARC's market performance relative to its peers, and ARC's corporate scorecard results. Table 16 is a summary of the range of future expected payments under the RSU and PSU Plans based on variability of the performance multiplier and awards outstanding under the RSU and PSU Plans as at December 31, 2020:

Table 16

Value of RSU and PSU Awards as at December 31, 2020	**Performance Multiplier**		
(awards thousands and $ millions, except per share)	**—**	**1.0**	**2.0**
Estimated awards to vest [1]			
RSUs	3,836	3,836	3,836
PSUs	—	6,101	12,202
Total awards	**3,836**	**9,937**	**16,038**
Share price [2]	6.00	6.00	6.00
Value of RSU and PSU awards upon vesting	**23.0**	**59.6**	**96.2**
2021	9.6	15.6	21.6
2022	8.4	19.6	30.7
2023	5.0	24.4	43.9

(1) Includes additional estimated awards to be issued under the RSU and PSU Plans for dividends accrued to-date.
(2) Per share outstanding. Values will fluctuate over the vesting period based on the volatility of the underlying share price. Assumes a future share price equal to the TSX closing price at December 31, 2020.

Share Option Plan

The Share Option Plan was suspended in 2019. Share options previously granted to officers and certain employees of ARC vest evenly on the fourth and fifth anniversary of their grant date and have a maximum term of seven years. The option holder has the right to exercise the options and purchase one common share per option at the original grant price or at a reduced exercise price, equal to the grant price less all dividends paid subsequent to the grant date and prior to the exercise date. The original grant price is calculated as the weighted average trading price of ARC common shares for the five days immediately preceding the grant date.

At December 31, 2020, ARC had 4.6 million share options outstanding, representing 1.3 per cent of ARC's outstanding common shares, with a weighted average exercise price of $16.50 per share. At December 31, 2020, approximately 1.6 million share options were exercisable with a weighted average exercise price of $21.09 per share. ARC recognized compensation expense of $0.7 million and $3.0 million relating to the Share Option Plan for the three months and year ended December 31, 2020 ($0.7 million and $3.6 million for the three months and year ended December 31, 2019), respectively.

Long-term Restricted Share Award Plan

ARC's LTRSA Plan awards shares of ARC to qualifying officers and employees and is intended to further align participant compensation with the interests of the Company and its shareholders over the long term. LTRSA grants consist of restricted common shares that are awarded at the date of grant and a cash payment made equal to the estimated personal tax obligation associated with the total award. The restricted shares issued on the grant date of the award are held in trust until the vesting conditions have been met. In 2020, the LTRSA Plan was amended to extend the vesting schedule from three years to five years and to adjust the calculation of the service period.

While in trust, the restricted shares earn cash dividends that are reinvested into the purchase of ARC common shares. These re-invested common shares issued are also held in trust until vested. LTRSA awards granted prior to 2020 vest evenly on the eighth, ninth, and tenth anniversaries of their respective grant dates. LTRSA awards granted subsequent to 2019 vest evenly on the sixth, seventh, eighth, ninth, and tenth anniversaries of their respective grant dates. Restricted shares and any accrued dividends that are subject to forfeiture will be redeemed and cancelled by ARC.

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

At December 31, 2020, ARC had 1.0 million restricted shares outstanding under the LTRSA Plan. ARC recognized G&A expense of $0.7 million and $1.5 million relating to the LTRSA Plan during the three months and year ended December 31, 2020 ($0.3 million and $1.8 million for the three months and year ended December 31, 2019), respectively.

Deferred Share Unit Plan

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

At December 31, 2020, ARC had 1.3 million DSUs outstanding under this plan. For the three months and year ended December 31, 2020, G&A expense of $0.7 million and $0.8 million was recognized in relation to the DSU Plan ($2.1 million and $2.6 million for the same periods in 2019), respectively. Amounts related to the DSU Plan are recognized as G&A expense before share-based compensation expense.

During the year ended December 31, 2020, ARC made cash payments of $0.6 million in respect of the DSU Plan ($0.2 million for the year ended December 31, 2019).

Interest and Financing

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

Table 17

	Three Months Ended				Year Ended		
Interest and Financing ($ millions)	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
Bank debt and long-term notes	9.2	**8.2**	9.8	(16)	**38.0**	39.3	(3)
Lease obligations	0.4	**0.2**	0.4	(50)	**1.3**	1.7	(24)
Accretion on ARO	1.4	**1.5**	1.7	(12)	**6.3**	7.3	(14)
Total interest and financing	11.0	**9.9**	11.9	(17)	**45.6**	48.3	(6)

Foreign Exchange Gain and Loss

ARC recognized a foreign exchange gain of $24.8 million in the fourth quarter of 2020 compared to a gain of $15.7 million in the fourth quarter of 2019. During the three months ended December 31, 2020, the value of the US dollar relative to the Canadian dollar decreased to $1.28 from $1.33 at September 30, 2020. During the three months ended December 31, 2019, the value of the US dollar relative to the Canadian dollar decreased to $1.30 from $1.32 at September 30, 2019.

ARC recognized a foreign exchange gain of $4.0 million for the year ended December 31, 2020 compared to a gain of $35.5 million for the year ended December 31, 2019. During the year ended December 31, 2020, the value of the US dollar relative to the Canadian dollar decreased to $1.28 from $1.30 at December 31, 2019. During the year ended December 31, 2019, the value of the US dollar relative to the Canadian dollar decreased to $1.30 from $1.36 at December 31, 2018.

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

Table 18

	Three Months Ended				Year Ended		
Foreign Exchange Gain and Loss ($ millions)	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
Unrealized gain (loss) on US dollar-denominated debt and receivables	16.2	**26.3**	16.3	61	**(2.1)**	40.3	(105)
Realized gain (loss) on US dollar-denominated transactions	(0.4)	**(1.5)**	(0.6)	(150)	**6.1**	(4.8)	227
Total foreign exchange gain	15.8	**24.8**	15.7	58	**4.0**	35.5	(89)

Taxes

ARC recognized a current income tax expense of $8.1 million for the three months ended December 31, 2020, compared to a current income tax recovery of $2.0 million for the same period in 2019. The increase in the current income tax expense reflects higher expected taxable income for 2020 associated with an increase in commodity prices towards the end of the year, resulting in the reversal of current income tax recovery previously recognized in the year.

ARC recognized a current income tax recovery of $26.8 million for the year ended December 31, 2020, compared to a current income tax recovery of $14.0 million in 2019. The increase in the current income tax recovery is primarily due to the recognition of Investment Tax Credits and Scientific Research and Experimental Development deductions related to expenditures made in prior periods.

For the three months ended December 31, 2020, a deferred income tax expense of $21.1 million was recognized, compared to a deferred income tax expense of $2.7 million for the same period in 2019. The increase in the deferred income tax expense relates primarily to an unrealized gain on risk management contracts for the three months ended December 31, 2020, as compared to an unrealized loss on risk management contracts for the same period in 2019.

For the year ended December 31, 2020, a deferred income tax recovery of $180.9 million was recognized, compared to a deferred income tax recovery of $86.9 million in 2019. The increase in the deferred income tax recovery relates primarily to the impairment charge recognized on PP&E during the year ended December 31, 2020.

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

Table 19

Income Tax Pool Type ($ millions)	**December 31, 2020**	**Annual Deductibility**
Canadian oil and gas property expense	83.2	10% declining balance
Canadian development expense	650.5	30% declining balance
Canadian exploration expense	19.2	100%
Undepreciated capital cost	686.1	Primarily 25% declining balance
Other	40.5	Various rates, 5% declining balance to 20%, and net capital losses
Total federal tax pools	1,479.5	
Additional Alberta tax pools	2.3	Various rates, 25% declining balance to 100%

DD&A Expense and Impairment of PP&E

For the three months and year ended December 31, 2020, ARC recognized DD&A related to its PP&E, before any impairment charges, of $126.5 million and $517.1 million, as compared to $131.0 million and $531.0 million for the three months and year ended December 31, 2019, respectively. Despite an increase in production, DD&A for the three months and year ended December 31, 2020, decreased compared to the same periods in the prior year as a function of lower overall depletion rates on ARC's assets which reflect reduced capital spending in the period, an increase in reserves, and a reduction of future development costs as determined by ARC's independent qualified reserve evaluator. For more information, refer to the news release dated February 10, 2021 *"ARC Resources Ltd. Reports Fourth Quarter and Year-end 2020 Financial and Operational Results and Year-end 2020 Reserves Results"* and ARC's AIF available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

For the year ended December 31, 2020, ARC recognized an impairment charge of $750.3 million, compared to $1.9 million in 2019. At March 31, 2020, ARC conducted impairment tests for both of its CGUs and goodwill amounts in response to the anticipated economic impact of the COVID-19 global pandemic (refer to Note 6 "Novel Coronavirus COVID-19" in the financial statements and the section entitled "Risk Factors" contained within this MD&A) as well as a further decrease in ARC's market capitalization relative to the carrying value of its net assets since the date of its last impairment test. Following these tests, ARC recognized an impairment charge of $740.0 million ($554.8 million net of deferred tax recovery). For further information, refer to Note 11 "Impairment" in the financial statements.

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

Table 20

	Three Months Ended				Year Ended		
DD&A Expense ($ millions, except per boe amounts)	September 30, 2020	**December 31, 2020**	December 31, 2019	% Change	**December 31, 2020**	December 31, 2019	% Change
Depletion of crude oil and natural gas assets	127.3	**125.0**	129.4	(3)	**511.3**	524.8	(3)
Depreciation of corporate assets	1.4	**1.5**	1.6	(6)	**5.8**	6.2	(6)
Depreciation of right-of-use ("ROU") assets under lease	1.4	**1.9**	1.6	19	**6.5**	6.3	3
Impairment	10.3	**—**	—	—	**750.3**	1.9	39,389
Total DD&A expense and impairment	140.4	**128.4**	132.6	(3)	**1,273.9**	539.2	136
DD&A expense per boe, excluding impairment	8.93	**8.24**	9.76	(16)	**8.85**	10.58	(16)

Capital Expenditures, Acquisitions and Dispositions

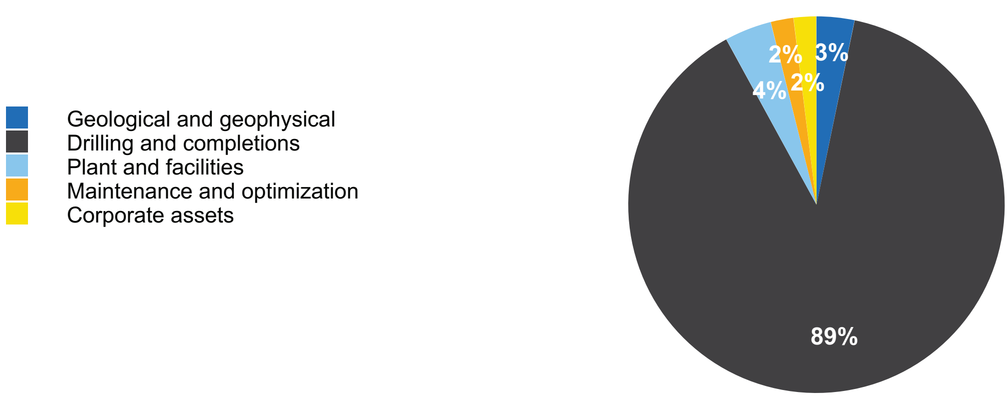
A breakdown of capital expenditures, acquisitions and dispositions for the three months ended December 31, 2020 and December 31, 2019 is shown in Table 21:

Table 21

	Three Months Ended December 31						
	2020			2019			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**—**	**2.5**	**2.5**	—	3.5	3.5	(29)
Drilling and completions	**0.2**	**67.9**	**68.1**	1.0	85.6	86.6	(21)
Plant and facilities	**—**	**3.1**	**3.1**	—	47.5	47.5	(93)
Maintenance and optimization	**—**	**1.5**	**1.5**	—	3.0	3.0	(50)
Corporate assets	**—**	**1.5**	**1.5**	—	1.1	1.1	36
Total capital expenditures	**0.2**	**76.5**	**76.7**	1.0	140.7	141.7	(46)
Acquisitions	**0.2**	**61.4**	**61.6**	—	—	—	100
Dispositions	**—**	**(63.2)**	**(63.2)**	—	(1.1)	(1.1)	5,645
Total capital expenditures and net acquisitions and dispositions	**0.4**	**74.7**	**75.1**	1.0	139.6	140.6	(47)

Exhibit 17

Capital Investment by Classification
Three Months Ended December 31, 2020

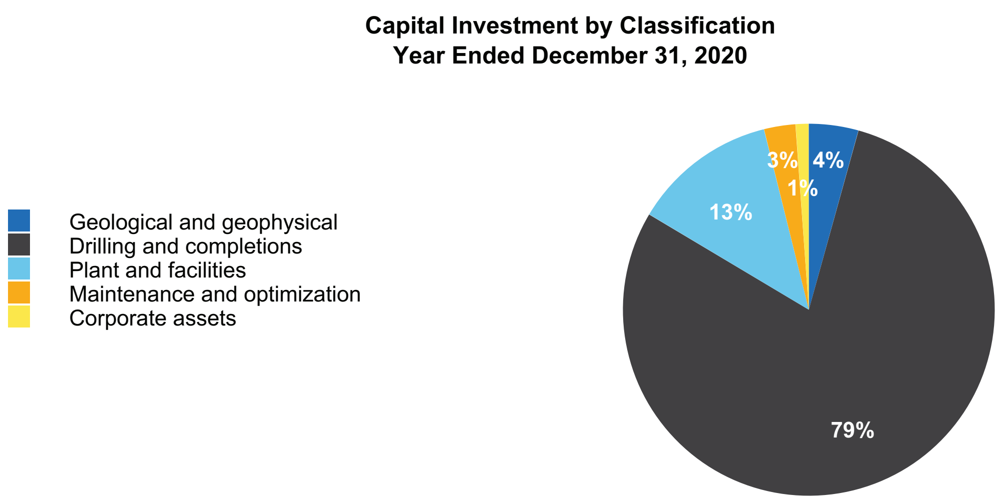


A breakdown of capital expenditures, acquisitions and dispositions for the year ended December 31, 2020 and December 31, 2019 is shown in Table 21a:

Table 21a

	Year Ended December 31						
	2020			2019			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**—**	**14.8**	**14.8**	0.3	19.0	19.3	(23)
Drilling and completions	**0.7**	**271.3**	**272.0**	1.6	441.1	442.7	(39)
Plant and facilities	**—**	**43.1**	**43.1**	—	208.0	208.0	(79)
Maintenance and optimization	**—**	**9.4**	**9.4**	0.2	18.3	18.5	(49)
Corporate assets	**—**	**3.9**	**3.9**	—	3.0	3.0	30
Total capital expenditures	**0.7**	**342.5**	**343.2**	2.1	689.4	691.5	(50)
Undeveloped land	**—**	**—**	**—**	—	0.7	0.7	(100)
Total capital expenditures including undeveloped land purchases	**0.7**	**342.5**	**343.2**	2.1	690.1	692.2	(50)
Acquisitions	**0.2**	**64.4**	**64.6**	0.2	—	0.2	32,200
Dispositions	**—**	**(66.2)**	**(66.2)**	—	(5.0)	(5.0)	1,224
Total capital expenditures and net acquisitions and dispositions	**0.9**	**340.7**	**341.6**	2.3	685.1	687.4	(50)

Exhibit 17a



ARC invested $76.7 million and $343.2 million in capital expenditures, before net property acquisitions and dispositions, during the three months and year ended December 31, 2020, respectively. Investment activity included drilling and completions activities across ARC's asset base, with the drilling of 19 and 59 wells and the completion of nine and 66 wells for the three months and year ended December 31, 2020, respectively. Facilities and infrastructure investment in 2020 was focused on the completion of the Dawson Phase IV gas processing and liquids-handling facility and the Ante Creek facility expansion. Both of these facilities came on-stream at the beginning of the second quarter of 2020.

During the three months and year ended December 31, 2020, ARC entered into an asset exchange with a third party whereby ARC acquired lands contiguous to its existing core assets and disposed of lands not slated for near-term development. This exchange of lands will allow both parties to develop their resultant land positions more efficiently. Under IFRS this asset exchange was determined to lack commercial substance and as such the acquisition and disposition were recognized at carrying value, refer to Note 3 "Summary of Accounting Policies" in the financial statements.

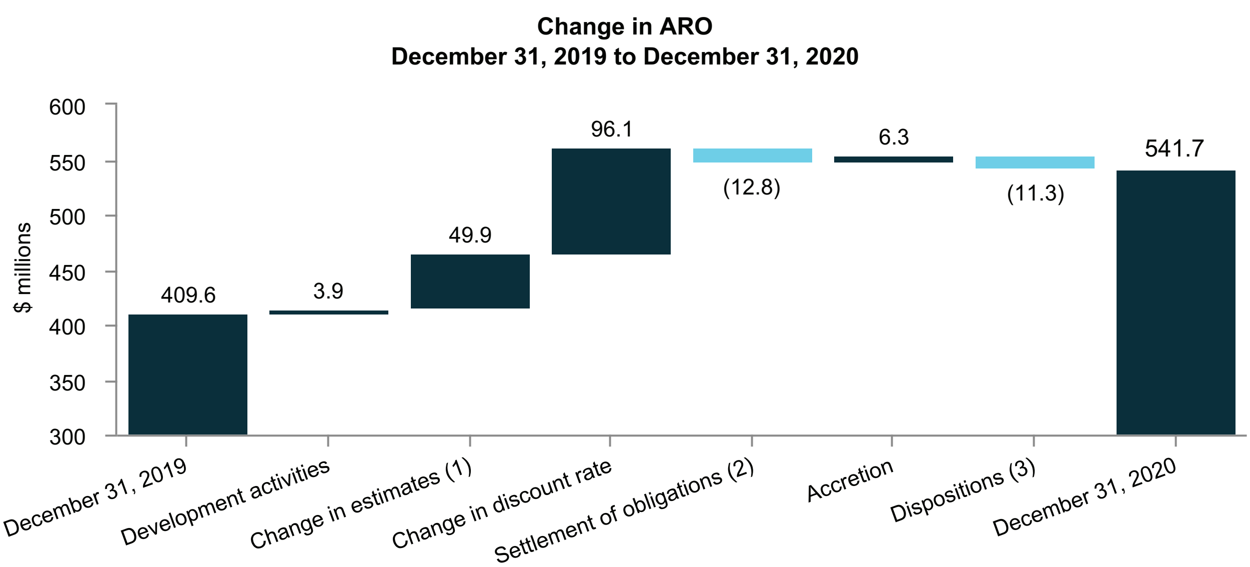
For information regarding ARC's planned capital expenditures for 2021, refer to the news release dated November 5, 2020 *"ARC Resources Ltd. Reports Third Quarter 2020 Financial and Operational Results and Announces 2021 Capital Budget of $375 Million to $425 Million"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

Asset Retirement Obligation

At December 31, 2020, ARC has recognized ARO of $541.7 million ($409.6 million at December 31, 2019) for the future abandonment and reclamation of ARC's properties. The estimated ARO includes assumptions in respect of actual future costs to abandon wells and reclaim its assets, 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 1.2 per cent (1.8 per cent at December 31, 2019).

Accretion charges of $1.5 million and $6.3 million for the three months and year ended December 31, 2020 ($1.7 million and $7.3 million for the same periods in 2019), respectively, have been recognized in interest and financing in the audited consolidated statements of comprehensive income to reflect the increase in ARO associated with the passage of time. Actual spending under ARC's program for the three months and year ended December 31, 2020 was $2.1 million and $11.8 million ($4.0 million and $18.4 million for the same periods in 2019), respectively. While abandonment spending decreased for the year ended December 31, 2020, environmental stewardship remains a core value at ARC and the Company maintains a planned and scheduled approach to its abandonment and reclamation activities.

Exhibit 18



(1) Relates to changes in costs of future obligations and anticipated settlement dates of ARO.
(2) For the year ended December 31, 2020, $1.0 million of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of ARC.
(3) Liabilities were previously associated with assets held for sale and were disposed in the year ended December 31, 2020.

Capitalization, Financial Resources and Liquidity

ARC's capital management objective is to fund dividend payments, current period reclamation expenditures, and capital expenditures necessary for the replacement of production declines using only funds from operations. Profitable growth activities will be financed with a combination of funds from operations and other sources of capital. ARC believes that investing in development activities that prioritize profitability over volumetric growth creates significant long-term shareholder value.

Maintaining reasonable debt levels, paying a sustainable dividend, and exercising capital discipline to manage a moderate pace of development and control its corporate decline rate are the basis for ARC's current capital allocation.

ARC periodically evaluates its capital allocation priorities and decisions and takes a portfolio approach to capital allocation and is considering the following capital allocation decisions: growth through either long-term development investments or mergers and acquisitions; share repurchases; and sustainable dividend increases. ARC uses free funds flow as an indicator of the funds available for these capital allocation decisions. For the year ended December 31, 2020, free funds flow was $324.4 million ($5.9 million for the year ended December 31, 2019). Refer to the section entitled "Non-GAAP Measures" contained within this MD&A for the calculation of free funds flow.

ARC maintains financial flexibility through its strong balance sheet, targeting net debt to be between 1.0 and 1.5 times annualized funds from operations over the long term; however, during periods of significant commodity price weakness, ARC expects that the ratio could trend above this range.

At December 31, 2020, ARC had $742.7 million of net debt outstanding and a net debt to funds from operations ratio of 1.1 times.

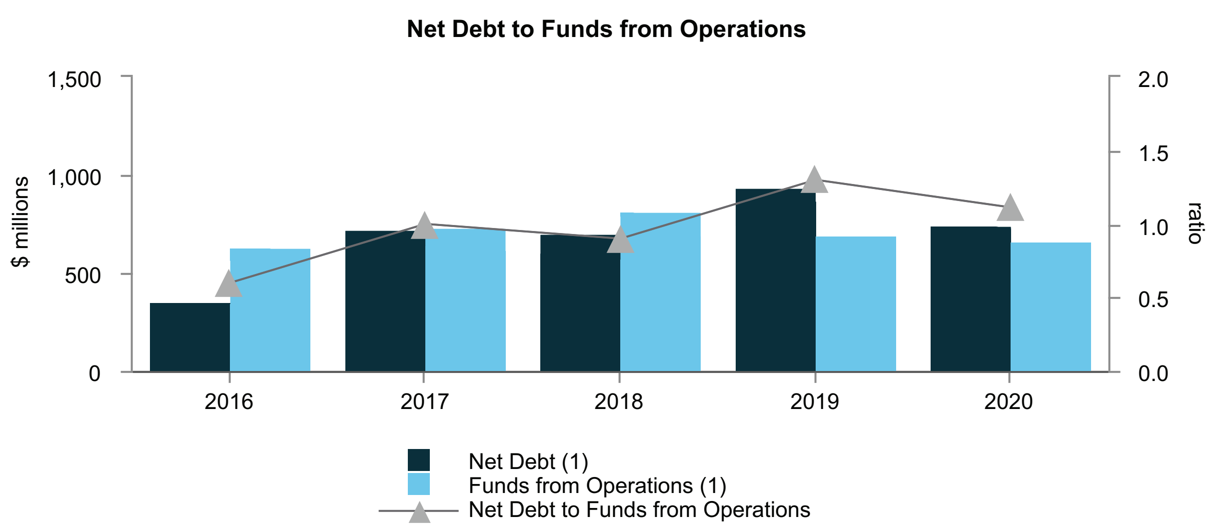
A breakdown of ARC's net debt as at December 31, 2020 and December 31, 2019 is outlined in Table 22:

Table 22

Net Debt ($ millions, except ratio amounts)	**December 31, 2020**	December 31, 2019
Long-term debt (1)	**701.9**	877.6
Lease obligations (2)	**49.2**	46.2
Accounts payable and accrued liabilities	**125.0**	150.5
Dividends payable	**21.3**	17.7
Cash and cash equivalents, accounts receivable, and prepaid expense	**(154.7)**	(151.8)
Net debt (3)	**742.7**	940.2
Net debt to funds from operations (ratio) (3)	**1.1**	1.3

(1) Includes a current portion of long-term debt of $146.7 million at December 31, 2020 and $148.9 million at December 31, 2019.
(2) Includes a current portion of lease obligations of $15.3 million at December 31, 2020 and $16.3 million at December 31, 2019.
(3) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Exhibit 19



(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

At December 31, 2020, ARC had total credit capacity of approximately $1.9 billion with long-term debt of $701.9 million currently outstanding. ARC's long-term debt balance includes a current portion of $146.7 million at December 31, 2020 ($148.9 million at December 31, 2019), reflecting principal payments that are due to be paid within the next 12 months. ARC intends to finance these obligations by using cash on hand or drawing on its syndicated credit facility at the time the payments are due. ARC's long-term debt has a weighted average interest rate of 3.9 per cent. 85 per cent (US$468.3 million) of ARC's long-term debt outstanding at December 31, 2020 is denominated in US dollars. For more information, refer to Note 14 "Long-Term Debt" in the financial statements.

At December 31, 2020, ARC was in compliance with all of its debt covenants. During the year ended December 31, 2020, ARC executed certain amendments to the note purchase agreements governing its senior notes. The amendments were effective March 31, 2020 and included a modification of certain definitions contained within the financial covenant calculations, the addition of a minimum liquidity requirement, additional language surrounding event of default, and the addition of a mechanism under which the issuer may offer to purchase notes outstanding at par without penalty. As well, the definition of "Total EBITDA" to be used in determining compliance under two of ARC's financial covenants was amended to exclude non-cash losses and non-cash expenses. These amendments are available on SEDAR at www.sedar.com. The following table describes the financial covenants related to ARC's senior notes:

Table 23

Covenant Description (1)	Position at December 31, 2020
Total Indebtedness not to exceed 325 per cent total EBITDA for the most recently completed period of four consecutive quarters	133 %
Total EBITDA not to be less than 400 per cent of Total Interest Charges for the most recently completed period of four consecutive quarters	1,731 %
Total Priority Indebtedness not to exceed two per cent of Total Assets	0 %
Total Indebtedness not to exceed 65 per cent of Present Asset Value (2)	29 %
Total Indebtedness not to exceed 65 per cent of Present Asset Value (3)	32 %

(1) Capitalized terms are as defined in the note purchase agreements. Under the amended note purchase agreements, all non-cash losses, non-cash expenses, non-cash revenue, and non-cash gains are excluded for the purposes of calculating Total EBITDA.
(2) Pertains to senior notes issued under the 2009, 2010, and 2012 note agreements whereby the Present Asset Value is determined using a 10 per cent discount rate.
(3) Pertains to senior notes issued under the prior Master Shelf Agreement whereby the Present Asset Value is determined using a 12 per cent discount rate.

In addition to the covenants noted above, a new covenant was added as part of the note purchase agreement amendments, stipulating that ARC maintain a minimum liquidity amount of $200.0 million in cash or firm commitments under its credit facility, but only if Total Indebtedness exceeds 250 per cent of Total EBITDA for its most recently completed four fiscal quarters, and only for so long as the total outstanding principal amount under the notes issued prior to 2015 exceeds $100.0 million.

The following table describes the financial covenants of the syndicated credit facility:

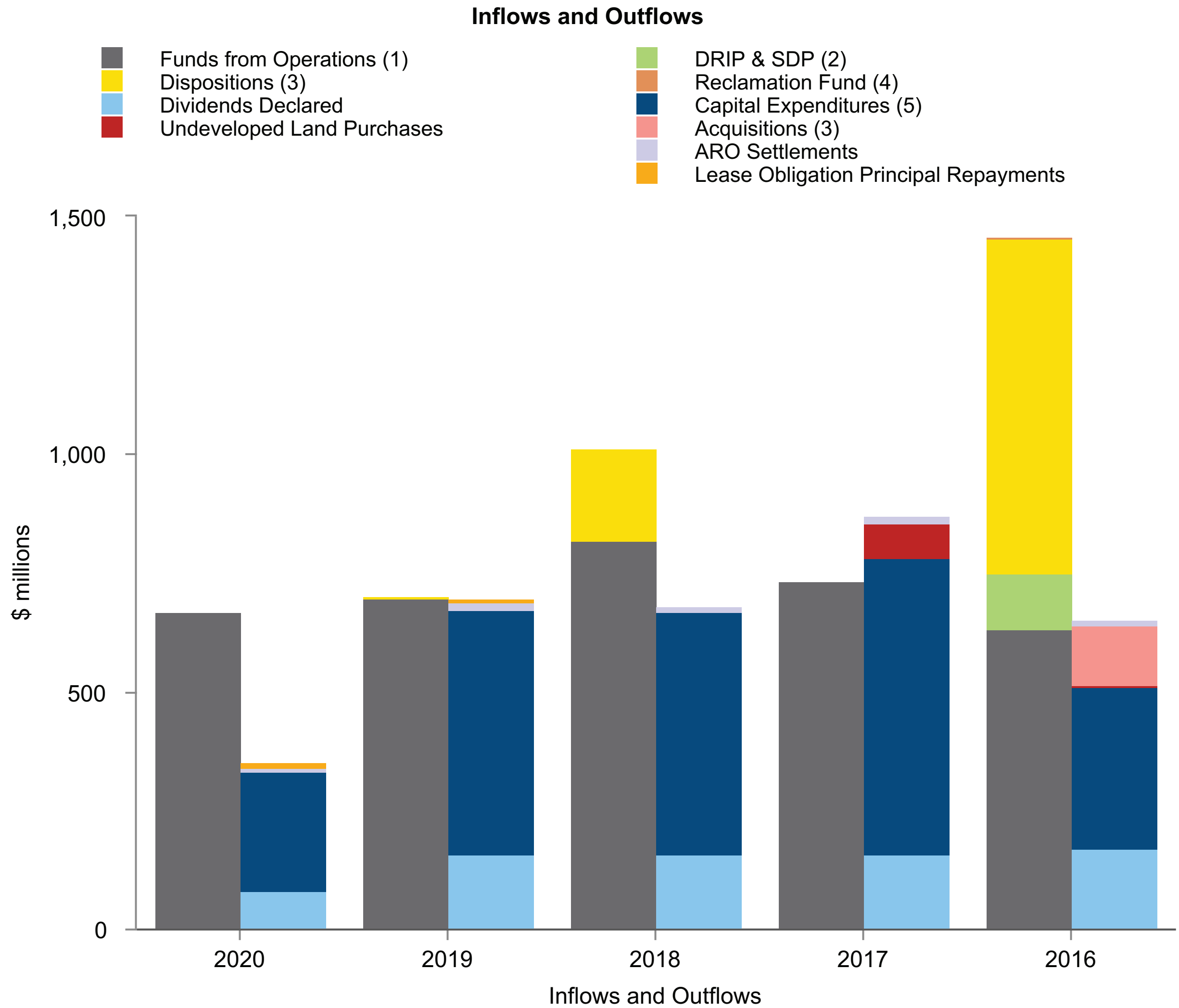
Table 23a

Covenant Description (1)	Position at December 31, 2020 (2)
Consolidated Senior Debt not to exceed 3.5 times Consolidated EBITDA	1.1
Consolidated Total Debt not to exceed 4.0 times Consolidated EBITDA	1.1
Consolidated Senior Debt not to exceed 55 per cent of Total Capitalization	20 %
Consolidated Tangible Assets of the Restricted Group must exceed 85 per cent of Consolidated Tangible Assets	100 %

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

The following illustrates the balance of inflows and outflows for the past five years. In any period when 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 20



(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) The Board approved the elimination of the Dividend Reinvestment Plan ("DRIP") and Stock Dividend Program ("SDP") in 2017.
(3) Excludes non-cash property transactions.
(4) The reclamation fund was disposed in 2018.
(5) Excludes additions in respect of capitalized share options, ROU asset depreciation, and asset retirement cost.

Table 24

($ millions)	**2020**	2019	2018	2017	2016
Inflows					
Funds from operations (1)	**667.6**	697.4	819.0	731.9	633.3
DRIP & SDP (2)	**—**	—	—	3.0	117.1
Dispositions (3)	**1.8**	5.0	192.6	—	705.4
Reclamation fund withdrawals (4)	**—**	—	1.1	—	—
Total	**669.4**	702.4	1,012.7	734.9	1,455.8
Outflows					
Dividends declared	**106.3**	212.4	212.3	212.3	228.2
Capital expenditures (5)	**335.3**	684.8	679.3	829.4	452.9
Undeveloped land purchases	**—**	0.7	0.7	97.6	2.7
Acquisitions (3)	**0.2**	0.2	0.2	2.5	172.9
ARO settlements	**11.8**	18.4	15.8	19.8	13.0
Lease obligation principal repayments	**18.1**	13.7	—	—	—
Reclamation fund contributions (4)	**—**	—	—	0.6	2.0
Total	**471.7**	930.2	908.3	1,162.2	871.7

(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) The Board approved the elimination of the DRIP and SDP in 2017.
(3) Excludes non-cash property transactions.
(4) The reclamation fund was disposed in 2018.
(5) Excludes additions in respect of capitalized share options, ROU asset depreciation, and asset retirement cost.

Shareholders' Equity

At December 31, 2020 and February 10, 2021, there were 353.4 million shares outstanding and 4.6 million share options outstanding under ARC's Share Option Plan. For more information on the Share Option Plan, refer to the section entitled "Share Option Plan" contained within this MD&A.

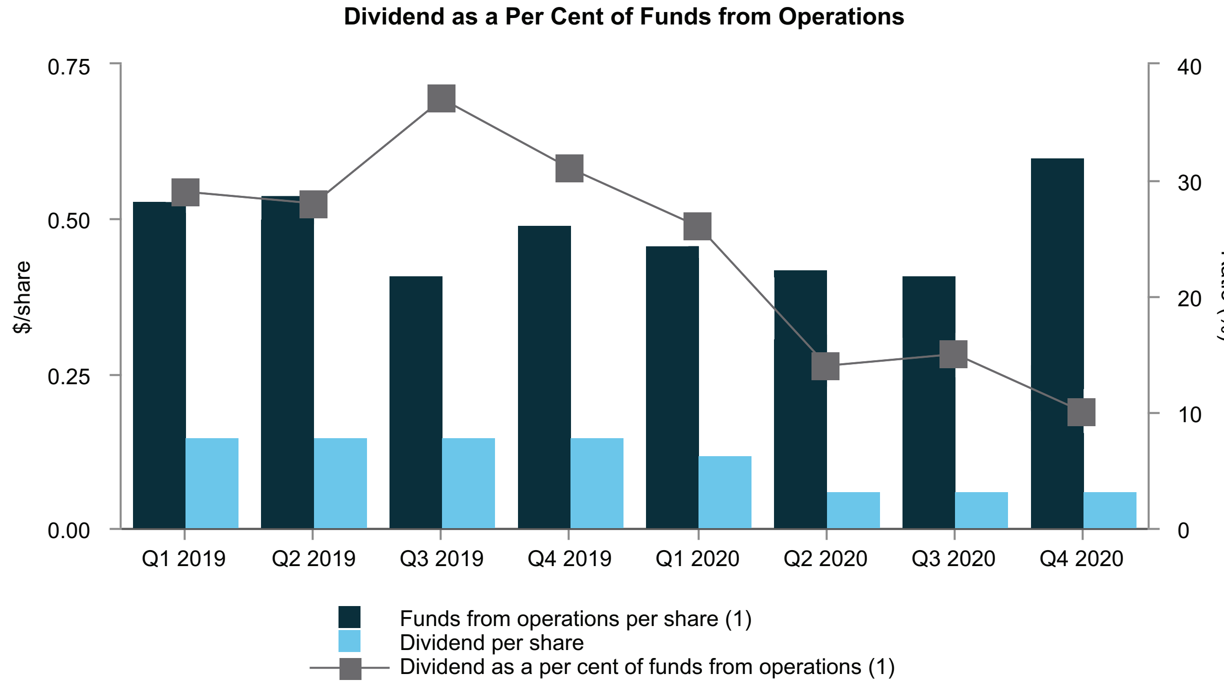
At December 31, 2020, ARC had 1.0 million restricted shares outstanding under its LTRSA Plan. For more information on the restricted shares outstanding and held in trust under ARC's LTRSA Plan, refer to the section entitled "Long-term Restricted Share Award Plan" contained within this MD&A.

Dividends

ARC's business strategy is focused on value creation and long-term returns to shareholders, with the dividend being an important component. In the fourth quarter of 2020, ARC declared dividends totaling $21.3 million ($0.06 per share), compared to $53.1 million ($0.15 per share) in the same period of 2019. ARC declared dividends of $106.3 million ($0.30 per share) for the year ended December 31, 2020 and $212.4 million ($0.60 per share) for the year ended December 31, 2019.

On March 13, 2020, ARC announced that it would be reducing its dividend from $0.05 per share per month to $0.06 per share per quarter. As a result of the dividend reduction, ARC's dividend as a per cent of funds from operations decreased from an average of 31 per cent and 30 per cent for the three months and year ended December 31, 2019 to an average of 10 per cent and 16 per cent, respectively, for the three months and year ended December 31, 2020.

Exhibit 21



(1) Refer to Note 16 "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 operational results.

Please refer to ARC's website at www.arcresources.com for details of the estimated quarterly dividend amounts and dividend dates for 2021.

ACCEL Canada Holdings Limited ("ACCEL")

In May 2018, ARC entered into a purchase and sale agreement (the "ACCEL PSA") with ACCEL to dispose of its interests in certain non-core assets located within the area of Redwater, Alberta. In 2019, ACCEL commenced proceedings under the *Companies' Creditors Arrangement Act*.

At December 31, 2020, ARC had recognized in its accounts receivable amounts owing from ACCEL in relation to the ACCEL PSA. In the first quarter of 2020, a provision for impairment of financial assets of $10.2 million was recognized, which combined with previously recognized provisions for impairment, constituted the full balance of these accounts receivable. Refer to Note 7 "Financial Assets and Credit Risk" in the financial statements for further detail.

Following the close of the transaction, the Alberta Energy Regulator ("AER") had transferred substantially all relevant operating licenses of the assets under the ACCEL PSA from ARC to ACCEL. However, the operating licenses of certain assets (the "Outstanding Assets") remain with ARC as of the date of this MD&A. At December 31, 2020, the potential obligation associated with the future decommissioning cost of the Outstanding Assets is estimated to be $11.8 million.

In October 2019, ACCEL filed a counterclaim against ARC for $200.0 million for damages alleging breaches of contract or misrepresentation related to the ACCEL PSA. In January 2020, ARC filed its Defence to the Counterclaim. Management does not expect the outcome of the counterclaim to result in a material outflow of resources by ARC and no provision for this claim has been made in ARC's financial statements. Refer to Note 22 "Commitments and Contingencies" in the financial statements.

Environmental Regulation Impacting ARC

ARC is in compliance with all environmental laws and regulations as of the date of this MD&A. ARC's Liability Management Rating ("LMR") is well within both the British Columbia Oil and Gas Commission's ("BCOGC") and the AER's requirements, such that no deposits were required at December 31, 2020 or at the date of this MD&A.

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

Contractual Obligations and Commitments

The following table is a summary of ARC's contractual obligations and commitments as at December 31, 2020:

Table 25

	Payments Due by Period				
	1 Year	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Debt repayments (1)	146.7	355.8	161.1	38.3	701.9
Interest payments (2)	24.2	30.2	10.4	1.4	66.2
Purchase and service commitments	34.0	16.3	3.1	0.2	53.6
Transportation commitments	187.2	328.0	318.1	722.5	1,555.8
Total contractual obligations and commitments	**392.1**	**730.3**	**492.7**	**762.4**	**2,377.5**

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

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

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

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 22 "Commitments & Contingencies" of the financial statements.

Related Parties

Key Management Personnel Compensation
ARC has determined that the key management personnel of ARC comprises its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the RSU and PSU, DSU, LTRSA, and Share Option Plans. For the year ended December 31, 2020, ARC recognized $17.6 million in total key management personnel compensation ($21.8 million for the year ended December 31, 2019).

Critical Accounting Estimates

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

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

- estimated commodity sales from production at a specific reporting date for which actual revenues have not yet been received, including associated estimated credit losses;
- estimated royalty obligations, transportation, and operating expenses at a specific reporting date for which costs have been incurred but have not yet been settled;
- estimated capital expenditures on projects that are in progress;
- estimated DD&A charges that are based on estimates of reserves that ARC expects to recover in the future;

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

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

RISK FACTORS

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

Commodity Prices

The prices of crude oil and liquids and natural gas are highly volatile and have declined significantly in recent years. A sustained decline in these commodity prices could materially and adversely affect ARC's business, financial condition, and results of operations.

ARC's revenues, earnings, cash flows, and future rate of growth are highly dependent on commodity prices. Commodity prices may fluctuate widely in response to relatively minor changes in the supply of and demand for crude oil and liquids and natural gas, market uncertainty and a variety of additional factors that are beyond ARC's control, such as:

- domestic and global supply of and demand for crude oil and liquids and natural gas, as impacted by economic factors that affect gross domestic product growth rates of countries around the world, including impacts from international trade, pandemics and related concerns;
- market expectations with respect to future supply of crude oil and liquids and natural gas demand and price changes;
- global crude oil and liquids and natural gas inventory levels;
- volatility and trading patterns in the commodity-futures markets;
- the proximity, capacity, cost, and availability of pipelines and other transportation facilities;
- the capacity of refiners to utilize available supplies of crude oil and condensate;
- weather conditions affecting supply and demand;
- overall domestic and global political and economic conditions;
- actions of the Organization of Petroleum Exporting Countries, its members and other state-controlled oil companies relating to oil price and production controls;
- fluctuations in the value of the US dollar;
- the price and quantity of crude oil, NGLs, and LNG imports to and exports from the US and other countries;

- the development of new hydrocarbon exploration, production, and transportation methods as well as technological advancements in existing methods, including hydraulic fracturing;
- capital investments by crude oil and natural gas companies relating to the exploration, development, and production of hydrocarbons;
- climate change concerns and policies affecting energy consumption and energy supply;
- domestic and foreign governmental regulations, including environmental regulations, climate change regulations and taxation; and
- shareholder activism or activities by non-governmental organizations to limit certain sources of capital for the energy sector or restrict the exploration, development, and production of crude oil and liquids and natural gas; and the effect of energy conservation efforts and the price, availability, and acceptance of alternative energies, including renewable energy.

A lack of access to other markets and firm pipeline capacity as well as limits on availability of capacity in gathering and processing facilities continues to affect the crude oil and natural gas industry limiting the ability to transport produced crude oil and natural gas to market. This can, at times, result in surplus production in western Canada with Canadian realized prices being discounted relative to other markets. See “Risk Factors - Gathering and Processing Facilities, Pipeline Systems and Rail”. Commodity prices have historically been, and continue to be, extremely volatile. ARC expects this volatility to continue. ARC’s risk management arrangements will not fully mitigate the effects of price volatility and may also curtail benefits from future increases in commodity prices. A further or extended decline in commodity prices could materially and adversely affect ARC’s future business, financial condition, results of operations, liquidity, or ability to finance planned capital expenditures.

Significant or extended price declines could also materially and adversely affect the amount of crude oil and liquids and natural gas that ARC can economically produce, which may result in ARC having to make significant downward adjustments to its reserve estimates. A reduction in production could also result in a shortfall in expected cash flows and require ARC to reduce capital spending or borrow funds or issue equity to cover any such shortfall. Any of these factors could negatively affect ARC’s ability to replace its production and its future rate of growth.

Adverse Economic Conditions

Adverse general economic, business and industry conditions could have a material adverse effect on ARC's results of operations and cash flows.

The demand for energy, including crude oil and liquids and natural gas, is generally linked to broad-based economic activities. If there was a slowdown in economic growth, an economic downturn or recession, or other adverse economic or political development in the US, Europe, or Asia, there could be a significant adverse effect on global financial markets and commodity prices. In addition, continued hostilities in the Middle East and the occurrence or threat of terrorist attacks in the US or other countries could adversely affect the global economy. Global or national health concerns, including the outbreak of pandemic or contagious diseases, such as the COVID-19 pandemic (see "Risk Factors - COVID-19 and its Effect on the Global Economy"), may adversely affect ARC by (i) reducing global economic activity thereby resulting in lower demand for crude oil and liquids and natural gas, (ii) impairing its supply chain, for example, by limiting the manufacturing of materials or the supply of services used in ARC's operations, and (iii) affecting the health of its workforce, rendering employees unable to work or travel. These and other factors disclosed elsewhere in this MD&A that affect the demand for crude oil and liquids and natural gas and ARC's business and industry could ultimately have an adverse impact on ARC's results of operations and cash flows.

COVID-19 and Its Effect on the Global Economy

The COVID-19 pandemic has significantly reduced economic activity in Canada and internationally causing a sudden drop in demand for crude oil and natural gas, negatively impacting ARC’s operational results and financial condition.

In March 2020, the World Health Organization declared COVID-19 a global pandemic; prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed nonessential. This resulted in a swift and significant reduction in economic activity in Canada and internationally along with a sudden drop in demand for crude oil and natural gas. COVID-19 has caused an unprecedented global health crisis, and, coupled with an oversupply of crude oil, has contributed to an economic crisis. Crude oil prices have partially recovered from the historic lows observed earlier in 2020, but price support from future demand remains uncertain as countries experience varying degrees of virus outbreak and newly emerging virus variants following efforts to re-open local economies and international borders. The effect of low commodity prices as a result of reduced demand associated with the impact of COVID-19 has had, and, is likely to continue to have, a negative impact on ARC's operational results and financial condition. Low prices for crude oil and natural gas will reduce ARC's funds from operations, and impact ARC's level of capital investment and may result in the reduction of production at certain producing properties.

While the duration and full impact of the COVID-19 pandemic is not yet known, effects of COVID-19 may also include disruptions to production operations, access to materials and services, increased employee absenteeism from illness, and temporary closures of ARC's facilities.

The extent to which ARC's operational and financial results are affected by COVID-19 will depend on various factors and consequences beyond its control such as the duration and scope of the pandemic; additional actions taken by business and government in response to the pandemic, and the speed and effectiveness of responses to combat the virus. Additionally, COVID-19 and its effect on local and global economic conditions stemming from the pandemic could also aggravate the other risk factors identified in this MD&A, the extent of which is not yet known.

Gathering and Processing Facilities, Pipeline Systems and Rail

Lack of capacity on, and/or regulatory constraints and uncertainty regarding, gathering and processing facilities, pipeline systems, and railway lines may have a negative impact on ARC's ability to produce and sell its crude oil and natural gas.

ARC delivers its products through gathering and processing facilities and pipeline systems. The amount of crude oil and liquids and natural gas that ARC can produce and sell is subject to the accessibility, availability, proximity, and capacity of these gathering and processing facilities and pipeline systems. The lack of firm pipeline capacity, production limits, and limits on availability of capacity in gathering and processing facilities continues to affect the crude oil and natural gas industry and may limit the ability for ARC to transport produced crude oil and natural gas to market. In addition, the pro-rationing of capacity on interprovincial pipeline systems continues, at times, to affect the ability of crude oil and natural gas companies to export crude oil and natural gas, and could result in ARC's inability to realize the full economic potential of its products or in a reduction of the price offered for ARC's production. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect ARC's production, operations, and financial results. As a result, certain producers have considered rail lines as an alternative means of transportation. ARC currently does not use rail lines as a means of transportation.

Federal and various provincial governments have been active in recent years in their support for and opposition to major energy infrastructure projects in Canada leading to increased awareness of and challenges to interprovincial and international energy infrastructure projects. On August 28, 2019, with the passing of Bill C-69, the *Canadian Energy Regulator Act* and the *Impact Assessment Act* came into force and the *National Energy Board Act* and the *Canadian Environmental Assessment Act, 2012* were repealed. In addition, the Impact Assessment Agency of Canada replaced the Canadian Environmental Assessment Agency. The impact of the new federal regulatory scheme on proponents, and the timing for receipt of approvals, of major projects is unclear.

A portion of ARC's production may, from time to time, be processed through facilities owned by third parties and over which ARC does not have control. From time to time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on ARC's ability to process its production and deliver it to market. Midstream and pipeline companies may take actions to maximize their return on investment, which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of particular shippers.

Political Uncertainty and Geopolitical Risks

ARC's business may be adversely affected by political and social events and decisions made in Canada, the United States, Europe, and elsewhere.

A change in federal, provincial, or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the crude oil and natural gas industry, including attempts to balance between economic development and environmental and social policy. For example, the Trans Mountain pipeline expansion project, despite initially being supported by the Alberta, British Columbia, and federal governments, experienced a setback when, following a change of government in British Columbia, the new British Columbia government announced its opposition to the project and, among other things, sought clarification from the British Columbia Court of Appeal as to whether it could regulate the transport of heavy oil products into and through British Columbia. Though the pipeline ultimately received regulatory approval and the Supreme Court of Canada unanimously rejected the government of British Columbia's proposed regulation of the transport of heavy oil products into and through British Columbia, this period of uncertainty and delay led to decreased investor confidence. Similar events and actions may further decrease investor confidence, increase capital costs, and lead to operational delays for producers and service providers operating in western Canada.

The current Canadian federal government was re-elected in 2019, but in a minority position. The ability of the minority federal government to pass legislation will be subject to whether it is able to come to agreement with, and garner the support of, the other elected parties, most of whom are opposed to the development of the crude oil and natural gas industry. The minority federal government will also be required to rely on the support of the other elected parties to remain in power, which provides less stability and may lead to an earlier subsequent federal election. Political instability, at both the federal and provincial level, continues to create regulatory uncertainty, the effects of which become apparent on an ongoing basis, particularly with respect to carbon pricing regimes, curtailment of crude oil production and transportation and export capacity, and may affect the business of participants in the crude oil and natural gas industry.

In the last several years, the US and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. Following the 2016 US presidential election, the previous US administration withdrew the United States from the Trans-Pacific Partnership and the United States Congress passed sweeping tax reform, which, among other things, significantly reduced US corporate tax rates. The previous US administration also took action with respect to the reduction of regulation. In addition, the United States Mexico Canada Agreement replaced the North American Free Trade Agreement in July 2020. These actions and changes, political, legal, and otherwise, have affected the competitiveness of other jurisdictions, including Canada. However, further changes may be expected following the election of a new administration in 2020. For example, the new administration has indicated that it will pursue policies intended to help the US achieve net-zero emissions by 2050, reduce fossil fuel consumption, and increase support for renewable technologies and electric vehicles. In addition, upon being sworn into office, President Joe Biden cancelled a presidential permit required for the construction and operation of the Keystone XL pipeline and various state and local governments have taken steps to oppose the expansion, or continued operation, of other international pipelines connecting Canada and the US. The cancelling of the Keystone permit does not have a current impact on ARC.

It is unclear exactly what actions or policies the US federal administration, US state, and local governments, will implement, and if implemented, how these actions may impact Canada and in particular the crude oil and natural gas industry. Any actions taken by the US administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations, and the valuation of Canadian crude oil and natural gas companies, including ARC.

In addition to political events in the US, the impact of the United Kingdom's exit from the European Union remains to be determined. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade, and globalization. Conflict and political uncertainty also continues to progress in the Middle East. To the extent that certain political actions taken in North America, Europe, and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement, it could have an adverse effect on ARC’s ability to market its products, increase costs for goods and services required for ARC’s operations, reduce access to skilled labour, and negatively impact ARC’s business, operations, financial conditions, and the market value of its common shares.

Reputational Risk

ARC relies on its reputation to continue its operations and to attract and retain employees and capital.

ARC's business, operations, or financial condition may be negatively impacted as a result of any negative public opinion towards ARC or as a result of any negative sentiment toward, or in respect of, ARC's reputation with stakeholders, special interest groups, political leadership, the media, or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which ARC operates as well as their opposition to certain crude oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences and increased costs and/or cost overruns. ARC's reputation and public opinion could also be impacted by the actions and activities of other companies operating in the crude oil and natural gas industry, particularly other producers, over which ARC has no control. Similarly, ARC's reputation could be impacted by negative publicity related to loss of life, injury or damage to property and environmental damage caused by ARC's operations. In addition, if ARC develops a reputation of having an unsafe work site, it may impact the ability of ARC to attract and retain the necessary skilled employees and consultants to operate its business. Opposition from special interest groups opposed to crude oil and natural gas development and the possibility of climate related litigation against governments and natural resource companies may impact ARC's reputation. See "Risk Factors - Climate Change".

Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, regulatory, and legal risks, among others, must all be managed effectively to safeguard ARC's reputation. Damage to ARC's reputation could result in negative investor sentiment towards ARC, which may result in limiting ARC's access to capital, increasing the cost of capital, and decreasing the price and liquidity of ARC's securities.

Changing Investor Sentiment

Changing investor sentiment towards the crude oil and natural gas industry may impact ARC’s access to, and cost of, capital.

A number of factors, including the effects of the use of hydrocarbons on climate change, the impact of crude oil and natural gas operations on the environment, environmental damage relating to spills of crude oil products during production and transportation, and Indigenous rights, have affected certain investors' sentiments towards investing in the crude oil and natural gas industry. As a result of these concerns, some institutional, retail and governmental investors have announced that they are no longer funding or investing in crude oil and natural gas assets or companies, or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust ESG policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, Management and employees of ARC. Failing to implement the policies and practices, as requested by institutional investors, may result in such investors reducing their investment in ARC, or not investing in ARC at all. Any reduction in the investor base interested or willing to invest in the crude oil and natural gas industry and more specifically, ARC, may result in limiting ARC's access to capital, increasing the cost of capital, and decreasing the price and liquidity of ARC's securities even if ARC's operating results, underlying asset values, or cash flows have not changed. See "Risk Factors - Climate Change".

Climate Change

Climate change concerns could result in increased operating costs and reduced demand for ARC's products or securities, while the potential physical effects of climate change could disrupt ARC's production and cause it to incur significant costs in preparing for or responding to those effects.

Global climate issues continue to attract public and scientific attention. Numerous reports, such as the Fourth and the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, have engendered concern about the impacts of human activity, especially hydrocarbon combustion, on global climate issues. In turn, increasing public, government and investor attention is being paid to global climate issues and to emissions of greenhouse gases ("GHG"), including emissions of carbon dioxide and methane from the production and use of crude oil and liquids and natural gas.

Transition risks

Foreign and domestic governments continue to evaluate and implement policy, legislation, and regulations focused on restricting emissions commonly referred to as GHG emissions and promoting adaptation to climate change and the transition to a low-carbon economy. It is not possible to predict what measures foreign and domestic governments may implement in this regard, nor is it possible to predict the requirements that such measures may impose or when such measures may be implemented. However, international multilateral agreements, the obligations adopted thereunder and legal challenges concerning the adequacy of climate-related policy brought against foreign and domestic governments may accelerate the implementation of these measures. Given the evolving nature of climate change policy and the control of GHG emissions and resulting requirements, it is expected that current and future climate change regulations will have the effect of increasing ARC's operating expense, and, in the long-term, potentially reducing the demand for crude oil and natural gas, resulting in a decrease in ARC's profitability and a reduction in the value of its assets. See "Risk Factors - Non-Governmental Organizations", and "Risk Factors - Reputational Risk".

Claims have been made against certain energy companies alleging that GHG emissions from crude oil and natural gas operations constitute a public nuisance under certain laws or that such energy companies provided misleading disclosure to the public and investors of current or future risks associated with climate change. As a result, individuals, government authorities, or other organizations may make claims against crude oil and natural gas companies, including ARC, for alleged personal injury, property damage, or other potential liabilities. While ARC is not a party to any such litigation or proceedings, it could be named in actions making similar allegations. An unfavorable ruling in any such case could adversely affect the demand for and price of securities issued by ARC, impact its operations and have an adverse impact on its financial condition. See "Risk Factors - Non-Governmental Organizations", and "Risk Factors - Reputational Risk".

Given the perceived elevated long-term risks associated with policy development, regulatory changes, public and private legal challenges, or other market developments related to climate change, there have also been efforts in recent years affecting the investment community, including investment advisors, sovereign wealth funds, public pension funds, universities and other institutional investors, promoting direct engagement and dialogue with companies in their portfolios on climate change action (including exercising their voting rights on matters relating to climate change) and increased capital allocation to investments in low-carbon assets and businesses while decreasing the carbon intensity of their portfolios through, among other measures, divestments of companies with high exposure to GHG intensive operations and products. Certain stakeholders have also pressured insurance providers and commercial and investment banks to reduce or stop financing, and providing insurance coverage to crude oil and natural gas and related infrastructure businesses and projects. The impact of such efforts require ARC's management to dedicate significant time and resources to these climate change related concerns, may adversely affect ARC's operations, the demand for and price of ARC's securities and may negatively impact ARC's cost of capital and access to the capital markets.

ARC is committed to transparent and comprehensive reporting of its sustainability performance, and considers existing standards such as the Global Reporting Initiative Sustainability Reporting Standards, the Sustainability Accounting Standards Board’s documentation, and recommendations issued by the Task Force for Climate Related Financial Disclosures. If ARC is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities, and raise capital may be adversely affected.

Physical risks
Based on ARC's current understanding, the potential physical risks resulting from climate change are long-term in nature associated with a high degree of uncertainty regarding timing, scope, and severity of potential impacts. ARC does not conduct fundamental research regarding the scientific inquiry of climate change, but does stay abreast of the scientific literature on the subject. Many experts believe global climate change could increase extreme variability in weather patterns such as increased frequency of severe weather, rising mean temperature and sea levels, and long-term changes in precipitation patterns. Extreme hot and cold weather, heavy snowfall, heavy rainfall, and wildfires may restrict ARC's ability to access its assets and cause operational difficulties, including damage to equipment and infrastructure. Extreme weather also increases the risk of personnel injury as a result of dangerous working conditions. Certain of ARC's assets are in locations that are proximate to forests and rivers and a wildfire or flood may lead to significant downtime and/or damage to ARC's assets or cause disruptions to the production and transport of its products or the delivery of goods and services in its supply chain.

Regulatory

Modification to current, or implementation of additional, regulations may reduce the demand for crude oil and natural gas and/or increase ARC’s costs and/or delay planned operational activity.

The crude oil and natural gas industry in Canada is a regulated industry. The implementation of new regulations or the modification of existing regulations affecting the crude oil and natural gas industry could reduce demand for crude oil and natural gas and increase ARC’s costs, either of which may have a material adverse effect on ARC’s business, financial condition, results of operations and prospects. Further, the ongoing third party challenges to regulatory decisions or orders has reduced the efficiency of the regulatory regime, as the implementation of the decisions and orders has been delayed resulting in uncertainty and interruption to business of the crude oil and natural gas industry. See "Risk Factors - Liability Management".

In order to conduct crude oil and natural gas operations, ARC will require regulatory permits, licences, registrations, approvals, and authorizations from various governmental authorities at the municipal, provincial, and federal level. There can be no assurance that ARC will be able to obtain all of the permits, licences, registrations, approvals, and authorizations that may be required to conduct operations that it may wish to undertake in the time required or on terms and conditions acceptable to ARC. Any failure to renew, maintain, or obtain the required permits, licences, registrations, approvals, and authorizations or the revocation or termination of existing permits, licences, registrations, approvals, and authorizations may disrupt ARC’s operations and could have a material adverse effect on ARC’s business, financial position, and results of operations. In addition, certain federal legislation such as the *Competition Act* and the *Investment Canada Act* could negatively affect ARC’s business, financial condition, and the market value of its securities or its assets, particularly when undertaking, or attempting to undertake, acquisition or disposition activity.

Hydraulic Fracturing

Implementation of new regulations on hydraulic fracturing may lead to operational delays, increased costs and/or decreased production volumes, adversely affecting ARC's financial position. ARC's operations are dependent upon the availability of water and its ability to dispose of produced water from drilling and production activities. Restrictions on ARC's ability to obtain water or dispose of produced water may have a material adverse effect on its financial condition, results of operations, and cash flows.

Hydraulic fracturing involves the injection of water, sand, and small amounts of additives under high pressure into tight rock formations that were previously unproductive to stimulate the production of crude oil and natural gas. Any new laws, regulations, or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third-party or governmental claims, and could increase ARC's costs of compliance and doing business, as well as delay the development of crude oil and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of crude oil and natural gas that ARC is ultimately able to produce from its reserves.

Water is an essential component of ARC's drilling and hydraulic fracturing processes. Limitations or restrictions on ARC's ability to secure sufficient amounts of water (including limitations resulting from natural causes such as drought), could materially and adversely impact its operations. Severe drought conditions can result in local water authorities taking steps to restrict the use of water in their jurisdiction for drilling and hydraulic fracturing in order to protect the local water supply. If ARC is unable to obtain water to use in its operations from local sources, it may need to be obtained from new sources and transported to drilling sites, resulting in increased costs, which could have a material adverse effect on its financial condition, results of operations, and cash flows.

In addition, ARC must dispose of the fluids produced from crude oil and natural gas production operations, including produced water, which it does directly or through the use of third-party vendors. The legal requirements related to the disposal of produced water into a non-producing geologic formation by means of underground injection wells are subject to change based on concerns of the public or governmental authorities regarding such disposal activities.

Government authorities may issue orders to temporarily shut down or to curtail the injection depth of existing wells in the vicinity of seismic events. Another consequence of seismic events may be lawsuits alleging that disposal well operations have caused damage to neighboring properties or otherwise violated laws and regulations regarding waste disposal. These developments could result in additional regulation and restrictions on the use of injection wells by ARC or by commercial disposal well vendors that ARC may use from time to time to dispose of produced water. Increased regulation and attention given to induced seismicity could also lead to greater opposition, including litigation to limit or prohibit crude oil and natural gas activities utilizing injection wells for produced water disposal. Any one or more of these developments may result in ARC or its vendors having to limit disposal well volumes, disposal rates and pressures or locations, or require ARC or its vendors to shut down or curtail the injection of produced water into disposal wells, which events could have a material adverse effect on ARC's business, financial condition, and results of operations.

Environmental

Compliance with environmental regulations requires the dedication of a portion of ARC's financial and operational resources.

All phases of the crude oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial, and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with crude oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of crude oil, natural gas, or other pollutants into the air, soil, or water may give rise to liabilities to governments and third parties and may require ARC to incur costs to remedy such discharge.

In addition, some of ARC's properties may have been operated by predecessors or previous owners or operators whose treatment and disposal of hazardous substances, wastes or petroleum hydrocarbons were not under ARC's control. Joint and several strict liabilities may be incurred in connection with such releases of petroleum hydrocarbons, hazardous substances and wastes on, under, or from ARC's properties. Private parties, including lessors of properties on which ARC operates and the owners or operators of properties adjacent to ARC's operations and facilities where ARC's petroleum hydrocarbons, hazardous substances or wastes are taken for reclamation or disposal, may also have the right to pursue legal actions to enforce compliance as well as seek damages for non-compliance with environmental laws and regulations or for personal injury or damage to property or natural resources. Such properties and the substances disposed or released on or under them may be subject to laws which could require ARC to remove previously disposed substances, wastes and petroleum hydrocarbons, remediate contaminated property or perform remedial or closure operations to prevent future contamination, the cost of which could have a material adverse effect on ARC's business, financial condition, and results of operations. ARC may not be able to recover some or any of these costs from sources of contractual indemnity or insurance, as pollution and similar environmental risks generally are not insurable or fully insurable, either because such insurance is not available or because of the high premium costs and deductibles associated with obtaining such insurance.

Insurance Coverage

Not all risks of conducting crude oil and natural gas activities are insurable and insurance may become unavailable or only available on reduced amounts of coverage, the occurrence of which would increase ARC's overall risk exposure.

ARC maintains insurance coverage as part of its risk management program. However, such insurance may not provide comprehensive coverage in all circumstances, nor are all such risks insurable. ARC self-insures some risks, and its insurance coverage does not cover all the costs arising out of the allocation of liabilities and risk of loss arising from ARC's operations. ARC's insurance policies are generally renewed on an annual basis and, depending on factors such as market conditions, the premiums, policy limits and/or deductibles for certain insurance policies can vary substantially. In some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. Significantly increased costs could lead ARC to decide to reduce or possibly eliminate, coverage. In addition, insurance is purchased from a number of third-party insurers, often in layered insurance arrangements, some of whom may discontinue providing insurance coverage for their own policy or strategic reasons. Should any of these insurers refuse to continue to provide insurance coverage, ARC's overall risk exposure could be increased and ARC could incur significant costs.

See "Risk Factors - Environmental", "Risk Factors - Skilled Workforce", "Risk Factors - Development and Production Risks", "Risk Factors - Information Technology Systems and Cyber-security" and "Risk Factors - Market Price" for more details.

Skilled Workforce

An inability to recruit and retain a skilled workforce and key personnel may negatively impact ARC.

The operations and management of ARC require the recruitment and retention of a skilled workforce, including engineers, technical personnel, and other professionals. The loss of key members of such workforce, or a substantial portion of the workforce as a whole, could result in the failure to implement ARC's business plans which could have a material adverse effect on ARC's business, financial condition, and results of operations.

Competition for qualified personnel in the crude oil and natural gas industry is intense and there can be no assurance that ARC will be able to continue to attract and retain all personnel necessary for the development and operation of its business. ARC does not have any key personnel insurance in effect. Contributions of the existing management team to the immediate and near term operations of ARC are likely to be of central importance. In addition, certain of ARC's current employees are senior and have significant institutional knowledge that must be transferred to other employees prior to their departure from the workforce. If ARC is unable to: (i) retain current employees; (ii) successfully complete effective knowledge transfers; and/or (iii) recruit new employees with the requisite knowledge and experience, ARC could be negatively impacted. In addition, ARC could experience increased costs to retain and recruit these professionals.

Development and Production Risks

ARC's future performance may be affected by the financial, operational, environmental, and safety risks associated with the exploration, development, and production of crude oil and natural gas.

Crude oil and natural gas operations involve many risks that even a combination of experience, knowledge, and careful evaluation may not be able to overcome. Drilling hazards, environmental damage, and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Adverse field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut in of wells resulting from extreme weather conditions, insufficient storage or transportation capacity, or geological and mechanical conditions. While diligent well supervision, effective maintenance operations, and the development of enhanced oil recovery technologies can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Restrictions on the availability and cost of materials and equipment may impede ARC's exploration, development, and operating activities as crude oil and natural gas exploration, development, and operating activities are dependent on the availability and cost of specialized materials and equipment (typically leased from third parties) in the areas where such activities are conducted. The availability of such material and equipment is limited. An increase in demand or cost, or a decrease in the availability of such materials and equipment may impede ARC's exploration, development, and operating activities.

ARC utilizes multi-well pad drilling where practicable. Wells drilled on a pad are not placed on production until all wells on the pad are drilled and completed. In addition, problems affecting a single well could adversely affect production from all of the wells on the pad. As a result, multi-well pad drilling can cause delays in the schedule commencement of production, or interruption in ongoing production. These delays or interruptions may cause volatility in ARC's operating results.

ARC's business is subject to all the risks and hazards typically associated with crude oil and natural gas exploration, development and production operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills, and other environmental hazards. These typical risks and hazards could result in substantial damage to crude oil and natural gas wells, production facilities, other property and the environment and cause personal injury or threaten wildlife. Particularly, ARC may explore for and produce sour gas in certain areas. An unintentional leak of sour gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to ARC.

Crude oil and natural gas production operations are also subject to geological and seismic risks, including encountering unexpected formations or pressures, premature decline of reservoirs, and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on ARC's business, financial condition and results of operations.

ARC's long-term commercial success depends on its ability to find, acquire, develop, and commercially produce crude oil and natural gas reserves. Without the continual addition of new reserves, ARC's existing reserves, and the production from them, will decline over time as ARC produces from such reserves. A future increase in ARC's reserves will depend on both the ability of ARC to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that ARC will be able to continue to find satisfactory properties to acquire or participate in. Moreover, Management may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that ARC will discover or acquire further commercial quantities of crude oil and natural gas.

Future crude oil and natural gas exploration may involve unprofitable efforts from dry wells or from wells that are productive but do not produce sufficient quantities to return a profit after drilling, completing, operating, and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion, and operating costs.

Project Risks

The success of ARC's operations may be negatively impacted by factors outside of its control resulting in operational delays and cost overruns.

ARC manages a variety of small and large projects in the conduct of its business. Project interruptions may delay expected revenues from operations. Significant project cost overruns could make a project uneconomic. ARC's ability to execute projects and to market crude oil and natural gas depends upon numerous factors beyond ARC's control, including:

- availability of processing capacity;
- availability and proximity of pipeline capacity;
- availability of storage capacity;
- availability of, and the ability to acquire, water supplies needed for drilling, hydraulic fracturing, and waterflood or ARC's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;

- effects of inclement and severe weather events, including fire, drought and flooding;
- availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- availability and productivity of skilled labour; and
- regulation of the crude oil and natural gas industry by various levels of government and governmental agencies.

If cash flow from operating activities and funds from external financing sources are not sufficient to cover ARC's capital expenditure requirements, ARC may be required to reallocate available capital among its projects or modify its capital expenditure plans, which may result in delays to, or cancellation of, certain projects or deferral of certain capital expenditures. Any change to ARC's capital expenditure plans could, in turn, have a material adverse effect on ARC's growth objectives and its business, financial position, and results of operations. Because of these factors, ARC could be unable to execute projects on time, on budget, or at all.

Liability Management

Liability management programs enacted by regulators in the western provinces may prevent or interfere with ARC’s ability to acquire properties or require a substantial cash deposit with the regulator.

Alberta and British Columbia have developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation, and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its regulatory obligations. Changes to the Alberta LMR Program administered by the AER, or other changes to the requirements of liability management programs, may result in significant increases to ARC’s compliance obligations. For example, in July 2020 the Government of Alberta announced a new Liability Management Framework intended to, among other things, accelerate the reduction of outstanding obligations related to asset retirement and abandonment, although specific details of the new Framework have not yet been fully released. In addition, the impacts and consequences of the Supreme Court of Canada's decision in Redwater on the AER's rules and policies, lending practices in the crude oil and natural gas sector and on the nature and determination of secured lenders to take enforcement proceedings against borrowers are expected to evolve as the consequences of the decision are evaluated and considered by regulators, lenders and receivers/trustees. In addition, the Alberta LMR Program, or any successor liability management program such as the Liability Management Framework, may prevent or interfere with ARC’s ability to acquire or dispose of assets, as both the vendor and the purchaser of crude oil and natural gas assets must be in compliance with the liability management programs (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets.

On May 30, 2019 the BCOGC introduced the Dormancy and Shutdown Regulation (BC Reg. 112/2019), which establishes a framework for requiring permit holders to decommission well sites, complete the required environmental site assessments and any remediation work, and restore the sites within specified timelines. This is the first instance of any provincial energy regulator prescribing such timelines. The regulation distinguishes between three classes of dormant sites (Types A, B, and C), identified by the activity level associated with the well(s) on that site. The classification scheme applies to all sites in British Columbia that are currently, or in the future may become, inactive for a sustained period. Depending on the classifications of the sites in its "portfolio", a permit holder will have varying reporting, decommissioning, remediation, and reclamation obligations. ARC is required to have 30 per cent of its Type A Dormant wells abandoned by December 31, 2021 and is currently on track to meeting this requirement, having filed all annual work plans and reports since implementation of the regulation. The next requirements come into effect in 2024 and 2026 which will require 40 per cent and 70 per cent of Type A Dormant wells to be abandoned, respectively.

Variations in Foreign Exchange Rates and Interest Rates

Variations in foreign exchange rates and interest rates could adversely affect ARC’s financial condition.

Global crude oil and natural gas prices are quoted in US dollars. The Canadian/US dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of crude oil and natural gas.

Material increases in the value of the Canadian dollar relative to the US dollar will negatively affect ARC's production revenues. Accordingly, exchange rates between Canada and the US could affect the future value of ARC's reserves as determined by our independent qualified reserve evaluator. Although a low value of the Canadian dollar relative to the US dollar may positively affect the price ARC receives for its crude oil and natural gas production, it could also result in an increase in the price for certain goods used for ARC's operations, which may have a negative impact on ARC's financial results.

ARC maintains certain debt arrangements that are denominated in US dollars. As such, an increased value of the US dollar relative to the Canadian dollar may increase Canadian dollar equivalent payments of interest and debt. Also, an increase in interest rates could result in a significant increase in the amount ARC pays to service debt, resulting in a reduced amount available to fund its exploration and development activities, and if applicable, the cash available for dividends.

Third-Party Credit Risk

ARC is exposed to credit risk of third party customers, operators or partners of properties in which it has an interest and counterparties to ARC's derivative risk management contracts.

ARC may be exposed to third-party credit risk through its contractual arrangements with its current or future customers of its crude oil and natural gas sales, joint venture partners, and other parties. In addition, ARC may be exposed to third-party credit risk from operators of properties in which ARC has a working or royalty interest or is party to an asset disposition transaction with ARC. If such third parties fail to meet their contractual obligations to ARC, such failures may have a material adverse effect on ARC's business, financial condition, and results of operations. In addition, poor credit conditions in the industry, generally, and of ARC's joint venture partners may affect a joint venture partner's willingness or ability to participate in ARC's ongoing capital development or well abandonment and site reclamation programs. This could potentially delay capital investment in an asset until ARC finds a suitable alternative partner, or in the case of well abandonment and site reclamation activities, require ARC to finance such activities.

The use of derivative risk management contracts involves the risk that the counterparties will be unable to meet the financial terms of such transactions. ARC is unable to predict changes in a counterparty's creditworthiness or ability to perform. Even if ARC accurately predicts the sudden changes, ARC's ability to negate this risk may be limited depending upon market conditions and the contractual terms of the agreements. During periods of declining commodity prices, ARC's derivative receivable positions generally increase, which increases ARC's counterparty credit exposure.

To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in ARC being unable to collect all or a portion of any money owing from such parties. Any of these factors could materially adversely affect ARC's financial and operational results.

Information Technology Systems and Cyber-security

Breaches of ARC's cyber-security and loss of, or unauthorized access to, electronic data may adversely impact ARC's operations and financial position.

ARC has become increasingly dependent upon the availability, capacity, reliability, and security of our information technology infrastructure and our ability to expand and continually update this infrastructure to conduct daily operations. ARC depends on various information technology systems to estimate reserve quantities, process and record financial data, manage ARC's land base, manage financial resources, analyze seismic information, administer contracts with operators and lessees, and communicate with employees and third-party partners.

Further, ARC is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of ARC's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities, or ARC's competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, credit card and banking details or approval of wire transfer requests by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years.

Increasingly, social media is used as a vehicle to carry out cyber-phishing attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to penetrate ARC's systems and obtain confidential information. ARC provides employees with social media guidelines that align with its Business Code of Conduct and Ethics Policy. Despite these efforts, as social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that ARC may not be able to properly regulate social media use and preserve adequate records of business activities.

If ARC becomes a victim to a cyber-phishing attack it could result in a loss or theft of ARC’s financial resources or critical data and information, or could result in a loss of control of ARC’s technological infrastructure or financial resources. ARC’s employees are often the targets of such cyber-phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "Trojan horse" programs to ARC’s computers. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email or to download malware.

ARC maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and conducts regular cyber-security risk assessments and training and education programs for its employees. ARC also employs encryption protection of its confidential information on all computers and other electronic devices. Despite ARC’s efforts to mitigate such cyber-phishing attacks through education and training, cyber-phishing activities remain a serious problem that may damage its information technology infrastructure. ARC applies technical and process controls in line with industry-accepted standards to protect its information, assets and systems, including a written incident response plan for responding to a cyber-security incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on ARC’s performance and earnings, as well as its reputation, and any damages sustained may not be adequately covered by ARC’s current insurance coverage, or at all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on ARC’s business, financial condition, and results of operations.

Credit Facility Arrangements

Failing to comply with covenants under ARC’s credit facility and senior unsecured notes could result in restricted access to additional capital or being required to repay all amounts owing thereunder.

ARC is required to comply with covenants under its credit facility and senior unsecured notes which may, in certain cases, include certain financial ratio tests, which, from time to time, either affect the availability, or price, of additional funding. In the event that ARC does not comply with these covenants, ARC’s access to capital could be restricted or repayment could be required. Events beyond ARC’s control may contribute to the failure of ARC to comply with such covenants.

A failure to comply with covenants could result in default under ARC’s credit facility and senior unsecured notes, which could result in ARC being required to repay amounts owing thereunder. The acceleration of ARC’s indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. In addition, ARC’s credit facility or senior unsecured notes may impose operating and financial restrictions on ARC that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to ARC’s securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others. Events beyond ARC’s control may contribute to the occurrence of any such default under ARC’s debt financing agreements. For example, ARC's note purchase agreements for notes issued prior to 2015 were amended effective March 31, 2020, to provide that ARC would be in default under such agreements if ARC's lenders under its credit facility refuse to honour a drawdown request of ARC under such credit facility for any reason other than ARC's default under the credit facility or such lenders allow a drawdown request under the credit facility but impose on ARC any restriction or limitation on using such proceeds to repay or prepay the senior unsecured notes or any interest payments or make-whole/yield maintenance amounts relating to such notes, subject, in each case, to certain extensions and other exceptions.

The Supreme Court of Canada's decision in Redwater may give rise to new covenants and restrictions under ARC’s credit facilities and senior unsecured notes, should LMR levels fall below existing agreed-upon thresholds, including further limitations on asset dispositions and acquisitions. ARC may also be required to provide additional reporting to its lenders regarding its existing and/or budgeted abandonment and reclamation obligations, its decommissioning expenses, its LMR and/or any notices or orders received from an energy regulator in any applicable province.

If ARC’s lenders or note holders require repayment of all or a portion of the amounts outstanding under its credit facilities or senior unsecured notes for any reason, including for a default of a covenant, there is no certainty that ARC would be in a position to make such repayment. Even if ARC is able to obtain new financing in order to make any required repayment under its credit facilities or senior unsecured notes, it may not be on commercially reasonable terms, or terms that are acceptable to ARC. If ARC is unable to repay amounts owing under its credit facilities or senior unsecured notes, the lenders note holders under such credit facilities or senior unsecured notes could proceed to foreclose or otherwise realize upon the collateral, if any, granted to them to secure the indebtedness.

Additional Funding Requirements

ARC may require additional financing, from time to time, to fund the acquisition, exploration and development of properties and its ability to obtain such financing in a timely fashion and on acceptable terms may be negatively impacted by the current economic and global market volatility.

ARC's cash flow from operating activities may not be sufficient to fund its ongoing activities at all times and, from time to time, ARC may require additional financing in order to carry out its crude oil and natural gas acquisition, exploration, and development activities. Failure to obtain financing on a timely basis could cause ARC to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Due to the conditions in the crude oil and natural gas industry and/or global economic and political volatility, ARC may, from time to time, have restricted access to capital and increased borrowing costs. The current conditions in the crude oil and natural gas industry have negatively impacted the ability of crude oil and natural gas companies to access, or the cost of, additional financing.

ARC may, from time to time, have restricted access to capital and increased borrowing costs as a result of various factors, including global economic and political conditions and the domestic lending landscape. Failure to obtain suitable financing on a timely basis could cause ARC to forfeit its interest in certain properties, miss certain acquisition opportunities, and reduce or terminate its operations. If ARC's cash flow from operating activities decrease as a result of lower crude oil and natural gas prices or otherwise, it will affect ARC's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, ARC's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition, and results of operations may be affected materially and adversely as a result. In addition, the future development of ARC's crude oil and natural gas properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing shareholders. Failure to obtain any financing necessary for ARC's capital expenditure plans may result in a delay in development or production on ARC's properties.

Issuance of Debt

Increased debt levels may impair ARC’s ability to borrow additional capital on a timely basis to fund opportunities as they arise.

From time to time, ARC may enter into transactions financed in whole, or in part, with debt, which may increase ARC’s debt levels above industry standards for crude oil and natural gas companies of similar size. Depending on future exploration and development plans, ARC may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither ARC’s articles nor its bylaws limit the amount of indebtedness that ARC may incur. The level of ARC’s indebtedness from time to time could impair ARC’s ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Dividends

The payment of cash dividends could vary.

The amount and frequency of future cash dividends paid by ARC, if any, will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of ARC, the dividend policy of ARC may be changed from time to time and, as a result, future cash dividends could be reduced or suspended entirely or made less frequently.

Competition

ARC competes with other crude oil and natural gas companies, some of which have greater financial and operational resources or other competitive advantages.

The crude oil and natural gas industry is competitive in all of its phases. ARC competes with numerous other entities in the exploration, development, production, and marketing of crude oil and natural gas. ARC's competitors include crude oil and natural gas companies that have substantially greater financial resources, staff, and facilities than those of ARC and as such, ARC may be at a competitive disadvantage in the identification, acquisition and development of assets that complement ARC's operations. Some of these companies not only explore for, develop and produce crude oil and natural gas, but also carry on refining operations and market third-party crude oil and natural gas. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than ARC and less volatility in their earnings. ARC's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of crude oil and natural gas include price, process, and reliability of delivery and storage. To a lesser extent, ARC also faces competition from companies that supply alternative sources of energy, such as wind or solar power. Other factors that could affect competition in the marketplace include additional discoveries of hydrocarbon reserves by ARC's competitors, the cost of production and political and economic factors and other factors outside of ARC's control.

The crude oil and natural gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies that may increase the viability of reserves or reduce production costs. Other companies may have greater financial, technical, and personnel resources that allow them to implement and benefit from such technological advantages. There can be no assurance that ARC will be able to respond to such competitive pressures and implement such technologies on a timely basis, or at an acceptable cost. If ARC does implement such technologies, there is no assurance that ARC will do so successfully. One or more of the technologies currently utilized by ARC or implemented in the future may become obsolete. If ARC is unable to utilize the most advanced commercially available technology, or is unsuccessful in implementing certain technologies, its business, financial condition and results of operations could also be adversely affected in a material way.

Litigation

ARC may be involved in litigation in the course of its normal operations and the outcome of the litigation may adversely affect ARC and its reputation.

In the normal course of ARC's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings, and legal actions. Potential litigation may develop in relation to personal injuries including resulting from exposure to hazardous substances, property damage, property taxes, land and access rights, environmental issues, including claims relating to contamination or natural resource damages, and contract disputes. The outcome with respect to outstanding, pending, or future proceedings cannot be predicted with certainty and may be determined adversely to ARC and could have a material adverse effect on ARC's assets, liabilities, business, financial condition, and results of operations. Even if ARC prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of Management and key personnel from business operations, which could have an adverse effect on ARC's financial condition. See "Risk Factors - Climate Change".

Indigenous Claims

Indigenous claims may affect ARC.

Indigenous peoples have claimed Indigenous rights and title in portions of western Canada. Any claims made against sections of land where ARC leases the mineral or surface rights may have an adverse effect on ARC’s business, financial condition, and results of operations. Currently ARC is not aware that any claims have been made in respect of its material properties or assets. In addition, the process of addressing such claims, regardless of the outcome, could be expensive and time-consuming and could result in delays in the construction of infrastructure systems and facilities which may have a material adverse effect on ARC’s business and financial results.

Reserve Estimates

ARC’s estimated reserves are based on numerous factors and assumptions which may prove incorrect.

There are numerous uncertainties inherent in estimating reserves and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth in this document are estimates only. Generally, estimates of economically recoverable crude oil and natural gas reserves (including the breakdown of reserves by product type) and the future net cash flows from such estimated reserves are based upon a number of variable factors and assumptions, such as:

- commodity prices;
- historical production from properties;
- production rates;
- ultimate reserve recovery;
- timing and amount of capital expenditures;
- marketability of crude oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable crude oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. ARC's actual production, revenues, taxes, and development and operating expenditures with respect to its reserves will vary from estimates and such variations could be material.

The estimation of proved and probable reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, ARC's independent qualified reserve evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for crude oil and natural gas, curtailments or increases in consumption by crude oil and natural gas purchasers, changes in governmental regulation or taxation, and the impact of inflation on costs.

Actual production and cash flows derived from ARC's crude oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities ARC intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in ARC's reserves since that date.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The anticipated benefits of acquisitions may not be achieved and ARC may dispose of non-core assets for less than their carrying value on the financial statements as a result of weak market conditions.

ARC considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and ARC's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of ARC. The integration of acquired businesses and assets may require substantial management effort, time, and resources diverting management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided by third parties and the resources required to provide such services. In this regard, at times, non-core assets may be disposed of so ARC can focus its efforts and resources more efficiently. Depending on the market conditions for the disposal of such non-core assets, certain non-core assets of ARC may realize less on disposition than their carrying value on the financial statements.

Non-Governmental Organizations

ARC's properties may be subject to action by non-governmental organizations or terrorist attack.

The crude oil and natural gas exploration, development, and operating activities conducted by ARC may, at times, be subject to public opposition. Such public opposition could expose ARC to the risk of higher costs, delays, or even project cancellations due to increased pressure on governments and regulators by special interest groups including Indigenous groups, landowners, environmental interest groups (including those opposed to crude oil and natural gas production operations) and other non-governmental organizations, blockades, legal or regulatory actions or challenges, increased regulatory oversight, reduced support of the federal, provincial or municipal governments, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences, and direct legal challenges, including the possibility of climate-related litigation. There is no guarantee that ARC will be able to satisfy the concerns of the special interest groups and non-governmental organizations and attempting to address such concerns may require ARC to incur significant and unanticipated capital and operating expenditures.

Market Price

The trading price of ARC's common shares is volatile and may remain volatile in the future.

The trading price of the securities of crude oil and natural gas issuers is subject to volatility based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors related to ARC's performance include variations in ARC's financial condition, results of operations, cash flow, and prospects. Factors unrelated to ARC's performance include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices, and/or negative investor sentiment towards the crude oil and natural gas industry. In recent years, the volatility of crude oil and natural gas commodity prices, and the securities of issuers that explore, develop, and produce them, has increased due, in part, to the implementation of computerized trading and the decrease of discretionary commodity trading. Similarly, recent market prices in the securities of crude oil and natural gas producers relative to other industry sectors have led to lower crude oil and natural gas representation in certain key equity market indices. The volatility, trading volume, and market price of crude oil and natural gas issuers have been impacted by increasing investment levels in passive funds that track major indices and only purchase securities included in such indices and subsequently dispose of those securities if they are excluded from such indices, including ARC. In addition, many institutional investors, pension funds and insurance companies, including government-sponsored entities, have implemented investment strategies increasing their investments in low-carbon assets and businesses while decreasing the carbon intensity of their portfolios through, among other measures, divestments. These factors have impacted the volatility and liquidity of certain securities and put downward pressure on the market price of those securities, including the ARC's common shares. Accordingly, the price at which ARC's common shares will trade cannot be accurately predicted and may remain volatile.

Earnings Volatility

Earnings of ARC may fluctuate in each reporting period.

ARC's accounting policies conform to IFRS which constitutes generally accepted accounting principles in Canada. Accounting under IFRS may result in non-cash charges and/or impairments of assets in the financial statements. Similarly, non-cash gains and reversals of asset impairments may also be recorded from time-to-time. Income statement volatility resulting from such non-cash gains and losses under IFRS may be viewed unfavourably by the market and could result in an inability to borrow funds and/or could result in a decline in the price of the ARC's common shares.

For more information as to ARC's current accounting policies and future accounting policy changes, see Note 3 "Summary of Accounting Policies" and Note 4 "Changes in Accounting Policies" in the financial statements and the section entitled "Financial Reporting Update" contained within this MD&A.

Royalty Regimes

Changes to royalty regimes may negatively impact ARC's cash flows.

There can be no assurance that the governments in the jurisdictions in which ARC has assets will not adopt new royalty regimes, or modify the existing royalty regimes, which may have an impact on the economics of ARC's projects. An increase in royalties would reduce ARC's earnings and could make future capital investments, or ARC's operations, less economic.

Derivative Risk Management Contracts

Risk management activities expose ARC to the risk of financial loss and counter-party risk.

From time to time, ARC may enter into physical or financial agreements to receive fixed prices on its crude oil and natural gas production intended to mitigate the effect of commodity price volatility and to support ARC's capital budgeting and expenditure plans. However, to the extent that ARC engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, ARC's risk management arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the contracted volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the arrangement;
- counterparties to the arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts crude oil and natural gas prices.

On the other hand, failure to protect against a decline in commodity prices exposes ARC to reduced liquidity when prices decline. A sustained lower commodity price environment would result in lower realized prices for unprotected volumes and reduce the prices at which ARC would enter into derivative contracts on future volumes. This could make such transactions unattractive, and, as a result, some or all of ARC's production volumes forecasted for 2021 and beyond may not be protected by derivative arrangements.

Similarly, from time to time, ARC may enter into agreements to fix the exchange rate of Canadian to US dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, ARC will not benefit from the fluctuating exchange rate.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

As of December 31, 2020, ARC conducted an internal evaluation of the effectiveness of ARC’s disclosure controls and procedures as defined in Canada by National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings* ("NI 52-109"). Based on that evaluation, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that ARC files or submits under securities legislation is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms therein. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by ARC in the reports that it files or submits under securities legislation is accumulated and communicated to ARC’s Management, including the senior executive and financial officers, as appropriate to allow timely decisions regarding the required disclosure.

Internal Control over Financial Reporting

Internal control over financial reporting is a set of processes designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and facilitate the preparation of relevant, reliable, and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of ARC’s internal control over financial reporting as defined in Canada by NI 52-109. The assessment was based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that ARC’s internal control over financial reporting was effective as of December 31, 2020. No changes were made to ARC’s internal control over financial reporting during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

FINANCIAL REPORTING UPDATE

New Accounting Policies

Beginning January 1, 2020, ARC adopted the amendment to IFRS 3 *Business Combinations.* This amendment narrowed and clarified the definition of a business and permits a simplified assessment to determine whether an acquired set of activities and assets can be recognized as an asset acquisition, rather than as a business combination.

Future Accounting Pronouncements

The International Accounting Standards Board ("IASB") has issued a number of new accounting standards, amendments to accounting standards, and interpretations that are effective for annual periods beginning on or after January 1, 2021. The Company plans to adopt the following pronouncements, however each is not expected to have a material impact. ARC will continue to evaluate the impact of the pronouncements which will be adopted on their respective effective dates.

IBOR Reform and its Effects on Financial Reporting - Phase 2
In August 2020, the IASB issued *Interest Rate Benchmark Reform - Phase 2* which amended requirements in IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases,* relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, and lease liabilities. This will be effective January 1, 2021.

Amendments to IAS 16 *Property, Plant and Equipment*
In May 2020, the IASB issued *Property, Plant and Equipment - Proceeds before Intended Use*, which made amendments to IAS 16 *Property, Plant and Equipment*. Effective January 1, 2022, the amendments prohibit a company from deducting from the cost of PP&E amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 *Provisions Contingent Liabilities and Contingent Assets*
In May 2020, the IASB issued *Onerous Contracts - Cost of Fulfilling a Contract*, which made amendments to IAS 37 *Provisions Contingent Liabilities and Contingent Assets.* Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

Amendments to IAS 1 *Presentation of Financial Statements*
In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. This will be effective on January 1, 2023.

Non-GAAP Measures

Throughout this MD&A and in other materials disclosed by the Company, ARC employs 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.

Free Funds Flow
ARC uses free funds flow as an indicator of the efficiency and liquidity of ARC's business measuring its funds available for capital investment to manage debt levels, pay dividends, and return capital to shareholders. ARC computes free funds flow as funds from operations generated during the period less capital expenditures before undeveloped land purchases and property acquisitions and dispositions. By removing the impact of current period capital expenditures from funds from operations, Management believes this measure provides an indication to investors and shareholders of the funds ARC has available for future capital allocation decisions. Table 26 details the calculation of free funds flow.

Table 26

Free Funds Flow	**December 31, 2020**	December 31, 2019
Cash flow from operating activities	**655.7**	638.8
Net change in other liabilities	**(7.6)**	0.3
Change in non-cash operating working capital	**19.5**	58.3
Funds from operations (1)	**667.6**	697.4
Capital expenditures (2)	**(343.2)**	(691.5)
Free funds flow	**324.4**	5.9

(1) Refer to Note 16 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(2) Prior to expenditures for undeveloped land purchases and property acquisitions and dispositions. Refer to the section entitled "Capital Expenditures, Acquisitions and Dispositions" contained within the MD&A.

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 16 "Capital Management" in the financial statements for additional discussion on net debt.

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

Table 27

ROACE	**2020**	2019	2018	2017	2016	Five Year
Net income (loss)	**(547.2)**	(27.6)	213.8	388.9	201.3	45.8
Add: Interest	**39.3**	41.0	42.6	45.3	50.5	43.7
Add: Total income taxes (recovery)	**(207.7)**	(100.9)	108.0	135.9	41.4	(4.7)
Earnings before interest and taxes	**(715.6)**	(87.5)	364.4	570.1	293.2	84.8
Net debt - beginning of period	**940.2**	702.7	728.0	356.5	985.1	985.1
Shareholders' equity - beginning of period	**3,439.9**	3,675.8	3,668.9	3,484.8	3,388.5	3,388.5
Opening capital employed (A)	**4,380.1**	4,378.5	4,396.9	3,841.3	4,373.6	4,373.6
Net debt - end of period	**742.7**	940.2	702.7	728.0	356.5	742.7
Shareholders' equity - end of period	**2,790.6**	3,439.9	3,675.8	3,668.9	3,484.8	2,790.6
Closing capital employed (B)	**3,533.3**	4,380.1	4,378.5	4,396.9	3,841.3	3,533.3
Average capital employed (A+B)/2	**3,956.7**	4,379.3	4,387.7	4,119.1	4,107.5	3,953.5
ROACE (%)	**(18)**	(2)	8	14	7	2

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 2021 capital program including guidance and planned operations for 2021 as well as expected trends during the course of the year with respect to production and expenses under the heading "Annual Guidance", ARC's anticipated priorities in 2021 including advancing the Company's ESG leadership and performance and upholding ARC's safety culture under the heading "Annual Guidance", ARC's view as to the range of expected future payments under the RSU and PSU Plans and the vesting schedule of the RSUs and PSUs granted under such plans under the heading "Restricted Share Unit and Performance Share Unit Plans", the anticipated redemption or cancellation by ARC of restricted shares and accrued dividends subject to forfeiture under ARC's LTRSA PLan under the heading "Long-term Restricted Share Award Plan", ARCs anticipated income tax expense as a result of the expectation that ARC will have a higher taxable income under the heading "Taxes", the expected decline of ARC's income tax pools under the heading "Taxes", ARC's plans in relation to future dividend levels under the heading "Dividends", plans to fund dividend payments, current period reclamation and capital expenditures necessary for the replacement of production declines using only funds from operations and to fund profitable growth activities with a combination of funds from operations and other sources of capital, ARC's ability to preserve its balance sheet for the long term and ARC's 2021 capital program under the heading "Capitalization, Financial Resources and Liquidity", estimated ARO including assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred and annual inflation factors under the heading "Asset Retirement Obligation", ARC's potential obligation associated with the future decommissioning of the Outstanding Assets and the anticipated outcome of the counterclaim in respect of the ACCEL PSA under the heading "ACCEL Canada Holdings Limited", the expectation that the impact of litigation and claims arising in the normal course of business on ARC's results of operations or cash flows will not be material under the heading "Contractual Obligations and Commitments", and the potential impact of COVID-19 on commodity prices, ARC's business, and the global economy under the heading "COVID-19 and Its Effect on the Global Economy".

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 reserve 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; public health crises, such as the COVID-19 pandemic, and any related actions taken by governments and businesses; 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 volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed herein under the heading "Risk Factors" and from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in this MD&A and in ARC's most recent AIF).

The internal projections, expectations or beliefs are based on the 2021 capital budget which is subject to change in light of ongoing results, prevailing economic conditions, 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 ARC does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws**.**

ANNUAL HISTORICAL REVIEW

For the year ended December 31					
($ millions, except per share amounts)	**2020**	2019	2018	2017	2016
FINANCIAL					
Commodity sales from production (1)	**1,135.5**	1,189.5	1,362.2	1,215.2	1,063.5
Per share, basic (1)	**3.21**	3.37	3.85	3.44	3.03
Per share, diluted (1)	**3.21**	3.37	3.85	3.43	3.03
Net income (loss)	**(547.2)**	(27.6)	213.8	388.9	201.3
Per share, basic	**(1.55)**	(0.08)	0.60	1.10	0.57
Per share, diluted	**(1.55)**	(0.08)	0.60	1.10	0.57
Funds from operations (2)	**667.6**	697.4	819.0	731.9	633.3
Per share, basic	**1.89**	1.97	2.32	2.07	1.80
Per share, diluted	**1.89**	1.97	2.31	2.07	1.80
Dividends declared	**106.3**	212.4	212.3	212.3	228.2
Per share (3)	**0.30**	0.60	0.60	0.60	0.65
Total assets	**4,954.2**	5,778.3	6,016.2	6,224.0	5,990.5
Total liabilities	**2,163.6**	2,338.4	2,340.4	2,555.1	2,505.7
Net debt outstanding (4)	**742.7**	940.2	702.7	728.0	356.5
Weighted average shares, basic	**353.4**	353.4	353.5	353.4	350.9
Weighted average shares, diluted	**353.4**	353.4	353.8	353.9	351.3
Shares outstanding, end of period	**353.4**	353.4	353.4	353.5	353.3
CAPITAL EXPENDITURES					
Geological and geophysical	**14.8**	19.3	10.8	9.5	12.4
Drilling and completions	**272.0**	442.7	483.6	640.3	286.8
Plant and facilities	**43.1**	208.0	140.7	137.5	115.5
Maintenance and Optimization	**9.4**	18.5	41.7	36.5	35.3
Corporate assets	**3.9**	3.0	2.6	5.9	3.4
Total capital expenditures	**343.2**	691.5	679.4	829.7	453.4
Undeveloped land	**—**	0.7	0.9	97.6	2.7
Total capital expenditures, including undeveloped land purchases	**343.2**	692.2	680.3	927.3	456.1
Acquisitions	**64.6**	0.2	0.2	2.5	172.9
Dispositions	**(66.2)**	(5.0)	(196.1)	—	(705.4)
Total capital expenditures, land purchases, and net acquisitions and dispositions	**341.6**	687.4	484.4	929.8	(76.4)
OPERATING					
Production					
Crude oil (bbl/d)	**15,726**	17,591	23,460	24,380	31,510
Condensate (bbl/d)	**13,519**	10,066	7,281	5,650	3,626
Crude oil and condensate (bbl/d)	**29,245**	27,657	30,741	30,030	35,136
Natural gas (MMcf/d)	**739.2**	623.3	570.2	525.8	475.6
NGLs (bbl/d)	**9,112**	7,578	6,955	5,273	4,274
Total (boe/d)	**161,564**	139,126	132,724	122,937	118,671
Average realized prices, prior to risk management contracts					
Crude oil ($/bbl)	**42.62**	66.01	68.58	60.66	50.34
Condensate ($/bbl)	**47.62**	67.61	75.56	62.02	50.98
Natural gas ($/Mcf)	**2.26**	2.12	2.37	2.56	2.23
NGLs ($/bbl)	**12.69**	12.28	32.22	29.57	13.85
Oil equivalent ($/boe)	**19.20**	23.42	28.12	27.08	24.35
RESERVES (company gross) (5)					
Proved plus probable reserves					
Crude oil and liquids (Mbbl) (6)	**212,661**	216,613	205,577	203,210	195,500
Natural gas (Bcf)	**4,297.9**	4,159.9	4,039.8	3,797.4	3,247.4
Total (Mboe)	**928,984**	909,930	878,875	836,103	736,733
TRADING STATISTICS ($, based on intra-day trading) (7)					
High	**8.39**	10.49	15.90	23.70	24.94
Low	**2.42**	5.37	7.38	13.64	14.43
Close	**6.00**	8.18	8.10	14.75	23.11
Average daily volume (thousands)	**2,082**	2,242	1,480	1,124	986

(1) Comparatives prior to 2017 have not been restated for IFRS 15 *"Revenue from Contracts with Customers"*.
(2) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(3) Dividends per share are based on the number of shares outstanding at each dividend record date.
(4) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(5) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests.
(6) Is inclusive of crude oil, condensate, and NGLs.
(7) Trading statistics denote trading activity on the TSX only.

QUARTERLY HISTORICAL REVIEW

($ millions, except per share amounts)	2020				2019			
FINANCIAL	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Commodity sales from production	**363.1**	285.0	217.9	269.5	325.1	253.7	282.9	327.8
Per share, basic	**1.03**	0.81	0.62	0.76	0.92	0.72	0.80	0.93
Per share, diluted	**1.02**	0.81	0.62	0.76	0.92	0.72	0.80	0.93
Net income (loss)	**120.8**	(66.1)	(43.5)	(558.4)	(10.2)	(57.2)	94.4	(54.6)
Per share, basic	**0.34**	(0.19)	(0.12)	(1.58)	(0.03)	(0.16)	0.27	(0.15)
Per share, diluted	**0.34**	(0.19)	(0.12)	(1.58)	(0.03)	(0.16)	0.27	(0.15)
Funds from operations (1)	**212.0**	144.6	150.2	160.8	172.8	145.4	193.0	186.2
Per share, basic	**0.60**	0.41	0.42	0.46	0.49	0.41	0.54	0.53
Per share, diluted	**0.60**	0.41	0.42	0.46	0.49	0.41	0.54	0.53
Dividends declared	**21.3**	21.2	21.3	42.5	53.1	53.1	53.1	53.1
Per share (2)	**0.06**	0.06	0.06	0.12	0.15	0.15	0.15	0.15
Total assets	**4,954.2**	4,982.9	5,136.8	5,172.6	5,778.3	5,819.2	5,878.9	5,952.4
Total liabilities	**2,163.6**	2,292.7	2,360.3	2,332.4	2,338.4	2,317.1	2,267.7	2,383.6
Net debt outstanding (3)	**742.7**	867.8	961.1	1,079.7	940.2	945.5	829.2	796.3
Weighted average shares, basic	**353.4**	353.4	353.4	353.4	353.4	353.4	353.4	353.4
Weighted average shares, diluted	**354.3**	353.4	353.4	353.4	353.4	353.4	353.9	353.4
Shares outstanding, end of period	**353.4**	353.4	353.4	353.4	353.4	353.4	353.4	353.4
CAPITAL EXPENDITURES								
Geological and geophysical	**2.5**	2.4	3.4	6.5	0.9	1.1	0.3	9.3
Drilling and completions	**68.1**	40.8	31.8	131.3	86.7	101.0	110.1	144.9
Plant and facilities	**3.1**	5.9	8.3	25.8	47.5	51.1	56.2	53.3
Maintenance and optimization	**1.5**	2.1	1.4	4.4	3.0	6.2	5.8	3.4
Corporate assets	**1.5**	1.4	(0.8)	1.8	3.6	2.5	1.8	2.8
Total capital expenditures	**76.7**	52.6	44.1	169.8	141.7	161.9	174.2	213.7
Undeveloped land	**—**	—	—	—	—	0.7	—	—
Total capital expenditures, including undeveloped land purchases	**76.7**	52.6	44.1	169.8	141.7	162.6	174.2	213.7
Acquisitions	**61.6**	—	0.5	2.5	—	—	—	0.2
Dispositions	**(63.2)**	—	(0.6)	(2.4)	(1.1)	(2.8)	(0.9)	(0.2)
Total capital expenditures, land purchases, and net acquisitions and dispositions	**75.1**	52.6	44.0	169.9	140.6	159.8	173.3	213.7
OPERATING								
Production								
Crude oil (bbl/d)	**15,554**	15,373	14,987	16,997	17,083	16,782	18,272	18,251
Condensate (bbl/d)	**14,715**	14,831	13,239	11,262	10,937	10,846	10,230	8,210
Crude oil and condensate (bbl/d)	**30,269**	30,204	28,226	28,259	28,020	27,628	28,502	26,461
Natural gas (MMcf/d)	**783.1**	708.2	773.3	692.2	669.0	595.4	596.4	632.5
NGLs (bbl/d)	**8,678**	10,208	9,405	8,152	8,123	7,952	7,041	7,183
Total (boe/d)	**169,468**	158,444	166,510	151,783	147,650	134,813	134,938	139,054
Average realized prices, prior to risk management contracts								
Crude oil ($/bbl)	**48.14**	45.45	25.88	49.69	65.11	64.79	70.26	63.72
Condensate ($/bbl)	**53.55**	48.49	31.54	57.52	68.08	65.70	71.38	64.81
Natural gas ($/Mcf)	**2.88**	2.16	1.92	2.05	2.36	1.54	1.74	2.79
NGLs ($/bbl)	**18.03**	14.85	10.84	6.36	11.69	5.25	7.71	25.43
Oil equivalent ($/boe)	**23.29**	19.55	14.38	19.52	23.93	20.46	23.04	26.20
TRADING STATISTICS (4)								
($, based on intra-day trading)								
High	**7.20**	6.94	6.12	8.39	8.26	7.85	9.61	10.49
Low	**5.66**	4.54	3.64	2.42	5.40	5.37	6.37	7.82
Close	**6.00**	5.95	4.56	4.05	8.18	6.31	6.41	9.12
Average daily volume (thousands)	**1,582**	1,363	2,177	3,207	2,583	1,838	2,255	2,291

(1) Refer to Note 16 "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 16 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(4) Trading statistics denote trading activity on the TSX only.

Management's Report

Management's Responsibility for the Financial Statements

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

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

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

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

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable, and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the internal control over financial reporting for ARC Resources Ltd. The assessment was based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2020.

Management does not believe that process changes adopted in connection with the Novel Coronavirus COVID-19 have materially affected internal controls over financial reporting.

Terry M. Anderson	Kristen J. Bibby
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer

Calgary, Alberta

February 10, 2021

Independent auditor's report

To the Shareholders of ARC Resources Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ARC Resources Ltd. and its subsidiary (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of crude oil, condensate, natural gas and natural gas liquids reserves on net Development and Production (D&P) assets *Refer to note 3 − Summary of accounting policies, note 5 − Management judgments and estimation uncertainty, note 9 − Property, plant and equipment and note 11 − Impairment to the consolidated financial statements for management's disclosures on D&P, impairment and depletion, depreciation and amortization (DD&A).* The Company has $4,266.6 million of D&P assets as at December 31, 2020. DD&A expense was $511.8 million for the year then ended. D&P assets are depleted using the unit-of-production method based on total estimated proved plus probable reserves, total capitalized costs, estimated future development costs including future estimated asset retirement costs and volumes produced. The recoverability of D&P asset carrying values are assessed at a cash generating unit (CGU) level. At each reporting period, management reviews its CGUs for indicators of potential impairment. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount. Management used a fair value less cost of disposal (FVLCD) model to determine the recoverable amount of the CGUs, which is based on the net present value of the after-tax cash flows of proved and probable crude oil, condensate, natural gas and natural gas liquids reserves. The proved and probable crude oil, condensate, natural gas and natural gas liquids reserves are prepared by the Company's independent petroleum engineers (management's experts). As at March 31, 2020, impairment tests over all of the Company's CGUs were conducted. Based on the results of these tests, the Company recognized an impairment charge of its Northern Alberta CGU in the amount of $740.0 million.	Our approach to addressing the matter included the following procedures, among others: • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the crude oil, condensate, natural gas and natural gas liquids reserves used to determine the DD&A expense and the recoverable amount of the Company's CGUs. As a basis for using this work, management's experts' competence, capability and objectivity were evaluated, their work performed was understood, and the appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the methods and assumptions. • Tested how management determined the recoverable amount of the CGUs and DD&A expense, which included the following: − Evaluated the appropriateness of the methods used by management in making these estimates. − Tested the data used in determining these estimates. − Evaluated the reasonableness of significant assumptions used in developing the underlying estimates: ◦ Future production, capital expenditures and future production costs by considering the past performance of the Company, and whether they were consistent with evidence obtained in other areas of the audit. ◦ Forward price estimates of crude oil and natural gas by comparing those forecasts with other reputable third party industry forecasts.

Key audit matter	How our audit addressed the key audit matter
As at December 31, 2020, management evaluated its D&P assets for any indicators of impairment and concluded that no impairment indicators exist. Significant assumptions developed by management used to determine the recoverable amount of the CGUs include forward price estimates of crude oil and natural gas, volume of reserves, future production costs, capital expenditures and reserve life and the discount rate. We determined that this is a key audit matter due to (i) the significant judgments made by management, including the use of management's experts, when developing the expected after-tax future cash flows and estimates of crude oil, condensate, natural gas and natural gas liquids reserves, which include forward price estimates of crude oil and natural gas, volume of reserves, future production costs, capital expenditures and discount rate; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	◦ The discount rate, through the assistance of professionals with specialized skill and knowledge in the field of valuation. • Recalculated the unit-of-production rates used to calculate DD&A expense for each CGU.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 10, 2021

ARC RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS

As at

(Cdn$ millions)	**December 31, 2020**	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**0.4**	8.5
Inventory	**1.6**	—
Accounts receivable (Note 7)	**145.9**	134.4
Prepaid expense	**8.4**	8.9
Risk management contracts (Note 17)	**6.0**	41.4
	162.3	193.2
Risk management contracts (Note 17)	**—**	4.2
Exploration and evaluation assets (Note 8)	**214.9**	219.6
Property, plant and equipment (Notes 9 and 11)	**4,284.3**	5,074.3
Right-of-use assets (Note 10)	**44.5**	38.8
Goodwill (Note 11)	**248.2**	248.2
Total assets	**4,954.2**	5,778.3
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**125.0**	150.5
Current portion of lease obligations (Note 13)	**15.3**	16.3
Current portion of long-term debt (Note 14)	**146.7**	148.9
Current portion of asset retirement obligation (Note 15)	**19.0**	25.5
Dividends payable (Note 19)	**21.3**	17.7
Risk management contracts (Note 17)	**40.4**	6.1
	367.7	365.0
Risk management contracts (Note 17)	**44.4**	28.7
Long-term portion of lease obligations (Note 13)	**33.9**	29.9
Long-term debt (Note 14)	**555.2**	728.7
Long-term incentive compensation liability (Note 21)	**32.0**	24.5
Other deferred liabilities	**16.3**	5.1
Asset retirement obligation (Note 15)	**522.7**	384.1
Deferred taxes (Note 18)	**591.4**	772.4
Total liabilities	**2,163.6**	2,338.4
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 19)	**4,658.2**	4,658.3
Contributed surplus	**36.5**	32.2
Deficit	**(1,904.1)**	(1,250.6)
Total shareholders' equity	**2,790.6**	3,439.9
Total liabilities and shareholders' equity	**4,954.2**	5,778.3
Commitments and contingencies (Note 22)		

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Kathleen O'Neill

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

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

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31

(Cdn$ millions, except per share amounts)	**2020**	2019
Commodity sales from production (Note 20)	**1,135.5**	1,189.5
Royalties	**(47.5)**	(70.5)
Sales of commodities purchased from third parties	**37.7**	95.0
Revenue from commodity sales	**1,125.7**	1,214.0
Interest income	**0.8**	4.8
Other income	**8.7**	8.3
Loss on risk management contracts (Note 17)	**(15.4)**	(175.9)
Total revenue, interest and other income and loss on risk management contracts	**1,119.8**	1,051.2
Commodities purchased from third parties	**37.8**	95.5
Operating	**233.3**	252.5
Transportation	**176.2**	149.4
Exploration and evaluation (Note 8)	**7.1**	—
General and administrative	**91.9**	84.2
Interest and financing	**45.6**	48.3
Impairment of financial assets (Note 7)	**12.9**	47.8
Depletion, depreciation, amortization and impairment (Notes 9, 10 and 11)	**1,273.9**	539.2
Gain on foreign exchange	**(4.0)**	(35.5)
Gain on disposal of crude oil and natural gas properties	**—**	(1.7)
Total expenses	**1,874.7**	1,179.7
Net loss before income taxes	**(754.9)**	(128.5)
Recovery of income taxes (Note 18)		
Current	**(26.8)**	(14.0)
Deferred	**(180.9)**	(86.9)
Total income tax recovery	**(207.7)**	(100.9)
Net loss and comprehensive loss	**(547.2)**	(27.6)
Net loss per share (Note 19)		
Basic	**(1.55)**	(0.08)
Diluted	**(1.55)**	(0.08)

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

(Cdn$ millions)	Shareholders' Capital (Note 19)	Contributed Surplus	Deficit	Total Shareholders' Equity
January 1, 2019	4,658.5	27.2	(1,010.6)	3,675.1
Comprehensive loss	—	—	(27.6)	(27.6)
Recognized under share-based compensation plans (Note 21)	(0.2)	5.0	—	4.8
Dividends declared (Note 19)	—	—	(212.4)	(212.4)
December 31, 2019	4,658.3	32.2	(1,250.6)	3,439.9
Comprehensive loss	**—**	**—**	**(547.2)**	**(547.2)**
Recognized under share-based compensation plans (Note 21)	**(0.1)**	**4.3**	**—**	**4.2**
Dividends declared (Note 19)	**—**	**—**	**(106.3)**	**(106.3)**
December 31, 2020	**4,658.2**	**36.5**	**(1,904.1)**	**2,790.6**

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(Cdn$ millions)	**2020**	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	**(547.2)**	(27.6)
Add items not involving cash:		
Unrealized loss on risk management contracts	**89.6**	255.4
Accretion of asset retirement obligation (Note 15)	**6.3**	7.3
Impairment of financial assets (Note 7)	**12.9**	47.8
Depletion, depreciation, amortization and impairment (Notes 9, 10 and 11)	**1,273.9**	539.2
Exploration and evaluation (Note 8)	**7.1**	—
Unrealized loss (gain) on foreign exchange	**2.1**	(40.3)
Gain on disposal of crude oil and natural gas properties	**—**	(1.7)
Deferred taxes (Note 18)	**(180.9)**	(86.9)
Other (Note 24)	**3.8**	4.2
Net change in other liabilities (Note 24)	**7.6**	(0.3)
Change in non-cash working capital (Note 24)	**(19.5)**	(58.3)
Cash flow from operating activities	**655.7**	638.8
CASH FLOW USED IN FINANCING ACTIVITIES		
Draw of long-term debt under revolving credit facilities	**2,209.2**	616.3
Repayment of long-term debt	**(2,387.9)**	(606.8)
Repayment of principal relating to lease obligations	**(18.1)**	(13.7)
Cash dividends paid	**(102.7)**	(212.4)
Cash flow used in financing activities	**(299.5)**	(216.6)
CASH FLOW USED IN INVESTING ACTIVITIES		
Acquisition of crude oil and natural gas properties	**(0.2)**	(0.2)
Disposal of crude oil and natural gas properties	**1.8**	5.0
Property, plant and equipment development expenditures (Note 9)	**(334.6)**	(683.4)
Exploration and evaluation asset expenditures (Note 8)	**(0.7)**	(2.1)
Change in non-cash working capital (Note 24)	**(30.6)**	7.4
Cash flow used in investing activities	**(364.3)**	(673.3)
DECREASE IN CASH AND CASH EQUIVALENTS	**(8.1)**	(251.1)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**8.5**	259.6
CASH AND CASH EQUIVALENTS, END OF YEAR	**0.4**	8.5
The following are included in cash flow from operating activities:		
Income taxes paid (received) in cash	**(24.8)**	20.6
Interest paid in cash	**41.0**	42.9

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

1. STRUCTURE OF THE BUSINESS

The principal undertakings of ARC Resources Ltd. and any subsidiaries ("ARC" or the "Company") are to carry on the business of acquiring, developing, and holding interests in crude oil 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 ("TSX") under the symbol ARX.

2. BASIS OF PREPARATION

These consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") up to February 10, 2021. 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 those items that are presented at fair value as detailed in the accounting policies disclosed in Note 3 "Summary of Accounting Policies".

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

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

These financial statements were authorized for issue by ARC's Board of Directors (the "Board") on February 10, 2021.

3. SUMMARY OF ACCOUNTING POLICIES

Fair Value Measurement

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date.

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

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

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

Financial Instruments

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

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

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

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

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

The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to ARC and the cash flows the Company expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized as an impairment of financial assets in the statements of income.

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

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

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

Cash and Cash Equivalents

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

Inventories

Product inventories are valued at the lower of cost or net realizable value on a weighted average cost basis. The cost of inventory includes all costs incurred in the normal course of business to bring each product to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any expected selling costs. If the carrying amount exceeds net realizable value, an impairment is recognized. The impairment may be reversed in a subsequent period if circumstances which caused it no longer exist and the inventory is still on hand.

Emission credits that are held for sale in the ordinary course of business are recognized as inventory and are measured at the lower of cost or net realizable value. The cost of emission credits are those required to register and make available for sale in a liquid market. Similar to product inventory, if the carrying amount exceeds net realizable value, an impairment is recognized.

Exploration and Evaluation ("E&E") Assets

E&E costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the assignment of a sufficient amount of economically recoverable crude oil, condensate, natural gas, and natural gas liquids reserves ("reserves") relative to the estimated potential resources available and available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, and the estimate of any related asset retirement costs. Costs incurred prior to obtaining the legal right to explore are expensed as incurred. Assets classified as E&E may have sales of crude oil and natural gas products associated with production from test wells. These operating results are recognized in the statements of income. A depletion charge, recognized as E&E expense, is recognized on these wells. Non-producing assets classified as E&E are not depleted.

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

Property, Plant and Equipment

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

Business Combinations and Goodwill

ARC accounts for business combinations using the acquisition method whereby identifiable assets and liabilities assumed are recognized and measured at their fair value at the date of the acquisition. Any excess of purchase price over the fair value of net assets is recognized as goodwill. Subsequent measurement of goodwill is stated at cost less any accumulated impairment charges.

Impairment of Non-Financial Assets

PP&E
ARC's PP&E is grouped into cash-generating units ("CGUs") for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company.

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

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

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

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

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

Lease Arrangements

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

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

ROU assets and lease obligations are remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase extension or termination option.

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

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

As lessor, ARC 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 current lessor arrangements are classified as operating leases and lease payments received are recognized in other income.

Capitalization of Exploration and Development Costs

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

Assets Held for Sale

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

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

Dispositions

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

Exchanges of assets are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured, in which case the assets are measured at the carrying value of the asset being disposed.

Asset Retirement Obligation ("ARO")

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

Provisions and Contingent Liabilities

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

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

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

Revenue Recognition

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

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

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

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

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

ARC also generates lessor income, income from the sale of emission credits, and income from gathering and processing third-party products through the Company's infrastructure. Collectively, these are recognized as other income in the statements of income.

Depletion, Depreciation and Amortization

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

- total estimated proved plus probable reserves calculated in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101");
- total capitalized costs plus estimated future development costs of proved plus probable reserves, including future estimated asset retirement costs; and
- relative volumes of reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

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

Share-Based Compensation Plans

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

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

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

Income Taxes

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

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

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

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

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

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

Government Grants

Government grants are recognized when there is reasonable assurance that ARC will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the statements of income. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

Joint Arrangements

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

Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive common shares related to the company's share-based compensation plans which could have a dilutive impact on net income during the year. The number of shares included is computed using the treasury stock method, whereby the common shares are assumed to be purchased at the average market price.

Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the period average rates of exchange. Translation gains and losses are recognized in the statements of income in the period in which they arise.

ARC's functional and presentation currency is Canadian dollars.

4. CHANGES IN ACCOUNTING POLICIES

New Accounting Policies

Beginning January 1, 2020, ARC adopted the amendment to IFRS 3 *Business Combinations.* This amendment narrowed and clarified the definition of a business and permits a simplified assessment to determine whether an acquired set of activities and assets can be recognized as an asset acquisition, rather than as a business combination.

Future Accounting Pronouncements

The IASB has issued a number of new accounting standards, amendments to accounting standards, and interpretations that are effective for annual periods beginning on or after January 1, 2021. The Company plans to adopt the following pronouncements, however each is not expected to have a material impact. ARC will continue to evaluate the impact of the pronouncements which will be adopted on their respective effective dates.

IBOR Reform and its Effects on Financial Reporting - Phase 2
In August 2020, the IASB issued *Interest Rate Benchmark Reform - Phase 2* which amended requirements in IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases,* relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, and lease liabilities. This will be effective January 1, 2021.

Amendments to IAS 16 *Property, Plant and Equipment*
In May 2020, the IASB issued *Property, Plant and Equipment - Proceeds before Intended Use*, which made amendments to IAS 16 *Property, Plant and Equipment*. Effective January 1, 2022, the amendments prohibit a company from deducting from the cost of PP&E amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 *Provisions Contingent Liabilities and Contingent Assets*
In May 2020, the IASB issued *Onerous Contracts - Cost of Fulfilling a Contract*, which made amendments to IAS 37 *Provisions Contingent Liabilities and Contingent Assets.* Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

Amendments to IAS 1 *Presentation of Financial Statements*
In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. This will be effective on January 1, 2023.

5. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

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

Crude Oil, Condensate, Natural Gas and Natural Gas Liquids Reserves

There are a number of inherent uncertainties associated with estimating reserves. Reserve estimates are based on engineering data, forward price estimates, expected future rates of production and the timing and amount of future development expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2020 and 2019, which could differ significantly from other points in time throughout the year, or future periods. Reserves have been evaluated at December 31, 2020 and 2019 by ARC's independent qualified reserve evaluator.

Determination of Cash-Generating Units

Determination of what constitutes a CGU is subject to Management judgment. The recoverability of development and production asset carrying values are assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein. Geological formation, product type, geographic location, and internal management are key factors considered when grouping ARC's crude oil and natural gas assets into CGUs.

Recoverability of Asset Carrying Values

Management applies judgment in assessing the existence of indicators of impairment and reversal of impairment based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. The key input estimates ARC applies in determining an acceptable range of recoverable amounts include forward price estimates of crude oil and natural gas, volume of reserves and associated assumptions, including future production costs, required capital expenditures and reserve life, and discount rate.

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

- The net present value of the after-tax cash flows from proved plus probable reserves of each CGU based on reserves estimated by ARC's independent qualified reserve evaluator. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years.
- The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at period end.
- Data pertaining to ongoing and completed transactions within the industry on assets with similar geological and geographic characteristics within the relevant CGU.

Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, future production costs, future development expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised. Additional factors could impact the following key input estimates:

- Crude oil and natural gas prices – Forward price estimates of crude oil and natural gas prices are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices may be impacted by multiple factors including a global pandemic or natural disaster and the respective responses from various levels of government, supply and demand fundamentals, inventory levels, exchange rates, weather, economic, and geopolitical factors.
- Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

Depletion of Crude Oil and Natural Gas Assets

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

Crude Oil and Natural Gas Investments

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

E&E Assets

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

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

Lease Arrangements

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

Provisions and Contingent Liabilities

The determination of provisions and disclosure of contingent liabilities involves Management judgments about the probability of outcomes of future events and estimates on timing and amount of expected future cash flows. Such disclosure could relate to predicted outcomes of ongoing legal matters, ongoing or completed asset dispositions, and current regulatory processes.

Asset Retirement Obligation

The provision for site restoration and abandonment for ARC's PP&E assets is based on estimated inflation and discount rates, current legal requirements, technology, cost of services, and expected plans for remediation expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery, and analysis of site conditions and changes in technology.

Financial Instruments

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

Additionally, estimates must be made with respect to impairment of financial assets and the provision of ECL recognized. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, any applicable public credit ratings, evidence of a debtor’s present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will, or has entered bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable.

Share-Based Compensation

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

Compensation expense recognized for ARC’s Share Option Plan is based on a binomial-lattice option pricing model. The inputs to this model, including dividend yield, expected volatility, forfeitures, and discount rates, rely on Management judgment. Forfeitures are estimated through the vesting period based on past experience and future expectations, and adjusted upon actual forfeitures.

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

Income Taxes

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

6. NOVEL CORONAVIRUS COVID-19 ("COVID-19")

In March 2020, the World Health Organization declared COVID-19 a global pandemic; prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. At the same time, the Organization of Petroleum Exporting Countries ("OPEC"), and certain other countries, increased the planned supply of crude oil in an attempt to trigger a price war over market share. The sudden decrease in global crude oil demand due to COVID-19 coupled with a planned increase in supply significantly reduced commodity prices.

In subsequent months, agreements have been made between OPEC, Russia, and other oil-producing countries around the world that have reduced global crude oil production and brought the oversupply closer into balance with demand. Crude oil prices have partially recovered from the historic lows observed earlier in 2020, but price support from future demand remains uncertain. Efforts to re-open local economies and international borders around the globe resulted in varying degrees of virus outbreak. Many countries have now re-imposed restrictions as regions experience a second wave of COVID-19, often with higher rates of infection than the first wave. Vaccination programs have begun around the world, however the pace with which vaccines are administered is dependent on the supply access and logistics organized by individual nations.

In addition to the impact on commodity prices and commodity sales from production amounts, the effects of COVID-19 have created other uncertainties in the crude oil and natural gas industry, including increased counterparty credit risk and decreased valuation of long-lived crude oil and natural gas assets and goodwill. At December 31, 2020, Management has incorporated the anticipated impacts of COVID-19 in its estimates and judgments in preparation of these financial statements.

7. FINANCIAL ASSETS AND CREDIT RISK

Credit risk is the risk of financial loss to ARC if a joint interest partner or counterparty to a product sales contract, financial instrument, or other financial transaction fails to meet its contractual obligations. At December 31, 2020, ARC was exposed to credit risk with respect to its accounts receivable and risk management contracts.

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

ARC manages its credit risk as follows:

- by entering into sales contracts with only established, credit-worthy counterparties as verified by a third-party rating agency, through internal evaluation or by requiring security such as letters of credit or parental guarantees;
- by maintaining a credit policy that limits excessive exposure to any one counterparty at a given time;
- by restricting cash equivalent investments and risk management transactions to counterparties that are not less than investment grade; and
- by subjecting all counterparties to regular credit reviews.

The majority of credit exposure on accounts receivable at December 31, 2020 pertains to accrued commodity sales of December 2020 production volumes. ARC transacts with a number of crude oil and natural gas marketing companies and commodity end users ("commodity purchasers"), substantially all of which have investment-grade credit rating. Commodity purchasers and marketing companies typically settle their obligations to ARC by the 25th day of the month following production. Joint interest receivables are typically collected within one to three months following production.

For year ended December 31, 2020, ARC did not have any single external customer that constituted more than 10 per cent of commodity sales from production. At December 31, 2019, ARC had one external customer that constituted more than 10 per cent of commodity sales of production, with sales of $118.6 million.

During the year ended December 31, 2020, global events had, and are expected to continue to have, a significant impact on companies and their credit risk. Refer to Note 6 "Novel Coronavirus COVID-19". ARC has incorporated these factors into its assessment of ECL at December 31, 2020.

The following table details the composition of ARC's accounts receivable at December 31, 2020 and December 31, 2019:

Accounts Receivable Composition (1)	**December 31, 2020**	December 31, 2019
Commodity sales	**135.6**	115.6
Deferred consideration	**—**	10.0
Joint interest and other	**10.3**	8.8
Balance	**145.9**	134.4

(1) Net of provision for ECL.

The total ECL provision recognized in ARC's accounts receivable balance at December 31, 2020 was $60.5 million ($47.8 million at December 31, 2019).

Commodity Sales
Approximately 84 per cent of ARC's commodity sales accounts receivable at December 31, 2020 (85 per cent at December 31, 2019) were with customers who were considered to be investment-grade and approximately 10 per cent (15 per cent at December 31, 2019) were with customers who are not considered to be investment-grade, but for which ARC held security. The remaining six per cent of commodity sales accounts receivable were with non-investment grade customers for which ARC holds no security. At December 31, 2020, for accounts receivable of this type, ARC has recorded a provision of $2.0 million for its 12-month ECL (nominal at December 31, 2019).

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

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

Creditors Arrangement Act. As a result of these proceedings, ARC remains contractually entitled to enforce its rights to payment, but proceedings against ACCEL in this regard are now stayed by order of the courts.

The deferred consideration amount matured on January 2, 2020. The ACCEL PSA requires the unpaid deferred consideration and accrued interest, if not paid in cash at maturity, to convert into a gross override royalty ("GOR"). On March 6, 2020, the Court of Queen's Bench of Alberta determined that the GOR was not an interest in land and that it is subordinated to other security interests. ARC did not appeal this judgment.

Following this decision, ARC re-estimated the likelihood of collection as zero per cent and recognized an impairment charge of $10.2 million during the three months ended March 31, 2020 with respect to the deferred consideration and accrued interest. This charge was in addition to impairment charges previously recognized during the year ended December 31, 2019 of $32.7 million in respect of this deferred consideration and accrued interest, for a total provision of $42.9 million recognized at December 31, 2020 ($32.7 million at December 31, 2019).

Joint Interest and Other

Included in the balance of joint interest and other accounts receivable at December 31, 2020 is $8.1 million ($nil at December 31, 2019) related to the settlement of risk management contracts at period end.

In addition to the deferred consideration amount, ARC has also recognized in its joint interest and other accounts receivable amounts owing from ACCEL related to post-closing adjustments and cash payments made on their behalf following the transaction, and costs incurred while ARC continued to act as operator of the disposed assets. At December 31, 2020, the ECL provision recognized in respect of these amounts is $15.0 million ($15.0 million at December 31, 2019), which comprises the full balance of these accounts receivable.

At December 31, 2020, ARC has recognized a provision for ECL of $15.6 million in respect of its joint interest and other accounts receivable ($15.1 million at December 31, 2019).

The aging of ARC's accounts receivable at December 31, 2020 and December 31, 2019 is as follows:

Accounts Receivable Aging	**December 31, 2020**	December 31, 2019
Current (less than 30 days)	**141.3**	122.8
31 - 60 days	**0.9**	1.0
61 - 90 days	**0.4**	0.6
Past due (more than 90 days)	**3.3**	10.0
Balance	**145.9**	134.4

Maximum credit risk is calculated as the total recorded value, before an ECL provision, of accounts receivable and risk management contracts at the balance sheet date. For additional information on financial instruments, refer to Note 17 "Financial Instruments and Market Risk Management".

8. EXPLORATION AND EVALUATION ASSETS

Carrying Amount	
Balance, January 1, 2019	217.1
Additions	2.1
Acquisitions	0.2
Change in asset retirement cost	0.2
Balance, December 31, 2019	219.6
Additions	**0.7**
Acquisitions	**0.2**
E&E expense	**(7.1)**
Change in asset retirement cost	**1.5**
Balance, December 31, 2020	**214.9**

For the year ended December 31, 2020, ARC recognized $7.1 million of E&E expense as Management decided to discontinue a project previously classified as E&E.

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Development and Production Assets	Corporate Assets	Total
Balance, January 1, 2019	8,461.6	75.8	8,537.4
Additions	687.1	2.0	689.1
Change in asset retirement cost	77.6	—	77.6
Assets reclassified as held for sale and disposed in period	(71.6)	—	(71.6)
Reclassification of lease payments, net of capitalized depreciation	1.0	—	1.0
Balance, December 31, 2019	9,155.7	77.8	9,233.5
Additions	**341.9**	**3.0**	**344.9**
Acquisitions	**64.4**	**—**	**64.4**
Change in asset retirement cost	**148.4**	**—**	**148.4**
Assets reclassified as held for sale and disposed in period	**(77.9)**	**—**	**(77.9)**
Reclassification of lease payments, net of capitalized depreciation	**(1.9)**	**—**	**(1.9)**
Balance, December 31, 2020	**9,630.6**	**80.8**	**9,711.4**

Accumulated DD&A and Impairment			
Balance, January 1, 2019	(3,636.8)	(51.2)	(3,688.0)
DD&A and impairment	(517.7)	(6.1)	(523.8)
Accumulated DD&A and impairment reclassified as held for sale and disposed in period	52.6	—	52.6
Balance, December 31, 2019	(4,101.9)	(57.3)	(4,159.2)
DD&A	**(511.8)**	**(5.8)**	**(517.6)**
Impairment (Note 11)	**(750.3)**	**—**	**(750.3)**
Balance, December 31, 2020	**(5,364.0)**	**(63.1)**	**(5,427.1)**

Carrying Amounts			
Balance, December 31, 2019	5,053.8	20.5	5,074.3
Balance, December 31, 2020	**4,266.6**	**17.7**	**4,284.3**

For the year ended December 31, 2020, $19.1 million of direct and incremental overhead charges were capitalized to PP&E ($26.6 million for the year ended December 31, 2019). Future development costs of $3.2 billion were included in the determination of DD&A for the year ended December 31, 2020 ($3.4 billion for the year ended December 31, 2019).

During the year ended December 31, 2020, ARC disposed of certain non-core assets in Alberta and British Columbia. Certain of the transactions lacked commercial substance and there was no gain on disposition or impairment recognized. An impairment charge of $10.3 million was recognized in the statement of income upon disposition of the remaining assets.

During the year ended December 31, 2019, ARC disposed of certain non-core assets in Alberta and British Columbia for proceeds of $3.0 million, subject to post-closing adjustments. A gain on disposal of $1.7 million and impairment charges of $3.9 million were recognized, respectively, in the statements of income for these transactions.

10. RIGHT-OF-USE ASSETS

	Leases		Other	
Cost	**Buildings and Land Use Rights**	**Equipment and Vehicles**	**Service Contracts**	**Total**
Balance, January 1, 2019	27.6	15.5	8.2	51.3
Additions	0.4	1.0	—	1.4
Modifications	0.2	—	—	0.2
Terminations	—	(0.1)	—	(0.1)
Balance, December 31, 2019	28.2	16.4	8.2	52.8
Additions	**0.3**	**21.0**	**—**	**21.3**
Modifications	**0.1**	**—**	**—**	**0.1**
Terminations	**(0.1)**	**(0.1)**	**—**	**(0.2)**
Balance, December 31, 2020	**28.5**	**37.3**	**8.2**	**74.0**
Accumulated Depreciation				
Balance, January 1, 2019	—	—	—	—
Depreciation on ROU assets expensed	(4.8)	(1.5)	(1.3)	(7.6)
Depreciation on ROU assets capitalized to PP&E	—	(6.4)	—	(6.4)
Balance, December 31, 2019	(4.8)	(7.9)	(1.3)	(14.0)
Depreciation on ROU assets expensed	**(5.0)**	**(1.5)**	**(1.4)**	**(7.9)**
Depreciation on ROU assets capitalized to PP&E	**—**	**(7.7)**	**—**	**(7.7)**
Terminations	**—**	**0.1**	**—**	**0.1**
Balance, December 31, 2020	**(9.8)**	**(17.0)**	**(2.7)**	**(29.5)**
Carrying Amounts				
Balance, December 31, 2019	23.4	8.5	6.9	38.8
Balance, December 31, 2020	**18.7**	**20.3**	**5.5**	**44.5**

11. IMPAIRMENT

PP&E

At December 31, 2020, ARC evaluated its PP&E for indicators of impairment or reversal of previously recognized impairment and determined that no such indicators were present compared to its last impairment test at March 31, 2020.

At March 31, 2020, an impairment test was conducted on ARC's PP&E in response to the economic impact of the global COVID-19 pandemic, the global oversupply of crude oil and the impact on commodity prices (refer to Note 6 "Novel Coronavirus COVID-19"), as well as a further decrease in ARC's market capitalization relative to the carrying value of its net assets since the date of its last impairment test. ARC conducted impairment tests on both of its CGUs. In estimating the recoverable amount of each CGU, ARC incorporated the information and assumptions as detailed in Note 5 "Management Judgments and Estimation Uncertainty" with the following inputs:

- The net present value of the after-tax cash flows from proved plus probable reserves of each CGU based on reserves estimated by ARC's independent qualified reserve evaluator at December 31, 2019, updated for forward commodity price estimates at March 31, 2020.
- The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2019, and adjusted for any acquisitions, divestments, and expiries occurring during the three months ended March 31, 2020.

The estimated recoverable amounts were based on fair value less costs of disposal calculations using discount rates ranging from 10.0 to 11.5 per cent, depending on the resource composition of the assets in the CGU, and an inflation rate of two per cent.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's CGUs at March 31, 2020:

Year	Edmonton Light Crude Oil (Cdn$/bbl) (1)	WTI Crude Oil (US$/bbl) (1)	AECO Natural Gas (Cdn$/MMBtu) (1)	NYMEX Henry Hub Natural Gas (US$/MMBtu) (1)	Exchange Rates Cdn$/US$ (1)
2020	31.22	30.00	1.95	2.05	0.72
2021	47.95	41.00	2.25	2.55	0.73
2022	56.46	47.50	2.35	2.65	0.74
2023	64.19	52.50	2.45	2.75	0.74
2024	71.81	57.50	2.55	2.85	0.75
2025	73.27	58.95	2.65	2.95	0.75
2026	74.84	60.13	2.70	3.01	0.75
2027	76.44	61.33	2.76	3.07	0.75
2028	78.08	62.56	2.81	3.13	0.75
2029	79.75	63.81	2.87	3.19	0.75
Escalate thereafter at	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.75

(1) Source: GLJ Ltd. price forecast effective April 1, 2020.

As a result of its impairment test, ARC recognized an impairment of its Northern Alberta CGU in the amount of $740.0 million ($554.8 million net of deferred tax recovery), which was recognized in DD&A and impairment in the statements of income. The Northern Alberta CGU comprises a mixture of crude oil and natural gas producing assets. The recoverable amount of $515.2 million was determined using a discount rate of 11.5 per cent.

The following table demonstrates the sensitivity of the estimated recoverable amount of the Northern Alberta CGU at March 31, 2020, 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)	(27.7)	31.5	(43.5)	45.0

The fair value less costs of disposal values used to determine the recoverable amounts of ARC's CGUs at March 31, 2020 were classified as Level 3 fair value measurements as certain key assumptions were not based on observable market data, but rather, Management's best estimates.

During the year ended December 31, 2019, an impairment test was conducted following decreases in the outlook of future natural gas prices and a reduction in the Company's market capitalization since the time of ARC's previous impairment test at December 31, 2018. The impairment test was conducted at June 30, 2019, for both of ARC's CGUs. No impairment was recognized as the estimated recoverable amount of each CGU exceeded its respective carrying value. In estimating the recoverable amount of each CGU, ARC incorporated the information and assumptions as detailed in Note 5 "Management Judgments and Estimation Uncertainty" with the following inputs:

- The net present value of the after-tax cash flows from proved plus probable reserves of each CGU based on reserves estimated by ARC's independent qualified reserve evaluator at December 31, 2018, updated for forward commodity price estimates at June 30, 2019.
- The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2018, and adjusted for any acquisitions, divestments, and expiries occurring during the six months ended June 30, 2019.

The estimated recoverable amounts were based on fair value less costs of disposal calculations using discount rates ranging from 9.5 to 10.5 per cent, depending on the resource composition of the assets in the CGU, and an inflation rate of two per cent.

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

Year	Edmonton Light Crude Oil (Cdn$/bbl) (1)	WTI Crude Oil (US$/bbl) (1)	AECO Natural Gas (Cdn$/MMBtu) (1)	NYMEX Henry Hub Natural Gas (US$/MMBtu) (1)	Exchange Rates Cdn$/US$ (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
Escalate thereafter at	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.80

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

The following table demonstrates the sensitivity of the estimated recoverable amount at June 30, 2019, 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 results of the impairment tests performed are sensitive to changes in any of the key estimates, such as a revision in reserves, a change in forward commodity prices, expected royalties, required future development expenditures, or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or reversal of impairment charges.

Goodwill

At December 31, 2020 and 2019, ARC conducted impairment tests of its goodwill. The carrying value of goodwill at December 31, 2020 and 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.

ARC also conducted an impairment test of its goodwill at March 31, 2020 in response to the economic impact of the global COVID-19 pandemic (refer to Note 6 "Novel Coronavirus COVID-19"), as well as a further decrease in ARC's market capitalization relative to the carrying value of its net assets since December 31, 2019. No impairment was recognized as a result of this test, as the combined recoverable amount of ARC's CGUs exceeded the combined carrying value of ARC's operating segment.

In estimating the recoverable amount of ARC's operating segment for purposes of testing goodwill impairment, ARC incorporated the information and assumptions as detailed in Note 5 "Management Judgments and Estimation Uncertainty" and in the section entitled "PP&E" contained within this note, including the forward price estimates at March 31, 2020.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's CGUs at December 31, 2020:

Year	Edmonton Light Crude Oil (Cdn$/bbl) (1)	WTI Crude Oil (US$/bbl) (1)	AECO Natural Gas (Cdn$/MMBtu) (1)	NYMEX Henry Hub Natural Gas (US$/MMBtu) (1)	Exchange Rates Cdn$/US$ (1)
2021	61.94	48.00	2.72	2.75	0.78
2022	67.32	51.50	2.67	2.80	0.77
2023	71.71	54.50	2.60	2.85	0.76
2024	76.04	57.79	2.60	2.90	0.76
2025	77.57	58.95	2.65	2.95	0.76
2026	79.12	60.13	2.71	3.01	0.76
2027	80.70	61.33	2.76	3.07	0.76
2028	82.32	62.56	2.81	3.13	0.76
2029	83.96	63.81	2.87	3.19	0.76
2030	85.64	65.09	2.92	3.25	0.76
Escalate thereafter at	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.76

(1) Source: GLJ Ltd price forecast effective January 1, 2021.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's CGUs at December 31, 2019:

Year	Edmonton Light Crude Oil (Cdn$/bbl) (1)	WTI Crude Oil (US$/bbl) (1)	AECO Natural Gas (Cdn$/MMBtu) (1)	NYMEX Henry Hub Natural Gas (US$/MMBtu) (1)	Exchange Rates Cdn$/US$ (1)
2020	80.26	61.00	2.08	2.42	0.76
2021	81.82	63.00	2.35	2.75	0.77
2022	84.62	66.00	2.55	2.90	0.78
2023	87.18	68.00	2.65	3.00	0.78
2024	89.74	70.00	2.75	3.10	0.78
2025	92.31	72.00	2.85	3.20	0.78
2026	94.87	74.00	2.91	3.27	0.78
2027	97.19	75.81	2.97	3.33	0.78
2028	99.14	77.33	3.03	3.40	0.78
2029	101.13	78.88	3.09	3.47	0.78
Escalate thereafter at	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.78

(1) Source: GLJ Ltd price forecast effective January 1, 2020.

12. FINANCIAL LIABILITIES AND LIQUIDITY RISK

Liquidity risk is the risk that ARC will not be able to meet its financial obligations as they become due. ARC actively manages its liquidity at a reasonable cost through strategies such as continuously monitoring forecast and actual cash flows from operating, financing, and investing activities, available credit and working capital facilities under existing banking arrangements, and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle ARC’s financial liabilities. Refer to Note 14 "Long-Term Debt" for further details on available amounts under existing banking arrangements and Note 16 "Capital Management" for further details on ARC's capital management objectives and policies.

The following tables detail the undiscounted cash flows and contractual maturities of ARC's financial liabilities as at December 31, 2020 and 2019:

As at December 31, 2020	**Undiscounted Cash Flows** (1)	**1 Year**	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**
Accounts payable and accrued liabilities (2)	**100.1**	**100.1**	**—**	**—**	**—**
Dividends payable	**21.3**	**21.3**	**—**	**—**	**—**
Risk management contracts (3)	**84.8**	**40.4**	**38.1**	**6.3**	**—**
Lease obligations	**53.7**	**16.1**	**29.3**	**2.7**	**5.6**
Long-term debt	**701.9**	**146.7**	**355.8**	**161.1**	**38.3**
Interest payments	**66.2**	**24.2**	**30.2**	**10.4**	**1.4**
Total financial liabilities	**1,028.0**	**348.8**	**453.4**	**180.5**	**45.3**

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

(1) The undiscounted cash flows equal the carrying value, with the exception of lease obligations.
(2) Excludes the portion of the cash obligations associated with the Restricted Share Unit ("RSU") and PSU Plans that will be settled within one year, as well as interest payable at December 31, 2020 and 2019.
(3) Risk management contracts are derivatives. All other financial liabilities contained in this table are non-derivative liabilities.

13. LEASE ARRANGEMENTS

Lease Obligations

The following table details the movement in ARC's lease obligations for the years ended December 31, 2020 and 2019:

Lease Obligations	
Balance, January 1, 2019	58.0
Additions	1.4
Modifications	0.2
Terminations	(0.1)
Interest	1.3
Repayments	(14.6)
Balance, December 31, 2019	46.2
Additions	**21.3**
Modifications	**0.1**
Terminations	**(0.1)**
Interest	**(0.2)**
Repayments	**(18.1)**
Balance, December 31, 2020	**49.2**
Lease obligations due within one year	15.3
Lease obligations due beyond one year	33.9

Payments recognized in the financial statements relating to short-term leases and leases of low-value assets for the year ended December 31, 2020 were $0.1 million ($2.2 million for the year ended December 31, 2019). ARC's short-term leases and leases of low-value assets consist of leased office equipment. Variable lease payments not included in the calculation of ARC's lease obligations were $2.3 million for the year ended

December 31, 2020 ($3.1 million for the year ended December 31, 2019) and have been recognized in general and administrative ("G&A") expense in the statements of income.

The majority of ARC's lease arrangements are effective for periods of one to nine years but may have extension options. Potential future undiscounted cash outflows of $80.5 million have not been included in the measurement of ARC's lease obligations at December 31, 2020 ($80.5 million at December 31, 2019) because it is not reasonably certain that the leases will be extended.

To optimize lease costs during the contract period, ARC may provide residual value guarantees in relation to certain leases. At December 31, 2020, $2.4 million of guaranteed residual value is not expected to be payable at the end of the contract term ($2.3 million at December 31, 2019) and has been excluded from the estimated value of applicable lease obligations.

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

Lessor Accounting
ARC acts as a lessor of equipment assets included in ARC's PP&E carrying value and also sub-leases corporate office space. These leases are recognized as operating leases. Income from operating leases for the year ended December 31, 2020 was $2.9 million ($3.5 million for the year ended December 31, 2019).

Joint Arrangements
At December 31, 2020 and December 31, 2019, ARC did not have any lease contracts that were entered into by a joint arrangement, or on behalf of the joint arrangement.

14. LONG-TERM DEBT

	US $ Denominated		**Canadian $ Amount**	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Syndicated credit facilities				
Cdn$ denominated	**N/A**	N/A	**72.6**	36.9
US$ denominated	**—**	40.0	**—**	51.9
Senior notes				
Master Shelf Agreement				
3.72% US$ note	**149.8**	149.9	**191.1**	194.3
2009 note issuance				
8.21% US$ note	**7.0**	14.0	**8.9**	18.1
2010 note issuance				
5.36% US$ note	**59.9**	89.9	**76.4**	116.6
2012 note issuance				
3.31% US$ note	**12.0**	24.0	**15.3**	31.1
3.81% US$ note	**239.6**	299.7	**305.6**	388.7
4.49% Cdn$ note	**N/A**	N/A	**32.0**	40.0
Total long-term debt outstanding	**468.3**	617.5	**701.9**	877.6
Long-term debt due within one year			**146.7**	148.9
Long-term debt due beyond one year			**555.2**	728.7

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

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

LIBOR will no longer be published after December 31, 2021, but the Company expects LIBOR to be replaced with an alternative instrument that, at ARC's option, can apply to US dollar borrowings. This is not expected to have a material impact to ARC, as USD borrowings under the facility can also, at ARC's option, bear interest at the US base loan rate.

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

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

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

Issue Date	Remaining Principal	Coupon Rate	Maturity Date	Principal Payment Terms
April 14, 2009	US$7 million	8.21 %	April 14, 2021	Five equal installments beginning April 14, 2017
May 27, 2010	US$60 million	5.36 %	May 27, 2022	Five equal installments beginning May 27, 2018
August 23, 2012	US$12 million	3.31 %	August 23, 2021	Five equal installments beginning August 23, 2017
August 23, 2012	US$240 million	3.81 %	August 23, 2024	Five equal installments beginning August 23, 2020
August 23, 2012	Cdn$32 million	4.49 %	August 23, 2024	Five equal installments beginning August 23, 2020

Credit Capacity
The following table summarizes ARC's available credit capacity and the current amounts drawn as at December 31, 2020:

	Credit Capacity	Drawn	Remaining
Syndicated credit facility	950.0	73.0	877.0
Working capital facility	40.0	—	40.0
Senior note subject to a Master Shelf Agreement	478.3	191.3	287.0
Senior notes not subject to a Master Shelf Agreement	438.9	438.9	—
Total	1,907.2	703.2	1,204.0

At December 31, 2020, ARC's total debt capacity is $1,907.2 million ($2,071.1 million as at December 31, 2019).

Debt Covenants

During the year ended December 31, 2020, ARC executed certain amendments to the note purchase agreements governing its senior notes. The amendments were effective March 31, 2020 and included a modification of certain definitions contained within the financial covenant calculations, the addition of a minimum liquidity requirement, additional language surrounding event of default, and the addition of a mechanism under which the issuer may offer to purchase notes outstanding at par without penalty. As well, the definition of "Total EBITDA" to be used in determining compliance under two of ARC's financial covenants was amended to exclude non-cash losses and non-cash expenses.

The following are the financial covenants governing the syndicated credit facility and the Master Shelf Agreement, all capitalized terms are as defined in the respective agreements:

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

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

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

At December 31, 2020, ARC had $4.9 million in letters of credit ($12.8 million at December 31, 2019), no subordinated debt, and was in compliance with all debt covenants.

At December 31, 2020, the fair value of all long-term debt outstanding was $748.3 million ($908.6 million at December 31, 2019), compared to a carrying value of $701.9 million ($877.6 million at December 31, 2019).

15. ASSET RETIREMENT OBLIGATION

The total ARO was estimated by Management based on ARC's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. ARC has estimated the net present value of its total ARO to be $541.7 million at December 31, 2020 ($409.6 million at December 31, 2019) based on a total future undiscounted liability of $870.1 million ($856.5 million at December 31, 2019). Management estimates that these payments are expected to be made over the next 67 years with the majority of payments being made in years 2067 to 2087. The Bank of Canada's long-term risk-free bond rate of 1.2 per cent (1.8 per cent at December 31, 2019) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2019) were used to calculate the present value of ARO at December 31, 2020.

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Balance, beginning of year	409.6	356.7
Development activities	**3.9**	4.6
Change in estimates (1)	**49.9**	13.5
Change in discount rate	**96.1**	59.5
Settlement of obligations (2)	**(12.8)**	(18.4)
Accretion	**6.3**	7.3
Acquisitions	**—**	0.2
Reclassified as liabilities associated with assets held for sale and disposed in period	**(11.3)**	(13.8)
Balance, end of year	**541.7**	409.6
Expected to be incurred within one year	**19.0**	25.5
Expected to be incurred beyond one year	**522.7**	384.1

(1) Relates to changes in costs of future obligations and anticipated settlement dates of ARO.
(2) For the year ended December 31, 2020, $1.0 million of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of ARC.

16. 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 or new debt, or changing its dividend policy. On March 13, 2020, ARC announced that it would be reducing its dividend from $0.05 per share per month to $0.06 per share per quarter. On December 15, 2020, ARC declared a quarterly dividend of $0.06 per share.

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 targets net debt to be between 1.0 and 1.5 times annualized funds from operations over the long term; however, during periods of significant commodity price weakness, ARC expects that the ratio could trend above this range. At December 31, 2020, ARC's net debt was 1.1 times its annualized funds from operations.

In addition to the aforementioned reduction in the dividend, ARC announced a reduction in its planned capital expenditures for 2020 from $500 million to $300 million. These measures were undertaken to reduce the Company's net debt balance closer to the ratio of 1.0 to 1.5 times annualized funds from operations. In October 2020, ARC announced an increase to its 2020 planned capital expenditures to $350 million. Refer to the November 5, 2020 news release entitled *"ARC Resources Ltd. Reports Third Quarter 2020 Financial and Operational Results and Announces 2021 Capital Budget of $375 Million to $425 Million"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

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

Funds from operations for the years ended December 31, 2020 and 2019 is calculated as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash flow from operating activities	**655.7**	638.8
Net change in other liabilities (Note 24)	**(7.6)**	0.3
Change in non-cash operating working capital (Note 24)	**19.5**	58.3
Funds from operations	**667.6**	697.4

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 December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Long-term debt (1)	**701.9**	877.6
Lease obligations (2)	**49.2**	46.2
Accounts payable and accrued liabilities	**125.0**	150.5
Dividends payable	**21.3**	17.7
Cash and cash equivalents, accounts receivable, and prepaid expense	**(154.7)**	(151.8)
Net debt	**742.7**	940.2
Net debt to funds from operations (ratio)	**1.1**	1.3

(1) Includes current portion of long-term debt at December 31, 2020 and 2019 of $146.7 million and $148.9 million, respectively.

(2) Includes current portion of lease obligations at December 31, 2020 and 2019 of $15.3 million and $16.3 million, respectively.

17. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instruments

At December 31, 2020, ARC's financial instruments include cash and cash equivalents, accounts receivable, risk management contracts, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt.

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

ARC’s cash and cash equivalents are classified as Level 1 measurements and its risk management contracts and fair value disclosure for its long-term debt are classified as Level 2 measurements in the three-level fair value measurement hierarchy. The fair value of ARC's long-term debt is disclosed in Note 14 "Long-Term Debt". ARC does not have any financial instruments classified as Level 3 that are carried at fair value. There were no transfers between levels in the fair value hierarchy for the year ended December 31, 2020.

The carrying values of ARC's accounts receivable, accounts payable and accrued liabilities, and dividends payable as at December 31, 2020 approximate their fair values due to the short-term nature of these instruments.

Financial Assets and Financial Liabilities Subject to Offsetting

The following is a summary of ARC's financial assets and financial liabilities that are subject to offsetting as at December 31, 2020 and December 31, 2019:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset on Balance Sheets	Net Amounts of Financial Assets (Liabilities) Recognized on Balance Sheets Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amounts of Financial Assets (Liabilities) Recognized on Balance Sheets
As at December 31, 2020					
Risk management contracts					
Current asset	**41.0**	**(35.0)**	**6.0**	**—**	**6.0**
Long-term asset	**27.8**	**(27.8)**	**—**	**—**	**—**
Current liability	**(76.3)**	**35.0**	**(41.3)**	**0.9**	**(40.4)**
Long-term liability	**(73.1)**	**27.8**	**(45.3)**	**0.9**	**(44.4)**
Net position	**(80.6)**	**—**	**(80.6)**	**1.8**	**(78.8)**

As at December 31, 2019					
Risk management contracts					
Current asset	71.9	(30.3)	41.6	(0.2)	41.4
Long-term asset	21.9	(17.7)	4.2	—	4.2
Current liability	(36.6)	30.3	(6.3)	0.2	(6.1)
Long-term liability	(47.4)	17.7	(29.7)	1.0	(28.7)
Net position	9.8	—	9.8	1.0	10.8

Market Risk Management

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

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

ARC has prepared sensitivity analyses in an attempt to demonstrate the hypothetical effect of changes in these market risk factors on ARC's net loss. For the purposes of the sensitivity analyses, the effect of a variation in a particular variable is calculated independently of any change in another variable. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis are based on Management's assessment of reasonably possible changes that could occur at December 31, 2020. The results of the sensitivity analyses should not be considered to be predictive of future performance.

Commodity Price Risk

ARC's operational results and financial condition are largely dependent on the commodity prices received for its crude oil and natural gas production. Commodity prices may be impacted by multiple factors including a global pandemic or natural disaster and the respective responses from various levels of government, supply and demand fundamentals, regional egress constraints, inventory levels, weather, economic, and geopolitical factors. Movement in commodity prices could have a significant positive or negative impact on ARC's net loss.

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

ARC manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts (refer to section of this note entitled "Risk Management Contracts"). The following table illustrates the effects of movement in commodity prices on net loss due to changes in the fair value of risk management contracts in place at December 31, 2020.

Sensitivity of Commodity Price on Risk Management Contracts	Increase in Commodity Price				Decrease in Commodity Price			
	Crude Oil (1)		Natural Gas (2)		Crude Oil (1)		Natural Gas (2)	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Net loss increase (decrease)	**(39.0)**	(53.1)	**(78.9)**	(27.8)	**31.4**	41.2	**74.4**	17.3

(1) Crude oil sensitivities are based on a US$10 per barrel increase and decrease in the price of West Texas Intermediate ("WTI").

(2) Natural gas sensitivities are based on a US$0.50 per MMBtu increase and decrease in the price of New York Mercantile Exchange ("NYMEX") natural gas.

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

Interest Rate Risk
ARC may manage its interest cost using a mix of both fixed and variable interest rates on its debt. Changes in interest rates could result in an increase or decrease in the amount ARC pays to service variable interest rate debt. At December 31, 2020, ARC is exposed to interest rate risk with respect to drawing debt under its credit facility. If interest rates were to increase or decrease 50 basis points, the impact on interest expense in the statements of income would be $0.8 million ($0.2 million for the year ended December 31, 2019).

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

The following table demonstrates the effect of exchange rate movements on net loss due to changes in the fair value of risk management contracts in place at December 31, 2020, as well as the unrealized gain or loss on revaluation of outstanding US dollar-denominated debt. The sensitivity is based on a $0.10 increase and decrease in the Cdn$/US$ foreign exchange rate.

Sensitivity of Foreign Exchange Exposure	Increase in Cdn$/US$ rate		Decrease in Cdn$/US$ rate	
	2020	2019	**2020**	2019
Risk management contracts	**(3.9)**	(10.2)	**4.0**	(0.2)
US dollar-denominated debt	**(35.3)**	(43.1)	**35.3**	43.1
Net loss increase (decrease)	**(39.2)**	(53.3)	**39.3**	42.9

Increases or decreases in the foreign exchange rates applicable to US dollar-denominated payables and receivables would have a nominal impact on ARC's net loss for the year ended December 31, 2020 (nominal for the year ended December 31, 2019).

Risk Management Contracts

The following table summarizes ARC's risk management contracts as at December 31, 2020:

Risk Management Contracts Positions Summary [(1)]

As at December 31, 2020	2021		2022		2023		2024		2025	
Crude Oil – WTI	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	55.46	9,992	51.96	2,000	—	—	—	—	—	—
Floor	48.33	9,992	45.00	2,000	—	—	—	—	—	—
Sold Floor	39.65	8,992	35.00	2,000	—	—	—	—	—	—
Swap	41.22	1,992	—	—	—	—	—	—	—	—
Sold Swaption [(2)]	43.00	1,008	—	—	—	—	—	—	—	—
Total Crude Oil Volumes (bbl/day)		**11,984**		**2,000**		**—**		**—**		**—**
Crude Oil – MSW (Differential to WTI) [(3)]	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Swap	(6.11)	5,000	—	—	—	—	—	—	—	—
Natural Gas – NYMEX Henry Hub [(4)]	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Ceiling	3.10	125,466	3.15	65,000	2.74	10,000	2.74	10,000	—	—
Floor	2.58	125,466	2.59	65,000	2.50	10,000	2.50	10,000	—	—
Sold Floor	2.08	107,877	2.19	65,000	2.10	10,000	2.10	10,000	—	—
Sold Calls	4.00	7,397	—	—	—	—	—	—	—	—
Natural Gas – AECO 7A	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day
Ceiling	2.41	120,000	2.50	120,000	2.40	90,000	2.40	90,000	2.73	20,000
Floor	1.95	120,000	1.93	120,000	1.87	90,000	1.87	90,000	2.00	20,000
Sold Floor	—	—	1.75	10,000	—	—	—	—	—	—
Swap	2.28	67,397	2.23	20,000	2.06	10,000	2.06	10,000	—	—
Sold Swaption [(2)]	—	—	2.00	20,000	—	—	—	—	—	—
Natural Gas - Chicago	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Ceiling	4.10	4,932	—	—	—	—	—	—	—	—
Floor	2.75	4,932	—	—	—	—	—	—	—	—
Total Natural Gas Volumes (MMBtu/day)		**308,016**		**197,694**		**104,782**		**104,782**		**18,956**
Natural Gas – AECO Basis (Differential to Henry Hub)	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Sold Swap	(0.93)	66,260	(0.88)	35,000	(0.91)	70,000	(0.91)	70,000	(0.66)	5,000
Total AECO Basis Volumes (MMBtu/day)		**66,260**		**35,000**		**70,000**		**70,000**		**5,000**
Natural Gas - Other Basis (Differential to Henry Hub) [(5)]		MMBtu/day		MMBtu/day		MMBtu/day		MMBtu/day		MMBtu/day
Sold Swap		**110,000**		**110,000**		**80,000**		**4,973**		**—**

Foreign Exchange	Settlement Date	Notional (US$ millions)	Ceiling (Cdn$/US$)	Floor (Cdn$/US$)
Variable Rate Collar [(6)]	August 23, 2021	8	1.2586	1.3050

(1) The prices and volumes in this table represent averages for several contracts representing different periods. The average price for the portfolio of options listed above does not have the same payoff profile as the individual option contracts. Viewing the average price of a group of options is purely for indicative purposes. All positions are financially settled against the benchmark prices.
(2) The sold swaption allows the counterparty, at a specific future date, to enter into a swap with ARC at the above-detailed terms. These volumes are not included in the total commodity volumes until such time that the option is exercised.
(3) MSW differential refers to the discount between WTI and the mixed sweet crude grade at Edmonton, calculated on a monthly weighted average basis in US$.
(4) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.
(5) ARC has entered into basis swaps at locations other than AECO.
(6) Variable rate collar whereby if Cdn$/US$ spot rate is below $1.2586 at expiry, the ceiling will re-adjust to $1.2863.

18. INCOME TAXES

The major components of income tax recovery for the years ended December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Current	**(26.8)**	(14.0)
Deferred:		
Origination and reversal of temporary differences	**(188.8)**	(32.7)
Adjustments for prior years	**9.1**	4.5
Changes in tax rates and legislation	**(1.2)**	(58.7)
	(180.9)	(86.9)
Total income tax recovery	**(207.7)**	(100.9)

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to net loss before income taxes as follows:

	December 31, 2020	December 31, 2019
Net loss before tax	**(754.9)**	(128.5)
Canadian statutory rate (1)	**25.32 %**	26.69 %
Expected income tax recovery at statutory rates	**(191.1)**	(34.3)
Effect on income tax of:		
Change in corporate tax rate	**(1.2)**	(58.7)
Non-taxable portion of unrealized foreign exchange gain	**(5.0)**	(7.7)
Non-deductible portion of capital losses	**4.3**	3.5
Change in estimated pool balances	**(15.1)**	(0.8)
Change in unrecognized deferred tax asset on unrealized exchange and capital losses	**(0.7)**	(6.1)
Other	**1.1**	3.2
Total income tax recovery	**(207.7)**	(100.9)

(1) The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2020 and 2019. The combined federal and provincial rate decrease to 25.32 per cent in 2020 from 26.69 per cent in 2019 reflects the Alberta corporate income tax rate decrease from 11 per cent to 10 per cent effective January 1, 2020, as well as a further decrease to eight per cent effective July 1, 2020.

	December 31, 2020	December 31, 2019
Deferred tax liabilities:		
PP&E in excess of tax basis	**761.7**	885.2
Risk management contracts	**1.5**	11.8
ROU assets	**9.7**	8.0
Deferred tax assets:		
ARO	**(134.9)**	(102.6)
Long-term debt	**(13.7)**	(18.7)
Risk management contracts	**(21.1)**	(9.0)
Long-term incentive compensation expense	**(12.5)**	(8.9)
Lease obligations	**(12.2)**	(11.6)
Unrecognized deferred tax assets (1)	**23.0**	23.7
Other	**(10.1)**	(5.5)
Deferred taxes	**591.4**	772.4

(1) The unrecognized deferred tax asset relates to an unrealized foreign exchange loss of $13.7 million and a realized capital loss of $9.3 million at December 31, 2020 ($18.7 million and $5.0 million at December 31, 2019, respectively).

At December 31, 2020, the crude oil and natural gas properties and facilities owned by ARC have an approximate federal tax basis of $1.5 billion ($1.8 billion at December 31, 2019) available for future use as deductions from taxable income.

The following is a summary of ARC's estimated tax pools as at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
Canadian oil and gas property expense	**83.2**	88.8
Canadian development expense	**650.5**	787.3
Canadian exploration expense	**19.2**	17.4
Undepreciated capital cost	**686.1**	864.0
Other	**40.5**	22.2
Total federal tax pools	**1,479.5**	1,779.7
Additional Alberta tax pools	**2.3**	2.9

A deferred tax asset has not been recognized with respect to a net capital loss of $37.2 million for the year ended December 31, 2020 ($20.0 million for the year ended December 31, 2019), in addition to an unrealized capital loss relating to foreign exchange loss on US dollar-denominated debt of $109.4 million ($148.8 million for the year ended December 31, 2019), 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.

19. SHAREHOLDERS’ CAPITAL

ARC is authorized to issue an unlimited number of no par value common shares and 50 million preferred shares without nominal or par value. Common shares carry one vote per share and the right to any dividends declared. Preferred shares may be issued in series with rights and conditions to be determined by the Board prior to issuance and subject to the Company’s articles. There are no preferred shares outstanding at December 31, 2020 or 2019.

(thousands of shares)	**Year Ended December 31, 2020**	Year Ended December 31, 2019
Common shares, beginning of year	353,411	353,443
Restricted shares issued pursuant to the LTRSA Plan	**218**	284
Forfeited and cancelled shares pursuant to the LTRSA Plan	**—**	(26)
Unvested restricted shares held in trust pursuant to the LTRSA Plan (1)	**(257)**	(290)
Common shares, end of year	**353,372**	353,411

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

For the year ended December 31, 2020, there were 353.4 million weighted average common shares outstanding (353.4 million for the year ended December 31, 2019). There was no dilutive impact for the year ended December 31, 2020, as 4.6 million share options were anti-dilutive (5.1 million share options for the year ended December 31, 2019). Net loss per common share has been determined for the year ended December 31, 2020 based on 353.4 million diluted weighted average common shares outstanding (353.4 million for the year ended December 31, 2019).

Dividends declared for the year ended December 31, 2020 were $0.30 per share ($0.60 per share for the year ended December 31, 2019).

20. COMMODITY SALES FROM PRODUCTION

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

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

Commodity Sales from Production, by Product	**Year Ended December 31, 2020**	Year Ended December 31, 2019
Crude oil	**245.3**	423.8
Condensate	**235.6**	248.4
Natural gas (1)	**612.3**	483.3
NGLs	**42.3**	34.0
Total commodity sales from production	**1,135.5**	1,189.5

(1) Includes $15.7 million of natural gas transportation revenue from contracts temporarily assigned to third parties for the year ended December 31, 2020 ($14.9 million for the year ended December 31, 2019).

At December 31, 2020, receivables from contracts with customers, which are included in accounts receivable, were $135.6 million ($115.6 million at December 31, 2019).

ARC enters into contracts with customers that can have performance obligations that are unsatisfied, or partially unsatisfied, at the reporting date. At December 31, 2020, the Company has a number of unfulfilled performance obligations including fixed volume and index-based commodity sales contracts. These contracts have varying durations, the Company's longest individual commodity sales contract ends in October 2031.

21. SHARE-BASED COMPENSATION PLANS

RSU Plan and PSU Plan

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

Upon vesting of the RSUs, the plan participant receives a cash payment based on the fair value of the underlying share awards plus all dividends accrued since the grant date. The cash compensation of the PSUs issued upon vesting is further dependent upon an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier. The performance multiplier is determined using two criteria; 50 per cent of the performance multiplier is based on ARC's relative total shareholder return performance compared to a defined peer group, and 50 per cent of the performance multiplier is dependent on an overall assessment of achievements based on a predetermined corporate scorecard. Performance multipliers associated with PSU awards that were granted prior to 2019 are determined solely on ARC's relative total shareholder return performance.

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

Deferred Share Unit ("DSU") Plan

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

Long-term Incentive Plans

The following table summarizes the RSU, PSU, and DSU movement for the years ended December 31, 2020 and 2019:

(number of awards, thousands)	RSUs	PSUs Granted Prior to 2019 [(1)]	PSUs Granted Subsequent to 2018 [(1)]	DSUs
Balance, January 1, 2019	942	2,270	—	671
Granted [(2)]	1,816	165	1,833	323
Distributed	(433)	(573)	—	(49)
Forfeited	(89)	(234)	(53)	—
Balance, December 31, 2019	2,236	1,628	1,780	945
Granted [(2)]	**2,603**	**759**	**3,352**	**412**
Distributed	**(914)**	**(1,378)**	**—**	**(87)**
Forfeited	**(89)**	**(11)**	**(29)**	**—**
Balance, December 31, 2020	**3,836**	**998**	**5,103**	**1,270**

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

(2) Grants for 'PSUs Granted Prior to 2019' relate to re-invested dividends and additional performance awards for grants that vested in the current period.

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
G&A	**21.7**	21.1
Operating	**2.7**	2.4
PP&E	**2.2**	1.6
Total compensation charge	**26.6**	25.1
Cash payment	**11.9**	8.1

At December 31, 2020, $18.4 million of compensation amounts payable was included in accounts payable and accrued liabilities on the balance sheets ($11.1 million at December 31, 2019) and $32.0 million was included in long-term incentive compensation liability ($24.5 million at December 31, 2019). A recoverable amount of $0.1 million was included in accounts receivable at December 31, 2020 ($nil at December 31, 2019).

Share Option Plan

The Share Option Plan was suspended in 2019. Share options previously granted to officers and certain employees of ARC vest evenly on the fourth and fifth anniversary of their grant date and have a maximum term of seven years. The option holder has the right to exercise the options and purchase one common share per option at the original grant price or at a reduced exercise price, equal to the grant price less all dividends paid subsequent to the grant date and prior to the exercise date. The original grant price is calculated as the weighted average trading price of ARC common shares for the five days immediately preceding the grant date.

The changes in total share options outstanding and related weighted average exercise prices for the years ended December 31, 2020 and 2019 were as follows:

	Share Options (number of units, thousands)	**Weighted Average Exercise Price ($)**
Balance, January 1, 2019	5,991	17.36
Forfeited	(199)	15.33
Expired	(695)	13.80
Balance, December 31, 2019	5,097	17.27
Forfeited	**(24)**	**17.55**
Expired	**(493)**	**21.48**
Balance, December 31, 2020	**4,580**	**16.50**
Exercisable, December 31, 2020	**1,607**	**21.09**

The following table summarizes information regarding share options outstanding at December 31, 2020:

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 ($)
12.01 - 20.00	4,163	15.31	3.2	1,190	18.55
20.01 - 28.34	417	28.34	0.5	417	28.34
Total	4,580	16.50	3.0	1,607	21.09

ARC recognized compensation expense of $3.0 million relating to the Share Option Plan for the year ended December 31, 2020 ($3.6 million for the year ended December 31, 2019). During the year ended December 31, 2020, $0.2 million of share option compensation charges were capitalized to PP&E ($0.3 million for the year ended December 31, 2019).

LTRSA Plan

LTRSA grants consist of restricted common shares that are awarded at the date of grant and a cash payment made equal to the estimated personal tax obligation associated with the total award. The restricted shares issued on the grant date of the award are held in trust until the vesting conditions have been met. In 2020, the LTRSA Plan was amended to extend the vesting schedule from three years to five years and to adjust the calculation of the service period.

While in trust, the restricted shares earn cash dividends that are reinvested into the purchase of ARC common shares. These re-invested common shares issued are also held in trust until vested. LTRSA awards granted prior to 2020 vest evenly on the eighth, ninth, and tenth anniversaries of their respective grant dates. LTRSA awards granted subsequent to 2019 vest evenly on the sixth, seventh, eighth, ninth, and tenth anniversaries of their respective grant dates. Restricted shares and any accrued dividends that are subject to forfeiture will be redeemed and cancelled by ARC.

The estimated fair value of LTRSAs is determined as the weighted average trading price of ARC common shares on the TSX for the five days immediately preceding the grant date. The changes in total LTRSA outstanding and related fair value per restricted share for the years ended December 31, 2020 and 2019 were as follows:

	Granted Prior to 2020		Granted Subsequent to 2019	
	LTRSA (number of awards, thousands)	Fair Value per Restricted Share ($)	LTRSA (number of awards, thousands)	Fair Value per Restricted Share ($)
Balance, January 1, 2019	454	16.91	—	—
Restricted shares granted and purchased	314	6.55	—	—
Forfeited	(26)	16.26	—	—
Balance, December 31, 2019	742	12.64	—	—
Restricted shares granted and purchased	39	3.81	218	6.17
Balance, December 31, 2020	**781**	**12.20**	**218**	**6.17**

ARC recognized G&A expense of $1.5 million relating to the LTRSA Plan during the year ended December 31, 2020 ($1.8 million for the year ended December 31, 2019).

22. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2020:

	Payments Due by Period				
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Debt repayments (1)	146.7	355.8	161.1	38.3	701.9
Interest payments (2)	24.2	30.2	10.4	1.4	66.2
Purchase and service commitments	34.0	16.3	3.1	0.2	53.6
Transportation commitments	187.2	328.0	318.1	722.5	1,555.8
Total contractual obligations and commitments	**392.1**	**730.3**	**492.7**	**762.4**	**2,377.5**

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

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

During the year ended December 31, 2018, ARC disposed of certain non-core assets to ACCEL. Refer to Note 7 "Financial Assets and Credit Risk". In October 2019, ACCEL filed a counterclaim against ARC for $200.0 million for damages alleging breaches of contract or misrepresentation related to the ACCEL PSA. On January 3, 2020, ARC filed its Defence to the Counterclaim. Management does not expect the outcome of the counterclaim to result in a material outflow of resources by ARC.

ARC had previously disposed of certain non-core properties, and as part of the sales process, relevant operating licenses are transferred to the purchaser(s) by the provincial regulator. At December 31, 2020, certain operating licenses of disposed assets have not yet transferred from ARC to the purchaser. While the Company believes the risk is low, if the licenses fail to transfer, ARC could be responsible to fund asset retirement obligations relating to disposed assets in the amount of $11.8 million.

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

23. RELATED PARTIES

Key Management Personnel Compensation

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Short-term benefits	**9.2**	6.4
Share-based compensation	**8.4**	15.4
Total key management personnel compensation	**17.6**	21.8

24. SUPPLEMENTAL DISCLOSURES

Presentation in the Statements of Income

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

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating	**30.7**	35.3
G&A	**73.5**	70.7
Total employee compensation expense	**104.2**	106.0

Presentation in the Statements of Cash Flows

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

Change in Non-Cash Working Capital	**Year Ended December 31, 2020**	Year Ended December 31, 2019
Accounts receivable	**(24.4)**	(35.1)
Accounts payable and accrued liabilities	**(25.0)**	(16.9)
Inventory	**(1.2)**	—
Prepaid expense	**0.5**	1.1
Total change in non-cash working capital	**(50.1)**	(50.9)
Relating to:		
Operating activities	**(19.5)**	(58.3)
Investing activities	**(30.6)**	7.4
Total change in non-cash working capital	**(50.1)**	(50.9)

Other Non-Cash Items	**Year Ended December 31, 2020**	Year Ended December 31, 2019
Share-based compensation expense	**4.0**	4.5
Other amortization	**0.8**	(0.3)
ARO settlements	**(1.0)**	—
Total other non-cash items	**3.8**	4.2

Net Change in Other Liabilities	**Year Ended December 31, 2020**	Year Ended December 31, 2019
Long-term incentive compensation liability	**7.5**	12.1
ARO cash settlements	**(11.8)**	(18.4)
Other deferred liabilities	**12.1**	5.7
Accrued lease interest	**(0.2)**	0.3
Total net change in other liabilities	**7.6**	(0.3)

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

Financing Liabilities	Current Financial Liabilities	Long-Term Financial Liabilities	Total Financial Liabilities from Financing Activities
Balance, January 1, 2019	94.0	873.2	967.2
Cash flows			
Draw of long-term debt	—	616.3	616.3
Repayment of long-term debt	(79.6)	(527.2)	(606.8)
Repayment of lease obligations	(13.7)	—	(13.7)
Reclassified to current			
Long-term debt	153.7	(153.7)	—
Lease obligations	16.1	(16.1)	—
Non-cash changes			
Lease recognition	0.2	1.4	1.6
Lease modification and termination	(0.1)	—	(0.1)
Accrued lease interest	0.3	—	0.3
Unrealized foreign exchange gain	(5.8)	(35.5)	(41.3)
Other	0.1	0.2	0.3
Balance, December 31, 2019	165.2	758.6	923.8
Cash flows			
Draw of long-term debt	**—**	**2,209.2**	**2,209.2**
Repayment of long-term debt	**(154.3)**	**(2,233.6)**	**(2,387.9)**
Repayment of lease obligations	**(18.1)**	**—**	**(18.1)**
Reclassified to current			
Long-term debt	**154.3**	**(154.3)**	**—**
Lease obligations	**17.3**	**(17.3)**	**—**
Non-cash changes			
Lease recognition	**—**	**21.3**	**21.3**
Lease modification and termination	**—**	**—**	**—**
Accrued lease interest	**(0.2)**	**—**	**(0.2)**
Unrealized foreign exchange (gain) loss	**(2.3)**	**4.8**	**2.5**
Other	**0.1**	**0.4**	**0.5**
Balance, December 31, 2020	**162.0**	**589.1**	**751.1**
Lease obligations due within one year	15.3	—	15.3
Lease obligations due beyond one year	—	33.9	33.9
Long-term debt due within one year	146.7	—	146.7
Long-term debt due beyond one year	—	555.2	555.2

25. SUBSEQUENT EVENT

Business Combination

On February 10, 2021, ARC and Seven Generations Energy Ltd. ("Seven Generations") jointly announced that they entered into a definitive agreement to combine the companies in an all-share transaction to create a new Canadian oil and natural gas company through a plan of arrangement. Upon completion of the transaction, which will require shareholder and regulatory approvals, the combined entity will operate as ARC. Refer to the joint February 10, 2021 news release entitled "*ARC Resources and Seven Generations Announce Strategic Montney Combination*" available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Pages 1 through 5 of this Annual Report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect," "anticipate," "continue," "estimate," "objective," "ongoing," "may," "will," "project," "should," "believe," "plans," "intends," "strategy," and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, pages 1 through 5 of this Annual Report contains forward-looking information and statements pertaining to the following: ARC's ability to reduce its environmental impact, play a meaningful role in the transition to a lower carbon economy and continue to advance social and governance policies; the anticipated benefits of the transaction (the "Transaction") with Seven Generations Energy Ltd. ("Seven Generations"); ARC's size and significance in relation to its peers and its ability to compete internationally following the completion of the Transaction; ARC's investment plans and intention to pay a sustainable dividend; and the reserves that may be added through ARC's position in the Montney basin.

Such forward-looking information and statements contained in this Annual Report reflect several material factors and expectations and assumptions of ARC including, without limitation: the satisfaction of the conditions to closing of the Transaction in a timely manner and completing the Transaction on the expected terms; the realization of the benefits of the Transaction; the successful integration of Seven Generations with ARC; the impacts the Transaction may have on credit rating of ARC following completion; the ability of ARC to pay a sustainable dividend to shareholders following the Transaction; that ARC will continue to conduct its operations in a manner consistent with past operations; that future results from drilling and development activities will be consistent with past results of both ARC and Seven Generations, as applicable; the ability of ARC to continue to advance its knowledge of the Montney basin; the continued and timely development of infrastructure in areas of new production; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of ARC and Seven Generations' reserve and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow to fund ARC's plans and expenditures. ARC believes the material factors, expectations and assumptions reflected in such forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

Such forward-looking information and statements included in this Annual Report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: the delay or failure to complete the Transaction; the delay or failure of ARC and Seven Generations to receive, in a timely manner, the necessary court, shareholder, stock exchange, and other third-party approvals; the inability of ARC and Seven Generations to satisfy, in a timely manner, the other conditions to the closing of the Transaction; interloper risk; the ability to complete the Transaction on the terms contemplated by the definitive agreement between ARC and Seven Generations or at all; the inability of ARC to realize the anticipated benefits of, and synergies from the Transaction and the timing thereof; the failure to achieve and sustain future cost reductions; the impacts of a changing risk profile and possible subjection to a credit rating review, which may result in a downgrade or negative outlook being assigned to ARC following the Transaction; the ability of ARC to pay dividends and the approval and declaration of such dividends by the Board following the Transaction; the consequences of not completing the Transaction, including the volatility of the share price of ARC, negative reactions from the investment community, and the required payment of certain costs related to the Transaction; potential undisclosed liabilities unidentified during the due diligence process; changes in ARC's plans regarding water management, facilities replacement and construction, and operations based on key learnings and experience gained through the design and implementation of such plans; changes in commodity prices; changes in the demand for or supply of commodities; unanticipated operating results or production declines; unanticipated results from ARC's exploration and development activities; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of ARC or by third-party operators of ARC's properties, increased debt levels or debt service requirements; inaccurate estimation of ARC's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in ARC's Annual Information Form and in this Annual Report).

The internal projections, expectations or beliefs underlying the outlook for the future are subject to change in light of ongoing results, prevailing economic circumstances, commodity prices and industry conditions and regulations. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. The forward-looking information and statements contained in this Annual Report speak only as of the date of this Annual Report, and none of ARC or its subsidiary assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

NON-GAAP MEASURES

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

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

GLOSSARY

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

Measurement

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

Financial and Business Environment

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

(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 6 Mcf:1 bbl 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.

DEFINITIONS OF OIL AND GAS RESOURCES AND RESERVES

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

Proved Reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

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