



2021

Celebrating 25 Years of

Canadian Energy

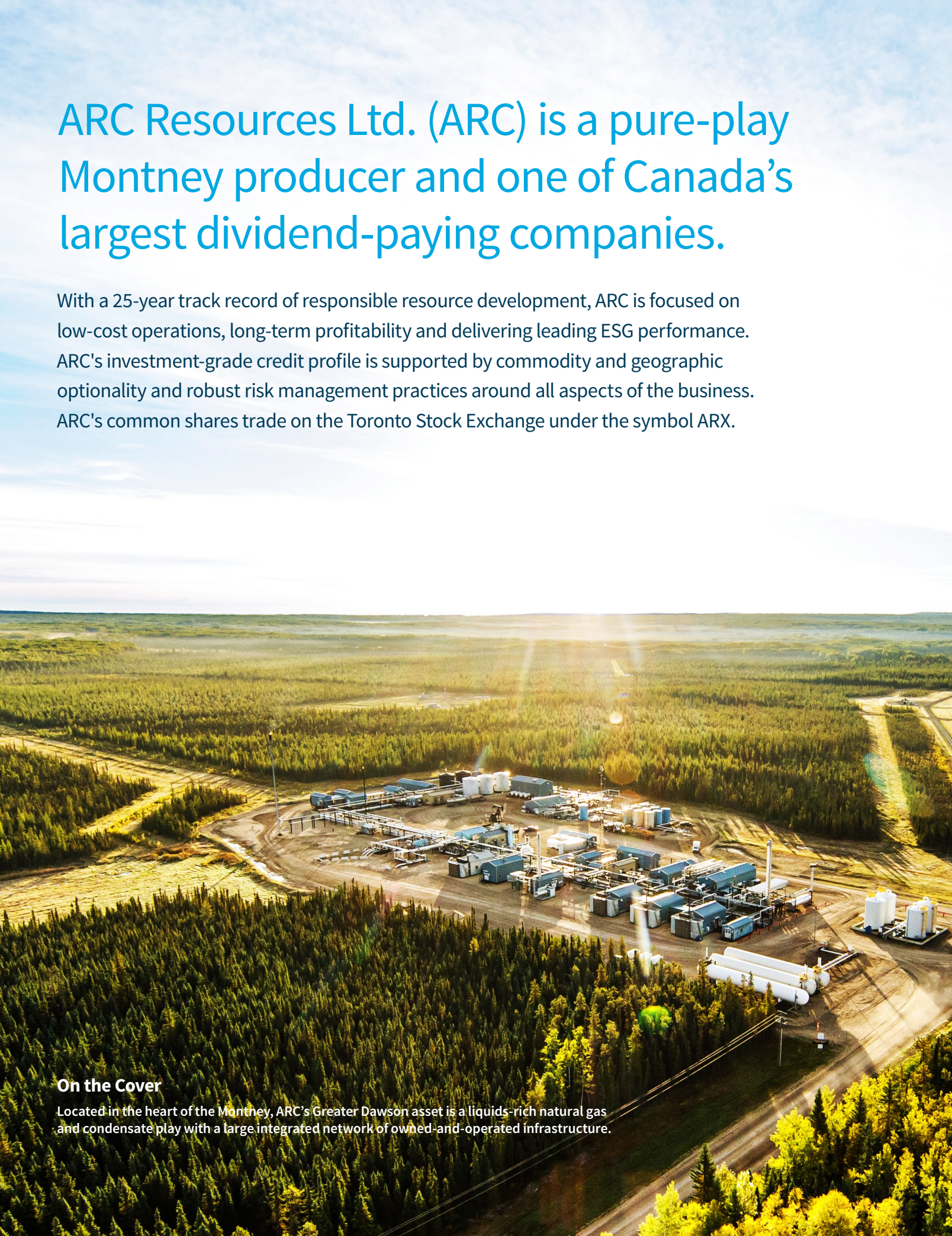
Annual Report

ARC Resources Ltd. (ARC) is a pure-play Montney producer and one of Canada's largest dividend-paying companies.

With a 25-year track record of responsible resource development, ARC is focused on low-cost operations, long-term profitability and delivering leading ESG performance. ARC's investment-grade credit profile is supported by commodity and geographic optionality and robust risk management practices around all aspects of the business. ARC's common shares trade on the Toronto Stock Exchange under the symbol ARX.

On the Cover

Located in the heart of the Montney, ARC's Greater Dawson asset is a liquids-rich natural gas and condensate play with a large integrated network of owned-and-operated infrastructure.





>8 years

Without an Employee
Lost-time Incident



lowest

GHG Emissions Intensity
in our Canadian Peer Group



\$0.10 per share

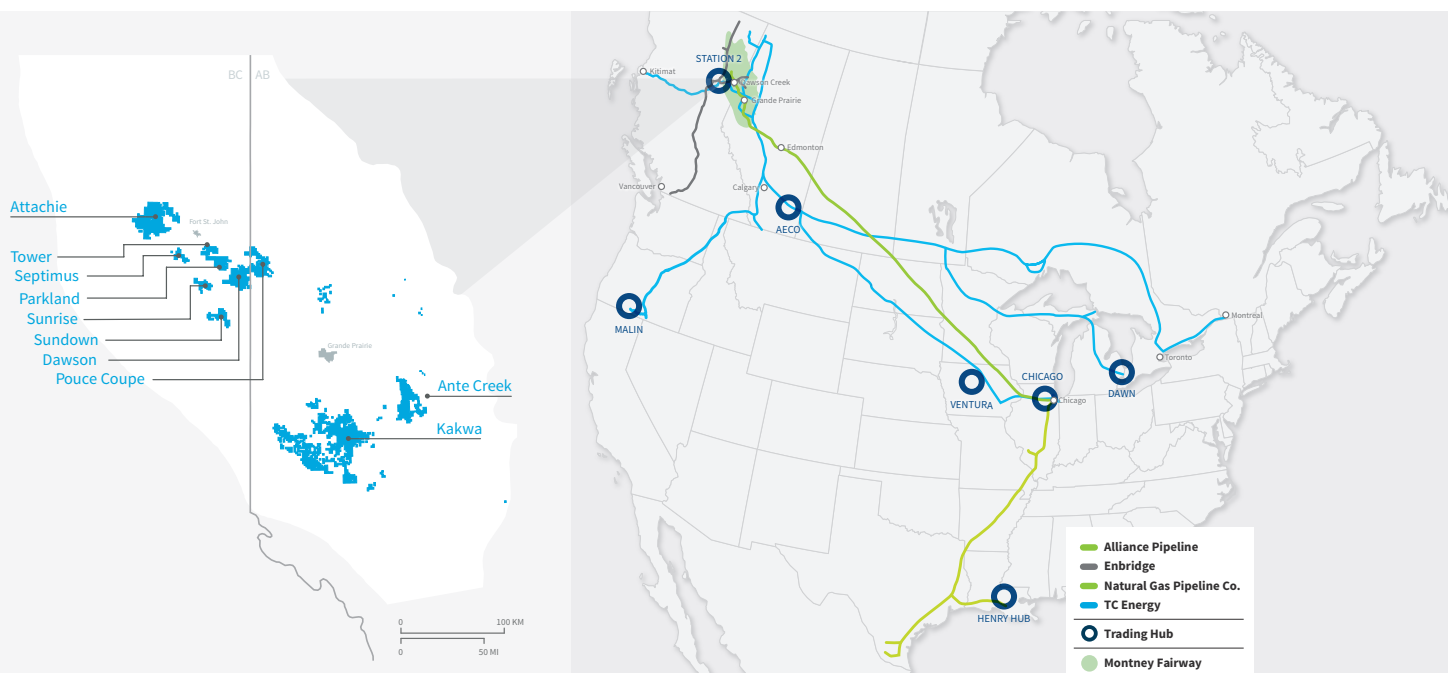
Quarterly Dividend

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ARC at a Glance

ARC Resources is a global leader in responsible resource development.

Following the acquisition of Seven Generations Energy Ltd. (Seven Generations) in April 2021 (the Business Combination), we became Canada's largest producer of condensate and third-largest producer of natural gas. Our diverse portfolio of high-quality, resource-rich properties are located in the heart of the Montney with operations in northeast British Columbia and northern Alberta.

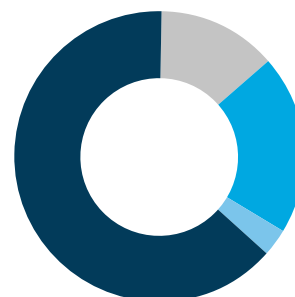


Production Profile



~340 Mboe/d

Natural Gas **61%**
Crude Oil **2%**
Condensate **22%**
NGLs **15%**



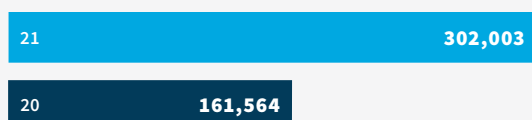
2021 Operational and Financial Highlights⁽¹⁾

ARC delivered a record-low operating expense per boe and the highest annual average production and free funds flow in our 25-year history. This strong performance illustrates the underlying profitability and quality of ARC's business, and the results of our strategic decisions.



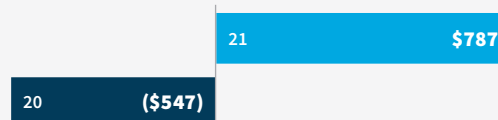
Annual Average Production

(boe/d)



Net Income (Loss)

(\$ millions)



Funds from Operations

(\$ millions)

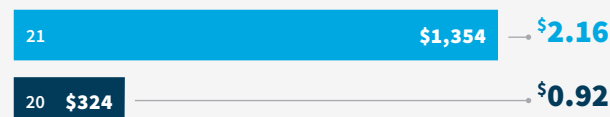
(\$)
per share



Free Funds Flow

(\$ millions)

(\$)
per share



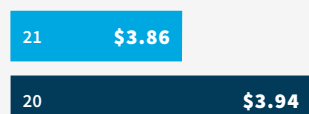
Net Debt to Funds from Operations

(ratio)



Operating Expense

(\$/boe)



Capital Expenditures

(\$ millions)



(1) Throughout this report, ARC adheres to Canadian generally accepted accounting principles ("GAAP"). In some instances, ARC employs certain measures to analyze its financial performance, financial position, and cash flows including, "capital expenditures", "free funds flow" and "free funds flow per share", that do not have any standardized meaning under International Financial Reporting Standards ("IFRS") and may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for capital expenditures is cash flow used in investing activities, and the most directly comparable GAAP measure for free funds flow is cash flow from operating activities. Free funds flow per share includes a non-GAAP financial measure component of free funds flow. The non-GAAP and other financial measures should not be considered to be more meaningful than measures determined in accordance with IFRS as indicators of ARC's financial performance, financial position, or cash flows. Certain additional disclosures for these non-GAAP and other financial measures have been incorporated by reference and can be found in the section entitled "Non-GAAP and Other Financial Measures" in ARC's Management's Discussion and Analysis ("MD&A") as at and for the three months and year ended December 31, 2021, available [here](https://www.sedar.com) and under ARC's SEDAR profile at www.sedar.com.

Message to Our Shareholders

2021 was a significant and defining year for ARC Resources. Over the course of the year, we both reflected on our past, proudly celebrating 25 years of producing Canadian energy, while readying for the future as the largest pure-play producer in the Montney.



Terry M. Anderson
President & Chief Executive Officer

Twenty-five years ago, ARC was created with the vision of becoming a premier blue-chip oil and gas company in Canada, qualified by excellent assets, management expertise, and long-term investor returns. Twenty-five years later, that vision remains deeply embedded in our culture.

Through the Business Combination with Seven Generations, ARC became Canada's largest producer of condensate and third-largest producer of natural gas, with an enterprise value of more than \$10 billion. It was our first acquisition in more than a decade, and our patience and hard work paid off. We added the right asset and the right people at the right time of the cycle, and today, we are a stronger company as a result.

After closing the transaction, our focus quickly shifted to integration and realizing the benefits we had identified through the evaluation process. We welcomed new employees, incorporated the Kakwa asset into our broader portfolio, and harmonized systems and processes. As of year-end 2021, we exceeded initial annual synergy expectations by more than 70 per cent, capturing approximately \$190 million in value.

I am very pleased with our integration efforts and the benefits we are seeing manifest in all corners of our business. Today, ARC is an even more profitable company than it was before, with geographic and commodity optionality that has further bolstered our competitive position within the North American energy sector.

Delivering a Record Year for Shareholders

If the theme for 2020 was perseverance, the theme for 2021 is record performance. Relatively strong commodity prices and excellent operating performance drove record free funds flow of \$1.4 billion and \$2.16 per share. Our Operations team also delivered the lowest operating expense per boe in our 25-year history of \$3.86, a direct reflection of the competitive advantage associated with owning and operating our own infrastructure. Finally, ARC delivered record annual average production of 302,003 boe per day, reflective of our new size and scale.

Operational Excellence in Action

2021 also saw the execution of the largest capital program in ARC's history, with capital expenditures totalling \$1,062 million. Deploying capital efficiently and executing our business safely, remain our top priorities. Throughout this period of tremendous activity, I'm pleased to report we maintained our long track record of industry-leading safety performance, now surpassing eight years without an employee lost-time incident. This is a testament to the focus and commitment of our people in the field.

By leveraging our expertise in the Montney and our increased scale, we successfully captured approximately \$60 million in synergies related to our drilling and completions activities, exceeding

Today, ARC is an even more profitable company than it was before, with geographic and commodity optionality that has further bolstered our competitive position within the North American energy sector, and resulted in a record-year for our shareholders.

initial expectations of \$25 million. At Kakwa, we are also seeing strong results from modifications we have made to our well and pad designs, which are forecast to reduce capital expenditures required to sustain production by approximately 10 per cent over time.

Maintaining our Financial Strength

At the core of our long-term strategy is preserving a strong balance sheet through commodity price cycles, and maintaining our investment-grade credit rating to access low-cost debt. Following the Business Combination, we delivered on both objectives.

In 2021, we capitalized on the strong pricing environment to rapidly de-risk the business and reduce net debt by approximately 25 per cent since the close of the transaction in April. We exited the year with a 0.8 times net debt to annualized funds from operations ratio, coming in below our targeted

range of 1.0 to 1.5 times. We also achieved an investment-grade credit rating – a reflection of the underlying strength and profitability of our business.

Accelerating Shareholder Returns

A balanced total return achieved by re-investing in our business and distributing profits back to shareholders, has been a hallmark of ARC since our inception. This year, we formalized our approach to capital allocation, announcing a framework that commits to returning 50 to 80 per cent of free funds flow to our shareholders. In the fourth quarter, we delivered on this commitment, returning 63 per cent of free funds flow to shareholders through a combination of dividends and share repurchases.

In total, we increased our quarterly dividend by 67 per cent in 2021 to \$0.10 per share, and as of February 2022, we have repurchased more than 35 million common shares or approximately five per cent

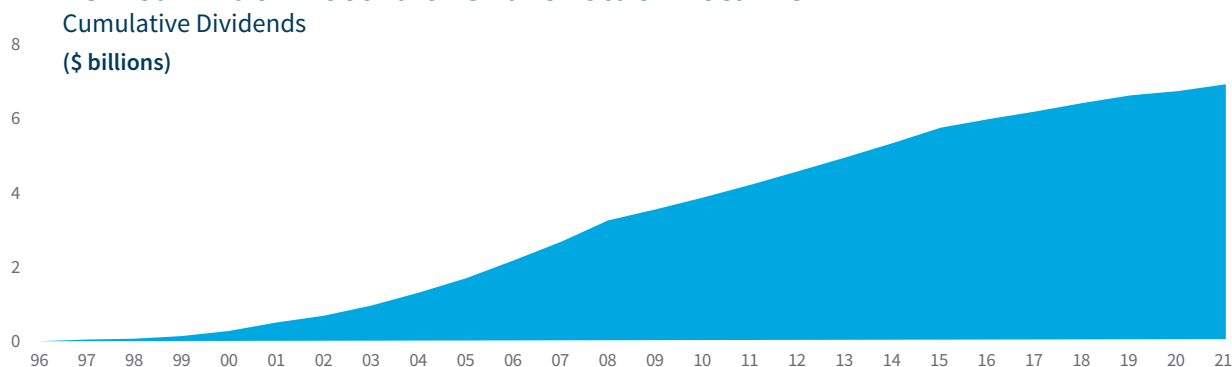
of shares outstanding. Moving forward, a growing and sustainable dividend will continue to be our primary long-term mechanism to deliver incremental value to our shareholders. This will be complemented with share repurchases, which we believe currently offer an attractive return and improve per share metrics.

Leading ESG Performance

As global energy needs continue to evolve, ARC has kept pace, maintaining and improving upon our leading ESG performance. As an example, from 2016 to 2020 ARC reduced its absolute GHG emissions by 37 per cent, while profitably growing production by 36 per cent.

We are proud to have the lowest GHG emissions intensity among our Canadian upstream producer peer group. Our strategy to reduce emissions centres on electrification, innovation and continuous improvement. This year, we invested in several emissions-reduction projects

25-Year Track Record of Shareholder Returns





On July 11, 2021, ARC celebrated its 25th anniversary. Our accomplishments over the past two-and-a-half decades can be attributed to our people and our guiding principles of capital discipline, risk management and a long-term focus on profitability, which were established in the early years, and still guide our Company today.

including progressing the electrification of additional facilities and well sites in northeast British Columbia. We also partnered with the Natural Gas Innovation Fund, an equity fund focused on advancing technologies and solutions that enhance the environmental and economic performance of the natural gas sector.

As concerns regarding energy security continue to escalate around the world, we believe Canadian natural gas offers a needed solution. Through responsible development practices, ARC is committed to helping address these challenges and playing a meaningful role in the transition to a lower carbon economy.

Powered by People

In closing, I'd like to thank our people for their extraordinary efforts in 2021. Together, we have delivered record results and enhanced our competitive position. Today, we have the scale, proven operating track record, and world-class assets and people to position ARC for success over the next 25 years. I would also like to thank Kathleen O'Neill, who will be retiring from our Board of Directors after 13 years.

We enter 2022 with tremendous momentum and a clear strategy that will deliver meaningful value to our shareholders, stakeholders, and communities whom we have the privilege to work in and with. On behalf of the ARC team, thank you for your continued support and confidence in our Company.

Sincerely,

A stylized blue ink signature of Terry M. Anderson.

Terry M. Anderson
President and Chief Executive Officer



Sunrise is a dry natural gas play with a low cost structure and industry-leading emissions profile. In 2021, we successfully completed a facility expansion that brought on an additional 40 MMcf per day of natural gas processing and sales capacity to the area.

Management's Discussion and Analysis

For the Three Months and Year Ended December 31, 2021

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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, 2022 and should be read in conjunction with the audited consolidated financial statements (the "financial statements") as at and for the year ended December 31, 2021, and the MD&A and unaudited condensed interim consolidated financial statements for the periods ended March 31, 2021, June 30, 2021, and September 30, 2021, as well as ARC's Annual Information Form ("AIF"), each of which is available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com. All financial information is reported in Canadian dollars and all per share information is based on diluted weighted average common shares, unless otherwise noted.

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

Throughout this MD&A and in other materials disclosed by the Company, ARC adheres to generally accepted accounting principles ("GAAP"), however the Company also employs certain non-GAAP measures to analyze financial performance, financial position, and cash flow including, "netback", "capital expenditures", "free funds flow", "adjusted earnings before interest and taxes ("adjusted EBIT")", and "average capital employed". Additionally, other financial measures are also used to analyze performance including, but not limited to, "funds from operations" and "net debt". These non-GAAP and other financial measures do not have any standardized meaning prescribed under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of ARC's performance.

Readers are cautioned that the MD&A should be read in conjunction with ARC's disclosure in the sections entitled "Non-GAAP and Other Financial Measures", "Forward-looking Information and Statements", and "Glossary" included at the end of this MD&A.

ARC has incorporated the current and anticipated impacts of the novel coronavirus COVID-19 ("COVID-19") pandemic in its preparation of this 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 April 6, 2021, ARC and Seven Generations Energy Ltd. ("Seven Generations") completed the transaction to create a new Canadian crude oil and natural gas company through a plan of arrangement (the "Business Combination"). The Business Combination created a resilient energy leader which is also the largest pure-play Montney producer. The combined company achieves size and scale, enhanced capital allocation optionality, cost savings and synergies, a strong financial position, and leadership in environmental, social, and governance ("ESG") practices, managed by a strong leadership team. ARC issued 369.4 million shares with a value of \$2.9 billion as consideration for the net assets acquired. For additional information, refer to Note 7 "Business Combination" in the financial statements.

Comparative figures in the MD&A include ARC's results prior to the Business Combination and do not reflect any historical data from Seven Generations. Significant differences in operating and financial results compared with prior periods are primarily due to the Business Combination.

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 unconventional 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, which includes a network of owned-and-operated infrastructure, allows ARC to deliver strong capital and operating efficiencies. The commodity and geographic

optionality within the asset base allows ARC to manage risk. ARC exercises capital discipline and maintains a moderate pace of development to manage its corporate decline rate. ARC's sustainable business model is focused on a strong balance sheet, ample liquidity, ESG leadership, long-term corporate profitability, generating free funds flow at reasonable commodity prices, and paying a sustainable dividend to shareholders. In combination with the Company's premier land position in the Montney, significant resources in-place, and high-performance people and culture, these principles make ARC a differentiated company.

Highlights

Corporate highlights for the years 2017 through 2021 are shown in Table 1:

Table 1

(\$ millions, except per share amounts, or unless otherwise noted)	2021	2020	2019	2018	2017
Production ⁽¹⁾					
Crude oil (bbl/d)	10,435	15,726	17,591	23,460	24,380
Condensate (bbl/d)	59,958	13,519	10,066	7,281	5,650
Crude oil and condensate (bbl/d)	70,393	29,245	27,657	30,741	30,030
Natural gas (MMcf/d)	1,149	739	623	570	526
NGLs (bbl/d)	40,084	9,112	7,578	6,955	5,273
Total production (boe/d)	302,003	161,564	139,126	132,724	122,937
Average daily production per thousand shares ⁽²⁾	0.48	0.46	0.39	0.38	0.35
Net income (loss)	786.6	(547.2)	(27.6)	213.8	388.9
Net income (loss) per share	1.25	(1.55)	(0.08)	0.60	1.10
Cash flow from operating activities	2,006.5	655.7	638.8	862.8	672.8
Cash flow from operating activities per share ⁽³⁾	3.20	1.86	1.81	2.44	1.90
Funds from operations ⁽⁴⁾	2,415.4	667.6	697.4	819.0	731.9
Funds from operations per share ⁽³⁾	3.85	1.89	1.97	2.31	2.07
Free funds flow ⁽⁵⁾	1,353.6	324.4	5.9	139.6	(97.8)
Free funds flow per share ⁽⁶⁾	2.16	0.92	0.02	0.39	(0.28)
Cash flow used in investing activities	808.1	364.3	673.3	534.7	416.4
Capital expenditures ⁽⁷⁾	1,061.8	343.2	691.5	679.4	829.7
Long-term debt ⁽⁸⁾	1,705.3	701.9	877.6	909.2	911.3
Net debt ⁽⁴⁾	1,828.7	693.5	894.0	702.7	728.0
Net debt to funds from operations (ratio) ⁽⁴⁾	0.8	1.0	1.3	0.9	1.0
Return on average capital employed ("ROACE") (%) ⁽⁹⁾	18	(18)	(2)	8	14
Proved plus probable reserves (MMboe) ⁽¹⁰⁾⁽¹¹⁾	1,760.6	929.0	909.9	878.9	836.1
Proved plus probable reserves per share (boe) ⁽¹⁰⁾⁽¹¹⁾	2.8	2.6	2.6	2.5	2.4

(1) Reported production amount is based on Company's interest before royalty burdens.

(2) Represents average daily production divided by the diluted weighted average common shares outstanding for the respective years ended December 31.

(3) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

(4) Refer to Note 18 "Capital Management" in the financial statements and to the section entitled "Non-GAAP and Other Financial Measures" 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. The most directly comparable GAAP measure for free funds flow is cash flow from operating activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

(6) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of free funds flow. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

(7) 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. The most directly comparable GAAP measure for capital expenditures is cash flow used in investing activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

(8) Refer to Note 15 "Long-term Debt" in the financial statements. Long-term debt includes current and long-term portions.

- (9) 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. Includes non-GAAP financial measure components of adjusted EBIT and average capital employed. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
- (10) 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.
- (11) 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, 2022 news release entitled "ARC Resources Ltd. Reports Record Year-end 2021 Results and Reserves" available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

QUARTERLY RESULTS ⁽¹⁾

Exhibit 1



(1) The details contained in the graphs above are included in the section entitled "Quarterly Historical Review" contained within this MD&A.

Trends in earnings, cash flow from operating activities, 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 2021, ARC recognized a gain on risk management contracts of \$103.4 million.
- In the third quarter of 2021, ARC recognized a loss on risk management contracts of \$524.5 million. Partially offsetting this, ARC recognized a reversal of impairment of \$39.3 million (\$29.9 million net of deferred tax expense) relating to its Northern Alberta cash-generating unit ("CGU"). Refer to Note 12 "Impairment" in the financial statements.
- In the second quarter of 2021, ARC successfully closed the strategic Montney combination with Seven Generations, substantially increasing the Company's production. Refer to Note 7 "Business Combination" in the financial statements. Additionally, ARC recognized a loss on risk management contracts of \$513.6 million.
- In the first quarter of 2021, ARC recognized a reversal of impairment of \$121.8 million (\$91.5 million net of deferred tax expense) relating to its Northern Alberta CGU. Refer to Note 12 "Impairment" in the financial statements. Partially offsetting this, ARC recognized a loss on risk management contracts of \$106.9 million.
- 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) relating to its Northern Alberta CGU. Additionally, ARC recognized a gain on risk management contracts of \$100.3 million.

ANNUAL GUIDANCE

ARC's 2021 and 2022 annual guidance and a review of 2021 actual results are outlined below:

Table 2

	2021 Guidance	2021 Actual	% Variance from 2021 Guidance	2022 Guidance ⁽⁴⁾
Production				
Crude oil (bbl/d)	9,000 - 10,500	10,435	—	7,000 - 9,000
Condensate (bbl/d)	55,000 - 60,000	59,958	—	72,000 - 78,000
Crude oil and condensate (bbl/d)	64,000 - 70,500	70,393	—	79,000 - 87,000
Natural gas (MMcf/d)	1,100 - 1,140	1,149	1	1,240 - 1,280
NGLs (bbl/d)	40,000 - 42,000	40,084	—	49,000 - 51,000
Total (boe/d)	287,000 - 302,000	302,003	—	335,000 - 350,000
Expenses (\$/boe) ⁽¹⁾				
Operating	3.90 - 4.40	3.86	(1)	4.00 - 4.50
Transportation	4.50 - 5.00	4.79	—	4.50 - 5.00
General and administrative ("G&A") expense before share-based compensation expense ⁽²⁾	0.90 - 1.00	1.07	7	0.80 - 0.90
G&A - share-based compensation expense ⁽³⁾	0.30 - 0.45	0.44	—	0.30 - 0.40
Transaction costs	0.20 - 0.30	0.20	—	—
Interest and financing	0.70 - 0.80	1.14	43	0.55 - 0.65
Current income tax expense, as a per cent of funds from operations ⁽¹⁾	1 - 5	1	—	1 - 6
Capital expenditures (\$ billions)	0.95 - 1.0	1.1	6	1.15 - 1.25

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

(2) Excludes transaction costs of \$22.1 million associated with the Business Combination.

(3) Comprises expense recognized under all share-based compensation plans, with the exception of the Deferred Share Unit ("DSU") Plans.

(4) Guidance for capital expenditures has been lowered to a range of \$1.15 to \$1.25 billion from a range of \$1.2 to \$1.3 billion.

ARC's 2021 production, operating, and transportation expenses were within guidance. ARC's G&A expense before share-based compensation expense was above the guidance range, reflecting an increase in employee compensation associated with the integration of the combined workforce. Interest and financing expense was above the guidance range due to make-whole payments made in the third quarter of 2021 to retire certain debt instruments with the intent of reducing ARC's future interest and financing expense. ARC's capital expenditures were above guidance as some expenditures originally budgeted for 2022 at Attachie West were accelerated into late 2021. This resulted in lowering 2022 capital expenditure guidance by \$50.0 million to a revised range of \$1.15 to \$1.25 billion. Production and all other previously disclosed guidance for 2022 remain unchanged. For more information regarding 2022 guidance, refer to the news release dated November 4, 2021 "ARC Resources Ltd. Reports Record Third Quarter 2021 Results, Increases Dividend, and Announces 2022 Budget" available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

ARC's near-term priority is to provide an attractive total shareholder return by balancing profitable reinvestment in the Company's assets with a meaningful return of capital through dividends and share repurchases. In 2021, ARC invested \$1.1 billion in capital expenditures, compared to a 2022 budget of \$1.15 to \$1.25 billion. The planned increase in 2022 from 2021 incorporates a full year of capital expenditures for the Kakwa area, which was acquired through the Business Combination, as opposed to nine months in 2021, plans to increase productive capacity in the Sunrise area, and certain emission-reduction projects. ARC expects to offset inflationary pressures in 2022 through continued efficiency improvement initiatives.

Exhibit 2

2021 Production Guidance

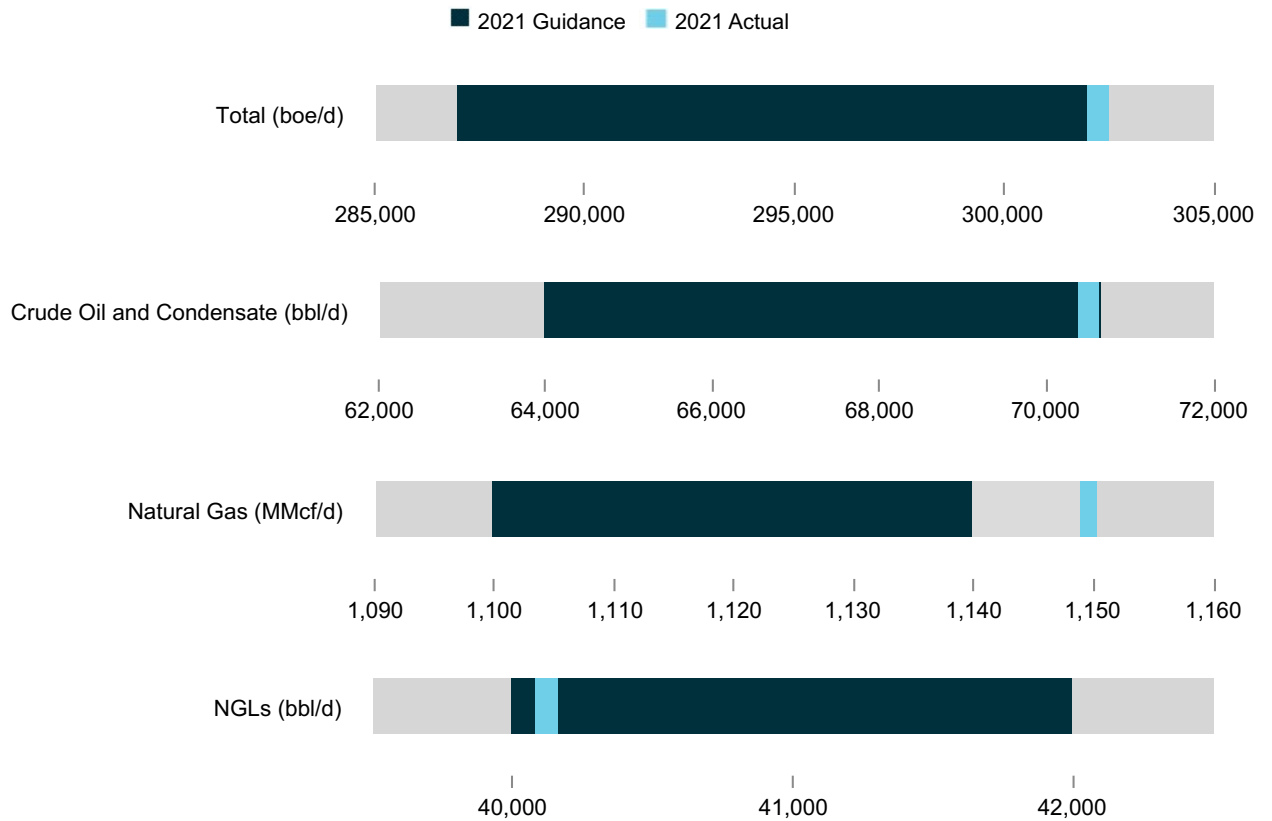
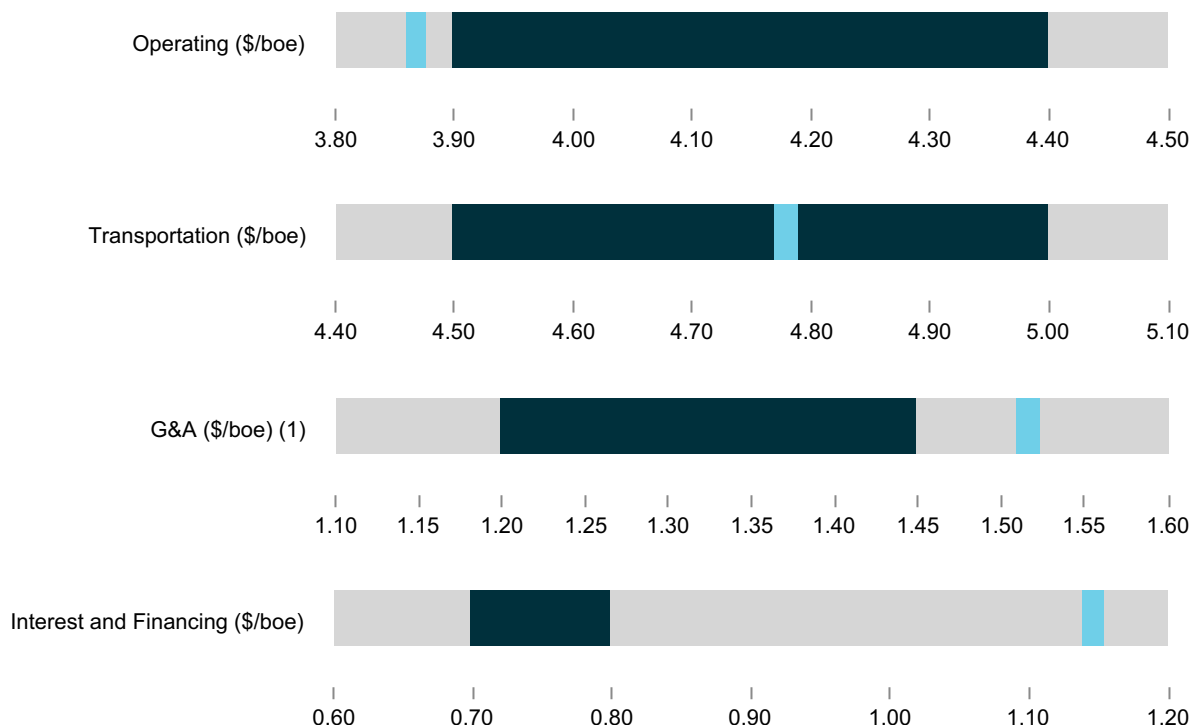


Exhibit 2a

2021 Expense Guidance

■ 2021 Guidance ■ 2021 Actual



(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

2021 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Financial Highlights

Table 3

(\$ millions, except per share and volume data)	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Net income (loss)	53.6	678.0	120.8	461	786.6	(547.2)	244
Net income (loss) per share	0.07	0.96	0.34	182	1.25	(1.55)	181
Cash flow from operating activities	615.0	668.7	201.1	233	2,006.5	655.7	206
Cash flow from operating activities per share	0.85	0.95	0.57	67	3.20	1.86	72
Funds from operations	765.4	833.6	212.0	293	2,415.4	667.6	262
Funds from operations per share	1.06	1.19	0.60	98	3.85	1.89	104
Free funds flow	497.0	458.7	135.3	239	1,353.6	324.4	317
Free funds flow per share	0.69	0.65	0.38	71	2.16	0.92	135
Dividends declared per share ⁽¹⁾	0.066	0.10	0.06	67	0.286	0.30	(5)
Average daily production (boe/d)	353,657	345,831	169,468	104	302,003	161,564	87

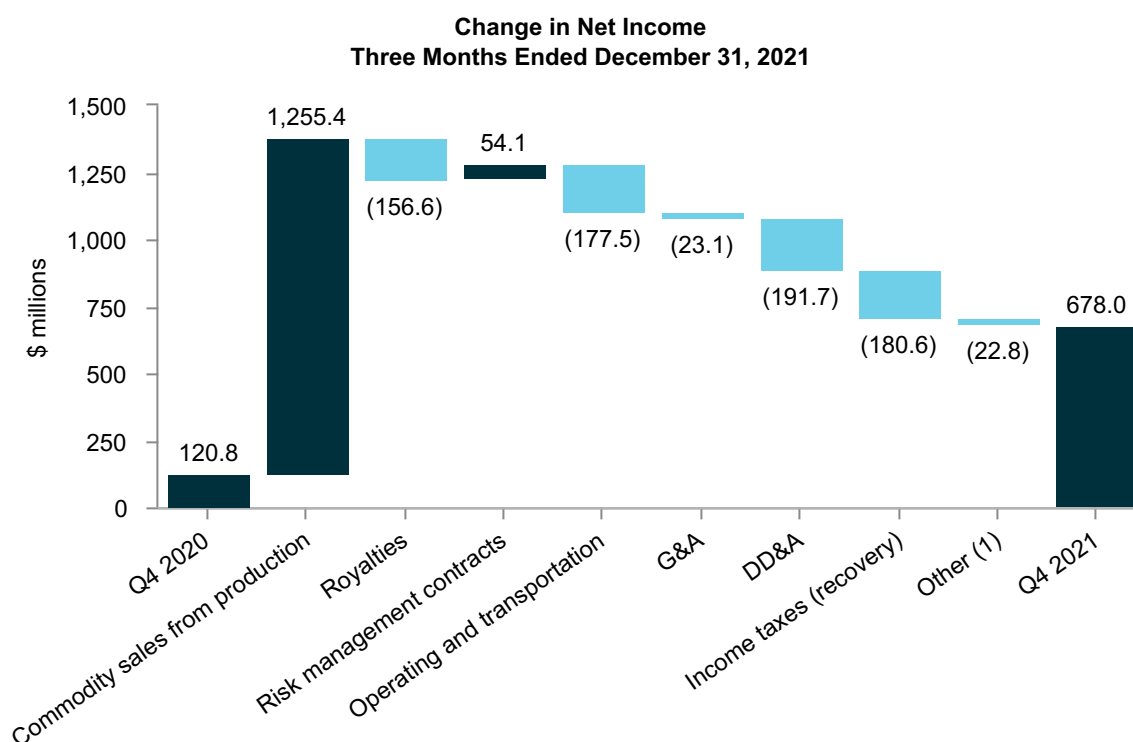
(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Net Income (Loss)

Significant increases in income and expenses for the three months and year ended December 31, 2021, compared with prior periods are primarily due to increased activity resulting from the Business Combination.

In the fourth quarter of 2021, ARC recognized net income of \$678.0 million (\$0.96 per share), an increase of \$557.2 million from ARC's fourth quarter 2020 net income of \$120.8 million (\$0.34 per share). The increase in net income is primarily due to an increase in commodity sales from production of \$1.3 billion, associated with higher average realized commodity prices and higher production volumes. Partially offsetting this is increased depletion, depreciation and amortization ("DD&A") expense of \$191.7 million, increased income tax expense of \$180.6 million, increased operating and transportation expense of \$177.5 million, as well as an increased royalty expense of \$156.6 million.

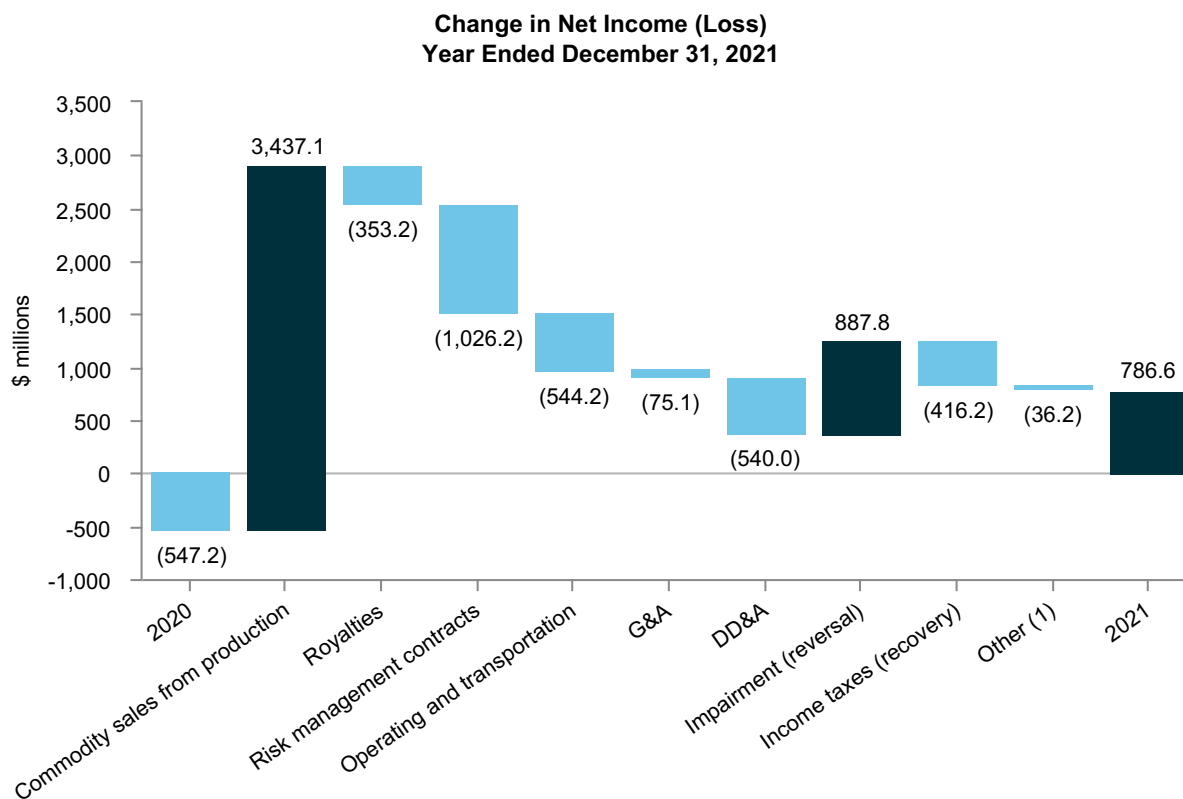
Exhibit 3



(1) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, exploration and evaluation ("E&E"), interest and financing, impairment of financial assets, and foreign exchange.

For the year ended December 31, 2021, ARC recognized net income of \$786.6 million (\$1.25 per share) compared to a net loss of \$547.2 million (\$1.55 per share) for the same period of the prior year. The \$1.3 billion increase in net income is primarily attributed to an increase in commodity sales from production of \$3.4 billion, associated with higher average realized commodity prices and higher production volumes, as well as a reversal of impairment of \$137.5 million compared to a \$750.3 million impairment charge in the same period of the prior year. Partially offsetting these items are an increased loss on risk management contracts of \$1.0 billion, increased operating and transportation expense of \$544.2 million, increased DD&A expense of \$540.0 million, increased income tax expense of \$416.2 million, and increased royalty expense of \$353.2 million.

Exhibit 3a



(1) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, E&E, transaction costs, interest and financing, impairment of financial assets, and foreign exchange.

Cash Flow from Operating Activities and Funds from Operations

Cash flow from operating activities for the three months ended December 31, 2021 was \$668.7 million, an increase of \$467.6 million from ARC's fourth quarter 2020 cash flow from operating activities of \$201.1 million. Cash flow from operating activities for the year ended December 31, 2021 was \$2.0 billion, an increase of \$1.4 billion from the \$655.7 million of cash flow from operating activities for the year ended December 31, 2020. The increase in cash flow from operating activities for the three months and year ended December 31, 2021, is primarily due to higher average realized commodity prices and an increase in production volumes resulting from the Business Combination.

ARC considers funds from operations to be a key measure of financial performance as it demonstrates ARC's ability to generate the necessary funds to maintain production at current levels and fund future growth through capital investment. 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 asset retirement obligations ("ARO"), of which the nature and timing of expenditures are discretionary. Funds from operations is a capital management measure, is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

Refer to Note 18 "Capital Management" in the financial statements and to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A. Table 4 is a reconciliation of ARC's net income (loss) to funds from operations and its most directly comparable GAAP measure, cash flow from operating activities:

Table 4

(\$ millions)	Three Months Ended			Year Ended	
	September 30, 2021	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Net income (loss)	53.6	678.0	120.8	786.6	(547.2)
Adjusted for the following non-cash items:					
Impairment (reversal of impairment) of financial assets	0.9	2.0	(0.2)	4.0	12.9
DD&A	328.7	320.1	128.4	1,063.6	523.6
Impairment (reversal of impairment)	(39.3)	—	—	(137.5)	750.3
Accretion of ARO	2.1	2.6	1.5	9.5	6.3
E&E	—	—	7.1	—	7.1
Deferred tax expense (recovery)	16.9	223.8	21.1	174.8	(180.9)
Unrealized loss (gain) on risk management contracts	385.6	(384.9)	(40.5)	534.2	89.6
Unrealized loss (gain) on foreign exchange	14.9	(7.3)	(26.3)	(22.2)	2.1
Other	2.0	(0.7)	0.1	2.4	3.8
Funds from operations	765.4	833.6	212.0	2,415.4	667.6
Net change in other liabilities	(97.3)	(56.4)	2.7	(224.8)	7.6
Change in non-cash working capital	(53.1)	(108.5)	(13.6)	(184.1)	(19.5)
Cash flow from operating activities	615.0	668.7	201.1	2,006.5	655.7

Details of the change in funds from operations from the three months and year ended December 31, 2020 to the three months and year ended December 31, 2021 are included in Table 5 below:

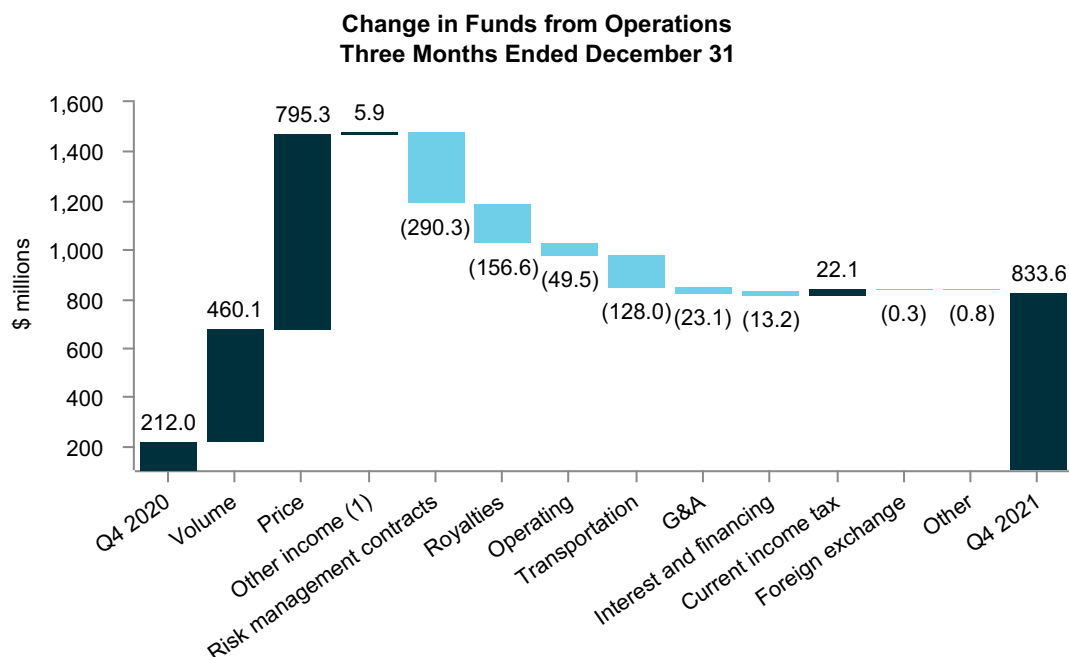
Table 5

	Three Months Ended		Year Ended	
	December 31		December 31	
	\$ millions	\$/Share	\$ millions	\$/Share
Funds from operations – 2020	212.0	0.60	667.6	1.89
Production volume variance				
Crude oil and liquids	325.0	0.92	866.9	2.46
Natural gas	135.1	0.38	335.7	0.95
Commodity price variance				
Crude oil and liquids	370.5	1.04	1,161.5	3.29
Natural gas	424.8	1.19	1,073.0	3.04
Sales of commodities purchased from third parties	325.0	0.93	901.2	2.54
Interest income	—	—	1.1	—
Other income	(1.1)	—	6.9	0.02
Realized loss on risk management contracts	(290.3)	(0.82)	(581.6)	(1.65)
Royalties	(156.6)	(0.44)	(353.2)	(1.00)
Expenses				
Commodities purchased from third parties	(318.0)	(0.89)	(866.1)	(2.45)
Operating	(49.5)	(0.14)	(192.1)	(0.54)
Transportation	(128.0)	(0.36)	(352.1)	(1.00)
G&A	(23.1)	(0.07)	(75.1)	(0.21)
Transaction costs	—	—	(22.1)	(0.06)
Interest and financing	(13.2)	(0.04)	(77.3)	(0.22)
Current income tax	22.1	0.06	(60.5)	(0.17)
Realized loss on foreign exchange	(0.3)	—	(17.0)	(0.05)
Other	(0.8)	—	(1.4)	—
Weighted average shares, diluted	—	(1.17)	—	(2.99)
Funds from operations – 2021	833.6	1.19	2,415.4	3.85

Funds from operations generated in the fourth quarter of 2021 increased by \$621.6 million to \$833.6 million (\$1.19 per share) from \$212.0 million (\$0.60 per share) generated in the fourth quarter of 2020. For the year ended December 31, 2021, funds from operations increased by \$1.7 billion to \$2.4 billion (\$3.85 per share) from \$667.6 million (\$1.89 per share) in 2020.

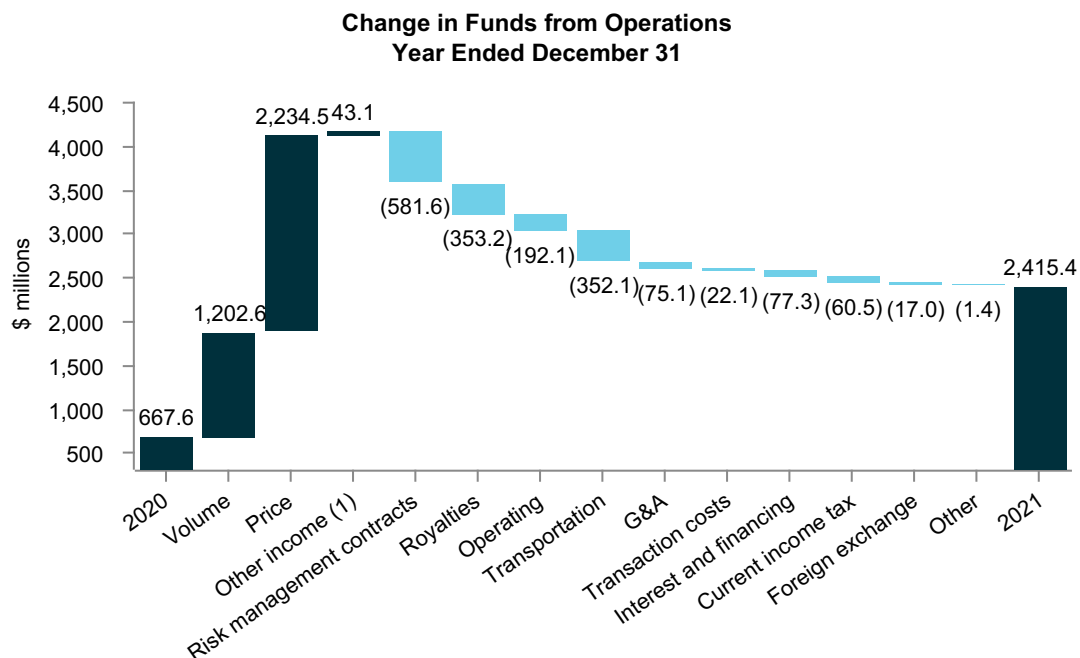
The increase in funds from operations for the three months and year ended December 31, 2021, is primarily due to higher average realized commodity prices and an increase in production volumes as a result of the Business Combination. This was partially offset by an increased realized loss on risk management contracts as well as increases in royalties, operating, transportation, G&A, and interest and financing, which are reflective of the larger-scale operations created by the Business Combination.

Exhibit 4



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

Exhibit 4a



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

Net Income Sensitivity

Table 6 illustrates sensitivities of operating items to business environment and operational changes and the resulting impact on net income:

Table 6

			Impact on Annual Net Income	
	Assumption	Change	Notional Amount (\$ millions)	\$/Share
Business Environment ⁽¹⁾				
Crude oil price (\$/bbl) ⁽²⁾⁽³⁾	75.08	10 %	216.0	0.344
Natural gas price (\$/Mcf) ⁽²⁾	4.82	10 %	204.1	0.325
Cdn\$/US\$ exchange rate ⁽²⁾⁽⁴⁾	1.25	5 %	179.3	0.286
Interest rate on floating-rate debt	1.67 %	0.5 %	2.7	0.004
Operational ⁽⁵⁾				
Crude oil and liquids production (bbl/d)	110,477	1 %	20.0	0.032
Natural gas production (MMcf/d)	1,149.1	1 %	9.9	0.016
Operating (\$/boe)	3.86	1 %	4.4	0.007
G&A (\$/boe)	1.51	1 %	1.7	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. The subsequent impact on risk management contracts is not included.

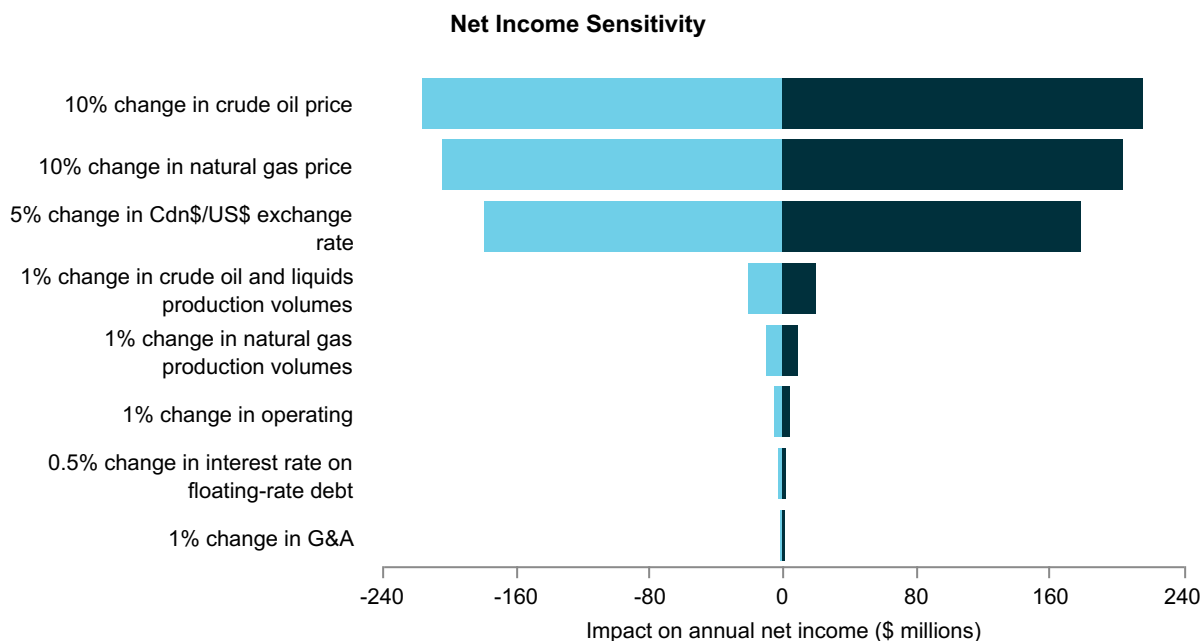
(2) Prices and rates are indicative of ARC's average realized prices for the year ended December 31, 2021. Refer to Table 11 contained within this MD&A for additional details. The calculated impact on net income is indicative of changes in the underlying benchmark prices and differentials and would only 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, 2021 and the calculated impact on net income would only be applicable within a limited range of these amounts.

Exhibit 5



Production

Table 7

Production	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Light and medium crude oil (bbl/d)	8,390	7,640	15,318	(50)	10,206	15,470	(34)
Heavy crude oil (bbl/d)	249	217	236	(8)	229	256	(11)
Condensate (bbl/d)	77,539	74,220	14,715	404	59,958	13,519	344
NGLs (bbl/d)	50,891	48,299	8,678	457	40,084	9,112	340
Crude oil and liquids (bbl/d)	137,069	130,376	38,947	235	110,477	38,357	188
Natural gas (MMcf/d)	1,300	1,293	783	65	1,149	739	55
Total production (boe/d)	353,657	345,831	169,468	104	302,003	161,564	87
Natural gas production (%)	61	62	77	(15)	63	76	(13)
Crude oil and liquids production (%)	39	38	23	15	37	24	13

For the three months and year ended December 31, 2021, crude oil and liquids production increased 235 per cent and 188 per cent, respectively, as compared to the same periods in the prior year. Increases in condensate and NGLs production were primarily driven by production from the Kakwa area acquired in the Business Combination. The decrease in crude oil production is primarily attributable to the disposition of certain non-core assets in the second quarter of 2021.

For the three months and year ended December 31, 2021, natural gas production increased 65 per cent and 55 per cent, respectively, compared to the same periods in the prior year. The increase was primarily driven by production from the Kakwa area acquired in the Business Combination as well as increased production from the expansion at the Sunrise Phase I and II facilities, which was completed in the second quarter of 2021.

Exhibit 6

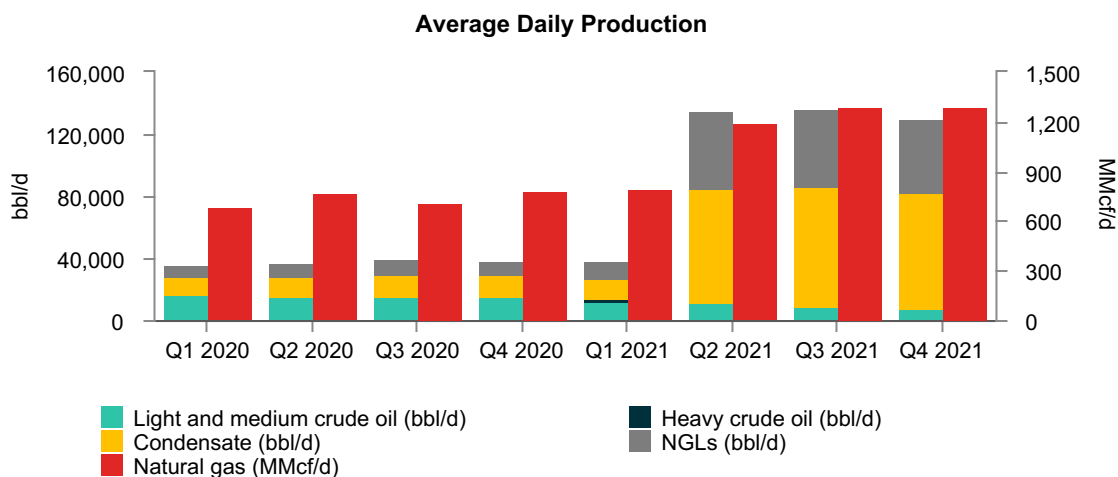


Table 8 summarizes ARC's production by core area for the three months ended December 31, 2021 and December 31, 2020:

Table 8

Three Months Ended December 31, 2021					
Production Core Area	Total (boe/d)	Crude Oil (bbl/d)	Condensate (bbl/d)	Natural Gas (MMcf/d)	NGLs (bbl/d)
Kakwa	178,415	24	62,626	464.1	38,414
Greater Dawson ⁽¹⁾	93,889	1,414	8,494	458.8	7,521
Sunrise	48,619	—	—	291.7	—
Ante Creek	18,520	6,205	593	60.2	1,688
Attachie West	3,702	—	1,864	10.7	52
All other	2,686	214	643	7.2	624
Total	345,831	7,857	74,220	1,292.7	48,299

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)
Greater Dawson ⁽¹⁾	97,015	2,126	10,885	465.2	6,469
Sunrise	39,098	—	—	234.4	36
Ante Creek	18,274	7,690	597	50.9	1,502
Attachie West	5,386	—	2,966	13.5	166
All other	9,695	5,738	267	19.1	505
Total	169,468	15,554	14,715	783.1	8,678

(1) Comprises ARC's Dawson and Parkland/Tower assets.

Exhibit 7

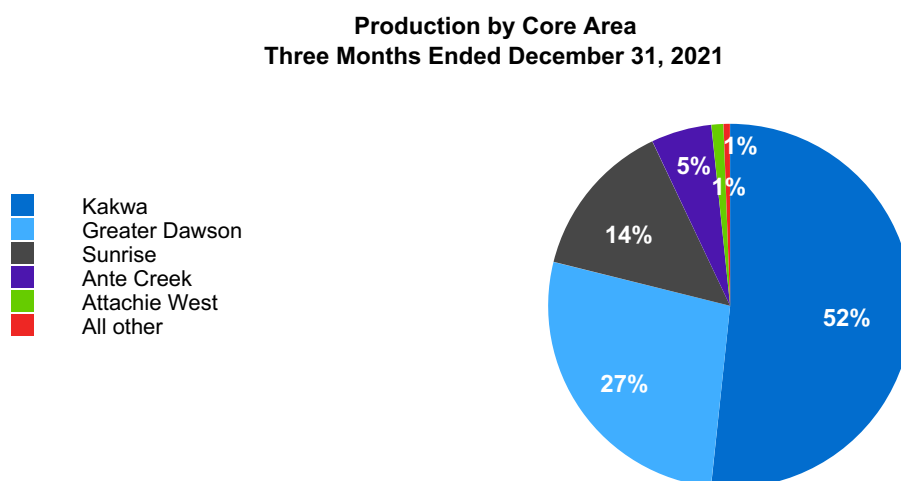


Table 8a summarizes ARC's production by core area for the years ended December 31, 2021 and December 31, 2020:

Table 8a

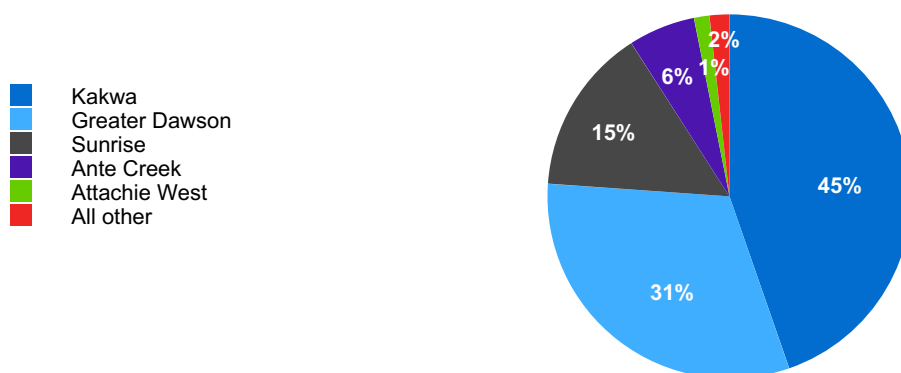
Year Ended December 31, 2021					
Production Core Area	Total (boe/d)	Crude Oil (bbl/d)	Condensate (bbl/d)	Natural Gas (MMcf/d)	NGLs (bbl/d)
Kakwa	134,935	17	47,376	345.8	29,911
Greater Dawson ⁽¹⁾	94,961	1,447	9,757	453.1	8,241
Sunrise	44,732	—	2	268.4	—
Ante Creek	17,953	6,526	520	56.4	1,502
Attachie West	4,114	—	2,119	11.3	117
All other	5,308	2,445	184	14.1	313
Total	302,003	10,435	59,958	1,149.1	40,084

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)
Greater Dawson ⁽¹⁾	91,704	2,337	10,232	431.5	7,230
Sunrise	38,930	—	—	233.5	22
Ante Creek	16,241	6,882	467	45.0	1,386
Attachie West	4,356	—	2,542	10.2	107
All other	10,333	6,507	278	19.0	367
Total	161,564	15,726	13,519	739.2	9,112

(1) Comprises ARC's Dawson and Parkland/Tower assets.

Exhibit 7a

**Production by Core Area
Year Ended December 31, 2021**



Commodity Sales from Production

For the three months and year ended December 31, 2021, commodity sales from production increased by 346 per cent and 303 per cent, respectively, as compared to the same periods in 2020. The increase is primarily due to increased production volumes resulting from the Business Combination, combined with higher average realized commodity prices.

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

Table 9

Commodity Sales from Production (\$ millions)	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Crude oil	61.7	66.6	68.9	(3)	286.0	245.3	17
Condensate	611.3	661.7	72.4	814	1,882.9	235.6	699
Natural gas	558.9	767.3	207.4	270	2,021.0	612.3	230
NGLs	130.7	122.9	14.4	753	382.7	42.3	805
Commodity sales from production	1,362.6	1,618.5	363.1	346	4,572.6	1,135.5	303

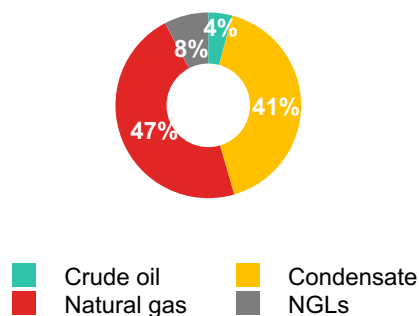
For the three months and year ended December 31, 2021, crude oil and liquids comprised 53 per cent and 56 per cent of ARC's commodity sales from production, respectively, compared to 43 per cent and 46 per cent for the same periods in 2020. The increase in crude oil and liquids weighting is primarily due to the addition of condensate and NGLs volumes from the Kakwa area acquired through the Business Combination.

Table 10

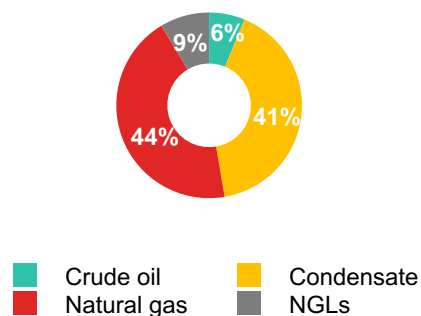
% of Commodity Sales from Production by Product Type	Three Months Ended			Year Ended	
	September 30, 2021	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Crude oil and liquids	59	53	43	56	46
Natural gas	41	47	57	44	54
Commodity sales from production	100	100	100	100	100

Exhibit 8

**Commodity Sales from Production
by Product
Three Months Ended
December 31, 2021**



**Commodity Sales from Production
by Product
Year Ended
December 31, 2021**



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, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Average Benchmark Prices							
NYMEX Henry Hub Last Day Settlement (US\$/MMBtu)	4.01	5.83	2.66	119	3.84	2.08	85
Chicago Citygate Monthly Index (US\$/MMBtu)	3.86	5.87	2.49	136	3.77	1.98	90
AECO 7A Monthly Index (Cdn\$/Mcf)	3.54	4.94	2.77	78	3.56	2.24	59
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	70.52	77.10	42.70	81	68.11	39.34	73
Cdn\$/US\$ exchange rate	1.26	1.26	1.30	(3)	1.25	1.34	(7)
WTI crude oil (Cdn\$/bbl)	88.86	97.15	55.51	75	85.14	52.72	61
Mixed Sweet Blend ("MSW") Price at Edmonton (Cdn\$/bbl)	83.72	93.23	50.33	85	80.51	45.62	76
Condensate Stream Price at Edmonton (Cdn\$/bbl)	87.18	99.55	55.47	79	85.71	49.74	72
ARC Average Realized Commodity Prices ⁽¹⁾							
Crude oil (\$/bbl)	77.43	92.11	48.14	91	75.08	42.62	76
Condensate (\$/bbl)	85.72	96.90	53.55	81	86.04	47.62	81
Natural gas (\$/Mcf)	4.67	6.45	2.88	124	4.82	2.26	113
NGLs (\$/bbl)	27.92	27.65	18.03	53	26.16	12.69	106
Average realized commodity price (\$/boe)	41.88	50.87	23.29	118	41.48	19.20	116

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Benchmark Commodity Prices

Average WTI crude oil prices increased nine per cent in the fourth quarter of 2021 compared to the prior quarter and increased 81 per cent compared to the fourth quarter of 2020. Global crude oil demand has almost fully recovered to pre-pandemic levels while supply has grown at a more gradual pace due to coordinated production curtailments and limited growth capital spending among independent producers. COVID-19 continues to contribute to volatility and uncertainty in the global crude oil market, but a supportive underlying supply and demand balance during the quarter helped push WTI to its strongest levels since 2014.

Canadian condensate differentials strengthened compared to the prior quarter due to typical seasonal factors. Strong oil sands production and competition for imported supply continued to support the value of condensate relative to WTI. The recent commencement of service on Enbridge's Line 3 Expansion Project has provided significant incremental egress capacity to accommodate growing Canadian crude oil production.

Average NYMEX Henry Hub natural gas prices increased 45 per cent in the fourth quarter of 2021 compared to the prior quarter and increased 119 per cent compared to the fourth quarter of 2020. Concerns of a potential winter inventory deficit provided support to prices through most of the quarter with the prompt Henry Hub contract reaching its highest level since 2014. The AECO monthly index increased 40 per cent in the fourth quarter of 2021 compared to the prior quarter and increased 78 per cent compared to the fourth quarter of 2020. Prices in both markets trended higher through most of the period; however, shifting fundamentals resulted in heightened volatility. In global natural gas markets, low inventory levels and supply uncertainty pushed prices to record levels, further underpinning favourable market conditions for North American liquefied natural gas ("LNG") exports.

ARC's Average Realized Commodity Prices

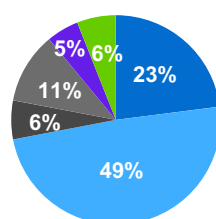
For the three months and year ended December 31, 2021, ARC's average realized crude oil price increased 91 per cent and 76 per cent, respectively, compared to the same periods in 2020. ARC's average realized condensate price increased 81 per cent for both the three months and year ended December 31, 2021, compared to the same periods in 2020. For both crude oil and condensate, the increases primarily reflect the stronger benchmark WTI price and tighter differentials in the current period.

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 and year ended December 31, 2021 increased 124 per cent and 113 per cent, respectively, compared to the same periods in the prior year. The increase is primarily due to an increase in the benchmark NYMEX Henry Hub price, combined with stronger domestic and international demand.

Exhibit 9

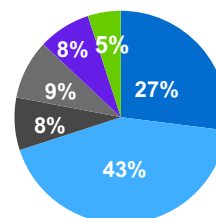
**Natural Gas Sales by Sales Point
Three Months Ended
December 31, 2021**

■ AECO
■ US Midwest
■ US Gulf Coast
■ Pacific Northwest
■ Station 2
■ Dawn



**Natural Gas Sales by Sales Point
Year Ended
December 31, 2021**

■ AECO
■ US Midwest
■ US Gulf Coast
■ Pacific Northwest
■ Station 2
■ Dawn



ARC's NGLs revenue increased to \$122.9 million and \$382.7 million for the three months and year ended December 31, 2021, respectively, compared to \$14.4 million and \$42.3 million for the same periods of the prior year. Average realized NGLs pricing increased 53 per cent and 106 per cent, respectively, compared to the same periods in 2020, due to stronger WTI pricing and a decrease in North American supply.

Netback

The components of ARC's netback for the three months and year ended December 31, 2021 compared to the same periods in 2020 are summarized in Tables 12 and 12a:

Table 12

Netback (\$ millions) ⁽¹⁾	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Commodity sales from production	1,362.6	1,618.5	363.1	346	4,572.6	1,135.5	303
Royalties	(109.7)	(172.7)	(16.1)	973	(400.7)	(47.5)	744
Operating	(116.6)	(111.5)	(62.0)	80	(425.4)	(233.3)	82
Transportation	(160.3)	(174.2)	(46.2)	277	(528.3)	(176.2)	200
Netback	976.0	1,160.1	238.8	386	3,218.2	678.5	374

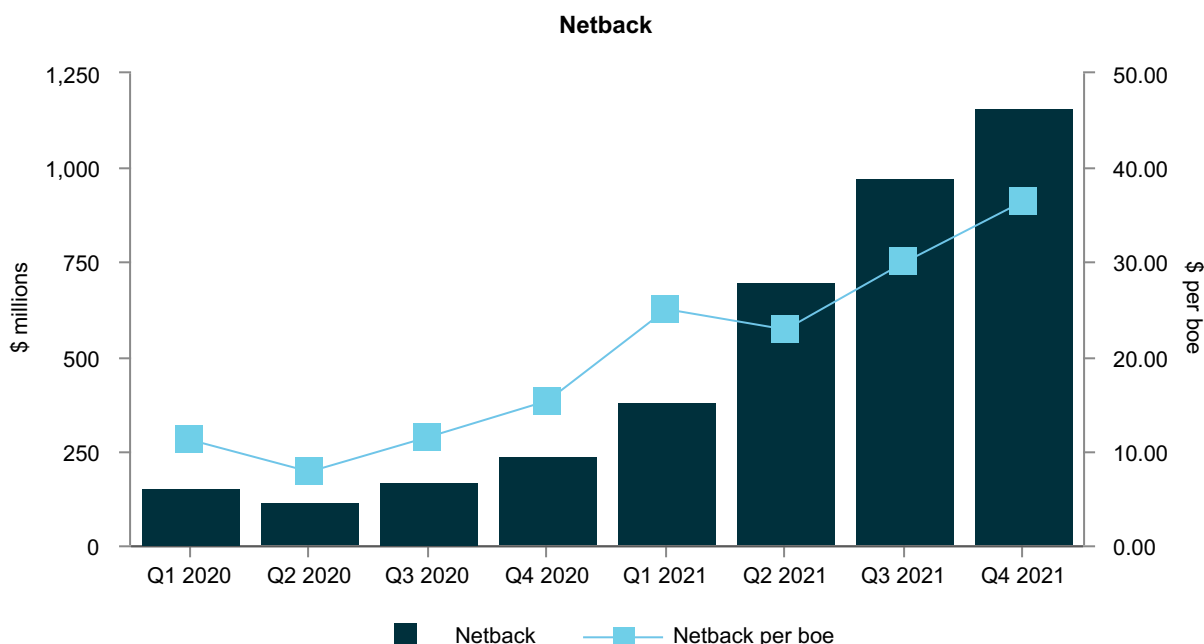
(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

Table 12a

Netback (\$ per boe) ⁽¹⁾	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Commodity sales from production	41.88	50.87	23.29	118	41.48	19.20	116
Royalties	(3.38)	(5.44)	(1.04)	423	(3.64)	(0.81)	349
Operating	(3.58)	(3.50)	(3.97)	(12)	(3.86)	(3.94)	(2)
Transportation	(4.93)	(5.47)	(2.97)	84	(4.79)	(2.98)	61
Netback	29.99	36.46	15.31	138	29.19	11.47	154

(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. Includes a non-GAAP financial measure component of netback. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

Exhibit 10



Risk Management Contracts

Tables 13 and 13a summarize the gain or loss on risk management contracts for the three months and year ended December 31, 2021 compared to the same periods in 2020:

Table 13

Risk Management Contracts (\$ millions)	Crude Oil & Condensate	Natural Gas	NGLs and Foreign Currency	Q4 2021 Total	Q4 2020 Total
Realized gain (loss) on risk management contracts ⁽¹⁾	(110.6)	(170.7)	(0.2)	(281.5)	8.8
Unrealized gain (loss) on risk management contracts ⁽²⁾	55.7	331.4	(2.2)	384.9	40.5
Gain (loss) on risk management contracts	(54.9)	160.7	(2.4)	103.4	49.3

(1) Represents actual cash settlements under the respective contracts recognized in income during the period.

(2) Represents the change in fair value of the contracts during the period.

Table 13a

Risk Management Contracts (\$ millions)	Crude Oil & Condensate	Natural Gas	NGLs and Foreign Currency	2021 Total	2020 Total
Realized gain (loss) on risk management contracts ⁽¹⁾	(235.7)	(280.8)	9.1	(507.4)	74.2
Unrealized loss on risk management contracts ⁽²⁾	(304.4)	(219.4)	(10.4)	(534.2)	(89.6)
Loss on risk management contracts	(540.1)	(500.2)	(1.3)	(1,041.6)	(15.4)

(1) Represents actual cash settlements under the respective contracts recognized in income during the period.

(2) Represents the change in fair value of the contracts during the period.

For the three months and year ended December 31, 2021, ARC's realized loss on risk management contracts primarily reflects cash settlements paid on WTI crude oil contracts, NYMEX Henry Hub natural gas contracts, and AECO natural gas contracts.

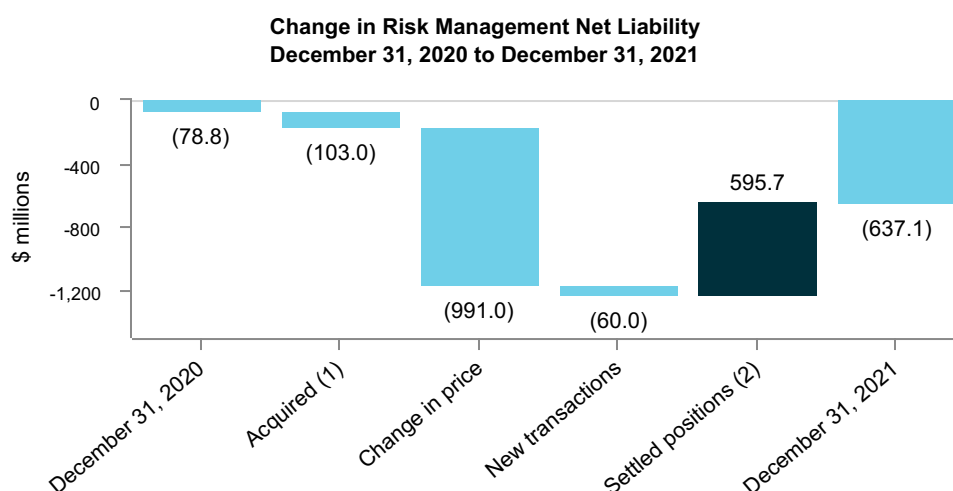
ARC's unrealized gain on crude oil contracts for the three months ended December 31, 2021 primarily reflects the settlement of loss positions for WTI crude oil contracts during the period. ARC's unrealized loss on crude oil contracts for the year ended December 31, 2021 primarily reflects higher forward pricing for WTI crude oil contracts entered into in prior periods.

ARC's unrealized gain on natural gas contracts for the three months ended December 31, 2021 primarily reflects the settlement of loss positions for NYMEX Henry Hub and AECO natural gas contracts during the period. ARC's unrealized loss on natural gas contracts for the year ended December 31, 2021 primarily reflects higher forward pricing for NYMEX Henry Hub and AECO natural gas contracts in 2021.

The changes in the realized and unrealized gain or loss on risk management contracts include both contracts acquired in the Business Combination as well as additional contracts executed with the intent to protect the economics of the Business Combination. For more information, refer to Note 19 "Financial Instruments and Market Risk Management" in the financial statements.

The fair value of ARC's risk management contracts at December 31, 2021 was a net liability of \$637.1 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 \$346.0 million from crude oil contracts, a net liability of \$299.0 million from natural gas contracts, and a net asset of \$7.9 million from NGLs and foreign currency contracts. Refer to Note 19 "Financial Instruments and Market Risk Management".

Exhibit 11



(1) Acquired upon close of the Business Combination.

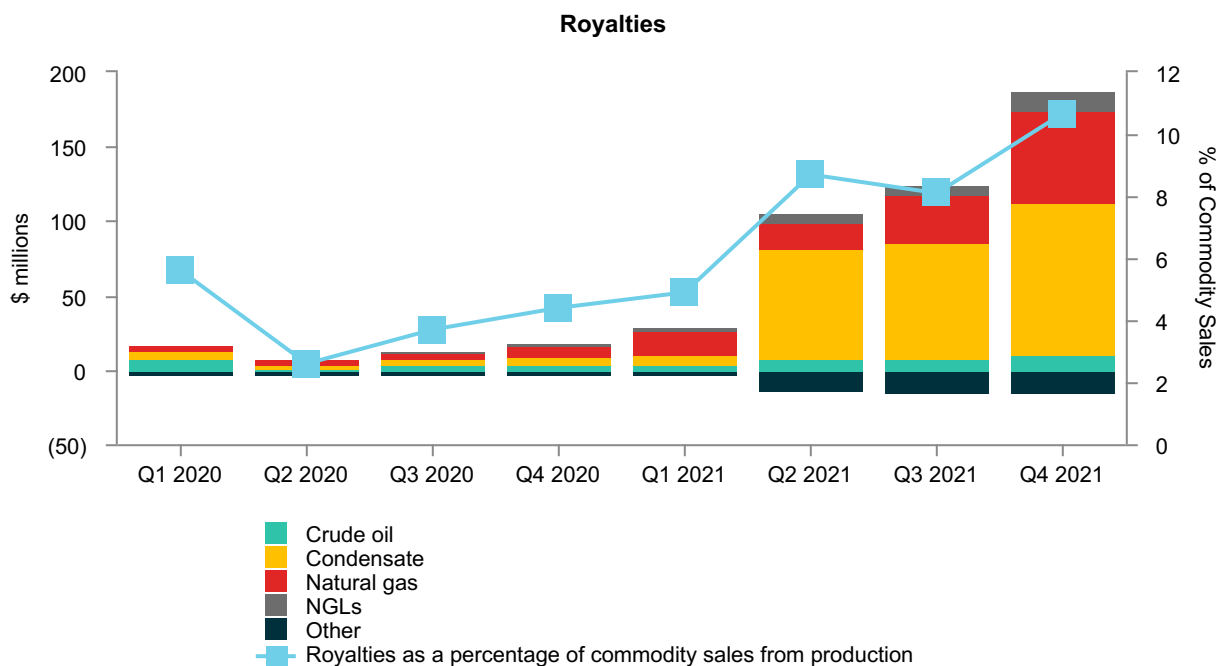
(2) Includes monthly cash settlements paid by ARC of \$26.2 million and \$78.8 million, respectively, for the three months and year ended December 31, 2021, associated with the settlement of the risk management liability recognized as a result of the Business Combination. Refer to Note 7 "Business Combination" in the financial statements.

Royalties

Total royalties for the three months and year ended December 31, 2021 increased 973 per cent and 744 per cent, respectively, to \$172.7 million and \$400.7 million (\$16.1 million and \$47.5 million for the same periods in 2020). Royalties as a percentage of commodity sales from production⁽¹⁾ increased to 10.7 per cent (\$5.44 per boe⁽¹⁾) in the fourth quarter of 2021 from 4.4 per cent (\$1.04 per boe) in the fourth quarter of 2020. For the year ended December 31, 2021, royalties represented 8.8 per cent of commodity sales from production (\$3.64 per boe) as compared to 4.2 per cent (\$0.81 per boe) for the year ended December 31, 2020. The increase in total royalties and royalties as a percentage of commodity sales from production for the three months and year ended December 31, 2021, is reflective of higher average royalty rates due to increased commodity prices for all products compared to the same periods in 2020, as well as a higher proportion of condensate and NGLs production volumes as a result of the Business Combination.

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Exhibit 12

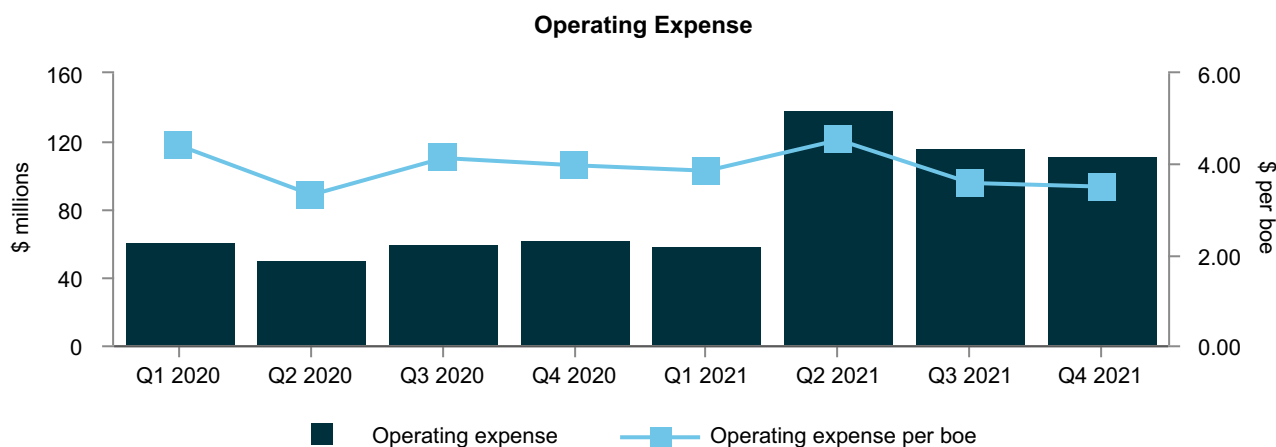


Operating

Operating expense increased by \$49.5 million to \$111.5 million in the fourth quarter of 2021 as compared to \$62.0 million in the fourth quarter of 2020. For the year ended December 31, 2021, operating expense increased by \$192.1 million to \$425.4 million as compared to \$233.3 million in the prior year. The increase in operating expense for the three months and year ended December 31, 2021 is reflective of increased activity due to the Business Combination. This was partially offset by the disposition of non-core assets in 2021.

Operating expense per boe decreased \$0.47 per boe to \$3.50 per boe in the fourth quarter of 2021 compared to \$3.97 per boe in the fourth quarter of 2020. For the year ended December 31, 2021, operating expense per boe decreased by \$0.08 per boe to \$3.86 per boe compared to \$3.94 per boe for the year ended December 31, 2020. The decrease in operating expense per boe for the three months and year ended December 31, 2021 primarily reflects an increased proportion of liquids production due to the Business Combination and the disposition of non-core assets in 2021 that had higher average operating costs.

Exhibit 13

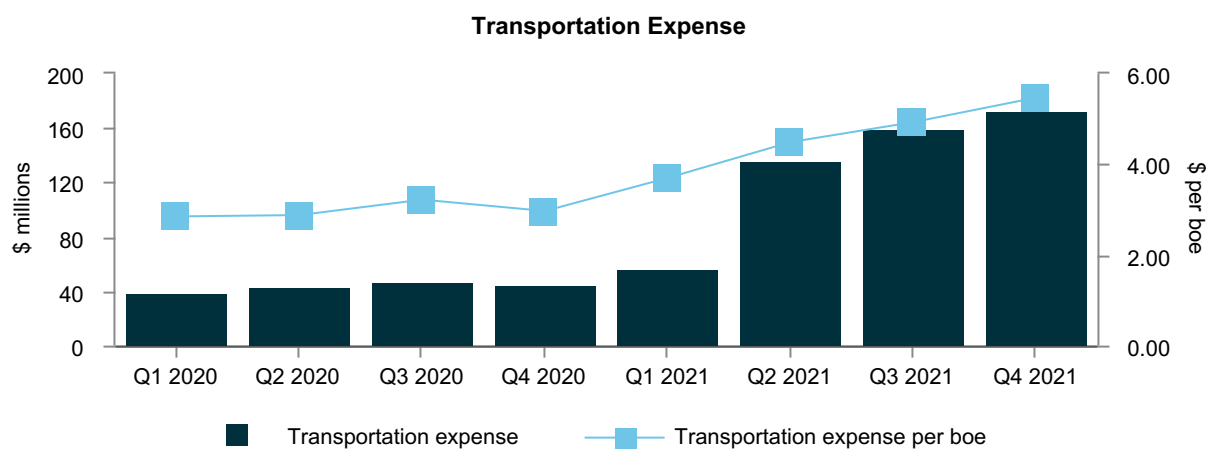


Transportation

Transportation expense for the three months and year ended December 31, 2021 was \$174.2 million and \$528.3 million (\$46.2 million and \$176.2 million for the three months and year ended December 31, 2020), respectively. Transportation expense per boe for the three months and year ended December 31, 2021, was \$5.47 per boe and \$4.79 per boe (\$2.97 per boe and \$2.98 per boe for the three months and year ended December 31, 2020), respectively. The increase in transportation expense and transportation expense per boe for the three months and year ended December 31, 2021, relative to the same periods in 2020, is primarily due to additional natural gas, condensate, and NGLs transportation costs associated with increased production volume acquired through the Business Combination.

ARC enters firm transportation service commitments in order to secure diversified market access for both its current production as well as anticipated production from facility infrastructure planned to be operational in the future. ARC's transportation contract portfolio is monitored on an ongoing basis and contracts are assessed at period end to determine the existence of any contracts that are onerous; none were identified at December 31, 2021. For information regarding ARC's payment obligations under its future transportation commitments, refer to Note 24 "Commitments and Contingencies" in the financial statements.

Exhibit 14



G&A

G&A expense before share-based compensation increased 111 per cent to \$34.4 million in the fourth quarter of 2021 from \$16.3 million in the fourth quarter of 2020. For the year ended December 31, 2021, ARC's G&A expense before share-based compensation was \$118.3 million, a 78 per cent increase from \$66.3 million recognized in 2020. The increase for the three months and year ended December 31, 2021, compared to the same periods in the prior year primarily reflects increased employee compensation due to a larger workforce, termination benefits paid, higher corporate and office-related expenses recognized in conjunction with the Business Combination, and an increase in average director fees that contain a share-based component that is revalued when the underlying share price changes. These increases were partially offset by higher capitalized G&A expenses.

Not included in G&A are transaction costs associated with the Business Combination which were \$22.1 million for the year ended December 31, 2021. Transaction costs are primarily composed of advisory and legal fees. Refer to Note 7 "Business Combination" in the financial statements.

Table 14 is a breakdown of G&A expense:

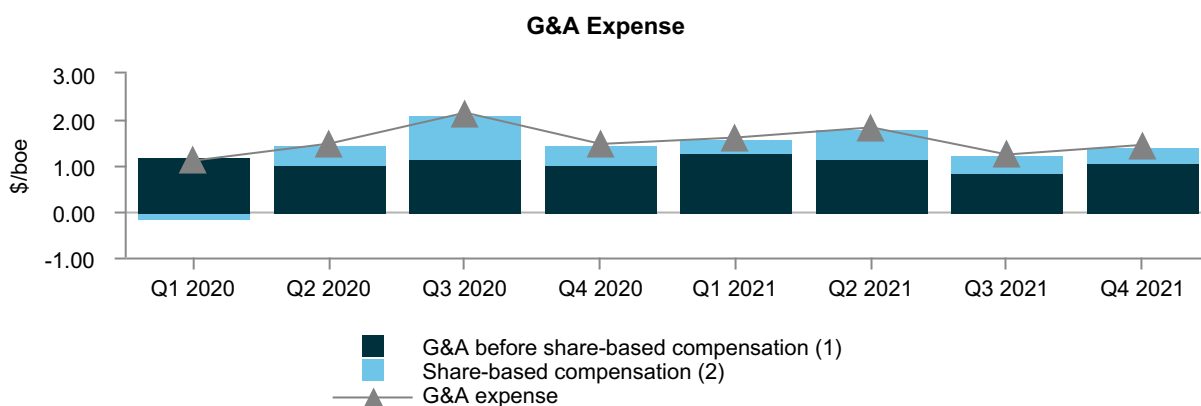
Table 14

G&A Expense (\$ millions, except per boe)	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
G&A expense before share-based compensation expense ⁽¹⁾	28.1	34.4	16.3	111	118.3	66.3	78
G&A – share-based compensation expense ⁽²⁾	12.4	11.6	6.6	76	48.7	25.6	90
G&A expense	40.5	46.0	22.9	101	167.0	91.9	82
G&A expense before share-based compensation expense per boe	0.86	1.08	1.05	3	1.07	1.12	(4)
G&A – share-based compensation expense per boe	0.38	0.37	0.42	(12)	0.44	0.43	2
G&A expense per boe	1.24	1.45	1.47	(1)	1.51	1.55	(3)

(1) Includes expense recognized under the DSU Plans.

(2) Comprises expense recognized under the Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), share option, and Long-term Restricted Share Award ("LTRSA") Plans.

Exhibit 15



(1) Includes expense recognized under the DSU Plans.

(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 awards. ARC has certain share-based compensation plans that existed prior to the Business Combination (the "Legacy Plans"). Additionally, various share-based compensation awards held by employees and directors of Seven Generations were subject to accelerated vesting or are eligible for continuation and exercise after the effective date of the Business Combination (the "Acquired Plans").

During the three months and year ended December 31, 2021, ARC recognized G&A expense of \$11.6 million and \$48.7 million, respectively, associated with its share-based compensation plans, compared to \$6.6 million and \$25.6 million during the same periods of the prior year.

Restricted Share Unit and Performance Share Unit Plans

RSU and PSU awards outstanding under the Legacy 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 were determined solely on ARC's relative total shareholder return performance.

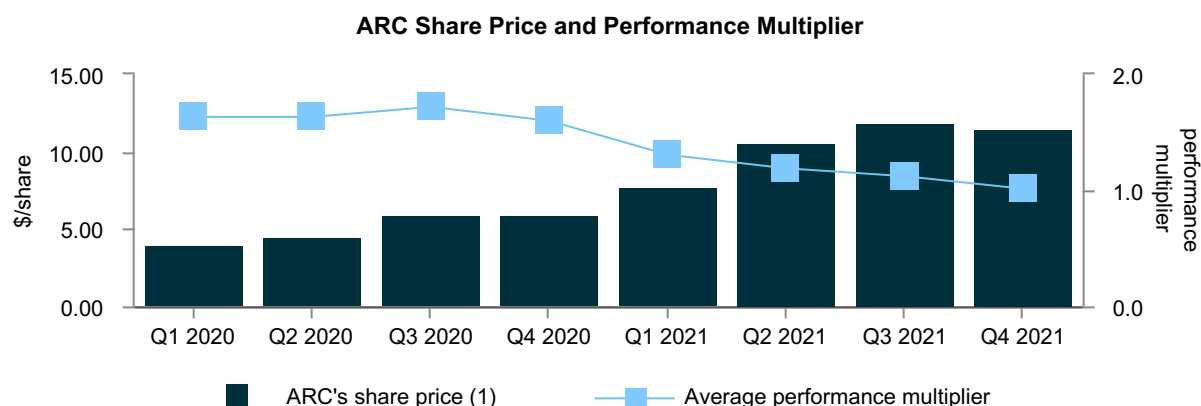
The performance multiplier is calculated at the time of payment and can result in cash compensation issued upon vesting of the PSUs ranging from zero to two times the value of the PSU awards originally granted.

RSU and PSU awards outstanding under the Acquired Plans are the same as those under the Legacy Plans, with the exception that no dividends accrue and both RSUs and PSUs of the Acquired Plans vest annually over three years. In accordance with the Business Combination agreement, the performance multipliers for PSU awards under the Acquired Plans that vested in 2021 were predetermined and ranged from 0.83 to 1.79. Approximately one per cent of remaining RSU and PSU awards under the Acquired Plans are eligible to be settled in equity, with the remainder to be settled in cash.

At December 31, 2021, ARC had 3.8 million RSUs and 6.8 million PSUs outstanding under these plans.

For the three months and year ended December 31, 2021, ARC recognized G&A expense in relation to its RSU and PSU Plans of \$10.4 million and \$45.2 million (\$5.2 million and \$21.1 million for the three months and year ended December 31, 2020), respectively. The change in expense recognized for the three months and year ended December 31, 2021 reflects the change in valuation of awards outstanding throughout the respective periods.

Exhibit 16



(1) Denotes ARC's closing share price on the Toronto Stock Exchange ("TSX").

During the year ended December 31, 2021, ARC made cash payments of \$50.8 million in respect of the RSU and PSU Plans (\$11.3 million for the year ended December 31, 2020). Of these payments, \$40.2 million were in respect of amounts recognized as G&A (\$9.0 million for the year ended December 31, 2020) and \$10.6 million were in respect of amounts recognized as operating and capitalized as property, plant and equipment ("PP&E") and E&E (\$2.3 million for the year ended December 31, 2020). These amounts were accrued in prior periods.

Tables 15 and 15a show the changes to the outstanding RSU and PSU awards for the Legacy Plans and Acquired Plans during 2021:

Table 15

Legacy Plans (number of awards, thousands)	RSUs	PSUs Granted Prior to 2019⁽¹⁾	PSUs Granted Subsequent to 2018⁽¹⁾	Total RSUs and PSUs
Balance, December 31, 2020	3,836	998	5,103	9,937
Granted ⁽²⁾	1,605	686	1,922	4,213
Distributed	(1,901)	(1,673)	(413)	(3,987)
Forfeited	(275)	(11)	(240)	(526)
Balance, December 31, 2021	3,265	—	6,372	9,637

(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.

Table 15a

Acquired Plans (number of awards, thousands)	RSUs	PSUs⁽¹⁾	Total RSUs and PSUs
Balance, December 31, 2020	—	—	—
Acquired upon close of Business Combination ⁽²⁾	930	1,098	2,028
Granted ⁽³⁾	8	333	341
Distributed	(410)	(1,009)	(1,419)
Forfeited	(15)	(9)	(24)
Balance, December 31, 2021	513	413	926

(1) Based on underlying awards before any effect of the performance multiplier, with the exception of awards vested in 2021.

(2) In accordance with the Business Combination Agreement, an exchange ratio of 1.108 has been applied.

(3) Grants relate to re-invested dividends and additional performance awards for grants that vested in the current period.

Due to the variability in the expected future payments under the plans, ARC estimates that between \$43.4 million and \$199.5 million could be paid out in 2022 through 2024 based on the period-end 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, 2021:

Table 16

Value of RSU and PSU Awards as at December 31, 2021 (awards thousands and \$ millions, except per share)	Performance Multiplier		
	—	1.0	2.0
Estimated awards to vest ⁽¹⁾			
RSUs	3,778	3,778	3,778
PSUs	—	6,785	13,572
Total awards	3,778	10,563	17,350
Share price ⁽²⁾	11.50	11.50	11.50
Value of RSU and PSU awards upon vesting	43.4	121.4	199.5
2022	22.5	45.5	68.5
2023	15.7	53.1	90.6
2024	5.2	22.8	40.4

(1) Includes additional estimated awards to be issued under the Legacy 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, 2021.

Share Option Plans

Share option awards under the Legacy Plans were 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.

Share options granted under the Acquired Plans vest annually over three years and expire 10 years after the date of grant. The final grant was in 2019. The option holder has the right to exercise the options and purchase one common share per option at the original grant price. The original grant price under both the Legacy and Acquired Plans is calculated as the weighted average trading price of ARC common shares for the five days immediately preceding the grant date.

At December 31, 2021, ARC had 4.0 million share options outstanding under the Legacy Plans, with a weighted average exercised price of \$15.10. Of those, 2.1 million were exercisable at December 31, 2021, with a weighted average exercise price of \$17.27.

At December 31, 2021, ARC had 2.4 million share options outstanding under the Acquired Plans, with a weighted average exercise price of \$18.01. All share options under the Acquired Plans were exercisable at December 31, 2021.

Under the Legacy and Acquired Plans, ARC had 6.4 million share options outstanding, representing 0.9 per cent of ARC's common shares, with a weighted average exercise price of \$17.61. ARC recognized compensation expense of \$0.1 million and \$1.5 million relating to share option plans for the three months and year ended December 31, 2021 (\$0.7 million and \$3.0 million for the three months and year ended December 31, 2020), respectively.

Long-term Restricted Share Award Plan

Issuance of new awards under the LTRSA plan have been suspended. Previously granted LTRSA consist of restricted common shares that were 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 payment 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, 2021, ARC had 1.0 million restricted shares outstanding under the LTRSA Plan. ARC recognized G&A expense of \$1.1 million and \$2.0 million relating to the LTRSA Plan during the three months and year ended December 31, 2021 (\$0.7 million and \$1.5 million for the three months and year ended December 31, 2020), respectively.

Deferred Share Unit Plans

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. DSU awards under the Legacy and Acquired Plans fully vest on the date of grant, but are available for redemption when the director ceases to be a member of ARC's board of directors (the "Board"). Awards are settled in cash and are determined by the value of the underlying common shares. Approximately 35 per cent of remaining DSU awards under the Acquired Plans are eligible to be settled in equity, with the remainder to be settled in cash.

At December 31, 2021, ARC had 1.1 million DSUs outstanding under the Legacy Plans and 0.4 million DSUs outstanding under the Acquired Plans. For the three months and year ended December 31, 2021, G&A expense of \$2.3 million and \$9.8 million was recognized in relation to the DSU Plans (\$0.7 million and \$0.8 million for the same

periods in 2020), respectively (amounts related to the DSU Plans are recognized as G&A expense before share-based compensation expense).

During the year ended December 31, 2021, ARC made cash payments of \$0.4 million in respect of the DSU Plans (\$0.6 million for the year ended December 31, 2020).

Performance Warrants

Upon close of the Business Combination, ARC acquired 0.2 million of performance warrants. At December 31, 2021, all performance warrants have expired.

Interest and Financing

Interest and financing for the three months and year ended December 31, 2021 was \$24.2 million and \$126.1 million, respectively, compared to \$9.9 million and \$45.6 million for the same periods of the prior year. Interest and financing per boe for the three months and year ended December 31, 2021 was \$0.76 per boe and \$1.14 per boe (\$0.63 per boe and \$0.77 per boe for the same periods of the prior year), respectively. The increase from the prior year is primarily due to higher debt levels and increased lease obligations acquired from the Business Combination. Additionally, make-whole payments were recognized in the third quarter of 2021 as a result of repaying several of ARC's private placement senior notes in advance of their maturity. For additional information, refer to Note 15 "Long-Term Debt" in the financial statements. A breakdown of interest and financing expense is shown in Table 17:

Table 17

Interest and Financing (\$ millions, except per boe amounts)	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Bank debt and long-term notes	39.9	13.1	8.2	60	81.8	38.0	115
Lease obligations	17.2	8.5	0.2	4,150	34.8	1.3	2,577
Accretion on ARO	2.1	2.6	1.5	73	9.5	6.3	51
Interest and financing	59.2	24.2	9.9	144	126.1	45.6	177
Interest and financing per boe	1.82	0.76	0.63	21	1.14	0.77	48

Foreign Exchange Gain and Loss

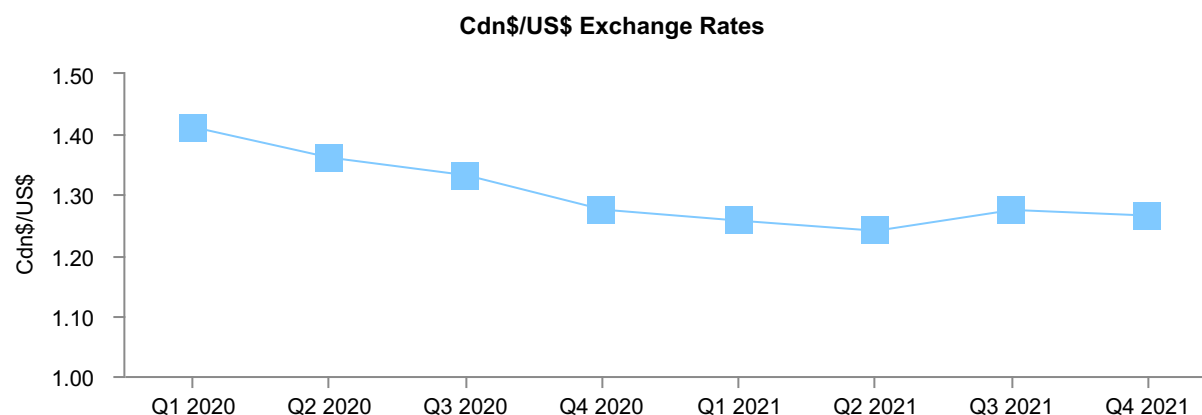
ARC recognized a foreign exchange gain of \$5.5 million in the fourth quarter of 2021 compared to a gain of \$24.8 million in the fourth quarter of 2020 and a foreign exchange gain of \$11.3 million for the year ended December 31, 2021, compared to a gain of \$4.0 million for the year ended December 31, 2020. The change in foreign exchange recognized for both the three months and year ended December 31, 2021, as compared to the same periods in the prior year, primarily relates to the revaluation of ARC's US\$ denominated debt. Additionally, ARC increased its amount of US\$ denominated transactions following the Business Combination, which impacts the realized component of ARC's foreign exchange gain and loss.

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

Table 18

Foreign Exchange Gain and Loss (\$ millions)	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Unrealized gain (loss) on US dollar-denominated debt and receivables	(14.9)	7.3	26.3	(72)	22.2	(2.1)	1,157
Realized gain (loss) on US dollar-denominated transactions	4.4	(1.8)	(1.5)	(20)	(10.9)	6.1	(279)
Foreign exchange gain (loss)	(10.5)	5.5	24.8	(78)	11.3	4.0	183

Exhibit 17



Beginning January 1, 2021, ARC commenced business in the United States through a wholly-owned subsidiary with transactions denominated in US\$. All currency revaluations are recognized in other comprehensive income in the consolidated statements of comprehensive income. For the three months and year ended December 31, 2021, ARC recognized an unrealized loss on foreign currency translation adjustment of \$0.9 million and \$2.5 million (\$nil for the same periods in 2020), respectively.

Taxes

ARC recognized a current income tax recovery of \$14.0 million for the three months ended December 31, 2021, compared to a current income tax expense of \$8.1 million for the same period in 2020. 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.

ARC recognized a current income tax expense of \$33.7 million for the year ended December 31, 2021, compared to a current income tax recovery of \$26.8 million in 2020. The increase in the current income tax expense reflects higher expected taxable income for 2021 primarily associated with an increase in ARC's average realized commodity prices as compared to the same period in 2020.

For the three months ended December 31, 2021, deferred income tax expense of \$223.8 million was recognized, compared to \$21.1 million for the same period in 2020. The increase primarily relates to higher income tax pools claimed relative to DD&A expense as well as an increase in the unrealized gain on risk management contracts during the three months ended December 31, 2021, as compared to the same period of 2020.

For the year ended December 31, 2021, a deferred income tax expense of \$174.8 million was recognized, compared to a deferred tax income tax recovery of \$180.9 million for the same period in 2020. The increase in the deferred income tax expense primarily relates to a reversal of impairment recognized on PP&E during the year ended December 31, 2021, compared to an impairment charge recognized on PP&E in the same period of 2020, as well as higher income tax pools claimed relative to DD&A expense for the year ended December 31, 2021. This was partially offset by an increase in the unrealized loss on risk management contracts during the year ended December 31, 2021, as compared to the same period of 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, 2021	Annual Deductibility
Canadian oil and gas property expense	1,095.4	10% declining balance
Canadian development expense	1,906.5	30% declining balance
Canadian exploration expense	—	100%
Undepreciated capital cost	1,657.1	Primarily 25% declining balance
Non-capital losses, scientific research and experimental development, and investment tax credits	799.7	100%
Other	99.2	Various rates, 5% declining balance to 20%
Total federal tax pools	5,557.9	

DD&A and Impairment of PP&E

For the three months and year ended December 31, 2021, ARC recognized DD&A related to its PP&E of \$320.1 million and \$1.1 billion, respectively, compared to \$128.4 million and \$523.6 million for the three months and year ended December 31, 2020. The increase in DD&A for the year ended December 31, 2021, is primarily due to increased production volumes and a marginally higher DD&A rate as a result of the Business Combination, partially offset by the disposition of certain non-core assets with a higher relative DD&A rate per boe.

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

Table 20

DD&A Expense (\$ millions, except per boe amounts)	Three Months Ended				Year Ended		
	September 30, 2021	December 31, 2021	December 31, 2020	% Change	December 31, 2021	December 31, 2020	% Change
Depletion of crude oil and natural gas assets	305.1	296.0	125.0	137	990.7	511.3	94
Depreciation of corporate assets	3.1	3.6	1.5	140	9.7	5.8	67
Depreciation of right-of-use ("ROU") assets under lease	20.5	20.5	1.9	979	63.2	6.5	872
DD&A expense	328.7	320.1	128.4	149	1,063.6	523.6	103
DD&A expense per boe ⁽¹⁾	10.10	10.06	8.24	22	9.65	8.85	9

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

For the year ended December 31, 2021, ARC recognized a reversal of impairment of \$137.5 million, compared to an impairment charge of \$750.3 million, for the year ended ended December 31, 2020. The impairment charge and subsequent reversal of impairment relate to ARC's Northern Alberta CGU and reflected a lower future commodity price outlook in 2020, followed by an improved future commodity price outlook in 2021 as global economies begin to recover from the initial shocks of the COVID-19 pandemic. All previous impairment charges that were eligible have been reversed. No impairment or reversal was recognized during the three months ended December 31, 2021 or 2020. For further information, refer to Note 10 "Property, Plant and Equipment" and Note 12 "Impairment" in the financial statements.

Cash Flow Used in Investing Activities, Capital Expenditures, Acquisitions, and Dispositions

ARC acquired crude oil and natural gas assets associated with the Business Combination with a fair value of \$4.9 billion during the year ended December 31, 2021. The assets were recognized as PP&E on the consolidated balance sheets. Refer to Note 7 "Business Combination" in the financial statements. The assets acquired primarily consist of the Kakwa area which produces rich condensate and natural gas.

ARC's cash flow used in investing activities was \$268.7 million and \$808.1 million during the three months and year ended December 31, 2021, respectively, compared to \$79.3 million and \$364.3 million, for the three months and year ended December 31, 2020. In addition to cash flow used in investing activities, Management uses capital expenditures to measure its capital investments compared to the Company's annual capital budgeted expenditures. ARC's capital budget excludes acquisition and disposition activities as well as the accounting impact of any accrual changes or payments under certain lease arrangements. Table 21 is a reconciliation of ARC's cash flow used in investing activities to capital expenditures:

Table 21

Capital expenditures (\$ millions)	Three Months Ended			Year Ended	
	September 30, 2021	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Cash flow used in investing activities	228.8	268.7	79.3	808.1	364.3
Adjusted for the following items:					
Cash acquired upon close of Business Combination	—	—	—	4.9	—
Acquisition of crude oil and natural gas assets	(0.8)	(0.2)	(0.2)	(1.1)	(0.2)
Disposal of crude oil and natural gas assets	0.8	0.7	1.8	79.7	1.8
Change in non-cash working capital	38.2	105.7	(5.4)	164.7	(30.6)
Other ⁽¹⁾	1.4	—	1.2	5.5	7.9
Capital expenditures	268.4	374.9	76.7	1,061.8	343.2

(1) Other comprises non-cash capitalized costs related to the Company's ROU asset depreciation and share-based compensation.

Capital expenditures were \$374.9 million and \$1.1 billion for the three months and year ended December 31, 2021, respectively, compared to \$76.7 million and \$343.2 million for the three months and year ended December 31, 2020. The increase in capital expenditures for the three months and year ended December 31, 2021, is reflective of increased activity in the Kakwa area, which was acquired through the Business Combination. Capital expenditures during the period included the drilling of 47 and 141 wells and the completion of 29 and 132 wells across ARC's asset base for the three months and year ended December 31, 2021, respectively. Infrastructure investment in 2021 was focused on the Parkland/Tower facility sour conversion project, which came on-stream in the third quarter of 2021, the Sunrise Phase I and II facility expansion, which was completed in the second quarter of 2021, and continuing to advance the Attachie West Phase I facility planning. Capital expenditures associated with corporate assets increased due to higher capitalized compensation costs for the three months and year ended December 31, 2021, compared to the same periods in the prior year.

During the year ended December 31, 2021, ARC disposed of certain non-core assets in Alberta for proceeds of \$79.7 million. ARC also entered into an asset exchange for certain assets in British Columbia which consolidated a portion of ARC's assets for greater operational efficiency.

For information regarding ARC's planned capital expenditures for 2022, refer to the news releases dated November 4, 2021 and February 10, 2022 "ARC Resources Ltd. Reports Record Third Quarter 2021 Results, Increases Dividend, and Announces 2022 Budget" and "ARC Resources Ltd. Reports Record Year-end 2021 Results and Reserves", respectively, available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

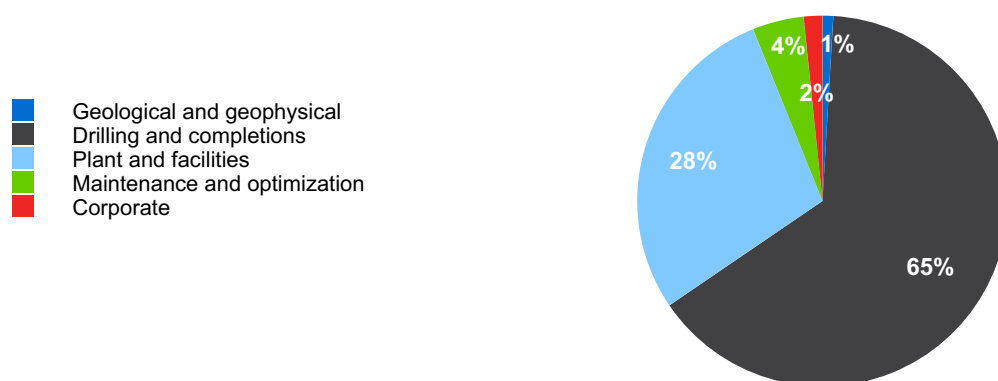
A breakdown of capital expenditures, acquisitions, and dispositions for the three months ended December 31, 2021 and December 31, 2020 is shown in Table 22:

Table 22

Three Months Ended December 31							
2021			2020				
Capital Expenditures (\$ millions)	E&E	PP&E	Total	E&E	PP&E	Total	% Change
Geological and geophysical	—	3.5	3.5	—	2.5	2.5	40
Drilling and completions	0.4	241.4	241.8	0.2	67.9	68.1	255
Plant and facilities	0.3	106.4	106.7	—	3.1	3.1	3,342
Maintenance and optimization	—	16.8	16.8	—	1.5	1.5	1020
Corporate	—	6.1	6.1	—	1.5	1.5	307
Capital expenditures	0.7	374.2	374.9	0.2	76.5	76.7	389
Acquisitions	—	21.5	21.5	0.2	61.4	61.6	(65)
Dispositions	—	(22.0)	(22.0)	—	(63.2)	(63.2)	(65)
Capital expenditures and net acquisitions and dispositions	0.7	373.7	374.4	0.4	74.7	75.1	399

Exhibit 18

Capital Expenditures by Classification
Three Months Ended December 31, 2021



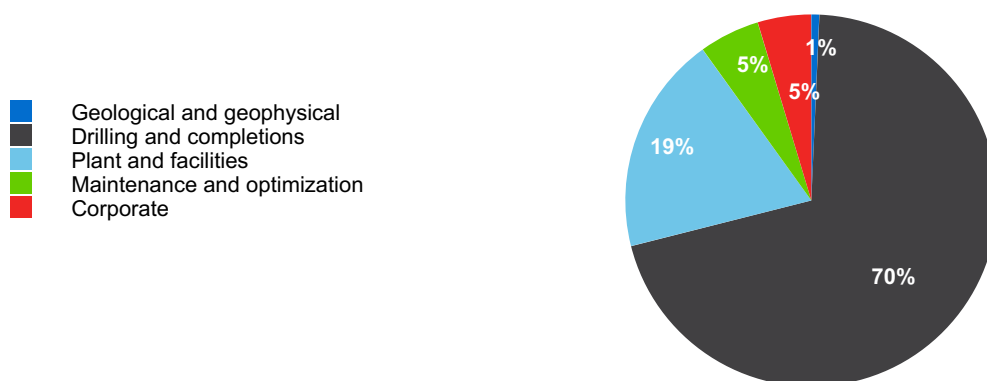
A breakdown of capital expenditures, acquisitions, and dispositions for the year ended December 31, 2021 and December 31, 2020 is shown in Table 22a:

Table 22a

Year Ended December 31							
2021			2020				
Capital Expenditures (\$ millions)	E&E	PP&E	Total	E&E	PP&E	Total	% Change
Geological and geophysical	—	7.4	7.4	—	14.8	14.8	(50)
Drilling and completions	1.5	745.6	747.1	0.7	271.3	272.0	175
Plant and facilities	0.8	201.1	201.9	—	43.1	43.1	368
Maintenance and optimization	—	56.0	56.0	—	9.4	9.4	496
Corporate	—	49.4	49.4	—	3.9	3.9	1,167
Capital expenditures	2.3	1,059.5	1,061.8	0.7	342.5	343.2	209
Acquisitions	0.5	21.9	22.4	0.2	64.4	64.6	(65)
Dispositions	—	(101.0)	(101.0)	—	(66.2)	(66.2)	53
Capital expenditures and net acquisitions and dispositions	2.8	980.4	983.2	0.9	340.7	341.6	188

Exhibit 18a

Capital Expenditures by Classification
Year Ended December 31, 2021

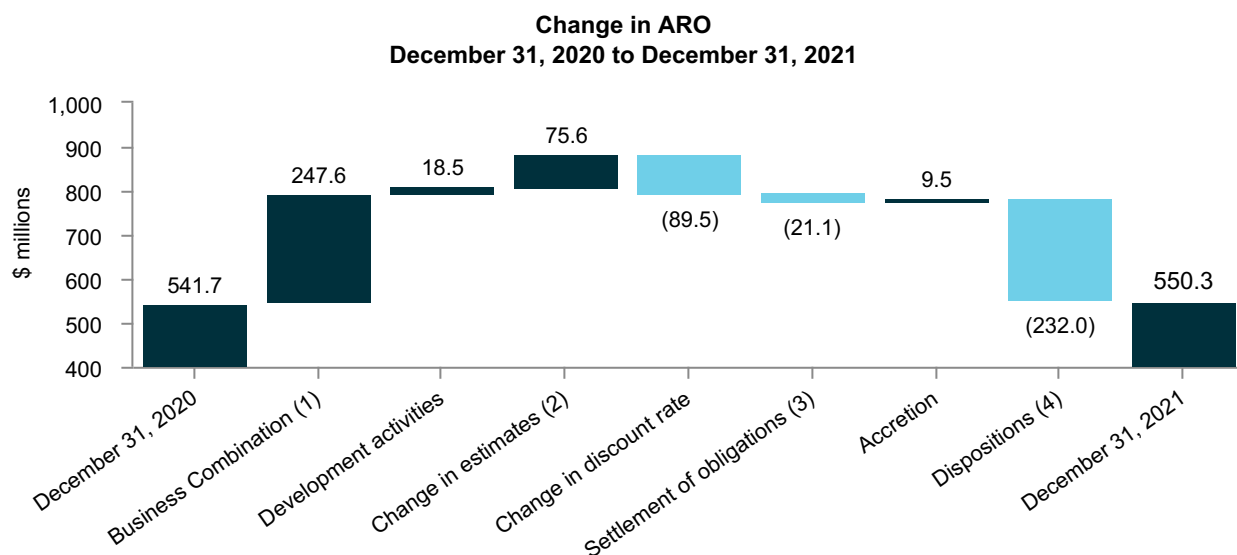


Asset Retirement Obligation

At December 31, 2021, ARC recognized ARO of \$550.3 million (\$541.7 million at December 31, 2020), for the future abandonment and reclamation of ARC's crude oil and natural gas assets, of which \$15.0 million is classified as current and \$535.3 million is classified as long-term (\$19.0 million and \$522.7 million at December 31, 2020, respectively). During the year ended December 31, 2021, ARC's ARO increased \$247.6 million with additional obligations acquired through the Business Combination. Additionally, ARC's ARO increased in 2021 by \$75.6 million due to increased cost estimates across all assets. This was partially offset by a reduction in ARO of \$232.0 million associated with the disposition of certain non-core assets and an increased discount rate compared to December 31, 2020. The estimated ARO includes assumptions in respect of actual future costs to abandon wells and decommission and reclaim 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 1.7 per cent (1.2 per cent at December 31, 2020).

Accretion charges of \$2.6 million and \$9.5 million for the three months and year ended December 31, 2021 (\$1.5 million and \$6.3 million for the same periods in 2020), respectively, have been recognized in interest and financing in the consolidated statements of 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, 2021 was \$4.4 million and \$17.0 million (\$2.1 million and \$11.8 million for the same periods in 2020), respectively. Environmental stewardship remains a core value at ARC and the Company maintains a planned and scheduled approach to its abandonment and reclamation activities.

Exhibit 19



- (1) For additional information, refer to Note 7 "Business Combination" in the financial statements.
- (2) Relates to changes in costs of future obligations and anticipated settlement dates of ARO. During the year ended December 31, 2021, ARC reviewed and updated its cost and timing assumptions based on newly available information and recent changes to legislation.
- (3) For the year ended December 31, 2021, \$4.1 million (\$1.0 million for the year ended December 31, 2020) of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of ARC.
- (4) Liabilities associated with assets held for sale and disposed during the year ended December 31, 2021.

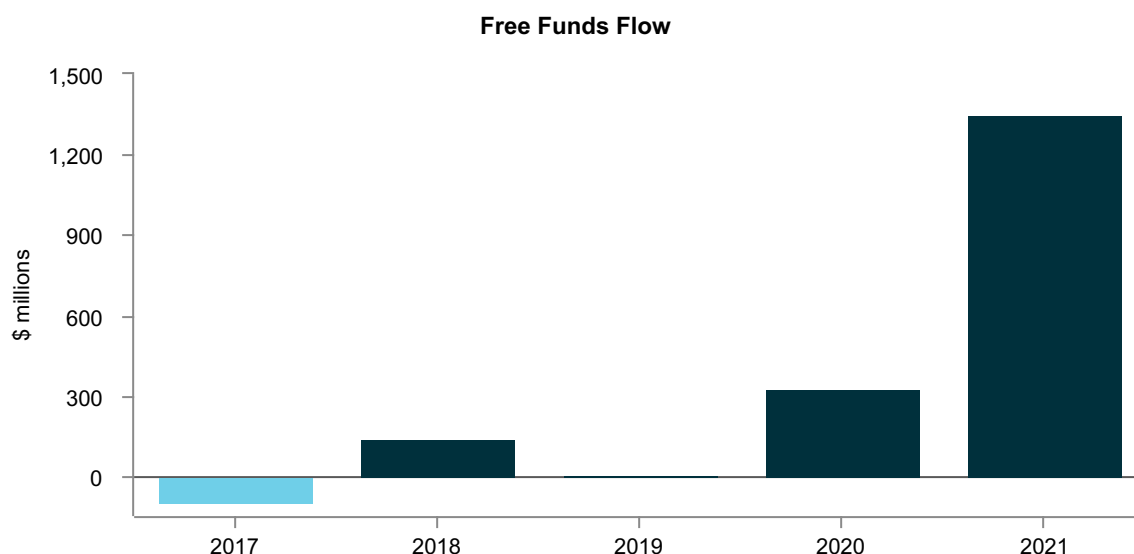
Capitalization, Financial Resources and Liquidity

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 production growth creates significant long-term shareholder value.

Maintaining targeted 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 takes a portfolio approach by periodically evaluating its capital allocation priorities, considering returns to shareholders through sustainable dividend increases and/or share repurchases, and long-term development investments.

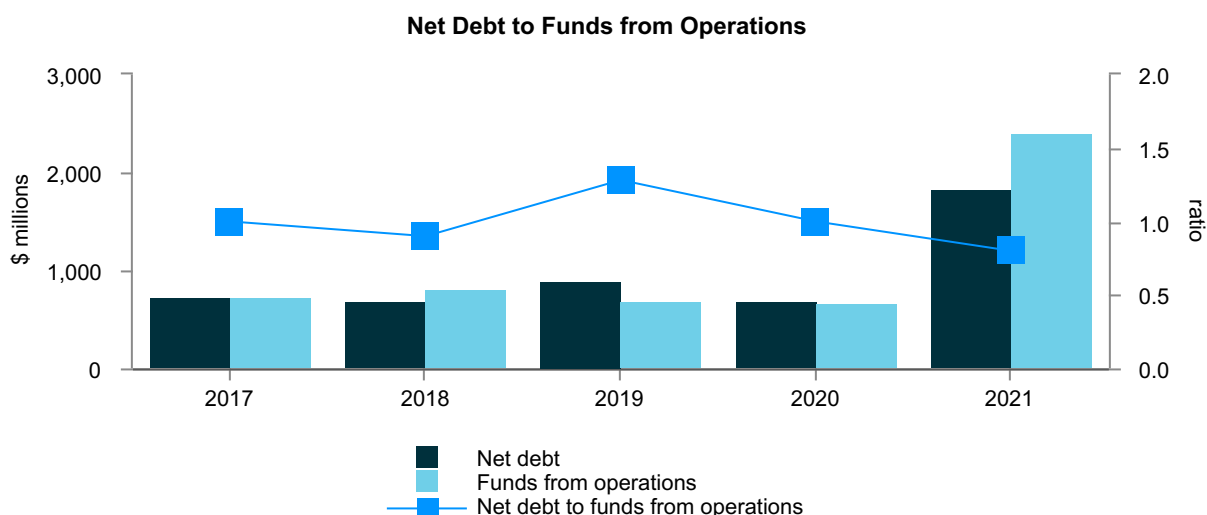
ARC uses free funds flow, defined as funds from operations less capital expenditures, as an indicator of the funds available for capital allocation. For the three months and year ended December 31, 2021, free funds flow was \$458.7 million and \$1.4 billion (\$135.3 million and \$324.4 million for the three months and year ended December 31, 2020), respectively. For the calculation of free funds flow, refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

Exhibit 20



ARC maintains financial flexibility through its strong balance sheet. Management targets its net debt to be between 1.0 and 1.5 times funds from operations and manages its capital structure to achieve that target over the long term. At December 31, 2021, ARC's net debt was 0.8 times its funds from operations.

Exhibit 21



During the year ended December 31, 2021, ARC issued two tranches of senior unsecured notes by way of private placement in the amount of \$1.0 billion (the "2021 Notes"). Proceeds from the 2021 Notes were used to repay Seven Generations' senior notes and credit facility. For more information, refer to Note 15 "Long-Term Debt" in the financial statements.

At December 31, 2021, ARC had total credit capacity of \$3.0 billion, of which \$1.7 billion was drawn. During the year ended December 31, 2021, ARC increased borrowings from its credit facility to repay in full the principal amounts outstanding on several tranches of its private placement notes in advance of their maturity. In doing so, ARC expects a reduction to its future average interest rate. At December 31, 2021, ARC's long-term debt had a weighted average interest rate of 2.4 per cent, and 21.9 per cent (US\$294.5 million) of ARC's long-term debt outstanding was denominated in US dollars. For more information, refer to Note 15 "Long-Term Debt" in the financial statements.

Following the repayment of certain private placement notes, ARC's financial debt covenants are limited to the covenants related to the credit facility. In October 2021, ARC amended and restated the credit facility agreement, extending the maturity date to October 2025 and updating the financial covenants. At December 31, 2021, ARC was in compliance with the financial covenants related to its credit facility as follows:

Table 23

Covenant Description	Position at December 31, 2021 ⁽¹⁾
Consolidated Debt not to exceed 60 per cent of Total Capitalization	23 %
Consolidated Tangible Assets of the Restricted Group must exceed 80 per cent of Consolidated Tangible Assets	100 %

(1) Subject to final approval of the syndicate.

Shareholders' Equity

On August 30, 2021, ARC announced the approval of its normal course issuer bid ("NCIB"). The NCIB allows ARC to purchase up to 72,236,753 of its outstanding common shares over a 12-month period, commencing September 1, 2021. During the year ended December 31, 2021, ARC repurchased 30,887,800 common shares at a weighted average price of \$11.17 for a total cost of \$345.2 million. Shares were cancelled upon repurchase.

At December 31, 2021, ARC has recorded a liability of \$51.9 million (\$nil at December 31, 2020) for share repurchases that may take place during its internal blackout period under an automatic share purchase plan agreement with an independent broker.

At December 31, 2021, there were 693.5 million common shares outstanding and 6.4 million share options outstanding under ARC's share option plans, including 2.4 million share options outstanding under the Acquired Plans. For more information, refer to the section entitled "Share Option Plans" contained within this MD&A.

At December 31, 2021, 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 2021, ARC declared dividends totaling \$69.5 million (\$0.10 per share) compared to \$21.3 million (\$0.06 per share) in the same period of 2020. ARC declared dividends of \$181.4 million (\$0.286 per share) for the year ended December 31, 2021 and \$106.3 million (\$0.30 per share) for the same period in 2020.

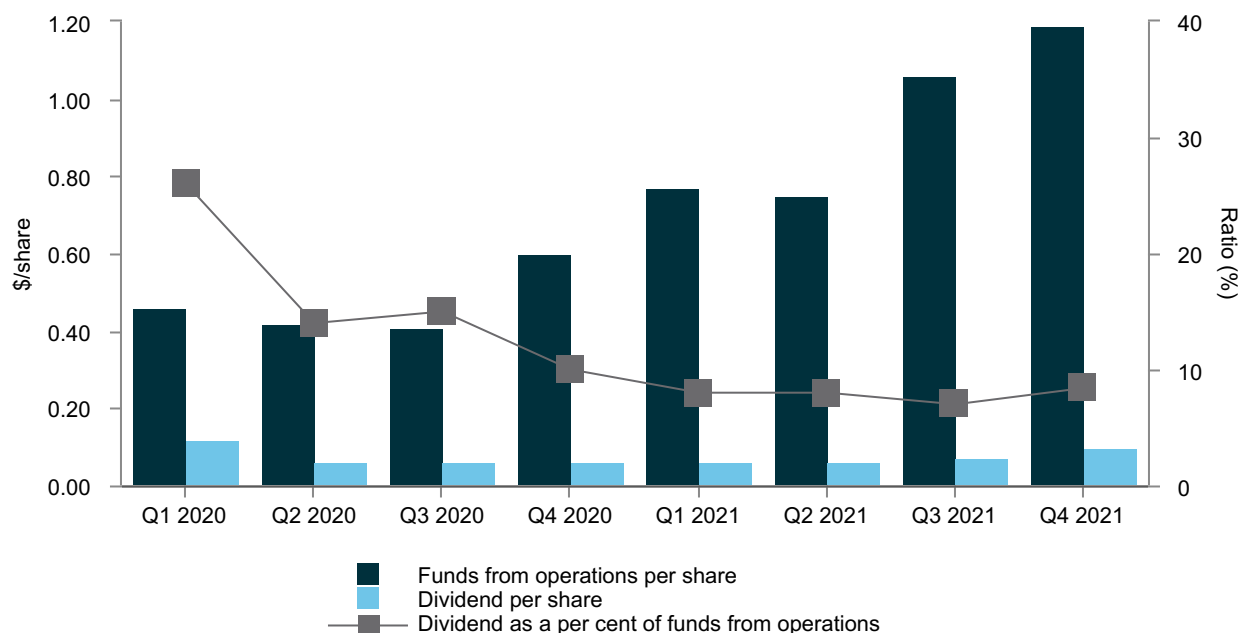
ARC's dividend as a per cent of funds from operations⁽¹⁾ decreased from an average of 10 per cent and 16 per cent, respectively, for the three months and year ended December 31, 2020, to an average of eight per cent for both the three months and year ended December 31, 2021, as a result of the increase in funds from operations. With lower dividends as a per cent of funds from operations, ARC also delivered returns to shareholders through share repurchases.

During the year ended December 31, 2021, ARC announced a 10 per cent increase to its quarterly dividend, from \$0.06 per share to \$0.066 per share and announced a further 52 per cent increase to \$0.10 per share. This dividend increase was effective for ARC's fourth quarter 2021 dividend, paid on January 17, 2022, to shareholders of record on December 31, 2021. Going forward, ARC plans to continue to deliver returns to shareholders through the combination of its dividend and continued share repurchases.

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Exhibit 22

Dividend as a Per Cent of Funds from Operations



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 2022.

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 is well within both the British Columbia Oil and Gas Commission's and the Alberta Energy Regulator's requirements, such that no deposits were required at December 31, 2021 or at the date of this MD&A.

Additional information is available in ARC's AIF available on ARC's website at www.arcresources.com and 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, 2021:

Table 24

	Payments Due by Period				Total
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	
Debt repayments	—	—	1,159.2	546.1	1,705.3
Interest payments ⁽¹⁾	29.7	59.3	54.0	85.8	228.8
Purchase and service commitments	165.2	53.2	22.4	103.9	344.7
Transportation commitments	636.4	1,107.6	1,022.0	1,465.8	4,231.8
Total contractual obligations and commitments	831.3	1,220.1	2,257.6	2,201.6	6,510.6

(1) Fixed interest payments on senior notes.

ARC enters into commitments for purchases of goods and services 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. As a result of the Business Combination, ARC has become a party to certain legal claims that arose in the normal course of business. Refer to Note 7 "Business Combination" in the financial statements for further information. The probability of a material outflow as a result of any legal action is considered by Management to be remote.

Off-Balance Sheet Financing

ARC does not have any guarantees or off-balance sheet arrangements that have been excluded from the balance sheets other than commitments disclosed in Note 24 "Commitments & Contingencies" of the financial statements.

Related Parties

Key Management Personnel Compensation

ARC's key management personnel consists of its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the RSU and PSU, DSU, LTRSA, and Share Option Plans. For the year ended December 31, 2021, ARC recognized \$46.5 million in total key management personnel compensation (\$17.6 million for the year ended December 31, 2020).

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;
- estimated compensation expense under ARC's share-based compensation plans including the PSUs awarded under the PSU Plans that are dependent on the final number of PSU awards that eventually vest based on a performance multiplier; and
- estimated fair values of assets acquired and liabilities assumed in a business combination.

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:

Volatility of Commodity Prices

The prices of crude oil and liquids and natural gas are volatile, outside of ARC's control and affect ARC's financial condition, financial performance, cash flows and future rate of growth.

ARC's revenues, profitability, 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 liquids;
- 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 crude oil companies relating to crude oil price and production controls;
- fluctuations in the value of the US dollar;

- the price and quantity of crude oil and liquids and LNG imports to and exports from the US and other countries;
- the development of new hydrocarbon exploration, production, and transportation methods of 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;
- social attitudes or policies affecting energy consumption and energy supply;
- domestic and foreign governmental regulations, including environmental regulations, climate change regulations and taxation;
- 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.

Commodity prices have historically been, and continue to be, volatile. ARC expects this volatility to continue. ARC makes price assumptions that are used for planning purposes, and a significant portion of its cash outflows, including capital and transportation commitments, are largely fixed in nature. Accordingly, if commodity prices are below the expectations on which these commitments were based, ARC's financial results are likely to be adversely and disproportionately affected because these cash outflows are not variable in the short term and cannot be quickly reduced to respond to unanticipated decreases in commodity prices. ARC's risk management arrangements will not fully mitigate the effects of price volatility.

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, require ARC to make significant downward adjustments to its reserve estimates, or result in deferral or cancellation of ARC's growth projects. 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 access capital markets 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 flow.

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, hostilities in the Middle East, Ukraine, and Taiwan 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 COVID-19, 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 goods and 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 supply and demand for crude oil and liquids and natural gas, and ARC's business and industry, could ultimately have an adverse impact on ARC's financial condition, financial performance, and cash flows.

Political Uncertainty and Geopolitical Risk

ARC's business may be adversely affected by political and social events and decisions made in Canada and elsewhere.

ARC's results can be adversely impacted by political, legal, or regulatory developments in Canada and elsewhere that affect local operations and local and international markets. Changes in government, government policy, or regulations, changes in law or interpretation of settled law, third-party opposition to industrial activity generally or projects specifically, and duration of regulatory reviews could impact ARC's existing operations and planned projects. This includes actions by regulators or other political actors to delay or deny necessary licences and permits for ARC's

activities or restrict the operation of third-party infrastructure that ARC relies on. Additionally, changes in environmental regulations, assessment processes or other laws, and increasing and expanding stakeholder consultation (including Indigenous stakeholders), may increase the cost of compliance or reduce or delay available business opportunities and adversely impact ARC's results.

Other government and political factors that could adversely affect ARC's financial results include increases in taxes or government royalty rates (including retroactive claims) and changes in trade policies and agreements. Further, the adoption of regulations mandating efficiency standards, and the use of alternative fuels or uncompetitive fuel components could affect ARC's operations. Many governments are providing tax advantages and other subsidies to support alternative energy sources or are mandating the use of specific fuels or technologies. Governments and others are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources, and the success of these initiatives may decrease demand for ARC's products.

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 liquids 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 liquids and natural gas to market. 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.

Federal and various provincial governments have been active in recent years in their support for and opposition to major infrastructure projects in Canada leading to increased awareness of and challenges to interprovincial and international infrastructure projects. In 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 the same 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.

Indigenous Land and Rights Claims

Opposition by Indigenous groups to the conduct of ARC's operations, development, or exploratory activities may negatively impact ARC.

Opposition by Indigenous groups to the conduct of our operations, development, or exploratory activities in any of the jurisdictions in which ARC conducts business may negatively impact it in terms of public perception, diversion of management's time and resources, legal and other advisory expenses, and could adversely impact ARC's progress and ability to explore and develop properties.

Some Indigenous groups have established or asserted Indigenous treaty, title, and rights to portions of Canada. There are outstanding Indigenous and treaty rights claims, which may include Indigenous title claims, on lands where ARC operates, and such claims, if successful, could have a material adverse impact on its operations or pace of growth. No certainty exists that any lands currently unaffected by claims brought by Indigenous groups will remain unaffected by future claims.

The Canadian federal and provincial governments have a duty to consult with Indigenous people when contemplating actions that may adversely affect the asserted or proven Indigenous or treaty rights and, in certain circumstances, accommodate their concerns. The scope of the duty to consult by federal and provincial governments varies with the circumstances and is often the subject of ongoing litigation. The fulfillment of the duty to consult Indigenous people

and any associated accommodations may adversely affect ARC's ability to, or increase the timeline to, obtain or renew, permits, leases, licences and other approvals, or to meet the terms and conditions of those approvals. For example, regulatory authorities in British Columbia recently ceased granting approvals, and, in some cases, revoked existing approvals, for, among other things crude oil and natural gas activities relating to drilling, completions, testing, production, and transportation infrastructure following a British Columbia Supreme Court decision that the cumulative impacts of government-sanctioned industrial development on the traditional territories of a First Nations group in northeast British Columbia breached that group's treaty rights. While ARC believes that the regulatory authorities will resume granting and reinstate approvals for crude oil and natural gas activities on time frames and terms and conditions consistent with past practice, the long-term impacts of, and associated risks with, the decision on the Canadian crude oil and natural gas industry and ARC remain uncertain.

In addition, the federal government has introduced legislation to implement the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP"). Other Canadian jurisdictions, including British Columbia, have also introduced or passed similar legislation, or begun considering the principles and objectives of UNDRIP, or may do so in the future. The means and timelines associated with UNDRIP's implementation by government is uncertain; additional processes may be created or legislation amended or introduced associated with project development and operations, further increasing uncertainty with respect to project regulatory approval timelines and requirements.

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 and liquids, 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.

Climate Change

Climate change concerns could result in increased operating costs and reduced demand for ARC's products and shares, 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, Fifth, and Sixth Assessment Reports 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 liquids and natural gas, resulting in a decrease in ARC's profitability and a reduction in the value of its assets.

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.

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 commercial and investment banks and insurance providers 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 shares 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. On October 18, 2021, the Canadian Securities Administrators ("CSA") published for comment Proposed National Instrument 51-107 – *Disclosure of Climate Related Matters*, intended to introduce climate-related disclosure requirements for reporting issuers in Canada with limited exceptions. 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 and 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.

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 liquids 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 non-essential. 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 liquids and natural gas. Since 2020, crude oil prices have largely recovered from their historic lows, 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 may continue to have, a negative impact on ARC's operational results and financial

condition. Low prices for crude oil and liquids 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, limited 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.

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.

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 shares.

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 and increasing the cost of capital, even if ARC's operating results, underlying asset values, or prospects have not changed.

Success of the Business Combination

ARC may fail to realize the anticipated benefits of, and synergies from, the Business Combination, which could adversely affect its business, financial condition, and/or results of operations or the financial and operational synergies attributable to the Business Combination may vary from expectations.

The success of the Business Combination will depend, in part, on ARC's ability to successfully consolidate functions and integrate operations, procedures, and personnel in a timely and efficient manner, as well as its ability to realize the anticipated growth opportunities and synergies from the integration of Seven Generations. Achieving the benefits of the Business Combination also depends on ARC's ability to realize anticipated capital and operating synergies and to maximize the potential of its improved growth opportunities and capital funding opportunities as a result of the Business Combination.

The Business Combination involved companies that operated as independent entities. The combination of independent businesses is complex, costly, and time consuming, and ARC will be required to dedicate substantial management effort, time, and resources to continuing to integrate the business practices and operations of Seven Generations with those of ARC. Potential difficulties that ARC may encounter as part of the integration process include the following:

- the inability to continue to successfully integrate Seven Generations in a manner that permits ARC to achieve, on a timely basis or at all, the anticipated benefits of the Business Combination;
- complexities associated with managing the combined business, including difficulty addressing possible differences in operational philosophies and the challenge of integrating complex systems, technology, networks, and other assets of each of the companies in a seamless manner that minimizes any disruption of existing relationships with suppliers, employees, customers, and other constituencies;
- potential challenges associated with the integration of systems and personnel, which may be geographically separated, which may result in unanticipated liabilities and costs;
- the assumption of non-cancellable contracts and other commercial commitments with less favorable or more restrictive terms;
- the assumption of certain legal claims arising in the normal course of business and their potential effect on ARC;
- potential unknown liabilities and unforeseen increased expenses associated with the Business Combination;
- diversion of the attention, effort, time and resources of ARC's management; and
- the disruption of, or the loss of momentum in, ARC's ongoing business or inconsistencies in standards, controls, procedures, and policies.

Any of these issues could adversely affect ARC's ability to maintain its existing relationships with customers, suppliers, employees and other constituencies, or achieve the anticipated benefits of the Business Combination, or could reduce ARC's earnings or otherwise adversely affect ARC's business and financial results.

Regulatory Approvals

Failure to obtain applicable regulatory approvals or satisfy regulatory conditions on a timely basis could result in delays, abandonment, or restructuring of projects and increased costs.

ARC's operations require it to obtain approvals from various regulatory authorities and there are no guarantees that it will be able to obtain all necessary licences, permits, and other approvals that may be required to carry out certain exploration, development, and operating activities on ARC's properties. In addition, obtaining certain approvals from regulatory authorities can involve, among other things, stakeholder and Indigenous consultation, environmental impact assessments, and public hearings. Regulatory approvals obtained may be subject to the satisfaction of certain conditions including, but not limited to: security deposit obligations; ongoing regulatory oversight of projects; mitigating or avoiding project impacts; environmental and habitat assessments; and other commitments or obligations. Failure to obtain applicable regulatory approvals or satisfy any of the conditions thereto on a timely basis on satisfactory terms could result in delays, abandonment or restructuring of projects, and increased costs.

Asset Concentration

ARC's operations and drilling activity are concentrated in the Montney basin in British Columbia and Alberta. Such concentration may make ARC vulnerable to risks associated with operating in a limited geographic area.

ARC's producing properties are geographically concentrated in the Montney basin in British Columbia and Alberta, an area comprising approximately 130,000 square kilometres, stretching from northeast British Columbia into northwest Alberta. Industry activity is high in the Montney basin and demand for and costs of personnel, equipment, power, services, and resources remains high. Any delay or inability to secure the personnel, equipment, power, services, and resources could result in crude oil and liquids and natural gas production volumes being below ARC's forecasted production volumes. In addition, any such negative effect on production volumes, or significant increases in costs, could have a material adverse effect on ARC's financial conditions, results of operations, cash flow, and profitability.

As a result of this concentration, ARC may be disproportionately exposed to the impact of delays or interruptions of operations or production in this area caused by external factors such as governmental regulation, provincial politics, market limitations, supply shortages, or extreme weather-related conditions.

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.

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 liquids 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-ins 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 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 scheduled 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, results of operations, and prospects.

ARC's long-term commercial success depends on its ability to find, acquire, develop, and commercially produce crude oil and liquids 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 liquids 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 (including hydraulic fracturing), 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 liquids 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 and hydraulic fracturing 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.

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.

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 liquids 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 liquids 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 liquids 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 liquids 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.

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, results of operations, and prospects.

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 have significant institutional knowledge that must be transferred to other employees prior to their departure from ARC. 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.

Liquidity

ARC's ability to fund current and future capital projects and carry out the business plan is dependent on its ability to generate cash flow and raise capital.

ARC's ability to fund current and future capital projects and carry out the business plan is dependent on its ability to generate cash flow, as well as raise capital in a timely manner under favourable terms and conditions and is impacted by the Company's credit ratings and the condition of the capital and credit markets. In addition, changes in credit ratings may affect the ability to, and the associated costs of, entering into ordinary course derivative or hedging transactions, as well as entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms. Management of liquidity risk requires ARC to maintain sufficient cash and cash equivalents, along with other sources of capital consisting of cash flow from operating activities, available credit facilities, commercial paper, and access to debt capital markets, to meet obligations as they become due.

Inflation and Cost Management

A failure to secure the services and equipment necessary to ARC's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on ARC's financial performance and cash flows.

ARC's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations. ARC's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flows.

The cost or availability of crude oil and natural gas field equipment may adversely affect ARC's ability to undertake exploration, development and construction projects. The crude oil and natural gas industry is cyclical in nature and is prone to shortages of supply of equipment and services including drilling rigs, geological and geophysical services, engineering and construction services, major equipment items for infrastructure projects, and construction materials generally. These materials and services may not be available when required at reasonable prices. A failure to secure the services and equipment necessary to ARC's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on ARC's financial performance and cash flows.

Third-Party Credit Risk

ARC is exposed to credit risk of third-party customers, counterparties to ARC's derivative risk management contracts, and purchasers of assets from ARC.

ARC may be exposed to third-party credit risk through its contractual arrangements with its current or future customers of its crude oil and liquids and natural gas sales and counterparties to ARC's derivative risk management contracts. In addition, ARC may be exposed to third-party credit risk from purchasers' of assets from ARC for various liabilities, including well abandonment and reclamation obligations assumed by the purchasers. 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, results of operations, and prospects.

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.

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 the Company's 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 liquids 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 and/or share repurchases.

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. On October 7, 2021, the Government of British Columbia launched a comprehensive review of its crude oil and natural gas royalty system. The outcomes of the review will be released in February 2022, followed by any resulting changes. Until then, the current system, established under the 1992 Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation, will continue to apply. An increase in royalties would reduce ARC's earnings and could make future capital investments, or ARC's operations, less economic.

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 liquids 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 liquids and natural gas, but also carry on refining operations and market third-party crude oil and liquids 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 liquids 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.

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.

Reserves 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 liquids 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 liquids 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 liquids 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 liquids 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 liquids 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.

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 liquids 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 liquids 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 2022 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, 2021, 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 ("ICFR")

ICFR 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, ICFR may not prevent or detect misstatements. Management has assessed the effectiveness of ARC's ICFR 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 ICFR was effective as of December 31, 2021. No changes were made to ARC's ICFR during the year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the ICFR.

FINANCIAL REPORTING UPDATE

New Accounting Policies

Foreign Currency Translation

The financial statements of subsidiaries with a functional currency other than the Canadian dollar are translated into Canadian dollars. The assets and liabilities are translated at the exchange rates at the reporting date. The revenue and expenses are translated at the exchange rates that approximate the dates of those transactions. Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, unless or until such time as the subsidiary is disposed or liquidated, upon which the cumulative translation adjustment will be recognized in the statements of income.

IBOR Reform and the Effects on Financial Reporting - Phase 2

On January 1, 2021, ARC adopted *Interest Rate Benchmark Reform - Phase 2* issued by the International Accounting Standards Board ("IASB") which required amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases*. There was not a material impact to ARC's financial statements.

Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 *Intangible Assets*)

In March 2021, the IFRS Interpretations Committee published its decision with regards to the recognition of configuration costs as they relate to cloud computing. This decision had no material impact to ARC's financial statements.

Share Capital

Common shares are classified as equity. Costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of tax. When ARC repurchases its own common shares, share capital is reduced by the average carrying value of the shares repurchased. If the average carrying value of the shares exceeds the purchase price, the difference will be recognized as contributed surplus. If the purchase price exceeds the average carrying value of the shares, any previous contributed surplus related to such transactions is reversed. To the extent there is none, the difference is recognized as a reduction to retained earnings. Shares are cancelled upon repurchase.

Future Accounting Pronouncements

ARC plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2022. The pronouncements will be adopted on their respective effective dates, however each is not expected to have a material impact on the financial statements.

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 and Other Financial Measures

Throughout this MD&A and in other materials disclosed by the Company, ARC employs certain measures to analyze financial performance, financial position, and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of ARC's performance.

Non-GAAP Financial Measures

Capital Expenditures

ARC uses capital expenditures to measure its capital investments compared to the Company's annual capital budgeted expenditures. ARC's capital budget excludes acquisition and disposition activities as well as the accounting impact of any accrual changes or payments under certain lease arrangements. The most directly comparable GAAP measure for capital expenditures is cash flow used in investing activities. Table 25 details the composition of capital expenditures and its reconciliation to cash flow used in investing activities.

Table 25

Capital Expenditures (\$ millions)	Three Months Ended			Year Ended	
	September 30, 2021	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Cash flow used in investing activities	228.8	268.7	79.3	808.1	364.3
Cash acquired upon close of Business Combination	—	—	—	4.9	—
Acquisition of crude oil and natural gas assets	(0.8)	(0.2)	(0.2)	(1.1)	(0.2)
Disposal of crude oil and natural gas assets	0.8	0.7	1.8	79.7	1.8
Change in non-cash working capital	38.2	105.7	(5.4)	164.7	(30.6)
Other property, plant and equipment ("PP&E") ⁽¹⁾	1.4	—	1.2	5.5	7.9
Capital expenditures	268.4	374.9	76.7	1,061.8	343.2

(1) Other PP&E comprises non-cash capitalized costs related to the Company's ROU asset depreciation and share-based compensation.

Free Funds Flow

ARC uses free funds flow as an indicator of the efficiency and liquidity of ARC's business, measuring its funds after capital investment available to manage debt levels, pay dividends, and return capital to shareholders through activities such as share repurchases. ARC computes free funds flow as funds from operations generated during the period less capital expenditures. Capital expenditures is a non-GAAP financial measure. By removing the impact of current period capital expenditures from funds from operations, Management monitors its free funds flow to inform its capital allocation decisions. The most directly comparable GAAP measure to free funds flow is cash from operating activities. Table 26 details the calculation of free funds flow and the reconciliation from cash flow from operating activities to free funds flow.

Table 26

Free Funds Flow (\$ millions)	Three Months Ended			Year Ended	
	September 30, 2021	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Cash flow from operating activities	615.0	668.7	201.1	2,006.5	655.7
Net change in other liabilities	97.3	56.4	(2.7)	224.8	(7.6)
Change in non-cash operating working capital	53.1	108.5	13.6	184.1	19.5
Funds from operations	765.4	833.6	212.0	2,415.4	667.6
Capital expenditures	(268.4)	(374.9)	(76.7)	(1,061.8)	(343.2)
Free funds flow	497.0	458.7	135.3	1,353.6	324.4

Netback

ARC computes netback as commodity sales from production less royalties, operating, and transportation expense. Management believes that netback is a key industry performance indicator and one that provides investors with information that is also commonly presented by other crude oil and natural gas producers. ARC's netback is disclosed in Table 12 within this MD&A which includes its most directly comparable GAAP measure, commodity sales from production.

Adjusted EBIT

ARC calculates adjusted EBIT as net income (loss) plus interest and financing, less accretion of ARO, plus total income taxes (recovery). ARC uses adjusted EBIT as a measure of long-term operating performance and as a component in the calculation for ROACE, which is calculated by ARC on an annual basis and a five-year basis. Table 27 contains a reconciliation of adjusted EBIT to the most directly comparable GAAP measure, net income (loss).

Table 27

Adjusted EBIT (\$ millions)	2021	2020	2019	2018	2017	Five Year
Net income (loss)	786.6	(547.2)	(27.6)	213.8	388.9	162.9
Add Interest and financing	126.1	45.6	48.3	53.9	58.4	66.5
Less accretion of ARO	(9.5)	(6.3)	(7.3)	(11.3)	(13.1)	(9.5)
Add income taxes (recovery)	208.5	(207.7)	(100.9)	108.0	135.9	28.8
Adjusted EBIT	1,111.7	(715.6)	(87.5)	364.4	570.1	248.7

Average Capital Employed

ARC calculates average capital employed as the total of net debt plus current and long-term portions of lease obligations and shareholders' equity. ARC uses average capital employed as a measure of long-term capital management and operating performance, and as a component in the calculation for ROACE. Table 28 contains a reconciliation of average capital employed to the most directly comparable GAAP measure, shareholders' equity.

Table 28

Average Capital Employed (\$ millions)	2021	2020	2019	2018	2017	Five Year
Net debt - beginning of period	693.5	894.0	702.7	728.0	356.5	356.5
Current portion of lease obligations	15.3	16.3	—	—	—	—
Long-term portion of lease obligations	33.9	29.9	—	—	—	—
Shareholders' equity - beginning of period	2,790.6	3,439.9	3,675.8	3,668.9	3,484.8	3,484.8
Opening capital employed (A)	3,533.3	4,380.1	4,378.5	4,396.9	3,841.3	3,841.3
Net debt - end of period	1,828.7	693.5	894.0	702.7	728.0	1,828.7
Current portion of lease obligations	109.3	15.3	16.3	—	—	109.3
Long-term portion of lease obligations	760.0	33.9	29.9	—	—	760.0
Shareholders' equity - end of period	5,927.5	2,790.6	3,439.9	3,675.8	3,668.9	5,927.5
Closing capital employed (B)	8,625.5	3,533.3	4,380.1	4,378.5	4,396.9	8,625.5
Average capital employed (A+B)/2	6,079.4	3,956.7	4,379.3	4,387.7	4,119.1	6,233.4

Non-GAAP Financial Ratios

Netback per boe

ARC calculates netback per boe as netback divided by weighted average daily production. Netback is a non-GAAP financial measure component of netback per boe. Management believes that netback per boe is a key industry performance measure of operational efficiency and one that provides investors with information that is also commonly presented by other crude oil and natural gas producers. ARC's netback per boe is disclosed in Table 12a within this MD&A.

Free Funds Flow per Share

ARC presents free funds flow per share by dividing free funds flow by the Company's diluted or basic weighted average common shares outstanding. Free funds flow is a non-GAAP financial measure. Management believes that free funds flow per share provides investors an indicator of funds generated from the business that could be allocated to each shareholder's equity position.

Return on Average Capital Employed

ARC calculates ROACE, expressed as a percentage, as adjusted EBIT divided by the average capital employed. The components adjusted EBIT and average capital employed are non-GAAP financial measures. ARC uses ROACE as a measure of long-term financial performance, to measure how effectively Management utilizes the capital it has been

provided and to demonstrate to shareholders the returns generated over the long term. ROACE is calculated by ARC on an annual basis and a five-year basis in Table 29:

Table 29

ROACE (\$ millions)	2021	2020	2019	2018	2017	Five Year
Adjusted EBIT	1,111.7	(715.6)	(87.5)	364.4	570.1	248.7
Divided by average capital employed	6,079.4	3,956.7	4,379.3	4,387.7	4,119.1	6,233.4
ROACE (%)	18	(18)	(2)	8	14	4

Capital Management Measures

Funds from Operations

ARC considers funds from operations to be a key measure of capital management as it demonstrates ARC's ability to generate the necessary funds to maintain production at current levels and fund future growth through capital investment. 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, of which the nature and timing of expenditures are discretionary. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

Funds from operations for the three months and year ended December 31, 2021 and 2020 is calculated as follows in Table 30:

Table 30

Funds from Operations (\$ millions)	Three Months Ended			Year Ended	
	September 30, 2021	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Cash flow from operating activities	615.0	668.7	201.1	2,006.5	655.7
Net change in other liabilities	97.3	56.4	(2.7)	224.8	(7.6)
Change in non-cash operating working capital	53.1	108.5	13.6	184.1	19.5
Funds from operations	765.4	833.6	212.0	2,415.4	667.6

Net Debt and Net Debt to Funds from Operations

Net debt and net debt to funds from operations are used by Management as key measures to assess the Company's liquidity position at a point in time. Previously, net debt was computed including current and long-term portions of lease obligations and a similar measure; "net debt excluding lease obligations" was also presented. At December 31, 2021 and 2020, net debt has been computed excluding lease obligations. The current determination of net debt and net debt to funds from operations is reflective of the measures used by Management to monitor its liquidity in light of operating and capital budgeting decisions. Net debt is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities. Table 31 details the composition of ARC's net debt and net debt to funds from operations as at December 31, 2021 and 2020:

Table 31

Net Debt (\$ millions, except ratio amounts)	December 31, 2021	December 31, 2020
Current portion of long-term debt ⁽¹⁾	—	146.7
Long-term debt ⁽¹⁾	1,705.3	555.2
Accounts payable and accrued liabilities	761.5	125.0
Dividends payable	69.5	21.3
Cash and cash equivalents, accounts receivable, and prepaid expense	(707.6)	(154.7)
Net debt	1,828.7	693.5
Funds from operations	2,415.4	667.6
Net debt to funds from operations (ratio) ⁽²⁾	0.8	1.0

(1) Refer to Note 15 "Long-term Debt" in the financial statements.

(2) Composed of net debt divided by funds from operations.

Supplementary Financial Measures

"Average realized commodity price" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.

"Average realized condensate price" is comprised of condensate commodity sales from production, as determined in accordance with IFRS, divided by the Company's condensate production.

"Average realized crude oil price" is comprised of crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.

"Average realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

"Average realized NGLs price" is comprised of NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs production.

"Cash flow from operating activities per basic share" is comprised of cash flow from operating activities, as determined in accordance with IFRS, divided by basic weighted average common shares outstanding.

"Cash flow from operating activities per diluted share" is comprised of cash flow from operating activities, as determined in accordance with IFRS, divided by diluted weighted average common shares outstanding.

"Commodity sales from production per basic share" is comprised of commodity sales from production, as determined in accordance with IFRS, divided by basic weighted average common shares.

"Commodity sales from production per diluted share" is comprised of commodity sales from production, as determined in accordance with IFRS, divided by diluted weighted average common shares.

"Current income tax expense (recovery), as a per cent of funds from operations" is comprised of current income tax expense (recovery), as determined in accordance with IFRS, divided by funds from operations.

"DD&A expense per boe" is comprised of DD&A expense, as determined in accordance with IFRS, divided by the Company's total production.

"Dividend as a per cent of funds from operations" is comprised of dividends declared, as determined in accordance with IFRS, divided by funds from operations.

"Dividends declared per share" is comprised of dividends declared, as determined in accordance with IFRS, divided by the number of shares outstanding at the dividend record date.

"Funds from operations per basic share" is comprised of funds from operations divided by basic weighted average common shares.

"Funds from operations per diluted share" is comprised of funds from operations divided by diluted weighted average common shares.

"G&A expense per boe" is comprised of G&A expense, as determined in accordance with IFRS, divided by the Company's total production.

"G&A expense before share-based compensation expense per boe" is comprised of G&A expense as determined in accordance with IFRS, excluding share-based compensation expense, divided by the Company's total production.

"G&A – share-based compensation expense per boe" is comprised of G&A expense as determined in accordance with IFRS, excluding G&A expense not attributable to share-based compensation plans, except the DSU Plans, divided by the Company's total production.

"Interest and financing expense per boe" is comprised of interest and financing expense, as determined in accordance with IFRS, divided by the Company's total production.

"Operating expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

"Royalties as a percentage of commodity sales from production" is comprised of royalties, as determined in accordance with IFRS, divided by commodity sales from production as determined in accordance with IFRS.

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

"Transaction costs per boe" is comprised of transaction costs, as determined in accordance with IFRS, divided by the Company's total production.

"Transportation expense per boe" is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production.

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 2022 annual guidance, production guidance and expense guidance, anticipated 2022 budget for capital expenditures, plans for capital expenditures for the Kakwa area, plans to increase productive capacity in the Sunrise area, plans to invest capital in certain emission-reduction projects and the expectation that ARC will offset inflationary pressures in 2022 through continued efficiency improvements under the heading "Annual Guidance"; the potential that the share-based compensation awards held by employees and directors of Seven Generations may be subject to accelerated vesting and eligible for continuation and exercise under the heading "Share-Based Compensation Plans"; the anticipated vesting of RSUs and PSUs, expected variability of future payments under the RSU and PSU Plans and the estimated range of future expected payments under such plans under the heading "Restricted Share Unit and Performance Share Unit Plans"; the 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, anticipated settlement dates, annual inflation factors, and the intention to maintain a planned and scheduled approach to abandonment and reclamation activities under the heading "Asset Retirement Obligation"; ARC's capital management objectives, the anticipated sources of financing for profitable growth activities, ARC's belief that investing in development activities that prioritize profitability over production growth creates significant long-term shareholder value, the expected reduction to its future average interest rate under the heading "Capitalization, Financial Resources and Liquidity"; estimates with respect to ARC's commitment to capital expenditures under the heading "Contractual Obligations and Commitments"; the possibility that share repurchases under the NCIB may take place during ARC's internal blackout period under the heading "Shareholders' Equity"; ARC's plans to adopt certain accounting standards issues by the IASB under the heading "Future Accounting Pronouncements"; and similar statements.

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; anticipated future impacts of COVID-19 on demand for commodities, the subsequent impact on commodity prices and the effect on ARC's business; ARC's continued success in integrating the business of Seven Generations and that ARC will realize the anticipated benefits from the Business Combination; the successful implementation and use of the NCIB; that future business, regulatory and industry conditions will be within the parameters expected by ARC, including with respect to prices, margins, demand, supply, product availability, supplier agreements, availability and cost of labour and interest, exchange and effective tax rates; assumptions with respect to global economic conditions and the accuracy of ARC's market outlook expectations for 2022 and in the future; 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: the ability of ARC to continue to realize the anticipated benefits of, and synergies from, the Business Combination and the timing thereof; the success of business integration; 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; potential regulatory and industry changes stemming from the results of court actions affecting regions in which ARC holds assets; risks and uncertainties related to crude oil and natural gas interests and operations on Indigenous lands; suspension of or changes to guidance, and the associated impact to production; 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 in ARC's public disclosure documents. Readers should also carefully consider the risks discussed in the section entitled "Risk Factors" contained within this MD&A.

The internal projections, expectations, or beliefs are based on the 2022 capital budget, which is subject to change in light of ongoing results, prevailing economic conditions, commodity prices, and industry conditions and regulations and the operational and financial results for the year ended 2021. 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.

GLOSSARY

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

Measurement

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

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

Financial and Business Environment

AIF	annual information form
AECO	Alberta Energy Company
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
DSU	Deferred Share Unit
E&E	exploration and evaluation
ESG	environmental, social, and governance
GAAP	generally accepted accounting principles
G&A	general and administrative
GHG	greenhouse gas
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	Interbank offered rate
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
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate

ANNUAL HISTORICAL REVIEW

For the year ended December 31					
(\$ millions, except per share amounts)	2021	2020	2019	2018	2017
FINANCIAL					
Commodity sales from production	4,572.6	1,135.5	1,189.5	1,362.2	1,215.2
Per share, basic ⁽¹⁾	7.30	3.21	3.37	3.85	3.44
Per share, diluted ⁽¹⁾	7.29	3.21	3.37	3.85	3.43
Net income (loss)	786.6	(547.2)	(27.6)	213.8	388.9
Per share, basic	1.26	(1.55)	(0.08)	0.60	1.10
Per share, diluted	1.25	(1.55)	(0.08)	0.60	1.10
Cash flow from operating activities	2,006.5	655.7	638.8	862.8	672.8
Per share, basic ⁽¹⁾	3.20	1.86	1.81	2.44	1.90
Per share, diluted ⁽¹⁾	3.20	1.86	1.81	2.44	1.90
Funds from operations	2,415.4	667.6	697.4	819.0	731.9
Per share, basic ⁽¹⁾	3.86	1.89	1.97	2.32	2.07
Per share, diluted ⁽¹⁾	3.85	1.89	1.97	2.31	2.07
Free funds flow	1,353.6	324.4	5.9	139.6	(97.8)
Per share, basic ⁽¹⁾	2.16	0.92	0.02	0.39	(0.28)
Per share, diluted ⁽¹⁾	2.16	0.92	0.02	0.39	(0.28)
Cash flow used in investing activities	808.1	364.3	673.3	534.7	416.4
Dividends declared	181.4	106.3	212.4	212.3	212.3
Per share	0.286	0.30	0.60	0.60	0.60
Total assets	11,380.3	4,954.2	5,778.3	6,016.2	6,224.0
Total liabilities	5,452.8	2,163.6	2,338.4	2,340.4	2,555.1
Net debt	1,828.7	693.5	894.0	702.7	728.0
Weighted average shares, basic	626.3	353.4	353.4	353.5	353.4
Weighted average shares, diluted	627.3	353.4	353.4	353.8	353.9
Shares outstanding, end of period	693.5	353.4	353.4	353.4	353.5
CAPITAL EXPENDITURES					
Geological and geophysical	7.4	14.8	19.3	10.8	9.5
Drilling and completions	747.1	272.0	442.7	483.6	640.3
Plant and facilities	201.9	43.1	208.0	140.7	137.5
Maintenance and optimization	56.0	9.4	18.5	41.7	36.5
Corporate assets	49.4	3.9	3.0	2.6	5.9
Capital expenditures	1,061.8	343.2	691.5	679.4	829.7
Undeveloped land	—	—	0.7	0.9	97.6
Total capital expenditures, including undeveloped land purchases	1,061.8	343.2	692.2	680.3	927.3
Acquisitions	22.4	64.6	0.2	0.2	2.5
Dispositions	(101.0)	(66.2)	(5.0)	(196.1)	—
Capital expenditures, land purchases, and net acquisitions and dispositions	983.2	341.6	687.4	484.4	929.8
OPERATING					
Production					
Crude oil (bbl/d)	10,435	15,726	17,591	23,460	24,380
Condensate (bbl/d)	59,958	13,519	10,066	7,281	5,650
Crude oil and condensate (bbl/d)	70,393	29,245	27,657	30,741	30,030
Natural gas (MMcf/d)	1,149	739	623	570	526
NGLs (bbl/d)	40,084	9,112	7,578	6,955	5,273
Total (boe/d)	302,003	161,564	139,126	132,724	122,937
Average realized commodity prices					
Crude oil (\$/bbl)	75.08	42.62	66.01	68.58	60.66
Condensate (\$/bbl)	86.04	47.62	67.61	75.56	62.02
Natural gas (\$/Mcf)	4.82	2.26	2.12	2.37	2.56
NGLs (\$/bbl)	26.16	12.69	12.28	32.22	29.57
Oil equivalent (\$/boe)	41.48	19.20	23.42	28.12	27.08
RESERVES (company gross) ⁽²⁾					
Proved plus probable reserves					
Crude oil and liquids (Mbbbl)	607,616	212,661	216,613	205,577	203,210
Natural gas (Bcf)	6,918	4,298	4,160	4,040	3,797
Total (MMboe)	1,761	929	910	879	836
TRADING STATISTICS (\$, based on intra-day trading) ⁽³⁾					
High	13.34	8.39	10.49	15.90	23.70
Low	5.88	2.42	5.37	7.38	13.64
Close	11.50	6.00	8.18	8.10	14.75
Average daily volume (thousands)	3,160	2,082	2,242	1,480	1,124

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

(2) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests.

(3) Trading statistics denote trading activity on the TSX only.

QUARTERLY HISTORICAL REVIEW

(\$ millions, except per share amounts)	2021				2020			
FINANCIAL	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Commodity sales from production	1,618.5	1,362.6	1,066.2	525.3	363.1	285.0	217.9	269.5
Per share, basic ⁽¹⁾	2.31	1.89	1.47	1.49	1.03	0.81	0.62	0.76
Per share, diluted ⁽¹⁾	2.30	1.88	1.47	1.48	1.02	0.81	0.62	0.76
Net income (loss)	678.0	53.6	(123.0)	178.0	120.8	(66.1)	(43.5)	(558.4)
Per share, basic	0.97	0.07	(0.17)	0.50	0.34	(0.19)	(0.12)	(1.58)
Per share, diluted	0.96	0.07	(0.17)	0.50	0.34	(0.19)	(0.12)	(1.58)
Cash flow from operating activities	668.7	615.0	458.9	278.4	201.1	174.1	97.4	183.1
Per share, basic ⁽¹⁾	0.95	0.85	0.63	0.79	0.57	0.49	0.28	0.52
Per share, diluted ⁽¹⁾	0.95	0.85	0.63	0.79	0.57	0.49	0.28	0.52
Funds from operations	833.6	765.4	542.5	273.9	212.0	144.6	150.2	160.8
Per share, basic ⁽¹⁾	1.19	1.06	0.75	0.78	0.60	0.41	0.42	0.46
Per share, diluted ⁽¹⁾	1.19	1.06	0.75	0.77	0.60	0.41	0.42	0.46
Free funds flow	458.7	497.0	249.7	148.2	135.3	92.0	106.1	(9.0)
Per share, basic ⁽¹⁾	0.65	0.69	0.35	0.42	0.38	0.26	0.30	(0.03)
Per share, diluted ⁽¹⁾	0.65	0.69	0.35	0.42	0.38	0.26	0.30	(0.03)
Cash flow used in investing activities	268.7	228.8	206.5	104.1	79.3	44.1	87.5	153.4
Dividends declared	69.5	47.1	43.5	21.3	21.3	21.2	21.3	42.5
Per share	0.10	0.066	0.06	0.06	0.06	0.06	0.06	0.12
Total assets	11,380.3	11,192.9	11,047.6	6,011.1	4,954.2	4,982.9	5,136.8	5,172.6
Total liabilities	5,452.8	5,671.2	5,341.7	3,062.8	2,163.6	2,292.7	2,360.3	2,332.4
Net debt	1,828.7	1,926.4	2,084.1	568.0	693.5	834.2	923.0	1,037.3
Weighted average shares, basic	701.8	722.0	723.1	353.4	353.4	353.4	353.4	353.4
Weighted average shares, diluted	703.0	723.1	723.1	354.4	354.3	353.4	353.4	353.4
Shares outstanding, end of period	693.5	711.7	723.9	353.4	353.4	353.4	353.4	353.4
CAPITAL EXPENDITURES								
Geological and geophysical	3.5	1.8	0.1	2.0	2.5	2.4	3.4	6.5
Drilling and completions	241.8	210.8	204.2	90.3	68.1	40.8	31.8	131.3
Plant and facilities	106.7	13.0	60.4	21.8	3.1	5.9	8.3	25.8
Maintenance and optimization	16.8	25.5	9.3	4.4	1.5	2.1	1.4	4.4
Corporate	6.1	17.3	18.8	7.2	1.5	1.4	(0.8)	1.8
Capital expenditures	374.9	268.4	292.8	125.7	76.7	52.6	44.1	169.8
Acquisitions	21.5	0.8	0.1	—	61.6	—	0.5	2.5
Dispositions	(22.0)	(0.8)	(78.1)	(0.1)	(63.2)	—	(0.6)	(2.4)
Capital expenditures, and net acquisitions and dispositions	374.4	268.4	214.8	125.6	75.1	52.6	44.0	169.9
OPERATING								
Production								
Crude oil (bbl/d)	7,857	8,639	11,659	13,647	15,554	15,373	14,987	16,997
Condensate (bbl/d)	74,220	77,539	73,459	13,812	14,715	14,831	13,239	11,262
Crude oil and condensate (bbl/d)	82,077	86,178	85,118	27,459	30,269	30,204	28,226	28,259
Natural gas (MMcf/d)	1,293	1,300	1,203	794	783	708	773	692
NGLs (bbl/d)	48,299	50,891	50,020	10,620	8,678	10,208	9,405	8,152
Total (boe/d)	345,831	353,657	335,701	170,430	169,468	158,444	166,510	151,783
Average realized commodity prices								
Crude oil (\$/bbl)	92.11	77.43	74.01	64.46	48.14	45.45	25.88	49.69
Condensate (\$/bbl)	96.90	85.72	77.93	71.59	53.55	48.49	31.54	57.52
Natural gas (\$/Mcf)	6.45	4.67	3.34	4.60	2.88	2.16	1.92	2.05
NGLs (\$/bbl)	27.65	27.92	22.19	29.45	18.03	14.85	10.84	6.36
Oil equivalent (\$/boe)	50.87	41.88	34.90	34.25	23.29	19.55	14.38	19.52
TRADING STATISTICS ⁽²⁾								
(\$, based on intra-day trading)								
High	13.34	11.95	10.74	8.67	7.20	6.94	6.12	8.39
Low	10.20	7.51	7.26	5.88	5.66	4.54	3.64	2.42
Close	11.50	11.87	10.55	7.72	6.00	5.95	4.56	4.05
Average daily volume (thousands)	3,173	3,034	3,309	3,125	1,582	1,363	2,177	3,207

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

(2) Trading statistics denote trading activity on the TSX only.

Consolidated Financial Statements

For the Year Ended December 31, 2021

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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, 2021.



Terry M. Anderson

President and Chief Executive Officer

Calgary, Alberta

February 10, 2022



Kristen J. Bibby

Senior Vice President and Chief Financial Officer



Independent auditor's report

To the Shareholders of ARC Resources Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ARC Resources Ltd. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include 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

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2021. 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
<p>The impact of crude oil, condensate, natural gas and natural gas liquids reserves on net Development and Production (D&P) assets</p> <p><i>Refer to note 3 – Summary of accounting policies, note 5 – Management judgements and estimation uncertainty, note 10 – Property, plant and equipment and note 12 – Impairment to the consolidated financial statements.</i></p> <p>The Company has \$9,229.9 million of D&P assets as at December 31, 2021. DD&A expense was \$995.3 million for the year then ended. D&P assets are depleted using the unit-of-production method based on total estimated proved plus probable crude oil, condensate, natural gas and natural gas liquids reserves (proved plus probable reserves), total capitalized costs, estimated future development costs including future estimated asset retirement costs, and volumes produced.</p> <p>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 and, in the case of previously impaired CGUs, reversal of impairment. If indicators of impairment exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount. If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the CGU is calculated and compared against the carrying amount. Management used a fair value less cost of disposal (FVLCD) model to determine</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved plus probable reserves used to determine the DD&A expense and the recoverable amount of the Company's CGU. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of data used by management's experts and an evaluation of their findings. • Tested how management determined the recoverable amounts of the CGU and DD&A expense, which included the following: <ul style="list-style-type: none"> – 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 key assumptions used in developing the underlying estimates: <ul style="list-style-type: none"> ○ Required capital expenditures and future production costs by considering the past performance of the Company,



Key audit matter	How our audit addressed the key audit matter
<p>the recoverable amount of the CGUs, which is based on the net present value of the after-tax cash flows of proved plus probable reserves. The proved plus probable reserves are prepared by the Company's independent qualified reserve evaluator (management's experts). As at March 31, 2021 and September 30, 2021, management identified indicators of potential reversal of previous impairment and conducted tests for reversal of impairment for its Northern Alberta CGU. As a result of its tests, the Company recognized a reversal of impairment in the amount of \$121.8 million and \$39.3 million as at the respective dates. As at December 31, 2021, management evaluated its D&P assets for any indicators of impairment and concluded that no impairment indicators exist.</p> <p>Key assumptions developed by management used to determine the recoverable amount of the CGUs include forward price estimates of crude oil and natural gas, proved plus probable reserves, future production costs, required capital expenditures, and discount rates.</p> <p>We determined that this is a key audit matter due to i) the judgments by management, including the use of management's experts, when developing the after-tax future cash flows to determine the recoverable amounts and the proved plus probable reserves ; ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures relating to the key assumptions; and iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the field of valuation.</p>	<p>and whether they were consistent with evidence obtained in other areas of the audit.</p> <ul style="list-style-type: none"> ○ Forward price estimates of crude oil and natural gas by comparing those forecasts with third-party industry forecasts. ○ The discount rates, through the assistance of professionals with specialized skill and knowledge in the field of valuation. <ul style="list-style-type: none"> ● Recalculated the unit-of-production rates used to calculate DD&A expense for each CGU.
<p>Valuation of D&P assets acquired in the Seven Generations Energy Ltd. business combination</p> <p><i>Refer to note 3 – Summary of accounting policies, note 5 – Management judgements and estimation</i></p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> ● Tested how management estimated the fair value of the D&P assets, which included the following:

Key audit matter	How our audit addressed the key audit matter
<p><i>uncertainty and note 7 – Business combination to the consolidated financial statements.</i></p> <p>On April 6, 2021, the Company issued 369.4 million common shares valued at \$2,903.5 million to acquire all of the outstanding Seven Generations Energy Ltd. (acquired entity) shares and assumed outstanding share options and warrants valued at \$10.5 million. The fair value of the identifiable assets acquired included \$4,943.2 million in D&P assets, which was determined using a fair value less cost of disposal model.</p> <p>The assumptions and estimates used to determine the fair value of D&P assets require significant judgment and include forward price estimates of crude oil and natural gas, volume of crude oil, condensate, natural gas and natural gas liquids reserves, future production costs, required capital expenditures and discount rate. The reserves are prepared by the Company's independent qualified reserve evaluator (management's experts).</p> <p>We considered this a key audit matter due to the significant judgment applied by management in estimating the fair value of the D&P assets, including the development of assumptions. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.</p>	<ul style="list-style-type: none"> – Evaluated the appropriateness of the method used by management in determining the fair value. – Tested the data used in determining the fair value. – Evaluated the reasonableness of assumptions used in determining the underlying fair value: <ul style="list-style-type: none"> ○ Required capital expenditures and future production costs by considering the performance of the acquired entity, 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 third party industry forecasts. ○ The discount rate, through the assistance of professionals with specialized skill and knowledge in the field of valuation – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the volume of crude oil, condensate, natural gas and natural gas liquids reserves used to determine the fair value of the D&P assets. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express 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.

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, 2022

ARC RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

As at

(Cdn\$ millions)	December 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	—	0.4
Inventory	22.3	1.6
Accounts receivable (Note 8)	672.0	145.9
Prepaid expense	35.6	8.4
Risk management contracts (Note 19)	0.1	6.0
	730.0	162.3
Long-term investment	2.5	—
Exploration and evaluation assets (Note 9)	277.9	214.9
Property, plant and equipment (Notes 10 and 12)	9,265.6	4,284.3
Right-of-use assets (Note 11)	856.1	44.5
Goodwill (Note 12)	248.2	248.2
Total assets	11,380.3	4,954.2
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	761.5	125.0
Current portion of lease obligations (Note 14)	109.3	15.3
Current portion of long-term debt (Note 15)	—	146.7
Current portion of other deferred liabilities (Note 16)	90.5	—
Current portion of asset retirement obligation (Note 17)	15.0	19.0
Dividends payable (Note 21)	69.5	21.3
Risk management contracts (Note 19)	465.3	40.4
	1,511.1	367.7
Risk management contracts (Note 19)	171.9	44.4
Long-term portion of lease obligations (Note 14)	760.0	33.9
Long-term debt (Note 15)	1,705.3	555.2
Long-term incentive compensation liability (Note 23)	40.8	32.0
Other deferred liabilities (Note 16)	154.2	16.3
Asset retirement obligation (Note 17)	535.3	522.7
Deferred taxes	574.2	591.4
Total liabilities	5,452.8	2,163.6
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 21)	7,221.1	4,658.2
Contributed surplus	46.3	36.5
Deficit	(1,337.4)	(1,904.1)
Accumulated other comprehensive loss	(2.5)	—
Total shareholders' equity	5,927.5	2,790.6
Total liabilities and shareholders' equity	11,380.3	4,954.2
Commitments and contingencies (Note 24)		

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors


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



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

ARC RESOURCES LTD.**CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31

(Cdn\$ millions, except per share amounts)	2021	2020
Commodity sales from production (Note 22)	4,572.6	1,135.5
Royalties	(400.7)	(47.5)
Sales of commodities purchased from third parties	938.9	37.7
Revenue from commodity sales	5,110.8	1,125.7
Interest income	1.9	0.8
Other income	15.6	8.7
Loss on risk management contracts (Note 19)	(1,041.6)	(15.4)
Total revenue, interest and other income and loss on risk management contracts	4,086.7	1,119.8
Commodities purchased from third parties	903.9	37.8
Operating	425.4	233.3
Transportation	528.3	176.2
Exploration and evaluation (Note 9)	—	7.1
General and administrative	167.0	91.9
Transaction costs (Note 7)	22.1	—
Interest and financing	126.1	45.6
Impairment of financial assets	4.0	12.9
Depletion, depreciation and amortization (Note 10)	1,063.6	523.6
Impairment (reversal of impairment) (Notes 10 and 12)	(137.5)	750.3
Gain on foreign exchange	(11.3)	(4.0)
Total expenses	3,091.6	1,874.7
Net income (loss) before income taxes	995.1	(754.9)
Provision for (recovery of) income taxes (Note 20)		
Current	33.7	(26.8)
Deferred	174.8	(180.9)
Total income taxes (recovery)	208.5	(207.7)
Net income (loss)	786.6	(547.2)
Net income (loss) per share (Note 21)		
Basic	1.26	(1.55)
Diluted	1.25	(1.55)

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31

(Cdn\$ millions)	2021	2020
Net income (loss)	786.6	(547.2)
Items that may be reclassified to the consolidated statements of income in subsequent periods:		
Net unrealized loss on foreign currency translation adjustment	(2.5)	—
Comprehensive income (loss)	784.1	(547.2)

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 21)	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
January 1, 2020	4,658.3	32.2	(1,250.6)	—	3,439.9
Comprehensive loss	—	—	(547.2)	—	(547.2)
Recognized under share-based compensation plans (Note 23)	(0.1)	4.3	—	—	4.2
Dividends declared (Note 21)	—	—	(106.3)	—	(106.3)
December 31, 2020	4,658.2	36.5	(1,904.1)	—	2,790.6
Comprehensive income	—	—	786.6	(2.5)	784.1
Issued upon close of Business Combination (Note 7)	2,903.5	10.5	—	—	2,914.0
Recognized under share-based compensation plans (Note 23)	0.3	3.3	—	—	3.6
Recognized on exercise of share options (Note 23)	17.7	(4.0)	—	—	13.7
Repurchase of shares for cancellation (Note 21)	(321.1)	—	(24.1)	—	(345.2)
Change in liability for share purchase commitment (Note 21)	(37.5)	—	(14.4)	—	(51.9)
Dividends declared (Note 21)	—	—	(181.4)	—	(181.4)
December 31, 2021	7,221.1	46.3	(1,337.4)	(2.5)	5,927.5

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(Cdn\$ millions)	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	786.6	(547.2)
Add items not involving cash:		
Unrealized loss on risk management contracts	534.2	89.6
Accretion of asset retirement obligation (Note 17)	9.5	6.3
Impairment of financial assets	4.0	12.9
Depletion, depreciation and amortization (Note 10)	1,063.6	523.6
Impairment (reversal of impairment) (Notes 10 and 12)	(137.5)	750.3
Exploration and evaluation (Note 9)	—	7.1
Unrealized loss (gain) on foreign exchange	(22.2)	2.1
Deferred taxes (Note 20)	174.8	(180.9)
Other (Note 26)	2.4	3.8
Net change in other liabilities (Note 26)	(224.8)	7.6
Change in non-cash working capital (Note 26)	(184.1)	(19.5)
Cash flow from operating activities	2,006.5	655.7
CASH FLOW USED IN FINANCING ACTIVITIES		
Draw of long-term debt under revolving credit facilities	6,628.7	2,209.2
Issuance of senior notes (Note 15)	1,000.0	—
Repayment of long-term debt (Note 15)	(8,304.7)	(2,387.9)
Proceeds from exercise of share options	13.9	—
Repurchase of shares	(340.6)	—
Repayment of principal relating to lease obligations	(63.0)	(18.1)
Cash dividends paid	(133.1)	(102.7)
Cash flow used in financing activities	(1,198.8)	(299.5)
CASH FLOW USED IN INVESTING ACTIVITIES		
Cash acquired upon close of Business Combination (Note 7)	4.9	—
Acquisition of crude oil and natural gas assets	(1.1)	(0.2)
Disposal of crude oil and natural gas assets	79.7	1.8
Property, plant and equipment development expenditures (Note 10)	(1,051.5)	(334.6)
Exploration and evaluation asset expenditures (Note 9)	(2.3)	(0.7)
Long-term investment	(2.5)	—
Change in non-cash working capital (Note 26)	164.7	(30.6)
Cash flow used in investing activities	(808.1)	(364.3)
DECREASE IN CASH AND CASH EQUIVALENTS	(0.4)	(8.1)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	0.4	8.5
CASH AND CASH EQUIVALENTS, END OF YEAR	—	0.4
The following are included in cash flow from operating activities:		
Income taxes paid (received) in cash	56.9	(24.8)
Interest paid in cash	118.9	41.0

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 assets. On April 6, 2021, ARC and Seven Generations Energy Ltd. ("Seven Generations") closed the previously announced business combination agreement and accompanying Plan of Arrangement (the "Business Combination"). For more information, refer to Note 7 "Business Combination".

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, 2022. 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. Beginning January 1, 2021, ARC commenced business in the United States through a wholly-owned subsidiary with a US\$ functional currency. 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, 2022.

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, long-term investment, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.
- *FVTPL*
Risk management contracts, all of which are derivatives, are measured initially at FVTPL and are subsequently measured at fair value with changes in fair value immediately charged to the consolidated statements of income (the "statements of income").

Impairment of Financial Assets

Impairment of financial assets 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 the 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 inventories, if the carrying amount exceeds net realizable value, an impairment is recognized.

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.

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. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the acquisition date. Identifiable assets and liabilities assumed are measured and recognized at their fair value at the date of the acquisition, with the exception of income taxes, right-of-use ("ROU") assets, and lease obligations. Any deferred tax asset or liability arising from a business combination is recognized at the acquisition date. Transaction costs associated with a business combination are expensed as incurred. Results of acquisitions are included in the financial statements from the closing 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 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 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 applicable, 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 as impairment. Once recognized, impairment of goodwill is not eligible for reversal.

Lease Arrangements

As lessee, ARC recognizes an 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 the statements of income as DD&A. 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 statements of income 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.

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 occurrence or non-occurrence 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 ("SR&ED") 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

Foreign Currency Translation

The financial statements of subsidiaries with a functional currency other than the Canadian dollar are translated into Canadian dollars. The assets and liabilities are translated at the exchange rates at the reporting date. The revenue and expenses are translated at the exchange rates that approximate the dates of those transactions. Foreign currency differences are recognized in OCI and accumulated in the translation reserve, unless or until such time as the subsidiary is disposed or liquidated, upon which the cumulative translation adjustment will be recognized in the statements of income.

IBOR Reform and the Effects on Financial Reporting - Phase 2

On January 1, 2021, ARC adopted *Interest Rate Benchmark Reform - Phase 2* issued by the IASB which required amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases*. There was not a material impact to ARC's financial statements.

Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 *Intangible Assets*)

In March 2021, the IFRS Interpretations Committee published its decision with regards to the recognition of configuration costs as they relate to cloud computing. This decision had no material impact to ARC's financial statements.

Share Capital

Common shares are classified as equity. Costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of tax. When ARC repurchases its own common shares, share capital is reduced by the average carrying value of the shares repurchased. If the average carrying value of the shares exceeds the purchase price, the difference will be recognized as contributed surplus. If the purchase price exceeds the average carrying value of the shares, any previous contributed surplus related to such transactions is reversed. To the extent there is none, the difference is recognized as a reduction to retained earnings. Shares are cancelled upon repurchase.

Future Accounting Pronouncements

ARC plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2022. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the financial statements.

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, 2021 and 2020, which could differ significantly from other points in time throughout the year, or future periods. Reserves have been evaluated at December 31, 2021 and 2020 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, shared infrastructure and marketing arrangements, 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. Additionally, the evolving worldwide demand for energy and the global advancement of alternative sources of energy could result in a change in assumptions used to determine the recoverable amount and could affect the carrying value of certain assets. The timing of when global energy markets transition from carbon-based sources to alternative energy sources is highly uncertain. Other 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, which also could be impacted by the rate at which global energy markets transition to a lower carbon-based economy, 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 and could be impacted by a shift in demand as global energy markets transition to a lower carbon-based economy. 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 investments 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 and E&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 timing of cash outflows can differ from estimates because of changes in laws and regulations, public expectations, and market conditions, all of which could be influenced by the rate at which global energy markets transition to a lower carbon-based economy. Additionally, further discovery, analysis of site conditions, and changes in technology could also cause estimates to differ from actual costs.

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.

Business Combinations

Management judgment may be required to identify one of the combining entities as the acquirer for accounting purposes and then to determine the fair value of the acquired entity. The determination of fair value is estimated based on information available at the date of acquisition and requires Management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of PP&E and E&E assets using a fair value less cost of disposal model generally require significant judgment and include forward price estimates of crude oil and natural gas, volume of reserves and associated assumptions, including future production costs, required capital investments and reserve life, and discount rate. Assumptions are also required to determine the fair value of the ARO associated with the properties, the ROU assets and associated lease obligations, other deferred liabilities, and the long-term incentive compensation liability.

Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, and goodwill (or net assets acquired in excess of purchase consideration). Future net income (loss) will be affected as the fair value on initial recognition impacts future DD&A, asset impairment or reversal, or goodwill impairment.

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

The COVID-19 pandemic and ensuing economic recovery continue to drive the global demand for crude oil and natural gas and related prices, which in turn has had a significant impact on ARC's commodity sales from production. ARC uses forward commodity price curves as an input in assessing the value of its crude oil and natural gas assets and these inputs could be affected by the unknown future impact of COVID-19 on the economy. Refer to Note 12 "Impairment". At December 31, 2021, Management has incorporated the anticipated impacts of COVID-19 in its estimates and judgments in preparation of these financial statements.

7. BUSINESS COMBINATION

On April 6, 2021, ARC and Seven Generations completed the Business Combination which united two Canadian crude oil and natural gas-producing entities to create one of Canada's largest upstream energy companies, achieving size and scale, enhanced capital allocation optionality, cost savings and synergies, and leadership in environmental, social, and governance practices. The Business Combination has been recognized in accordance with IFRS 3 *Business Combinations* using the acquisition method.

Pursuant to the Business Combination, ARC acquired all of the Seven Generations common shares outstanding, with Seven Generations shareholders receiving 1.108 ARC common shares for each Seven Generations share held. ARC issued 369.4 million common shares to acquire all of the outstanding Seven Generations shares. Additionally, ARC assumed 8.1 million share options and 0.2 million performance warrants previously issued by Seven Generations with a combined fair value of \$10.5 million. As a result of completing the Business Combination, Seven Generations became a wholly-owned subsidiary of ARC, and was subsequently amalgamated with ARC on May 1, 2021.

ARC paid a premium of 10.8 per cent to acquire all the outstanding common shares of Seven Generations. After the close of the Business Combination, former ARC shareholders held approximately 49 per cent of the combined company and former Seven Generations shareholders held approximately 51 per cent of the combined company. At the time of closing, the Board was composed of six members, including the Chair of the Board, from the legacy ARC Board, and five members from the legacy Seven Generations Board. The officer team at the time of the Business Combination comprised nine members from legacy ARC, including the Chief Executive Officer and the Chief Financial Officer, and three members from legacy Seven Generations. ARC has determined, based on the premium paid for the former Seven Generations shares and the composition of officers and senior executives, it is the acquirer for accounting purposes and has recognized the net assets of Seven Generations under its existing accounting policies.

Purchase Price Allocation

The value of ARC common shares issued of \$2.9 billion comprises 369.4 million common shares of ARC, based on the issuance of 1.108 ARC common shares for each Seven Generations common share and the closing price of \$7.86 for each ARC common share as reported on the TSX on April 5, 2021. The outstanding Seven Generations' share options and warrants assumed by ARC were valued using a Black-Scholes pricing model.

The following purchase price allocation is based on Management's best estimate of the assets acquired and liabilities assumed and is subject to change based upon finalizing the value of the net assets acquired.

(\$ millions, except where otherwise stated)	April 6, 2021
Consideration	
Common shares	
ARC common shares issued to Seven Generations' shareholders (millions)	369.4
Price of ARC common shares (\$ per share)	7.86
Value of common shares	2,903.5
Outstanding share options and warrants	10.5
Total consideration	2,914.0
Identifiable net assets	
Cash and cash equivalents	4.9
Accounts receivable	330.3
Prepaid expense	54.1
Accounts payable and accrued liabilities	(435.4)
Risk management contracts	(103.0)
Property, plant and equipment	
Development and production assets	4,943.2
Corporate assets	14.0
Exploration and evaluation assets	55.1
Right-of-use assets	874.6
Debt	(1,712.7)
Lease obligations	(874.6)
Other deferred liabilities	(315.8)
Long-term incentive compensation liability	(7.0)
Asset retirement obligation	(105.6)
Deferred taxes	191.9
Total identifiable net assets	2,914.0

For the year ended December 31, 2021, ARC recognized transaction costs of \$22.1 million in the statements of income.

If the Business Combination had occurred on January 1, 2021, pro forma revenue from commodity sales and net income is estimated to be approximately \$6.0 billion and \$931.8 million, respectively, for the year ended December 31, 2021; however, these estimates may not be representative of the actual results if combined on January 1, 2021.

Commitments

The Business Combination resulted in the assumption of Seven Generations' non-cancellable contracts and other commercial commitments. Upon close of the Business Combination, the total commitments assumed by ARC were \$2.2 billion, of which \$2.0 billion were for transportation service with payments extending to 2038. Of these commitments, \$315.8 million were recognized as other deferred liabilities on the balance sheets as the estimated future cash outflows associated with the contracts exceeded current market terms.

As a result of the Business Combination, ARC became a party to certain legal claims that arose in the normal course of business, including a contract dispute in respect of firm transportation service, a claim alleging breach of confidence through the use of proprietary technology and confidential information, and a claim alleging patent infringement. ARC has evaluated each claim and assessed the probability of the expected outcome and no provision has been recognized in its purchase price allocation in respect of these claims.

8. 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, 2021, 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, 2021 pertains to accrued commodity sales of December 2021 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.

Approximately 87 per cent of ARC's commodity sales accounts receivable at December 31, 2021 (84 per cent at December 31, 2020) were with customers who were considered to be investment-grade and approximately eight per cent (10 per cent at December 31, 2020) were with customers who are not considered to be investment-grade, but for which ARC held security. The remaining five per cent (six per cent at December 31, 2020) of commodity sales accounts receivable were with non-investment grade customers for which ARC holds no security.

For the year ended December 31, 2021, ARC had one external customer that constituted more than 10 per cent of commodity sales from production. Sales to this customer were \$488.7 million for the year ended December 31, 2021. For the 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.

The following table details the composition of ARC's accounts receivable at December 31, 2021 and December 31, 2020:

Accounts Receivable Composition ⁽¹⁾	December 31, 2021	December 31, 2020
Commodity sales	634.8	135.6
Joint interest and other	37.2	10.3
Balance	672.0	145.9

(1) Net of provision for ECL.

The total ECL provision recognized in ARC's accounts receivable balance at December 31, 2021 was \$6.0 million. At December 31, 2020, the total ECL provision was \$60.5 million, which related to amounts owing from a single counterparty that was subject to legal claim and deemed uncollectible. During the year ended December 31, 2021, the accounts receivable and associated ECL related to this counterparty were removed from the balance sheets.

The aging of ARC's accounts receivable at December 31, 2021 and December 31, 2020 is as follows:

Accounts Receivable Aging	December 31, 2021	December 31, 2020
Current (less than 30 days)	661.5	141.3
31 - 60 days	—	0.9
61 - 90 days	2.4	0.4
Past due (more than 90 days)	8.1	3.3
Balance	672.0	145.9

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 19 "Financial Instruments and Market Risk Management".

9. EXPLORATION AND EVALUATION ASSETS

Carrying Amount	
Balance, January 1, 2020	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
Acquired upon close of Business Combination (Note 7)	55.1
Additions	2.3
Acquisitions	0.5
Change in asset retirement cost	5.1
Balance, December 31, 2021	277.9

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.

10. PROPERTY, PLANT AND EQUIPMENT

Cost	Development and Production Assets	Corporate Assets	Total
Balance, January 1, 2020	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
Acquired upon close of Business Combination (Note 7)	4,943.2	14.0	4,957.2
Additions	1,044.9	13.7	1,058.6
Acquisitions	21.9	—	21.9
Change in asset retirement cost	141.5	—	141.5
Assets reclassified as held for sale and disposed in period	(1,658.5)	—	(1,658.5)
Reclassification of lease payments, net of capitalized depreciation	(1.6)	—	(1.6)
Other	2.5	—	2.5
Balance, December 31, 2021	14,124.5	108.5	14,233.0
Accumulated DD&A and Impairment			
Balance, January 1, 2020	(4,101.9)	(57.3)	(4,159.2)
DD&A	(511.8)	(5.8)	(517.6)
Impairment (Note 12)	(750.3)	—	(750.3)
Balance, December 31, 2020	(5,364.0)	(63.1)	(5,427.1)
DD&A	(995.3)	(9.7)	(1,005.0)
Reversal of impairment, net (Note 12)	137.5	—	137.5
Accumulated DD&A and impairment reclassified as held for sale and disposed in period	1,327.2	—	1,327.2
Balance, December 31, 2021	(4,894.6)	(72.8)	(4,967.4)
Carrying Amounts			
Balance, December 31, 2020	4,266.6	17.7	4,284.3
Balance, December 31, 2021	9,229.9	35.7	9,265.6

For the year ended December 31, 2021, \$47.9 million of direct and incremental overhead charges were capitalized to PP&E (\$19.1 million for the year ended December 31, 2020). Future development costs of \$7.4 billion were included in the determination of DD&A for the year ended December 31, 2021 (\$3.2 billion for the year ended December 31, 2020).

During the year ended December 31, 2021, ARC disposed of certain non-core assets in Alberta for cash proceeds of \$79.7 million and recognized a related impairment charge of \$23.6 million in the statements of income. Additionally, ARC exchanged certain assets in British Columbia with no gain on disposition or impairment recognized.

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 statements of income upon disposition of the remaining assets.

For the year ended December 31, 2021, ARC recognized a reversal of impairment of \$161.1 million. Refer to Note 12 "Impairment".

11. RIGHT-OF-USE ASSETS

Cost	Leases			Other	Total
	Buildings and Land Use Rights	Equipment and Vehicles	Facilities	Service Contracts	
Balance, January 1, 2020	28.2	16.4	—	8.2	52.8
Additions	0.3	21.0	—	—	21.3
Modifications and terminations	—	(0.1)	—	—	(0.1)
Balance, December 31, 2020	28.5	37.3	—	8.2	74.0
Acquired upon close of Business Combination (Note 7)	5.4	—	869.2	—	874.6
Additions	0.5	9.7	—	—	10.2
Modifications and terminations	(1.1)	(1.5)	—	—	(2.6)
Balance, December 31, 2021	33.3	45.5	869.2	8.2	956.2
Accumulated Depreciation					
Balance, January 1, 2020	(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)
Modifications and terminations	—	0.1	—	—	0.1
Balance, December 31, 2020	(9.8)	(17.0)	—	(2.7)	(29.5)
Depreciation on ROU assets expensed	(6.8)	(1.6)	(54.3)	(1.3)	(64.0)
Depreciation on ROU assets capitalized to PP&E	—	(7.4)	—	—	(7.4)
Modifications and terminations	0.2	0.6	—	—	0.8
Balance, December 31, 2021	(16.4)	(25.4)	(54.3)	(4.0)	(100.1)
Carrying Amounts					
Balance, December 31, 2020	18.7	20.3	—	5.5	44.5
Balance, December 31, 2021	16.9	20.1	814.9	4.2	856.1

12. IMPAIRMENT

PP&E

September 2021 Impairment Test

At September 30, 2021, ARC identified indicators of potential reversal of previous impairment of its Northern Alberta CGU due to increased forward commodity prices and an increase in ARC's market capitalization since the date of the last impairment test at March 31, 2021. No other CGUs had previously recognized impairment charges eligible to be reversed. In estimating the recoverable amount, 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 the Northern Alberta CGU based on reserves estimated by ARC's independent qualified reserve evaluator at December 31, 2020, excluding assets that were divested in 2021, and updated for forward commodity price estimates at September 30, 2021.
- The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2020, and adjusted for any acquisitions, divestments, and expiries occurring during the nine months ended September 30, 2021.

The estimated recoverable amounts were based on fair value less costs of disposal calculations using an after-tax discount rate of 12.0 per cent and an inflation rate of two per cent.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's Northern Alberta CGU at September 30, 2021:

	Edmonton Light Crude Oil	WTI Crude Oil	AECO Natural Gas	NYMEX Henry Hub Natural Gas	Exchange Rates
Year	(Cdn\$/bbl) ⁽¹⁾	(US\$/bbl) ⁽¹⁾	(Cdn\$/MMBtu) ⁽¹⁾	(US\$/MMBtu) ⁽¹⁾	Cdn\$/US\$ ⁽¹⁾
2021	90.19	75.00	4.20	5.70	0.79
2022	85.53	72.00	3.75	4.50	0.80
2023	80.64	69.01	3.20	3.50	0.80
2024	78.27	67.24	2.99	3.15	0.80
2025	79.84	68.58	3.05	3.21	0.80
2026	81.43	69.96	3.12	3.28	0.80
2027	83.06	71.35	3.17	3.34	0.80
2028	84.73	72.78	3.24	3.41	0.80
2029	86.41	74.24	3.31	3.48	0.80
2030	88.15	75.72	3.37	3.55	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 at October 1, 2021.

As a result of its test at September 30, 2021, ARC recognized a reversal of impairment for the Northern Alberta CGU in the amount of \$39.3 million (\$29.9 million net of deferred tax expense), which was recognized in reversal of impairment in the statements of income. This represents the full amount of previous impairment charges eligible to recover in the Northern Alberta CGU, which comprises a mixture of crude oil and natural gas-producing assets. The estimated recoverable amount was \$668.8 million.

An increase or decrease of one per cent in the discount rate or five per cent in the cash flow estimates would have no impact on the reversal of impairment recognized for the Northern Alberta CGU at September 30, 2021.

The fair value less costs of disposal values used to determine the recoverable amounts of ARC's Northern Alberta CGU at September 30, 2021 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.

March 2021 Impairment Test

At March 31, 2021, ARC identified indicators of potential reversal of previous impairment due to increased forward commodity prices and an increase in ARC's market capitalization since the date of the last impairment test at March 31, 2020. ARC conducted a test for reversal of impairment for its Northern Alberta CGU. In estimating the recoverable amount of the Northern Alberta 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 the Northern Alberta CGU based on reserves estimated by ARC's independent qualified reserve evaluator at December 31, 2020, updated for forward commodity price estimates at March 31, 2021.
- The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2020, and adjusted for any acquisitions, divestments, and expiries occurring during the three months ended March 31, 2021.

The estimated recoverable amounts were based on fair value less costs of disposal calculations using an after-tax discount rate of 12.0 per cent and an inflation rate of two per cent.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's Northern Alberta CGU as at March 31, 2021:

	Edmonton Light Crude Oil	WTI Crude Oil	AECO Natural Gas	NYMEX Henry Hub Natural Gas	Exchange Rates
Year	(Cdn\$/bbl) ⁽¹⁾	(US\$/bbl) ⁽¹⁾	(Cdn\$/MMBtu) ⁽¹⁾	(US\$/MMBtu) ⁽¹⁾	Cdn\$/US\$ ⁽¹⁾
2021	71.70	62.00	2.70	2.80	0.80
2022	67.82	58.58	2.65	2.80	0.79
2023	66.27	57.69	2.60	2.83	0.78
2024	67.59	58.84	2.65	2.89	0.78
2025	68.95	60.02	2.70	2.95	0.78
2026	70.32	61.22	2.76	3.01	0.78
2027	71.74	62.45	2.81	3.07	0.78
2028	73.17	63.70	2.87	3.13	0.78
2029	74.63	64.97	2.92	3.19	0.78
2030	76.12	66.27	2.98	3.25	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 at April 1, 2021.

As a result of its test at March 31, 2021, ARC recognized a reversal of impairment for the Northern Alberta CGU in the amount of \$121.8 million (\$91.5 million net of deferred tax expense), which was recognized in reversal of impairment in the statements of income. The Northern Alberta CGU comprises a mixture of crude oil and natural gas-producing assets. The estimated recoverable amount was \$516.1 million.

The following table demonstrates the sensitivity of the estimated recoverable amount of the Northern Alberta CGU at March 31, 2021, 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)	(22.7)	16.3	(30.1)	25.2

The fair value less costs of disposal values used to determine the recoverable amounts of ARC's Northern Alberta CGU at March 31, 2021 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.

March 2020 Impairment Test

At March 31, 2020, an impairment test was conducted on ARC's PP&E. 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).

Goodwill

At December 31, 2021 and 2020, ARC conducted impairment tests of its goodwill. The carrying value of goodwill at December 31, 2021 and 2020 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 using a discount rate of 11.0 per cent.

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 April 1, 2020.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's operating segment at December 31, 2021:

	Edmonton Light Crude Oil	WTI Crude Oil	AECO Natural Gas	NYMEX Henry Hub Natural Gas	Exchange Rates
Year	(Cdn\$/bbl) ⁽¹⁾	(US\$/bbl) ⁽¹⁾	(Cdn\$/MMBtu) ⁽¹⁾	(US\$/MMBtu) ⁽¹⁾	Cdn\$/US\$ ⁽¹⁾
2022	92.41	73.00	3.40	3.80	0.79
2023	87.35	69.01	3.10	3.50	0.79
2024	85.11	67.24	3.15	3.15	0.79
2025	86.81	68.58	3.21	3.21	0.79
2026	88.56	69.96	3.28	3.28	0.79
2027	90.32	71.35	3.34	3.34	0.79
2028	92.13	72.78	3.41	3.41	0.79
2029	93.97	74.24	3.48	3.48	0.79
2030	95.85	75.72	3.55	3.55	0.79
2031	97.77	77.24	3.62	3.62	0.79
Escalate thereafter at	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.79

(1) Source: GLJ Ltd. price forecast at January 1, 2022.

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

	Edmonton Light Crude Oil	WTI Crude Oil	AECO Natural Gas	NYMEX Henry Hub Natural Gas	Exchange Rates
Year	(Cdn\$/bbl) ⁽¹⁾	(US\$/bbl) ⁽¹⁾	(Cdn\$/MMBtu) ⁽¹⁾	(US\$/MMBtu) ⁽¹⁾	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 at January 1, 2021.

13. 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 15 "Long-Term Debt" for further details on available amounts under existing banking arrangements and Note 18 "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 at December 31, 2021 and December 31, 2020:

As at December 31, 2021	Undiscounted Cash Flows ⁽⁴⁾	1 Year	2-3 Years	4-5 Years	Beyond 5 Years
Accounts payable and accrued liabilities ⁽¹⁾	699.8	699.8	—	—	—
Dividends payable	69.5	69.5	—	—	—
Share-based compensation ⁽²⁾	92.1	51.3	40.8	—	—
Risk management contracts ⁽³⁾	637.2	465.3	169.7	2.2	—
Lease obligations	1,122.9	111.8	196.2	146.5	668.4
Long-term debt	1,705.3	—	—	1,159.2	546.1
Interest payments	228.8	29.7	59.3	54.0	85.8
Total financial liabilities	4,555.6	1,427.4	466.0	1,361.9	1,300.3

As at December 31, 2020	Undiscounted Cash Flows ⁽⁴⁾	1 Year	2-3 Years	4-5 Years	Beyond 5 Years
Accounts payable and accrued liabilities ⁽¹⁾	99.2	99.2	—	—	—
Dividends payable	21.3	21.3	—	—	—
Share-based compensation ⁽²⁾	50.5	18.5	32.0	—	—
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	1,077.6	366.4	485.4	180.5	45.3

(1) Excludes the portion of accrued cash obligations associated with share-based compensation anticipated to be settled within one year, as well as interest payable at December 31, 2021 and December 31, 2020.

(2) Accrued cash obligations associated with share-based compensation.

(3) Risk management contracts are derivatives. All other financial liabilities contained in this table are non-derivative liabilities.

(4) The undiscounted cash flows equal the carrying value, with the exception of lease obligations.

14. LEASE ARRANGEMENTS

Lease Obligations

The following table details the movement in ARC's lease obligations for the years ended December 31, 2021 and 2020:

Carrying Amount	
Balance, January 1, 2020	46.2
Additions	21.3
Interest	(0.2)
Repayments	(18.1)
Balance, December 31, 2020	49.2
Acquired upon close of Business Combination (Note 7)	874.6
Additions	10.1
Modifications and terminations	(1.7)
Interest	8.5
Repayments	(71.4)
Balance, December 31, 2021	869.3
Lease obligations due within one year	109.3
Lease obligations due beyond one year	760.0

Payments recognized in the financial statements relating to short-term leases and leases of low-value assets for the year ended December 31, 2021 were \$11.9 million (\$0.1 million for the year ended December 31, 2020). ARC's short-term leases and leases of low-value assets consist of leased equipment for operations and office equipment. Variable lease payments not included in the calculation of ARC's lease obligations were \$5.9 million for the year ended December 31, 2021 (\$2.3 million for the year ended December 31, 2020) 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 15 years but may have extension options. Potential future undiscounted cash outflows of \$809.3 million have not been included in the measurement of ARC's lease obligations at December 31, 2021 (\$80.5 million at December 31, 2020) 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, 2021, \$3.7 million of guaranteed residual value is not expected to be payable at the end of the contract term (\$2.4 million at December 31, 2020) 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 corporate office space and these leases are recognized as operating leases. Income from operating leases for the year ended December 31, 2021 was \$1.9 million (\$2.9 million for the year ended December 31, 2020).

Joint Arrangements

At December 31, 2021 and December 31, 2020, ARC did not have any lease contracts that were entered into by a joint arrangement, or on behalf of a joint arrangement.

15. LONG-TERM DEBT

	US\$ Denominated		Canadian \$ Amount	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Syndicated credit facilities				
Cdn\$ denominated	N/A	N/A	345.8	72.6
US\$ denominated	294.5	—	372.7	—
Total credit facilities	294.5	—	718.5	72.6
Senior notes				
Master Shelf Agreement				
3.72% US\$ note	—	150.0	—	191.3
2009 note issuance				
8.21% US\$ note	—	7.0	—	8.9
2010 note issuance				
5.36% US\$ note	—	60.0	—	76.5
2012 note issuance				
3.31% US\$ note	—	12.0	—	15.3
3.81% US\$ note	—	240.0	—	306.1
4.49% Cdn\$ note	N/A	N/A	—	32.0
2021 note issuance				
2.354% Cdn\$ note	N/A	N/A	450.0	—
3.465% Cdn\$ note	N/A	N/A	550.0	—
Total senior notes	—	469.0	1,000.0	630.1
Unamortized debt issuance costs	—	(0.7)	(13.2)	(0.8)
Total long-term debt outstanding	294.5	468.3	1,705.3	701.9
Long-term debt due within one year			—	146.7
Long-term debt due beyond one year			1,705.3	555.2

Credit Facility

Upon closing of the Business Combination, ARC obtained access to additional liquidity with a new syndicated \$2.0 billion unsecured extendible revolving credit facility (the "new credit facility"). In October 2021, the maturity date of the new credit facility was extended to October 2025. Borrowings under the new credit facility bear interest at Canadian bank prime or US base rate, or at ARC's option, Canadian dollar bankers' acceptances or US dollar loan rates, plus applicable margin and stamping fees. The total stamping fees range between zero basis points and 125 basis points on Canadian bank prime and US base rate borrowings and between 100 basis points and 225 basis points on Canadian dollar bankers' acceptance and US dollar borrowings. The undrawn portion of the new credit facility is subject to a standby fee in the range of 20 basis points to 45 basis points. In conjunction with access to the new credit facility, the former \$950 million financial covenant-based syndicated credit facility was cancelled. ARC also has in place a \$40.0 million demand working capital facility and letter of credit facilities from two lenders.

The following are the financial covenants governing the new credit facility, all capitalized terms are as defined in the respective agreements:

- Consolidated Debt not to exceed 60 per cent of Total Capitalization; and
- Consolidated Tangible Assets of the Restricted Group must exceed 80 per cent of Consolidated Tangible Assets.

Senior Notes

ARC issued two tranches of senior unsecured notes by way of private placement (the "2021 Notes"). The proceeds from the 2021 Notes and draws on the new credit facility were used to repay Seven Generations' outstanding senior notes and its syndicated credit facility. Amounts repaid include:

- US\$114 million aggregate principal amount of outstanding 6.875 per cent senior notes due 2023;
- US\$700 million aggregate principal amount of outstanding 5.375 per cent senior notes due 2025;
- US\$378 million aggregate principal amount of outstanding 6.75 per cent senior notes due 2023; and
- \$180 million outstanding on the syndicated credit facility.

The terms and rates of the 2021 Notes are summarized below:

Issue Date	Principal	Coupon Rate	Maturity Date	Principal Payment Terms
March 10, 2021	Cdn\$450 million	2.354 %	March 10, 2026	Due upon maturity
March 10, 2021	Cdn\$550 million	3.465 %	March 10, 2031	Due upon maturity

During the year ended December 31, 2021, ARC increased borrowings from the new credit facility to retire the following private placement notes:

- US\$30.0 million aggregate principal amount of outstanding 5.36 per cent senior notes due 2022;
- US\$180.0 million aggregate principal amount of outstanding 3.81 per cent senior notes due 2024;
- US\$150.0 million aggregate principal amount of outstanding 3.72 per cent senior notes due 2026; and
- \$24.0 million aggregate principal amount of outstanding 4.49 per cent senior notes due 2024.

Credit Capacity

The following table summarizes ARC's available credit capacity and the current amounts drawn as at December 31, 2021:

(\$ millions)	Credit Capacity	Drawn	Remaining
Syndicated credit facility	2,000.0	718.5	1,281.5
Working capital facility	40.0	—	40.0
Senior notes	1,000.0	1,000.0	—
Total	3,040.0	1,718.5	1,321.5

At December 31, 2021, ARC had \$11.8 million in letters of credit (\$4.9 million at December 31, 2020), no subordinated debt, and was in compliance with all debt covenants.

At December 31, 2021, the fair value of all long-term debt outstanding was \$1.7 billion (\$748.3 million at December 31, 2020).

16. OTHER DEFERRED LIABILITIES

Carrying Amount	
Balance, January 1, 2020	5.1
Additions	12.1
Amortization	(0.9)
Balance, December 31, 2020	16.3
Acquired upon close of Business Combination (Note 7)	315.8
Additions	0.6
Amortization	(88.0)
Balance, December 31, 2021	244.7
Expected to be incurred within one year	90.5
Expected to be incurred beyond one year	154.2

Upon close of the Business Combination, ARC assumed certain contracts related to transportation service and processing of NGLs which have been recognized at their fair value. These have been recognized on the balance sheets and will be amortized into income through transportation and operating expense over their remaining lives.

17. ASSET RETIREMENT OBLIGATION

The total ARO was estimated by Management based on ARC's net ownership interest in all wells, facilities, and pipelines; estimated costs to reclaim and abandon the wells, facilities, and pipelines; 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 \$550.3 million at December 31, 2021 (\$541.7 million at December 31, 2020) based on a total future undiscounted liability of \$505.1 million (\$870.1 million at December 31, 2020). Management estimates that these payments are expected to be made over the next 60 years with costs being incurred evenly over those years. The Bank of Canada's long-term risk-free bond rate of 1.7 per cent (1.2 per cent at December 31, 2020) and an average inflation rate of 2.0 per cent (2.0 per cent at December 31, 2020) were used to calculate the present value of ARO at December 31, 2021.

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
Balance, beginning of year	541.7	409.6
Acquired upon close of Business Combination (Note 7)	105.6	—
Revaluation of obligations acquired in Business Combination ⁽¹⁾	142.0	—
Development activities	18.5	3.9
Change in estimates ⁽²⁾	75.6	49.9
Change in discount rate	(89.5)	96.1
Settlement of obligations ⁽³⁾	(21.1)	(12.8)
Accretion	9.5	6.3
Reclassified as liabilities associated with assets held for sale and disposed in period	(232.0)	(11.3)
Balance, end of year	550.3	541.7
Expected to be incurred within one year	15.0	19.0
Expected to be incurred beyond one year	535.3	522.7

(1) The obligations acquired were subsequently remeasured in accordance with ARC's accounting policy at the risk-free discount rate.

(2) Relates to changes in costs of future obligations and anticipated settlement dates of ARO. During the year ended December 31, 2021, ARC reviewed and updated its cost and timing assumptions based on newly available information and recent changes to legislation.

(3) For the year ended December 31, 2021, \$4.1 million (\$1.0 million for the year ended December 31, 2020) of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of ARC.

18. 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 manage its capital structure by issuing new shares or new debt, repurchasing shares, or changing its dividend policy. During the year ended December 31, 2021, ARC announced a dividend increase from \$0.06 per share per quarter to \$0.066 per share per quarter, and an additional dividend increase to \$0.10 per share per quarter. ARC also announced the approval of its normal course issuer bid ("NCIB"), under which ARC repurchased of 30.9 million shares during the year ended December 31, 2021.

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

- fund its development and exploration programs;
- maintain sustainable, meaningful returns of capital to shareholders through dividends and share repurchases; and
- maintain financial flexibility to execute on strategic opportunities.

Funds from Operations

ARC considers funds from operations to be a key measure of capital management as it demonstrates ARC's ability to generate the necessary funds to maintain production at current levels and fund future growth through capital investment. 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, of which the nature and timing of expenditures are 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, 2021 and 2020 is calculated as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash flow from operating activities	2,006.5	655.7
Net change in other liabilities (Note 26)	224.8	(7.6)
Change in non-cash operating working capital (Note 26)	184.1	19.5
Funds from operations	2,415.4	667.6

Net Debt and Net Debt to Funds from Operations

Net debt and net debt to funds from operations are used by Management as key measures to assess the Company's liquidity position at a point in time. Previously, net debt was computed including current and long-term portions of lease obligations and a similar measure; "net debt excluding lease obligations" was also presented. At December 31, 2021 and 2020, net debt has been computed excluding lease obligations. The current determination of net debt and net debt to funds from operations is reflective of the measures used by Management to monitor its liquidity in light of operating and capital budgeting decisions. Net debt is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

Management targets its net debt to be between 1.0 and 1.5 times funds from operations and manages its capital structure to achieve that target over the long term. At December 31, 2021, ARC's net debt was 0.8 times its funds from operations.

The following table details the composition of ARC's net debt and net debt to funds from operations as at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Current portion of long-term debt	—	146.7
Long-term debt	1,705.3	555.2
Accounts payable and accrued liabilities	761.5	125.0
Dividends payable	69.5	21.3
Cash and cash equivalents, accounts receivable, and prepaid expense	(707.6)	(154.7)
Net debt	1,828.7	693.5
Funds from operations	2,415.4	667.6
Net debt to funds from operations (ratio) ⁽¹⁾	0.8	1.0

(1) Composed of net debt divided by funds from operations.

19. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instruments

At December 31, 2021, ARC's financial instruments include cash and cash equivalents, accounts receivable, long-term investment, 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 15 "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, 2021.

The carrying values of ARC's accounts receivable, accounts payable and accrued liabilities, and dividends payable as at December 31, 2021 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, 2021 and December 31, 2020:

	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, 2021					
Risk management contracts					
Current asset	48.2	(48.1)	0.1	—	0.1
Long-term asset	53.6	(53.6)	—	—	—
Current liability	(527.6)	48.1	(479.5)	14.2	(465.3)
Long-term liability	(230.8)	53.6	(177.2)	5.3	(171.9)
Net position	(656.6)	—	(656.6)	19.5	(637.1)
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)

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 income (loss). For the purposes of the sensitivity analyses, the effect of a variation in a particular variable is calculated independently of any change in another variable. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis are based on Management's assessment of reasonably possible changes that could occur at December 31, 2021. 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 income (loss).

The guidelines for ARC's risk management program currently restrict the amount of risk management contracts to a maximum of 60 per cent of anticipated production over the next two years and 30 per cent of anticipated production 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 income (loss) due to changes in the fair value of risk management contracts in place at December 31, 2021.

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⁾	
	2021	2020	2021	2020	2021	2020	2021	2020
Net income (loss)	(155.9)	(39.0)	(109.2)	(78.9)	144.9	31.4	102.8	74.4

(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 issuing debt bearing a mix of both fixed and variable interest rates. 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, 2021, 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 \$2.7 million (\$0.8 million for the year ended December 31, 2020).

Foreign Exchange Risk

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

The following table demonstrates the effect of exchange rate movements on net income (loss) due to changes in the fair value of risk management contracts in place at December 31, 2021, 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	
	2021	2020	2021	2020
Risk management contracts	(29.7)	(3.9)	29.7	4.0
US dollar-denominated debt	(22.1)	(35.3)	22.1	35.3
Net income (loss)	(51.8)	(39.2)	51.8	39.3

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 income for the year ended December 31, 2021 (nominal for the year ended December 31, 2020).

Risk Management Contracts

The following table summarizes ARC's risk management contracts as at December 31, 2021:

Risk Management Contracts Positions Summary ⁽¹⁾⁽²⁾								
As at December 31, 2021	2022		2023		2024		2025	
Crude Oil – WTI	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day
Ceiling	59.90	25,767	62.35	12,000	55.82	1,243	—	—
Floor	49.24	25,767	51.25	12,000	50.00	1,243	—	—
Sold Floor	41.35	15,767	45.00	5,000	—	—	—	—
Swap	47.33	8,479	48.99	863	—	—	—	—
Sold Swaption ⁽³⁾	—	—	70.00	2,000	—	—	—	—
Total Crude Oil Volumes (bbl/day)	34,247		12,863		1,243		—	
Natural Gas – NYMEX Henry Hub ⁽⁴⁾	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day
Ceiling	3.13	119,932	3.95	100,000	2.74	10,000	—	—
Floor	2.60	119,932	2.79	100,000	2.50	10,000	—	—
Sold Floor	2.19	85,000	2.40	50,000	2.10	10,000	—	—
Swap	2.53	144,959	2.53	52,068	—	—	—	—
Natural Gas – AECO 7A	Cdn\$/GJ	GJ/day	Cdn\$/GJ	GJ/day	Cdn\$/GJ	GJ/day	Cdn\$/GJ	GJ/day
Ceiling	2.52	160,000	2.47	107,589	2.40	90,000	2.73	20,000
Floor	1.99	160,000	1.91	107,589	1.87	90,000	2.00	20,000
Sold Floor	1.75	20,000	—	—	—	—	—	—
Swap	2.12	40,000	2.06	10,000	2.06	10,000	—	—
Sold Calls	4.58	7,397	—	—	—	—	—	—
Total Natural Gas Volumes (MMBtu/day)	454,454		263,521		104,782		18,956	
Natural Gas – AECO Basis (Differential to NYMEX Henry Hub)	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day
Sold Swap	(0.88)	27,603	(0.91)	70,000	(0.91)	70,000	(0.65)	50,000
Total AECO Basis Volumes (MMBtu/day)	27,603		70,000		70,000		50,000	
Natural Gas - Other Basis (Differential to NYMEX Henry Hub)	MMBtu/day		MMBtu/day		MMBtu/day		MMBtu/day	
Sold Swap	152,438		89,918		4,973		—	
Foreign Exchange	Notional (US\$ Millions)	Rate (Cdn\$/US\$)	Notional (US\$ Millions)	Rate (Cdn\$/US\$)	Notional (US\$ Millions)	Rate (Cdn\$/US\$)	Notional (US\$ Millions)	Rate (Cdn\$/US\$)
Swap	116.1	1.3165	—	—	—	—	—	—
Ceiling	129.9	1.2857	48.0	1.3070	—	—	—	—
Floor	129.9	1.3439	48.0	1.3602	—	—	—	—

- (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) ARC has also entered into crude oil differential swaps with a fair value deficiency of (\$3.3) million and NGLs location differential swaps with a fair value of \$nil.
- (3) 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.
- (4) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.

20. INCOME TAXES

The major components of income tax expense (recovery) for the years ended December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Current	33.7	(26.8)
Deferred:		
Origination and reversal of temporary differences	196.7	(188.8)
Adjustments for prior years	4.2	9.1
Changes in tax rates and legislation	(26.1)	(1.2)
	174.8	(180.9)
Total income tax expense (recovery)	208.5	(207.7)

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

	December 31, 2021	December 31, 2020
Net income (loss) before tax	995.1	(754.9)
Canadian statutory rate ⁽¹⁾	23.83 %	25.32 %
Expected income tax expense (recovery) at statutory rates	237.1	(191.1)
Effect on income tax of:		
Change in corporate tax rate	(26.1)	(1.2)
Non-taxable portion of unrealized foreign exchange gain	—	(5.0)
Non-deductible portion of capital losses	0.5	4.3
Change in estimated pool balances	(0.1)	(15.1)
Capital losses expired on business combination	23.0	—
Change in unrecognized deferred tax asset	(23.0)	(0.7)
Other	(2.9)	1.1
Total income tax expense (recovery)	208.5	(207.7)

- (1) The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2021 and 2020. The combined federal and provincial rate decrease to 23.83 per cent in 2021 from 25.32 per cent in 2020 reflects changes made to the provincial income allocation as a result of the Business Combination, resulting in increased income allocated to Alberta which has a relatively lower corporate tax rate of eight per cent.

	December 31, 2021	December 31, 2020
Deferred tax liabilities:		
PP&E in excess of tax basis	1,160.9	761.7
Risk management contracts	—	1.5
ROU assets	202.7	9.7
Deferred tax assets:		
ARO	(131.0)	(134.9)
Long-term debt	—	(13.7)
Risk management contracts	(152.0)	(21.1)
Long-term incentive compensation expense	(21.9)	(12.5)
Lease obligations	(206.9)	(12.2)
Other deferred liabilities	(54.5)	—
Unrecognized deferred tax assets ⁽¹⁾	—	23.0
Non-capital losses, SR&ED deductions, and investment tax credits ("ITCs")	(203.1)	—
Other	(20.0)	(10.1)
Deferred taxes	574.2	591.4

(1) Unrecognized deferred tax assets at December 31, 2020 comprise \$13.7 million relating to an unrealized loss on foreign exchange and \$9.3 million relating to an unrealized capital loss. All capital losses expired in 2021 as a result of the Business Combination

At December 31, 2021, the crude oil and natural gas properties and facilities owned by ARC have an approximate federal tax basis of \$5.6 billion (\$1.5 billion at December 31, 2020) available for future use as deductions from taxable income.

The following is a summary of ARC's estimated tax pools as at December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
Canadian oil and gas property expense	1,095.4	83.2
Canadian development expense	1,906.5	650.5
Canadian exploration expense	—	19.2
Undepreciated capital cost	1,657.1	686.1
Non-capital losses, SR&ED deductions, and ITCs	799.7	—
Other	99.2	42.8
Total federal tax pools	5,557.9	1,481.8

21. 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, 2021 or 2020.

(thousands of shares)	Year Ended December 31, 2021	Year Ended December 31, 2020
Common shares, beginning of year	353,372	353,411
Issued upon close of Business Combination (Note 7)	369,406	—
Repurchase of shares for cancellation	(30,888)	—
Issued on exercise of share options and long-term incentive awards	1,645	—
Unvested restricted shares held in trust pursuant to the LTRSA Plan ⁽¹⁾	24	(257)
Forfeited and cancelled shares pursuant to the LTRSA Plan	(47)	—
Restricted shares issued pursuant to the LTRSA Plan	4	218
Common shares, end of year	693,516	353,372

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

On August 30, 2021, ARC announced the approval of its NCIB. The NCIB allows ARC to purchase up to 72,236,753 of its outstanding common shares over a 12-month period, commencing September 1, 2021. During the year ended December 31, 2021, ARC repurchased 30,887,800 common shares at a weighted average price of \$11.17 for a total cost of \$345.2 million.

At December 31, 2021, ARC has recorded a liability of \$51.9 million (\$nil at December 31, 2020) for share repurchases that may take place during its internal blackout period under an automatic share purchase plan agreement with an independent broker. The liability has been recognized as a reduction to share capital of \$37.5 million and a reduction to retained earnings of \$14.4 million.

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

(thousands of shares)	Year Ended December 31, 2021	Year Ended December 31, 2020
Weighted average common shares	626,269	353,372
Dilutive impact of share-based compensation ⁽¹⁾	1,058	—
Weighted average common shares, diluted	627,327	353,372

(1) For the year ended December 31, 2021, 5.9 million of share-based compensation awards were excluded from the diluted weighted average shares calculation, as they were anti-dilutive (4.6 million for the year ended December 31, 2020).

Dividends declared for the year ended December 31, 2021 were \$0.286 per share (\$0.30 for the year ended December 31, 2020).

22. 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, 2021	Year Ended December 31, 2020
Crude oil	286.0	245.3
Condensate	1,882.9	235.6
Natural gas ⁽¹⁾	2,021.0	612.3
NGLs	382.7	42.3
Total commodity sales from production	4,572.6	1,135.5

(1) Includes \$11.9 million of natural gas transportation revenue from contracts temporarily assigned to third parties for the year ended December 31, 2021 (\$15.7 million for the year ended December 31, 2020).

At December 31, 2021, receivables from contracts with customers, which are included in accounts receivable, were \$634.8 million (\$135.6 million at December 31, 2020).

ARC enters into contracts with customers that can have performance obligations that are unsatisfied, or partially unsatisfied, at the reporting date. At December 31, 2021, the Company has a number of unfulfilled performance obligations including fixed volume and index-based commodity sales contracts. These contracts have varying durations, with the Company's longest individual commodity sales contract ending in December 2034 or earlier.

23. 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 awards. ARC has certain share-based compensation plans that existed prior to the Business Combination (the "Legacy Plans"). Additionally, various share-based compensation awards held by employees and directors of Seven Generations were subject to accelerated vesting or are eligible for continuation and exercise after the effective date of the Business Combination (the "Acquired Plans").

Restricted Share Unit ("RSU") Plans and PSU Plans

RSU and PSU awards outstanding under the Legacy 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 were 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 PSU awards originally granted.

RSU and PSU awards outstanding under the Acquired Plans are the same as those under the Legacy Plans, with the exception that no dividends accrue and both RSUs and PSUs of the Acquired Plans vest annually over three years. In accordance with the Business Combination agreement, the performance multipliers for PSU awards under the Acquired Plans that vested in 2021 were predetermined and ranged from 0.83 to 1.79. Approximately one per cent of remaining RSU and PSU awards under the Acquired Plans are eligible to be settled in equity, with the remainder to be settled in cash.

Deferred Share Unit ("DSU") Plans

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. DSU awards under the Legacy and Acquired Plans fully vest on the date of grant, but are available for redemption when the director ceases to be a member of the Board. Awards are settled in cash and are determined by the value of the underlying common shares. Approximately 35 per cent of remaining DSU awards under the Acquired Plans are eligible to be settled in equity, with the remainder to be settled in cash.

Long-term Incentive Plans

The following table summarizes the changes in the RSU, PSU, and DSU awards under the Legacy Plans for the years ended December 31, 2021 and 2020:

Legacy Plans (number of awards, thousands)	RSUs	PSUs Granted Prior to 2019 ⁽¹⁾	PSUs Granted Subsequent to 2018 ⁽¹⁾	DSUs
Balance, January 1, 2020	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
Granted ⁽²⁾	1,605	686	1,922	229
Distributed	(1,901)	(1,673)	(413)	(396)
Forfeited	(275)	(11)	(240)	—
Balance, December 31, 2021	3,265	—	6,372	1,103

(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.

The following table summarizes the changes in the RSU, PSU, and DSU awards under the Acquired Plans for the year ended December 31, 2021:

Acquired Plans (number of awards, thousands)	RSUs	PSUs ⁽¹⁾	DSUs
Balance, December 31, 2020	—	—	—
Acquired upon close of Business Combination ⁽²⁾	930	1,098	420
Granted ⁽³⁾	8	333	5
Distributed	(410)	(1,009)	—
Forfeited	(15)	(9)	—
Balance, December 31, 2021	513	413	425

(1) Based on underlying awards before any effect of the performance multiplier, with the exception of awards that vested in 2021.

(2) In accordance with the Business Combination agreement, an exchange ratio of 1.108 has been applied.

(3) Grants 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 of the Legacy and Acquired Plans are reconciled as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
General and administrative	54.4	21.7
Operating	5.1	2.7
PP&E	21.8	2.2
Total compensation charge	81.3	26.6
Cash payment	51.2	11.9

At December 31, 2021, \$51.3 million of compensation amounts payable was included in accounts payable and accrued liabilities on the balance sheets (\$18.4 million at December 31, 2020) and \$40.8 million was included in long-term incentive compensation liability (\$32.0 million at December 31, 2020). A recoverable amount of \$nil was included in accounts receivable at December 31, 2021 (\$0.1 million at December 31, 2020).

Share Option Plans

Granting of new share option awards under the Legacy Plans 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.

Share options granted under the Acquired Plans vest annually over three years and expire 10 years after the date of grant. The final grant was in 2019. The option holder has the right to exercise the options and purchase one common share per option at the original grant price. The original grant price under both the Legacy and Acquired Plans 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 of share options outstanding under the Legacy Plans for the years ended December 31, 2021 and 2020 were as follows:

Legacy Plans	Share Options (number of units, thousands)	Weighted Average Exercise Price (\$)
Balance, January 1, 2020	5,097	17.27
Forfeited	(24)	17.55
Expired	(493)	21.48
Balance, December 31, 2020	4,580	16.50
Forfeited	(174)	14.59
Expired	(428)	27.76
Balance, December 31, 2021	3,978	15.10
Exercisable, December 31, 2021	2,127	17.27

The changes in total share options outstanding and related weighted average exercise prices of share options outstanding under the Acquired Plans for the year ended December 31, 2021 were as follows:

Acquired Plans	Share Options (number of units, thousands)	Weighted Average Exercise Price (\$)
Balance, December 31, 2020	—	—
Acquired upon close of Business Combination ⁽¹⁾	8,077	15.77
Exercised	(1,603)	8.47
Forfeited	(672)	17.47
Expired	(3,355)	17.29
Balance, December 31, 2021	2,447	18.01
Exercisable, December 31, 2021	2,447	18.01

(1) In accordance with the Business Combination Agreement, an exchange ratio of 1.108 has been applied.

The following table summarizes information regarding share options outstanding at December 31, 2021:

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 (\$)
5.98 - 13.06	748	9.38	6.3	748	9.38
13.07 - 14.07	1,714	13.37	4.1	411	13.89
14.08 - 17.27	1,232	16.46	2.7	684	16.35
17.28 - 22.11	1,609	21.43	1.2	1,609	21.43
22.12 - 27.89	1,122	25.34	4.9	1,122	25.34
Total	6,425	17.61	3.5	4,574	18.98

ARC recognized compensation expense of \$1.5 million relating to share option plans for the year ended December 31, 2021 (\$3.0 million for the year ended December 31, 2020). During the year ended December 31, 2021, \$0.4 million of share option compensation charges were capitalized to PP&E (\$0.2 million for the year ended December 31, 2020).

LTRSA Plan

Issuance of new awards under the LTRSA plan have been suspended. Previously granted LTRSA consist of restricted common shares that were 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, 2021 and 2020 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, 2020	742	12.64	—	—
Restricted shares granted and purchased	39	3.81	218	6.17
Balance, December 31, 2020	781	12.20	218	6.17
Restricted shares granted and purchased	16	8.83	8	8.98
Forfeited	(34)	13.27	(13)	6.17
Balance, December 31, 2021	763	12.08	213	6.28

ARC recognized G&A expense of \$2.0 million relating to the LTRSA Plan during the year ended December 31, 2021 (\$1.5 million for the year ended December 31, 2020).

Performance Warrants

Upon close of the Business Combination, ARC acquired 0.2 million of performance warrants. At December 31, 2021, all performance warrants have expired.

24. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2021:

	Payments Due by Period				
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Debt repayments	—	—	1,159.2	546.1	1,705.3
Interest payments ⁽¹⁾	29.7	59.3	54.0	85.8	228.8
Purchase and service commitments	165.2	53.2	22.4	103.9	344.7
Transportation commitments	636.4	1,107.6	1,022.0	1,465.8	4,231.8
Total contractual obligations and commitments	831.3	1,220.1	2,257.6	2,201.6	6,510.6

(1) Fixed interest payments on senior notes.

ARC enters into commitments for purchases of goods and services 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 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 other litigation and claims arising in the normal course of operations. As a result of the Business Combination, ARC became a party to certain legal claims that arose in the normal course of business. Refer to Note 7 "Business Combination" for further information. The probability of a material outflow as a result of any legal action is considered by Management to be remote.

25. RELATED PARTIES

Key Management Personnel Compensation

ARC's key management personnel 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, 2021	Year Ended December 31, 2020
Short-term benefits	16.1	9.2
Share-based compensation	30.4	8.4
Total key management personnel compensation	46.5	17.6

26. 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, 2021	Year Ended December 31, 2020
Operating	54.9	30.7
G&A	123.1	73.5
Total employee compensation expense	178.0	104.2

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, 2021	Year Ended December 31, 2020
Accounts receivable	(193.5)	(24.4)
Accounts payable and accrued liabilities	163.5	(25.0)
Inventory	(16.3)	(1.2)
Prepaid expense	26.9	0.5
Total change in non-cash working capital	(19.4)	(50.1)
Relating to:		
Operating activities	(184.1)	(19.5)
Investing activities	164.7	(30.6)
Total change in non-cash working capital	(19.4)	(50.1)
Other Non-Cash Items	Year Ended December 31, 2021	Year Ended December 31, 2020
Share-based compensation expense	2.6	4.0
ARO settlements	(4.1)	(1.0)
Modified and terminated leases	(0.2)	—
Other amortization	4.1	0.8
Total other non-cash items	2.4	3.8
Net Change in Other Liabilities	Year Ended December 31, 2021	Year Ended December 31, 2020
Long-term incentive compensation liability	(26.8)	7.5
Risk management contracts	(78.8)	—
ARO cash settlements	(17.0)	(11.8)
Other deferred liabilities	(86.3)	12.1
Debt issuance costs	(16.0)	—
Accrued lease interest	0.1	(0.2)
Total net change in other liabilities	(224.8)	7.6

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, 2020	165.2	758.6	923.8
Cash flows			
Draw and issuance 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
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
Cash flows			
Draw and issuance of long-term debt	—	7,628.7	7,628.7
Repayment of long-term debt	(266.0)	(8,038.7)	(8,304.7)
Repayment of lease obligations	(44.4)	(18.6)	(63.0)
Reclassified to current			
Long-term debt	120.2	(120.2)	—
Lease obligations	78.7	(78.7)	—
Non-cash changes			
Lease obligations acquired upon close of Business Combination (Note 7)	60.0	814.6	874.6
Long-term debt acquired upon close of Business Combination (Note 7)	—	1,712.7	1,712.7
Lease recognition	0.1	10.0	10.1
Lease modification and termination	(0.5)	(1.2)	(1.7)
Accrued lease interest	0.1	—	0.1
Unrealized foreign exchange gain	(1.3)	(20.1)	(21.4)
Other	0.4	3.7	4.1
Other changes	—	(16.0)	(16.0)
Balance, December 31, 2021	109.3	2,465.3	2,574.6
Lease obligations due within one year	109.3	—	109.3
Lease obligations due beyond one year	—	760.0	760.0
Long-term debt due beyond one year	—	1,705.3	1,705.3

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Shareholder Information

Corporate Head Office

ARC Resources Ltd.

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

T 403.503.8600

Toll Free 1.888.272.4900

F 403.503.8609

www.arcresources.com

Transfer Agent

Computershare Trust Company of Canada

600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8

T 403.267.6800

Independent Reserves Evaluator

GLJ Ltd.

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Burnet, Duckworth & Palmer LLP

Annual Meeting of Shareholders

Due to the ongoing COVID-19 pandemic, ARC Resources Ltd. will hold its Annual Meeting of Shareholders virtually to help mitigate health and safety risks to our shareholders and community.

Friday, May 6, 2022

8 a.m. MT / 10 a.m. ET

Please see our Management Information Circular available on www.arcresources.com for additional information.

Stock Exchange Listing

ARC Resources Ltd. shares are traded on the Toronto Stock Exchange under the symbol **ARX**.

Shareholder Inquiries

ARC's financial reports, annual regulatory filings and news releases are available on www.arcresources.com.

Investor Relations

T 403.503.8600

Toll Free 1.888.272.4900

E IR@arcresources.com



Design

ARTHUR / HUNTER



ARC Resources Ltd.

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

T 403.503.8600

TOLL FREE 1.888.272.4900

F 403.503.8609

