'21

# Resilience. Discipline. Focus.

First Quarter Report

ARC RESOURCES LTD.

# Corporate **Profile**

ARX

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

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# FINANCIAL AND OPERATIONAL HIGHLIGHTS

| (Cdn$ millions, except per share amounts, boe amounts, and common shares outstanding) | Three Months Ended December 31, 2020 | **March 31, 2021** | March 31, 2020 |
|---|---|---|---|
| **FINANCIAL RESULTS** | | | |
| Net income (loss) | 120.8 | **178.0** | (558.4) |
| Per share[(1)] | 0.34 | **0.50** | (1.58) |
| Funds from operations[(2)] | 212.0 | **273.9** | 160.8 |
| Per share[(1)] | 0.60 | **0.77** | 0.46 |
| Free funds flow[(3)] | 135.3 | **148.2** | (9.0) |
| Per share[(1)] | 0.38 | **0.42** | (0.03) |
| Dividends declared | 21.3 | **21.3** | 42.5 |
| Per share[(1)] | 0.06 | **0.06** | 0.12 |
| Capital expenditures, before undeveloped land purchases and net property acquisitions (dispositions) | 76.7 | **125.7** | 169.8 |
| Total capital expenditures, including undeveloped land purchases and net property acquisitions (dispositions) | 75.1 | **125.6** | 169.9 |
| Net debt outstanding[(2)] | 742.7 | **613.6** | 1,079.7 |
| Net debt excluding lease obligations outstanding[(2)] | 693.5 | **568.0** | 1,037.3 |
| Common shares outstanding, weighted average diluted (millions) | 354.3 | **354.4** | 353.4 |
| Common shares outstanding, end of period (millions) | 353.4 | **353.4** | 353.4 |
| **OPERATIONAL RESULTS** | | | |
| Production | | | |
| Crude oil (bbl/day) | 15,554 | **13,647** | 16,997 |
| Condensate (bbl/day) | 14,715 | **13,812** | 11,262 |
| Crude oil and condensate (bbl/day) | 30,269 | **27,459** | 28,259 |
| Natural gas (MMcf/day) | 783.1 | **794.1** | 692.2 |
| NGLs (bbl/day) | 8,678 | **10,620** | 8,152 |
| Total (boe/day) | 169,468 | **170,430** | 151,783 |
| Average realized prices, prior to gain or loss on risk management contracts | | | |
| Crude oil ($/bbl) | 48.14 | **64.46** | 49.69 |
| Condensate ($/bbl) | 53.55 | **71.59** | 57.52 |
| Natural gas ($/Mcf) | 2.88 | **4.60** | 2.05 |
| NGLs ($/bbl) | 18.03 | **29.45** | 6.36 |
| Oil equivalent ($/boe) | 23.29 | **34.25** | 19.52 |
| Netback ($/boe)[(3)] | | | |
| Commodity sales from production | 23.29 | **34.25** | 19.52 |
| Royalties | (1.04) | **(1.69)** | (1.11) |
| Operating expense | (3.97) | **(3.85)** | (4.40) |
| Transportation expense | (2.97) | **(3.70)** | (2.85) |
| Netback | 15.31 | **25.01** | 11.16 |
| Realized gain (loss) on risk management contracts | 0.56 | **(1.75)** | 1.24 |
| Netback including realized gain (loss) on risk management contracts | 15.87 | **23.26** | 12.40 |
| **TRADING STATISTICS**[(4)] | | | |
| High price | 7.20 | **8.67** | 8.39 |
| Low price | 5.66 | **5.88** | 2.42 |
| Close price | 6.00 | **7.72** | 4.05 |
| Average daily volume (thousands of shares) | 1,582 | **3,125** | 3,207 |

(1) Per share amounts (with the exception of dividends) are based on weighted average diluted common shares.

(2) Refer to the *"Capital Management"* note in ARC's financial statements and to the sections entitled *"Funds from Operations"* and *"Capitalization, Financial Resources and Liquidity"* in ARC's MD&A.

(3) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled *"Non-GAAP Measures"* in ARC's MD&A.

(4) Trading prices are stated in Canadian dollars on a per share basis and are based on intra-day trading on the Toronto Stock Exchange.

# ARC RESOURCES LTD. REPORTS FIRST QUARTER 2021 RESULTS AND PROVIDES 2021 GUIDANCE

## NEWS RELEASE

**Calgary, May 5, 2021 (ARX - TSX)** ARC Resources Ltd. ("ARC" or the "Company") today reported its first quarter 2021 financial and operational results and 2021 guidance following the successful close of its strategic Montney combination (the "Business Combination") with Seven Generations Energy Ltd. ("Seven Generations").

## FIRST QUARTER 2021 HIGHLIGHTS

- On February 10, 2021, ARC and Seven Generations announced a definitive agreement to combine in an all-share transaction to become the largest pure-play Montney producer. The Business Combination closed on April 6, 2021, making ARC Canada's largest condensate producer, third-largest natural gas producer, and sixth-largest upstream energy company.
- Driven by strong average realized commodity prices and ARC's continued focus on proactive market diversification activities, ARC generated funds from operations(1) of $273.9 million ($0.77 per share) and recognized net income of $178.0 million ($0.50 per share). ARC's average realized natural gas price of $4.60 per Mcf was a 57 per cent premium to the average AECO 7A Monthly Index price.
    - ARC's and Seven Generations' combined pro forma funds from operations(1)(2) was $574.5 million.
- ARC generated free funds flow(3) of $148.2 million ($0.42 per share), which was allocated to paying ARC's dividend of $21.3 million ($0.06 per share) and reducing the Company's net debt excluding lease obligations(1) outstanding by $125.5 million or 18 per cent. ARC's ratio of net debt excluding lease obligations to annualized funds from operations was 0.5 times as of March 31, 2021.
    - ARC's and Seven Generations' combined pro forma free funds flow(2)(3) was $300.5 million.
- Supported by profitable half-cycle investments made in late 2020, the Company delivered record average daily production of 170,430 boe(4) per day (78 per cent natural gas and 22 per cent crude oil and liquids)(5).
    - ARC's and Seven Generations' combined pro forma production was 351,204 boe per day (60 per cent natural gas and 40 per cent crude oil and liquids).
- Capital investments totalled $125.7 million and were focused on drilling and completions activities in Greater Dawson, Sunrise, and Ante Creek. ARC drilled 15 wells and completed 32 wells, and progressed two small-scale infrastructure optimization projects.
    - ARC's and Seven Generations' combined pro forma capital expenditures were $274.0 million.
- ARC demonstrated continued operational excellence by delivering an operating expense of $3.85 per boe through prudent cost control. ARC's operating expense was down three per cent from the fourth quarter of 2020 and 13 per cent from the first quarter of 2020.
- Exhibiting the underlying strength and profitability of the business, as well as the Company's risk-managed approach to value creation, ARC was assigned an investment-grade credit rating, which lowers the Company's overall cost of debt.

Notes:

(1) Refer to Note 9 *"Capital Management"* in ARC's unaudited condensed interim consolidated financial statements and notes ("financial statements") and to the sections entitled *"Funds from Operations"* and *"Capitalization, Financial Resources and Liquidity"* in ARC's Management's Discussion and Analysis ("MD&A").

(2) Refer to the section entitled *"Combined Pro Forma Reconciliations"* within this news release for the calculations of Seven Generations' funds from operations and free funds flow for the three months ended March 31, 2021.

(3) Non-GAAP measure that does not have any standardized meaning under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled *"Non-GAAP Measures"* in ARC's MD&A.

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

(5) Throughout this news release, crude oil ("crude oil") refers to light, medium, and heavy crude oil product types 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 news release, natural gas liquids ("NGLs") comprise all natural gas liquids as defined by NI 51-101 other than condensate, which is disclosed separately. Throughout this news release, crude oil and liquids ("crude oil and liquids") refers to crude oil, condensate, and NGLs.

A video update from ARC's senior management team and an updated investor presentation are available on ARC's website at www.arcresources.com. ARC's financial statements and MD&A as at and for the three months ended March 31, 2021, are available on ARC's website at www.arcresources.com and under ARC's SEDAR profile at www.sedar.com.

**Analyst and Investor Update**

ARC will be hosting a virtual analyst and investor update at 9:00 a.m. (Calgary time) on May 27, 2021, where ARC's senior management team will provide an update on ARC's business following the Business Combination. A live webcast of the event will be available on ARC's website at www.arcresources.com.

## BUSINESS COMBINATION WITH SEVEN GENERATIONS

On February 10, 2021, ARC announced that it entered into a strategic Montney combination with Seven Generations. The Business Combination was structured through a plan of arrangement under the *Canada Business Corporations Act*. Through the transaction, Seven Generations shareholders received 1.108 common shares of ARC for each class "A" common share of Seven Generations held. On April 6, 2021, following the successful close of the Business Combination, ARC issued approximately 369.4 million common shares to acquire all of the outstanding Seven Generations class "A" common shares and Seven Generations became a wholly-owned subsidiary of ARC. On May 1, 2021, ARC amalgamated with Seven Generations.

Building on excellent first quarter 2021 results, which were underscored by record production and substantial free funds flow generation, ARC is entering this transformational phase in a position of significant strength. ARC is focused on successfully integrating the two companies and delivering on expected cost savings and synergies to become a more resilient, profitable, and efficient business. Annual synergies of approximately $160 million are expected to be achieved by 2022 and will be attained through corporate and finance cost savings, operating efficiencies, market optimization opportunities, and drilling and completions efficiencies. With the Company's refinancing completed at the close of the Business Combination, finance costs are expected to be approximately $50 million lower than they would have been had the Seven Generations senior notes remained outstanding.

For the balance of 2021, ARC plans to sustain production at its core operating areas while maximizing free funds flow generation. ARC anticipates generating significant free funds flow in 2021, which will be used to strengthen the Company's financial position. Following the Business Combination and based on current forward commodity prices, ARC expects to reduce its ratio of net debt excluding lease obligations to annualized funds from operations to the low end of the Company's targeted range of 1.0 to 1.5 times by year-end. Once the Company's debt reduction targets are met, ARC will have increased optionality to invest in development at Attachie as well as deliver increased returns to shareholders. ARC will continue to pay its quarterly dividend of $0.06 per share.

This news release includes certain financial and operational results of Seven Generations for the three months ended March 31, 2021, which are derived from the unaudited condensed interim consolidated financial statements of Seven Generations as at and for the three months ended March 31, 2021 (the "Seven Generations Financial Statements"). The Seven Generations Financial Statements have been prepared in accordance with IFRS following the same accounting policies as the annual audited consolidated financial statements of Seven Generations as at and for the years ended December 31, 2020 and 2019. Copies of the annual audited consolidated financial statements of Seven Generations as at and for the years ended December 31, 2020 and 2019 are available under Seven Generations' SEDAR profile at www.sedar.com. The Seven Generations Financial Statements were reviewed and approved by the Board of Directors of Seven Generations, consisting of ARC management, on April 29, 2021, and were reviewed by the Audit Committee of ARC on May 5, 2021. These results are included to provide the reader with an understanding of how ARC established its expectations of the financial and operational results of the Company for the balance of 2021 and beyond following the completion of the Business Combination. In this news release, when these financial and operational results are added to the results of ARC for the three months ended March 31, 2021, they are referred to as "combined pro forma" results and assume the completion of the Business Combination as of such date. The combined pro forma results stated herein do not have any standardized meanings under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled *"Combined Pro Forma Reconciliations"* within this news release.

**2021 GUIDANCE**

The original 2021 capital budgets set out by both ARC and Seven Generations had the goal of sustaining production while maximizing free funds flow generation. With the Business Combination complete, ARC's updated 2021 capital budget of $950 million to $1.0 billion is designed to sustain production and maximize free funds flow generation while centering around the Company's longstanding principles of capital discipline, profitability, and financial strength. Upholding ARC's and Seven Generations' strong safety cultures, and advancing the Company's environmental, social, and governance ("ESG") leadership and performance, are also top priorities in 2021.

ARC plans to sustain production at Greater Dawson, Sunrise, Kakwa, and Ante Creek through the balance of 2021, delivering average daily production of between 290,000 boe per day and 305,000 boe per day, of which approximately 60 per cent is natural gas and 40 per cent is crude oil and liquids.

During the second quarter of 2021, ARC's field operations and production will be affected by significant turnaround activity and the anticipated impact of spring break-up. As such, ARC anticipates its second quarter 2021 production will be approximately seven per cent lower than the first quarter 2021 combined pro forma production of 351,204 boe per day. Production during the second half of 2021 is expected to average approximately 340,000 boe per day.

ARC's 2021 guidance estimates, which incorporate the expected impacts of the Business Combination, are outlined below.

| | Q1 2021 Actuals | **Q2 2021 to Q4 2021 Guidance**[1][2] | **2021 Guidance**[1][2] |
|---|---|---|---|
| Crude oil (bbl/day) | 13,647 | **12,000 - 13,500** | **12,000 - 13,500** |
| Condensate (bbl/day) | 13,812 | **69,000 - 75,000** | **55,000 - 60,000** |
| Crude oil and condensate (bbl/day) | 27,459 | **81,000 - 88,500** | **67,000 - 73,500** |
| Natural gas (MMcf/day) | 794 | **1,200 - 1,255** | **1,100 - 1,140** |
| NGLs (bbl/day) | 10,620 | **49,000 - 52,000** | **40,000 - 42,000** |
| Total (boe/day) | 170,430 | **330,000 - 350,000** | **290,000 - 305,000** |

| | **2021 Guidance**[1][2] |
|---|---|
| Expenses ($/boe) | |
| Operating | **4.10 - 4.60** |
| Transportation | **4.50 - 5.00** |
| General and administrative ("G&A") expense before share-based compensation expense[3] | **0.90 - 1.00** |
| G&A - share-based compensation expense[4] | **0.30 - 0.45** |
| Transaction costs | **0.20 - 0.30** |
| Interest and financing | **0.70 - 0.80** |
| Current income tax expense as a per cent of funds from operations | **1 - 5** |
| Capital expenditures before undeveloped land purchases and net property acquisitions (dispositions) ($ millions) | **950 - 1,000** |

(1) The Business Combination closed on April 6, 2021 and as such, 2021 guidance includes ARC's financial and operational results for the three months ended March 31, 2021 plus the Company's expectations for the combined financial and operational results of ARC's and Seven Generations' operations for the remaining nine months of 2021.
(2) COVID-19 impacts on demand and market volatility may impact ARC's future financial and operational results. ARC will continuously monitor its guidance and provide updates as deemed appropriate.
(3) Excludes transaction costs associated with the Business Combination.
(4) Comprises expense recognized under all share-based compensations plans, with the exception of the Deferred Share Unit Plans.

Going forward, ARC estimates the annual capital requirements to sustain production at approximately 340,000 boe per day are between $1.0 billion and $1.1 billion.

## OPERATIONAL REVIEW

ARC's leading position in the Montney resource play comprises more than 1.1 million net acres of land and features a deep inventory of high-return, de-risked development opportunities. The enhanced commodity and geographic diversity established through the Business Combination provides significant optionality within ARC's portfolio and improves the Company's ability to mitigate the impacts of future commodity price volatility.

ARC processes the majority of its production through owned-and-operated infrastructure. This affords the Company greater control over its low cost structure, liquids recoveries and the ability to optimize revenue streams, and supports strong safety and environmental performance. Given the recent strength in NGLs pricing, ARC is currently maximizing the liquids recoveries at its processing facilities.

### Capital Expenditures

ARC invested $125.7 million during the first quarter of 2021 to drill 15 wells and complete 32 wells, as well as progress two highly economical facility optimization projects. The Sunrise Phase I and Phase II facilities expansion is expected to be completed during the second quarter of 2021 and will add 40 MMcf per day of low-cost natural gas processing and sales capacity. The Parkland/Tower facility sour conversion and expansion is scheduled to be completed in the third quarter of 2021, which will support the continued development of the lower Montney horizon and add approximately 6 MMcf per day of natural gas processing and sales capacity.

Including Seven Generations' capital expenditures for the Kakwa asset, which totalled $148.3 million to drill 21 wells and complete eight wells, the combined pro forma capital expenditures for the first quarter of 2021 were $274.0 million.

ARC's planned approach to developing the Kakwa asset is to maximize free funds flow extraction through improved deliverability and profitability. Over the next several years, ARC aims to keep production relatively flat, at approximately 180,000 boe per day, to moderate the asset's current decline rate of approximately 40 per cent. Leveraging Seven Generations' recent innovations on well and pad designs, ARC plans to continue on the path of optimizing the inter-well spacing for future pad development in the area to maximize profitability. ARC will seek to realize additional capital efficiency improvements through drilling and completions activities and knowledge-sharing between ARC's and Seven Generations' technical teams.

| | Three Months Ended March 31, 2021 | | |
|---|---|---|---|
| | **Capital Expenditures**[5] ($ millions) | **Wells Drilled**[6] | **Wells Completed**[6] |
| Greater Dawson[1] | **53.1** | **9** | **14** |
| Sunrise | **38.9** | **4** | **9** |
| Ante Creek | **17.9** | **2** | **9** |
| Attachie West | **0.9** | **—** | **—** |
| All other[2] | **14.9** | **—** | **—** |
| **Total** | **125.7** | **15** | **32** |
| Kakwa[3] | **148.3** | **21** | **8** |
| **Combined pro forma capital expenditures and activities**[4] | **274.0** | **36** | **40** |

(1) Comprises Dawson and Parkland/Tower assets.
(2) Comprises spending and activity for ARC's non-core and corporate assets and includes capitalized G&A.
(3) Assets acquired through the Business Combination, which closed on April 6, 2021.
(4) Represents capital expenditures and activities of ARC plus Seven Generations for the three months ended March 31, 2021.
(5) Undeveloped land purchases and net property acquisitions and dispositions are not included.
(6) Wells drilled and completed for operated assets only.

## Production

ARC's first quarter 2021 production averaged 170,430 boe per day, relatively unchanged from the fourth quarter of 2020. Increased natural gas production at Dawson and Sunrise offset production impacts from planned downtime to accommodate offset completions operations at Tower and Ante Creek.

Including Seven Generations' production from the Kakwa asset, which totalled 180,774 boe per day, the combined pro forma production averaged 351,204 boe per day during the first quarter of 2021.

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | **March 31, 2021** | | | | | December 31, 2020 |
| | **Crude Oil** (bbl/day) | **Condensate** (bbl/day) | **Natural Gas** (MMcf/day) | **NGLs** (bbl/day) | **Total** (boe/day) | Total (boe/day) |
| Greater Dawson[(1)] | **1,663** | **10,617** | **469** | **8,605** | **99,003** | 97,015 |
| Sunrise | **—** | **10** | **245** | **31** | **40,913** | 39,098 |
| Ante Creek | **6,641** | **445** | **51** | **1,448** | **17,099** | 18,274 |
| Attachie West | **—** | **2,500** | **12** | **119** | **4,593** | 5,386 |
| All other[(2)] | **5,343** | **240** | **17** | **417** | **8,822** | 9,695 |
| **Total** | **13,647** | **13,812** | **794** | **10,620** | **170,430** | 169,468 |
| Kakwa[(3)] | **—** | **59,038** | **477** | **42,262** | **180,774** | 190,139 |
| **Combined pro forma production**[(4)] | **13,647** | **72,850** | **1,271** | **52,882** | **351,204** | 359,607 |

(1) Comprises Dawson and Parkland/Tower assets.
(2) Comprises production from ARC's non-core assets.
(3) Assets acquired through the Business Combination, which closed on April 6, 2021.
(4) Represents production of ARC plus Seven Generations for the three months ended March 31, 2021.

## ESG REVIEW

ARC continues to advance initiatives in support of the Company's leading ESG performance and overarching commitment to responsible development. During the first quarter of 2021, ARC announced its investment in Natural Gas Innovation Fund (NGIF)'s Cleantech Ventures, an industry-led equity fund focused on advancing technologies and solutions that enhance the environmental and economic performance of the natural gas sector. The mandate of this new fund is to invest in cleantech enterprises across the value chain, from production, transmission, distribution, storage, and end-use applications, as well as innovations leading to the expanded production of emerging fuels like renewable natural gas and hydrogen. ARC is committed to upholding its strong environmental performance by reducing its greenhouse gas ("GHG") emissions, including through planned electrification of its Dawson Phase III and Phase IV facilities and through ongoing electrification of well sites across the asset base. ARC currently ranks as the producer with the lowest GHG emissions intensity amongst its Canadian peers.

ARC has commenced its integration of Seven Generations' ESG initiatives to formulate a cohesive ESG strategy that leverages the strengths and shared learnings of each company.

## FINANCIAL REVIEW

### Capital Allocation

Managing reasonable debt levels, paying a sustainable dividend, and delivering modest production growth through profitable development activities are the basis for ARC's capital allocation. Upon closing of the Business Combination, free funds flow generated is being directed at strengthening the Company's financial position. Once the Company's debt reduction targets are met, ARC will have increased optionality to invest in development at Attachie as well as deliver increased returns to shareholders. ARC will continue to pay its quarterly dividend of $0.06 per share, and will consider modest dividend increases over time.

### Balance Sheet and Liquidity

On March 10, 2021, ARC completed the issuance of two tranches of private unsecured notes of $1.0 billion aggregate principal amount with a weighted average interest rate of 2.965% and an average term of 7.75 years (the "2021 Notes"). The 2021 Notes are rated BBB with a stable trend by DBRS Morningstar.

As of March 31, 2021, ARC had $568.0 million of net debt excluding lease obligations outstanding, and the ratio of net debt excluding lease obligations to annualized funds from operations was 0.5 times. Seven Generations' net debt excluding lease obligations outstanding as of March 31, 2021 was approximately $1.8 billion. The combined pro forma net debt excluding lease obligations as of March 31, 2021 was approximately $2.4 billion. Refer to the section entitled *"Combined Pro Forma Reconciliations"* within this news release for the calculation of Seven Generations' net debt excluding lease obligations as at March 31, 2021.

Upon closing of the Business Combination, ARC obtained access to additional liquidity with a new syndicated $2.0 billion unsecured extendible revolving credit facility with a maturity date of 2024 (the "Credit Facility"). ARC concurrently cancelled its former $950 million financial covenant-based syndicated credit facility.

On April 6, 2021, ARC used the proceeds from the 2021 Notes, combined with draws on the Credit Facility, to repay and/or defease all of Seven Generations' outstanding senior notes and repay the Seven Generations credit facility. The principal outstanding on the senior notes totalled US$1,192.0 million and had a weighted average interest rate of 5.955%.

ARC has ample liquidity and a strong deleveraging profile in 2021, with approximately $1.2 billion of undrawn credit capacity. Based on current forward commodity prices, ARC expects its net debt excluding lease obligations outstanding to be reduced to the low end of the Company's targeted range of 1.0 to 1.5 times annualized funds from operations by year-end.

**Net Income**

ARC recognized net income of $178.0 million ($0.50 per share) during the first quarter of 2021. Compared to the fourth quarter of 2020, the increase in earnings was primarily the result of increased commodity sales from production due to higher average realized commodity prices. ARC also recognized a reversal of impairment of $112.6 million on its property, plant, and equipment during the first quarter of 2021, primarily for the Northern Alberta cash-generating unit as a result of increased forward commodity pricing for crude oil and natural gas. Partially offsetting these increases to earnings were losses recognized on ARC's risk management contracts and increased current tax expense.

**Funds from Operations and Free Funds Flow**

ARC generated funds from operations of $273.9 million ($0.77 per share) during the first quarter of 2021, a 29 per cent increase from the fourth quarter of 2020. Increased commodity sales from production due to higher average realized commodity prices drove higher funds from operations in the period, which was partially offset by increased current tax expense and increased realized losses on risk management contracts. Including the $300.6 million of funds from operations generated by Seven Generations, the combined pro forma funds from operations was $574.5 million during the first quarter of 2021. Refer to the section entitled *"Combined Pro Forma Reconciliations"* within this news release for the calculation of Seven Generations' funds from operations for the three months ended March 31, 2021.

ARC generated free funds flow of $148.2 million ($0.42 per share) during the first quarter of 2021, an increase of $12.9 million from the fourth quarter of 2020, despite higher capital investments in the period. Free funds flow was used to pay the Company's dividend obligations of $21.3 million ($0.06 per share) and to strengthen the Company's balance sheet, reducing net debt excluding lease obligations outstanding by $125.5 million or 18 per cent. Including the $152.3 million of free funds flow generated by Seven Generations, the combined pro forma free funds flow was $300.5 million during the first quarter of 2021. Refer to the section entitled *"Combined Pro Forma Reconciliations"* within this news release for the calculation of Seven Generations' free funds flow for the three months ended March 31, 2021.

| | $ millions | $/share[1] |
|---|---|---|
| Funds from operations for the three months ended December 31, 2020 | 212.0 | 0.60 |
| Volume | | |
| Crude oil and liquids | **(12.7)** | **(0.04)** |
| Natural gas | **(1.5)** | **—** |
| Price | | |
| Crude oil and liquids | **53.3** | **0.14** |
| Natural gas | **123.1** | **0.35** |
| Sales of commodities purchased from third parties | **14.2** | **0.04** |
| Interest income | **(0.1)** | **—** |
| Other income | **1.4** | **—** |
| Realized gain (loss) on risk management contracts | **(35.6)** | **(0.10)** |
| Royalties | **(9.7)** | **(0.03)** |
| Expenses | | |
| Commodities purchased from third parties | **(15.9)** | **(0.04)** |
| Operating | **3.0** | **0.01** |
| Transportation | **(10.6)** | **(0.03)** |
| G&A and transaction costs | **(9.4)** | **(0.03)** |
| Interest and financing | **0.4** | **—** |
| Current income tax | **(36.9)** | **(0.10)** |
| Realized gain (loss) on foreign exchange | **(1.2)** | **—** |
| Other | **0.1** | **—** |
| **Funds from operations for the three months ended March 31, 2021** | **273.9** | **0.77** |
| Seven Generations funds from operations for the three months ended March 31, 2021[2] | **300.6** | |
| **Combined pro forma funds from operations for the three months ended March 31, 2021[3]** | **574.5** | |

(1) Per share amounts are based on weighted average diluted common shares.
(2) The Business Combination closed on April 6, 2021.
(3) Refer to the section entitled *"Combined Pro Forma Reconciliations"* within this news release for the calculation of Seven Generations' funds from operations for the three months ended March 31, 2021.

### Financial and Physical Price Management

ARC sells into multiple downstream markets across North America, and during the winter months, elects to maximize its exposure to spot pricing to capture anticipated strength in pricing owing to potentially cold weather. Approximately 25 per cent of ARC's natural gas was sold into the Midwest market during the first quarter of 2021, where regional prices experienced significant strength and oftentimes traded at premiums to other North American sales points. ARC maximized its throughput of natural gas production to capture this strength in natural gas pricing during the period, and as a result, realized an incremental $101.1 million in cash flows from its natural gas market diversification activities.

The following table summarizes ARC's average realized prices for the first quarter of 2021 relative to the fourth quarter of 2020.

| | Three Months Ended | | |
|---|---|---|---|
| | **March 31, 2021** | December 31, 2020 | % Change |
| Average natural gas price before diversification activities ($/Mcf) | **3.19** | 2.94 | 9 |
| Natural gas diversification activities ($/Mcf) | **1.41** | (0.06) | 2,450 |
| Realized loss on risk management contracts ($/Mcf)(1) | **(0.21)** | (0.06) | (250) |
| Average realized natural gas price including realized loss on risk management contracts ($/Mcf) | **4.39** | 2.82 | 56 |
| Average realized crude oil price ($/bbl) | **64.46** | 48.14 | 34 |
| Average realized condensate price ($/bbl) | **71.59** | 53.55 | 34 |
| Average realized NGLs price ($/bbl) | **29.45** | 18.03 | 63 |
| Total average realized commodity price ($/boe) | **34.25** | 23.29 | 47 |

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

As of May 5, 2021, approximately 50 per cent of ARC's anticipated crude oil and condensate production and approximately 50 per cent of ARC's anticipated natural gas production is hedged for the balance of 2021.

### Netback(1)

ARC's first quarter 2021 netback increased 63 per cent from the fourth quarter of 2020. The higher netback was primarily due to an increase in average realized commodity prices across ARC's diversified sales portfolio. Increased transportation expense, reflecting new transportation arrangements and increased pipeline tolls, partially offset the impact of increased average realized commodity prices, which was further offset by realized losses on risk management contracts.

| | Three Months Ended | | |
|---|---|---|---|
| ($/boe) | **March 31, 2021** | December 31, 2020 | % Change |
| Commodity sales from production | **34.25** | 23.29 | 47 |
| Royalties | **(1.69)** | (1.04) | (63) |
| Operating expense | **(3.85)** | (3.97) | 3 |
| Transportation expense | **(3.70)** | (2.97) | (25) |
| Netback | **25.01** | 15.31 | 63 |
| Realized gain (loss) on risk management contracts | **(1.75)** | 0.56 | (413) |
| Netback including realized gain (loss) on risk management contracts | **23.26** | 15.87 | 47 |

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

## COMBINED PRO FORMA RECONCILIATIONS

### Combined Pro Forma Funds from Operations

| $ millions | For the three months ended March 31, 2021 |
|---|---|
| Seven Generations | |
| Cash provided by operating activities | 327.5 |
| Change in non-cash working capital | (53.1) |
| Change in other long-term liabilities related to operating activities | 26.2 |
| Seven Generations funds from operations | 300.6 |
| ARC funds from operations[1] | 273.9 |
| **Combined pro forma funds from operations** | **574.5** |

(1) Refer to Note 9 *"Capital Management"* in ARC's financial statements and to the sections entitled *"Funds from Operations"* and *"Capitalization, Financial Resources and Liquidity"* in ARC's MD&A.

### Combined Pro Forma Free Funds Flow

| $ millions | For the three months ended March 31, 2021 |
|---|---|
| Seven Generations | |
| Cash provided by operating activities | 327.5 |
| Change in non-cash working capital | (53.1) |
| Change in other long-term liabilities related to operating activities | 26.2 |
| Funds from operations | 300.6 |
| Investments in oil and natural gas assets | (148.3) |
| Seven Generations free funds flow | 152.3 |
| ARC free funds flow[1] | 148.2 |
| **Combined pro forma free funds flow** | **300.5** |

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

## Combined Pro Forma Net Debt excluding Lease Obligations

| $ millions | As at March 31, 2021 |
|---|---|
| Seven Generations | |
| Senior notes | 1,536.8 |
| Credit facility draws | 180.0 |
| Long-term portion of lease liabilities | 50.1 |
| Long-term portion of share-based compensation liability | 7.1 |
| Current assets | (411.8) |
| Current liabilities | 567.9 |
| | 1,930.1 |
| Current portion of risk management assets | 22.5 |
| Current portion of risk management liabilities | (115.6) |
| Net debt | 1,837.0 |
| Long-term portion of lease liabilities | (50.1) |
| Seven Generations net debt excluding lease obligations | 1,786.9 |
| ARC net debt excluding lease obligations[1] | 568.0 |
| **Combined pro forma net debt excluding lease obligations** | **2,354.9** |

(1) Refer to Note 9 *"Capital Management"* in ARC's financial statements and to the section entitled *"Capitalization, Financial Resources and Liquidity"* in ARC's MD&A.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

This news release contains certain forward-looking statements and forward-looking information (collectively referred to as "forward-looking information") within the meaning of applicable securities legislation about current expectations about the future, based on certain assumptions made by ARC. Although ARC believes that the expectations represented by such forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. Forward-looking information in this news release is identified by words such as "anticipate", "believe", "ongoing", "may", "expect", "estimate", "plan", "will", "project", "continue", "target", "strategy", "upholding", or similar expressions and includes suggestions of future outcomes. In particular, but without limiting the foregoing, this news release contains forward-looking information with respect to: the ability of ARC to generate free funds flow and the anticipated uses thereof; the anticipated impacts of turnaround activity and spring break-up on production and field operations and the corresponding decrease to production; estimated production amounts and quantities thereof; the continued electrification of well sites across ARC's asset base; the potential impact of COVID-19, its effect on demand and market volatility, and its possible effect on ARC's future financial and operational results; the anticipated synergies expected to be attained through corporate and finance cost savings, operating efficiencies, market optimization opportunities, and drilling and completions efficiencies; the expected decrease in costs resulting from the satisfaction of Seven Generations' senior notes; the expected reduction in ARC's ratio of net debt excluding lease obligations to annualized funds from operations; the expected increased optionality resulting from reaching ARC's debt reduction targets; the estimated annual capital requirements to sustain ARC's production; the anticipated core areas of ARC's future production; the planned approach to developing the Kakwa asset including plans to continue on the path of optimizing the inter-well spacing for future pad development in the area; ARC's continued commitment to upholding strong environmental performance by reducing its GHG emissions and a continued focus on a strong safety culture; the anticipated timing and content of ARC's virtual analyst and investor update; ARC's intention to monitor its guidance in respect of COVID-19 and provide updates as required; ARC's priorities for the remainder of 2021; the continued payment of ARC's quarterly dividend and the value thereof; anticipated increases to production; the anticipated creation of a cohesive ESG strategy and the implementation thereof; impacts of and the timing of achieving ARC's target range of net debt excluding lease obligations to annualized funds from operations; anticipated cost savings and synergies; and other statements.

Readers are cautioned not to place undue reliance on forward-looking information as ARC's actual results may differ materially from those expressed or implied. ARC undertakes no obligation to update or revise any forward-looking information except as required by law. Developing forward-looking information involves reliance on a number of assumptions and consideration of certain risks and uncertainties, some of which are specific to ARC and others that apply to the industry generally. Material factors or assumptions on which the forward-looking information in this news release include: ARC's ability to successfully integrate the business of Seven Generations; access to sufficient capital to pursue any development plans; ARC's ability to issue securities; the impacts the Business Combination may have on the current credit ratings of ARC; forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; the accuracy of outlooks and projections contained herein; projected capital investment levels, the flexibility of capital spending plans, and associated sources of funding; achievement of further cost reductions and sustainability thereof; applicable royalty regimes, including expected royalty rates; future improvements in availability of product transportation capacity; opportunity for ARC to pay dividends and the approval and declaration of such dividends by the board of directors of ARC; cash flows, cash balances on hand, and access to the Credit Facility being sufficient to fund capital investments; foreign exchange rates; near-term pricing and continued volatility of the market; the ability of ARC's existing pipeline commitments and financial hedge transactions to partially mitigate a portion of ARC's risks against wider price differentials; estimates of quantities of crude oil, natural gas, and liquids from properties and other sources not currently classified as proved; accounting estimates and judgments; future use and development of technology and associated expected future results; ARC's ability to obtain necessary regulatory approvals; the successful and timely implementation of capital projects or stages thereof; the ability to generate sufficient cash flow to meet current and future obligations; estimated abandonment and reclamation costs, including associated levies and regulations applicable thereto; ARC's ability to obtain and retain qualified staff and equipment in a timely and cost-efficient manner; ARC's ability to carry out transactions on the desired terms and within the expected timelines; forecast inflation and other assumptions inherent in the guidance of ARC; the retention of key assets; the continuance of existing tax, royalty, and regulatory regimes; the accuracy of the estimates of each of ARC's and Seven Generations' reserve volumes; ARC's ability to access and implement all technology necessary to efficiently and effectively operate its assets; the ongoing impact of COVID-19 on commodity prices and the global economy; and other risks and uncertainties described from time to time in the filings made by ARC with securities regulatory authorities.

The forward-looking information in this news release also includes financial outlooks and other related forward-looking information (including production and financial-related metrics) relating to ARC following the completion of the Business Combination, including: the expectations of ARC regarding the impact of the Business Combination on free funds flow, net debt excluding lease obligations, production, and net debt excluding lease obligations to annualized funds from operations. Any financial outlook and forward-looking information implied by such forward-looking statements are described in the joint management information circular of ARC and Seven Generations dated March 1, 2021, and the documents incorporated by reference therein, the MD&A, and ARC's most recent annual information form, which are available on ARC's website at www.arcresources.com and under ARC's SEDAR profile at www.sedar.com and are incorporated by reference herein.

**Advisory – Credit Ratings**

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold, or sell securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by the rating agency in the future if, in its judgment, circumstances so warrant.

**About ARC**

ARC Resources Ltd. is the largest pure-play Montney producer and one of Canada's largest dividend-paying energy companies, featuring low-cost operations and leading ESG characteristics. ARC's investment-grade credit profile is supported by commodity and geographic diversity 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.

ARC RESOURCES LTD.

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ARC Resources Ltd.
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# Management's Discussion & **Analysis**

## MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis ("MD&A") of ARC Resources Ltd. ("ARC" or the "Company") is Management’s analysis of the financial performance and significant trends and external factors that may affect future performance. It is dated May 5, 2021 and should be read in conjunction with the unaudited condensed interim consolidated financial statements (the "financial statements") as at and for the three months ended March 31, 2021, and the MD&A and audited consolidated financial statements for the year ended December 31, 2020, 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 natural gas liquids as defined by NI 51-101 other than condensate, which is disclosed separately. Crude oil and liquids ("crude oil and liquids") refers to crude oil, condensate and NGLs.

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

Since the World Health Organization declared novel coronavirus COVID-19 ("COVID-19") a global pandemic in 2020, global economies have experienced varying degrees of economic recovery and subsequent virus outbreak. Vaccination programs have commenced around the globe, however the pace with which vaccines are being administered is dependent on the supply access and logistics organized by individual nations. Domestically, Canada has vaccinated a relatively small percentage of its population and many regions across the country are experiencing a third wave of COVID-19. The greatest potential impact to ARC is the effect on demand for commodities and the subsequent impact on commodity prices. At March 31, 2021, ARC's management has incorporated the current and anticipated impacts of COVID-19 in its preparation of the MD&A.

### BUSINESS COMBINATION

On April 6, 2021, ARC and Seven Generations Energy Ltd. ("Seven Generations") completed the previously announced transaction to create a new Canadian crude oil and natural gas company through a plan of arrangement (the "Business Combination"). The Business Combination creates 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") reporting, managed by a strong leadership team. For additional information, refer to Note 16 "Subsequent Event" in the financial statements.

### ABOUT ARC RESOURCES LTD.

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

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

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

### Highlights

Corporate highlights for the annual periods of 2017 through 2020 and the three months ended March 31, 2021 are shown in Table 1:

**Table 1**

| | **2021 YTD** | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Production [1] | | | | | |
| Crude oil (bbl/d) | **13,647** | 15,726 | 17,591 | 23,460 | 24,380 |
| Condensate (bbl/d) | **13,812** | 13,519 | 10,066 | 7,281 | 5,650 |
| Crude oil and condensate (bbl/d) | **27,459** | 29,245 | 27,657 | 30,741 | 30,030 |
| Natural gas (MMcf/d) | **794.1** | 739.2 | 623.3 | 570.2 | 525.8 |
| NGLs (bbl/d) | **10,620** | 9,112 | 7,578 | 6,955 | 5,273 |
| Total production (boe/d) | **170,430** | 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) | **178.0** | (547.2) | (27.6) | 213.8 | 388.9 |
| Net income (loss) per share | **0.50** | (1.55) | (0.08) | 0.60 | 1.10 |
| Funds from operations [3] | **273.9** | 667.6 | 697.4 | 819.0 | 731.9 |
| Funds from operations per share [3] | **0.77** | 1.89 | 1.97 | 2.31 | 2.07 |
| Free funds flow [4] | **148.2** | 324.4 | 5.9 | 139.6 | (97.8) |
| Free funds flow per share [4] | **0.42** | 0.92 | 0.02 | 0.39 | (0.28) |
| Capital expenditures [5] | **125.7** | 343.2 | 691.5 | 679.4 | 829.7 |
| Net debt [3] | **613.6** | 742.7 | 940.2 | 702.7 | 728.0 |
| Net debt excluding lease obligations [3] | **568.0** | 693.5 | 894.0 | 702.7 | 728.0 |
| Net debt to annualized funds from operations (ratio) [3] | **0.6** | 1.1 | 1.3 | 0.9 | 1.0 |
| Net debt excluding lease obligations to annualized funds from operations (ratio) [3] | **0.5** | 1.0 | 1.3 | 0.9 | 1.0 |
| Return on average capital employed ("ROACE") (%) [4] | **6** | (18) | (2) | 8 | 14 |
| Proved plus probable reserves (MMboe) [6][7] | **n/a** | 929.0 | 909.9 | 878.9 | 836.1 |
| Proved plus probable reserves per share (boe) [6][7] | **n/a** | 2.6 | 2.6 | 2.5 | 2.4 |

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

(2) Daily production per thousand shares represents average daily production divided by the diluted weighted average common shares for the three months ended March 31, 2021 and for the respective years ended December 31, 2020, 2019, 2018, and 2017.

(3) Refer to Note 9 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.

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

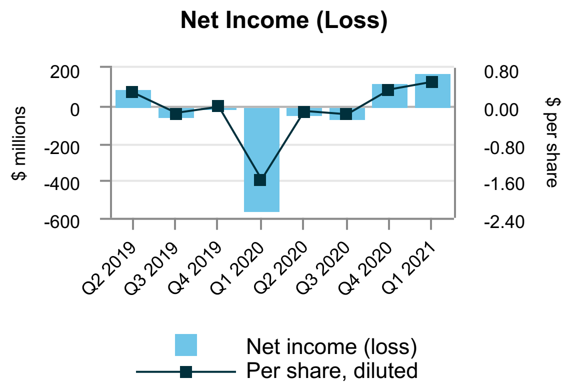
(5) Prior to undeveloped land purchases and property acquisitions and dispositions.

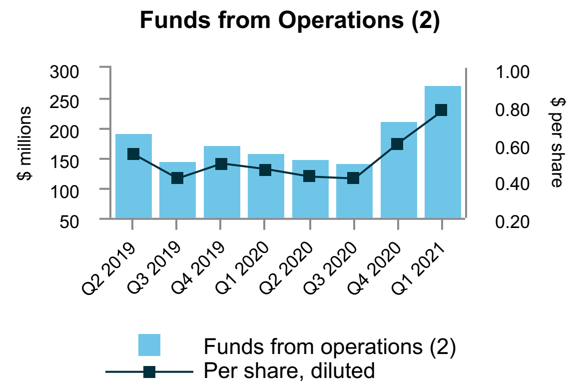
(6) Crude oil, condensate, natural gas, and NGLs reserves ("reserves") as determined by ARC's independent qualified reserve evaluator with an effective date of December 31 for the years shown in accordance with the Canadian Oil and Gas Evaluation Handbook.

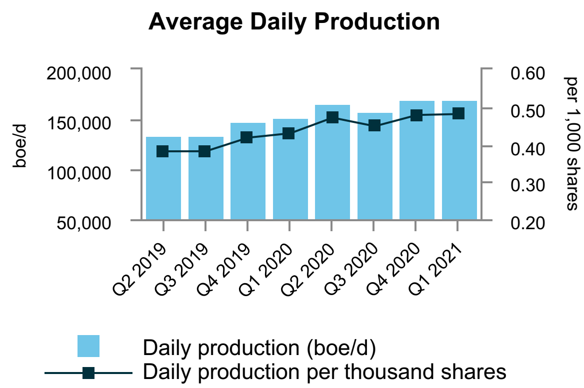
(7) Reserves are the gross interest reserves before deduction of royalties and without including any royalty interests. For more information, see ARC's AIF available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

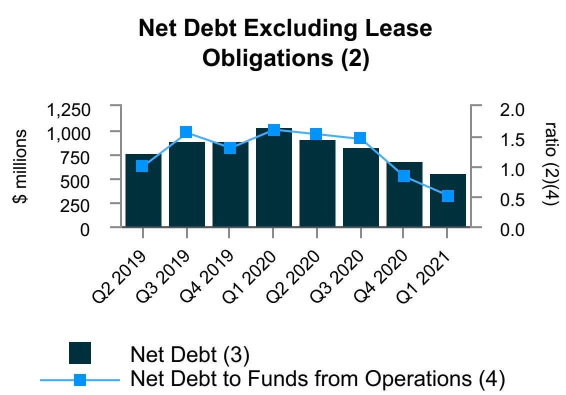
## QUARTERLY RESULTS [1]

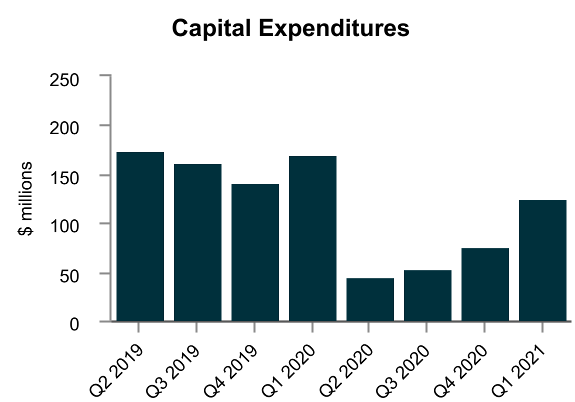
**Exhibit 1**




(1) The details contained in the graphs above are included in the section entitled "Quarterly Historical Review" contained within this MD&A.
(2) Refer to Note 9 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(3) Net debt excluding lease obligations. Refer to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(4) Net debt excluding lease obligations to annualized funds from operations. Refer to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.

Trends in earnings and funds from operations are primarily associated with fluctuations in 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 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 cash-generating unit ("CGU"). Refer to Note 6 "Impairment" in the financial statements. Additionally, 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.
- In the fourth quarter of 2019, ARC recognized a loss on risk management contracts of $56.3 million.
- In the third quarter of 2019, ARC recognized an impairment charge of $39.2 million relating to financial assets.
- In the second quarter of 2019, ARC recognized an income tax recovery of $63.9 million. Additionally, an impairment charge of $8.5 million was recognized relating to financial assets.

**ANNUAL GUIDANCE**

On April 6, 2021, ARC and Seven Generations closed the previously announced Business Combination. Refer to Note 16 "Subsequent Event" in the financial statements. The original 2021 capital budgets set out by both ARC and Seven Generations had the goal of sustaining production while maximizing free funds flow generation. With the Business Combination complete, ARC's 2021 updated capital budget of $950 million to $1.0 billion is designed to sustain production and maximize free funds flow generation while centering around the Company's longstanding principles of capital discipline, profitability, and financial strength. Upholding ARC's and Seven Generations' strong safety cultures, and advancing the Company's ESG leadership and performance, are also top priorities in 2021.

ARC plans to sustain production at Greater Dawson, Sunrise, Kakwa, and Ante Creek through the balance of 2021, delivering average daily production of between 290,000 boe per day and 305,000 boe per day, of which approximately 60 per cent is natural gas and 40 per cent is liquids. During the second quarter of 2021, ARC's field operations and production will be affected by significant turnaround activity and the anticipated impact of spring break-up. Production during the second half of 2021 is expected to average approximately 340,000 boe per day.

ARC's full-year 2021 revised guidance estimates, which incorporate the expected impacts of the Business Combination, are outlined in Table 2:

**Table 2**

| | **2021 Guidance** (3)(4) |
|---|---|
| Production | |
| Crude oil (bbl/d) | 12,000 - 13,500 |
| Condensate (bbl/d) | 55,000 - 60,000 |
| Crude oil and condensate (bbl/d) | 67,000 - 73,500 |
| Natural gas (MMcf/d) | 1,100 - 1,140 |
| NGLs (bbl/d) | 40,000 - 42,000 |
| Total (boe/d) | 290,000 - 305,000 |
| Expenses ($/boe) | |
| Operating | 4.10 - 4.60 |
| Transportation | 4.50 - 5.00 |
| G&A expense before share-based compensation expense (1) | 0.90 - 1.00 |
| G&A - share-based compensation expense (2) | 0.30 - 0.45 |
| Transaction costs | 0.20 - 0.30 |
| Interest and financing | 0.70 - 0.80 |
| Current income tax expense, as a per cent of funds from operations | 1 - 5 |
| Capital expenditures before land purchases and net property acquisitions (dispositions) ($ millions) | 950 - 1,000 |

(1) Excludes transaction costs associated with the Business Combination.
(2) Comprises expense recognized under all share-based compensations plans, with the exception of the Deferred Share Unit ("DSU") Plans.
(3) The Business Combination closed on April 6, 2021 and as such, 2021 guidance includes ARC's financial and operational results for the three months ended March 31, 2021 plus the Company's expectations for the combined financial and operational results of ARC's and Seven Generations' operations for the remaining nine months of 2021.
(4) COVID-19 impacts on demand and market volatility may impact ARC's future financial and operational results. ARC will continuously monitor its guidance and provide updates as deemed appropriate.

Going forward, ARC estimates the annual capital requirements to sustain production at approximately 340,000 boe per day are between $1.0 billion and $1.1 billion.

**ESG REVIEW**

ARC continues to advance initiatives in support of the Company's leading ESG performance and overarching commitment to responsible development. During the first quarter of 2021, ARC announced its investment in Natural Gas Innovation Fund (NGIF)'s Cleantech Ventures, an industry-led equity fund focused on advancing technologies and solutions that enhance the environmental and economic performance of the natural gas sector. The mandate of this new fund is to invest in cleantech enterprises across the value chain, from production, transmission, distribution, storage, and end-use applications, as well as innovations leading to the expanded production of emerging fuels like renewable natural gas and hydrogen. ARC is committed to upholding its strong environmental performance by reducing its greenhouse gas ("GHG") emissions, including through planned electrification of its Dawson Phase III and Phase IV facilities and through ongoing electrification of well sites across the asset base. ARC currently ranks as the producer with the lowest GHG emissions intensity amongst its Canadian peers.

## 2021 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

### Financial Highlights

**Table 3**

| | Three Months Ended | | | |
|---|---|---|---|---|
| ($ millions, except per share and volume data) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| Net income (loss) | 120.8 | **178.0** | (558.4) | 132 |
| Net income (loss) per share | 0.34 | **0.50** | (1.58) | 132 |
| Funds from operations (1) | 212.0 | **273.9** | 160.8 | 70 |
| Funds from operations per share (1) | 0.60 | **0.77** | 0.46 | 67 |
| Free funds flow (2) | 135.3 | **148.2** | (9.0) | 1,747 |
| Free funds flow per share (2) | 0.38 | **0.42** | (0.03) | 1,500 |
| Dividends declared per share (3) | 0.06 | **0.06** | 0.12 | (50) |
| Average daily production (boe/d) | 169,468 | **170,430** | 151,783 | 12 |

(1) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

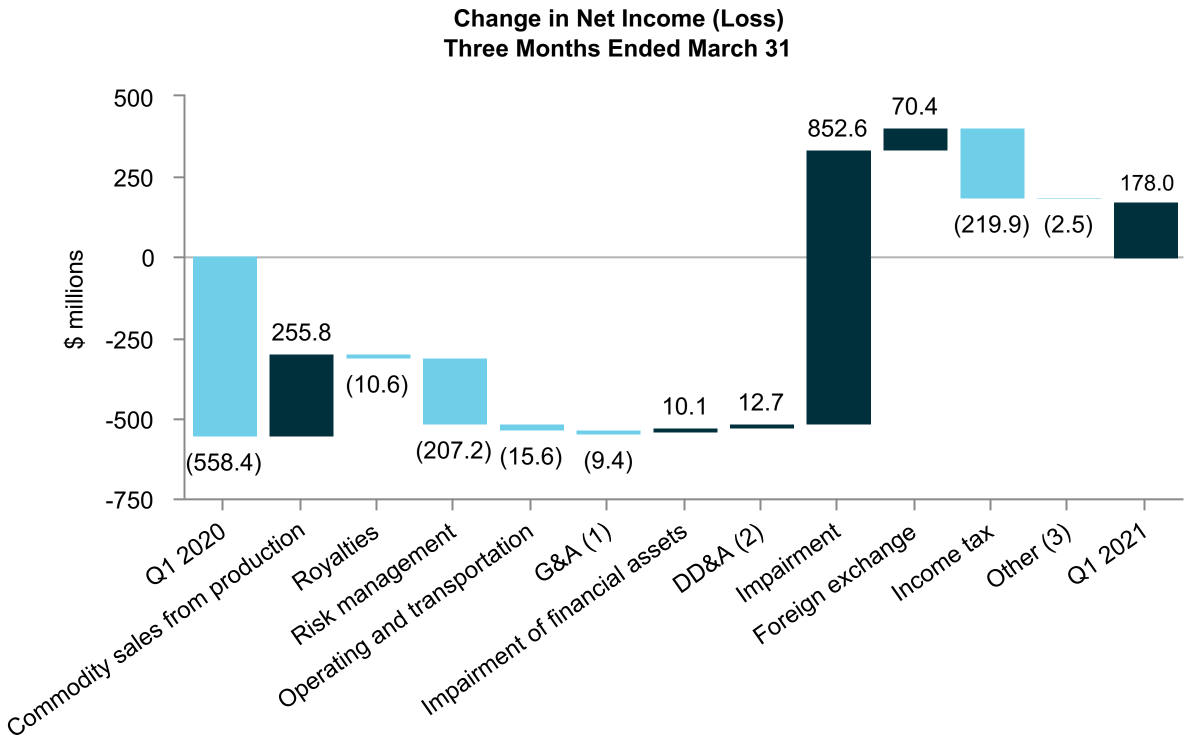
(2) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

(3) Dividends declared per share are based on the number of shares outstanding at each dividend record date.

### Net Income (Loss)

In the first quarter of 2021, ARC recognized net income of $178.0 million ($0.50 per share), an increase of $736.4 million from ARC's first quarter 2020 net loss of $558.4 million ($1.58 per share). The increase in net income is primarily due to a reversal of impairment of $112.6 million recognized in the first quarter of 2021 compared to a $740.0 million impairment charge recognized in the first quarter of 2020. An increase in commodity sales from production of $255.8 million, associated with higher average realized commodity prices, and a foreign exchange gain of $5.9 million in the first quarter of 2021 compared to a foreign exchange loss of $64.5 million in the same period of the prior year also contributed to the increase. Increases were partially offset by an income tax expense of $56.7 million in the first quarter of 2021 compared to an income tax recovery of $163.2 million in the first quarter of 2020, as well as a loss on risk management contracts of $106.9 million compared to a gain of $100.3 million for the same periods.

**Exhibit 2**




(1) General and administrative ("G&A")
(2) Depletion, depreciation and amortization ("DD&A").
(3) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, transaction costs, and interest and financing.

**Funds from Operations**

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

ARC reports funds from operations in total and on a per share basis. Refer to Note 9 "Capital Management" in the financial statements. Table 4 is a reconciliation of ARC's net income (loss) to funds from operations and cash flow from operating activities:

**Table 4**

| | Three Months Ended | | |
|---|---|---|---|
| ($ millions) | December 31, 2020 | **March 31, 2021** | March 31, 2020 |
| Net income (loss) | 120.8 | **178.0** | (558.4) |
| Adjusted for the following non-cash items: | | | |
| Impairment of financial assets | (0.2) | **0.5** | 10.6 |
| DD&A | 128.4 | **123.0** | 135.7 |
| Impairment (reversal of impairment) | — | **(112.6)** | 740.0 |
| Accretion of ARO | 1.5 | **1.6** | 1.8 |
| Exploration and Evaluation ("E&E") expense | 7.1 | **—** | — |
| Deferred tax expense (recovery) | 21.1 | **11.7** | (160.1) |
| Unrealized loss (gain) on risk management contracts | (40.5) | **80.1** | (83.2) |
| Unrealized loss (gain) on foreign exchange | (26.3) | **(8.6)** | 73.4 |
| Other | 0.1 | **0.2** | 1.0 |
| **Funds from operations** | 212.0 | **273.9** | 160.8 |
| Net change in other liabilities | 2.7 | **(6.6)** | (5.3) |
| Change in non-cash working capital | (13.6) | **11.1** | 27.6 |
| **Cash flow from operating activities** | 201.1 | **278.4** | 183.1 |

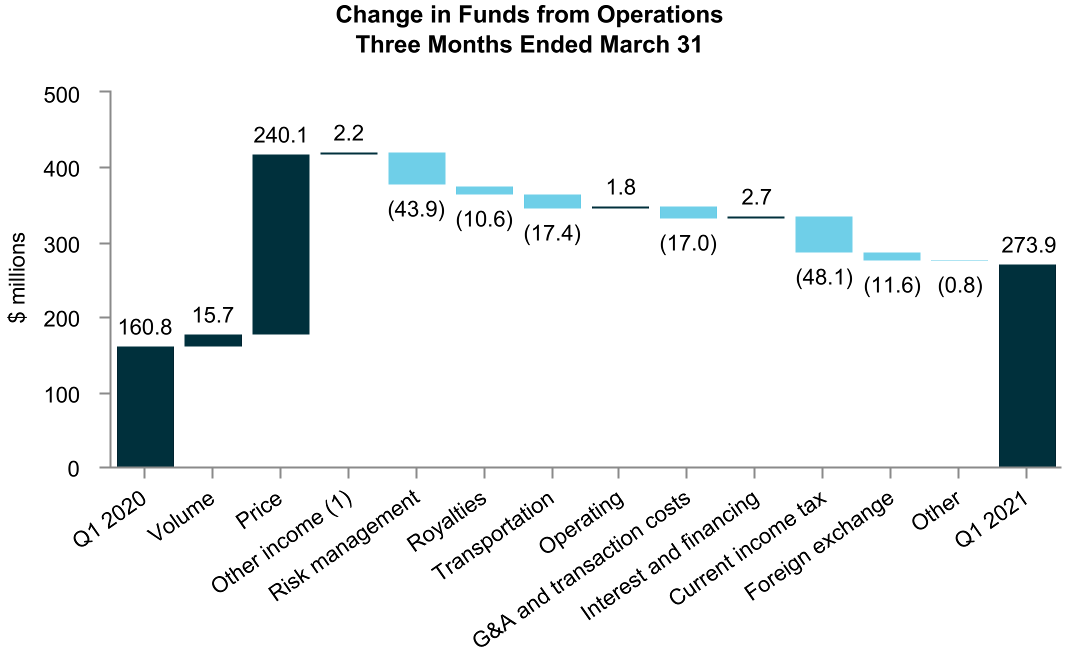
Details of the change in funds from operations from the three months ended March 31, 2020 to the three months ended March 31, 2021 are included in Table 5 below:

**Table 5**

| | Three Months Ended March 31 | |
|---|---|---|
| | $ millions | $/Share |
| Funds from operations – 2020 | 160.8 | 0.46 |
| Volume variance | | |
| Crude oil and liquids | **(1.8)** | **—** |
| Natural gas | **17.5** | **0.05** |
| Price variance | | |
| Crude oil and liquids | **57.7** | **0.16** |
| Natural gas | **182.4** | **0.51** |
| Sales of commodities purchased from third parties | **4.9** | **0.01** |
| Interest income | **(0.2)** | **—** |
| Other income | **4.5** | **0.01** |
| Realized loss on risk management contracts | **(43.9)** | **(0.12)** |
| Royalties | **(10.6)** | **(0.03)** |
| Expenses | | |
| Commodities purchased from third parties | **(7.0)** | **(0.02)** |
| Operating | **1.8** | **—** |
| Transportation | **(17.4)** | **(0.05)** |
| G&A and transaction costs | **(17.0)** | **(0.05)** |
| Interest and financing | **2.7** | **0.01** |
| Current income tax | **(48.1)** | **(0.14)** |
| Realized loss on foreign exchange | **(11.6)** | **(0.03)** |
| Other | **(0.8)** | **—** |
| Funds from operations – 2021 | **273.9** | **0.77** |

Funds from operations generated in the first quarter of 2021 increased by 70 per cent to $273.9 million ($0.77 per share) from $160.8 million ($0.46 per share) generated in the first quarter of 2020. The increase in funds from operations for the three months ended March 31, 2021 primarily reflects higher average realized commodity prices and an increase in natural gas, condensate, and NGLs production. This was partially offset by a realized loss on risk management contracts of $26.8 million in the first quarter of 2021 compared to a gain of $17.1 million in the same period of the prior year, and a current income tax expense of $45.0 million in the first quarter of 2021 compared to a recovery of $3.1 million in the same period of the prior year.

**Exhibit 3**




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

### Net Income and Funds from Operations Sensitivity

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

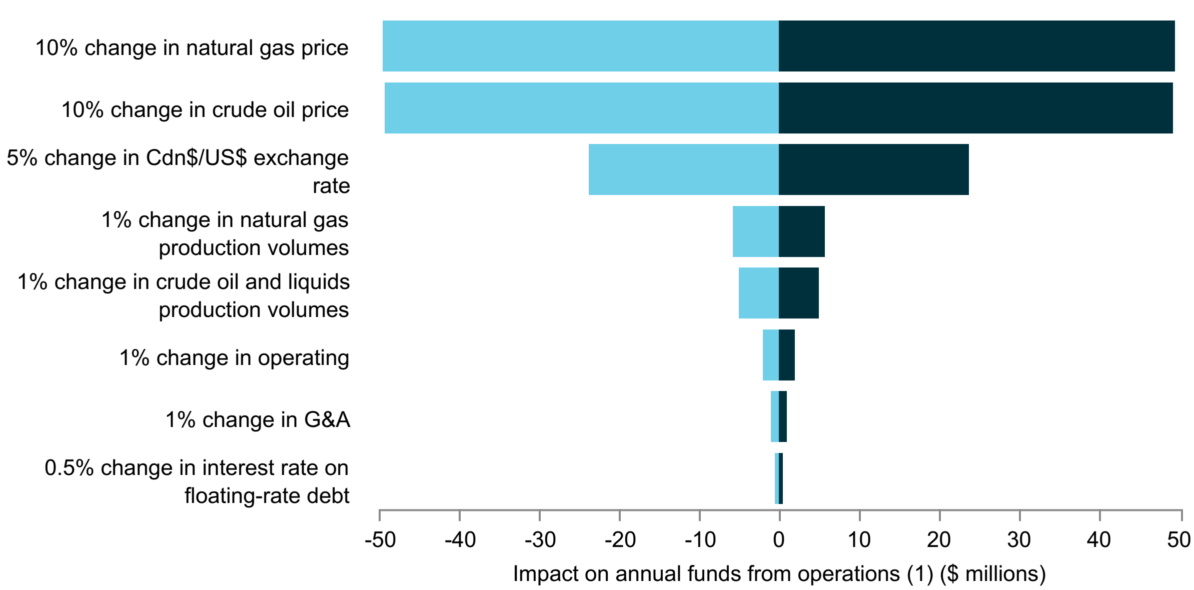
**Table 6**

| | | | Impact on Annual Funds from Operations [6] | | Impact on Annual Net Income | |
|---|---|---|---|---|---|---|
| | Assumption | Change | Notional Amount ($ millions) | $/Share | Notional Amount ($ millions) | $/Share |
| **Business Environment** [1] | | | | | | |
| Crude oil price ($/bbl) [2][3] | 64.46 | 10 % | 49.3 | 0.139 | 49.3 | 0.139 |
| Natural gas price ($/Mcf) [2] | 4.60 | 10 % | 49.6 | 0.140 | 49.6 | 0.140 |
| Cdn$/US$ exchange rate [2][4] | 1.27 | 5 % | 23.7 | 0.067 | 23.7 | 0.067 |
| Interest rate on floating-rate debt [2] | 2.2 % | 0.5 % | 0.4 | 0.001 | 0.4 | 0.001 |
| **Operational** [5] | | | | | | |
| Crude oil and liquids production (bbl/d) | 38,079 | 1 % | 5.0 | 0.014 | 4.3 | 0.012 |
| Natural gas production (MMcf/d) | 794.1 | 1 % | 5.7 | 0.016 | 2.8 | 0.008 |
| Operating ($/boe) | 3.85 | 1 % | 2.1 | 0.006 | 2.1 | 0.006 |
| G&A ($/boe) | 1.61 | 1 % | 1.1 | 0.003 | 1.1 | 0.003 |

(1) Calculations are performed independently and may not be indicative of actual results that would occur when multiple variables change at the same time.
(2) Prices and rates are indicative of ARC's average realized prices for the three months ended March 31, 2021. Refer to Table 11 contained within this MD&A for additional details. The calculated impact on funds from operations and net income would only be applicable within a limited range of these amounts.
(3) Includes 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 three months ended March 31, 2021.
(6) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

**Exhibit 4**

**Funds from Operations Sensitivity (Prior to Risk Management Contracts)**




(1) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

### Production

**Table 7**

| Production | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
|---|---|---|---|---|
| | Three Months Ended | | | |
| Light and medium crude oil (bbl/d) | 15,318 | **13,445** | 16,619 | (19) |
| Heavy crude oil (bbl/d) | 236 | **202** | 378 | (47) |
| Condensate (bbl/d) | 14,715 | **13,812** | 11,262 | 23 |
| NGLs (bbl/d) | 8,678 | **10,620** | 8,152 | 30 |
| Crude oil and liquids (bbl/d) | 38,947 | **38,079** | 36,411 | 5 |
| Natural gas (MMcf/d) | 783.1 | **794.1** | 692.2 | 15 |
| Total production (boe/d) | 169,468 | **170,430** | 151,783 | 12 |
| Natural gas production (%) | 77 | **78** | 76 | 2 |
| Crude oil and liquids production (%) | 23 | **22** | 24 | (2) |

For the three months ended March 31, 2021, crude oil and liquids production increased five per cent as compared to the same period in the prior year. Increases in condensate and NGLs production were primarily driven by increased production in the Greater Dawson area as a result of bringing new wells on-stream during 2020 relating to the commissioning of the Dawson Phase IV gas processing and liquids-handling facility during the second quarter of 2020. The decrease in crude oil production is primarily attributable to natural declines of oil-producing properties where minimal development activity has occurred. In addition, certain oil-producing properties shut-in production during the first quarter of 2021 to facilitate maintenance work, however production was restored by the end of the quarter.

For the three months ended March 31, 2021, natural gas production increased 15 per cent compared to the same period in the prior year. The increase was primarily driven by the start-up of the Dawson Phase IV gas processing and liquids-handling facility which came on-stream at the beginning of the second quarter of 2020, as well as increased drilling and completions activity in northeast British Columbia.

**Exhibit 5**

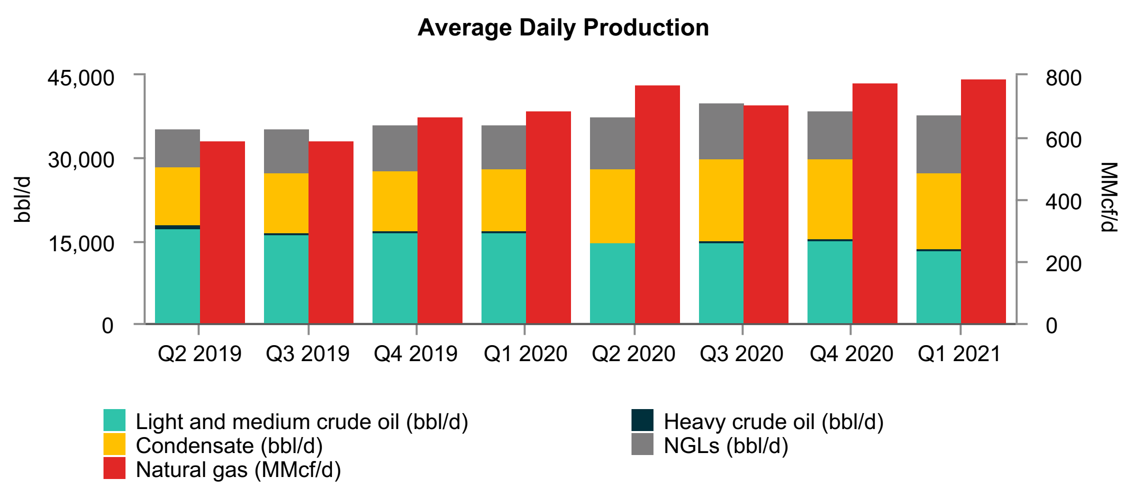


Table 8 summarizes ARC's production by core area for the three months ended March 31, 2021 and March 31, 2020:

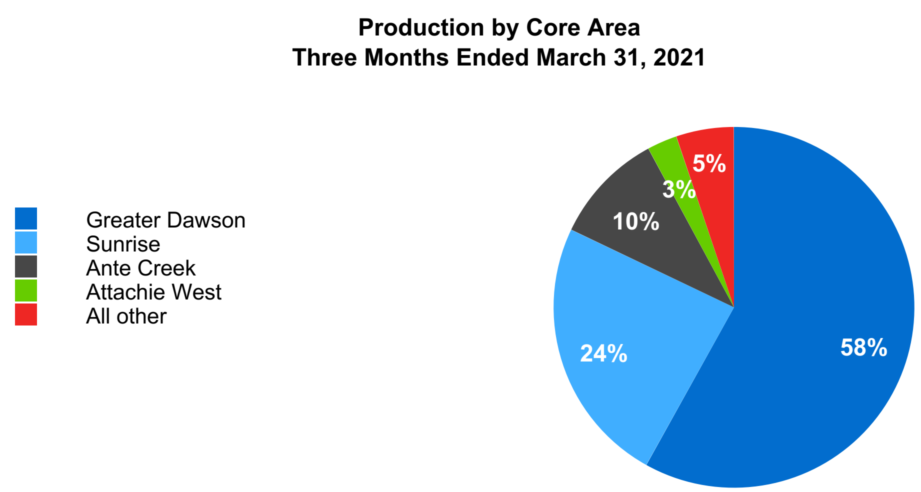
**Table 8**

| | **Three Months Ended March 31, 2021** | | | | |
|---|---|---|---|---|---|
| **Core Area** | **Total (boe/d)** | **Crude Oil (bbl/d)** | **Condensate (bbl/d)** | **Natural Gas (MMcf/d)** | **NGLs (bbl/d)** |
| Greater Dawson [(1)] | **99,003** | 1,663 | 10,617 | 468.7 | 8,605 |
| Sunrise | **40,913** | — | 10 | 245.2 | 31 |
| Ante Creek | **17,099** | 6,641 | 445 | 51.4 | 1,448 |
| Attachie West | **4,593** | — | 2,500 | 11.8 | 119 |
| All other | **8,822** | 5,343 | 240 | 17.0 | 417 |
| **Total** | **170,430** | **13,647** | **13,812** | **794.1** | **10,620** |

| | Three Months Ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| Core Area | Total (boe/d) | Crude Oil (bbl/d) | Condensate (bbl/d) | Natural Gas (MMcf/d) | NGLs (bbl/d) |
| Greater Dawson [(1)] | 78,336 | 2,843 | 8,479 | 363.9 | 6,365 |
| Sunrise | 42,571 | — | 3 | 255.3 | 25 |
| Ante Creek | 15,038 | 6,195 | 383 | 43.4 | 1,226 |
| Attachie West | 3,523 | — | 2,099 | 8.1 | 74 |
| All other | 12,315 | 7,959 | 298 | 21.5 | 462 |
| Total | 151,783 | 16,997 | 11,262 | 692.2 | 8,152 |

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

**Exhibit 6**



**Commodity Sales from Production**

For the three months ended March 31, 2021, commodity sales from production increased by 95 per cent as compared to the same period in 2020. The increase is primarily due to higher average realized commodity prices as well as an increase in natural gas, condensate, and NGLs production. This was partially offset by lower crude oil production.

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

**Table 9**

| | Three Months Ended | | | |
|---|---|---|---|---|
| **Commodity Sales from Production** ($ millions) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| Crude oil | 68.9 | **79.2** | 76.8 | 3 |
| Condensate | 72.4 | **89.0** | 58.9 | 51 |
| Natural gas | 207.4 | **329.0** | 129.1 | 155 |
| NGLs | 14.4 | **28.1** | 4.7 | 498 |
| Total commodity sales from production | 363.1 | **525.3** | 269.5 | 95 |

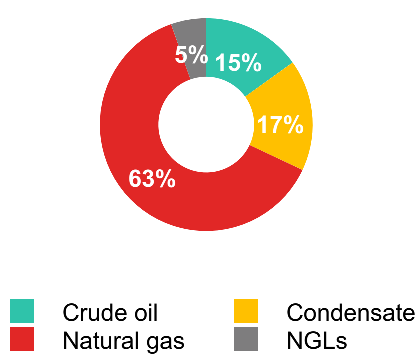
For the three months ended March 31, 2021, crude oil and liquids comprised 37 per cent of ARC's commodity sales from production compared to 52 per cent for the same period in 2020. Historically, ARC's commodity sales contribution has been more heavily weighted to its crude oil and liquids production. However, for the three months ended March 31, 2021, ARC's commodity sales contribution was more heavily weighted to its natural gas production, as seen in Table 10:

**Table 10**

| | Three Months Ended | | |
|---|---|---|---|
| **% of Commodity Sales from Production by Product Type** | December 31, 2020 | **March 31, 2021** | March 31, 2020 |
| Crude oil and liquids | 43 | **37** | 52 |
| Natural gas | 57 | **63** | 48 |
| Total commodity sales from production | 100 | **100** | 100 |

**Exhibit 7**

**Commodity Sales from Production by Product Three Months Ended March 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 | | | |
|---|---|---|---|---|
| | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| **Average Benchmark Prices** | | | | |
| NYMEX Henry Hub Last Day Settlement (US$/MMBtu) | 2.66 | **2.69** | 1.95 | 38 |
| Chicago Citygate Monthly Index (US$/MMBtu) | 2.49 | **2.62** | 1.95 | 34 |
| AECO 7A Monthly Index (Cdn$/Mcf) | 2.77 | **2.93** | 2.14 | 37 |
| West Texas Intermediate ("WTI") crude oil (US$/bbl) | 42.70 | **58.14** | 45.78 | 27 |
| Cdn$/US$ exchange rate | 1.30 | **1.27** | 1.35 | (6) |
| WTI crude oil (Cdn$/bbl) | 55.51 | **73.84** | 61.80 | 19 |
| Mixed Sweet Blend ("MSW") Price at Edmonton (Cdn$/bbl) | 50.33 | **66.98** | 51.42 | 30 |
| Condensate Stream Price at Edmonton (Cdn$/bbl) | 55.47 | **73.84** | 61.76 | 20 |
| **ARC Average Realized Prices Prior to Gain or Loss on Risk Management Contracts** | | | | |
| Crude oil ($/bbl) | 48.14 | **64.46** | 49.69 | 30 |
| Condensate ($/bbl) | 53.55 | **71.59** | 57.52 | 24 |
| Natural gas ($/Mcf) | 2.88 | **4.60** | 2.05 | 124 |
| NGLs ($/bbl) | 18.03 | **29.45** | 6.36 | 363 |
| Total average realized commodity price prior to gain or loss on risk management contracts ($/boe) | 23.29 | **34.25** | 19.52 | 75 |

*Benchmark Commodity Prices*

Average WTI crude oil prices increased 36 per cent in the first quarter of 2021 compared to the prior quarter and increased 27 per cent compared to the first quarter of 2020. Oil prices trended higher throughout the period as economic data indicated that a recovery in demand was underway in certain areas of the global economy. Evidence suggests that the global COVID-19 vaccine distribution has, in some regions, slowed the pandemic’s spread, allowing for an improvement in economic activity. Providing further support to prices was an unexpected increase in coordinated production curtailments from major oil-producing nations, while at the same time large independent producers continued to limit supply growth.

Locally, Canadian oil differentials were stable during the quarter as demand continued its gradual recovery and Canadian crude grades traded in line with rising downstream prices. Canadian condensate differentials were unchanged during the quarter as increased oil sands production and competition for imported supply continued to support local prices.

The Canadian dollar strengthened in the first quarter of 2021, relative to the US dollar, to its highest level since 2018 as improving macroeconomic market sentiment factored into relative currency valuations.

Average NYMEX Henry Hub natural gas prices increased one per cent in the first quarter of 2021 compared to the prior quarter and increased 38 per cent compared to the first quarter of 2020. Domestic demand was tempered by a lack of lasting cold winter temperatures during the period; however, export demand continued at record levels due to a supply shortfall in the global gas market. A severe weather event during the period led to a temporary, but significant loss of US production during an extremely high demand period. In response, local spot pricing at several US hubs reached record levels but forward prices remained mostly unchanged due to the short-lived nature of the event.

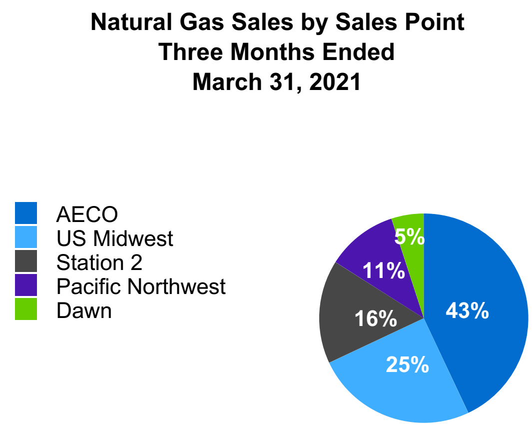
The AECO monthly index increased six per cent in the first quarter of 2021 compared to the prior quarter and increased 37 per cent compared to the first quarter of 2020. While US prices were generally unchanged during the period, AECO prices strengthened on a relative basis as strong local demand and high utilization of export pipeline capacity drew heavily on Alberta natural gas inventories.

*ARC's Average Realized Commodity Prices*

For the three months ended March 31, 2021, ARC's average realized crude oil price increased 30 per cent compared to the same period in 2020. During the same time periods ARC's average realized condensate price also increased, by 24 per cent. For both crude oil and condensate, the increases primarily reflect higher benchmark WTI prices and tighter differentials in the current period.

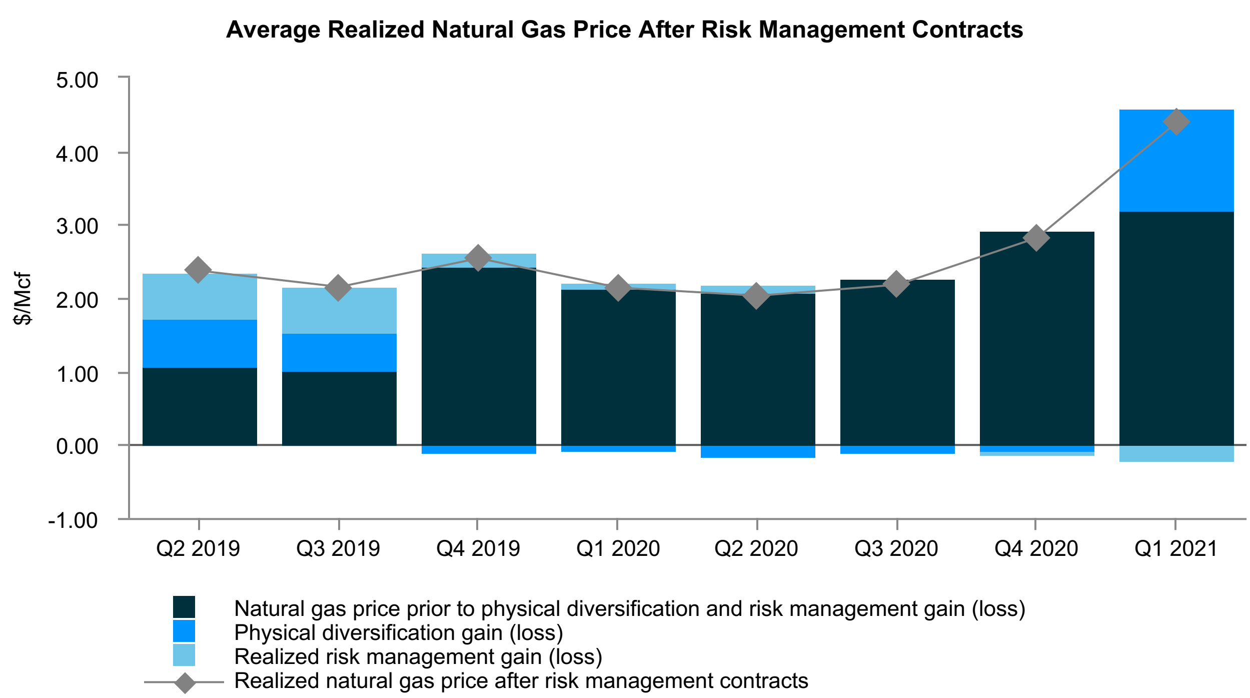
ARC's natural gas sales are physically diversified to multiple sales points with different index-based pricing. ARC's average realized natural gas price for the three months ended March 31, 2021 increased 124 per cent compared to the same period in the prior year. The increase is primarily due to higher natural gas prices in the US Midwest market, where ARC sold 25 per cent of its natural gas production, as a result of an extreme weather event. Overall, physical sales diversification activities improved ARC's average realized natural gas price by $1.41 per Mcf in the first quarter of 2021 compared to a reduction of $0.08 per Mcf in the first quarter of 2020. ARC's average realized natural gas price was further bolstered by stronger prices at AECO and Station 2 sales points.

**Exhibit 8**




ARC's NGLs revenue increased to $28.1 million in the first quarter of 2021 compared to $4.7 million in the same period of the prior year, with average realized pricing for NGLs increasing 363 per cent, primarily due to improvements in contract term pricing and increased sales on a stronger-priced spot market.

**Exhibit 9**



### Risk Management Contracts

Table 12 summarizes the total gain or loss on risk management contracts for the three months ended March 31, 2021 compared to the same period in 2020:

**Table 12**

| **Risk Management Contracts** ($ millions) | **Crude Oil & Liquids** | **Natural Gas** | **NGLs and Foreign Currency** | **Q1 2021 Total** | Q1 2020 Total |
|---|---|---|---|---|---|
| Realized gain (loss) on contracts (1) | (11.6) | (15.2) | — | **(26.8)** | 17.1 |
| Unrealized gain (loss) on contracts (2) | (49.6) | (30.0) | (0.5) | **(80.1)** | 83.2 |
| Gain (loss) on risk management contracts | **(61.2)** | **(45.2)** | **(0.5)** | **(106.9)** | 100.3 |

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

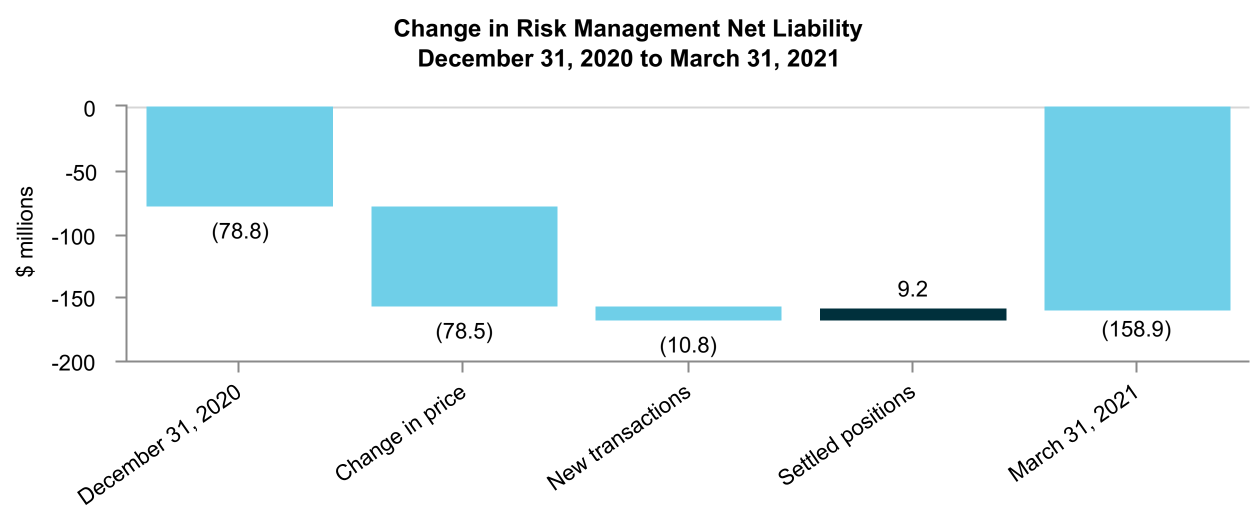
For the three months ended March 31, 2021, ARC's realized loss on risk management contracts primarily reflects negative cash settlements paid on WTI crude oil contracts, AECO natural gas contracts, and natural gas basis contracts referencing AECO and other regional basis'.

ARC's unrealized loss on crude oil contracts for the three months ended March 31, 2021 reflects higher forward pricing for WTI crude oil contracts oustanding at period end. ARC's unrealized loss on natural gas contracts for the three months ended March 31, 2021 primarily reflects higher forward pricing for AECO natural gas contracts at period end, as well as a strengthening of AECO basis and other regional basis' forward curves during the first quarter of 2021.

For more information, refer to Note 10 "Financial Instruments and Market Risk Management" in the financial statements.

The fair value of ARC's risk management contracts at March 31, 2021 was a net liability of $158.9 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 $58.9 million from crude oil contracts, a net liability of $99.3 million from natural gas contracts, and a net liability of $0.7 million from NGLs and foreign exchange contracts.

**Exhibit 10**



## Netback

The components of ARC's netback for the three months ended March 31, 2021 compared to the same period in 2020 are summarized in Tables 13 and 13a:

**Table 13**

| | Three Months Ended | | | |
|---|---|---|---|---|
| **Netback** ($ millions) (1) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| Commodity sales from production | 363.1 | **525.3** | 269.5 | 95 |
| Royalties | (16.1) | **(25.8)** | (15.2) | 70 |
| Operating | (62.0) | **(59.0)** | (60.8) | (3) |
| Transportation | (46.2) | **(56.8)** | (39.4) | 44 |
| Netback | 238.8 | **383.7** | 154.1 | 149 |
| Realized gain (loss) on risk management contracts | 8.8 | **(26.8)** | 17.1 | (257) |
| Netback after realized gain (loss) on risk management contracts | 247.6 | **356.9** | 171.2 | 108 |

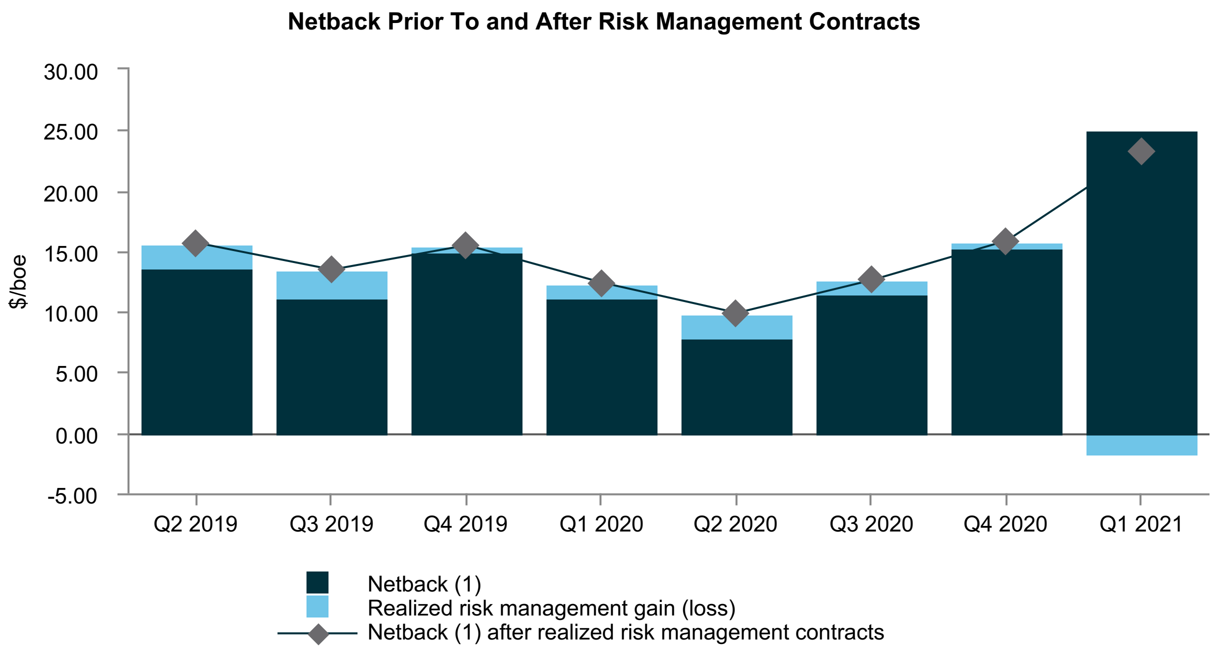
(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

**Table 13a**

| | Three Months Ended | | | |
|---|---|---|---|---|
| **Netback** ($ per boe) (1) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| Commodity sales from production | 23.29 | **34.25** | 19.52 | 75 |
| Royalties | (1.04) | **(1.69)** | (1.11) | 52 |
| Operating | (3.97) | **(3.85)** | (4.40) | (13) |
| Transportation | (2.97) | **(3.70)** | (2.85) | 30 |
| Netback | 15.31 | **25.01** | 11.16 | 124 |
| Realized gain (loss) on risk management contracts | 0.56 | **(1.75)** | 1.24 | (241) |
| Netback after realized gain (loss) on risk management contracts | 15.87 | **23.26** | 12.40 | 88 |

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

**Exhibit 11**

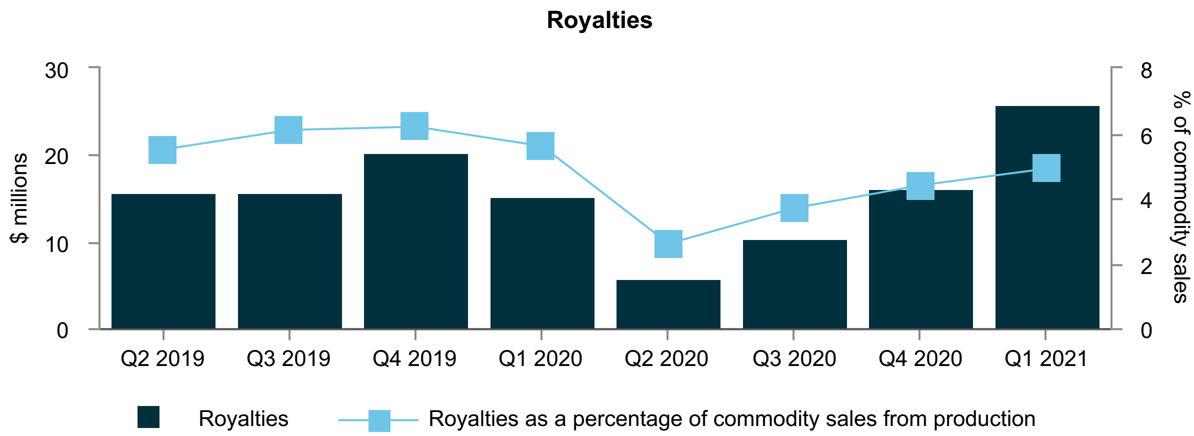



(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

### Royalties

Total royalties for the three months ended March 31, 2021 were $25.8 million ($15.2 million for the same period in 2020). As a percentage of commodity sales from production, royalties decreased to 4.9 per cent ($1.69 per boe) in the first quarter of 2021 from 5.6 per cent ($1.11 per boe) in the first quarter of 2020. The increase in total royalties for the three months ended March 31, 2021 is primarily reflective of a higher average natural gas royalty rate associated with higher average realized natural gas prices compared to the same period in 2020. The decrease in total royalties as a percentage of commodity sales from production is due to a combination of lower reference prices used in calculating crude oil royalties for the period and the higher proportion of natural gas in the production mix.

**Exhibit 12**

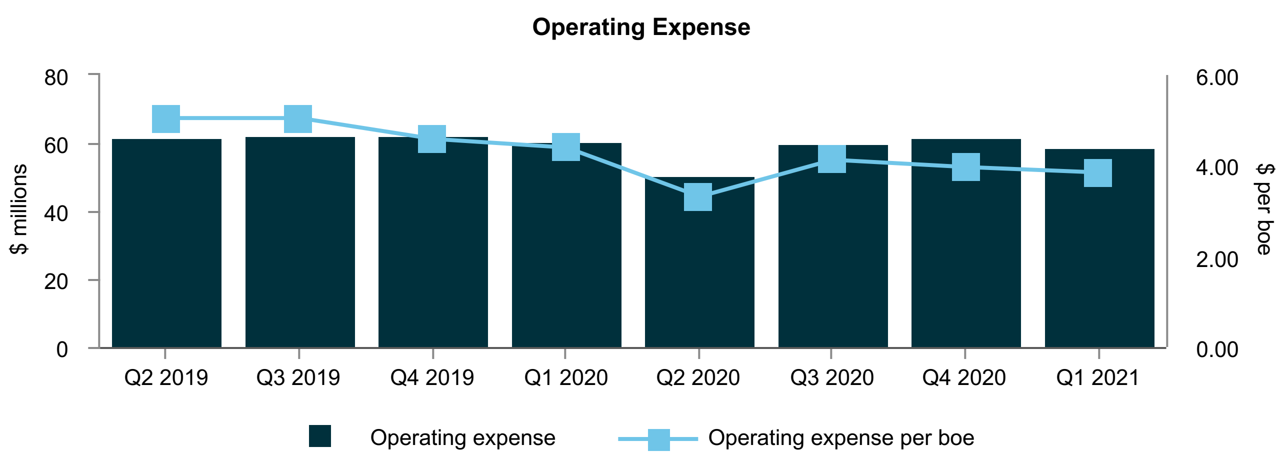



## Operating

Operating expense decreased by $1.8 million in the first quarter of 2021 to $59.0 million as compared to $60.8 million in the first quarter of 2020. The decrease in operating expense for the three months ended March 31, 2021 is primarily due to reduced maintenance activity levels, combined with diligent cost control efforts.

On a per boe basis, operating expense decreased $0.55 per boe to $3.85 per boe in the first quarter of 2021 compared to $4.40 per boe in the first quarter of 2020. The decrease in operating expense on a per boe basis for the three months ended March 31, 2021 is primarily a function of the increased production at Greater Dawson, with the Dawson Phase IV gas processing and liquids-handling facility brought on-stream in the second quarter of 2020.

**Exhibit 13**

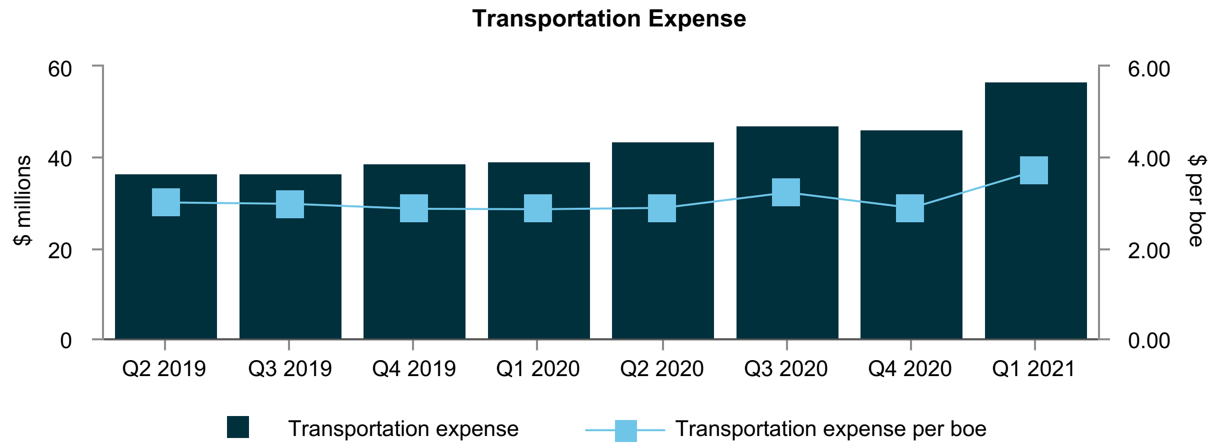



## Transportation

Transportation expense for the three months ended March 31, 2021 was $56.8 million ($39.4 million for the three months ended March 31, 2020). On a per boe basis, transportation expense for the three months ended March 31, 2021, was $3.70 per boe ($2.85 per boe for the three months ended March 31, 2020). The increase in transportation expense on a total and per boe basis for the three months ended March 31, 2021, relative to the same period in 2020, is due to incremental natural gas pipeline transportation, as well as additional pipeline tariffs associated with increased condensate and NGLs production in northeast British Columbia.

ARC enters firm transportation commitments in order to secure diversified market access for its current production as well as anticipated production from facility infrastructure planned to be operational in the future. For information regarding ARC's payment obligations under its future transportation commitments, refer to Note 14 "Commitments and Contingencies" in the financial statements.

**Exhibit 14**




### G&A Expense and Share-Based Compensation

G&A expense before share-based compensation increased by 18 per cent to $19.9 million in the first quarter of 2021 from $16.9 million in the first quarter of 2020. The increase primarily reflects an increase in average directors' fees, which include a share-based component that is revalued as the underlying share price changes, as well as lower amounts capitalized as direct overhead. This was partially offset by lower compensation costs. Not included in G&A, are transaction costs of $7.6 million associated with the Business Combination. Refer to Note 16 "Subsequent Event" in the financial statements.

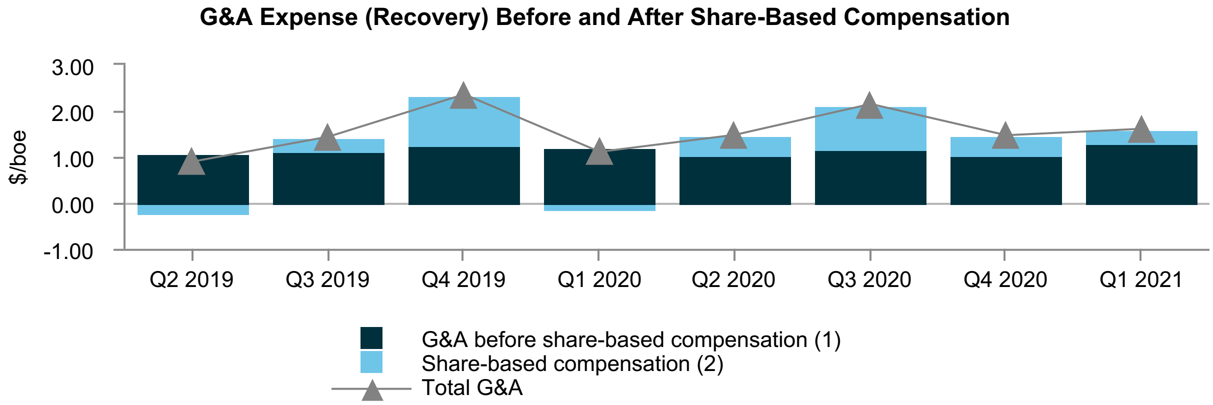
Table 14 is a breakdown of G&A and share-based compensation expense:

**Table 14**

| | Three Months Ended | | | |
|---|---|---|---|---|
| **G&A and Share-Based Compensation** ($ millions, except per boe) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| G&A expense before share-based compensation expense [(1)] | 16.3 | **19.9** | 16.9 | 18 |
| G&A – share-based compensation expense (recovery) [(2)] | 6.6 | **4.8** | (1.6) | 400 |
| Total G&A expense | 22.9 | **24.7** | 15.3 | 61 |
| G&A expense before share-based compensation expense per boe | 1.05 | **1.30** | 1.22 | 7 |
| G&A – share-based compensation expense (recovery) per boe | 0.42 | **0.31** | (0.11) | 382 |
| Total G&A expense per boe | 1.47 | **1.61** | 1.11 | 45 |

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

**Share-Based Compensation Plans**

For a description of ARC's various share-based compensation plans and related accounting policies, refer to Note 3 "Summary of Accounting Policies" and Note 21 "Share-Based Compensation Plans" of ARC's audited consolidated financial statements as at and for the year ended December 31, 2020.

During the three months ended March 31, 2021, ARC recognized G&A expense of $4.8 million, in respect of its share-based compensation plans, compared to a recovery of $1.6 million during the same period of the prior year.

**Restricted Share Unit and Performance Share Unit Plans**

At March 31, 2021, ARC had 2.9 million RSUs and 5.7 million PSUs outstanding under these plans. For the three months ended March 31, 2021, ARC recognized G&A expense in relation to the RSU and PSU Plans of $3.9 million (recovery of $2.7 million for the three months ended March 31, 2020). The increase in expense recognized for the three months ended March 31, 2021, as compared to the same period in 2020, is due to the change in valuation of awards outstanding throughout the respective period.

At March 31, 2021, ARC's share price on the Toronto Stock Exchange ("TSX") was $7.72, a 29 per cent increase from the share price of $6.00 at December 31, 2020. This compares to a 50 per cent decrease for the same period of the prior year. The value of ARC’s performance multiplier, applicable to its PSU awards, decreased 18 per cent for the three months ended March 31, 2021, compared to a 38 per cent increase for the same period of the prior year.

During the three months ended March 31, 2021, ARC made cash payments of $16.4 million in respect of the RSU and PSU Plans ($4.4 million for the three months ended March 31, 2020). Of these payments, $10.4 million were in respect of amounts recognized as G&A ($3.5 million for the three months ended March 31, 2020) and $6.0 million were in respect of amounts recognized as operating and capitalized as property, plant and equipment ("PP&E") and E&E ($0.9 million for the three months ended March 31, 2020). These amounts were accrued in prior periods.

Table 15 shows the changes to the outstanding RSU and PSU awards during 2021:

**Table 15**

| **RSU and PSU Awards** (number of awards, thousands) | **RSUs** | **PSUs Granted Prior to 2019** (1) | **PSUs Granted Subsequent to 2018** (1) | **Total RSUs and PSUs** |
|---|---|---|---|---|
| Balance, December 31, 2020 | 3,836 | 998 | 5,103 | 9,937 |
| Granted (2) | **38** | **539** | **32** | **609** |
| Distributed | **(994)** | **(1,021)** | **—** | **(2,015)** |
| Forfeited | **(9)** | **—** | **—** | **(9)** |
| **Balance, March 31, 2021** | **2,871** | **516** | **5,135** | **8,522** |

(1) Based on underlying awards before any effect of the performance multiplier. The criteria for determining the performance multiplier changed for 'PSUs Granted Subsequent to 2018'.
(2) Grants for 'PSUs Granted Prior to 2019' relate to re-invested dividends and the effect of the performance multiplier on grants that vested in the current period.

Due to the variability in the expected future payments under the plans, ARC estimates that between $22.2 million and $109.4 million will be paid out in 2021 through 2023 based on the current share price, accrued dividends, ARC's market performance relative to its peers, and ARC's corporate scorecard results. Table 16 is a summary of the range of future expected payments under the RSU and PSU Plans based on variability of the performance multiplier and awards outstanding under the RSU and PSU Plans as at March 31, 2021:

**Table 16**

| **Value of RSU and PSU Awards as at March 31, 2021** | | **Performance Multiplier** | |
|---|---|---|---|
| (awards thousands and $ millions, except per share) | **—** | **1.0** | **2.0** |
| Estimated awards to vest (1) | | | |
| RSUs | 2,871 | 2,871 | 2,871 |
| PSUs | — | 5,651 | 11,302 |
| Total awards | **2,871** | **8,522** | **14,173** |
| Share price (2) | 7.72 | 7.72 | 7.72 |
| Value of RSU and PSU awards upon vesting | **22.2** | **65.8** | **109.4** |
| 2021 | 4.9 | 8.7 | 12.5 |
| 2022 | 10.9 | 25.4 | 39.9 |
| 2023 | 6.4 | 31.7 | 57.0 |

(1) Includes additional estimated awards to be issued under the RSU and PSU Plans for dividends accrued to-date.
(2) Per share outstanding. Values will fluctuate over the vesting period based on the volatility of the underlying share price. Assumes a future share price equal to the TSX closing price at March 31, 2021.

### Share Option Plan

At March 31, 2021, ARC had 4.6 million share options outstanding, representing 1.3 per cent of ARC's outstanding common shares, with a weighted average exercise price of $16.44 per share. At March 31, 2021, approximately 1.6 million share options were exercisable with a weighted average exercise price of $21.03 per share. ARC recognized compensation expense of $0.6 million relating to the Share Option Plan for the three months ended March 31, 2021 ($0.8 million for the three months ended March 31, 2020).

### Long-term Restricted Share Award Plan

At March 31, 2021, ARC had 1.0 million restricted shares outstanding under the LTRSA Plan. ARC recognized G&A expense of $0.3 million relating to the LTRSA Plan during the three months ended March 31, 2021 ($0.3 million for the three months ended March 31, 2020).

### Deferred Share Unit Plan

At March 31, 2021, ARC had 1.3 million DSUs outstanding under this plan. For the three months ended March 31, 2021, G&A expense of $2.9 million was recognized in relation to the DSU Plan ($3.1 million for the same period in 2020). Amounts related to the DSU Plan are recognized as G&A expense before share-based compensation expense.

During the three months ended March 31, 2021, ARC made cash payments of $0.1 million in respect of the DSU Plan ($0.5 million for the three months ended March 31, 2020).

**Interest and Financing**

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

**Table 17**

| | Three Months Ended | | | |
|---|---|---|---|---|
| **Interest and Financing** ($ millions) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| Bank debt and long-term notes | 8.2 | **7.7** | 10.3 | (25) |
| Lease obligations | 0.2 | **0.3** | 0.4 | (25) |
| Accretion on ARO | 1.5 | **1.6** | 1.8 | (11) |
| Total interest and financing | 9.9 | **9.6** | 12.5 | (23) |

Interest and financing for the three months ended March 31, 2021 was $9.6 million compared to $12.5 million for the same period of the prior year. The decrease is primarily due to a lower interest expense associated with ARC's senior notes as a result of principal repayments, combined with a lower weighted average borrowing rate for ARC's credit facility.

**Foreign Exchange Gain and Loss**

ARC recognized a foreign exchange gain of $5.9 million in the first quarter of 2021 compared to a loss of $64.5 million in the first quarter of 2020. During the three months ended March 31, 2021, the value of the US dollar relative to the Canadian dollar decreased to $1.26 from $1.28 at December 31, 2020. During the three months ended March 31, 2020, the value of the US dollar relative to the Canadian dollar increased to $1.41 from $1.30 at December 31, 2019.

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

**Table 18**

| | Three Months Ended | | | |
|---|---|---|---|---|
| **Foreign Exchange Gain and Loss** ($ millions) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| Unrealized gain (loss) on US dollar-denominated debt and receivables | 26.3 | **8.6** | (73.4) | 112 |
| Realized gain (loss) on US dollar-denominated transactions | (1.5) | **(2.7)** | 8.9 | (130) |
| Total foreign exchange gain (loss) | 24.8 | **5.9** | (64.5) | 109 |

**Taxes**

ARC recognized a current income tax expense of $45.0 million for the three months ended March 31, 2021, compared to a current income tax recovery of $3.1 million for the same period in 2020. The increase in the current income tax expense reflects higher expected taxable income for 2021 associated with an increase in ARC’s average realized commodity prices as compared to the same period in 2020.

For the three months ended March 31, 2021, a deferred income tax expense of $11.7 million was recognized, compared to a deferred income tax recovery of $160.1 million for the same period in 2020. The increase in the deferred income tax expense relates primarily to a reversal of impairment recognized on PP&E during the three months ended March 31, 2021, as compared to an impairment charge recognized on PP&E in 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) | **March 31, 2021** | **Annual Deductibility** |
|---|---|---|
| Canadian oil and gas property expense | 81.0 | 10% declining balance |
| Canadian development expense | 667.6 | 30% declining balance |
| Canadian exploration expense | — | 100% |
| Undepreciated capital cost | 685.5 | Primarily 25% declining balance |
| Other | 51.4 | Various rates, 5% declining balance to 20%, and net capital losses |
| Total federal tax pools | 1,485.5 | |
| Additional Alberta tax pools | 2.3 | Various rates, 25% declining balance to 100% |

### DD&A and Impairment of PP&E

For the three months ended March 31, 2021, ARC recognized DD&A related to its PP&E of $121.4 million compared to $134.1 million for the three months ended March 31, 2020. Despite an increase in production, DD&A for the three months ended March 31, 2021 decreased compared to the same period in the prior year. This is a function of an increase in reserves and a reduction of future development costs as determined by ARC's independent qualified reserve evaluator. For more information, refer to ARC's AIF available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

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

**Table 20**

| | Three Months Ended | | | |
|---|---|---|---|---|
| **DD&A Expense** ($ millions, except per boe amounts) | December 31, 2020 | **March 31, 2021** | March 31, 2020 | % Change |
| Depletion of crude oil and natural gas assets | 125.0 | **119.9** | 132.6 | (10) |
| Depreciation of corporate assets | 1.5 | **1.5** | 1.5 | — |
| Depreciation of right-of-use ("ROU") assets under lease | 1.9 | **1.6** | 1.6 | — |
| Total DD&A expense | 128.4 | **123.0** | 135.7 | (10) |
| DD&A expense per boe | 8.24 | **8.02** | 9.82 | (18) |

For the three months ended March 31, 2021, ARC recognized a reversal of impairment of $121.8 million ($91.5 million net of deferred tax expense) compared to an impairment charge of $740.0 million ($554.8 million net of deferred tax recovery). The impairment charge recognized in 2020 and the reversal of impairment recognized in 2021 both relate to ARC's Northern Alberta CGU. For further information, refer to Note 6 "Impairment" in the financial statements.

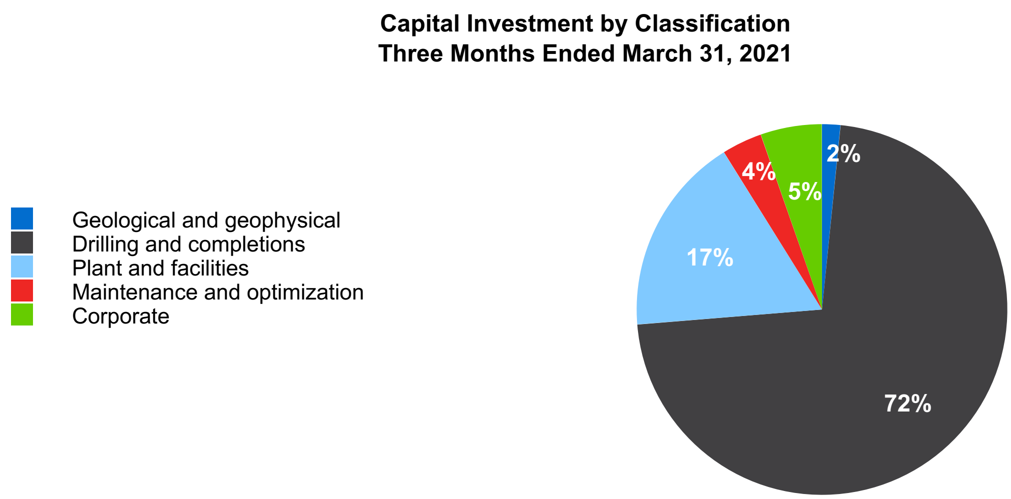
### Capital Expenditures, Acquisitions, and Dispositions

A breakdown of capital expenditures, acquisitions, and dispositions for the three months ended March 31, 2021 and March 31, 2020 is shown in Table 21:

**Table 21**

| | Three Months Ended March 31 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2021** | | | 2020 | | | |
| **Capital Expenditures** ($ millions) | **E&E** | **PP&E** | **Total** | E&E | PP&E | Total | % Change |
| Geological and geophysical | **—** | **2.0** | **2.0** | — | 6.5 | 6.5 | (69) |
| Drilling and completions | **0.5** | **89.8** | **90.3** | 0.3 | 131.0 | 131.3 | (31) |
| Plant and facilities | **0.3** | **21.5** | **21.8** | — | 25.8 | 25.8 | (16) |
| Maintenance and optimization | **—** | **4.4** | **4.4** | — | 4.4 | 4.4 | — |
| Corporate | **—** | **7.2** | **7.2** | — | 1.8 | 1.8 | 300 |
| Total capital expenditures | **0.8** | **124.9** | **125.7** | 0.3 | 169.5 | 169.8 | (26) |
| Acquisitions | **—** | **—** | **—** | — | 2.5 | 2.5 | (100) |
| Dispositions | **—** | **(0.1)** | **(0.1)** | — | (2.4) | (2.4) | (96) |
| Total capital expenditures and net acquisitions and dispositions | **0.8** | **124.8** | **125.6** | 0.3 | 169.6 | 169.9 | (26) |

**Exhibit 16**




ARC invested $125.7 million in capital expenditures, before net property acquisitions and dispositions, during the three months ended March 31, 2021. Investments included drilling and completions activities across ARC's asset base, with the drilling of 15 wells and the completion of 32 wells. Infrastructure investment in 2021 has been focused on the completion of the Parkland/Tower facility sour conversion and expansion and the Sunrise facility expansion. Corporate assets increased due to higher capitalized compensation costs in the first quarter of 2021, compared to the same period in the prior year.

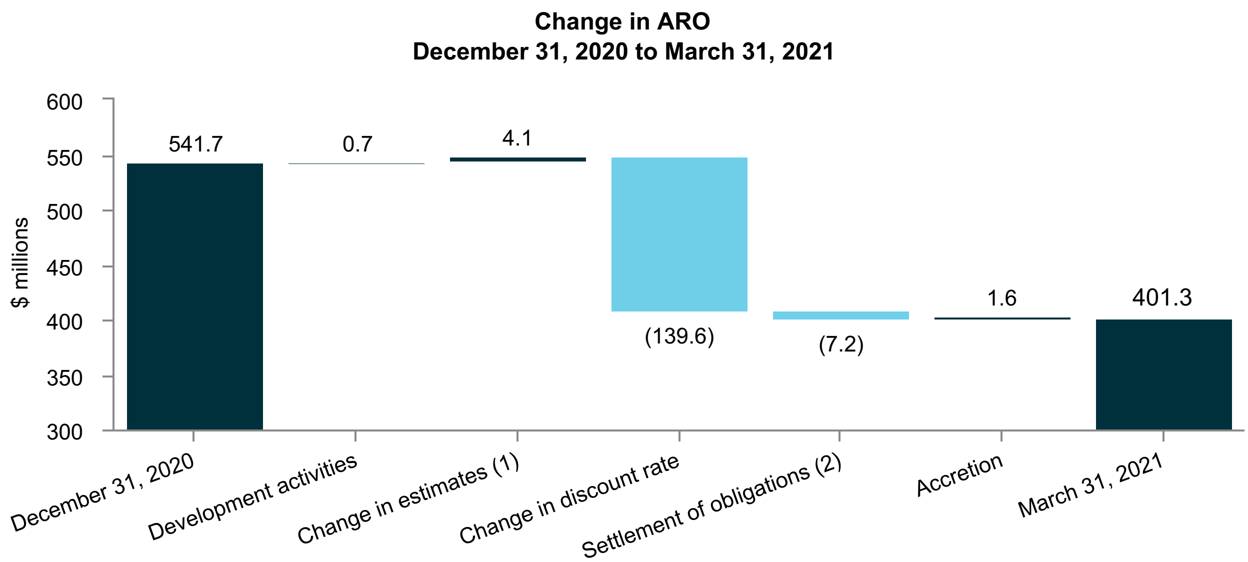
For information regarding ARC's planned capital expenditures for 2021, refer to the news release dated May 5, 2021 *"ARC Resources Ltd. Reports First Quarter 2021 Results and Provides 2021 Guidance"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

**Asset Retirement Obligation**

At March 31, 2021, ARC has recognized ARO of $401.3 million ($541.7 million at December 31, 2020) for the future abandonment and reclamation of ARC's crude oil and natural gas assets. The estimated ARO includes assumptions in respect of actual future costs to abandon wells and reclaim its assets, the time frame in which such costs will be incurred, and annual inflation factors. The future liability has been discounted at a liability-specific risk-free rate of 2.0 per cent (1.2 per cent at December 31, 2020).

Accretion charges of $1.6 million for the three months ended March 31, 2021 ($1.8 million for the same period in 2020) have been recognized in interest and financing in the unaudited condensed consolidated statements of comprehensive income to reflect the increase in ARO associated with the passage of time. Actual spending under ARC's program for the three months ended March 31, 2021 was $6.1 million ($8.0 million for the same period in 2020). While abandonment spending decreased for the three months ended March 31, 2021, environmental stewardship remains a core value at ARC and the Company maintains a planned and scheduled approach to its abandonment and reclamation activities.

**Exhibit 17**



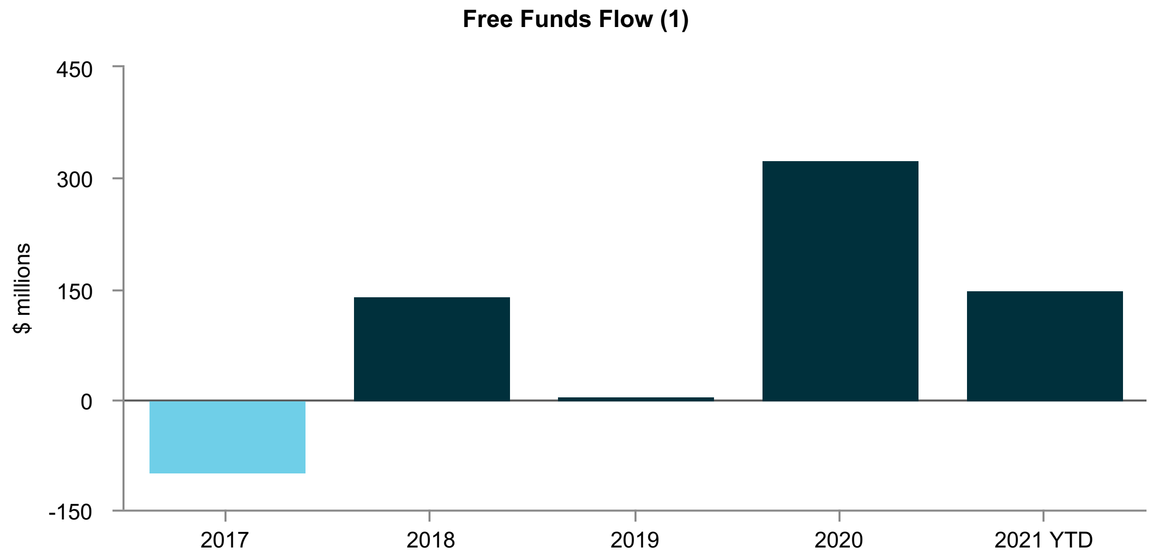

(1) Relates to changes in costs of future obligations and anticipated settlement dates of ARO.
(2) For the three months ended March 31, 2021, $1.1 million of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of ARC.

**Capitalization, Financial Resources and Liquidity**

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

Maintaining reasonable debt levels, paying a sustainable dividend, and exercising capital discipline to manage a moderate pace of development and control its corporate decline rate are the basis for ARC's current capital allocation. ARC periodically evaluates its capital allocation priorities and decisions and takes a portfolio approach and is considering the following capital allocation decisions: returns to shareholders through share repurchases and/or sustainable dividend increases, and long-term development investments. ARC uses free funds flow as an indicator of the funds available for these capital allocation decisions. For the three months ended March 31, 2021, free funds flow was $148.2 million ($(9.0) million for the three months ended March 31, 2020). Refer to the section entitled "Non-GAAP Measures" contained within this MD&A for the calculation of free funds flow.

**Exhibit 18**




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

ARC maintains financial flexibility through its strong balance sheet. Historically, ARC has used net debt to manage its liquidity, however Management also considers net debt excluding lease obligations to be a relevant measure as this measure aligns with the contractual requirements for purposes of calculating ARC's debt covenants. When evaluating ARC's capital structure, Management targets net debt excluding lease obligations to be between 1.0 and 1.5 times annualized funds from operations over the long term.

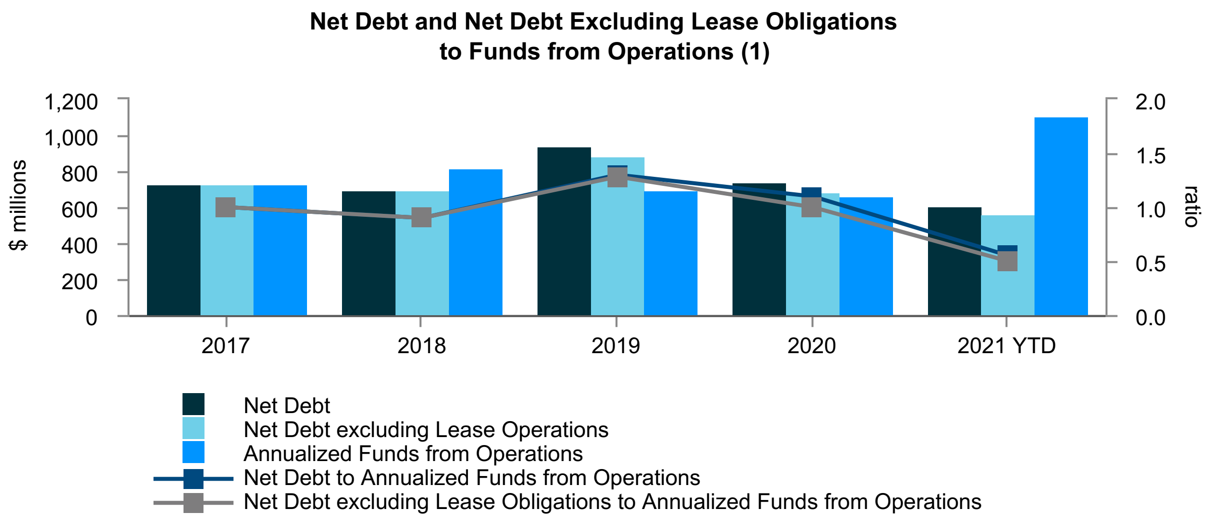
A breakdown of ARC's net debt and net debt excluding lease obligations as at March 31, 2021 and December 31, 2020 is outlined in Table 22:

**Table 22**

| **Net Debt and Net Debt Excluding Lease Obligations**<br>($ millions, except ratio amounts) | **March 31, 2021** | December 31, 2020 |
|---|---|---|
| Long-term debt (1) | **1,608.8** | 701.9 |
| Lease obligations (2) | **45.6** | 49.2 |
| Accounts payable and accrued liabilities | **176.2** | 125.0 |
| Dividends payable | **21.3** | 21.3 |
| Cash and cash equivalents, accounts receivable, and prepaid expense | **(1,238.3)** | (154.7) |
| Net debt (3) | **613.6** | 742.7 |
| Lease obligations (2) | **(45.6)** | (49.2) |
| Net debt excluding lease obligations (3) | **568.0** | 693.5 |
| Net debt to annualized funds from operations (ratio) (3) | **0.6** | 1.1 |
| Net debt excluding lease obligations to annualized funds from operations (ratio) (3) | **0.5** | 1.0 |

(1) Includes a current portion of long-term debt of $144.7 million at March 31, 2021 and $146.7 million at December 31, 2020.
(2) Includes a current portion of lease obligations of $15.4 million at March 31, 2021 and $15.3 million at December 31, 2020.
(3) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

**Exhibit 19**




(1) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

During the three months ended March 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"). The 2021 Notes were issued subsequent to the announcement of the Business Combination. For more information regarding the Business Combination, refer to Note 16 "Subsequent Event" in the financial statements.

At March 31, 2021, ARC had total credit capacity of $2.9 billion with long-term debt of $1.6 billion currently outstanding. ARC's long-term debt balance includes a current portion of $144.7 million at March 31, 2021 ($146.7 million at December 31, 2020), reflecting principal payments that are due to be paid within the next 12 months. ARC intends to finance these obligations by using cash on hand or drawing on its syndicated credit facility at the time the payments are due. ARC's long-term debt has a weighted average interest rate of 3.4 per cent. 37 per cent (US$468.3 million) of ARC's long-term debt outstanding at March 31, 2021 is denominated in US dollars. For more information, refer to Note 7 "Long-Term Debt" in the financial statements.

There are no financial covenants associated with the 2021 Notes and ARC was in compliance with all of its debt covenants at March 31, 2021. The following table describes the financial covenants related to ARC's senior notes:

**Table 23**

| Covenant Description [1] | Position at March 31, 2021 |
|---|---|
| Total Indebtedness not to exceed 325 per cent total EBITDA for the most recently completed period of four consecutive quarters | 224 % |
| Total EBITDA not to be less than 400 per cent of Total Interest Charges for the most recently completed period of four consecutive quarters | 2,291 % |
| Total Priority Indebtedness not to exceed two per cent of Total Assets | 0 % |
| Total Indebtedness not to exceed 65 per cent of Present Asset Value [2] | 59 % |
| Total Indebtedness not to exceed 65 per cent of Present Asset Value [3][4] | 31 % |

(1) Capitalized terms are as defined in the note purchase agreements which are available on SEDAR at www.sedar.com.
(2) Pertains to senior notes issued under the 2009, 2010, and 2012 note agreements whereby the Present Asset Value is determined using a 10 per cent discount rate.
(3) Pertains to senior notes issued under the prior Master Shelf Agreement whereby the Present Asset Value is determined using a 12 per cent discount rate.
(4) The inclusion of the proceeds from the 2021 Notes for the debt covenant calculation at March 31, 2021 was waived by the note holder.

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

**Table 23a**

| **Covenant Description** (1) | **Position at March 31, 2021** (2) |
|---|---|
| Consolidated Senior Debt not to exceed 3.5 times Consolidated EBITDA | 2.0 |
| Consolidated Total Debt not to exceed 4.0 times Consolidated EBITDA | 2.0 |
| Consolidated Senior Debt not to exceed 55 per cent of Total Capitalization | 36 % |
| Consolidated Tangible Assets of the Restricted Group must exceed 85 per cent of Consolidated Tangible Assets | 100 % |

(1) Capitalized terms are as defined in the credit facility agreement and the Master Shelf Agreement which are available on SEDAR at www.sedar.com.
(2) Subject to final approval of the syndicate.

### Shareholders' Equity

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

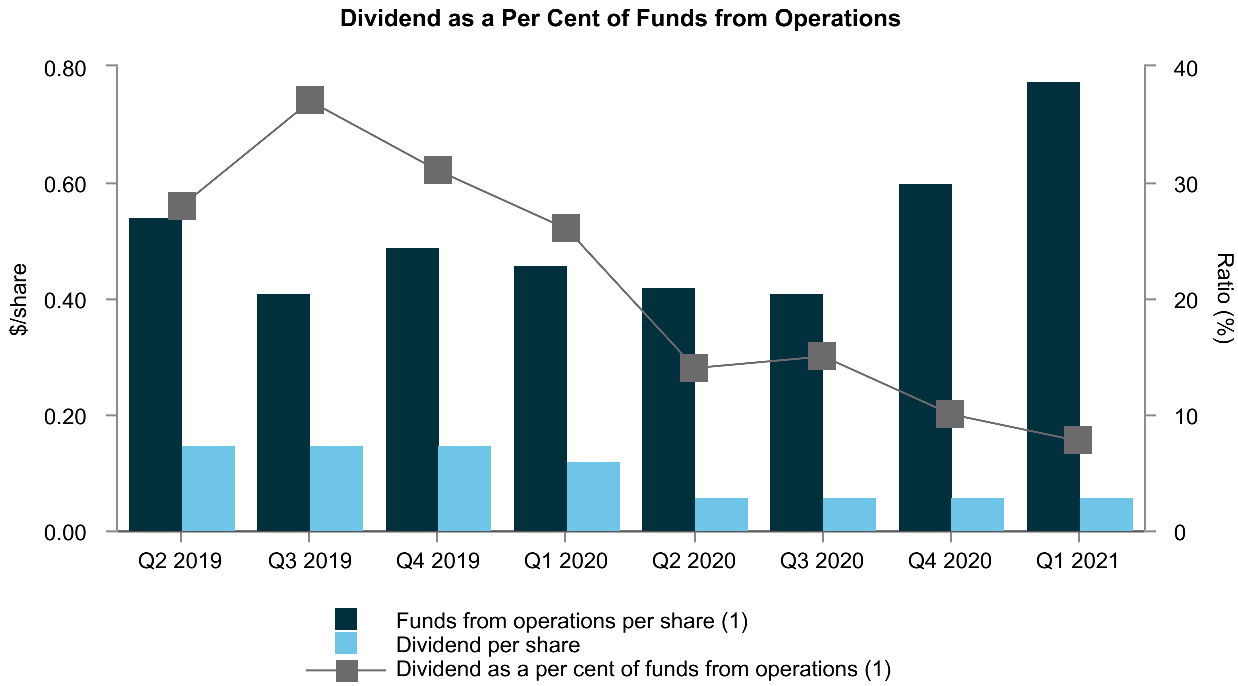
At March 31, 2021, ARC had 1.0 million restricted shares outstanding under its LTRSA Plan. For more information on the restricted shares outstanding and held in trust under ARC's LTRSA Plan, refer to the section entitled "Long-term Restricted Share Award Plan" contained within this MD&A.

### 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 first quarter of 2021, ARC declared dividends totaling $21.3 million ($0.06 per share), compared to $42.5 million ($0.12 per share) in the same period of 2020.

ARC's dividend as a per cent of funds from operations decreased from an average of 26 per cent for the three months ended March 31, 2020 to an average of eight per cent for the three months ended March 31, 2021.

**Exhibit 20**




(1) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

The actual amount of future monthly dividends is proposed by Management and is subject to the approval and discretion of the Board of Directors (the "Board"). The Board reviews future dividends in conjunction with their review of quarterly financial and operational results.

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

**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 March 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**

At March 31, 2021, ARC's total contractual obligations and commitments were $3.5 billion. These include obligations and commitments in place at December 31, 2020, less payments made during the three months ended March 31, 2021, as well as the issuance of the 2021 Notes and the associated interest payments.

At March 31, 2021, certain operating licenses of disposed assets have not yet transferred from ARC to the purchaser. While the Company believes the risk is low, if the licenses fail to transfer, ARC could be responsible to fund asset retirement obligations relating to disposed assets in the amount of $11.8 million.

There is an outstanding counterclaim filed against ARC for $200.0 million for damages alleging breaches of contract or misrepresentation. Management does not expect the outcome of the counterclaim to result in a material outflow of resources by ARC. For more information, refer to Note 14 "Commitments and Contingencies" in the financial statements.

### Off-Balance Sheet Financing

ARC does not have any guarantees or off-balance sheet arrangements that have been excluded from the balance sheet other than commitments disclosed in Note 14 "Commitments & Contingencies" of the financial statements.

### Critical Accounting Estimates

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

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

- estimated commodity sales from production at a specific reporting date for which actual revenues have not yet been received, including associated estimated credit losses;
- estimated royalty obligations, transportation, and operating expenses at a specific reporting date for which costs have been incurred but have not yet been settled;
- estimated capital expenditures on projects that are in progress;
- estimated DD&A charges that are based on estimates of reserves that ARC expects to recover in the future;
- estimated future recoverable value of PP&E, E&E, and goodwill and any associated impairment charges or reversals;
- estimated fair values of financial instruments that are subject to fluctuation depending upon the underlying forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves, and the risk of non-performance;
- estimated value of ARO that is dependent upon estimates of future costs and timing of expenditures;
- estimated value of ROU assets and lease obligations that are dependent upon estimates of discount rates and timing of lease payments; and
- estimated compensation expense under ARC's share-based compensation plans including the PSUs awarded under the PSU Plan that is dependent on the final number of PSU awards that eventually vest based on a performance multiplier.

ARC has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements, refer to Note 5 "Management Judgments and Estimation Uncertainty" in the audited consolidated financial statements for the year ended December 31, 2020.

## CONTROL ENVIRONMENT

### Internal Control over Financial Reporting

ARC is required to comply with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certification of interim filings for the interim period ended March 31, 2021 requires that ARC disclose in the interim MD&A any changes in ARC's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, ARC's internal controls over financial reporting. ARC confirms that no such changes were made to its internal controls over financial reporting during the three months ended March 31, 2021.

## 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.

**IBOR Reform and Its 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 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.

### Non-GAAP Measures

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

*Free Funds Flow*
ARC uses free funds flow as an indicator of the efficiency and liquidity of ARC’s business measuring its funds available for capital investment to manage debt levels, pay dividends, and return capital to shareholders. ARC computes free funds flow as funds from operations generated during the period less capital expenditures before undeveloped land purchases and property acquisitions and dispositions. By removing the impact of current period capital expenditures from funds from operations, Management believes this measure provides an indication to investors and shareholders of the funds ARC has available for future capital allocation decisions. Table 24 details the calculation of free funds flow.

**Table 24**

| **Free Funds Flow** | **March 31, 2021** | March 31, 2020 |
|---|---|---|
| Cash flow from operating activities | **278.4** | 183.1 |
| Net change in other liabilities | **6.6** | 5.3 |
| Change in non-cash operating working capital | **(11.1)** | (27.6) |
| Funds from operations (1) | **273.9** | 160.8 |
| Capital expenditures (2) | **(125.7)** | (169.8) |
| Free funds flow | **148.2** | (9.0) |

(1) Refer to Note 9 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(2) Prior to expenditures for undeveloped land purchases and property acquisitions and dispositions. Refer to the section entitled "Capital Expenditures, Acquisitions and Dispositions" contained within this MD&A.

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

*Return on Average Capital Employed*
ARC calculates ROACE, expressed as a percentage, as net income (loss) plus interest and total income taxes (recovery) divided by the average of the opening and closing capital employed for the 12 months preceding the period end. Capital employed is the total of net debt plus shareholders’ equity. Refer to Note 9 "Capital Management" in the financial statements for additional discussion on net debt.

ARC uses ROACE as a measure of long-term operating performance, to measure how effectively Management utilizes the capital it has been provided and to demonstrate to shareholders that capital has been used wisely over the long term. ROACE is calculated by ARC for the 12 months preceding the period end, on an annual basis and a four-year basis in Table 25:

**Table 25**

| ROACE | **Twelve Months Ended March 31, 2021** | Twelve Months Ended December 31 2020 | 2019 | 2018 | 2017 | 2017 - 2020 Average (1) |
|---|---|---|---|---|---|---|
| Net income (loss) | **189.2** | (547.2) | (27.6) | 213.8 | 388.9 | 7.0 |
| Add: Interest | **36.6** | 39.3 | 41.0 | 42.6 | 45.3 | 42.1 |
| Add: Total income taxes (recovery) | **12.2** | (207.7) | (100.9) | 108.0 | 135.9 | (16.2) |
| Earnings before interest and taxes | **238.0** | (715.6) | (87.5) | 364.4 | 570.1 | 32.9 |
| Net debt - beginning of period | **1,079.7** | 940.2 | 702.7 | 728.0 | 356.5 | 356.5 |
| Shareholders' equity - beginning of period | **2,840.2** | 3,439.9 | 3,675.8 | 3,668.9 | 3,484.8 | 3,484.8 |
| Opening capital employed (A) | **3,919.9** | 4,380.1 | 4,378.5 | 4,396.9 | 3,841.3 | 3,841.3 |
| Net debt - end of period | **613.6** | 742.7 | 940.2 | 702.7 | 728.0 | 742.7 |
| Shareholders' equity - end of period | **2,948.3** | 2,790.6 | 3,439.9 | 3,675.8 | 3,668.9 | 2,790.6 |
| Closing capital employed (B) | **3,561.9** | 3,533.3 | 4,380.1 | 4,378.5 | 4,396.9 | 3,533.3 |
| Average capital employed (A+B)/2 | **3,740.9** | 3,956.7 | 4,379.3 | 4,387.7 | 4,119.1 | 3,687.3 |
| **ROACE (%)** | **6** | (18) | (2) | 8 | 14 | 1 |

(1) Average ROACE for the years ended December 31, 2017, 2018, 2019, and 2020.

**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: the anticipated impacts of COVID-19 on demand for commodities, the subsequent impact on commodity prices and the effect on ARC's business, ARC's 2021 capital program including guidance and planned operations for 2021 as well as expected trends during the course of the year with respect to production and expenses under the heading "Annual Guidance", ARC's anticipated priorities in 2021 including advancing the Company's ESG leadership and performance and upholding ARC's safety culture under the heading "Annual Guidance", the expected impacts of the Business Combination under the heading "Annual Guidance", the expected impact of turnarounds and spring break-up to production and field operations under the heading "Annual Guidance", ARC's plans to continuously monitor its guidance and provide updates as deemed appropriate under the heading "Annual Guidance". ARC’s view as to the range of expected future payments under the RSU and PSU Plans and the vesting schedule of the RSUs and PSUs granted under such plans under the heading "Restricted Share Unit and Performance Share Unit Plans", the anticipated redemption or cancellation by ARC of restricted shares and accrued dividends subject to forfeiture under ARC's LTRSA Plan under the heading "Long-term Restricted Share Award Plan", ARCs anticipated income tax expense as a result of the expectation that ARC will have a higher taxable income under the heading "Taxes", the expected decline of ARC's income tax pools under the heading "Taxes", ARC's plans in relation to future dividend levels under the heading "Dividends", plans to fund dividend payments, current period reclamation and capital expenditures necessary for the replacement of production declines using only funds from operations and to fund profitable growth activities with a combination of funds from operations and other sources of capital, ARC's ability to preserve its balance sheet for the long term and ARC's 2021 capital program under the heading "Capitalization, Financial Resources and Liquidity", estimated ARO including assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred, anticipated settlement dates, and annual inflation factors under the heading "Asset Retirement Obligation", and ARC's potential obligation associated with the future decommissioning of disposed assets where the operating licenses have not been transferred to the purchaser and the anticipated outcome of an outstanding counterclaim under the heading "Contractual Obligations and Commitments".

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; ARC's ability to successfully integrate the business of Seven Generations; 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 realize the anticipated benefits of, and synergies from, the Business Combination and the timing thereof; the interpretation of the Business Combination by tax authorities; 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; 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 (including, without limitation, those risks identified in the MD&A for the year ended December 31, 2020).

The internal projections, expectations or beliefs are based on the 2021 capital budget which is subject to change in light of ongoing results, prevailing economic conditions, commodity prices, and industry conditions and regulations. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. The forward-looking information contained in this MD&A speak only as of the date of this MD&A, and ARC does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

## GLOSSARY

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

Measurement

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

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

Financial and Business Environment

| | |
|---|---|
| ARO | asset retirement 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 |
| IAS | International Accounting Standard |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| LTRSA | Long-term Restricted Share Award |
| MSW | Mixed Sweet Blend |
| NGLs | natural gas liquids |
| NYMEX | New York Mercantile Exchange |
| PP&E | property, plant and equipment |
| PSU | Performance Share Unit |
| ROU | right-of-use |
| RSU | Restricted Share Unit |
| TSX | Toronto Stock Exchange |
| WTI | West Texas Intermediate |

## QUARTERLY HISTORICAL REVIEW

| ($ millions, except per share amounts) | 2021 | 2020 | | | | 2019 | | |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL** | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Commodity sales from production | **525.3** | 363.1 | 285.0 | 217.9 | 269.5 | 325.1 | 253.7 | 282.9 |
| Per share, basic | **1.49** | 1.03 | 0.81 | 0.62 | 0.76 | 0.92 | 0.72 | 0.80 |
| Per share, diluted | **1.48** | 1.02 | 0.81 | 0.62 | 0.76 | 0.92 | 0.72 | 0.80 |
| Net income (loss) | **178.0** | 120.8 | (66.1) | (43.5) | (558.4) | (10.2) | (57.2) | 94.4 |
| Per share, basic | **0.50** | 0.34 | (0.19) | (0.12) | (1.58) | (0.03) | (0.16) | 0.27 |
| Per share, diluted | **0.50** | 0.34 | (0.19) | (0.12) | (1.58) | (0.03) | (0.16) | 0.27 |
| Funds from operations [1] | **273.9** | 212.0 | 144.6 | 150.2 | 160.8 | 172.8 | 145.4 | 193.0 |
| Per share, basic | **0.78** | 0.60 | 0.41 | 0.42 | 0.46 | 0.49 | 0.41 | 0.54 |
| Per share, diluted | **0.77** | 0.60 | 0.41 | 0.42 | 0.46 | 0.49 | 0.41 | 0.54 |
| Free funds flow | **148.2** | 135.3 | 92.0 | 106.1 | (9.0) | 31.1 | (16.5) | 18.8 |
| Per share, basic | **0.42** | 0.38 | 0.26 | 0.30 | (0.03) | 0.09 | (0.05) | 0.05 |
| Per share, diluted | **0.42** | 0.38 | 0.26 | 0.30 | (0.03) | 0.09 | (0.05) | 0.05 |
| Dividends declared | **21.3** | 21.3 | 21.2 | 21.3 | 42.5 | 53.1 | 53.1 | 53.1 |
| Per share [2] | **0.06** | 0.06 | 0.06 | 0.06 | 0.12 | 0.15 | 0.15 | 0.15 |
| Total assets | **6,011.1** | 4,954.2 | 4,982.9 | 5,136.8 | 5,172.6 | 5,778.3 | 5,819.2 | 5,878.9 |
| Total liabilities | **3,062.8** | 2,163.6 | 2,292.7 | 2,360.3 | 2,332.4 | 2,338.4 | 2,317.1 | 2,267.7 |
| Net debt [3] | **613.6** | 742.7 | 867.8 | 961.1 | 1,079.7 | 940.2 | 945.5 | 829.2 |
| Net debt excluding lease obligations [3] | **568.0** | 693.5 | 834.2 | 923.0 | 1,037.3 | 894.0 | 897.4 | 779.3 |
| Weighted average shares, basic | **353.4** | 353.4 | 353.4 | 353.4 | 353.4 | 353.4 | 353.4 | 353.4 |
| Weighted average shares, diluted | **354.4** | 354.3 | 353.4 | 353.4 | 353.4 | 353.4 | 353.4 | 353.9 |
| Shares outstanding, end of period | **353.4** | 353.4 | 353.4 | 353.4 | 353.4 | 353.4 | 353.4 | 353.4 |
| **CAPITAL EXPENDITURES** | | | | | | | | |
| Geological and geophysical | **2.0** | 2.5 | 2.4 | 3.4 | 6.5 | 0.9 | 1.1 | 0.3 |
| Drilling and completions | **90.3** | 68.1 | 40.8 | 31.8 | 131.3 | 86.7 | 101.0 | 110.1 |
| Plant and facilities | **21.8** | 3.1 | 5.9 | 8.3 | 25.8 | 47.5 | 51.1 | 56.2 |
| Maintenance and optimization | **4.4** | 1.5 | 2.1 | 1.4 | 4.4 | 3.0 | 6.2 | 5.8 |
| Corporate | **7.2** | 1.5 | 1.4 | (0.8) | 1.8 | 3.6 | 2.5 | 1.8 |
| Total capital expenditures | **125.7** | 76.7 | 52.6 | 44.1 | 169.8 | 141.7 | 161.9 | 174.2 |
| Undeveloped land | **—** | — | — | — | — | — | 0.7 | — |
| Total capital expenditures, including undeveloped land purchases | **125.7** | 76.7 | 52.6 | 44.1 | 169.8 | 141.7 | 162.6 | 174.2 |
| Acquisitions | **—** | 61.6 | — | 0.5 | 2.5 | — | — | — |
| Dispositions | **(0.1)** | (63.2) | — | (0.6) | (2.4) | (1.1) | (2.8) | (0.9) |
| Total capital expenditures, land purchases, and net acquisitions and dispositions | **125.6** | 75.1 | 52.6 | 44.0 | 169.9 | 140.6 | 159.8 | 173.3 |
| **OPERATING** | | | | | | | | |
| Production | | | | | | | | |
| Crude oil (bbl/d) | **13,647** | 15,554 | 15,373 | 14,987 | 16,997 | 17,083 | 16,782 | 18,272 |
| Condensate (bbl/d) | **13,812** | 14,715 | 14,831 | 13,239 | 11,262 | 10,937 | 10,846 | 10,230 |
| Crude oil and condensate (bbl/d) | **27,459** | 30,269 | 30,204 | 28,226 | 28,259 | 28,020 | 27,628 | 28,502 |
| Natural gas (MMcf/d) | **794.1** | 783.1 | 708.2 | 773.3 | 692.2 | 669.0 | 595.4 | 596.4 |
| NGLs (bbl/d) | **10,620** | 8,678 | 10,208 | 9,405 | 8,152 | 8,123 | 7,952 | 7,041 |
| Total (boe/d) | **170,430** | 169,468 | 158,444 | 166,510 | 151,783 | 147,650 | 134,813 | 134,938 |
| Average realized prices, prior to risk management contracts | | | | | | | | |
| Crude oil ($/bbl) | **64.46** | 48.14 | 45.45 | 25.88 | 49.69 | 65.11 | 64.79 | 70.26 |
| Condensate ($/bbl) | **71.59** | 53.55 | 48.49 | 31.54 | 57.52 | 68.08 | 65.70 | 71.38 |
| Natural gas ($/Mcf) | **4.60** | 2.88 | 2.16 | 1.92 | 2.05 | 2.36 | 1.54 | 1.74 |
| NGLs ($/bbl) | **29.45** | 18.03 | 14.85 | 10.84 | 6.36 | 11.69 | 5.25 | 7.71 |
| Oil equivalent ($/boe) | **34.25** | 23.29 | 19.55 | 14.38 | 19.52 | 23.93 | 20.46 | 23.04 |
| **TRADING STATISTICS** [4] | | | | | | | | |
| ($, based on intra-day trading) | | | | | | | | |
| High | **8.67** | 7.20 | 6.94 | 6.12 | 8.39 | 8.26 | 7.85 | 9.61 |
| Low | **5.88** | 5.66 | 4.54 | 3.64 | 2.42 | 5.40 | 5.37 | 6.37 |
| Close | **7.72** | 6.00 | 5.95 | 4.56 | 4.05 | 8.18 | 6.31 | 6.41 |
| Average daily volume (thousands) | **3,125** | 1,582 | 1,363 | 2,177 | 3,207 | 2,583 | 1,838 | 2,255 |

(1) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Dividends per share are based on the number of shares outstanding at each dividend record date.
(3) Refer to Note 9 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(4) Trading statistics denote trading activity on the TSX only.

'21 Q1

# Financial **Statements**

**ARC RESOURCES LTD.**

**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS** (unaudited)

As at

| (Cdn$ millions) | **March 31, 2021** | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **1,064.9** | 0.4 |
| Inventory | **2.3** | 1.6 |
| Accounts receivable | **166.5** | 145.9 |
| Prepaid expense | **6.9** | 8.4 |
| Risk management contracts (Note 10) | **0.1** | 6.0 |
| | **1,240.7** | 162.3 |
| Exploration and evaluation assets | **214.9** | 214.9 |
| Property, plant and equipment (Notes 5 and 6) | **4,266.3** | 4,284.3 |
| Right-of-use assets | **41.0** | 44.5 |
| Goodwill | **248.2** | 248.2 |
| Total assets | **6,011.1** | 4,954.2 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **176.2** | 125.0 |
| Current portion of lease obligations | **15.4** | 15.3 |
| Current portion of long-term debt (Note 7) | **144.7** | 146.7 |
| Current portion of asset retirement obligation (Note 8) | **19.0** | 19.0 |
| Dividends payable (Note 11) | **21.3** | 21.3 |
| Risk management contracts (Note 10) | **95.4** | 40.4 |
| | **472.0** | 367.7 |
| Risk management contracts (Note 10) | **63.6** | 44.4 |
| Long-term portion of lease obligations | **30.2** | 33.9 |
| Long-term debt (Note 7) | **1,464.1** | 555.2 |
| Long-term incentive compensation liability (Note 13) | **31.5** | 32.0 |
| Other deferred liabilities | **16.1** | 16.3 |
| Asset retirement obligation (Note 8) | **382.3** | 522.7 |
| Deferred taxes | **603.0** | 591.4 |
| Total liabilities | **3,062.8** | 2,163.6 |
| **SHAREHOLDERS' EQUITY** | | |
| Shareholders' capital (Note 11) | **4,658.2** | 4,658.2 |
| Contributed surplus | **37.5** | 36.5 |
| Deficit | **(1,747.4)** | (1,904.1) |
| Total shareholders' equity | **2,948.3** | 2,790.6 |
| Total liabilities and shareholders' equity | **6,011.1** | 4,954.2 |
| Commitments and contingencies (Note 14) | | |

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

**ARC RESOURCES LTD.**

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME** (unaudited)

For the three months ended March 31

| (Cdn$ millions, except per share amounts) | **2021** | 2020 |
|---|---|---|
| Commodity sales from production (Note 12) | **525.3** | 269.5 |
| Royalties | **(25.8)** | (15.2) |
| Sales of commodities purchased from third parties | **19.1** | 14.2 |
| Revenue from commodity sales | **518.6** | 268.5 |
| Interest income | **—** | 0.2 |
| Other income | **6.0** | 1.5 |
| Gain (loss) on risk management contracts (Note 10) | **(106.9)** | 100.3 |
| Total revenue, interest and other income and gain (loss) on risk management contracts | **417.7** | 370.5 |
| Commodities purchased from third parties | **20.3** | 13.3 |
| Operating | **59.0** | 60.8 |
| Transportation | **56.8** | 39.4 |
| General and administrative | **24.7** | 15.3 |
| Transaction costs (Note 16) | **7.6** | — |
| Interest and financing | **9.6** | 12.5 |
| Impairment of financial assets | **0.5** | 10.6 |
| Depletion, depreciation and amortization (Note 5) | **123.0** | 135.7 |
| Impairment (reversal of impairment) (Notes 5 and 6) | **(112.6)** | 740.0 |
| Loss (gain) on foreign exchange | **(5.9)** | 64.5 |
| Total expenses | **183.0** | 1,092.1 |
| Net income (loss) before income taxes | **234.7** | (721.6) |
| Provision for (recovery of) income taxes | | |
| Current | **45.0** | (3.1) |
| Deferred | **11.7** | (160.1) |
| Total income taxes (recovery) | **56.7** | (163.2) |
| Net income (loss) and comprehensive income (loss) | **178.0** | (558.4) |
| Net income (loss) per share (Note 11) | | |
| Basic | **0.50** | (1.58) |
| Diluted | **0.50** | (1.58) |

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

**ARC RESOURCES LTD.**

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

For the three months ended March 31

| (Cdn$ millions) | **Shareholders' Capital (Note 11)** | **Contributed Surplus** | **Deficit** | **Total Shareholders' Equity** |
|---|---|---|---|---|
| December 31, 2019 | 4,658.3 | 32.2 | (1,250.6) | 3,439.9 |
| Comprehensive loss | — | — | (558.4) | (558.4) |
| Recognized under share-based compensation plans (Note 13) | (0.1) | 1.3 | — | 1.2 |
| Dividends declared (Note 11) | — | — | (42.5) | (42.5) |
| March 31, 2020 | 4,658.2 | 33.5 | (1,851.5) | 2,840.2 |
| | | | | |
| December 31, 2020 | 4,658.2 | 36.5 | (1,904.1) | 2,790.6 |
| Comprehensive income | **—** | **—** | **178.0** | **178.0** |
| Recognized under share-based compensation plans (Note 13) | **—** | **1.0** | **—** | **1.0** |
| Dividends declared (Note 11) | **—** | **—** | **(21.3)** | **(21.3)** |
| March 31, 2021 | **4,658.2** | **37.5** | **(1,747.4)** | **2,948.3** |

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

**ARC RESOURCES LTD.**

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS** (unaudited)

For the three months ended March 31

| (Cdn$ millions) | **2021** | 2020 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net income (loss) | **178.0** | (558.4) |
| Add items not involving cash: | | |
| Unrealized loss (gain) on risk management contracts | **80.1** | (83.2) |
| Accretion of asset retirement obligation (Note 8) | **1.6** | 1.8 |
| Impairment of financial assets | **0.5** | 10.6 |
| Depletion, depreciation and amortization (Note 5) | **123.0** | 135.7 |
| Impairment (reversal of impairment) (Notes 5 and 6) | **(112.6)** | 740.0 |
| Unrealized loss (gain) on foreign exchange | **(8.6)** | 73.4 |
| Deferred taxes | **11.7** | (160.1) |
| Other (Note 15) | **0.2** | 1.0 |
| Net change in other liabilities (Note 15) | **(6.6)** | (5.3) |
| Change in non-cash working capital (Note 15) | **11.1** | 27.6 |
| Cash flow from operating activities | **278.4** | 183.1 |
| **CASH FLOW FROM (USED IN) FINANCING ACTIVITIES** | | |
| Draw of long-term debt under revolving credit facilities | **182.8** | 482.7 |
| Issuance of senior notes (Note 7) | **1,000.0** | — |
| Repayment of long-term debt | **(255.8)** | (457.2) |
| Repayment of principal relating to lease obligations | **(3.9)** | (4.6) |
| Cash dividends paid | **(21.3)** | (53.1) |
| Debt issuance costs (Note 7) | **(11.6)** | — |
| Cash flow from (used in) financing activities | **890.2** | (32.2) |
| **CASH FLOW USED IN INVESTING ACTIVITIES** | | |
| Disposal of crude oil and natural gas assets | **0.1** | (0.1) |
| Property, plant and equipment development expenditures (Note 5) | **(123.2)** | (167.8) |
| Exploration and evaluation asset expenditures | **(0.8)** | (0.3) |
| Change in non-cash working capital (Note 15) | **19.8** | 14.8 |
| Cash flow used in investing activities | **(104.1)** | (153.4) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **1,064.5** | (2.5) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | **0.4** | 8.5 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **1,064.9** | 6.0 |
| The following are included in cash flow from operating activities: | | |
| Income taxes paid (received) in cash | **45.0** | (3.0) |
| Interest paid in cash | **11.6** | 15.2 |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
March 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 properties and 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 16 "Subsequent Event".

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 unaudited condensed interim consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with ARC's audited consolidated financial statements for the year ended December 31, 2020. All financial information is reported in millions of Canadian dollars ("Cdn$"), unless otherwise noted. References to "US$" are to United States dollars.

The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Summary of Accounting Policies" of ARC's audited consolidated financial statements for the year ended December 31, 2020. All accounting policies and methods of computation followed in the preparation of these financials statements are consistent with those of the previous year, except as noted in Note 3 "New Accounting Policies", and for income taxes. Income taxes on net income (loss) in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual net income (loss).

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.

These financial statements were authorized for issue by ARC's Board of Directors on May 5, 2021.

## 3. 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.

**IBOR Reform and Its 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.

## 4. NOVEL CORONAVIRUS COVID-19 ("COVID-19")

The COVID-19 pandemic and the anticipated subsequent economic recovery continues 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 impacted by the unknown future impact of COVID-19 on the economy. Refer to Note 6 "Impairment". The broader effects of COVID-19 could also impact the counterparties with which ARC transacts, thereby impacting their ability to settle their obligations to ARC. This risk has been incorporated in ARC's provision for expected credit loss. At March 31, 2021, Management has incorporated the anticipated impacts of COVID-19 in its estimates and judgments in preparation of these financial statements.

## 5. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

| Cost | Development and Production Assets | Corporate Assets | Total |
|---|---|---|---|
| Balance, December 31, 2020 | 9,630.6 | 80.8 | 9,711.4 |
| Additions | **124.2** | **0.7** | **124.9** |
| Change in asset retirement cost | **(134.0)** | **—** | **(134.0)** |
| Assets reclassified as held for sale and disposed in period | **(16.6)** | **—** | **(16.6)** |
| **Balance, March 31, 2021** | **9,604.2** | **81.5** | **9,685.7** |
| **Accumulated Depletion, Depreciation, and Amortization ("DD&A") and Impairment** | | | |
| Balance, December 31, 2020 | (5,364.0) | (63.1) | (5,427.1) |
| DD&A | **(119.9)** | **(1.5)** | **(121.4)** |
| Reversal of impairment, net (Note 6) | **112.6** | **—** | **112.6** |
| Accumulated DD&A and impairment reclassified as held for sale and disposed in period | **16.5** | **—** | **16.5** |
| **Balance, March 31, 2021** | **(5,354.8)** | **(64.6)** | **(5,419.4)** |
| **Carrying Amounts** | | | |
| Balance, December 31, 2020 | 4,266.6 | 17.7 | 4,284.3 |
| **Balance, March 31, 2021** | **4,249.4** | **16.9** | **4,266.3** |

For the three months ended March 31, 2021, $13.4 million of direct and incremental overhead charges were capitalized to PP&E ($5.9 million for the three months ended March 31, 2020). Future development costs of $3.2 billion were included in the determination of DD&A for the three months ended March 31, 2021 ($3.4 billion for the three months ended March 31, 2020).

During the three months ended March 31, 2021, ARC disposed of certain non-core assets in Alberta for proceeds of $0.1 million and a related impairment charge of $9.2 million was recognized in the condensed interim consolidated statements of comprehensive income ("statements of income").

For the three months ended March 31, 2021, ARC recognized a reversal of impairment of $121.8 million. Refer to Note 6 "Impairment" for further information.

## 6. IMPAIRMENT

### PP&E

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 cash-generating unit ("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" of ARC's audited consolidated financial statements for the year ended December 31, 2020 with the following inputs:

- The net present value of the after-tax cash flows from proved plus probable crude oil, condensate, natural gas and natural gas liquids ("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 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 effective 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 recoverable amount of $516.1 million was determined using a discount rate of 12.0 per cent. Subsequent to the reversal of impairment recognized, $601.7 million of previous impairment charges remain eligible to recover in the Northern Alberta CGU.

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.

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).

## 7. LONG-TERM DEBT

| | US $ Denominated | | Canadian $ Amount | |
|---|---|---|---|---|
| | **March 31, 2021** | December 31, 2020 | **March 31, 2021** | December 31, 2020 |
| Syndicated credit facilities | **N/A** | N/A | **—** | 72.6 |
| Senior notes | | | | |
| Master Shelf Agreement | | | | |
| 3.72% US$ note | **150.0** | 150.0 | **188.6** | 191.3 |
| 2009 note issuance | | | | |
| 8.21% US$ note | **7.0** | 7.0 | **8.8** | 8.9 |
| 2010 note issuance | | | | |
| 5.36% US$ note | **60.0** | 60.0 | **75.4** | 76.5 |
| 2012 note issuance | | | | |
| 3.31% US$ note | **12.0** | 12.0 | **15.1** | 15.3 |
| 3.81% US$ note | **240.0** | 240.0 | **301.7** | 306.1 |
| 4.49% Cdn$ note | **N/A** | N/A | **32.0** | 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** | 469.0 | **1,621.6** | 630.1 |
| Unamortized debt issuance costs | **(0.7)** | (0.7) | **(12.8)** | (0.8) |
| Total long-term debt outstanding | **468.3** | 468.3 | **1,608.8** | 701.9 |
| Long-term debt due within one year | | | **144.7** | 146.7 |
| Long-term debt due beyond one year | | | **1,464.1** | 555.2 |

During the three months ended March 31, 2021, ARC issued two tranches of senior unsecured notes by way of private placement (the "2021 Notes"). The 2021 Notes were issued subsequent to the announcement of the Business Combination and the proceeds were used to repay certain of Seven Generations' outstanding senior notes and credit facility. For more information, refer to Note 16 "Subsequent Event". 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 |

With the issuance of the 2021 Notes, ARC's credit capacity increased to $2.9 billion ($1.9 billion at December 31, 2020), of which $1.6 billion was drawn at March 31, 2021 ($703.2 million at December 31, 2020). There are no financial covenants associated with the 2021 Notes and there were no changes to ARC's existing debt covenants. At March 31, 2021, ARC was in compliance with all of its debt covenants.

At March 31, 2021, the fair value of all long-term debt outstanding was $1,655.7 million ($748.3 million at December 31, 2020).

## 8. ASSET RETIREMENT OBLIGATION ("ARO")

ARC has estimated the net present value of its total ARO to be $401.3 million at March 31, 2021 ($541.7 million at December 31, 2020) based on a total future undiscounted liability of $867.7 million ($870.1 million at December 31, 2020). Management estimates that these payments are expected to be made over the next 67 years with the majority of payments being made in years 2067 to 2087. The Bank of Canada's long-term risk-free bond rate of 2.0 per cent (1.2 per cent at December 31, 2020) and an 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 March 31, 2021.

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

| | **Three Months Ended March 31, 2021** | Year Ended December 31, 2020 |
|---|---|---|
| Balance, beginning of period | 541.7 | 409.6 |
| Development activities | **0.7** | 3.9 |
| Change in estimates (1) | **4.1** | 49.9 |
| Change in discount rate | **(139.6)** | 96.1 |
| Settlement of obligations (2) | **(7.2)** | (12.8) |
| Accretion | **1.6** | 6.3 |
| Reclassified as liabilities associated with assets held for sale and disposed in period | **—** | (11.3) |
| Balance, end of period | **401.3** | 541.7 |
| Expected to be incurred within one year | **19.0** | 19.0 |
| Expected to be incurred beyond one year | **382.3** | 522.7 |

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

(2) For the three months ended March 31, 2021, $1.1 million of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of ARC.

## 9. CAPITAL MANAGEMENT

ARC actively manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. ARC has the ability to change its capital structure by issuing new shares or new debt, or changing its dividend policy. On March 15, 2021, ARC declared a quarterly dividend of $0.06 per share.

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

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

ARC manages its capital through common shares and net debt. Historically net debt has included ARC's lease obligations, however Management also considers its net debt excluding lease obligations position to be a relevant measure in assessing the Company's liquidity as this measure aligns with the contractual requirements for purposes of calculating ARC's debt covenants.

When evaluating ARC's capital structure, Management targets its net debt excluding lease obligations to be between 1.0 and 1.5 times annualized funds from operations over the long term. At March 31, 2021, ARC's net debt and net debt excluding lease obligations was 0.6 times and 0.5 times its annualized funds from operations, respectively.

**Funds from Operations**

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

Funds from operations for the three months ended March 31, 2021 and 2020 is calculated as follows:

| | **Three Months Ended March 31, 2021** | Three Months Ended March 31, 2020 |
|---|---|---|
| Cash flow from operating activities | **278.4** | 183.1 |
| Net change in other liabilities (Note 15) | **6.6** | 5.3 |
| Change in non-cash operating working capital (Note 15) | **(11.1)** | (27.6) |
| Funds from operations | **273.9** | 160.8 |

**Net Debt and Net Debt Excluding Lease Obligations**

Net debt and net debt excluding lease obligations are used by Management as key measures to assess the Company's liquidity. Net debt and net debt excluding lease obligations are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

The following table details the composition of ARC's net debt and net debt excluding lease obligations as at March 31, 2021 and 2020:

| | **March 31, 2021** | March 31, 2020 |
|---|---|---|
| Long-term debt (1) | **1,608.8** | 976.6 |
| Lease obligations (2) | **45.6** | 42.4 |
| Accounts payable and accrued liabilities | **176.2** | 149.2 |
| Dividends payable | **21.3** | 7.1 |
| Cash and cash equivalents, accounts receivable, and prepaid expense | **(1,238.3)** | (95.6) |
| Net debt | **613.6** | 1,079.7 |
| Lease obligations (2) | **(45.6)** | (42.4) |
| Net debt excluding lease obligations | **568.0** | 1,037.3 |
| Net debt to annualized funds from operations (ratio) | **0.6** | 1.7 |
| Net debt excluding lease obligations to annualized funds from operations (ratio) | **0.5** | 1.6 |

(1) Includes current portion of long-term debt at March 31, 2021 and 2020 of $144.7 million and $161.4 million, respectively.

(2) Includes current portion of lease obligations at March 31, 2021 and 2020 of $15.4 million and $14.2 million, respectively.

## 10. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

**Financial Instruments**

At March 31, 2021, ARC's financial instruments include cash and cash equivalents, accounts receivable, risk management contracts, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt.

ARC's financial instruments that are carried at fair value on the unaudited condensed interim consolidated balance sheets (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 7 "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 three months ended March 31, 2021.

The carrying values of ARC's accounts receivable, accounts payable and accrued liabilities, and dividends payable as at March 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 March 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 March 31, 2021** | | | | | |
| Risk management contracts | | | | | |
| Current asset | **30.5** | **(30.4)** | **0.1** | **—** | **0.1** |
| Long-term asset | **41.8** | **(41.8)** | **—** | **—** | **—** |
| Current liability | **(128.4)** | **30.4** | **(98.0)** | **2.6** | **(95.4)** |
| Long-term liability | **(107.2)** | **41.8** | **(65.4)** | **1.8** | **(63.6)** |
| Net position | **(163.3)** | **—** | **(163.3)** | **4.4** | **(158.9)** |
| 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) |

## Risk Management Contracts

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

**Risk Management Contracts Positions Summary** [1]

| As at March 31, 2021 | 2021 (remainder) | | 2022 | | 2023 | | 2024 | | 2025 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Crude Oil – WTI** | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Ceiling | 56.65 | 12,113 | 56.17 | 11,000 | — | — | — | — | — | — |
| ***Floor*** | 48.63 | 12,113 | 47.05 | 11,000 | — | — | — | — | — | — |
| Sold Floor | 40.01 | 8,662 | 37.81 | 8,000 | — | — | — | — | — | — |
| Swap | 40.01 | 1,662 | — | — | — | — | — | — | — | — |
| Sold Swaption [2] | 43.00 | 1,338 | — | — | — | — | — | — | — | — |
| **Total Crude Oil Volumes (bbl/day)** | | **13,775** | | **11,000** | | **—** | | **—** | | **—** |
| **Crude Oil – MSW (Differential to WTI)** [3] | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Swap | (6.11) | 5,000 | — | — | — | — | — | — | — | — |
| **Natural Gas – NYMEX Henry Hub** [4] | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Ceiling | 3.15 | 177,891 | 3.13 | 115,000 | 2.74 | 10,000 | 2.74 | 10,000 | — | — |
| ***Floor*** | 2.61 | 177,891 | 2.60 | 115,000 | 2.50 | 10,000 | 2.50 | 10,000 | — | — |
| Sold Floor | 2.12 | 136,727 | 2.19 | 85,000 | 2.10 | 10,000 | 2.10 | 10,000 | — | — |
| **Natural Gas – AECO 7A** | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day |
| Ceiling | 2.41 | 120,000 | 2.52 | 160,000 | 2.40 | 90,000 | 2.40 | 90,000 | 2.73 | 20,000 |
| ***Floor*** | 1.95 | 120,000 | 1.99 | 160,000 | 1.87 | 90,000 | 1.87 | 90,000 | 2.00 | 20,000 |
| Sold Floor | — | — | 1.75 | 20,000 | — | — | — | — | — | — |
| Swap | 2.30 | 83,345 | 2.23 | 20,000 | 2.06 | 10,000 | 2.06 | 10,000 | — | — |
| Sold Swaption [2] | — | — | 2.00 | 20,000 | — | — | — | — | — | — |
| **Total Natural Gas Volumes (MMBtu/day)** | | **370,625** | | **285,607** | | **104,782** | | **104,782** | | **18,956** |
| **Natural Gas – AECO Basis (Differential to Henry Hub)** | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Sold Swap | (0.93) | 66,673 | (0.88) | 35,000 | (0.91) | 70,000 | (0.91) | 70,000 | (0.66) | 25,000 |
| **Total AECO Basis Volumes (MMBtu/day)** | | **66,673** | | **35,000** | | **70,000** | | **70,000** | | **25,000** |
| **Natural Gas - Other Basis (Differential to Henry Hub)** [5] | | MMBtu/day | | MMBtu/day | | MMBtu/day | | MMBtu/day | | MMBtu/day |
| Sold Swap | | **110,000** | | **110,000** | | **80,000** | | **4,973** | | **—** |

| **Foreign Exchange** | Settlement Date | Notional (US$ millions) | Cdn$/US$ |
|---|---|---|---|
| Bought Forward | April 1, 2021 | 360 | 1.2605 |
| Bought Call | April 13, 2021 | 25 | 1.2810 |
| Variable Rate Collar [6] | August 23, 2021 | 10 | 1.2549 - 1.3000 |

(1) The prices and volumes in this table represent averages for several contracts representing different periods. The average price for the portfolio of options listed above does not have the same payoff profile as the individual option contracts. Viewing the average price of a group of options is purely for indicative purposes. All positions are financially settled against the benchmark prices.
(2) The sold swaption allows the counterparty, at a specific future date, to enter into a swap with ARC at the above-detailed terms. These volumes are not included in the total commodity volumes until such time that the option is exercised.
(3) MSW differential refers to the discount between WTI and the mixed sweet crude grade at Edmonton, calculated on a monthly weighted average basis in US$.
(4) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.
(5) ARC has entered into basis swaps at locations other than AECO.
(6) Variable rate collar whereby if the Cdn$/US$ spot rate is below $1.2825 at expiry, the ceiling will re-adjust to $1.3000.

## 11. SHAREHOLDERS' CAPITAL

| (thousands of shares) | **Three Months Ended March 31, 2021** | Year Ended December 31, 2020 |
|---|---|---|
| Common shares, beginning of period | 353,372 | 353,411 |
| Restricted shares issued pursuant to the LTRSA Plan | — | 218 |
| Unvested restricted shares held in trust pursuant to the LTRSA Plan (1) | **(6)** | (257) |
| Common shares, end of period | **353,366** | 353,372 |

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

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

| (thousands of shares) | **Three Months Ended March 31, 2021** | Three Months Ended March 31, 2020 |
|---|---|---|
| Weighted average common shares | **353,366** | 353,385 |
| Dilutive impact of share-based compensation (1) | **1,004** | — |
| Weighted average common shares, diluted | **354,370** | 353,385 |

(1) For the three months ended March 31, 2021, 4.6 million share options were excluded from the diluted weighted average shares calculation, as they were anti-dilutive (5.1 million for the three months ended March 31, 2020).

Dividends declared for the three months ended March 31, 2021 were $0.06 per share ($0.12 for the three months ended March 31, 2020).

## 12. COMMODITY SALES FROM PRODUCTION

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

| **Commodity Sales from Production, by Product** | **Three Months Ended March 31, 2021** | Three Months Ended March 31, 2020 |
|---|---|---|
| Crude oil | **79.2** | 76.8 |
| Condensate | **89.0** | 58.9 |
| Natural gas (1) | **329.0** | 129.1 |
| Natural gas liquids | **28.1** | 4.7 |
| Total commodity sales from production | **525.3** | 269.5 |

(1) Includes $7.9 million of natural gas transportation revenue from contracts temporarily assigned to third parties for the three months ended March 31, 2021 ($3.3 million for the three months ended March 31, 2020).

At March 31, 2021, receivables from contracts with customers, which are included in accounts receivable, were $160.0 million ($135.6 million at December 31, 2020).

## 13. SHARE-BASED COMPENSATION PLANS

**Long-term Incentive Plans**

The following table summarizes the Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), and Deferred Share Unit ("DSU") movement for the three months ended March 31, 2021:

| (number of awards, thousands) | **RSUs** | **PSUs Granted Prior to 2019** (1) | **PSUs Granted Subsequent to 2018** (1) | **DSUs** |
|---|---|---|---|---|
| Balance, December 31, 2020 | 3,836 | 998 | 5,103 | 1,270 |
| Granted (2) | 38 | 539 | 32 | 69 |
| Distributed | (994) | (1,021) | — | — |
| Forfeited | (9) | — | — | — |
| **Balance, March 31, 2021** | **2,871** | **516** | **5,135** | **1,339** |

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

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

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

| | **Three Months Ended March 31, 2021** | Three Months Ended March 31, 2020 |
|---|---|---|
| General and administrative ("G&A") | **6.7** | (5.7) |
| Operating | **2.2** | (0.7) |
| PP&E | **9.7** | (0.3) |
| Total compensation charge (recovery) | **18.6** | (6.7) |
| Cash payment | **16.5** | 4.9 |

At March 31, 2021, $21.2 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 $31.5 million was included in long-term incentive compensation liability ($32.0 million at December 31, 2020). A recoverable amount of $0.1 million was included in accounts receivable at March 31, 2021 ($0.1 million at December 31, 2020).

**Share Option Plan**

There were no changes in total share options outstanding for the three months ended March 31, 2021. At March 31, 2021, 4.6 million share options were outstanding with a weighted average exercise price of $16.44. Of those, 1.6 million share options were exercisable at March 31, 2021 with a weighted average exercise price of $21.03.

The following table summarizes information regarding share options outstanding at March 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 ($)** |
|---|---|---|---|---|---|
| 11.95 - 20.00 | 4,163 | 15.25 | 3.0 | 1,190 | 18.49 |
| 20.01 - 28.28 | 417 | 28.28 | 0.2 | 417 | 28.28 |
| **Total** | **4,580** | **16.44** | **2.7** | **1,607** | **21.03** |

ARC recognized compensation expense of $0.6 million relating to the Share Option Plan for the three months ended March 31, 2021 ($0.8 million for the three months ended March 31, 2020). During the three months ended March 31, 2021, $0.1 million of share option compensation charges were capitalized to PP&E ($0.1 million for the three months ended March 31, 2020).

**LTRSA Plan**

The changes in total LTRSA outstanding and related fair value per restricted share for the three months ended March 31, 2021 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, December 31, 2020 | 781 | 12.20 | 218 | 6.17 |
| Restricted shares granted and purchased | 5 | 7.13 | 1 | 7.13 |
| **Balance, March 31, 2021** | **786** | **12.17** | **219** | **6.18** |

ARC recognized G&A expense of $0.3 million relating to the LTRSA Plan during the three months ended March 31, 2021 ($0.3 million for the three months ended March 31, 2020).

## 14. COMMITMENTS AND CONTINGENCIES

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

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | 1 Year | 2-3 Years | 4-5 Years | Beyond 5 Years | Total |
| Debt repayments (1) | 144.7 | 267.5 | 608.9 | 587.7 | 1,608.8 |
| Interest payments (2) | 51.6 | 84.5 | 66.5 | 96.0 | 298.6 |
| Purchase and service commitments | 32.1 | 15.7 | 1.4 | 0.1 | 49.3 |
| Transportation commitments | 184.1 | 337.6 | 315.7 | 680.7 | 1,518.1 |
| Total contractual obligations and commitments | **412.5** | **705.3** | **992.5** | **1,364.5** | **3,474.8** |

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

During the year ended December 31, 2018, ARC entered into a purchase and sale agreement (the "ACCEL PSA") and disposed of certain non-core assets to ACCEL Canada Holdings Ltd. ("ACCEL"). In 2019, ACCEL filed a counterclaim against ARC for $200.0 million for damages alleging breaches of contract or misrepresentation related to the ACCEL PSA. In 2020, ARC filed its Defence to the Counterclaim. Management does not expect the outcome of the counterclaim to result in a material outflow of resources by ARC.

ARC had previously disposed of certain non-core properties, and as part of the sales process, relevant operating licenses are transferred to the purchaser(s) by the provincial regulator. At March 31, 2021, certain operating licenses of disposed assets have not yet transferred from ARC to the purchaser. While the Company believes the risk is low, if the licenses fail to transfer, ARC could be responsible to fund asset retirement obligations relating to disposed assets in the amount of $11.8 million.

## 15. SUPPLEMENTAL DISCLOSURES

**Presentation in the Statements of Income**

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

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

| | **Three Months Ended March 31, 2021** | Three Months Ended March 31, 2020 |
|---|---|---|
| Operating | **10.9** | 7.5 |
| G&A | **15.1** | 14.8 |
| Total employee compensation expense | **26.0** | 22.3 |

**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 | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Accounts receivable | **(21.1)** | 41.9 |
| Accounts payable and accrued liabilities | **51.2** | (0.7) |
| Inventory | **(0.7)** | — |
| Prepaid expense | **1.5** | 1.2 |
| Total change in non-cash working capital | **30.9** | 42.4 |
| Relating to: | | |
| Operating activities | **11.1** | 27.6 |
| Investing activities | **19.8** | 14.8 |
| Total change in non-cash working capital | **30.9** | 42.4 |

| Other Non-Cash Items | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Share-based compensation expense | **0.9** | 1.1 |
| Other amortization | **0.2** | (0.1) |
| ARO settlements | **(1.1)** | — |
| Modified and terminated leases | **0.2** | — |
| Total other non-cash items | **0.2** | 1.0 |

| Net Change in Other Liabilities | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Long-term incentive compensation liability | **(0.5)** | (8.8) |
| ARO cash settlements | **(6.1)** | (8.0) |
| Other deferred liabilities | **—** | 11.5 |
| Total net change in other liabilities | **(6.6)** | (5.3) |

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

| **Financing Liabilities** | **Current Financial Liabilities** | **Long-Term Financial Liabilities** | **Total Financial Liabilities from Financing Activities** |
|---|---|---|---|
| Balance, December 31, 2019 | 165.2 | 758.6 | 923.8 |
| Cash flows | | | |
| Draw and issuance of long-term debt | — | 482.7 | 482.7 |
| Repayment of long-term debt | — | (457.2) | (457.2) |
| Repayment of lease obligations | (4.6) | — | (4.6) |
| Reclassified to current | | | |
| Lease obligations | 2.5 | (2.5) | — |
| Non-cash changes | | | |
| Lease recognition | — | 0.9 | 0.9 |
| Lease modification and termination | — | (0.1) | (0.1) |
| Unrealized foreign exchange loss | 12.6 | 61.3 | 73.9 |
| Other | (0.1) | (0.3) | (0.4) |
| Balance, March 31, 2020 | 175.6 | 843.4 | 1,019.0 |
| | | | |
| Balance, December 31, 2020 | 162.0 | 589.1 | 751.1 |
| Cash flows | | | |
| Draw and issuance of long-term debt | **—** | **1,182.8** | **1,182.8** |
| Repayment of long-term debt | **—** | **(255.8)** | **(255.8)** |
| Repayment of lease obligations | **(3.9)** | **—** | **(3.9)** |
| Debt issuance costs | **—** | **(11.6)** | **(11.6)** |
| Reclassified to current | | | |
| Lease obligations | **4.0** | **(4.0)** | **—** |
| Non-cash changes | | | |
| Lease recognition | **—** | **0.2** | **0.2** |
| Lease modification and termination | **—** | **0.2** | **0.2** |
| Unrealized foreign exchange gain | **(2.0)** | **(6.6)** | **(8.6)** |
| **Balance, March 31, 2021** | **160.1** | **1,494.3** | **1,654.4** |
| Lease obligations due within one year | 15.4 | — | 15.4 |
| Lease obligations due beyond one year | **—** | 30.2 | 30.2 |
| Long-term debt due within one year | 144.7 | — | 144.7 |
| Long-term debt due beyond one year | **—** | 1,464.1 | 1,464.1 |

## 16. SUBSEQUENT EVENT

**Business Combination**

On April 6, 2021, ARC and Seven Generations completed the previously announced Business Combination. The Business Combination is described in further detail in the Joint Information Circular of ARC and Seven Generations dated March 1, 2021, which is available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

Pursuant to the Business Combination, ARC acquired all of the Seven Generations class "A" common shares and the Seven Generations shareholders received 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. As a result of completing the Business Combination, Seven Generations became a wholly-owned subsidiary of ARC, which was subsequently amalgamated with ARC on May 1, 2021.

The Business Combination will be accounted for in accordance with IFRS 3 *Business Combinations* using the acquisition method whereby identifiable assets and liabilities assumed are recognized and measured at their fair value at the date of the acquisition, with the exception of income taxes. The ARO associated with the acquired assets is subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in the ARO and PP&E on the balance sheets.

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. The excess of the cost of an acquisition over the fair value of the net assets acquired is recognized as goodwill. Subsequent measurement of goodwill is stated at cost less any accumulated impairment charges. If the cost of the acquisition is less than the fair value of the net assets acquired, the excess is recognized immediately in net income. Any deferred tax asset or liability arising from the 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.

**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 class "A" common share and the closing price of $7.86 for each ARC common share as reported on the TSX for the period ended April 5, 2021.

The following preliminary 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 | |
| ARC common shares issued to Seven Generations' shareholders (millions) | 369.4 |
| Price of ARC common shares ($/share) | 7.86 |
| **Total consideration** | **2,903.5** |
| | |
| 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 | 4,840.1 |
| Exploration and evaluation assets | 55.1 |
| Right-of-use assets | 874.6 |
| Debt | (1,712.7) |
| Lease obligations | (874.6) |
| Other deferred liabilities | (213.3) |
| Asset retirement obligation | (105.6) |
| Deferred taxes | 189.0 |
| **Total identifiable net assets** | **2,903.5** |

ARC estimates that it will incur total transaction costs of $22.5 million, of which $7.6 million were recognized in the statements of income at March 31, 2021.

**Liquidity and Commitments**
Upon closing of the Business Combination, ARC obtained access to additional liquidity with a new syndicated $2.0 billion unsecured extendible revolving credit facility with a maturity date of 2024 (the "new credit facility"). 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.

Additionally, upon close of the Business Combination, ARC used proceeds from the 2021 Notes and draws on the new credit facility to repay and/or defease Seven Generations' outstanding senior notes and its syndicated credit facility. Refer to Note 7 "Long-Term Debt". 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 6.75 per cent outstanding senior notes due 2023; and
- $180 million outstanding on the syndicated credit facility.

As of April 6, 2021, ARC had approximately $2.4 billion of net debt outstanding excluding lease obligations.

The Business Combination resulted in the assumption of Seven Generations' non-cancellable contracts and other commercial commitments. As at April 6, 2021, total commitments assumed by ARC were $2.2 billion, of which $2.0 billion were for transportation commitments.

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# Corporate & Shareholder **Information**

## Directors

**Harold N. Kvisle**
Board Chair

**Marty L. Proctor** (1) (2)
Board Vice-Chair

**Farhad Ahrabi** (1) (3)

**David R. Collyer** (2) (4) (5)

**Susan C. Jones** (2) (4)

**William J. McAdam** (1) (2)

**Michael G. McAllister** (2) (4)

**Kathleen O'Neill** (1) (5)

**M. Jacqueline Sheppard** (4) (5)

**Leontine van Leeuwen-Atkins** (1) (3)

**Terry M. Anderson**

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

## Senior Management

**Terry M. Anderson**
President & CEO

**Kris J. Bibby**
Senior Vice President & CFO

**David B. Holt**
Senior Vice President and COO

**Lara M. Conrad**
Senior Vice President, Development

**Armin Jahangiri**
Senior Vice President, Capital Projects

## Executive Office

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## Auditors

**PricewaterhouseCoopers LLP**
Calgary, Alberta

## Engineering Consultants

**GLJ Ltd.**
Calgary, Alberta

## Legal Counsel

**Burnet, Duckworth & Palmer LLP**
Calgary, Alberta

## Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol:

**ARX**

## Corporate Calendar

**June 22, 2021** | Annual Meeting of Shareholders
**July 29, 2021** | Q2 2021 Results
**November 4, 2021** | Q3 2021 Results

## Investor Information

Visit our website at
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