ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(Cdn$ millions)	**June 30, 2016**	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	**58.6**	167.3
Short-term investment	**3.6**	3.2
Accounts receivable	**122.9**	116.6
Prepaid expenses	**15.2**	14.3
Risk management contracts (Note 10)	**115.5**	207.5
	315.8	508.9
Reclamation fund	**34.7**	34.3
Risk management contracts (Note 10)	**146.2**	204.7
Exploration and evaluation assets (Note 5)	**299.9**	276.4
Property, plant and equipment (Note 6)	**4,846.3**	4,659.7
Goodwill	**248.2**	248.2
Total assets	**5,891.1**	5,932.2
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**144.5**	137.5
Current portion of long-term debt (Note 7)	**34.3**	57.9
Current portion of asset retirement obligations (Note 8)	**18.0**	18.0
Dividends payable (Note 11)	**17.6**	34.7
Risk management contracts (Note 10)	**7.6**	1.6
	222.0	249.7
Risk management contracts (Note 10)	**4.2**	0.7
Long-term debt (Note 7)	**973.2**	1,056.4
Long-term incentive compensation liability (Note 12)	**26.8**	19.5
Other deferred liabilities	**13.2**	14.1
Asset retirement obligations (Note 8)	**678.6**	555.2
Deferred taxes	**629.0**	648.1
Total liabilities	**2,547.0**	2,543.7
Commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Shareholders' capital	**4,606.3**	4,536.9
Contributed surplus	**14.9**	12.6
Deficit	**(1,277.5)**	(1,161.1)
Accumulated other comprehensive income	**0.4**	0.1
Total shareholders' equity	**3,344.1**	3,388.5
Total liabilities and shareholders' equity	**5,891.1**	5,932.2

See accompanying notes to the condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions, except per share amounts)	**2016**	2015	**2016**	2015
REVENUE				
Sales of crude oil, natural gas, condensate, natural gas liquids and other income	**234.9**	321.7	**466.1**	628.3
Royalties	**(21.1)**	(25.0)	**(39.4)**	(55.4)
	213.8	296.7	**426.7**	572.9
Gain (loss) on risk management contracts (Note 10)	**(84.1)**	(10.4)	**(23.0)**	111.9
	129.7	286.3	**403.7**	684.8
EXPENSES				
Transportation	**23.4**	23.3	**48.2**	48.9
Operating	**68.6**	80.5	**137.6**	158.9
Exploration and evaluation expenses (Note 5)	**—**	44.4	**1.7**	44.4
General and administrative	**27.9**	23.2	**59.7**	33.9
Interest and financing charges	**12.3**	12.1	**25.4**	25.0
Accretion of asset retirement obligations (Note 8)	**3.0**	3.2	**6.1**	6.8
Depletion, depreciation, amortization and impairment (Note 6)	**126.0**	150.8	**260.2**	329.5
Loss (gain) on foreign exchange	**2.1**	(16.4)	**(65.3)**	71.7
Gain on short-term investment	**(0.5)**	(0.1)	**(0.4)**	(0.5)
Gain on business combination (Note 4)	**(40.2)**	—	**(40.2)**	—
Gain on disposal of petroleum and natural gas properties	**—**	(10.6)	**—**	(23.3)
	222.6	310.4	**433.0**	695.3
Provision for (recovery of) income taxes				
Current	**6.0**	1.8	**(1.0)**	4.1
Deferred	**(40.8)**	25.1	**(34.3)**	38.1
	(34.8)	26.9	**(35.3)**	42.2
Net income (loss)	**(58.1)**	(51.0)	**6.0**	(52.7)
Net income (loss) per share (Note 11)				
Basic	**(0.17)**	(0.15)	**0.02**	(0.16)
Diluted	**(0.17)**	(0.15)	**0.02**	(0.16)

See accompanying notes to the condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions)	**2016**	2015	**2016**	2015
Net income (loss)	**(58.1)**	(51.0)	**6.0**	(52.7)
Other comprehensive income (loss)				
Items that may be reclassified into earnings, net of tax:				
Net unrealized gain (loss) on reclamation fund investments	**0.2**	(0.1)	**0.3**	0.2
Other comprehensive income (loss)	**0.2**	(0.1)	**0.3**	0.2
Comprehensive income (loss)	**(57.9)**	(51.1)	**6.3**	(52.5)

See accompanying notes to the condensed interim consolidated financial statements.

ARC RESOURCES LTD.

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

For the six months ended June 30

(Cdn$ millions)	Shareholders' Capital (Note 11)	Contributed Surplus	Deficit	Accumulated other comprehensive income	Total Shareholders' Equity
December 31, 2014	3,951.1	8.6	(407.9)	—	3,551.8
Net loss	—	—	(52.7)	—	(52.7)
Other comprehensive income	—	—	—	0.2	0.2
Total comprehensive income (loss)	—	—	(52.7)	0.2	(52.5)
Shares issued for cash	402.7	—	—	—	402.7
Shares issued pursuant to the dividend reinvestment program	70.6	—	—	—	70.6
Shares issued pursuant to the stock dividend program	22.3	—	—	—	22.3
Cancellation of shares and return of accrued dividends	(0.1)	0.1	—	—	—
Share issue costs (1)	(12.5)	—	—	—	(12.5)
Recognized under share-based compensation plans (Note 12)	—	1.6	—	—	1.6
Dividends declared	—	—	(203.7)	—	(203.7)
June 30, 2015	4,434.1	10.3	(664.3)	0.2	3,780.3
December 31, 2015	4,536.9	12.6	(1,161.1)	0.1	3,388.5
Net income	**—**	**—**	**6.0**	**—**	**6.0**
Other comprehensive income	**—**	**—**	**—**	**0.3**	**0.3**
Total comprehensive income	**—**	**—**	**6.0**	**0.3**	**6.3**
Shares issued for cash on exercise of stock options	**0.2**	**—**	**—**	**—**	**0.2**
Shares issued pursuant to the dividend reinvestment program	**52.2**	**—**	**—**	**—**	**52.2**
Shares issued pursuant to the stock dividend program	**17.0**	**—**	**—**	**—**	**17.0**
Share issuance costs	**(0.1)**	**—**	**—**	**—**	**(0.1)**
Recognized under share-based compensation plans (Note 12)	**—**	**2.4**	**—**	**—**	**2.4**
Contributed surplus transferred on exercise of share options (Note 12)	**0.1**	**(0.1)**	**—**	**—**	**—**
Dividends declared	**—**	**—**	**(122.4)**	**—**	**(122.4)**
June 30, 2016	**4,606.3**	**14.9**	**(1,277.5)**	**0.4**	**3,344.1**

(1) Amount is net of deferred tax of $4.2 million.

See accompanying notes to the condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions)	**2016**	2015	**2016**	2015
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss)	**(58.1)**	(51.0)	**6.0**	(52.7)
Add items not involving cash:				
Unrealized loss (gain) on risk management contracts	**149.5**	61.2	**156.7**	(16.5)
Accretion of asset retirement obligations (Note 8)	**3.0**	3.2	**6.1**	6.8
Depletion, depreciation, amortization and impairment (Note 6)	**126.0**	150.8	**260.2**	329.5
Exploration and evaluation expenses (Note 5)	**—**	44.4	**1.7**	44.4
Unrealized loss (gain) on foreign exchange	**2.1**	(16.9)	**(65.3)**	71.4
Gain on business combination (Note 4)	**(40.2)**	—	**(40.2)**	—
Gain on disposal of petroleum and natural gas properties	**—**	(10.6)	**—**	(23.3)
Deferred tax expense (recovery)	**(40.8)**	25.1	**(34.3)**	38.1
Other (Note 14)	**0.2**	0.1	**0.9**	0.1
Net change in other liabilities (Note 14)	**7.8**	1.7	**6.7**	(9.9)
Change in non-cash working capital (Note 14)	**11.5**	(5.9)	**15.2**	(40.1)
	161.0	202.1	**313.7**	347.8
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES				
Repayment of long-term debt under revolving credit facilities, net	**—**	—	**—**	(83.8)
Repayment of senior notes	**(29.2)**	(28.4)	**(42.5)**	(40.9)
Issuance of common shares	**0.2**	—	**0.2**	402.7
Share issuance costs	**(0.1)**	(0.1)	**(0.1)**	(16.7)
Cash dividends paid	**(27.0)**	(53.9)	**(70.3)**	(108.8)
	(56.1)	(82.4)	**(112.7)**	152.5
CASH FLOW USED IN INVESTING ACTIVITIES				
Acquisition of petroleum and natural gas properties (Notes 4, 6)	**(111.6)**	(14.1)	**(126.7)**	(14.1)
Disposal of petroleum and natural gas properties	**3.0**	14.9	**3.0**	25.9
Property, plant and equipment development expenditures (Note 6)	**(103.5)**	(97.4)	**(147.0)**	(228.5)
Exploration and evaluation asset expenditures (Note 5)	**(9.0)**	(1.1)	**(24.5)**	(0.8)
Net reclamation fund withdrawals	**(1.0)**	(1.0)	**(0.1)**	3.0
Change in non-cash working capital (Note 14)	**10.3**	10.4	**(14.4)**	(70.9)
	(211.8)	(88.3)	**(309.7)**	(285.4)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(106.9)**	31.4	**(108.7)**	214.9
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**165.5**	190.6	**167.3**	7.1
CASH AND CASH EQUIVALENTS, END OF PERIOD	**58.6**	222.0	**58.6**	222.0
The following are included in cash flow from operating activities:				
Income taxes paid in cash	**—**	4.5	**—**	42.1
Interest paid in cash	**9.3**	10.0	**25.6**	25.8

See accompanying notes to the condensed interim consolidated financial statements.

1. STRUCTURE OF THE BUSINESS

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

ARC was incorporated in Alberta, Canada and the Company’s registered office and principal place of business is located at 1200, 308 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0H7.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB"). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with ARC's audited consolidated financial statements for the year ended December 31, 2015. 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, 2015. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year, except as noted in Note 3 "Accounting Policies." There have been no significant changes to the use of estimates or judgments since December 31, 2015.

At December 31, 2015, the financial statements included the accounts of ARC and its wholly owned subsidiaries, including ARC Resources General Partnership (the "partnership") and 1504793 Alberta Ltd. Effective March 1, 2016, ARC wound up 1504793 Alberta Ltd. resulting in the dissolution of the partnership. All transactions were executed on a tax deferred basis.

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

These financial statements were authorized for issue by the Board of Directors on July 28, 2016.

3. ACCOUNTING POLICIES

Newly Applied Accounting Policies

Business combinations are accounted for using the acquisition method under IFRS 3 *Business Combinations*. Management's determination of whether a transaction constitutes a business combination or an asset acquisition is determined based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. The asset retirement obligation ("ARO") associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in ARO and property, plant and equipment ("PP&E") on the balance sheet. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, a gain on business combination is recognized immediately in the condensed interim consolidated statements of income (the "statements of income"). A deferred tax asset or liability arising from the acquired net assets is also recognized in a business combination. Any resulting goodwill or a gain resulting from a bargain purchase is not considered to be taxable income. Transaction costs associated with a business combination are expensed as incurred.

In a business combination achieved in stages whereby joint control does not exist or is not retained, any previously held equity interest by ARC in the acquiree is re-measured at its acquisition date fair value and any resulting gain or loss is recognized immediately in the statements of income. Obtaining control of a business that is a joint operation for which ARC previously held an interest immediately before the acquisition date (either as a joint operator or as a party to a joint arrangement) is considered to be a business combination achieved in stages whereby joint control is not retained.

Future Accounting Policy Changes

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by ARC on January 1, 2018 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by ARC on January 1, 2018 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by ARC on January 1, 2019 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

4. BUSINESS COMBINATION

On June 28, 2016, ARC completed the acquisition of certain properties producing mainly light, sweet crude oil in the Pembina area of Alberta. The major assets acquired consisted of additional working interest in properties where ARC already held a significant interest. The transaction was recorded as a business combination under IFRS 3. Refer to the section entitled *"Newly Applied Accounting Policies"* in Note 3 *"Accounting Policies."*

Determination of the fair value of PP&E acquired in a business combination requires Management to make assumptions and estimates about future events. The fair value of crude oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from crude oil and natural gas production. These assumptions and estimates generally require judgment and include estimates of reserves acquired, liabilities assumed, forecast benchmark commodity prices, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired, goodwill or gain on business combination.

The preliminary estimates of the net assets acquired and gain on business combination disclosed below are based on information that existed at the time of the preparation of these financial statements. Subsequent amendments may be made to these amounts as the estimates are finalized. The pro-forma information provided below is not necessarily indicative of the actual results that would have been achieved if the acquisition date for the business combination had been as of the beginning of the annual reporting period.

Net assets acquired	
Development and production assets	174.2
Asset retirement obligations	(12.7)
Deferred income tax	(13.3)
Total identifiable net assets	148.2
Gain on business combination	(36.7)
Total net assets acquired, net of gain on business combination	**111.5**

Consideration paid	
Cash consideration	**111.5**

The gain on business combination arose as a result of the strategic nature of the divestiture by the seller combined with ARC's established leadership position in the acquired assets. If the transaction had taken place on January 1, 2016, it is estimated that the assets acquired would have contributed incremental revenues net of royalties and net income of $15.4 million and $1.4 million, respectively, for the six months ended June 30, 2016.

For the assets that ARC held a prior working interest in and acquired control of as a result of the transaction, the pre-acquisition working interest was re-measured to a fair value of $127.8 million, resulting in an increase in PP&E of $7 million, which was composed of a recovery of impairment of $1.6 million, an additional gain on business combination of $3.5 million, and a deferred tax liability of $1.9 million.

5. EXPLORATION AND EVALUATION ("E&E") ASSETS

Carrying amount	
Balance, December 31, 2015	276.4
Additions	**24.5**
E&E expenses	**(1.7)**
Change in asset retirement cost	**0.7**
Balance, June 30, 2016	**299.9**

ARC has certain E&E properties that have sales of petroleum products associated with production from test wells.

For the three months ended June 30, 2016 and 2015, these operating results have been recognized in the statements of income and comprised sales of crude oil, natural gas, condensate and natural gas liquids of $3.4 million and $1.7 million, royalties of $0.3 million and $nil, operating expenses of $1.2 million and $0.7 million, and transportation expenses of $0.3 million and $0.3 million, respectively.

For the six months ended June 30, 2016 and 2015, these operating results have been recognized in the statements of income and comprised sales of crude oil, natural gas, condensate and natural gas liquids of $4.2 million and $4.1 million, royalties of $0.4 million and $0.1 million, operating expenses of $2 million and $2.8 million, and transportation expenses of $0.4 million and $0.7 million, respectively. All operating cash flows associated with E&E assets for the three and six months ended June 30, 2016 and 2015 are reflected in cash flow from operating activities.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	**Development and Production Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2015	7,981.2	63.9	8,045.1
Additions	**146.4**	**0.8**	**147.2**
Acquisitions	**181.9**	**—**	**181.9**
Change in asset retirement cost	**130.9**	**—**	**130.9**
Dispositions	**(61.5)**	**—**	**(61.5)**
Balance, June 30, 2016	**8,378.9**	**64.7**	**8,443.6**
Accumulated depletion, depreciation, amortization ("DD&A") and impairment			
Balance, December 31, 2015	(3,351.2)	(34.2)	(3,385.4)
DD&A and impairment	**(257.5)**	**(2.7)**	**(260.2)**
Accumulated depletion and impairment associated with dispositions	**48.0**	**—**	**48.0**
Inventory depletion	**0.3**	**—**	**0.3**
Balance, June 30, 2016	**(3,560.4)**	**(36.9)**	**(3,597.3)**
Carrying amounts			
Balance, December 31, 2015	4,630.0	29.7	4,659.7
Balance, June 30, 2016	**4,818.5**	**27.8**	**4,846.3**

For the three and six months ended June 30, 2016, $5.7 million and $10.1 million of direct and incremental general and administrative ("G&A") expenses were capitalized to PP&E ($5.1 million and $12.8 million for the three and six months ended June 30, 2015), respectively.

7. LONG-TERM DEBT

	U.S. $ Denominated		Canadian $ Amount	
	June 30, 2016	December 31, 2015	**June 30, 2016**	December 31, 2015
Senior notes				
Master Shelf Agreement				
5.42% US$ note	**18.8**	18.8	**24.4**	26.0
4.98% US$ note	**30.0**	40.0	**39.0**	55.4
3.72% US$ note	**150.0**	150.0	**195.1**	207.6
2004 note issuance				
5.10% US$ note	**—**	4.8	**—**	6.6
2009 note issuance				
7.19% US$ note	**—**	13.5	**—**	18.7
8.21% US$ note	**35.0**	35.0	**45.5**	48.4
6.50% Cdn$ note	**—**	—	**—**	5.8
2010 note issuance				
5.36% US$ note	**150.0**	150.0	**195.1**	207.6
2012 note issuance				
3.31% US$ note	**60.0**	60.0	**78.1**	83.0
3.81% US$ note	**300.0**	300.0	**390.3**	415.2
4.49% Cdn$ note	**—**	—	**40.0**	40.0
Total long-term debt outstanding	**743.8**	772.1	**1,007.5**	1,114.3
Long-term debt due within one year			**34.3**	57.9
Long-term debt due beyond one year			**973.2**	1,056.4

At June 30, 2016, the fair value of all senior notes is $1,023.4 million ($1,086.4 million as at December 31, 2015), compared to a carrying value of $1,007.5 million ($1,114.3 million as at December 31, 2015).

8. ASSET RETIREMENT OBLIGATIONS ("ARO")

ARC has estimated the net present value of its total ARO to be $696.6 million as at June 30, 2016 ($573.2 million at December 31, 2015) based on a total future undiscounted liability of $1.3 billion ($1.2 billion at December 31, 2015).

	Six Months Ended June 30, 2016	Year Ended December 31, 2015
Balance, beginning of period	573.2	616.1
Increase in liabilities relating to development activities	**1.5**	5.3
Increase in liabilities relating to change in estimates and discount rate [1]	**80.8**	32.4
Settlement of obligations	**(3.9)**	(12.3)
Accretion	**6.1**	13.4
Acquisitions	**13.9**	—
Revaluation of obligations acquired in business combination [2]	**35.4**	—
Dispositions	**(10.4)**	(81.7)
Balance, end of period	**696.6**	573.2
Expected to be incurred within one year	**18.0**	18.0
Expected to be incurred beyond one year	**678.6**	555.2

(1) Relates to changes in discount rate and anticipated settlement dates of ARO.

(2) Relates to the revaluation of obligations acquired in a business combination at the end of the period using the risk-free discount rate. At the date of acquisition, the acquired ARO is recognized at fair value.

The Bank of Canada's long-term risk-free bond rate of 1.7 per cent (2.2 per cent at December 31, 2015) and an inflation rate of 2 per cent (2 per cent at December 31, 2015) were used to calculate the present value of ARO at June 30, 2016.

9. CAPITAL MANAGEMENT

ARC manages its capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. ARC is able to change its capital structure by issuing new shares, new debt or changing its dividend policy.

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

- fund its development and exploration program;
- provide financial flexibility to execute on strategic opportunities; and
- maintain a dividend policy that, in normal times, in the opinion of Management and the Board of Directors, is sustainable.

ARC manages the following capital:

- common shares; and
- net debt.

When evaluating ARC’s capital structure, Management intends to keep its net debt balance to a ratio of less than two times annualized funds from operations for temporary periods with a long-term strategy to keep its net debt balance to a ratio of between one to 1.5 times annualized funds from operations and less than 20 per cent of total market capitalization.

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 fund sustaining capital and 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 charges that are nonrecurring. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures for other entities.

Funds from operations for the three and six months ended June 30, 2016 and 2015 is calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Cash flow from operating activities	**161.0**	202.1	**313.7**	347.8
Net change in other liabilities (Note 14)	**(7.8)**	(1.7)	**(6.7)**	9.9
Change in non-cash working capital (Note 14)	**(11.5)**	5.9	**(15.2)**	40.1
Funds from operations (1)	**141.7**	206.3	**291.8**	397.8

(1) When applicable, funds from operations is further adjusted to include any portion of unrealized gains and losses on risk management contracts settled annually that relate to current period production. This adjustment was not applicable for the three and six months ended June 30, 2016 and 2015.

Net Debt and Total Capitalization

Net debt is used by Management as a key measure to assess the Company's liquidity. Total capitalization is used by Management and ARC's investors in analyzing the Company's balance sheet strength and liquidity.

	June 30, 2016	June 30, 2015
Long-term debt (1)	**1,007.5**	1,020.6
Accounts payable and accrued liabilities	**144.5**	204.0
Dividends payable	**17.6**	34.1
Cash and cash equivalents, accounts receivable, prepaid expenses and short-term investment	**(200.3)**	(380.6)
Net debt	**969.3**	878.1
Shares outstanding (millions) (2)	**351.1**	341.5
Share price ($) (3)	**22.11**	21.40
Market capitalization	**7,762.8**	7,308.1
Net debt obligations	**969.3**	878.1
Total capitalization	**8,732.1**	8,186.2
Net debt as a percentage of total capitalization (%)	**11.1**	10.7
Net debt to annualized funds from operations (ratio) (4)	**1.7**	1.1

(1) Includes current portion of long-term debt at June 30, 2016 and 2015 of $34.3 million and $52.8 million, respectively.
(2) Basic shares outstanding as at June 30, 2016 and 2015, respectively.
(3) TSX closing price as at June 30, 2016 and 2015, respectively.
(4) Annualized funds from operations is calculated by dividing year-to-date funds from operations by the number of days in the same period and then multiplying the quotient by the number of days in the year. Annualized funds from operations is $586.8 million and $802.2 million for the six months ended June 30, 2016 and 2015, respectively.

10. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instruments

ARC's financial instruments include cash and cash equivalents, short-term investment, accounts receivable, risk management contracts, reclamation fund assets, accounts payable and accrued liabilities, dividends payable, long-term debt, and long-term incentive compensation liability.

ARC’s financial instruments that are carried at fair value on the condensed interim consolidated balance sheets (the "balance sheets") include cash and cash equivalents, short-term investment, risk management contracts, and reclamation fund assets. The fair value of long-term debt is disclosed in Note 7. To estimate the fair value of these instruments, ARC uses quoted market prices when available, or third-party models and valuation methodologies that use observable market data. Fair value is measured using the assumptions that market participants would use, including transaction-specific details and non-performance risk.

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

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

All of ARC’s financial instruments carried at fair value are transacted in active markets. ARC’s cash and cash equivalents, short-term investment, and reclamation fund assets 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. ARC does not have any financial instruments classified as Level 3.

ARC determines whether transfers have occurred between levels in the hierarchy by reassessing its hierarchy classifications at each reporting date based on the lowest level input that is significant to the fair value measurement as a whole. There were no transfers between levels in the hierarchy in the six months ended June 30, 2016 or 2015.

The carrying values of ARC's accounts receivable, accounts payable and accrued liabilities, dividends payable, and long-term incentive compensation liability approximate their fair values.

Financial Assets and Financial Liabilities Subject to Offsetting

ARC's risk management contracts are subject to master netting agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities on the Company's balance sheets in all circumstances. ARC manages these contracts on the basis of its net exposure to market risks and therefore measures their fair value consistently with how market participants would price the net risk exposure at the reporting date under current market conditions.

The following is a summary of ARC's financial assets and financial liabilities that are subject to offsetting as at June 30, 2016 and December 31, 2015:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset in Balance Sheet	Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet
As at June 30, 2016					
Risk management contracts					
Current asset	**137.1**	**(20.5)**	**116.6**	**(1.1)**	**115.5**
Long-term asset	**164.3**	**(16.8)**	**147.5**	**(1.3)**	**146.2**
Current liability	**(28.2)**	**20.5**	**(7.7)**	**0.1**	**(7.6)**
Long-term liability	**(21.0)**	**16.8**	**(4.2)**	**—**	**(4.2)**
Net position	**252.2**	**—**	**252.2**	**(2.3)**	**249.9**
As at December 31, 2015					
Risk management contracts					
Current asset	214.3	(5.0)	209.3	(1.8)	207.5
Long-term asset	210.0	(3.5)	206.5	(1.8)	204.7
Current liability	(6.6)	5.0	(1.6)	—	(1.6)
Long-term liability	(4.2)	3.5	(0.7)	—	(0.7)
Net position	413.5	—	413.5	(3.6)	409.9

Risk Management Contracts

The following is a summary of all risk management contracts in place, excluding premiums, as at June 30, 2016. Risk management contract premiums have been disclosed as commitments in Note 13.

Financial WTI Crude Oil Contracts (1)

Term		Contract	Volume bbl/d	Sold Swap US$/bbl	Bought Put US$/bbl	Sold Call US$/bbl	Sold Put US$/bbl
1-Jul-16	31-Dec-16	Swap	2,000	42.10	—	—	—
1-Jul-16	31-Dec-16	Collar	3,000	—	40.00	50.00	—
1-Jan-17	31-Dec-17	Collar	3,000	—	40.00	50.00	—
1-Jan-17	31-Dec-17	3-Way	4,000	—	42.50	56.62	30.00

(1) Settled on the monthly average price.

Financial Cdn$ WTI Crude Oil Contracts (2)

Term		Contract	Volume bbl/d	Sold Swap Cdn$/bbl	Bought Put Cdn$/bbl	Sold Call Cdn$/bbl
1-Jul-16	31-Dec-16	Swap	7,000	77.20	—	—
1-Jul-16	30-Jun-17	Collar	3,000	—	70.00	83.38

(2) Settled on the monthly average price (monthly average US$/bbl multiplied by the Bank of Canada monthly average noon day rate).

Financial MSW Crude Oil Contracts (3)

Term		Contract	Volume bbl/d	Sold Swap US$/bbl
1-Jul-16	31-Dec-16	Swap	10,000	(3.72)
1-Jan-17	31-Dec-17	Swap	4,000	(3.66)

(3) Settled on the monthly average Mixed Sweet Blend ("MSW") Differential to WTI. The MSW differential refers to the discount between WTI and the mixed sweet crude grade at Edmonton, calculated on a monthly weighted average basis.

Financial NYMEX Henry Hub Natural Gas Contracts (4)						
Term		Contract	Volume MMbtu/d	Sold Swap US$/MMbtu	Bought Put US$/MMbtu	Sold Call US$/MMbtu
1-Jul-16	31-Dec-16	Swap	40,000	4.00	—	—
1-Jul-16	31-Dec-16	Collar	105,000	—	4.00	4.79
1-Jan-17	31-Dec-17	Swap	145,000	4.00	—	—
1-Jan-17	31-Dec-17	Collar	10,000	—	3.00	3.35
1-Jan-18	31-Dec-18	Collar	80,000	—	4.00	4.91
1-Jan-18	31-Dec-19	Collar	10,000	—	4.00	5.00
1-Jan-19	31-Dec-19	Collar	30,000	—	4.00	5.00

(4) NYMEX Henry Hub "Last Day" Settlement.

Financial AECO Natural Gas Contracts (5)						
Term		Contract	Volume GJ/d	Sold Swap Cdn$/GJ	Bought Put Cdn$/GJ	Sold Call Cdn$/GJ
1-Jul-16	31-Dec-16	Swap	30,000	2.99	—	—
1-Jan-17	31-Dec-17	Swap	50,000	2.61	—	—
1-Jan-18	31-Dec-18	Swap	40,000	2.96	—	—
1-Jan-19	31-Dec-19	Swap	20,000	3.16	—	—
1-Jan-19	31-Dec-19	Collar	10,000	—	3.00	3.30
1-Jan-20	31-Dec-20	Swap	30,000	3.35	—	—
1-Jan-20	31-Dec-20	Collar	30,000	—	3.08	3.60

(5) AECO Monthly (7a) index Cdn$/GJ.

Financial AECO Basis Ratio Swap Contracts (6)				
Term		Contract	Volume MMbtu/d	Sold Swap AECO/NYMEX %
1-Jul-16	31-Dec-16	Swap	10,000	88.4
1-Jul-16	31-Dec-17	Swap	110,000	90.6
1-Jul-16	30-Jun-18	Swap	20,000	89.9
1-Jan-17	31-Dec-17	Swap	10,000	86.1
1-Jan-17	31-Dec-18	Swap	5,000	77.0
1-Jan-18	31-Dec-18	Swap	45,000	81.9
1-Jan-18	30-Jun-19	Swap	20,000	90.8
1-Jul-18	31-Dec-18	Swap	20,000	85.4
1-Jan-19	31-Dec-19	Swap	20,000	81.7
1-Jul-19	31-Dec-19	Swap	20,000	80.7

(6) ARC receives NYMEX price based on Last Day settlement multiplied by AECO/NYMEX US$/MMbtu ratio; ARC pays AECO Monthly (7a) index US$/MMbtu.

Financial AECO Basis Fixed Price Swap Contracts (7)				
Term		Contract	Volume MMbtu/d	Sold Swap US$/MMbtu
1-Jan-17	31-Dec-17	Swap	65,000	(0.83)
1-Jan-17	31-Dec-18	Swap	5,000	(0.64)
1-Jan-18	31-Dec-18	Swap	40,000	(0.70)
1-Jan-19	31-Dec-19	Swap	35,000	(0.60)
1-Jan-20	31-Dec-20	Swap	35,000	(0.57)

(7) ARC receives NYMEX price based on Last Day settlement less AECO fixed price differential; ARC pays AECO (7a) monthly index US$/MMbtu.

Financial Electricity Heat Rate Contracts [8]				
			Volume	Heat Rate
Term		Contract	MWh	GJ/MWh
1-Jul-16	31-Dec-17	Heat Rate Swap	20	13.71

(8) ARC pays AECO Monthly (5a) x Heat Rate; ARC receives floating AESO Power Price (monthly average 24x7) Cdn$/MWh.

Financial Electricity Contracts [9]				
			Volume	Bought Swap
Term		Contract	MWh	Cdn$/MWh
1-Jul-16	31-Dec-16	Fixed Rate Swap	5	51.00

(9) AESO Power Price (monthly average 24x7) Cdn$/MWh.

11. SHAREHOLDERS' CAPITAL

(thousands of shares)	**Six Months Ended June 30, 2016**	Year Ended December 31, 2015
Common shares, beginning of period	347,084	319,439
Equity offering	**—**	17,859
Restricted shares issued pursuant to the LTRSA [1] Plan	**96**	100
Forfeited restricted shares pursuant to the LTRSA Plan	**(3)**	(7)
Unvested restricted shares held in trust pursuant to the LTRSA Plan	**(93)**	(93)
Dividend reinvestment program	**3,015**	7,563
Stock dividend program	**989**	2,224
Issued on exercise of share options	**11**	—
Cancelled shares	**—**	(1)
Common shares, end of period	**351,099**	347,084

(1) Long-term Restricted Share Award.

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

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of shares)	**2016**	2015	**2016**	2015
Weighted average common shares	**350,459**	340,418	**349,570**	336,850
Dilutive impact of share-based compensation [1]	**—**	—	**254**	—
Weighted average common shares - diluted	**350,459**	340,418	**349,824**	336,850

(1) Excludes impact of four million weighted average common shares related to share options and 0.2 million weighted average common shares related to LTRSAs that were anti-dilutive for the three months ended June 30, 2016 and 3.2 million weighted average common shares related to share options that were anti-dilutive for the six months ended June 30, 2016 (3.4 million weighted average common shares related to share options and 0.1 million weighted average common shares related to LTRSAs for the three and six months ended June 30, 2015).

Dividends declared for the three and six months ended June 30, 2016 were $0.15 and $0.35 per common share, respectively ($0.30 and $0.60 for the three and six months ended June 30, 2015).

On July 18, 2016, the Board of Directors declared a dividend of $0.05 per common share, payable in cash or common shares under the Stock Dividend Program, to shareholders of record on July 29, 2016. The dividend payment date is August 15, 2016. Of the $17.6 million in dividends payable at June 30, 2016, $1.6 million is payable in common shares under the Stock Dividend Program ($4.5 million at December 31, 2015).

12. 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 six months ended June 30, 2016:

(number of units, thousands)	RSUs	PSUs (1)	DSUs
Balance, December 31, 2015	730	1,577	317
Granted	**210**	**376**	**53**
Distributed	**(139)**	**(207)**	**—**
Forfeited	**(97)**	**(86)**	**—**
Balance, June 30, 2016	**704**	**1,660**	**370**

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

Compensation charges (recoveries) relating to the RSU and PSU Plan and DSU Plan can be reconciled as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
G&A expenses (recoveries)	**11.5**	4.4	**21.6**	(2.3)
Operating expense	**1.3**	0.3	**2.7**	0.5
PP&E	**1.3**	0.6	**2.1**	0.1
Total compensation charges (recoveries)	**14.1**	5.3	**26.4**	(1.7)
Cash payments	**—**	—	**11.7**	14.4

At June 30, 2016, $27.5 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet ($20 million at December 31, 2015) and $26.8 million was included in the long-term incentive compensation liability ($19.5 million at December 31, 2015). A recoverable amount of $0.5 million was included in accounts receivable at June 30, 2016 ($0.3 million at December 31, 2015).

Share Option Plan

The changes in total share options outstanding and related weighted average exercise prices for the six months ended June 30, 2016 were as follows:

	Share Options (number of units, thousands)	Weighted Average Exercise Price ($)
Balance, December 31, 2015	3,221	21.95
Granted	**955**	**21.13**
Exercised	**(11)**	**15.60**
Forfeited	**(155)**	**21.62**
Balance, June 30, 2016	**4,010**	**21.47**
Exercisable, June 30, 2016	**707**	**18.01**

The following table summarizes information regarding share options outstanding at June 30, 2016:

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 ($)
15.60 - 20.00	796	15.60	2.98	393	15.60
20.01 - 25.00	2,732	21.55	5.45	314	21.01
25.01 - 30.74	482	30.74	4.97	—	—
Total	4,010	21.47	4.90	707	18.01

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Grant date share price ($)	**21.13**	21.86
Exercise price ($) (1)	**21.13**	21.86
Expected annual dividends ($)	**0.60**	1.20
Expected volatility (%) (2)	**33.00**	37.00
Risk-free interest rate (%)	**0.88**	1.40
Expected life of share option (3)	**5.5 to 6 years**	5.5 to 6 years
Fair value per share option ($)	**3.70**	5.68

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

ARC recorded compensation expense of $1.2 million and $2.1 million relating to the share option plan for the three and six months ended June 30, 2016 ($0.7 million and $1.5 million for the three and six months ended June 30, 2015). During the three and six months ended June 30, 2016, $0.1 million and $0.2 million of share option compensation charges were capitalized to PP&E ($nil and $0.1 million for the three and six months ended June 30, 2015).

LTRSA Plan

The changes in total LTRSA outstanding and related fair value per restricted share for the six months ended June 30, 2016 were as follows:

	LTRSA (number of units, thousands)	**Fair Value per Restricted Share ($)**
Balance, December 31, 2015	**93**	**21.54**
Granted	**94**	**21.13**
Forfeited	**(3)**	**21.86**
Balance, June 30, 2016	**184**	**21.33**

ARC recorded G&A expenses of $0.7 million relating to the cash payment under the LTRSA Plan during the three and six months ended June 30, 2016 and 2015. At June 30, 2016, $0.7 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet ($nil at December 31, 2015).

13. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at June 30, 2016:

	Payments Due by Period				
	1 Year	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Debt repayments (1)	34.3	165.7	213.5	594.0	1,007.5
Interest payments (2)	43.6	78.3	61.0	54.5	237.4
Reclamation fund contributions (3)	3.2	6.1	5.6	44.3	59.2
Purchase commitments	54.8	17.9	7.2	4.7	84.6
Transportation commitments	75.9	129.0	85.7	214.2	504.8
Operating leases	15.6	29.2	27.1	37.6	109.5
Risk management contract premiums (4)	5.2	3.4	0.3	—	8.9
Total contractual obligations and commitments	**232.6**	**429.6**	**400.4**	**949.3**	**2,011.9**

(1) Long-term and current portion of long-term debt.
(2) Fixed interest payments on senior notes.
(3) Contribution commitments to a restricted reclamation fund associated with the Redwater property.
(4) Fixed premiums to be paid in future periods on certain commodity price risk management contracts.

On June 29, 2016, ARC entered into a binding agreement to acquire an additional working interest in certain producing properties in the Pembina area of Alberta for cash consideration of approximately $35 million, subject to final adjustments. These assets produce approximately 800 barrels per day of light, sweet crude oil. The transaction is expected to close in August.

Subsequent to June 30, 2016, ARC entered into an additional gas transportation commitment for ten years totaling approximately $31.5 million.

14. 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 expenses which are included in both operating and G&A expense line items.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Operating	**8.5**	9.2	**18.2**	18.5
G&A	**22.7**	18.5	**47.9**	28.5
Total employee compensation expenses	**31.2**	27.7	**66.1**	47.0

Cash Flow Statement Presentation

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

	Three Months Ended June 30		Six Months Ended June 30	
Change in Non-Cash Working Capital	**2016**	2015	**2016**	2015
Accounts receivable	**(2.4)**	(0.6)	**(6.5)**	29.7
Accounts payable and accrued liabilities	**25.7**	9.6	**8.2**	(135.8)
Prepaid expenses	**(1.5)**	(4.5)	**(0.9)**	(4.9)
Total	**21.8**	4.5	**0.8**	(111.0)
Relating to:				
Operating activities	**11.5**	(5.9)	**15.2**	(40.1)
Investing activities	**10.3**	10.4	**(14.4)**	(70.9)
Total change in non-cash working capital	**21.8**	4.5	**0.8**	(111.0)

	Three Months Ended June 30		Six Months Ended June 30	
Other Non-Cash Items	**2016**	2015	**2016**	2015
Non-cash lease inducement	**(0.5)**	(0.5)	**(0.9)**	(0.9)
Gain on short-term investment	**(0.5)**	(0.1)	**(0.4)**	(0.5)
Share-based compensation expense	**1.2**	0.7	**2.2**	1.5
Total other non-cash items	**0.2**	0.1	**0.9**	0.1

	Three Months Ended June 30		Six Months Ended June 30	
Net Change in Other Liabilities	**2016**	2015	**2016**	2015
Long-term incentive compensation liability	**6.3**	3.5	**7.3**	(6.1)
Risk management contracts	**3.3**	(0.2)	**3.3**	(0.2)
ARO	**(1.8)**	(1.6)	**(3.9)**	(3.6)
Total net change in other liabilities	**7.8**	1.7	**6.7**	(9.9)