## 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 August 1, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements (the "financial statements") as at and for the three and six months June 30, 2018 , and the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2017, as well as ARC's Annual Information Form ("AIF"), each of which is filed on SEDAR at www.sedar.com. The Company has revised the presentation of certain prior period items in the unaudited condensed interim consolidated statement of income (loss); for additional information, refer to Note 3 "Changes in Accounting Policies" of the financial statements as at and for the period ended June 30, 2018. Any figures presented for periods prior to 2017 have not been restated. All financial information is reported in Canadian dollars and all per share information is based on diluted weighted average common shares, unless otherwise noted.

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

### ABOUT ARC RESOURCES LTD.

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

ARC's vision is to be a leading energy producer, focused on delivering profits through its strategy of **risk-managed value creation**. ARC is committed to providing superior long-term financial returns for its shareholders; this commitment is supported by its culture where respect for the individual is paramount and action and passion are rewarded. ARC runs its business in a manner that protects the safety of employees, communities and the environment. ARC's vision is realized through the four pillars of its strategy:

(1) **High-quality, long-life assets** – ARC's suite of assets includes primarily Montney and Cardium assets. ARC's Montney assets consist of world-class resource play properties, concentrated in northeast British Columbia and northern Alberta. The Montney assets provide substantial growth opportunities, which ARC will pursue to create value through long-term profitable development. Other assets are located in Alberta and include core assets in the Cardium formation in the Pembina area of Alberta. These assets deliver stable production and contribute cash to fund future development and support ARC's dividend.

(2) **Health, safety, environmental and operational excellence** – In the current competitive environment, achieving top-tier capital efficiency and low-cost operations while operating in a safe and environmentally responsible manner are critical to realizing profitability. ARC is committed, where it makes sense, to own and operate its own infrastructure and is deliberate in securing takeaway for its products at optimal pricing.

(3) **Financial flexibility** – ARC provides returns to shareholders through a combination of a monthly dividend, currently $0.05 per share per month, and the potential for capital appreciation. ARC's long-term goal is to fund dividend payments and capital expenditures necessary for the replacement of production declines using funds from operations[(1)]. ARC will finance profitable growth activities through a combination of sources including funds from operations, proceeds from property dispositions, debt capacity, and when appropriate, equity issuances. ARC chooses to maintain prudent debt levels, targeting its net debt to be between one and 1.5 times annualized funds from operations and less than 20 per cent of total capitalization over the long-term[(1)]. ARC maintains a risk management program to reduce the volatility of sales revenues and increase the certainty of funds from operations.

(4) **Top talent and strong leadership culture** – ARC is committed to the attraction, retention and development of talented and committed people in the industry. ARC's employees conduct business every day in a culture of trust, respect, integrity and accountability. Building leadership talent at all levels of the organization is a key focus. ARC is also committed to corporate leadership through community investment, environmental reporting practices and open communication with all stakeholders. As of August 1, 2018, ARC had 471 permanent employees with 251 professional, technical and support staff in the Calgary office, and 220 individuals located across ARC's operating areas in Alberta and British Columbia, Canada.

(1) Refer to Note 10 "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.

### Total Return to Shareholders

Total return includes both capital appreciation (depreciation) and dividend payments and represents the sum of the change in the market price of the common shares or the index in the period assuming dividends are reinvested in the security or the index. Total return is not a standardized measure and therefore may not be comparable with the calculation of similar measures for other entities. This measure is used to assist Management and investors in evaluating the Company's performance and rate of return on a per share basis, to facilitate comparison over time and to its peers.

**Table 1**

| **Total Returns** (1) | **Trailing One Year** | Trailing Three Year | Trailing Five Year |
|---|---|---|---|
| Dividends per share outstanding ($) | **0.60** | 2.15 | 4.55 |
| Capital depreciation per share outstanding ($) | **(3.38)** | (7.82) | (13.95) |
| Total return per share outstanding (%) | **(16.6)** | (28.3) | (39.1) |
| Annualized total return per share outstanding (%) | **(16.6)** | (10.5) | (9.4) |
| S&P/TSX Exploration & Producers Index annualized total return (%) (2) | **14.9** | (0.3) | (3.6) |

(1) Calculated as at June 30, 2018.
(2) Standard & Poor's/Toronto Stock Exchange Explorers and Producers Index.

### Return on Average Capital Employed ("ROACE")

ARC calculates ROACE, expressed as a percentage, as net income plus interest and total income taxes (recovery) divided by the average of the opening and closing capital employed for the twelve months preceding the period end. Capital employed is the total of net debt plus shareholders' equity. Refer to Note 10 "Capital Management" in the financial statements for additional discussion on net debt.

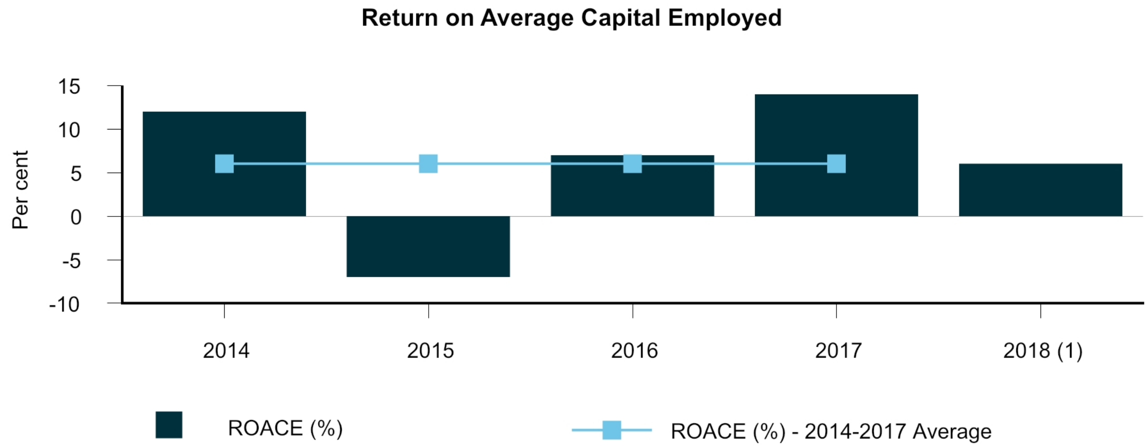
ARC uses ROACE as a measure of operating performance, to measure how efficiently Management utilizes the capital it has been provided and to demonstrate to shareholders the sustainability of the business model and that capital has been invested wisely over the long term. ROACE is presented by ARC for the twelve months preceding the period end, and four prior annual periods in Table 2 of this MD&A.

**Table 2**

| | **Twelve Months Ended** | Twelve Months Ended December 31 | | | | |
|---|---|---|---|---|---|---|
| **Return on Average Capital Employed** (1) | **June 30, 2018** | 2017 | 2016 | 2015 | 2014 | 2014-2017 Average (2) |
| ROACE (%) | **6** | 14 | 7 | (7) | 12 | 6 |

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.
(2) Average ROACE for years ended December 31, 2014 to 2017.

**Exhibit 1**




(1) Twelve months ended June 30, 2018.

Since 2014, ARC's production has grown by 17,052 boe per day, or 15 per cent, while its proved plus probable reserves have grown by 163.4 MMboe, or 24 per cent. Table 3 highlights ARC's production and reserves for the first six months of 2018 and over the past four years:

**Table 3**

| | **2018 YTD** | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Production | | | | | |
| Crude oil (bbl/d) | **24,965** | 24,380 | 31,510 | 32,762 | 36,525 |
| Condensate (bbl/d) | **6,236** | 5,650 | 3,626 | 3,430 | 3,667 |
| Natural gas (MMcf/d) | **551.3** | 525.8 | 475.6 | 444.9 | 406.1 |
| NGLs (bbl/d) | **6,356** | 5,273 | 4,274 | 3,819 | 4,518 |
| Total production (boe/d) (1) | **129,439** | 122,937 | 118,671 | 114,167 | 112,387 |
| Daily production per thousand shares (2) | **0.37** | 0.35 | 0.34 | 0.34 | 0.35 |
| Proved plus probable reserves (MMboe) (3)(4) | **n/a** | 836.1 | 736.7 | 686.9 | 672.7 |
| Proved plus probable reserves per share (boe) | **n/a** | 2.4 | 2.1 | 2.0 | 2.0 |

(1) Reported production amount is based on Company interest before royalty burdens.
(2) Daily production per thousand shares represents annual average daily production divided by the diluted weighted average common shares for the six months ended June 30, 2018 and for the respective annual periods ended December 31, 2017, 2016, 2015 and 2014.
(3) As determined by ARC's independent reserve evaluator with an effective date of December 31 for the years shown in accordance with the COGE Handbook.
(4) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests. For more information, see ARC's AIF as filed on SEDAR at www.sedar.com and the news release entitled *"ARC Resources Ltd. Announces Record 320 Per Cent Replacement of Produced Reserves Through Development Activities in 2017"* dated February 8, 2018.

**Exhibit 1a**

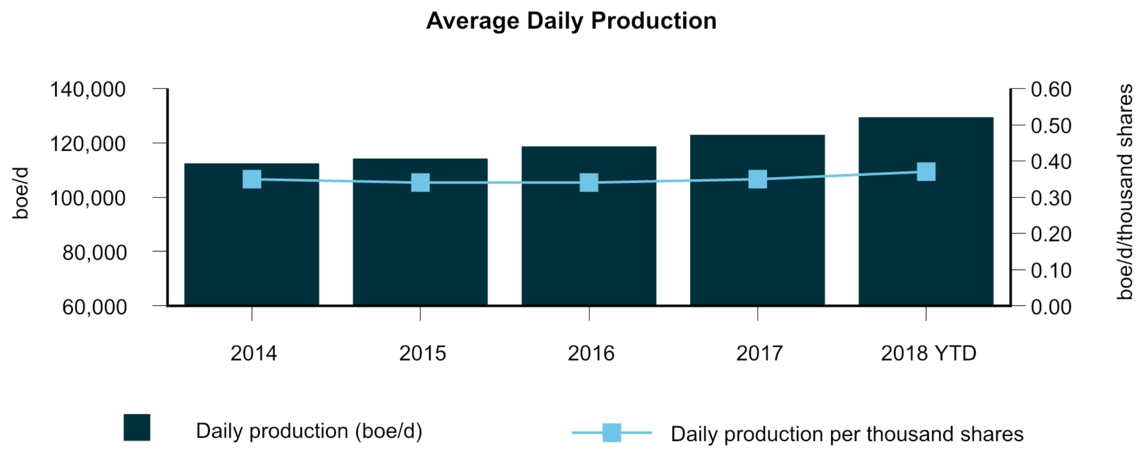
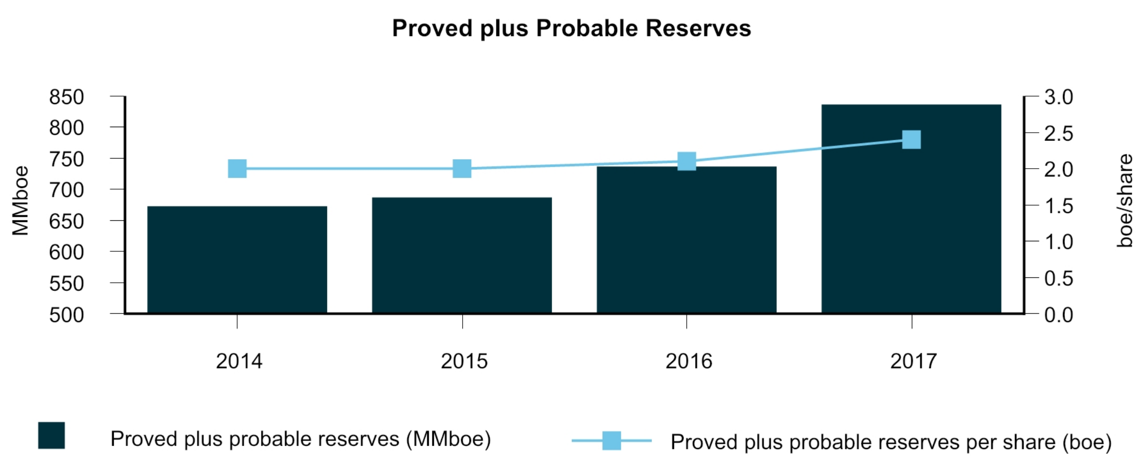



**Exhibit 1b**



## ECONOMIC ENVIRONMENT

ARC's 2018 financial and operating results were impacted by commodity prices and foreign exchange rates which are outlined in Table 4 below:

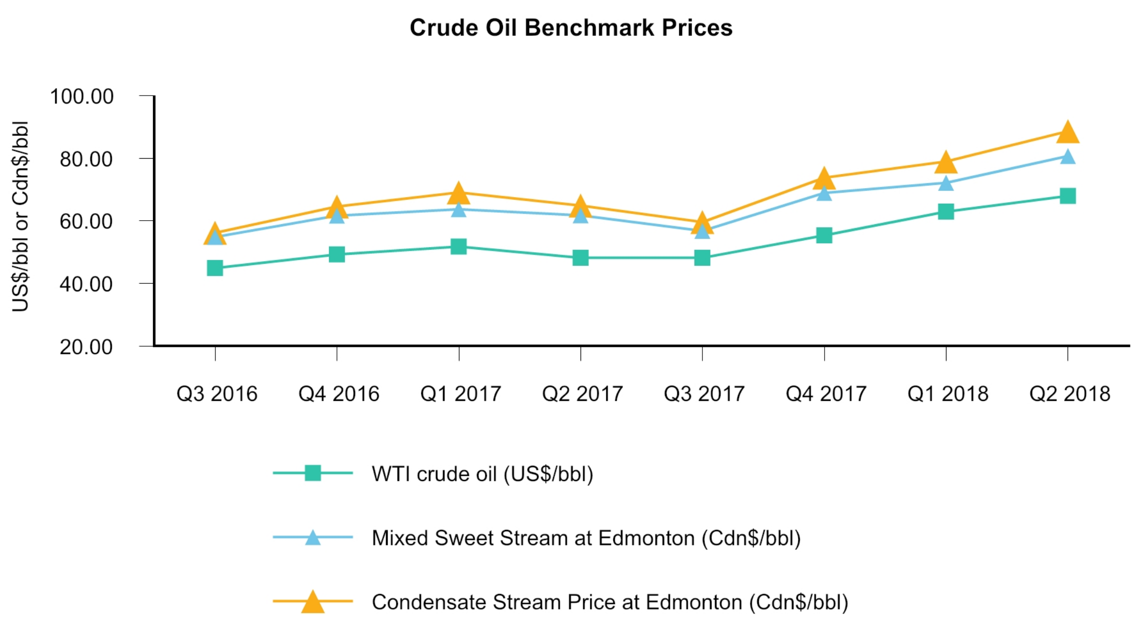
**Table 4**

| | Three Months Ended | | | | Six Months Ended | | |
|---|---|---|---|---|---|---|---|
| **Selected Benchmark Prices and Exchange Rates** (1) | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| WTI crude oil (US$/bbl) | 62.89 | **67.91** | 48.15 | 41 | **65.46** | 49.95 | 31 |
| Mixed Sweet Stream Price at Edmonton (Cdn$/bbl) | 72.15 | **80.63** | 61.74 | 31 | **76.45** | 62.78 | 22 |
| Condensate Stream Price at Edmonton (Cdn$/bbl) | 78.93 | **88.54** | 64.86 | 37 | **83.88** | 66.83 | 26 |
| NYMEX Henry Hub Last Day Settlement (US$/MMBtu) | 3.00 | **2.80** | 3.18 | (12) | **2.90** | 3.25 | (11) |
| Chicago Citygate Monthly Index (US$/MMBtu) | 3.27 | **2.58** | 3.01 | (14) | **2.93** | 3.20 | (8) |
| Malin Monthly Index (US$/MMBtu) | 2.51 | **1.98** | 2.78 | (29) | **2.24** | 2.95 | (24) |
| AECO 7A Monthly Index (Cdn$/Mcf) | 1.85 | **1.03** | 2.77 | (63) | **1.44** | 2.86 | (50) |
| Cdn$/US$ exchange rate | 1.27 | **1.29** | 1.34 | (4) | **1.28** | 1.33 | (4) |

(1) The benchmark prices do not reflect ARC's realized sales prices. For average realized sales prices, refer to Table 14 in this MD&A. Prices and exchange rates presented above represent averages for the respective periods.

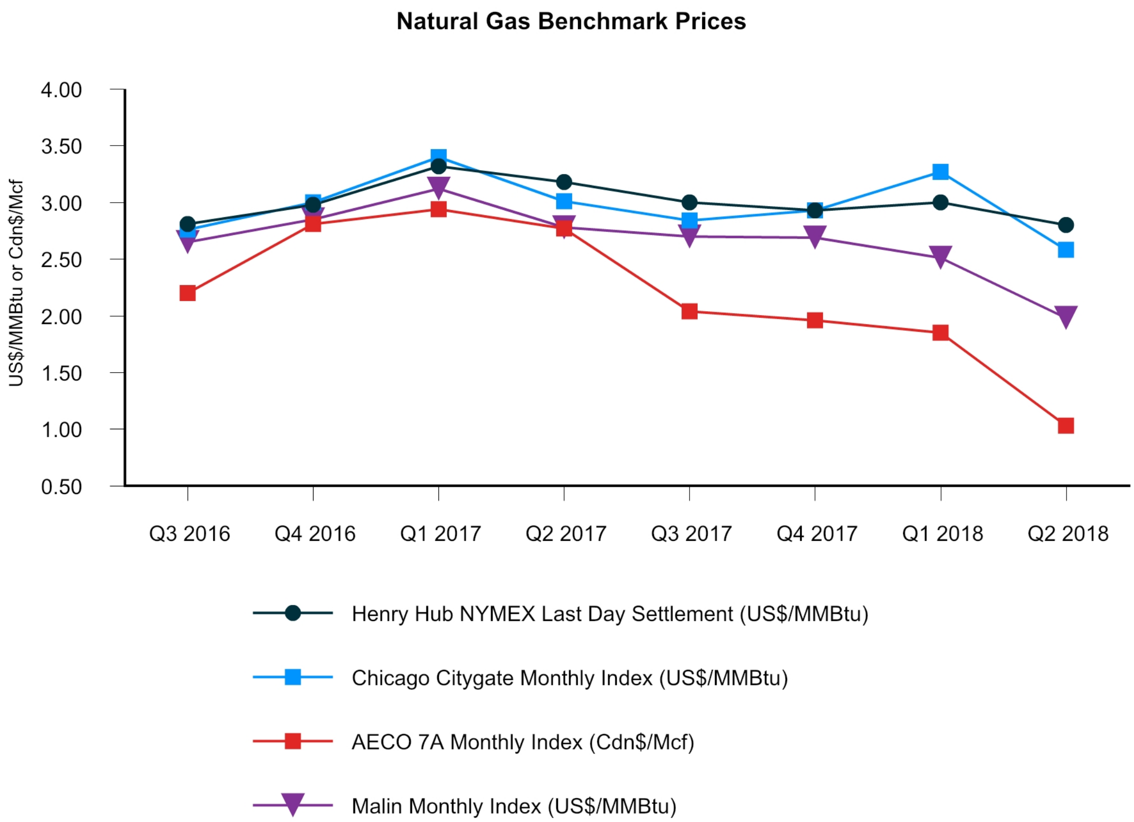
Global crude oil prices continued to strengthen in the second quarter of 2018, with the WTI benchmark price averaging eight per cent higher than the first quarter of 2018 and 41 per cent higher than the second quarter of 2017. With global demand growing and supply-demand levels rebalanced, OPEC members decided to increase production levels through the second half of 2018, earlier than had originally been agreed upon. While it is expected that global inventory levels should remain at historical norms, certain factors have contributed to the continued rise in crude oil prices following the announcement. Particularly, OPEC's spare productive capacity is very low and leaves little room to protect global markets from factors like US-imposed sanctions on Iran, falling Venezuelan output, and any unplanned disruptions. ARC's crude oil production is primarily referenced to the mixed sweet crude stream price ("MSW") at Edmonton, which increased 12 per cent in the second quarter of 2018 relative to the first quarter of 2018 and increased 31 per cent relative to the second quarter of 2017. The differential between WTI and MSW narrowed slightly in the second quarter of 2018, averaging US $5.46 per barrel, seven per cent tighter than the first quarter of 2018, however widened 144 per cent relative to the second quarter of 2017. Despite increased exports of crude-on-rail volumes, Canadian crude oil differentials remain under pressure. The combination of unplanned pipeline outages and apportionment along with high western Canadian inventories has caused concerns regarding takeaway options for western Canadian crude oil production.

**Exhibit 2**



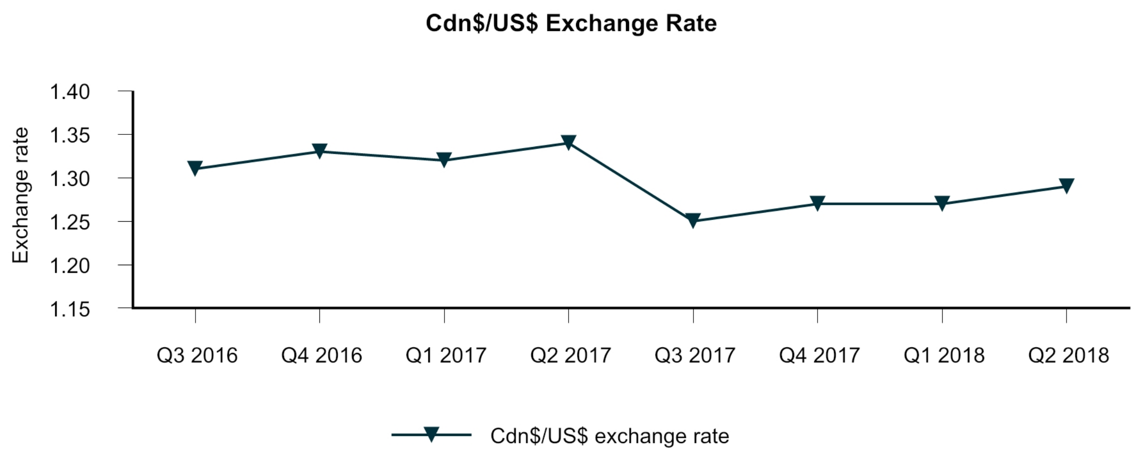
US natural gas prices, referenced by the average NYMEX Henry Hub Last Day Settlement price, were down seven per cent in the second quarter of 2018 compared to the first quarter of 2018, and were down 12 per cent compared to the second quarter of 2017. Strong base load demand has been largely met by growing supply from major US natural gas plays and most notably, increased Permian-associated natural gas production. Western Canadian natural gas prices experienced considerable weakness in the second quarter of 2018 with the AECO hub price decreasing 44 per cent relative to the first quarter of 2018 and decreasing 63 per cent relative to the second quarter of 2017. While local demand levels within the Western Canadian Sedimentary Basin remain high, excess supply and egress constraints in the basin are ongoing. Third-party maintenance activities restricted flows to export markets and storage, and put additional downward pressure on natural gas prices in the second quarter of 2018. The NYMEX Henry Hub Last Day Settlement price to AECO basis was US$2.00 per MMBtu in the second quarter of 2018, 32 per cent wider relative to the first quarter of 2018 and 77 per cent wider relative to the second quarter of 2017. ARC's realized natural gas price is diversified physically and financially to multiple sales points including the US Midwest and Pacific Northwest, Dawn, AECO, and Station 2 hubs. Less than five per cent of ARC's expected overall commodity sales revenue from production is exposed to the AECO and Station 2 markets for the remainder of 2018.

**Exhibit 2a**




The Canadian dollar experienced volatility in the second quarter of 2018 and weakened relative to the US dollar, averaging Cdn$/US$1.29 (US$/Cdn$0.77). Subsequent to June 30, 2018, the Bank of Canada announced a 0.25 per cent increase to interest rates, citing rising inflation and growing labour income as the main contributors for the decision.

**Exhibit 2b**

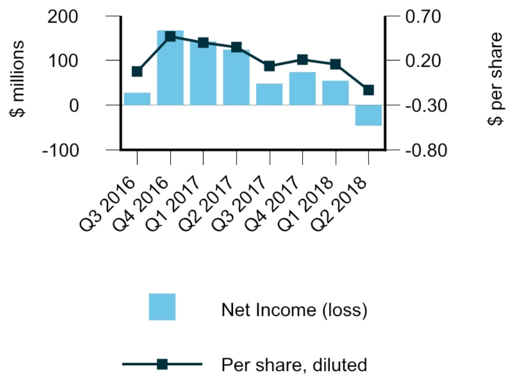

Cdn$/US$ Exchange Rate
Exchange rate
1.40
1.35
1.30
1.25
1.20
1.15
Q3 2016
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017
Q1 2018
Q2 2018
Cdn$/US$ exchange rate

## QUARTERLY RESULTS (1)

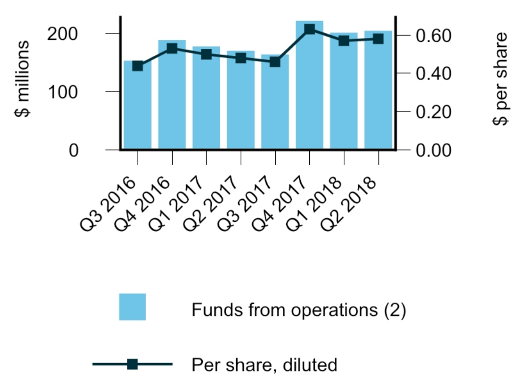
Global crude oil and North American natural gas markets have undergone continued volatility over the past eight quarters. In addition, the structure of ARC's business has transformed during this period as the Company has focused its asset base to adapt to the changing economic environment and position the Company for long-term success.

**Exhibit 3**

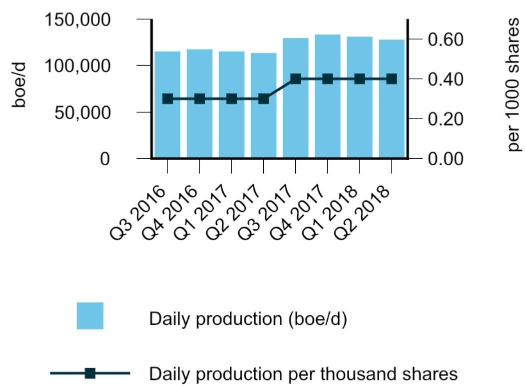
**Net Income (Loss)**



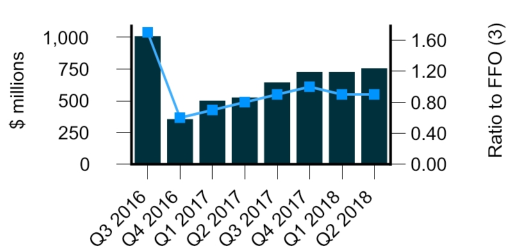

**Funds from Operations (2)**



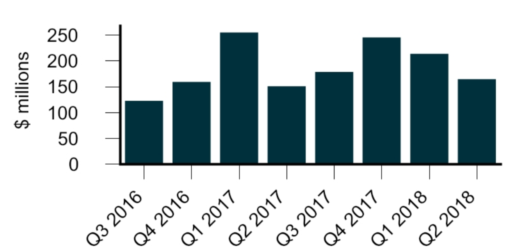

**Average Daily Production**




**Net Debt (2)**




**Capital Expenditures**




(1) The details contained in the graphs above are included in the Quarterly Historical Review section of this MD&A.
(2) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(3) Net debt to annualized funds from operations. Refer to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.

Trends in earnings and funds from operations are primarily associated with fluctuations in revenues which reflect changes in production levels and commodity prices. Realized risk management gains and losses serve to partially mitigate the impact of volatile commodity prices and impact on quarterly funds from operations, while changes in the Canadian value of ARC's US dollar-denominated long-term debt and unrealized risk management gains or losses impact earnings. In addition to these factors, the following significant events impacted the Company's financial and operating results over the past eight quarters:

- In the first quarter of 2018, ARC had property dispositions for proceeds of $98.3 million, and recorded gains on sale of $80.1 million.
- In the fourth quarter of 2017, ARC reclassified certain Exploration and Evaluation ("E&E") assets in Alberta as held for sale and an associated impairment charge of $9.7 million was recorded in E&E expenses.
- In the second quarter of 2017, ARC recognized a reversal of previously recognized impairment on its assets in its Northern Alberta CGU of $75.0 million.
- In the fourth quarter of 2016, ARC recorded a $68.4 million reversal of impairment and a $196.0 million gain associated with dispositions of ARC's remaining non-core Saskatchewan assets and certain non-core assets in Alberta.
- In 2016, ARC completed multiple acquisitions in the Pembina area of Alberta. ARC recognized associated gains on business combinations of $40.2 million and $13.7 million in the second and third quarters of 2016, respectively.
- In the fourth quarter of 2016, ARC recognized a current income tax expense of $24.4 million, reflecting the reduction of income tax pools associated with the divestment of its non-core Saskatchewan assets. Also in the fourth quarter of 2016, ARC recorded a deferred income tax expense of $43.5 million primarily due to impairment recoveries recognized on divested assets and a decrease in ARC's ARO balance. In the second quarter of 2017, a $38.6 million deferred income tax recovery was recorded, primarily as a result of an unrealized gain on risk management contracts and a reversal of impairment recorded in ARC's Northern Alberta CGU. In the fourth quarter of 2017, a $39.4 million deferred income tax expense was recorded primarily as a result of a higher future income tax rate due to the increase in the BC corporate income tax rate to 12 per cent as well as an unrealized gain on risk management contracts recognized during the period. In the second quarter of 2018, ARC recognized a deferred tax recovery of $23.0 million, primarily related to unrealized losses recorded on risk management contracts.

**ANNUAL GUIDANCE AND FINANCIAL HIGHLIGHTS**

ARC's 2018 capital program of $690 million is focused on long-term profitability and balance sheet strength through the continued development of ARC's Montney light oil, liquids-rich natural gas, and natural gas assets. Details on ARC's 2018 capital program and 2018 guidance can be found in the November 9, 2017 news release entitled, *"ARC Resources Ltd. Announces $690 Million Capital Program for 2018"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

Ongoing commodity price volatility may affect ARC's funds from operations, profitability, and economic returns of its capital program over the long term. As continued volatility is expected, ARC will continue to take steps to mitigate these risks, including executing risk management and physical marketing diversification programs, focusing on capital and operating efficiencies, and protecting its strong financial position, with a targeted net debt to annualized funds from operations ratio of between 1.0 and 1.5 times. ARC will continue to screen projects for profitability in a disciplined manner and will adjust investment levels and the pace of development, if required, to ensure balance sheet strength is protected. The 2018 capital budget excludes land purchases and property acquisitions or dispositions. ARC will continue to pursue opportunities to consolidate its land position and grow its presence in key areas through land purchases and property acquisitions, and evaluate its asset portfolio on a continuous basis with a view to selling assets that do not meet ARC's investment guidelines. Through the normal course of business, acquisitions and dispositions may occur that could impact the expected production for the year.

With strong initial production results from ARC's multi-well demonstration pad at Attachie West and continued success from the Lower Montney, ARC is increasing the high end of its 2018 guidance range for condensate production to 6,500 to 7,500 barrels per day from 6,500 to 7,000 barrels per day, and with the disposition of non-core assets in the first quarter of 2018, ARC is reducing the high end of its 2018 guidance range for crude oil production to 25,000 to 26,500 barrels per day from 25,000 to 27,000 barrels per day. The combined total 2018 revised guidance for liquids production remains unchanged from ARC's original guidance.

Table 5 is a summary of ARC's 2018 annual guidance and a review of 2018 year-to-date results.

**Table 5**

| | 2018 Guidance | 2018 Revised Guidance | **2018 YTD** | % Variance from Revised Guidance |
|---|---|---|---|---|
| Production | | | | |
| Crude oil (bbl/d) | 25,000 - 27,000 | 25,000 - 26,500 | **24,965** | — |
| Condensate (bbl/d) | 6,500 - 7,000 | 6,500 - 7,500 | **6,236** | (4) |
| Crude oil and condensate (bbl/d) | 31,500 - 34,000 | 31,500 - 34,000 | **31,201** | (1) |
| Natural gas (MMcf/d) | 555 - 565 | 555 - 565 | **551.3** | (1) |
| NGLs (bbl/d) | 6,000 - 6,500 | 6,000 - 6,500 | **6,356** | — |
| Total (boe/d) | 130,000 - 134,000 | 130,000 - 134,000 | **129,439** | — |
| Expenses ($/boe) | | | | |
| Operating | 6.50 - 6.90 | 6.50 - 6.90 | **6.40** | (2) |
| Transportation | 2.80 - 3.00 | 2.80 - 3.00 | **2.61** | (7) |
| G&A expenses before share-based compensation plans | 1.25 - 1.45 | 1.25 - 1.45 | **1.29** | — |
| G&A - share-based compensation plans (1) | 0.40 - 0.55 | 0.40 - 0.55 | **0.25** | (38) |
| Interest | 0.80 - 1.00 | 0.80 - 1.00 | **0.90** | — |
| Current income tax (per cent of funds from operations) (2) | 0 - 5 | 0 - 5 | **5** | — |
| Capital expenditures before land purchases and net property acquisitions (dispositions) ($ millions) | 690 | 690 | **378.5** | N/A |
| Land purchases and net property acquisitions (dispositions) ($ millions) | N/A | N/A | **(98.1)** | N/A |
| Weighted average shares (millions) | 353 | 353 | **353** | — |

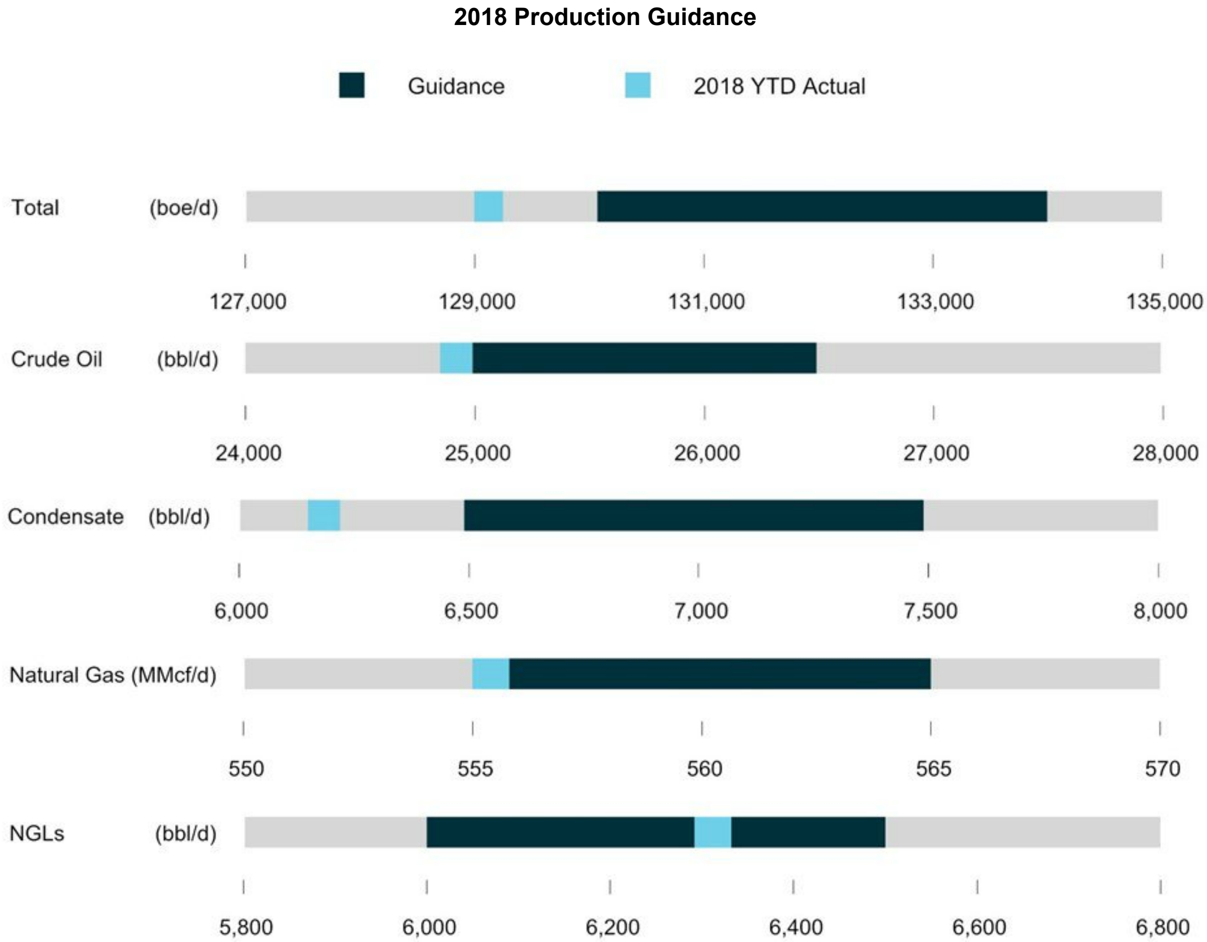
(1) Comprises expenses recognized under the RSU and PSU Plan, Share Option Plan and LTRSA Plan, and excludes compensation charges under the DSU Plan. In periods where substantial share price fluctuation occurs, ARC's G&A expenses are subject to greater volatility.

(2) The current income tax estimate varies depending on the level of commodity prices.

ARC's 2018 guidance is based on full-year 2018 estimates; certain variances exist between 2018 year-to-date actual results and 2018 full-year guidance estimates due to the cyclical and seasonal nature of operations. ARC expects full-year 2018 actual results to closely approximate guidance.

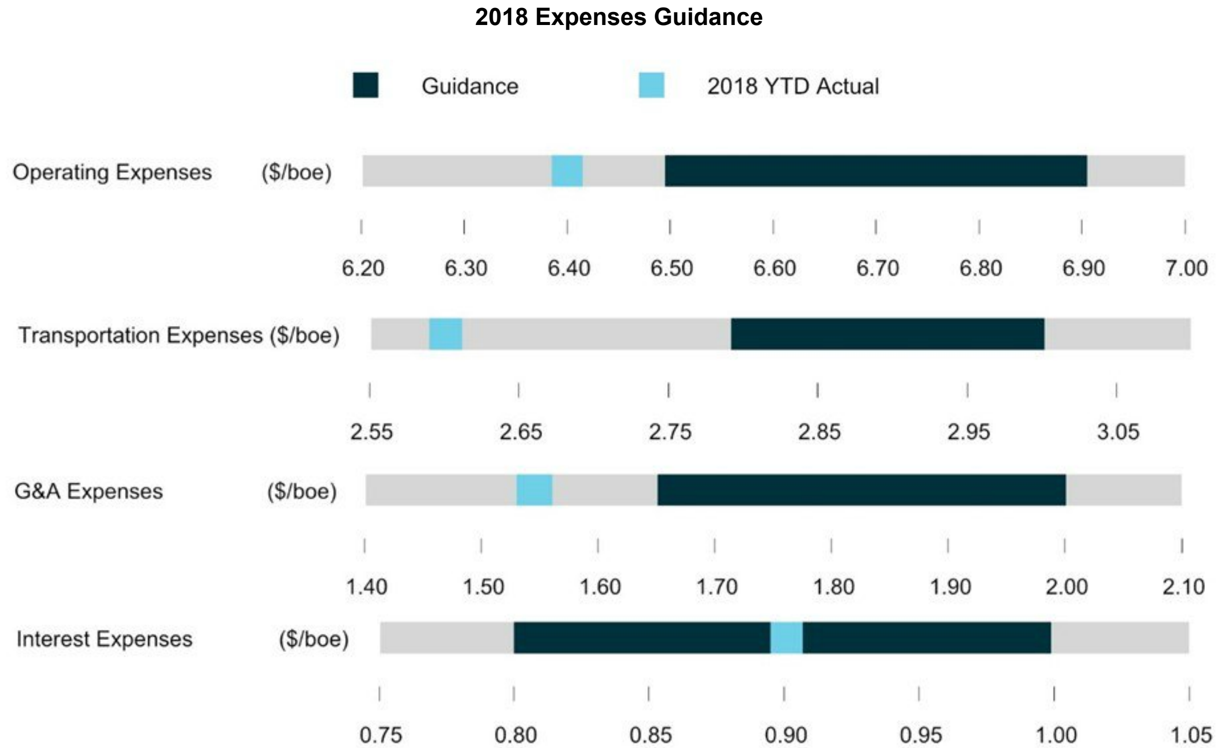
- 2018 year-to-date condensate production is below the 2018 guidance range, as condensate production from the new seven-well Attachie West pad will increase through the second half of the year. ARC expects that condensate production will trend towards the high end of the guidance range as the year progresses.
- 2018 year-to-date natural gas production is below the 2018 guidance range due to planned maintenance and turnaround activities conducted in the second quarter of 2018. With Sunrise Phase II expected to be operational by the fourth quarter of 2018, ARC expects that natural gas production will trend towards the high end of the guidance range as the year progresses.

**Exhibit 4**




- 2018 year-to-date operating expenses are below the 2018 guidance range due to the optimization of ARC's maintenance schedules. With scheduled maintenance and turnaround activities planned for the third quarter of 2018 and higher anticipated electrical costs in Alberta, ARC expects operating expenses to trend towards guidance as the year progresses.
- 2018 year-to-date transportation expenses are below the 2018 guidance range, however, ARC expects transportation expenses to trend towards guidance as additional transportation arrangements come into effect through the remainder of the year.
- 2018 year-to-date G&A expenses relating to ARC's share-based compensation plans are below the 2018 guidance range due to negative revaluations of payment obligations under the RSU and PSU Plans associated with lower performance multipliers and reduced share price.
- On a per boe basis, all other expense items were within their respective guidance ranges.

**Exhibit 4a**




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

## 2018 SECOND QUARTER FINANCIAL AND OPERATING RESULTS

### Financial Highlights

**Table 6**

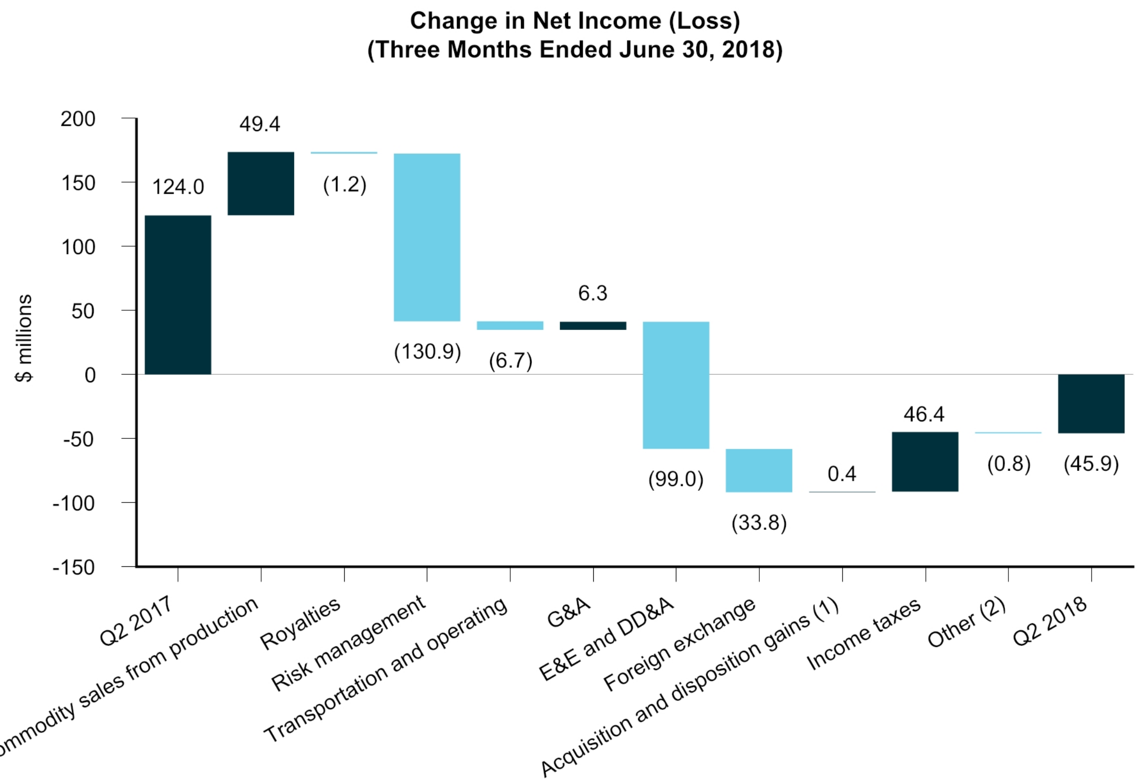
| | Three Months Ended | | | | Six Months Ended | | |
|---|---|---|---|---|---|---|---|
| ($ millions, except per share and volume data) | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| Net income (loss) | 54.9 | **(45.9)** | 124.0 | (137) | **9.0** | 266.5 | (97) |
| Net income (loss) per share | 0.16 | **(0.13)** | 0.35 | (137) | **0.03** | 0.75 | (96) |
| Funds from operations (1) | 201.0 | **204.4** | 169.8 | 20 | **405.4** | 347.0 | 17 |
| Funds from operations per share (1) | 0.57 | **0.58** | 0.48 | 21 | **1.15** | 0.98 | 17 |
| Dividends per share (2) | 0.15 | **0.15** | 0.15 | — | **0.30** | 0.30 | — |
| Average daily production (boe/d) | 131,016 | **127,879** | 113,410 | 13 | **129,439** | 114,265 | 13 |

(1) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Dividends per share are based on the number of shares outstanding at each dividend record date.

### Net Income (Loss)

In the second quarter of 2018, ARC recognized a net loss of $45.9 million ($0.13 per share), $169.9 million less than ARC's second quarter 2017 net income of $124.0 million ($0.35 per share). The decrease in net income is due to losses on risk management contracts of $92.4 million compared to gains of $38.5 million recorded in the second quarter of 2017, impairment charges recognized of $7.9 million compared to recoveries of previously recorded impairment charges of $75.0 million in the second quarter of 2017, a foreign exchange loss of $13.9 million compared to a gain of $19.9 million in the same period of 2017 as well as increases in transportation and operating expenses. These items were partially offset by higher commodity sales from production of $49.4 million and a recovery of deferred income taxes of $23.0 million compared to an expense of $38.6 million in the second quarter of 2017.

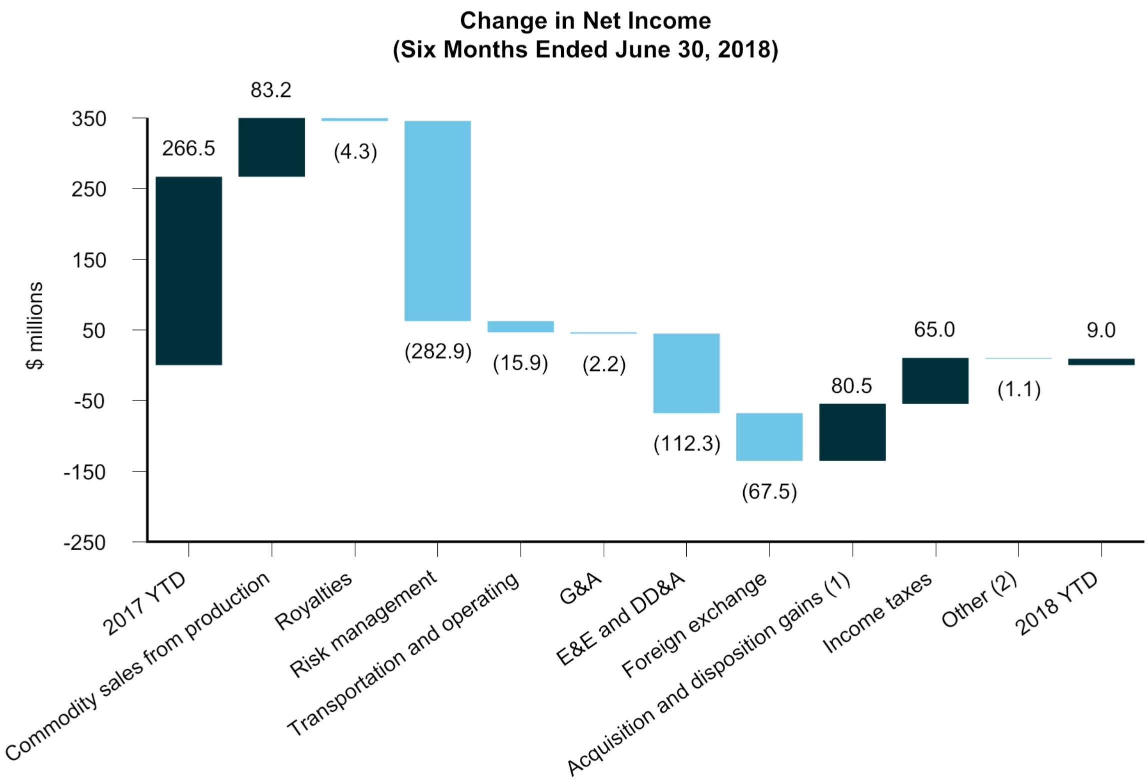
**Exhibit 5**




(1) Includes gains related to disposals of Property, Plant and Equipment ("PP&E").
(2) Includes sales of commodities purchased from third parties, interest income, other income, commodities purchased from third parties, gain or loss on short-term investments, accretion of ARO, and interest and financing charges.

Net income for the six months ended June 30, 2018 was $9.0 million compared to $266.5 million during the first half of the prior year. The $257.5 million decrease is primarily attributed to increased losses on risk management contracts of $282.9 million, increased DD&A and impairment recognized of $108.1 million, of which $75.0 million comprises impairment recovery recorded in the prior year, increased foreign exchange losses of $67.5 million as well as higher operating, transportation and G&A expenses. Partially offsetting these items are higher revenue from commodity sales of $78.9 million, higher gains on disposals of petroleum and natural gas properties of $80.5 million and lower income taxes recognized of $65.0 million.

**Exhibit 5a**




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

### Funds from Operations

ARC considers funds from operations to be a key measure of operating performance as it demonstrates ARC's ability to generate the necessary funds for sustaining capital, 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, in the opinion of Management, 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 10 "Capital Management" in the financial statements. Table 7 is a reconciliation of ARC's net income to funds from operations and cash flow from operating activities:

**Table 7**

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| ($ millions) | March 31, 2018 | **June 30, 2018** | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| Net income | 54.9 | **(45.9)** | 124.0 | **9.0** | 266.5 |
| Adjusted for the following non-cash items: | | | | | |
| DD&A | 126.1 | **128.5** | 33.0 | **254.6** | 146.5 |
| Accretion of ARO | 3.6 | **3.2** | 3.2 | **6.8** | 6.4 |
| E&E expenses | 0.7 | **3.5** | — | **4.2** | — |
| Deferred tax expense | 22.1 | **(23.0)** | 38.6 | **(0.9)** | 74.1 |
| Unrealized loss (gain) on risk management contracts | 46.1 | **122.1** | (7.2) | **168.2** | (117.3) |
| Unrealized loss (gain) on foreign exchange | 26.9 | **15.7** | (24.7) | **42.6** | (32.4) |
| Gain on disposal of petroleum and natural gas properties | (80.1) | **(0.4)** | — | **(80.5)** | — |
| Other | 0.7 | **0.7** | 2.9 | **1.4** | 3.2 |
| **Funds from operations** | 201.0 | **204.4** | 169.8 | **405.4** | 347.0 |
| Net change in other liabilities | (6.0) | **(0.4)** | (1.1) | **(6.4)** | (22.1) |
| Change in non-cash operating working capital | 4.6 | **4.6** | (30.7) | **9.2** | 4.6 |
| **Cash flow from operating activities** | 199.6 | **208.6** | 138.0 | **408.2** | 329.5 |

Details of the change in funds from operations from the three and six months ended June 30, 2017 to the three and six months ended June 30, 2018 are included in Table 8 below:

**Table 8**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | $ millions | $/Share | $ millions | $/Share |
| Funds from operations – 2017 | 169.8 | 0.48 | 347.0 | 0.98 |
| Volume variance | | | | |
| Crude oil and liquids | **24.8** | **0.07** | **42.1** | **0.12** |
| Natural gas | **14.7** | **0.04** | **33.7** | **0.10** |
| Price variance | | | | |
| Crude oil and liquids | **62.7** | **0.17** | **90.3** | **0.25** |
| Natural gas | **(52.8)** | **(0.15)** | **(82.9)** | **(0.24)** |
| Sales of commodities purchased from third parties | **(1.0)** | **—** | **0.9** | **—** |
| Interest income | **(0.4)** | **—** | **(0.9)** | **—** |
| Other income | **(0.8)** | **—** | **(0.4)** | **—** |
| Realized gain on risk management contracts | **(1.6)** | **—** | **2.6** | **0.01** |
| Royalties | **(1.2)** | **—** | **(4.3)** | **(0.01)** |
| Expenses | | | | |
| Transportation | **(1.8)** | **(0.01)** | **(7.6)** | **(0.02)** |
| Commodities purchased from third parties | **—** | **—** | **(2.6)** | **(0.01)** |
| Operating | **(4.9)** | **(0.01)** | **(8.3)** | **(0.02)** |
| G&A | **4.2** | **0.01** | **(4.0)** | **(0.01)** |
| Interest | **1.3** | **—** | **2.3** | **0.01** |
| Current income taxes | **(15.2)** | **(0.04)** | **(10.0)** | **(0.03)** |
| Realized loss on foreign exchange | **6.6** | **0.02** | **7.5** | **0.02** |
| Funds from operations – 2018 | **204.4** | **0.58** | **405.4** | **1.15** |

Funds from operations increased by 20 per cent in the second quarter of 2018 to $204.4 million ($0.58 per share) from $169.8 million ($0.48 per share) generated in the second quarter of 2017. The increase primarily reflects increased production, stronger crude oil and liquids prices, lower G&A and interest expenses and higher realized gains on foreign exchange compared to losses recorded in the second quarter of 2017. Decreased natural gas prices, lower realized gains on risk management contracts, higher operating, transportation and current tax expenses partially offset the increase.

For the six months ended June 30, 2018, funds from operations increased by $58.4 million to $405.4 million ($1.15 per share) from $347.0 million ($0.98 per share) in the same period of 2017. This increase primarily reflects increased production, improved crude oil and liquids prices, higher realized gains on risk management contracts, lower interest expense and realized foreign exchange gains. Lower natural gas prices, higher royalties, transportation, operating, G&A and current tax expenses partially offset the increase.

**Exhibit 6**

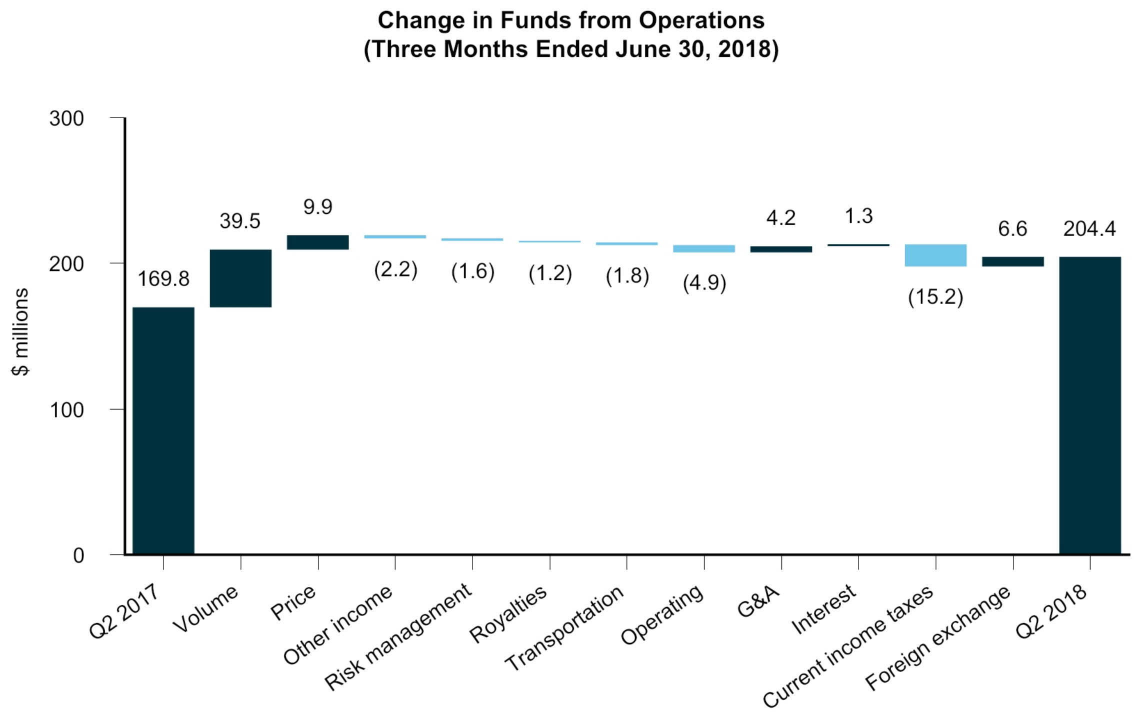
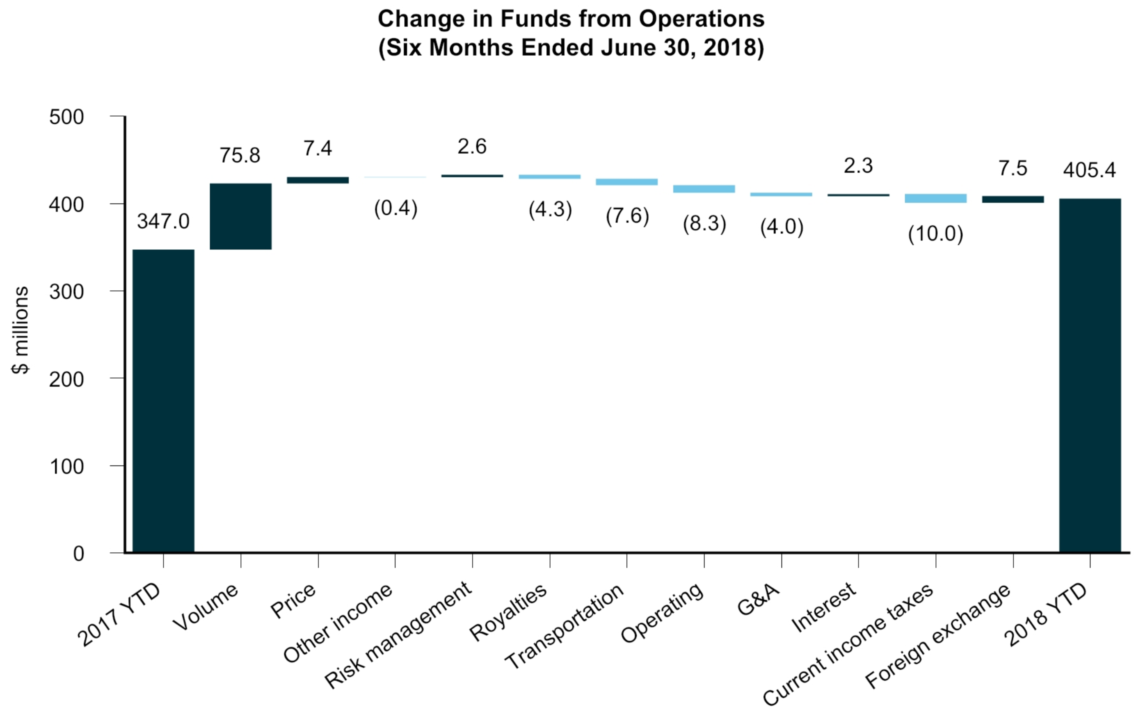


**Exhibit 6a**



Change in Funds from Operations
(Six Months Ended June 30, 2018)
500
400
300
200
100
0
$ millions
347.0
75.8
7.4
(0.4)
2.6
(4.3)
(7.6)
(8.3)
(4.0)
2.3
(10.0)
7.5
405.4
2017 YTD
Volume
Price
Other income
Risk management
Royalties
Transportation
Operating
G&A
Interest
Current income taxes
Foreign exchange
2018 YTD

### 2018 Net Income and Funds from Operations Sensitivity

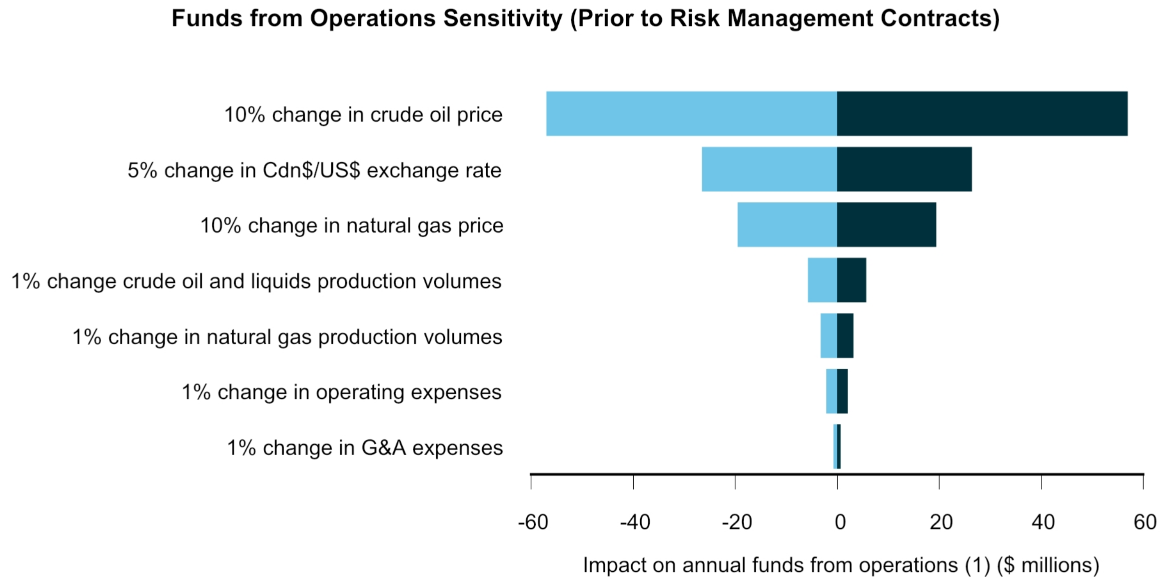
Table 9 illustrates sensitivities of operating items (prior to the impact of gains or losses on risk management contracts) to operational and business environment changes and the resulting impact on net income and funds from operations:

**Table 9**

| | | | Impact on Annual Funds from Operations (6) | | Impact on Annual Net Income | |
|---|---|---|---|---|---|---|
| | Assumption | Change | Notional Amount ($ millions) | $/Share | Notional Amount ($ millions) | $/Share |
| **Business Environment** (1) | | | | | | |
| Crude oil price (2)(3) | 74.05 | 10% | 57.0 | 0.161 | 57.0 | 0.161 |
| Natural gas price (2)(3) | 2.21 | 10% | 19.5 | 0.055 | 19.5 | 0.055 |
| Cdn$/US$ exchange rate (2)(3)(4) | 1.28 | 5% | 26.5 | 0.075 | 26.5 | 0.075 |
| **Operational** (5) | | | | | | |
| Crude oil and liquids production volumes (bbl/d) | 37,557 | 1% | 5.7 | 0.016 | 4.2 | 0.012 |
| Natural gas production volumes (MMcf/d) | 551.3 | 1% | 3.2 | 0.009 | 1.1 | 0.003 |
| Operating expenses ($/boe) | 6.40 | 1% | 2.1 | 0.006 | 2.1 | 0.006 |
| G&A expenses ($/boe) | 1.54 | 1% | 0.7 | 0.002 | 0.7 | 0.002 |

(1) Calculations are performed independently and may not be indicative of actual results that would occur when multiple variables change at the same time.
(2) Prices and rates are indicative of ARC's average realized prices for the six months ended June 30, 2018. See Table 14 of 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) Analysis does not include the effect of risk management contracts.
(4) Includes impact of foreign exchange on natural gas, crude oil, condensate, and NGLs prices that are presented in US dollars.
(5) Operational assumptions are based upon results for the six months ended June 30, 2018.
(6) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

**Exhibit 7**




(1) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

## Production

### Table 10

| Production | Three Months Ended March 31, 2018 | Three Months Ended **June 30, 2018** | Three Months Ended June 30, 2017 | % Change | Six Months Ended **June 30, 2018** | Six Months Ended June 30, 2017 | % Change |
|---|---|---|---|---|---|---|---|
| Light and medium crude oil (bbl/d) | 24,283 | **24,017** | 23,155 | 4 | **24,137** | 23,180 | 4 |
| Heavy crude oil (bbl/d) | 754 | **876** | 658 | 33 | **828** | 741 | 12 |
| Condensate (bbl/d) | 5,505 | **6,960** | 4,253 | 64 | **6,236** | 4,378 | 42 |
| Natural gas (MMcf/d) | 564.9 | **537.9** | 483.9 | 11 | **551.3** | 490.0 | 13 |
| NGLs (bbl/d) | 6,332 | **6,380** | 4,691 | 36 | **6,356** | 4,294 | 48 |
| Total production (boe/d) | 131,016 | **127,879** | 113,410 | 13 | **129,439** | 114,265 | 13 |
| Natural gas production (%) | 72 | **70** | 71 | (1) | **71** | 71 | — |
| Crude oil and liquids production (%) | 28 | **30** | 29 | 3 | **29** | 29 | — |

During the three and six months ended June 30, 2018, crude oil and liquids production increased 17 per cent and 15 per cent respectively, as compared to the same periods in the prior year. This is due in part to increased liquids production from the Dawson Phase III facility started in June 2017 as well as increased oil and liquids production from Parkland/ Tower following drilling and completions activity throughout 2017 and early 2018.

For the three and six months ended June 30, 2018, natural gas production increased 11 per cent and 13 per cent, respectively, as compared to the same periods of the prior year. The increase in both periods reflects the ramp up of production at the Dawson Phase III facility, as well as increased production from continued drilling and completions activity in northeast British Columbia.

**Exhibit 8**

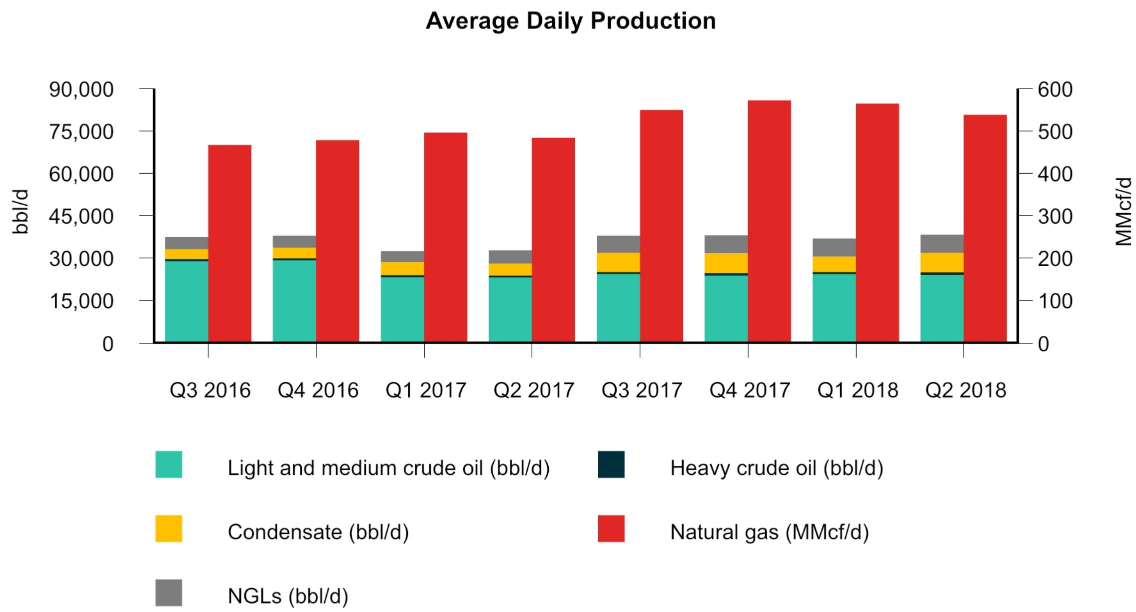

Average Daily Production
90,000
75,000
60,000
45,000
30,000
15,000
0
bbl/d
600
500
400
300
200
100
0
MMcf/d
Q3 2016
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017
Q1 2018
Q2 2018
Light and medium crude oil (bbl/d)
Heavy crude oil (bbl/d)
Condensate (bbl/d)
Natural gas (MMcf/d)
NGLs (bbl/d)

Table 11 summarizes ARC's production by core area for the second quarter of 2018 and 2017:

**Table 11**

| | Three Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| **Production** | **Total** | **Crude Oil** | **Condensate** | **Natural Gas** | **NGLs** |
| **Core Area** | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | **42,848** | — | 2,707 | 230.6 | 1,709 |
| Parkland/Tower | **26,631** | 6,184 | 1,718 | 96.7 | 2,613 |
| Sunrise | **22,519** | — | 102 | 134.3 | 34 |
| Ante Creek | **16,189** | 6,961 | 408 | 45.2 | 1,293 |
| Pembina | **11,122** | 8,575 | 165 | 11.3 | 491 |
| All other | **8,570** | 3,173 | 1,860 | 19.8 | 240 |
| **Total** | **127,879** | **24,893** | **6,960** | **537.9** | **6,380** |

| | Three Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| Production | Total | Crude Oil | Condensate | Natural Gas | NGLs |
| Core Area | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | 31,564 | — | 967 | 181.3 | 385 |
| Parkland/Tower | 23,643 | 6,226 | 1,340 | 83.2 | 2,207 |
| Sunrise | 22,710 | — | 57 | 135.7 | 34 |
| Ante Creek | 15,273 | 5,450 | 422 | 48.9 | 1,253 |
| Pembina | 10,763 | 8,124 | 172 | 12.0 | 470 |
| All other | 9,457 | 4,013 | 1,295 | 22.8 | 342 |
| **Total** | 113,410 | 23,813 | 4,253 | 483.9 | 4,691 |

**Exhibit 9**

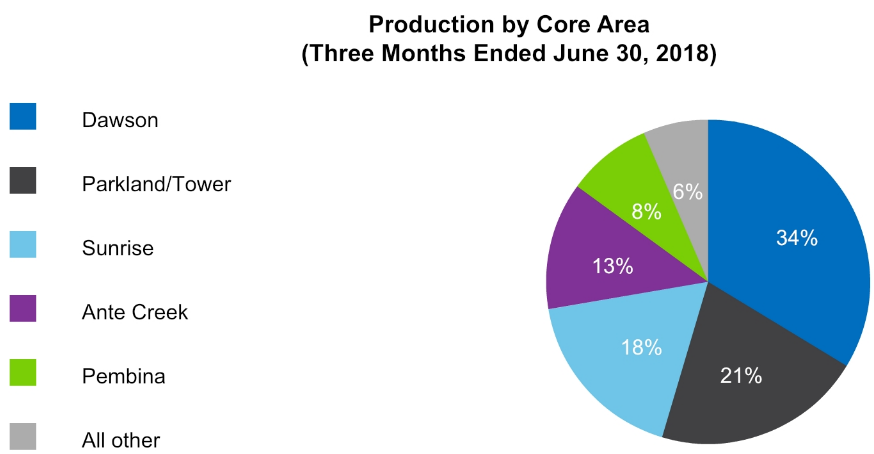
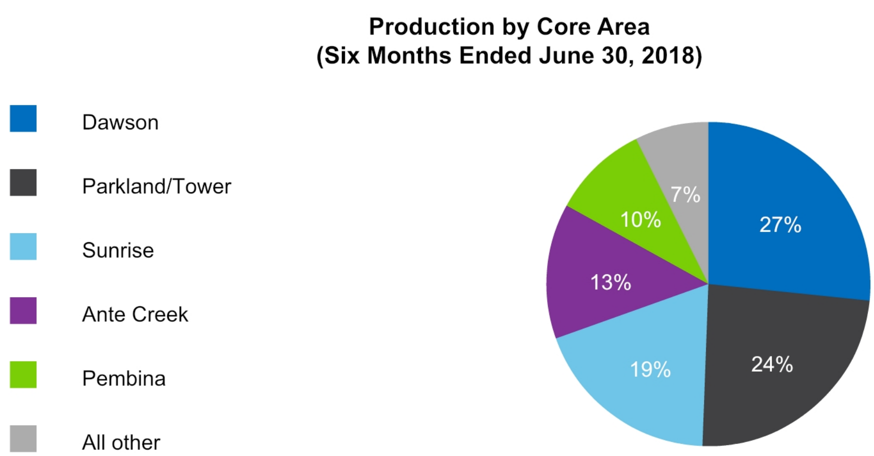


**Table 11a**

| | Six Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| **Production** | **Total** | **Crude Oil** | **Condensate** | **Natural Gas** | **NGLs** |
| **Core Area** | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | **43,292** | — | 2,488 | 235.4 | 1,570 |
| Parkland/Tower | **28,074** | 6,312 | 1,831 | 103.3 | 2,722 |
| Sunrise | **22,242** | — | 75 | 132.8 | 31 |
| Ante Creek | **15,830** | 6,347 | 415 | 46.8 | 1,264 |
| Pembina | **11,230** | 8,696 | 162 | 11.4 | 477 |
| All other | **8,771** | 3,610 | 1,265 | 21.6 | 292 |
| **Total** | **129,439** | **24,965** | **6,236** | **551.3** | **6,356** |

| | Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| Production | Total | Crude Oil | Condensate | Natural Gas | NGLs |
| Core Area | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | 31,234 | — | 1,010 | 179.4 | 322 |
| Parkland/Tower | 24,401 | 5,707 | 1,657 | 91.0 | 1,869 |
| Sunrise | 22,732 | — | 67 | 135.8 | 37 |
| Ante Creek | 16,346 | 5,857 | 437 | 52.5 | 1,296 |
| Pembina | 10,901 | 8,275 | 172 | 12.0 | 456 |
| All other | 8,651 | 4,082 | 1,035 | 19.3 | 314 |
| **Total** | 114,265 | 23,921 | 4,378 | 490.0 | 4,294 |

**Exhibit 9a**




### Commodity Sales from Production

Commodity sales from production increased by 17 per cent for the second quarter of 2018 compared to the same period in 2017. The increase reflects higher crude oil, liquids and natural gas volumes as well as higher average realized crude oil and liquids prices, partially offset by lower average natural gas prices.

A breakdown of commodity sales from production by product is outlined in Table 12:

**Table 12**

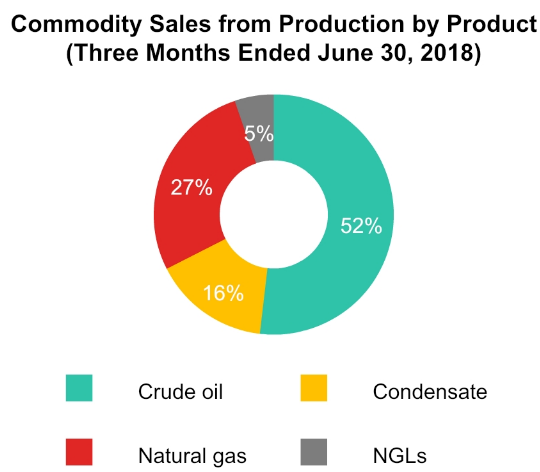
| | Three Months Ended | | | | Six Months Ended | | |
|---|---|---|---|---|---|---|---|
| **Commodity Sales from Production** ($ millions) | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| Crude oil | 156.6 | **178.0** | 129.0 | 38 | **334.6** | 261.8 | 28 |
| Condensate | 38.4 | **53.9** | 23.3 | 131 | **92.3** | 49.4 | 87 |
| Natural gas | 127.3 | **93.4** | 131.5 | (29) | **220.7** | 269.9 | (18) |
| NGLs | 17.9 | **19.1** | 11.2 | 71 | **37.0** | 20.3 | 82 |
| Total commodity sales from production | 340.2 | **344.4** | 295.0 | 17 | **684.6** | 601.4 | 14 |

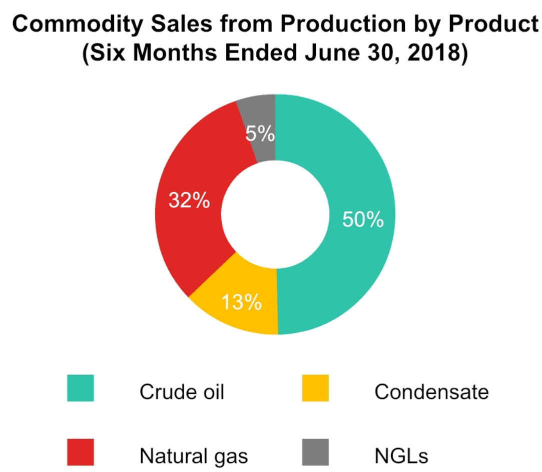
While ARC's production mix on a per boe basis is weighted more heavily to natural gas than to crude oil and liquids, ARC's commodity sales contribution is more heavily weighted to crude oil and liquids production as shown by the table below:

**Table 13**

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| **% of Commodity Sales from Production by Product Type** | March 31, 2018 | **June 30, 2018** | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| Crude oil and liquids | 63 | **73** | 55 | **68** | 55 |
| Natural gas | 37 | **27** | 45 | **32** | 45 |
| Total commodity sales from production | 100 | **100** | 100 | **100** | 100 |

**Exhibit 10**



## Realized Commodity Prices

### Table 14

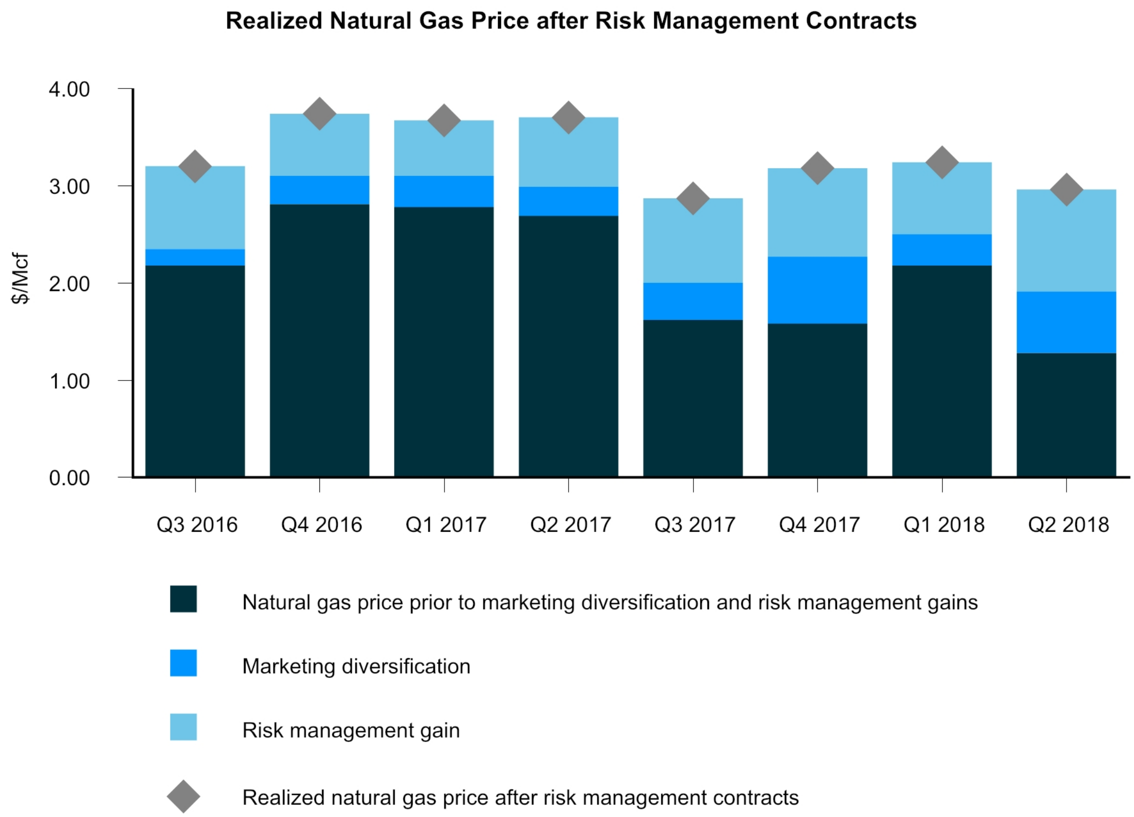
| | Three Months Ended | | | | Six Months Ended | | |
|---|---|---|---|---|---|---|---|
| | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| **Average Benchmark Prices** | | | | | | | |
| NYMEX Henry Hub Last Day Settlement (US$/MMBtu) | 3.00 | **2.80** | 3.18 | (12) | **2.90** | 3.25 | (11) |
| Chicago Citygate Monthly Index (US$/MMBtu) | 3.27 | **2.58** | 3.01 | (14) | **2.93** | 3.20 | (8) |
| Malin Monthly Index (US$/MMBtu) | 2.51 | **1.98** | 2.78 | (29) | **2.24** | 2.95 | (24) |
| AECO 7A Monthly Index (Cdn$/Mcf) | 1.85 | **1.03** | 2.77 | (63) | **1.44** | 2.86 | (50) |
| WTI crude oil (US$/bbl) | 62.89 | **67.91** | 48.15 | 41 | **65.46** | 49.95 | 31 |
| Cdn$/US$ exchange rate | 1.27 | **1.29** | 1.34 | (4) | **1.28** | 1.33 | (4) |
| WTI crude oil (Cdn$/bbl) | 79.87 | **87.60** | 64.52 | 36 | **83.79** | 66.43 | 26 |
| Mixed Sweet Stream Price at Edmonton (Cdn$/bbl) | 72.15 | **80.63** | 61.74 | 31 | **76.45** | 62.78 | 22 |
| Condensate Stream Price at Edmonton (Cdn$/bbl) | 78.93 | **88.54** | 64.86 | 37 | **83.88** | 66.83 | 26 |
| **ARC Average Realized Prices Prior to Gains or Losses on Risk Management Contracts** | | | | | | | |
| Crude oil ($/bbl) | 69.50 | **78.57** | 59.53 | 32 | **74.05** | 60.47 | 22 |
| Condensate ($/bbl) | 77.42 | **85.10** | 60.38 | 41 | **81.73** | 62.39 | 31 |
| Natural gas ($/Mcf) | 2.50 | **1.91** | 2.99 | (36) | **2.21** | 3.04 | (27) |
| NGLs ($/bbl) | 31.39 | **32.98** | 26.27 | 26 | **32.20** | 26.11 | 23 |
| Total average realized commodity price prior to gains or losses on risk management contracts ($/boe) | 28.85 | **29.59** | 28.59 | 3 | **29.22** | 29.08 | — |

During the three and six months ended June 30, 2018, while WTI increased 41 per cent and 31 per cent, respectively, during this period, ARC’s realized crude oil price increased 32 per cent and 22 per cent, respectively, over the same time periods in the prior year. The impact of improved WTI prices was partially offset by the widening differential between WTI and MSW to an average discount of US$5.46 per barrel and US$5.65 per barrel compared to US$2.24 per barrel and US$2.90 per barrel, in the same periods in 2017, respectively. Also, the average exchange rate for the Canadian dollar strengthened as compared to the US dollar by four per cent during each of the same time periods further offsetting the impact of higher WTI prices on ARC's average realized crude oil price.

ARC's natural gas sales are physically and financially diversified to multiple sales points including AECO, Station 2, US Midwest, Dawn and Pacific Northwest hubs. ARC's realized natural gas price decreased by 36 per cent and 27 per cent during the three and six months ended June 30, 2018, respectively, as compared to the same periods in 2017. The price that ARC receives for its natural gas is primarily benchmarked against the AECO monthly index, which was 63 per cent and 50 per cent lower in the second quarter and first six months of 2018, respectively, as compared to the same periods in the prior year. ARC's price exposure to other markets served to mitigate the impact of the weakness in the AECO and Station 2 cash markets during 2018. In the three and six months ended June 30, 2018, physical sales diversification activities added $0.63 per Mcf and $0.48 per Mcf to ARC's natural gas price ($0.30 per Mcf and $0.31 per Mcf for the same periods in 2017), respectively. Additionally, realized gains on natural gas risk management contracts added a further $1.05 per Mcf and $0.89 per Mcf for the three and six months ended June 30, 2018 ($0.71 per Mcf and $0.64 per Mcf for the same periods in 2017), which is not included in ARC's realized natural gas price.

Less than five per cent of ARC's expected overall commodity sales revenue from production is exposed to the AECO and Station 2 markets for the remainder of 2018.

**Exhibit 11**




## Risk Management

ARC maintains a risk management program to reduce the volatility of sales revenues, increase the certainty of funds from operations, and to protect acquisition and development economics. ARC's risk management program is governed by certain guidelines approved by ARC's Board of Directors (the "Board").

Gains and losses on risk management contracts are composed of both realized gains and losses, representing the portion of risk management contracts that have settled in cash during the period, and unrealized gains or losses that represent the change in the mark-to-market position of those contracts throughout the period. ARC does not employ hedge accounting for any of its risk management contracts currently in place. ARC considers all of its risk management contracts to be effective economic hedges of its underlying business transactions.

Table 15 summarizes the total gain or loss on risk management contracts for the second quarter of 2018 compared to the same period in 2017:

**Table 15**

| **Risk Management Contracts** ($ millions) | **Crude Oil & Liquids** | **Natural Gas** | **Foreign Currency** | **Q2 2018 Total** | Q2 2017 Total |
|---|---|---|---|---|---|
| Realized gain (loss) on contracts (1) | (21.8) | 51.5 | — | **29.7** | 31.3 |
| Unrealized gain (loss) on contracts (2) | (68.5) | (52.9) | (0.7) | **(122.1)** | 7.2 |
| Gain (loss) on risk management contracts | **(90.3)** | **(1.4)** | **(0.7)** | **(92.4)** | 38.5 |

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

Table 15a summarizes the total gain or loss on risk management contracts for the six months ended June 30, 2018 compared to the same period in 2017:

**Table 15a**

| **Risk Management Contracts** ($ millions) | **Crude Oil & Liquids** | **Natural Gas** | **Foreign Currency** | **2018 Total** | 2017 Total |
|---|---|---|---|---|---|
| Realized gain (loss) on contracts [1] | (30.6) | 88.9 | — | **58.3** | 55.7 |
| Unrealized gain (loss) on contracts [2] | (113.2) | (54.6) | (0.4) | **(168.2)** | 117.3 |
| Gain (loss) on risk management contracts | **(143.8)** | **34.3** | **(0.4)** | **(109.9)** | 173.0 |

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

During the three and six months ended June 30, 2018, ARC recorded net losses of $92.4 million and $109.9 million, respectively, on its risk management contracts. These losses included realized gains of $29.7 million, offset by unrealized losses of $122.1 million for the second quarter and realized gains of $58.3 million and unrealized losses of $168.2 million for the six months ended June 30, 2018.

The realized gains primarily reflect positive cash settlements received on NYMEX Henry Hub natural gas contracts with an average price of US$3.53 per MMBtu and on AECO basis swaps at an average ratio of 85.4 per cent, as well as AECO basis swaps at a fixed differential of $(0.81) per MMBtu. This is partially offset by cash payments made on WTI crude oil contracts related to higher WTI realized pricing during the period. These contracts consisted of WTI crude oil swaps with an average price of US$54.00/bbl, WTI crude oil calls with an average price of US$65.39/bbl, CAD-denominated WTI swaps with an average price of CAD$72.10/bbl and CAD-denominated WTI calls with an average price of CAD$76.25/bbl.

ARC's unrealized losses for the three and six months ended June 30, 2018 reflect higher spot prices and WTI forward curve prices, as well as a higher Cdn$/US$ forward curve at June 30, 2018 relative to the beginning of the quarter and the year. Unrealized losses on natural gas contracts for three and six months ended June 30, 2018 reflect the positive settlement of expired positions. Lower forward curves for NYMEX Henry Hub and a widening of the AECO basis differential forward curve partially offset the losses for the six months ended June 30, 2018.

Table 16 summarizes the average crude oil and natural gas volumes associated with ARC's risk management contracts as at the date of this MD&A. For a complete listing and terms of ARC’s risk management contracts at June 30, 2018, see Note 11 “Financial Instruments and Market Risk Management” in the financial statements.

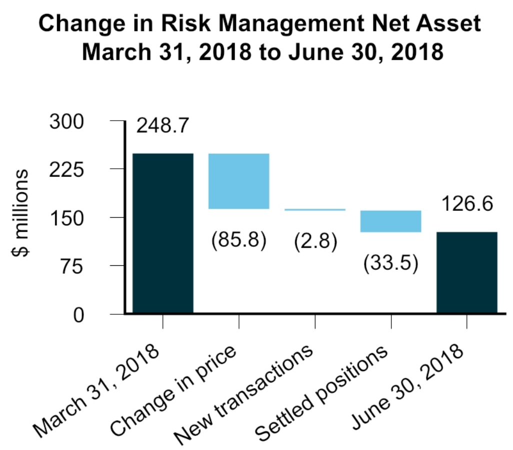
## Table 16

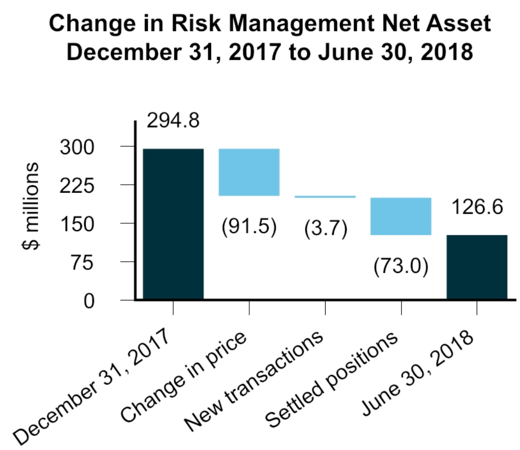
| Risk Management Contracts Positions Summary [1] | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As at August 1, 2018 | **Jul-Dec 2018** | | **2019** | | **2020** | | **2021** | | **2022** | | **2023** | |
| **Crude Oil – WTI** [2] | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Ceiling | 65.39 | 4,000 | 65.63 | 2,000 | — | — | — | — | — | — | — | — |
| ***Floor*** | 50.00 | 4,000 | 50.00 | 2,000 | — | — | — | — | — | — | — | — |
| Sold Floor | 40.00 | 4,000 | 40.00 | 2,000 | — | — | — | — | — | — | — | — |
| Swap | 54.00 | 2,000 | 57.20 | 4,000 | — | — | — | — | — | — | — | — |
| **Crude Oil – Cdn$ WTI** [3] | Cdn$/ bbl | bbl/day | Cdn$/ bbl | bbl/day | Cdn$/ bbl | bbl/day | Cdn$/ bbl | bbl/day | Cdn$/ bbl | bbl/day | Cdn$/ bbl | bbl/day |
| Ceiling | 76.25 | 2,000 | 88.00 | 1,000 | 85.59 | 5,000 | — | — | — | — | — | — |
| ***Floor*** | 65.00 | 2,000 | 80.00 | 1,000 | 75.00 | 5,000 | — | — | — | — | — | — |
| Sold Floor | — | — | 65.00 | 1,000 | 60.00 | 5,000 | — | — | — | — | — | — |
| Swap | 72.10 | 12,000 | 71.17 | 8,000 | — | — | — | — | — | — | — | — |
| **Total Crude Oil Volumes (bbl/day)** | | **20,000** | | **15,000** | | **5,000** | | **—** | | **—** | | **—** |
| **Crude Oil – MSW (Differential to WTI)** [4] | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Swap | (3.38) | 7,000 | — | — | — | — | — | — | — | — | — | — |
| **Natural Gas – NYMEX Henry Hub** [5] | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Ceiling | 3.64 | 80,000 | 3.35 | 80,000 | 3.32 | 50,000 | 3.32 | 50,000 | 3.43 | 25,000 | — | — |
| ***Floor*** | 3.00 | 80,000 | 2.75 | 80,000 | 2.75 | 50,000 | 2.75 | 50,000 | 2.50 | 25,000 | — | — |
| Sold Floor | 2.50 | 80,000 | 2.25 | 80,000 | 2.25 | 50,000 | 2.25 | 50,000 | — | — | — | — |
| Swap | 4.00 | 90,000 | 4.00 | 40,000 | — | — | — | — | — | — | — | — |
| **Natural Gas – AECO** [6] | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day |
| Ceiling | — | — | 3.30 | 10,000 | 3.60 | 30,000 | — | — | — | — | — | — |
| ***Floor*** | — | — | 3.00 | 10,000 | 3.08 | 30,000 | — | — | — | — | — | — |
| Swap | 2.96 | 40,000 | 3.16 | 20,000 | 3.35 | 30,000 | — | — | — | — | — | — |
| **Total Natural Gas Volumes (MMBtu/ day)** | | **207,913** | | **148,435** | | **106,869** | | **50,000** | | **25,000** | | **—** |
| **Natural Gas – AECO Basis (Percentage of NYMEX)** | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day |
| Sold Swap | 84.4 | 90,000 | 83.7 | 40,000 | — | — | — | — | — | — | — | — |
| **Natural Gas – AECO Basis (Differential to NYMEX)** | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Sold Swap | (0.88) | 93,370 | (0.88) | 120,959 | (0.82) | 98,361 | (0.97) | 34,192 | — | — | — | — |
| **Total AECO Basis Volumes (MMBtu/ day)** | | **183,370** | | **160,959** | | **98,361** | | **34,192** | | **—** | | **—** |
| **Natural Gas - Other Basis (Differential to NYMEX)** [7] | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day |
| Sold Swap | | 20,000 | | 60,000 | | 90,000 | | 110,000 | | 80,000 | | 34,877 |
| **Foreign Exchange** [8] | Cdn$/ US$ | US$ Millions Total | Cdn$/ US$ | US$ Millions Total | Cdn$/ US$ | US$ Millions Total | Cdn$/ US$ | US$ Millions Total | Cdn$/ US$ | US$ Millions Total | Cdn$/ US$ | US$ Millions Total |
| Average Rate Forward | — | — | 1.2907 | 21 | — | — | — | — | — | — | — | — |

(1) The prices and volumes in this table represent averages for several contracts representing different periods. The average price for the portfolio of options listed above does not have the same payoff profile as the individual option contracts. Viewing the average price of a group of options is purely for indicative purposes. All positions are financially settled against the benchmark prices.
(2) Crude oil prices referenced to WTI.
(3) Crude oil prices referenced to WTI, multiplied by the WM/Reuters Intra-day Cdn$/US$ Foreign Exchange Spot Rate as of Noon Eastern Standard Time.
(4) 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$.
(5) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.
(6) Natural gas prices referenced to AECO 7A Monthly Index.
(7) ARC has entered into basis swaps at locations other than AECO.
(8) Cdn$/US$ referenced to WM/Reuters Intra-day Cdn$/US$ Foreign Exchange Spot Rate as of Noon Eastern Standard Time.

The fair value of ARC's risk management contracts at June 30, 2018 was a net asset of $126.6 million, representing the expected value of settlement of ARC's contracts at the balance sheet date after any adjustments for credit risk. This is comprised of a net asset of $248.7 million for natural gas contracts, and a net liability of $122.1 million for crude oil and foreign exchange contracts. This may differ from what will eventually be settled in future periods.

**Exhibit 12**




## Operating Netbacks

The components of operating netbacks for the three and six months ended June 30, 2018 compared to the same periods in 2017 are summarized in Table 17:

**Table 17**

| | Three Months Ended | | | | Six Months Ended | | |
|---|---|---|---|---|---|---|---|
| **Netbacks ($ per boe)** [1] | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| Commodity sales from production | 28.85 | **29.59** | 28.59 | 3 | **29.22** | 29.08 | 0 |
| Royalties | (2.45) | **(2.55)** | (2.76) | (8) | **(2.50)** | (2.62) | (5) |
| Transportation | (2.61) | **(2.61)** | (2.78) | (6) | **(2.61)** | (2.60) | 0 |
| Operating expenses [2] | (6.31) | **(6.50)** | (6.85) | (5) | **(6.40)** | (6.86) | (7) |
| Netback prior to gain on risk management contracts | 17.48 | **17.93** | 16.20 | 11 | **17.71** | 17.00 | 4 |
| Realized gain on risk management contracts | 2.43 | **2.55** | 3.03 | (16) | **2.49** | 2.69 | (7) |
| Netback after gain on risk management contracts | 19.91 | **20.48** | 19.23 | 7 | **20.20** | 19.69 | 3 |

(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.

(2) Composed of direct costs incurred to operate crude oil and natural gas wells.

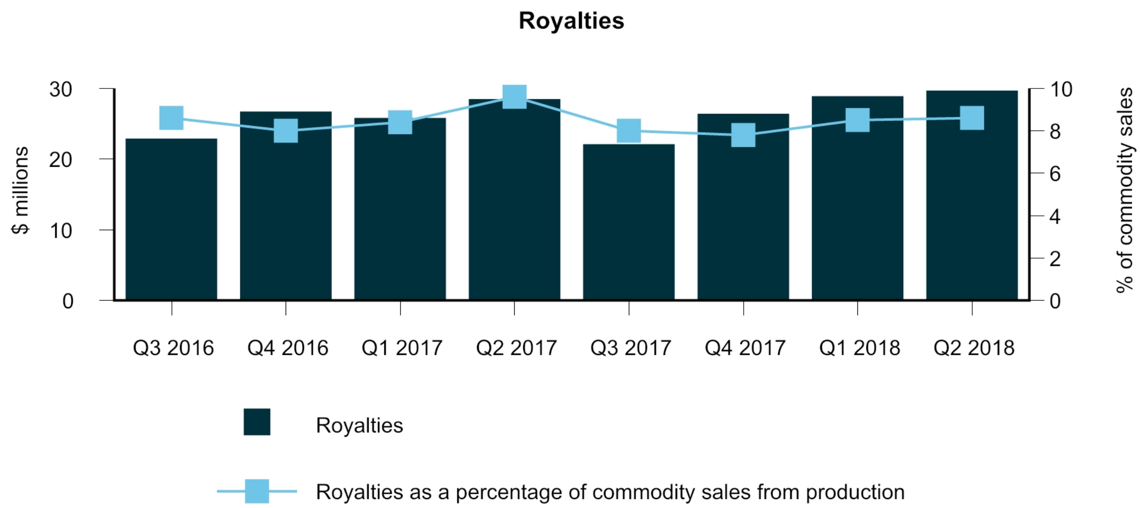
**Exhibit 13**


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

## Royalties

Total royalties for the three and six months ended June 30, 2018 were $29.7 million and $58.6 million ($28.5 million and $54.3 million for the same periods in 2017), respectively. Total royalties as a percentage of commodity sales from production decreased from 9.7 per cent ($2.76 per boe) in the second quarter of 2017 to 8.6 per cent ($2.55 per boe) in the second quarter of 2018. For the six months ended June 30, 2018, total royalties represented 8.6 per cent of commodity sales from production ($2.50 per boe) as compared to 9.0 per cent ($2.62 per boe) in the same period in 2017. The decrease in royalties as a percentage of commodity sales from production for the three and six months ended June 30, 2018, is reflective of a lower royalty rate for natural gas due to a decline in the natural gas price in the second quarter of 2018 compared to the same period in 2017, partially offset by a higher royalty rate for crude oil and liquids due to increased commodity prices in the second quarter of 2018 compared to the same period in 2017. Royalties per boe decreased in the second quarter of 2018 as compared to the second quarter of 2017 due to an increase in production.

**Exhibit 14**

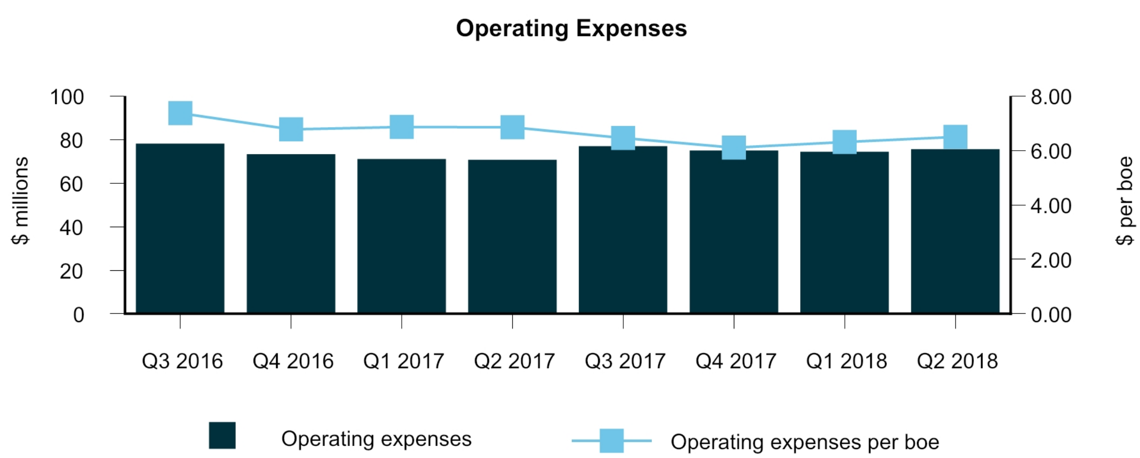



## Operating and Transportation Expenses

Operating expenses increased by $4.9 million in the second quarter of 2018 to $75.6 million as compared to the second quarter of 2017, primarily as a result of increased production in the period. On a per boe basis, operating expenses decreased $0.35 per boe to $6.50 per boe in the second quarter of 2018 compared to $6.85 per boe in the second quarter of 2017 as ARC continues to grow production in areas with lower average operating costs.

For the six months ended June 30, 2018, operating expenses increased by $8.3 million to $150.0 million compared to the same period in the prior year. The increase in operating expenses for the six months ended June 30, 2018 is mainly a result of increased production at Dawson Phase III and higher electricity pricing. These increases were partially offset by reductions from the disposition in March 2018 of non-core assets that had higher average operating costs. On a per boe basis, operating expenses decreased by $0.46 per boe to $6.40 per boe compared to the six months ended June 30, 2017.

**Exhibit 15**




ARC's second quarter 2018 transportation expenses of $2.61 per boe were unchanged from the first quarter of 2018. Transportation expenses for the three and six months ended June 30, 2018 were $30.4 million and $61.2 million ($28.6

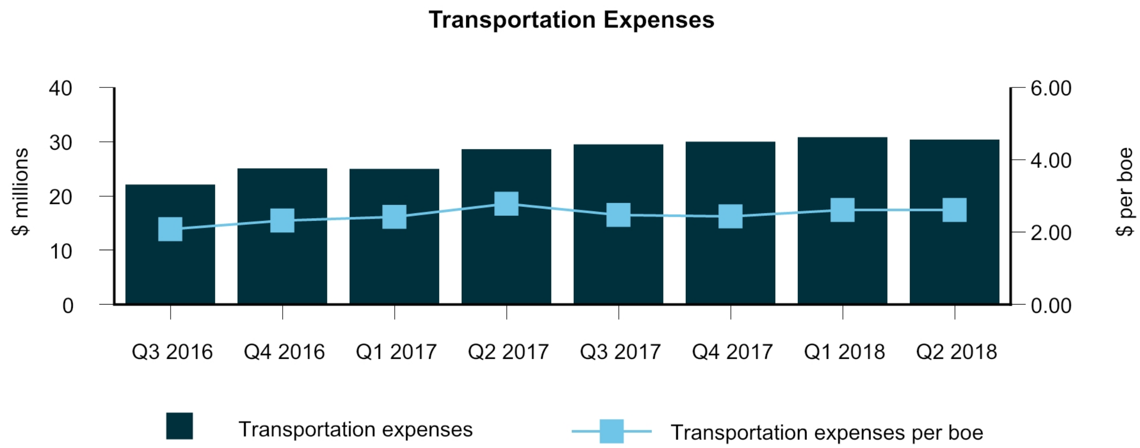
million and $53.6 million for the three and six months ended June 30, 2017), respectively. The increase on a full-dollar basis relative to 2017 primarily reflects increased volumes associated with new production, increased natural gas tolls throughout 2017 and the addition of new transportation agreements for greater market access beyond AECO.

A breakdown of transportation expense by product and per boe is shown in Table 18:

**Table 18**

| | Three Months Ended | | | | Six Months Ended | | |
|---|---|---|---|---|---|---|---|
| **Transportation ($ millions, except per boe amounts)** | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| Crude oil | 6.4 | **5.7** | 5.7 | — | **12.1** | 11.3 | 7 |
| Condensate | 2.5 | **3.9** | 1.1 | 255 | **6.4** | 2.4 | 167 |
| Natural gas | 18.8 | **18.5** | 18.7 | (1) | **37.3** | 33.9 | 10 |
| NGLs | 3.1 | **2.3** | 3.1 | (26) | **5.4** | 6.0 | (10) |
| Total transportation | 30.8 | **30.4** | 28.6 | 6 | **61.2** | 53.6 | 14 |
| Crude oil ($ per bbl) | 2.84 | **2.51** | 2.63 | (5) | **2.67** | 2.62 | 2 |
| Condensate ($ per bbl) | 5.00 | **6.27** | 2.93 | 114 | **5.71** | 3.08 | 85 |
| Natural gas ($ per mcf) | 0.37 | **0.38** | 0.43 | (12) | **0.37** | 0.38 | (3) |
| NGLs ($ per bbl) | 5.48 | **3.87** | 7.21 | (46) | **4.66** | 7.68 | (39) |
| Total transportation ($ per boe) | 2.61 | **2.61** | 2.78 | (6) | **2.61** | 2.60 | — |

**Exhibit 16**




## G&A Expenses and Share-Based Compensation

G&A expenses before share-based compensation expenses decreased by 17 per cent to $14.9 million in the second quarter of 2018 from $17.9 million in the second quarter of 2017. For the six months ended June 30, 2018, ARC's G&A before share-based compensation expense was $30.2 million, a $3.1 million decrease from the same period in 2017. The decrease for both periods is due to a $2.4 million provision recognized in the second quarter of 2017 for onerous contracts related to ARC’s tenant subleases at ARC’s corporate office. This was partially offset by director's compensation under the DSU plan.

.

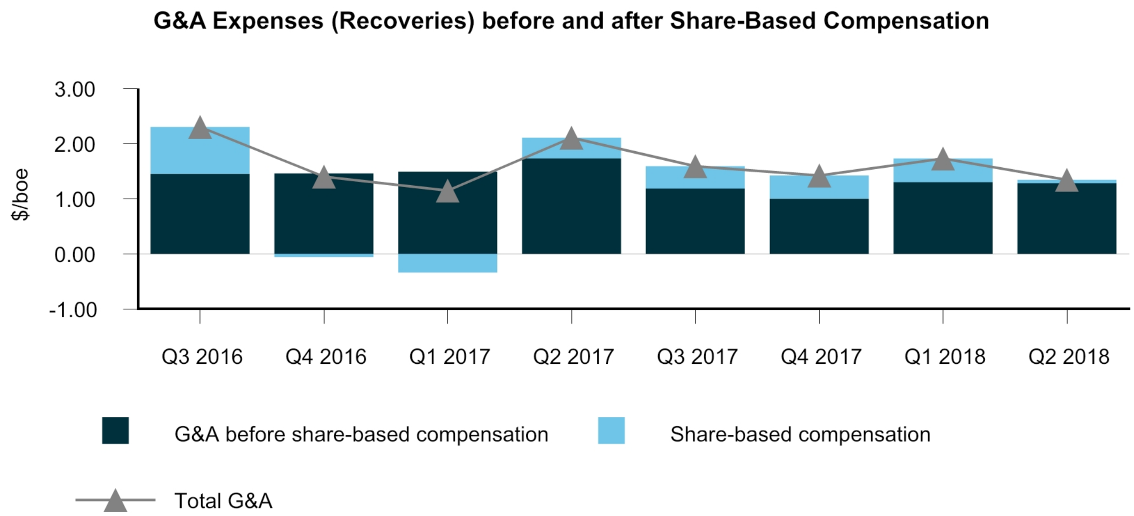
Table 19 is a breakdown of G&A and share-based compensation expenses:

**Table 19**

| **G&A and Share-Based Compensation** ($ millions, except per boe) | Three Months Ended March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | Six Months Ended **June 30, 2018** | June 30, 2017 | % Change |
|---|---|---|---|---|---|---|---|
| G&A expenses before share-based compensation expenses (1) | 15.3 | **14.9** | 17.9 | (17) | **30.2** | 33.3 | (9) |
| G&A – share-based compensation expenses (2) | 5.1 | **0.7** | 4.0 | (83) | **5.8** | 0.5 | 100 |
| Total G&A expenses | 20.4 | **15.6** | 21.9 | (29) | **36.0** | 33.8 | 7 |
| G&A expenses before share-based compensation expenses per boe | 1.30 | **1.28** | 1.73 | (26) | **1.29** | 1.61 | (20) |
| G&A – share-based compensation expenses per boe | 0.43 | **0.06** | 0.39 | (85) | **0.25** | 0.02 | 100 |
| Total G&A expenses per boe | 1.73 | **1.34** | 2.12 | (37) | **1.54** | 1.63 | (6) |

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

**Exhibit 17**




### 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 14 "Share-Based Compensation Plans" of ARC's audited consolidated financial statements as at and for the year ended December 31, 2017.

During the three and six months ended June 30, 2018, ARC recorded G&A expense of $0.7 million and $5.8 million in respect of its share-based compensation plans, respectively, compared to $4.0 million and $0.5 million during the three and six months ended June 30, 2017.

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

At June 30, 2018, ARC had 0.9 million RSUs and 2.1 million PSUs outstanding under this plan. For the three months ended June 30, 2018, a G&A recovery of $1.3 million was recorded in relation to the RSU and PSU Plan (G&A expense of $2.3 million for the same period in 2017). ARC recognized a recovery during the second quarter of 2018 as ARC's share price decreased from $14.04 per share at March 31, 2018 to $13.58 per share at June 30, 2018. The valuation of the PSU awards also decreased at June 30, 2018 as ARC's total return performance was outpaced when compared with the total return performance of its peers.

During the six months ended June 30, 2018, ARC recognized an expense of $2.6 million in relation to its RSU and PSU Plan (recovery of $2.0 million for the six months ended June 30, 2017). An expense was recognized in the current period due to continued vesting of the awards with only moderate decreases in valuation of outstanding awards at period end.

In the first six months of the prior year, ARC recognized a recovery of share-based compensation expense related to RSU and PSU awards as average performance multipliers and share price both experienced more significant decreases than in 2018.

During the six months ended June 30, 2018, ARC made cash payments of $8.1 million in respect of the RSU and PSU Plan ($11.4 million for the six months ended June 30, 2017). Of these payments, $6.4 million were in respect of amounts recorded to G&A expense ($9.3 million for the six months ended June 30, 2017) and $1.7 million were in respect of amounts recorded to operating expenses and capitalized as PP&E and E&E ($2.1 million for the six months ended June 30, 2017). These amounts were accrued in prior periods.

Table 20 shows the changes to the RSU and PSU Plan during 2018:

**Table 20**

| **RSU and PSU Plan (number of units, thousands)** | **RSUs** | **PSUs** [1] | **Total RSUs and PSUs** |
|---|---|---|---|
| Balance, December 31, 2017 | 780 | 1,912 | 2,692 |
| Granted | 337 | 708 | 1,045 |
| Distributed | (182) | (462) | (644) |
| Forfeited | (36) | (22) | (58) |
| **Balance, June 30, 2018** | **899** | **2,136** | **3,035** |

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

Due to the variability in the expected future payments under the plan, ARC estimates that between $12.1 million and $69.3 million will be paid out in 2018 through 2021 based on the current share price, accrued dividends, and ARC's market performance relative to its peers. Table 21 is a summary of the range of future expected payments under the RSU and PSU Plan based on variability of the performance multiplier and units outstanding under the RSU and PSU Plan as at June 30, 2018:

**Table 21**

| **Value of RSU and PSU Plan as at June 30, 2018** | | **Performance Multiplier** | |
|---|---|---|---|
| (units thousands and $ millions, except per share) | **—** | **1.0** | **2.0** |
| Estimated units to vest | | | |
| RSUs | 888 | 888 | 888 |
| PSUs | — | 2,109 | 4,218 |
| Total units [1] | **888** | **2,997** | **5,106** |
| Share price [2] | 13.58 | 13.58 | 13.58 |
| Value of RSU and PSU Plan upon vesting | **12.1** | **40.7** | **69.3** |
| 2018 | 2.6 | 7.1 | 11.7 |
| 2019 | 4.8 | 13.5 | 22.3 |
| 2020 | 3.3 | 12.1 | 21.0 |
| 2021 | 1.4 | 8.0 | 14.3 |

(1) Includes additional estimated units to be issued under the RSU and PSU Plan 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 of $13.58, which is based on the TSX closing share price at June 30, 2018.

### Deferred Share Unit Plan

At June 30, 2018, ARC had 0.6 million DSUs outstanding under this plan. For the three and six months ended June 30, 2018, G&A expenses of $0.4 million and $1.3 million were recorded in relation to the DSU Plan (G&A recoveries of $0.4 million and $1.6 million for the same period in 2017), respectively.

### Share Option Plan

At June 30, 2018, ARC had 6.0 million share options outstanding, representing 1.7 per cent of outstanding shares, with a weighted average exercise price of $17.67 per share. At June 30, 2018, approximately 1.4 million share options were exercisable with a weighted average exercise price of $19.57 per share. ARC recorded compensation expense of $1.1 million and $2.1 million relating to the Share Option Plan for the three and six months ended June 30, 2018 ($0.8 million and $1.5 million for the three and six months ended June 30, 2017).

### Long-term Restricted Share Award Plan

At June 30, 2018, ARC had 0.5 million restricted shares outstanding under this plan. ARC recorded G&A expenses of $0.9 million and $1.1 million relating to the LTRSA Plan during the three and six months ended June 30, 2018 ($0.9 million and $1.0 million for the three and six months ended June 30, 2017).

### Interest and Financing Charges

Interest and financing charges decreased 11 per cent to $10.4 million in the second quarter of 2018 from $11.7 million in the second quarter of 2017. For the six months ended June 30, 2018, interest and financing charges were $21.1 million as compared to $23.4 million in 2017, a decrease of 10 percent. The decrease for the three and six months ended June 30, 2018 compared to the same period of the prior year is due to principal repayments that were made throughout 2017 and the second quarter of 2018.

At June 30, 2018, ARC had $892.9 million of long-term debt outstanding, including a current portion of $77.5 million that is due for repayment within the next 12 months. ARC's long-term debt has a fixed weighted average interest rate of 4.2 per cent. 96 per cent (US$649.0 million) of ARC’s long-term debt outstanding at June 30, 2018 is denominated in US dollars.

### Foreign Exchange Gains and Losses

ARC recorded a foreign exchange loss of $13.9 million in the second quarter of 2018 compared to a gain of $19.9 million in the second quarter of 2017. During the three months ended June 30, 2018, the value of the US dollar relative to the Canadian dollar increased to $1.31 from $1.29 at March 31, 2018, resulting in an unrealized loss on the revaluation of ARC's US dollar denominated debt. During the three months ended June 30, 2017, the value of the US dollar relative to the Canadian dollar decreased to $1.30 from $1.33 at March 31, 2017, resulting in an unrealized gain on the revaluation of ARC's US dollar denominated debt.

During the six months ended June 30, 2018 the value of the US dollar relative to the Canadian dollar increased to $1.31 at June 30, 2018 from $1.25 at December 31, 2017. During the six months ended June 30, 2017 the value of the US dollar relative to the Canadian dollar decreased to $1.30 at June 30, 2017 from $1.34 at December 31, 2016. This resulted in an unrealized loss on the revaluation of ARC's US dollar denominated debt in 2018, as compared to an unrealized gain for the same period in 2017.

Partially offsetting the unrealized foreign exchange loss for the six months ended June 30, 2018 were realized foreign exchange gains on US denominated cash held by the Company throughout the period.

Table 22 shows the various components of foreign exchange gains and losses:

### Table 22

| | Three Months Ended | | | | Six Months Ended | | |
|---|---|---|---|---|---|---|---|
| **Foreign Exchange Gains and Losses** ($ millions) | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| Unrealized gain (loss) on US dollar denominated debt | (26.9) | **(15.4)** | 24.7 | (162) | **(42.3)** | 32.4 | (231) |
| Unrealized loss on US dollar denominated receivables | — | **(0.3)** | — | — | **(0.3)** | — | — |
| Realized gain (loss) on US denominated transactions | 1.7 | **1.8** | (4.8) | 138 | **3.5** | (4.0) | 188 |
| Total foreign exchange gain (loss) | (25.2) | **(13.9)** | 19.9 | (170) | **(39.1)** | 28.4 | (238) |

### Taxes

ARC recorded a current income tax expense of $12.7 million in the second quarter of 2018 ($21.0 million expense for the six months ended June 30, 2018) compared to a recovery of $2.5 million during the second quarter of 2017 ($11.0 million expense for the six months ended June 30, 2017). This increase in current tax expense for both the three and six months ended June 30, 2018 is a function of higher commodity prices realized in the year and forecasted for the remainder of 2018 resulting in a higher expected taxable income as compared to the same period in 2017.

During the second quarter of 2018, a deferred income tax recovery of $23.0 million was recorded ($0.9 million recovery for the six months ended June 30, 2018) compared to an expense of $38.6 million in the second quarter of 2017 ($74.1 million expense for the six months ended June 30, 2017).This decrease in deferred tax expense for both the three and six months ended June 30, 2018 is primarily related to unrealized losses recorded on risk management contracts in 2018 as compared to unrealized gains for the same period in 2017.

The income tax pools (detailed in Table 23) are deductible at various rates and annual deductions associated with the initial tax pools will decline over time.

**Table 23**

| **Income Tax Pool Type**<br>($ millions) | **June 30, 2018** | **Annual Deductibility** |
|---|---|---|
| Canadian oil and gas property expense | 144.0 | 10% declining balance |
| Canadian development expense | 866.6 | 30% declining balance |
| Canadian exploration expense | — | 100% |
| Undepreciated capital cost | 856.7 | Primarily 25% declining balance |
| Other | 14.2 | Various rates, 7% declining balance to 20% |
| Total federal tax pools | 1,881.5 | |
| Additional Alberta tax pools | 3.8 | Various rates, 25% declining balance to 100% |

### DD&A Expenses and Impairment

For the three and six months ended June 30, 2018, ARC recorded DD&A expense of $120.6 million and $246.3 million as compared to $108.0 million and $221.5 million for the three and six months ended June 30, 2017. The increase in DD&A for the three and six months ended June 30, 2018 compared to the same periods in the prior year reflects increased production in 2018 compared to the same periods in 2017, despite a lower average depletion rate reflecting increased proved plus probable reserves in 2018 from 2017.

For the three and six months ended June 30, 2018, ARC recognized impairment of $7.9 million and $8.3 million, respectively, compared to a recovery of impairment of $75.0 million for the same periods in 2017. Impairment charges recognized during the second quarter of 2018 were related to non-core dispositions completed in 2018.

A breakdown of DD&A expenses and impairment charges (recovery) is summarized in Table 24:

**Table 24**

| | **Three Months Ended** | | | | **Six Months Ended** | | |
|---|---|---|---|---|---|---|---|
| **DD&A Expenses**<br>($ millions, except per boe amounts) | March 31, 2018 | **June 30, 2018** | June 30, 2017 | % Change | **June 30, 2018** | June 30, 2017 | % Change |
| Depletion of crude oil and natural gas assets | 124.3 | **119.3** | 106.7 | 12 | **243.6** | 218.9 | 11 |
| Depreciation of corporate assets | 1.4 | **1.3** | 1.3 | — | **2.7** | 2.6 | 4 |
| Impairment (recovery) | 0.4 | **7.9** | (75.0) | (111) | **8.3** | (75.0) | (111) |
| Total DD&A expenses and impairment | 126.1 | **128.5** | 33.0 | 289 | **254.6** | 146.5 | 74 |
| DD&A expenses per boe, excluding impairment | 10.66 | **10.36** | 10.46 | (1) | **10.51** | 10.71 | (2) |

ARC recognized depletion expense of $3.5 million and $4.2 million related to production of wells from its E&E properties for the three and six months June 30, 2018. This expense has been recognized as exploration and evaluation expense ($nil for the three and six months ended June 30, 2017).

## Capital Expenditures, Acquisitions and Dispositions

Capital expenditures before acquisitions, dispositions or purchases of undeveloped land totaled $164.8 million in the second quarter of 2018 as compared to $151.0 million during the second quarter of 2017.

In the second quarter of 2018, ARC had property dispositions for proceeds of $0.7 million, and recorded a gain on sale of $0.4 million. In the first quarter of 2018, ARC had property dispositions for proceeds of $98.3 million, and recorded a gain on sale of $80.1 million.

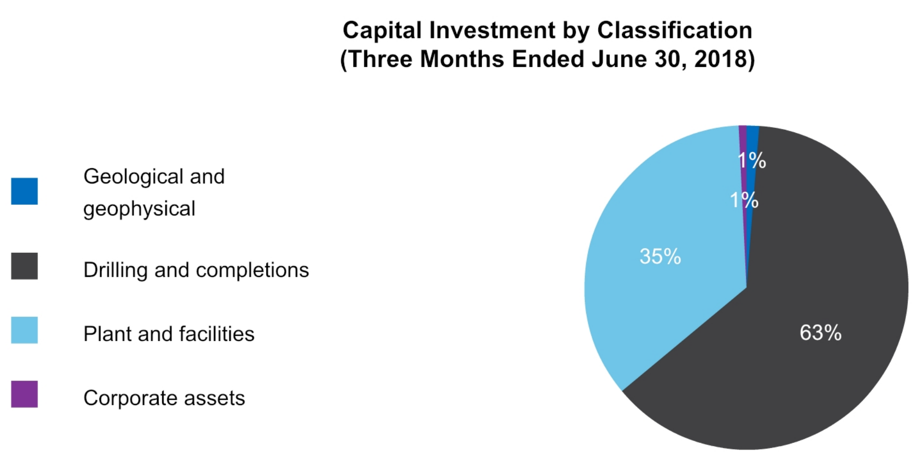
A breakdown of capital expenditures, acquisitions and dispositions is shown in Table 25:

**Table 25**

| | Three Months Ended June 30 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | | |
| **Capital Expenditures** (1)<br>($ millions) | **E&E** | **PP&E** | **Total** | E&E | PP&E | Total | % Change |
| Geological and geophysical | **0.4** | **1.7** | **2.1** | 0.1 | 1.9 | 2.0 | 5 |
| Drilling and completions | **4.0** | **98.6** | **102.6** | 2.1 | 103.8 | 105.9 | (3) |
| Plant and facilities | **4.2** | **54.6** | **58.8** | 1.6 | 40.0 | 41.6 | 41 |
| Corporate assets | **—** | **1.3** | **1.3** | — | 1.5 | 1.5 | (13) |
| Total capital expenditures | **8.6** | **156.2** | **164.8** | 3.8 | 147.2 | 151.0 | 9 |
| Undeveloped land | **—** | **—** | **—** | — | 14.7 | 14.7 | (100) |
| Total capital expenditures including undeveloped land purchases | **8.6** | **156.2** | **164.8** | 3.8 | 161.9 | 165.7 | (1) |
| Acquisitions | **—** | **—** | **—** | — | 0.1 | 0.1 | (100) |
| Dispositions | **—** | **(0.7)** | **(0.7)** | — | — | — | (100) |
| Total capital expenditures, land purchases and acquisitions | **8.6** | **155.5** | **164.1** | 3.8 | 162.0 | 165.8 | (1) |

(1) PP&E refers to property, plant and equipment in the development and production phase, while E&E expenditures include capital expenditure on assets in areas that have been determined by Management to be in the exploration and evaluation stage.

**Exhibit 18**



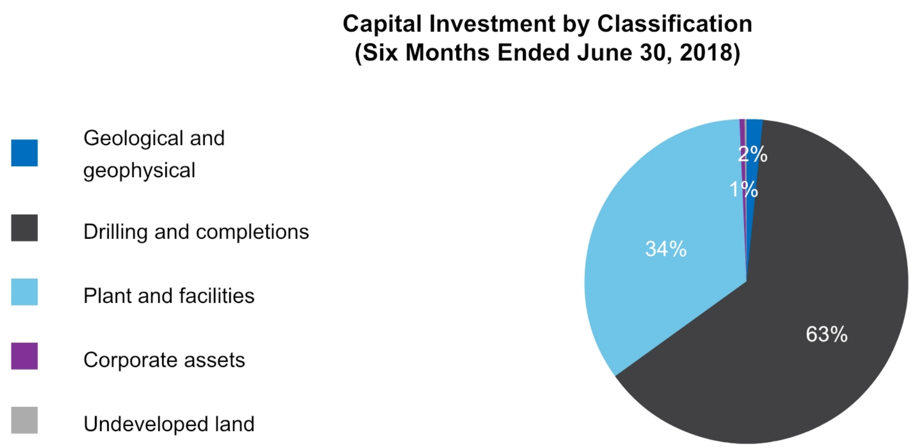
For the six months ended June 30, 2018, capital expenditures before property acquisitions, dispositions or purchases of undeveloped land totaled $378.5 million as compared to $406.2 million during the same period of 2017. This total includes development and production additions to PP&E of $325.1 million and additions to E&E assets of $53.4 million.

**Table 25a**

| | Six Months Ended June 30 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | | |
| **Capital Expenditures** [1] ($ millions) | **E&E** | **PP&E** | **Total** | E&E | PP&E | Total | % Change |
| Geological and geophysical | **1.7** | **4.4** | **6.1** | 0.1 | 5.1 | 5.2 | 17 |
| Drilling and completions | **41.3** | **200.4** | **241.7** | 16.2 | 261.3 | 277.5 | (13) |
| Plant and facilities | **10.4** | **118.4** | **128.8** | 2.8 | 117.2 | 120.0 | 7 |
| Corporate assets | **—** | **1.9** | **1.9** | — | 3.5 | 3.5 | (46) |
| Total capital expenditures | **53.4** | **325.1** | **378.5** | 19.1 | 387.1 | 406.2 | (7) |
| Undeveloped land | **0.4** | **0.3** | **0.7** | — | 19.9 | 19.9 | (96) |
| Total capital expenditures including undeveloped land purchases | **53.8** | **325.4** | **379.2** | 19.1 | 407.0 | 426.1 | (11) |
| Acquisitions [2] | **—** | **0.2** | **0.2** | — | 0.3 | 0.3 | (33) |
| Dispositions | **—** | **(99.0)** | **(99.0)** | — | — | — | 100 |
| Total capital expenditures, land purchases and net acquisitions and dispositions | **53.8** | **226.6** | **280.4** | 19.1 | 407.3 | 426.4 | (34) |

(1) PP&E refers to property, plant and equipment in the development and production phase, while E&E expenditures include capital expenditure on assets in areas that have been determined by Management to be in the exploration and evaluation stage.
(2) Excludes $nil and $0.5 million of non-cash petroleum and natural gas property transactions in the six months ended June 30, 2018 and 2017, respectively.

**Exhibit 19**




ARC invested $378.5 million of capital, before land and net property acquisitions and dispositions, in the first half of 2018. Year-to-date 2018 capital activity included drilling and completion activities at Ante Creek, Attachie, Dawson, Sunrise, and Tower. Capital investment in the period was also focused on various infrastructure initiatives in northeast British Columbia. Approximately 95 per cent of capital invested in the first half of 2018 was directed towards ARC's Montney assets.

**Asset Retirement Obligations**

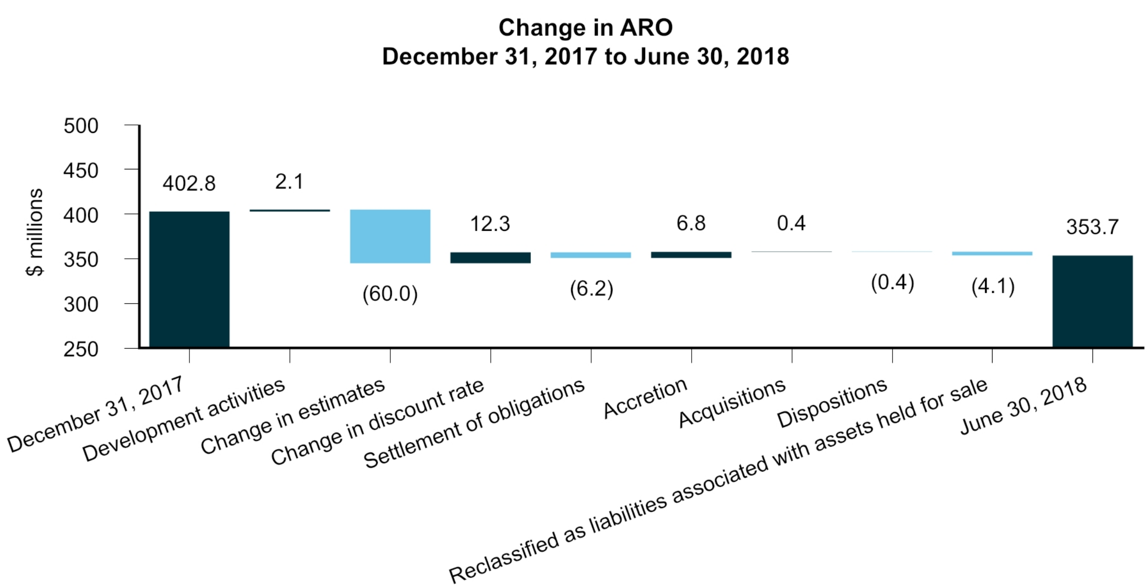
At June 30, 2018, ARC has recorded ARO of $353.7 million ($402.8 million at December 31, 2017) for the future abandonment and reclamation of ARC's properties. The estimated ARO includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred, and annual inflation factors. The future liability has been discounted at a liability-specific risk-free interest rate of 2.2 per cent (2.3 per cent at December 31, 2017).

During the six months ended June 30, 2018, ARC reduced its ARO by $60.0 million in respect of revisions to estimates of costs of future obligations.

Accretion charges of $3.2 million and $6.8 million for the three and six months ended June 30, 2018 ($3.2 million and $6.4 million for the same period in 2017), have been recognized in the statements of income (loss) to reflect the increase in ARO associated with the passage of time. Actual spending under ARC's abandonment and reclamation program for the three and six months ended June 30, 2018 was $0.6 million and $6.2 million ($1.5 million and $10.6 million for the same period in 2017). At June 30, 2018, $189.2 million of ARO associated with certain non-core assets in Alberta is classified as held for sale.

Environmental stewardship is a core value at ARC and abandonment and reclamation activities continue to be made in a prudent, responsible manner with the oversight of the Safety, Reserves and Operational Excellence Committee of the Board. Ongoing abandonment expenditures for all of ARC's assets are funded entirely out of cash flow from operating activities. 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 are required or expected to be required at June 30, 2018 and at the date of this MD&A.

**Exhibit 20**




**Capitalization, Financial Resources and Liquidity**

ARC's long-term goal is to fund current period reclamation expenditures, dividend payments and capital expenditures necessary for the replacement of production declines using only funds from operations. Profitable growth activities will be financed with a combination of funds from operations and other sources of capital.

ARC typically uses three sources to raise capital: equity, bank debt and long-term notes. Long-term notes are issued to large institutional investors normally with an average term of five to 12 years. The cost of this debt is based upon two factors: the current rate of long-term government bonds and ARC's credit spread. ARC's weighted average interest rate on its outstanding long-term notes is currently 4.2 per cent.

A breakdown of ARC's capital structure as at June 30, 2018 and December 31, 2017 is outlined in Table 26:

**Table 26**

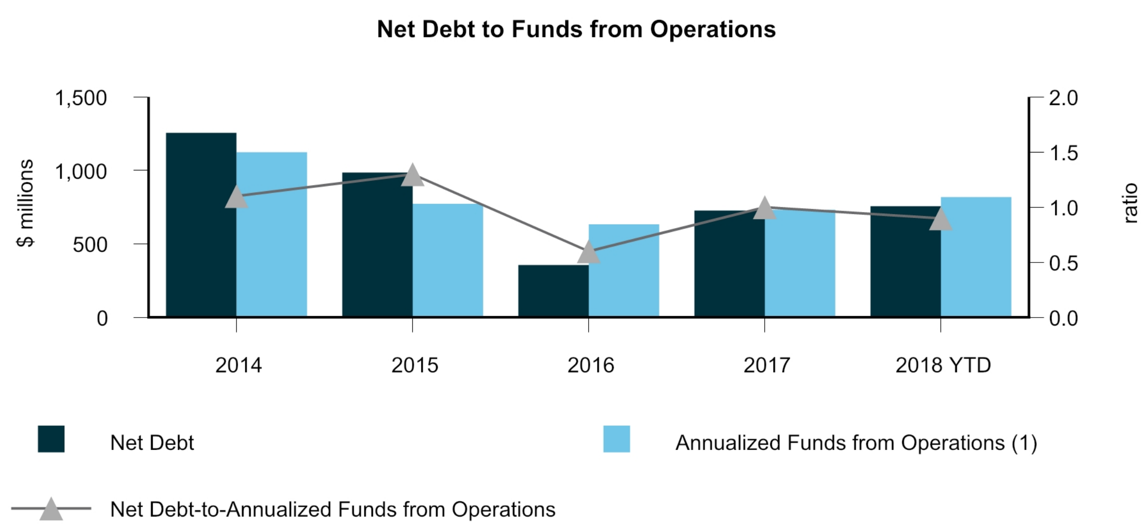
| **Capital Structure and Liquidity**<br>($ millions, except per cent and ratio amounts) | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Long-term debt (1) | **892.9** | 911.3 |
| Accounts payable and accrued liabilities | **186.3** | 170.0 |
| Dividends payable | **17.7** | 17.7 |
| Cash and cash equivalents, accounts receivable, prepaid expenses and short-term investments | **(339.9)** | (371.0) |
| Net debt | **757.0** | 728.0 |
| Market capitalization (2) | **4,800.5** | 5,214.1 |
| Total capitalization | **5,557.5** | 5,942.1 |
| Net debt as a percentage of total capitalization (%) | **13.6** | 12.3 |
| Net debt to annualized funds from operations (ratio) (3) | **0.9** | 1.0 |

(1) Includes a current portion of long-term debt of $77.5 million at June 30, 2018 and $73.9 million at December 31, 2017.
(2) Calculated using the total common shares outstanding at June 30, 2018 multiplied by the TSX closing share price of $13.58 at June 30, 2018 (TSX closing share price of $14.75 at December 31, 2017).
(3) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Management's long-term strategy is to keep its net debt balance to a ratio of between one and 1.5 times annualized funds from operations and less than 20 per cent of total market capitalization. This strategy has resulted in manageable debt levels to date and has positioned ARC to remain well within its debt covenants. Refer to Note 10 "Capital Management" in the financial statements.

ARC closed the quarter with a strong balance sheet with $757.0 million of net debt outstanding, which was approximately 14 per cent of ARC's total capitalization. At June 30, 2018, ARC's net debt to 2018 annualized funds from operations ratio was 0.9 times.

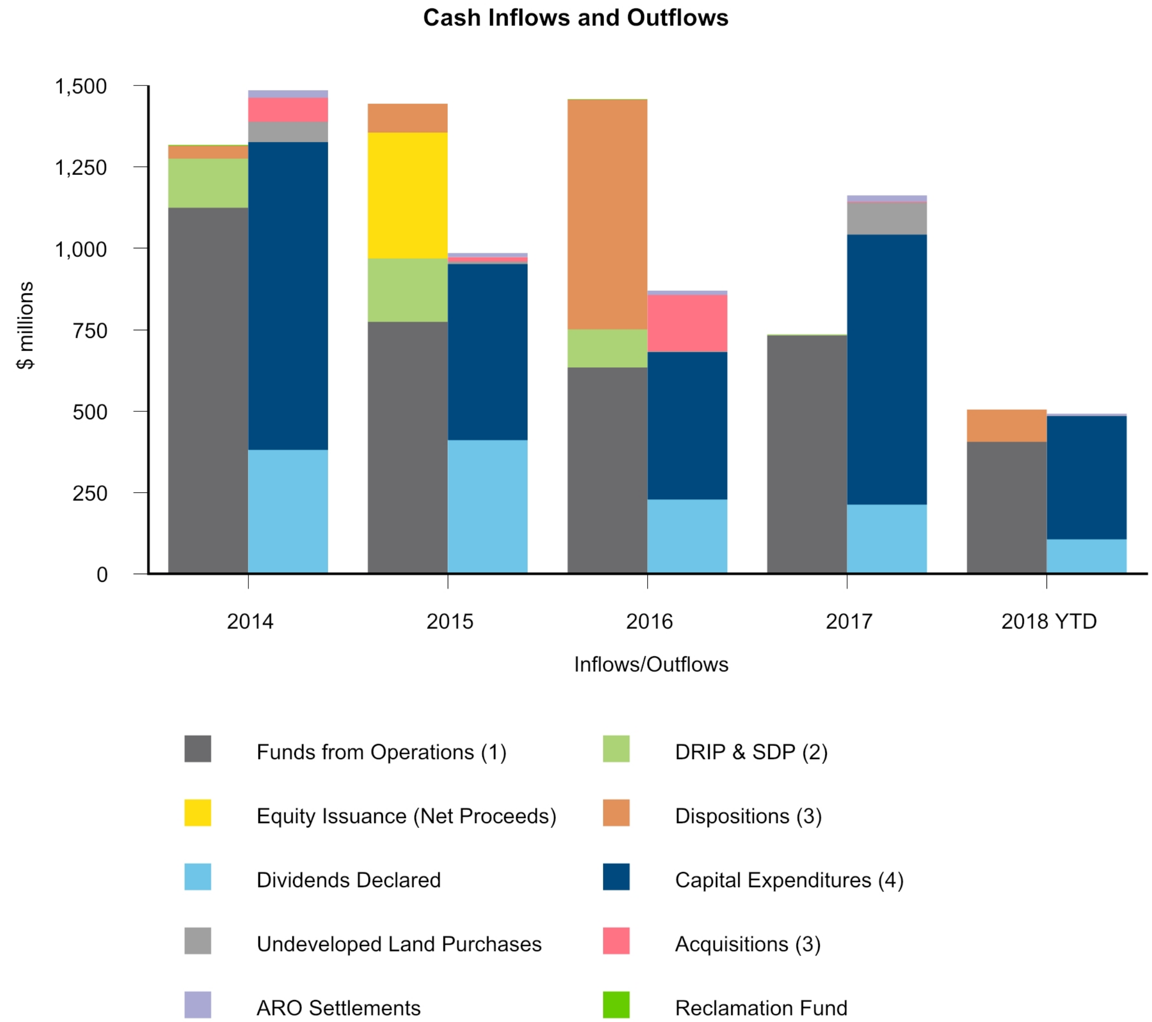
**Exhibit 21**




(1) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

The following illustrates the balance of cash inflows and outflows over the past five years. In any period when cash outflows exceed inflows, ARC's net debt balance will increase to cover the shortfall and will decrease in any period when inflows exceed outflows.

**Exhibit 22**




(1) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) On February 8, 2017, ARC's Board of Directors approved the elimination of the DRIP and SDP, effective for the March dividend that was paid on April 17, 2017 to shareholders of record on March 31, 2017.
(3) Excludes non-cash property transactions.
(4) Excludes capital expenditures attributable to non-cash share options and asset retirement expenditures.

**Table 27**

| ($ millions) | **2018 YTD** | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Cash Inflows** | | | | | |
| Funds from operations (1) | **405.4** | 731.9 | 633.3 | 773.4 | 1,124.0 |
| DRIP & SDP (2) | **—** | 3.0 | 117.1 | 195.5 | 151.0 |
| Equity issuance (net proceeds) | **—** | — | — | 386.1 | — |
| Dispositions (3) | **99.0** | — | 705.4 | 88.8 | 39.3 |
| Reclamation fund withdrawals | **1.0** | — | — | 0.9 | — |
| Total | **505.4** | 734.9 | 1,455.8 | 1,444.7 | 1,314.3 |
| **Cash Outflows** | | | | | |
| Dividends declared | **106.2** | 212.3 | 228.2 | 410.5 | 380.2 |
| Capital expenditures (4) | **378.3** | 829.4 | 452.9 | 541.2 | 945.3 |
| Undeveloped land purchases | **0.7** | 97.6 | 2.7 | 6.7 | 62.3 |
| Acquisitions (3) | **0.2** | 2.5 | 172.9 | 14.4 | 73.5 |
| ARO settlements | **6.2** | 19.8 | 13.0 | 12.3 | 23.0 |
| Reclamation fund contributions | **—** | 0.6 | 2.0 | — | 2.6 |
| Total | **491.6** | 1,162.2 | 871.7 | 985.1 | 1,486.9 |

(1) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) On February 8, 2017, ARC's Board of Directors approved the elimination of the DRIP and SDP, effective for the March dividend that was paid on April 17, 2017 to shareholders of record on March 31, 2017.
(3) Excludes non-cash property transactions.
(4) Excludes capital additions in respect of non-cash share options and asset retirement cost additions.

At June 30, 2018, ARC had total available credit capacity of approximately $1.9 billion with debt of $892.9 million currently outstanding. ARC's long-term debt balance includes a current portion of $77.5 million at June 30, 2018 ($73.9 million at December 31, 2017), 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 debt agreements contain a number of covenants, all of which were met as at June 30, 2018. These agreements are available on SEDAR at www.sedar.com. ARC calculates its covenants quarterly. The major financial covenants of the syndicated credit facility are described below:

**Table 28**

| **Covenant Description** | **Estimated Position at June 30, 2018** (1) |
|---|---|
| Long-term debt and letters of credit not to exceed three-and-a-half times trailing 12-month net income before non-cash items, income taxes and interest expense | 1.1 |
| Long-term debt, letters of credit, and subordinated debt not to exceed four times trailing 12-month net income before non-cash items, income taxes and interest expense | 1.1 |
| Long-term debt and letters of credit not to exceed 50 per cent of the book value of shareholders' equity and long-term debt, letters of credit and subordinated debt | 20% |

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

### Shareholders' Equity

At June 30, 2018 and August 1, 2018, there were 353.5 million shares outstanding and 6.0 million share options outstanding under ARC's Share Option Plan. For more information on the Share Option Plan, refer to the section entitled "Share Option Plan" contained within this MD&A.

At June 30, 2018, ARC had 0.5 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**

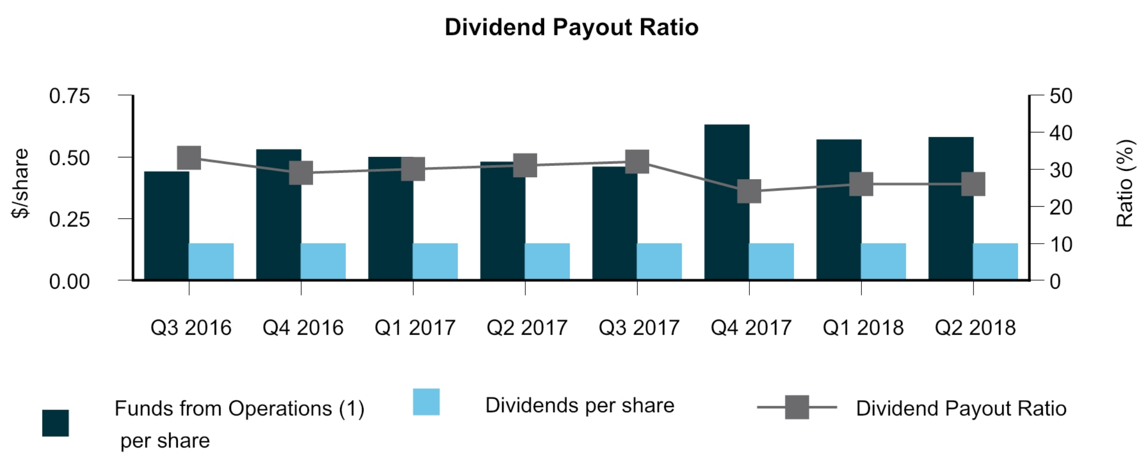
In the second quarters of 2018 and 2017, ARC declared dividends totaling $53.1 million ($0.15 per share outstanding).

As a dividend-paying corporation, ARC declares monthly dividends to its shareholders. ARC continually assesses dividend levels in light of commodity prices, capital expenditure programs, and production volumes to ensure that dividends are in line with the long-term strategy and objectives of ARC as per the following guidelines:

- To maintain a dividend policy that, in normal times, in the opinion of Management and the Board, is sustainable after factoring in the impact of current commodity prices on funds from operations. ARC's objective is to normalize the effect of volatility of commodity prices rather than to pass that volatility onto shareholders in the form of fluctuating monthly dividends.
- To maintain ARC's financial flexibility, by reviewing ARC's level of debt to equity and debt to funds from operations. The use of funds from operations and proceeds from equity offerings to fund capital development activities reduces the need to use debt to finance these expenditures.

ARC's business strategy is focused on value creation and long-term returns to shareholders, with the dividend being an important component. As a result of the increase in funds from operations in the second quarter of 2018 compared to the same period of the prior year, ARC's dividend as a percent of funds from operations has decreased from an average of 31 per cent in the second quarter of 2017 to an average of 26 per cent in the second quarter of 2018. ARC believes that it is currently positioned to sustain current dividend levels despite the volatile commodity price environment.

**Exhibit 22**




(1) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

The actual amount of future monthly dividends is proposed by Management and is subject to the approval and discretion of the Board. The Board reviews future dividends in conjunction with their review of quarterly financial and operating results. On July 16, 2018, ARC confirmed that a dividend of $0.05 per common share designated as an eligible dividend will be paid on August 15, 2018 to shareholders of record on July 31, 2018 with an ex-dividend date of July 30, 2018.

Please refer to ARC's website at www.arcresources.com for details of the estimated monthly dividend amounts and dividend dates for 2018.

**Environmental Initiatives Impacting ARC**

ARC operates in jurisdictions that regulate greenhouse gas emissions and other air pollutants. While some regulations are in effect, further changes and amendments are at various stages of review, discussion and implementation. There is uncertainty around how any future federal legislation will harmonize with provincial regulation, as well as the timing and effects of regulations. Climate change regulation at both the federal and provincial level has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Canada. Such regulations impose certain costs and risks on the industry, and there remains some uncertainty with regard to the impacts of federal or provincial climate change and environmental laws and regulations, as ARC is unable to predict additional legislation or amendments that governments may enact in the future. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Company's operations and cash flow.

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

**Contractual Obligations and Commitments**

The following is a summary of ARC's contractual obligations and commitments as at June 30, 2018:

**Table 29**

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| ($ millions) | **1 Year** | **2-3 Years** | **4-5 Years** | **Beyond 5 Years** | **Total** |
| Debt repayments (1) | 77.5 | 215.7 | 268.3 | 331.4 | 892.9 |
| Interest payments (2) | 37.4 | 61.5 | 36.5 | 18.4 | 153.8 |
| Reclamation fund contributions (3) | 3.1 | 5.7 | 5.4 | 40.2 | 54.4 |
| Purchase commitments | 22.9 | 5.8 | — | — | 28.7 |
| Transportation commitments | 111.2 | 242.7 | 248.7 | 692.7 | 1,295.3 |
| Operating leases | 15.6 | 29.4 | 27.5 | 10.2 | 82.7 |
| Risk management contract premiums (4) | 0.2 | 0.5 | — | — | 0.7 |
| Total contractual obligations and commitments | **267.9** | **561.3** | **586.4** | **1,092.9** | **2,508.5** |

(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.

At June 30, 2018, ARC's total contractual obligations and commitments were $2.5 billion, of which $1.3 billion relate to transportation commitments. During the second quarter of 2018, ARC executed new transportation agreements for growth areas as well as to secure greater market access beyond AECO.

In addition to the above risk management contract premiums, ARC has commitments related to its risk management program (see Note 11 "Financial Instruments and Market Risk Management" of the financial statements). As the premiums are related to the underlying risk management contract, they have been recorded at fair market value at June 30, 2018 in ARC's consolidated balance sheets as part of risk management contracts.

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

ARC is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on ARC's financial position or results of operations and therefore Table 29 does not include any commitments for outstanding litigation and claims.

**Off-Balance Sheet Arrangements**

ARC's lease agreements, which are reflected in the Contractual Obligations and Commitments table (Table 29), were entered into in the normal course of operations. All of these leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on ARC's consolidated balance sheet as of June 30, 2018.

**Critical Accounting Estimates**

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

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

- estimated sales revenues, royalties, transportation and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- estimated capital expenditures on projects that are in progress;

- estimated DD&A charges that are based on estimates of crude oil and natural gas reserves that ARC expects to recover in the future;
- estimated fair values of financial instruments that are subject to fluctuation depending upon the underlying forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves and the risk of non-performance;
- estimated value of ARO that is dependent upon estimates of future costs and timing of expenditures;
- estimated fair value of business combinations;
- estimated future recoverable value of PP&E, E&E and goodwill and any associated impairment charges or recoveries; and
- estimated compensation expense under ARC's share-based compensation plans including the PSUs awarded under the RSU and PSU Plan that is based on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier, the Share Option Plan and the LTRSA Plan.

ARC has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements, refer to Note 5 "Management Judgments and Estimation Uncertainty" in the financial statements as at and for the year ended December 31, 2017.

The mandate of ARC's leadership team includes ongoing development of procedures, standards and systems to allow ARC staff to make the best decisions possible and ensuring those decisions are in compliance with ARC's environmental, health and safety policies.

## ASSESSMENT OF BUSINESS RISKS

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

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

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

## PROJECT RISKS

ARC manages a variety of small and large projects and plans to continue with the development of several capital projects throughout 2018. Project delays may impact expected revenues from operations. Significant project cost overruns could make a project uneconomic. ARC's ability to execute projects and market crude oil and natural gas depends upon numerous factors beyond its control, including:

- availability of processing capacity;
- availability and proximity of pipeline capacity;
- availability of storage capacity;
- supply of and demand for crude oil and natural gas;
- availability of alternative fuel sources;
- effects of inclement weather;
- availability of drilling-related equipment and resources;
- unexpected cost increases;
- accidental events;
- changes in regulations; and
- availability and productivity of skilled labour.

Because of these factors, ARC could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the crude oil and natural gas that ARC produces.

## CONTROL ENVIRONMENT

### Internal Control over Financial Reporting

ARC is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The certification of interim filings for the interim period ended June 30, 2018 requires that ARC disclose in the interim MD&A any changes in ARC's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, ARC's internal controls over financial reporting. ARC confirms that no such changes were made to its internal controls over financial reporting during the three and six months ended June 30, 2018.

## FINANCIAL REPORTING UPDATE

### New Accounting Policies

#### IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

Effective January 1, 2018, ARC retrospectively adopted IFRS 15 *Revenue from Contracts with Customers.* The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. The adoption of this standard did not result in any adjustments to the amounts recognized in ARC's consolidated financial statements for the year ended December 31, 2017. For additional information on the effect of ARC's adoption of IFRS 15, refer to Note 3 "Changes in Accounting Policies" in the financial statements.

In conjunction with the Company's adoption of IFRS 15, the Company completed a review of the financial statement presentation of its marketing and revenue transactions and it was determined that it was more appropriate to change the presentation of certain transactions. Prior period comparative figures have been reclassified in the condensed interim consolidated statements of income (loss) for comparability with the current period presentation for these items. There is no resultant impact on the net income (loss), comprehensive income (loss), cash flow, or financial position of the Company from the changes. For additional information on the change in presentation and the effect of the reclassification on the prior period, refer to Note 3 "Changes in Accounting Policies" in the financial statements.

### IFRS 9 *Financial Instruments* ("IFRS 9")

Effective January 1, 2018, ARC retrospectively adopted IFRS 9 *Financial Instruments*, as well as consequential amendments to IFRS 7 *Financial Instruments: Disclosures*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in ARC's consolidated financial statements for the year ended December 31, 2017. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. In addition, IFRS 9 introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. There were no material adjustments to the carrying amounts of any of the Company's financial instruments following the adoption of IFRS 9. For additional information on the effect of ARC's adoption of IFRS 9, refer to Note 3 "Changes in Accounting Policies" in the financial statements.

### E&E Assets

Effective January 1, 2018, ARC made a change, on a retrospective basis, to its accounting policy for E&E assets. ARC has certain E&E properties that have sales of petroleum products associated with production from test wells. Following its accounting policy change, ARC recognizes a depletion charge as an E&E expense on these wells using a unit-of-production method. There is no impact on the net income (loss), comprehensive income (loss), cash flow or financial position of the Company in prior periods as a result of this change. For additional information, refer to Note 3 “Changes in Accounting Policies” in the financial statements.

## Future Accounting Policies

### IFRS 16 *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets can be exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining essentially unchanged from IAS 17.

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 adopting IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. IFRS 16 will be applied by ARC on January 1, 2019, using the modified retrospective transition approach. It is anticipated that the adoption of IFRS 16 will have a material impact on ARC's financial statements.

ARC's IFRS 16 transition project consists of three key phases:

- Project scoping and engagement phase - this phase involves the assembly and organization of a transition project team, engagement and education of stakeholders, the implementation of corporate processes to collect and organize contracts, the scoping of potential lease situations, and the development of a project plan.
- Impact analysis and evaluation phase - this phase involves the detailed assessment of contracts and measurement of leases, as well as an analysis of transition approaches and accounting policy choices. This phase also involves the assessment of necessary changes to internal controls, information systems and accounting and business processes. In addition, the impact of IFRS 16 is further investigated to assess whether

there may be a broader impact to ARC, which may include ARC's debt agreements, key performance measures, management reporting, and budget process.

- Implementation phase - this phase involves implementation of the changes required for compliance with IFRS 16, including education of all staff and stakeholders impacted by the transition to IFRS 16. The focus of this phase is the approval and implementation of any new accounting policies, processes, information systems and internal controls, as required, as well as the preparation of financial statements and related disclosures under IFRS 16.

ARC has assembled a transition team and developed its project plan. The Company has also engaged advisory services in respect of its transition and has educated stakeholders and implemented corporate processes to collect contracts in order to identify potential leases. ARC is currently in the "impact analysis and evaluation phase" and is continuing to perform detailed evaluations of potential lease contracts and measurement of leases under IFRS 16. The transition team has analyzed transition approaches and accounting policy choices and has begun planning necessary changes to accounting processes. ARC will continue these activities into the third quarter of 2018, along with the assessment and implementation of changes to policies, internal controls, information systems, and business and accounting processes.

**Non-GAAP Measures**

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

*Operating Netback (“netback”)*

ARC calculates netback on a total and per boe basis as sales less royalties, operating and transportation expenses. ARC discloses netbacks both before and after the effect of realized gains or losses on risk management contracts. Realized gains or losses represent 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 feels 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 and investors with evaluating operating performance on a comparable basis. ARC’s netback is disclosed in Table 17 within this MD&A.

*Return on Average Capital Employed ("ROACE")*

ARC calculates ROACE, expressed as a percentage, as net income 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 10 "Capital Management" in the financial statements for additional discussion on net debt.

ARC uses ROACE as a measure of 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 on a year-to-date, annual and a four-year basis in Table 30 of this MD&A.

**Table 30**

| | **Twelve Months Ended** | Twelve Months Ended December 31 | | | | |
|---|---|---|---|---|---|---|
| **ROACE** | **June 30, 2018** | 2017 | 2016 | 2015 | 2014 | 2014-2017 Average [1] |
| Net income (loss) | **131.4** | 388.9 | 201.3 | (342.7) | 380.8 | 157.1 |
| Add: Interest | **43.0** | 45.3 | 50.5 | 51.0 | 47.3 | 48.5 |
| Add: Total income taxes (recovery) | **70.9** | 135.9 | 41.4 | (15.8) | 129.4 | 72.7 |
| Earnings before interest and taxes | **245.3** | 570.1 | 293.2 | (307.5) | 557.5 | 278.3 |
| Net Debt - beginning of period | **527.4** | 356.5 | 985.1 | 1,255.9 | 1,011.5 | 1,011.5 |
| Shareholders' Equity - beginning of period | **3,650.0** | 3,484.8 | 3,388.5 | 3,551.8 | 3,396.1 | 3,396.1 |
| Opening Capital Employed (A) | **4,177.4** | 3,841.3 | 4,373.6 | 4,807.7 | 4,407.6 | 4,407.6 |
| Net Debt - end of period | **757.0** | 728.0 | 356.5 | 985.1 | 1,255.9 | 728.0 |
| Shareholders' Equity - end of period | **3,574.0** | 3,668.9 | 3,484.8 | 3,388.5 | 3,551.8 | 3,668.9 |
| Closing Capital Employed (B) | **4,331.0** | 4,396.9 | 3,841.3 | 4,373.6 | 4,807.7 | 4,396.9 |
| Average Capital Employed (A+B)/2 | **4,254.2** | 4,119.1 | 4,107.5 | 4,590.7 | 4,607.7 | 4,402.3 |
| **ROACE (%)** | 6 | 14 | 7 | (7) | 12 | 6 |

(1) Average ROACE for years ended December 31, 2014-2017.

**Forward-looking Information and Statements**

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect," "anticipate," "continue," "estimate," "objective," "ongoing," "may," "will," "project," "should," "believe," "plans," "intends," "strategy," and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: ARC's financial goals under the heading "About ARC Resources Ltd.," ARC's view of future commodity prices and inventory levels under the heading "Economic Environment," ARC's guidance and planned operations for 2018 under the heading "Annual Guidance and Financial Highlights," ARC's risk management plans for 2018 and beyond under the heading "Risk Management," ARC's view as to the estimated future payments under the RSU and PSU Plan under the heading "Share-Based Compensation Plans," the financing information relating to raising capital under the heading "Capitalization, Financial Resources and Liquidity," ARC's plans in relation to future dividend levels under the heading "Dividends," ARC's estimates of normal course obligations under the heading "Contractual Obligations and Commitments," and a number of other matters, including the amount of future asset retirement obligations, future liquidity and financial capacity (including sources of capital), future results from operations and operating metrics, timing of production coming on stream, future costs, expenses and royalty rates, future interest costs, and future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures.

The forward-looking information and statements contained in this MD&A reflect material factors and expectations and assumptions of ARC including, without limitation: that ARC will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of ARC's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned expenditures. ARC believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of ARC's products; changes to government regulations including royalty rates, taxes and environmental and climate change regulation; market access constraints or transportation interruptions, unanticipated operating results or production declines; changes in development plans of ARC or by third-party operators of ARC's properties, increased debt levels or debt service requirements; inaccurate estimation of ARC's reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in this MD&A and in ARC's AIF).

The internal projections, expectations or beliefs are based on the 2018 capital budget which is subject to change in light of ongoing results, prevailing economic circumstances, commodity prices and industry conditions and regulations. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. The forward-looking information contained in this MD&A speak only as of the date of this MD&A, and none of ARC or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

## GLOSSARY

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

Measurement

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

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

Financial and Business Environment

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

## QUARTERLY HISTORICAL REVIEW

| ($ millions, except per share amounts) | 2018 | | 2017 | | | | 2016 | |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL** | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Sales of crude oil, natural gas, condensate, NGLs and other income (1) | **344.4** | 340.2 | 337.3 | 276.5 | 295.0 | 306.4 | 331.8 | 265.6 |
| Per share, basic (1) | **0.97** | 0.96 | 0.95 | 0.78 | 0.83 | 0.87 | 0.94 | 0.76 |
| Per share, diluted (1) | **0.97** | 0.96 | 0.95 | 0.78 | 0.83 | 0.87 | 0.94 | 0.75 |
| Net income (loss) | **(45.9)** | 54.9 | 73.9 | 48.5 | 124.0 | 142.5 | 167.0 | 28.3 |
| Per share, basic | **(0.13)** | 0.16 | 0.21 | 0.14 | 0.35 | 0.40 | 0.47 | 0.08 |
| Per share, diluted | **(0.13)** | 0.16 | 0.21 | 0.14 | 0.35 | 0.40 | 0.47 | 0.08 |
| Funds from operations (2) | **204.4** | 201.0 | 221.1 | 163.8 | 169.8 | 177.2 | 188.5 | 153.0 |
| Per share, basic | **0.58** | 0.57 | 0.63 | 0.46 | 0.48 | 0.50 | 0.53 | 0.44 |
| Per share, diluted | **0.58** | 0.57 | 0.63 | 0.46 | 0.48 | 0.50 | 0.53 | 0.44 |
| Dividends declared | **53.1** | 53.1 | 53.1 | 53.0 | 53.1 | 53.1 | 52.9 | 52.9 |
| Per share (3) | **0.15** | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Total assets | **6,059.8** | 6,235.7 | 6,224.0 | 6,115.0 | 6,196.8 | 6,169.3 | 5,990.5 | 5,968.4 |
| Total liabilities | **2,485.8** | 2,563.8 | 2,555.1 | 2,468.2 | 2,546.8 | 2,591.4 | 2,505.7 | 2,622.3 |
| Net debt outstanding (4) | **757.0** | 728.0 | 728.0 | 645.1 | 527.4 | 501.4 | 356.5 | 1,009.4 |
| Weighted average shares, basic | **353.5** | 353.5 | 353.5 | 353.5 | 353.4 | 353.4 | 352.8 | 351.7 |
| Weighted average shares, diluted | **353.5** | 353.8 | 353.8 | 353.9 | 353.8 | 353.7 | 353.5 | 352.3 |
| Shares outstanding, end of period | **353.5** | 353.5 | 353.5 | 353.5 | 353.4 | 353.4 | 353.3 | 352.2 |
| **CAPITAL EXPENDITURES** | | | | | | | | |
| Geological and geophysical | **2.1** | 4.0 | 2.5 | 1.8 | 2.0 | 3.2 | 1.8 | 3.5 |
| Drilling and completions | **102.6** | 139.1 | 154.8 | 119.3 | 105.9 | 171.6 | 89.1 | 59.0 |
| Plant and facilities | **58.8** | 70.0 | 87.2 | 55.5 | 41.6 | 78.4 | 65.9 | 59.8 |
| Administrative assets | **1.3** | 0.6 | 0.6 | 1.8 | 1.5 | 2.0 | 2.4 | 0.2 |
| Total capital expenditures | **164.8** | 213.7 | 245.1 | 178.4 | 151.0 | 255.2 | 159.2 | 122.5 |
| Undeveloped land | **—** | 0.7 | 0.4 | 77.3 | 14.7 | 5.2 | 2.7 | — |
| Total capital expenditures, including undeveloped land purchases | **164.8** | 214.4 | 245.5 | 255.7 | 165.7 | 260.4 | 161.9 | 122.5 |
| Acquisitions | **—** | 0.2 | 2.2 | — | 0.1 | 0.2 | 14.6 | 31.6 |
| Dispositions | **(0.7)** | (98.3) | — | — | — | — | (702.1) | (0.3) |
| Total capital expenditures, land purchases and net acquisitions and dispositions | **164.1** | 116.3 | 247.7 | 255.7 | 165.8 | 260.6 | (525.6) | 153.8 |
| **OPERATING** | | | | | | | | |
| Production | | | | | | | | |
| Crude oil (bbl/d) | **24,893** | 25,037 | 24,641 | 25,020 | 23,813 | 24,030 | 29,885 | 29,642 |
| Condensate (bbl/d) | **6,960** | 5,505 | 6,989 | 6,815 | 4,253 | 4,504 | 3,767 | 3,562 |
| Natural gas (MMcf/d) | **537.9** | 564.9 | 572.4 | 549.6 | 483.9 | 496.2 | 478.4 | 466.7 |
| NGLs (bbl/d) | **6,380** | 6,332 | 6,380 | 6,091 | 4,691 | 3,893 | 4,220 | 4,221 |
| Total (boe/d) | **127,879** | 131,016 | 133,409 | 129,526 | 113,410 | 115,129 | 117,611 | 115,205 |
| Average realized prices, prior to risk management contracts (1) | | | | | | | | |
| Crude oil ($/bbl) | **78.57** | 69.50 | 67.29 | 54.50 | 59.53 | 61.42 | 59.20 | 52.43 |
| Condensate ($/bbl) | **85.10** | 77.42 | 69.04 | 54.35 | 60.38 | 64.31 | 58.97 | 50.81 |
| Natural gas ($/Mcf) | **1.91** | 2.50 | 2.27 | 2.00 | 2.99 | 3.10 | 3.10 | 2.35 |
| NGLs ($/bbl) | **32.98** | 31.39 | 35.31 | 28.37 | 26.27 | 25.91 | 20.77 | 12.67 |
| Oil equivalent ($/boe) | **29.59** | 28.85 | 27.48 | 23.20 | 28.59 | 29.58 | 30.29 | 25.03 |
| **TRADING STATISTICS (5)** | | | | | | | | |
| ($, based on intra-day trading) | | | | | | | | |
| High | **15.25** | 15.90 | 18.34 | 18.31 | 19.55 | 23.70 | 24.94 | 24.08 |
| Low | **12.71** | 11.88 | 13.64 | 15.61 | 16.23 | 18.26 | 21.55 | 20.88 |
| Close | **13.58** | 14.04 | 14.75 | 17.19 | 16.96 | 19.00 | 23.11 | 23.73 |
| Average daily volume (thousands) | **1,150** | 1,406 | 1,114 | 1,008 | 1,269 | 1,104 | 837 | 691 |

(1) Comparatives prior to 2017 have not been restated for IFRS 15 Revenue from Contracts with Customers. Refer to Note 3 "Changes in Accounting Policies" in the financial statements.
(2) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(3) Dividends per share are based on the number of shares outstanding at each dividend record date.
(4) Refer to Note 10 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(5) Trading statistics denote trading activity on the TSX only.