

ARC Resources Ltd. Reports Second Quarter 2018 Financial and Operational Results

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CALGARY, Aug. 1, 2018 /CNW/ - (ARX - TSX) [ARC Resources Ltd.](#) ("ARC" or "the Company") is pleased to report its 2018 financial and operational results. Second quarter production averaged 127,879 boe per day with funds from operations of \$204.4 million (\$0.58 per share). ARC's unaudited condensed interim financial statements and notes ("financial statements") and ARC's Management's Discussion and Analysis ("MD&A") as at and for the three and six months ended June 30, 2018, are available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

	Three Months Ended		Six Months Ended	
	March 31, 2018	June 30, 2018	June 30, 2017	June 30, 2018
FINANCIAL				
(Cdn\$ millions, except per share and boe amounts and shares outstanding)				
Net income (loss)	54.9	(45.9)	124.0	9.0
Per share ⁽¹⁾	0.16	(0.13)	0.35	0.03
Funds from operations ⁽²⁾	201.0	204.4	169.8	405.4
Per share ⁽¹⁾	0.57	0.58	0.48	1.15
Dividends	53.1	53.1	53.1	106.2
Per share ⁽¹⁾	0.15	0.15	0.15	0.30
Capital expenditures, before land and net property acquisitions (dispositions)	213.7	164.8	151.0	378.5
Total capital expenditures, including land and net property acquisitions (dispositions)	116.3	164.1	165.8	280.4
Net debt outstanding ⁽²⁾	728.0	757.0	527.4	757.0
Shares outstanding, weighted average diluted (millions)	353.8	353.5	353.8	353.8
Shares outstanding, end of period (millions)	353.5	353.5	353.4	353.5
OPERATIONAL				
Production				
Crude oil (bbl/day)	25,037	24,893	23,813	24,960
Condensate (bbl/day)	5,505	6,960	4,253	6,236
Natural gas (MMcf/day)	564.9	537.9	483.9	551.3
NGLs (bbl/day)	6,332	6,380	4,691	6,356
Total (boe/day) ⁽³⁾	131,016	127,879	113,410	129,445

Average realized prices, prior to gains or losses on risk management contracts ⁽⁴⁾

Crude oil (\$/bbl)	69.50	78.57	59.53	74.05
Condensate (\$/bbl)	77.42	85.10	60.38	81.73
Natural gas (\$/Mcf)	2.50	1.91	2.99	2.21
NGLs (\$/bbl)	31.39	32.98	26.27	32.20
Oil equivalent (\$/boe) ⁽³⁾	28.85	29.59	28.59	29.22
Operating netback (\$/boe) ⁽³⁾⁽⁴⁾⁽⁵⁾				
Commodity sales from production	28.85	29.59	28.59	29.22
Royalties	(2.45)	(2.55)	(2.76)	(2.50)
Transportation expenses	(2.61)	(2.61)	(2.78)	(2.61)
Operating expenses	(6.31)	(6.50)	(6.85)	(6.40)
Operating netback prior to gain on risk management contracts	17.48	17.93	16.20	17.71
Realized gain on risk management contracts	2.43	2.55	3.03	2.49
Operating netback including gain on risk management contracts	19.91	20.48	19.23	20.20

TRADING STATISTICS ⁽⁶⁾

High price	15.90	15.25	19.55	15.90
(1) Per share amounts (with the exception of dividends) are based on diluted weighted average common shares.				
Low price	11.88	12.71	16.23	11.88
(2) Refer to Note 10 "Capital Management" in ARC's financial statements and to the sections entitled, "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.	14.04	12.58	16.96	13.58
(3) Average daily volume (thousands)	1,406	1,150	1,269	1,276
(4) Refer to Note 3 "Changes in Accounting Policies" in ARC's financial statements for details on revised presentation of certain items in the unaudited condensed interim consolidated statements of income (loss) ("the statements of income (loss)") for the three and six months ended June 30, 2017.				
(5) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled, "Non-GAAP Measures" contained within ARC's MD&A.				
(6) Trading prices are stated in Canadian dollars and are based on intra-day trading on the Toronto Stock Exchange.				

"ARC's financial and operational performance were excellent in the second quarter of 2018, as we completed major plant maintenance while generating strong cash flow. We are executing our capital programs in an exceptional manner as we complete meaningful projects on schedule and on budget," said Myron Stadnyk, President and CEO. "ARC has successfully, continued to add oil-prone lands during the downturn and is aggressively pursuing these development opportunities as we continue our strategy of creating value per share through profitable growth and dividend payments."

Highlights of ARC's second quarter 2018 financial and operational results include:

- First half 2018 funds from operations of \$1.15 per share has increased 17 per cent from the first half of 2017.
- Delivering second quarter 2018 average daily production of 127,879 boe per day, comprised of 31,853 barrels per day of oil and condensate, 6,380 barrels per day of NGLs, and 538 MMcf per day of natural gas.
- ARC's average realized price for crude oil was \$78.57 per barrel in the second quarter of 2018 with the majority of production made up of premium light oil and condensate. ARC's physical natural gas diversification activities have increased exposure to more attractive North American markets and resulted in an average realized price for natural gas of \$3.15 per MMBtu in the second quarter of 2018. ARC's realized prices do not include the impact of risk management contracts.
- Completing the Attachie battery upgrade, which has increased Attachie's liquids processing capacity to 3,000 barrels per day of oil and condensate. Attachie West is viewed as a leading development opportunity within ARC's portfolio, and commercial production plans are underway in preparation for an upcoming sanctioning decision in the third quarter of 2018.
- Achieving strong light oil and condensate production results at Ante Creek, Attachie, and Tower, and strong liquid natural gas production results in the Lower Montney at Dawson and Parkland. The exceptional well performance in the Lower Montney has created the opportunity to add liquids recovery capabilities at the original Dawson Phase I and II gas processing facilities, which strongly supports the Dawson Phase IV gas processing and liquids-handling expansion project which is currently under development.
- With strong initial production results from ARC's commercial demonstration pad at Attachie West and continued strong production in the Lower Montney, ARC is increasing the high end of its 2018 guidance range for condensate production to 6,500 to 7,000 barrels per day from 6,500 to 7,000 barrels per day.
- Preparing for upcoming commissioning activities at the Sunrise Phase II gas processing facility expansion, which will increase processing volumes from a third-party processing facility to our ARC-owned facility.
- Balance sheet remains very strong, with a net debt to annualized funds from operations ratio of 0.9 times.

ARC is committed to managing a sustainable business and is viewed as a leader in its strong environmental, social, and governance practices. As a means to measure and report on our performance, ARC will be releasing its biennial 2018 Corporate Sustainability Report in August 2018.

STRATEGY OVERVIEW

ARC's strategy of "risk-managed value creation" and its continued focus on profitability and sustainability are at the forefront of ARC's decision-making processes. ARC's strategy revolves around long-term thinking and the pursuit of strong financial returns, technical excellence, and creating strategic control and optionality while managing risk. Safety, environmental, and sustainability leadership are also key to ARC's success.

As ARC moves into its 23rd year of business operations, we have undergone a massive corporate transformation that has successfully set the Company up for continued long-term success. Over 90 per cent of ARC's assets are new since 2010, and these businesses have been built with owned-and-operated infrastructure to serve the Company for many years to come. These new Montney businesses are the result of ARC's technical excellence and have been organically developed with industry-leading low cost structures. The strategic optionality and large, world-class scale of ARC's resource base will allow ARC to commercially develop projects for light oil, condensate, NGLs, and natural gas for the foreseeable future.

At the core of ARC's long-term strategy is the preservation of a strong balance sheet throughout all commodity price cycles. ARC's balance sheet strength has enabled ARC to pursue increased liquids production across its asset portfolio, through the development activities at Attachie West and in the Lower Montney horizon at our Dawson and Parkland fields. Our team's technical excellence has been demonstrated through the ability to execute large-scale projects and improve our capital and operating efficiencies, while advancing our excellent safety and environmental performance.

ARC's depth of projects, leading cost structure, and physical and financial diversification strategies underpin our ability to continuously optimize our capital allocation decisions. ARC is determining specific time lines and funding requirements for our next major development projects, and details will be provided with ARC's 2019 budget release along with our third quarter 2018 results. The successful results of our Attachie pilot project and Lower Montney investments will see capital advance in Attachie West, Dawson, and Parkland. ARC will also invest in our large, Alberta-based light oil opportunities at Ante Creek and Pembina. Allocating capital profitably, strategically managing our portfolio of assets, and positioning the Company to deliver

strong returns to our shareholders remains a key priority for ARC. ARC has delivered corporate-level returns on average capital employed ⁽¹⁾ of approximately 10 per cent since inception.

(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 ARC's MD&A.

The following economic, financial, and operational reviews provide further details to the above highlights. For additional commentary on ARC's second quarter 2018 financial and operational results, please view the following videos: "Myron's Minute", "ARC Resources Q2 2018 Financial Review", and "ARC Resources Q2 2018 Operations Review" available on ARC's website at www.arcresources.com.

ECONOMIC ENVIRONMENT

ARC manages an integrated approach to its physical marketing and financial risk management programs, which is underpinned by a strong understanding of market fundamentals. ARC's senior management team, along with key members of our Financial Risk Management and Physical Marketing teams, meet weekly to monitor, evaluate, and leverage market fundamental analysis to set a view on the outlook for commodity prices to drive decisions across the business. This detailed analysis not only informs ARC's financial hedging and physical marketing strategies, which helps to reduce cash flow volatility and diversify price risk, but also supports ARC's strategic planning and budgeting processes.

In anticipation of weak natural gas fundamentals in western Canada, ARC has physically and financially diversified its realized natural gas price 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.

ARC's financial and operational results for the three and six months ended June 30, 2018 were impacted by commodity prices and foreign exchange rates. Refer to the sections entitled, "Economic Environment" and "Realized Commodity Prices" contained within ARC's MD&A.

FINANCIAL REVIEW

Net Income (Loss)

ARC recorded a net loss of \$45.9 million (\$0.13 per share loss) in the second quarter of 2018, and net income of \$9.0 million (\$0.03 per share) in the first half of 2018. Lower earnings in the second quarter of 2018 relative to the first quarter of 2018 and lower earnings in the first half of 2018 relative to the first half of 2017 are primarily attributed to the mark-to-market on ARC's risk management contracts and foreign exchange on the revaluation of ARC's US dollar-denominated debt, which resulted in the recognition of unrealized losses in the period. ARC also recorded gains on the disposal of non-core assets in the first quarter of 2018, whereas no such gains were recorded in the second quarter of 2018. Refer to ARC's statements of income (loss) for the three and six months ended June 30, 2018 and the section entitled, "Net Income (Loss)" contained within ARC's MD&A.

Funds from Operations

ARC's second quarter 2018 funds from operations of \$204.4 million (\$0.58 per share) increased \$3.4 million (\$0.01 per share) from first quarter 2018 funds from operations of \$201.0 million (\$0.57 per share). First half 2018 funds from operations of \$405.4 million (\$1.15 per share) increased 17 per cent, on a per share basis, relative to first half 2017 funds from operations of \$347.0 million (\$0.98 per share), with improved oil and liquids pricing and increased production levels contributing to higher funds from operations. Refer to Note 10 "Capital Management" in ARC's financial statements and to the sections entitled, "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.

The following table details the change in funds from operations for the three months ended June 30, 2018

relative to the three months ended March 31, 2018 and the change in funds from operations for the six months ended June 30, 2018 relative to the six months ended June 30, 2017.

Funds from Operations Reconciliation ⁽¹⁾⁽²⁾	Q1 2018 to Q2 2018 2017 YTD to 2018 YTD			
	\$ millions	\$/Share ⁽³⁾	\$ millions	\$/Share ⁽³⁾
Funds from operations for the three months ended March 31, 2018	201.0	0.57		
Funds from operations for the six months ended June 30, 2017			347.0	0.98
Volume variance				
Crude oil and liquids	11.7	0.03	42.1	0.12
Natural gas	(4.9)	(0.01)	33.7	0.10
Price variance				
Crude oil and liquids	26.4	0.07	90.3	0.25
Natural gas	(29.0)	(0.08)	(82.9)	(0.24)
Sales of commodities purchased from third parties	(1.6)	—	0.9	—
Interest income	(0.5)	—	(0.9)	—
Other income	(0.1)	—	(0.4)	—
Realized gain on risk management contracts	1.1	—	2.6	0.01
Royalties	(0.8)	—	(4.3)	(0.01)
Expenses				
Transportation	0.4	—	(7.6)	(0.02)
Commodities purchased from third parties	1.1	—	(2.6)	(0.01)
Operating	(1.2)	—	(8.3)	(0.02)
General and administrative ("G&A")	4.8	0.01	(4.0)	(0.01)
Interest	0.3	—	2.3	0.01
Current tax	(4.4)	(0.01)	(10.0)	(0.03)
Realized gain on foreign exchange	0.1	—	7.5	0.02
Funds from operations for the three months ended June 30, 2018	204.4	0.58		
Funds from operations for the six months ended June 30, 2018			405.4	1.15

(1)	Refer to Note 10 "Capital Management" in ARC's financial statements and to the sections entitled, "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.
(2)	Refer to Note 3 "Changes in Accounting Policies" in ARC's financial statements for details on revised presentation of certain items in the statements of income (loss) for the three and six months ended June 30, 2017.
(3)	Per share amounts are based on diluted weighted average common shares.

Physical Marketing and Financial Risk Management

ARC's commodity sales revenue is supported predominantly by liquids revenue, with crude oil and liquids production comprising 73 per cent of ARC's second quarter 2018 commodity sales revenue, and 68 per cent of first half 2018 commodity sales revenue. The majority of ARC's crude oil production is made up of conventional light oil and condensate, which has narrower differentials than the discounted pricing that has recently been experienced by Canadian heavy oil producers. ARC's average realized price for crude oil was \$78.57 per barrel in the second quarter of 2018 and \$74.05 per barrel in the first half of 2018. ARC continues to execute on its risk management strategy for oil.

To manage natural gas price risk exposure, ARC's physical natural gas diversification and financial risk management activities have helped to significantly increase our exposure to more attractive North American markets and enhance our commodity price realizations. Through ARC's physical diversification activities, an incremental \$0.63 per Mcf and \$0.48 per Mcf were realized in ARC's second quarter and first half 2018 natural gas prices, respectively. ARC's average realized price for natural gas was \$1.91 per Mcf in the second quarter of 2018 and \$2.21 per Mcf in the first half of 2018. ARC's financial risk management program provided additional cash flow protection with realized cash gains of \$1.05 per Mcf and \$0.89 per Mcf in the second quarter and first half of 2018, respectively. Realized cash gains on risk management contracts are not included in ARC's realized natural gas price.

Total realized gains on risk management contracts for the second quarter and first half of 2018 were \$29.7 million and \$58.3 million, respectively, and the fair value of ARC's risk management contracts at June 30, 2018 was \$126.6 million. For details pertaining to ARC's risk management program and for a summary of the average oil and natural gas volumes associated with ARC's risk management contracts as at August 1, 2018, refer to the section entitled, "Risk Management" contained within ARC's MD&A.

Operating Netback

Summarized in the following table are the components of ARC's operating netback for the three months ended June 30, 2018 relative to the three months ended March 31, 2018, and for the six months ended June 30, 2018 relative to the six months ended June 30, 2017.

	Three Months Ended			Six Months Ended		
	June 30, 2018	March 31, 2018	% Change	June 30, 2018	June 30, 2017	% Change
Operating Netback (\$ per boe) ⁽¹⁾						
Commodity sales from production	29.59	28.85	3	29.22	29.08	—
Royalties	(2.55)	(2.45)	4	(2.50)	(2.62)	(5)
Transportation expenses	(2.61)	(2.61)	—	(2.61)	(2.60)	—
Operating expenses ⁽²⁾	(6.50)	(6.31)	3	(6.40)	(6.86)	(7)
Operating netback prior to gain on risk management contracts	17.93	17.48	3	17.71	17.00	4
Realized gain on risk management contracts	2.55	2.43	5	2.49	2.69	(7)
Operating netback including gain on risk management contracts	20.48	19.91	3	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 ARC's MD&A.

(2) Composed of direct costs incurred to operate oil, natural gas, and liquids-rich natural gas wells.

ARC's second quarter 2018 operating netback, prior to gains on risk management contracts, of \$17.93 per boe, and ARC's second quarter 2018 operating netback, including gains on risk management contracts, of \$20.48 per boe, both increased three per cent relative to the first quarter of 2018. Improved operating netbacks were primarily the result of strengthened oil and liquids pricing.

ARC's first half 2018 operating netback, prior to gains on risk management contracts, of \$17.71 per boe, and ARC's first half 2018 operating netback, including gains on risk management contracts, of \$20.20 per boe, increased four per cent and three per cent, respectively, relative to the first half of 2017. Improved operating netbacks were primarily due to a reduction in operating expenses.

ARC's second quarter 2018 royalty expenses of \$2.55 per boe (8.6 per cent total corporate royalty rate) increased four per cent from first quarter 2018 royalty expenses, and first half 2018 royalty expenses of \$2.50 per boe (8.6 per cent total corporate royalty rate) decreased five per cent from first half 2017 royalty expenses. The movement in royalty expenses reflects the sliding scale effect that commodity prices have on royalties. Royalty expenses for the three and six months ended June 30, 2018 were \$29.7 million and \$58.6 million, respectively.

Second quarter 2018 transportation expenses of \$2.61 per boe were unchanged from the first quarter of 2018, and first half 2018 transportation expenses of \$2.61 per boe were unchanged from the first half of 2017. Transportation expenses for the three and six months ended June 30, 2018 were \$30.4 million and \$61.2 million, respectively. The increase in full-dollar transportation expenses for the first half of 2018 relative to the first half of 2017 primarily reflects increased expenses associated with new production, increased natural gas tolls throughout 2017, and the addition of new transportation agreements for greater market access beyond AECO.

Second quarter 2018 operating expenses of \$6.50 per boe increased three per cent from first quarter 2018 operating expenses due to increased maintenance and turnaround activities conducted in the second quarter of 2018. First half 2018 operating expenses of \$6.40 per boe decreased seven per cent relative to first half 2017 operating expenses, and was the result of bringing on new production at Dawson with lower relative costs to operate. Operating expenses for the three and six months ended June 30, 2018 were \$75.6 million and \$150.0 million, respectively.

Balance Sheet

ARC manages conservative debt levels as a priority. At June 30, 2018, ARC had \$757.0 million of net debt outstanding, and an additional \$1.1 billion of cash and credit capacity available after taking into account ARC's working capital surplus. The net debt to annualized funds from operations ratio was 0.9 times at the end of the second quarter of 2018, and net debt was approximately 14 per cent of ARC's total capitalization. With the ability to fund its 2018 sustaining capital requirements and dividend obligations with cash flow generated from ARC's existing businesses, and growth capital from both cash flow and the redeployment of proceeds from non-core divestments, our capital program is financially supported.

OPERATIONAL REVIEW

ARC's position in the Montney is made up of approximately 1,160 net sections of land (approximately 754,000 net acres), with production from ARC's Montney assets representing approximately 90 per cent of total corporate production. ARC's excellent operating and capital efficiencies are supported by ARC owning and operating its own facilities, allowing for greater control over costs and the production mix of its liquids recovery, safety and environmental performance, and pace of development. ARC continues to optimize well designs and maximize well value, pursue new technologies, and work with service providers to preserve its competitive cost structure. ARC actively monitors market conditions and executes a marketing strategy that proactively secures takeaway capacity for future development projects, mitigates the impact of third-party infrastructure outages, and diversifies ARC's sales portfolio to ensure that production gets to market at optimal pricing.

ARC invested \$164.8 million of capital, before land and net property acquisitions and dispositions, in the second quarter of 2018, bringing the total to \$378.5 million invested in the first half of 2018. Second quarter 2018 capital activity included drilling 11 natural gas wells at Sunrise, completion activities at Ante Creek, Dawson, Sunrise, and Tower, and finishing completion activities on 13 wells in the Dawson and Tower fields.

Capital investment in the period was also focused on various infrastructure initiatives in northeast British Columbia, including progressing construction of the Sunrise Phase II gas processing facility expansion, completing electrification activities at ARC's Parkland/Tower gas processing and liquids-handling facility, and continued activity on ARC's water handling and recycling infrastructure at Dawson, Parkland/Tower, and Sunrise. Approximately 95 per cent of capital invested in the first half of 2018 was directed towards ARC's Montney assets.

The following table outlines the number of wells drilled and completed in each of ARC's core operating areas for the six months ended June 30, 2018.

Area	Six Months Ended June 30, 2018	
	Wells Drilled	Wells Completed
Attachie	1	7
Sunrise	14	—
Dawson	4	16
Parkland/Tower	8	7
Ante Creek	3	3
Other	1	—
Total	31	33

ARC delivered average daily production of 127,879 boe per day in the second quarter of 2018, comprised of 31,853 barrels per day of light oil and condensate, 6,380 barrels per day of NGLs, and 538 MMcf per day of natural gas. As previously indicated, ARC's second quarter 2018 average daily production was lower than the first quarter of 2018, which was driven by planned downtime associated with maintenance and turnaround activities at ARC's Dawson and Parkland/Tower facilities. The two per cent decrease in production was less than the expected five per cent indicated in ARC's first quarter 2018 release due to initial production from the multi-well pad at Attachie West being brought on-stream earlier than scheduled. ARC anticipates that production in the third and fourth quarters of 2018 will increase from first half 2018 average daily production of 129,439 boe per day, allowing full-year 2018 average daily production to come within the 2018 production guidance range of 130,000 to 134,000 boe per day, inclusive of first quarter 2018 non-core dispositions.

As part of its ongoing commitment to responsible water management and reducing its overall freshwater dependency, ARC is investing in strategic water infrastructure in northeast British Columbia. ARC has invested approximately \$15 million on these projects to-date. At Sunrise, ARC has completed the construction of a 200,000 m³ freshwater storage reservoir ahead of completion operations for the first multi-well pad that will supply gas to the expanded Sunrise Phase II gas processing facility. This project will generate strong economic returns with an expected 80 per cent reduction in water handling costs in the Sunrise area. At Dawson and Parkland/Tower, construction of the water recycling and re-use facility continued in the second quarter of 2018. With pipelines connecting the three assets, the water hub facility will reduce ARC's dependency on freshwater used for hydraulic fracturing operations and will result in significant completion cost savings. ARC anticipates that the project will be in service by year-end 2018.

Lower Montney

ARC's lands within the Montney fairway have significant development potential in the liquids-rich Lower Montney horizon, including incremental reserves booking potential. Successful 2017 appraisal activities resulted in the delineation of a significant portion of ARC's Montney lands and moved a substantial amount of ARC's drilling inventory into the development stage. Based on encouraging results, ARC is pursuing

opportunities in the Lower Montney by reallocating a portion of its 2018 capital budget to drill incremental Lower Montney liquids-rich wells. ARC will continue to expand production from the Lower Montney to increase our liquids volumes across ARC's lands at Attachie, Dawson, and Parkland/Tower.

Encouraged by the successful Lower Montney appraisal activities conducted at Parkland in 2017, ARC is piloting dual-layer Lower Montney development at Parkland and has commenced the construction of a pipeline that will connect ARC's Parkland and Dawson assets. Interconnecting these assets gives ARC the ability to invest in light oil and liquids-rich natural gas opportunities across the Parkland/Tower and Dawson fields on the basis of highest profitability, gives ARC the ability to accelerate its development of the Lower Montney at Parkland, and takes advantage of unutilized liquids processing capacity at the Dawson Phase III gas processing and liquids-handling facility. The project will also allow for the transfer of produced water from Parkland to Dawson for completion operations. The interconnection is planned to be in service by late 2018.

Attachie

ARC's Attachie property is a highly prospective, Montney light oil and liquids-rich natural gas exploration play located in northeast British Columbia where ARC has a land position of 306 net sections (approximately 201,000 net acres). ARC invested \$53 million in the first half of 2018, directed primarily at completion activities on a commercial demonstration pad at Attachie West, which saw initial production in the second quarter of 2018. Positive results at this seven-well pad further validates the enormous Upper Montney condensate development opportunity at Attachie West and extends the prolific Lower Montney liquids-rich resource play into Attachie.

ARC is highly encouraged by early wellhead condensate rates and indications of the wells' overall productivity from the commercial development pad. Second quarter 2018 production at Attachie averaged approximately 2,500 boe per day, with ARC exiting the quarter producing approximately 3,000 barrels per day of condensate and 9 MMcf per day of natural gas. The wells from the multi-well pad were producing at restricted rates in the second quarter of 2018 due to infrastructure constraints.

In addition to completion activities on the multi-well pad, ARC drilled a liquids-rich natural gas well and invested in upgrades to the area's battery in the first half of 2018. The upgraded battery has increased Attachie's liquids processing capacity to 3,000 barrels per day.

The combination of a condensate-rich production profile, a significantly over-pressured reservoir, and an extensive, multi-layered contiguous land position makes Attachie West a leading development opportunity within ARC's portfolio. As such, ARC has initiated a front-end engineering evaluation of commercial development, including determining specific time lines, funding requirements, and takeaway capacity needed to make an upcoming sanctioning decision in the third quarter of 2018. ARC will continue to optimize and monitor production results from existing pilot wells in the area, as well as results from the new wells on the seven-well pad, and will incorporate these learnings into future development plans at Attachie.

Sunrise

ARC has a land position of 32 net sections at Sunrise (approximately 21,000 net acres), a dry natural gas Montney play in northeast British Columbia with potential for up to six layers of development. With a significant natural gas resource base, high well deliverability, low capital requirements, and low operating expenses, Sunrise continues to create value in the current commodity price environment. Second quarter 2018 Sunrise production was approximately 134 MMcf per day of natural gas, two per cent higher than the first quarter of 2018.

ARC invested approximately \$87 million on capital activities at Sunrise in the first half of 2018, directed primarily at progressing the Sunrise Phase II gas processing facility expansion. Construction of power-related infrastructure to connect the facility to BC Hydro's grid progressed on schedule in the second quarter of 2018; it is anticipated that the plant will be fully connected to the grid by year-end 2018, at which point the facility will be fully run on hydro-electricity. With construction of the plant proceeding ahead of schedule, ARC expects to initiate commissioning activities in the third quarter of 2018 and to have the facility operational by the fourth quarter of 2018.

Capital investment in the first half of 2018 also included the drilling of a 14-well pad, the first of two pads that

will provide the initial supply of gas to the Sunrise Phase II gas processing facility. The 14 wells will be completed in the second half of 2018 before being tied-in to the facility to coincide with commissioning activities. Drilling activities for the second, nine-well pad, commenced in the second quarter of 2018; ARC plans to complete and tie-in these wells to the facility in the first half of 2019.

The second phase of the Sunrise facility is designed for 180 MMcf per day of gas processing and sales capacity. Natural gas production is planned to be processed through the facility according to the following, approximate timeline:

- Upon completion of plant commissioning activities late in the third quarter of 2018 or early in the fourth quarter of 2018, 60 MMcf per day of new production will be available to be processed through the facility.
- In the first half of 2019, an additional 60 MMcf per day of incremental production will be processed through the facility once transportation arrangements have come into effect. The exact timing of the production being brought on-stream will be price-dependent.
- By May 2019, 60 MMcf per day of existing natural gas production that is currently being processed through a third-party processing facility will be redirected to ARC's operated Sunrise Phase II facility. With increased control of ARC's Sunrise production volume, operating expenses will be significantly reduced with the elimination of third-party processing fees.

Upon completion of the facility expansion by mid-year 2019, ARC's total owned-and-operated processing and sales capacity for the entire Sunrise area will be 240 MMcf per day of natural gas. Long-term takeaway capacity for production associated with the facility expansion has been secured. ARC's low cost structure in Sunrise, notably our finding and development costs, operating expenses, and processing fees, will be top-decile for the area, given that many of ARC's peers utilize more costly third-party midstream companies to process their production.

Dawson

ARC's Dawson property is a low-cost Montney natural gas play where ARC has a land position of 137 net sections (approximately 89,000 net acres). The Dawson play delivers strong economics and cash flow at current natural gas prices, and is further enhanced by the growing liquids-rich production being developed in the Lower Montney horizon. Dawson production averaged 42,800 boe per day in the second quarter of 2018, comprised of approximately 231 MMcf per day of natural gas, 2,700 barrels per day of condensate, and 1,700 barrels per day of NGLs. Second quarter 2018 production was two per cent lower than the first quarter of 2018 and was the result of a planned turnaround conducted at ARC's Dawson Phase I and II gas processing facility. While the Dawson Phase III gas processing and liquids-handling facility has reached its gas processing and sales capacity, ARC plans to continue growing the area's liquids production into available liquids-handling capacity with the ongoing development of the liquids-rich Lower Montney horizon. ARC invested approximately \$64 million in the first half of 2018 to drill four wells and complete 16 wells across the Dawson field.

Excellent production results from ARC's Lower Montney appraisal activities in 2017 and subsequent investments in 2018 have unlocked significant liquids growth opportunities in the Lower Montney. As such, ARC is moving forward with enhancements to ARC's existing Dawson Phase I and II gas processing facility to allow for enhanced liquids-handling capabilities. The addition of refrigeration and dehydration capabilities will allow ARC to accelerate the exploitation of the Lower Montney horizon in the core of ARC's Dawson lands and enhance its liquids growth profile in a short time frame, adding approximately 3,000 barrels per day of liquids (of which approximately 2,000 barrels per day is condensate), over time, as production in the Dawson core becomes more heavily-weighted towards the Lower Montney.

The Phase IV expansion of the Dawson gas processing and liquids-handling facility, which, once constructed, will add natural gas sales of approximately 90 MMcf per day and have the ability to handle up to 7,500 barrels per day of liquids (approximately 50 per cent condensate-handling), has received regulatory approval. By taking advantage of Phase III investments and the recent success of ARC's Lower Montney development activities, Dawson Phase IV is an attractive infrastructure investment opportunity within ARC's portfolio to grow liquids-rich production. ARC is currently determining specific time lines for this project.

Parkland/Tower

ARC's Parkland/Tower property, an oil and liquids-rich Montney play in northeast British Columbia, consists of 57 net sections at Tower (approximately 37,000 net acres), which produce predominantly light oil and condensate with liquids-rich associated gas; and 37 net sections at Parkland (approximately 24,000 net acres), which produce liquids-rich natural gas and dry gas. With contiguous lands, these areas share ARC-operated infrastructure and processing capacity. Second quarter 2018 production at Parkland/Tower averaged 26,600 boe per day, made up of 7,900 barrels per day of light oil and condensate, 2,600 barrels per day of NGLs, and 97 MMcf per day of natural gas (approximately 40 per cent light oil and liquids and 60 per cent natural gas). Production decreased 10 per cent relative to the first quarter of 2018 due to a planned turnaround that was conducted to coincide with the electrification of the Parkland/Tower gas processing and liquids-handling facility.

Capital investment at Parkland/Tower was approximately \$115 million in the first half of 2018, and included the drilling of eight and completion of seven oil wells at Tower, as well as ongoing completion activities in the Tower field. Capital investment was also directed at the electrification of ARC's owned-and-operated Parkland/Tower gas processing and liquids-handling facility, which was completed in the second quarter of 2018, as budgeted. By connecting the facility to the BC Hydro grid, ARC will reduce its overall corporate emissions by 60,000 tonnes of CO₂ equivalent per year. ARC also completed upgrades to the refrigeration capacity at the Parkland/Tower facility in the second quarter of 2018, and will now be able to enhance its liquids production in the area by running the facility at cooler temperatures.

Ante Creek

ARC has a land position of 364 net sections at Ante Creek (approximately 233,000 net acres), a Montney light oil play in northern Alberta that generates strong free cash flow and has significant future development potential. Production in the second quarter of 2018 was 16,200 boe per day (approximately 55 per cent light oil and liquids), an increase of five per cent relative to the first quarter of 2018 resulting from new wells being brought on-stream during the period. Notably, one of the wells that was brought on-stream late in the first quarter of 2018 has been ranked as a top-producing oil well in Alberta for May 2018 production.

ARC invested approximately \$36 million at Ante Creek to drill three oil wells and to complete three wells in the first half of 2018. Optimization of base production remains a key objective for the area and the ongoing success from these activities, as well as strong production results from the recent optimization of well designs, continue to affirm the overall strength of this asset. ARC has initiated studies for the next phase of development at Ante Creek.

Pembina

ARC's Cardium assets in Pembina deliver high-quality, light oil production, and generate strong operating netbacks and free cash flow with major infrastructure already in place. ARC has a land position of 219 net sections in Pembina (approximately 140,000 net acres), where second quarter 2018 production averaged 11,100 boe per day (approximately 85 per cent light oil and liquids), relatively unchanged from the first quarter of 2018. ARC invested \$11 million at Pembina in the first half of 2018, focused primarily on maintenance and optimization activities and ongoing upgrades to aging infrastructure.

With the recent improvement in oil prices, and given the favourable half-cycle economics and free cash flow that development opportunities in the Pembina area provide, ARC plans to drill and complete a five-well pad in the second half of 2018. ARC expects to bring the wells on production in the fourth quarter of 2018. ARC's inventory of top-tier wells in the Pembina area allows ARC to selectively and opportunistically allocate capital to these types of projects due to their ability to bring on high-value, light oil production with a short payout period. Optimizing production and waterflood management continue to be key components of ARC's operations at Pembina.

Redwater

ARC's Redwater region in Alberta produces high-quality, light oil. Production averaged 2,900 boe per day in the second quarter of 2018, relatively unchanged from the first quarter of 2018. 2018 capital investment at Redwater is focused on maintenance and optimization activities.

OUTLOOK

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.arcreources.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.

ARC's full-year 2018 guidance estimates and a review of 2018 year-to-date actual results are outlined in the following table.

	2018 Guidance	2018 Revised Guidance	2018 YTD	% Variance from Revised Guidance
Production				
Crude oil (bbl/day)	25,000 - 27,000	25,000 - 26,500	24,965	—
Condensate (bbl/day)	6,500 - 7,000	6,500 - 7,500	6,236	(4)
Crude oil and condensate (bbl/day)	31,500 - 34,000	31,500 - 34,000	31,201	(1)
Natural gas (MMcf/day)	555 - 565	555 - 565	551.3	(1)
NGLs (bbl/day)	6,000 - 6,500	6,000 - 6,500	6,356	—
Total (boe/day)	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 Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") Plans, Share Option Plan, and Long-term Restricted Share Award Plan, and excludes compensation charges under the Deferred Share Unit 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 Attachie West pad will increase through the second half of the year. ARC expects that condensate production will be at 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 turnarounds 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.
- 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 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 and a reduced share price.

On a per boe basis, all other expense items were within their respective guidance ranges.

FORWARD-LOOKING INFORMATION AND STATEMENTS

This news release 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 news release contains forward-looking information and statements pertaining to the following: the transition and execution of its business plan, and guidance as to the capital expenditure plans of ARC in 2018 and beyond and its production in 2018 and beyond under the heading "Strategy Overview", as to its views on future commodity prices under the heading "Economic Environment", as to its risk management plans for 2018 and beyond under the heading "Physical Marketing and Financial Risk Management", as to its production, exploration and development plans, and capital expenditures for 2018 and beyond under the heading "Operational Review", and all matters in respect of 2018 guidance under the heading "Outlook".

The forward-looking information and statements contained in this news release reflect several material factors, expectations and assumptions of ARC, including, without limitation: the production performance of ARC's oil and natural gas assets; the cost and competition for services throughout the oil and gas industry in 2018; the results of exploration and development activities during 2018; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of ARC's reserve and resource volumes; certain commodity price and other cost assumptions for 2018; the retention of ARC's key properties; 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 news release 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 oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time-to-time in ARC's public disclosure documents (including, without limitation, those risks identified in this news release and in ARC's Annual Information Form).

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 and statements contained in this news release speak only as of the date of this news release, 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.

[ARC Resources Ltd.](#) is one of Canada's largest conventional oil and gas companies with an enterprise value ⁽¹⁾ of approximately \$6.2 billion. ARC's common shares trade on the Toronto Stock Exchange under the symbol ARX.

[ARC Resources Ltd.](#)

Myron M. Stadnyk
President and Chief Executive Officer

(1)	Enterprise value is also referred to as total capitalization. Refer to Note 10 "Capital Management" in ARC's financial statements as at and for the three and six months ended June 30, 2018 and to the section entitled, "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.
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