

2016

# Sustainability Report



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# Message to Our Stakeholders

“ At ARC, we  
are innovators,  
technical experts  
and responsible  
members of the  
community. ”



Myron M. Stadnyk

MYRON M. STADNYK  
President & Chief Executive Officer



Harold N. Kvisle

HAROLD N. KVISLE  
Chairman



At ARC, we are innovators, technical experts and responsible members of the community. We are always looking for the most efficient way to produce energy, create long-term value for our stakeholders and support the economic and social well-being of the communities, provinces and country that we work in. In what has been a challenging economic environment, our drive for continual improvement in all aspects of our business is important, including the areas of environmental, social and governance (ESG) performance and sustainable development.

We are pleased to share our 2016 Sustainability Report, which highlights the outstanding work of our team over the course of 2014 and 2015. This report is ARC's fifth official corporate report focused on sustainability. In addition, we have voluntarily shared our ESG performance throughout our 20-year history through a variety of reporting mechanisms and ongoing engagement with stakeholders. At the root of our corporate strategy of risk-managed value creation is a long-term vision, and a deliberate and thoughtful approach to development of our world-class assets with a central focus on people and communities. As we celebrate our 20th anniversary in 2016, responsible development has shaped the company we are today and underpins our thinking for continued long-term success.

## Energy, Economy, and the Environment

In the past two years our industry has seen challenges as commodity prices hit decade lows. These low commodity prices have been caused by normal cyclical influences on the oil and natural gas industry as well as a number of technologically driven secular changes in the industry. During this time, following our strategy of risk-managed value creation, we invested almost \$1.5 billion in capital projects, and spent over \$650 million to operate our assets across western Canada. ARC's focus on paced development and managing for the long term has allowed us to outperform many of our peers in this market and continue to deliver strong results. The oil and natural gas industry is cyclical by nature and regardless of what phase of the cycle we are operating in, it is our responsibility to develop our resources in a responsible and highly efficient manner. Natural resources play an important role in fueling our Canadian economy and advancing standards of living across the globe. ARC has been a leader in the application of technology to extract oil and natural gas in an efficient and responsible manner. As progress is realized in all parts of the world our need for energy will continue to grow, and hydrocarbons will remain an important part of meeting that demand. As this report shows, ARC is well-positioned to actively manage risks and to capitalize on opportunities within the evolving energy landscape.

Following are some highlights from ARC's ESG performance in 2014 and 2015 that are shared in detail in this report.

## Emissions Management

On an international, national and provincial level, 2015 was a year of important climate policy developments, ending with the United Nations Climate Change Conference in Paris, which united 195 countries around an ambitious climate agreement. ARC continued to achieve progress in emissions management in the reporting period. ARC's total greenhouse gas intensity decreased by approximately 10 per cent from 2013 to 2015, while total production grew by almost 20 per cent in the same period. This demonstrates ARC's focus on continuously improving the efficiencies of our operations and the success of our low emissions strategy in the development of our northeast British Columbia Montney assets. Looking forward, our climate change strategy across our portfolio remains focused on promoting energy efficiency, using technology to reduce emissions, engaging in research and development of emerging low emissions technology, and participating in carbon offset markets.

## Health and Safety

In 2015, the health and safety of our people continued to be a top priority. We increased safety communications across all locations and improved our health and safety management systems. ARC's culture of safety is rooted in the understanding that each individual is responsible for their own safety and that of others. Performance during the year reflected our focused approach with our team achieving zero lost-time incidents for employees and reducing contractor lost-time frequency by over 50 per cent. These are tremendous accomplishments and ones that our team should be very proud of.

## Water Management

Some of ARC's operations are dependent on water use. As we grow our operations we are doing so in a manner that aims to reduce our impact on local fresh water supplies. Throughout 2014 and 2015, we worked to develop a long-term water management plan for our northeast British Columbia Montney assets, which account for roughly 60 per cent of total corporate water use. This plan will serve as the foundation for a company-wide strategy. We are reducing our reliance on fresh water in the Montney through a growing hydraulic fracturing water recycling program, alternative sourcing and development plans that consider non-potable water use in long-term forecasts.



## Employee Engagement

Our outstanding team of people is at the heart of everything we do. People drive our performance and create our success. ARC has worked hard to develop and maintain a corporate culture of trust, integrity, respect and accountability. Culture is not something that happens by accident, it must be purposefully created and constantly maintained. Each year, ARC conducts a Strength of the Workplace Survey with our employees to take stock of how we are performing in this area. In 2015, we achieved an employee engagement score of 90 per cent. Our people report feeling highly engaged in their day-to-day work and connected to the corporate strategy and vision.

## Governance and Risk Management

Good governance helps companies operate more efficiently, create shared value, mitigate risks and act on opportunities. At ARC, we believe good governance practices are the foundations of strong and transparent ESG performance. Across all parts of our business we strive to align our corporate objectives with those of our stakeholders, including executive and board compensation, development plans and disclosure practices. In 2015, we shifted the reporting structure of our ESG-focused business functions to achieve better integration with our operational objectives. This transition will continue to ensure our management of ESG issues is developed with stakeholder interests in mind and with robust internal and external engagement practices. Additionally, we continued to enhance our data collection and environmental measurement systems to ensure we can effectively manage this critical aspect of our business.

ARC's proven strategy has delivered results over the past 20 years, but we cannot stand still. Our expectations and stakeholder expectations for responsible energy development are increasing. ARC will continue to engage with our stakeholders and

remain focused on innovative solutions for producing energy in the most responsible and ethical manner possible.

Sincerely,



MYRON M. STADNYK  
President & Chief Executive Officer



HAROLD N. KVISLE  
Chairman



# About ARC

ARC Resources Ltd. (ARC) is a Canadian conventional oil and natural gas producer committed to delivering strong operational and financial performance and upholding values of operational excellence and responsible development. With operations across western Canada, ARC's portfolio is made up of resource-rich properties that provide near and long-term investment opportunities.

ARC was formed in 1996, and is headquartered in Calgary, Canada.

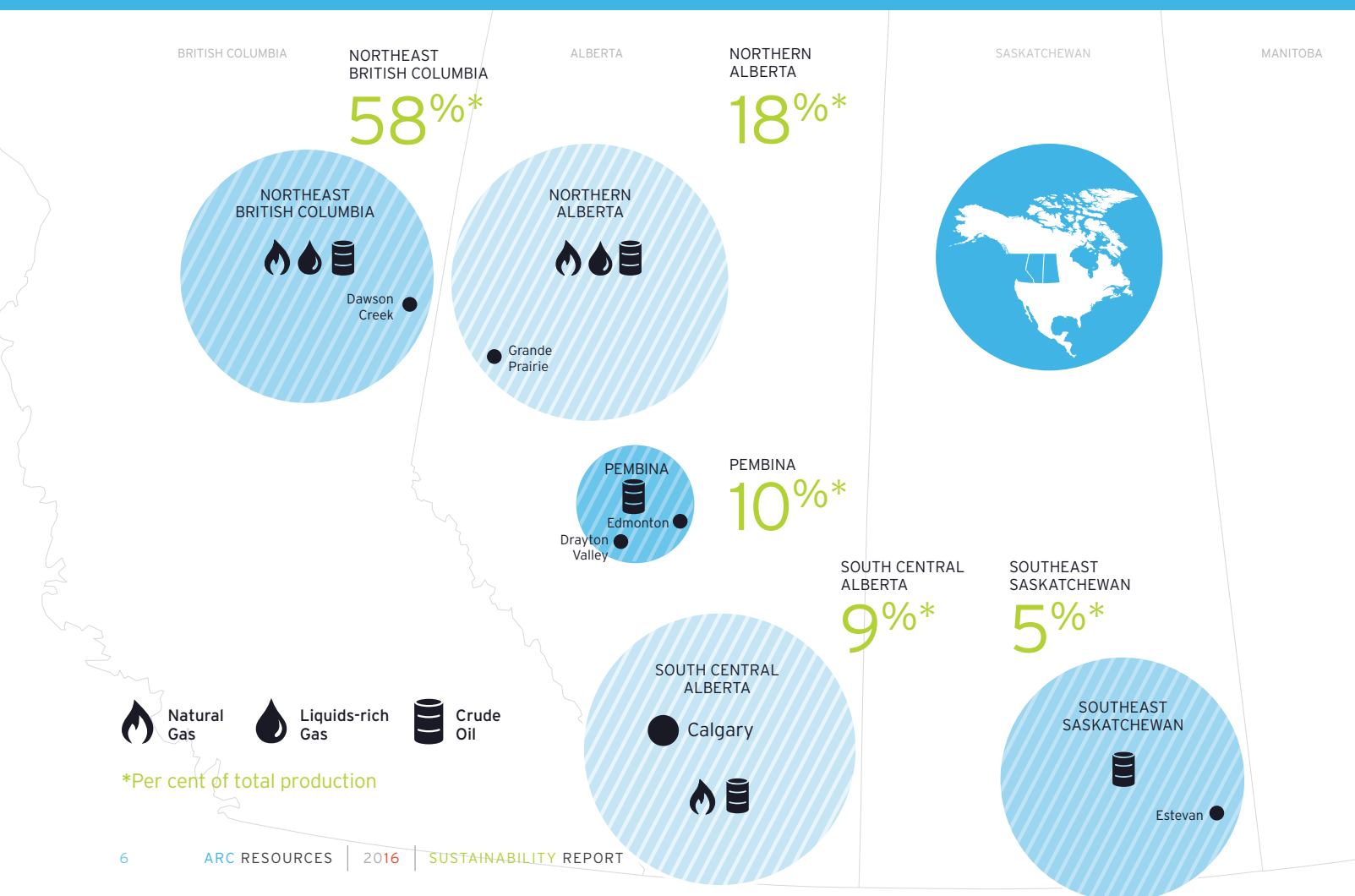
We pay a monthly dividend to shareholders and our common shares trade on the Toronto Stock Exchange under the symbol ARX. ARC had an enterprise value of \$6.8 billion as of December 31, 2015, and approximately 347 million shares outstanding.

 **\$1.2 Billion**  
2015 Revenues

 **\$550 Million**  
2015 Capital program

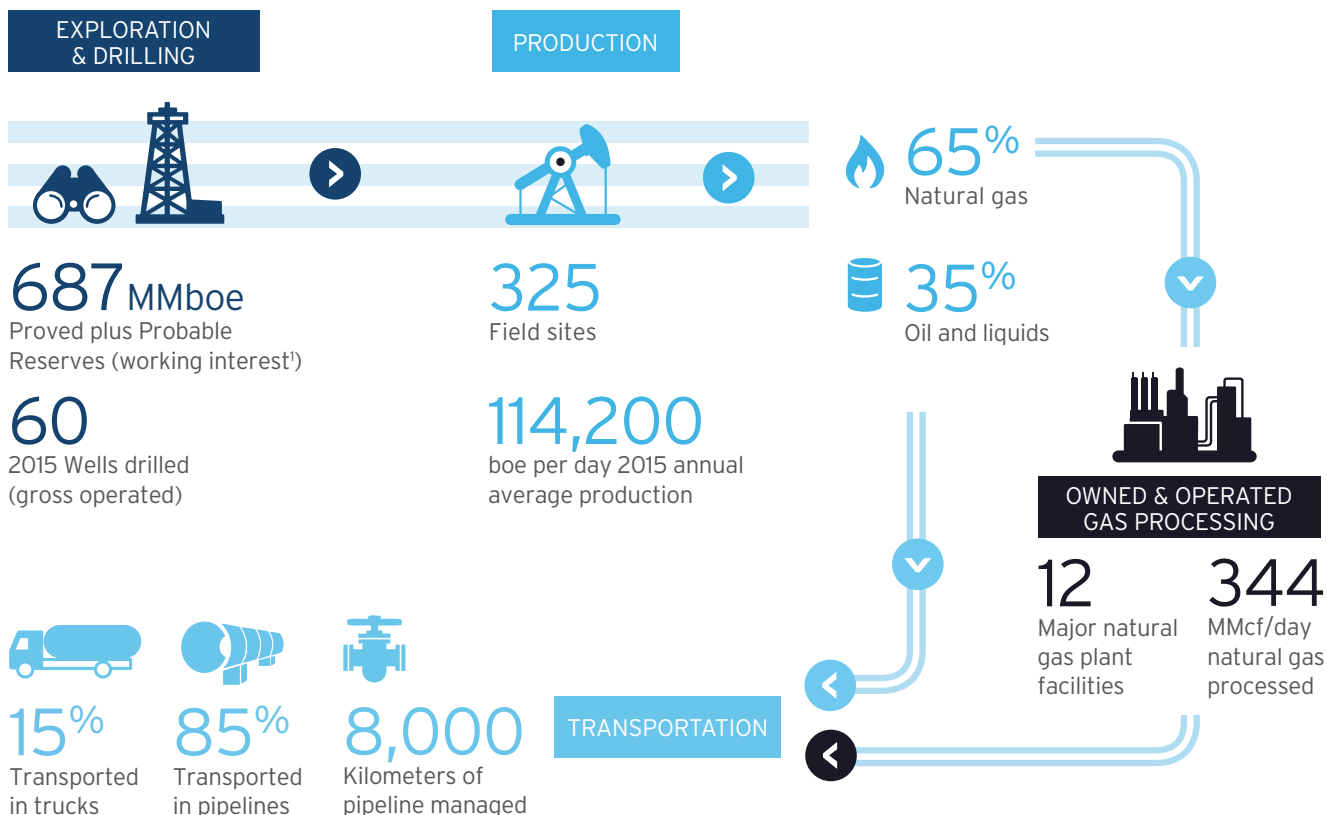
 **620**  
Employees and contractors

 **5,000**  
Local suppliers





# Our Value Chain



(1) Working interest share before royalties.

## Significant Operational Notes and Subsequent Events



In 2015, ARC divested approximately 4,900 boe per day of non-core production including shallow natural gas assets in South Central Alberta and Southwest Saskatchewan, and ARC's position in Manitoba.



ARC commissioned the Sunrise natural gas processing plant in northeast British Columbia in the third quarter of 2015.



In 2014, ARC divested approximately 2,400 boe per day of non-core shallow natural gas assets in the Southwest Saskatchewan region.

# About this Report

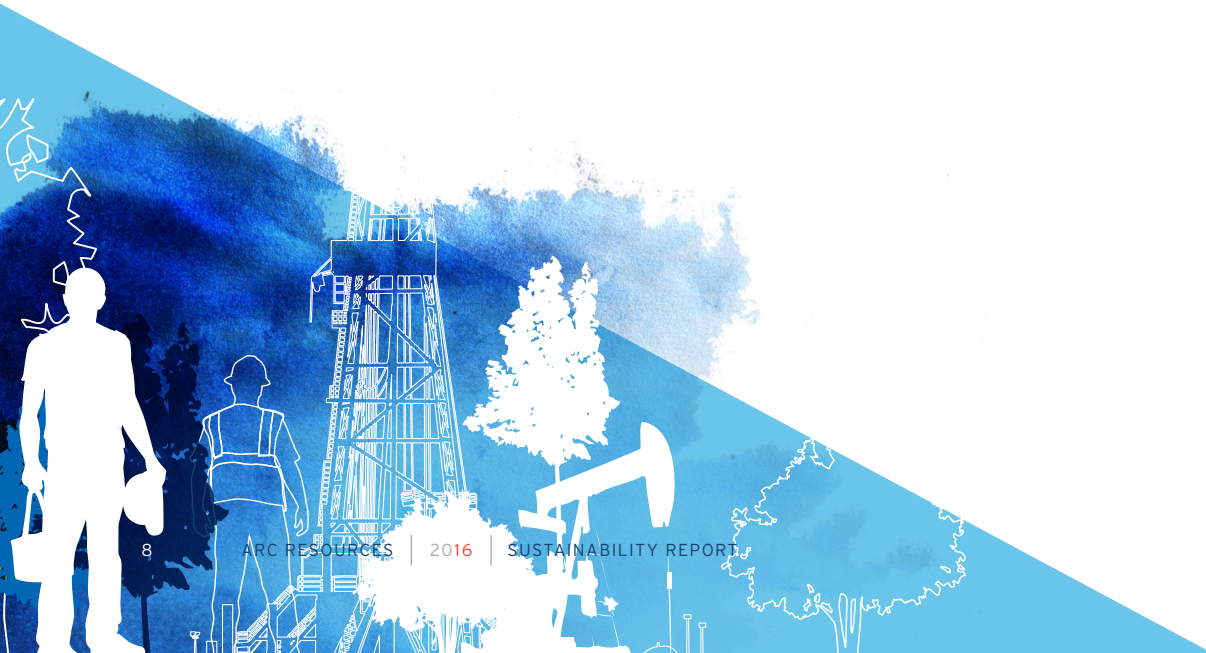
- This is our fifth sustainability report and covers performance for the years 2014 and 2015. The five preceding years of data are shown to provide context and trends, when available.
- We publish a full-length sustainability report on a biennial basis, and in 2015 we began publishing in the interim year an update of the most critical information on our website.
- Unless otherwise noted, this report covers performance for ARC Resources Ltd., including data for joint ventures for which ARC is the operator, regardless of financial ownership. The treatment of joint ventures may be addressed differently in ARC's 2015 Annual Report with respect to financial performance.
- We used the [Global Reporting Initiative \(GRI\) G4 Sustainability Reporting Guidelines](#), combined with stakeholder perspectives, to help determine report content. The report contains Standard Disclosures from the Guidelines. The GRI index on page 41 indicates where specific disclosures are addressed.
- As almost 60 per cent of our production comes from the Montney Basin in northeast British Columbia, much of the report content focuses on activities in that region.
- In almost all cases, data covers the entire company; however, data limitations are explicitly noted with the performance figures.
- Performance data relating to non-core assets disposed in 2014 and 2015 is included in the report.
- Unless noted, data covers only full-time permanent employees.
- Techniques for data measurements and calculations, if not industry standard, are stated with the data.
- Financial data is in Canadian dollars and environmental data is in metric units. Please refer to our [2015 Annual Report](#) for more details on our financial performance.
- The accuracy of this report for our readers is of significant importance. Senior management and relevant staff have reviewed all information and believe it is an accurate representation of our performance. Third-party assurance of our corporate responsibility report was not conducted.
- The terms ARC, ARC Resources, our, we, us, the company, and the corporation, refer to ARC Resources Ltd. and its subsidiaries as a whole.

## Reporting on What Matters

ARC is committed to ensuring that our sustainability priorities match those that matter most to our stakeholders and that our reporting addresses those topics.

To determine content for this report, we first developed a list of 28 sustainability topics extracted from reporting guidance (e.g., GRI; Sustainability Accounting Standards Board), industry reporting requirements (i.e., Canadian Association of Petroleum Producers (CAPP)), and peer reports.

We prioritized the topics based on relevance to our stakeholders and to ARC. We considered insights from our daily interactions with stakeholders, during community outreach activities, through our employee survey, at meetings with government representatives and during investor briefings. These forums provide valuable opportunities to better understand what our stakeholders want to learn in regards to our sustainability performance.





This report includes more coverage on the four topics most relevant to ARC and our stakeholders, which are listed below, along with an explanation of why they are our most material topics.



### Employee and Contractor Safety

We undertake activities that involve moving equipment, working in challenging conditions, and handling hazardous substances. The safety of our employees, contractors and the residents near our operations is a top priority.



### Climate Change

Responsible management of greenhouse gas emissions and risks associated with emissions is an important component of ARC's financial and operational success.



### Water Management

Water is a main input for ARC's drilling and hydraulic fracturing activities, and is an output in cases when it cannot be recycled. Strong and innovative water management leads to optimal use of this valuable resource.



### Hydraulic Fracturing Operations

ARC uses this technique on almost all of our wells. Stakeholders are concerned with water management practices, chemical use, induced seismicity and activity levels associated with hydraulic fracturing. ARC understands that best practices are important to apply this technology in a safe and effective manner.

A second group of topics were identified as important due to their high relevance to either our company or our stakeholders, but not necessarily both:

### Spills

Stakeholder and  
Community Relations

Public Safety and  
Emergency Preparedness

Economic Impact

### Governance

Reclamation  
and Remediation

Community Investment

Transportation

Business Ethics

These two groups of material topics represent our priorities and receive greater attention than others in this report. For topics not considered material, but still relevant to our company or industry, we provide a brief discussion of our related initiatives, and in some cases, quantitative performance figures.

# Foundations of Sustainability

A sustainable company is built on strong foundations. Effective governance, ethical behaviour, targeted policies linked to our strategy, and comprehensive risk management set the foundation for our performance in all other areas. We believe that stakeholder engagement and transparency are essential for strong relations with shareholders, communities, regulators, and our business partners, and are necessary for maintaining our social license to operate.



## Corporate Governance

Strong governance starts at the highest level. Our Board of Directors (the Board) provides oversight on a variety of issues, including financial, operational, social, health and safety and environmental. To ensure effective decision making for all aspects of our business, the Board has six committees, four of which address ESG issues (Reserves and Audit Committees do not). More information about the Board and its committees can be found on our [website](#).

Our senior management team works with the committees of the Board to review and evaluate key performance indicators

and initiatives (KPI). ARC managers, who are supported by wider employee teams, implement our sustainability commitments and programs. However, ultimate decision-making regarding these areas takes place at the Board and senior management level.

To fulfill its oversight role, the Board holds meetings on a quarterly basis, at minimum. In 2015, ARC's Board held 10 meetings with an average 97 per cent attendance rate. In addition to regular meetings, the Board and members of ARC's senior management attend an annual multi-day session focused on long-term strategic planning.





Our [Information Circular](#) contains detailed information about many governance issues. The table below summarizes key governance concerns from shareholders and other stakeholders, and the processes ARC has in place to manage them:

Governance Concern	Process in Place
<a href="#">Board Member Independence</a>	ARC's board is comprised of ten members, eight of whom are independent of management within the meaning of the current guidelines.
<a href="#">Board Member Tenure</a>	The average director tenure on ARC's current board is nine years. ARC does not have a policy for director term limits. We believe long-term directors provide invaluable knowledge of our company, while new directors provide new perspectives and experience. As such, we aim to achieve a balance to ensure an effective board.
<a href="#">Board Diversity</a>	Board appointments at ARC have always been based on finding the best individual based on merit and the requirements of the Board at that time. ARC does not differentiate by race, color, ethnicity, religion, gender, sexual orientation or any other aspect. ARC does not specifically consider the level of representation of women on the Board and has not adopted a specific target regarding the number or percentage of women on the Board. In February 2015, the Board approved a diversity policy founded on these principles. This policy provides that the Policy and Governance Committee will consider candidates based on a balance of merit, skills, background, experience, knowledge and cultural fit with the Board. As of May 2016, ARC had two women on the Board.
<a href="#">Evaluating Director Performance</a>	On an annual basis, the effectiveness of the Board of Directors, the committees and individual members are reviewed through a self-assessment and inquiry process. Data is compiled independently and reviewed by the Policy and Board Governance Committee. Following this review, the Chair of the Board meets with all Directors individually, with an emphasis placed on maximizing each Director's contribution to the Board.
<a href="#">Avoiding Conflicts of Interest</a>	Should an investment or business relationship, or directorship on another board pose a potential conflict of interest, it must be disclosed to the President/CEO and the Board of Directors.
<a href="#">Mechanisms for Shareholders and Others to Provide Input to the Board</a>	Through attendance at the AGM or through the use of proxies for voting, shareholders are given the opportunity to vote on matters to be addressed at the AGM. In addition, subject to statutory provisions, shareholders may submit their own resolution for consideration at the AGM. Shareholders have the opportunity to raise questions from the floor during the AGM. Shareholders, employees and other interested parties may contact the Board by sending correspondence addressed to the Board Chair or Corporate Secretary.
<a href="#">Director Selection</a>	ARC's Policy and Board Governance Committee reviews the make-up of the Board and the competencies of directors on an annual basis and identifies potential new candidates as necessary. When identifying candidates, the Committee considers skills, experience, strengths and knowledge in addition to character and behavioural qualities. Shareholders annually elect all directors individually at the AGM through a majority voting process.





## Executive Compensation

ARC's underlying principle for executive pay is "pay-for-performance". We believe that this philosophy achieves the goal of attracting and retaining excellent employees and executive officers, while rewarding the demonstrated behaviours that reinforce our values and help to deliver on our objectives. ARC's senior executive performance objectives are tied to core financial and operational metrics, which include but are not limited to safety, environment, and people metrics. A detailed discussion of our executive compensation program is provided in our [Information Circular](#).

We provide shareholders with a "Say on Pay" advisory vote at our annual general meeting (AGM). This non-binding advisory vote on executive compensation provides shareholders with the opportunity to vote for or against our approach to executive compensation. At the 2015 AGM, our approach to executive compensation was approved with greater than 97 per cent of shares represented voting in favour.



## Ethical Business Practices

ARC's Board of Directors sets the tone and standards for the organization, but it is the responsibility of each and every employee to comply with corporate policies and to uphold standards. ARC's executive team ensures performance expectations are aligned with governance commitments and that expectations are clearly communicated to all staff. ARC has numerous policies in place that clearly communicate our values and accepted practices. ARC's policies are frequently reviewed and updated to meet our evolving business needs.

- The [Business Conduct and Ethics Code](#) broadly outlines basic principles and policies, and must be read and signed by all employees annually. The code addresses issues such as equal opportunity, harassment, conflict of interest, confidentiality, compliance, environmental impact, corruption and bribery, political activities and contributions, among others.

- The [Disclosure Policy](#) documents the disclosure policies and practices of ARC, extending to all directors, officers and employees. The policy is also intended to assist the Chief Executive Officer and Chief Financial Officer in making certifications with respect to the disclosure and internal controls of ARC required under National Instrument 52-109.
- ARC's [Whistleblower Policy](#), provides a mechanism by which employees, consultants and external stakeholders can raise concerns regarding violation of the Business Conduct and Ethics Code through their supervisor or through an anonymous process. A Whistleblower Hotline, where anonymous complaints and concerns can be lodged, is accessible from the Whistleblower Policy document accessible on ARC's website.



## Risk Management

ARC's corporate strategy of risk-managed value creation underpins all aspects of how we operate our business. Through a rigorous internal process, we continually identify, assess, monitor and manage risk associated with our assets and operations. This process engages all levels of the company from the Board of Directors to department teams and individual employees. We engage in continual dialogue with stakeholders to ensure our business strategy and objectives are understood. By creating a culture of transparency where risks and opportunities are routinely considered and communicated, we create a strong, sustainable business that is focused and able to create value not just today, but over the long term.

The following table identifies principal ESG risks that could potentially have an impact on the operation, financing and profitability of ARC's business.

Risk	Why It Matters	How It Is Managed
Policy Impact	Changes to government policy related to climate change (including carbon caps or taxes), hydraulic fracturing, air, land or water regulations, and construction of infrastructure and pipelines might affect our ability to develop or produce our assets, or affect our competitive position or project economics.	<ul style="list-style-type: none"> <li>• We routinely review existing and proposed government policy and engage with industry, legal and regulatory bodies to identify, understand and provide input into potential policy changes. Such reviews are incorporated into long-term strategic planning.</li> <li>• The price of carbon is included in project economics where appropriate.</li> </ul>
Non-Compliance with HSE Regulations	Risk of being materially non-compliant with health and safety or environment-related regulation - causing financial penalties or shut-in production.	<ul style="list-style-type: none"> <li>• We continually review changes to regulation and compliance. Our goal is to stay ahead of possible changes to regulation and to meet or exceed all requirements.</li> </ul>
Major Environment or Health and Safety Incident	The operation of oil and natural gas wells and equipment involves a number of operating and natural hazards (e.g., employee and contractor safety, inexperienced workforce in service sector, emergency preparedness, terrorism, well blowouts, oil/gas/water spills, and inclement weather). An incident that causes harm to people or the environment might result in production loss and damage to ARC's reputation and stakeholder trust.	<ul style="list-style-type: none"> <li>• We have a Health and Safety Management System in place that works to avoid incidents. We have health, safety and environment experts within all of our operating areas.</li> <li>• We implement emergency response programs and regularly perform exercises with staff, consultants and contractors.</li> <li>• We perform regular and proactive maintenance on all of our assets and properly abandon or suspend wells.</li> </ul>
Transportation and Market Access	Constraints on transportation (rail, pipeline, truck) may reduce our ability to bring production to markets.	<ul style="list-style-type: none"> <li>• We use long-term firm commitments with mid-stream companies and diversified marketing arrangements that provide access to multiple markets.</li> </ul>
Access to Top Talent	Attracting top talent is important to advance our technically driven activities.	<ul style="list-style-type: none"> <li>• We have an annual process for reviewing our workforce plan to forecast critical skillset and talent requirements needed for the next five years. This process guides recruitment strategies and skillset development initiatives for current talent.</li> <li>• We develop and engage employees through mentorship, technical training and leadership development programs.</li> </ul>





## Stakeholder Engagement

Our relationships with stakeholders are not only critical to our ability to operate and develop our assets, but to help identify innovative and forward-thinking solutions across our operations. We strive for two-way dialogue across a variety of communication channels, and address concerns in a timely and respectful manner.

We define stakeholders as persons or groups who are directly or indirectly affected by our activities, as well as those who

might have interests in a project or have the ability to influence its outcome. The type and frequency of our stakeholder engagement is based on the scope and potential impacts of our operations, and the degree to which parties wish to be involved. We engage with stakeholders throughout the planning, development, operations and reclamation stages. This report is one of the primary means of communications with stakeholders.

Stakeholder	Issues/Discussion Items	How We Engage
Communities	<ul style="list-style-type: none"> <li>• Traffic, noise, dust</li> <li>• Public safety/emergency response</li> <li>• Community support</li> </ul>	<ul style="list-style-type: none"> <li>• Project open houses</li> <li>• Regular emergency exercises</li> <li>• Donations and volunteerism</li> <li>• Website and social media</li> </ul>
Contractors and Suppliers	<ul style="list-style-type: none"> <li>• Workplace safety</li> <li>• Costs and reliability</li> <li>• Local procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Third-party pre-qualification</li> <li>• Regular safety meetings, including an annual safety workshop</li> <li>• Contractor performance reviews</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Business strategy</li> <li>• Organizational changes</li> <li>• Overall well-being</li> <li>• Culture</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly staff meetings and bi-annual town hall meetings</li> <li>• <i>Strength of the Workplace</i> survey</li> <li>• Training and development programs</li> <li>• Special interest employee programs</li> </ul>
Landowners	<ul style="list-style-type: none"> <li>• Timing and nature of development</li> <li>• Access to land during operations and maintenance</li> <li>• Remediation and reclamation processes</li> </ul>	<ul style="list-style-type: none"> <li>• Regular one-on-one meetings</li> <li>• Frequent verbal updates from operators and landmen</li> <li>• Timely response to questions and concerns</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>• Operational and financial results</li> <li>• Governance practices</li> <li>• Strategic plan</li> </ul>	<ul style="list-style-type: none"> <li>• Annual and quarterly reports and other public disclosures</li> <li>• AGM</li> <li>• Investor meetings and "Investor Day" presentations</li> <li>• Quarterly video updates with senior management available on our website</li> </ul>
Government and Regulatory Bodies	<ul style="list-style-type: none"> <li>• Regulatory compliance</li> <li>• Development of new regulation and best practices</li> </ul>	<ul style="list-style-type: none"> <li>• Participate in public policy processes and discussions with regulators and several industry groups</li> <li>• Meet frequently to ensure we understand regulatory changes and expectations</li> <li>• Share knowledge on industry best practices</li> </ul>

# Environment

At ARC, we are committed to the responsible development of Canada's resources and are continuously looking for improved and more efficient ways to produce energy. Responsible development means reducing our resource consumption, and minimizing our impacts on air, land and water. Regulatory compliance should not be the purpose, but the result of responsible operations.

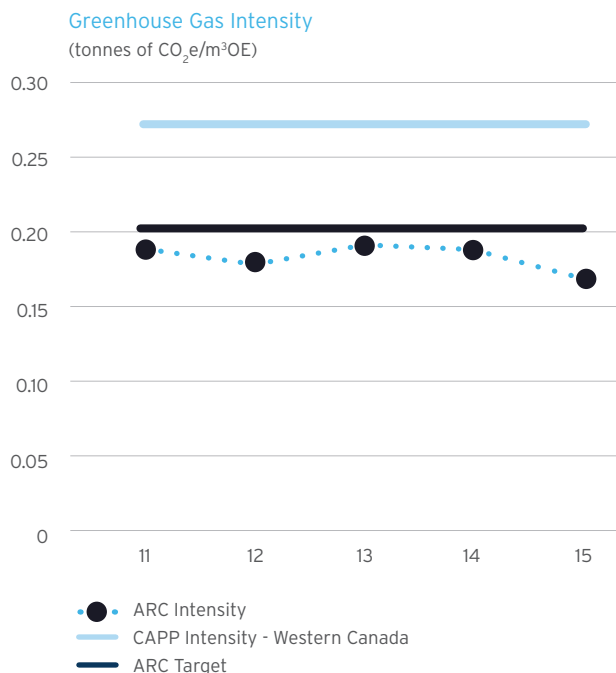
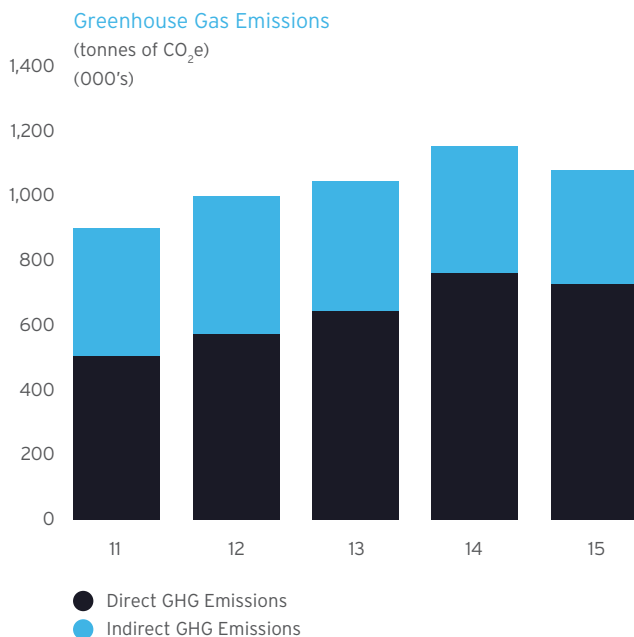
Looking Back		Looking Forward
Highlights	Challenges	
<p>Reduced greenhouse gas intensity by almost 10 per cent since 2011</p> <p>Implemented technology to minimize the impact of our hydraulic fracturing operations</p> <p>Commissioning of the Dawson Phase I and II award-winning low-emissions natural gas plants</p>	<p>Making decisions that balance environmental improvements and financial performance</p>	<p>Construction of our new Dawson Phase III facility with many low-emissions design considerations</p> <p>Replacement of our Redwater natural gas processing plant with a more efficient plant with lower emissions</p> <p>Increasing our total water storage capacity to minimize water disposal and retain this valuable resource</p>



## Climate Change

Managing our GHG emissions is a balance between increasing value for our shareholders through development and expansion of our resources, and working to keep emissions as low as possible. At ARC, we proactively focus our efforts on reducing GHG intensity (amount emitted per amount of production), which encourages continual improvements to operational efficiencies. We have set an emissions intensity target to operate at or below our 2010 baseline year intensity, as 2010 marks the beginning of a low-emissions development

strategy in the northeast BC Montney region (see graph on following page for performance against the target). ARC is developing numerous facilities and wellsites, and conducting our operations, with low-emissions technology to help achieve this target. The main sources of GHG emissions in our business are our natural gas processing plants, and the drilling and completion processes.



We have reduced our GHG intensity almost 10 per cent in the past five years largely due to a low emissions development strategy in northeast British Columbia, adopting cleaner fuel sources, reductions in flaring due to increased natural gas pipeline connections, and divestment of assets with higher associated per unit emissions.

### Natural Gas Processing Plants

Our natural gas processing plants turn produced natural gas (either associated with or without oil production) into a clean, pipeline-quality, marketable fuel. The process of removing impurities, such as water, carbon dioxide and hydrogen sulfide (H<sub>2</sub>S), from the natural gas is energy intensive and therefore generates GHG emissions.

ARC owns and operates 12 natural gas processing plants. We have designed and built five major facilities in the Montney region in the past six years with low emission technology. For example, the first two phases of our Dawson natural gas processing facility are connected to the electric grid in British Columbia. As most of the electricity in British Columbia is generated from hydro sources, electrification of the plant avoids emissions as compared to typical design, which would involve burning natural gas to power our plants. The design of the Dawson plant served as a template for the construction of subsequent plants at Parkland and Sunrise, which include similar low-emissions technology allowing for the switch to electrification when feasible.

The management of our numerous legacy assets in Alberta and Saskatchewan is an important part of ARC's environmental mitigation program. In 2016, replacement of our 60-year old Redwater facility will commence with the construction of a more energy efficient, lower emissions and appropriately sized plant. Better fuel efficiency translates into reduced fuel consumption and emissions. During the project, we will salvage and repurpose as much equipment as possible. Keeping with our land management strategy, we will not require additional land for the plant replacement since we are building the new facility using space within the existing footprint of the plant.



## Drilling and Completions

Oil and natural gas drilling and completions operations requires considerable energy inputs. This energy is usually generated by combustion of hydrocarbons. The main emissions sources during drilling and completions are fuel combustion to generate energy, and natural gas flaring at well sites.

### Energy Generation

In 2015, we began using bi-fuel (diesel and natural gas) technology at our drilling and completions operations. This system enables current diesel engines to operate on either compressed natural gas (CNG) or natural gas from our operations (field gas). Although using field gas requires an initial infrastructure investment and careful planning, it has broad benefits, including:

**Economic:** Significantly reduces cost for fuel and transportation of diesel or CNG.

**Environmental:** Emissions are reduced because natural gas combustion is cleaner relative to diesel. Truck transportation of fuel is minimized, also reducing emissions.

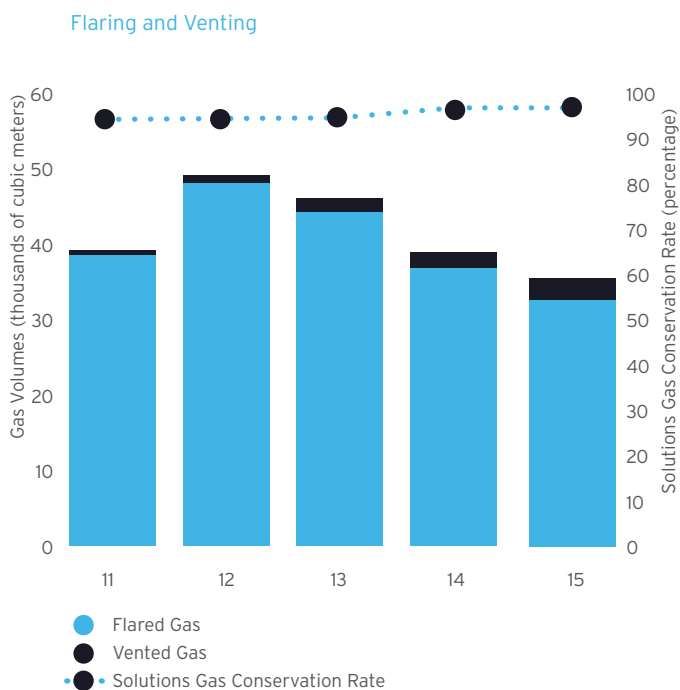
**Social:** As the electrified modified rigs and pumping units make considerably less noise, the noise pollution from our drilling operations is significantly reduced.

### Flaring and Venting

At oil and natural gas operations, flaring of natural gas is necessary when we are temporarily unable to transport the natural gas by pipelines, or when natural gas volumes are considered uneconomic. This occurs during the testing phase of a new well or in predominantly oil-based production, when associated natural gas volumes are extremely small. Proper planning and the directive to install a pipeline system as early in the project as possible allows natural gas to be sent directly to the plant to be processed thereby helping to minimize flaring.

Venting refers to the release of natural gas into the atmosphere as part of regular operations. It can occur as the result of escaped natural gas from a wellhead or equipment at a facility. ARC has been a leader in actively managing and monitoring vented emissions since 2008. Vapour recovery units are installed to capture small amounts of methane that would otherwise escape. As a result of our strong track record in monitoring and managing vented emissions, ARC is currently working with the Oil and Gas Commission of British Columbia to share best practices. In recent months, both the Alberta and federal governments have announced commitments to reduce methane emissions over the next decade. ARC will continue to

take steps to improve our management systems around vented emission sources. Data on non-GHG air emissions is included in the performance summary, starting on page 39.



We have decreased the absolute volumes of natural gas we flare by 16 per cent in the past five years. The decrease is largely the result of property divestments and increased in-line well testing. All flaring is done in accordance with government guidelines. Increased venting volumes between 2013 and 2015 are the result of improved measurement systems to capture more complete data.

## Hydraulic Fracturing

Hydraulic fracturing is a technique to optimize oil and natural gas production and has been in use in the industry since the 1950s.

In 2015, we used hydraulic fracturing on 96 per cent of the wells we completed. Since a large portion of ARC's reserves and resources are located in the Montney formation, which requires hydraulic fracturing for the economic production of oil and natural gas resources, we expect this percentage to remain high in the future. Hydraulic fracturing technology has allowed industry to unlock production of previously inaccessible reserves. However, it requires our continued careful management to minimize environmental impacts. We believe that hydraulic fracturing can be conducted in a responsible manner and have invested in making improvements throughout the entire process. To read more about what ARC is doing to reduce our impact at each stage of the hydraulic fracturing process, please see the graphic on page 19.

ARC participates in the [FracFocus](#) online disclosure registry, which involves listing, by well, the amount of water used and the chemical constituents and concentrations in the fracturing fluid. We are committed to continuously improving communications with stakeholders in our transparency of these components.

## Hydraulic Fracturing Constituent Ranges for a Typical Montney Gas Well

CONSTITUENT	Examples	Volume	Per Cent of Materials Injected Into the Well
WATER	Fresh, saline	7,000 - 20,000 m <sup>3</sup>	78 - 85
SAND		500 - 6,000 tonnes	12 - 20
CHEMICALS	Hydrochloric acid, water friction reducing agent, surfactant, non-emulsifying agent, activator	8 - 44 m <sup>3</sup>	2 - 4

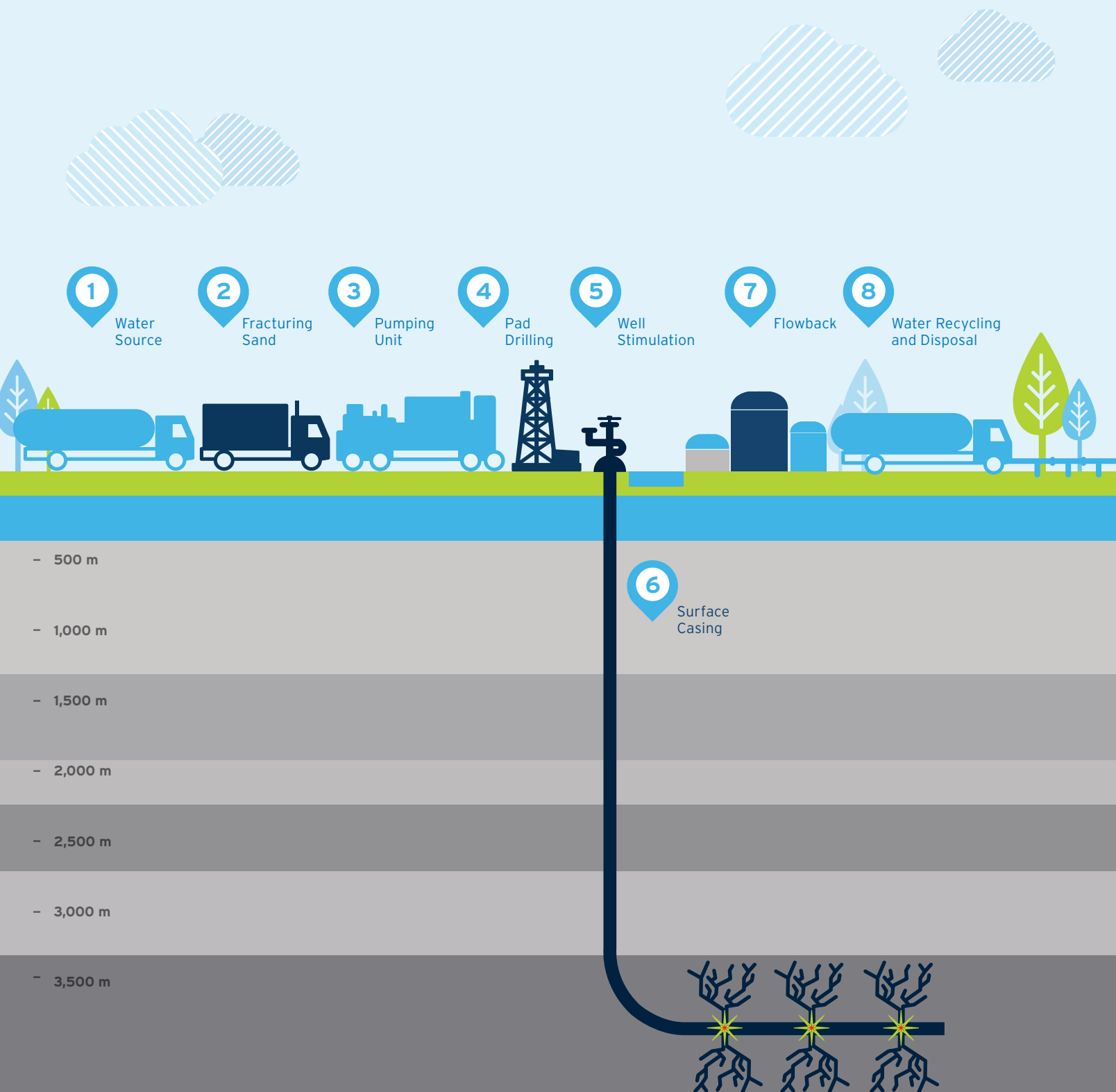


## Induced Seismicity

Many stakeholders are concerned about the effect that hydraulic fracturing operations might have on the increased frequency of seismic activity. Before any operation begins, we use computer-modeling programs to determine the optimal depth and complexity of the fractures to ensure they do not extend beyond the target area. During hydraulic fracturing, we use various ground and other monitoring methods to ensure all operations are conducted in accordance with the completions plan.









In the Montney area, the industry has conducted approximately 26,000 completions using hydraulic fracturing, with 19 seismic events attributed as induced seismicity from hydraulic fracturing. None of the events were related to ARC's operations; however, we believe in taking a precautionary approach and have adopted an Induced Seismicity Hydraulic Fracture Protocol, to monitor and react to seismic events observed during our operations. In a worst-case scenario we would shut down operations and alert neighbours and authorities.

# The Hydraulic Fracturing Process





# How ARC is Reducing the Impact of Hydraulic Fracturing Operations

								
PROCESS	Water Sourcing	Fracturing Sand	Pumping Unit	Pad Drilling	Well Stimulation	Surface Casing	Flowback	Water Recycling & Disposal
APPROACH	Using alternative sources such as recycled water and flowback/produced water to increase proportion of saline water used.	Focused on worker safety, ARC has installed vacuum units to reduce worker exposure to the silica dust that is produced when handling sand.	ARC has changed many of the fracturing units we use to ones that replace diesel as a fuel source with compressed natural gas or gas from our own operations.	ARC uses multi-well pads - drilling up to 16 wells per well pad.	ARC uses slickwater fracks in our Montney operations, which are comprised of mainly water and sand with limited chemicals in small volumes.	ARC has systematically installed its surface casing string deeper than what was required by regulators for the past two years, sometimes to a depth past 600m.	ARC recycles over 90% of flowback from our operations and sources produced water from ARC facilities and third-party producers to be used in our hydraulic fracturing operations.	ARC has invested in extensive pipeline infrastructure to facilitate a comprehensive water recycling program. We mobilize a small water treatment plant to the pads, which in conjunction with this pipeline infrastructure, allows our produced water and flowback water to be recycled and then reused during a subsequent fracture treatment.
BENEFITS	<ul style="list-style-type: none"> <li>+ <b>Decrease</b> demand on local fresh water supply to conserve this valuable resource</li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Minimizes</b> exposure and health risks of our employees and contractors</li> <li>+ <b>Maintains</b> air quality of the surrounding area</li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Reduces</b> emissions, as natural gas combustion is cleaner</li> <li>+ <b>Reduces</b> noise pollution during operations</li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Reduces</b> land footprint and disturbance</li> <li>+ <b>Reduces</b> transportation of crews, drilling equipment and supplies to multiple sites</li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Reduces</b> land footprint and disturbance</li> <li>+ <b>Reduces</b> transportation of crews, drilling equipment and supplies to multiple sites</li> <li>+ <b>Requires fewer</b> chemicals in frack fluid compared to other fluid types</li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Adequate</b> protection of all ground water sources and aquifers</li> <li>+ <b>Reduces</b> any potential risk of methane emission from shallow sources</li> <li>+ <b>Significantly</b> increases the pressure integrity of the wellbore during drilling operations, thus decreasing any likelihood of release</li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Reduces</b> freshwater needs</li> <li>+ <b>Reduces</b> the amount of water produced from the flowback that needs to be disposed of</li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Allows</b> the water strategy of reduce, recycle and reuse to be fully implemented</li> <li>+ <b>Transfers</b> water from offsetting pads and natural gas plants to the fracture stimulation operations efficiently and without intervention of truck traffic</li> <li>+ <b>Reduces</b> likelihood of spills during trucking of flowback water</li> <li>+ <b>Efficiently</b> preserves water as it is a valuable resource</li> </ul>



## Hydraulic Fracturing Definitions and Facts

### Hydraulic Fracturing

Involves injecting a fluid mixture into the ground, at high pressure, to fracture the rock formation to release oil and/or natural gas.

### Slickwater

Fluid type used for hydraulic fracturing which is predominately a mix of water and sand, with limited chemicals. Fluid is pumped into the ground to fracture the formation and release the oil and/or natural gas.

### Silica Sand

Hydraulic fracturing requires large quantities of silica sand, which is used as a proppant in the formation. Sand is transported using trucks and conveyer belts and is then mixed with fluids.

### Pumping Units

Mobile pumping engines that pump the fluid during hydraulic fracturing. They require significant energy to drill and fracture wells.

### Surface Casing

A large diameter, low pressure pipe string that is cemented to relatively shallow, yet competent formations. This casing provides secondary, backup hydraulic protection from the actual production casing to further protect any potential groundwater zones.

### Flowback

Fluid that returns to the surface during hydraulic fracturing. In addition to fracturing fluids, flowback can contain produced water.

### Produced Water

Water originally found in the formation with the hydrocarbon that comes to surface during production. Produced water can have a high concentration of salt, making it unsuitable for many uses.



## Water Management

Responsible water use and disposal is a key component of our commitment to operational excellence. We aim to optimize all aspects of water management throughout all of our operations. In 2015, ARC introduced corporate-wide Water Management Guiding Principles and advanced our water management plan.



### Water Management Guiding Principles

- Consider local and regional water demands in development plans
- Evaluate technologies and procedures to implement best practices in water management
- Consult stakeholders and regulators on development plans
- Ensure every effort is made to protect the environment and stakeholder interests

Additionally, we advanced our plan in northeast British Columbia, as water is a critical component of our operations. We now include water forecasts in long-term development plans and consider the impact of our needs together with local communities and regional systems. By doing so, we are able to plan to reduce water consumption while minimizing water disposal.

Water is a main input of many of ARC's activities. During operations, we use water for drilling and completions of wells, hydraulic fracturing and other well optimization techniques. As a reservoir is depleted, we inject water to replace the volume of oil, natural gas and water produced to ensure optimal recovery while preserving the energy of the reservoir. To see how water is used throughout the hydraulic fracturing process, refer to the diagram on page 19.

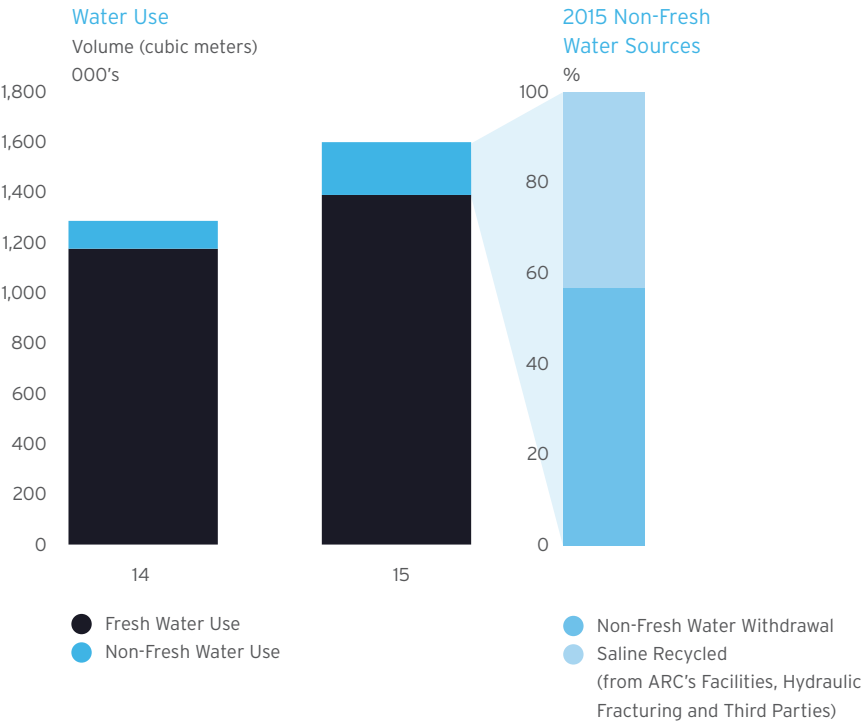
During drilling and production operations, flowback and produced water return to the surface. Flowback is considered non-potable and unfit for agricultural use, however it can be recycled and reused in our subsequent hydraulic fracturing operations. Produced water and flowback that cannot be

recycled any longer is responsibly disposed of through injection deep underground into disposal wells.

At ARC, we are aware of the demands that oil and natural gas development has on freshwater supplies. To reduce this demand, we aim to maximize the amount of saline water we use throughout our operations. When we need freshwater, we often source it from nearby private water sources, such as dugouts and surface capture of runoff water. In limited operations, we withdraw water directly from rivers or creeks once a regulated diversion permit is obtained, the conditions of which are strictly followed to ensure no adverse ecological impacts are caused. Surface runoff water is tested to ensure compliance with applicable environmental standards before being discharged.

At ARC, we look at water management from a lifecycle perspective and seek to implement processes that can get us closer to a closed-loop operation in the future.

Over the the past two years, we have worked to improve our water data collection and management systems. This work will continue in 2016.



We aim to further increase the proportion of our total water use that is non-fresh (unfit for human consumption or agriculture). Non-fresh water sources include flowback from our hydraulic fracturing operations, and recycled saline water from our other facilities, or from third parties in the area.





## Montney Water Group

ARC is a member of the Montney Water Group, an innovative industry collaboration. The group comprises 15 oil and natural gas producers in the area who have pooled resources to increase our collective use of flowback, decrease the use of fresh water, reduce the disposal of produced water, and reduce water trucking. This is the only group of its kind in Canada. To enable sharing, some of the region's larger producers store produced water temporarily in tanks or pits so companies in the area, including ARC, can use it at different times. Sharing water is a sensible approach since development timelines vary for different companies and water needs change throughout the production lifecycle such as in the beginning of the process when water demand is higher.



206

active reclamation  
sites in 2015



Decreased  
spills by almost

70%

since 2011



Reduced greenhouse  
gas intensity by almost

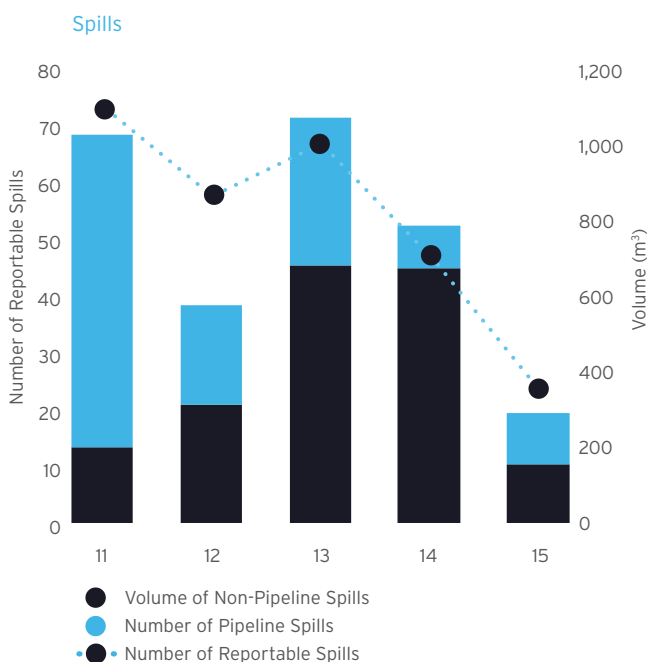
10%

since 2011

## Spills

Many aspects of the oil and natural gas production lifecycle, from well testing to transportation, could have the potential for spills. Our comprehensive management systems and in-house integrity programs significantly reduce the chance of spills. In jurisdictions where ARC operates, reportable spills include the unintentional release of hydrocarbons, and other substances, including produced water, and chemicals. A spill is considered reportable if it is greater than 2m<sup>3</sup>, travels beyond ARC's property line or is from a pipeline. We take several measures to prevent spills and to mitigate their impact, such as:

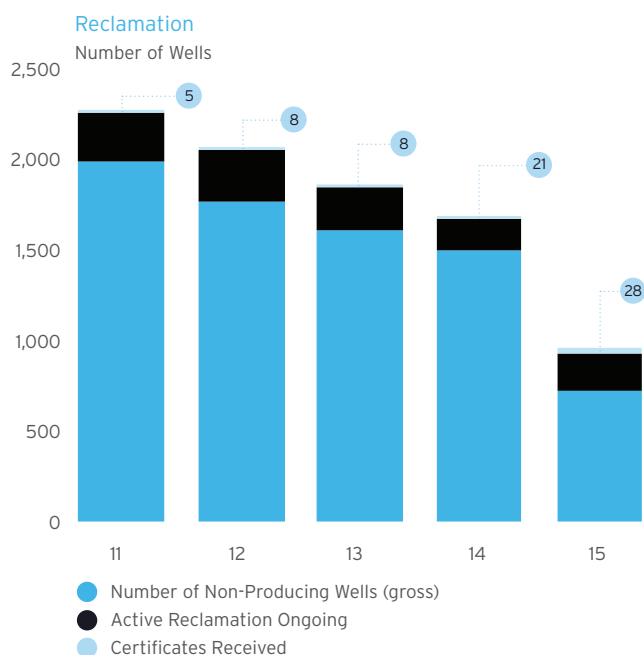
- Building redundancies into the drilling and completions process, such as double-lined casings (production and surface), to avoid spills reaching the soil or groundwater;
- Routine asset integrity inspections, as per extensive internally developed protocols, on pipelines, wellheads and equipment across our portfolio to ensure the proper operation of our assets;
- Minimizing the trucking of produced water in the Montney area by transporting it through pipelines or storing it in tanks, which reduces the risk of release due to vehicle incidents;
- Activating emergency contingency plans to clean up spills as soon as possible; and
- Investing in new infrastructure and pipelines to improve the integrity of our systems.



ARC has decreased the volume and number of spills by approximately 70 per cent since 2011. Fifty per cent of the pipeline-related spills were a mix of oil and salt water. ARC cleaned up all spills and carried out necessary remediation in compliance with regulatory requirements.

## Reclamation and Land Management

Despite weak economic conditions in the oil industry, land reclamation remains a priority for ARC. As land is a valued resource, we are committed to returning it to our stakeholders in a responsible manner. We prioritize the reclamation of sites with higher environmental risks, though it is our goal to obtain a reclamation certificate for a well within five years of abandonment regardless of its risk level. In an atmosphere of heightened public concern over the increasing number of inactive and orphan wells, we have increased our reclamation budget and activity.



By keeping reclamation a priority, we have increased the number of certificates we receive annually almost six-fold, while reducing the amount of inactive wells by more than 60 per cent in the past five years. Additionally, the divestment of certain non-core assets has contributed to this decrease.

At new development areas, ARC employs a lifecycle approach, incorporating end-of-life considerations at the design stage. The aim of this approach is to manage long-term risk and thoughtfully integrate future reclamation and abandonment plans into the development of the asset in a way that minimizes overall disturbance. We are able to reduce disturbance through the use of multi-well pads, consolidated pipeline rights of way, and planning for future development to optimize our industrial sites.

## Looking Forward

As we continue to responsibly develop our Montney assets we are moving forward with finalization of design and construction of the new Dawson Phase III natural gas processing and liquids-handling facility located in northeast British Columbia. We plan on bringing the facility on-stream in late 2017. This facility will have several innovative features to reduce its environmental impacts:

**Zero Continuous Flaring:** The well pads and gathering system are designed such that all flowback after the fracture operation will be sent to the natural gas plant so that no continuous flaring will be conducted at the well pads;

**Waste Heat Recovery:** We will use waste process heat that turbines generate as a by-product of electricity generation. We estimate that this measure will help us eliminate three million cubic meters of natural gas for heating every day;

**Fuel Gas Pipeline Infrastructure:** Fuel gas lines have been designed to deliver natural gas from the facility to drillings rigs, which reduces diesel usage, and to pads to aid in the artificial lift strategy in the production phase of a well;

**Flowback Pipeline Infrastructure:** Water lines will be installed to all planned well pads to reduce water trucking and increase water recycling for hydraulic fracturing which reduces the freshwater requirements of a well; and

**High Efficiency Motor Design:** Variable frequency drivers that consume energy proportional to the load demand will be installed on all large and small process motors. This reduces overall energy consumption, especially when the equipment is not at full capacity.

# Safety

At ARC, we are committed to an injury-free workplace where safety is a top priority. The safety of our employees, contractors and the residents near our operations is an essential part of our values and culture and is a top priority.

Looking Back		Looking Forward
Highlights	Challenges	
<p>Strengthened our safety culture through the 'Why I Work Safe' and '5Ws of Safety' campaigns</p> <p>Expanded employee and contractor engagement, training and audit programs to reinforce ARC's focus on safety leadership</p>	<p>Ensuring that contractors understand ARC's safety culture and think about the 5Ws when performing tasks to further reduce contractor injury rates</p> <p>Managing the complexity of construction activities concurrent with existing operations</p>	<p>Integrating our management systems to better align health and safety, asset integrity, environment and regulatory compliance, to provide additional clarity and ensure accountability</p>



## Culture of Safety

Safety is everyone's responsibility. A commitment to safety starts at the top, with key executives helping to shape and champion ARC's processes. Their leadership influences each of our employees and contractors on the front line. Additionally, the Health and Safety (HSE) Committee of the Board takes part in periodic field visits to get a firsthand understanding of our safety culture.

In 2015, ARC launched the 'Why I Work Safe' campaign to increase safety awareness throughout the company. To demonstrate the importance of working safely we released a video of our President and CEO, Myron Stadnyk, and other executives sharing the

reasons why safety is essential to them. As part of the campaign, we held a contest encouraging employees and contractors to share their reasons for working safely. We received 70 submissions and selected the most powerful five. To read the selected stories, [click here](#).





Safety shouldn't be complicated. At ARC, we believe that asking oneself five simple questions before starting to work can set the stage for a safe operation. The '5Ws of Safety' reminds all employees and contractors of key considerations.

## 5 Ws of Safety

**What** am I doing today?  
**Who** else could be affected by my task?  
**What** could go wrong?  
**What** am I going to do about it?  
**What** do I have to lose?

As the complexity of our business increases and we perform concurrent operations on well pads, close coordination of people and companies is required. ARC intends to keep our focus on safety, even as timelines decrease and complexity increases.



## Employee and Contractor Safety

To achieve an injury-free workplace, we need everyone to take responsibility for his or her actions and ensure work is done in the safest manner possible. Working with ARC means working safely. In the past two years, to ensure we continually improve our safety performance, we have focused on:

- Understanding our safety performance;
- Tracking leading indicators;
- Training employees and contractors; and
- Selecting and working with premium contractors to improve their safety performance.

# Achieved ZERO

lost-time injuries for our employees in 2015



# Doubled

the number of safety inspections and audits from 2014

## Safety Performance

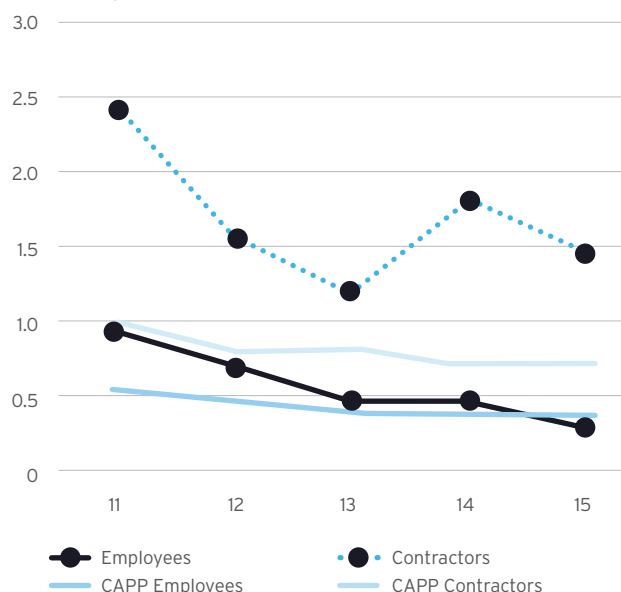
Measuring and understanding our safety performance is an important tool to achieve safety excellence. We track injury rates and incidents weekly and share them with employees and contractors through our HSE bulletin, and with the Board through quarterly reports. However, the key to improvement is to use that information to prevent future injuries. In 2015, we conducted an analysis of the last five years of incident data. We identified the primary types of injuries as slips, trips, falls and pinch points (i.e., places where it's possible for a body part to be caught, such as the space between moving machine parts). Another area requiring improvement is preventable

motor vehicle accidents. Based on these findings, we have targeted our communications and training with front-line workers on these three areas. Read more about our training efforts on page 29.

Historically, ARC contractors have higher incident rates than employees and we have concentrated on helping them improve and align their practices with our safety standards. In 2014 we saw a spike in contractor injury rates, which served as a catalyst for additional effort and focus on contractor engagement, training and audits. Read more about how we work with contractors on page 30.

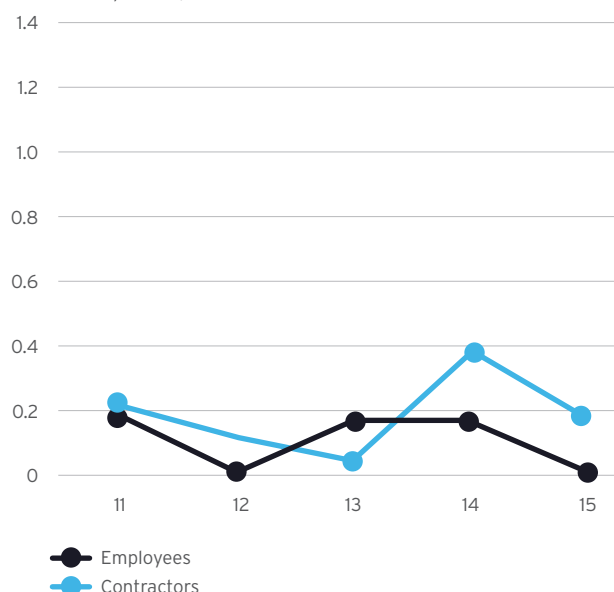
### Recordable Injury Rates

Cases per 200,000 Hours Worked



### Lost-Time Injury Rates

Cases per 200,000 Hours Worked



The increase in 2014 contractor rates was partially due to a higher portion of our worked hours tied to capital activity (e.g., drilling, construction) that typically results in higher injury rates.

In 2015, we achieved zero lost-time injuries for our employees. Despite improvements in 2015, we are not satisfied with our contractor injury rates and will continue our training, auditing and other efforts to achieve our goal of an injury-free workplace.



ARC tracks near misses and identifies hazardous conditions as a means to proactively address underlying issues before they result in injuries. In the past year, we have doubled the number of identified hazards and near misses (leading indicators) while significantly reducing incidents, lost-time injuries, and medical aid or restricted work cases (lagging indicators).

### Leading Indicators

In the past few years ARC has implemented a more proactive safety model using leading metrics, which include training sessions, inspections, audits and safety IQ in the field. In 2015, we:

- Completed 277 field visits, which provide the opportunity to review the application of our program at the field level, establish relationships with our representatives and contractors, gather feedback from front-line users and identify opportunities for improvement;
- Doubled the number of inspections and audits from 289 in 2014 to 580 in 2015; and
- Conducted 58 surveys of employees and contractors to measure their safety IQ. We ask employees and contractors whether they can recall the 5Ws, how often they use them before starting to work, if they are aware of ARC's areas of focus on pinch points, slips, trips and falls, and how they are actively using the tools and resources provided. Survey results have highlighted the engagement of our contractors and employees in embracing these new tools and integrating them into how they conduct their daily work.

### Safety Training

Training is one of the avenues we have to close the gap between current and desired safety behaviour. In the past two years, we provided the following training programs:



LTI  
11

Medical Aid/  
Restricted Work  
42

Incidents  
342

Near Miss + Hazard  
Identification  
6,322

↓ 73%

↓ 45%

↓ 22%

↑ 111%



LTI  
3

Medical Aid/  
Restricted Work  
23

Incidents  
270

Near Miss + Hazard  
Identification  
13,354

**Consultant Workshop:** Front-line consultants manage our contractors in the field. These consultants act as an intermediary between ARC and our contractors, and make sure work is performed according to our specifications in a safe manner. In 2014 and 2015, ARC held safety workshops for our consultants. For each of the past two years, approximately 150 consultants attended the day-long training.

**Safety Coaches in the Field:** In 2015, ARC provided safety coaches to our front-line consultants to instil true ownership of safety at the field level. Coaches spent a total of 102 days in 2014 and 188 days in 2015 mentoring on site.

**Asset Investigation Training:** In 2014, 65 ARC employees attended this training. **TapRoot** is a two-day comprehensive course aimed at teaching personnel how to identify and fix the root cause of incidents and near misses.

**Hazardous Assessment Training:** 710 of our employees and contractors attended this two-hour course on identifying conditions that could lead to incidents, as well as determining and implementing controls.

**Driver Training:** To help combat an increasing trend in preventable motor vehicle accidents (PMVA) we provided driver training to 99 employees in 2014 and 95 in 2015. The purpose of this day-long training was to create awareness and teach defensive driving skills. We reduced the rate of PMVAs per million kilometers from 1.90 in 2014 to 1.72 in 2015.

## Working with Contractors

Contractors perform the majority of our work related to capital activity in the field. In 2015, contractors performed 73 per cent of the 4.5 million hours we worked. For that reason, it is important that contractors share ARC's strong commitment to safety. In the past year, we have:

- Held numerous face-to-face meetings with senior management from our key contractors to review their safety programs, initiatives and performance. These meetings have allowed ARC and our contractors to build strong relationships and share best practices and learnings;
- Changed our contractor pre-qualification process to review and identify the health and safety programs that contractors have in place. ARC now uses **ISNetworld**, a database that tracks safety performance of more than 60,000 contractors worldwide;
- Engaged 360 contractors to share lessons learned in a half-day event. We hold a similar event annually;
- Conducted 75 contractor spot audits in 2015; and
- Conducted a half-day workshop with trucking contractors to help them understand and comply with the update to the Transportation of Dangerous Goods regulation.

## Asset Integrity

By considering asset integrity throughout the lifecycle of our operations, we believe we can reduce the risk of our operations, be a better operator, and build credibility with our neighbours and stakeholders as a trusted partner. ARC's approach to the full asset integrity lifecycle is outlined below:

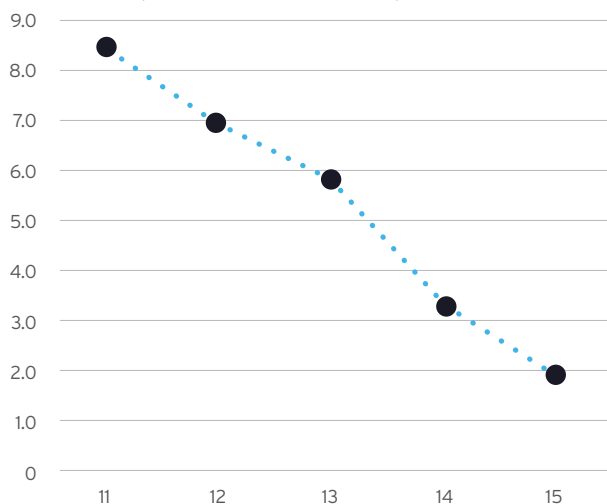


By incorporating asset integrity considerations into decisions at the design stage, ARC realizes multiple benefits, including improved efficiency of maintenance activities, thereby reducing downtime. ARC's asset integrity programs address all of our facilities, pipelines and pressure equipment. We manage more than 8,000 kilometers of pipelines. In 2015 we conducted 13 in-line pipeline inspections and 14 in 2014.

These inspections provide valuable information to determine fitness for continued service and ensure the integrity of our pipeline systems. Beyond spills, we track a variety of pipeline-related incidents. In 2015, we achieved our target rate of less than three incidents per thousand kilometers of pipeline that we manage.

### Pipeline-Related Incident Rate

Incidents per Thousand Kilometers of Pipeline



In the past five years we have reduced the rate of pipeline-related incidents by more than 75 per cent due to our focus on inspections and overall asset integrity.

Across our operations, ARC is taking steps to improve pipeline integrity. One example is in the Redwater area, where we inserted high-strength, composite pipeline liners in 2015 to significantly improve the integrity of the existing pipeline system. This approach allowed ARC to realize benefits while minimizing the land disturbance that would have resulted from pipeline replacement. In addition to extending the life of the assets, the high-strength, composite liners eliminate issues with corrosion, which are common in the area as parts of the Redwater field have been in operation for more than 60 years.

ARC operates approximately 7,500 pieces of pressure equipment (e.g., separators, exchangers). We have a KPI that tracks the percentage of pre-failure inspections (i.e., inspections where we find the potential for an incident to occur and correct or repair the equipment before it fails in-service). Our target is to have pre-failure inspections comprise at least 75 per cent of our inspections. In 2014, we met our target, and in 2015, we exceeded our target, achieving 87 per cent.

### Emergency Preparedness

Our primary focus is to prevent incidents from occurring. However, in the event of an emergency, ARC is prepared to effectively respond and manage the situation. We have emergency response plans in place that outline procedures for protecting the safety of the public, the environment and our people. To ensure our team is well prepared to respond to emergencies, we conduct table-top training and full-scale, in-person exercises in the field.

Emergency Response Training	2014	2015
Number of Participants	345	379
Table-top Exercises	6	11
Full Scale Field Exercises	6	5

### Looking Forward

Safety excellence is an ongoing journey and in the next few years, ARC will focus on:

Integrating our management systems to better align health and safety, asset integrity, environment and regulatory;

Further capturing best practices for broad sharing and application; and

Extending safety coaching to numerous employee levels.



# Our People

ARC fosters a work environment where employees can be their best. We are focused on creating an environment where our people are motivated, engaged and excited to come to work at ARC.

Looking Back		Looking Forward
Highlights	Challenges	
Achieved strong results in the annual employee engagement survey	Promote leadership and technical development of employees	Continue to enhance internal communications
Realized high participation in our employee mentorship program	Ensure access to top talent	Promote increased skills development among local talent in northeast British Columbia

## ARC's Culture

At ARC, we believe that having the right people, combined with our high-performance culture, is the key to ARC's long-term success. Since inception, ARC has been deliberate in communicating a clear vision and living by strong values. In everything we do, we emphasize our core values of respect, integrity, trust and accountability. Our culture is based on leadership, performance, learning and doing. Our workplace practices centre on achieving high levels of employee engagement that drive superior results.

## Employee Engagement

We believe that employees will deliver their best and excel in their performance when they are engaged at work and genuinely care about ARC and its success. An engaged workforce has a direct impact on superior long-term business results. Since 2004 we have conducted an annual company-wide employee engagement survey - The Strength of the Workplace. In 2014 and 2015, ARC received a 90 per cent engagement core. This is an outstanding result, especially when compared

with Gallup's benchmarking data that indicates 'world-class' organization engagement levels are 67 per cent and an 'average' organization typically receives around a 30 per cent engagement score.

Another important element of our annual Strength of the Workplace Survey is that employees are encouraged to provide written comments. ARC's management diligently reviews these comments and implements change based on the feedback provided by the employees. In 2015 our employees told us that developing strong leaders is important. In response, we provided training to support our supervisors in their leadership development and to equip them with practical tools and resources to help them develop and empower their teams. Employees also told us that in these uncertain times they need more frequent communication about the health of our business. We responded with more frequent Town Halls, quarterly management updates, team meetings and web-based communication for employees.



Strength of the Workplace Survey Result Highlights

98%

I believe ARC is a responsible member of the community

96%

I understand ARC's vision and long-term strategy

95%

My team is committed to a high level of performance

93%

I have the opportunity to do what I do best at work



## Promoting Mental Health

A core commitment for ARC is to provide a healthy work environment where employees can be their best. We have initiatives and practices in place that support the overall health of our employees. In 2015, ARC partnered with the national charity Partners for Mental Health to conduct a company-wide mental health campaign to educate employees on the importance of mental health and promote the resources available for our employees. The main goal of the Not Myself Today campaign was to reduce the stigma associated with mental health by encouraging dialogue around mental illnesses the same way we would discuss any other illness.

Watch ARC's Not Myself Today video, where employees across the company share why this issue is important to them.

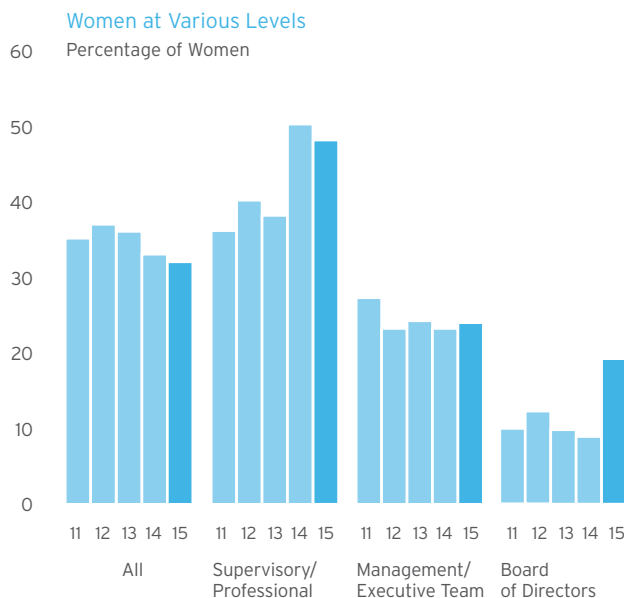


## Attracting, Retaining and Developing our People

At ARC, we believe that attracting and retaining high-performing talent is crucial to our long-term success.

Our hiring decisions are based on finding the best individual as determined by skillset, related experience and business requirements. It is also imperative that employees joining ARC fit our high-performance culture and share our core

values. We do not differentiate by race, colour, ethnicity, religion, gender, sexual orientation or any other aspect. Although we do not have quotas based on gender, or any other consideration, we believe that a diverse team with a wide range of expertise and backgrounds brings valuable insight and enhances collective decision-making processes.



ARC monitors workforce data based on gender as well as age to ensure our workforce is well balanced.

We are pleased to see that women fill almost half of the supervisory/professional positions at ARC.

As well, investment in students and new graduates is important for our industry and for our organization. At ARC, students and new graduates are provided tangible learning and development opportunities, as they work on meaningful projects and learn alongside industry experts. Despite the current industry downturn, we continued our summer student and co-op programs, hiring 37 students in 2015.

Consistent with our learning culture, we are focused on developing employees in technical and leadership skills. Avenues for employees to participate in learning and development opportunities include external training programs, cross-functional role changes, stretch assignments, mentoring, and in-house courses and programs.

Highlights of our learning and development activities in the past two years include:

- In 2014 and 2015, we invested \$1.8 and \$1.7 million, respectively, in training our employees. We also provide tuition reimbursement for our employees.

- In 2015, we created cross-functional role changes for 34 employees and made 11 internal promotions. In 2014, we created cross-functional role changes for 58 employees and made 19 internal promotions.
- In 2015, 25 supervisors completed a Supervisory Training Series, which focused on leadership development, effective team management and how to develop and empower teams.
- ARC has offered a voluntary mentorship program since 2007. In 2015 we had 289 participants and 147 mentorship pairs. This represents almost half of our total workforce (46 per cent). In 2014, we had 296 employees participating and 150 mentorship pairs.
- Our management team participates in an annual retreat focused on enhancing our collective knowledge in leadership and our business.

An important measurement of our success in retaining talent is voluntary turnover. We are pleased with our consistently low employee voluntary turnover rate, which was 2.8 per cent in 2015 and 3.8 per cent in 2014.

## Looking Forward

To sustain our engaged workplace and ensure ongoing business success, we are committed to the following:

**Creating learning and development opportunities for employees to deepen their understanding of ARC's business and the oil and gas industry;**

**Building upon existing communication processes and leveraging technology to ensure communication timing helps employees feel informed;**

**Continuing our best practices of sharing our vision and long-term plans to ensure employees are confident with the direction of ARC's future; and**

**Ensuring we are retaining our top talent and preserving our unique high-performance culture.**

# Community

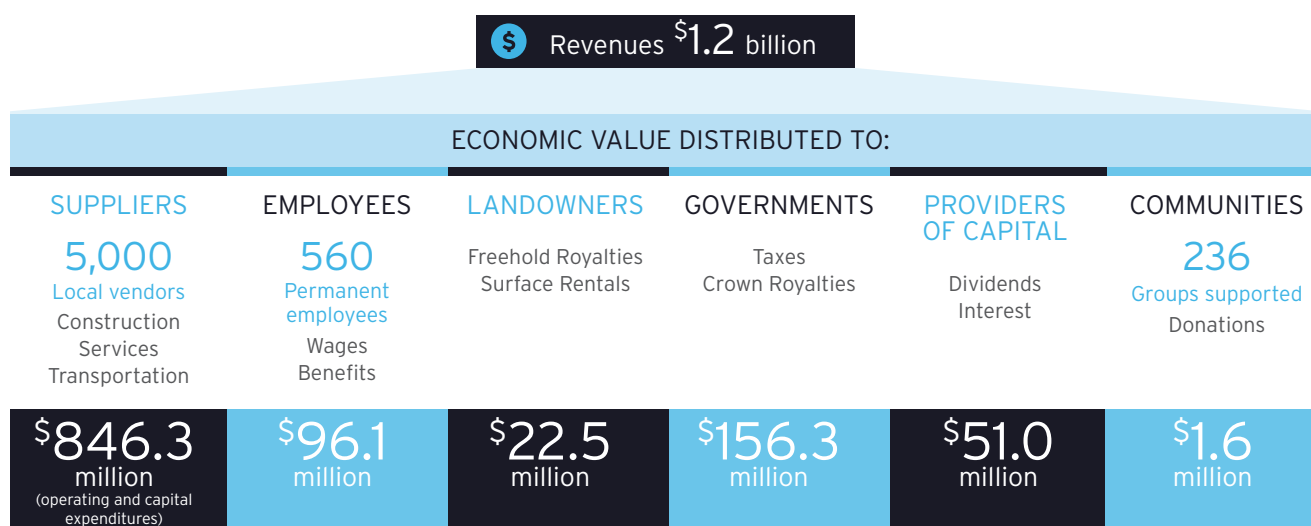
We live, work and play where we operate, and as such, we care about the safety and prosperity of all our communities. ARC's success as a profitable oil and natural gas producer reaches beyond our organization, contributing to the creation of vibrant and prosperous communities and touching thousands of lives every day.

Looking Back		Looking Forward
Highlights	Challenges	
<p>Worked with more than 5,000 local vendors across our operations</p> <p>Generated more than 2.2 million hours of employment in British Columbia in 2015</p>	<p>Maintaining local hiring and procurement levels in competitive industry environment</p> <p>Managing truck traffic and noise associated with new development in key operating areas</p>	<p>Enhancing stakeholder communications surrounding ARC's strategy and development plans</p> <p>Implementing a new landowner communication tracking tool</p>

## Economic Contribution

ARC supports the creation of strong communities through economic activity. We generate and distribute wealth with a variety of stakeholders. ARC contributes to provincial and national economies by creating employment, both permanent

and temporary, enabling the growth of our suppliers and contractors, and paying taxes and royalties to governments. The following is a snapshot of some of our economic contributions in 2015:





Generated more than

2.2

million hours of employment  
in British Columbia



Worked with approximately

5,000

local vendors

#### Job Creation in Western Canada

Across our portfolio, ARC works with approximately 5,000 local vendors every year. As our operations continue to grow we have set the goal to formalize and standardize company-wide procurement processes to ensure more efficient management of local vendors and contractors.

ARC has been an active producer in northeast British Columbia since 2003. Production from our BC assets constituted approximately 60 per cent of our 2015 total annual average production, and the area is the location of the majority of our new development. Today, ARC is the region's third largest producer with operations spanning from south of Dawson Creek to north of Fort St. John. ARC aims to work with local suppliers wherever possible, and through our operations we contribute to meaningful job creation.

In 2015 alone, ARC projects generated more than 2.2 million hours of employment in British Columbia. Over the past three years, we have paid \$280 million to B.C. based companies. Future development projects are expected to present additional meaningful employment opportunities.

#### Impact on Communities and Landowners

In all interactions with community stakeholders and landowners, ARC's employees are expected to abide by our core values of respect, integrity, trust and accountability. In our daily operations and the development of our assets, we interact directly with many stakeholders. It is always our goal to maintain positive relationships based on trust and honesty. Responding to stakeholder concerns in a timely manner is one way we build trust.

Through ongoing communications with landowners, ARC aims to identify and rectify key issues. A challenge we face across our operations is the management of truck traffic. This is especially true during periods of new development and construction, which is often carried out alongside existing operations. To manage this issue, we work with landowners to schedule truck timelines and routes, and proactively phase project development timelines where possible to minimize disturbance. For example, we have changed a truck route that increases driving distance for our employees, but is safer and reduces nuisance. To read of other ways we protect surrounding communities, see our section on public safety and emergency preparedness on page 31.



## Community Investment

A strong spirit of giving is an important part of ARC's culture. From the corporate level to employee initiatives, a culture of giving back to communities through financial support and volunteerism is embraced. We believe we can contribute to the wellbeing of the communities where we operate by supporting programs in education, health and wellness, arts and culture, and other civic pursuits.

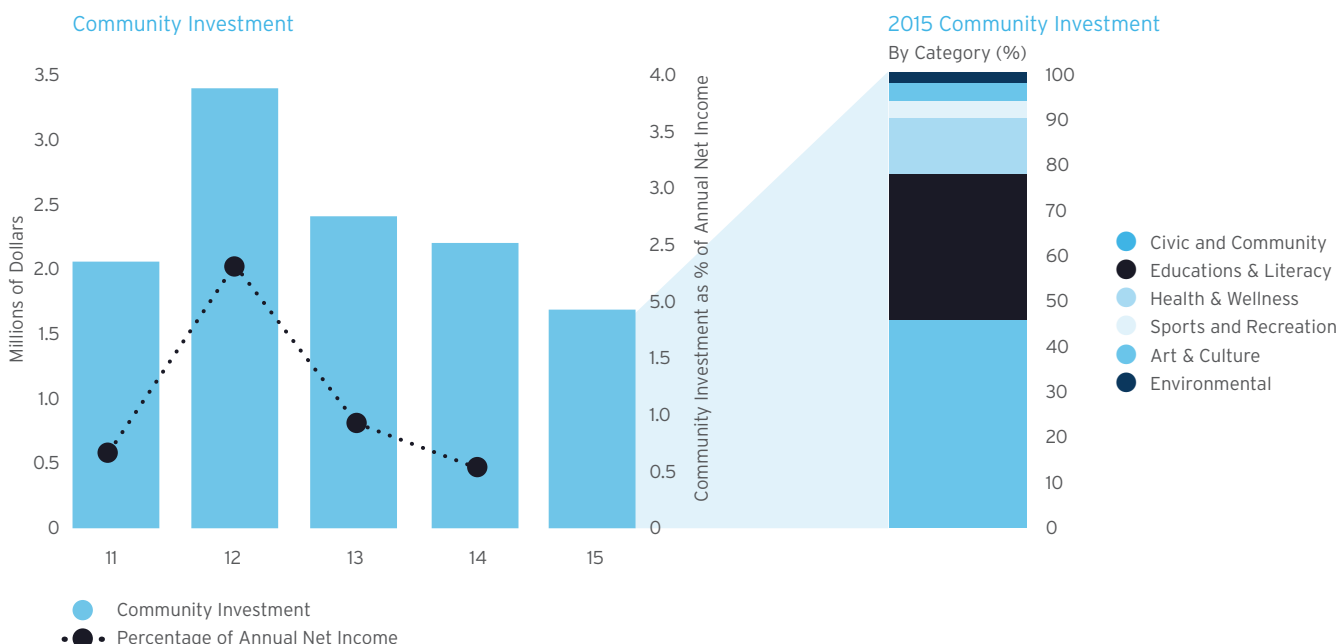
As our community partners and our employees roll up their sleeves together to support worthy causes, we develop stronger relationships and a lasting connection to our communities. ARC's strategic priorities in community investment support the needs, as identified by local groups, of the communities in which we operate. They also strengthen the volunteer efforts and charitable giving of our employees.



Donated

**\$1.6**

million to the  
community in 2015



The decrease in community investment in 2014 and 2015 reflects the lower commodity price environment in these periods. ARC targets to invest 0.5 per cent of our rolling three-year average net income in charitable organizations. We reported a net loss in 2015.

ARC aims to enter into multi-year commitments with select community partners. By engaging in longer commitments, organizations can effectively budget and optimize the reach of their services and programs, and move towards financially viable operating models. In recent years a large portion of ARC's contributions have been directed towards civic and community organizations.



## ARC Supports STARS

One of ARC's multi-year partners is the STARS Foundation, which provides emergency medical transportation and care to critically ill or injured patients across Alberta, Saskatchewan and Manitoba. The emergency air ambulance service provided by STARS provides a lifeline for those working and living in remote areas. ARC has been a proud supporter of STARS since 2004. In 2015, STARS conducted more than 3,400 missions.



## ARC's second largest area of contribution is education

ARC's second largest area of contribution is education. In our innovation-driven industry, ARC believes it is imperative to encourage the development of tomorrow's leaders. ARC supports multiple scholarship programs at Canadian post-secondary institutions and was a founding donor of the Canadian Centre for Advanced Leadership in Business at the University of Calgary's Haskayne School of Business.

Visit the [Community Investment](#) section on our website to learn more about some of ARC's key partnerships.

## Looking Forward

As ARC grows, we continue to adopt more formal processes to maintain our relationships with landowners and other stakeholders. In 2016, we will implement a new landowner communications-tracking tool that will allow us to monitor concerns, response times and trends.

We will aim to continue improving stakeholder communications through multiple platforms, such as one-on-one dialogue, annual and quarterly disclosure, corporate website and social media.

# Performance

	UNITS	2011	2012	2013	2014	2015
Production	boe/d	83,416	93,546	96,087	112,387	114,167
<b>ENVIRONMENT</b>						
Direct Energy Consumption	GJ	8,554,136	9,361,557	9,082,501	10,963,442	10,504,502
Production Energy Intensity	GJ/m <sup>3</sup> OE	1.78	1.74	1.66	1.79	1.67
<b>Greenhouse Gas Emissions</b>						
Direct	CO <sub>2</sub> e tonnes	506,467	572,777	642,890	763,457	727,207
Indirect	CO <sub>2</sub> e tonnes	393,817	426,087	402,479	390,485	351,649
Intensity	tonnes CO <sub>2</sub> e /m <sup>3</sup> OE	0.188	0.180	0.191	0.188	0.171
Flared Gas	thousand m <sup>3</sup>	38,316	47,816	43,987	36,596	32,327
Vented Gas	thousand m <sup>3</sup>	637	959	1,746	2,071	2,813
Solution Gas Conservation Rate	percent	94.9	93.6	94.8	96.4	96.5
Sulfur Dioxide (SO <sub>2</sub> )	tonnes	2,521	3,100	2,979	3,313	3,082
Methane	tonnes	NPR	NPR	NPR	11,816	11,046
Nitrogen Oxides (NO <sub>x</sub> )	tonnes	NPR	NPR	NPR	NPR	3,049
<b>Water</b>						
Fresh Water Withdrawal	m <sup>3</sup>	813,546	934,264	817,214	1,184,808	1,393,099
Fresh Water Used in Montney	m <sup>3</sup>	NPR	NPR	NPR	543,146	715,936
Non-Fresh Water Withdrawal	m <sup>3</sup>	1,106	9,830	32,842	13,602	91,934
Saline Recycled	m <sup>3</sup>	NPR	NPR	NPR	90,008	119,313
Disposal Water	m <sup>3</sup>	NPR	NPR	NPR	14,667	21,489
<b>Reclamation</b>						
Number of Producing Wells (Gross)	wells	16,320	10,651	10,520	8,875	2,923
Number of Non-Producing Wells (Gross)	wells	1,984	1,773	1,606	1,502	725
Active Reclamation Ongoing	wells	271	274	235	173	206
Certificates Received	wells	5	8	8	21	28
<b>Spills and Leaks</b>						
Number of Reportable Spills <sup>1</sup>	count	73	58	67	47	24
Reportable Non-Pipeline Spills	count	23	17	24	33	12
Reportable Pipeline Spills	count	50	41	43	14	12
Total Volume of Reportable Spills	m <sup>3</sup>	1,023.5	575.9	1,068.4	781.1	304.6
Volume of Non-Pipeline Spills	m <sup>3</sup>	202.2	309.1	681.7	674.5	156.0
Volume of Pipeline Spills	m <sup>3</sup>	821.3	266.8	386.7	106.6	148.6
Pipeline Incident Rate	km	8.5	6.9	5.8	3.2	2.0
Number of Fines and Penalties	count	0	0	0	0	0
<b>HEALTH &amp; SAFETY</b>						
Lost-Time Frequency - Employee	cases per 200,000 work hours	0.19	0.00	0.16	0.16	0.00
Lost-Time Frequency - Contractor	cases per 200,000 work hours	0.21	0.11	0.04	0.37	0.18
Recordable Frequency - Employee	cases per 200,000 work hours	0.95	0.73	0.49	0.48	0.32
Recordable Frequency - Contractor	cases per 200,000 work hours	2.44	1.59	1.20	1.84	1.47
Fatalities - Employee/Contractor	count	0	0	0	0	0

	UNITS	2011	2012	2013	2014	2015
<b>SOCIAL</b>						
<b>Workforce Profile</b>						
Full-Time	count	511	523	542	578	556
Part-Time	count	23	24	24	25	4
Contractors and Temporary Employees	count	NPR	66	54	57	60
<b>Employees by Location</b>						
Field (Permanent)	count	NPR	220	230	257	243
Office (Permanent)	count	NPR	327	336	346	317
Field (Contractors and Temporary)	count	NPR	24	20	18	25
Office (Contractors and Temporary)	count	NPR	42	34	39	35
<b>Gender Diversity (Permanent Only)</b>						
Women in Workforce	percent	35	37	36	33	32
Supervisory/Professional Positions	percent	36	40	38	50	48
Management & Executive Team <sup>2</sup>	percent	28	24	25	24	25
Board of Directors	percent	11	13	11	10	20
<b>Employee Age Categories</b>						
30 Years and Under	count	NPR	NPR	NPR	NPR	114
30 to 50	count	NPR	NPR	NPR	NPR	339
50 Plus	count	NPR	NPR	NPR	NPR	107
Voluntary Turnover	percent	5.6	6.5	4.7	3.8	2.8
Total Spending on Training	\$	NPR	NPR	1,200,000	1,765,280	1,653,822
Average Spending per Employee	\$	NPR	NPR	2,120	2,927	2,953
<b>ECONOMIC</b>						
Revenues	million \$	1,438.2	1,389.4	1,624.3	2,107.7	1,193.7
Royalties	million \$	219.3	195.7	223.1	298.0	103.3
Capital Expenditures <sup>3</sup>	million \$	726.0	608.0	874.2	1,007.8	548.3
Dividends	million \$	344.0	357.4	374.0	380.2	410.5
Net Income (Loss)	million \$	287.0	139.2	240.7	380.8	(342.7)
Funds from Operations	million \$	844.3	719.8	861.8	1,124.0	773.4
Capital and Other Taxes	million \$	16.4	16.3	17.9	19.6	17.5
<b>Total Royalty and Lease Rentals</b>						
Canadian Royalties	million \$	219.3	195.7	223.1	298.0	103.3
Crown Royalties <sup>2</sup>	million \$	172.1	142.0	167.0	251.9	81.4
Freehold Royalties	million \$	22.4	24.4	26.6	22.9	11.0
Crown Surface Lease Rental	million \$	1.6	1.5	1.0	0.9	0.8
<b>Stakeholder Economic Benefits</b>						
Employee Payroll and Benefits <sup>4</sup>	million \$	97.0	117.4	128.5	119.7	96.1
Operating Expenses	million \$	295.3	321.8	338.7	364.2	298.0
Payments to Providers of Capital	million \$	NPR	NPR	NPR	47.3	51.0
Community Investment <sup>5</sup>	million \$	2.0	3.2	2.3	2.1	1.6

(1) These figures have been restated since the publication of our 2013 Sustainability Report to reflect more accurate data.

(2) The 2013 and 2014 figures have been restated since the publication of our 2013 Sustainability Report to reflect more accurate data.

(3) Excludes corporate acquisitions, land purchases and property acquisitions net of property dispositions.

(4) Total employee compensation costs included in the operating and general and administrative expense line items in the statements of income.

(5) Contributions to charitable and non-profit organizations.

\*NPR: Not Previously Reported

# GRI Index

We used the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines to help determine report content. The report contains Standard Disclosures from the Guidelines. For more information on the GRI please visit [www.globalreporting.org](http://www.globalreporting.org).

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# Forward-Looking Statements

This Sustainability Report 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 Sustainability Report may contain forward-looking information and statements pertaining to the following: ARC’s long-term water management plans throughout all of ARC’s properties and our northeast British Columbia Montney assets in particular, ARC’s ongoing engagement with stakeholders, plans for the replacement of ARC’s Redwater facility, the use of bi-fuel technology in our drilling and completions operations, ARC’s response to occurrences of induced seismicity, expansion of facilities for our Dawson assets and operations relating thereto (including waste heat recovery, flowback pipeline infrastructure, and high efficiency motor design), implementing management systems to better align health and safety, asset integrity, environment and regulatory functions, and engagement of employees and contractors.

The forward-looking information and statements contained in this Sustainability Report reflect several 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; results from drilling and development activities consistent with past results; the continued and timely development of infrastructure in areas of new production; 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; the continued availability of adequate debt and equity financing and cash flow to fund its plans and expenditures; including those risks identified in this Sustainability Report and in ARC’s public disclosure documents. 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 Sustainability Report 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 ARC’s plans regarding water management, facilities replacement and construction, and operations based on key learnings and experience gained through the design and implementation of such plans; changes in commodity prices; the early stage of development of some areas in ARC’s lands; the potential for variation in the quality of the applicable formation, changes in the demand for or supply of ARC’s products; unanticipated operating results or production declines; unanticipated results from ARC’s exploration and development activities; changes in tax or environmental laws, royalty rates or other regulatory matters; 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 ARC’s Annual Information Form and in this Sustainability Report).

The forward-looking information and statements contained in this Sustainability Report speak only as of the date of this Sustainability Report, 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.

We have adopted the standard of 6 Mcf:1 barrel when converting natural gas to barrels of oil equivalent (“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.



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