

February 28, 2014

Manitoba Innovation, Energy and Mines
Box 1359, 227 King Street West
Virden, Manitoba
R0M 2C0

Attention: Jennifer Abel, Chief Petroleum Engineer, Virden Office

RE: Annual Report – Enhanced Oil Recovery Project

As per section 73 of the Drilling and Production Regulations, ARC Resources Ltd. (“ARC”) as operator of an Enhanced Oil Recovery (EOR) project, is submitting an annual report for the Waterflood project in the Goodlands area of Manitoba (the “Project”).

The injection wells within this Project were originally drilled as Lower Amaranth producers, and were converted to water injectors between 2002 and 2004 to provide pressure support to offsetting new producers. Initial development in the Lower Amaranth utilized vertical wells, but ARC now drills horizontal wells as they are more economic with advances in drilling and completion techniques. ARC drilled and completed its first horizontal well within the Project, 00/1-15-001-24W1, in late 2010, with production beginning in January 2011. The unit development continued as follows:

- 2011 – 2 horizontal oil wells
 - 02/07-10-001-24W1
 - 02/11-11-001-24W1
- 2012 - 4 horizontal oil wells,
 - 103/07-10-001-24W1/00,
 - 103/11-11-001-24W1/00,
 - 102/12-11-001-24W1/00
 - 104/07-10-001-24W1/00

Water Injection continues to be a challenge, as injection pressures remain high, while injection continues to lag behind production. This, combined with increased production from infill drilling, has led to a drop in the overall VRR of the Project. In July of 2013 the 100/09-10-001-24W1 Injector was abandoned as we have not been injecting from this well since 2010. ARC has planned additional drilling of 4 horizontal wells in the Project for 2014 and is evaluating the feasibility of using horizontal injectors as a means of increasing water injection. As part of the 2014 drilling program, ARC is conducting

pressure surveys on the new wells in order to quantify the pressure support being provided by the injectors.

The following information, as requested by the Department of Innovation, Energy and Mines, is contained in this report, and will illustrate the current status of the project:

- a) the oil production rate, injection rate, GOR, and WOR during each month for each injection pattern and for the whole project;
- b) the cumulative volume of oil, gas, and water produced and fluid injected for each injection pattern and for the whole project at the end of the year;
- c) the monthly wellhead injection pressure for each injection well;
- d) a summary of the result of any survey of reservoir pressure conducted during the year;
- e) the date and type of any well servicing;
- f) calculations of the voidage replacement ratio on a monthly and cumulative basis for each injection pattern and for the project area;
- g) an outline of the method used for quality control and treatment of the injected fluid;
- h) a report of any unusual performance problems and remedial measures taken or being considered;
 - i. any other information that the operator or director considers necessary to evaluate the performance of the project such as, but not limited to, the following:
 - ii. discussion the overall performance of the EOR project;
 - iii. discussion of any trends in production or development; and
 - iv. discussion of comparison of current recovery against original forecasted recovery.

Should you have any questions, or require additional data, please do not hesitate to contact me by phone at 403 503 8716 or by email at kmccutcheon@arcresources.com

Sincerely,

Kate McCutcheon

Kate McCutcheon, P.Eng.

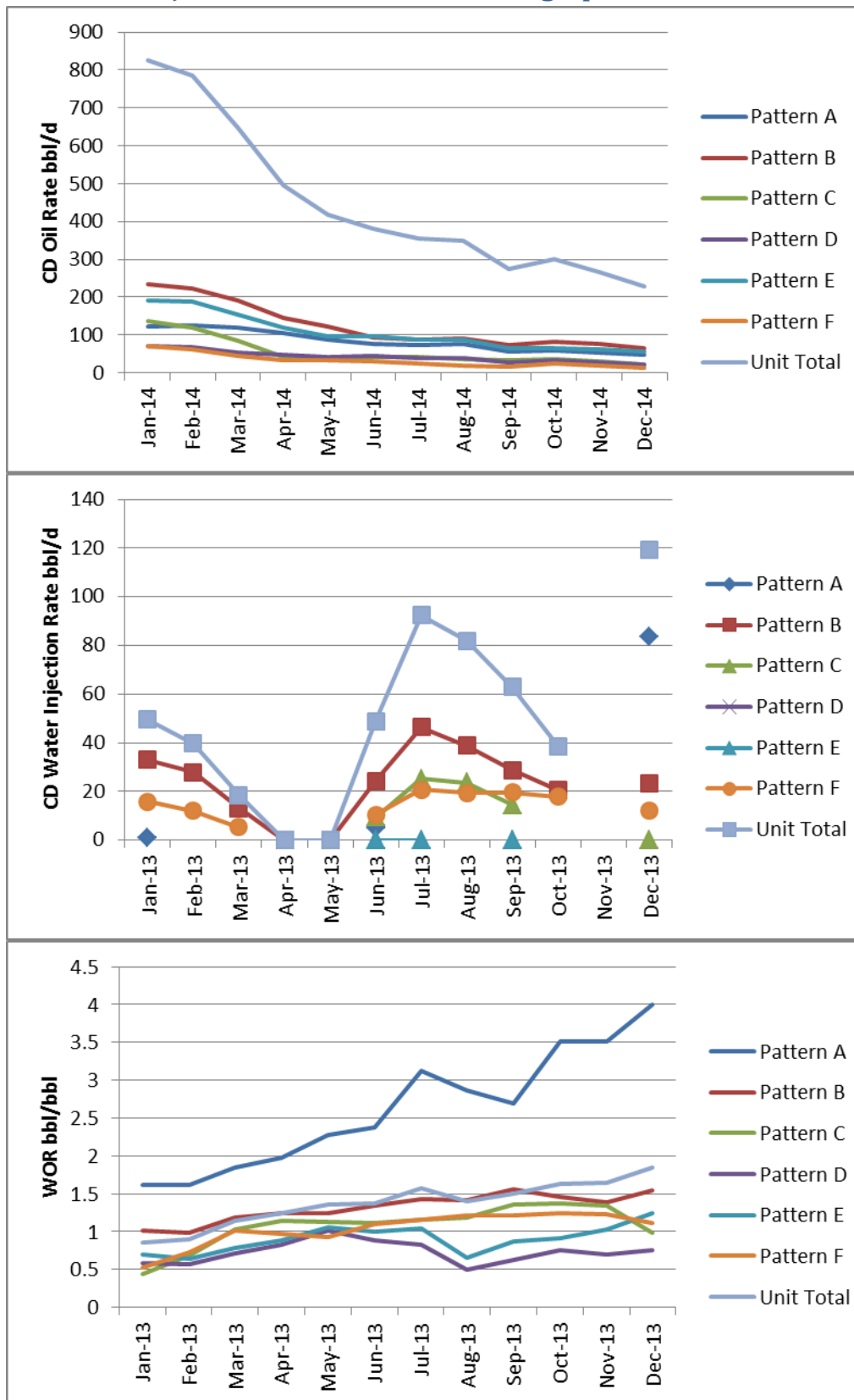
List of Attachments

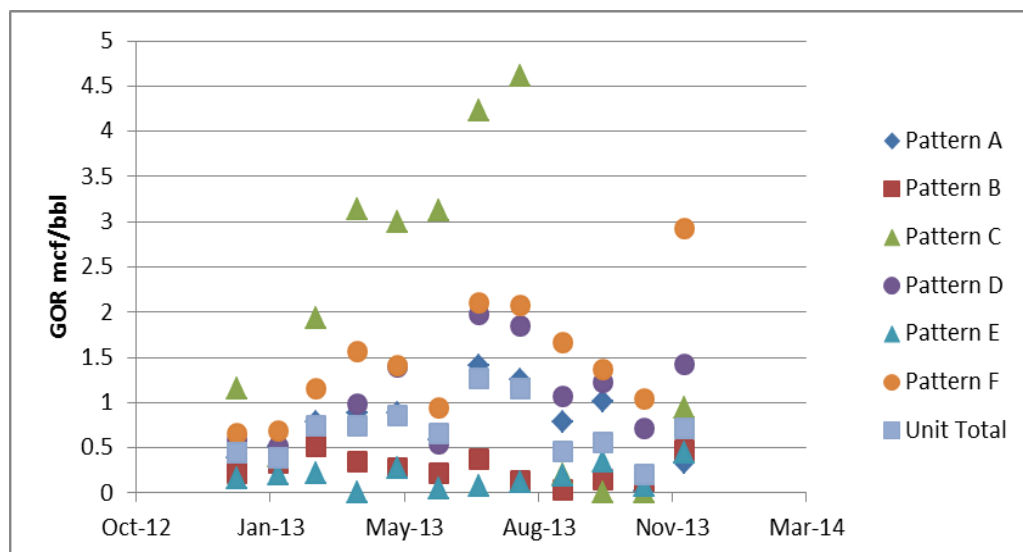
Attachment 1: Schematic of the Injection Facilities

Attachment 2: Map of the Water Flood including Patterns

Attachment 3: Allocation factors for Waterflood Patterns

A: Oil rate, injection rate, GOR and WOR in graphical form



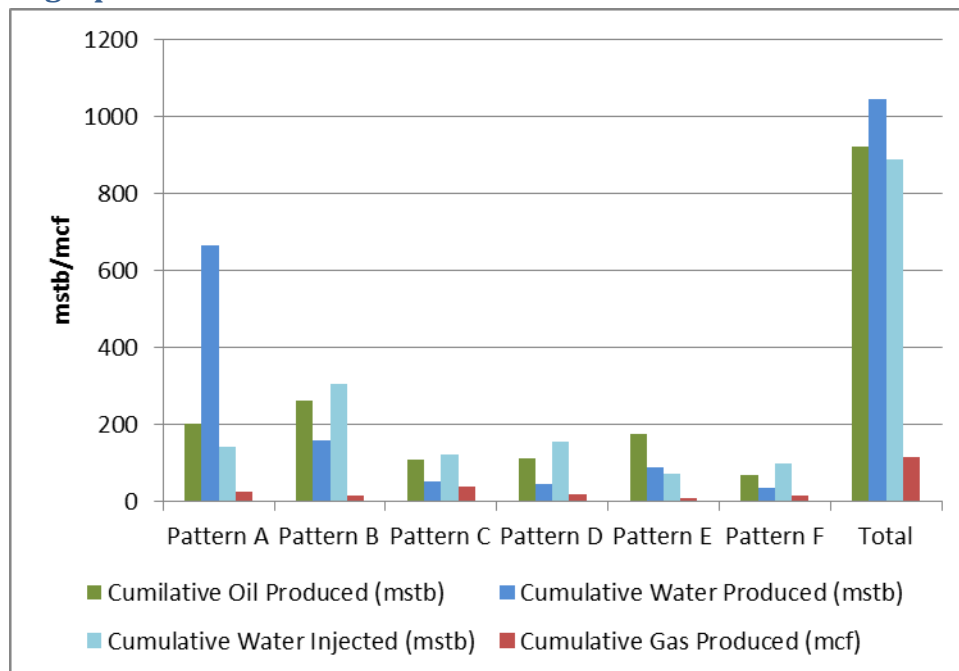


A: Oil rate, injection rate, GOR and WOR in tabular form

CD Oil Rate bbl/d							
Date	Pattern A	Pattern B	Pattern C	Pattern D	Pattern E	Pattern F	Unit Total
Jan-14	121.6	234.5	136.9	70.7	191.1	70	824.8
Feb-14	126.5	222	120.1	68.4	187.1	61	785.2
Mar-14	120.5	190.2	85.3	54.2	153.6	43.5	647.3
Apr-14	106.3	145.6	42.1	48.2	120.2	32.4	494.8
May-14	86.8	121.7	38.2	40.9	96.5	33.7	417.8
Jun-14	76.6	92.8	41.2	44.5	95.2	29.3	379.6
Jul-14	73.9	87.8	41.9	39	87.7	23.8	354
Aug-14	75.4	90.5	37.4	39	86.6	19.8	348.6
Sep-14	57.8	74.7	33.1	28.5	64	17.4	275.5
Oct-14	58.3	83.3	36.3	33.2	65.9	24.3	301.3
Nov-14	53.5	76.8	30.6	27.1	60.9	17.7	266.6
Dec-14	48.7	64.6	22.8	23	55.1	13.4	227.6
CD Water Injection Rate bbl/d							
Date	Pattern A	Pattern B	Pattern C	Pattern D	Pattern E	Pattern F	Unit Total
Jan-13	0.8	33.1				15.7	49.5
Feb-13		27.8				11.9	39.8
Mar-13		13.1				5.3	18.4
Apr-13		0					0
May-13		0					0
Jun-13	4.8	24.3	9.4		0	10.4	48.8
Jul-13		46.4	25.1		0	20.8	92.3
Aug-13		38.9	23.7			19.3	81.8
Sep-13		28.8	14.5		0.1	19.6	63
Oct-13		20.5				17.9	38.4
Nov-13							
Dec-13	83.6	23.4	0.1			12.1	119.2

WOR bbl/bbl							
Date	Pattern A	Pattern B	Pattern C	Pattern D	Pattern E	Pattern F	Unit Total
Jan-13	1.61	1.01	0.44	0.59	0.7	0.53	0.85
Feb-13	1.61	0.98	0.69	0.57	0.64	0.72	0.9
Mar-13	1.85	1.19	1.03	0.71	0.79	1.02	1.14
Apr-13	1.97	1.24	1.15	0.83	0.88	0.97	1.25
May-13	2.27	1.24	1.13	1.02	1.05	0.93	1.36
Jun-13	2.38	1.34	1.12	0.88	1	1.1	1.37
Jul-13	3.13	1.43	1.16	0.83	1.04	1.16	1.57
Aug-13	2.87	1.41	1.18	0.5	0.66	1.21	1.4
Sep-13	2.7	1.56	1.36	0.63	0.87	1.21	1.5
Oct-13	3.51	1.46	1.37	0.75	0.92	1.24	1.63
Nov-13	3.51	1.39	1.34	0.7	1.03	1.23	1.65
Dec-13	4	1.55	0.98	0.76	1.24	1.12	1.84
GOR mcf/bbl							
Date	Pattern A	Pattern B	Pattern C	Pattern D	Pattern E	Pattern F	Unit Total
Jan-13	0.39	0.22	1.15	0.59	0.16	0.66	0.45
Feb-13	0.51	0.33	0.4	0.52	0.21	0.68	0.39
Mar-13	0.78	0.51	1.93	0.74	0.22	1.16	0.74
Apr-13	0.89	0.34	3.14	0.98	0	1.56	0.75
May-13	0.89	0.27	3	1.39	0.28	1.41	0.85
Jun-13	0.59	0.22	3.12	0.55	0.05	0.94	0.66
Jul-13	1.41	0.37	4.23	1.98	0.08	2.11	1.27
Aug-13	1.25	0.14	4.61	1.85	0.12	2.07	1.16
Sep-13	0.78	0.04	0.2	1.07	0.19	1.67	0.46
Oct-13	1.01	0.15	0	1.22	0.34	1.37	0.56
Nov-13	0.02	0.13	0	0.71	0.08	1.04	0.2
Dec-13	0.33	0.47	0.94	1.43	0.45	2.92	0.72

B: Cumulative oil volume, cumulative water produced and cumulative water injected in graphical form



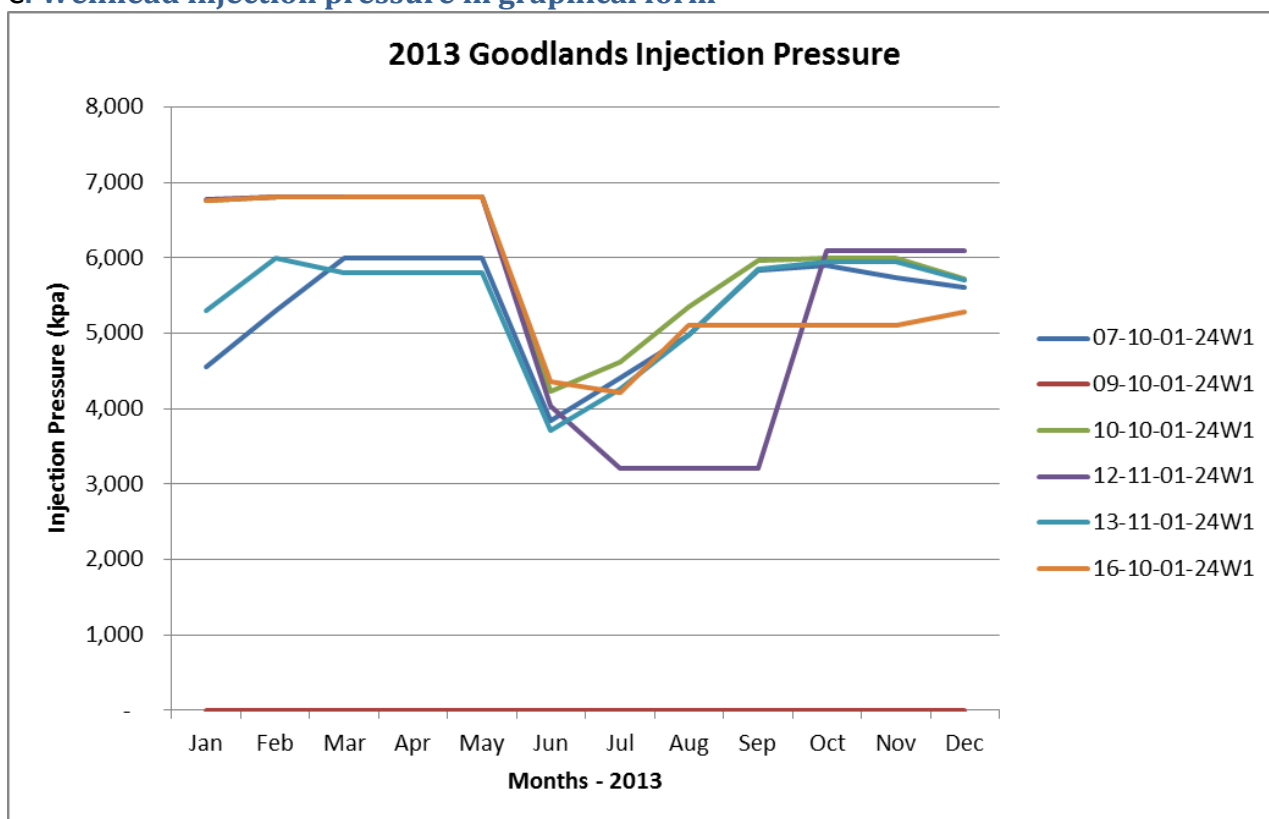
B: Cumulative oil volume, cumulative water produced and cumulative water injected in tabular form

Pattern	Cumulative Oil Produced (mstb)	Cumulative Gas Produced (mcf)	Cumulative Water Produced (mstb)	Cumulative Water Injected (mstb)
Pattern A	200.31	23.91	663.87	139.81
Pattern B	260.63	14.15	159.42	302.96
Pattern C	106.83	37.06	52.57	121.19
Pattern D	111.44	17.2	46.04	153.41
Pattern E	173.95	7.17	88.45	72.52
Pattern F	69	15.51	33.68	98.67
Total	922.17	115	1044.03	888.57

C: Wellhead injection pressure in tabular form

2013 Goodlands Unit Injection Pressure (kPa)						
	07-10-01-24W1	09-10-01-24W1	10-10-01-24W1	12-11-01-24W1	13-11-01-24W1	16-10-01-24W1
Jan	4,553	-	6,763	6,778	5,303	6,763
Feb	5,293	-	6,800	6,800	5,993	6,800
Mar	6,000	-	6,800	6,800	5,800	6,800
Apr	6,000	-	6,800	6,800	5,800	6,800
May	6,000	-	6,800	6,800	5,800	6,800
Jun	3,840	-	4,227	4,040	3,707	4,360
Jul	4,410	-	4,619	3,200	4,268	4,210
Aug	4,974	-	5,352	3,200	4,974	5,100
Sep	5,830	-	5,960	3,200	5,850	5,100
Oct	5,900	-	6,000	6,100	5,950	5,100
Nov	5,740	-	5,993	6,100	5,950	5,100
Dec	5,603	-	5,723	6,100	5,698	5,284

C: Wellhead injection pressure in graphical form



D: 2013 Reservoir Pressures and Flowing Pressures

In 2013 we collected several Flowing Tubing pressures and fluid levels to calculate the bottom hole flowing pressure. The results are shown in the following table:

UWI	Mode	Well Type	Date	Pwf (kPa)
104/07-10-001-24W1/00	Producing	Horizontal	1/20/2013	7,297
104/07-10-001-24W1/00	Producing	Horizontal	4/1/2013	1,538
104/07-10-001-24W1/00	Producing	Horizontal	4/20/2013	1,538
104/07-10-001-24W1/00	Producing	Horizontal	6/6/2013	5,506
104/07-10-001-24W1/00	Producing	Horizontal	8/28/2013	2,327
104/07-10-001-24W1/00	Producing	Horizontal	11/26/2013	1,815
102/05-11-001-24W1/00	Producing	Horizontal	1/20/2013	6,766
102/05-11-001-24W1/00	Producing	Horizontal	4/1/2013	2,066
102/05-11-001-24W1/00	Producing	Horizontal	4/20/2013	2,066
102/05-11-001-24W1/00	Producing	Horizontal	5/23/2013	2,957
102/05-11-001-24W1/00	Producing	Horizontal	6/6/2013	2,873
102/05-11-001-24W1/00	Producing	Horizontal	11/26/2013	2,390
102/12-11-001-24W1/00	Producing	Horizontal	1/20/2013	5,079
102/12-11-001-24W1/00	Producing	Horizontal	3/4/2013	5,076
102/12-11-001-24W1/00	Producing	Horizontal	4/1/2013	3,317
102/12-11-001-24W1/00	Producing	Horizontal	4/20/2013	3,317
102/12-11-001-24W1/00	Producing	Horizontal	6/12/2013	3,325
102/12-11-001-24W1/00	Producing	Horizontal	9/2/2013	2,695
102/12-11-001-24W1/00	Producing	Horizontal	11/26/2013	2,439
103/07-10-001-24W1/00	Producing	Horizontal	1/20/2013	954
103/07-10-001-24W1/00	Producing	Horizontal	3/4/2013	954
103/07-10-001-24W1/00	Producing	Horizontal	4/1/2013	1,142
103/07-10-001-24W1/00	Producing	Horizontal	4/20/2013	1,142
103/07-10-001-24W1/00	Producing	Horizontal	6/11/2013	1,143
100/01-15-001-24W1/00	Producing	Horizontal	1/20/2013	725
100/01-15-001-24W1/00	Producing	Horizontal	3/4/2013	725
100/01-15-001-24W1/00	Producing	Horizontal	4/1/2013	942
100/01-15-001-24W1/00	Producing	Horizontal	4/20/2013	942
103/11-11-001-24W1/00	Producing	Horizontal	1/20/2013	2,922
103/11-11-001-24W1/00	Producing	Horizontal	1/26/2013	2,922
103/11-11-001-24W1/00	Producing	Horizontal	3/11/2013	2,091
103/11-11-001-24W1/00	Producing	Horizontal	4/1/2013	915
103/11-11-001-24W1/00	Producing	Horizontal	4/20/2013	915
103/11-11-001-24W1/00	Producing	Horizontal	6/13/2013	901
102/11-11-001-24W1/00	Producing	Horizontal	1/20/2013	1,827
102/11-11-001-24W1/00	Producing	Horizontal	3/11/2013	932

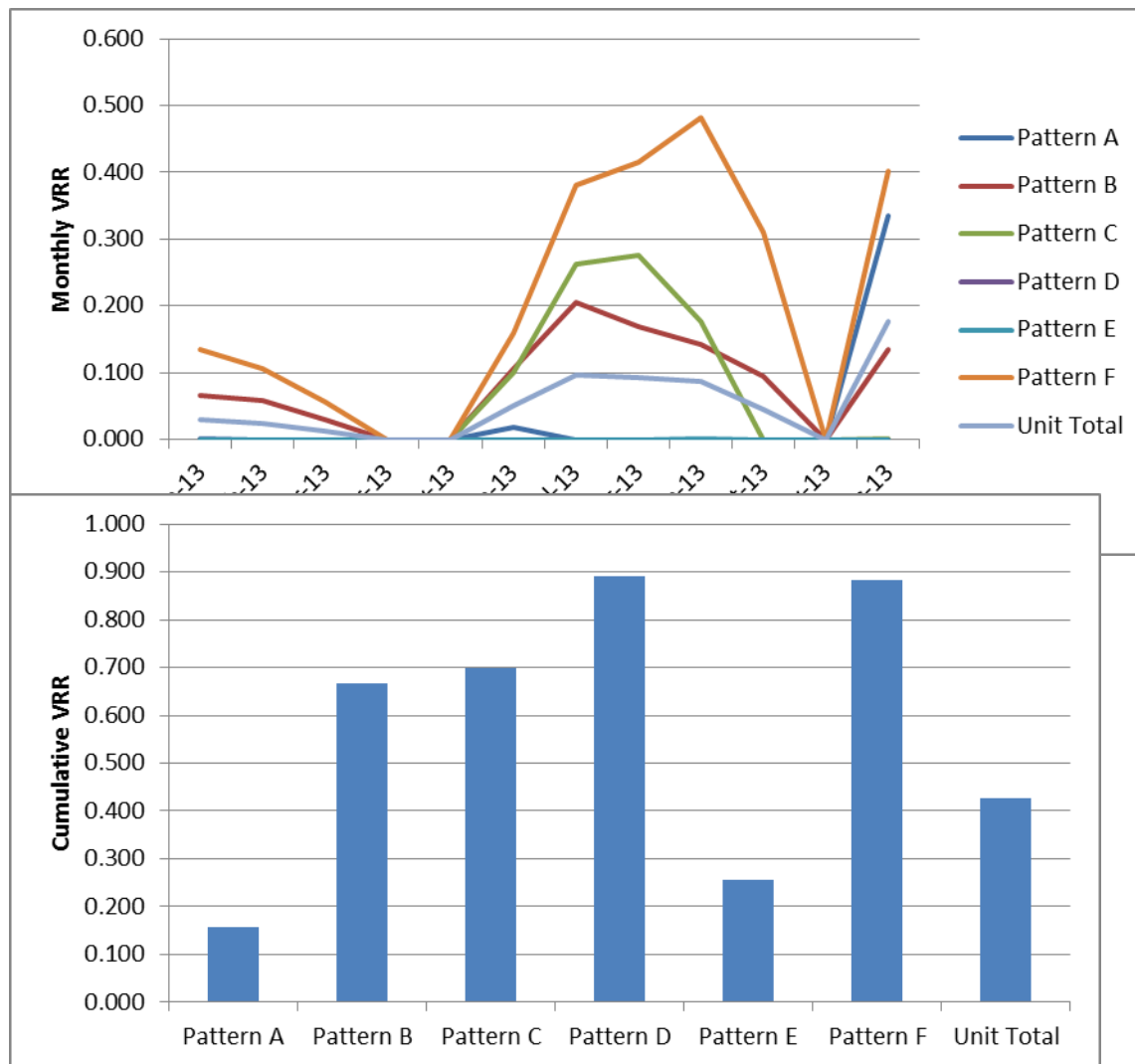
102/11-11-001-24W1/00	Producing	Horizontal	4/1/2013	955
102/07-10-001-24W1/00	Producing	Horizontal	1/20/2013	2,863
102/07-10-001-24W1/00	Producing	Horizontal	4/1/2013	698
102/07-10-001-24W1/00	Producing	Horizontal	4/20/2013	954
105/13-11-001-24W1/00	Producing	Horizontal	1/20/2013	5,183
105/13-11-001-24W1/00	Producing	Horizontal	3/4/2013	5,181
105/13-11-001-24W1/00	Producing	Horizontal	4/1/2013	5,181
105/13-11-001-24W1/00	Producing	Horizontal	4/20/2013	5,181
105/13-11-001-24W1/00	Producing	Horizontal	6/6/2013	2,447
105/13-11-001-24W1/00	Producing	Horizontal	8/29/2013	961
1B0/16-10-001-24W1/00	Pumping	Dir/Dev	3/31/2013	504
1B0/16-10-001-24W1/00	Pumping	Dir/Dev	4/3/2013	504
1B0/16-10-001-24W1/00	Pumping	Dir/Dev	4/20/2013	504
1B0/16-10-001-24W1/00	Pumping	Dir/Dev	6/12/2013	504
1D0/08-10-001-24W1/00	Pumping	Dir/Dev	1/20/2013	3,314
1D0/08-10-001-24W1/00	Pumping	Dir/Dev	3/31/2013	3,314
1D0/08-10-001-24W1/00	Pumping	Dir/Dev	4/3/2013	3,314
1D0/08-10-001-24W1/00	Pumping	Dir/Dev	4/20/2013	3,314
1D0/08-10-001-24W1/00	Pumping	Dir/Dev	11/26/2013	3,642
100/03-14-001-24W1/00	Producing	Vertical	1/20/2013	893
100/03-14-001-24W1/00	Producing	Vertical	4/1/2013	893
100/05-11-001-24W1/00	Producing	Vertical	1/20/2013	1,087
100/05-11-001-24W1/00	Producing	Vertical	4/1/2013	875
100/08-10-001-24W1/00	Pumping	Vertical	1/20/2013	1,486
100/08-10-001-24W1/00	Pumping	Vertical	4/1/2013	1,077
100/11-11-001-24W1/00	Pumping	Vertical	1/20/2013	640
100/11-11-001-24W1/00	Pumping	Vertical	4/1/2013	1,120
1A0/13-11-001-24W1/00	Producing	Dir/Dev	4/1/2013	569
1D0/13-11-001-24W1/00	Producing	Vertical	1/20/2013	231
1D0/13-11-001-24W1/00	Producing	Vertical	4/1/2013	218
100/14-11-001-24W1/00	Producing	Vertical	1/20/2013	1,373
100/14-11-001-24W1/00	Producing	Vertical	4/1/2013	1,373
100/15-10-001-24W1/00	Pumping	Vertical	1/20/2013	1,179
100/15-10-001-24W1/00	Pumping	Vertical	4/1/2013	937
1C0/16-10-001-24W1/00	Producing	Vertical	1/20/2013	1,549
1C0/16-10-001-24W1/00	Producing	Vertical	4/1/2013	1,064
1C0/08-10-001-24W1/00	Producing	Vertical	1/20/2013	677
1C0/08-10-001-24W1/00	Producing	Vertical	4/1/2013	562

E: 2012 Well Servicing Summary

UWI	Workover Date	Comment
104/07-10-001-24W1/00	9/5/2013	Pump Change
102/05-11-001-24W1/00	5/25/2013	Pump Change
103/07-10-001-24W1/00	6/13/2013	Pump Change
1B0/16-10-001-24W1/00	6/14/2013	Circulating Cleanout/Pump Change
100/14-11-001-24W1/00	6/20/2013	Annular Solvent Stimulation
100/14-11-001-24W1/00	9/17/2013	Annular Acid Stimulation
100/09-10-001-24W1/00	7/22/2013	Abandon Injection well

F: Voidage Replacement Ratio Calculations

Monthly VRR							
Date	Pattern A	Pattern B	Pattern C	Pattern D	Pattern E	Pattern F	Unit Total
Jan-13	0.002	0.066	0.000	0.000	0.000	0.135	0.030
Feb-13	0.000	0.059	0.000	0.000	0.000	0.106	0.025
Mar-13	0.000	0.030	0.000	0.000	0.000	0.057	0.013
Apr-13	0.000	0.000	0.000	0.000	0.000	0.000	0.000
May-13	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Jun-13	0.018	0.106	0.101	0.000	0.000	0.159	0.051
Jul-13	0.000	0.206	0.262	0.000	0.000	0.381	0.096
Aug-13	0.000	0.169	0.275	0.000	0.000	0.416	0.093
Sep-13	0.000	0.143	0.176	0.000	0.001	0.482	0.087
Oct-13	0.000	0.095	0.000	0.000	0.000	0.311	0.046
Nov-13	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Dec-13	0.335	0.135	0.002	0.000	0.000	0.402	0.177
Cum VRR	0.157	0.667	0.699	0.892	0.254	0.884	0.426



G: Quality Control and Treatment of the Injected Fluid

The current quality and treatment control for the injection water at Goodlands begins with a two phase filtering process. Filters are changed 2-3 times per week to ensure the water quality is maintained.

Phase 1: Fluid is filtered down to 10 microns.

Phase 2: Fluid is further filtered to 5 microns.

The operators monitor the water tanks to ensure there is no oil carryover. In the event that oil is noticed on top of the water, the tanks will be skimmed to ensure that the oil is not re-injected through the water injection wells.

Please see Attachment 1 for further details and specifications on the Injection system in place.

H: Unusual Performance Problems and Remedial Measures

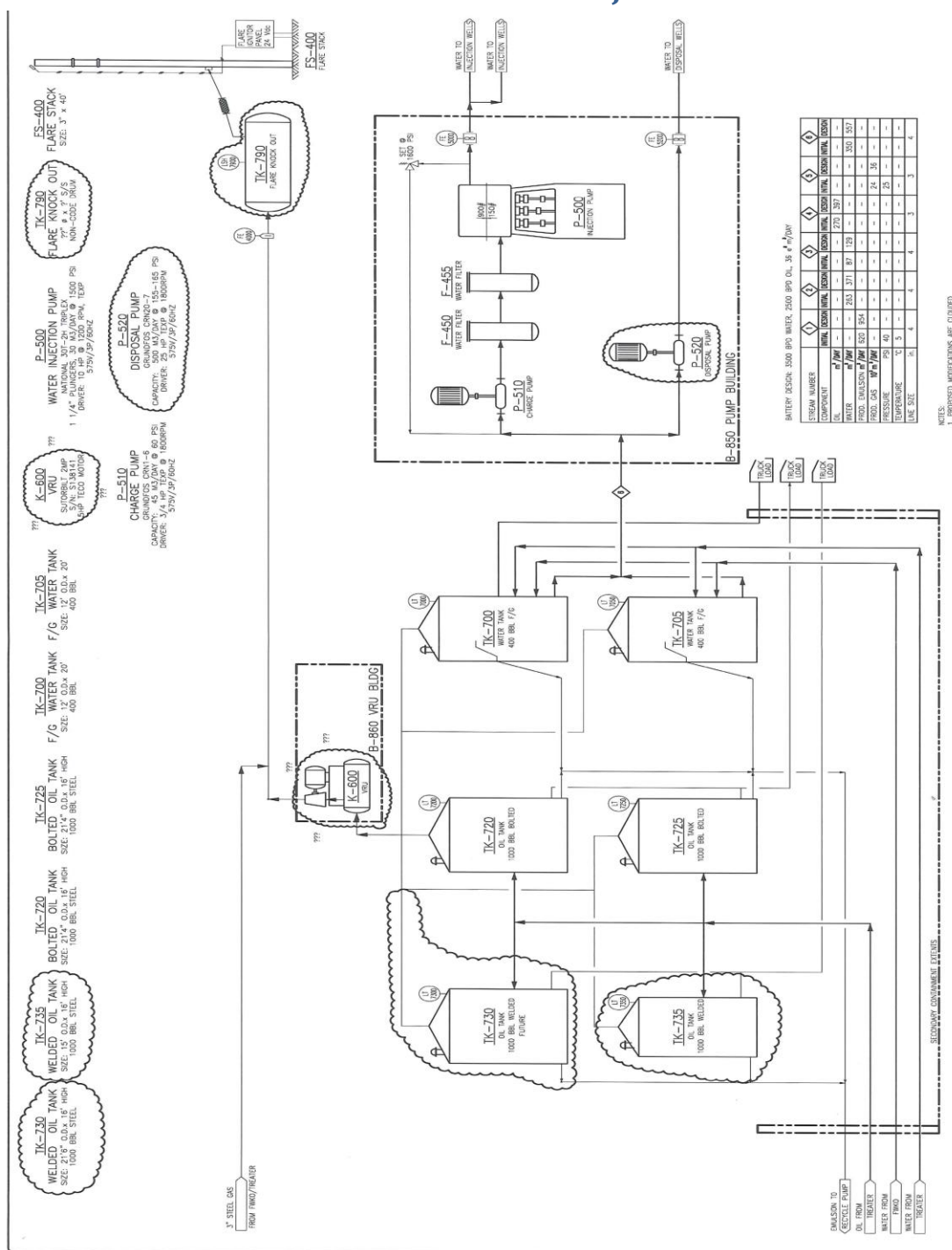
There are several factors that affect production in the area. The most challenging issues would be:

- Parraffin and asphaltene deposition in the flowlines, wellbores, and at the sandface
- Scale depostion in the wellbores and at the sandface
- Sand influx as a result of neighboring fracture treatments

Remedial methods used to address these issues include:

- Regular chemical batch treatments to combat parraffin and asphaltene deposition (most wells)
- Microbial treatments (bacteria) to combat parraffin buildup (102/07-10-001-24W1 & 100/11-11-001-24W1 are on bacterial batch treatment programs)
- Solvent stimulations for parraffin & asphaltene deposition (100/14-11-001-24W1 had an annular solvent stimulation in 2013)
- Acid stimulation to address scale deposition (100/14-11-001-24W1 had an annular acid stimulation in 2013)
- Circulating cleanouts to address sand influx issues (1B0/16-10-001-24W1 had a circulating sand cleanout in 2013)

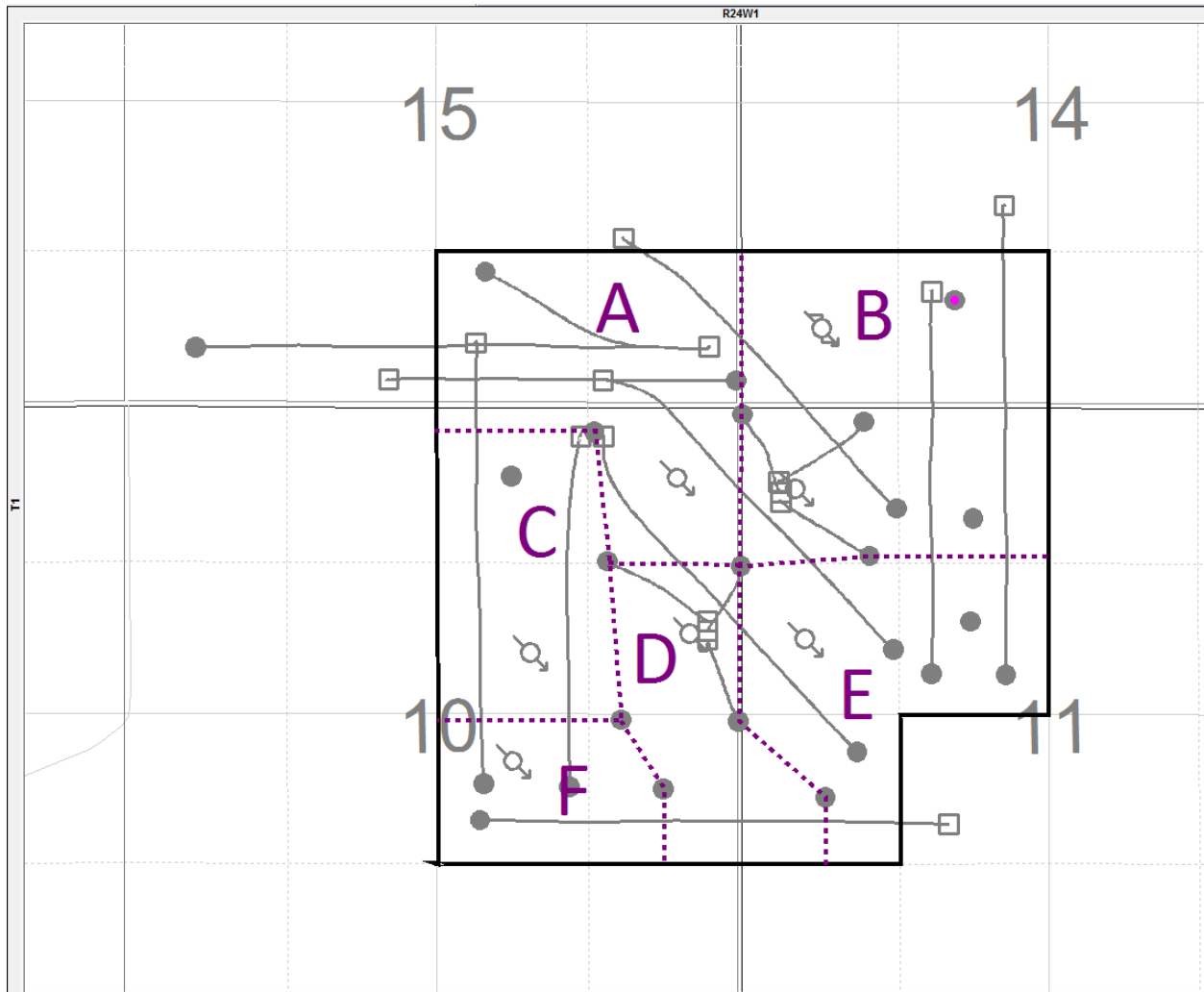
ATTACHMENT 1: Schematic of the Injection Facilities



CITES: PROPOSED MODIFICATIONS ARE CLOUDED

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ATTACHMENT 2: Map of the Water Flood including Patterns



ATTACHMENT 3: Allocation factors for Waterflood Patterns

	Allocation Factors						Total
	Pattern A	Pattern B	Pattern C	Pattern D	Pattern E	Pattern F	
100/01-15-001-24W1/00	1.00	-	-	-	-	-	1.00
100/02-15-001-24W1/02	1.00	-	-	-	-	-	1.00
100/03-14-001-24W1/00	-	1.00	-	-	-	-	1.00
100/04-14-001-24W1/00 *	-	1.00	-	-	-	-	1.00
100/04-15-001-24W1/00	1.00	-	-	-	-	-	1.00
100/05-11-001-24W1/00	-	-	-	0.50	0.50	-	1.00
100/07-10-001-24W1/00	-	-	-	-	-	1.00	1.00
100/08-10-001-24W1/00	-	-	-	0.50	-	0.50	1.00
100/09-10-001-24W1/00	-	-	-	1.00	-	-	1.00
100/10-10-001-24W1/00	-	-	1.00	-	-	-	1.00
100/11-11-001-24W1/00	-	-	-	-	1.00	-	1.00
100/12-11-001-24W1/00	-	-	-	-	1.00	-	1.00
100/13-11-001-24W1/00	-	1.00	-	-	-	-	1.00
100/14-11-001-24W1/00	-	1.00	-	-	-	-	1.00
100/15-10-001-24W1/00	-	-	1.00	-	-	-	1.00
100/16-10-001-24W1/00	1.00	-	-	-	-	-	1.00
102/05-11-001-24W1/00	0.25	-	-	0.25	0.50	-	1.00
102/07-10-001-24W1/00	-	-	-	0.40	0.20	0.40	1.00
102/11-11-001-24W1/00	-	0.75	-	-	0.25	-	1.00
102/12-11-001-24W1/00	0.33	0.33	-	-	0.34	-	1.00
103/07-10-001-24W1/00	0.30	-	0.50	-	-	0.20	1.00
103/11-11-001-24W1/00	-	0.67	-	-	0.33	-	1.00
104/07-10-001-24W1/00	-	-	0.75	-	-	0.25	1.00
105/13-11-001-24W1/00	0.25	0.75	-	-	-	-	1.00
1A0/13-11-001-24W1/00	-	0.50	-	-	0.50	-	1.00
1B0/16-10-001-24W1/00	0.33	-	0.34	0.33	-	-	1.00
1C0/08-10-001-24W1/00	-	-	0.33	0.34	-	0.33	1.00
1C0/13-11-001-24W1/00	0.50	0.50	-	-	-	-	1.00
1C0/16-10-001-24W1/00	0.50	-	0.50	-	-	-	1.00
1D0/08-10-001-24W1/00	-	-	-	0.50	0.50	-	1.00
1D0/13-11-001-24W1/00	-	1.00	-	-	-	-	1.00
1W0/09-10-001-24W1/00	0.25	0.25	-	0.25	0.25	-	1.00

* Allocation factor for this well changes to 0 Oct 1, 2010 - injector was converted to disposal well