ARC financialcorp
energy capital partners

ENERGY.
CAPITAL.
PARTNERS.

Oil and Gas Sustainability Report

NOVEMBER 2024

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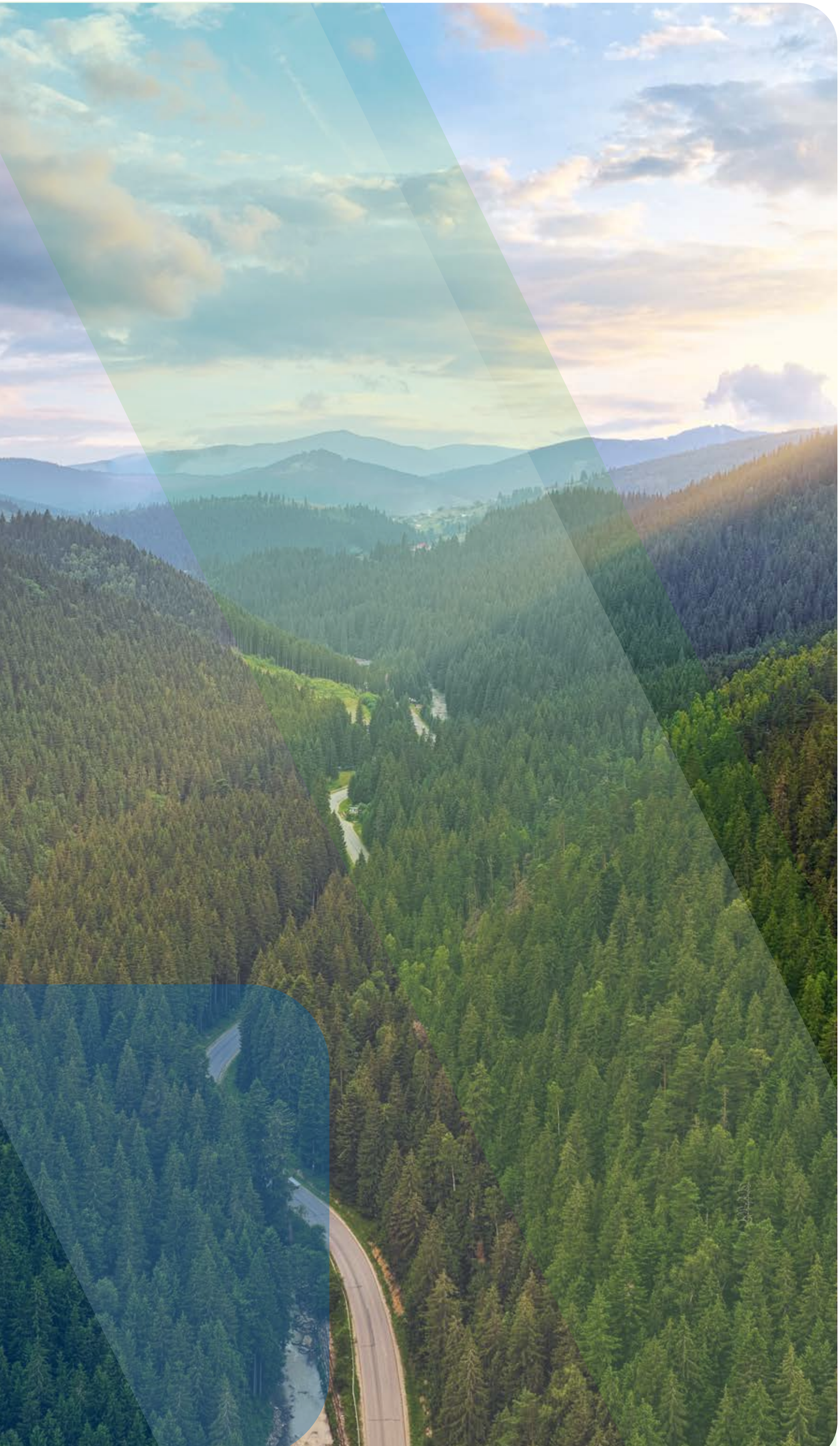


HIGHLIGHTS

of ARC's ESG Progress and Achievements

Nearly **40 %** scope 1 and 2 GHG intensity reduction

from ARC's underlying portfolio companies' oil and gas production (2023 compared to 2018, unaudited and internally calculated, see Appendix for method)[1]

ARC has donated approximately

$4 million

to non-profit organizations over the past decade

More than **40 %** of ARC's employees are female [2]

800+ ESG datapoints

submitted by portfolio companies (2023 reporting year)

Over **60 %** of ARC employees

are directly involved in non-profit organizations and academic advisories, including board positions, committees, and associations

30 year+ track record

of energy investing, including in oil and gas and energy transition

[1] ARC figures are internally calculated based on ARC portfolio company provided emissions data. The emissions figures describe scope 1 and 2 emissions and exclude scope 3 emissions, including those from the use of oil and gas products by end customers. Portfolio company data and ARC calculations are unaudited. ARC's full methodology is explained further in the Appendix.

[2] Includes only ARC employees and not contractors

MESSAGE from our CEO

Responsible investing is key to sustainable success

We are excited to share ARC Financial Corp's (ARC's) 2024 Oil and Gas Sustainability Report with you, which showcases our Environmental, Social and Governance (ESG) achievements and commitments.

ARC has taken a dual-track approach to energy investing, funding oil and gas production and oilfield service companies, and investing in clean energy and decarbonization solutions, which we call Energy Transition. Our most recent fund, Fund 11, is dedicated exclusively to oil and gas production assets.

This report focuses exclusively on ARC's oil and gas portfolio company ESG initiatives and progress. Please refer to our website for the 2024 Energy Transition Sustainability Report.

ARC believes that investments in oil and gas supply from a stable, Western supplier like Canada are critical to ensuring a smooth energy transition with affordable energy. However, we must not lose sight of climate impacts. Since 2019, ARC has worked with our companies to set future greenhouse gas (GHG) intensity reduction goals, which inform our own portfolio intensity targets. As of 2023, we are pleased to report that we have exceeded our emissions intensity reduction target for our exploration and production portfolio. In addition to tracking GHG emissions and setting targets, we also monitor other ESG risks through an annual survey of our portfolio companies.

Building on our existing GHG reporting and goal setting, ARC has established ambitious targets to 2030 GHG emissions intensity reductions (scope 1 and 2) that encompass all portfolio company types, moving us closer towards the Government of Canada's stated goal of net zero by 2050.[3]

We are also proud of the positive impact ARC portfolio companies have on their employees and the communities in which they operate. This sustainability report highlights numerous success stories, including Sanjel Energy Services' initiatives to foster diversity, equity and inclusion (DEI) in their workforce and how Aspenleaf Energy has collaborated with an Indigenous community to help them establish a civil construction company.

Responsibly deploying capital in oil and gas requires a keen focus on material ESG risk factors and a holistic understanding of the broader impacts that our investments have. ARC's decades-long history of championing ESG has us well positioned to navigate the challenges to come.[4]

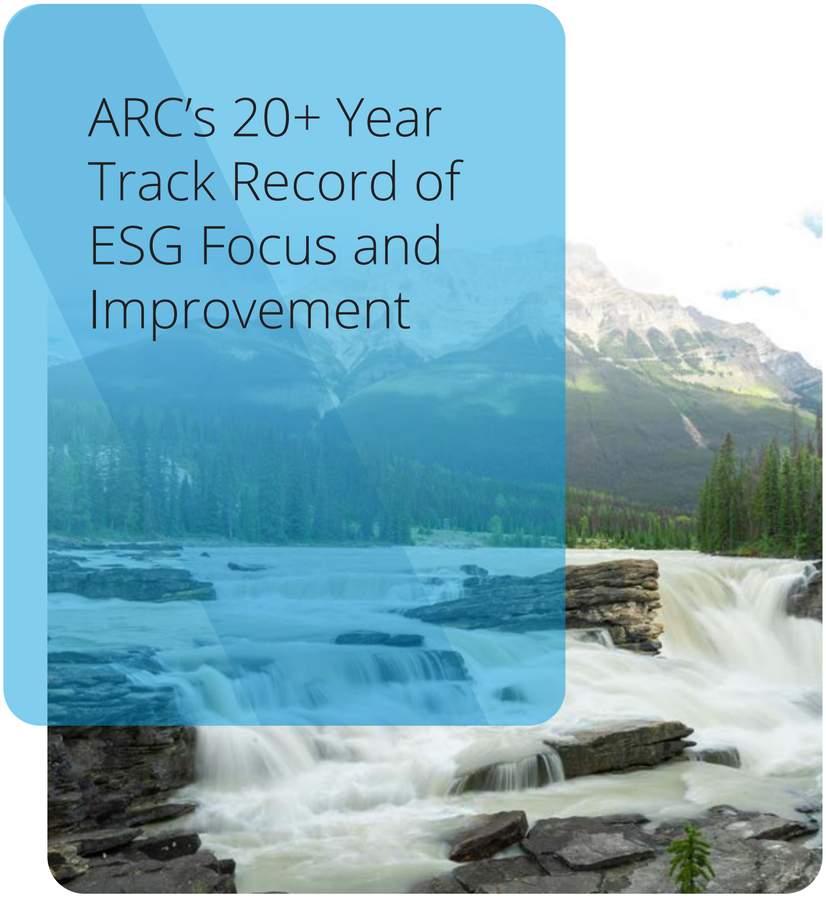
We are steadfast in our commitment to continually improve how we integrate ESG considerations into our investment decisions and corporate practices. We hope you enjoy ARC's 2024 Oil and Gas Sustainability Report.

Sincerely,

Brian Boulanger | *Chief Executive Officer and Director*

[3] ARC's GHG reduction goals are based on scope 1 and 2 emissions intensity and includes all reporting portfolio companies (oil and gas and energy transition combined). Please see the Appendix for more details.

[4] See highlights on page 6 that outline some of ARC's major sustainability milestones.



ARC's 20+ Year Track Record of ESG Focus and Improvement

The ARC Energy Funds

are investing in a portfolio of upstream Canadian oil and gas production with a lower scope 1 and 2 emissions intensity than the global average, oilfield service companies, and North American energy transition opportunities.[5]

Figure 1: ESG Focused for Over Two Decades

- **2002**
  - Issued best practices for boards to report on health, safety and governance
- **2007**
  - 1st ARC Organizational Health Survey
- **2014/15**
  - 1st GHG Emissions Data Survey (2015)
  - 1st Quarterly CEO Briefings, sharing ESG information (2014)
- **2016**
  - ARC ESG Committee established
  - Established ARC best practices for evaluating abandonment liabilities
  - Requirement for HS&E certificate by management
- **2017**
  - 2nd GHG Emissions Data Survey, published "How to Invest in Oil" thought leadership paper
- **2018**
  - 1st E&P Co. ESG Reporting System established
- **2019**
  - 3rd GHG Emissions Data Survey (became annual)
  - Established 2023 E&P GHG reductions targets
  - 1st Indigenous Survey
- **2020**
  - 1st Methane Survey
  - 1st OFS Co. ESG Reporting System established
- **2021**
  - 1st Diversity Survey
  - UN PRI signatory
- **2022**
  - Achieved 2023 GHG reduction target one year early
  - 1st ARC Sustainability Report
- **2023**
  - Portfolio companies report emissions using GHG Protocol
  - Introduced new GHG and DEI initiatives
- **2024**
  - Introduced new portfolio emissions intensity metrics
  - 2026 portfolio company emissions reduction goals
  - Calculating ARC corporate emissions

5 ARC prioritizes investments in lower emissions Canadian oil and gas. ARC defines this on a portfolio basis, by targeting a portfolio of oil and gas producing companies with average scope 1 and 2 emissions intensity that is lower than the Oil and Gas Global Average Carbon Intensity described further in Part I of the Appendix.

INTRODUCTION

to ARC

"ARC's vision is to be the investment partner of choice, building high-performing businesses that are addressing the world's energy and sustainability needs"

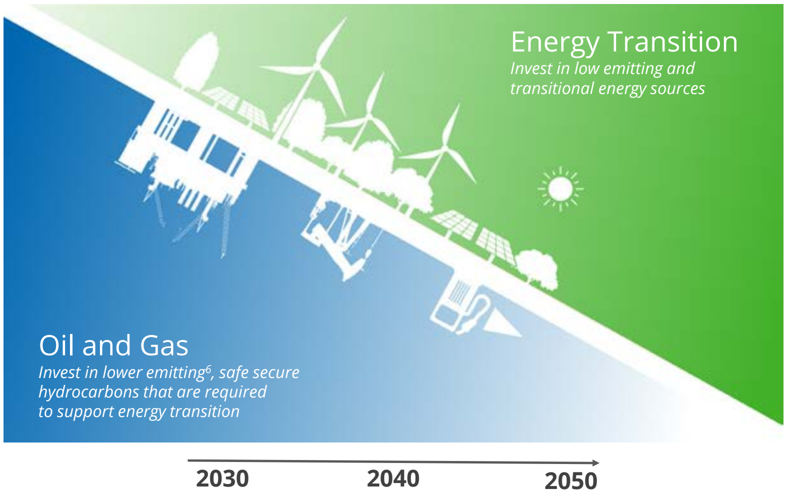
Founded in 1989, ARC Financial Corp. is Canada's largest energy focused private equity manager with over $6.4 billion raised across 11 ARC Energy Funds.

Since the launch of the first ARC Energy Fund over 25 years ago, ARC has invested in over 180 companies across the energy spectrum, including oil and gas, infrastructure, renewable energy, manufacturing and energy transition.

ARC has a dual-track approach to energy investing, funding oil and gas production and oilfield service companies as well as investing in energy transition companies, pursing clean energy and decarbonization solutions.

This report focuses on ARC's approach to ESG integration within our oil and gas investments. For more information on ARC's energy transition ESG integration strategy, please see the separate sustainability report on our website, titled ARC's 2024 Energy Transition Sustainability Report.

ARC Financial's evolving energy focus



Oil and Gas Investing

Over 80 percent of the world's energy comes from fossil fuels today.[7] Although the world is undergoing a transition to emissions free energy, a change of this magnitude will take decades even under aggressive transition scenarios.

During the transition, oil and gas demand will persist. ARC is investing in a portfolio of oil and gas producing companies with an emissions intensity below the global average.[8] Investing in the supply of oil and gas managed in this way contributes to global energy security and affordability by adding hydrocarbon supply from Canada, a stable jurisdiction with a long-established regulatory framework and policies for reducing GHG emissions.

ARC's Sustainability Initiatives Manage Risk

ESG risks are business risks. Superior investment returns require active risk management, and the issues posed by neglecting environmental, social and governance matters are inseparable from broader business risks. The transition to a net-zero carbon economy by 2050 presents both opportunity and challenge. ARC's sustainability initiatives are designed to take advantage of this opportunity, while at the same time, responsibly managing and mitigating risks.

ARC asks that the portfolio companies in which we invest understand, measure and mitigate their ESG risks. ARC's ESG practices are intended to inform our portfolio companies and motivate them to act. Among other benefits, we believe ARC's influence at our portfolio companies has resulted in enhanced governance and has encouraged lower scope 1 and 2 emissions intensity. Later in the report we highlight a number of positive case studies from the ARC Energy Fund's portfolio companies.

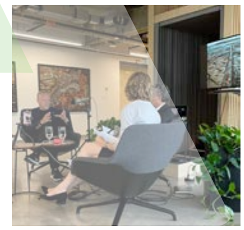
[6] ARC defines lower emitting on a portfolio basis, by targeting a portfolio average scope 1 and 2 emissions intensity for oil and gas producing companies that is lower than the Oil and Gas Global Average Carbon Intensity described further in ARC's 2024 Oil and Gas Sustainability Report.

[7] Statistical Review of World Energy.

[8] ARC prioritizes investments in lower emissions Canadian oil and gas. ARC defines this on a portfolio basis, by targeting a portfolio of oil and gas producing companies with average scope 1 and 2 emissions intensity that is lower than the Oil and Gas Global Average Carbon Intensity described further in Part I of the Appendix.

ARC Energy Research Institute

The ARC Energy Research Institute (the Institute) is an integral part of ARC Financial Corp. The Institute monitors the energy landscape and the most recent trends in sustainability, policy and investment to inform ARC and its portfolio



The Institute and Studio.Energy have collaborated to create the Energy Road Atlas. This unique analysis has enabled ARC to understand the many pathways for converting primary energy into useful mechanical work, and to focus on the investment areas with the greatest opportunity.

Studio.Energy was founded by Peter Tertzakian (who is also a partner at ARC Financial) to provide a venue for thought leaders in energy to discuss complex problems and develop solutions and tools. The Institute works alongside Studio.Energy, and can leverage its insights to inform our investment strategy, as well as our sustainability goals and processes.

In addition to its macro-economic research work, the Institute also frequently meets with ARC portfolio companies to inform them on issues that are impacting their business, including on ESG and policy matters. Information is shared in formal ARC Leaders Briefing sessions, where ARC gathers many companies together, as well as through one-on-one meetings, board presentations, operations meetings and phone calls. The Institute's work also influences the broader energy community. The Institute participates in public forums, hosts a weekly podcast and authors commentaries. Its views on energy issues are sought after by academic institutions, think tanks, government agencies, regulatory bodies, and investors.

The Institute actively participates in industry associations and policy advisory groups, with senior members holding current and past positions within the Canadian Renewable Energy Association, Explorers and Producers Association of Canada, the Canadian Association of Petroleum Producers, and the Alberta Government Royalty Review Advisory Panel, among others. Through these types of organizations/engagements, the Institute can provide guidance and gain insights on issues relevant to the industry, including climate and ESG concerns.

The popular ARC Energy Ideas Podcast is a weekly show hosted by the Institute that covers critical issues for the successful development of energy. The show covers developments in the progress towards the decarbonization of fossil fuels and the development of new, low-emission energy sources. The podcast serves to educate and inform the community on important issues and fosters energy literacy and innovation.

The Institute also supports innovation in the community by participating in initiatives focused on accelerating decarbonization solutions. One example is the Institute's participation in sessions held by Avatar Innovations. Avatar is focused on accelerating the commercialization of early-stage technologies and business models to mobilize energy transition solutions.

The Institute has a long track record of ESG differentiation, including authoring reports on estimating the GHG emissions from the ARC Funds' oil and gas production since 2015. In 2022, the Institute published a guidance document produced by Modern West Advisory for the ARC portfolio companies to calculate and report their emissions using the GHG Protocol method found on our website.

ARC's CORE

Sustainability Focus Areas and Recent ESG Initiatives

ARC is proud of our progress on our ESG initiatives and goals

ARC's strategy is to promote ESG initiatives within our organization and at our portfolio companies in the following six core focus areas:

- Governance
- Responsible Investing
- Climate Change Action
- Diversity, Equity and Inclusion
- Indigenous Prosperity
- Energy Transition and Reliability

ARC is proud of our progress on our ESG initiatives and goals. To inform our ESG goals, ARC reviewed leading sustainability focused guidelines and frameworks, including the Task Force on Climate-Related Financial Disclosures (TCFD), the Glasgow Financial Alliance for Net Zero (GFANZ), and the Sustainability Accounting Standards Board (SASB).

In 2021, ARC became a signatory to the UN Principles for Responsible Investing (UN PRI). UN PRI membership and reporting further strengthens and improves our ESG practices and transparency, and provides external validation of the work completed to date.

Governance

- Annual portfolio company ESG data reporting and benchmarking. 2023 marked our 6th report to date with companies representing over 80 percent of our committed capital participating.
- Conduct annual organizational health surveys at ARC and encourage them at our portfolio companies.
- Address ESG risk at the board level.
- Encourage portfolio companies to link ESG performance to executive compensation to enhance accountability.

Responsible Investing

- Signatory to the UN PRI since 2021. While ARC has been focused on improving ESG performance amongst portfolio companies for some time, our commitment to UN PRI further strengthens and improves our ESG practices and transparency, and provides external validation of the work completed to date.
- Conduct annual surveys of operating portfolio companies to capture material ESG metrics and identify potential risk areas.
- Ask all operating portfolio companies to prepare for the future; examples include considering the impacts of carbon pricing in go-forward economics, confirming their plans for sourcing freshwater, GHG emissions intensity reduction targets, planning for physical risks from a changing climate, and confirming that each company has an emergency response plan.
- Direct companies to consider the ESG characteristics of their supply chain (e.g. Labour practices, emissions, etc.).

Climate Change Action

- Achieved a nearly 40 percent reduction in GHG emissions intensity of the underlying oil and gas production portfolio in 2023, compared to 2018 (estimated, scope 1 and 2 emissions, non-audited, internally calculated, see Appendix for more details).[9]
- Encourage long-term climate change planning at portfolio companies, including assessing exposure to physical risks from a changing climate, and outlining a conceptual path for portfolio company assets to achieve net zero by 2050.
- ARC has a portfolio-wide emissions intensity reduction goal for 2030 (scope 1 and 2) that considers emissions across all portfolio company types (see Appendix for more details).[10]
- In 2023, ARC asked portfolio companies to provide interim 2026 emissions intensity reduction goals. These goals give ARC data to assess whether the portfolio is on track to meet the 2030 target.

[9] ARC figures are internally calculated based on ARC portfolio company provided emissions data. The emissions figures describe scope 1 and 2 emissions and exclude scope 3 emissions, including those from the use of oil and gas products by end customers. Portfolio company data and ARC calculations are unaudited. ARC's full methodology is explained further in the Appendix.

[10] Discussed further in Appendix Part I. ARC's 2030 goals are based on all ARC investments across Exploration and Production, Oilfield Service, and Energy Transition.

Diversity, Equity and Inclusion

- Issued a diversity survey of ARC's portfolio companies in 2024 (3rd survey to date) and provided the results of the 2nd survey to portfolio companies to spread awareness.
- Established clear gender diversity goals for ARC's portfolio company boards.
- Shared best practices for DEI among portfolio companies by hosting a portfolio company to present to other executives on their DEI initiatives and successes. ARC has also asked the portfolio companies to share their DEI initiatives and successes in the annual ESG survey to share knowledge and best practices.

Indigenous Prosperity

- ARC has financially supported the University of Calgary's Schulich School of Engineering Indigenous Pathways Program to assist Indigenous students studying STEM subjects.
- ARC's portfolio companies facilitated partnerships that support Indigenous education and training, and employment in the communities where they operate.
- Some ARC portfolio company initiatives include; (1) established an education trust that will support Indigenous students for the next 100 years, (2) collaborated with an Indigenous group in the development of their civil construction company which provides full-time employment and career opportunities for members of the Nation, and (3) partnering with the Indian Business Council to create a microloan fund for members of the First Nations that the company operates within.

Energy Transition and Reliability

- ARC believes investments in oil and gas supply from a stable, Western supplier like Canada are critical to ensuring a smooth energy transition.
- In addition to reducing emissions in their own operations, many of ARC's oil and gas focused production and service portfolio companies have also invested in low carbon opportunities.
- ARC has invested over $360 Million into investable energy transition opportunities. These include investments in solar manufacturing, renewable fuels, renewable power, carbon capture and utilization, decarbonization of the oilfield, and the electrification of transport, among others. ARC's energy transition investing is discussed further in ARC's 2024 Energy Transition Sustainability Report available on our website.

ARC's ESG Data Reporting Transparency and Benchmarking

ARC's oil and gas portfolio companies report on their ESG performance using a set of metrics established by ARC's ESG Committee (described further in the "Governance" section). ARC selected the metrics based on a review of the SASB framework that identifies ESG factors that are material for each sector. Areas of focus in ARC's ESG tracking and benchmarking include GHG emissions (scope 1 and 2), fossil fuel consumption, freshwater use, health and safety metrics, regulatory fines and incidents, reclamation liabilities and waste.

To help provide context on their sustainability performance, ARC's oil and gas producing companies are benchmarked against other companies in the ARC portfolio and provided with a "scorecard" each year. The analysis shows their relative ranking on key ESG metrics and highlights potential areas of risk.

It can be more challenging to benchmark ARC's oilfield service companies against each other due to the different business types and key metrics. While this makes benchmarking more complex, some metrics can be normalized and compared across different companies. For those that can't, the data tracking still enables ARC to monitor year-over-year changes and identify both positive and negative trends.

The Board of Directors of each company reviews the ARC ESG scorecards to identify areas of potential risk in each firm and to determine if any mitigation actions need to be taken.

ARC ESG Benchmarking Highlights

- **ESG metrics gathered** from all operating portfolio companies[11]
- **Scope 1 and 2 emissions calculated** and reported at all private companies[12]
- More than **80% of portfolio companies** link executive compensation with performance on ESG goals/metrics[12]
- More than **90% of portfolio companies** are incorporating carbon costs into their go-forward economics[12]

"Working alongside ARC in understanding our ESG metrics has initiated goal setting for the Burgess Creek team. The team had to be creative and to work collaboratively with our vendors, surface owners and regulators with the result of improving emissions intensity year over year. The data analysis allowed Burgess Creek to focus on innovation and economic projects."

Kory Galbraith | *Chief Operating Officer, Burgess Creek Exploration*

[11] All private companies with assets and control public companies completed the ARC ESG survey. All non-control public companies published ESG reports which ARC utilized.

[12] Based on private companies with operated assets.

ESG in ARC's Due Diligence Practices

Managing ESG risks among existing portfolio companies is necessary to drive sustainable value creation, but it alone is not sufficient. At ARC, ESG integration begins before the initial investment into a company. During the due diligence process, ARC undergoes a rigorous evaluation of ESG factors to better understand and manage the risks and opportunities associated with a given investment. Some of the factors that can be assessed are:

At ARC, ESG integration begins before the initial investment into a company

Environmental Impact

Reviewing the environmental impact of the company's current and planned operations, including assessing the carbon intensity of the projects and the risks and returns under alternative carbon pricing regimes

Energy Transition Benefits

Evaluating the transition alignment of a given investment, including its ability to reduce emissions intensity and the potential to generate credits for those reductions

Compliance

Reviewing the company's compliance with laws and regulations

Diversity, Equity and Inclusion

Evaluating the company's commitment to diversity, equity and inclusion

Governance Structures

Negotiating shareholder agreements that provide for appropriate governance

Asset Retirement Obligations (ARO)

Reviewing management's assumptions surrounding asset retirement obligations and evaluating the potential impact changes in legislation could have, including the impact increased and/or earlier ARO spending would have on project economics

Risk Management

Assessing management's attitude and history regarding environmental impacts, health, safety, employee welfare, and community and stakeholder relations

Policy Risks

Reviewing the policy risks facing the business

GOVERNANCE

Influencing our companies from the boardroom table to operations

Our governance policies and practices aim to effectively implement ARC's macro ESG initiatives and drive real change at the portfolio company level.

ARC has a dedicated cross-functional ESG Committee that meets quarterly and reports to the Executive Committee. The ESG Committee was first formed in 2016 and since then the group has improved ARC's overall investment process and corporate governance practices around sustainability.

Some examples of ARC's investment processes that we believe drive ESG performance:

- Philosophical agreement with management teams on ESG focus and importance before an investment is made.
- Prior to investing, ARC undertakes rigorous due diligence, including reviewing sustainability attributes such as reclamation liabilities, carbon emissions and freshwater use.
- Accounting for carbon pricing in go-forward economics and evaluations.
- Annual tracking and reporting on sustainability metrics.
- Established targets for scope 1 and 2 GHG emission intensity reductions.

Some examples of ARC's integral governance practices:

- ARC is a lead investor with board representation and control in the majority of our portfolio companies.
- Regular organizational health surveys.
- Regular reviews of portfolio company performance versus plan, including on ESG metrics.

RESPONSIBLE
Investing

At ARC, responsible investing is a longstanding feature of our investment strategy. As a proud signatory to the UN PRI, we are committed to integrating ESG factors into our investment decisions. We believe doing so allows us to deliver superior returns for our investors, while also being responsible stewards of the interests of other stakeholders.

Operating in Canada, we benefit from a strong regulatory framework that fosters high standards of business conduct and low corruption levels. However, our commitment to responsible investing goes beyond compliance. We strive to set higher benchmarks, aiming to foster a culture of ethical practices and ESG performance across our portfolio companies. A recent example of this was asking questions of our portfolio companies regarding the ESG profile of their supply chain (emissions, forced labour, etc), intended to help surface any ESG concerns that take place outside the view of the comparatively strong regulatory oversight of Canadian authorities.

Transparency is crucial to our responsible investing approach. We regularly report on our ESG performance and engage with stakeholders to promote accountability and continuous improvement. Our annual sustainability reports provide detailed insights into our efforts and achievements in responsible investing. ARC seeks to make as much information publicly available as is practical. In the interest of transparency, further information is provided directly to the investors in the ARC Energy Funds.

By integrating the UN PRI into our investment process, we believe we are contributing to a more sustainable future while enhancing the long-term value and resilience of our investments. At ARC, responsible investing is not just a commitment; it is a fundamental aspect of how we do business.

PRI Principles for Responsible Investment

As signatories to the UN PRI, ARC is committed to the following 6 "Principles":

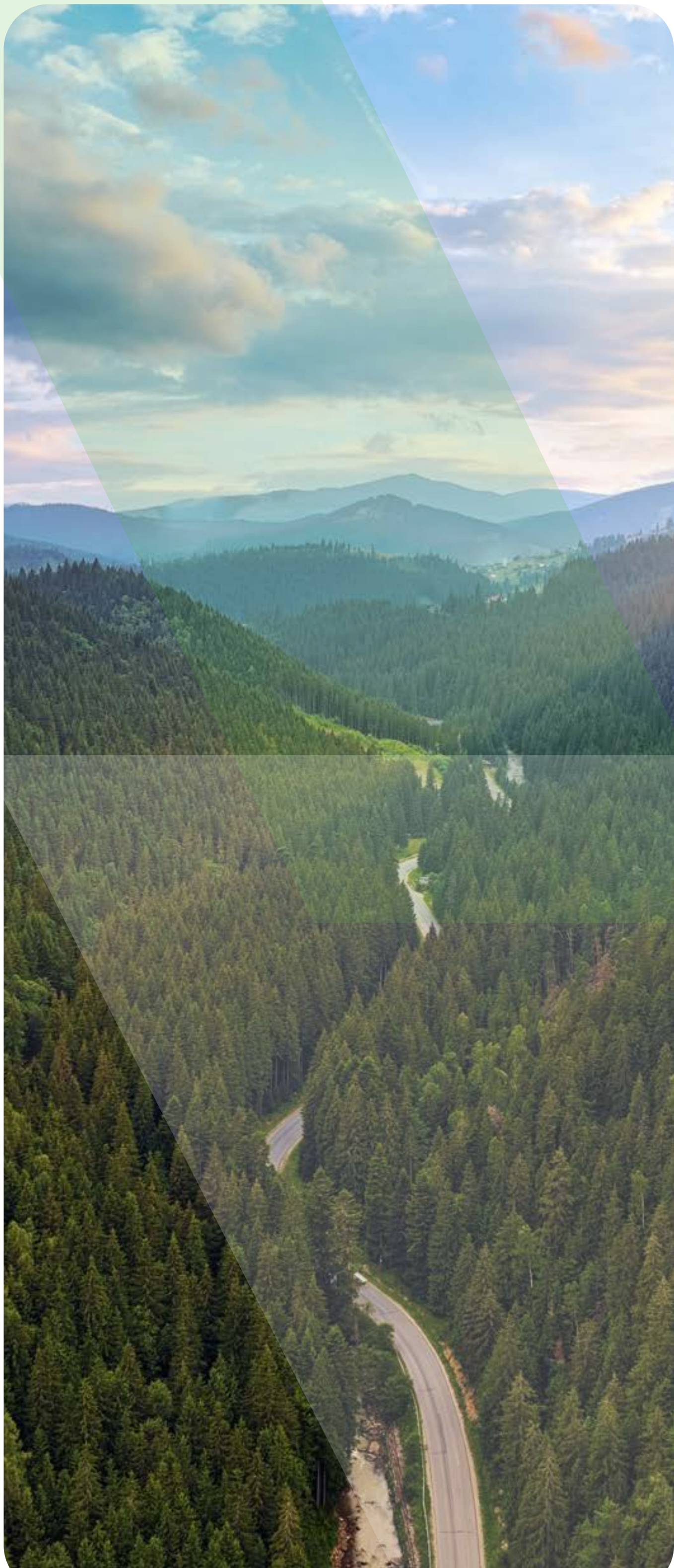
1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will report on our activities and progress towards implementing the Principles

CLIMATE
Change Action

ARC was early among energy focused private equity firms to estimate portfolio company emissions, starting to estimate the GHG emissions of oil and gas producing portfolio companies back in 2015. In 2020, the firm also began tracking the emissions from oilfield service companies.

As emissions measurements have become more reliable over time, it has allowed ARC to become more sophisticated in estimating and understanding portfolio company emissions. In the early years, ARC developed a methodology using publicly available engineering-based models to estimate emissions. Starting in 2018, operational data (fuel use, flaring, methane, etc.) was robust enough that ARC could calculate emissions more directly on behalf of portfolio companies, gaining valuable insights.

The next step in ARC's evolution was giving portfolio companies more responsibility for their own emissions calculations. In 2022, ARC developed a methodology document produced by Modern West Advisory for portfolio companies to report their own scope 1 and 2 emissions, aligning with GHG Protocol guidance, that is available on our website. ARC believes this process led to a deeper organizational understanding of emissions within portfolio companies, along with greater insight into the risks and opportunities that emissions present. With two years of portfolio company emissions reporting completed, positive results are already apparent. The data and insight they gain from performing the calculations internally helps portfolio companies to understand their exposure to carbon pricing, minimize risk, and underwrite emission reduction opportunities.

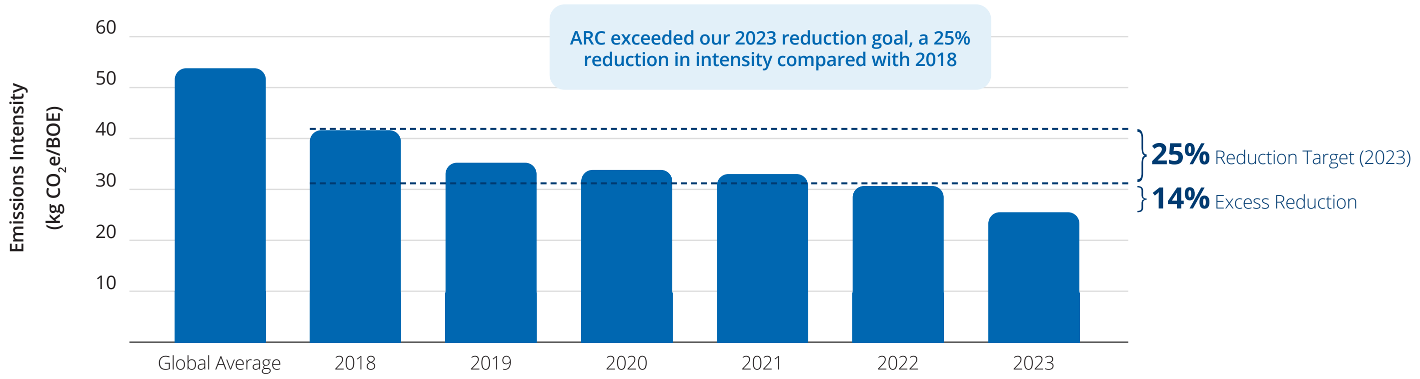


ARC's Financed Emissions

Measuring emissions is a crucial first step in managing and understanding ESG risks, but reducing emissions intensity is also essential. In 2019, ARC established a goal of reducing the scope 1 and 2 GHG emissions intensity from underlying oil and gas portfolio production by 25 percent by 2023 (compared to 2018). As of 2023, ARC is proud to announce that average scope 1 and 2 emissions intensity from oil and gas production has been reduced by nearly 40 percent since 2018, surpassing the original goal (estimated, non-audited, internally calculated, see more details in the Appendix).[13]

Figure 2: ARC Portfolio Estimated Oil and Gas Production Weighted GHG Emissions Intensity[14]

ARC Portfolio Estimated Oil and Gas Production Weighted GHG Emissions Intensity | Scope 1 and 2 (kgco$_2$e/BOE) |



[14] ARC figures are internally calculated based on ARC portfolio company provided emissions data. The emissions figures describe scope 1 and 2 emissions and exclude scope 3 emissions, including those from the use of oil and gas products by end customers. Portfolio company data and ARC calculations are unaudited. ARC's full methodology is explained further in the Appendix.

While ARC is pleased with the progress made to date, the work is not done. In order to continue driving towards lower emissions intensity the firm asked all portfolio companies to develop emissions intensity targets for 2026. These targets are intended to be ambitious and reflect the context and opportunities for reductions available to each company.

ARC's historical target for 2023 focused on oil and gas exploration and production companies given their higher carbon intensities than other ARC portfolio companies (e.g. oilfield service or energy transition). While ARC will continue to focus on reducing the emissions intensities associated with these companies, we are also committed to managing emissions in all portfolio companies. That is why in this report we are introducing new portfolio-wide emissions intensity metrics which capture the financed emissions across all categories of ARC Financial's investing activities, including oil and gas production, oilfield services, and energy transition.

These metrics and the associated 2030 target are discussed further in the Appendix.

ARC Financial's Corporate Emissions:

While the financed emissions of the ARC portfolio companies are by far the largest source of emissions in ARC's own corporate inventory, and thus have been our primary focus historically, we also consider it important to manage our direct footprint. That is why we undertook to calculate our own scope 1-3 emissions corporately for the first time for 2023, accounting for emissions sources like office lighting and heating and employee travel. These figures are currently for internal use and they will play a role in guiding our ongoing sustainability efforts and shaping our future strategies to reduce our environmental impact.

[13] ARC figures are internally calculated based on ARC portfolio company provided emissions data. The emissions figures describe scope 1 and 2 emissions and exclude scope 3 emissions, including those from the use of oil and gas products by end customers. Portfolio company data and ARC calculations are unaudited. ARC's full methodology is explained further in the Appendix.

CLIMATE CHANGE ACTION: CASE STUDIES[15]

Citadel Drilling Ltd.:

Citadel is a private drilling contractor focused on the deep drilling markets in Western Canada and Texas, with a fleet of modern, technically advanced AC triple (TA²CT) rigs designed to optimize efficiencies and reduce expensive downtime and labor costs.

- All Citadel rigs operate with dual fuel (utilizing natural gas and diesel), reducing emissions compared with burning pure diesel for power generation.
- Citadel reduced fleet average CO_2e emissions between 2022 and 2023 with similar utilization.
- Citadel rigs are 100 percent high line power capable, allowing for reduced on-site emissions where electric power is available.
- Citadel's drilling improvements have reduced the scope 1 and 2 CO_2e output per foot of drilling.

Sanjel Energy Services Inc.:

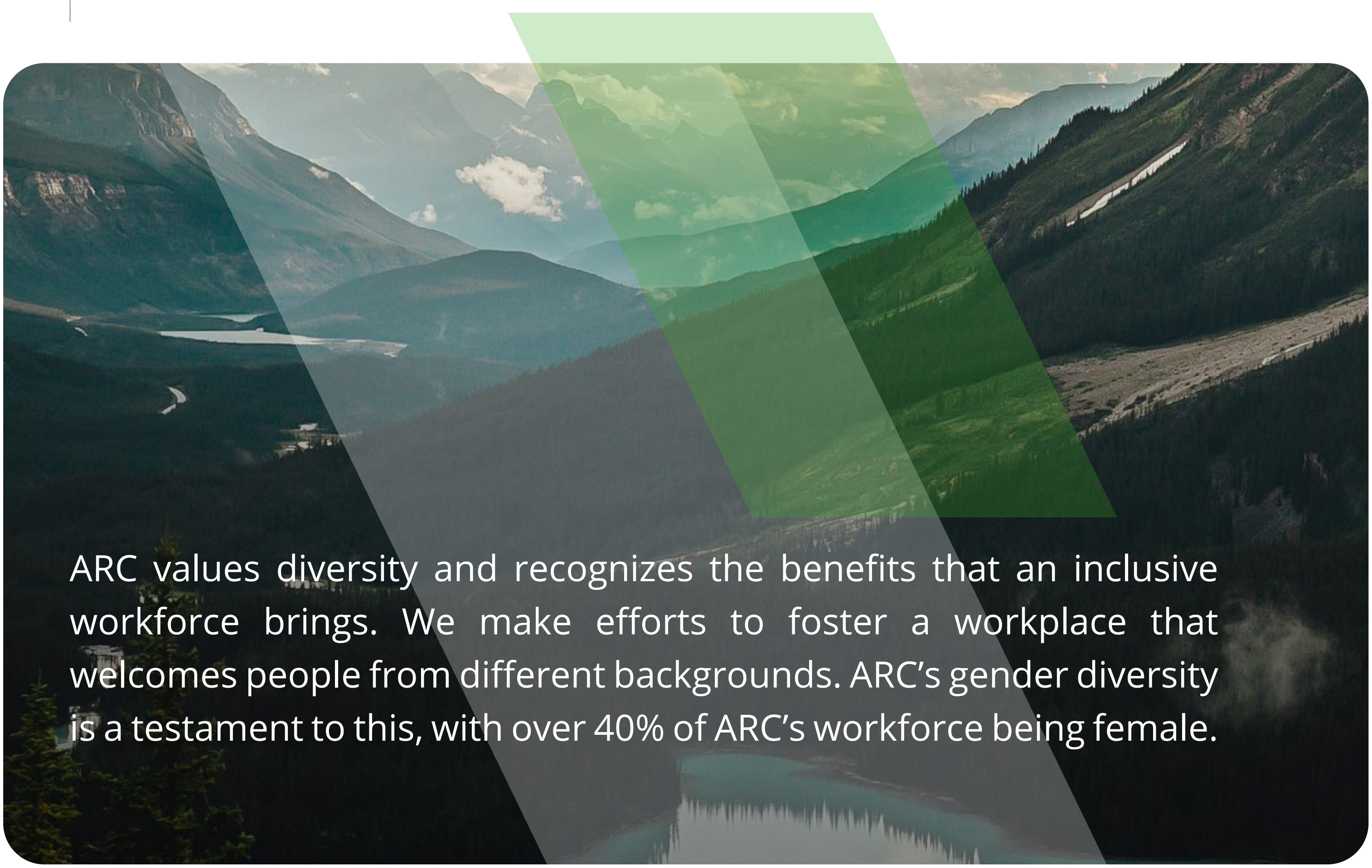
Sanjel is a leading energy services company providing oil well cementing services throughout the Western Canadian Sedimentary Basin. Sanjel is committed to managing emissions that pose potential climate risks against the importance of its business activities to its clients and within the energy cycle.

- Sanjel is continuously improving the products it uses by making product decisions taking into account the environmental impact and emissions. Recent projects include Sanjel's ECObase cement and Visweep DM IS products.
- Collaborating with their main cement supplier, Sanjel has been able to avoid supply chain emissions by bringing in ECObase cement into their portfolio. Manufacturing ECObase cement reduces emissions compared to the industry's traditional oil well neat Class C and Class G Cement.
- In 2023, 67 percent of all of the company's cement products utilized their reduced-carbon ECObase cement base, helping to avoid emissions compared to the alternatives.
- Sanjel has also deployed capital to reduce the environmental footprint of its own buildings and equipment. These projects include upgrades in lighting, water systems and waste management delivery.

[15] ARC relies on the accuracy of the figures as reported by portfolio companies and these values are not audited by a third party. See Appendix for more information.

DIVERSITY

Equity and Inclusion



ARC values diversity and recognizes the benefits that an inclusive workforce brings. We make efforts to foster a workplace that welcomes people from different backgrounds. ARC's gender diversity is a testament to this, with over 40% of ARC's workforce being female.

ARC's commitment to diversity extends to our portfolio companies. As of our 2023 survey, approximately 45 percent of employees at ARC portfolio companies identify as either a visible minority or Indigenous.[16]

While women remain underrepresented in the energy industry, ARC has launched an effort to increase female representation on the boards of ARC portfolio companies.

Our commitment to diversity extends beyond gender and ethnicity, encompassing different educational backgrounds, specialties, and ways of thinking. Ensuring that a wide variety of perspectives are considered leads to the best decision-making.

Often in the fields of engineering, finance and business, a lack of diverse candidates is a barrier to having a diverse workforce. To help foster a more diverse workforce, in 2023, ARC committed to establishing an endowment with the University of Alberta to award funding to students who self-identify as members of equity-denied groups in undergraduate degrees in sciences or business.

[16] *Diversity metrics for both ARC and portfolio companies are based on employees not including contractors.*

Jackie Forrest speaks on ESG at Young Women in Energy (YWE) event

Over 40% of ARC's employees are female

Jackie Forrest leads a discussion with Sam Okasha on diversity, equity and inclusion at a session for leaders of ARC portfolio companies

Sanjel's team poses for a photo

Company Spotlights – DEI

ARC values DEI leadership from its portfolio companies and seeks to share best practices for fostering an inclusive and collaborative work environment. In 2023 Sanjel Energy Services' Sam Okasha was invited to a briefing for ARC portfolio company leaders to discuss their approach to DEI. He discussed Sanjel's philosophy, programs, and some valuable benefits of DEI efforts from success in recruiting to improved safety performance.

Diversity, Equity and Inclusion Initiatives:

- Surveying ARC portfolio companies on their employee diversity
- Hosted a DEI session for portfolio companies to share best practices
- Employee involvement with organizations that foster women in the workforce and in the energy and finance industries: Young Women in Energy, Women in Capital Markets, and Making Changes Association
- Advocating for female representation on ARC portfolio company boards of directors
- Hosting Indigenous speakers at ARC on Canada's Truth and Reconciliation Day
- Making efforts to find diverse candidates when hiring
- ARC sponsors initiatives designed to increase diversity in secondary education for Indigenous students
- Establishing an endowment with the University of Alberta to fund equity-denied groups in the areas of business and sciences

INDIGENOUS

Prosperity

Indigenous communities in Canada are important rights holders in energy developments. ARC and its portfolio companies value and respect the Indigenous community relationships that have been developed.

ARC and its portfolio companies have facilitated partnerships that support Indigenous education and training, employment and other economic benefits in the communities where we operate.

ARC and many of our portfolio companies have undergone education on the history of Indigenous Peoples in Canada, including the history and legacy of residential schools, Treaties and Indigenous Rights, and Indigenous-Crown Relations. We have also engaged in efforts to support the education of Indigenous students to increase participation in the energy and finance industries.

ARC Financial is a proud supporter of the University of Calgary's Schulich School of Engineering Indigenous Pathways Program. The engineering school supports Indigenous students in their study of STEM (science, technology, engineering, and math) subjects. With the program, Schulich fosters an Indigenous-centered community and helps students with their skill development, well-being, and success in the engineering program. The program helps to advance Canada's goals of reconciliation with Indigenous people by improving the representation of talented Indigenous peoples in the labour pool for energy and STEM related careers.

Learn more at the Schulich School of Engineering Indigenous Pathways Program Website:
https://schulich.ucalgary.ca/future-students/undergraduate/admissions/Indigenous-pathways-program

SCHULICH School of Engineering UNIVERSITY OF CALGARY

INDIGENOUS PROSPERITY: CASE STUDIES

Aspenleaf Energy Limited:

Aspenleaf is an oil exploration and production company with operations that intersect on the traditional lands of First Nations and Métis communities in Alberta. Aspenleaf recognizes and respects the unique connection that Indigenous communities have to the land and is committed to engaging early and often with Indigenous communities that its developments may impact.

- Aspenleaf established the Aspenleaf Energy Founders Education Endowment to support the leadership development of students attending the Kapawe'no School, committing $200,000 to the Kapawe'no Education Trust. The Aspenleaf endowment to the Trust will continue supporting deserving students for the next 100 years.
- Aspenleaf has collaborated with Driftpile Cree Nation leadership in the development of their civil construction company, Driftpile Enterprises, who provide full-time employment and career opportunities for Driftpile Cree Nation members. Aspenleaf has awarded over $4 million in civil construction contracts to Driftpile, who have used the profit generated from those contracts to further develop their construction operations, adding 40 pieces of heavy equipment, a full-service heavy-duty mechanical facility and accompanying new staff to support its growing enterprise. To date, Driftpile has increased its customer base and generated more than $20 million in revenue, with further plans to continue expansion in the future.

Kiwetinohk Energy Corp.:

Kiwetinohk produces liquids-rich natural gas in northwest Alberta and is working towards providing low-to-no emissions energy in the future.[17] Kiwetinohk considers engagement with all stakeholders, particularly Indigenous rights holders, as foundational to their business. Kiwetinohk supports the Indigenous communities where they operate in several ways.

- Partnering with the Indian Business Corporation to create and fund a microloan fund for members of First Nations communities in which Kiwetinohk operates.
- Created an Operator Trainee Program for Sturgeon Lake Cree Nation individuals. Upon successfully completing this program, the trainees can become fully qualified operators.
- Utilizing Indigenous community-owned businesses.
- Supporting and participating in local Indigenous events. Served dinner for Sturgeon Lake pow-wow and supported a community gathering honoring the dedicated staff of Sturgeon Lake Cree Nation.

Aspenleaf collaborated with Driftpile Cree Nation leadership in **the development of their civil construction company**

Kiwetinohk created an **Operator Training Program** for individuals from the Sturgeon Lake Cree Nation

[17] Note: this focuses on scope 1 and 2 emissions and not the downstream emissions associated with the consumption of the hydrocarbons Kiwetinohk produces.

ENERGY

Transition and Reliability

ARC maintains its belief in following a dual-track approach to energy investing, developing a portfolio of upstream Canadian oil and gas production with lower emissions intensity than the global average, as well as North American energy transition opportunities.[18] We believe this approach will ensure a stable transition, promoting energy availability in the near-term, while helping to accelerate the transition to an era of low carbon, secure and affordable energy.

Canadian oil and gas companies are well positioned to provide this much needed energy, but at the same time need to be prepared as the global economy transitions. In order to prepare for the transition, ARC portfolio companies are encouraged to focus on producing energy sustainably. This includes reducing their own greenhouse gas emissions intensity, but also evaluating a conceptual path for how their assets could potentially reach net zero as the energy transition progresses.

This report focuses on ARC's oil and gas investing; for more information on ESG integration within ARC's Energy Transition investing, see the ARC's 2024 Energy Transition ESG Sustainability Report on our website.

ARC invests in a portfolio of lower emissions sources of hydrocarbon energy supplies, while speeding up the energy transition

[18] ARC prioritizes investments in lower emissions Canadian oil and gas. ARC defines this on a portfolio basis, by targeting a portfolio of oil and gas producing companies with average scope 1 and 2 emissions intensity that is lower than the Oil and Gas Global Average Carbon Intensity described further in Part I of the Appendix.

CHARITABLE
Involvement

ARC has donated approximately **$4 million** to non-profit organizations over the past decade

ARC believes in supporting and giving back to the communities in which we operate, both monetarily and through the dedication of resources and support of ARC employees' time to charitable organizations. Over the last decade, ARC has donated approximately $4 million to local charities and related events.

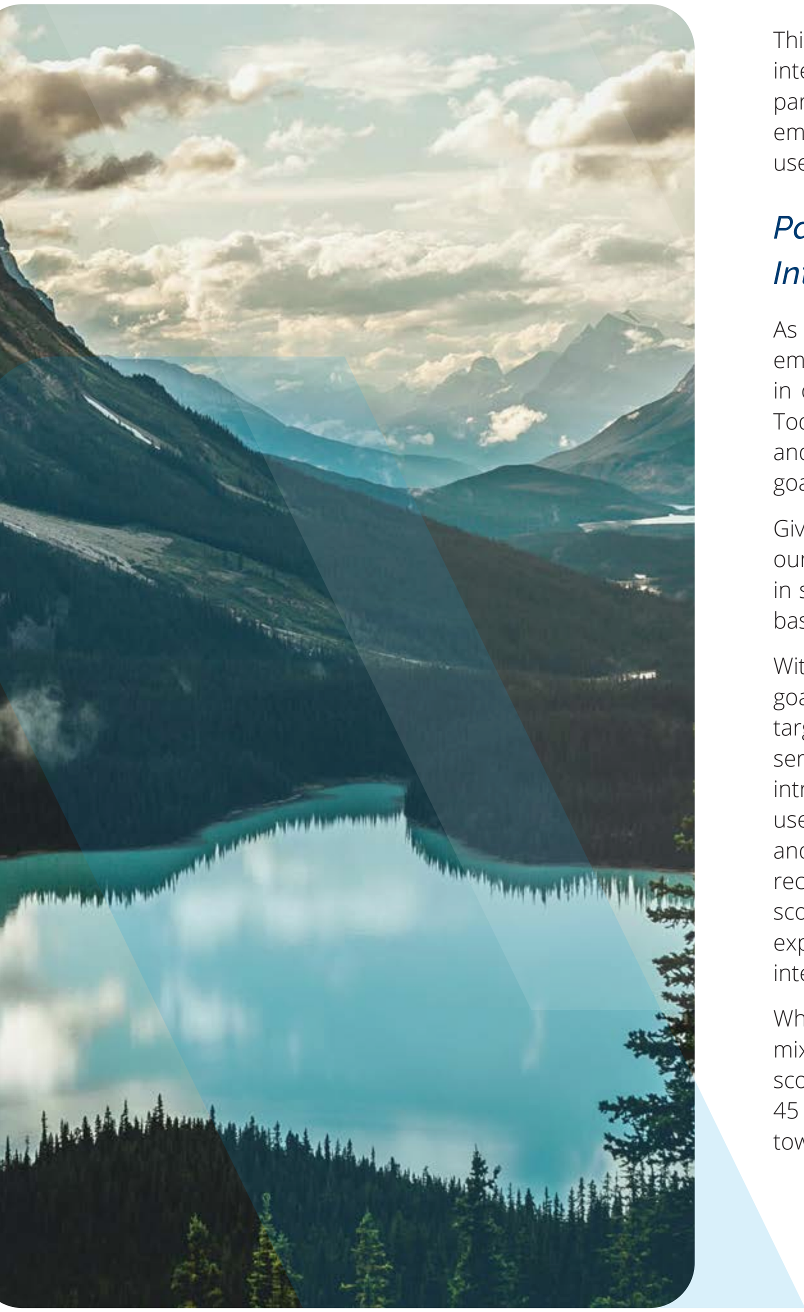
ARC's charitable giving focuses on organizations where ARC's employees and business relations are personally involved. Currently, over 60 percent of ARC staff are directly involved in charitable, non-profit and academic organizations through various roles, including board positions, committees, associations and university advisory groups.

ARC believes in supporting and giving back to the communities in which we operate

ARC employees helping to build homes at the Women Build 2023 event for Habitat for Humanity

ARC is a long-time supporter of the United Way of Calgary

APPENDIX



This appendix has two parts. The first part describes ARC's GHG emissions intensity reduction goals for all of the ARC Energy Funds. The second part explains the metrics and methodology used to calculate historical emission intensity values and how we measure and track the metrics used for ARC's 2030 reduction goal.

Part I: ARC Firm Wide Portfolio GHG Emissions Intensity Reduction Goals

As discussed in the "Climate Action" section, ARC has been measuring emissions and encouraging scope 1 and 2 emissions intensity reductions in our oil and gas producing portfolio companies for nearly a decade. Today, all portfolio company types (including oilfield service companies and energy transition companies) are expected to measure and have goals related to their GHG emissions intensity.

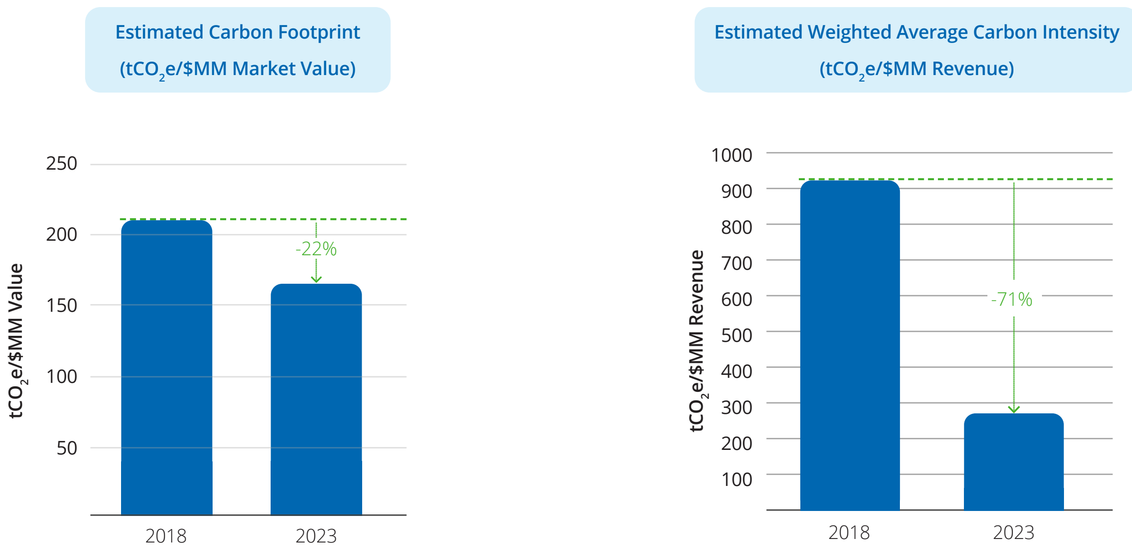
Given their higher emissions, ARC first set a reduction target specific to our oil and gas producing companies in 2019, a 25 percent reduction in scope 1 and 2 carbon emissions intensity by 2023 (relative to a 2018 baseline), which we achieved.

With the achievement of ARC's 2023 emissions intensity reduction goal for oil and gas producing companies, the next stage in the firm's targets is to focus on broad reductions portfolio-wide, including oilfield service companies and energy transition companies. To do this, ARC is introducing two new portfolio-wide carbon intensity metrics that we will use to track our firm wide GHG emission intensity: (1) Carbon Footprint and (2) Weighted Average Carbon Intensity (WACI). Both metrics are recommended by the TCFD. The metrics collectively quantify a portfolio's scope 1 and 2 carbon emissions intensity and assess the financial exposure to carbon risk. They will collectively form the basis of ARC's 2030 intensity reduction goal.

While emissions intensity could fluctuate over time given the changing mix of companies in the ARC Energy Funds, ARC's goal is for the overall scope 1 and 2 emissions intensity of the portfolio to trend down by 40 to 45 percent by 2030 (compared to a 2018 baseline), moving ARC closer towards the Government of Canada's stated goal of net zero by 2050.[19]

[19] Government of Canada: Net-zero emissions by 2050 https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050.html

Figure 3: New ARC Portfolio TCFD Recommended Scope 1 and 2 GHG Metrics



Based on data provided by ARC Portfolio companies and ARC ownership as of year-end. Unaudited. Carbon Footprint: Total carbon emissions for a portfolio normalized by the market value of the portfolio, Weighted Average Carbon Intensity: Portfolio's exposure to carbon-intensive companies, expressed in tonnes CO_2e/$MM Revenue.

ARC's current focus is on reducing our Carbon Footprint, which has not yet achieved our goal of a 40 to 45 percent reduction by 2030 (relative to 2018). While ARC has already achieved more than a 40 to 45 percent reduction (compared to 2018) as measured by WACI, we continue to track and monitor this metric since fluctuation in revenue and carbon intensity can create volatility.

Note: All values presented here are unaudited and internally calculated by ARC. Please see the Part II of this Appendix for more information on the method used to calculate our historical GHG emissions and to set future goals.

Part II: The Methodology for ARC Portfolio Company Greenhouse Gas Emissions Estimates

A. Background on ARC's Oil and Gas Emissions Intensity Calculations

Portfolio Company GHG Emissions Data Gathering

ARC's portfolio companies provide ESG-related information as part of an annual survey process, including emissions data (scope 1 and 2). In some cases, portfolio companies use consultants to measure and/or report the emissions data they provide to ARC, but in other cases, the information is provided solely by the portfolio companies and is unaudited. For reporting, ARC relies on the accuracy of the data supplied by portfolio companies, and historic numbers are not revised after the year they are provided.

ARC's method for estimating emissions has evolved with three methods used over time:

2015 to 2017

While ARC calculated emissions for portfolio companies before 2018, estimates relied on high-level input data and engineering estimates, which resulted in a relatively large margin of error. As a result, those estimates are not included in the Sustainability Report and the methodology is out of scope of this appendix.

2018 to 2021

Over this period, ARC portfolio companies provided ARC with granular input data to calculate emissions estimates (scope 1 and 2) on their behalf. This data included volumetric estimates of fuel use (natural gas, gasoline, diesel, propane, etc.) within the boundaries of their operating assets. Portfolio companies also provided data on electricity consumption and flared and vented natural gas/methane volumes. These inputs came from several sources within portfolio companies, but primarily from company reporting to regulators (Petrinex, etc.) and internal company estimates derived from operational data, engineering calculations, and/or vendor receipts.

ARC used this data and publicly available emissions factors to calculate emissions (scope 1 and 2) on behalf of portfolio companies. Notable emissions factors include a global warming potential for methane of 25 and electricity grid consumption emissions factors by province from the Canadian National Inventory Report.

2022 to 2023

From 2022 onward, portfolio companies calculated scope 1 and 2 emissions following the GHG Protocol, a well-recognized international standard. To aid companies in this effort, ARC provided a methodology document prepared by Modern West Advisory instructing portfolio companies on how to align their estimates with the GHG Protocol, including how to set organizational boundaries, which sources of emissions to track, and the appropriate emissions factors to use. This document can be found on ARC's website.

Portfolio company emissions are reported annually, counting all emissions from company-operated assets from January 1st to December 31st of the given year, measured in units of tonnes of CO_2e.

Oil and Gas Production Emissions Intensity

Oil and gas production companies are evaluated based on their emissions intensity, calculated as the absolute emissions (scope 1 and 2) from company-operated assets divided by the production from company-operated assets over the same period on a barrel of oil equivalent (BOE) basis, and measured in units of $kgCO_2e$/BOE.

Oil and Gas ARC Portfolio Production Weighted GHG Emissions Intensity

To calculate the weighted average emissions intensity for oil and gas production from ARC Portfolio companies, ARC weights emissions by the "equity barrels" owned across the ARC Energy Funds. The calculated emissions intensity of a given company is multiplied by the company's operating production and ARC's basic ownership of the equity in that company at year-end, and these values are summed across all portfolio companies with operated production. The total value is then divided by the total "equity barrels" owned by ARC at year-end, calculated by summing operated production and simple equity ownership of the ARC Energy Funds across all E&P companies with operated production. See Figure 4.

Figure 4: ARC Portfolio Production Weighted GHG Emissions Intensity Formula

$$\frac{\sum_n^i E_i * P_i * O_i}{\sum_n^i P_i * O_i}$$

Where:

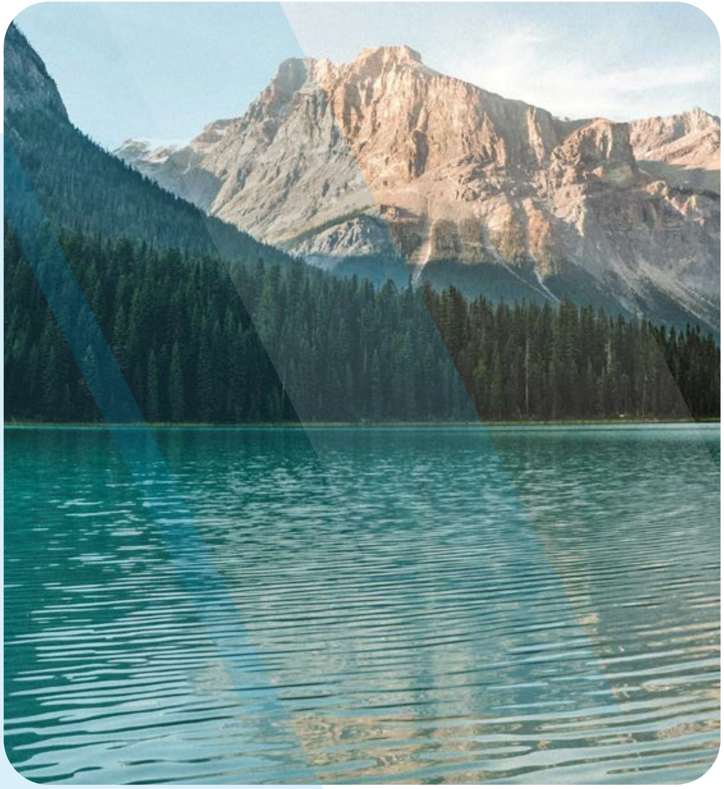
- (Ei) is the calculated emissions intensity for a given company
- (Pi) is the production operated by the company
- (Oi) is ARC Energy Funds basic equity ownership of that company at year-end
- (i) denotes a given company
- (n) is the total number of companies with operated production in the ARC Energy Funds' portfolio

Oil and Gas Global Average Carbon Intensity Estimate

ARC compares its portfolio emissions to a global average benchmark that ARC estimates using International Energy Agency (IEA) data. The benchmark includes data describing the well-to-tank emissions intensity of both global oil and global gas production as of 2018 (the latest data for which granular data was released for both oil and gas).[20]

To create a comparison with ARC's portfolio average GHG emissions intensity, ARC has considered only upstream emissions from each dataset. This involves adding relevant subcategories from the IEA dataset for oil (Energy for Extraction, Flaring, Methane) and gas (Energy for Extraction, Vented CO_2 and Upstream Methane Emissions). In both cases, the numbers are taken as reported by the IEA for each oil and gas field in the dataset, except for methane numbers which ARC adjusted to reflect the Global Warming Potential of 25 used by ARC instead of 30 as used by the IEA.[21]

Individual field emissions intensities are weighted by the amount of production reported from each field on a BOE basis (using a 6:1 ratio of mcf to BOE). The volume of production from each oil and gas field is provided within the same IEA emissions dataset. This calculation provides a production-weighted average of global oil and gas emissions intensity to compare against the ARC portfolio average GHG emissions intensity estimates.



[20] IEA Spectrum of the Well – to – Tank Emissions Intensity for Global Oil and Gas Production. ARC is monitoring for a more current full data set and will update when available. Datasets below:

Oil - https://www.iea.org/data-and-statistics/charts/spectrum-of-the-well-to-tank-emissions-intensity-of-global-oil-production-2018

Gas - https://www.iea.org/data-and-statistics/charts/spectrum-of-the-well-to-tank-emissions-intensity-of-global-gas-production-2018

[21] This figure is consistent with the Intergovernmental Panel on Climate Change's Fourth Assessment Report

B. ARC Firm Wide Portfolio Emissions Intensity Metrics and 2030 Reduction Goal Background

ARC Firm Wide Emissions Intensity Metrics

ARC reports broad portfolio emissions intensity for all company types (including oil and gas production, oilfield service, and energy transition) under two metrics identified by the TCFD: Carbon Footprint and Weighted Average Carbon Intensity. The metrics are further explained at this website.[22]

Carbon Footprint

Carbon Footprint represents the total carbon emissions from a portfolio normalized by the estimated market value of the portfolio, expressed in tonnes CO_2e/$MM of value (Note, all currency is in Canadian Dollars unless otherwise stated).

The metric is calculated by using total scope 1 and 2 emissions for each portfolio company (calculated as described above) and allocating them to investors based on their share of the firm's capital structure. Under this approach, if an investor's equity share represents 5 percent of a company's total enterprise value, then the investor owns 5 percent of the company's carbon emissions.

Figure 5: Carbon Footprint Formula (Estimated)

$$\frac{\sum_n^i \left(\frac{current\ value\ of\ investment}{issuer's\ enterprise\ value} * issuer's\ scope\ 1\ and\ 2\ GHG\ emissions\right)}{current\ portfolio\ value\ (\$MM)}$$

In ARC's calculation of the Carbon Footprint, the value of investment, enterprise value, and current portfolio value are determined at year-end.[23]

Weighted Average Carbon Intensity (WACI)

WACI is a metric recommended by the TCFD and measures a portfolio's exposure to carbon-intensive companies, expressed in tonnes CO_2e/$MM of revenue. WACI provides an overall measure of how carbon-intensive the portfolio is relative to the revenue it generates.

The metric is calculated by using a company's total scope 1 and 2 emissions (calculated as described above) and dividing by its revenue over the same time period. These emissions are then allocated by the current value of an investment relative to the total portfolio value. See Figure 6.

Figure 6: WACI Formula (Estimated)

$$\sum_n^i \left(\frac{current\ value\ of\ investment}{current\ portfolio\ value} * \frac{issuer's\ scope\ 1\ and\ 2\ GHG\ emissions}{issuer's\ revenue\ (\$MM)}\right)$$

ARC's investment and current portfolio values are determined at year-end, and emissions and revenue are determined for the calendar year.[23]

[22] *TCFD: Carbon Footprinting and Exposure Metrics*

[23] *Value of investment and portfolio value are based on the estimated fair value of the investments. Fair Value is determined in accordance with Canadian Generally Accepted Accounting Principles following Accounting Standards for Private Enterprises. ARC determines the fair value of each investment using the following principles. Publicly traded investments are valued using the quoted closing bid prices from Thomson Reuters, Bloomberg L.P. and FactSet. If there is no available bid price, the closing trade price is used. Investments that are not publicly traded are valued by ARC in accordance with fair value policies and procedures which give consideration to a range of factors. These factors may include, but are not limited to, cost, market conditions, recent arm's length market transactions between knowledgeable, willing parties, current fair value and comparable market metrics of other instruments or assets that are substantially the same, historical, current and projected operating and financial performance, and expected cash flows. Due to the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a quoted market value for the investments existed.*

ARC's Firm Wide Emissions Intensity Reduction Goal

As described in Part I, ARC Financial has a goal to reduce the portfolio-wide scope 1 and 2 emissions intensity by 40 to 45 percent below 2018 levels by 2030, moving ARC closer towards the Government of Canada's stated goal of net zero by 2050[24]. This goal is based on scope 1 and 2 emissions intensity under both the Carbon Footprint and Weighted Average Carbon Intensity (tCO_2e/\$MM Value and tCO_2e/\$MM Revenue, respectively) metrics, and is measured relative to the 2018 baseline described below.

ARC's 2018 Emissions Intensity Baseline

ARC uses its emissions intensity as of 2018 as the baseline by which future goals are measured. The 2018 baseline is calculated using the formulas in Figure 5 and 6, incorporating scope 1 and 2 data from all portfolio companies that reported emissions to ARC for the 2018 calendar year. In 2018, the metric only encompassed oil and gas production companies. These companies represented the vast majority of emissions in the ARC portfolio at that time, and thus ARC believes 2018 is a valid baseline to use.

ARC has since initiated emissions reporting for all company types, including oilfield service and energy transition. All of these company types are now included in ARC's estimates of portfolio-wide Carbon Footprint and Weighted Average Carbon Intensity calculations.

As described in the "Climate Action" section of the report, ARC has worked with existing portfolio companies to develop emissions intensity reduction targets for 2026. These 2026 targets, along with ARC's forecasts for the mix of new capital to be deployed into oil and gas and energy transition portfolio companies, and their respective carbon intensities, are considered in our assessment of whether our 2030 goal is achievable.[25] While there is uncertainty in achieving our 2030 target, and the metrics will fluctuate based on the companies we buy and sell and market cycles that impact revenue and value, we believe, based on our current assumptions and plans, that it is obtainable.

C. Environmental Benefits claims made in the ARC Portfolio Company Case Studies

The ARC portfolio company case studies included in this Sustainability Report were written in consultation with each company. Where figures to quantify ESG and environmental benefits are included, the information was provided by portfolio companies. ARC has reviewed portfolio company calculations and retained supporting documentation. ARC relies on the accuracy of the figures as reported by portfolio companies and these values are not audited by a third party.

[24] Government of Canada: Net-zero emissions by 2050 https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050.html

[25] ARC has evaluated the scope 1 and 2 emissions of existing energy transition portfolio companies, as well the emissions intensity in areas of likely future investment, and believes that the emissions intensity of these investments will generally be lower than the existing portfolio, helping to achieve the 2030 target.

Restrictions

and Disclaimer

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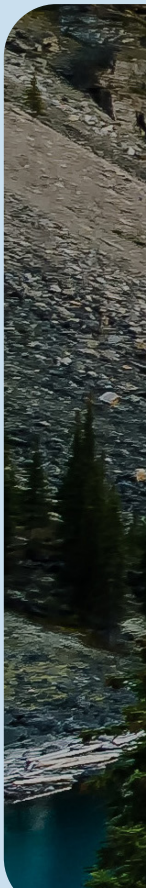

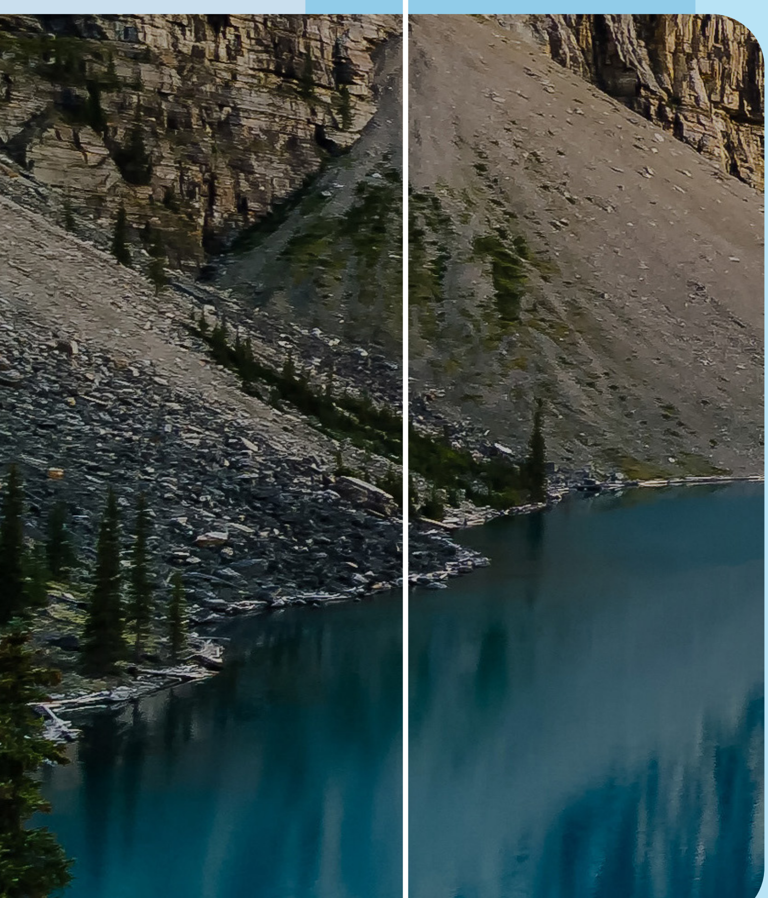

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