ANNUAL REPORT 2017


ARC RESOURCES LTD

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# Corporate Profile

ARC Resources Ltd. ("ARC") is a Canadian oil and gas producer committed to delivering strong operational and financial performance and upholding values of operational excellence and responsible development.

With operations in western Canada, ARC's portfolio is made up of resource-rich properties that provide near and long-term investment opportunities.

ARC pays a monthly dividend to shareholders and its common shares trade on the Toronto Stock Exchange under the symbol ARX.

# Financial and Operational Highlights

**Years Ended December 31**
Cdn$ millions, except per share and boe amounts and shares outstanding

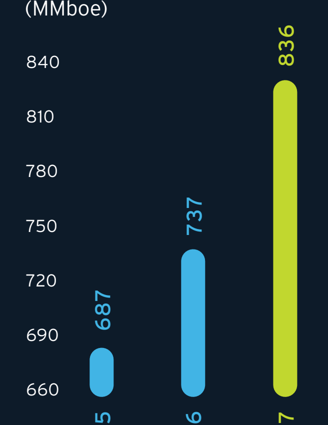
| **Financial** | **2017** | **2016** | **2015** |
|---|---|---|---|
| Net income (loss) | **388.9** | 201.3 | (342.7) |
| Per share [(1)] | **1.10** | 0.57 | (1.01) |
| Funds from operations [(2)] | **731.9** | 633.3 | 773.4 |
| Per share [(1)] | **2.07** | 1.80 | 2.27 |
| Dividends | **212.3** | 228.2 | 410.5 |
| Per share [(1)] | **0.60** | 0.65 | 1.20 |
| Capital expenditures, before land and net property acquisitions (dispositions) | **829.7** | 453.4 | 541.6 |
| Total capital expenditures, including land and net property acquisitions (dispositions) | **929.8** | (76.4) | 473.9 |
| Net debt outstanding [(2)] | **728.0** | 356.5 | 985.1 |
| Weighted average shares, diluted (millions) | **353.9** | 351.3 | 340.5 |
| Shares outstanding, end of period (millions) | **353.5** | 353.3 | 347.1 |
| **Operating** | | | |
| Production | | | |
| Crude oil (bbl/day) | **24,380** | 31,510 | 32,762 |
| Condensate (bbl/day) | **5,650** | 3,626 | 3,430 |
| Natural gas (MMcf/day) | **525.8** | 475.6 | 444.9 |
| NGLs (bbl/day) | **5,273** | 4,274 | 3,819 |
| Total (boe/day) [(3)] | **122,937** | 118,671 | 114,167 |
| Average realized prices, prior to risk management contracts | | | |
| Crude oil ($/bbl) | **60.95** | 50.34 | 53.53 |
| Condensate ($/bbl) | **62.04** | 50.98 | 53.84 |
| Natural gas ($/Mcf) | **2.56** | 2.23 | 2.88 |
| NGLs ($/bbl) | **29.57** | 13.85 | 10.70 |
| Oil equivalent ($/boe) [(3)] | **27.16** | 24.35 | 28.57 |
| Operating netback ($/boe) [(3)] [(4)] | | | |
| Commodity sales | **27.16** | 24.35 | 28.57 |
| Royalties | **(2.29)** | (2.05) | (2.48) |
| Transportation expenses | **(2.52)** | (2.20) | (2.33) |
| Operating expenses | **(6.41)** | (6.65) | (7.15) |
| Netback prior to gain on risk management contracts | **15.94** | 13.45 | 16.61 |
| Realized gain on risk management contracts | **3.23** | 4.98 | 4.46 |
| Netback including gain on risk management contracts | **19.17** | 18.43 | 21.07 |
| **Reserves** (company gross) [(5)] | | | |
| Proved plus probable reserves | | | |
| Crude oil and NGLs (Mbbl) | **203,210** | 195,500 | 199,826 |
| Natural gas (Bcf) | **3,797** | 3,247 | 2,922 |
| Total (Mboe) | **836,103** | 736,733 | 686,851 |
| **Trading Statistics** [(6)] | | | |
| High price | **23.70** | 24.94 | 25.87 |
| Low price | **13.64** | 14.43 | 15.39 |
| Close price | **14.75** | 23.11 | 16.70 |
| Average daily volume (thousands) | **1,124** | 986 | 1,093 |

(1) Per share amounts (with the exception of dividends) are based on diluted weighted average common shares.
(2) Refer to the "Capital Management" note in ARC's financial statements and to the sections entitled, "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.
(3) ARC has adopted the standard 6 Mcf:1 barrel when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 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.
(4) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. See "Non-GAAP Measures" contained within ARC's MD&A.
(5) Company gross reserves are gross interest prior to deduction of royalty burdens and without including any royalty interests.
(6) Trading prices are stated in Canadian dollars and are based on intra-day trading on the Toronto Stock Exchange.

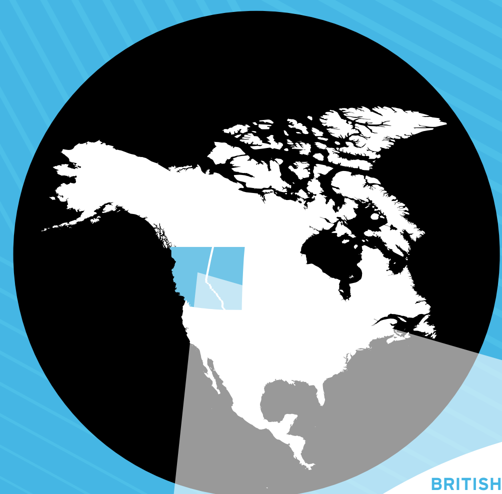
Production
(boe/d, 000's)

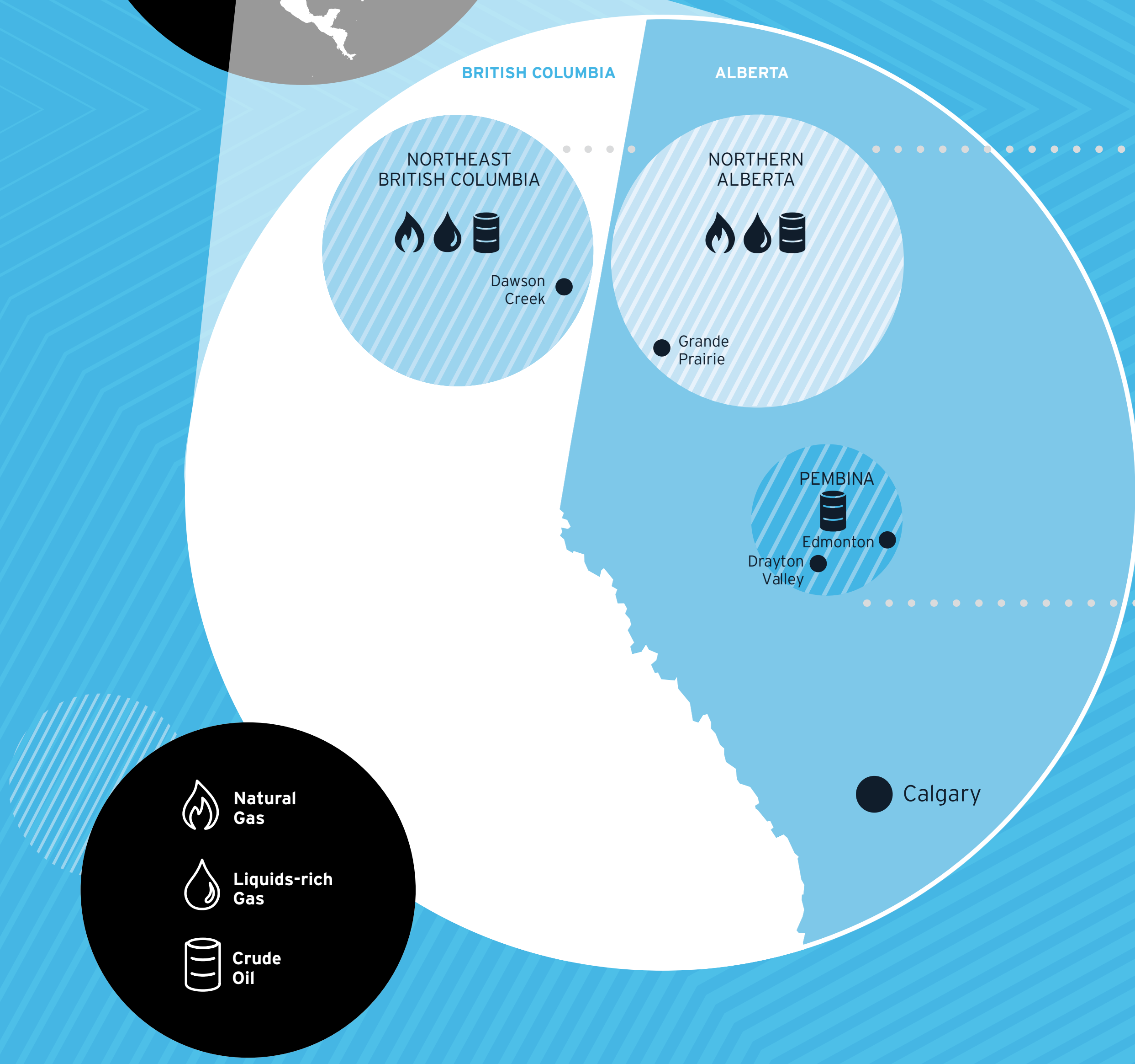

Operating Netback after Risk Management Contracts
($/boe)


Reserves Proved plus Probable
(MMboe)



# Where We Operate

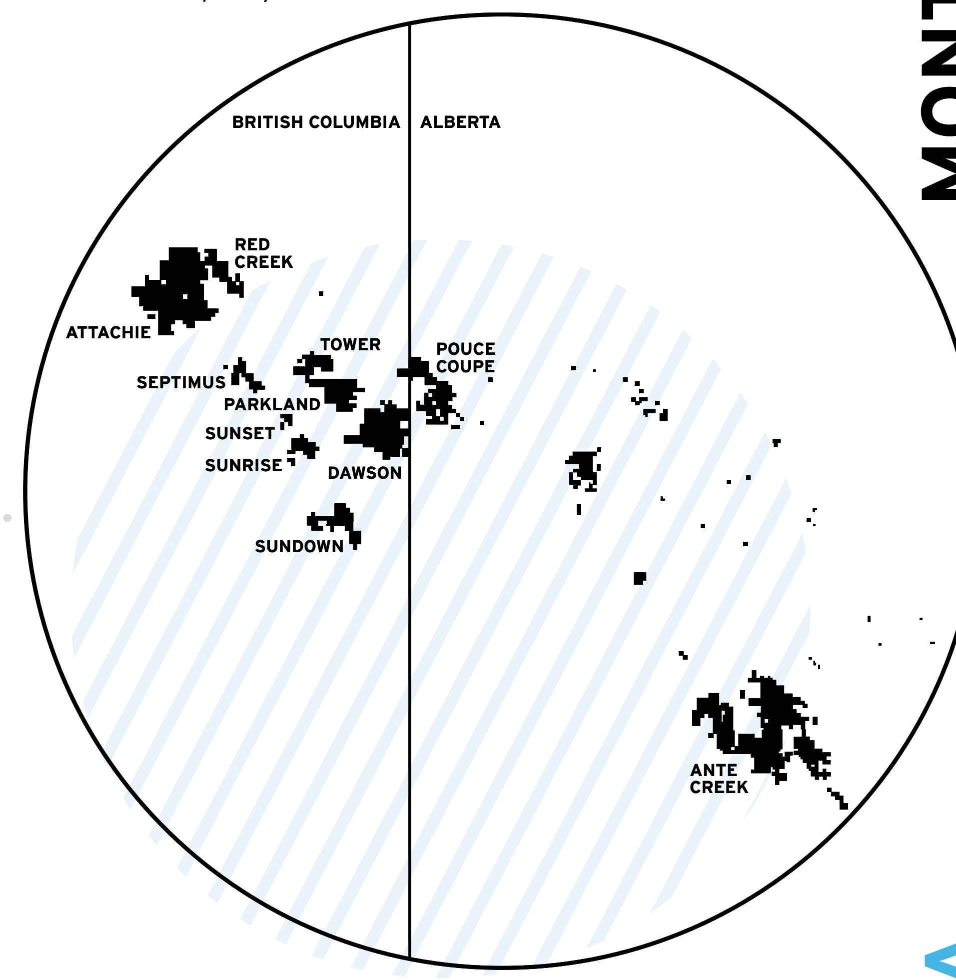





ARC's focused asset base enables execution of larger-scale projects, supports the application of learnings across properties and asset teams, and facilitates excellent capital efficiencies and operating cost structures.

# MONTNEY

The Montney provides competitive economics and long-term, large-scale opportunities for many years to come. ARC has been active in the Montney since 2000, developing technical expertise and growing its conviction in the play each year as the Montney continues to be developed by ARC.




## Overview

2017 Average Daily Production
**106,585** boe per day

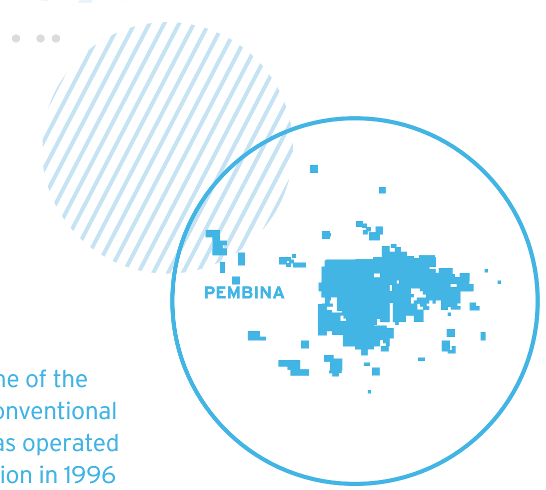
Production Profile
**506.5** MMcf/day natural gas
**22,163** bbl/day oil and liquids

Land Position
**1,181** net Montney sections

Proved plus Probable Reserves
**732** MMboe

2018 Capital Budget
**$640** million

# PEMBINA




The Pembina Cardium is one of the largest and most prolific conventional oil fields in Alberta. ARC has operated in the play since our inception in 1996 and continues to unlock value through time and technology.

2017 Average Daily Production
**10,739** boe per day

Production Profile
**11.7** MMcf/day natural gas
**8,790** bbl/day oil and liquids

Land Position
**219** net Cardium sections

Proved plus Probable Reserves
**69** MMboe (Cardium)

2018 Capital Budget
**$30** million

# 2017 ACCOMPLISHMENTS

Executed deliberate **physical and financial diversification** strategy to reduce risk, protect cash flow and realize premium pricing for our oil, liquids and gas production

Achieved record annual average production of

**122,937**

boe per day

Replaced

**320%**

of produced reserves through development activities

Maintained strong balance sheet and significant liquidity, ending the year with net debt to funds from operations ratio of

**1.0x**

**Continued investment** in owned and operated infrastructure through completion of the Dawson Phase III facility

Achieved excellent safety performance with **zero lost-time** incidents for employees

Achieved low operating costs of

**$6.41**

per boe

# Message to Shareholders

# Our Future

## At ARC we continue to focus on creating value for shareholders, and 2017 was an excellent year.

Our team is committed to the success of the business – to profitability, to balance sheet strength, to the safety of our employees and contractors, to capital discipline, and to creating efficiencies across all areas of our business. In 2017, we delivered record production, had our largest development reserves additions in corporate history, and grew our cash flow per share. We completed a major infrastructure project safely and ahead of schedule, advanced our understanding of the large liquids-rich Lower Montney, and took the next steps in progressing our volatile oil Attachie West property towards commercialization, all while preserving our strong financial position. Our focused asset base is well-positioned within one of the largest oil and gas regions of North America, enabling us to deliver exceptional performance results. With the sale of non-core assets for proceeds of $700 million in December 2016, we were able to essentially prefund growth capital and counter-cyclically build infrastructure at, what we believe to be, a low point in the cycle.

How we conduct our business and fulfill our economic, social and environmental responsibilities impacts the continued success of ARC. As we focus on delivering results to shareholders year-after-year, we will do so in a manner that promotes health and safety, builds positive relationships within the communities where we live and operate, protects the environment, and abides by our high ethical standards in the context of pursuing excellent financial performance.

### Operational Performance

The team at ARC successfully executed a capital program of $830 million that was directed towards development activities across our Montney asset base and appraising the development potential of the multiple layers within the Montney formation. Investment in key infrastructure projects at Dawson and Sunrise continued to lay the foundation for ARC's robust, low-cost natural gas and liquids business, and is expected to create value and deliver superior returns over time.

We drilled 122 gross operated wells in 2017 and achieved record full-year production levels of approximately 123,000 boe per day. We exited the year producing approximately 38,000 barrels per day of crude oil and liquids and 570 MMcf per day of natural gas. This makes ARC one of Canada's top 10 conventional light oil producers and a leading low-cost natural

Myron M Stadnyk

MYRON M. STADNYK
President & Chief Executive Officer

Upheld strong safety record with

**1,448** days

free of lost-time incidents for employees

ARC has reduced operating expenses by approximately

**40%**

per unit of production since 2009

We successfully grew our proved plus probable reserves by

**13%** to **836** MMboe

To ensure market access, we integrate our physical marketing strategy into our long-term development plans to secure takeaway before commencing development projects

gas producer. We commissioned and brought on-stream our owned and operated Dawson Phase III liquids-handling and gas processing facility with an exceptional safety record and did so under budget. It is an excellent time to build infrastructure at a lower cost, which will serve the company for many years to come. New production from this facility more than offset the 8,800 boe per day of non-core production that we divested in 2016. We have determined that ARC's lands within the Montney fairway have significant development potential in the liquids-rich Lower Montney horizon. In 2017, we drilled 21 Lower Montney wells as part of our appraisal program which had encouraging results, giving us the ability to enhance our development activities in 2018 and beyond.

At ARC, we are realizing efficiencies across our business as we continue to find ways to reduce our cost structure. We have aggressively managed costs, reducing operating expenses by approximately 40 per cent per unit of production since 2009, and continue to improve our capital and operating efficiencies. Excellent operating and capital efficiencies are supported through owning and operating our own facilities, allowing for greater control over costs, safety performance, gas-to-liquid production ratios and pace of development.

Another highlight of the year was our outstanding reserves and resources results – we successfully grew our proved plus probable reserves to 836 MMboe, a 13 per cent increase from 2016. This was the tenth consecutive year that ARC replaced approximately 200 per cent of produced reserves through development activities. We added a record 144.6 MMboe of proved plus probable reserves, thereby replacing 320 per cent of 2017 total production. These reserves were brought on at highly competitive finding and development costs. The resource evaluation reaffirmed the long-term growth potential of our Montney assets, with shale gas Total Petroleum Initially-in-Place [1] ("TPIIP") of greater than 100 Tcf and tight oil TPIIP of greater than 10 billion barrels [2].

## Financial Performance

At ARC we maintained our industry-leading strong balance sheet which offers continued financial flexibility. In 2017, we achieved funds from operations of $731.9 million or $2.07 per share, a 15 per cent increase relative to 2016. Funds from operations were supported by strong realized gains on risk management contracts of $145.0 million. Greater than 60 per cent of ARC's sales revenue comes from its crude oil and liquids production.

To ensure market access, we integrate our physical marketing strategy into our long-term development plans to secure takeaway before commencing development projects. We look to mitigate exposure to price risk through the diversification of sales points and combine this with a robust financial risk management program. Controlling marketing activities from wellhead to sales points allows us to respond to the changing market conditions and take an opportunistic approach to optimizing our price realizations.

1. Total Petroleum Initially-in-Place is that quantity of petroleum that is estimated to originally exist in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.
2. A full discussion of ARC's reserves and resources is contained in the Annual Information Form available at www.sedar.com.

ARC's physical natural gas diversification and financial risk management activities have significantly reduced our exposure to ongoing weakness in western Canadian natural gas prices with gas being transported directly to Chicago, Ventura, Dawn and western United States markets.

ARC closed the year with net debt of $728.0 million outstanding, and a net debt to funds from operations ratio of 1.0 times. ARC has the ability to fund its 2018 dividend and sustaining capital requirements with cash flow generated from ARC's existing businesses, and growth capital with the redeployment of proceeds from ARC's fourth quarter 2016 divestment of our non-core Saskatchewan assets, and additional debt, if necessary. ARC has been focused on balance sheet strength since inception 22 years ago, and will continue to ensure our balance sheet remains strong.

## Our People

At ARC, we have worked hard to build an exceptional asset base and a strong financial position, a proven strategy that is resulting in a track record of performance. Our culture is focused on leadership and results and supports our people in being their best. Our 2017 accomplishments have been made possible by our team of skilled, dedicated and hard-working individuals. At ARC, our employees are the key to our long-term success.

On behalf of the board and management team, I want to thank everyone for their valuable contributions to the Company.

I want to extend a sincere thank you to Tim Hearn, who has retired from the ARC Board of Directors after seven years of service. Drawing from his breadth of experience, Tim has provided guidance, wisdom and motivation to the ARC team and we are grateful for his many contributions.

## Looking Ahead to 2018 and Beyond

Today, only 10 per cent of ARC's production is from non-Montney assets which were owned prior to 2010. By embracing change, we have transformed our business and emerged stronger and more competitive than ever. In 2018, we plan to execute a $690 million capital program focused on long-term profitability through the development of ARC's Montney crude oil, liquids-rich natural gas, and natural gas assets while preserving the strength of our balance sheet.

We will continue to generate cash flow from our established Montney and Pembina businesses and develop our next large-scale projects in a manner that creates value from profitable investment. Our strategic optionality has never been stronger, and we have multiple projects competing for capital for future-year investments. Examples include the development of liquids production in the Lower Montney at Dawson and Parkland, and the volatile oil opportunities at Attachie. We are well-positioned to execute on an exciting vision and deliver superior financial and operational results. The ARC team remains committed to creating long-term value for our shareholders. Thank you for your continued support.

Sincerely,

Myron M. Stadnyk
President and Chief Executive Officer

6 Received awards for excellence in investor relations practices from the IR Magazine Canada Awards

Ranked 1st among oil and gas companies in Canada for "Confidence in Corporate Strategy"
- Brendan Wood International

Supported the creation of strong communities through investment and volunteerism with over $1.4 million donated in 2017

In 2018, ARC will execute a $690 million capital program focused on long-term profitability and balance sheet strength

# Our Plan

| 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|
| Monthly dividend of $0.05 per share | Brought on Dawson Phase III | Sustain Montney businesses | Maintain consistent investment levels |
| Sold non-core Saskatchewan assets | Rebuilt liquids production from divestments | Progress Sunrise Phase II | Bring on Sunrise Phase II |
| Eliminated DRIP and SDP plans | Achieved success in Lower Montney & Attachie | Advance Attachie piloting activities | Progress multiple large-scale projects, leading to per share growth |
| 118,671 boe per day | 122,937 boe per day | 130,000 – 134,000 boe per day | |

# Why Invest in ARC

At ARC, we believe strongly in our total return model which delivers value through both profitable growth and sustainable dividends. Our team is focused on our strategy of superior financial performance through:

## Financial Discipline

- Sector-leading balance sheet
- Disciplined approach to profitable investment
- Total return principle for shareholders

## Proven Execution & Development Model

- Creation of self-funding businesses through project selection and execution
- Inventory at all stages of development provides optionality
- Pace of development allows learnings to be incorporated

## High-quality Asset Portfolio

- Globally competitive Montney oil and natural gas position
- Geographic diversity and optionality
- Resource base positioned for sustainable and profitable growth

## Operational & Organizational Excellence

- Technical advancements in drilling and completions resulting in industry-leading performance
- Owned infrastructure supports low-cost operations
- Engaged people committed to performance, results and safety

# Our Executive Team

## Our committed and experienced leadership team

**TERRY ANDERSON**
SENIOR VICE PRESIDENT & CHIEF OPERATING OFFICER

**CHRIS BALDWIN**
VICE PRESIDENT, GEOSCIENCES

**LISA OLSEN**
VICE PRESIDENT, HUMAN RESOURCES

**MYRON STADNYK**
PRESIDENT & CHIEF EXECUTIVE OFFICER

**BEVIN WIRZBA**
SENIOR VICE PRESIDENT, BUSINESS DEVELOPMENT & CAPITAL MARKETS

**ARMIN JAHANGIRI**
VICE PRESIDENT, OPERATIONS

We believe in team work, continuous learning and disciplined decision-making. We are focused on improving our performance to deliver long-term value to our shareholders. Technical expertise and a proven ability to execute defines our unique culture. Our team is committed to the success of the business.

**KRIS BIBBY**
VICE PRESIDENT, FINANCE

**SEAN CALDER**
VICE PRESIDENT, PRODUCTION

**LARA CONRAD**
VICE PRESIDENT, ENGINEERING & PLANNING

**RYAN BERRETT**
VICE PRESIDENT, MARKETING

**WAYNE LENTZ**
VICE PRESIDENT, BUSINESS ANALYSIS

**VAN DAFOE**
SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

# FINANCIAL REPORT 2017

## MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis (“MD&A”) of ARC Resources Ltd. (“ARC” or the “Company”) is Management’s analysis of the financial performance and significant trends and external factors that may affect future performance. It is dated February 8, 2018 and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2017 (the "financial statements"), and the MD&A and unaudited condensed interim consolidated financial statements for the periods ended March 31, 2017, June 30, 2017 and September 30, 2017, as well as ARC’s Annual Information Form ("AIF"), that is filed on SEDAR at www.sedar.com. All financial information is reported in Canadian dollars and all per share information is based on diluted weighted average common shares, unless otherwise noted.

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

**ABOUT ARC RESOURCES LTD.**

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

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

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

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

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

(4) **Top talent and strong leadership culture** – ARC is committed to the attraction, retention and development of the best and brightest people in the industry. ARC’s employees conduct business every day in a culture of trust, respect, integrity and accountability. Building leadership talent at all levels of the organization is a key focus. ARC is also committed to corporate leadership through community investment, environmental reporting practices and open communication with all stakeholders. As of February 8, 2018, ARC had 478 permanent employees with 257 professional, technical and support staff in the Calgary office, and 221 individuals located across ARC’s operating areas in Alberta and British Columbia, Canada.

(1) Refer to Note 16 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.

## Total Return to Shareholders

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

**Table 1**

| **Total Returns** (1) | **Trailing One Year** | Trailing Three Year | Trailing Five Year |
|---|---|---|---|
| Dividends per share outstanding ($) | **0.60** | 2.45 | 4.85 |
| Capital depreciation per share outstanding ($) | **(8.36)** | (10.41) | (9.69) |
| Total return per share outstanding (%) | **(33.9)** | (33.6) | (25.6) |
| Annualized total return per share outstanding (%) | **(33.9)** | (12.8) | (5.7) |
| S&P/TSX Exploration & Producers Index annualized total return (%) (2) | **(13.6)** | (2.9) | (4.1) |

(1) Calculated as at December 31, 2017.
(2) Standard &Poor's/Toronto Stock Exchange Explorers and Producers Index.

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

ARC calculates ROACE, expressed as a percentage, as net income plus interest and total income taxes (recovery) divided by the average of the opening and closing capital employed for the 12 months to December 31. Capital employed is the total of net debt plus shareholders' equity. Refer to Note 16 "Capital Management" in the financial statements for additional discussion on net debt.

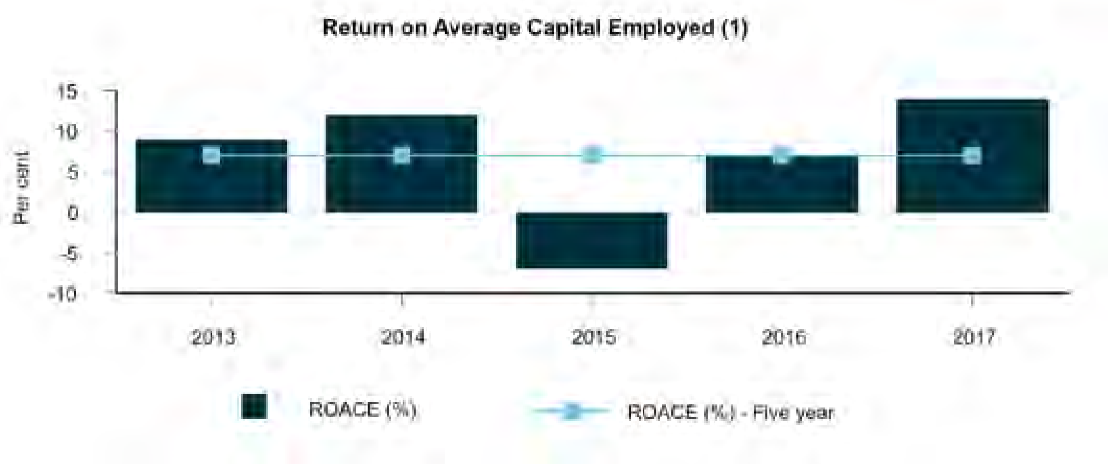
ARC uses ROACE as a measure of operating performance, to measure how efficiently Management utilizes the capital it has been provided and to demonstrate to shareholders the sustainability of our business model and that capital has been used wisely over the long term. ROACE is presented by ARC on an annual and a five-year basis in Table 2 of this MD&A.

**Table 2**

| **Return on Average Capital Employed** (1) | **2017** | 2016 | 2015 | 2014 | 2013 | Five Year |
|---|---|---|---|---|---|---|
| ROACE (%) | **14** | 7 | (7) | 12 | 9 | 7 |

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

**Exhibit 1**




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

Since 2013, ARC's production has grown by 26,850 boe per day, or 28 per cent, while its proved plus probable reserves have grown by 202.2 MMboe, or 32 per cent. Table 3 highlights ARC's production and reserves for the last five years:

**Table 3**

| | **2017** | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Production | | | | | |
| Crude oil (bbl/d) | **24,380** | 31,510 | 32,762 | 36,525 | 32,784 |
| Condensate (bbl/d) | **5,650** | 3,626 | 3,430 | 3,667 | 2,251 |
| Natural gas (MMcf/d) | **525.8** | 475.6 | 444.9 | 406.1 | 349.4 |
| NGLs (bbl/d) | **5,273** | 4,274 | 3,819 | 4,518 | 2,811 |
| Total production (boe/d) (1) | **122,937** | 118,671 | 114,167 | 112,387 | 96,087 |
| Daily production per thousand shares (2) | **0.35** | 0.34 | 0.34 | 0.35 | 0.31 |
| Proved plus probable reserves (MMboe) (3)(4) | **836.1** | 736.7 | 686.9 | 672.7 | 633.9 |
| Proved plus probable reserves per share (boe) | **2.4** | 2.1 | 2.0 | 2.1 | 2.0 |

(1) Reported production amount is based on Company interest before royalty burdens. In December 2016, ARC divested of non-core Saskatchewan assets that had been producing approximately 7,500 barrels per day prior to disposal.
(2) Daily production per thousand shares represents annual average daily production divided by the diluted weighted average common shares for the respective years ended December 31.
(3) As determined by ARC's independent reserve evaluator with an effective date of December 31 for the years shown in accordance with the COGE Handbook.
(4) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests. For more information, see ARC's AIF as filed on SEDAR at www.sedar.com and the news release entitled *"ARC Resources Ltd. Announces Record 320 Per Cent Replacement of Produced Reserves Through Development Activities in 2017"* dated February 8, 2018.

**Exhibit 1a**

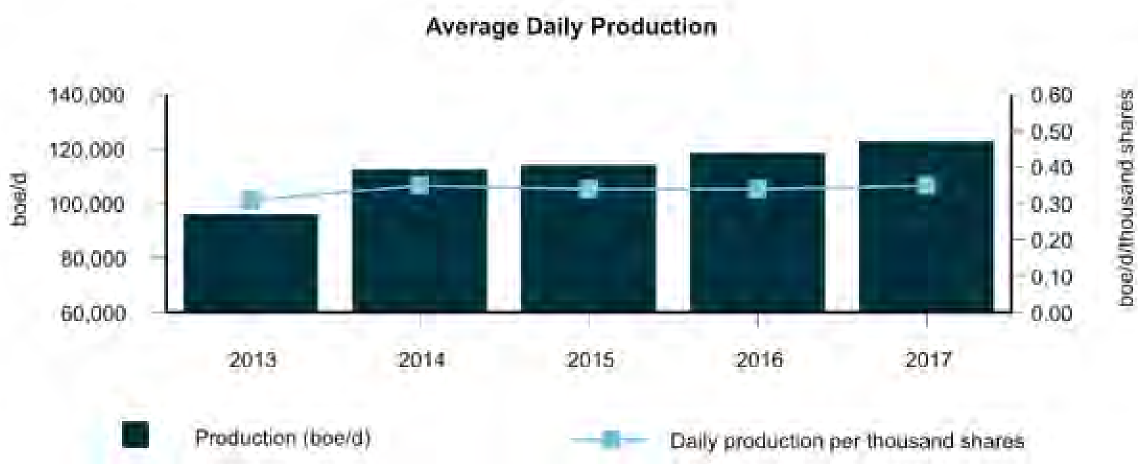



**Exhibit 1b**

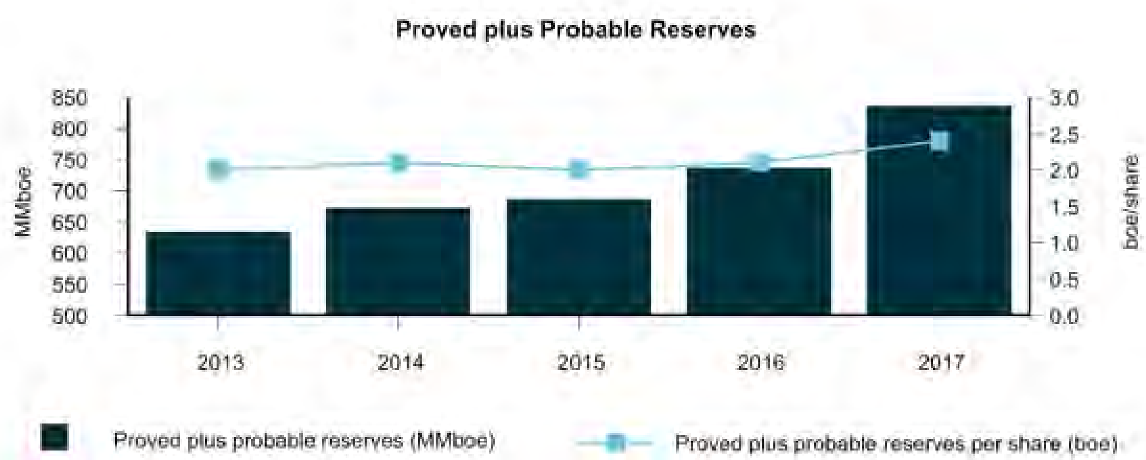
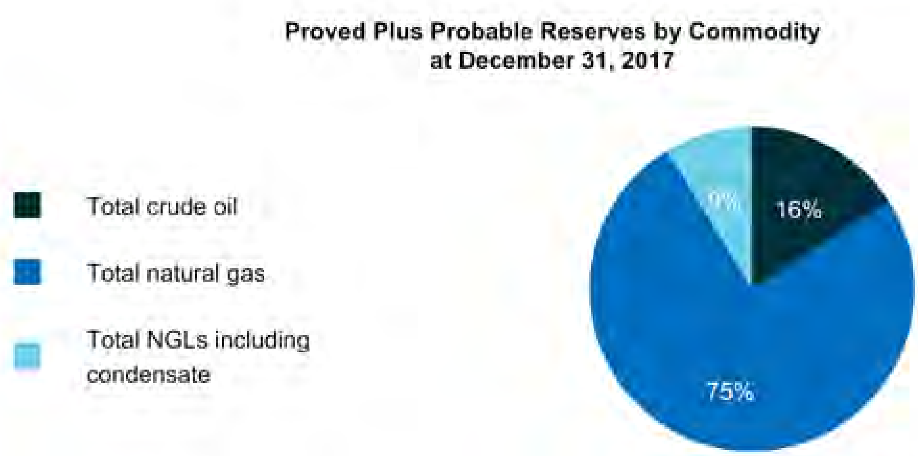



**Exhibit 1c**



## ECONOMIC ENVIRONMENT

ARC's 2017 financial and operating results were impacted by commodity prices and foreign exchange rates which are outlined in Table 4 below:

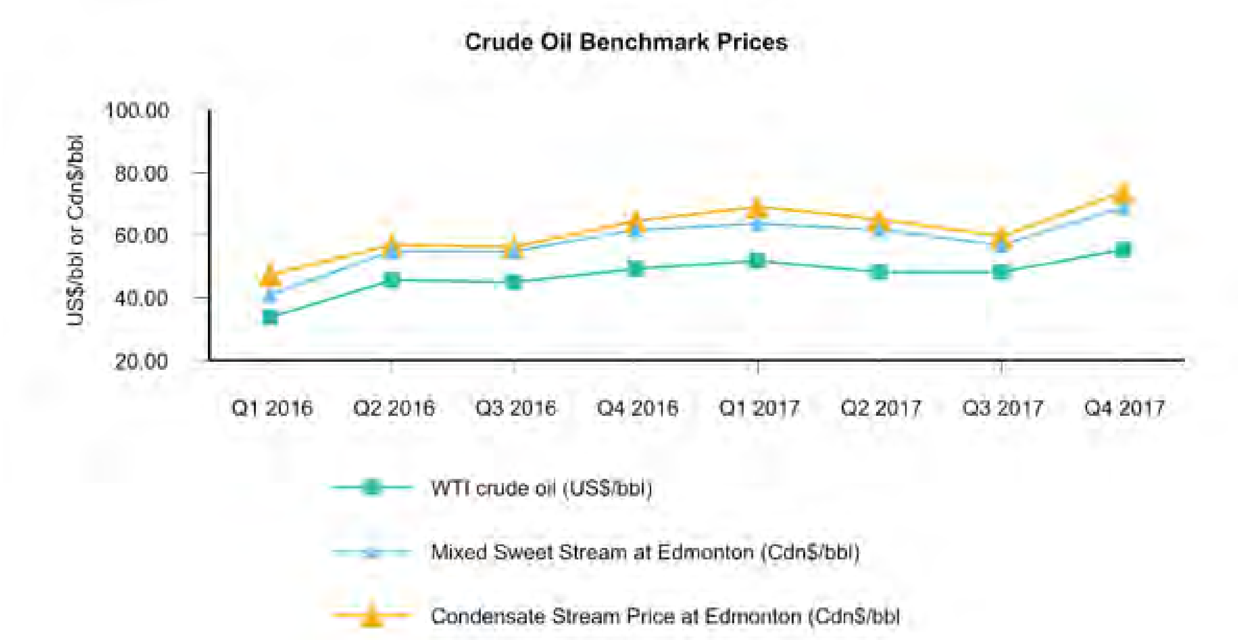
**Table 4**

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| **Selected Benchmark Prices and Exchange Rates** [1] | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| WTI crude oil (US$/bbl) | **55.30** | 49.29 | 12 | **50.85** | 43.47 | 17 |
| Mixed Sweet Stream Price at Edmonton (Cdn$/bbl) | **68.85** | 61.61 | 12 | **62.85** | 53.34 | 18 |
| Condensate Stream Price at Edmonton (Cdn$/bbl) | **73.73** | 64.51 | 14 | **66.87** | 56.24 | 19 |
| NYMEX Henry Hub Last Day Settlement (US$/MMBtu) | **2.93** | 2.98 | (2) | **3.11** | 2.46 | 26 |
| Chicago Citygate Monthly Index (US$/MMBtu) | **2.93** | 3.00 | (2) | **3.04** | 2.49 | 22 |
| AECO 7A Monthly Index (Cdn$/Mcf) | **1.96** | 2.81 | (30) | **2.43** | 2.09 | 16 |
| Cdn$/US$ exchange rate | **1.27** | 1.33 | (5) | **1.30** | 1.32 | (2) |

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

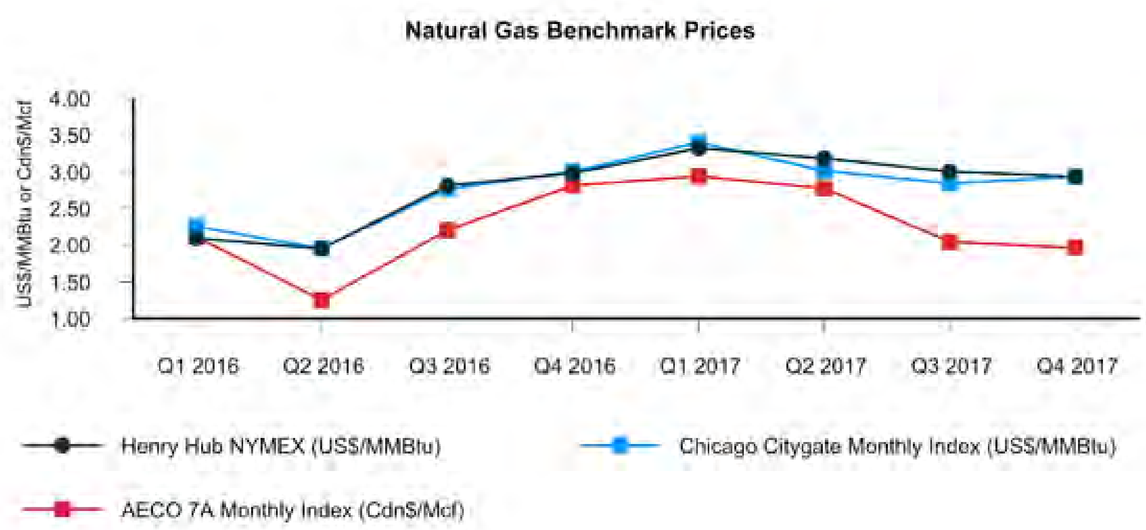
Global crude oil prices improved in the fourth quarter of 2017, with the WTI benchmark price averaging 15 per cent higher than the third quarter of 2017 and 12 per cent higher than the fourth quarter of 2016. Rising crude oil prices were driven by strong global demand as well as OPEC and non-OPEC members' compliance with previously agreed upon production cuts and the decision to further extend the cuts to the end of 2018. ARC's crude oil price is primarily referenced to the mixed sweet crude stream price at Edmonton, which increased 21 per cent in the fourth quarter of 2017 relative to the third quarter of 2017 and 12 per cent relative to the fourth quarter of 2016. The differential between WTI and the mixed sweet crude stream price at Edmonton tightened in the fourth quarter of 2017 to average a discount of US$1.15 per barrel, representing a 60 per cent decrease from the third quarter of 2017 and a 63 per cent decrease from the fourth quarter of 2016. Subsequent to December 31, 2017, the differential has widened with unplanned pipeline outages, pipeline apportionments and strong oil sands production all increasing concerns regarding takeaway options for western Canadian crude oil production.

**Exhibit 2**



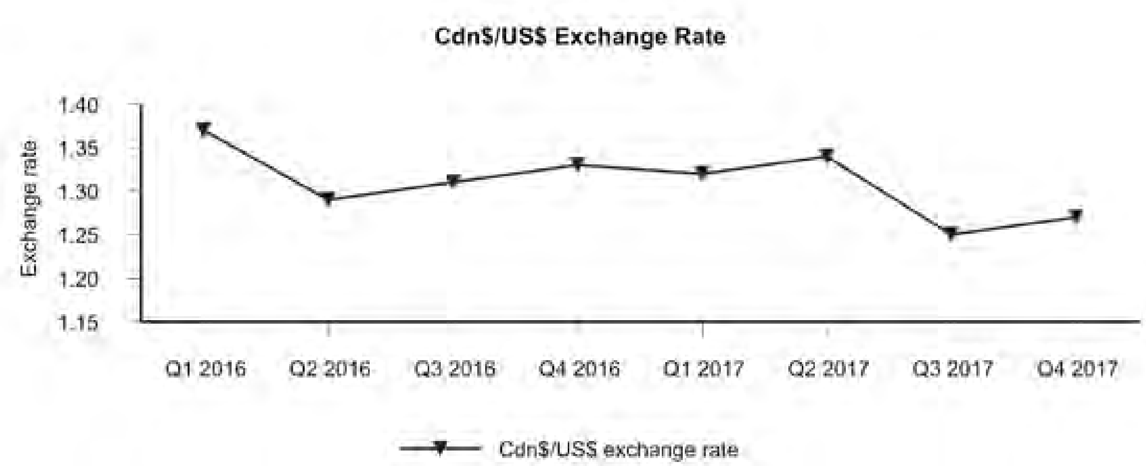

US natural gas prices, referenced by the average NYMEX Henry Hub Last Day Settlement price, were largely unchanged in the fourth quarter of 2017, decreasing two per cent from the third quarter of 2017 and two per cent from the fourth quarter of 2016. While US natural gas supply reached record levels in the fourth quarter of 2017, the increase was largely absorbed by continued strength in baseload demand. ARC's realized natural gas price is diversified physically and financially to multiple sales points including US Midwest, Dawn, AECO, and Station 2 hubs. Western Canadian natural gas prices continued to experience weakness in the fourth quarter of 2017, and were further exacerbated by new production coming online in the period. The AECO hub price decreased four per cent in the fourth quarter of 2017 relative to the third quarter of 2017, and decreased 30 per cent relative to the fourth quarter of 2016. Forward AECO differentials remain wide due to concerns of oversupply, ongoing third-party maintenance, and infrastructure constraints in the Western Canadian Sedimentary Basin. The NYMEX Henry Hub Last Day Settlement price to AECO basis was US$1.40 per MMBtu in the fourth quarter of 2017, unchanged relative to the third quarter of 2017 and 63 per cent wider than the fourth quarter of 2016. Less than five per cent of ARC's expected overall sales revenue is exposed to the AECO and Station 2 markets in 2018.

**Exhibit 2a**




The Canadian dollar weakened relative to the US dollar in the fourth quarter of 2017, as the US dollar was aided by strong economic data and the approval of a new tax reform bill. The Canadian dollar averaged Cdn$/US$1.27 (US$/Cdn$0.79) in the fourth quarter of 2017. Subsequent to December 31, 2017, strong Canadian economic data supported the Bank of Canada's decision to increase interest rates earlier than market expectations, which has resulted in the strengthening of the Canadian dollar relative to the US dollar.

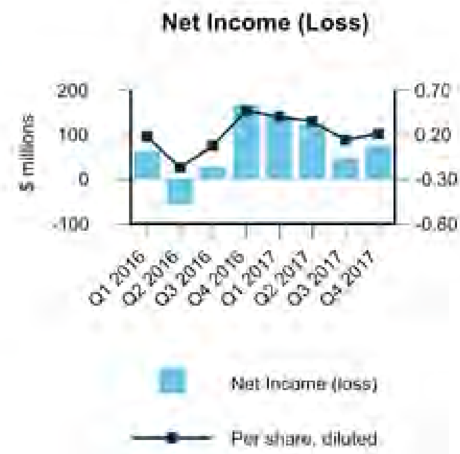
**Exhibit 2b**



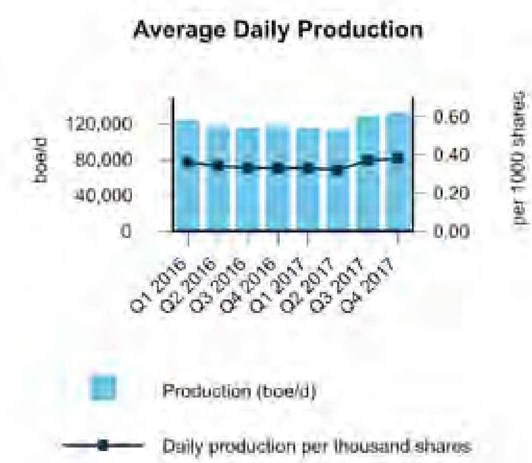
## QUARTERLY RESULTS [1]

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

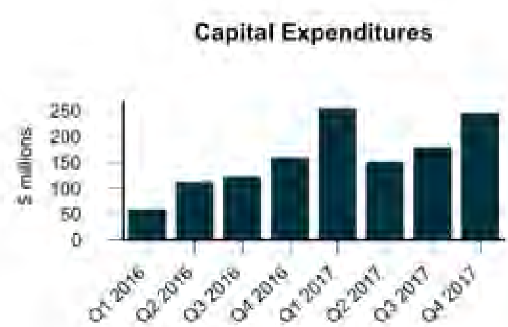
**Exhibit 3**












(1) The details contained in the graphs above are included in the Quarterly Historical Review section of this MD&A.
(2) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

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

- In the fourth quarter of 2017, ARC reclassified certain Exploration and Evaluation ("E&E") assets in Alberta as held for sale and an associated impairment charge of $9.7 million was recorded in E&E expenses.
- In the second quarter of 2017, ARC recognized a reversal of previously recognized impairment on its assets in its Northern Alberta CGU of $75.0 million.
- In the fourth quarter of 2016, ARC recorded a $68.4 million reversal of impairment and a $196.0 million gain associated with dispositions of ARC's remaining non-core Saskatchewan assets and certain non-core assets in Alberta.
- In 2016, ARC completed multiple acquisitions in the Pembina area of Alberta. ARC recognized associated gains on business combinations of $40.2 million and $13.7 million in the second and third quarters of 2016, respectively.
- ARC recorded a $40.8 million deferred income tax recovery in the second quarter of 2016, mainly as a result of an unrealized loss on risk management contracts recorded during the period, as well as an increase in ARC's ARO balance. In the fourth quarter of 2016, ARC recognized a current income tax expense of $24.4 million, reflecting the reduction of income tax pools associated with the divestment of its non-core Saskatchewan assets. Also in the fourth quarter of 2016, ARC recorded a deferred income tax expense of $43.5 million primarily due to impairment recoveries recognized on divested assets and a decrease in ARC's ARO balance. In the second quarter of 2017, a $38.6 million deferred income tax recovery was recorded, primarily as a result of an unrealized gain on risk management contracts and a reversal of impairment recorded in ARC's Northern Alberta CGU. In the fourth quarter of 2017, a $39.4 million deferred income tax expense was recorded primarily as a result of a higher future income tax rate due to the increase in the BC corporate income tax rate to 12 per cent as well as an unrealized gain on risk management contracts recognized during the period.
- Net debt decreased significantly in the fourth quarter of 2016 upon receipt of net proceeds of $683.8 million from the divestment of ARC's non-core Saskatchewan assets. Net debt has increased throughout 2017, resulting in a net debt to annualized funds from operations ratio of 1.0 times at December 31, 2017 with the acceleration of ARC's capital spending program funded by the redeployment of the sale proceeds. ARC's net debt remains within targeted levels of one to 1.5 times funds from operations. Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
- Production increased at the end of 2015 following the commissioning of the Sunrise gas plant in the third quarter of 2015 and the crude oil battery expansion in the fourth quarter of 2015 at ARC's Tower property, both in northeast British Columbia. Crude oil production decreased following dispositions in 2015 and 2016, partially offset by the Pembina acquisitions completed in 2016 and the Company's drilling program. Production continued to increase in the fourth quarter of 2017 to 133,409 boe per day following the early start-up in mid-June of the Dawson Phase III facility in northeast British Columbia.

## ANNUAL GUIDANCE AND FINANCIAL HIGHLIGHTS

The foundation of ARC's business strategy is risk-managed value creation. High-quality assets, health, safety and environmental and operational excellence, financial flexibility and strength, and top talent are the key principles underpinning ARC's business strategy. ARC's goal is to create shareholder value in the form of regular dividends and anticipated capital appreciation relating to profitable future growth.

ARC's Board of Directors approved a $690 million capital program for 2018 that focuses on long-term profitability and balance sheet strength through the continued development of ARC's Montney crude oil, liquids-rich natural gas, and natural gas assets. The 2018 capital program will sustain ARC's base Montney businesses and will fund strategic infrastructure at the Sunrise Phase II gas processing facility, ARC's next major phase of growth, expected to be at full capacity by mid-year 2019. The capital program will allow ARC to continue to develop the Lower Montney and advance the liquids-rich Attachie asset towards commercialization with the completion and tie-in of a seven-well demonstration pad at Attachie West. ARC expects 2018 annual average production to be in the range of 130,000 to 134,000 boe per day. Additional details on ARC's 2018 capital program and 2018 guidance can be found in the November 9, 2017 news release entitled, *"ARC Resources Ltd. Announces $690 Million Capital Program for 2018"* available on ARC's website at www.arcresources.com and on SEDAR at www.sedar.com.

Ongoing commodity price volatility may affect ARC's funds from operations and over the long term, profitability and return on investment of capital programs. As continued volatility is expected, ARC will continue to take steps to mitigate these risks, including executing active risk management and physical marketing diversification programs, focusing on capital and operating efficiencies, and protecting its strong financial position, with a targeted net debt to annualized funds from operations ratio of between 1.0 and 1.5 times. ARC will continue to screen projects for profitability in a disciplined manner and will adjust investment levels and the pace of development, if required, to ensure balance sheet strength is protected. The 2018 capital budget excludes land purchases and property acquisitions or dispositions. ARC will continue to pursue opportunities to consolidate its land position and grow its presence in key areas through land purchases and property acquisitions, and evaluate its asset portfolio on a continuous basis with a view to selling assets that do not meet ARC's investment guidelines. Through the normal course of business, acquisitions and dispositions may occur that could impact the expected production for the year. Table 5 is a summary of ARC's 2018 and 2017 annual guidance and a review of 2017 actual results.

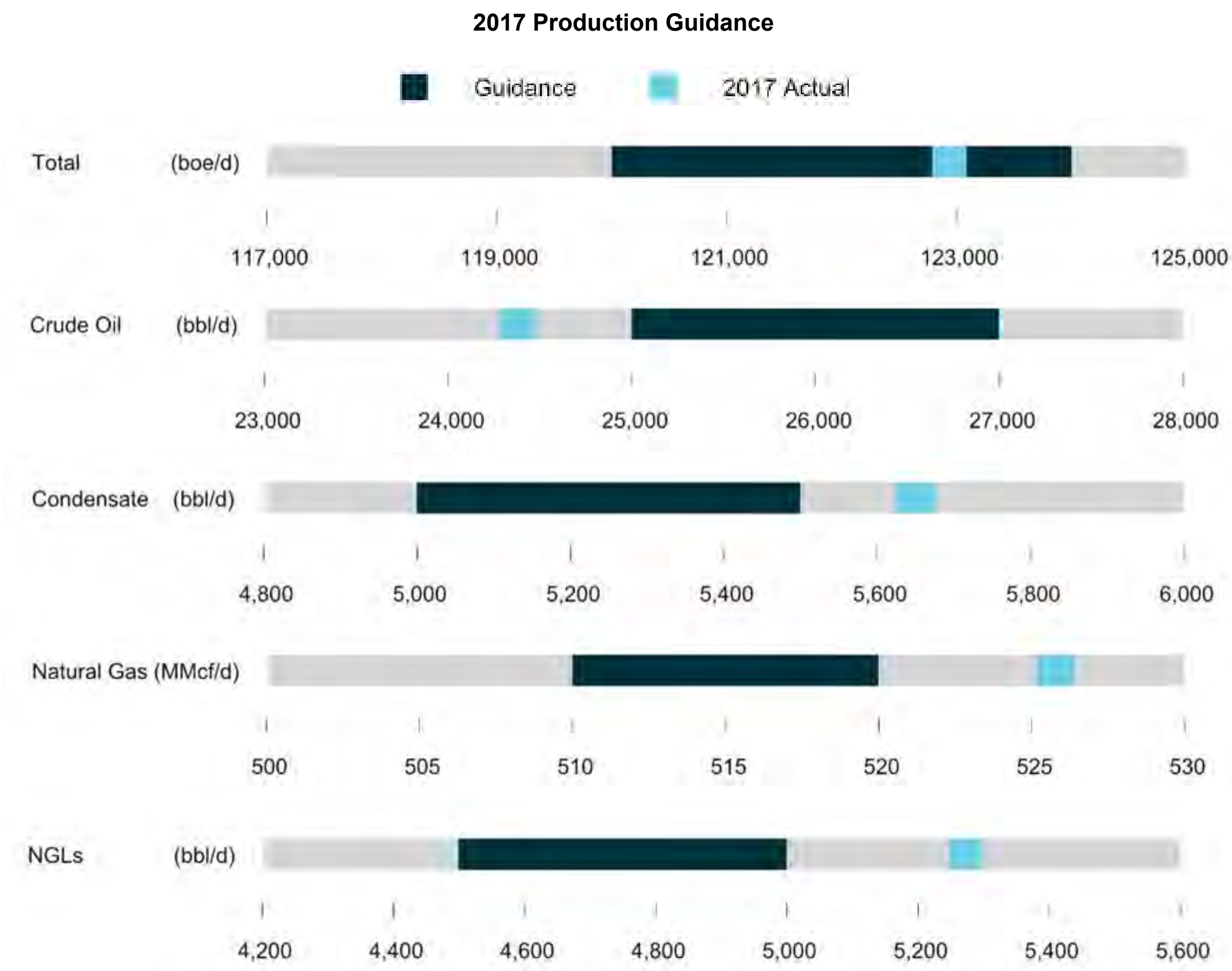
**Table 5**

| | 2018 Guidance | 2017 Guidance | **2017 Actuals** | % Variance from Guidance |
|---|---|---|---|---|
| Production | | | | |
| Crude oil (bbl/d) | 25,000 - 27,000 | 25,000 - 27,000 | **24,380** | (2) |
| Condensate (bbl/d) | 6,500 - 7,000 | 5,000 - 5,500 | **5,650** | 3 |
| Natural gas (MMcf/d) | 555 - 565 | 510 - 520 | **525.8** | 1 |
| NGLs (bbl/d) | 6,000 - 6,500 | 4,500 - 5,000 | **5,273** | 5 |
| Total (boe/d) | 130,000 - 134,000 | 120,000 - 124,000 | **122,937** | — |
| Expenses ($/boe) | | | | |
| Operating | 6.50 - 6.90 | 6.30 - 6.70 | **6.41** | — |
| Transportation | 2.80 - 3.00 | 2.45 - 2.65 | **2.52** | — |
| G&A expenses before share-based compensation plans | 1.25 - 1.45 | 1.25 - 1.45 | **1.31** | — |
| G&A - share-based compensation plans (1) | 0.40 - 0.55 | 0.10 - 0.40 | **0.23** | — |
| Interest | 0.80 - 1.00 | 1.00 - 1.10 | **1.01** | — |
| Current income tax (per cent of funds from operations) (2) | 0 - 5 | 0 - 5 | **2** | — |
| Capital expenditures before land purchases and net property acquisitions (dispositions) ($ millions) | 690 | 830 | **829.7** | — |
| Land purchases and net property acquisitions (dispositions) ($ millions) | N/A | N/A | **100.1** | N/A |
| Weighted average shares (millions) | 353 | 353 | **353** | — |

(1) Comprises expenses recognized under the RSU and PSU Plan, Share Option Plan and LTRSA Plan, and excludes compensation charges under the DSU Plan. In periods where substantial share price fluctuation occurs, ARC's G&A expenses are subject to greater volatility.
(2) The current income tax estimates vary depending on the level of commodity prices.

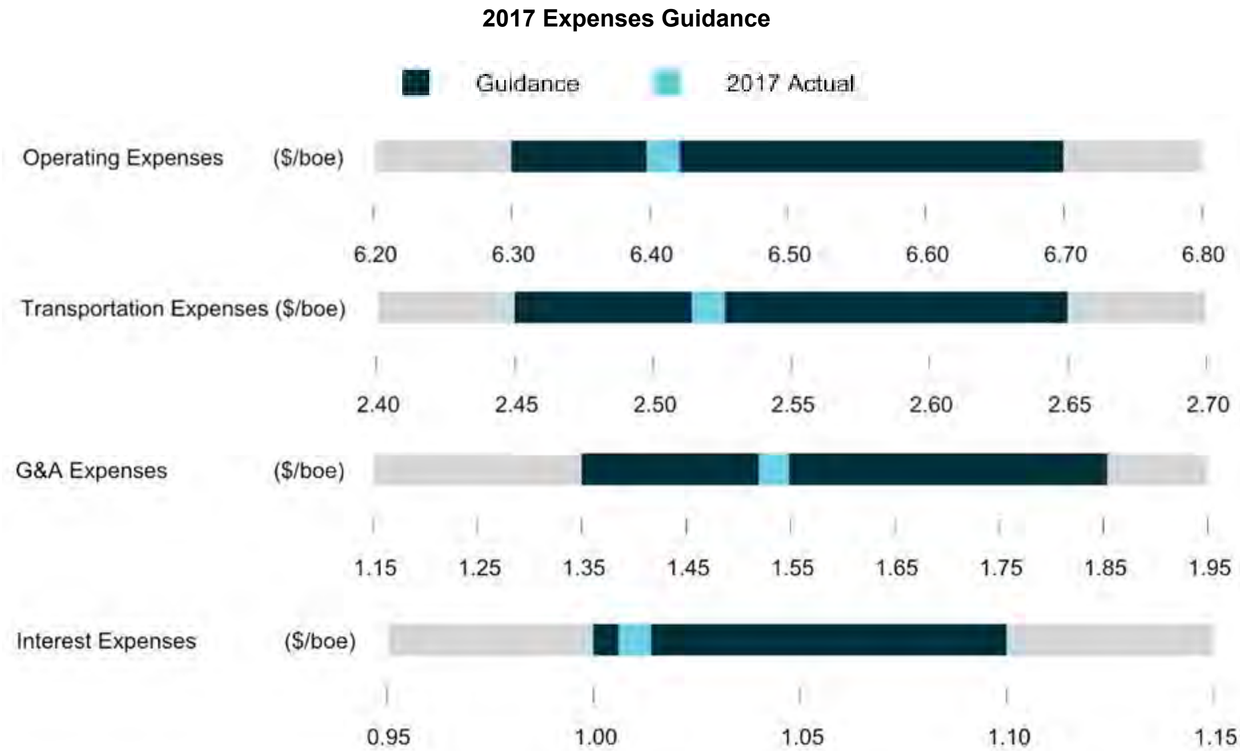
ARC's 2017 financial and operating results were largely in line with guidance. Production for the year ended December 31, 2017 fell within the high end of the guidance range of 120,000 to 124,000 boe per day. Crude oil production was two per cent below the guidance range due to adverse weather conditions causing small delays in bringing on new production in Alberta. Condensate, natural gas, and NGLs production were three per cent, one per cent, and five per cent, above their respective guidance ranges due to strong production results from ARC's northeast British Columbia Montney assets.

**Exhibit 4**




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

**Exhibit 4a**




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

## 2017 FOURTH QUARTER FINANCIAL AND OPERATING RESULTS

### Financial Highlights

**Table 6**

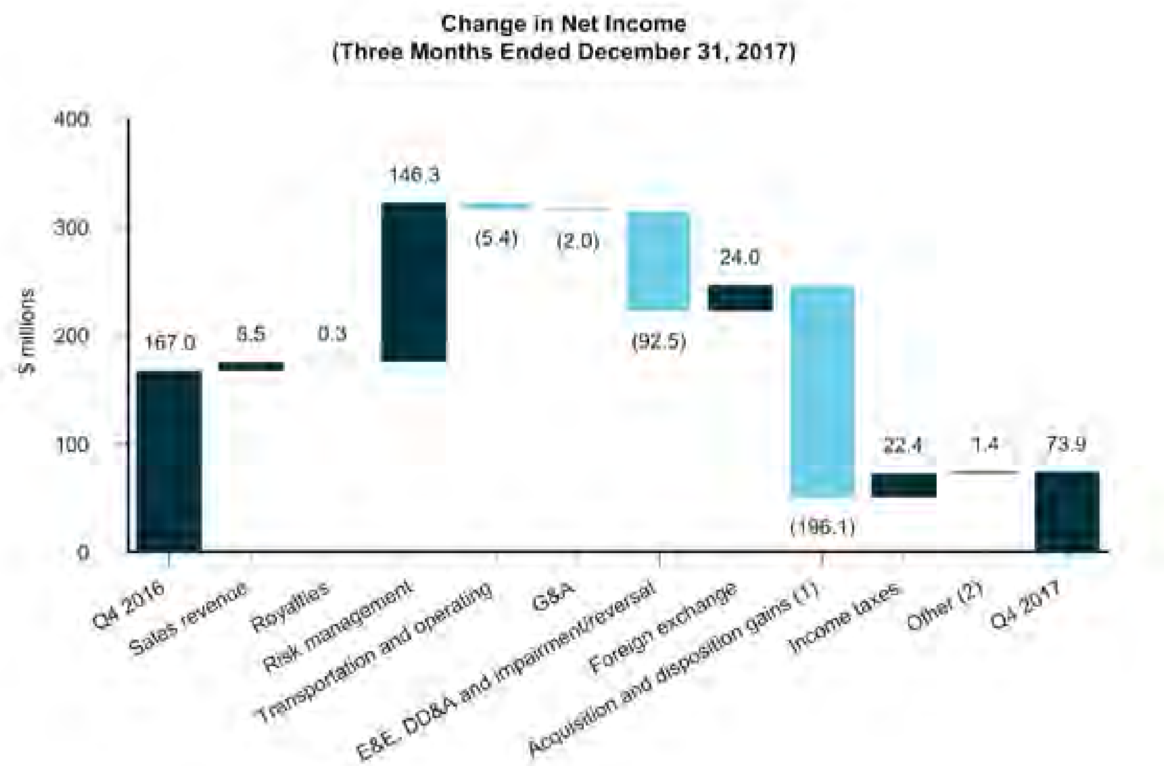
| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| ($ millions, except per share and volume data) | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| Net income | **73.9** | 167.0 | (56) | **388.9** | 201.3 | 93 |
| Net income per share | **0.21** | 0.47 | (55) | **1.10** | 0.57 | 93 |
| Funds from operations [(1)] | **221.1** | 188.5 | 17 | **731.9** | 633.3 | 16 |
| Funds from operations per share [(1)] | **0.63** | 0.53 | 19 | **2.07** | 1.80 | 15 |
| Dividends per share [(2)] | **0.15** | 0.15 | — | **0.60** | 0.65 | (8) |
| Average daily production (boe/d) | **133,409** | 117,611 | 13 | **122,937** | 118,671 | 4 |

(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Dividends per share are based on the number of shares outstanding at each dividend record date.

### Net Income

In the fourth quarter of 2017, ARC recognized net income of $73.9 million ($0.21 per share), $93.1 million lower than ARC's fourth quarter of 2016 net income of $167.0 million ($0.47 per share). The decrease in net income is due to impairment reversals and gains on disposal of assets totaling $196.0 million in the fourth quarter of 2016 when no such gains were recorded for the same period in 2017. These decreases in net income were partially offset by higher gains on risk management contracts of $146.3 million, higher gains on foreign exchange and lower income tax expense in the fourth quarter of 2017.

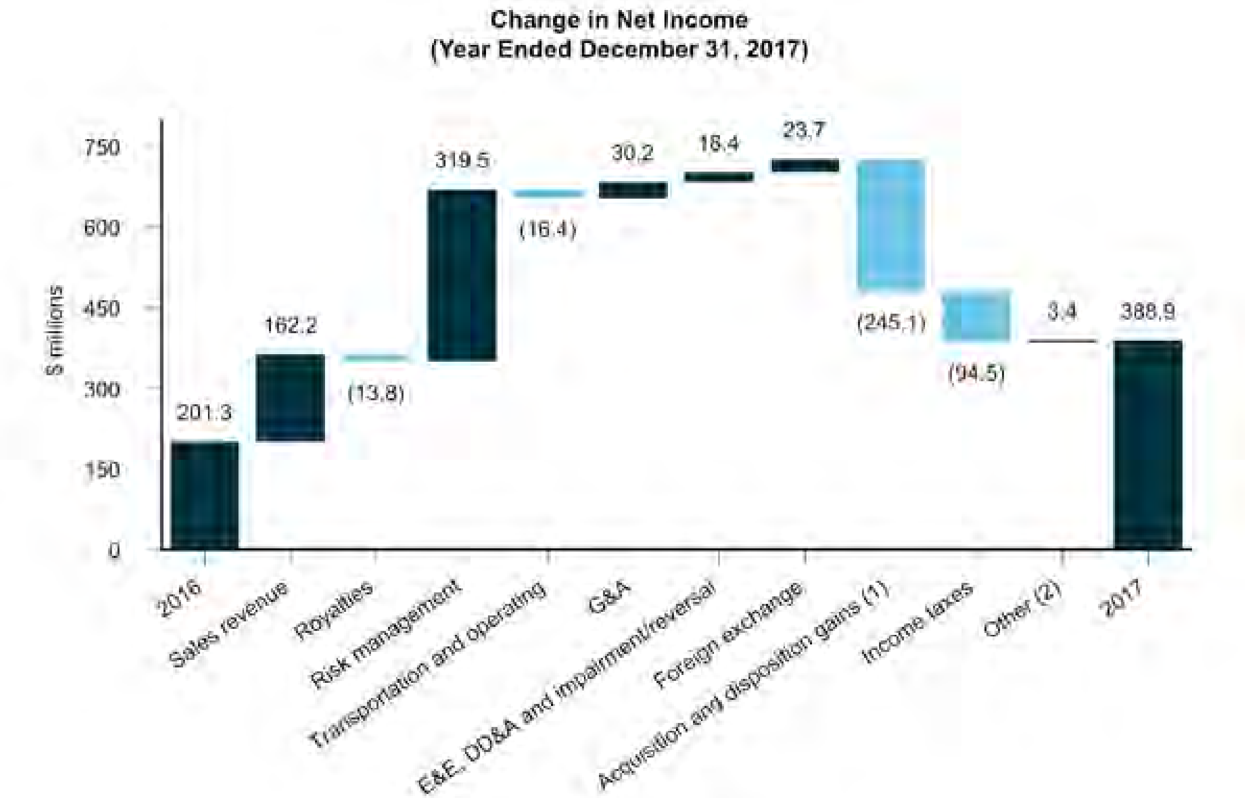
**Exhibit 5**




(1) Includes gains related to business combinations and disposals of PP&E.
(2) Includes gain or loss on short-term investments, accretion of ARO, and interest and financing charges.

During the year ended December 31, 2017, ARC recognized net income of $388.9 million ($1.10 per share), $187.6 million higher than net income of $201.3 million ($0.57 per share) for the prior year. ARC's 2017 revenue net of royalties was higher than 2016 by $148.4 million, primarily due to improved commodity prices. ARC also recognized higher gains on risk management contracts of $319.5 million, as well as lower DD&A, foreign exchange losses and G&A expenses. In addition, a reversal of previously recorded impairment charges of $75.0 million ($55.1 million net of deferred taxes) was recorded in the second quarter of 2017. These increases were partially offset by higher income taxes and gains on business combinations and disposals of assets in the prior year when no such gains were recognized in 2017.

**Exhibit 5a**




(1) Includes gains related to business combinations and disposals of PP&E.
(2) Includes gain or loss on short-term investments, accretion of ARO, and interest and financing charges.

## Funds from Operations

ARC considers funds from operations to be a key measure of operating performance as it demonstrates ARC's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to repay debt. Management believes that such a measure provides an insightful assessment of ARC's operations on a continuing basis by eliminating certain non-cash charges and actual settlements of ARO, the extent and timing of which, in the opinion of Management, is discretionary. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

ARC reports funds from operations in total and on a per share basis. Refer to Note 16 "Capital Management" in the financial statements. Table 7 is a reconciliation of ARC's net income to funds from operations and cash flow from operating activities:

**Table 7**

| | Three Months Ended December 31 | | Year Ended December 31 | |
|---|---|---|---|---|
| ($ millions) | **2017** | 2016 | **2017** | 2016 |
| Net income | **73.9** | 167.0 | **388.9** | 201.3 |
| Adjusted for the following non-cash items: | | | | |
| DD&A and impairment | **130.1** | 47.3 | **405.1** | 431.5 |
| Accretion of ARO | **3.6** | 3.0 | **13.1** | 12.1 |
| E&E expenses | **9.7** | — | **9.7** | 1.7 |
| Deferred tax expense | **39.4** | 43.5 | **119.4** | 16.0 |
| Unrealized loss (gain) on risk management contracts | **(36.0)** | 99.8 | **(137.8)** | 253.2 |
| Unrealized loss (gain) on foreign exchange | **0.8** | 23.1 | **(65.2)** | (34.5) |
| Gain on business combinations | **—** | — | **—** | (53.9) |
| Loss (gain) on disposal of petroleum and natural gas properties | **0.1** | (196.0) | **(4.8)** | (196.0) |
| Other | **(0.5)** | 0.8 | **3.5** | 1.9 |
| **Funds from operations** | **221.1** | 188.5 | **731.9** | 633.3 |
| Net change in other liabilities | **(2.5)** | (7.5) | **(30.4)** | (4.7) |
| Change in non-cash operating working capital | **(22.6)** | (21.7) | **(28.7)** | 2.1 |
| **Cash flow from operating activities** | **196.0** | 159.3 | **672.8** | 630.7 |

Details of the change in funds from operations from the three months and year ended December 31, 2016 to the three months and year ended December 31, 2017 are included in Table 8 below:

**Table 8**

| | Three Months Ended December 31 | | Year Ended December 31 | |
|---|---|---|---|---|
| | $ millions | $/Share | $ millions | $/Share |
| Funds from operations – 2016 | 188.5 | 0.53 | 633.3 | 1.80 |
| Volume variance | | | | |
| Crude oil and liquids | **(6.9)** | **(0.01)** | **(90.2)** | **(0.26)** |
| Natural gas | **26.6** | **0.08** | **40.2** | **0.11** |
| Price variance | | | | |
| Crude oil and liquids | **34.3** | **0.09** | **147.5** | **0.42** |
| Natural gas | **(43.2)** | **(0.11)** | **63.3** | **0.18** |
| Other income | **(2.3)** | **(0.01)** | **1.4** | **—** |
| Realized gain on risk management contracts | **10.5** | **0.03** | **(71.5)** | **(0.20)** |
| Royalties | **0.3** | **—** | **(13.8)** | **(0.04)** |
| Expenses | | | | |
| Transportation | **(4.9)** | **(0.01)** | **(17.7)** | **(0.05)** |
| Operating | **(0.5)** | **—** | **1.3** | **—** |
| G&A | **(3.0)** | **(0.01)** | **31.0** | **0.09** |
| Interest | **1.7** | **—** | **5.2** | **0.01** |
| Current income taxes | **18.3** | **0.05** | **8.9** | **0.03** |
| Realized loss on foreign exchange | **1.7** | **—** | **(7.0)** | **(0.02)** |
| Funds from operations – 2017 | **221.1** | **0.63** | **731.9** | **2.07** |

Funds from operations increased by 17 per cent in the fourth quarter of 2017 to $221.1 million from $188.5 million generated in the fourth quarter of 2016. The increase primarily reflects increased natural gas production, higher crude oil and liquids prices, higher realized gains on risk management contracts and foreign exchange and lower royalties, interest and current income tax expenses. Decreased natural gas prices, higher operating, transportation and G&A expenses and lower crude oil production partially offset the increase.

For the year ended December 31, 2017, funds from operations increased by $98.6 million to $731.9 million from $633.3 million in the same period of 2016. This increase primarily reflects improved commodity prices, lower G&A and current income taxes, and increased natural gas production. A lower realized gain on risk management contracts, decreased crude oil production, and higher royalties, transportation and realized loss on foreign exchange partially offset the increase.

**Exhibit 6**

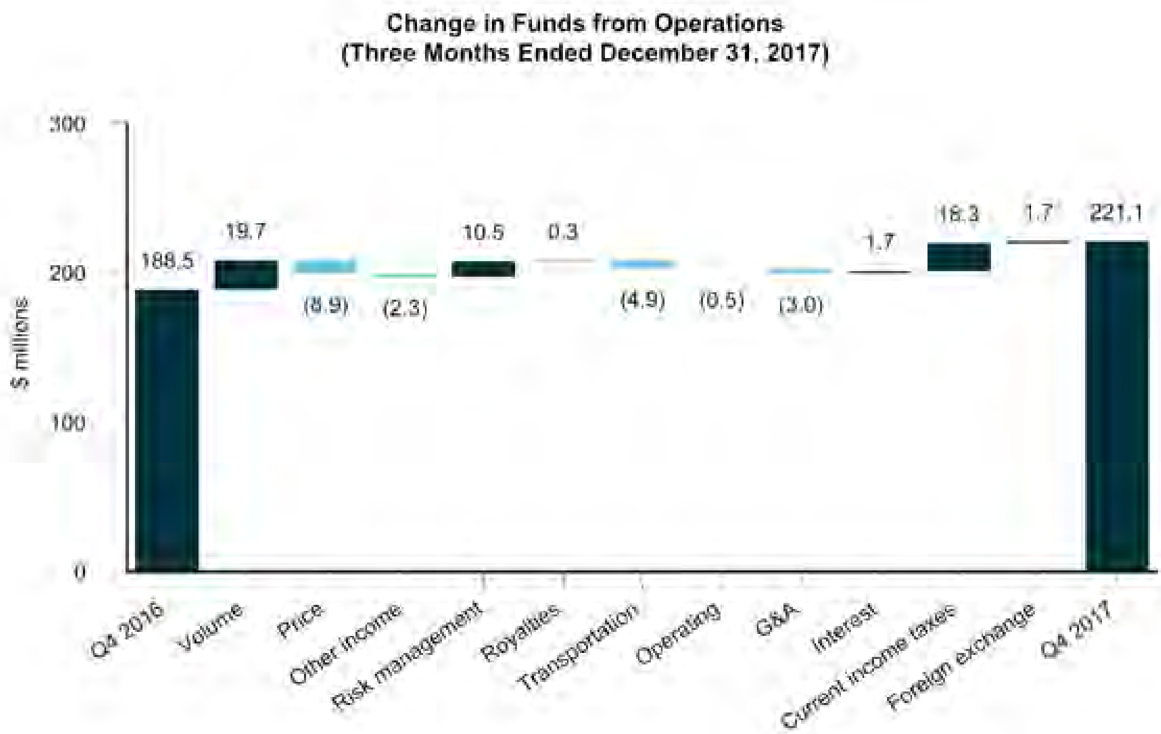
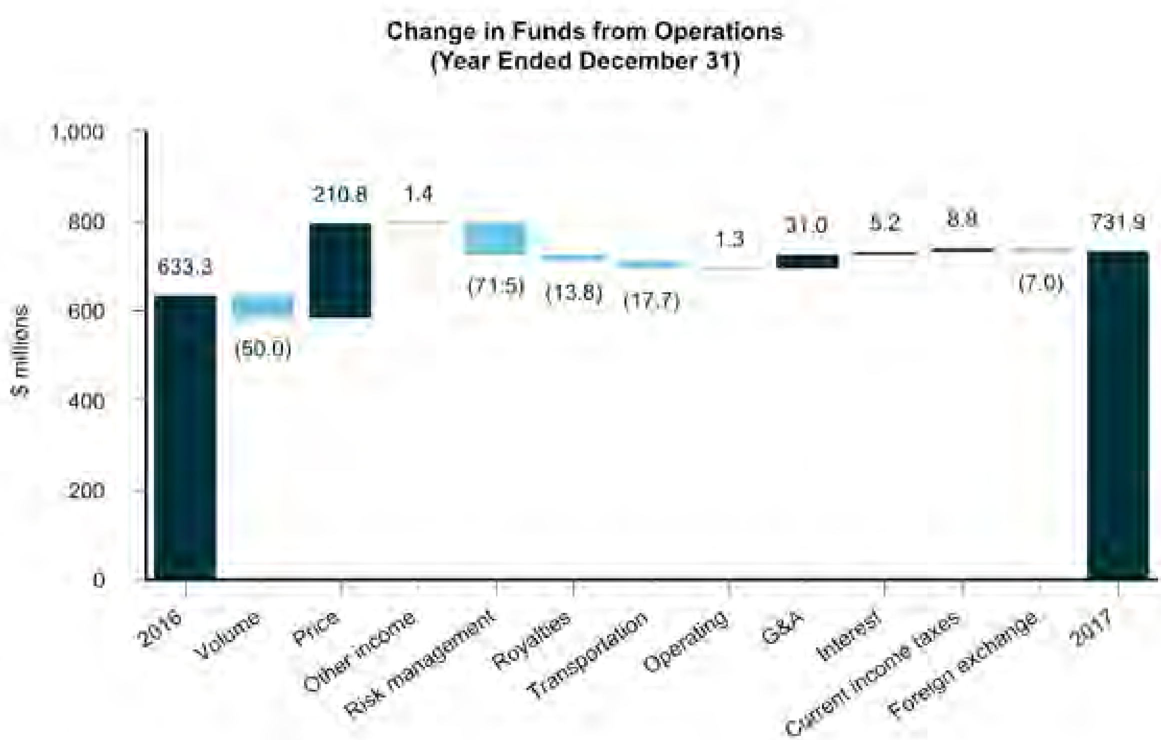



**Exhibit 6a**



### 2017 Net Income and Funds from Operations Sensitivity

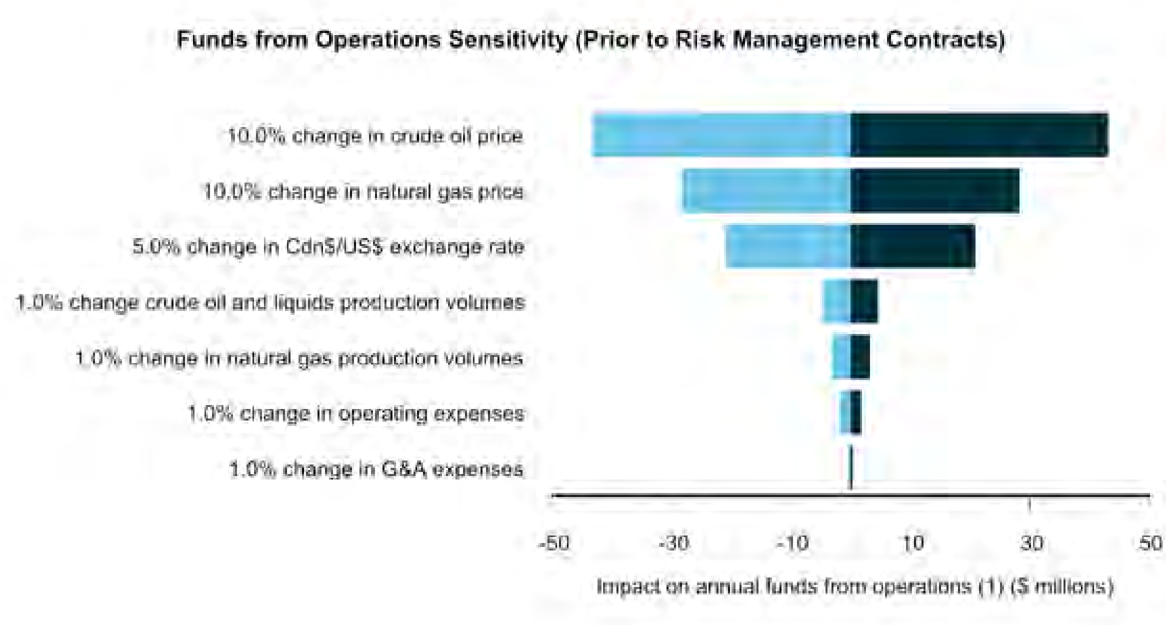
Table 9 illustrates sensitivities of operating items (prior to the impact of gains or losses on risk management contracts) to operational and business environment changes and the resulting impact on net income and funds from operations:

**Table 9**

| | | | Impact on Annual Funds from Operations [6] | | Impact on Annual Net Income | |
|---|---|---|---|---|---|---|
| | Assumption | Change | Notional Amount ($ millions) | $/Share | Notional Amount ($ millions) | $/Share |
| **Business Environment** [1] | | | | | | |
| Crude oil price [2][3] | 60.95 | 10.0% | 43.2 | 0.122 | 43.2 | 0.122 |
| Natural gas price [2][3] | 2.56 | 10.0% | 28.3 | 0.080 | 28.3 | 0.080 |
| Cdn$/US$ exchange rate [2][3][4] | 1.30 | 5.0% | 20.9 | 0.059 | 20.9 | 0.059 |
| **Operational** [5] | | | | | | |
| Crude oil and liquids production volumes (bbl/d) | 35,303 | 1.0% | 4.6 | 0.013 | 3.2 | 0.009 |
| Natural gas production volumes (MMcf/d) | 525.8 | 1.0% | 3.2 | 0.009 | 1.4 | 0.004 |
| Operating expenses ($/boe) | 6.41 | 1.0% | 1.8 | 0.005 | 1.8 | 0.005 |
| G&A expenses ($/boe) | 1.54 | 1.0% | 0.4 | 0.001 | 0.4 | 0.001 |

(1) Calculations are performed independently and may not be indicative of actual results that would occur when multiple variables change at the same time.
(2) Prices and rates are indicative of ARC's average realized prices for the the year ended December 31, 2017. See Table 14 of this MD&A for additional details. The calculated impact on funds from operations and net income would only be applicable within a limited range of these amounts.
(3) Analysis does not include the effect of risk management contracts.
(4) Includes impact of foreign exchange on crude oil, condensate, and NGLs prices that are presented in US dollars.
(5) Operational assumptions are based upon results for the year ended December 31, 2017.
(6) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

**Exhibit 7**




(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

## Production

### Table 10

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| **Production** | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| Light and medium crude oil (bbl/d) | **23,815** | 29,184 | (18) | **23,633** | 30,906 | (24) |
| Heavy crude oil (bbl/d) | **826** | 701 | 18 | **747** | 604 | 24 |
| Condensate (bbl/d) | **6,989** | 3,767 | 86 | **5,650** | 3,626 | 56 |
| Natural gas (MMcf/d) | **572.4** | 478.4 | 20 | **525.8** | 475.6 | 11 |
| NGLs (bbl/d) | **6,380** | 4,220 | 51 | **5,273** | 4,274 | 23 |
| Total production (boe/d) | **133,409** | 117,611 | 13 | **122,937** | 118,671 | 4 |
| Natural gas production (%) | **72** | 68 | 6 | **71** | 67 | 6 |
| Crude oil and liquids production (%) | **28** | 32 | (13) | **29** | 33 | (12) |

During the three months ended December 31, 2017, crude oil and liquids production remained relatively unchanged as compared to the same period of the prior year as decreases in crude oil production were offset by increases in condensate and NGL production. During the year ended December 31, 2017, crude oil and liquids production decreased 10 per cent as compared to the same period of the prior year, reflecting the disposition of ARC's non-core Saskatchewan assets at the end of the fourth quarter of 2016 that had been producing approximately 7,500 barrels per day prior to disposal, as well as natural declines associated with reduced drilling activity in other non-core areas. Partially offsetting these decreases is a full year of production from the acquisition of certain properties throughout 2016 in the Pembina area of Alberta producing approximately 3,100 barrels per day, as well as increased liquids production from the Dawson Phase III facility in northeast British Columbia following the early start-up of the facility in mid-June 2017.

For the three months and year ended December 31, 2017, natural gas production increased 20 per cent and 11 per cent, respectively, as compared to the same periods of the prior year. The increase in both periods reflects the ramp up of production at the Dawson Phase III facility, as well as increased drilling and completions activity in northeast British Columbia.

### Exhibit 8

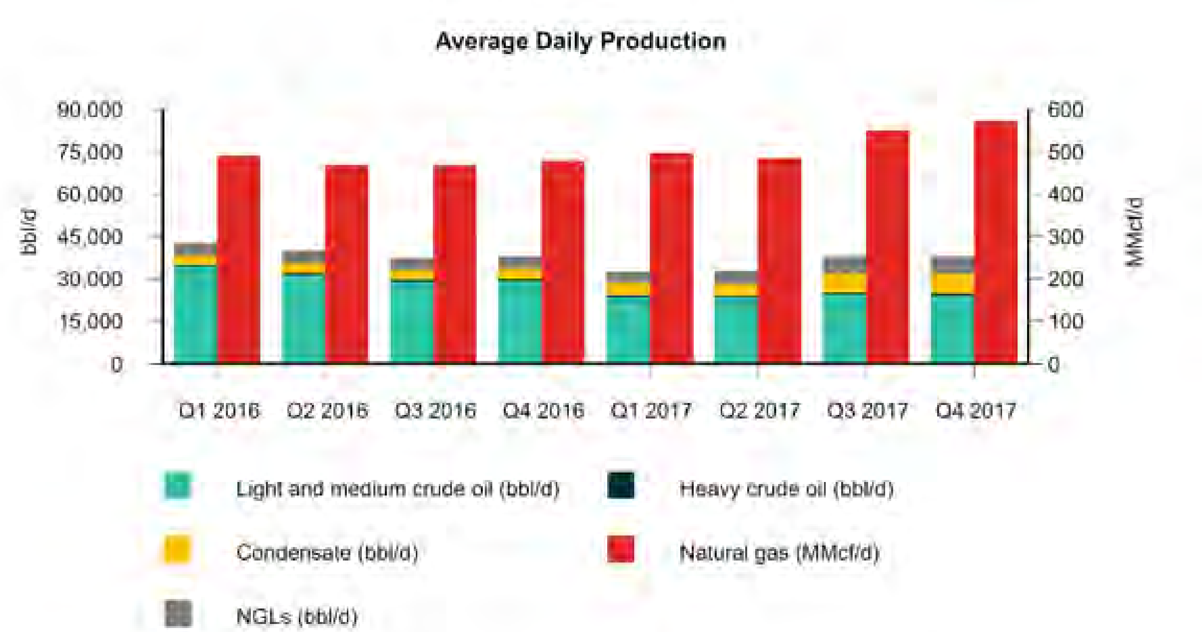


Table 11 summarizes ARC's production by core area for the fourth quarter of 2017 and 2016:

**Table 11**

| | Three Months Ended December 31, 2017 | | | | |
|---|---|---|---|---|---|
| **Production** | **Total** | **Crude Oil** | **Condensate** | **Natural Gas** | **NGLs** |
| Core Area | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | **45,008** | — | 2,439 | 248.1 | 1,223 |
| Parkland/Tower | **29,180** | 6,345 | 2,315 | 105.0 | 3,013 |
| Sunrise | **22,033** | — | 35 | 131.8 | 32 |
| Ante Creek | **15,868** | 5,810 | 529 | 49.1 | 1,340 |
| Pembina | **10,857** | 8,438 | 156 | 11.1 | 419 |
| All other | **10,463** | 4,048 | 1,515 | 27.3 | 353 |
| **Total** | **133,409** | **24,641** | **6,989** | **572.4** | **6,380** |

| | Three Months Ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| Production | Total | Crude Oil | Condensate | Natural Gas | NGLs |
| Core Area | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | 28,712 | — | 1,054 | 164.2 | 290 |
| Parkland/Tower | 25,437 | 6,627 | 1,296 | 94.7 | 1,732 |
| Sunrise | 22,480 | — | 57 | 134.4 | 19 |
| Ante Creek | 16,073 | 5,464 | 510 | 52.8 | 1,303 |
| Pembina | 11,019 | 8,218 | 175 | 13.1 | 448 |
| All other | 13,890 | 9,576 | 675 | 19.2 | 428 |
| **Total** | 117,611 | 29,885 | 3,767 | 478.4 | 4,220 |

**Exhibit 9**

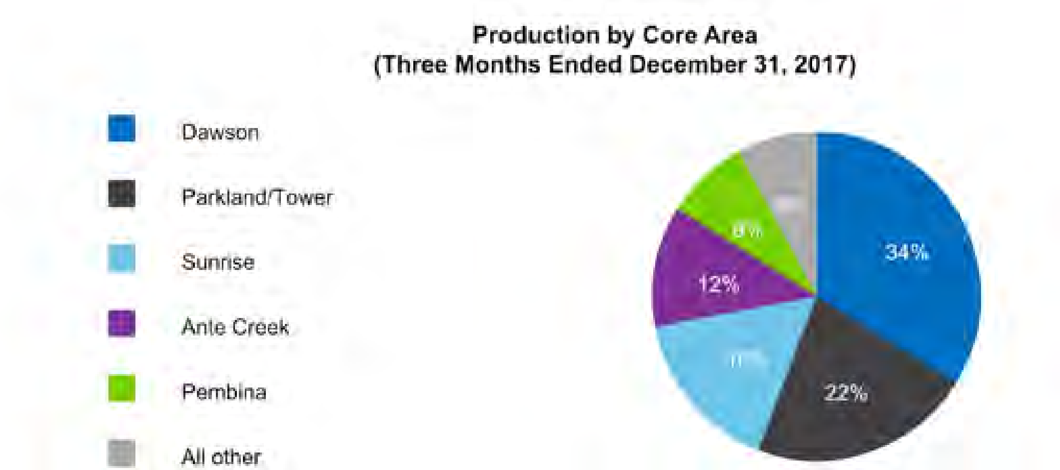
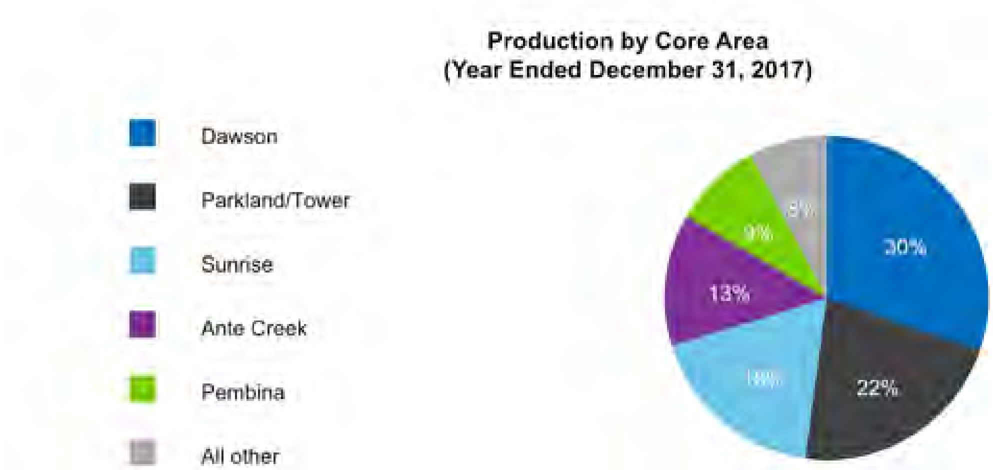


**Table 11a**

| | Year Ended December 31, 2017 | | | | |
|---|---|---|---|---|---|
| **Production** | **Total** | **Crude Oil** | **Condensate** | **Natural Gas** | **NGLs** |
| **Core Area** | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | **37,552** | — | 1,717 | 210.5 | 760 |
| Parkland/Tower | **26,775** | 6,422 | 1,874 | 96.5 | 2,396 |
| Sunrise | **22,196** | — | 56 | 132.6 | 34 |
| Ante Creek | **16,077** | 5,779 | 477 | 51.1 | 1,301 |
| Pembina | **10,739** | 8,173 | 172 | 11.7 | 445 |
| All other | **9,598** | 4,006 | 1,354 | 23.4 | 337 |
| **Total** | **122,937** | **24,380** | **5,650** | **525.8** | **5,273** |

| | Year Ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| Production | Total | Crude Oil | Condensate | Natural Gas | NGLs |
| Core Area | (boe/d) | (bbl/d) | (bbl/d) | (MMcf/d) | (bbl/d) |
| Dawson | 29,124 | — | 950 | 167.6 | 245 |
| Parkland/Tower | 26,628 | 7,268 | 1,286 | 97.2 | 1,873 |
| Sunrise | 20,632 | — | 88 | 123.1 | 22 |
| Ante Creek | 15,760 | 5,414 | 481 | 51.9 | 1,223 |
| Pembina | 10,285 | 7,494 | 178 | 12.9 | 456 |
| All other | 16,242 | 11,334 | 643 | 22.9 | 455 |
| **Total** | 118,671 | 31,510 | 3,626 | 475.6 | 4,274 |

**Exhibit 9a**




### Sales of Crude Oil, Natural Gas, Condensate, NGLs and Other Income

Sales revenue from crude oil, natural gas, condensate, NGLs and other income increased by three per cent and 15 per cent for the fourth quarter and year ended December 31, 2017, respectively, compared to the same periods in 2016. The increase for the three months ended December 31, 2017 primarily reflects higher average realized crude oil and liquids prices as well as higher natural gas volumes which is partially offset by lower average natural gas prices. The increase for the year ended December 31, 2017 primarily reflects higher average realized commodity prices and is partially offset by decreased crude oil production volumes.

A breakdown of sales revenue by product is outlined in Table 12:

**Table 12**

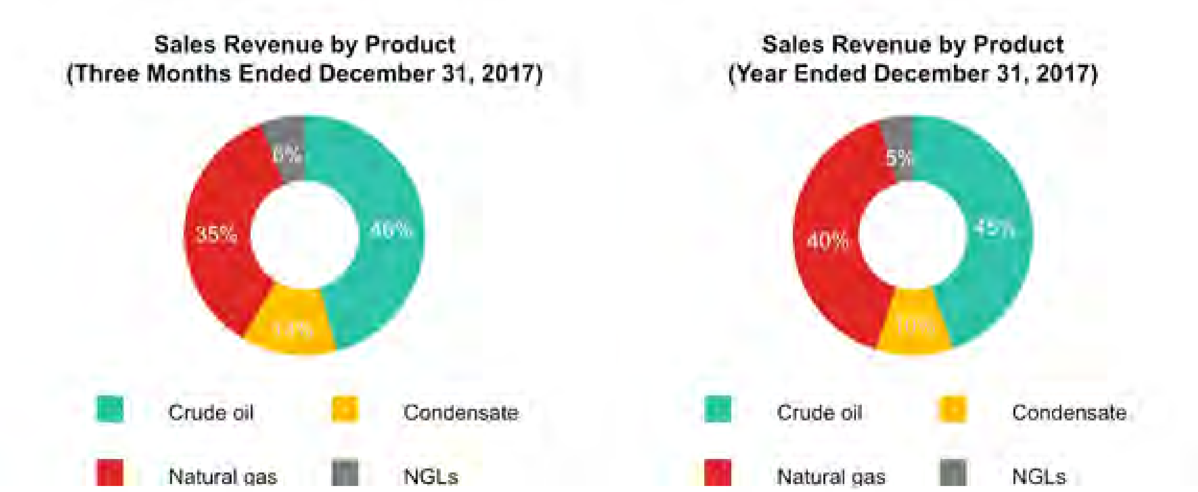
| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| **Sales Revenue by Product** ($ millions) | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| Crude oil | **153.4** | 162.6 | (6) | **542.4** | 580.5 | (7) |
| Condensate | **44.5** | 20.5 | 117 | **127.9** | 67.7 | 89 |
| Natural gas | **119.9** | 136.5 | (12) | **491.3** | 387.8 | 27 |
| NGLs | **20.7** | 8.1 | 156 | **56.9** | 21.7 | 162 |
| Total sales revenue from crude oil, natural gas, condensate and NGLs | **338.5** | 327.7 | 3 | **1,218.5** | 1,057.7 | 15 |
| Other income | **1.8** | 4.1 | (56) | **7.2** | 5.8 | 24 |
| Total sales revenue from crude oil, natural gas, condensate, NGLs and other income | **340.3** | 331.8 | 3 | **1,225.7** | 1,063.5 | 15 |

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

**Table 13**

| | Three Months Ended December 31 | | Year Ended December 31 | |
|---|---|---|---|---|
| **% of Sales Revenue by Product Type** | **2017** | 2016 | **2017** | 2016 |
| Crude oil and liquids | **65** | 58 | **60** | 63 |
| Natural gas | **35** | 42 | **40** | 37 |
| Total sales revenue from crude oil, natural gas, condensate and NGLs | **100** | 100 | **100** | 100 |

**Exhibit 10**



**Commodity Prices Prior to Gains or Losses on Risk Management Contracts**

**Table 14**

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| **Average Benchmark Prices** | | | | | | |
| NYMEX Henry Hub Last Day Settlement (US$/MMBtu) | **2.93** | 2.98 | (2) | **3.11** | 2.46 | 26 |
| Chicago Citygate Monthly Index (US$/MMBtu) | **2.93** | 3.00 | (2) | **3.04** | 2.49 | 22 |
| AECO 7A Monthly Index (Cdn$/Mcf) | **1.96** | 2.81 | (30) | **2.43** | 2.09 | 16 |
| WTI crude oil (US$/bbl) | **55.30** | 49.29 | 12 | **50.85** | 43.47 | 17 |
| Cdn$/US$ exchange rate | **1.27** | 1.33 | (5) | **1.30** | 1.32 | (2) |
| WTI crude oil (Cdn$/bbl) | **70.23** | 65.56 | 7 | **66.11** | 57.38 | 15 |
| Mixed Sweet Stream Price at Edmonton (Cdn$/bbl) | **68.85** | 61.61 | 12 | **62.85** | 53.34 | 18 |
| Condensate Stream Price at Edmonton (Cdn$/bbl) | **73.73** | 64.51 | 14 | **66.87** | 56.24 | 19 |
| **ARC Average Realized Prices Prior to Gains or Losses on Risk Management Contracts** | | | | | | |
| Crude oil ($/bbl) | **67.67** | 59.20 | 14 | **60.95** | 50.34 | 21 |
| Condensate ($/bbl) | **69.27** | 58.97 | 17 | **62.04** | 50.98 | 22 |
| Natural gas ($/Mcf) | **2.28** | 3.10 | (26) | **2.56** | 2.23 | 15 |
| NGLs ($/bbl) | **35.31** | 20.77 | 70 | **29.57** | 13.85 | 114 |
| Total average realized commodity price prior to other income and gains or losses on risk management contracts ($/boe) | **27.58** | 30.29 | (9) | **27.16** | 24.35 | 12 |
| Other income ($/boe) | **0.14** | 0.38 | (63) | **0.16** | 0.14 | 14 |
| Total average realized price prior to gains or losses on risk management contracts ($/boe) | **27.72** | 30.67 | (10) | **27.32** | 24.49 | 12 |

During the fourth quarter and year ended December 31, 2017, WTI increased 12 per cent and 17 per cent, respectively, as compared to the same periods in 2016. ARC's realized crude oil price increased 14 per cent and 21 per cent, respectively, over the same time periods as compared to the prior year. For the three months and year ended December 31, 2017, the differential between WTI and the Mixed Sweet Stream Price at Edmonton for crude oil narrowed to an average discount of US$1.15 per barrel and US$2.45 per barrel compared to US$3.11 per barrel and US$3.81 per barrel in the same periods in 2016, respectively. These factors had a positive impact on ARC's average realized crude oil prices in the year ended December 31, 2017. Partially offsetting these factors was the strengthening of the average exchange rate for the Canadian dollar as compared to the US dollar for the year ended December 31, 2017 by five per cent and two per cent, respectively, as compared to the same periods in 2016.

ARC's natural gas sales are diversified physically and financially to multiple natural gas sales points including AECO, Station 2, Sumas, Dawn, Malin and US Midwest hubs. ARC's realized natural gas price decreased by 26 per cent during the fourth quarter of 2017 as compared to the same period in 2016. The price that ARC receives for its natural gas is benchmarked against the AECO monthly index, which was 30 per cent lower in the fourth quarter of 2017 as compared to the same period of the prior year. ARC's US Midwest price exposure helped offset significant weakness in the AECO and Station 2 cash markets in the fourth quarter of 2017. In the fourth quarter of 2017, physical sales diversification activities added $0.69 per Mcf to ARC's natural gas price ($0.29 per Mcf for the same period in 2016). Additionally, realized gains on natural gas risk management contracts added a further $0.91 per Mcf, which is not included in ARC's realized natural gas price.

For the year ended December 31, 2017, ARC's realized natural gas price increased by 15 per cent compared to the same period in 2016, consistent with increases in benchmark natural gas prices over the same periods. ARC's realized natural gas price was higher than the AECO monthly index price for the year ended December 31, 2017 as a portion of ARC's production is sold at US Midwest pricing points which settled on average above the AECO monthly index. In the year ended December 31, 2017, physical diversification activities added $0.39 per Mcf to ARC's natural gas price ($0.19 per Mcf for the year ended December 31, 2016). During the year ended December 31, 2017, realized gains on natural gas risk management contracts added an additional $0.78 per Mcf, which is not included in ARC's realized natural gas price. Refer to the Risk Management section contained within this MD&A.

In 2018, less than five per cent of ARC's expected overall sales revenue is exposed to the AECO and Station 2 markets.

## Risk Management

ARC maintains a risk management program to reduce the volatility of sales revenues, increase the certainty of funds from operations, and to protect acquisition and development economics. ARC's risk management program is governed by certain guidelines approved by ARC's Board of Directors (the "Board"). These guidelines currently restrict risk management contracts to a maximum of 60 per cent of production guidance over the next two years and 30 per cent of production guidance beyond two years and up to five years where a specific commodity (crude oil and condensate or natural gas) cannot exceed a maximum of 70 per cent. ARC's risk management program guidelines allow for further risk management contracts on anticipated volumes associated with new production arising from specific capital projects and acquisitions or to further protect cash flows for a specific period with approval of the Board.

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

Table 15 summarizes the total gain or loss on risk management contracts for the fourth quarter of 2017 compared to the same period in 2016:

**Table 15**

| **Risk Management Contracts** ($ millions) | **Crude Oil & Liquids** | **Natural Gas** | **Power** | **Q4 2017 Total** | Q4 2016 Total |
|---|---|---|---|---|---|
| Realized gain (loss) on contracts (1) | (4.1) | 47.9 | — | **43.8** | 33.3 |
| Unrealized gain (loss) on contracts (2) | (33.9) | 69.8 | 0.1 | **36.0** | (99.8) |
| Gain (loss) on risk management contracts | **(38.0)** | **117.7** | **0.1** | **79.8** | (66.5) |

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

Table 15a summarizes the total gain or loss on risk management contracts for the year ended December 31, 2017 compared to the same period in 2016:

**Table 15a**

| **Risk Management Contracts** ($ millions) | **Crude Oil & Liquids** | **Natural Gas** | **Power** | **2017 Total** | 2016 Total |
|---|---|---|---|---|---|
| Realized gain (loss) on contracts (1) | (2.8) | 148.8 | (1.0) | **145.0** | 216.5 |
| Unrealized gain (loss) on contracts (2) | 19.0 | 116.5 | 2.3 | **137.8** | (253.2) |
| Gain (loss) on risk management contracts | **16.2** | **265.3** | **1.3** | **282.8** | (36.7) |

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

During the three months and year ended December 31, 2017, ARC recorded gains of $79.8 million and $282.8 million, respectively, on its risk management contracts. These gains included realized gains of $43.8 million and unrealized gains of $36.0 million for the fourth quarter and realized gains of $145.0 million and unrealized gains of $137.8 million for the year ended December 31, 2017. The realized gains primarily reflect positive cash settlements received on NYMEX Henry Hub natural gas contracts with an average price of US$3.88 per MMBtu and on AECO basis swaps at an average ratio of 89.7 per cent, as well as AECO basis swaps at a fixed price of $(0.81) per MMBtu.

ARC's unrealized crude oil losses for the three months ended December 31, 2017 reflect a higher WTI forward curve at December 31, 2017 relative to the beginning of the quarter. For the year ended December 31, 2017, ARC recognized unrealized gains of $19.0 million, resulting from the decrease in the WTI forward curve at year-end from the time additional positions were entered into throughout the year. Unrealized gains on natural gas contracts for the year ended December 31, 2017 reflect lower forward curves for NYMEX Henry Hub and AECO, as well as a widening of the AECO basis differential forward curve. The positive settlement of expired positions slightly offset the gains.

Table 16 summarizes the average crude oil and natural gas volumes associated with ARC's risk management contracts as at the date of this MD&A. For a complete listing and terms of ARC's risk management contracts at December 31, 2017, see Note 17 "Financial Instruments and Market Risk Management" in the financial statements.

## Table 16

**Risk Management Contracts Positions Summary** (1)

| As at February 8, 2018 | **Jan-Jun 2018** | | **Jul-Dec 2018** | | **2019** | | **2020** | | **2021** | | **2022** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Crude Oil – WTI** (2) | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Ceiling | 65.39 | 4,000 | 65.39 | 4,000 | 65.63 | 2,000 | — | — | — | — | — | — |
| ***Floor*** | 50.00 | 4,000 | 50.00 | 4,000 | 50.00 | 2,000 | — | — | — | — | — | — |
| Sold Floor | 40.00 | 4,000 | 40.00 | 4,000 | 40.00 | 2,000 | — | — | — | — | — | — |
| Swap | 54.00 | 2,000 | 54.00 | 2,000 | 57.20 | 4,000 | — | — | — | — | — | — |
| **Crude Oil – Cdn$ WTI** (3) | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day |
| Ceiling | 76.25 | 2,000 | 76.25 | 2,000 | — | — | — | — | — | — | — | — |
| ***Floor*** | 65.00 | 2,000 | 65.00 | 2,000 | — | — | — | — | — | — | — | — |
| Swap | 72.10 | 12,000 | 72.10 | 12,000 | 70.51 | 6,000 | — | — | — | — | — | — |
| **Total Crude Oil Volumes (bbl/day)** | | **20,000** | | **20,000** | | **12,000** | | **—** | | **—** | | **—** |
| **Crude Oil – MSW (Differential to WTI)** (4) | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Swap | (3.38) | 7,000 | (3.38) | 7,000 | — | — | — | — | — | — | — | — |
| **Natural Gas – NYMEX Henry Hub** (5) | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Ceiling | 3.64 | 80,000 | 3.64 | 80,000 | 3.35 | 80,000 | 3.32 | 50,000 | 3.32 | 50,000 | 3.43 | 25,000 |
| ***Floor*** | 3.00 | 80,000 | 3.00 | 80,000 | 2.75 | 80,000 | 2.75 | 50,000 | 2.75 | 50,000 | 2.50 | 25,000 |
| Sold Floor | 2.50 | 80,000 | 2.50 | 80,000 | 2.25 | 80,000 | 2.25 | 50,000 | 2.25 | 50,000 | — | — |
| Swap | 4.00 | 90,000 | 4.00 | 90,000 | 4.00 | 40,000 | — | — | — | — | — | — |
| **Natural Gas – AECO** (6) | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day |
| Ceiling | — | — | — | — | 3.30 | 10,000 | 3.60 | 30,000 | — | — | — | — |
| ***Floor*** | — | — | — | — | 3.00 | 10,000 | 3.08 | 30,000 | — | — | — | — |
| Swap | 3.01 | 49,945 | 2.96 | 40,000 | 3.16 | 20,000 | 3.35 | 30,000 | — | — | — | — |
| **Total Natural Gas Volumes (MMBtu/day)** | | **217,338** | | **207,913** | | **148,435** | | **106,869** | | **50,000** | | **25,000** |
| **Natural Gas – AECO Basis (Percentage of NYMEX)** | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day |
| Sold Swap | 85.4 | 90,000 | 84.4 | 90,000 | 83.7 | 40,000 | — | — | — | — | — | — |
| **Natural Gas – AECO Basis (Differential to NYMEX)** | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Sold Swap | (0.81) | 83,315 | (0.89) | 93,370 | (0.88) | 120,959 | (0.82) | 98,361 | (0.97) | 34,192 | — | — |
| **Total AECO Basis Volumes (MMBtu/day)** | | **173,315** | | **183,370** | | **160,959** | | **98,361** | | **34,192** | | **—** |
| **Natural Gas - Other Basis (Differential to NYMEX)** (7) | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day |
| Sold Swap | | — | | — | | 40,000 | | 40,000 | | 40,000 | | 30,000 |

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

The fair value of ARC's risk management contracts at December 31, 2017 was a net asset of $294.8 million, representing the expected value of settlement of ARC's contracts at the balance sheet date after any adjustments for credit risk. This may differ from what will eventually be settled in future periods.

**Exhibit 11**



**Operating Netbacks**

The components of operating netbacks for the three months and year ended December 31, 2017 compared to the same periods in 2016 are summarized in Table 17:

**Table 17**

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| **Netbacks ($ per boe) (1)** | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| Total sales (2) | **27.58** | 30.29 | (9) | **27.16** | 24.35 | 12 |
| Royalties | **(2.15)** | (2.47) | (13) | **(2.29)** | (2.05) | 12 |
| Transportation | **(2.44)** | (2.32) | 5 | **(2.52)** | (2.20) | 15 |
| Operating expenses (3) | **(6.01)** | (6.77) | (11) | **(6.41)** | (6.65) | (4) |
| Netback prior to gain on risk management contracts | **16.98** | 18.73 | (9) | **15.94** | 13.45 | 19 |
| Realized gain on risk management contracts | **3.58** | 3.08 | 16 | **3.23** | 4.98 | (35) |
| Netback after gain on risk management contracts | **20.56** | 21.81 | (6) | **19.17** | 18.43 | 4 |

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.
(2) Total sales excludes other income of $1.8 million and $7.2 million for the three months and year ended December 31, 2017 ($4.1 million and $5.8 million for the year ended December 31, 2016), respectively.
(3) Composed of direct costs incurred to operate crude oil and natural gas wells.

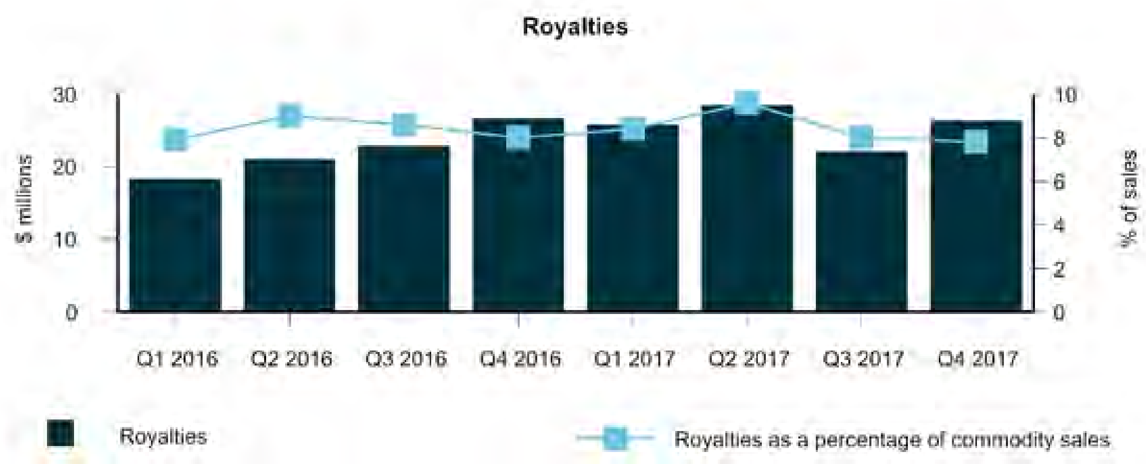
**Exhibit 12**


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

### Royalties

Total royalties as a percentage of commodity sales revenue decreased from 8.1 per cent ($2.47 per boe) in the fourth quarter of 2016 to 7.8 per cent ($2.15 per boe) in the fourth quarter of 2017. The decrease reflects the divestment of the Saskatchewan properties which was replaced with BC production subject to lower average rates including deep well credits. For the year ended December 31, 2017, total royalties represented 8.4 per cent of commodity sales revenue ($2.29 per boe) as compared to 8.4 per cent ($2.05 per boe) for the same period in 2016. Royalties have increased primarily as a result of higher commodity prices and increased volumes. The overall rate remains unchanged as the impact of the disposition of Saskatchewan properties was offset by the change in the overall combination of the type of commodities produced compared to last year.

**Exhibit 13**




**Operating and Transportation Expenses**

Operating expenses increased by $0.5 million in the fourth quarter of 2017 as compared to the fourth quarter of 2016, primarily as a result of increased production in the period. On a per boe basis, operating expenses decreased $0.76 per boe to $6.01 per boe in the fourth quarter of 2017 compared to $6.77 per boe in the fourth quarter of 2016 as ARC continues to increase its production from areas with lower average operating costs, while divesting of areas with higher average operating costs.

For the year ended December 31, 2017, operating expenses decreased by $1.3 million or $0.24 per boe to $287.7 million and $6.41 per boe compared to the prior year. The decrease is mainly a result of reductions associated with the disposition of non-core assets in 2016, as well as increased production volumes from new natural gas wells with relatively lower average operating costs. These decreases were partially offset by increased maintenance and workover activity in ARC's core assets in the year ended December 31, 2017 compared to the same period of 2016.

**Exhibit 14**

Transportation expenses increased by $4.9 million or 20 per cent in the fourth quarter of 2017 as compared to the fourth quarter of 2016. On a per boe basis, transportation costs have also increased $0.12 per boe or 5 per cent to $2.44 per boe during the fourth quarter of 2017 compared to $2.32 per boe in the fourth quarter of 2016. The increase was primarily due to increased gas production at Dawson III, and the addition of new contracts for greater market access beyond AECO.

For the year ended December 31, 2017, transportation expenses increased by $17.7 million or 19 per cent compared to the prior year. On a per boe basis, transportation costs have also increased $0.32 per boe or 15 per cent to $2.52 per boe for the year ended December 31, 2017 compared to $2.20 per boe in the same period of the prior year. The increase in transportation expenses reflects increased natural gas tolls throughout 2017, increased volumes associated with new production, and additional transportation costs incurred in 2017 to mitigate the effect of third-party pipeline disruptions.

**Exhibit 15**


## G&A Expenses and Share-Based Compensation

G&A expenses before share-based compensation expenses decreased by 24 per cent to $12.1 million in the fourth quarter of 2017 from $15.9 million in the fourth quarter of 2016. The decrease was primarily due to increased capitalized G&A attributed to higher capital spending in the fourth quarter of 2017 compared to the same period of the prior year.

For the year ended December 31, 2017, ARC's G&A prior to share-based compensation expense was $58.6 million, a $10.8 million decrease from the same period in 2016. The decrease reflects increased capitalized G&A attributed to higher capital spending. The decrease was partially offset by a $2.4 million provision recognized in the second quarter of 2017 for onerous contracts related to ARC's tenant subleases at ARC's corporate office.

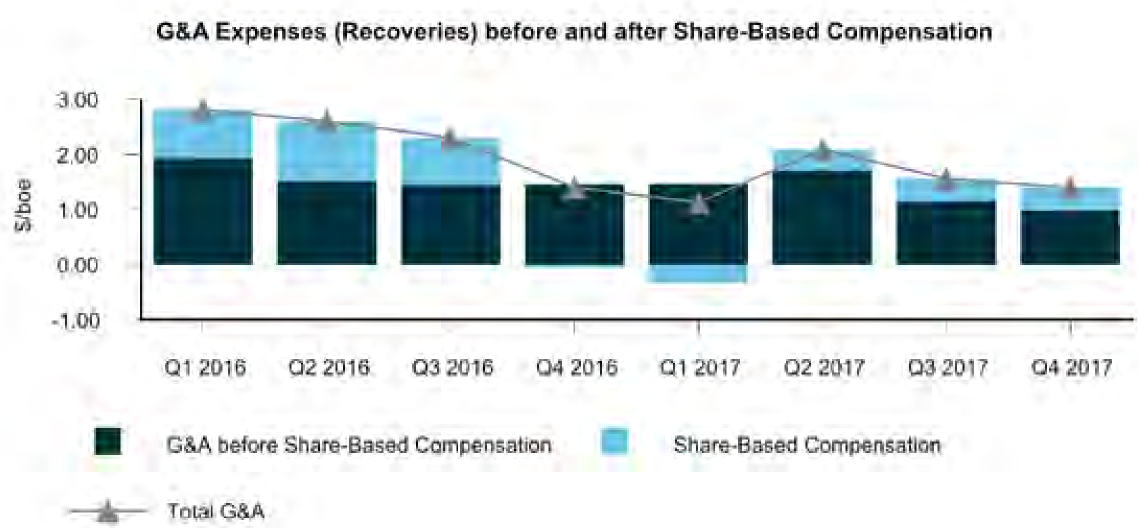
Table 18 is a breakdown of G&A and share-based compensation expenses:

**Table 18**

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| **G&A and Share-Based Compensation** ($ millions, except per boe) | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| G&A expenses before share-based compensation expenses (1) | **12.1** | 15.9 | (24) | **58.6** | 69.4 | (16) |
| G&A – share-based compensation expenses (recoveries) (2) | **5.1** | (0.7) | (829) | **10.5** | 29.9 | (65) |
| Total G&A | **17.2** | 15.2 | 13 | **69.1** | 99.3 | (30) |
| G&A expenses before share-based compensation expenses per boe | **0.98** | 1.46 | (33) | **1.31** | 1.60 | (18) |
| G&A – share-based compensation expenses (recoveries) per boe | **0.42** | (0.06) | (800) | **0.23** | 0.69 | (67) |
| Total G&A expenses per boe | **1.40** | 1.40 | — | **1.54** | 2.29 | (33) |

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

**Exhibit 16**




## Share-Based Compensation Plans

### Restricted Share Unit and Performance Share Unit Plan

The RSU and PSU Plan is designed to offer each eligible employee and officer (the "plan participants") cash compensation in relation to the underlying value of a specified number of share units. The RSU and PSU Plan consists of RSUs for which the number of units is fixed and will vest over a period of three years and PSUs for which the number of units is variable and will vest at the end of three years.

Upon vesting, the plan participant is entitled to receive a cash payment based on the underlying value of the share units plus accrued dividends. The cash compensation issued upon vesting of the PSUs is dependent upon the total return performance of ARC compared to its peers. Total return is calculated as a sum of the change in the market price of the common shares in the period plus the amount of dividends in the period. A performance multiplier is applied to the PSUs based on the percentile rank of ARC's total shareholder return compared to its peers. The performance multiplier ranges from zero if ARC's performance ranks in the bottom quartile, to two for top quartile performance.

During the fourth quarter and year ended December 31, 2017, ARC recorded G&A expenses of $4.1 million and $5.7 million in accordance with the RSU and PSU Plan, as compared to a recovery of $2.0 million and and expense of $24.4 million during the same periods of the prior year, respectively. ARC recognized lower expenses for the year ended December 31, 2017 as compared to the same periods in 2016 primarily due to the valuation of awards at December 31, 2017. ARC's TSX share price decreased from $17.19 per share outstanding at September 30, 2017 to $14.75 per share outstanding at December 31, 2017 and has decreased $8.36 per share outstanding since December 31, 2016. This is compared to a decrease of $0.62 and an increase of $6.41 per share outstanding during the same periods of the prior year, respectively.

During the year ended December 31, 2017, ARC made cash payments of $22.0 million in respect of the RSU and PSU Plan ($25.8 million for the year ended December 31, 2016). Of these payments, $17.8 million were in respect of amounts recorded to G&A expenses ($20.2 million for the year ended December 31, 2016) and $4.2 million were in respect of amounts recorded to operating expenses and capitalized as PP&E and E&E assets ($5.6 million for the year ended December 31, 2016). These amounts were accrued in prior periods.

Table 19 shows the changes to the RSU and PSU Plan during 2017:

**Table 19**

| RSU and PSU Plan<br>(number of units, thousands) | **RSUs** | **PSUs** (1) | **Total<br>RSUs and PSUs** |
|---|---|---|---|
| Balance, December 31, 2016 | 721 | 1,807 | 2,528 |
| Granted | 453 | 720 | 1,173 |
| Distributed | (325) | (444) | (769) |
| Forfeited | (69) | (171) | (240) |
| Balance, December 31, 2017 | **780** | **1,912** | **2,692** |

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

The compensation expenses associated with the RSUs and PSUs granted are recognized in the consolidated statements of income (the "statements of income") throughout the vesting period. Each period, changes in the underlying obligation due to share price, accrued dividends and the number of PSUs expected to be issued on vesting are also recognized in the statements of income. In periods where substantial share price fluctuation occurs, ARC’s G&A expenses are subject to greater volatility.

Due to the variability in the expected future payments under the plan, ARC estimates that between $11.4 million and $67.1 million will be paid out in 2018 through 2020 based on the current share price, accrued dividends, and ARC's market performance relative to its peers. Table 20 is a summary of the range of future expected payments under the RSU and PSU Plan based on variability of the performance multiplier and units outstanding under the RSU and PSU Plan as at December 31, 2017:

**Table 20**

| **Value of RSU and PSU Plan as at December 31, 2017** | | **Performance multiplier** | |
|---|---|---|---|
| (units thousands and $ millions, except per share) | **—** | **1.0** | **2.0** |
| Estimated units to vest | | | |
| RSUs | 773 | 773 | 773 |
| PSUs | — | 1,885 | 3,770 |
| Total units (1) | **773** | **2,658** | **4,543** |
| Share price (2) | 14.75 | 14.75 | 14.75 |
| Value of RSU and PSU Plan upon vesting | **11.4** | **39.2** | **67.1** |
| 2018 | 5.5 | 14.4 | 23.3 |
| 2019 | 3.8 | 13.1 | 22.5 |
| 2020 | 2.1 | 11.7 | 21.3 |

(1) Includes additional estimated units to be issued under the RSU and PSU Plan for dividends accrued to date.
(2) Per share outstanding. Values will fluctuate over the vesting period based on the volatility of the underlying share price. Assumes a future share price of $14.75, which is based on the TSX closing share price at December 31, 2017.

### Deferred Share Unit Plan

ARC has a DSU Plan for its non-employee directors under which each director receives a minimum of 60 per cent of their total annual remuneration in DSUs. Each DSU fully vests on the date of grant but is settled in cash only when the director has ceased to be a member of the Board. At December 31, 2017, ARC had 0.5 million DSUs outstanding under this plan. For the three months and year ended December 31, 2017, G&A recoveries of $0.5 million and $1.4 million were recorded in relation to the DSU Plan (G&A expenses of $0.2 million and $4.2 million for the same periods in 2016), respectively.

### Share Option Plan

Share options are granted to employees and consultants of ARC, vesting evenly on the fourth and fifth anniversaries of their respective grant dates, and have a maximum term of seven years. The option holder has the right to exercise the options at the original exercise price or at a reduced exercise price, equal to the exercise price at grant date less all dividends paid subsequent to the grant date and prior to the exercise date.

At December 31, 2017, ARC had 4.9 million share options outstanding, representing 1.4 per cent of outstanding shares, with a weighted average exercise price of $19.47 per share. At December 31, 2017, approximately 1.3 million share options were exercisable with a weighted average exercise price of $17.62 per share. ARC recorded compensation expense of $0.8 million and $3.5 million relating to the share option plan for the three months and year ended December 31, 2017 ($1.2 million and $4.4 million for the three months and year ended December 31, 2016), respectively. On June 21, 2017, ARC granted 1.3 million options to officers and certain employees at ARC under the Share Option Plan.

### Long-term Restricted Share Award Plan

ARC's LTRSA Plan awards shares of ARC to qualifying officers and employees and is intended to further align participant compensation with the interests of the Company and its shareholders over the long term. LTRSA grants consist of restricted common shares that are awarded at the date of grant and a cash payment made equal to the estimated personal tax obligation associated with the total award. The restricted shares issued on the grant date of the award are held in trust until the vesting conditions have been met.

While in trust, the restricted shares earn dividends which are reinvested into ARC common shares that are also held in trust until vested. Each LTRSA has a 10-year term and vests evenly on the eighth, ninth, and tenth anniversaries of the grant date of the award. Restricted shares and any accrued dividends that are subject to forfeiture will be redeemed and cancelled by ARC.

Compensation expense associated with cash payments is recognized at the fair value on the grant date, while expense associated with the restricted common shares is estimated as the fair value of the award equal to the previous five-day weighted average trading price of ARC shares on the grant date and is recognized over the vesting period.

At December 31, 2017, ARC had 0.3 million restricted shares outstanding under this plan. ARC recorded G&A expenses of $0.2 million and $1.3 million relating to the LTRSA Plan during the three months and year ended December 31, 2017 ($0.1 million and $1.1 million for the three months and year ended December 31, 2016), respectively. On June 21, 2017, ARC granted 0.1 million restricted shares to officers and certain employees at ARC under the LTRSA Plan.

**Interest and Financing Charges**

Interest and financing charges decreased 13 per cent to $10.9 million in the fourth quarter of 2017 from $12.6 million in the fourth quarter of 2016. For the year ended December 31, 2017, interest and financing charges were $45.3 million as compared to $50.5 million for the same period in 2016, a decrease of 10 per cent. The decrease for the three months ended December 31, 2017 and the year ended December 31, 2017 compared to the same periods of the prior year is due to principal repayments that were made throughout 2016 and 2017.

At December 31, 2017, ARC had $911.3 million of long-term debt outstanding, including a current portion of $73.9 million that is due for repayment within the next 12 months. ARC's long-term debt has a fixed weighted average interest rate of 4.31 per cent. 96 per cent (US$696.0 million) of ARC's long-term debt outstanding is denominated in US dollars.

**Foreign Exchange Gains and Losses**

ARC recorded a foreign exchange gain of $0.7 million in the fourth quarter of 2017 compared to a loss of $23.3 million in the fourth quarter of 2016. During the three months ended December 31, 2017, the value of the US dollar relative to the Canadian dollar remained relatively unchanged from the prior quarter end. During the three months ended December 31, 2016, the value of the US dollar relative to the Canadian dollar increased by $US 0.03 resulting in a higher foreign exchange loss on US denominated debt.

For the year ended December 31, 2017, ARC recorded a foreign exchange gain of $57.0 million compared to a gain of $33.3 million for the same period in the prior year. During the year ended December 31, 2016, the value of the US dollar relative to the Canadian dollar decreased to $1.34 at December 31, 2016 from $1.38 at December 31, 2015. During the year ended December 31, 2017, the value of the US dollar relative to the Canadian dollar decreased to $1.25 at December 31, 2017, resulting in a higher unrealized gain on the revaluation of ARC's US dollar denominated debt compared to the same period in 2016.

Partially offsetting the increased unrealized foreign exchange gain for the year ended ended December 31, 2017 were higher realized foreign exchange losses on US denominated cash held by the Company throughout the period.

Table 21 shows the various components of foreign exchange gains and losses:

**Table 21**

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| **Foreign Exchange Gains and Losses** ($ millions) | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| Unrealized gain (loss) on US denominated debt | **(0.8)** | (23.1) | (97) | **65.2** | 34.5 | 89 |
| Realized gain (loss) on US denominated transactions | **1.5** | (0.2) | (850) | **(8.2)** | (1.2) | 583 |
| Total foreign exchange gain (loss) | **0.7** | (23.3) | (103) | **57.0** | 33.3 | 71 |

**Taxes**

ARC recorded a current income tax expense of $6.1 million in the fourth quarter of 2017 as compared to a $24.4 million expense during the fourth quarter of 2016. During the fourth quarter of 2016, ARC recorded increased tax expense related to the reduction in income tax pools resulting from the divestment of its Saskatchewan assets.

ARC recorded a current tax income expense of $16.5 million for the year ended December 31, 2017 as compared to a $25.4 million expense for the year ended December 31, 2016. The decrease in current tax expense for the year ended December 31, 2017 is due to adjustments made on the filing of prior year income tax returns.

During the fourth quarter of December 31, 2017, a deferred income tax expense of $39.4 million was recorded which is consistent with the $43.5 million expense recorded in the fourth quarter of 2016. During the year ended December 31, 2017, a deferred income tax expense of $119.4 million was recorded as compared to $16.0 million for the year ended December 31, 2016. This increase in deferred tax expense for the year ended December 31, 2017 is primarily related to unrealized gains recorded on risk management contracts in 2017 as compared to unrealized losses for the same period in 2016, as well as a reversal of impairment recorded in 2017 which increased the book basis of ARC's assets relative to their tax basis.

The income tax pools (detailed in Table 22) are deductible at various rates and annual deductions associated with the initial tax pools will decline over time.

**Table 22**

| **Income Tax Pool Type** ($ millions) | **December 31, 2017** | **Annual Deductibility** |
|---|---|---|
| Canadian oil and gas property expense | 245.7 | 10% declining balance |
| Canadian development expense | 847.1 | 30% declining balance |
| Canadian exploration expense | — | 100% |
| Undepreciated capital cost | 832.4 | Primarily 25% declining balance |
| Other | 10.3 | Various rates, 7% declining balance to 20% |
| Total federal tax pools | 1,935.5 | |
| Additional Alberta tax pools | 5.0 | Various rates, 25% declining balance to 100% |

**DD&A Expenses and Impairment**

For the three months and year ended December 31, 2017, ARC recorded DD&A expenses of $127.3 million and $477.6 million as compared to $115.7 million and $499.8 million for the three months and year ended December 31, 2016, respectively. The increase in DD&A in the fourth quarter of 2017 as compared to the fourth quarter of 2016 reflects increased production in 2017. The decrease in DD&A for the year ended December 31, 2017 as compared to the same period in the prior year reflects the effect of an increase in proved plus probable reserves year over year as well as a lower depletable base resulting from non-core asset dispositions throughout 2016 having a higher than average DD&A rate.

An impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less cost of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. Immediately before non-current assets are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their historical carrying amount and fair value less costs of disposal, with any impairment loss or reversal of impairment recognized in the statements of income.

At December 31, 2017, ARC determined that certain non-core assets met the classification requirements for assets held for sale. Immediately prior to classifying the assets as held for sale, ARC conducted a review of the assets' recoverable amounts and recognized an impairment charge of $2.8 million. The recoverable amount was determined based on the assets' fair value less costs of disposal. ARC evaluated its remaining development and production assets for indicators of any potential impairment or related reversal and no such charges or reversals were recorded.

At June 30, 2017, an evaluation of indicators was also performed which resulted in tests of impairment on all of ARC's CGUs due to decreases in the outlook of future commodity prices compared to the most recent period an impairment test on all of ARC's CGUs had been conducted. Although no impairment was identified, ARC recognized a reversal of impairment in its Northern Alberta CGU of $75.0 million ($55.1 million net of deferred tax expense) in the second quarter of 2017. The reversal of impairment recorded in the second quarter of 2017 was mainly attributed to increased drilling locations and capital investment in the CGU since the time of ARC's last asset impairment test, which led to an increase in proved plus probable oil and gas reserves that more than offset the decreases in future commodity prices.

The results of the impairment tests conducted are sensitive to changes in any of the key Management judgments and estimates inherent in the calculations, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development expenditures or expected future production costs which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or reversal of impairment charges. For further information regarding the reversal of impairment recorded during the year ended

December 31, 2017, refer to Note 12 "Impairment of Property, Plant and Equipment and Goodwill" in the financial statements.

A breakdown of DD&A expenses and reversal of impairment is summarized in Table 23:

**Table 23**

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| **DD&A Expenses** ($ millions, except per boe amounts) | **2017** | 2016 | % Change | **2017** | 2016 | % Change |
| Depletion of crude oil and natural gas assets | **125.8** | 114.4 | 10 | **471.9** | 494.4 | (5) |
| Depreciation of corporate assets | **1.5** | 1.3 | 15 | **5.7** | 5.4 | 6 |
| Impairment (reversal of impairment) | **2.8** | (68.4) | (104) | **(72.5)** | (68.3) | 6 |
| Total DD&A expenses and impairment | **130.1** | 47.3 | 175 | **405.1** | 431.5 | (6) |
| DD&A expenses per boe, excluding impairment | **10.37** | 10.69 | (3) | **10.64** | 11.51 | (8) |

### Capital Expenditures, Acquisitions and Dispositions

Capital expenditures before acquisitions, dispositions or purchases of undeveloped land totaled $245.1 million in the fourth quarter of 2017 as compared to $159.2 million during the fourth quarter of 2016. PP&E refers to property, plant and equipment in the development and production phase, while E&E expenditures include asset additions in areas that have been determined by Management to be in the exploration and evaluation stage.

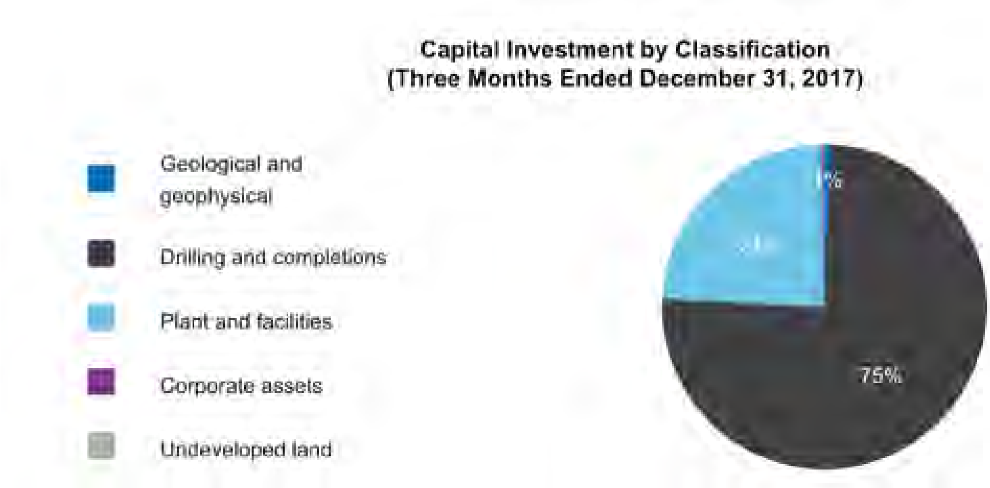
A breakdown of capital expenditures, acquisitions and dispositions is shown in Table 24:

**Table 24**

| | Three Months Ended December 31 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2017** | | | 2016 | | | |
| **Capital Expenditures** ($ millions) | **E&E** | **PP&E** | **Total** | E&E | PP&E | Total | % Change |
| Geological and geophysical | **0.1** | **2.4** | **2.5** | 0.1 | 1.7 | 1.8 | 39 |
| Drilling and completions | **14.9** | **139.9** | **154.8** | 10.5 | 78.6 | 89.1 | 74 |
| Plant and facilities | **4.2** | **83.0** | **87.2** | 0.6 | 65.3 | 65.9 | 32 |
| Corporate assets | **—** | **0.6** | **0.6** | — | 2.4 | 2.4 | (75) |
| Total capital expenditures | **19.2** | **225.9** | **245.1** | 11.2 | 148.0 | 159.2 | 54 |
| Undeveloped land | **0.4** | **—** | **0.4** | 0.3 | 2.4 | 2.7 | (85) |
| Total capital expenditures including undeveloped land purchases | **19.6** | **225.9** | **245.5** | 11.5 | 150.4 | 161.9 | 52 |
| Acquisitions [(1)] | **—** | **2.2** | **2.2** | — | 14.6 | 14.6 | (85) |
| Dispositions | **—** | **—** | **—** | — | (702.1) | (702.1) | (100) |
| Total capital expenditures, land purchases and acquisitions | **19.6** | **228.1** | **247.7** | 11.5 | (537.1) | (525.6) | (147) |

(1) Excludes $1.6 million and $0.9 million of non-cash petroleum and natural gas property transactions in the three months ended December 31, 2017 and 2016, respectively.

**Exhibit 17**



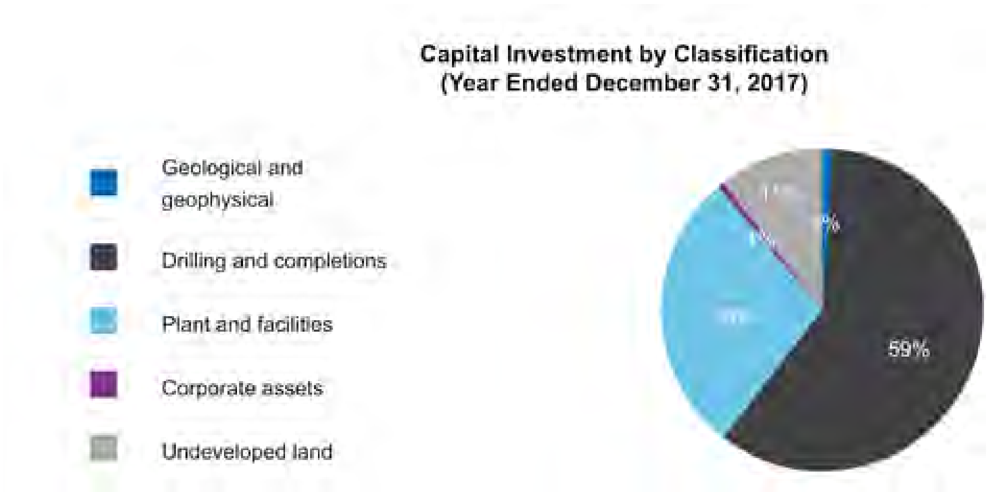

For the year ended December 31, 2017, capital expenditures before property acquisitions, dispositions or purchases of undeveloped land totaled $829.7 million as compared to $453.4 million during the same period of 2016. This total includes development and production additions to PP&E of $787.0 million and additions to E&E assets of $42.7 million.

**Table 24a**

| | Year Ended December 31 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2017** | | | 2016 | | | |
| **Capital Expenditures** ($ millions) | **E&E** | **PP&E** | **Total** | E&E | PP&E | Total | % Change |
| Geological and geophysical | **0.2** | **9.3** | **9.5** | 0.6 | 11.8 | 12.4 | (23) |
| Drilling and completions | **33.2** | **518.4** | **551.6** | 27.1 | 199.9 | 227.0 | 143 |
| Plant and facilities | **9.3** | **253.4** | **262.7** | 10.0 | 200.6 | 210.6 | 25 |
| Corporate assets | **—** | **5.9** | **5.9** | — | 3.4 | 3.4 | 74 |
| Total capital expenditures | **42.7** | **787.0** | **829.7** | 37.7 | 415.7 | 453.4 | 83 |
| Undeveloped land | **74.0** | **23.6** | **97.6** | 0.3 | 2.4 | 2.7 | 100 |
| Total capital expenditures including undeveloped land purchases | **116.7** | **810.6** | **927.3** | 38.0 | 418.1 | 456.1 | 103 |
| Acquisitions (1) | **—** | **2.5** | **2.5** | — | 172.9 | 172.9 | (99) |
| Dispositions | **—** | **—** | **—** | — | (705.4) | (705.4) | (100) |
| Total capital expenditures, land purchases and net acquisitions and dispositions | **116.7** | **813.1** | **929.8** | 38.0 | (114.4) | (76.4) | (100) |

(1) Excludes $9.5 million and $0.9 million of non-cash petroleum and natural gas property transactions in the years ended December 31, 2017 and 2016, respectively.

**Exhibit 17a**




During the three months ended December 31, 2017, ARC drilled 28 operated wells, consisting of eight crude oil wells and 20 natural gas and liquids-rich natural gas wells. All wells drilled during the three months ended December 31, 2017, were 100 per cent ARC wells. For the year ended December 31, 2017 ARC drilled 122 gross (121 net) operated wells consisting of 62 (61 net) crude oil wells, 59 natural gas and liquids-rich natural gas wells, and one disposal well.

**Asset Retirement Obligations**

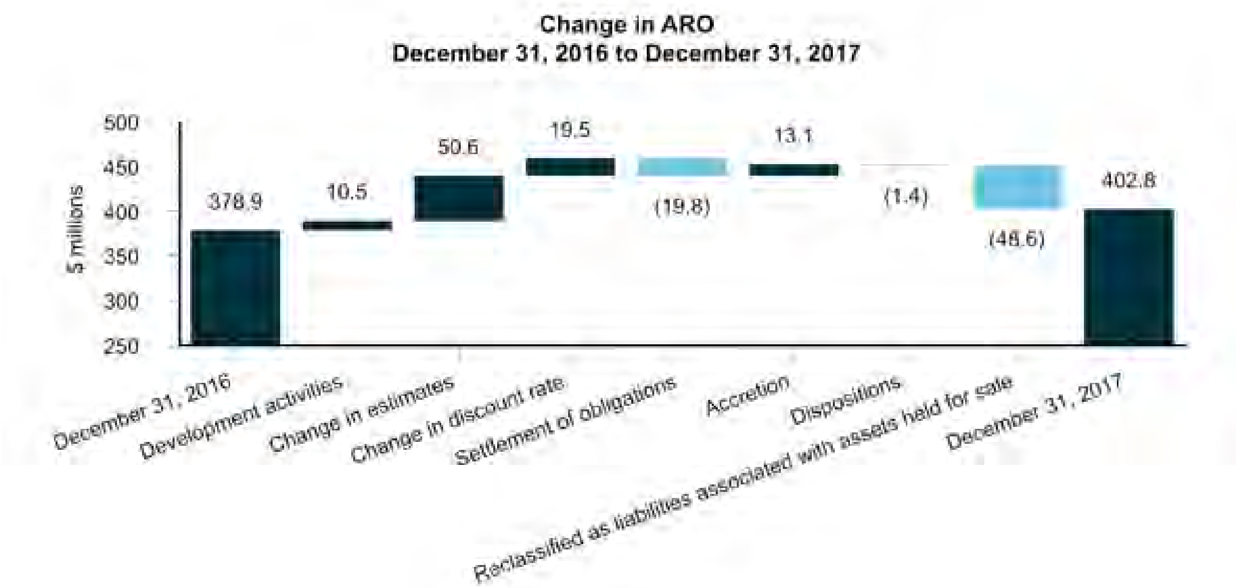
At December 31, 2017, ARC has recorded ARO of $402.8 million ($378.9 million at December 31, 2016) for the future abandonment and reclamation of ARC's properties. The estimated ARO includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred, as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at a liability-specific risk-free interest rate of 2.3 per cent (2.3 per cent at December 31, 2016).

During the year ended December 31, 2017, ARC added $50.6 million to its ARO in respect of revised estimates of costs of future obligations and anticipated settlement dates.

Accretion charges of $3.6 million and $13.1 million for the three months and year ended December 31, 2017 ($3.0 million and $12.1 million for the same periods in 2016), respectively, have been recognized in the statements of income to reflect the increase in ARO associated with the passage of time. Actual spending under ARC's abandonment and reclamation program for the three months and year ended December 31, 2017 was $5.2 million and $19.8 million ($4.5 million and $13.0 million for the same periods in 2016), respectively. At December 31, 2017, $219.7 million of ARO associated with certain non-core assets in Alberta is classified as held for sale.

Environmental stewardship is a core value at ARC and abandonment and reclamation activities continue to be made in a prudent, responsible manner with the oversight of the Health, Safety and Environment Committee of the Board. Ongoing abandonment expenditures for all of ARC's assets are funded entirely out of cash flow from operating activities. ARC's Liability Management Rating is well within both the British Columbia Oil and Gas Commission's ("BCOGC") and the Alberta Energy Regulator's ("AER") requirements, such that no deposits are required or expected to be required at December 31, 2017 and at the date of this MD&A.

**Exhibit 18**




## Capitalization, Financial Resources and Liquidity

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

ARC typically uses three markets to raise capital: equity, bank debt and long-term notes. Long-term notes are issued to large institutional investors normally with an average term of five to 12 years. The cost of this debt is based upon two factors: the current rate of long-term government bonds and ARC's credit spread. ARC's weighted average interest rate on its outstanding long-term notes is currently 4.31 per cent.

A breakdown of ARC's capital structure as at December 31, 2017 and December 31, 2016 is outlined in Table 25:

**Table 25**

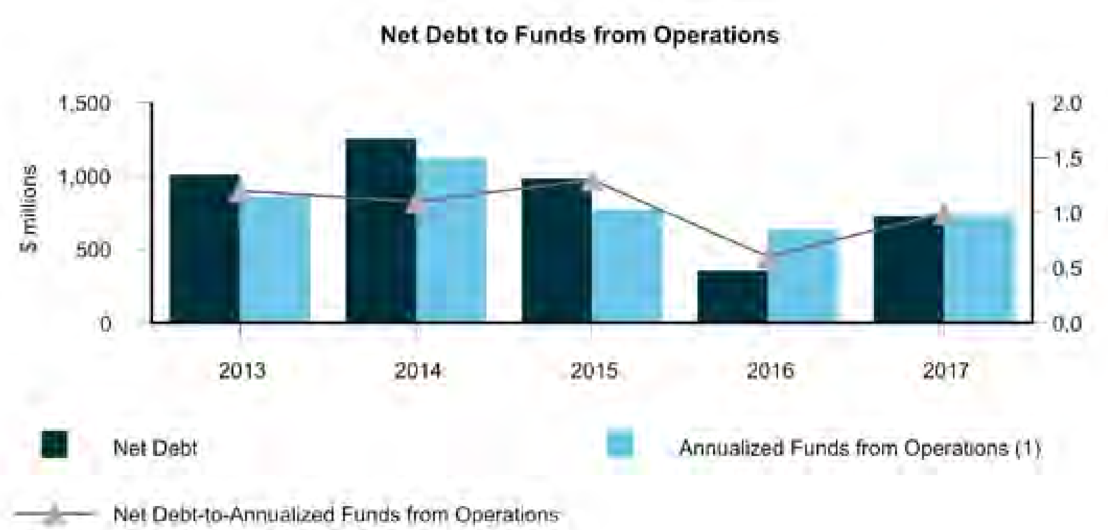
| **Capital Structure and Liquidity**<br>($ millions, except per cent and ratio amounts) | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Long-term debt [(1)] | **911.3** | 1,026.0 |
| Accounts payable and accrued liabilities | **170.0** | 161.8 |
| Dividends payable | **17.7** | 17.7 |
| Cash and cash equivalents, accounts receivable, prepaid expenses and short-term investments | **(371.0)** | (849.0) |
| Net debt | **728.0** | 356.5 |
| Market capitalization [(2)] | **5,214.1** | 8,164.8 |
| Total capitalization | **5,942.1** | 8,521.3 |
| Net debt as a percentage of total capitalization (%) | **12.3** | 4.2 |
| Net debt to funds from operations (ratio) [(3)] | **1.0** | 0.6 |

(1) Includes a current portion of long-term debt of $73.9 million at December 31, 2017 and $51.5 million at December 31, 2016.
(2) Calculated using the total common shares outstanding at December 31, 2017 multiplied by the TSX closing share price of $14.75 at December 31, 2017 (TSX closing share price of $23.11 at December 31, 2016).
(3) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

Management's long-term strategy is to keep its net debt balance to a ratio of between one to 1.5 times annualized funds from operations and less than 20 per cent of total market capitalization. This strategy has resulted in manageable debt levels to date and has positioned ARC to remain well within its debt covenants. Refer to Note 16 "Capital Management" in the financial statements.

ARC closed the quarter with a strong balance sheet with $728.0 million of net debt outstanding, which was approximately 12 per cent of ARC's total capitalization. At December 31, 2017, ARC's net debt to 2017 funds from operations ratio was 1.0 times.

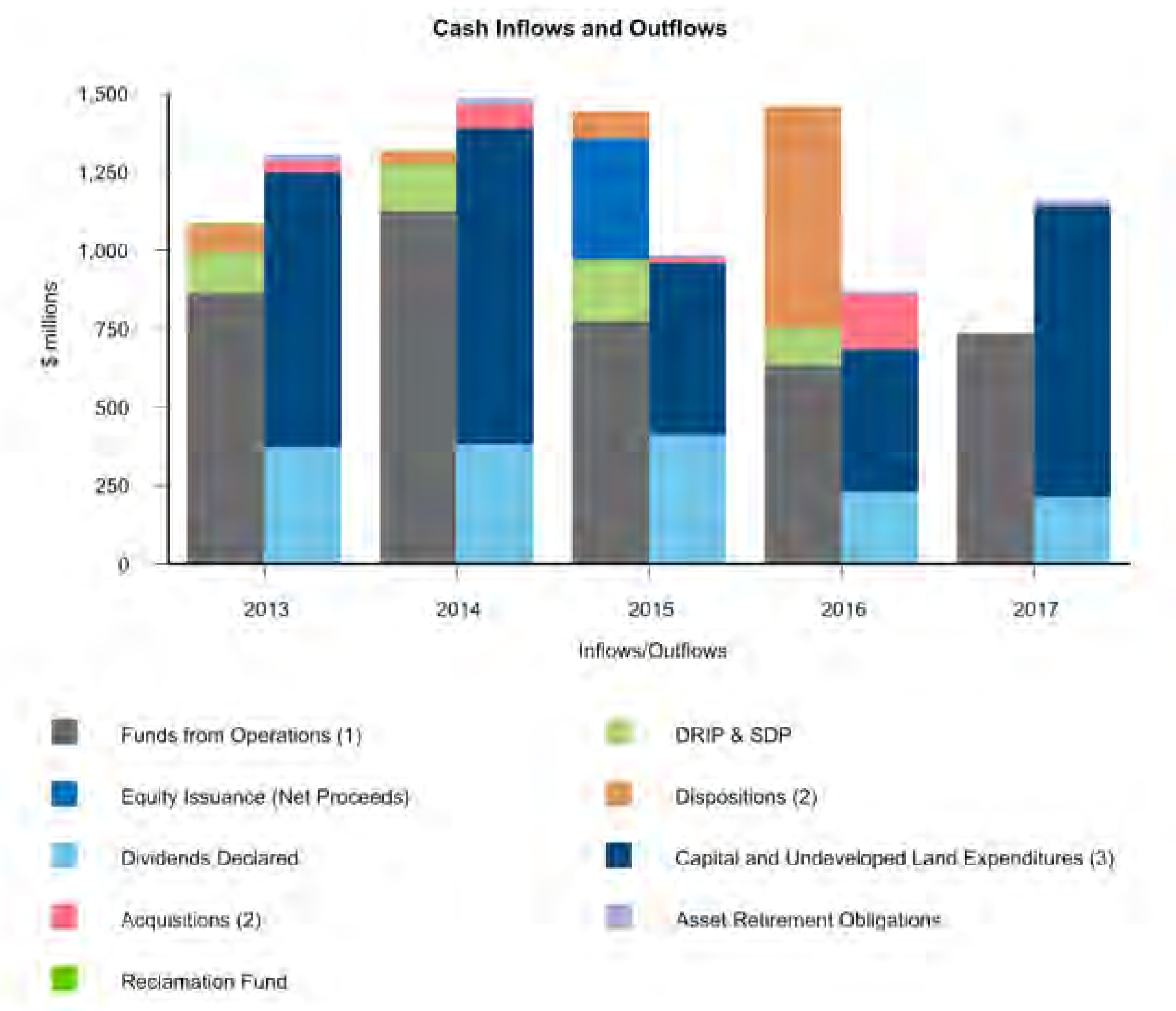
**Exhibit 19**




(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

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

**Exhibit 20**




(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Excludes non-cash property transactions.
(3) Excludes capital expenditures attributable to non-cash share options and asset retirement expenditures.

**Table 26**

| ($ millions) | **2017** | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Cash Inflows** | | | | | |
| Funds from operations (1) | **731.9** | 633.3 | 773.4 | 1,124.0 | 861.8 |
| DRIP & SDP | **3.0** | 117.1 | 195.5 | 151.0 | 130.1 |
| Equity issuance (net proceeds) | **—** | — | 386.1 | — | — |
| Dispositions (2) | **—** | 705.4 | 88.8 | 39.3 | 89.8 |
| Reclamation fund withdrawals | **—** | — | 0.9 | — | — |
| Total | **734.9** | 1,455.8 | 1,444.7 | 1,314.3 | 1,081.7 |
| **Cash Outflows** | | | | | |
| Dividends declared | **212.3** | 228.2 | 410.5 | 380.2 | 374.0 |
| Capital and undeveloped land expenditures (3) | **927.0** | 455.6 | 547.9 | 1,007.6 | 874.2 |
| Acquisitions (2) | **2.5** | 172.9 | 14.4 | 73.5 | 36.4 |
| Asset retirement obligations | **19.8** | 13.0 | 12.3 | 23.0 | 18.5 |
| Reclamation fund contributions | **0.6** | 2.0 | — | 2.6 | 2.8 |
| Total | **1,162.2** | 871.7 | 985.1 | 1,486.9 | 1,305.9 |

(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Excludes non-cash property transactions.
(3) Excludes capital expenditures attributable to non-cash share options and asset retirement expenditures.

At December 31, 2017, ARC had total available credit capacity of approximately $1.9 billion with debt of $0.9 billion currently outstanding. The Company's total available credit capacity at December 31, 2017 reflects the expiry of ARC's Master Shelf Agreement on September 25, 2017, which reduced the Company's total debt capacity by US$170.6 million. ARC's long-term debt balance includes a current portion of $73.9 million at December 31, 2017 ($51.5 million at December 31, 2016), reflecting principal payments that are due to be paid within the next 12 months. ARC intends to finance these obligations by using cash on hand or drawing on its syndicated credit facility at the time the payments are due.

On November 1, 2017, ARC extended its syndicated revolving credit facility for one additional year until November 8, 2021 at similar terms.

On February 8, 2017, ARC's Board of Directors approved the elimination of the DRIP and SDP. By eliminating these programs, ARC will eliminate the dilutive effect of the DRIP and SDP to ARC's existing shareholder base. Elimination of the DRIP and SDP was effective for the March dividend which was paid on April 17, 2017 to shareholders of record on March 31, 2017. Shareholders that were enrolled in either the DRIP or SDP now automatically receive dividend payments in cash.

ARC's debt agreements contain a number of covenants, all of which were met as at December 31, 2017. These agreements are available at www.sedar.com. ARC calculates its covenants quarterly. The major financial covenants of the syndicated credit facility are described below:

**Table 27**

| **Covenant Description** | **Estimated Position at December 31, 2017** (1) |
|---|---|
| Long-term debt and letters of credit not to exceed three-and-a-quarter times trailing 12-month net income before non-cash items, income taxes and interest expense (2) | 1.2 |
| Long-term debt, letters of credit, and subordinated debt not to exceed four times trailing 12-month net income before non-cash items, income taxes and interest expense | 1.2 |
| Long-term debt and letters of credit not to exceed 50 per cent of the book value of shareholders' equity and long-term debt, letters of credit and subordinated debt | 20% |

(1) Estimated position, subject to final approval of the syndicate.
(2) Not to exceed three and a half times trailing 12-month net income before non-cash items, income taxes and interest expense, effective November 1, 2017.

**Shareholders' Equity**

At December 31, 2017 and February 8, 2018, there were 353.5 million shares outstanding and 4.9 million share options outstanding under ARC's Share Option Plan. For more information on the Share Option Plan, refer to the section entitled "Share Option Plan" contained within this MD&A.

At December 31, 2017, ARC had 0.3 million restricted shares outstanding under its LTRSA Plan. For more information on the restricted shares outstanding and held in trust under ARC's LTRSA Plan, refer to the section entitled "Long-term Restricted Share Award Plan" contained within this MD&A.

**Dividends**

In the fourth quarter of 2017, ARC declared dividends totaling $53.1 million ($0.15 per share outstanding) compared to $52.9 million ($0.15 per share outstanding) during the fourth quarter of 2016.

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

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

ARC's business strategy is focused on value creation and long-term returns to shareholders, with the dividend being an important component. As a result of the increase in funds from operations in the fourth quarter of 2017 compared to the same period of the prior year, ARC's dividend as a percent of funds from operations has decreased from an average of 28 per cent in the fourth quarter of 2016 to an average of 24 per cent in the fourth quarter of 2017. ARC believes that it is currently positioned to sustain current dividend levels despite the volatile commodity price environment.

**Exhibit 21**


(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

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

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

**Environmental Initiatives Impacting ARC**

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

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

**Contractual Obligations and Commitments**

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2017:

**Table 28**

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| ($ millions) | **1 Year** | **2-3 Years** | **4-5 Years** | **Beyond 5 Years** | **Total** |
| Debt repayments (1) | 73.9 | 218.3 | 302.7 | 316.4 | 911.3 |
| Interest payments (2) | 37.6 | 63.9 | 41.4 | 23.7 | 166.6 |
| Reclamation fund contributions (3) | 3.1 | 5.7 | 5.4 | 40.2 | 54.4 |
| Purchase commitments | 38.0 | 6.0 | — | — | 44.0 |
| Transportation commitments | 107.7 | 206.1 | 229.4 | 580.1 | 1,123.3 |
| Operating leases | 15.9 | 28.4 | 27.4 | 17.1 | 88.8 |
| Risk management contract premiums (4) | 0.5 | 0.4 | — | — | 0.9 |
| Total contractual obligations and commitments | **276.7** | **528.8** | **606.3** | **977.5** | **2,389.3** |

(1) Long-term and current portion of long-term debt.
(2) Fixed interest payments on senior notes.
(3) Contribution commitments to a restricted reclamation fund associated with the Redwater property.
(4) Fixed premiums to be paid in future periods on certain commodity price risk management contracts.

In addition to the above risk management contract premiums, ARC has commitments related to its risk management program (see Note 17 "Financial Instruments and Market Risk Management" of the financial statements). As the premiums are related to the underlying risk management contract, they have been recorded at fair market value at December 31, 2017 in ARC's consolidated balance sheets as part of risk management contracts.

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

ARC is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on ARC's financial position or results of operations and therefore Table 28 does not include any commitments for outstanding litigation and claims.

**Off-Balance Sheet Arrangements**

ARC's lease agreements, which are reflected in the Contractual Obligations and Commitments table (Table 28), were entered into in the normal course of operations. All of these leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on ARC's consolidated balance sheet as of December 31, 2017.

## Related Parties

### Key Management Personnel Compensation

ARC has determined that the key management personnel of ARC consists of its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the RSU and PSU, DSU, LTRSA and Share Option Plans. The compensation relating to key management personnel for the year is as follows:

**Table 29**

| ($ millions) | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Short-term benefits | **8.0** | 6.8 |
| Share-based compensation | **4.7** | 20.5 |
| Total key management personnel compensation | **12.7** | 27.3 |

## Critical Accounting Estimates

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

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

- estimated sales revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- estimated capital expenditures on projects that are in progress;
- estimated DD&A charges that are based on estimates of crude oil and natural gas reserves that ARC expects to recover in the future;
- estimated fair values of financial instruments that are subject to fluctuation depending upon the underlying forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves and the risk of non-performance;
- estimated value of ARO that is dependent upon estimates of future costs and timing of expenditures;
- estimated fair value of business combinations;
- estimated future recoverable value of PP&E, E&E and goodwill and any associated impairment charges or recoveries; and
- estimated compensation expense under ARC's share-based compensation plans including the PSUs awarded under the RSU and PSU Plan that is based on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier, the Share Option Plan and the LTRSA Plan.

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

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

## ASSESSMENT OF BUSINESS RISKS

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

### Volatility of Oil and Natural Gas Prices

ARC's operational results and financial condition, and therefore the amount of capital expenditures and future dividend payments made to shareholders, are dependent on the prices received for crude oil and natural gas production. Decreasing crude oil and natural gas prices will reduce ARC's cash flow, impacting ARC's level of capital expenditures and may result in the shut-in of certain producing properties. Differentials on Canadian crude oil have also shown significant volatility throughout recent years due to pipeline and infrastructure constraints. Any movement in crude oil and natural gas prices will have an effect on ARC's ability to continue with its capital expenditure program and its ability to pay dividends. Future declines in crude oil and natural gas prices may result in future declines in, or elimination of, any future dividends. Crude oil and natural gas prices are determined by economic and, in some circumstances, political factors. Political factors include foreign tax regimes and protectionist measures that could have the effect of closing off key markets. Supply and demand factors, including weather and general economic conditions as well as conditions in other crude oil and natural gas regions, impact prices. ARC may manage the risk associated with changes in commodity prices by entering into crude oil or natural gas price derivative contracts. If ARC engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity derivative contracts activities could expose ARC to losses. To the extent that ARC engages in risk management activities related to commodity prices, it will be subject to credit risks associated with counterparties with which it contracts.

### Refinancing and Debt Service

ARC currently has a $950.0 million financial covenant-based syndicated credit facility with 11 banks. At the request of ARC, the lenders will review the credit facility each year and determine if they will extend for another year. In the event that the facility is not extended before November 8, 2021, indebtedness under the facility will become repayable at that date. There is also a risk that the credit facility will not be renewed for the same amount or on the same terms. Any of these events could affect ARC's ability to fund ongoing operations and make future dividend payments.

ARC currently has $911.3 million of long-term, fixed interest rate debt outstanding which requires principal repayments in 2018 through 2026. ARC intends to fund these principal repayments with existing credit facilities. In the event ARC is unable to fund future principal repayments, it may impact ARC's ability to fund its ongoing operations and make future dividend payments.

ARC is required to comply with covenants under the credit facility. In the event that ARC does not comply with covenants under the credit facility, ARC's access to capital could be restricted or repayment could be required. ARC routinely reviews the covenants based on actual and forecast results and has the ability to make changes to its development plans and/or dividend policy to comply with covenants under the credit facility. If ARC becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, the lender may foreclose on such assets of ARC or sell the working interests.

### Access to Capital Markets

ARC's capital expenditures are financed from funds from operations, borrowings, proceeds from property divestments and possible future equity issuances. ARC's ability to issue equity is dependent upon, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and ARC securities. Further, if revenues or reserves decline ARC may not have access to the capital necessary to undertake or complete future drilling programs.

Additionally, ARC may issue additional common shares from treasury at prices which may result in a decline in production per common share and reserves per common share.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, ARC's ability to make capital investments and maintain or expand existing assets and reserves may be impaired and ARC's assets, liabilities, business, financial condition, results of operations and dividend payments may be materially or adversely affected as a result.

**Retention of Key Personnel**

A loss in the key personnel of ARC could delay the completion of certain projects or otherwise have a material adverse effect on the Company. Shareholders are dependent on ARC's management and staff in respect of the administration and management of all manners relating to ARC's assets. Any deterioration of ARC's corporate culture could adversely affect ARC's long-term success.

**Operational Matters**

The operation of oil and gas wells involves a number of operating and natural hazards that may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to operating subsidiaries of ARC and possible liability to third parties. ARC maintains liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. ARC may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities may reduce dividend payments to shareholders.

Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property. Approximately four per cent of ARC’s production is operated by third parties. ARC has limited ability to influence costs on partner-operated properties. Operating costs on most properties operated by third parties have increased steadily over recent years. To the extent the operator fails to perform these functions properly, ARC’s revenue from such property may be reduced. Payments from production generally flow through the operator and there is a risk of delayed payment, or non-payment and additional expense in recovering such revenues if the operator becomes insolvent. To mitigate this risk, all significant non-operated production is taken in-kind and marketed by ARC. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of ARC to certain properties. A reduction of future dividend payments to shareholders could result under such circumstances.

**Reserves and Resources Estimates**

The reserves and recovery information contained in ARC’s independent reserves evaluation is only an estimate. Likewise, information contained in ARC's Independent Resources Evaluation for its lands in the northeast British Columbia Montney region, including lands at Pouce Coupe, Alberta, is also only an estimate. The actual production and ultimate reserves and resources from the properties may be greater or less than the estimates prepared by the independent reserves evaluator. The reserves and resources reports have been prepared using certain commodity price assumptions. If lower prices for crude oil, natural gas, condensate and NGLs are realized by ARC and substituted for the price assumptions utilized in those reserves and resources reports, the present value of estimated future net cash flows for ARC’s reserves and resources as well as the amount of ARC’s reserves and resources would be reduced and the reduction could be significant.

**Depletion of Reserves and Maintenance of Dividend**

ARC’s future crude oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on ARC’s success in exploiting its reserves base and acquiring additional reserves. Without reserves additions through acquisition or development activities, ARC’s reserves and production will decline over time as the oil and natural gas reserves are produced out. There can be no assurance that ARC will make sufficient capital expenditures to maintain production at current levels nor, as a consequence, that the amount of dividends by ARC to shareholders can be maintained at current levels. There can be no assurance that ARC will be successful in developing or acquiring additional reserves on terms that meet ARC’s investment objectives.

**Counterparty Risk**

ARC assumes customer credit risk associated with oil and gas sales, financial hedging transactions and joint arrangement participants. In the event that ARC’s counterparties default on payments to ARC, cash flows will be impacted and dividend payments to shareholders may be impacted. ARC has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and gas sales, financial hedging transactions and joint arrangement participants. A diversified sales customer base is maintained and exposure to individual entities is reviewed on a regular basis.

**Variations in Interest Rates and Foreign Exchange Rates**

Variations in interest rates could result in an increase in the amount ARC pays to service debt. World oil prices are quoted in US dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact ARC's net production revenue. Volatility in interest rates and the Canadian dollar may affect future cash flows and reduce funds available for both dividends and capital expenditures. ARC may initiate certain derivative contracts to attempt to mitigate these risks. To the extent that ARC engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with counterparties with which it contracts. An increase in Canadian/US exchange rates may impact future dividend payments to shareholders and the value of ARC's reserves as determined by independent evaluators.

**Changes in Income Tax Legislation**

In the future, income tax laws or other laws may be changed or interpreted in a manner that adversely affects ARC or its shareholders. Tax authorities having jurisdiction over ARC or its shareholders may disagree with how ARC calculates its income for tax purposes to the detriment of ARC and its shareholders.

**Changes in Government Royalty Legislation**

Provincial programs related to the crude oil and natural gas industry may change in a manner that adversely impacts shareholders. ARC currently operates in British Columbia and Alberta, both of which have different royalty programs that could be revised at any time. Future amendments to royalty programs in any of ARC's operating jurisdictions could result in reduced cash flow and reduced dividend payments to shareholders.

**Environmental Concerns and Changes in Environmental Legislation**

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of ARC or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations to ARC. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Furthermore, Management believes the federal and provincial governments appear to favor new programs for environmental laws and regulation, particularly in relation to the reduction of GHG emissions, and there is no assurance that any such programs or regulatory amendments, if proposed and enacted, will not contain GHG emission reduction targets that ARC cannot meet. Financial penalties or charges could be incurred as a result of the failure to meet such targets. In particular there is uncertainty regarding the Pan-Canadian Framework on Clean Growth and Climate change ("Framework") and the Government of Canada's pledge to cut Canadian GHG emissions by 30 per cent from 2005 levels by 2030. Among other things, the Framework proposes a carbon-pricing strategy and measures to reduce methane emissions.

In the fourth quarter of 2015, the provincial government of Alberta released its Climate Leadership Plan ("CLP") which will impact all consumers and businesses that contribute to GHG emissions in Alberta. Following the CLP, a carbon levy came into effect in Alberta on January 1, 2017 at a rate of $20 per tonne, and increased to a rate of $30 per tonne on January 1, 2018. This rate of carbon levy matches the price of carbon emissions in British Columbia, which has been in effect since 2012.

Fracture stimulations have been used in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells there is increased dialogue between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation, changes of law and third party claims, which may make the conduct of ARC's business more expensive or prevent ARC from conducting its business as currently conducted. ARC focuses on conducting its operations in a safe, responsible and transparent manner in the communities in which its people live and work.

Provincial regulators have signaled potentially significant changes to the regulatory scheme pertaining to AROs in the near-future, which may impose more costly obligations to ARC. There is an appeal to the Supreme Court of Canada on the authority of provincial regulators to enforce their powers in the context of insolvency proceedings. The AER has already made several interim rule changes to the regulatory scheme pertaining to AROs, and further regulatory amendments are possible that the BCOGC may adopt as well. Further analysis of AROs are discussed in this MD&A under the heading "Asset Retirement Obligations."

### Transportation Constraints and Market Access

Lack of capacity and/or regulatory constraints on gathering and processing facilities, pipeline systems and railway lines may have a negative impact on ARC's ability to produce and sell its crude oil and natural gas. The amount of crude oil and natural gas that ARC can produce and sell is subject to the accessibility, availability, proximity and capacity of various gathering and processing facilities, pipeline systems and railway lines. The lack of availability or capacity in any of the gathering and processing facilities, pipeline systems and railway lines could result in ARC's inability to realize the full economic potential of its production or in a reduction of the price offered for ARC's production. The lack of firm pipeline capacity continues to affect the oil and gas industry and limit the ability to transport produced oil and gas to market. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability to export oil and natural gas. Unexpected shut-downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect ARC's production, operations and financial results. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays or uncertainty in constructing new infrastructure systems and facilities could harm ARC's business and, in turn, ARC's financial condition, operations and cash flows. Further analysis of transportation costs are discussed in this MD&A under the heading "Operating and Transportation Expenses."

### Acquisitions

The price paid for acquisitions is based on engineering and economic estimates of the potential reserves made by independent engineers modified to reflect the technical views of Management. These assessments include a number of material assumptions regarding such factors as recoverability and marketability of crude oil, natural gas, condensate and NGLs, future prices of crude oil, natural gas, condensate and NGLs, and operating costs, future capital expenditures and royalties and other government levies that will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the operators of the working interests, Management and ARC. In particular, changes in the prices of and markets for crude oil, natural gas, condensate and NGLs from those anticipated at the time of making such assessments will affect the amount of future dividends and the value of the shares. In addition, all such estimates involve a measure of geological and engineering uncertainty that could result in lower production and reserves than attributed to the working interests. Actual reserves could vary materially from these estimates. Consequently, the reserves acquired may be less than expected, which could adversely impact cash flow and dividends to shareholders.

### Cyber-Security

We employ and depend upon information technology systems to conduct our business. These systems have the potential to introduce information security risks, which are growing in both complexity and frequency and could include potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of our information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to our business activities or our competitive position. Further, disruption of critical information technology services, or breaches of information security, could have a negative effect on our assets, performance and earnings, as well as on our reputation. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on ARC’s business, financial condition and results of operations.

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

## PROJECT RISKS

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

- availability of processing capacity;
- availability and proximity of pipeline capacity;
- availability of storage capacity;
- supply of and demand for crude oil and natural gas;
- availability of alternative fuel sources;

- effects of inclement weather;
- availability of drilling-related equipment and resources;
- unexpected cost increases;
- accidental events;
- changes in regulations; and
- availability and productivity of skilled labour.

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

## CONTROL ENVIRONMENT

### Disclosure Controls and Procedures

As of December 31, 2017, an internal evaluation was carried out of the effectiveness of ARC's disclosure controls and procedures as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that ARC files or submits under Canadian Securities legislation is recorded, processed, summarized and reported, within the time periods specified in the rules and forms therein. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by ARC in the reports that it files or submits under Canadian Securities Legislation is accumulated and communicated to ARC's Management, including the senior executive and financial officers, as appropriate to allow timely decisions regarding the required disclosure.

### Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of ARC's internal control over financial reporting as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The assessment was based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that ARC's internal control over financial reporting was effective as of December 31, 2017. No changes were made to ARC's internal control over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

In the second quarter of 2017, ARC filed a Form 15F with the United States Securities and Exchange Commission (the "Commission" or "SEC") to voluntarily terminate the registration of its securities and its reporting obligations under Section 13(a) and Section 15(d) of the United States Securities Exchange Act of 1934, as amended ("Exchange Act"). ARC's Exchange Act reporting obligations were immediately suspended upon filing the Form 15F. The termination of ARC's registration and of its reporting obligations under Section 13(a) and Section 15(d) of the Exchange Act was effective 90 days after filing. ARC is current with all of its reporting requirements under the Exchange Act and is not listed on any US exchange. In determining to deregister, ARC's Board of Directors considered the administrative burden and costs associated with being a US reporting company and believe that the costs outweigh the benefits. ARC has continued to comply with its Canadian continuous disclosure obligations and its common shares have continued to trade on the Toronto Stock Exchange. As a result of this deregistration, an audit of the effectiveness of ARC's internal control over financial reporting is no longer required.

## FINANCIAL REPORTING UPDATE

### Future Accounting Policy Changes

IFRS 15 *Revenue from Contracts with Customers*

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

ARC will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on ARC's net income and financial position. However, ARC will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

IFRS 9 *Financial Instruments*

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments* ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statement of income. The Company has determined that adoption of IFRS 9 will result in changes to the classification of the Company's financial assets but will not change the classification of the Company's financial liabilities. The Company has also determined there will not be any material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption of IFRS 9.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. ARC has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9, as well as consequential amendments to IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"), will be applied on a retrospective basis by ARC on January 1, 2018.

IFRS 16 *Leases*

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

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by ARC on January 1, 2019. The Company is currently engaging and educating stakeholders and is implementing corporate processes to ensure contract completeness to identify leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard will extend into 2018. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on ARC's financial statements.

**Non-GAAP Measures**

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

*Operating Netback (“netback”)*

ARC calculates netback on a total and per boe basis as sales less royalties, operating and transportation expenses. ARC discloses netbacks both before and after the effect of realized gains on losses on risk management contracts. Realized gains or losses represent the portion of risk management contracts that have settled in cash during the period and disclosing this impact provides Management and investors with transparent measures that reflect how ARC’s risk management program can impact netback. Management feels that netback is a key industry benchmark and a measure of performance for ARC that provides investors with information that is commonly used by other crude oil and natural gas producers. The measurement on a boe basis assists Management and investors with evaluating operating performance on a comparable basis. ARC’s netback is disclosed in Table 17 within this MD&A.

*Return on Average Capital Employed (“ROACE”)*

ARC calculates ROACE, expressed as a percentage, as net income plus interest and total income taxes (recovery) divided by the average of the opening and closing capital employed for the 12 months to December 31. Capital employed is the total of net debt plus shareholders’ equity. Refer to Note 16 "Capital Management" in the financial statements for additional discussion on net debt.

ARC uses ROACE as a measure of operating performance, to measure how effectively Management utilizes the capital it has been provided and to demonstrate to shareholders that capital has been used wisely over the long term. ROACE is calculated by ARC on an annual and a five-year basis in Table 30 of this MD&A.

**Table 30**

| | Year Ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 | Five Year |
| Net income (loss) | **388.9** | 201.3 | (342.7) | 380.8 | 240.7 | 173.8 |
| Add: Interest | **45.3** | 50.5 | 51.0 | 47.3 | 42.5 | 47.3 |
| Add: Total income taxes (recovery) | **135.9** | 41.4 | (15.8) | 129.4 | 94.2 | 77.0 |
| Earnings before interest and taxes | **570.1** | 293.2 | (307.5) | 557.5 | 377.4 | 298.1 |
| Net Debt - beginning of period | **356.5** | 985.1 | 1,255.9 | 1,011.5 | 745.6 | 745.6 |
| Shareholders' Equity - beginning of period | **3,484.8** | 3,388.5 | 3,551.8 | 3,396.1 | 3,396.7 | 3,396.7 |
| Opening Capital Employed (A) | **3,841.3** | 4,373.6 | 4,807.7 | 4,407.6 | 4,142.3 | 4,142.3 |
| Net Debt - end of period | **728.0** | 356.5 | 985.1 | 1,255.9 | 1,011.5 | 728.0 |
| Shareholders' Equity - end of period | **3,668.9** | 3,484.8 | 3,388.5 | 3,551.8 | 3,396.1 | 3,668.9 |
| Closing Capital Employed (B) | **4,396.9** | 3,841.3 | 4,373.6 | 4,807.7 | 4,407.6 | 4,396.9 |
| Average Capital Employed (A+B)/2 | **4,119.1** | 4,107.5 | 4,590.7 | 4,607.7 | 4,275.0 | 4,269.6 |
| **ROACE (%)** | **14** | 7 | (7) | 12 | 9 | 7 |

## Forward-looking Information and Statements

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

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

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

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

## ANNUAL HISTORICAL REVIEW

| For the year ended December 31 | | | | | |
|---|---|---|---|---|---|
| ($ millions, except per share amounts) | **2017** | 2016 | 2015 | 2014 | 2013 |
| **FINANCIAL** | | | | | |
| Sales of crude oil, natural gas, condensate, NGLs and other income | **1,225.7** | 1,063.5 | 1,193.7 | 2,107.7 | 1,624.3 |
| Per share, basic | **3.47** | 3.03 | 3.51 | 6.66 | 5.21 |
| Per share, diluted | **3.46** | 3.03 | 3.51 | 6.64 | 5.21 |
| Net income (loss) | **388.9** | 201.3 | (342.7) | 380.8 | 240.7 |
| Per share, basic | **1.10** | 0.57 | (1.01) | 1.20 | 0.77 |
| Per share, diluted | **1.10** | 0.57 | (1.01) | 1.20 | 0.77 |
| Funds from operations (1) | **731.9** | 633.3 | 773.4 | 1,124.0 | 861.8 |
| Per share, basic | **2.07** | 1.80 | 2.27 | 3.55 | 2.77 |
| Per share, diluted | **2.07** | 1.80 | 2.27 | 3.54 | 2.76 |
| Dividends declared | **212.3** | 228.2 | 410.5 | 380.2 | 374.0 |
| Per share (2) | **0.60** | 0.65 | 1.20 | 1.20 | 1.20 |
| Total assets | **6,224.0** | 5,990.5 | 5,932.2 | 6,325.5 | 5,736.0 |
| Total liabilities | **2,555.1** | 2,505.7 | 2,543.7 | 2,773.7 | 2,339.9 |
| Net debt outstanding (3) | **728.0** | 356.5 | 985.1 | 1,255.9 | 1,011.5 |
| Weighted average shares | **353.4** | 350.9 | 340.5 | 316.6 | 311.5 |
| Weighted average shares, diluted | **353.9** | 351.3 | 340.5 | 317.2 | 311.9 |
| Shares outstanding, end of period | **353.5** | 353.3 | 347.1 | 319.4 | 314.1 |
| **CAPITAL EXPENDITURES** | | | | | |
| Geological and geophysical | **9.5** | 12.4 | 15.9 | 17.6 | 19.2 |
| Drilling and completions | **551.6** | 227.0 | 361.2 | 660.0 | 568.4 |
| Plant and facilities | **262.7** | 210.6 | 162.0 | 261.4 | 267.7 |
| Other | **5.9** | 3.4 | 2.5 | 6.5 | 4.6 |
| Total capital expenditures | **829.7** | 453.4 | 541.6 | 945.5 | 859.9 |
| Undeveloped land purchased at Crown land sales | **97.6** | 2.7 | 6.7 | 62.3 | 14.3 |
| Total capital expenditures including undeveloped land purchases | **927.3** | 456.1 | 548.3 | 1,007.8 | 874.2 |
| Acquisitions | **2.5** | 172.9 | 14.4 | 73.5 | 36.4 |
| Dispositions | **—** | (705.4) | (88.8) | (39.3) | (89.8) |
| Total capital expenditures and net acquisitions | **929.8** | (76.4) | 473.9 | 1,042.0 | 820.8 |
| **OPERATING** | | | | | |
| Production | | | | | |
| Crude oil (bbl/d) | **24,380** | 31,510 | 32,762 | 36,525 | 32,784 |
| Condensate (bbl/d) | **5,650** | 3,626 | 3,430 | 3,667 | 2,251 |
| Natural gas (MMcf/d) | **525.8** | 475.6 | 444.9 | 406.1 | 349.4 |
| NGLs (bbl/d) | **5,273** | 4,274 | 3,819 | 4,518 | 2,811 |
| Total (boe/d) | **122,937** | 118,671 | 114,167 | 112,387 | 96,087 |
| Average realized prices, prior to risk management contracts | | | | | |
| Crude oil ($/bbl) | **60.95** | 50.34 | 53.53 | 90.64 | 88.90 |
| Condensate ($/bbl) | **62.04** | 50.98 | 53.84 | 93.81 | 94.13 |
| Natural gas ($/Mcf) | **2.56** | 2.23 | 2.88 | 4.76 | 3.45 |
| NGLs ($/bbl) | **29.57** | 13.85 | 10.70 | 39.45 | 36.25 |
| Oil equivalent ($/boe) | **27.16** | 24.35 | 28.57 | 51.31 | 46.31 |
| **RESERVES** (company gross) (4) | | | | | |
| Proved plus probable reserves | | | | | |
| Crude oil and NGLs (Mbbl) | **203,210** | 195,500 | 199,826 | 192,489 | 194,064 |
| Natural gas (bcf) | **3,797.4** | 3,247.4 | 2,922.1 | 2,881.6 | 2,638.8 |
| Total (Mboe) | **836,103** | 736,733 | 686,851 | 672,748 | 633,864 |
| **TRADING STATISTICS** ($, based on intra-day trading) (5) | | | | | |
| High | **23.70** | 24.94 | 25.87 | 33.68 | 29.95 |
| Low | **13.64** | 14.43 | 15.39 | 22.74 | 23.13 |
| Close | **14.75** | 23.11 | 16.70 | 25.16 | 29.57 |
| Average daily volume (thousands) | **1,124** | 986 | 1,093 | 844 | 725 |

(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Dividends per share are based on the number of shares outstanding at each dividend record date.
(3) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(4) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests.
(5) Trading statistics denote trading activity on the Toronto Stock Exchange only.

## QUARTERLY HISTORICAL REVIEW

| ($ millions, except per share amounts) | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL** | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Sales of crude oil, natural gas, condensate, NGLs and other income | **340.3** | 279.2 | 297.0 | 309.2 | 331.8 | 265.6 | 234.9 | 231.2 |
| Per share, basic | **0.96** | 0.79 | 0.84 | 0.87 | 0.94 | 0.76 | 0.67 | 0.66 |
| Per share, diluted | **0.96** | 0.79 | 0.84 | 0.87 | 0.94 | 0.75 | 0.67 | 0.66 |
| Net income (loss) | **73.9** | 48.5 | 124.0 | 142.5 | 167.0 | 28.3 | (58.1) | 64.1 |
| Per share, basic | **0.21** | 0.14 | 0.35 | 0.40 | 0.47 | 0.08 | (0.17) | 0.18 |
| Per share, diluted | **0.21** | 0.14 | 0.35 | 0.40 | 0.47 | 0.08 | (0.17) | 0.18 |
| Funds from operations (1) | **221.1** | 163.8 | 169.8 | 177.2 | 188.5 | 153.0 | 141.7 | 150.1 |
| Per share, basic | **0.63** | 0.46 | 0.48 | 0.50 | 0.53 | 0.44 | 0.40 | 0.43 |
| Per share, diluted | **0.63** | 0.46 | 0.48 | 0.50 | 0.53 | 0.44 | 0.40 | 0.43 |
| Dividends declared | **53.1** | 53.0 | 53.1 | 53.1 | 52.9 | 52.9 | 52.5 | 69.9 |
| Per share (2) | **0.15** | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.20 |
| Total assets | **6,224.0** | 6,115.0 | 6,196.8 | 6,169.3 | 5,990.5 | 5,968.4 | 5,891.1 | 5,893.7 |
| Total liabilities | **2,555.1** | 2,468.2 | 2,546.8 | 2,591.4 | 2,505.7 | 2,622.3 | 2,547.0 | 2,466.1 |
| Net debt outstanding (3) | **728.0** | 645.1 | 527.4 | 501.4 | 356.5 | 1,009.4 | 969.3 | 868.4 |
| Weighted average shares, basic | **353.5** | 353.5 | 353.4 | 353.4 | 352.8 | 351.7 | 350.5 | 348.7 |
| Weighted average shares, diluted | **353.8** | 353.9 | 353.8 | 353.7 | 353.5 | 352.3 | 350.5 | 348.9 |
| Shares outstanding, end of period | **353.5** | 353.5 | 353.4 | 353.4 | 353.3 | 352.2 | 351.1 | 349.8 |
| **CAPITAL EXPENDITURES** | | | | | | | | |
| Geological and geophysical | **2.5** | 1.8 | 2.0 | 3.2 | 1.8 | 3.5 | 4.3 | 2.8 |
| Drilling and completions | **154.8** | 119.3 | 105.9 | 171.6 | 89.1 | 59.0 | 55.7 | 23.2 |
| Plant and facilities | **87.2** | 55.5 | 41.6 | 78.4 | 65.9 | 59.8 | 52.2 | 32.7 |
| Administrative assets | **0.6** | 1.8 | 1.5 | 2.0 | 2.4 | 0.2 | 0.4 | 0.4 |
| Total capital expenditures | **245.1** | 178.4 | 151.0 | 255.2 | 159.2 | 122.5 | 112.6 | 59.1 |
| Undeveloped land | **0.4** | 77.3 | 14.7 | 5.2 | 2.7 | — | — | — |
| Total capital expenditures, including undeveloped land purchases | **245.5** | 255.7 | 165.7 | 260.4 | 161.9 | 122.5 | 112.6 | 59.1 |
| Acquisitions | **2.2** | — | 0.1 | 0.2 | 14.6 | 31.6 | 111.6 | 15.1 |
| Dispositions | **—** | — | — | — | (702.1) | (0.3) | (3.0) | — |
| Total capital expenditures, land purchases and net acquisitions and dispositions | **247.7** | 255.7 | 165.8 | 260.6 | (525.6) | 153.8 | 221.2 | 74.2 |
| **OPERATING** | | | | | | | | |
| Production | | | | | | | | |
| Crude oil (bbl/d) | **24,641** | 25,020 | 23,813 | 24,030 | 29,885 | 29,642 | 31,702 | 34,852 |
| Condensate (bbl/d) | **6,989** | 6,815 | 4,253 | 4,504 | 3,767 | 3,562 | 3,733 | 3,442 |
| Natural gas (MMcf/d) | **572.4** | 549.6 | 483.9 | 496.2 | 478.4 | 466.7 | 467.5 | 489.7 |
| NGLs (bbl/d) | **6,380** | 6,091 | 4,691 | 3,893 | 4,220 | 4,221 | 4,336 | 4,319 |
| Total (boe/d) | **133,409** | 129,526 | 113,410 | 115,129 | 117,611 | 115,205 | 117,695 | 124,224 |
| Average realized prices, prior to risk management contracts | | | | | | | | |
| Crude oil ($/bbl) | **67.67** | 54.82 | 59.78 | 61.62 | 59.20 | 52.43 | 52.80 | 38.64 |
| Condensate ($/bbl) | **69.27** | 54.28 | 60.08 | 64.44 | 58.97 | 50.81 | 51.20 | 42.07 |
| Natural gas ($/Mcf) | **2.28** | 2.01 | 2.99 | 3.10 | 3.10 | 2.35 | 1.39 | 2.05 |
| NGLs ($/bbl) | **35.31** | 28.37 | 26.27 | 25.91 | 20.77 | 12.67 | 13.60 | 8.42 |
| Oil equivalent ($/boe) | **27.58** | 23.29 | 28.63 | 29.63 | 30.29 | 25.03 | 21.87 | 20.39 |
| **TRADING STATISTICS** (4) | | | | | | | | |
| ($, based on intra-day trading) | | | | | | | | |
| High | **18.34** | 18.31 | 19.55 | 23.70 | 24.94 | 24.08 | 23.35 | 20.15 |
| Low | **13.64** | 15.61 | 16.23 | 18.26 | 21.55 | 20.88 | 17.43 | 14.43 |
| Close | **14.75** | 17.19 | 16.96 | 19.00 | 23.11 | 23.73 | 22.11 | 18.89 |
| Average daily volume (thousands) | **1,114** | 1,008 | 1,269 | 1,104 | 837 | 691 | 1,029 | 1,388 |

(1) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.
(2) Dividends per share are based on the number of shares outstanding at each dividend record date.
(3) Refer to Note 16 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.
(4) Trading statistics denote trading activity on the Toronto Stock Exchange only.

## Management's Report

### Management's Responsibility on Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

To ensure the integrity of our financial statements, we carefully select and train qualified personnel. We also ensure our organizational structure provides appropriate delegation of authority and division of responsibilities. Our policies and procedures are communicated throughout the organization including a written ethics and integrity policy that applies to all employees including the Chief Executive Officer and Chief Financial Officer.

The Board of Directors approves the consolidated financial statements. Their financial statement related responsibilities are fulfilled primarily through the Audit Committee. The Audit Committee is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with Management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

### Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the internal control over financial reporting for ARC Resources Ltd. The assessment was based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

Myron M. Stadnyk
President and Chief Executive Officer

P. Van R. Dafoe
Senior Vice President and Chief Financial Officer

Calgary, Alberta

February 8, 2018

February 8, 2018

## Independent Auditor's Report

### To the Shareholders of ARC Resources Ltd.

We have audited the accompanying consolidated financial statements of ARC Resources Ltd. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statement of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ARC Resources Ltd. and its subsidiaries as at December 31, 2017 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other matters

The financial statements of ARC Resources Ltd. and its subsidiaries for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on February 8, 2017.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants**

*PricewaterhouseCoopers LLP*
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*T: +1 403 509 7500, F: +1 403 781 1825*

**ARC RESOURCES LTD.**

**CONSOLIDATED BALANCE SHEETS**

As at

| (Cdn$ millions) | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **220.2** | 222.2 |
| Short-term investments (Note 6) | **—** | 450.0 |
| Accounts receivable | **132.7** | 164.7 |
| Prepaid expenses | **18.1** | 12.1 |
| Risk management contracts (Note 17) | **146.6** | 59.0 |
| Assets held for sale (Note 11) | **301.1** | 242.3 |
| | **818.7** | 1,150.3 |
| Reclamation fund (Note 8) | **36.7** | 36.5 |
| Risk management contracts (Note 17) | **148.4** | 123.4 |
| Exploration and evaluation assets (Note 10) | **418.9** | 313.2 |
| Property, plant and equipment (Note 11) | **4,553.1** | 4,118.9 |
| Goodwill | **248.2** | 248.2 |
| Total assets | **6,224.0** | 5,990.5 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **170.0** | 161.8 |
| Current portion of long-term debt (Note 14) | **73.9** | 51.5 |
| Current portion of asset retirement obligations (Note 15) | **16.0** | 15.5 |
| Dividends payable (Note 19) | **17.7** | 17.7 |
| Risk management contracts (Note 17) | **—** | 28.9 |
| Liabilities associated with assets held for sale (Note 11) | **219.7** | 171.1 |
| | **497.3** | 446.5 |
| Risk management contracts (Note 17) | **0.2** | — |
| Long-term debt (Note 14) | **837.4** | 974.5 |
| Long-term incentive compensation liability (Note 20) | **17.5** | 24.6 |
| Other deferred liabilities | **12.3** | 12.4 |
| Asset retirement obligations (Note 15) | **386.8** | 363.4 |
| Deferred taxes (Note 18) | **803.6** | 684.3 |
| Total liabilities | **2,555.1** | 2,505.7 |
| **SHAREHOLDERS' EQUITY** | | |
| Shareholders' capital | **4,658.5** | 4,654.9 |
| Contributed surplus | **21.9** | 17.6 |
| Deficit | **(1,011.4)** | (1,188.0) |
| Accumulated other comprehensive income (loss) | **(0.1)** | 0.3 |
| Total shareholders' equity | **3,668.9** | 3,484.8 |
| Total liabilities and shareholders' equity | **6,224.0** | 5,990.5 |
| Commitments and contingencies (Note 21) | | |

See accompanying notes to the consolidated financial statements.

**ARC RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31

| (Cdn$ millions, except per share amounts) | 2017 | 2016 |
|---|---|---|
| Sales of crude oil, natural gas, condensate, natural gas liquids and other income | **1,225.7** | 1,063.5 |
| Royalties | **(102.8)** | (89.0) |
| Revenue | **1,122.9** | 974.5 |
| Gain (loss) on risk management contracts (Note 17) | **282.8** | (36.7) |
| Revenue and gain (loss) on risk management contracts | **1,405.7** | 937.8 |
| Transportation | **113.1** | 95.4 |
| Operating | **287.7** | 289.0 |
| Exploration and evaluation expenses (Note 10) | **9.7** | 1.7 |
| General and administrative | **69.1** | 99.3 |
| Interest and financing charges | **45.3** | 50.5 |
| Accretion of asset retirement obligations (Note 15) | **13.1** | 12.1 |
| Depletion, depreciation, amortization and impairment (Notes 11 and 12) | **405.1** | 431.5 |
| Gain on foreign exchange | **(57.0)** | (33.3) |
| Gain on short-term investments | **(0.4)** | (1.2) |
| Gain on business combinations (Note 9) | **—** | (53.9) |
| Gain on disposal of petroleum and natural gas properties (Note 11) | **(4.8)** | (196.0) |
| Total expenses | **880.9** | 695.1 |
| Net income before income taxes | **524.8** | 242.7 |
| Provision for income taxes (Note 18) | | |
| Current | **16.5** | 25.4 |
| Deferred | **119.4** | 16.0 |
| Total income taxes | **135.9** | 41.4 |
| Net income | **388.9** | 201.3 |
| Net income per share (Note 19) | | |
| Basic | **1.10** | 0.57 |
| Diluted | **1.10** | 0.57 |

See accompanying notes to the consolidated financial statements.

**ARC RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31

| (Cdn$ millions) | **2017** | 2016 |
|---|---|---|
| Net income | **388.9** | 201.3 |
| Other comprehensive income (loss) | | |
| Items that may be reclassified into earnings, net of tax: | | |
| Net unrealized gain (loss) on reclamation fund assets (Note 8) | **(0.4)** | 0.2 |
| Other comprehensive income (loss) | **(0.4)** | 0.2 |
| Comprehensive income | **388.5** | 201.5 |

See accompanying notes to the consolidated financial statements.

**ARC RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the years ended December 31

| (Cdn$ millions) | Shareholders' Capital (Note 19) | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|
| December 31, 2015 | 4,536.9 | 12.6 | (1,161.1) | 0.1 | 3,388.5 |
| Net income | — | — | 201.3 | — | 201.3 |
| Other comprehensive income | — | — | — | 0.2 | 0.2 |
| Total comprehensive income | — | — | 201.3 | 0.2 | 201.5 |
| Shares issued for cash on exercise of stock options (Note 20) | 0.8 | — | — | — | 0.8 |
| Shares issued pursuant to the Dividend Reinvestment Plan and Stock Dividend Program | 117.1 | — | — | — | 117.1 |
| Share issuance costs | (0.2) | — | — | — | (0.2) |
| Recognized under share-based compensation plans (Note 20) | — | 5.3 | — | — | 5.3 |
| Contributed surplus transferred on exercise of share options (Notes 19 and 20) | 0.3 | (0.3) | — | — | — |
| Dividends declared | — | — | (228.2) | — | (228.2) |
| December 31, 2016 | 4,654.9 | 17.6 | (1,188.0) | 0.3 | 3,484.8 |
| Net income | **—** | **—** | **388.9** | **—** | **388.9** |
| Other comprehensive loss | **—** | **—** | **—** | **(0.4)** | **(0.4)** |
| Total comprehensive income (loss) | **—** | **—** | **388.9** | **(0.4)** | **388.5** |
| Shares issued pursuant to the Dividend Reinvestment Plan and Stock Dividend Program | **3.0** | **—** | **—** | **—** | **3.0** |
| Recognized under share-based compensation plans (Note 20) | **0.6** | **4.3** | **—** | **—** | **4.9** |
| Dividends declared | **—** | **—** | **(212.3)** | **—** | **(212.3)** |
| December 31, 2017 | **4,658.5** | **21.9** | **(1,011.4)** | **(0.1)** | **3,668.9** |

See accompanying notes to the consolidated financial statements.

**ARC RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31

| (Cdn$ millions) | **2017** | 2016 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net income | **388.9** | 201.3 |
| Add items not involving cash: | | |
| Unrealized loss (gain) on risk management contracts | **(137.8)** | 253.2 |
| Accretion of asset retirement obligations (Note 15) | **13.1** | 12.1 |
| Depletion, depreciation, amortization and impairment (Notes 11 and 12) | **405.1** | 431.5 |
| Exploration and evaluation expenses (Note 10) | **9.7** | 1.7 |
| Unrealized gain on foreign exchange | **(65.2)** | (34.5) |
| Gain on business combinations (Note 9) | **—** | (53.9) |
| Gain on disposal of petroleum and natural gas properties (Note 11) | **(4.8)** | (196.0) |
| Deferred tax expense (Note 18) | **119.4** | 16.0 |
| Other (Note 23) | **3.5** | 1.9 |
| Net change in other liabilities (Note 23) | **(30.4)** | (4.7) |
| Change in non-cash working capital (Note 23) | **(28.7)** | 2.1 |
| Cash flow from operating activities | **672.8** | 630.7 |
| | | |
| **CASH FLOW USED IN FINANCING ACTIVITIES** | | |
| Repayment of senior notes | **(49.8)** | (55.1) |
| Issuance of common shares | **0.6** | 0.8 |
| Share issuance costs | **—** | (0.2) |
| Cash dividends paid | **(209.2)** | (128.0) |
| Cash flow used in financing activities | **(258.4)** | (182.5) |
| | | |
| **CASH FLOW USED IN INVESTING ACTIVITIES** | | |
| Acquisition of petroleum and natural gas properties (Notes 9 and 11) | **(2.5)** | (172.9) |
| Disposal of petroleum and natural gas properties (Note 11) | **—** | 705.4 |
| Property, plant and equipment development expenditures (Note 11) | **(810.3)** | (417.6) |
| Exploration and evaluation asset expenditures (Note 10) | **(116.7)** | (38.0) |
| Net reclamation fund contributions | **(0.6)** | (2.0) |
| Net withdrawal (purchase) of short-term investments (Note 6) | **452.8** | (445.6) |
| Change in non-cash working capital (Note 23) | **60.9** | (22.6) |
| Cash flow used in investing activities | **(416.4)** | (393.3) |
| | | |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(2.0)** | 54.9 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **222.2** | 167.3 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **220.2** | 222.2 |
| The following are included in cash flow from operating activities: | | |
| Income taxes paid in cash | **17.1** | 14.7 |
| Interest paid in cash | **46.3** | 50.5 |

See accompanying notes to the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2017 and 2016

## 1. STRUCTURE OF THE BUSINESS

The principal undertakings of ARC Resources Ltd. and its subsidiaries (collectively, the “Company” or “ARC”) are to carry on the business of acquiring, developing and holding interests in petroleum and natural gas properties and assets.

ARC was incorporated in Alberta, Canada and the Company’s registered office and principal place of business is located at 1200, 308 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0H7.

## 2. BASIS OF PREPARATION

These consolidated financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB") up to February 8, 2018. All financial information is reported in millions of Canadian dollars ("Cdn$"), unless otherwise noted. References to “US$” are to United States dollars.

The financial statements have been prepared on a historical cost basis, except for ARC's cash and cash equivalents, short-term investments, reclamation fund assets, and risk management contracts which are presented at fair value, as detailed in the accounting policies disclosed in Note 3.

All inter-entity transactions have been eliminated upon consolidation between ARC and its subsidiaries in these financial statements. ARC's operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

The preparation of the financial statements requires Management to use judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the financial statements are detailed in Note 5.

These financial statements were authorized for issue by the Board of Directors on February 8, 2018.

## 3. SUMMARY OF ACCOUNTING POLICIES

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, market deposits and similar type instruments with an original maturity of three months or less when purchased.

### Reclamation Fund

ARC's reclamation fund holds investment-grade assets and cash and cash equivalents. Investments are categorized as available-for-sale assets. Available-for-sale assets are initially measured at fair value with subsequent changes in fair value recognized in other comprehensive income ("OCI"), net of tax.

### Exploration and Evaluation (“E&E”) Assets

E&E costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the assignment of a sufficient amount of economically recoverable reserves relative to the estimated potential resources available and available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, and the estimate of any asset retirement costs. Costs incurred prior to obtaining the legal right to explore are expensed as incurred. ARC has certain E&E properties that have sales of petroleum products associated with production from test wells. These operating results are recognized in the consolidated statements of income (the "statements of income"). Assets classified as E&E are not depleted.

When a project classified as E&E is determined to be technically feasible and commercially viable, the relevant cost is transferred from E&E to development and production assets which are classified as PP&E on the consolidated balance sheets (the "balance sheets"). The relevant assets are assessed for impairment prior to any such transfer. If a decision not to continue an E&E project is made by Management, all associated costs are charged to the statements of income in E&E expenses at that time.

### Property, Plant and Equipment ("PP&E")

Items of PP&E, which include oil and gas development and production assets and administrative assets, are measured at cost less accumulated depletion, depreciation and amortization ("DD&A") and accumulated impairment losses.

### Goodwill

ARC records goodwill relating to a business combination when the total purchase price exceeds the fair value of the identifiable assets and liabilities of the acquired business. Goodwill is stated at cost less any accumulated impairment losses.

### Capitalization of Exploration and Development Costs

Overhead costs that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by Management are capitalized. These costs include cash and share-based compensation costs paid to ARC personnel dedicated to capital projects.

### Impairment of Non-Financial Assets

*Development and Production Assets*

ARC's development and production assets are grouped into cash generating units ("CGUs") for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company. Geological formation, product type, geography and internal management are key factors considered when grouping ARC's petroleum and natural gas assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment or, in the case of previously impaired CGUs, impairment reversal. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount, defined as the greater of a CGU's fair value less costs of disposal and its value in use. Any excess of carrying value over the recoverable amount is recognized in the statements of income in DD&A and impairment.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined, net of DD&A, if no impairment loss had been recognized. A reversal of impairment is recognized in the statements of income in DD&A and impairment.

*E&E Assets*

E&E assets are assessed for impairment at the operating segment level and tested for impairment any time that circumstances arise which could indicate a potential impairment. Upon determination of technical feasibility and commercial viability, the relevant E&E assets are first tested for impairment by comparing its carrying amount to the greater of the E&E assets' fair value less cost of disposal or value in use and then reclassified to development and production assets. An impairment loss on E&E assets is recognized if the carrying value of the E&E assets exceeds the recoverable amount. Impairment of E&E assets is recognized in E&E expenses.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant E&E asset is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

*Goodwill*

Goodwill is assessed for impairment at the operating segment level. Goodwill has not been attributed to individual CGUs as ARC believes the goodwill it has acquired enhances the value of all of its pre-existing CGUs through enhanced operating efficiencies. Irrespective of whether there is any indication of impairment, goodwill balances are tested for impairment annually. An impairment loss on goodwill is recognized if the combined carrying amount of the CGUs including goodwill exceeds the aggregate recoverable amount of the CGUs determined as the greater of the combined fair value less costs of disposal and its value in use. Impairment of goodwill is recognized in the statements of income in DD&A and impairment. Any impairment loss of goodwill is not reversed.

### Assets Held for Sale

Non-current assets and E&E assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing development or use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, Management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification. However certain events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year.

Immediately before the property, plant and equipment and E&E are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying amount and fair value less costs of disposal, with any impairment loss, reversal of impairment or E&E expense recognized in the statements of income. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortized.

**Dispositions**

Gains on disposal of assets are determined by comparing the proceeds from disposal with the carrying amount of the assets held for sale and are recognized separately in the statements of income.

Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the statements of income.

**Business Combinations**

Business combinations are accounted for using the acquisition method under IFRS 3 *Business Combinations* ("IFRS 3"). Management's determination of whether a transaction constitutes a business combination or an asset acquisition is determined based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. The asset retirement obligation ("ARO") associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in ARO and PP&E on the balance sheet. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net identifiable assets acquired, a gain on business combination is recognized immediately in the statements of income. Any deferred tax asset or liability arising from the business combination is recognized at the acquisition date. Goodwill is not expected to be deductible for tax purposes. Transaction costs associated with a business combination are expensed as incurred.

In a business combination achieved in stages whereby joint control does not exist or is not retained, any equity interest previously held by ARC in the acquiree is re-measured at its acquisition date fair value and any resulting gain or loss is recognized immediately in the statements of income. Obtaining control of a business that is a joint operation for which ARC previously held an interest immediately before the acquisition date (either as a joint operator or as a party to a joint arrangement) is considered to be a business combination achieved in stages whereby joint control is not retained.

**DD&A**

Development and production assets are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is measured using the unit-of-production method based on:

(a) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;

(b) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs; and

(c) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Depreciation of administrative assets is calculated on a straight-line basis over the estimated useful lives of the related assets, which range from three to fourteen years.

**Provisions and ARO**

Provisions are recognized when ARC has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision for onerous contracts is recognized when the expected economic benefits to be derived by ARC from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost of the remaining term of the contract. Before a provision is established, ARC first recognizes any impairment loss on assets associated with the onerous contract.

Provisions for decommissioning and restoration obligations associated with ARC's E&E and PP&E assets are recognized as ARO. ARO is measured at the present value of Management's best estimate of expenditures required to settle the liability as at the date of the balance sheet. On a periodic basis, Management reviews these estimates and changes, if any, are applied prospectively. The change in fair value of the estimated ARO is recorded as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset. The capitalized amount in PP&E is depreciated on a unit-of-production basis over the life of the associated proved and probable reserves. The long-term liability is increased each reporting period with the passage of time and the associated accretion charge is recognized in the statements of income. Periodic revisions to the liability-specific risk-free discount rate, estimated timing of cash flows or to the estimated undiscounted cost can also result in an increase or decrease to the ARO and the related asset. Actual costs incurred upon settlement of the obligation are recorded against the ARO to the extent of the liability recorded.

**Financial Instruments**

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below. ARC does not employ hedge accounting for its risk management contracts currently in place.

- *Fair value through profit or loss*

  Financial assets and liabilities classified as held-for-trading or designated as at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values charged immediately to earnings. ARC classifies its cash and cash equivalents, short-term investments, and risk management contracts as held-for-trading.

- *Held-to-maturity investments, loans and receivables and other financial liabilities*

  Held-to-maturity investments, loans and receivables, and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. ARC classifies accounts receivable as loans and receivables, and classifies accounts payable and accrued liabilities, dividends payable, and long-term debt as other financial liabilities.

- *Available-for-sale financial assets*

  Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in OCI, net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in the statements of income. Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is an impairment. ARC classifies its reclamation fund assets as available-for-sale assets.

**Fair Value Measurement**

ARC measures its cash and cash equivalents, risk management contracts, and reclamation fund at fair value at each reporting date. Fair value less costs of disposal is also calculated at each reporting date to determine the recoverable amount of non-financial assets that are tested for impairment. The fair value of long-term debt is disclosed in Note 14.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. To estimate the fair value of its financial instruments, ARC uses quoted market prices when available, or third-party models and valuation methodologies that use observable market data. Fair value is measured using the assumptions that market participants would use, including transaction-specific details and non-performance risk.

All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using a three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At each reporting date, ARC determines whether transfers have occurred between levels in the hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the financial statements based on the lowest level input that is significant to the fair value measurement as a whole. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

ARC's risk management contracts are subject to master netting agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities on the Company's balance sheets in all circumstances. ARC manages these contracts on the basis of its net exposure to market risks and therefore measures their fair value consistently with how market participants would price the net risk exposure at the reporting date under current market conditions.

**Impairment of Financial Assets**

The Company assesses whether there is objective evidence that indicates if a financial asset or group of financial assets is impaired at each reporting date. Objective evidence exists if one or more loss events occur after initial recognition of the financial asset which have an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. Objective evidence of impairment may include indications that a debtor is experiencing significant financial difficulty, that a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, and changes in economic conditions that correlate with defaults.

If a receivable or group of receivables carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the receivable and its recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in general and administrative ("G&A") expenses in the statements of income. If the amount of the impairment loss decreases in a subsequent period because of a specific event, the impairment loss is reversed through the allowance account. Receivables and the associated allowance balance are written off when there is no longer a probability of future recovery.

When a decline in the fair value of an available-for-sale financial asset has been recognized in OCI and there is objective evidence that the asset is impaired, the cumulative loss is measured as the difference between the acquisition cost of the financial asset and its fair value and is reclassified from equity to G&A expenses.

**Income Taxes**

Income tax expense comprises current and deferred income taxes. Current and deferred income tax expense is recognized in the statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Claims made for scientific research and experimental development tax credits are offset against current tax expense.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and tax liabilities are offset to the extent there is a legally enforceable right to set off the recognized amounts and the intent is to either settle on a net basis or to realize the asset and settle the liability simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**Revenue Recognition**

Revenue associated with the sale of crude oil, natural gas, condensate and natural gas liquids (“NGLs”) owned by ARC is recognized when title is transferred from ARC to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue represents ARC's share net of royalty payments to governments and other mineral interest owners. Revenue from the sale of crude oil, natural gas, condensate and NGLs (prior to deduction of transportation costs) is recognized when all of the following conditions have been satisfied:

- ARC has transferred the significant risks and rewards of ownership of the goods to the buyer;
- ARC retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to ARC; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Transportation**

Costs paid by ARC for the transportation of crude oil, natural gas, condensate and NGLs to the point of title transfer are recognized when the transportation is provided.

**Share-Based Compensation Plans**

ARC's share-based compensation plans include both cash-settled awards and equity-settled awards.

Liabilities associated with cash-settled awards are determined based on the fair value of the award at grant date and are subsequently revalued at each period end. This valuation incorporates the period-end share price, dividends declared during the period, the number of units outstanding at each period end, and certain Management estimates, such as a performance multiplier and estimated forfeiture. Compensation expense is recognized in the statements of income over the relevant service period with a corresponding increase or decrease in accrued liabilities. Classification of the associated short-term and long-term liabilities is dependent on the expected payout dates of the individual awards.

Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. Depending on the terms of the plan, when the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

**Government Grants**

Government grants are recognized when there is reasonable assurance that ARC will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expenses, it is recognized in the statements of income in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset and amortized into income on a systematic basis over the expected useful life of the underlying asset through reduced DD&A charges.

**Joint Arrangements**

ARC may conduct its oil and gas production activities through jointly controlled operations and the financial statements reflect only ARC’s proportionate interest in such activities. Joint control exists for contractual arrangements governing ARC's assets whereby ARC has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. ARC does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

**Foreign Currency Translation**

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the period average rates of exchange. Translation gains and losses are included in earnings in the period in which they arise.

ARC’s functional and presentation currency is Canadian dollars.

## 4. FUTURE ACCOUNTING POLICY CHANGES

IFRS 15 *Revenue from Contracts with Customers*

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

ARC will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on ARC's net income and financial position. However, ARC will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

IFRS 9 *Financial Instruments*

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments* ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statement of income. The Company has determined that adoption of IFRS 9 will result in changes to the classification of the Company's financial assets but will not change the classification of the Company's financial liabilities. The Company has also determined there will not be any material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption of IFRS 9.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. ARC has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9, as well as consequential amendments to IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"), will be applied on a retrospective basis by ARC on January 1, 2018.

IFRS 16 *Leases*

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

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by ARC on January 1, 2019. The Company is currently engaging and educating stakeholders and is implementing corporate processes to ensure contract completeness to identify leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard will extend into 2018. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on ARC's financial statements.

## 5. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The timely preparation of financial statements in accordance with IFRS requires Management to use judgments, estimates and assumptions. These estimates and judgments are subject to change and actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingencies are discussed below.

### Crude Oil and Natural Gas Reserves and Resources

There are a number of inherent uncertainties associated with estimating reserves and resources. Reserve and resource estimates are based on engineering data, estimated future prices, expected future rates of production and the timing and amount of future expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2017 and 2016, which could differ significantly from other points in time throughout the year, or future periods. Reserves and resources have been evaluated at December 31, 2017 and 2016 by ARC's independent qualified reserves evaluator.

### Determination of Cash Generating Units

Determination of what constitutes a CGU is subject to Management judgment. The recoverability of development and production asset carrying values are assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

### Recoverability of Asset Carrying Values

Management applies judgment in assessing the existence of indicators of impairment and impairment recovery based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. The key estimates ARC applies in determining an acceptable range of recoverable amounts normally includes information on future commodity prices, expected production volumes, quantity of reserves and resources, future development and operating costs, discount rates, and income taxes.

In estimating the recoverable amount of a CGU, the following information is incorporated:

i) The net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by ARC's independent reserve evaluator, adjusted for the net present value of the after-tax abandonment and reclamation costs on proved plus probable undeveloped oil and gas reserves. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years.

ii) The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at period end.

iii) Where applicable, economic contingent resources associated with interests in certain ARC's properties.

iv) Recent transactions completed within the industry on assets with similar geological and geographic characteristics within the relevant CGU.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

a) Reserves and resources – Assumptions that are valid at the time of reserve and resource estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and resources and may ultimately result in reserves and resources being revised.

b) Crude oil and natural gas prices – Forward price estimates of crude oil and natural gas prices are used in the discounted cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

### Business Combinations

Determination of the fair value of acquired assets and liabilities in a business combination requires Management to make assumptions and estimates about future events. The fair value of crude oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from crude oil and natural gas production. These assumptions and estimates generally require judgment and include estimates of reserves acquired, liabilities assumed, forecast commodity prices, expected production volumes, future development and operating costs, income taxes, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired, goodwill or gain on business combination.

### Depletion of Oil and Gas Assets

Depletion of oil and gas assets is determined based on total proved and probable reserve values as well as future development costs as estimated by ARC's independent qualified reserves evaluator.

### Oil and Gas Activities

The Company applies judgment when classifying the nature of oil and gas activities as E&E or PP&E, and when determining whether capitalization of the initial costs of these activities is appropriate. The Company uses historical drilling results, project economics, resource quantities, production technology expectations, production costs and future development costs to make judgments about future events and circumstances.

### E&E Assets

The accounting for E&E assets requires Management to make judgments as to whether E&E activities have discovered a sufficient amount of economically recoverable reserves, which requires the quantity and realizable value of such petroleum products to be estimated. Previous estimates are sometimes revised as new information becomes available.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the petroleum products is technically feasible and commercially viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have E&E assets remain classified as such for several years while additional E&E activities are carried out or the Company seeks government, regulatory or internal approval for development plans. E&E assets are subject to ongoing technical, commercial and Management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When Management is making this assessment, changes to project economics, expected capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions are important factors.

### Joint Control

Judgment is required to determine when ARC has joint control over an arrangement, which requires an assessment of the capital and operating activities of the projects it undertakes with partners and when the decisions in relation to those activities require unanimous consent.

### Provisions

The determination of provisions may be a complex process that involves Management judgments about the outcomes of future events and estimates on timing and amount of expected future cash flows.

### Asset Retirement Obligations

The provision for site restoration and abandonment is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

### Fair Value of Financial Instruments

The estimated fair value of financial instruments is reliant upon a number of estimated variables including forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves and risk of non-performance. A change in any one of these factors could result in a change to the overall estimated valuation of the instrument.

### Share-Based Compensation

Compensation expense accrued for Performance Share Units ("PSUs") awarded under ARC’s Restricted Share Unit and Performance Share Unit Plan (“RSU and PSU Plan”) is dependent on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier that is estimated by Management. Large fluctuations in compensation expense may occur due to changes in the underlying share price or revised Management estimates of relevant performance factors.

Compensation expense recorded for ARC’s Share Option Plan is based on a binomial-lattice option pricing model. The inputs to this model, including dividend yield, expected volatility, forfeitures and discount rates, rely on Management judgment. Forfeitures are estimated through the vesting period based on past experience and future expectations, and adjusted upon actual forfeitures.

Compensation expense recorded for ARC's Long-term Restricted Share Award Plan ("LTRSA Plan") is dependent on Management's estimate of the number of restricted shares that will ultimately vest.

### Income Taxes

Tax regulations and legislation are subject to change and there are differing interpretations requiring Management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires Management judgment. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods, which requires Management judgment. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the standards may result in a material increase or decrease in the Company’s provision for income taxes.

## 6. SHORT-TERM INVESTMENTS

ARC's short-term investments balance was $nil at December 31, 2017. At December 31, 2016, the short-term investments balance was $450.0 million and was held in investment grade assets. During 2017, the funds were moved into cash and cash equivalents.

## 7. FINANCIAL ASSETS AND CREDIT RISK

Credit risk is the risk of financial loss to ARC if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligations. ARC is exposed to credit risk with respect to its accounts receivable, reclamation fund assets, and risk management contracts. Most of ARC's accounts receivable relate to crude oil and natural gas sales and are subject to typical industry credit risks. Refer to Note 16 which discusses ARC's capital management objectives and policies. ARC manages its credit risk as follows:

- by entering into sales contracts with only established, creditworthy counterparties as verified by a third-party rating agency, through internal evaluation or by requiring security such as letters of credit or parental guarantees;
- by limiting exposure to any one counterparty in accordance with ARC's credit policy; and
- by restricting cash equivalent investments, reclamation fund investments, and risk management transactions to counterparties that are not less than investment grade.

The majority of the credit exposure on accounts receivable at December 31, 2017 pertains to accrued sales revenue for December 2017 production volumes. ARC transacts with a number of crude oil and natural gas marketing companies and commodity end users ("commodity purchasers"). Commodity purchasers and marketing companies typically remit amounts to ARC by the 25th day of the month following production. Joint interest receivables are typically collected within one to three months following production.

ARC's allowance for doubtful accounts was $0.1 million as at December 31, 2017 ($0.3 million as at December 31, 2016). During the year ended December 31, 2017, ARC recognized $0.1 million of bad debt expense in the statements of income ($0.5 million for the year ended December 31, 2016).

When determining whether amounts that are past due are collectible, Management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. ARC considers all amounts greater than 90 days to be past due. At December 31, 2017, $5.7 million of accounts receivable are past due, the balance of which are considered to be collectible ($4.3 million at December 31, 2016).

ARC's accounts receivable was aged as follows at December 31, 2017:

| **Accounts Receivable Aging** | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Current (less than 30 days) | **125.9** | 159.9 |
| 31 - 60 days | **1.1** | 0.5 |
| 61 - 90 days | **—** | — |
| Past due (more than 90 days) | **5.7** | 4.3 |
| December 31, 2017 | **132.7** | 164.7 |

Maximum credit risk is calculated as the total recorded value of accounts receivable, short-term investments, reclamation fund assets, and risk management contracts at the balance sheet date. The carrying value of ARC's accounts receivable approximates the fair value of the underlying financial assets.

## 8. RECLAMATION FUND

In 2005, ARC established a restricted reclamation fund to finance obligations specifically associated with its Redwater property. Minimum contributions to this fund will be approximately $54.4 million in total over the next 38 years. Under the terms of ARC's investment policy, cash in the reclamation fund can only be invested in certain securities and require a minimum credit rating for investments of A or higher.

| | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Balance, beginning of year | 36.5 | 34.3 |
| Contributions | **3.1** | 3.3 |
| Reimbursed expenditures (1) | **(2.8)** | (1.9) |
| Interest earned on funds | **0.3** | 0.6 |
| Net unrealized OCI gains on available-for-sale assets | **(0.4)** | 0.2 |
| Balance, end of year | **36.7** | 36.5 |

(1) Amount differs from actual expenditures incurred by ARC due to timing differences.

Required contributions to this fund will vary over time and have been disclosed as commitments in Note 21. Interest earned on the respective investments is retained within the fund.

## 9. BUSINESS COMBINATIONS

ARC did not enter into any business combinations in the year ended December 31, 2017.

On June 28, 2016, ARC closed the acquisition of certain properties producing mainly light, sweet crude oil in the Pembina area of Alberta. The major assets acquired consisted of additional working interest in properties where ARC already held a significant interest and acted as operator of the assets.

| Net assets acquired | |
|---|---|
| Development and production assets | 174.2 |
| ARO | (12.7) |
| Deferred income tax liability | (13.3) |
| Total identifiable net assets | 148.2 |
| Gain on business combination | (36.7) |
| Total net assets acquired, net of gain on business combination | 111.5 |

| Consideration paid | |
|---|---|
| Cash consideration | 111.5 |

The results of operations from the acquired properties have been recognized since the acquisition date in the statements of income. For the period June 28, 2016 to December 31, 2016, these properties contributed revenue (net of royalties) of $17.4 million and net income of $3.9 million. If the transaction had taken place on January 1, 2016, it is estimated that the assets acquired would have contributed incremental revenue (net of royalties) and net income of $32.8 million and $5.2 million, respectively, for the year ended December 31, 2016. The pro forma information provided is not necessarily indicative of the actual results that would have been achieved if the acquisition date for the business combinations had been as of the beginning of the annual reporting period.

For the assets that ARC held a prior working interest in and acquired control of as a result of the transaction, the pre-acquisition working interest was re-measured to a fair value of $127.8 million, resulting in an increase in PP&E of $7.0 million, which was composed of a reversal of impairment of $1.6 million, an additional gain on business combination of $3.5 million, and a deferred income tax liability of $1.9 million. The accumulated DD&A balance of $5.3 million was derecognized to reflect the new cost of the asset at fair value.

On August 18, 2016, ARC closed a second acquisition of certain properties producing mainly light, sweet crude oil in the Pembina area of Alberta. The major asset acquired consisted of an additional working interest in a property where ARC already held a significant interest and acted as operator of the assets.

| Net assets acquired | |
|---|---|
| Development and production assets | 52.8 |
| ARO | (2.5) |
| Deferred income tax liability | (5.0) |
| Total identifiable net assets | 45.3 |
| Gain on business combination | (13.7) |
| Total net assets acquired, net of gain on business combination | 31.6 |

| Consideration paid | |
|---|---|
| Cash consideration | 31.6 |

The results of operations from the acquired properties have been recognized since the acquisition date in the statements of income. For the period August 18, 2016 to December 31, 2016, these properties contributed revenue (net of royalties) of $5.2 million and net income of $1.5 million. If the transaction had taken place on January 1, 2016, it is estimated that the assets acquired would have contributed incremental revenue (net of royalties) and net income of $13.1 million and $2.3 million, respectively, for the year ended December 31, 2016. The pro forma information provided is not necessarily indicative of the actual results that would have been achieved if the acquisition date for the business combinations had been as of the beginning of the annual reporting period.

The gains recognized on both business combinations arose as a result of expedited sales processes with vendors motivated to complete the transactions.

On November 3, 2016, ARC closed the acquisition of the remaining working interest in a certain property producing mainly light, sweet crude oil in the Pembina area of Alberta. The acquisition provided ARC with full control over the operation of the asset.

| Net assets acquired | |
|---|---|
| Development and production assets | 0.5 |

| Consideration paid | |
|---|---|
| Cash consideration | 0.5 |

ARC's pre-acquisition working interest in this asset was re-measured to a fair value of $272.5 million, resulting in a reversal of impairment of $5.3 million. The accumulated DD&A balance of $61.1 million and the accumulated impairment balance of $20.7 million were derecognized to reflect the new cost of the asset at fair value.

## 10. EXPLORATION AND EVALUATION ("E&E") ASSETS

| **Carrying Amount** | |
|---|---|
| Balance at January 1, 2016 | 276.4 |
| Additions | 38.0 |
| E&E expenses | (1.7) |
| Change in asset retirement cost | 0.5 |
| Balance, December 31, 2016 | 313.2 |
| Additions | **116.7** |
| Assets reclassified as held for sale | **(1.6)** |
| Impairment on E&E assets | **(9.7)** |
| Change in asset retirement cost | **0.3** |
| **Balance, December 31, 2017** | **418.9** |

ARC has certain E&E properties that have sales of petroleum products associated with production from test wells. For the years ended December 31, 2017 and 2016, these operating results have been recognized in the statements of income and comprised sales of crude oil, natural gas, condensate and natural gas liquids of $23.3 million and $10.3 million and total expenses of $9.1 million and $5.6 million, respectively. All operating cash flows associated with E&E assets for the years ended December 31, 2017 and 2016 are reflected in cash flow from operating activities.

At December 31, 2017, ARC classified certain E&E assets in Alberta as held for sale. Immediately prior to classifying the assets as held for sale, they were assessed for indicators of impairment and were measured at the lower of their carrying value and fair value less costs of disposal. The carrying value of these assets was greater than the recoverable amount, and as a result, an impairment charge of $9.7 million was recorded in E&E expenses in the statements of income. The assets are expected to be divested in 2018.

At December 31, 2017, ARC evaluated its remaining E&E assets for indicators of any potential impairment. As a result of this assessment, no indicators were identified and no additional impairment was recorded on ARC's E&E assets.

## 11. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

| Cost | Development and Production Assets | Administrative Assets | Total |
|---|---|---|---|
| Balance, January 1, 2016 | 7,981.2 | 63.9 | 8,045.1 |
| Additions | 414.7 | 3.4 | 418.1 |
| Acquisitions | 30.1 | — | 30.1 |
| Business combinations (Note 9) | 217.7 | — | 217.7 |
| Cost derecognized in respect of business combination achieved in stages (Note 9) | (87.1) | — | (87.1) |
| Change in asset retirement cost | 66.1 | — | 66.1 |
| Assets reclassified as held for sale and disposed in period | (1,148.4) | — | (1,148.4) |
| Assets reclassified as held for sale | (454.0) | — | (454.0) |
| Balance, December 31, 2016 | 7,020.3 | 67.3 | 7,087.6 |
| Additions | **804.7** | **5.9** | **810.6** |
| Acquisitions | **12.0** | **—** | **12.0** |
| Change in asset retirement cost | **80.3** | **—** | **80.3** |
| Assets reclassified as held for sale and disposed in period | **(9.1)** | **—** | **(9.1)** |
| Assets reclassified as held for sale | **(189.4)** | **—** | **(189.4)** |
| Other | **0.3** | **—** | **0.3** |
| Balance, December 31, 2017 | **7,719.1** | **73.2** | **7,792.3** |
| | | | |
| **Accumulated DD&A and Impairment** | | | |
| Balance, January 1, 2016 | (3,351.2) | (34.2) | (3,385.4) |
| DD&A | (494.4) | (5.4) | (499.8) |
| Reversal of impairment (Note 12) | 68.3 | — | 68.3 |
| Accumulated DD&A and impairment derecognized in respect of business combination achieved in stages (Note 9) | 87.1 | — | 87.1 |
| Accumulated DD&A and impairment reclassified as held for sale and disposed in period | 549.4 | — | 549.4 |
| Accumulated DD&A and impairment reclassified as held for sale | 211.7 | — | 211.7 |
| Balance, December 31, 2016 | (2,929.1) | (39.6) | (2,968.7) |
| DD&A | **(471.9)** | **(5.7)** | **(477.6)** |
| Reversal of impairment (Note 12) | **72.5** | **—** | **72.5** |
| Accumulated DD&A and impairment reclassified as held for sale and disposed in period | **2.8** | **—** | **2.8** |
| Accumulated DD&A and impairment reclassified as held for sale | **132.2** | **—** | **132.2** |
| Other | **(0.4)** | **—** | **(0.4)** |
| Balance, December 31, 2017 | **(3,193.9)** | **(45.3)** | **(3,239.2)** |
| | | | |
| **Carrying Amounts** | | | |
| Balance, December 31, 2016 | 4,091.2 | 27.7 | 4,118.9 |
| Balance, December 31, 2017 | **4,525.2** | **27.9** | **4,553.1** |

For the year ended December 31, 2017, $29.7 million of direct and incremental general and administrative ("G&A") expenses were capitalized to PP&E ($21.2 million for the year ended December 31, 2016). At December 31, 2017, future development costs of $3.2 billion were included in the depletion calculation ($2.8 billion at December 31, 2016).

At December 31, 2017, ARC determined that certain non-core assets in Alberta met the classification requirements for assets held for sale. Immediately prior to classifying the assets as held for sale, ARC conducted a review of the assets' recoverable amounts and recognized an impairment charge of $2.8 million in DD&A and impairment in the statements of income for the year ended December 31, 2017. The recoverable amount was determined based on the assets' fair value less costs of disposal and was primarily based on a bid received from a prospective buyer of these assets.

At December 31, 2016, ARC classified certain non-core assets in Alberta as held for sale. Immediately prior to classifying the assets as held for sale, ARC conducted a review of the assets' recoverable amounts and transferred these assets at their carrying amount, with no impairment or reversal of impairment recorded.

| **Assets held for sale** | |
|---|---|
| Balance, January 1, 2016 | — |
| Additions | 841.3 |
| Disposals | (599.0) |
| Balance, December 31, 2016 | 242.3 |
| Additions | **63.5** |
| Disposals | **(6.3)** |
| E&E assets reclassified as held for sale | **1.6** |
| Balance, December 31, 2017 | **301.1** |

The assets held for sale had associated liabilities of $219.7 million at December 31, 2017 ($171.1 million at December 31, 2016), consisting of related asset retirement obligations ("ARO"). The assets held for sale are expected to be divested in 2018.

During the year ended December 31, 2016, ARC disposed of non-core assets located in southeastern Saskatchewan for net proceeds of $683.8 million, subject to post-closing adjustments. Immediately prior to classifying the assets as held for sale during the period, ARC conducted a review of the assets' recoverable amounts and recognized a reversal of $62.0 million of previously recorded impairment charges in DD&A and impairment in the statements of income for the year ended December 31, 2016. The recoverable amount was determined based on the assets' fair value less costs of disposal and was primarily based on a range of preliminary bids received from prospective buyers of these assets. Upon the sale of the assets for proceeds that exceeded the carrying amount, ARC recognized a gain on disposal of $189.4 million in the statements of income for the year ended December 31, 2016. Throughout 2016, ARC disposed of other non-core assets in Alberta for net proceeds of $21.6 million and recognized additional impairment of $0.6 million in DD&A and impairment in the statements of income, as well as gains on disposal of $6.6 million.

## 12. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

At December 31, 2017 and 2016, ARC evaluated its development and production assets for indicators of any potential impairment or related reversal. As a result of these assessments, no indicators were identified and no impairment or related reversal was recorded on ARC's development and production assets.

At December 31, 2017, ARC conducted an impairment test of goodwill, as required to be performed annually. The carrying value of goodwill at December 31, 2017 of $248.2 million was not impaired as the recoverable amount of ARC's CGUs exceeded the combined carrying value of ARC's CGUs and goodwill. No impairment was recorded on goodwill for the year ended December 31, 2016.

In estimating the recoverable amount of ARC's CGUs at December 31, 2017, the following information was incorporated:

i) The net present value of the after-tax cash flows from proved plus probable oil and gas reserves of the CGUs based on reserves estimated by ARC's independent reserve evaluator at December 31, 2017, adjusted for the net present value of the after-tax abandonment and reclamation costs on proved plus probable undeveloped oil and gas reserves. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years.

ii) The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2017.

iii) Where applicable, economic contingent resources associated with interests in certain of ARC's properties.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

a) Reserves and resources – Assumptions that are valid at the time of reserve and resource estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and resources and may ultimately result in reserves and resources being revised.

b) Crude oil and natural gas prices – Forward price estimates of the crude oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

The estimated recoverable amount was based on a fair value less costs of disposal calculation using an after-tax discount rate that is based on an estimated industry weighted average cost of capital of nine and a half per cent, an inflation rate of two per cent, and the following forward commodity price estimates:

| | **Edmonton Light Crude Oil** | **WTI Oil** | **AECO Gas** | **NYMEX HH Gas** | **Cdn$/US$** |
|---|---|---|---|---|---|
| **Year** | **(Cdn$/bbl)** (1,2) | **(US$/bbl)** (1,2) | **(Cdn$/MMbtu)** (1,2) | **(US$/MMbtu)** (1,2) | **Exchange Rates** (1,2) |
| 2018 | 70.25 | 59.00 | 2.20 | 2.85 | 0.79 |
| 2019 | 70.25 | 59.00 | 2.54 | 3.00 | 0.79 |
| 2020 | 70.31 | 60.00 | 2.88 | 3.25 | 0.80 |
| 2021 | 72.84 | 63.00 | 3.24 | 3.50 | 0.81 |
| 2022 | 75.61 | 66.00 | 3.47 | 3.70 | 0.82 |
| 2023 | 78.31 | 69.00 | 3.58 | 3.86 | 0.83 |
| 2024 | 81.93 | 72.00 | 3.66 | 3.94 | 0.83 |
| 2025 | 85.54 | 75.00 | 3.73 | 4.02 | 0.83 |
| 2026 | 88.35 | 77.33 | 3.80 | 4.10 | 0.83 |
| 2027 | 90.22 | 78.88 | 3.88 | 4.18 | 0.83 |
| Remainder | +2.0% per year | +2.0% per year | +2.0% per year | +2.0% per year | 0.83 |

(1) Source: GLJ Petroleum Consultants price forecast, effective January 1, 2018.
(2) The forecast benchmark prices listed above are adjusted for quality differentials, heat content and distance to market in performing the goodwill impairment test.

At June 30, 2017, an evaluation of indicators of potential impairment or reversal of impairment was performed which resulted in tests of impairment on all of ARC's CGUs as a result of decreases in the outlook of future commodity prices since the time of the last impairment test on ARC's CGUs was conducted at December 31, 2015. The impairment tests did not result in any impairment charges being recognized on ARC's development and production assets. However, it was determined that the estimated recoverable amount of the Northern Alberta CGU exceeded its carrying amount as a result of increased drilling locations and capital expenditures in the CGU since the time of ARC's last asset impairment test, which led to an increase in proved plus probable oil and gas reserves that more than offset the decreases in future commodity prices. As a result, a recovery of $75.0 million was recorded in DD&A and impairment in the statements of income.

The following table summarizes the primary product composition of ARC's Northern Alberta CGU, estimated recoverable amount, estimated discount rate assumed, and before and after-tax reversal of impairment recognized during the year ended December 31, 2017:

| CGU | Primary Type of Producing Assets | Recoverable Amount | Discount Rate (1) | Reversal of Impairment | Reversal of Impairment, Net of Tax |
|---|---|---|---|---|---|
| Northern Alberta | Crude oil and natural gas | 574.0 | 10.0% | 75.0 | 55.1 |

(1) After-tax discount rate based on an estimated industry weighted average cost of capital appropriate for the CGU.

Prior to this reversal, $156.1 million of previously recorded impairment charges were eligible to be recovered in the Northern Alberta CGU. Subsequent to this reversal of impairment, $81.1 million of previously recorded impairment charges remain eligible to recover.

The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by ARC's independent reserve evaluator at December 31, 2016, updated using forward commodity price estimates at July 1, 2017 provided by ARC's independent reserve evaluator and adjusted for the net present value of the after-tax abandonment and reclamation costs on properties without proved plus probable oil and gas reserves, as well as the fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2016. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted average cost of capital ranging from 9.5 to 10.5 per cent, depending on the resource composition of the assets in the CGU and an inflation rate of two per cent.

| | Edmonton Light Crude Oil | WTI Oil | AECO Gas | NYMEX HH Gas | Cdn$/US$ |
|---|---|---|---|---|---|
| Year | (Cdn$/bbl) (1)(2) | (US$/bbl) (1)(2) | (Cdn$/MMBtu) (1)(2) | (US$/MMBtu) (1)(2) | Exchange Rates (1)(2) |
| 2017 | 61.33 | 49.00 | 2.83 | 3.20 | 0.75 |
| 2018 | 63.23 | 52.00 | 2.93 | 3.20 | 0.78 |
| 2019 | 66.88 | 57.00 | 3.05 | 3.30 | 0.80 |
| 2020 | 70.30 | 62.00 | 3.22 | 3.45 | 0.83 |
| 2021 | 72.94 | 66.00 | 3.39 | 3.65 | 0.85 |
| 2022 | 76.47 | 69.00 | 3.58 | 3.85 | 0.85 |
| 2023 | 80.00 | 72.00 | 3.76 | 4.05 | 0.85 |
| 2024 | 83.53 | 75.00 | 3.95 | 4.25 | 0.85 |
| 2025 | 87.06 | 78.00 | 4.03 | 4.34 | 0.85 |
| 2026 | 89.99 | 81.27 | 4.11 | 4.42 | 0.85 |
| Remainder | +2.0% per year | +2.0% per year | +2.0% per year | +2.0% per year | 0.85 |

(1) Source: GLJ Petroleum Consultants price forecast, effective July 1, 2017.
(2) The forecast benchmark prices listed above are adjusted for quality differentials, heat content and distance to market in performing the Company's impairment tests.

The fair value less costs of disposal value used to determine the recoverable amounts of the Northern Alberta CGU is classified as a Level 3 fair value measurement as certain key assumptions are not based on observable market data but, rather, Management's best estimates. Refer to Note 3 for information on fair value hierarchy classifications.

The results of the impairment and impairment reversal tests performed are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development capital expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or recovery of impairment charges.

The following table demonstrates the effect of the assumed discount rate and the effect of forecast cash flow estimates on the after-tax reversal of impairment recorded for the year ended December 31, 2017 in the Northern Alberta CGU. The sensitivity is based on a one per cent increase and one per cent decrease in the assumed discount rate and a five per cent decrease and five per cent increase in the forecast cash flow estimates.

| | **Increase in Discount Rate of 1 per cent** | **Decrease in Discount Rate of 1 per cent** | **Decrease in Cash Flow Estimates of 5 per cent** | **Increase in Cash Flow Estimates of 5 per cent** |
|---|---|---|---|---|
| Reversal of impairment increase (decrease) (net of tax) | (26.6) | 31.2 | (33.0) | 33.0 |

## 13. FINANCIAL LIABILITIES AND LIQUIDITY RISK

Liquidity risk is the risk that ARC will not be able to meet its financial obligations as they become due. ARC actively manages its liquidity at a reasonable cost through strategies such as continuously monitoring forecast and actual cash flows from operating, financing and investing activities, available credit and working capital facilities under existing banking arrangements, and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle ARC's financial liabilities. Refer to Note 14 for further details on available amounts under existing banking arrangements and Note 16 for further details on ARC's capital management objectives and policies.

The following tables detail the contractual maturities of ARC's financial liabilities as at December 31, 2017 and 2016:

| **As at December 31, 2017** | **Carrying Amount** | **1 Year** | **2-3 Years** | **4-5 Years** | **Beyond 5 Years** |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities (1) | **146.4** | **146.4** | **—** | **—** | **—** |
| Dividends payable | **17.7** | **17.7** | **—** | **—** | **—** |
| Risk management contracts (2) | **0.2** | **—** | **0.2** | **—** | **—** |
| Long-term debt | **911.3** | **73.9** | **218.3** | **302.7** | **316.4** |
| Interest payments | **166.6** | **37.6** | **63.9** | **41.4** | **23.7** |
| Total financial liabilities | **1,242.2** | **275.6** | **282.4** | **344.1** | **340.1** |

| As at December 31, 2016 | Carrying Amount | 1 Year | 2-3 Years | 4-5 Years | Beyond 5 Years |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities (1) | 125.4 | 125.4 | — | — | — |
| Dividends payable | 17.7 | 17.7 | — | — | — |
| Risk management contracts (2) | 28.9 | 28.9 | — | — | — |
| Long-term debt | 1,026.0 | 51.5 | 158.4 | 308.7 | 507.4 |
| Interest payments | 222.0 | 43.9 | 76.3 | 57.6 | 44.2 |
| Total financial liabilities | 1,420.0 | 267.4 | 234.7 | 366.3 | 551.6 |

(1) Excludes the portion of the cash obligations associated with the RSU and PSU Plan that will be settled within one year, as well as interest payable at December 31, 2017 and 2016.
(2) Risk management contracts are derivatives. All other financial liabilities contained in this table are non-derivative liabilities.

The carrying values of ARC's accounts payable and accrued liabilities and dividends payable accounts approximate their fair values.

## 14. LONG-TERM DEBT

| | US $ Denominated | | Canadian $ Amount | |
|---|---|---|---|---|
| | **December 31, 2017** | December 31, 2016 | **December 31, 2017** | December 31, 2016 |
| Senior notes | | | | |
| Master Shelf Agreement | | | | |
| 5.42% US$ note | **—** | 9.4 | **—** | 12.6 |
| 4.98% US$ note | **20.0** | 30.0 | **25.0** | 40.3 |
| 3.72% US$ note | **150.0** | 150.0 | **187.8** | 201.4 |
| 2009 note issuance | | | | |
| 8.21% US$ note | **28.0** | 35.0 | **35.1** | 47.0 |
| 2010 note issuance | | | | |
| 5.36% US$ note | **150.0** | 150.0 | **187.8** | 201.4 |
| 2012 note issuance | | | | |
| 3.31% US$ note | **48.0** | 60.0 | **60.1** | 80.6 |
| 3.81% US$ note | **300.0** | 300.0 | **375.5** | 402.7 |
| 4.49% Cdn$ note | **N/A** | N/A | **40.0** | 40.0 |
| Total long-term debt outstanding | **696.0** | 734.4 | **911.3** | 1,026.0 |
| Long-term debt due within one year | | | **73.9** | 51.5 |
| Long-term debt due beyond one year | | | **837.4** | 974.5 |

**Credit Facility**

ARC has a $950.0 million, annually extendable, financial covenant-based syndicated credit facility ("facility"). The current maturity date of the facility is November 8, 2021. ARC also has in place a $40.0 million demand working capital facility and letter of credit facilities from two lenders totaling $40.0 million. Both the working capital facility and the letter of credit facilities are subject to the same covenants as the syndicated credit facility.

Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at ARC's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

**Senior Notes Issued Under a Master Shelf Agreement**

These senior notes were issued in two separate tranches pursuant to an uncommitted Master Shelf Agreement. The terms and rates of these senior notes are summarized below:

| Issue Date | Remaining Principal | Coupon Rate | Maturity Date | Principal Payment Terms |
|---|---|---|---|---|
| March 5, 2010 | US$20 million | 4.98% | March 5, 2019 | Five equal installments beginning March 5, 2015 |
| September 25, 2014 | US$150 million | 3.72% | September 25, 2026 | Five equal installments beginning September 25, 2022 |

**Senior Notes Not Subject to the Master Shelf Agreement**
The senior notes not subject to the Master Shelf Agreement were issued by way of private placements. The terms and rates of these senior notes are summarized below:

| Issue Date | Remaining Principal | Coupon Rate | Maturity Date | Principal Payment Terms |
|---|---|---|---|---|
| April 14, 2009 | US$28 million | 8.21% | April 14, 2021 | Five equal installments beginning April 14, 2017 |
| May 27, 2010 | US$150 million | 5.36% | May 27, 2022 | Five equal installments beginning May 27, 2018 |
| August 23, 2012 | US$48 million | 3.31% | August 23, 2021 | Five equal installments beginning August 23, 2017 |
| August 23, 2012 | US$300 million | 3.81% | August 23, 2024 | Five equal installments beginning August 23, 2020 |
| August 23, 2012 | Cdn$40 million | 4.49% | August 23, 2024 | Five equal installments beginning August 23, 2020 |

**Credit Capacity**
The following table summarizes ARC's available credit capacity and the current amounts drawn as at December 31, 2017:

| | Credit Capacity | Drawn | Remaining |
|---|---|---|---|
| Syndicated credit facility | 950.0 | — | 950.0 |
| Working capital facility | 40.0 | — | 40.0 |
| Senior notes subject to a Master Shelf Agreement | 212.8 | 212.8 | — |
| Senior notes not subject to a Master Shelf Agreement | 698.5 | 698.5 | — |
| Total | 1,901.3 | 911.3 | 990.0 |

**Debt Covenants**
The following are the significant financial covenants governing the revolving credit facilities:

- long-term debt and letters of credit not to exceed three and a quarter times trailing 12 month net income before non-cash items, income taxes and interest expense;
- long-term debt, letters of credit, and subordinated debt not to exceed four times trailing 12 month net income before non-cash items, income taxes and interest expense; and
- long-term debt and letters of credit not to exceed 50 per cent of the book value of shareholders' equity and long-term debt, letters of credit, and subordinated debt.

In the event that ARC enters into a material acquisition whereby the purchase price exceeds 10 per cent of the carrying value of ARC's assets, the ratio in the first covenant is increased to 3.5 times, while the third covenant is increased to 55 per cent for the subsequent six month period. As at December 31, 2017, ARC had $11.8 million in letters of credit ($12.2 million at December 31, 2016), no subordinated debt, and was in compliance with all covenants.

At December 31, 2017, the fair value of all senior notes is $922.1 million ($1,032.7 million as at December 31, 2016), compared to a carrying value of $911.3 million ($1,026.0 million as at December 31, 2016). At December 31, 2017, ARC was in compliance with all of its debt covenants.

On September 25, 2017, the Company's Master Shelf Agreement expired, reducing ARC's total debt capacity by US$170.6 million. At December 31, 2017, ARC's total debt capacity is $1,901.3 million ($2,231.7 million as at December 31, 2016).

On November 1, 2017, ARC extended its syndicated revolving credit facility for one additional year until November 8, 2021 at similar terms.

## 15. ASSET RETIREMENT OBLIGATIONS

The total future ARO was estimated by Management based on ARC's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. ARC has estimated the net present value of its total ARO to be $402.8 million as at December 31, 2017 ($378.9 million at December 31, 2016) based on a total future undiscounted liability of $1,075.8 million ($725.9 million at December 31, 2016). Management estimates that these payments are expected to be made over the next 60 years with the majority of payments being made in years 2066 to 2077. The Bank of Canada's long-term risk-free bond rate of 2.3 per cent (2.3 per cent at December 31, 2016) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2016) were used to calculate the present value of ARO at December 31, 2017.

The following table reconciles ARC's provision for its ARO:

| | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Balance, beginning of year | 378.9 | 573.2 |
| Development activities | **10.5** | 5.3 |
| Change in estimates [(1)] | **50.6** | 27.0 |
| Change in discount rate | **19.5** | (24.2) |
| Settlement of obligations | **(19.8)** | (13.0) |
| Accretion | **13.1** | 12.1 |
| Acquisitions and business combinations | **—** | 16.4 |
| Revaluation of obligations acquired in business combinations | **—** | 42.1 |
| Dispositions | **(1.4)** | (88.9) |
| Reclassified as liabilities associated with assets held for sale | **(48.6)** | (171.1) |
| Balance, end of year | **402.8** | 378.9 |
| Expected to be incurred within one year | **16.0** | 15.5 |
| Expected to be incurred beyond one year | **386.8** | 363.4 |

(1) Relates to changes in costs of future obligations and anticipated settlement dates of ARO.

## 16. CAPITAL MANAGEMENT

ARC manages its capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. ARC is able to change its capital structure by issuing new shares, new debt or changing its dividend policy.

ARC's objective when managing its capital is to maintain a conservative structure that will allow it to:

- fund its development and exploration program;
- provide financial flexibility to execute on strategic opportunities; and
- maintain a dividend policy that, in normal times, in the opinion of Management and the Board of Directors, is sustainable.

ARC manages its capital through:

- common shares; and
- net debt.

When evaluating ARC's capital structure, Management's long-term strategy is to keep its net debt balance to a ratio of between one to 1.5 times annualized funds from operations and less than 20 per cent of total market capitalization. At December 31, 2017, ARC's net debt was 1.0 times its annualized funds from operations.

**Funds from Operations**
ARC considers funds from operations to be a key measure of operating performance as it demonstrates ARC's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to repay debt. Management believes that such a measure provides an insightful assessment of ARC's operations on a continuing basis by eliminating certain non-cash charges and actual settlements of ARO, the extent and timing of which, in the opinion of Management, is discretionary. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

Funds from operations for the years ended December 31, 2017 and 2016 is calculated as follows:

| | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Funds from operations | **731.9** | 633.3 |
| Net change in other liabilities (Note 23) | **(30.4)** | (4.7) |
| Change in non-cash operating working capital (Note 23) | **(28.7)** | 2.1 |
| Cash flow from operating activities | **672.8** | 630.7 |

**Net Debt and Total Capitalization**

Net debt is used by Management as a key measure to assess the Company's liquidity. Total capitalization is used by Management and ARC's investors in analyzing the Company's balance sheet strength and liquidity.

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Long-term debt (1) | **911.3** | 1,026.0 |
| Accounts payable and accrued liabilities | **170.0** | 161.8 |
| Dividends payable | **17.7** | 17.7 |
| Cash and cash equivalents, accounts receivable, prepaid expenses and short-term investments | **(371.0)** | (849.0) |
| Net debt | **728.0** | 356.5 |
| Shares outstanding (millions) (2) | **353.5** | 353.3 |
| Share price ($) (3) | **14.75** | 23.11 |
| Market capitalization | **5,214.1** | 8,164.8 |
| Net debt | **728.0** | 356.5 |
| Total capitalization | **5,942.1** | 8,521.3 |
| Net debt as a percentage of total capitalization (%) | **12.3** | 4.2 |
| Net debt to funds from operations (ratio) | **1.0** | 0.6 |

(1) Includes current portion of long-term debt at December 31, 2017 and 2016 of $73.9 million and $51.5 million, respectively.
(2) Basic shares outstanding as at December 31, 2017 and 2016, respectively.
(3) TSX closing price as at December 31, 2017 and 2016, respectively.

## 17. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

**Fair Value Hierarchy**

ARC’s cash and cash equivalents, short-term investments, and reclamation fund are classified as Level 1 measurements in the three-level fair value measurement hierarchy and its risk management contracts and fair value disclosure for its long-term debt are classified as Level 2 measurements. ARC does not have any financial instruments classified as Level 3 and there were no transfers between levels in the hierarchy in the year ended December 31, 2017.

**Financial Assets and Financial Liabilities Subject to Offsetting**

ARC's risk management contracts are subject to master netting agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities on the Company's balance sheets in all circumstances. ARC manages these contracts on the basis of its net exposure to market risks and therefore measures their fair value consistently with how market participants would price the net risk exposure at the reporting date under current market conditions.

The following is a summary of ARC's financial assets and financial liabilities that are subject to offsetting as at December 31, 2017 and December 31, 2016:

| | Gross Amounts of Recognized Financial Assets (Liabilities) | Gross Amounts of Recognized Financial Assets (Liabilities) Offset in Balance Sheet | Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet Prior to Credit Risk Adjustment | Credit Risk Adjustment | Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet |
|---|---|---|---|---|---|
| **As at December 31, 2017** | | | | | |
| Risk management contracts | | | | | |
| Current asset | **178.1** | **(30.8)** | **147.3** | **(0.7)** | **146.6** |
| Long-term asset | **156.9** | **(7.7)** | **149.2** | **(0.8)** | **148.4** |
| Current liability | **(30.8)** | **30.8** | **—** | **—** | **—** |
| Long-term liability | **(7.9)** | **7.7** | **(0.2)** | **—** | **(0.2)** |
| Net position | **296.3** | **—** | **296.3** | **(1.5)** | **294.8** |
| As at December 31, 2016 | | | | | |
| Risk management contracts | | | | | |
| Current asset | 100.1 | (40.7) | 59.4 | (0.4) | 59.0 |
| Long-term asset | 140.5 | (16.2) | 124.3 | (0.9) | 123.4 |
| Current liability | (70.3) | 40.7 | (29.6) | 0.7 | (28.9) |
| Long-term liability | (16.2) | 16.2 | — | — | — |
| Net position | 154.1 | — | 154.1 | (0.6) | 153.5 |

**Market Risk Management**

ARC is exposed to a number of market risks that are part of its normal course of business. Market risks that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk, interest rate risk, and foreign exchange risk. ARC has a risk management program in place that includes financial instruments as disclosed in the Risk Management Contracts section of this note.

ARC's Management oversees the Company's risk management program and the program is governed by certain guidelines approved by the Risk Committee of the Board of Directors. The objective of the risk management program is to support ARC's business plan by mitigating adverse changes in commodity prices, interest rates and foreign exchange rates in order to reduce the volatility of sales revenues, increase the certainty of cash flows from operating activities, and to protect acquisition and development economics. All risk management activities are performed by specialist teams that have the appropriate skills, experience and supervision.

ARC has prepared sensitivity analyses in an attempt to demonstrate the hypothetical effect of changes in these market risk factors on ARC's net income. For the purposes of the sensitivity analyses, the effect of a variation in a particular variable is calculated independently of any change in another variable. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis are based on Management's assessment of reasonably possible changes that could occur at December 31, 2017. The results of the sensitivity analyses should not be considered to be predictive of future performance.

*Commodity Price Risk*

ARC's operational results and financial condition are largely dependent on the commodity prices received for its crude oil and natural gas production. Commodity prices have fluctuated widely during recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, economic, and geopolitical factors. Movement in commodity prices could have a significant positive or negative impact on ARC's net income.

The guidelines for ARC's risk management program currently restrict the amount of risk management contracts to a maximum of 60 per cent of production guidance over the next two years and 30 per cent of production guidance beyond two years and up to five years where a specific commodity (crude oil or natural gas) cannot exceed a maximum of 70 per cent over the next two years and 35 per cent for years three through five. ARC's risk management program guidelines allow for further risk management contracts on anticipated volumes associated with new production arising from specific capital projects and acquisitions or to further protect cash flows for a specific period with approval of the Board.

ARC manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts (see Risk Management Contracts section below). The following table illustrates the effects of movement in commodity prices on net income due to changes in the fair value of risk management contracts in place at December 31, 2017.

| Sensitivity of Commodity Price Risk Management Contracts | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Increase in Commodity Price | | | | Decrease in Commodity Price | | | |
| | Crude Oil (1) | | Natural Gas (2) | | Crude Oil (1) | | Natural Gas (2) | |
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Net income increase (decrease) | **(72.2)** | (52.4) | **(121.9)** | (138.7) | **65.3** | 42.4 | **116.9** | 139.5 |

(1) Crude oil sensitivities are based on a US$10 increase and decrease in the price of West Texas Intermediate ("WTI") and a 10 per cent increase and decrease in the Mixed Sweet Blend ("MSW") differential between WTI and the mixed sweet crude grade at Edmonton, Alberta.

(2) Natural gas sensitivities are based on a US$0.50 increase and decrease in the price of New York Mercantile Exchange ("NYMEX") natural gas and a 10 per cent increase and decrease in the Alberta natural gas trading price ("AECO") basis relative to NYMEX.

ARC enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts, which are recognized at cost at the time of transaction.

*Interest Rate Risk*

ARC may manage its interest cost using a mix of both fixed and variable interest rates on its debt. Changes in interest rates could result in an increase or decrease in the amount ARC pays to service variable interest rate debt. Changes in interest rates could also result in fair value risk on ARC's fixed rate senior notes. Fair value risk of the senior notes is mitigated due to the fact that ARC generally does not intend to settle its fixed rate debt prior to maturity.

At December 31, 2017, ARC did not hold any variable interest rate debt and therefore was not exposed to interest rate risk on its long-term debt.

*Foreign Exchange Risk*

North American crude oil and natural gas prices are based upon US dollar denominated commodity prices. As a result, the price received by Canadian producers is affected by the Cdn$/US$ foreign exchange rate that may fluctuate over time. In addition, ARC has US dollar denominated debt and interest obligations of which future cash repayments are directly impacted by the exchange rate in effect on the repayment date.

The following table demonstrates the effect of exchange rate movements on net income due to changes in the fair value of risk management contracts in place at December 31, 2017 as well as the unrealized gain or loss on revaluation of outstanding US dollar denominated debt. The sensitivity is based on a $0.10 increase and decrease in the Cdn$/US$ foreign exchange rate.

| Sensitivity of Foreign Exchange Exposure | Increase in Cdn$/ US$ rate | | Decrease in Cdn$/ US$ rate | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Risk management contracts | **(16.4)** | (3.6) | **15.7** | 5.6 |
| US dollar denominated debt | **(50.8)** | (53.9) | **50.8** | 53.9 |
| Net income increase (decrease) | **(67.2)** | (57.5) | **66.5** | 59.5 |

Increases and decreases in foreign exchange rates applicable to US dollar denominated payables and receivables would have a nominal impact on ARC's net income for the year ended December 31, 2017.

### Risk Management Contracts

The following table summarizes the average crude oil and natural gas volumes associated with ARC's risk management contracts as at December 31, 2017. Risk management contract premiums are not included in the table below and have been disclosed as commitments in Note 21.

**Risk Management Contracts Positions Summary** (1)

| As at December 31, 2017 | Jan-Jun 2018 | | Jul-Dec 2018 | | 2019 | | 2020 | | 2021 | | 2022 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Crude Oil – WTI** (2) | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Ceiling | 65.39 | 4,000 | 65.39 | 4,000 | 65.63 | 2,000 | — | — | — | — | — | — |
| ***Floor*** | 50.00 | 4,000 | 50.00 | 4,000 | 50.00 | 2,000 | — | — | — | — | — | — |
| Sold Floor | 40.00 | 4,000 | 40.00 | 4,000 | 40.00 | 2,000 | — | — | — | — | — | — |
| Swap | 54.00 | 2,000 | 54.00 | 2,000 | — | — | — | — | — | — | — | — |
| **Crude Oil – Cdn$ WTI** (3) | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day | Cdn$/bbl | bbl/day |
| Ceiling | 76.25 | 2,000 | 76.25 | 2,000 | — | — | — | — | — | — | — | — |
| ***Floor*** | 65.00 | 2,000 | 65.00 | 2,000 | — | — | — | — | — | — | — | — |
| Swap | 72.10 | 12,000 | 72.10 | 12,000 | 69.06 | 3,000 | — | — | — | — | — | — |
| **Total Crude Oil Volumes (bbl/day)** | | **20,000** | | **20,000** | | **5,000** | | **—** | | **—** | | **—** |
| **Crude Oil – MSW (Differential to WTI)** (4) | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day | US$/bbl | bbl/day |
| Swap | (3.38) | 7,000 | (3.38) | 7,000 | — | — | — | — | — | — | — | — |
| **Natural Gas – NYMEX Henry Hub** (5) | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Ceiling | 3.64 | 80,000 | 3.64 | 80,000 | 3.35 | 80,000 | 3.32 | 50,000 | 3.32 | 50,000 | 3.42 | 15,000 |
| ***Floor*** | 3.00 | 80,000 | 3.00 | 80,000 | 2.75 | 80,000 | 2.75 | 50,000 | 2.75 | 50,000 | 2.50 | 15,000 |
| Sold Floor | 2.50 | 80,000 | 2.50 | 80,000 | 2.25 | 80,000 | 2.25 | 50,000 | 2.25 | 50,000 | — | — |
| Swap | 4.00 | 90,000 | 4.00 | 90,000 | 4.00 | 40,000 | — | — | — | — | — | — |
| **Natural Gas – AECO** (6) | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day | Cdn$/GJ | GJ/day |
| Ceiling | — | — | — | — | 3.30 | 10,000 | 3.60 | 30,000 | — | — | — | — |
| ***Floor*** | — | — | — | — | 3.00 | 10,000 | 3.08 | 30,000 | — | — | — | — |
| Swap | 3.01 | 49,945 | 2.96 | 40,000 | 3.16 | 20,000 | 3.35 | 30,000 | — | — | — | — |
| **Total Natural Gas Volumes (MMBtu/day)** | | **217,338** | | **207,913** | | **148,435** | | **106,869** | | **50,000** | | **15,000** |
| **Natural Gas – AECO Basis (Percentage of NYMEX)** | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day | AECO/ NYMEX | MMBtu/ day |
| Sold Swap | 85.4 | 90,000 | 84.4 | 90,000 | 83.7 | 40,000 | — | — | — | — | — | — |
| **Natural Gas – AECO Basis (Differential to NYMEX)** | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day | US$/ MMBtu | MMBtu/ day |
| Sold Swap | (0.81) | 83,315 | (0.89) | 93,370 | (0.85) | 116,767 | (0.79) | 94,180 | (0.97) | 34,192 | — | — |
| **Total AECO Basis Volumes(MMBtu/day)** | | **173,315** | | **183,370** | | **156,767** | | **94,180** | | **34,192** | | **—** |
| **Natural Gas - Other Basis (Differential to NYMEX)** (7) | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day | | MMBtu/ day |
| Sold Swap | | — | | — | | 40,000 | | 40,000 | | 40,000 | | 15,000 |

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

## 18. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2017 and 2016 were as follows:

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Current: | | |
| Current year | **21.3** | 21.7 |
| Adjustments for prior years | **(4.8)** | 3.7 |
| | **16.5** | 25.4 |
| Deferred: | | |
| Origination and reversal of temporary differences | **102.3** | 19.6 |
| Adjustments for prior years | **5.9** | (3.1) |
| Changes in tax rates and legislation | **11.2** | (0.5) |
| | **119.4** | 16.0 |
| Total provision for income taxes | **135.9** | 41.4 |

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before income tax expense as follows:

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Income before tax | **524.8** | 242.7 |
| Canadian statutory rate (1) | **26.65%** | 26.71% |
| Expected income tax expense at statutory rates | **139.9** | 64.8 |
| Effect on income tax of: | | |
| Change in corporate tax rate | **12.6** | (0.6) |
| Non-deductible portion of unrealized foreign exchange gains | **(9.7)** | (5.1) |
| Non-taxable gain on business combination | — | (14.8) |
| Change in estimated pool balances | **1.1** | 0.6 |
| Change in unrecognized deferred tax asset on unrealized and realized foreign exchange losses | **(9.7)** | (4.5) |
| Other | **1.7** | 1.0 |
| Total provision for income taxes | **135.9** | 41.4 |

(1) The tax rate consists of the combined federal and provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2017 and 2016.

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Deferred tax liabilities: | | |
| PP&E in excess of tax basis | **903.2** | 806.0 |
| Risk management contracts | **79.7** | 48.4 |
| Deferred tax assets: | | |
| ARO | **(168.1)** | (146.0) |
| Long-term debt | **(19.7)** | (29.1) |
| Risk management contracts | **(0.1)** | (7.7) |
| Long-term incentive compensation expense | **(8.3)** | (13.0) |
| Unrecognized deferred tax assets (1) | **20.0** | 29.7 |
| Other | **(3.1)** | (4.0) |
| Deferred taxes | **803.6** | 684.3 |

(1) The unrecognized deferred tax assets relate to unrealized foreign exchange losses of $19.7 million and realized capital losses of $0.3 million ($29.1 million and $0.6 for 2016, respectively).

At December 31, 2017, the petroleum and natural gas properties and facilities owned by ARC have an approximate federal tax basis of $1.9 billion ($1.7 billion in 2016) available for future use as deductions from taxable income.

The following is a summary of ARC's estimated ARC tax pools as at December 31, 2017 and 2016:

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Canadian oil and gas property expense | **245.7** | 175.2 |
| Canadian development expense | **847.1** | 738.1 |
| Undepreciated capital cost | **832.4** | 722.2 |
| Other | **10.3** | 15.1 |
| Total federal tax pools | **1,935.5** | 1,650.6 |
| Additional Alberta tax pools | **5.0** | 6.5 |

A deferred tax asset has not been recognized with respect to net capital losses in the amount of $1.1 million ($2.3 million in 2016), in addition to unrealized capital losses relating to foreign exchange losses on US denominated debt in the amount of $145.7 million ($219.0 million in 2016), as it is not considered probable that the benefit of the capital losses will be realized. Recognition is dependent on the realization of future taxable capital gains.

## 19. SHAREHOLDERS' CAPITAL

ARC is authorized to issue an unlimited number of no par value common shares and 50 million preferred shares without nominal or par value. Common shares carry one vote per share and the right to any dividends declared. Preferred shares may be issued in series with rights and conditions to be determined by ARC's Board of Directors prior to issuance and subject to the Company's articles. There are no outstanding preferred shares as at December 31, 2017 or 2016.

| (thousands of shares) | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Common shares, beginning of year | 353,287 | 347,084 |
| Restricted shares issued pursuant to the LTRSA [(1)] Plan | **128** | 99 |
| Forfeited restricted shares pursuant to the LTRSA Plan | **(22)** | (3) |
| Unvested restricted shares held in trust pursuant to the LTRSA Plan | **(106)** | (96) |
| Dividend Reinvestment Plan | **129** | 4,756 |
| Stock Dividend Program | **16** | 1,398 |
| Issued on exercise of share options | **30** | 49 |
| Common shares, end of year | **353,462** | 353,287 |

(1) Long-term Restricted Share Award ("LTRSA"), includes restricted shares granted and associated stock dividends.

Net income per common share has been determined based on the following:

| (thousands of shares) | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Weighted average common shares | **353,429** | 350,907 |
| Dilutive impact of share-based compensation [(1)] | **427** | 404 |
| Weighted average common shares, diluted | **353,856** | 351,311 |

(1) For the year ended December 31, 2017, 2.9 million share options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (1.0 million for the year ended December 31, 2016).

Dividends declared for the year ended December 31, 2017 were $0.60 per common share, ($0.65 for the year ended December 31, 2016).

On January 15, 2018, the Board of Directors declared a dividend of $0.05 per common share designated as an eligible dividend, payable in cash to shareholders of record on January 31, 2018. The dividend payment date is February 15, 2018.

On February 8, 2017, ARC's Board of Directors approved the cancellation of ARC's Dividend Reinvestment Plan and Stock Dividend Program beginning with the dividend payment on April 17, 2017 to shareholders of record on March 31, 2017. Shareholders that had been enrolled in either program will receive dividends in cash after the cancellation date.

## 20. SHARE-BASED COMPENSATION PLANS

### RSU and PSU Plan

ARC's share-based long-term incentive plan results in employees, officers and directors (the "plan participants") receiving cash compensation in relation to the value of a specified number of underlying notional share units. The RSU and PSU Plan consists of Restricted Share Units ("RSUs") for which the number of share units is fixed and will vest evenly over a period of three years and PSUs for which the number of share units is variable and will vest at the end of three years.

Upon vesting of the RSUs, the plan participant receives a cash payment based on the fair value of the underlying share units plus all dividends accrued since the grant date. The cash compensation of the PSUs issued upon vesting is further dependent upon an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier. The performance multiplier is calculated at the time of payment using the percentile rank of ARC's total shareholder return relative to its peers and can result in cash compensation issued upon vesting of the PSUs ranging from zero to two times the value of the PSUs originally granted.

### Deferred Share Unit Plan ("DSU Plan")

ARC offers a DSU Plan to non-employee directors, under which each director receives a minimum of 60 per cent of their total annual remuneration in the form of Deferred Share Units ("DSUs"). Each DSU fully vests on the date of grant, but is distributed only when the director has ceased to be a member of the Board of Directors of the Company. Units are settled in cash determined by the value of the underlying common shares.

### Long-term Incentive Plans

The following table summarizes the Restricted Share Unit ("RSU"), Performance Share Unit ("PSU") and Deferred Share Unit ("DSU") movement for the years ended December 31, 2017:

| (number of units, thousands) | **RSUs** | **PSUs** (1) | **DSUs** |
|---|---|---|---|
| Balance, January 1, 2016 | 768 | 1,689 | 351 |
| Granted | 413 | 738 | 109 |
| Distributed | (325) | (523) | — |
| Forfeited | (135) | (97) | — |
| Balance, December 31, 2016 | 721 | 1,807 | 460 |
| Granted | **453** | **720** | **129** |
| Distributed | **(325)** | **(444)** | **(108)** |
| Forfeited | **(69)** | **(171)** | **—** |
| Balance, December 31, 2017 | **780** | **1,912** | **481** |

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

Compensation charges (recoveries) relating to the RSU and PSU Plan and DSU Plan are reconciled as follows:

| | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| G&A expenses (1) | **4.7** | 28.9 |
| Operating expenses | **1.3** | 4.0 |
| PP&E (recoveries) | **(0.6)** | 2.8 |
| Total compensation charges | **5.4** | 35.7 |
| Cash payments | **22.0** | 25.8 |

(1) Within G&A expenses, a recovery of $1.4 million is related to the DSU Plan for the year ended December 31, 2017 (expenses of $4.2 million for the year ended December 31, 2016).

At December 31, 2017, $13.5 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet ($25.0 million at December 31, 2016) and $17.5 million was included in the long-term incentive compensation liability ($24.6 million at December 31, 2016). A recoverable amount of $0.3 million was included in accounts receivable at December 31, 2017 ($0.5 million at December 31, 2016).

### Share Option Plan

Share options are granted to officers and certain employees of ARC which vest evenly on the fourth and fifth anniversary of their grant date and have a maximum term of seven years. The option holder has the right to exercise the options and purchase one common share per option at the original grant price or at a reduced exercise price, equal to the grant price less all dividends paid subsequent to the grant date and prior to the exercise date. The original grant price is calculated as the weighted average trading price of ARC common shares for the five days immediately preceding the grant date.

The changes in total share options outstanding and related weighted average exercise prices for the years ended December 31, 2017 and 2016 were as follows:

| | Share Options (number of units, thousands) | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, January 1, 2016 | 3,221 | 21.95 |
| Granted | 955 | 21.13 |
| Exercised | (49) | 16.39 |
| Forfeited | (155) | 21.62 |
| Balance, December 31, 2016 | 3,972 | 21.22 |
| Granted | **1,312** | **16.59** |
| Exercised | **(30)** | **15.30** |
| Forfeited | **(361)** | **21.22** |
| Balance, December 31, 2017 | **4,893** | **19.47** |
| Exercisable, December 31, 2017 | **1,250** | **17.62** |

The following table summarizes information regarding share options outstanding at December 31, 2017:

| Range of exercise price per common share ($) | Number of share options outstanding (thousands) | Weighted average exercise price per share for options outstanding ($) | Weighted average remaining term (years) | Number of share options exercisable (thousands) | Weighted average exercise price per share for options exercisable ($) |
|---|---|---|---|---|---|
| 14.85 - 20.00 | 2,803 | 16.97 | 4.63 | 704 | 14.70 |
| 20.01 - 25.00 | 1,661 | 21.01 | 3.64 | 546 | 21.38 |
| 25.01 - 29.99 | 429 | 29.84 | 3.47 | — | — |
| Total | 4,893 | 19.47 | 4.19 | 1,250 | 17.62 |

ARC estimates the fair value of share options granted on the date of grant using a binomial-lattice option pricing model. The following assumptions were used to arrive at the estimated fair value of the share options at their grant date:

| | Year Ended December 31, 2017 | Year Ended December 31, 2016 |
|---|---|---|
| Grant date share price ($) | **16.59** | 21.13 |
| Exercise price ($) (1) | **16.29** | 20.83 |
| Expected annual dividends ($) | **—** | — |
| Expected volatility (%) (2) | **31.00** | 33.00 |
| Risk-free interest rate (%) | **1.26** | 0.88 |
| Expected life of share option (3) | **5.5 to 6 years** | 5.5 to 6 years |
| Fair value per share option ($) | **4.31** | 3.70 |

(1) Exercise price is reduced monthly by the amount of dividend declared.
(2) Expected volatility is determined by the average price volatility of the common shares/trust units over the expected life.
(3) Expected life of the share option is calculated as the mid-point between vesting date and expiry.

ARC recorded compensation expense of $3.5 million relating to the share option plan for the year ended December 31, 2017 ($4.4 million for the year ended December 31, 2016). During the year ended December 31, 2017, $0.3 million of share option compensation charges were capitalized to PP&E ($0.5 million for the year ended December 31, 2016).

**LTRSA Plan**

On April 30, 2015, at its Annual and Special Meeting of Shareholders, ARC shareholders approved a new LTRSA Plan to award shares of ARC to qualifying officers and employees. The first grant of the LTRSA Plan occurred on June 24, 2015.

LTRSA grants consist of restricted common shares that are awarded at the date of grant and a cash payment made equal to the estimated personal tax obligation associated with the total award. The restricted shares issued on the grant date of the award are held in trust until the vesting conditions have been met.

While in trust, the restricted shares earn dividends that are reinvested into ARC common shares. These re-invested common shares issued are also held in trust until vested. Each LTRSA vests evenly on the eighth, ninth, and tenth anniversaries of their respective grant dates. Restricted shares and any accrued dividends that are subject to forfeiture will be redeemed and cancelled by ARC.

Compensation expense associated with the cash payments made under the LTRSA Plan is recognized immediately, while compensation expense associated with the restricted common shares is recognized over the vesting period with a corresponding charge to contributed surplus. Upon vesting, ARC recognizes an increase in share capital with a corresponding reduction to contributed surplus. The dilutive effect of outstanding LTRSAs is reflected as additional share dilution in the computation of earnings per share.

The estimated fair value of LTRSAs is determined as the weighted average trading price of ARC common shares for the five days immediately preceding the grant date. The changes in total LTRSA outstanding and related fair value per restricted share for the years ended December 31, 2017 and 2016 were as follows:

| | **LTRSA (number of units, thousands)** | **Fair Value per Restricted Share ($)** |
|---|---|---|
| Balance, January 1, 2016 | 97 | 21.43 |
| Granted | 99 | 21.07 |
| Forfeited | (3) | 21.63 |
| Balance, December 31, 2016 | 193 | 21.24 |
| Granted | **128** | **16.60** |
| Forfeited | **(22)** | **21.42** |
| Balance, December 31, 2017 | **299** | **19.23** |

ARC recorded G&A expenses of $1.3 million relating to the LTRSA Plan during the year ended December 31, 2017 ($1.1 million for the year ended December 31, 2016). At December 31, 2017, $nil compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet ($nil at December 31, 2016).

## 21. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2017:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | **1 Year** | **2-3 Years** | **4-5 Years** | **Beyond 5 Years** | **Total** |
| Debt repayments [(1)] | 73.9 | 218.3 | 302.7 | 316.4 | 911.3 |
| Interest payments [(2)] | 37.6 | 63.9 | 41.4 | 23.7 | 166.6 |
| Reclamation fund contributions [(3)] | 3.1 | 5.7 | 5.4 | 40.2 | 54.4 |
| Purchase commitments | 38.0 | 6.0 | — | — | 44.0 |
| Transportation commitments | 107.7 | 206.1 | 229.4 | 580.1 | 1,123.3 |
| Operating leases | 15.9 | 28.4 | 27.4 | 17.1 | 88.8 |
| Risk management contract premiums [(4)] | 0.5 | 0.4 | — | — | 0.9 |
| Total contractual obligations and commitments | **276.7** | **528.8** | **606.3** | **977.5** | **2,389.3** |

(1) Long-term and current portion of long-term debt.
(2) Fixed interest payments on senior notes.
(3) Contribution commitments to a restricted reclamation fund associated with the Redwater property.
(4) Fixed premiums to be paid in future periods on certain commodity price risk management contracts.

In addition to the above risk management contract premiums, ARC has commitments related to its risk management program (see Note 17). As the premiums are related to the underlying risk management contracts, they have been recorded at fair market value at December 31, 2017 on the balance sheet as part of risk management contracts.

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

ARC is involved in litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on ARC's results of operations or cash flows.

During the year ended December 31, 2017, ARC recorded a $2.4 million provision related to its office subleases, which have been determined to be onerous contracts. The provision is based on a total future undiscounted liability of $3.9 million and represents the present value of the difference between the minimum future lease payments for ARC's non-cancellable office lease and estimated sublease recoveries. These cash flows have been discounted using a risk-free rate of 2.1 per cent. The provision is expected to be completely amortized by 2024. At December 31, 2017, a $1.6 million provision remains to be amortized.

## 22. RELATED PARTIES

### Key Management Personnel Compensation

ARC has determined that the key management personnel of ARC consists of its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the RSU and PSU, DSU, LTRSA and Share Option Plans. The compensation relating to key management personnel for the year is as follows:

| | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Short-term benefits | **8.0** | 6.8 |
| Share-based compensation | **4.7** | 20.5 |
| Total key management personnel compensation | **12.7** | 27.3 |

## 23. SUPPLEMENTAL DISCLOSURES

### Presentation in the Statements of Income

ARC's statements of income are prepared primarily by nature of item, with the exception of employee compensation expenses which are included in both operating and G&A expense line items.

The following table details the amount of total employee compensation expenses included in operating and G&A expense line items in the statements of income:

| | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Operating | **34.2** | 35.0 |
| G&A | **60.5** | 77.6 |
| Total employee compensation expenses | **94.7** | 112.6 |

### Cash Flow Statement Presentation

The following tables provide a detailed breakdown of certain line items contained within cash flow from operating activities:

| **Change in Non-Cash Working Capital** | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Accounts receivable | **31.9** | (48.1) |
| Accounts payable and accrued liabilities | **8.7** | 25.4 |
| Prepaid expenses | **(6.0)** | 2.2 |
| Short-term investments | **(2.4)** | — |
| Total | **32.2** | (20.5) |
| Relating to: | | |
| Operating activities | **(28.7)** | 2.1 |
| Investing activities | **60.9** | (22.6) |
| Total change in non-cash working capital | **32.2** | (20.5) |

| **Other Non-Cash Items** | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Other deferred liabilities | **(0.1)** | (1.7) |
| Gain on short-term investments | **(0.4)** | (1.2) |
| Share-based compensation expense | **4.0** | 4.8 |
| Total other non-cash items | **3.5** | 1.9 |

| **Net Change in Other Liabilities** | **Year Ended December 31, 2017** | Year Ended December 31, 2016 |
|---|---|---|
| Long-term incentive compensation liability | **(7.1)** | 5.1 |
| Risk management contracts | **(3.5)** | 3.2 |
| ARO settlements | **(19.8)** | (13.0) |
| Total net change in other liabilities | **(30.4)** | (4.7) |

**Reconciliation of Financing Liabilities Arising from Financing Activities**
The following table provides a detailed breakdown of the cash and non-cash changes in financing liabilities arising from financing activities:

| **Financing Liabilities** | December 31, 2016 | **Cash Flows** | **Unrealized Foreign Exchange Gain** | **December 31, 2017** |
|---|---|---|---|---|
| Current portion of long-term debt | 51.5 | **27.3** | **(4.9)** | **73.9** |
| Long-term debt | 974.5 | **(77.1)** | **(60.0)** | **837.4** |
| Total financial liabilities from financing activities | 1,026.0 | **(49.8)** | **(64.9)** | **911.3** |

## FORWARD-LOOKING INFORMATION AND STATEMENTS

This Annual 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 Annual Report contains forward-looking information and statements pertaining to the following: the recognition of significant additional reserves; the recognition of significant reserves and resources, the volumes and estimated value of ARC's oil and gas reserves; the life of ARC's reserves; the volume and product mix of ARC's oil and gas production; future oil and natural gas prices; ARC's commodity risk management programs; future results from operations and operating metrics; future development, exploration, acquisition and development activities (including drilling plans); the timing of such activities and related capital expenditures and production expectations; and payment of dividends.

The forward-looking information and statements contained in this Annual 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; and the continued availability of adequate debt and equity financing and cash flow to fund its plans and expenditures. ARC believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this Annual 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 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 Annual Report).

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

This Annual Report also contains forward-looking information and statements found in the management's discussion and analysis found on pages 13 through 65 of this Annual Report. All such forward-looking information and statements contained therein is qualified in their entirety by the forward-looking statement advising contained on page 63 of this Annual Report.

## INFORMATION REGARDING DISCLOSURE ON OIL AND GAS RESERVES, RESOURCES, METRICS AND OPERATIONAL INFORMATION

This Annual Report describes certain information in our news releases dated February 8, 2018 entitled, "ARC Resources Ltd. Reports Record Annual Production and Record Increase to Oil and Gas Reserves" and "ARC Resources Ltd. Announces Record 320 Per Cent Replacement of Produced Reserves Through Development Activities in 2017" and readers should refer to those news releases. These news releases can be found on our SEDAR profile at *www.SEDAR.com*. The discussion in this Annual Report is subject to a number of cautionary statements, assumptions and risks as set forth below, elsewhere in the Annual Report. The discussion in this Annual Report in respect of reserves and resources is subject to a number of cautionary statements, assumptions and risks as set forth below in the Corporation's Annual Information Form for the year ended December 31, 2017, which is available on our SEDAR profile at *www.SEDAR.com*. Readers should also refer to the definitions of oil and gas reserves and resources found under "Glossary" in this Annual Report.

The reserves data set forth in this Annual Report is based upon an evaluation by GLJ Petroleum Consultants Ltd. ("GLJ") with an effective date of December 31, 2017 using forecast prices and costs. The reserves evaluation was prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Crude oil, natural gas and natural gas liquids benchmark reference pricing, and inflation and exchange rates used in the evaluation are based on GLJ's January 1, 2018 pricing. Reserves included herein are stated on a company gross basis (working interest before deduction of royalties without including any royalty interests) unless noted otherwise. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.

The resources data set forth in this Annual Report is based upon an Independent Resources Evaluation by GLJ of ARC's lands in the Montney in northeastern British Columbia. The Independent Resources Evaluation was effective December 31, 2017 and is based on GLJ's forecast pricing as at January 1, 2018.

All amounts in this Annual Report are stated in Canadian dollars unless otherwise specified. In accordance with Canadian practice, production volumes and revenues are reported on a company gross basis, before deduction of Crown and other royalties, and without including any royalty interest, unless otherwise stated. As noted above, unless otherwise specified, all reserves volumes in this Annual Report (and all information derived therefrom) are based on "company gross reserves" using forecast prices and costs. Our oil and gas reserves statement for the year ended December 31, 2017, which includes complete disclosure of our oil and gas reserves and other oil and gas information in accordance with NI 51-101, is contained within our Annual Information Form which is available on our SEDAR profile at *www.SEDAR.com*. In relation to the disclosure of estimates for any properties, such estimates for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation.

## NOTICE TO U.S. READERS

The oil and natural gas reserves contained in this Annual Report have generally been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects of United States or other foreign disclosure standards. For example, the United States Securities and Exchange Commission ("the SEC") generally permits oil and gas issuers, in their filings with the SEC, to disclose only proved reserves (as defined in SEC rules). Canadian securities laws require oil and gas issuers, in their filings with Canadian securities regulators, to disclose not only proved reserves (which are defined differently from the SEC rules) but also probable reserves, each as defined in NI 51-101. Accordingly, proved reserves disclosed in this Annual Report may not be comparable to US standards, and in this Annual Report, ARC has disclosed reserves designated as "probable reserves" and "proved plus probable reserves." Probable reserves are higher-risk and are generally believed to be less likely to be accurately estimated or recovered than proved reserves. The SEC's guidelines strictly prohibit reserves in these categories from being included in filings with the SEC that are required to be prepared in accordance with US disclosure requirements. In addition, under Canadian disclosure requirements and industry practice, reserves and production are reported using gross volumes, which are volumes prior to deduction of royalties and similar payments. The practice in the United States is to report reserves and production using net volumes, after deduction of applicable royalties and similar payments. Moreover, ARC has determined and disclosed estimated future net revenue from its reserves using forecast prices and costs, whereas the SEC generally requires that prices and costs be held constant at levels in effect at the date of the reserve report. As a consequence of the foregoing, ARC's reserve estimates and production volumes in this Annual Report may not be comparable to those made by companies utilizing United States reporting and disclosure standards. Additionally, the SEC prohibits disclosure of oil and gas resources, whereas Canadian issuers may disclose resource volumes. Resources are different than, and should not be construed as, reserves. For a description of the definition of, and the risks and uncertainties surrounding the disclosure of, resources, see above.

## GLOSSARY

The following is a list of abbreviations that may be used in this Annual Report:

### Measurement

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

(1) We have adopted the standard of 6 Mcf: 1 barrel when converting natural gas to boe. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip. 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.

## GLOSSARY CONTINUED

### FINANCIAL AND BUSINESS ENVIRONMENT

| | |
|---|---|
| **ARO** | asset retirement obligations |
| **CGU** | cash-generating unit |
| **COGE HANDBOOK** | The Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum |
| **DD&A** | depletion, depreciation and amortization |
| **DRIP** | Dividend Reinvestment Program |
| **DSU** | Deferred Share Unit |
| **E&E** | exploration and evaluation |
| **F&D** | finding and development costs |
| **GAAP** | generally accepted accounting principles |
| **G&A** | general and administrative |
| **IAS** | International Accounting Standard |
| **IASB** | International Accounting Standards Board |
| **IFRS** | International Financial Reporting Standards |
| **LTRSA** | Long-term Restricted Share Award |
| **MSW** | Mixed Sweet Blend |
| **NGLs** | natural gas liquids |
| **NYMEX** | New York Mercantile Exchange |
| **PP&E** | property, plant and equipment |
| **PSU** | Performance Share Unit |
| **RLI** | reserve life index |
| **RSU** | Restricted Share Unit |
| **SDP** | Stock Dividend Program |
| **TSX** | Toronto Stock Exchange |
| **WTI** | West Texas Intermediate |
| **2P** | Proved plus Probable |

## DEFINITIONS OF OIL AND GAS RESOURCES AND RESERVES

**Reserves** are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates as follows:

> **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
>
> **Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
>
> **Possible Reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

**Resources** encompasses all petroleum quantities that originally existed on or within the earth's crust in naturally occurring accumulations, including Discovered and Undiscovered (recoverable and unrecoverable) plus quantities already produced.

**Total Petroleum Initially-In-Place ("TPIIP")** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.

**Contingent Resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent Resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

**Economic Contingent Resources ("ECR")** are those Contingent Resources that are currently economically recoverable. Project maturity subclasses of Economic Contingent Resources include Development Pending Contingent Resources, Development on Hold Contingent Resources, and Development Unclarified Contingent Resources.

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# Corporate & Shareholder Information

## DIRECTORS

**Harold N. Kvisle** (1)
Chairman

**Myron M. Stadnyk**
President and Chief Executive Officer

**David R. Collyer** (2) (3)

**John P. Dielwart** (2) (4)

**Fred J. Dyment** (1) (3)

**Timothy J. Hearn** (1) (5)

**James C. Houck** (4) (6)

**Kathleen O'Neill** (4) (6)

**Herbert C. Pinder Jr.** (1) (5)

**William G. Sembo** (2) (5)

**Nancy L. Smith** (3) (6)

(1) Member of Policy and Board Governance Committee
(2) Member of Health, Safety and Environment Committee
(3) Member of Risk Committee
(4) Member of Reserves Committee
(5) Member of Human Resources and Compensation Committee
(6) Member of Audit Committee

## OFFICERS

**Myron M. Stadnyk**
President and Chief Executive Officer

**Terry M. Anderson**
Senior Vice President and Chief Operating Officer

**P. Van R. Dafoe**
Senior Vice President and Chief Financial Officer

**Bevin M. Wirzba**
Senior Vice President, Business Development and Capital Markets

**Chris D. Baldwin**
Vice President, Geosciences

**Ryan V. Berrett**
Vice President, Marketing

**Kris J. Bibby**
Vice President, Finance

**Sean R. A. Calder**
Vice President, Production

**Lara M. Conrad**
Vice President, Engineering and Planning

**Armin Jahangiri**
Vice President, Operations

**Wayne D. Lentz**
Vice President, Business Analysis

**Lisa A. Olsen**
Vice President, Human Resources

**Grant A. Zawalsky**
Corporate Secretary

## EXECUTIVE OFFICE

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**F** 403.503.8609
**W** www.arcresources.com

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**T** 403.267.6800

## AUDITORS

**PricewaterhouseCoopers LLP**
Calgary, Alberta

## ENGINEERING CONSULTANTS

**GLJ Petroleum Consultants Ltd.**
Calgary, Alberta

## LEGAL COUNSEL

**Burnet Duckworth & Palmer LLP**
Calgary, Alberta

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## CORPORATE CALENDAR 2018

**May 2, 2018**
Q1 2018 Results

**May 3, 2018**
Annual and Special Meeting

**August 2, 2018**
Q2 2018 Results

**November 8, 2018**
Q3 2018 Results

**November 12, 2018**
2018 Investor Day

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: **ARX**

## INVESTOR INFORMATION

Visit our website at
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or contact:
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