



ARC Resources Ltd.

A CLEAR Line of Sight

ANNUAL REPORT

2012

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»» Moving Forward with a Clear Line of Sight

Our proven strategy of risk managed value creation has consistently provided value to our shareholders, and has positioned us with vast internal development opportunities. We will execute on these opportunities with a long-term vision and clear line of sight to the future.

This summary report reviews our accomplishments in 2012 and provides a look ahead to our plans in 2013. ARC is committed to a high standard of corporate reporting and to continually improving our processes. We are pleased to introduce our first fully online annual report for 2012. As our business evolves, so do we, and progression in our corporate reporting is one way we continue to create value for our shareholders. It is always our goal to help people better understand our business. The addition of an online annual report provides expanded information and wider access to more readers.

We invite you to visit the full report at: ARCAnnualReport.com

» ARC at a Glance

ARC Resources Ltd. ("ARC") is a Canadian oil and gas producer, focused on the acquisition and development of high quality, long life assets.

With operations across western Canada, ARC's portfolio is made up of resource-rich properties that provide near-term growth prospects. ARC's team of over 500 employees is motivated to create shareholder value through a commitment to operational excellence and responsible development.

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

\$4.6 BILLION

PAID TO INVESTORS SINCE INCEPTION

607 MMBOE

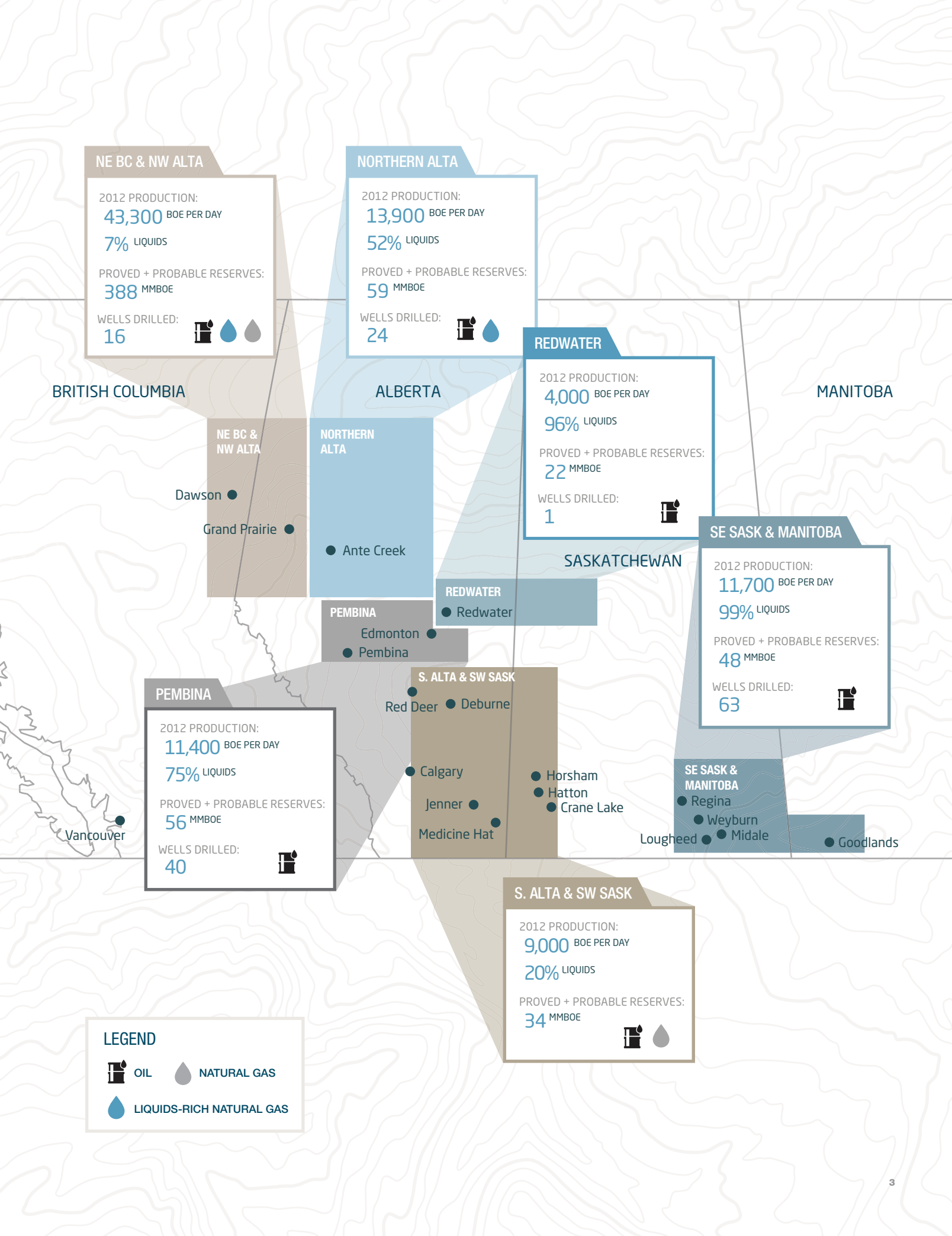
OF PROVED PLUS PROBABLE RESERVES

12 PER CENT

PRODUCTION GROWTH IN 2012

\$8.0 BILLION

ENTERPRISE VALUE



Financial & Operational Highlights

Year Ended December, 31

Cdn\$ millions, except per share and boe amounts

FINANCIAL	2012	2011	2010 ⁽⁸⁾
Funds from operations ⁽¹⁾	719.8	844.3	667.0
Per share ⁽²⁾	2.42	2.95	2.52
Net income (loss)	139.2	287.0	212.2
Per share ⁽²⁾	0.47	1.00	0.80
Operating income ⁽³⁾	163.2	293.5	235.6
Per share ⁽²⁾	0.55	1.02	0.88
Dividends	357.4	344.0	313.5
Per share ⁽²⁾	1.20	1.20	1.20
Capital expenditures	608.0	726.0	590.9
Net debt outstanding ⁽⁴⁾	745.6	909.7	871.0
Shares outstanding, weighted average diluted	297.2	286.6	264.2
Shares outstanding, end of period	308.9	288.9	284.4
OPERATING			
Production			
Crude oil (bbl/d)	31,454	27,158	27,341
Condensate (bbl/d)	2,217	2,052	1,617
Natural gas (mmcf/d)	342.9	310.6	254.2
Natural gas liquids (bbl/d)	2,728	2,444	2,628
Total (boe/d) ⁽⁵⁾	93,546	83,416	73,954
Average prices			
Crude oil (\$/bbl)	82.03	89.51	73.85
Condensate (\$/bbl)	92.63	96.07	77.40
Natural gas (\$/mcf)	2.62	3.83	4.21
Natural gas liquids (\$/bbl)	38.11	47.53	39.57
Oil equivalent (\$/boe)	40.50	47.15	44.88
Operating netback (\$/boe)			
Commodity and other sales	40.58	47.24	44.96
Transportation costs	(1.29)	(1.18)	(1.10)
Royalties	(5.72)	(7.20)	(7.14)
Operating costs	(9.40)	(9.70)	(9.70)
Netback before hedging	24.17	29.16	27.02
Realized Hedging gain (loss)	1.87	2.39	2.20
Netback after hedging	26.04	31.55	29.22
RESERVES			
(company gross) ⁽⁶⁾			
Proved plus probable reserves			
Crude oil and NGL (mmbbl)	185,548	170,153	165,963
Natural gas (bcf)	2,528.6	2,416.3	1,914.9
Total (mboe)	606,982	572,374	485,121
TRADING STATISTICS ⁽⁷⁾			
High price	26.25	28.67	26.05
Low price	18.36	19.40	18.77
Close price	24.44	25.10	25.41
Average daily volume (thousands)	1,356	1,251	1,197

(1) Funds from operations is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. See "Non-GAAP Measures" section in the MD&A for the years ended December 31, 2012 and 2011.

(2) Per share amounts (with the exception of dividends) are based on weighted average shares.

(3) Operating income is a non-GAAP measure. See "Operating Income" section in the February 6, 2013 news release titled "ARC Resources Ltd. Reports Fourth Quarter and Full Year 2012 Results."

(4) Net debt is an additional GAAP measure and therefore it may not be comparable with the calculation of similar entities. Net debt is defined as long-term debt plus working capital deficit (surplus). Working capital deficit (surplus) is calculated as current liabilities less the current assets as they appear on the Audited Consolidated Balance Sheets, and excludes current unrealized amounts pertaining to risk management contracts, and assets held for sale.

(5) In accordance with NI 51-101, a boe conversion ratio of 6 Mcf : 1 bbl has been used, which 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 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.

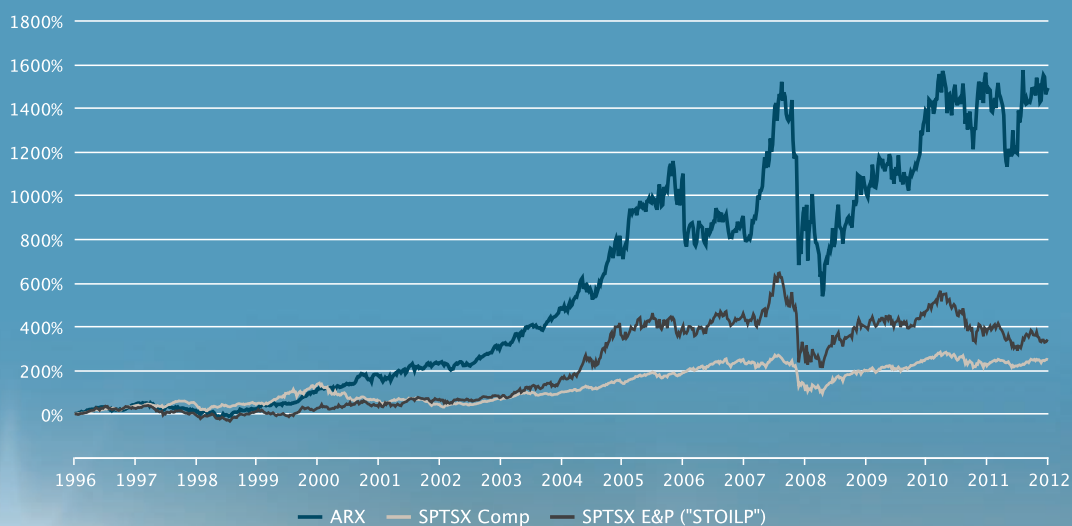
(6) Company gross reserves are the gross interest reserves prior to the deduction of royalty burdens.

(7) Trading prices are stated in Canadian dollars and based on intra-day trading.

(8) Beginning January 1, 2011, all Canadian publically traded accountable enterprises are required to prepare financial statements using International Financial Reporting standards ("IFRS"). Amounts have been restated to comply with IFRS. See Note 23, "Explanation of Transition to International Reporting Standards" in the audited and Consolidated Financial Statements for the year ended December 31, 2011 and 2010 for information on ARC's transition to IFRS.

ARC has delivered an **18%** compound annual return since inception, and has consistently outperformed the S&P/TSX Composite Index and S&P/TSX Exploration and Production Index.

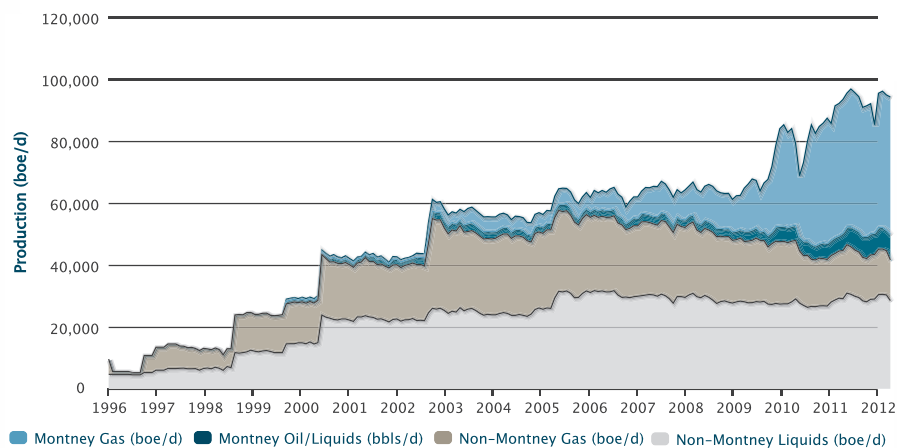
Total Return Performance



» 2012 Performance Highlights

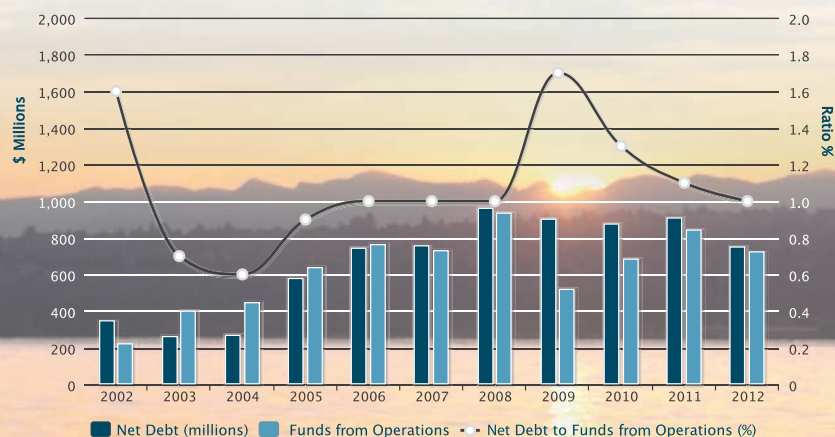
Production Growth

Strategic development of Growth and Base assets has delivered a **15% compound annual production growth rate** since inception. In 2012, ARC **increased production 12%** to average **93,500 boe per day**.



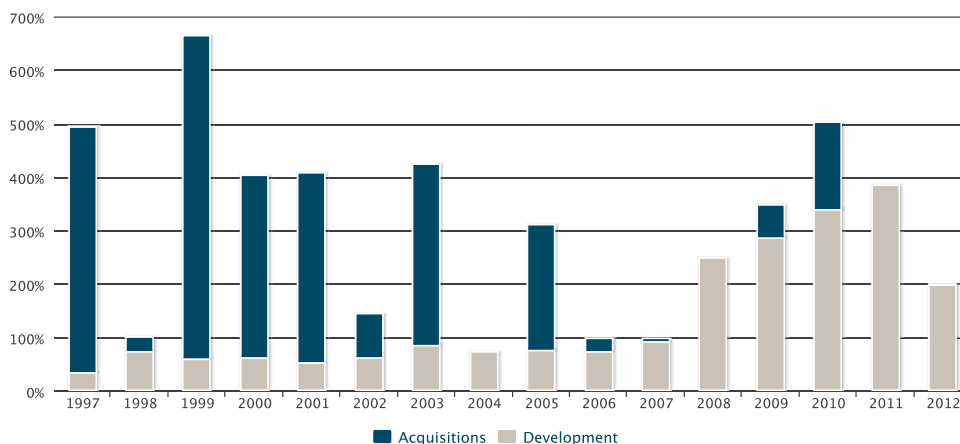
Balance Sheet Strength

To ensure financial flexibility ARC maintains low debt levels, targeting net debt to funds from operations in the range of one to 1.5 times. ARC exited 2012 with **net debt to funds from operations at one times**.



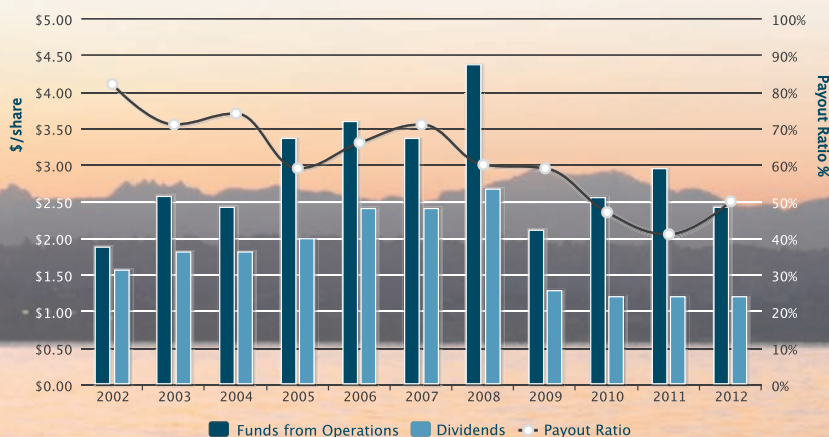
Reserves Growth

ARC has consistently delivered value to our shareholders through reserves growth. We have successfully replaced **over 200% of annual production for the past five consecutive years**.



Sustainable Dividend

ARC is committed to the dividend. We believe that the dividend should be set at levels that are sustainable through short-term commodity market cycles, as demonstrated by our consistent annual dividend which has been held steady at **\$1.20 per share** since 2009.



OUR FOCUS ON ACQUIRING AND DEVELOPING HIGH QUALITY LONG-LIFE ASSETS AND OPERATIONAL EXCELLENCE HAS RESULTED IN AN ASSET BASE WITH EXTENSIVE DEVELOPMENT POTENTIAL.

- MYRON M. STADNYK

» Message to Shareholders

On behalf of ARC's outstanding team of over 500 employees, I am pleased to share with you our 2012 results.

ARC enjoyed another year of exceptional operational and financial results, and continued to create value for our shareholders. Notably, ARC grew production by 12 per cent to reach record levels, added 200 per cent of produced reserves, and further strengthened our balance sheet. Since 2009, ARC has grown production over 50 per cent, an exceptional accomplishment that demonstrates ARC's trademark capital discipline and the "can do" attitude that exists throughout the organization.

On a personal note, I have been at ARC since we commenced our operations. I was appointed Chief Operating Officer in 2005, President in 2009 and it is now an honour to be named Chief Executive Officer. As President and Chief Executive Officer I want to assure shareholders that our strategy will continue to be clear with an absolute commitment to creating long-term value. At ARC, we understand value creation as a combination of paying the dividend and delivering deliberate and profitable long-term growth. Our focus on acquiring and developing high quality long-life assets combined with operational excellence has resulted in an asset base with extensive development potential. Entering our seventeenth year, the magnitude of opportunity in front of us has never been better. We have a clear line of sight to act on our opportunities, which will support our long-term vision of risk managed value creation. We will continue to pay our dividend, while we simultaneously manage the development of our exciting and high rate of return growth opportunities.



Proven Strategy

ARC's long history of success is tied to our strategic focus on risk managed value creation. Underpinning this strategy is a dedication to developing and producing high quality assets, operational excellence, a culture of leadership and a strong financial position. Our goal of creating shareholder value has never wavered; as we have demonstrated with the achievement of an 18 per cent annualized total return since inception.

The dividend is, and always has been, a critical component of our business model as it ensures both capital discipline and a paced approach to development. Since inception, we have paid over \$4.6 billion in dividends to our shareholders, maintaining an annual dividend of at least \$1.20 per share for sixteen years. This history is consistent with our belief that dividends should be set at levels that are sustainable throughout short-term market cycles.

Our long-term focus on building a diverse portfolio of high quality assets has put ARC in an enviable position, allowing us to remain nimble through downturns in any one commodity. Over the last year we took a selective approach to natural gas investment, directing our efforts to oil and liquids-rich opportunities, which offered the highest rates of return due to the relative strength of the crude oil price. The ability to successfully shift our focus to oil and liquids-rich opportunities enabled us to move forward on an ambitious and disciplined capital program that delivered exceptional results, while preserving the strength of our balance sheet.

2012 Highlights

In the past year we have showcased the strength of our strategy, as we managed our business against unpredictable market conditions and a changing industry landscape. With natural gas prices at decade

lows and crude oil prices subject to volatile and record wide differentials, ARC was one of the first of our peers to announce a decrease in our capital program from \$760 million to \$600 million. Despite the reduced capital program, ARC achieved record production of 93,500 boe per day, comfortably within our original production guidance. This was achieved as we developed ARC's high quality assets and maintained an internal emphasis on aggressive cost management and capital efficiency. Contributing to our strong cash flow results was the shift towards oil and liquids-rich opportunities, as ARC grew oil and liquids volumes 15 per cent from 2011 to 2012, providing strong rates of return and a healthy revenue stream.

In 2012, we executed an active drilling program, drilling 144 gross operated wells. As a result of the robust program, we replaced over 200 per cent of production for the fifth consecutive year, and increased total proved plus probable reserves by six per cent. In the northeast British Columbia Montney, an updated Independent Resources Evaluation reaffirmed the significant natural resource base on ARC's lands. Most notably, was the identification of a major oil resource of 1.5 billion barrels of discovered petroleum initially in place at ARC's Tower property. Reserve growth was achieved at impressive Finding and Development costs of \$9.01 per boe for proved plus probable reserves ⁽¹⁾ – results that are especially remarkable when considering the execution of an oil and liquids focused program, which typically results in higher capital costs than natural gas.

In line with our principle of maintaining financial flexibility, ARC closed the year with a strong balance sheet with net debt to funds from operations at one times. During 2012, ARC issued approximately \$400 million of fixed rate term notes, capitalizing on low long-term interest rates, and raised net proceeds of approximately \$330 million with the issuance of 14.6 million common shares.



IN THE PAST YEAR WE HAVE SHOWCASED THE STRENGTH OF OUR STRATEGY, AS WE MANAGED OUR BUSINESS AGAINST UNPREDICTABLE MARKET CONDITIONS AND A CHANGING INDUSTRY LANDSCAPE.

Proceeds from the note and equity issuance were used to pay down indebtedness under ARC's existing credit facility, resulting in net debt that was \$150 million lower at year end 2012 than 2011. The proceeds were also used to proactively secure funding for a portion of ARC's 2013 capital development program. ARC exited 2012 with approximately \$1.2 billion of credit capacity, and net debt representing approximately nine per cent of ARC's total capitalization. ARC targets to stay between one and 1.5 times net debt to funds from operations and less than 20 per cent of total capitalization in order to preserve financial flexibility through commodity price cycles.

ARC's focus in 2013 is clear. Investment in both infrastructure and commercializing ARC's Montney resource will set the stage for significant growth in 2014.

Setting the Stage for Long-term Success

Over the past decade ARC has established a strong presence in the world class Montney play. In 2000, we entered the Alberta Montney with the acquisition of the Ante Creek property in northern Alberta, and in 2003 we entered the northeast British Columbia Montney region with the acquisition of the Dawson field. Today, we have amassed one of the largest positions in the Montney fairway with over 700 net sections of land. Reacting to the low natural gas price environment in 2012, we focused on development of Ante Creek, and on the oil and liquids-rich gas development at Parkland/Tower. As we invest in these strong netback oil focused properties, ARC is continuing to sustain and grow its natural gas business as natural gas volumes are produced in conjunction with the oil production. As a clean burning and highly efficient fuel, there is no doubt of the prominent role natural gas will play in future energy markets worldwide. In 2012, we saw large industry players from around the world focus on the Montney for exactly this reason. The area has garnered attention due to the world class reservoir and its proximity to the emerging LNG export market on the west coast of British Columbia. The vast resource base in ARC's Montney assets provides an extensive inventory of natural gas, crude oil and natural gas liquids development opportunities with considerable upside.

Taking a long-term view as to how we will develop these assets, ARC is well positioned for a successful future in which we will create value from our high quality oil and natural gas resources.

2013 Capital Budget

ARC's focus in 2013 is clear. Investment in both infrastructure and commercializing ARC's Montney resource will set the stage for significant growth in 2014. We plan to execute a record 2013 capital budget of \$830 million. The program is expected to deliver modest growth through 2013, as we complete large scale projects that will facilitate new production coming on-stream in early 2014. A major focus will be the development of the Parkland/Tower area in northeast British Columbia. In late 2012, ARC received government approval to construct two 60 mmcf per day gas plants and liquids handling facilities at the Parkland property. Construction of the first 60 mmcf per day phase commenced late in 2012, with the plant expected to be on-stream in early 2014. At the Tower property, we will continue the drilling program that started in 2012, employing multi-well pad drilling to develop this oil field. Moving to a multi-well pad drilling approach greatly decreases average costs per well, increases capital efficiencies and minimizes our operational footprint. The approach will alter the production profile, given the estimated seven month time period to drill, complete, test and tie-in an entire eight well pad. All wells on a pad will be brought onto production at the same time, resulting in production increasing in a stepped fashion. We are targeting 2013 average production to be in the range of 93,000 to 97,000 boe per day and 2013 exit volumes of approximately 100,000 boe per day, leading to production of greater than 110,000 boe per day in 2014.

Leadership Strength

ARC's strong leadership team is comprised of a group of highly skilled individuals, with a proven ability to execute. The majority of our officer team has been with ARC for over ten years, and brings a depth of industry knowledge from technical expertise to capital markets to human resources. Guided by strong and consistent leadership,

ARC's employees uphold a culture in which collective goals are met and the bar for continuous improvement is set high. In 2012, the strength of our leadership was once again demonstrated by the achievement of outstanding results. I thank our entire team for their hard work.

In 2012, one of ARC's founding members and long-time Chief Executive Officer, John Dielwart, announced his retirement, which was effective January 1, 2013. John's vision and exemplary leadership helped build ARC into the strong organization that it is today. As I take over the reigns as Chief Executive Officer, I want to express my personal gratitude to John and thank him for his commitment and dedication.

I would also like to thank Michael Kanovsky, an original director of the Company, who retired from the board of directors in 2012. Throughout his fifteen years of service to our board, Michael's broad insight and industry expertise were invaluable.

A Clear Line of Sight

As we enter 2013, I am excited by the opportunities that ARC has before it. I am also aware of the many challenges our industry is facing. The low natural gas price and volatile crude oil differentials we experienced in

2012 are expected to improve in 2013 but not dissipate. History has shown that the oil and gas industry is cyclical. Throughout ARC's sixteen year history, our team has experienced many of the same challenges, and we have proven our ability to create value in all market conditions. ARC is in an enviable position with a large, high quality asset base that will deliver profitable growth for years to come. Over the next few years you will see an evolution in our business as we execute larger scale projects. Through this evolution we will proceed with a thoughtful, long-term vision and a clear line of sight to deliver optimal value to our shareholders.

Our strategy is proven, our opportunities are exceptional and our people are ready to execute.

Sincerely,



Myron M. Stadnyk,

President and Chief Executive Officer



»» Financial Report

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 or external factors that may affect future performance. It is dated February 6, 2013 and should be read in conjunction with the audited Consolidated Financial Statements as at and for the year ended December 31, 2012, and the MD&A and unaudited Condensed Consolidated Financial Statements for periods ended March 31, 2012, June 30, 2012, and September 30, 2012 as well as ARC's Annual Information Form that is filed on SEDAR at www.sedar.com.

This MD&A contains non-GAAP measures, additional 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", "Additional GAAP Measures" and "Forward-looking Information and Statements" included at the end of this MD&A.

ABOUT ARC RESOURCES LTD.

ARC is a dividend-paying Canadian oil and gas company with near-term and long-term oil, natural gas and natural gas liquids growth prospects headquartered in Calgary, Alberta. ARC's activities relate to the exploration, development and production of conventional oil and natural gas in Canada with an emphasis on the acquisition and 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 delivery of results through its strategy of **risk-managed value creation**. ARC is committed to providing superior long-term financial returns for its shareholders; creating a culture where respect for the individual is paramount and action and passion is rewarded; and to running our 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 unique suite of assets include both growth and base assets. ARC's growth assets consist of world-class resource play properties, primarily concentrated in the Montney geological formation in northeast British Columbia and northern Alberta, and the Cardium formation in the Pembina area of Alberta. These assets provide substantial growth opportunities, which ARC will pursue with a clear line of sight towards long-term profitable development. ARC's base assets consist of core properties located throughout Alberta, Saskatchewan and Manitoba. The base assets deliver stable production and contribute significant cash flow to fund future growth.
2. **Operational excellence** – ARC is focused on capital discipline and cost management to extract the maximum return on its investments. Production from individual oil and natural gas wells naturally declines over time. In any one year, ARC approves a budget to drill new wells with the intent to first replace production declines and second to potentially increase production volumes. At times, ARC may also acquire strategic producing or undeveloped properties to enhance current production and reserves or to provide potential future drilling locations. Alternatively, it may strategically dispose of non-core assets that no longer meet its investment criteria.
3. **Financial flexibility** – ARC provides returns to shareholders through a combination of a monthly dividend, currently \$0.10 per share per month, and a potential for capital appreciation. ARC's goal is to fund capital expenditures necessary to replace production declines and dividend payments from funds from operations. ARC will finance growth activities through a combination of sources, including funds from operations, proceeds from ARC's Dividend Reinvestment and Optional Cash Payment Program ("DRIP"), proceeds from property dispositions and debt and equity issuance. ARC chooses to maintain prudent debt levels; targeting its net debt to be one to 1.5 times annualized funds from operations and less than 20 per cent of total capitalization over the long-term.
4. **Top talent and strong leadership culture** – ARC is committed to the attraction, retention and development of the best and brightest people within its organization. ARC's employees conduct business every day in a culture of trust, respect, integrity and accountability. As of the end of 2012, ARC had approximately 545 employees with 320 professional, technical and support staff in the Calgary office and 225 individuals located across ARC's operating areas in western Canada.

Total Return To Shareholders

ARC's business plan has resulted in significant operational success and has contributed to a trailing five year annualized total return per share of 10.8 per cent (Table 1).

Table 1

Total Returns ⁽¹⁾	Trailing One Year	Trailing Three Year	Trailing Five Year
Dividends per share	\$1.20	\$3.60	\$7.55
Capital (depreciation) appreciation per share	\$(0.66)	\$4.50	\$4.04
Total return per share	2.4%	43.1%	67.1%
Annualized total return per share	2.4%	12.7%	10.8%
S&P/TSX Exploration & Producers Index annualized total return	(11.2)%	(6.3)%	(4.2)%

(1) Calculated as at December 31, 2012.

Over the past five years, ARC's production has grown by 28,420 barrels of oil equivalent ("boe") per day, or 44 per cent while its proved plus probable reserves have grown by 287.9 million boe, or 90 per cent. Table 2 highlights ARC's production and reserves for the last five years:

Table 2

	2012	2011	2010	2009	2008
Production (boe/d)	93,546	83,416	73,954	63,538	65,126
Proved plus probable reserves (mmboe) ⁽¹⁾⁽²⁾⁽³⁾	607.0	572.4	485.1	376.5	319.1

(1) As determined by ARC's independent reserve evaluator.

(2) ARC has also disclosed contingent resources associated with interests in certain of its properties located in northeastern British Columbia in ARC's Annual Information Form as filed on SEDAR at www.sedar.com.

(3) Company gross reserves. For more information, see ARC's Annual Information Form as filed on SEDAR at www.sedar.com and the news release entitled "ARC Resources Ltd. Announces Fifth Consecutive Year of Greater than 200 per cent Produced Reserves Replacement in 2012" dated February 6, 2013.

Per Share Metrics

ARC's performance can also be measured by its ability to grow both production and reserves on a per share basis. Table 3 details ARC's normalized production and reserves per share, with and without dividend adjustments, over the past three years:

Table 3

Per Share	2012	2011	2010
Normalized production, boe per thousand shares ⁽¹⁾⁽²⁾	0.34	0.30	0.30
Normalized reserves, boe per share ⁽¹⁾⁽³⁾	2.10	2.08	1.80
Dividends/distributions per share	\$1.20	\$1.20	\$1.20
Normalized production, dividend adjusted, boe per thousand shares ⁽⁴⁾	0.43	0.40	0.36
Normalized reserves, dividend adjusted, boe per share ⁽⁴⁾	2.68	2.70	2.31

(1) "Normalized" indicates that all periods as presented have been adjusted to reflect a net debt to capitalization of 15 per cent. It is assumed that additional shares were issued (or repurchased) at a period end price for the reserves per share calculation and at an annual average price for the production per share calculation in order to achieve a net debt balance of 15 per cent of total capitalization each year. The normalized amounts are presented to enable comparability of per share values.

(2) Production per share represents annual daily average production (boe) per thousand shares and is calculated based on annual daily average production divided by the normalized weighted average common shares for the year.

(3) Reserves per share is calculated based on proved plus probable reserves (boe), as determined by ARC's independent reserve evaluator solely at year-end, divided by period end shares outstanding.

(4) The dividend adjustment assumes that historic dividends paid since January 1, 2010 have been reinvested by ARC, resulting in a reduction of the number of shares outstanding and, in turn, higher normalized production per share and normalized reserves per share.

ECONOMIC ENVIRONMENT

During 2012, West Texas Intermediate (“WTI”) crude oil prices traded at a discount to Brent crude oil prices due primarily to pipeline bottlenecks between Cushing, Oklahoma and the United States Gulf Coast. The Seaway pipeline was reversed in 2012 and subsequently expanded in 2013, resulting in financial markets pricing in a narrowing future spread between WTI and Brent crude oil prices. The WTI crude oil price averaged US\$94 per barrel during 2012, largely unchanged from the average price in 2011. ARC’s realized crude oil price, however, was down eight per cent in 2012 due to widening Canadian crude oil differentials. The volatility in these Canadian crude oil differentials is primarily attributed to increased North American oil production, refinery outages, and pipeline infrastructure bottlenecks in the mid-western United States. The monthly average differential for Edmonton Par relative to WTI ranged from a discount of \$20 per barrel to a premium of \$4 per barrel during 2012. The 2012 average differential for Edmonton Par was a discount of \$8 per barrel compared to a premium of \$1 per barrel in 2011. In the later part of 2012, differentials saw a slight recovery as certain infrastructure bottlenecks were addressed and rail transport volumes increased as producers looked for alternative methods to move their product to market. Looking ahead, several infrastructure projects are currently proposed or under development which is expected to alleviate certain bottlenecks, however due to the long-term nature of these projects the risk of volatile differentials remains a concern throughout 2013 and into 2014 until infrastructure issues are resolved and additional pipeline capacity becomes available.

Canadian natural gas prices averaged \$2.40 per mcf in 2012, down 35 per cent from \$3.67 per mcf in 2011. Lower natural gas prices were largely attributed to record high North American production and inventory levels. Despite a reduction in North American natural gas drilling activity in response to the low natural gas price environment, horizontal well technology in shale gas plays and associated gas from oil and liquids-rich gas development contributed to record high production levels during 2012. The combination of record North American production and low natural gas demand due to mild winter weather has resulted in a significant build of natural gas inventories. Going forward, sustained demand growth from coal power plant retirements, transportation and industrial usage, and development of offshore markets are necessary in order to support a stronger natural gas price in the long-term.

Ongoing commodity price volatility may affect ARC’s funds from operations and rates of return on its capital programs. As continued volatility is expected into 2013, ARC will take steps to mitigate these risks, optimize its rates of return, and maintain its strong financial position.

2012 Annual Guidance and Financial Highlights

Table 4 is a summary of ARC’s 2012 and 2013 guidance and a review of 2012 actual results:

Table 4

	2012 Guidance	2012 Actual	% Variance	2013 Guidance
Production (boe/d)				
Oil (bbl/d)	30,000 - 31,000	31,454	1	32,000 – 34,000
Condensate (bbl/d)	2,100 - 2,500	2,217	-	1,800 – 2,000
Gas (mmcf/d)	340 - 350	342.9	-	340 – 350
NGLs (bbl/d)	2,100 - 2,600	2,728	5	2,400 – 2,800
Total (boe/d)	91,000 - 94,000	93,546	-	93,000 – 97,000
Expenses (\$/boe):				
Operating	9.50 - 9.70	9.40	1	9.50 – 9.70
Transportation	1.30 - 1.40	1.29	1	1.40 – 1.50
General and administrative ⁽¹⁾	2.45 - 2.60	2.84	(9)	2.50 – 2.70
Interest	1.20 - 1.30	1.32	(2)	1.20 – 1.30
Current income tax ⁽²⁾	0.90 – 1.05	0.87	3	1.05 – 1.15
Capital expenditures (\$ millions) ⁽³⁾	600	608	(1)	830
Net property and undeveloped land acquisitions (\$ millions) ⁽⁴⁾	25 – 50	32	-	-
Weighted average shares outstanding (millions)	297	297	-	311

(1) The 2012 guidance for general and administrative expense per boe was based on a range of \$1.75 - \$1.85 prior to the recognition of any expense associated with ARC’s long-term incentive plan and \$0.70 - \$0.75 per boe associated with ARC’s long-term incentive plan. Actual per boe costs for each of these components for December 31, 2012 were \$1.92 per boe and \$0.92 per boe, respectively.

(2) The 2013 corporate tax estimate will vary depending on the level of commodity prices.

(3) Excludes amounts related to unbudgeted net acquisitions of land and small producing properties which totaled \$32.4 million in 2012.

(4) Net property and undeveloped land acquisitions are in addition to the 2013 budgeted capital program of \$830 million.

ARC's production for 2012 is at the high end of the guidance range reflecting strong operating performance in many key areas including the start-up of a new gas plant at Ante Creek and additional production from the drilling and completion of new wells brought on throughout the year. General and administrative costs exceeded guidance for 2012 as expenses relating to the long-term incentive plans were slightly higher than anticipated. Additionally, a one-time, special executive retirement payment was recorded in the fourth quarter in conjunction with ARC's CEO succession that was announced during the fourth quarter. Interest expense is slightly above guidance as a result of financing fees incurred with the issuance of US\$360 million and CDN\$40 million of long-term notes on August 23, 2012. All other expenses were within or below the respective ranges of revised Guidance.

ARC incurred \$608 million of capital expenditures during 2012, following its strategy of selecting and executing projects that provide the greatest expected return on investment. In the first quarter of 2012, ARC reduced its planned 2012 capital expenditure program from \$760 million to \$600 million, due to a decline of commodity prices and widening of the price differentials between WTI and various Canadian crude oil prices.

ARC plans to execute an \$830 million capital program in 2013, focused primarily on oil and liquids-rich gas development and infrastructure spending to facilitate future growth. ARC expects to deliver modest production growth of approximately three per cent in 2013 with more significant growth expected in 2014. The 2013 capital program will have an enhanced focus on multi-well pad drilling in key areas; an approach that is expected to result in cost savings and improved operational efficiencies. ARC expects to finance its 2013 capital program with funds from operations, proceeds from the DRIP, existing credit capacity, working capital and proceeds from the disposition of minor and non-strategic assets.

The 2013 Guidance provides shareholders with information on management's expectations for results of operations. Readers are cautioned that the 2013 Guidance may not be appropriate for other purposes.

2012 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Financial Highlights

Table 5

	Three months ended December 31			Twelve months ended December 31		
(Cdn\$ millions, except per share and volume data)	2012	2011	% Change	2012	2011	% Change
Funds from operations ⁽¹⁾	208.4	226.6	(8)	719.8	844.3	(15)
Funds from operations per share ⁽¹⁾⁽²⁾	0.68	0.79	(14)	2.42	2.95	(18)
Net income (loss)	84.5	(49.0)	272	139.2	287.0	(51)
Dividends per share ⁽²⁾	0.30	0.30	-	1.20	1.20	-
Average daily production (boe/d) ⁽³⁾	95,725	92,021	4	93,546	83,416	12

(1) This is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

(2) Per share amounts (with the exception of dividends per share which are based on the number of shares outstanding at each dividend record date) are based on diluted weighted average shares outstanding.

(3) Reported production amount is based on company interest before royalty burdens. Where applicable in this MD&A natural gas has been converted to barrels of oil equivalent ("boe") based on 6 million cubic feet ("mcf"):1 barrel ("bbl"). The boe rate is based on an energy equivalent 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 conversion ratio, utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

Funds from Operations

ARC reports funds from operations in total and on a per share basis. Funds from operations does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP"). The term "funds from operations" is defined as net income excluding the impact of non-cash depletion, depreciation, amortization and impairment charges, accretion of asset retirement obligations, deferred tax expense, unrealized gains and losses on risk management contracts, unrealized gains and losses on short-term investments, non-cash lease inducement charges, share-option expense, exploration expense, unrealized gains and losses on foreign exchange and gains on disposal of petroleum and natural gas properties and is further adjusted to include the portion of unrealized losses on risk management contracts that relate to 2012 production. 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 future growth through capital investment and to repay debt. Management believes that such a measure provides a better assessment of ARC's operations on a continuing basis by eliminating certain non-cash charges and charges that are nonrecurring, while respecting that certain risk management contracts that are settled on an annual basis are intended to protect prices on product sales occurring throughout the year. From a business perspective, the most directly comparable measure of funds from operations calculated in accordance with GAAP is net income. See the section entitled "Additional GAAP Measures" contained within this MD&A.

Table 6 is a reconciliation of ARC's funds from operations to net income and cash flow from operating activities.

Table 6

	Three months ended December 31		Twelve months ended December 31	
(\$ millions)	2012	2011	2012	2011
Net income (loss)	84.5	(49.0)	139.2	287.0
Adjusted for the following non-cash items:				
Depletion, depreciation, amortization and impairment	133.2	178.1	571.1	509.2
Accretion of asset retirement obligation	3.1	3.3	12.4	13.4
Deferred tax expense (recovery)	21.8	(17.4)	19.3	97.0
Unrealized (gain) loss on risk management contracts	(53.6)	80.1	(14.2)	16.5
Realized losses on risk management contracts recognized in previous quarters ⁽¹⁾	11.8	38.1	-	-
Unrealized loss (gain) on foreign exchange	8.3	(9.4)	(8.2)	9.7
Gain on disposal of petroleum and natural gas properties	-	3.2	(0.2)	(89.5)
Other	(0.7)	(0.4)	0.4	1.0
Funds from operations	208.4	226.6	719.8	844.3
Realized losses on risk management contracts recognized in previous quarters ⁽¹⁾	(11.8)	(38.1)	-	-
Net change in other liabilities	(2.0)	4.1	(10.6)	(9.6)
Change in non-cash working capital	(12.0)	36.8	(5.7)	68.0
Cash Flow from Operating Activities	182.6	229.4	703.5	902.7

(1) ARC has entered into certain commodity price risk management contracts that pertain to production periods spanning the entire calendar year but that are settled at the end of the year on an annual average benchmark commodity price. Throughout the year, ARC has applied the portion of losses associated with these contracts to the funds from operations calculation in the production period to which they relate to more appropriately reflect the funds from operations generated during the period after any effect of contracts used for economic hedging. At December 31, 2012, all gains and losses associated with these contracts have been realized, and in the fourth quarter losses previously applied to prior quarters are reversed.

Details of the change in funds from operations from the three and twelve months ended December 31, 2011 to the three and twelve months ended December 31, 2012 are included in Table 7 below.

Table 7

	Three months ended December 31		Twelve months ended December 31	
	\$ millions	\$/Share	\$ millions	\$/Share
Funds from operations – 2011 ⁽¹⁾	226.6	0.79	844.3	2.95
Volume variance				
Crude oil and liquids	40.9	0.14	153.7	0.54
Natural gas	(2.2)	(0.01)	46.4	0.16
Price variance				
Crude oil and liquids	(46.5)	(0.16)	(97.9)	(0.34)
Natural gas	(3.6)	(0.01)	(151.0)	(0.54)
Realized gains (losses) on risk management contracts	18.0	0.06	(9.4)	(0.03)
Realized losses on risk management contracts recognized in previous quarters ⁽²⁾	(26.3)	(0.09)	-	-
Royalties	14.0	0.05	23.6	0.08
Expenses:				
Transportation	(1.4)	-	(8.0)	(0.03)
Operating	2.1	0.01	(26.5)	(0.09)
General and administrative	(7.9)	(0.03)	(19.0)	(0.07)
Interest	(2.3)	(0.01)	(6.4)	(0.02)
Current tax	(3.6)	(0.01)	(29.9)	(0.10)
Realized foreign exchange gains (losses)	0.6	-	(0.1)	-
Diluted shares	-	(0.05)	-	(0.09)
Funds from operations – 2012 ⁽¹⁾	208.4	0.68	719.8	2.42

(1) This is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

(2) ARC has entered into certain commodity price risk management contracts that pertain to production periods spanning the entire calendar year but that are settled at the end of the year on an annual average benchmark commodity price. Throughout the year, ARC has applied the portion of losses associated with these contracts to the funds from operations calculation in the production period to which they relate to more appropriately reflect the funds from operations generated during the period after any effect of contracts used for economic hedging. At December 31, all gains and losses associated with these contracts have been realized, and in the fourth quarter losses previously applied to prior quarters are reversed.

Funds from operations decreased by eight per cent in the fourth quarter of 2012 to \$208.4 million from \$226.6 million generated in the fourth quarter of 2011. The decrease reflects reduced revenue associated with wider differentials on crude oil production and low natural gas prices offset by increased crude oil production. Funds from operations is further reduced by lower risk management contract gains and increased general and administrative expenses, current tax expense and interest expense. Reduced royalties associated with decreased commodity prices offset the overall decrease.

Funds from operations for the twelve months ended December 31, 2012 decreased by \$124.5 million or 15 per cent as compared to 2011. This decrease is primarily a result of decreased revenue net of royalties of \$25.2 million attributed to increased differentials on crude oil as well as reduced average natural gas pricing throughout the year offset by increased production volumes and lower royalties. Additionally, operating expenses increased by \$26.5 million during the year, cash general and administrative costs increased by \$19 million and current tax expense of \$29.9 million was incurred in 2012 where there had been no current tax expense in 2011. Lower realized gains on risk management contracts, increased transportation costs and increased interest expense also contributed to the decrease.

2012 Funds from Operations Sensitivity

Table 8 illustrates sensitivities of pre-hedged operating items to operational and business environment changes and the resulting impact on funds from operations per share:

Table 8

	Assumption	Change	Impact on Annual Funds from Operations ⁽⁵⁾ \$/Share
Business Environment ⁽¹⁾			
Oil price (US\$ WTI/bbl) ⁽²⁾⁽³⁾	95.00	1.00	0.035
Natural gas price (Cdn\$ AECO/mcf) ⁽²⁾⁽³⁾	3.00	0.10	0.032
Cdn\$/US\$ exchange rate ⁽²⁾⁽³⁾⁽⁴⁾	1.00	0.01	0.033
Interest rate on debt ⁽²⁾	4.5%	1.0%	0.003
Operational			
Liquids production volume (bbl/d) ⁽⁶⁾	37,500	1.0%	0.030
Gas production volumes (mmcf/d) ⁽⁶⁾	345	1.0%	0.008
Operating expenses (\$ per boe) ⁽⁶⁾	9.60	1.0%	0.010
General and administrative expenses (\$ per boe) ⁽⁶⁾	2.60	10.0%	0.028

(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 published forward prices and rates at the time of this MD&A. The calculated impact on funds from operations 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 prices that are presented in US dollars. This amount does not include a foreign exchange impact relating to natural gas prices as it is presented in Canadian dollars in this sensitivity. The sensitivity is \$0.05/share when natural gas revenue is included.

(5) Impact is calculated on the last twelve months' trailing funds from operations. Funds from operations is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

(6) Operational assumptions are based upon the midpoint of 2013 Guidance in the Table 4.

Net Income (Loss)

Net income of \$84.5 million (\$0.27 per share) was achieved in the fourth quarter of 2012, a \$133.5 million increase compared to net loss of \$49 million (\$0.17) per share) in the fourth quarter of 2011. While reduced commodity prices and increased general and administrative expenses acted to decrease funds from operations and net income, net income was further reduced during the fourth quarter of 2012 relative to the fourth quarter of 2011 as a result of reduced gains on foreign exchange of \$17.1 million and additional deferred income tax expense of \$39.2 million. The decreases in net income were more than offset by increased gains on risk management contracts of \$151.7 million and reduced depletion, depreciation, amortization and impairment charges, as compared to the fourth quarter of 2011. In addition, ARC recognized an asset impairment charge of \$55.3 million in the fourth quarter of 2011 where no such charges were recorded during the fourth quarter of 2012.

For the year ended December 31, 2012, net income was \$139.2 million (\$0.47 per share) as compared to \$287 million (\$1.00 per share) in 2011 resulting in a year-over-year decrease of \$147.8 million. Revenue after royalties decreased by \$25.2 million during 2012 as compared to 2011 while operating expenses increased by \$26.5 million and transportation costs increased by \$8 million related to higher production volumes. Depletion, depreciation, amortization and impairment charges increased by \$61.9 million due to increased production volumes offset by a reduced asset impairment charge recorded during 2012 of \$53 million (\$71.9 million net impairment recorded during 2011). Increased general and administrative costs of \$17 million and increased interest and financing charges of \$6.4 million also contributed the overall decrease in net income.

Production

Production volumes averaged 95,725 boe per day in fourth quarter of 2012, a four per cent increase compared to 92,021 boe per day in the same period of 2011. This increase reflects strong operational performance from existing wells and new volumes from ARC's 2012 capital program.

During 2012, production volumes averaged 93,546 boe per day as compared to 83,416 boe per day in the prior year. The increase in production volumes of 12 per cent is attributed to new production coming on-stream as a result of ARC's 2011 and 2012 capital programs including incremental volumes from ARC's new gas plant at Ante Creek that began operations in the first quarter of 2012.

Table 9

Production	Three months ended December 31			Twelve months ended December 31		
	2012	2011	% Change	2012	2011	% Change
Light and medium crude oil (bbl/d)	32,114	27,627	16	30,620	26,284	16
Heavy oil (bbl/d)	824	843	(2)	834	874	(5)
Condensate (bbl/d)	1,767	2,219	(20)	2,217	2,052	8
Natural gas (mmcf/d)	348.2	355.3	(2)	342.9	310.6	10
Natural gas liquids (bbl/d)	2,978	2,114	41	2,728	2,444	12
Total production (boe/d) ⁽¹⁾	95,725	92,021	4	93,546	83,416	12
% Natural gas production	61	64	(5)	61	62	(2)
% Crude oil and liquids production	39	36	8	39	38	3

(1) Reported production for a period may include minor adjustments from previous production periods.

ARC's crude oil production consists predominantly of light and medium crude oil while heavy oil accounts for less than three per cent of total oil production. During the fourth quarter of 2012, crude oil and liquids production increased 15 per cent from the fourth quarter of the prior year and increased six per cent over the third quarter of 2012. The increase is largely attributed to continued strong new well performance and field optimization success at Pembina, Goodlands and Tower, and expanded processing capacity at Ante Creek.

In 2012, ARC's crude oil and liquids production increased by 4,745 bbl/d or 15 per cent over 2011. The year-to-date increase is due to the same factors as the quarter-over-quarter increase in 2012 as well as being largely unaffected in the current year by weather-related issues such as flooding or forest fires that resulted in the shut-in of various oil producing properties during the second quarter of 2011. In the fourth quarter of 2012, certain wells that had previously been designated as liquids-rich natural gas wells were designated as oil wells. The associated production which had previously been recorded as condensate production has been reclassified as oil production. This fourth quarter adjustment had the impact of reclassifying approximately 200 barrels per day of field condensate volumes to oil. Going forward, condensate production is expected to reflect the 2013 guidance range of 1,800 – 2,000 barrels per day.

Natural gas production was 348.2 mmcf per day in the fourth quarter of 2012, a decrease of two per cent from the 355.3 mmcf per day produced in the fourth quarter of 2011. The modest decrease in production was the result of third-party turnaround activities in the fourth quarter of 2012 while the fourth quarter of 2011 had an exceptional operating run-time.

In 2012, ARC produced 342.9 mmcf per day of natural gas, a 10 per cent increase over the prior year. This increase is attributed to strong operational performance throughout 2012 particularly at Dawson and the start-up of the Ante Creek gas plant in February 2012.

During the fourth quarter of 2012, ARC drilled 38 gross wells (35 net wells) on operated properties consisting of 36 gross (33 net) oil wells and two gross (two net) natural gas wells. Total wells drilled in 2012 were 137 gross (128 net) operated oil wells and seven gross (six net) operated natural gas wells, of which four are liquids-rich natural gas wells.

Table 10 summarizes ARC's production by core area for the fourth quarter of 2012 and 2011:

Table 10

Three Months Ended December 31, 2012					
Production Core Area ⁽¹⁾	Total (boe/d)	Oil (bbl/d)	Condensate (bbl/d)	Gas (mmcf/d)	NGL (bbl/d)
NE BC & NW AB	44,546	1,769	770	246.0	995
Northern AB	13,877	5,680	567	40.0	969
Pembina	12,336	8,224	344	18.7	648
Redwater	3,972	3,664	-	1.0	146
South AB & SW SK	8,775	1,622	73	41.5	163
SE SK & MB	12,219	11,979	13	1.0	57
Total	95,725	32,938	1,767	348.2	2,978

Three Months Ended December 31, 2011					
Production Core Area ⁽¹⁾	Total (boe/d)	Oil (bbl/d)	Condensate (bbl/d)	Gas (mmcf/d)	NGL (bbl/d)
NE BC & NW AB	44,977	648	1,397	253.2	743
Northern AB	11,307	5,068	429	31.2	604
Pembina	10,713	6,977	261	18.7	360
Redwater	4,300	3,844	2	1.7	162
South AB & SW SK	10,211	1,602	113	49.9	177
SE SK & MB	10,513	10,331	17	0.6	68
Total	92,021	28,470	2,219	355.3	2,114

(1) Provincial and directional references: AB is Alberta, BC is British Columbia, SK is Saskatchewan, MB is Manitoba, NE is northeast, NW is northwest, SE is southeast and SW is southwest.

Table 10a summarizes ARC's production by core area for the twelve months of 2012 and 2011:

Table 10a

Twelve Months Ended December 31, 2012					
Production Core Area ⁽¹⁾	Total (boe/d)	Oil (bbl/d)	Condensate (bbl/d)	Gas (mmcf/d)	NGL (bbl/d)
NE BC & NW AB	43,309	1,022	1,216	240.9	922
Northern AB	13,945	5,900	600	39.5	857
Pembina	11,470	7,662	310	17.2	635
Redwater	4,045	3,738	-	1.1	128
South AB & SW SK	9,064	1,648	77	43.3	122
SE SK & MB	11,713	11,484	14	0.9	64
Total	93,546	31,454	2,217	342.9	2,728

Twelve Months Ended December 31, 2011					
Production Core Area ⁽¹⁾	Total (boe/d)	Oil (bbl/d)	Condensate (bbl/d)	Gas (mmcf/d)	NGL (bbl/d)
NE BC & NW AB	37,054	655	1,219	205.9	880
Northern AB	11,246	4,617	388	34.0	576
Pembina	10,409	6,630	305	17.7	518
Redwater	4,177	3,840	-	1.2	130
South AB & SW SK	10,521	1,628	124	51.0	271
SE SK & MB	10,009	9,788	16	0.8	69
Total	83,416	27,158	2,052	310.6	2,444

(1) Provincial and directional references: AB is Alberta, BC is British Columbia, SK is Saskatchewan, MB is Manitoba, NE is northeast, NW is northwest, SE is southeast and SW is southwest.

Sales of Crude Oil, Natural Gas and Natural Gas Liquids

Sales revenue from crude oil, natural gas and natural gas liquids was \$375.4 million in the fourth quarter of 2012, a decrease of \$11.4 million (three per cent) from fourth quarter of 2011 sales revenue of \$386.8 million. The decrease reflects a decrease in pricing by \$50.1 million, partially offset by increased production volumes contributing an additional \$38.7 million. Oil, condensate and natural gas liquids revenue accounted for \$267.9 million or 71 per cent of fourth quarter sales revenue.

Year-to-date, sales revenue from crude oil, natural gas and natural gas liquids were \$1,389.4 million, a decrease of \$48.8 million from sales revenue of \$1,438.2 million for the same period in the prior year, reflecting a decrease in pricing of \$248.9 million offset by higher production volumes that contributed to additional sales of \$200.1 million.

A breakdown of sales revenue by product is outlined in Table 11:

Table 11

Sales revenue by product (\$ millions)	Three months ended December 31			Twelve months ended December 31		
	2012	2011	% Change	2012	2011	% Change
Oil	243.9	243.2	-	944.3	887.2	6
Condensate	14.1	20.6	(32)	75.2	72.0	4
Natural gas	106.3	112.2	(5)	329.3	434.0	(24)
NGL	9.9	9.9	-	38.0	42.4	(10)
Total sales revenue from crude oil, natural gas and natural gas liquids	374.2	385.9	(3)	1,386.8	1,435.6	(3)
Other	1.2	0.9	33	2.6	2.6	-
Total sales revenue	375.4	386.8	(3)	1,389.4	1,438.2	(3)

Commodity Prices Prior to Hedging

Table 12

	Three months ended December 31			Twelve months ended December 31		
	2012	2011	% Change	2012	2011	% Change
Average Benchmark Prices						
AECO natural gas (\$/mcf) ⁽¹⁾	3.05	3.47	(12)	2.40	3.67	(35)
WTI oil (US\$/bbl) ⁽²⁾	88.20	94.02	(6)	94.19	95.14	(1)
Cdn\$ / US\$ exchange rate	0.99	1.02	(3)	1.00	0.99	1
WTI oil (Cdn\$/bbl)	87.42	96.21	(9)	94.10	94.04	-
ARC Realized Prices Prior to Hedging						
Oil (\$/bbl)	80.50	92.85	(13)	82.03	89.51	(8)
Condensate (\$/bbl)	86.70	101.13	(14)	92.63	96.07	(4)
Natural gas (\$/mcf)	3.32	3.43	(3)	2.62	3.83	(32)
NGL (\$/bbl)	36.13	51.02	(29)	38.11	47.53	(20)
Total commodity price before hedging (\$/boe)	42.49	45.58	(7)	40.50	47.15	(14)
Other (\$/boe)	0.13	0.11	18	0.08	0.09	(11)
Total sales before hedging (\$/boe)	42.62	45.69	(7)	40.58	47.24	(14)

(1) Represents the AECO Monthly (7a) index as reported by the *Canadian Gas Price Reporter*.

(2) WTI represents posting price of West Texas Intermediate oil.

In the fourth quarter of 2012, WTI decreased six per cent year-over-year, however ARC's realized oil price decreased by 13 per cent during the same time period. The differential between WTI and Edmonton posted prices widened to an average discount of \$3.45 per barrel as compared to a premium of \$1.26 per barrel during the same period in 2011. The price differential between WTI and Edmonton posted prices has been an on-going issue throughout 2012. In general, 2012 saw weakness in the pricing of Canadian crude grades as a result of the rapid growth in light oil production in North Dakota and Canada as well as refinery outages and pipeline bottlenecks in the mid-western United States which restricted the amount of crude oil that could reach the US Gulf Coast. Natural gas prices were modestly lower in the fourth quarter of 2012 as compared to 2011, resulting in ARC having a weighted average commodity price of \$42.62 per boe in the fourth quarter of 2012, a decrease of seven per cent as compared to \$45.69 per boe in the fourth quarter of 2011.

ARC's average realized oil price for the year ended December 31, 2012 of \$82.03 per barrel was eight per cent lower than the same period in 2011 and reflects the fact that though WTI pricing and ARC's crude oil quality have remained relatively unchanged, local supply and demand factors have resulted in widened differentials throughout 2012 and ultimately a decrease in prices received by ARC for its oil.

In 2012, ARC's average realized natural gas price of \$2.62 per mcf decreased by 32 per cent over the same period of the prior year and reflects the 35 per cent decrease in the average AECO monthly posting in 2012 from 2011.

For the year ended December 31, 2012, ARC's weighted average commodity price before the impact of any hedging activities was \$40.58 per boe, a 14 per cent decrease from 2011.

During the fourth quarter of 2012, ARC's production comprised 39 per cent crude oil and liquids and 61 per cent natural gas, with crude oil and liquids contributing 71 per cent of total sales revenue and natural gas contributing 28 per cent. In the fourth quarter of 2011, ARC's production comprised of 36 per cent crude oil and liquids and 64 per cent natural gas with crude oil and liquids contributing 71 per cent of total sales value and natural gas contributing 29 per cent. Although ARC's production mix is more natural gas than oil, revenue contribution is the reverse as shown by the tables below:

Table 12a

Revenue by Product Type (\$ millions)	Three months ended December 31			
	Revenue		Per Cent of Total	
	2012	2011	2012	2011
Crude oil and liquids	267.9	273.7	71%	71%
Natural Gas	106.3	112.2	28%	29%
Total sales revenue from crude oil, natural gas and natural gas liquids	374.2	385.9	99%	100%
Other	1.2	0.9	1%	-
Total sales revenue	375.4	386.8	100%	100%

Table 12b

Revenue by Product Type (\$ millions)	Twelve months ended December 31			
	Revenue		Per Cent of Total	
	2012	2011	2012	2011
Crude oil and liquids	1,057.5	1,001.6	76%	70%
Natural Gas	329.3	434.0	24%	30%
Total sales revenue from crude oil, natural gas and natural gas liquids	1,386.8	1,435.6	100%	100%
Other	2.6	2.6	-	-
Total sales revenue	1,389.4	1,438.2	100%	100%

Risk Management and Hedging Activities

ARC maintains a Risk Management program to reduce the volatility of 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 the Board of Directors. These guidelines currently restrict the amount of total production that can be hedged to a maximum of 55 per cent over the next two years with a maximum of 25 per cent of natural gas production that can be hedged beyond two years and up to five years. ARC's hedging policy allows for further hedging on 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 comprise 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 its risk management contracts currently in place. ARC considers all risk management contracts to be effective economic hedges of its physical commodity sales transactions.

Table 13 summarizes the total gain on risk management contracts for the fourth quarter of 2012 compared to the same period in 2011:

Table 13

Risk Management Contracts (\$ millions)	Crude Oil & Liquids	Natural Gas	Foreign Currency	Power	Q4 2012 Total	Q4 2011 Total
Realized gain (loss) on contracts ⁽¹⁾	(2.9)	0.4	2.8	1.7	2.0	(16.0)
Unrealized gain (loss) on contracts related to future production periods ⁽²⁾	3.0	40.0	(1.2)	-	41.8	(118.2)
Unrealized gain on contracts related to fourth quarter production ⁽³⁾	11.8	-	-	-	11.8	38.1
Gain (loss) on risk management contracts	11.9	40.4	1.6	1.7	55.6	(96.1)

(1) Realized cash gain (loss) represents actual cash settlements or receipts under the respective contracts.

(2) The unrealized gain (loss) on contracts represents the change in fair value of the contracts during the period.

(3) The unrealized gain on contracts on fourth quarter production represents the reversal of losses recognized in previous quarters on contracts that relate to a calendar year of production but are settled on an annual basis on December 31.

During the fourth quarter of 2012, ARC recorded a gain of \$55.6 million on its risk management contracts comprising realized gains of \$2 million and unrealized gains of \$53.6 million. Realized gains related to natural gas, foreign exchange and electricity contracts were offset slightly by a loss on oil contracts.

ARC's unrealized gains of \$53.6 million comprises unrealized gains of \$14.8 million on oil contracts and \$40 million on natural gas contracts offset by unrealized losses of \$1.2 million on foreign exchange contracts.

The unrealized gains on oil contracts are primarily attributed to the settlement of realized losses on contracts having a price of US\$90 that settled against the annual WTI average price of US\$94.15. Unlike ARC's risk management contracts that are settled monthly, these annually-settled contracts which relate to production throughout 2012 were cash-settled in their entirety in January 2013 against the 2012 calendar year average WTI benchmark price.

ARC recorded unrealized gains of \$40 million on natural gas contracts in the fourth quarter of 2012. The movement reflects an increase in value of the contracts as at December 31, 2012 due to the decline in the average forward price for natural gas compared to the forward price at September 30, 2012.

Table 13a summarizes the total gain on risk management contracts for the year ended December 31, 2012 compared to the same period in 2011:

Table 13a

Risk Management Contracts (\$ millions)	Crude Oil & Liquids	Natural Gas	Foreign Currency	Power	YTD 2012 Total	YTD 2011 Total
Realized gain (loss) on contracts ⁽¹⁾	(7.2)	66.1	2.2	5.3	66.4	75.8
Unrealized gain (loss) on contracts related to future production periods ⁽²⁾	73.1	(50.8)	(0.2)	(7.9)	14.2	(16.5)
Gain (loss) on risk management contracts	65.9	15.3	2.0	(2.6)	80.6	59.3

(1) Realized cash gain (loss) represents actual cash settlements or receipts under the respective contracts.

(2) The unrealized gain (loss) on contracts represents the change in fair value of the contracts during the period.

For the full calendar year, ARC realized gains of \$66.4 million from hedging activities and recorded unrealized gains of \$14.2 million resulting in a total gain of \$80.6 million. The realized gains are mainly attributed to positive cash settlements related to natural gas swap and natural gas basis swap contracts totaling \$66.1 million, \$2.2 million related to foreign exchange contracts as well as \$5.3 million related to power contracts. These positive cash settlement values are partially offset by cash losses on oil contracts totaling \$7.2 million.

2012 unrealized gains of \$73.1 million on oil contracts are attributed primarily to the changes in the average forward price of WTI while unrealized losses on natural gas contracts of \$50.8 million reflect both the settlement of realized cash gains of \$66.1 million and the mark-to-market value of new positions entered into since December 31, 2011 for 2013 and 2014 through 2017 volumes.

Given the significant contribution of ARC's crude oil and natural gas liquids production to total sales revenue and funds from operations, ARC management recognizes the risk associated with a reduction in crude oil pricing. Accordingly, ARC has protected the selling price on a portion of crude oil production by establishing crude oil floor and ceiling prices for 2013 with approximately 43 per cent of total crude oil and liquids production being hedged for 2013 at floor prices of approximately US\$95 per barrel. These contracts allow ARC to participate in prices up to US\$104 per barrel on approximately 15,000 barrels per day for 2013. In January of 2013 ARC entered into additional WTI contracts, hedging 5,000 barrels per day of its 2014 oil production with a floor price of US\$90 and a ceiling of US\$100 per barrel.

ARC's risk management contracts also provide protection from natural gas prices falling lower than an average floor price of US\$3.41 per mmbtu for approximately 169,000 mmbtu per day for 2013. They also provide upside participation to a price of US\$3.95 per mmbtu on approximately 169,000 mmbtu per day for 2013.

ARC's significant natural gas resource base provides a considerable inventory of long-term natural gas development opportunities and potential future value. Given the recent volatility of natural gas prices, ARC management recognizes the need for greater certainty over the economics on these long-term natural gas projects and in response, ARC received Board approval to hedge up to 25 per cent of natural gas production beyond a two year term to a maximum term of five years. To date, ARC has executed long-term natural gas hedge contracts on 90 mmcf per day of natural gas for 2014 and on 60 mmcf per day for the period 2015 through 2017. ARC currently has hedged approximately 50 per cent of total natural gas production for 2013.

ARC expects to continue to execute its Risk Management program on volumes going forward. The following table summarizes ARC's average crude oil and natural gas hedged volumes for 2013 through 2017 as at the date of this MD&A. For a complete listing and terms of ARC's hedging contracts at December 31, 2012, see Note 15 "Financial Instruments and Market Risk Management" in the Consolidated Financial Statements as at and for the year ended December 31, 2012. Updates to the following table are posted to ARC's website at www.arcresources.com.

Table 14

Hedge Positions Summary ⁽¹⁾ As at February 6, 2013	2013		2014		2015-2017	
Crude Oil ⁽²⁾	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day
Ceiling	104.01	14,992	100.00	2,479	-	-
Floor	95.01	14,992	90.00	2,479	-	-
Sold Floor	64.17	11,984	70.00	1,240	-	-
Natural Gas ⁽³⁾	US\$/mmbtu	US\$/mmbtu	US\$/mmbtu	US\$/mmbtu	US\$/mmbtu	US\$/mmbtu
Ceiling	3.95	168,767	4.83	90,000	5.00	60,000
Floor	3.41	168,767	4.00	90,000	4.00	60,000

(1) The prices and volumes noted above represent averages for several contracts representing different periods and 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 disclosed in Note 15 "Financial Instruments and Market Risk Management" in the Consolidated Financial Statements for the year ended December 31, 2012.

(2) For 2013, all floor positions settle against the monthly average WTI price, providing protection against monthly volatility. Positions establishing the "ceiling" have been sold against either the annual average WTI price or the six month average WTI price. In the case of settlements on annual or six-month term positions, ARC will only have a negative settlement if prices average above the strike price for an entire year or the six-month period, respectively. These positions provide ARC with greater potential upside price participation for individual months.

(3) The natural gas price shown translates all AECO positions to NYMEX equivalent prices.

"Floors" represent the lower price limits on hedged volumes and consist of put and swap prices. "Ceilings" provide an upper limit to the prices ARC may receive for hedged volumes and are the result of combined call and swap prices. ARC has also sold puts that limit the downside protection at an average of the disclosed "Sold Floor" price. These "Sold Floors" do not eliminate the floor, but merely limits the downside protection. The purpose of these sold puts is to reduce ARC's overall hedging transaction costs.

To accurately analyze ARC's hedge position, contracts need to be modeled separately as using average prices and volumes may be misleading. The following provides examples of how Table 14 can be interpreted for approximate values (all in US dollars):

- If the market price is above \$104.01 per barrel, ARC will receive \$104.01 per barrel on 14,992 barrels per day
- If the market price is between \$95.01 and \$104.01 per barrel, ARC will receive the market price on 14,992 barrels per day.
- If the market price is between \$95.01 and \$64.17 per barrel, ARC will receive \$95.01 on 14,992 barrels per day.
- If the market price is below \$64.17 per barrel, ARC will receive \$95.01 per barrel less the difference between \$64.17 per barrel and the market price on 11,984 barrels per day. For example, if the market price is at \$55 per barrel, ARC will receive \$85.84 on 11,984 barrels per day and \$95.01 on 3,008 barrels per day.

The net fair value of ARC's risk management contracts at December 31, 2012 was \$21.8 million, representing the expected market price to buy out ARC's contracts (adjusted for counterparty credit) at the balance sheet date. This may differ from what will eventually be settled in future periods.

Operating Netbacks

ARC's operating netback, before hedging, was \$26.85 per boe in the fourth quarter of 2012 and \$24.17 per boe for the full year, as compared to \$27.55 per boe and \$29.16 per boe, respectively, in the same periods of 2011.

ARC's fourth quarter and full year 2012 netbacks after including realized hedging gains and losses, were \$28.11 per boe and \$26.04 per boe, respectively, representing decreases of six and 17 per cent as compared to the same periods in 2011. These netbacks after hedging include realized gains and losses recorded on ARC's crude oil, natural gas and electricity risk management contracts as well as the reversal of unrealized losses on risk management contracts previously applied to netback calculations that relate to current year production in the case of annually-settled risk management contracts.

The components of operating netbacks for the fourth quarter are summarized in Table 15:

Table 15

Netbacks (\$ per boe)	Crude Oil (\$/bbl)	Heavy Oil (\$/bbl)	Condensate (\$/bbl)	Natural Gas (\$/mcf)	NGL (\$/bbl)	Q4 2012 Total (\$/boe)	Q4 2011 Total (\$/boe)
Average sales price	80.89	65.07	86.70	3.32	36.13	42.49	45.58
Other	-	-	-	-	-	0.13	0.11
Total sales	80.89	65.07	86.70	3.32	36.13	42.62	45.69
Royalties	(12.44)	(5.92)	(22.87)	(0.23)	(7.82)	(5.71)	(7.60)
Transportation	(1.35)	(0.78)	(1.37)	(0.21)	(0.65)	(1.26)	(1.14)
Operating costs ⁽¹⁾	(16.18)	(22.52)	(6.99)	(0.77)	(8.45)	(8.80)	(9.40)
Netback prior to hedging	50.92	35.85	55.47	2.11	19.21	26.85	27.55
Hedging gain ⁽²⁾	3.51	-	-	0.01	-	1.26	2.47
Netback after hedging	54.43	35.85	55.47	2.12	19.21	28.11	30.02
% of Total	66%	1%	4%	27%	2%	100%	100%

(1) Operating expenses are composed of direct costs incurred to operate oil and gas wells. A number of assumptions have been made in allocating these costs between crude oil, heavy oil, condensate, natural gas and natural gas liquids production.

(2) Hedging gain includes realized cash gains and losses on risk management contracts, plus a reversal for unrealized losses on risk management contracts that relate to 2012 production that have been recognized in netback calculations in prior quarters. Hedging gains and losses on foreign exchange contracts are excluded from the netback calculation.

The components of operating netbacks for the twelve months are summarized in Table 15a:

Table 15a

Netbacks (\$ per boe)	Crude Oil (\$/bbl)	Heavy Oil (\$/ bbl)	Condensate (\$/bbl)	Natural Gas (\$/mcf)	NGL (\$/bbl)	YTD 2012 Total (\$/boe)	YTD 2011 Total (\$/boe)
Average sales price	82.40	68.45	92.63	2.62	38.11	40.50	47.15
Other	-	-	-	-	-	0.08	0.09
Total sales	82.40	68.45	92.63	2.62	38.11	40.58	47.24
Royalties	(12.94)	(7.17)	(25.18)	(0.15)	(9.44)	(5.72)	(7.20)
Transportation	(1.15)	(0.98)	(1.12)	(0.24)	(0.55)	(1.29)	(1.18)
Operating costs ⁽¹⁾	(15.13)	(18.67)	(8.41)	(1.03)	(10.17)	(9.40)	(9.70)
Netback prior to hedging	53.18	41.63	57.92	1.20	17.95	24.17	29.16
Hedging (loss) gain ⁽²⁾	(0.16)	-	-	0.53	-	1.87	2.39
Netback after hedging	53.02	41.63	57.92	1.73	17.95	26.04	31.55
% of Total	68%	1%	5%	24%	2%	100%	100%

(1) Operating expenses are composed of direct costs incurred to operate oil and gas wells. A number of assumptions have been made in allocating these costs between crude oil, heavy oil, condensate, natural gas and natural gas liquids production.

(2) Hedging gains and losses on foreign exchange contracts are excluded from the netback calculation.

Royalties

ARC pays royalties to the respective provincial governments and landowners of the four western Canadian provinces in which it operates. Approximately 75 per cent of these royalties are crown royalties. Each province that ARC operates in has established a separate and distinct royalty regime which impacts ARC's average corporate royalty rate.

In British Columbia, the majority of ARC's royalty expense stems from production of natural gas and associated liquids. While natural gas liquids have a flat royalty rate of 20 per cent of sales, the royalty rates for natural gas is based on the drill date of a well and a reference price. In Alberta, the majority of ARC's royalties are related to oil production where royalty rates are based on reference prices, production levels and well depths. Similarly, most royalties remitted in Saskatchewan and Manitoba are related to oil production. Royalty calculations in these provinces are based on the classification of the oil product and well productivity.

Each province has various programs in place to incentivize drilling by reducing the overall royalty expense for producers and offsetting gathering and processing costs. In most cases, the incentive period lasts for a finite period of time (usually 12 months upon commencement of production) after which point the royalty rate usually increases depending on the production rate of the well and prevailing market commodity prices.

Total royalties as a percentage of pre-hedged commodity product sales revenue decreased from 16.6 per cent (\$7.60 per boe) in the fourth quarter of 2011 to 13.4 per cent (\$5.71 per boe) in the fourth quarter of 2012. For the full year of 2012, total royalties represented 14.1 per cent of pre-hedged commodity product sales (\$5.72 per boe) as compared to 15.2 per cent (\$7.20 per boe) for the same period in 2011. The decrease in the royalty rate during the fourth quarter and the full year of 2012 as compared to the prior year is due to both the decrease in natural gas pricing from 2011 to 2012 reducing royalty reference prices, as well as a greater portion of oil production in Alberta qualifying for a five per cent royalty rate.

Operating Costs

Operating costs decreased to \$8.80 per boe in the fourth quarter of 2012 (\$9.40 per boe year-to-date) compared to \$9.40 per boe in the fourth quarter of 2011 (\$9.70 per boe year-to-date). The fourth quarter and full year decrease in 2012 operating costs relative to 2011 reflects disciplined cost control and higher production volumes.

ARC hedges a portion of its electricity costs using financial risk management contracts that do not qualify for hedge accounting. The gains and losses associated with these contracts are included within "gain on risk management contracts" on the Consolidated Statements of Income. Had these contracts been recognized with operating costs, ARC's operating costs would have been further reduced by \$0.19/boe and \$0.16/boe, for the three and twelve months ended December 31, 2012, respectively, as a result of realized gains of \$1.7 million and \$5.3 million, respectively.

Transportation expense was \$1.26 per boe during the fourth quarter of 2012 (\$1.29 per boe for the full year) as compared to \$1.14 per boe in the fourth quarter of 2011 (\$1.18 per for the full year). Throughout 2012, ARC incurred additional transport costs as a result of increasing the volumes shipped directly to market as compared to transferring title at the battery. By taking on an increased responsibility for shipping its production to market, ARC achieves greater control over the price it ultimately receives for its production. With the current situation of many crude oil and liquids pipelines being at or near capacity, ARC expects that it will incur additional transportation costs in 2013 as it may use additional methods of transport to get its product to market.

General and Administrative ("G&A") Expenses and Long-Term Incentive Compensation

G&A, prior to any long-term incentive compensation expense and net of overhead recoveries on operated properties, increased by 35 per cent to \$18.6 million in the fourth quarter of 2012 from \$13.8 million in the fourth quarter of 2011. Fourth quarter 2012 G&A expenses increased as compared to the fourth quarter of 2011 due to increased compensation costs as well as a one-time, special executive retirement payment recorded in conjunction with ARC's CEO succession that was announced in the fourth quarter of 2012.

For the year ended December 31, 2012 ARC's G&A prior to any long-term compensation expense was \$65.6 million, a \$9.8 million or 18 per cent increase from the year ended December 31, 2011. The increase reflects higher employee compensation costs combined with an increased headcount throughout all of 2012 as compared to 2011 where several additional staff were added later in the year in response to continued growth.

Table 16 is a breakdown of G&A and incentive compensation expense:

Table 16

	Three months ended December 31			Twelve months ended December 31		
G&A and Incentive Compensation Expense (\$ millions except per boe)	2012	2011	% Change	2012	2011	% Change
G&A expenses	25.7	22.6	(14)	93.9	81.9	(14)
Operating recoveries	(7.1)	(8.8)	(19)	(28.3)	(26.1)	(8)
G&A expenses before Long-Term Incentive Plans	18.6	13.8	(35)	65.6	55.8	(18)
G&A – Long-Term Incentive Plans	7.8	4.8	(63)	31.5	24.3	(30)
Total G&A and incentive compensation expense	26.4	18.6	(42)	97.1	80.1	(21)
Total G&A and incentive compensation expense per boe	3.00	2.19	(37)	2.84	2.63	(8)

Long-Term Incentive Plans – Restricted Share Unit & Performance Share Unit Plan, Share Option Plan, and Deferred Share Unit Plan

Restricted Share Unit and Performance Share Unit Plan ("RSU and PSU Plan")

The RSU and PSU Plan is designed to offer each eligible employee and officer (the "plan participants") cash compensation in relation to the value of a specified number of underlying 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 fair value of the underlying 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.

ARC recorded additional general and administrative expenses of \$7.8 million during the fourth quarter of 2012 (\$31.5 million during the year ended December 31, 2012) in accordance with the RSU and PSU plans, as compared to \$4.8 million during the fourth quarter of 2011 (\$24.3 million during the year ended December 31, 2011). In the fourth quarter of 2012, an increased expense was recorded in relation to these awards as an increased number of employees have become eligible to receive long-term incentive payments and an increased performance multiplier has resulted in a larger total amount of PSUs expected to be issued at vesting. During the year, ARC made cash payments of \$40.9 million in respect of the RSU & PSU Plan (\$28.1 million in 2011). Of these payments, \$31.6 million were in respect of amounts recorded to general and administrative expenses (\$20.3 million in 2011), \$9.3 million were in respect of amounts recorded to operating expenses and capitalized as property, plant and equipment and exploration and evaluation assets (\$7.8 million in 2011). These amounts were accrued in prior periods.

Table 17 shows the changes to the RSU & PSU Plan during 2012:

Table 17

RSU & PSU Plan (number of units, thousands)	RSUs	PSUs	Total RSUs and PSUs
Balance, beginning of year	852	1,445	2,297
Granted	354	572	926
Vested	(443)	(517)	(960)
Forfeited	(67)	(99)	(166)
Balance, end of year ⁽¹⁾	696	1,401	2,097

(1) Based on underlying units before performance multiplier.

The liability associated with the RSUs and PSUs granted is recognized in the statement of income over the vesting period while being adjusted each period for changes in the underlying share price, accrued dividends and the number of PSUs expected to be issued on vesting. In periods where substantial share price fluctuation occurs, ARC's G&A expense is subject to significant volatility.

Due to the variability in the future payments under the plan, ARC estimates that between \$17.8 million and \$89.9 million will be paid out in 2013 through 2015 based on the current share price, accrued dividends and ARC's market performance relative to its peers. Table 18 is a summary of the range of future expected payments under the RSU & PSU Plan based on variability of the performance multiplier and units outstanding under the RSU & PSU Plan as at December 31, 2012:

Table 18

Value of RSU & PSU Plan as at December 31, 2012	Performance multiplier		
(units thousands and \$ millions except per unit)	-	1.0	2.0
Estimated units to vest			
RSUs	727	727	727
PSUs	-	1,476	2,951
Total units ⁽¹⁾	727	2,203	3,678
Share price ⁽²⁾	24.44	24.44	24.44
Value of RSU & PSU Plan upon vesting ⁽³⁾	17.8	53.8	89.9
2013	9.4	21.3	33.2
2014	5.6	19.2	32.8
2015	2.8	13.3	23.9

(1) Includes additional estimated units to be issued under the RSU & PSU Plan for dividends accrued-to-date.

(2) Values will fluctuate over the vesting period based on the volatility of the underlying share price. Assumes a future share price of \$24.44.

(3) Upon vesting, a cash payment is made for the value of the share units, equivalent to the current market price of the underlying common shares plus accrued dividends.

Share Option Plan

Share options are granted to officers, certain employees and certain 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. For the years ended December 31, 2012 and 2011, ARC granted 1.0 million and 0.4 million share options to officers and certain employees of ARC, respectively.

At December 31, 2012, ARC had 1.4 million share options outstanding under this plan with a weighted average exercise price of \$21.06 per share. Compensation expense of \$0.3 million has been recorded during the fourth quarter of 2012 (\$1 million for 2012) compared to \$0.2 million in the fourth quarter of 2011 (\$0.5 million for 2011) and is included within G&A expenses.

Deferred Share Unit Plan ("DSU Plan")

ARC has a DSU Plan for its non-employee directors under which each director receives a minimum of 55 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 settled in cash only when the director has ceased to be a member of the Board of Directors of the Company. For the three and twelve months ended December 31, 2012, compensation expense of \$0.5 million and \$1.7 million respectively, was recorded in relation to the DSU Plan (\$0.5 million and \$1.6 million in 2011).

Interest and Financing Charges

Interest and financing charges increased 25 per cent to \$11.5 million in the fourth quarter of 2012 from \$9.2 million in the fourth quarter of 2011. The increase is attributed to credit facility renewal fees incurred during the fourth quarter as well as modestly increased standby charges. For the year ended December 31, 2012, interest and financing charges were \$45.3 million as compared to \$38.9 million in 2011, which represents an increase of 16 per cent. In addition to credit facility renewal fees recorded during the fourth quarter, ARC recorded financing fees of approximately \$1.6 million during the third quarter in relation to its issuance of US\$360 million and CDN\$40 million of long-term fixed rate notes.

At December 31, 2012, ARC had \$787.4 million of long-term debt outstanding, including a current portion of \$39.7 million of senior note principal that is due for repayment within the next twelve months. The total debt balance of \$787.4 million is fixed at a weighted average interest rate of 4.82 per cent. Approximately 92 per cent (US\$727.9 million) of ARC's debt outstanding is denominated in US dollars.

Foreign Exchange Gains and Losses

ARC recorded a foreign exchange loss of \$8.3 million in the fourth quarter of 2012 compared to a gain of \$8.8 million in the fourth quarter of 2011. The loss is primarily a result of the revaluation of ARC's US dollar denominated debt outstanding from the period of September 30, 2012 to December 31, 2012 and reflects the change in value of the US dollar relative to the Canadian dollar from \$0.9837 to \$0.9949.

For the year ended December 31, 2012, ARC recorded a foreign exchange gain of \$7.3 million compared to a loss of \$10.5 million for the year ended December 31, 2011 and reflects the decrease in the value of the US dollar relative to the Canadian dollar from \$1.017 to \$0.9949 and its impact on the value of ARC's US dollar denominated debt.

Table 19 shows the various components of foreign exchange gains and losses:

Table 19

Foreign Exchange Gains/Losses (\$ millions)	Three months ended December 31			Twelve months ended December 31		
	2012	2011	% Change	2012	2011	% Change
Unrealized (loss) gain on US denominated debt	(8.3)	8.3	(200)	8.2	(13.0)	163
Realized (loss) gain on US denominated transactions	-	0.5	(100)	(0.9)	2.5	(136)
Total foreign exchange (loss) gain	(8.3)	8.8	(194)	7.3	(10.5)	170

Taxes

For the first time in ARC's history, ARC has recognized a current income tax expense of \$29.9 million for the year ended December 31, 2012 (\$3.6 million for the fourth quarter). Up until December 31, 2010, ARC's structure was such that both current income tax and deferred tax liabilities were passed onto its Unitholders by means of royalty payments made between ARC and ARC Energy Trust. With the conversion from a trust structure to a traditional corporate structure completed on December 31, 2010, ARC is subject to current income taxes at normal corporate income tax rates.

During the fourth quarter of 2012, deferred income tax expense of \$21.8 million was recorded compared to a recovery of \$17.4

million in the fourth quarter of 2011. A deferred tax expense of \$19.3 million was recorded for the year ended December 31, 2012 as compared to \$97 million for the year ended December 31, 2011. For the fourth quarter of 2012, the increased deferred tax expense is primarily related to temporary differences arising from the book basis of ARC's property, plant and equipment relative to its tax basis, an increase in value of ARC's risk management contracts and is offset by a decrease in the deferral of ARC's partnership income. For the year ended December 31, 2012, the decrease in deferred tax expense over 2011 is primarily related to a decrease in the deferral of ARC's partnership income as a result of the new partnership rules, offset by the temporary differences arising from the book basis of ARC's property, plant and equipment relative to its tax basis.

The income tax pools (detailed in Table 20) are deductible at various rates and annual deductions associated with the initial tax pools will decline over time.

Table 20

Income Tax Pool type (\$ millions)	December 31, 2012	Annual Deductibility
Canadian Oil and Gas Property Expense ⁽¹⁾	826.0	10% declining balance
Canadian Development Expense ⁽¹⁾	875.8	30% declining balance
Canadian Exploration Expense ⁽¹⁾	22.9	100%
Undepreciated Capital Cost	595.8	Primarily 25% declining balance
Other	29.3	Various rates, 7% declining balance to 20%
Total Federal Tax Pools	2,349.8	
Additional Alberta Tax Pools	28.1	Various rates, 25% declining balance to 100%

(1) The tax pools presented above reflect the application of partnership deferral rules. There is a deferral of partnership income of \$51.6 million inherent in the income tax calculation for the year ended December 31, 2012. This deferral, as available under Canadian income tax legislation utilizes \$118 million of the income tax pools in the table above.

Depletion, Depreciation and Amortization Expense and Impairment Charges

ARC records depletion, depreciation and amortization ("DD&A") expense on its property, plant and equipment over the assets' individual useful lives employing the unit of production method using proved plus probable reserves and associated estimated future development capital required for its oil and natural gas assets and a straight-line method for its corporate administrative assets. Assets in the exploration and evaluation ("E&E") phase are not amortized. During the three and twelve months ended December 31, 2012, ARC recorded DD&A expense prior to any impairment (recovery) of \$133.2 million and \$518.1 million, respectively, as compared to \$122.8 million and \$437.3 million for the three and twelve months ended December 31, 2011.

Impairments are recognized when an asset's or group of assets' carrying values exceed their recoverable amount defined as the higher of the asset's value in use or fair value less cost to sell. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. There were no impairment charges recorded in the fourth quarter of 2012. During the second quarter of 2012 an impairment charge of \$53 million was recognized associated with assets located in the southern Alberta and southwest Saskatchewan area as a result of lower forward commodity pricing. A \$71.9 million impairment net of recovery was recorded during the twelve months ended December 31, 2011. As future commodity prices remain volatile, impairment charges could be recorded in future periods.

A breakdown of the DD&A rate is summarized in Table 21:

Table 21

	Three months ended December 31			Twelve months ended December 31		
DD&A Rate (\$ millions except per boe amounts)	2012	2011	% Change	2012	2011	% Change
Depletion of oil and gas assets	131.5	121.3	(8)	511.6	431.6	(19)
Depreciation of fixed assets	1.7	1.5	(13)	6.5	5.7	(14)
Impairment charges	-	55.3	100	53.0	71.9	26
Total DD&A and impairment	133.2	178.1	25	571.1	509.2	(12)
D&A rate per boe, before impairment	15.12	14.51	(4)	15.13	14.36	(5)
DD&A rate per boe	15.12	21.04	28	16.68	16.72	-

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures, excluding acquisitions and dispositions, totaled \$190.2 million in the fourth quarter of 2012 as compared to \$195 million during the fourth quarter of 2011. This total included development and production additions to property, plant and equipment of \$179.5 million (2011 - \$169.9 million) and additions to exploration and evaluation assets of \$10.7 million (2011 - \$25.1 million). Property, plant and equipment expenditures include drilling and completions, geological, geophysical, facilities expenditures and undeveloped land purchases in our development assets. Exploration and evaluation expenditures include drilling and completions, geological and geophysical expenditures and undeveloped land purchases in areas that have been determined by management to be in the exploration and evaluation stage.

A breakdown of capital expenditures and net acquisitions is shown in Tables 22 and 22a:

Table 22

Three Months Ended December 31							
Capital Expenditures (\$ millions)	2012			2011			% Change
	E&E	PP&E	Total	E&E	PP&E	Total	
Geological and geophysical	-	4.2	4.2	3.2	1.7	4.9	(14)
Drilling and completions	5.6	123.5	129.1	21.5	126.0	147.5	(12)
Plant and facilities	1.2	47.2	48.4	0.1	38.4	38.5	26
Undeveloped land purchased at crown land sales	3.9	1.8	5.7	0.3	3.2	3.5	63
Other	-	2.8	2.8	-	0.6	0.6	367
Total capital expenditures	10.7	179.5	190.2	25.1	169.9	195.0	(2)
Acquisitions ⁽¹⁾	-	2.1	2.1	2.5	20.4	22.9	(91)
Dispositions ⁽²⁾	-	(0.3)	(0.3)	-	1.7	1.7	(82)
Total capital expenditures and net acquisitions	10.7	181.3	192.0	27.6	192.0	219.6	(13)

(1) Value is net of post-closing adjustments.

(2) Represents proceeds and adjustments to proceeds from divestitures.

For the year ended December 31, 2012, capital expenditures, excluding acquisitions and dispositions, totaled \$608 million as compared to \$726 million during the same period of 2011. This total includes development and production additions to property, plant and equipment of \$557.6 million (2011 - \$619.3 million) and additions to exploration and evaluation assets of \$50.4 million (2011 - \$106.7 million).

Table 22a

Twelve Months Ended December 31							
Capital Expenditures (\$ millions)	2012			2011			% Change
	E&E	PP&E	Total	E&E	PP&E	Total	
Geological and geophysical	16.2	15.6	31.8	8.6	17.3	25.9	22
Drilling and completions	23.3	406.5	429.8	43.5	413.0	456.5	(6)
Plant and facilities	5.9	125.7	131.6	0.2	164.9	165.1	(20)
Undeveloped land purchased at crown land sales	5.0	4.5	9.5	54.4	20.5	74.9	(87)
Other	-	5.3	5.3	-	3.6	3.6	47
Total capital expenditures	50.4	557.6	608.0	106.7	619.3	726.0	(16)
Acquisitions ⁽¹⁾	-	36.5	36.5	15.9	41.2	57.1	(36)
Dispositions ⁽²⁾	-	(4.1)	(4.1)	-	(168.4)	(168.4)	(98)
Total capital expenditures and net acquisitions	50.4	590.0	640.4	122.6	492.1	614.7	4

(1) Value is net of post-closing adjustments.

(2) Represents proceeds and adjustments to proceeds from divestitures.

During 2012, ARC made net acquisitions of properties totaling \$32.4 million, mainly consisting of “tuck-in” acquisitions of land adjacent to ARC’s current core development areas.

ARC finances its capital expenditures with funds from operations that are available after deducting current period expenditures on site restoration and reclamation, net reclamation fund contributions and dividends declared in the current period. Further funding is obtained by proceeds from DRIP. ARC financed 75 per cent of the \$190.2 million fourth quarter capital program with funds from operations and proceeds from DRIP (85 per cent in the fourth quarter of 2011).

Table 23

Source of Funding of Capital Expenditures and Net Acquisitions (\$ millions)						
Three Months Ended December 31, 2012			Three Months Ended December 31, 2011			
	Capital Expenditures	Net Acquisitions	Total Expenditures	Capital Expenditures	Net Acquisitions	Total Expenditures
Expenditures	190.2	1.8	192.0	195.0	24.6	219.6
Funds from operations ⁽¹⁾	58%	-	57%	71%	-	64%
Proceeds from DRIP	17%	-	17%	14%	-	12%
Debt	25%	100%	26%	15%	100%	24%
	100%	100%	100%	100%	100%	100%

(1) This is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A. The percentage of capital expenditures that have been funded by funds from operations is determined as funds from operations that are available after deducting current period expenditures on site restoration and reclamation, net reclamation fund contributions and dividends declared in the current period.

Table 23a

Source of Funding of Capital Expenditures and Net Acquisitions (\$ millions)						
Twelve Months Ended December 31, 2012			Twelve Months Ended December 31, 2011			
	Capital Expenditures	Net Acquisitions	Total Expenditures	Capital Expenditures	Net Acquisitions	Total Expenditures
Expenditures	608.0	32.4	640.4	726.0	(111.3)	614.7
Funds from operations ⁽¹⁾	57%	-	54%	68%	-	81%
Proceeds from DRIP	19%	-	18%	15%	-	17%
Debt ⁽²⁾	24%	100%	28%	17%	(100%)	2%
	100%	100%	100%	100%	(100%)	100%

(1) This is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A. The percentage of capital expenditures that have been funded by funds from operations is determined as funds from operations that are available after deducting current period expenditures on site restoration and reclamation, net reclamation fund contributions and dividends declared in the current period.

(2) At December 31, 2012, debt incurred for capital spending had been reduced by the proceeds of ARC's third quarter equity offering for net proceeds of \$331 million that closed August 22, 2012.

ARC's Board of Directors has approved an \$830 million capital program for 2013.

Asset Retirement Obligations and Reclamation Fund

At December 31, 2012, ARC has recorded asset retirement obligations ("ARO") of \$532.9 million (\$496.4 million at December 31, 2011) 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 approximately 2.4 per cent (2.5 per cent at December 31, 2011).

Accretion charges of \$12.4 million and \$13.4 million for the twelve months ended December 31, 2012 and 2011 have been recognized in the Consolidated Statements of Income to reflect the increase in the ARO liability associated with the passage of time.

Actual spending under ARC's abandonment and reclamation program for the three and twelve months ended December 31, 2012 was \$4.5 million and \$11.9 million, respectively (\$3.4 million and \$8.4 million in 2011).

ARC established a restricted reclamation fund to finance obligations specifically associated with its Redwater property in 2005. Minimum contributions to this fund will be approximately \$75 million over the next 45 years. The balance of this fund totaled \$29.8 million at December 31, 2012, compared to \$26.9 million at December 31, 2011. Under the terms of ARC's investment policy, reclamation fund investments and excess cash can only be invested in Canadian or US Government securities, investment grade corporate bonds, or investment grade short-term money market securities.

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 including contributions to the Redwater reclamation fund are funded entirely out of funds from operations.

Capitalization, Financial Resources and Liquidity

A breakdown of ARC's capital structure as at December 31, 2012 and December 31, 2011 is outlined in Table 24:

Table 24

Capital Structure and Liquidity (\$ millions except per cent and ratio amounts)	December 31, 2012	December 31, 2011
Long-term debt ⁽¹⁾	787.4	761.7
Working capital (surplus) deficit ⁽²⁾	(41.8)	148.0
Net debt obligations ⁽³⁾	745.6	909.7
Market value of common shares ⁽⁴⁾	7,549.5	7,251.4
Total capitalization ⁽⁵⁾	8,295.1	8,161.1
Net debt as a percentage of total capitalization	9.0%	11.1%
Net debt to funds from operations ⁽³⁾	1.0	1.1

(1) Includes a current portion of long-term debt of \$39.7 million at December 31, 2012 and \$40.5 million at December 31, 2011.

(2) Working capital (surplus) deficit is calculated as current liabilities less the current assets as they appear on the Consolidated Balance Sheets, and excludes current unrealized amounts pertaining to risk management contracts, assets held for sale and asset retirement obligations contained within liabilities associated with assets held for sale, as well as the current portion of long-term debt.

(3) This is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

(4) Calculated using the total common shares outstanding at December 31, 2012 multiplied by the closing share price of \$24.44 at December 31, 2012 (closing share price of \$25.10 at December 31, 2011).

(5) Total capitalization as presented is an additional GAAP measure and therefore it may not be comparable with the calculation of similar measures for other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

At December 31, 2012, ARC had total available credit facilities of \$1.9 billion with debt of \$787.4 million currently drawn. After its \$41.8 million working capital surplus, ARC has available credit of approximately \$1.2 billion. ARC's long-term debt balance includes a current portion of \$39.7 million at December 31, 2012 (\$40.5 million at December 31, 2011) reflecting principal payments that are due to be paid within the next twelve months. ARC intends to finance these obligations by drawing on its syndicated credit facility at the time the payments are due.

On August 23, 2012, ARC issued US\$360 million and CDN\$40 million of long-term fixed rate notes through a private placement to secure additional credit capacity and capitalize on low long-term interest rates. The notes have an average term of 9.6 years and bear interest at an average interest rate of 3.8 per cent.

Costs of borrowing under the syndicated credit facility comprise two items: first, the underlying interest rate on Bankers' Acceptances and Prime Loans (CDN dollar loans) or LIBOR Loans and US Base Rate Loans (US denominated borrowings) and second, ARC's credit spread. ARC's credit facility was originally due August 3, 2015, however in the third quarter of 2012 the credit facility was extended for an additional twelve months to August 3, 2016. Its current credit spread on this facility is 160 basis points. Future credit spreads to ARC may range from 160 to 325 basis points for Bankers' Acceptances and LIBOR loans depending on ARC's ratio of debt to net income before non-cash items, interest expense and income taxes. In addition to paying interest on the outstanding debt under the revolving syndicated credit facility, ARC is charged a standby fee for the amount of the undrawn facility. This standby fee ranges from 32 to 65 basis points. These spreads are adjusted on the first day of the third month after each quarter-end date except in the case of the fourth quarter where the spreads are adjusted on the first day of the fourth month following the end of the relevant fiscal year.

ARC's debt agreements contain a number of covenants all of which were met as at December 31, 2012. These agreements are available at www.sedar.com. ARC calculates its covenants four times annually. The major financial covenants are described below:

Table 24a

Covenant description	Estimated Position at December 31, 2012 ⁽¹⁾
Long-term debt and letters of credit not to exceed three times annualized net income before non-cash items, income taxes and interest expense	1.0
Long-term debt, letters of credit, and subordinated debt not to exceed four times annualized net income before non-cash items, income taxes and interest expense	1.0
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	0.2

(1) Estimated position, subject to final approval.

ARC's long-term strategy is to target debt between one and 1.5 times funds from operations and under 20 per cent of total capitalization. This strategy resulted in manageable debt levels throughout 2012 and has positioned ARC to remain well within its debt covenants.

On August 22, 2012, ARC issued 14.6 million common shares for net proceeds of \$330.9 million. The proceeds from this offering will be used towards funding the 2013 capital program and at December 31, 2012 contributed to the working capital surplus of \$41.8 million.

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 average interest rate on its outstanding long-term notes is currently 4.82 per cent.

ARC expects to finance its 2013 capital program with funds from operations, proceeds from the DRIP, existing credit capacity, working capital and any proceeds from the disposition of minor assets and non-strategic assets. In 2012, ARC funded 72 per cent of its capital expenditures and net acquisitions of \$640.4 million from funds from operations and the DRIP.

Shareholders' Equity

At December 31, 2012, there were 308.9 million shares outstanding, an increase of 20 million shares over the balance of shares issued at December 31, 2011, with 14.6 million shares issued through an equity offering that closed on August 22, 2012 and the balance attributable to shares issued to participants in the DRIP.

Shareholders electing to reinvest dividends or make optional cash payments to acquire shares from treasury under the DRIP may do so at a five per cent discount to the prevailing market price with no additional fees or commissions. During the year ended December 31, 2012, ARC raised proceeds of \$117.4 million and issued 5.4 million common shares pursuant to the DRIP at an average price of \$21.74 per share.

At December 31, 2012, ARC had 1.4 million share options outstanding under its Share Option Plan with a weighted average exercise price of \$21.06 per share. These options vest in equal parts on the fourth and fifth anniversaries of the grant date. The first vesting is expected to occur on March 24, 2015.

Dividends

In the fourth quarter of 2012, ARC declared dividends totaling \$92.5 million (\$0.30 per share) compared to \$86.7 million (\$0.30 per share) during the fourth quarter of 2011.

As a dividend-paying corporation, ARC typically 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 of Directors, is sustainable for a minimum period of six months 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 ensure ARC's financial flexibility is maintained by a review of 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 is focused on value creation, with the dividend being a key component of its business strategy. ARC believes that it is well positioned to sustain current dividend levels despite the volatile commodity price environment. ARC's fourth quarter and full year 2012 dividend payout ratio was 44 per cent and 50 per cent of funds from operations, respectively, levels which ARC believes is reasonable given the current commodity price environment. Going forward, as ARC's production and funds from operations grows, it is expected that the dividend payout ratio will naturally decline to a level that provides greater financial flexibility. ARC's business model is dynamic and dividend levels and capital spending are continually assessed in light of current and forecast market conditions. If a prolonged period of low commodity prices is experienced, ARC's first response will be to defer certain growth capital. If additional measures become necessary, dividend levels will be reconsidered in order to preserve ARC's strong financial position in the long-term. The actual amount of future monthly dividends is proposed by management and is subject to the approval and discretion of the Board of Directors. The Board reviews future dividends in conjunction with their review of quarterly financial and operating results. Dividends are taxable to the shareholder irrespective of whether payment is received in cash or shares via the DRIP.

On January 16, 2013, ARC confirmed that a dividend of \$0.10 per share designated as an eligible dividend will be paid on February 15, 2013 to shareholders of record on January 31, 2013. The ex-dividend date is January 29, 2013.

Please refer to ARC's website at www.arcresources.com for details of the estimated monthly dividend amounts and dividend dates for 2013.

Environmental Initiatives Impacting ARC

There are no new material environmental initiatives impacting ARC at this time.

Contractual Obligations and Commitments

ARC has contractual obligations in the normal course of operations including purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact ARC's cash flows in an ongoing manner. ARC also has contractual obligations and commitments that are of a less routine nature as disclosed in Table 25.

Table 25

(\$ millions)	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	Beyond 5 years	
Debt repayments ⁽¹⁾	39.7	83.0	81.5	583.2	787.4
Interest payments ⁽²⁾	37.0	66.7	57.0	95.4	256.1
Reclamation fund contributions ⁽³⁾	4.0	7.1	6.4	54.4	71.9
Purchase commitments	47.8	15.4	11.3	11.9	86.4
Transportation commitments	42.8	71.1	34.3	0.2	148.4
Operating leases	14.7	27.4	25.3	80.9	148.3
Risk management contract premiums ⁽⁴⁾	0.5	4.8	4.8	-	10.1
Total contractual obligations	186.5	275.5	220.6	826.0	1,508.6

(1) Long-term and current portion of long-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 risk management contracts.

In addition to the above risk management contract premiums, ARC has commitments related to its risk management program (see Note 15 of the Consolidated Financial Statements). As the premiums are part of the underlying risk management contract, they have been recorded at fair market value at December 31, 2012 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 any 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 in a future period. ARC's 2013 capital budget of \$830 million has been approved by the Board of Directors.

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 adverse impact on ARC's financial position or results of operations and therefore the commitment table (Table 25) does not include any commitments for outstanding litigation and claims.

The above table does not include any amounts that may be payable to ARC officers and certain ARC staff in the event of a change of control as there is no indication of this event occurring in the foreseeable future.

Off Balance Sheet Arrangements

ARC has certain lease agreements, all of which are reflected in the Contractual Obligations and Commitments table (Table 25), which were entered into in the normal course of operations. All 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 the balance sheet as of December 31, 2012.

Critical Accounting Estimates

ARC has continuously refined and documented 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 revenues, royalties and operating costs 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 depletion, depreciation and amortization charges that are based on estimates of oil and gas reserves that ARC expects to recover in the future;
- estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices and foreign exchange rates;

- estimated value of asset retirement obligations that are dependent upon estimates of future costs and timing of expenditures;
- estimated future recoverable value of property, plant and equipment and goodwill and any associated impairment charges or recoveries; and
- estimated compensation expense under ARC's share based compensation plans including the PSU plan that is based on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier.

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 audited Consolidated Financial Statements, refer to Note 5 "Management Judgments and Estimation Uncertainty" in the audited Consolidated Financial Statements as at and for years ended December 31, 2012 and 2011.

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 oil and natural gas production. Natural gas prices declined in 2012 from 2011 and differentials on Canadian crude oil widened significantly in 2012 relative to 2011 due to pipeline and infrastructure constraints. There are numerous projects proposed to alleviate pipeline bottlenecks in the United States, expand refinery capacity and expand or build new pipelines in Canada and the United States to source new markets, many of which are in the regulatory application phase. There can be no assurance that such regulatory approvals will be secured on a timely basis or at all. Continued or decreasing natural gas prices will affect ARC's cash flow, impacting ARC's level of capital expenditures and may result in the shut-in of certain natural gas properties. Any movement in 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 oil and natural gas prices may result in future declines in, or elimination of, any future dividends. Oil and natural gas prices are determined by economic and, in some circumstances, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, impact prices. ARC may manage the risk associated with changes in commodity prices by entering into 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 \$1 billion financial covenant-based syndicated credit facility with 12 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 August 3, 2016, 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 \$787.4 million of long-term debt outstanding which requires annual principal repayments in 2013 through 2024. 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.

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 will reduce dividend payments to shareholders.

Continuing production from a property, and to some extent the marketing of production there from, are largely dependent upon the ability of the operator of the property. Approximately 12 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 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. 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 Estimates

The reserves and recovery information contained in ARC's independent reserves evaluation is only an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator. The reserves report was prepared using certain commodity price assumptions. If lower prices for crude oil, natural gas liquids and natural gas are realized by ARC and substituted for the price assumptions utilized in those reserves reports, the present value of estimated future net cash flows for ARC's reserves as well as the amount of ARC's reserves would be reduced and the reduction could be significant.

Depletion of Reserves and Maintenance of Dividend

ARC's future 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 venture 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 venture 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 flow from operations 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 oil and natural gas industry may change in a manner that adversely impacts shareholders. ARC currently operates in British Columbia, Alberta, Saskatchewan and Manitoba, all 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.

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 oil, natural gas and natural gas liquids future prices of oil, natural gas

and natural gas liquids 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 oil, natural gas and natural gas liquids 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.

Environmental Concerns and Impact on Enhanced Oil Recovery Projects

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. Furthermore, management believes the federal government appears to favour new programs for environmental laws and regulation, particularly in relation to the reduction of emissions, and there is no assurance that any such programs, laws or regulations, if proposed and enacted, will not contain emission reduction targets which 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 Federal Government's Regulatory Framework for Air Emissions ("Framework"), as issued under the Canadian Environmental Protection Act.

Additionally, the potential impact on ARC's operations and business of the Framework, with respect to instituting reductions of greenhouse gases, is not possible to quantify at this time as specific measures for meeting Canada's commitments have not been developed. Currently, companies are permitted to emit CO₂ into the atmosphere with no requirement to capture and re-inject the emissions. In order for ARC to carry out its enhanced oil recovery program it is necessary to obtain CO₂ at a cost effective rate. Given that companies are not forced to capture their emissions, the infrastructure has not been put in place to facilitate this process. Without any additional provisions from the government, the economic parameters of ARC's enhanced oil recovery programs would be limited.

ARC has established a reclamation fund (the "Redwater fund") for the purpose of funding future environmental and reclamation obligations at its Redwater property. For ARC's other properties, future environmental and reclamation obligations will be funded with funds from operations in future periods. Contributions to the Redwater fund are based on current estimates and there can be no assurances that ARC will be able to satisfy its actual Redwater future environmental and reclamation obligations with the balance of the fund. Actual future environmental and reclamation expenditures could differ significantly from estimated amounts, therefore future cash flows and dividend payments to shareholders may be negatively impacted in future periods.

The use of fractured stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells there is increased communication 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 or changes of law 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 transparent, safe and responsible operations in the communities in which its people live and work. ARC has substantially adopted the proactive and transparent policies recently announced by the Canadian Association of Petroleum Producers, including the reporting of fracture fluids used to the "Frac Focus" initiative launched by the government of the Province of British Columbia.

PROJECT RISKS

ARC manages a variety of small and large projects and plans to spend \$830 million on capital projects throughout 2013. Project delays may impact expected revenues from operations. Significant project cost overruns could make a project uneconomic. Our ability to execute projects and market oil and natural gas depends upon numerous factors beyond our control, including:

- availability of processing capacity;
- availability and proximity of pipeline capacity;
- availability of storage capacity;
- supply of and demand for oil and natural gas;
- availability of alternative fuel sources;
- effects of inclement weather;
- availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- changes in regulations;
- availability and productivity of skilled labour; and
- regulation of the oil and natural gas industry by various levels of government and governmental agencies.

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 oil and natural gas that ARC produces.

Disclosure Controls and Procedures

As of December 31, 2012, an internal evaluation was carried out of the effectiveness of ARC's disclosure controls and procedures as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and 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 the Exchange Act or 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 the Exchange Act or 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 Rule 13a-15 under the US Securities Exchange Act of 1934 and 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 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, 2012. The effectiveness of ARC's internal control over financial reporting as of December 31, 2012 has been audited by Deloitte LLP, as reflected in their report for 2012. No changes were made to ARC's internal control over financial reporting during the year ending December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

FINANCIAL REPORTING UPDATE

Future Accounting Changes

ARC has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on ARC:

In May 2011, the IASB released the following new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosures of Interests in Other Entities" and IFRS 13, "Fair Value Measurement". Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below:

- IFRS 10, "Consolidated Financial Statements" supercedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard is not expected to have any impact on ARC's financial statements.
- IFRS 11, "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard is not expected to have any impact on ARC's financial statements.
- IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities. The adoption of this standard is not expected to have a material impact on ARC's financial statements.
- IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard is expected to require the revaluation of certain derivative financial liabilities on ARC's balance sheet to reflect an appropriate amount of risk of non-performance by ARC. ARC does not expect this revaluation to be material to its financial statements.

As of January 1, 2015, ARC will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of this standard remain in development and the full impact of the standard on ARC's Consolidated Financial Statements will not be known until the project is complete.

Non-GAAP Measures

Management uses certain key performance indicators (“KPIs”) and industry benchmarks such as, operating netbacks (“netbacks”), finding, development and acquisition costs, normalized reserves per share and production per share, normalized dividend adjusted reserves per share and production per share, net asset value and total returns to analyze financial and operating performance. Management feels that these KPIs and benchmarks are key measures of profitability for ARC and provide investors with information that is commonly used by other oil and gas companies. These KPIs and benchmarks as presented do not have any standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

Additional GAAP Measures

Funds from Operations

Funds from operations does not have a standardized meaning prescribed by GAAP. The term “funds from operations” is defined as net income excluding the impact of non-cash depletion, depreciation and amortization and impairment charges, accretion of asset retirement obligations, deferred tax expense, unrealized gains and losses on risk management contracts, unrealized gains and losses on short-term investments, non-cash lease inducement charges, share option expense, exploration expense, unrealized gains and losses on foreign exchange and gains on disposal of petroleum and natural gas properties and is further adjusted to include the portion of unrealized losses on risk management contracts settled annually that relate to 2012 production. ARC considers funds from operations to be a key measure of operating performance as it demonstrates ARC’s ability to generate the necessary funds to fund future growth through capital investment and to repay debt. Management believes that such a measure provides a better assessment of ARC’s operations on a continuing basis by eliminating certain non-cash charges and charges that are nonrecurring, while respecting that certain risk management contracts that are settled on an annual basis are intended to protect prices on product sales occurring throughout the year. From a business perspective, the most directly comparable measure of funds from operations calculated in accordance with GAAP is net income.

Table 26 is a reconciliation of ARC’s funds from operations to net income and cash flow from operating activities.

Table 26

	Three months ended December 31		Twelve months ended December 31	
(\$ millions)	2012	2011	2012	2011
Net income (loss)	84.5	(49.0)	139.2	287.0
Adjusted for the following non-cash items:				
Depletion, depreciation, amortization and impairment	133.2	178.1	571.1	509.2
Accretion of asset retirement obligation	3.1	3.3	12.4	13.4
Deferred tax expense (recovery)	21.8	(17.4)	19.3	97.0
Unrealized (gain) loss on risk management contracts	(53.6)	80.1	(14.2)	16.5
Realized losses on risk management contracts recognized in previous quarters ⁽¹⁾	11.8	38.1	-	-
Unrealized loss (gain) on foreign exchange	8.3	(9.4)	(8.2)	9.7
Gain on disposal of petroleum and natural gas properties	-	3.2	(0.2)	(89.5)
Other	(0.7)	(0.4)	0.4	1.0
Funds from operations	208.4	226.6	719.8	844.3
Realized losses on risk management contracts recognized in previous quarters ⁽¹⁾	(11.8)	(38.1)	-	-
Net change in other liabilities	(2.0)	4.1	(10.6)	(9.6)
Change in non-cash working capital	(12.0)	36.8	(5.7)	68.0
Cash Flow from Operating Activities	182.6	229.4	703.5	902.7

(1) ARC has entered into certain commodity price risk management contracts that pertain to production periods spanning the entire calendar year but that are settled at the end of the year on an annual average benchmark commodity price. Throughout the year, ARC has applied the portion of losses associated with these contracts to the funds from operations calculation in the production period to which they relate to more appropriately reflect the funds from operations generated during the period after any effect of contracts used for economic hedging. At December 31, 2012, all gains and losses associated with these contracts have been realized, and in the fourth quarter losses previously applied to prior quarters are reversed.

Net Debt

Net debt does not have a standardized meaning prescribed by GAAP. Net debt is defined as long-term debt plus working capital (surplus) deficit, and is adjusted for the portion of unrealized losses on risk management contracts related to current production periods. Working capital (surplus) deficit is calculated as current liabilities less the current assets as they appear on the Condensed Consolidated Balance Sheets, and excludes current unrealized amounts pertaining to risk management contracts, assets held for sale and asset retirement obligations contained within liabilities associated with assets held for sale.

Total Capitalization

Total capitalization does not have a standardized meaning prescribed by GAAP. Total capitalization is defined as total shares outstanding multiplied by the closing share price on the Toronto Stock Exchange plus net debt outstanding. Total capitalization is used by ARC in analyzing its balance sheet strength and liquidity.

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 – Total Return to Shareholders”, ARC’s view of future crude oil, natural gas and natural gas liquids pricing under the heading “Economic Environment”, ARC’s guidance for 2013 under the heading “2012 Guidance and Financial Highlights”, ARC’s view as to the increased transportation costs under the heading “Operating Costs” ARC’s intentions in the future regarding hedging under the heading “Risk Management and Hedging Activities”, the estimated future payments under the RSU & PSU Plan under the heading “Long-term Incentive Plans – Restricted Share Units & Performance Share Units Plan, Stock Option Plan, and Deferred Share Unit Plan”, the information relating to the approved 2013 capital program under the heading “Capital Expenditures, Acquisitions and Dispositions”, the information relating to financing the 2013 capital expenditures under the heading: “Capitalization, Financial Resources and Liquidity”, 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 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; 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 cash flow 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; unanticipated operating results or production declines; 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 this MD&A and in ARC’s Annual Information Form).

The forward-looking information and statements 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 (Cdn \$ millions, except per share amounts) ⁽¹⁾	2012	2011	2010	2009	2008
FINANCIAL					
Sales of crude oil, natural gas and natural gas liquids	1,389.4	1,438.2	1,213.7	978.2	1,706.4
Per share ⁽²⁾	4.67	5.02	4.67	4.20	7.90
Per share, diluted ⁽²⁾	4.67	5.02	4.59	4.16	7.90
Funds from operations ⁽³⁾	719.8	844.3	667.0	497.4	944.4
Per share ⁽²⁾	2.42	2.95	2.57	2.13	4.37
Per share, diluted ⁽²⁾	2.42	2.95	2.52	2.11	4.37
Net income	139.2	287.0	212.2	225.1	539.9
Per share ⁽²⁾	0.47	1.00	0.82	0.97	2.50
Per share, diluted ⁽²⁾	0.47	1.00	0.80	0.96	2.50
Dividends	357.4	344.0	313.5	298.5	570.0
Per share ⁽²⁾	1.20	1.20	1.20	1.28	2.67
Total assets	5,627.1	5,323.9	5,060.1	3,914.5	3,766.7
Total liabilities	2,230.4	2,162.1	1,947.7	1,540.1	1,624.6
Net debt outstanding ⁽⁴⁾	745.6	909.7	871.0	902.4	961.9
Weighted average shares outstanding	297.2	286.6	259.9	233.0	216.0
Diluted shares	297.2	286.6	264.2	235.4	216.1
Shares outstanding, end of period	308.9	288.9	284.4	239.0	219.2
CAPITAL EXPENDITURES					
Geological and geophysical	31.8	25.9	16.0	13.7	27.1
Land	9.5	74.9	60.9	7.0	122.4
Drilling and completions	429.8	456.5	358.5	214.3	305.4
Plant and facilities	131.6	165.1	131.4	110.0	90.4
Other	5.3	3.6	24.1	14.6	3.3
Total capital expenditures	608.0	726.0	590.9	359.6	548.6
Property acquisitions (dispositions), net	32.4	(111.3)	5.0	(20.5)	51.0
Corporate acquisitions ⁽⁵⁾	-	-	652.1	178.9	-
Total capital expenditures and net acquisitions	640.4	614.7	1,248.0	518.0	599.6
OPERATING					
Production					
Crude oil (bbl/d)	31,454	27,158	27,341	27,509	28,513
Condensate (bbl/d)	2,217	2,052	1,617	1,303	1,362
Natural gas (mmcf/d)	342.9	310.6	254.2	194.0	196.5
Natural gas liquids (bbl/d)	2,728	2,444	2,628	2,386	2,499
Total (boe per day 6:1)	93,546	83,416	73,954	63,538	65,126
Average prices					
Crude oil (\$/bbl)	82.03	89.51	73.85	62.24	94.20
Condensate (\$/bbl)	92.63	96.07	77.40	64.63	107.24
Natural gas (\$/mcf)	2.62	3.83	4.21	4.18	8.58
Natural gas liquids (\$/bbl)	38.11	47.53	39.57	27.57	49.25
Oil equivalent (\$/boe)	40.50	47.15	44.88	42.07	71.25
RESERVES					
(company gross) ⁽⁶⁾					
Proved plus probable reserves					
Crude oil and NGL (mmbbl)	185,548	170,153	165,963	152,834	152,441
Natural gas (bcf)	2,528.6	2,413.3	1,914.9	1,342.3	1,000
Total (mboe)	606,982	572,374	485,121	376,543	319,114
TRADING STATISTICS					
(Cdn\$, except volumes) based on intra-day trading					
High	26.25	28.67	26.04	21.89	33.95
Low	18.36	19.40	18.77	11.73	15.01
Close	24.44	25.10	25.41	19.94	20.10
Average daily volume (thousands)	1,356	1,251	1,197	1,057	975

(1) The financial information above that has been derived from ARC's financial statements has been prepared under IFRS for 2010 through 2012. Information for 2009 and prior has been prepared under previous Canadian GAAP.

(2) Upon conversion to a corporation, ARC trust units were exchanged for common shares. In all cases, the term per share can be interpreted as per unit prior to December 31, 2010. Per share amounts (with the exception of dividends) are based on weighted average shares outstanding during the period.

(3) This is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

(4) Net debt is an additional GAAP measure and therefore it may not be comparable with the calculation of similar measures for other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

(5) Represents total consideration for corporate acquisitions.

(6) Company gross reserves are the gross interest reserves prior to the deduction of royalty burdens.

QUARTERLY HISTORICAL REVIEW

(Cdn \$ millions, except per share amounts)								
	2012				2011			
FINANCIAL	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales of crude oil, natural gas and natural gas liquids	375.4	329.9	317.8	366.3	386.8	351.8	374.9	324.7
Per share ⁽¹⁾	1.22	1.10	1.09	1.27	1.34	1.23	1.31	1.14
Per share, diluted ⁽¹⁾	1.22	1.10	1.09	1.27	1.34	1.23	1.31	1.14
Funds from operations ⁽²⁾	208.4	164.9	165.8	180.7	226.6	213.5	210.1	194.1
Per share ⁽¹⁾	0.68	0.55	0.57	0.62	0.79	0.74	0.73	0.68
Per share, diluted ⁽¹⁾	0.68	0.55	0.57	0.62	0.79	0.74	0.73	0.68
Net income (loss)	84.5	(24.3)	38.1	40.9	(49.0)	120.8	150.1	65.2
Per share ⁽¹⁾	0.27	(0.08)	0.13	0.14	(0.17)	0.42	0.52	0.23
Per share, diluted ⁽¹⁾	0.27	(0.08)	0.13	0.14	(0.17)	0.42	0.52	0.23
Dividends	92.5	90.6	87.3	87.0	86.7	86.2	85.8	85.5
Per share ⁽¹⁾	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Total assets	5,627.1	5,578.8	5,369.1	5,361.0	5,323.9	5,313.3	5,053.4	5,019.9
Total liabilities	2,230.4	2,207.0	2,247.1	2,218.3	2,162.1	2,043.4	1,844.6	1,902.5
Net debt outstanding ⁽³⁾	745.6	691.0	996.0	991.5	909.7	870.1	744.8	731.9
Weighted average shares outstanding	308.2	299.7	290.8	289.5	288.3	287.1	286.0	284.9
Weighted average shares outstanding, diluted	308.4	299.9	290.8	289.5	288.3	287.1	286.0	284.9
Shares outstanding, end of period	308.9	307.5	291.5	290.1	288.9	287.7	286.5	285.4
CAPITAL EXPENDITURES								
Geological and geophysical	4.2	5.1	5.6	16.9	4.9	9.1	5.2	6.7
Land	5.7	1.0	0.5	2.3	3.5	26.6	34.5	10.4
Drilling and completions	129.1	98.2	64.2	138.3	147.5	142.0	69.8	98.6
Plant and facilities	48.4	28.1	26.9	28.3	38.5	50.6	35.2	40.6
Other	2.8	0.7	0.7	1.1	0.6	1.0	(0.2)	0.9
Total capital expenditures	190.2	133.1	97.9	186.9	195.0	229.3	144.5	157.2
Property acquisitions (dispositions), net	1.8	7.5	4.2	18.9	24.6	8.6	13.6	(157.3)
Total capital expenditures and net acquisitions	192.0	140.6	102.1	205.8	219.6	237.9	158.1	(0.1)
OPERATING								
Production								
Crude oil (bbl/d)	32,938	30,732	30,831	31,305	28,470	26,024	26,038	28,108
Condensate (bbl/d)	1,767	2,325	2,381	2,399	2,219	2,009	2,105	1,872
Natural gas (mmcf/d)	348.2	323.2	347.2	353.0	355.3	327.4	311.8	246.4
Natural gas liquids (bbl/d)	2,978	2,587	2,913	2,432	2,114	2,584	2,250	2,834
Total (boe per day 6:1)	95,725	89,511	93,997	94,970	92,021	85,178	82,367	73,880
Average prices								
Crude oil (\$/bbl)	80.50	81.43	78.98	87.24	92.85	85.97	97.11	82.27
Condensate (\$/bbl)	86.70	87.65	94.60	99.96	101.13	92.85	100.57	88.34
Natural gas (\$/mcf)	3.32	2.45	2.03	2.67	3.43	3.88	4.05	4.05
Natural gas liquids (\$/bbl)	36.13	31.05	41.17	44.46	51.02	47.90	48.40	43.83
Oil equivalent (\$/boe)	42.49	39.99	37.09	42.35	45.58	44.83	49.94	48.75
TRADING STATISTICS								
(Cdn\$) based on intra-day trading								
High	26.00	26.25	23.28	25.72	26.74	26.23	27.00	28.67
Low	22.32	21.50	18.36	22.53	19.40	19.81	23.41	23.66
Close	24.44	23.90	22.90	22.90	25.10	22.56	25.01	26.35
Average daily volume (thousands)	1,146	1,282	1,704	1,355	1,264	1,108	998	1,636

(1) Per share amounts (with the exception of dividends) are based on weighted average shares outstanding during the period.

(2) This is an additional GAAP measure which may not be comparable with similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

(3) Net debt is an additional GAAP measure and therefore it may not be comparable with the calculation of similar measures for other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A. Management's Report

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 mainly 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 Deloitte LLP, Independent Registered Chartered Accountants, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) 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 Company's internal control over financial reporting as defined in Rule 13a-15 under the US Securities Exchange Act of 1934. The assessment was based on the framework in Internal Control – Integrated Framework 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, 2012. The Company's internal control over financial reporting as of December 31, 2012 has been audited by Deloitte LLP, the Company's Independent Registered Chartered Accountants, who also audited the Company's consolidated financial statements for the year ended December 31, 2012.



Myron M. Stadnyk
President and Chief Executive Officer
Calgary, Alberta
February 6, 2013



Steven W. Sinclair
Senior Vice-President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of ARC Resources Ltd.

We have audited the accompanying consolidated financial statements of ARC Resources Ltd. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and 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 as issued by the International Accounting Standards Board, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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. 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 in our audits 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 subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ARC Resources Ltd.'s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 6, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte LLP

"Deloitte LLP"

Independent Registered Chartered Accountants

February 6, 2013

Calgary, Canada

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of ARC Resources Ltd.

We have audited the internal control over financial reporting of ARC Resources Ltd. and subsidiaries (the "Company") as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated February 6, 2013 expressed an unqualified opinion on those financial statements.



"Deloitte LLP"

Independent Registered Chartered Accountants

February 6, 2013

Calgary, Canada

CONSOLIDATED BALANCE SHEETS

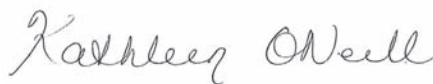
As at

(Cdn\$ millions)	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents (Note 6)	\$ 194.6	\$ 0.5
Short-term investment	1.7	3.3
Accounts receivable	164.3	168.1
Prepaid expenses	13.1	14.3
Risk management contracts (Note 15)	30.9	21.0
Assets held for sale (Note 10)	0.3	4.6
	404.9	211.8
Reclamation funds (Note 8)	29.8	26.9
Risk management contracts (Note 15)	1.7	3.7
Property, plant and equipment (Note 10)	4,704.4	4,645.6
Intangible exploration and evaluation assets (Note 9)	238.1	187.7
Goodwill	248.2	248.2
Total assets	\$ 5,627.1	\$ 5,323.9
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 301.0	\$ 305.0
Current portion of long-term debt (Note 12)	39.7	40.5
Dividends payable	30.9	28.9
Risk management contracts (Note 15)	0.5	18.9
Liabilities associated with assets held for sale	1.3	1.9
	373.4	395.2
Risk management contracts (Note 15)	10.3	3.0
Long-term debt (Note 12)	747.7	721.2
Long-term incentive compensation liability (Note 18)	24.5	18.5
Other deferred liabilities	19.3	21.4
Asset retirement obligations (Note 13)	532.9	496.4
Deferred taxes (Note 16)	522.3	506.4
Total liabilities	2,230.4	2,162.1
COMMITMENTS AND CONTINGENCIES (Note 19)		
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 17)	3,670.2	3,218.3
Contributed surplus	1.7	0.5
Deficit	(275.2)	(57.0)
Total shareholders' equity	3,396.7	3,161.8
Total liabilities and shareholders' equity	\$ 5,627.1	\$ 5,323.9

See accompanying notes to the Consolidated Financial Statements

Approved by the Board of Directors


Mac H. Van Wielingen
Chairman of the Board of Directors and Director



Kathleen M. O'Neill
Chair of the Audit Committee and Director

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31

(Cdn\$ millions, except per share amounts)		2012		2011
Sales of crude oil, natural gas and natural gas liquids	\$	1,389.4	\$	1,438.2
Royalties		(195.7)		(219.3)
REVENUE		1,193.7		1,218.9
Gain on risk management contracts (Note 15)		80.6		59.3
		1,274.3		1,278.2
EXPENSES				
Transportation		44.1		36.1
Operating		321.8		295.3
General and administrative		97.1		80.1
Interest and financing charges		45.3		38.9
Accretion of asset retirement obligation (Note 13)		12.4		13.4
Depletion, depreciation, amortization and impairment (Note 10)		571.1		509.2
(Gain) loss on foreign exchange		(7.3)		10.5
Loss on short-term investments		1.6		0.2
Gain on disposal of petroleum and natural gas properties (Note 10)		(0.2)		(89.5)
		1,085.9		894.2
Provision for income taxes (Note 16)				
Current		29.9		-
Deferred		19.3		97.0
		49.2		97.0
Net income	\$	139.2	\$	287.0
Net income per share (Note 17)				
Basic	\$	0.47	\$	1.00
Diluted	\$	0.47	\$	1.00

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31

(Cdn\$ millions)		2012		2011
Net income	\$	139.2	\$	287.0
Other comprehensive income, net of tax				
Net unrealized gains on available-for-sale reclamation funds' investments		-		0.1
Other comprehensive income		-		0.1
Comprehensive income	\$	139.2	\$	287.1

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

(Cdn\$ millions)

	Shareholders' capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
December 31, 2010	\$ 3,112.5	\$ -	\$ -	\$ (0.1)	\$ 3,112.4
Shares issued for cash	1.6	-	-	-	1.6
Shares issued pursuant to the dividend reinvestment program	104.2	-	-	-	104.2
Share option expense	-	0.5	-	-	0.5
Comprehensive income	-	-	287.0	0.1	287.1
Dividends declared	-	-	(344.0)	-	(344.0)
December 31, 2011	\$ 3,218.3	\$ 0.5	\$ (57.0)	\$ -	\$ 3,161.8
Shares issued for cash	346.2	-	-	-	346.2
Shares issued pursuant to the dividend reinvestment program	116.3	-	-	-	116.3
Share issue costs ⁽¹⁾	(10.6)	-	-	-	(10.6)
Share option expense	-	1.2	-	-	1.2
Comprehensive income	-	-	139.2	-	139.2
Dividends declared	-	-	(357.4)	-	(357.4)
December 31, 2012	\$ 3,670.2	\$ 1.7	\$ (275.2)	\$ -	\$ 3,396.7

(1) Amount is net of deferred tax of \$3.7 million.

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(Cdn\$ millions)	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 139.2	\$ 287.0
Add items not involving cash:		
Unrealized (gain) loss on risk management contracts (Note 15)	(14.2)	16.5
Accretion of asset retirement obligation	12.4	13.4
Depletion, depreciation, amortization and impairment	571.1	509.2
Unrealized (gain) loss on foreign exchange	(8.2)	9.7
Gain on disposal of petroleum and natural gas properties	(0.2)	(89.5)
Deferred tax expense	19.3	97.0
Other (Note 21)	0.4	1.0
Net change in other liabilities (Note 21)	(10.6)	(9.6)
Change in non-cash working capital (Note 21)	(5.7)	68.0
	703.5	902.7
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long-term debt under revolving credit facilities, net	(324.2)	(35.2)
Issue of Senior Notes (Note 12)	397.8	-
Repayment of Senior Notes	(39.6)	(16.3)
Issue of common shares (Note 17)	346.2	1.6
Share issue costs (Note 17)	(14.3)	-
Cash dividends paid	(239.1)	(238.7)
	126.8	(288.6)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of petroleum and natural gas properties	(33.7)	(57.8)
Disposals of petroleum and natural gas properties	1.1	167.6
Property, plant and equipment development expenditures	(557.3)	(614.8)
Exploration and evaluation expenditures	(50.4)	(113.3)
Net reclamation fund contributions	(2.8)	(1.8)
Change in non-cash working capital (Note 21)	6.9	4.5
	(636.2)	(615.6)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	194.1	(1.5)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	0.5	2.0
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 194.6	\$ 0.5
The following are included in cash flow from operating activities:		
Income taxes paid in cash	\$ -	\$ 1.7
Interest paid in cash	\$ 30.0	\$ 25.8

See accompanying notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and December 31, 2011

(all tabular amounts in Cdn\$ millions, except per share amounts)

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’s principal place of business is located at 1200, 308 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0H7.

2. BASIS OF PREPARATION

The consolidated financial statements (the “financial statements”) are presented under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and were prepared using accounting policies consistent with IFRS. A summary of ARC’s significant accounting policies under IFRS is presented in Note 3.

The financial statements include the accounts of ARC and its wholly owned subsidiaries, ARC Resources General Partnership and 1504793 Alberta Ltd. Any reference to the “Company” or “ARC” throughout these financial statements refers to the Company and its subsidiaries. All inter-entity transactions have been eliminated.

The financial statements have been prepared on the historical cost basis with the exception of the following which are measured at fair value:

- available-for-sale financial assets
- short-term investments; and
- derivative financial instruments.

These financial statements were authorized for issue by the Board of Directors on February 6, 2013.

3. SUMMARY OF ACCOUNTING POLICIES

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas, 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 from the sale of crude oil, natural gas, 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.

Revenue is presented net of royalties accrued.

Transportation

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

Joint Interests

ARC conducts many of its oil and gas production activities through jointly controlled assets and the financial statements reflect only ARC’s proportionate interest in such activities.

Long-Term Incentive Plans

Restricted Share Unit & Performance Share Unit and Deferred Share Unit Plans

ARC has established a cash-settled Restricted Share Unit & Performance Share Unit Plan ("RSU & PSU Plan") for employees, independent directors and long-term consultants who otherwise meet the definition of an employee of ARC as well as a Deferred Share Unit Plan ("DSU Plan") for non-employee directors. Compensation expense associated with the RSU & PSU Plan and the DSU Plan is granted in the form of Restricted Share Units ("RSUs"), Performance Share Units ("PSUs") and Deferred Share Units ("DSUs") and is determined based on the fair value of the share units at grant date and is subsequently adjusted to reflect the fair value of the share units at each period end. This valuation incorporates the period-end share price, the number of RSUs, PSUs and DSUs outstanding at each period end, and certain management estimates. As a result, large fluctuations in compensation expense may occur due to changes in the underlying share price or revised estimates of relevant performance factors. In addition, compensation expense is amortized and recognized in earnings over the relevant service period of the RSU & PSU Plan and DSU Plan with a corresponding increase or decrease in liabilities. Classification between accrued liabilities and accrued long-term incentive compensation liability is dependent on the expected payout date.

Share Option Plan

ARC has established a share option plan for certain employees and consultants. The fair value of share options issued to employees is determined on their grant date using a valuation model and recorded as compensation expense over the period that the share options vest, with a corresponding increase to contributed surplus. The exercise price of the share options granted may be reduced by the amount of dividends declared in future periods in accordance with the terms of the plan. Forfeitures are estimated through the vesting period based on past experience and future expectations, and adjusted upon actual vesting. When share options are exercised, the proceeds, together with the amounts recorded in contributed surplus, are recorded in shareholders' capital. No share options have been issued to consultants to date.

Cash Equivalents

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

Reclamation Funds

Reclamation funds hold 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, net of tax.

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 company. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is evaluated for impairment on an annual basis, or more frequently if potential indicators of impairment exist.

Intangible Exploration and Evaluation Assets ("E&E")

Intangible exploration and evaluation costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. E&E costs may include costs of license acquisition, technical services and studies, and exploration drilling and testing. Tangible assets acquired which are consumed in developing an intangible exploration asset are recorded as part of the cost of the intangible exploration asset.

If an E&E project is determined to be unsuccessful, all associated costs are charged to the statement of income at that time.

If commercial reserves are established for a project classified as E&E, the relevant cost is transferred from E&E to development and production assets which are classified as property, plant and equipment on the consolidated balance sheet. Assets are reviewed for impairment prior to any such transfer.

Assets classified as E&E are not amortized.

Costs incurred prior to obtaining the legal right to explore are expensed as incurred.

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 and accumulated impairment losses.

Gains and losses on disposal of an item of PP&E are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized separately in the statement 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 statement of income.

Overhead costs which 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 compensation costs paid to internal personnel dedicated to capital projects.

Depletion, Depreciation and Amortization

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

- (a) total estimated proved and probable reserves calculated in accordance with Ontario Securities Commission's 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 corporate assets is calculated on a straight-line basis over the useful life of the related assets.

Impairment

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 oil and gas assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment. 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 cost to sell and its current value in use. Any excess of carrying value over recoverable amount is recognized in the statement of income as an impairment charge, included within depletion, depreciation and amortization.

If there is an indicator that a previously recognized impairment charge may no longer be valid, 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 carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

E&E, Administrative Assets and Goodwill

E&E, administrative assets and goodwill are 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. Impairment tests are carried out when E&E assets are transferred to development and production assets following the declaration of commercial reserves, and any time that circumstances arise which could indicate a potential impairment. Irrespective of whether there is any indication of impairment, goodwill balances are tested for impairment annually. An impairment loss is recognized if the total carrying values of E&E, administrative assets and goodwill exceed the aggregate impairment cushions calculated for each of ARC's CGUs and is applied first to reduce the carrying amount of goodwill and then to E&E and administrative assets on a pro-rata basis. Any impairment loss of goodwill is not reversed.

If E&E, administrative assets and goodwill are subject to impairment testing in the same period in which there is an indication of impairment in one of ARC's CGUs, that CGU is first tested for impairment and any resulting impairment loss is recorded prior to conducting impairment tests on assets at the operating segment level.

Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing 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.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the consolidated statement of income in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the consolidated balance sheet. Assets held for sale are not depleted, depreciated or amortized.

Asset Retirement Obligations

ARC recognizes an asset retirement obligation ("ARO") in the period in which it has a present legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, management reviews these estimates and changes, if any, are applied prospectively. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depreciated on a unit-of-production basis over the life of the associated proved plus probable reserves. The long-term liability is increased each reporting period with the passage of time and the associated accretion charge is recognized in earnings. Periodic revisions to the liability specific discount rate, estimated timing of cash flows or to the original estimated undiscounted cost can also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the obligation are recorded against the ARO to the extent of the liability recorded.

Deferred Taxes

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 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 substantively enacted by the reporting date.

Deferred income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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.

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.

a. Fair value through profit and loss

Financial assets and liabilities designated as fair value through profit and loss are subsequently measured at fair value with changes in those fair values charged immediately to earnings. ARC classifies all risk management contracts and short-term investments as fair value through profit and loss. Cash and cash equivalents are also classified as fair value through profit and loss.

b. Available-for-sale assets

Available-for-sale financial assets are subsequently measured at fair value with changes in fair value recognized in Other Comprehensive Income ("OCI"), net of tax. Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is a significant or prolonged decrease in the value of the asset. ARC classifies its reclamation fund assets as available-for-sale assets. Transaction costs related to the purchase of available-for-sale assets are recognized in the statement of income.

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

Held-to-maturity investments, loans and receivables, and other financial liabilities are subsequently measured at amortized cost using the effective interest method. ARC classifies accounts receivable as loans and receivables, and accounts payable and accrued liabilities, long-term incentive compensation liability, dividends payable and long-term debt as other financial liabilities.

Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the consolidated 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. NEW ACCOUNTING POLICIES

Future Accounting Changes

ARC has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

In May 2011, the IASB released the following new standards: IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements”, IFRS 12, “Disclosures of Interests in Other Entities” and IFRS 13, “Fair Value Measurement”. Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below:

- IFRS 10, “Consolidated Financial Statements” supercedes IAS 27 “Consolidation and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”. This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard is not expected to have any impact on ARC’s financial statements.
- IFRS 11, “Joint Arrangements” divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard is not expected to have any impact on ARC’s financial statements.
- IFRS 12, “Disclosure of Interests in Other Entities” combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities. The adoption of this standard is not expected to have a material impact on ARC’s financial statements.
- IFRS 13, “Fair Value Measurement” defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard is expected to require the revaluation of certain derivative financial liabilities on ARC’s balance sheet to reflect an appropriate amount of risk of non-performance by ARC. ARC does not expect this revaluation to be material to its financial statements.

As of January 1, 2015, ARC will be required to adopt IFRS 9 “Financial Instruments”, which is the result of the first phase of the International Accounting Standards Board (“IASB”) project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on ARC’s Consolidated Financial Statements will not be known until the project is complete.

5. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year. Actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Recoverability of Asset Carrying Values

The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use.

At December 31, 2012 the recoverable amounts of ARC's CGUs were estimated as their fair value less cost to sell based on the following information:

- i) the net present value of the after-tax cash flows from oil and gas reserves of each CGU based on reserves estimated by ARC's independent reserve evaluator; and
- ii) the fair value of undeveloped land based on estimates provided by ARC's independent land evaluator

with consideration given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

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

- a) Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- b) Oil and natural gas prices – Forward price estimates of the 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.

As a result of a reduced forward commodity price outlook for natural gas and widening price differentials for crude oil, impairment tests were carried out at December 31, 2012 and were based on fair value less costs to sell calculations, using an after-tax discount rate of 10 per cent and the following forward commodity price estimates:

Year	Edmonton Light Crude Oil (Cdn\$/bbl) ⁽¹⁾	WTI Oil (US\$/bbl) ⁽¹⁾	AECO Gas (Cdn\$/mmbtu) ⁽¹⁾	Cdn\$/US\$ Exchange Rates ⁽¹⁾
2013	85.00	90.00	3.38	1.00
2014	91.50	92.50	3.83	1.00
2015	94.00	95.00	4.28	1.00
2016	96.50	97.50	4.72	1.00
2017	96.50	97.50	4.95	1.00
2018	96.50	97.50	5.22	1.00
2019	97.54	98.54	5.32	1.00
2020	99.51	100.51	5.43	1.00
2021	101.52	102.52	5.54	1.00
2022	103.57	104.57	5.64	1.00
Remainder	+2.0% per year	+2.0% per year	+2.0% per year	1.00

(1) Source: GLJ Petroleum Consultants price forecast, effective January 1, 2013.

For the year ended December 31, 2012, ARC recorded an impairment of \$53 million for the Southern Alberta Southwest Saskatchewan CGU. A one per cent increase in the assumed discount rate would result in an additional impairment for this CGU of \$14.8 million, while a five per cent decrease in the forward commodity price estimate would result in an additional impairment of approximately \$29.1 million.

For the year ended December 31, 2011, ARC recorded an impairment charge (net of recoveries of \$28.4 million) of \$71.9 million. The net impairment loss was recorded in the Southern Alberta and Southwest Saskatchewan CGU.

The carrying value of goodwill at December 31, 2012 is \$248.2 million. This value is supported by the combined excess recoverable amount over the current carrying value of ARC's operating segment.

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 external reserve evaluator. See (a) above for discussion of estimates and judgments involved in reserve estimation.

Asset Retirement Obligation

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.

Derivative Instruments

The estimated fair value of derivative instruments resulting in financial assets and liabilities is reliant upon a number of estimated variables including forward commodity prices, foreign exchange rates and interest rates, 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.

Employee Compensation Costs

Compensation expense accrued for ARC's Performance Share Unit Plan is dependent on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier. The determination of the performance multiplier is subject to management estimation.

Compensation expense recorded for ARC's Share Option Plan is based on a binomial-lattice option pricing model. The inputs to this model rely on management judgment.

6. CASH AND CASH EQUIVALENTS

The cash balance of \$194.6 million at December 31, 2012 and \$0.5 million at December 31, 2011 was held in investment grade assets.

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 cash equivalents, short-term investments, accounts receivable, reclamation fund, and risk management contracts. Most of ARC's accounts receivable relate to oil and natural gas sales and are subject to typical industry credit risks. ARC manages this 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;
- 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, at the time of transaction, are not less than investment grade.

The majority of the credit exposure on accounts receivable at December 31, 2012 pertains to accrued revenue for December 2012 production volumes. ARC transacts with a number of 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. At December 31, 2012, no one counterparty accounted for more than 25 per cent of the total accounts receivable balance.

ARC's allowance for doubtful accounts was nil as at December 31, 2012 and December 31, 2011. ARC did not record any additional provisions for non-collectable accounts receivable during the years ended December 31, 2012 and 2011.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness 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. As at December 31, 2012, \$4.4 million of accounts receivable are past due, all of which are considered to be collectable (\$2.9 million at December 31, 2011).

Maximum credit risk is calculated as the total recorded value of cash and cash equivalents, accounts receivable, reclamation fund, short-term investments, and risk management contracts at the balance sheet date.

8. RECLAMATION FUND

	December 31, 2012		December 31, 2011
Balance, beginning of year	\$	26.9	\$ 25.0
Contributions		4.4	3.7
Reimbursed expenditures ⁽¹⁾		(1.8)	(2.2)
Interest earned on funds		0.3	0.3
Net unrealized gains on available-for-sale-assets		-	0.1
Balance, end of year ⁽²⁾	\$	29.8	\$ 26.9

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

(2) As at December 31, 2012 the restricted reclamation fund held the balance in investment grade assets.

ARC has established a restricted reclamation fund to finance obligations specifically associated with one of its assets. Required contributions to this fund will vary over time and have been disclosed as commitments in Note 19. Interest earned on the respective investments is retained within the fund.

9. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

The following table reconciles ARC's E&E assets:

	E&E
Balance, December 31, 2010	\$ 74.4
Additions	113.3
Balance, December 31, 2011	\$ 187.7
Additions	50.4
Balance, December 31, 2012	\$ 238.1

10. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles ARC's property, plant and equipment:

Cost		Development and Production Assets		Administrative Assets
Balance, December 31, 2010	\$	4,699.3	\$	41.4
Additions		818.3		3.6
Assets reclassified as held for sale		(13.0)		-
Balance, December 31, 2011	\$	5,504.6	\$	45.0
Additions		624.4		5.3
Assets reclassified as held for sale		(5.0)		-
Assets reclassified from held for sale		5.3		-
Balance, December 31, 2012	\$	6,129.3	\$	50.3

Accumulated depletion, depreciation, amortization and impairment

Balance, December 31, 2010	\$	(394.4)	\$	(3.1)
Depletion, depreciation and amortization		(430.6)		(5.7)
Impairment (Note 5)		(71.9)		-
Accumulated depletion reclassified as held for sale		1.7		-
Balance, December 31, 2011	\$	(895.2)	\$	(8.8)
Depletion, depreciation and amortization		(511.6)		(6.5)
Impairment (Note 5)		(53.0)		-
Accumulated depletion reclassified as held for sale		0.6		-
Accumulated depletion reclassified from held for sale		(0.7)		-
Balance, December 31, 2012	\$	(1,459.9)	\$	(15.3)

Carrying amounts

As at December 31, 2011	\$	4,609.4	\$	36.2
As at December 31, 2012	\$	4,669.4	\$	35.0

For the year ended December 31, 2012 \$27.9 million (2011 - \$25.7 million) of direct and incremental general and administrative expenses were capitalized to property, plant and equipment.

In the year ended December 31, 2011 ARC disposed of \$130.6 million of PP&E that was classified as held for sale of which \$123.9 million was classified as held for sale as at December 31, 2010. Gains totaling \$89.5 million were recognized in the statement of income in respect of these disposals.

Assets held for sale

Balance, December 31, 2010	\$	123.9
Additions		11.3
Disposals		(130.6)
Balance, December 31, 2011	\$	4.6
Additions		4.4
Disposals		(4.1)
Reclassified to development and production assets		(4.6)
Balance, December 31, 2012	\$	0.3

11. 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 through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit 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.

The following table details ARC's financial liabilities as at December 31, 2012:

(\$ millions)	Financial Liabilities					
	Carrying Amount	Cash Obligation	1 year	2 - 3 years	4 - 5 years	Beyond 5 years
Accounts payable and accrued liabilities ⁽¹⁾	301.0	304.9	304.9	-	-	-
Dividends payable ⁽²⁾	30.9	20.5	20.5	-	-	-
Risk management contracts ⁽³⁾⁽⁴⁾	10.8	15.4	0.5	0.5	0.8	13.6
Senior notes and interest ⁽⁵⁾	787.4	1,043.5	76.7	149.7	138.5	678.6
Accrued long-term incentive compensation ⁽¹⁾	24.5	46.8	-	46.8	-	-
Total financial liabilities	1,154.6	1,431.1	402.6	197.0	139.3	692.2

(1) Cash obligations associated with the RSU & PSU Plans represent the total amount expected to be paid out on vesting. Additional vesting of awards will be accrued in subsequent years.

(2) Amounts payable for the dividend represent the net cash payable after dividend reinvestment.

(3) Amounts payable under risk management contracts have been presented at their future value without any reduction for entity-specific risk.

(4) Risk management contracts are derivatives. All other financial liabilities contained in this table are non-derivative liabilities.

(5) Cash obligation includes future interest payments.

ARC actively maintains credit and working capital facilities to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Refer to Note 12 for further details on available amounts under existing banking arrangements and Note 14 for further details on capital management.

12. LONG-TERM DEBT

	December 31, 2012	December 31, 2011
Syndicated credit facilities:		
Cdn\$ denominated	\$ -	\$ 319.9
Working capital facility	-	3.9
Senior notes:		
Master Shelf Agreement:		
5.42% US\$ Note	46.6	57.2
4.98% US\$ Note	49.7	50.9
2004 Note Issuance		
4.62% US\$ Note	12.8	19.6
5.10% US\$ Note	19.1	24.4
2009 Note Issuance		
7.19% US\$ Note	53.7	68.6
8.21% US\$ Note	34.8	35.6
6.50% Cdn\$ Note	23.2	29.0
2010 Note Issuance		
5.36% US\$ Note	149.2	152.6
2012 Note Issuance		
3.31% US\$ Note	59.7	-
3.81% US\$ Note	298.6	-
4.49% Cdn\$ Note	40.0	-
Total long-term debt outstanding	\$ 787.4	\$ 761.7

Credit Facilities

ARC has a \$1 billion, annually extendible, financial covenant-based syndicated credit facility ("the facility"). The current maturity date of the facility is August 3, 2016. ARC also has in place a \$25 million demand working capital facility and a \$25 million letter of credit facility. Both the working capital facility and the letter of credit facility are subject to the same covenants as the syndicated credit facility.

Borrowings under the facility bear interest at Canadian bank prime (three per cent at both December 31, 2012 and 2011) or US base rate, or, at ARC's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fee. The total stamping fees range between 160 bps and 325 bps on Canadian bank prime and US base rate borrowings and between 60 bps and 225 bps 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 32 to 65 bps.

The weighted average interest rate under the credit facility was two per cent for the year ended December 31, 2012 (three per cent for the year ended December 31, 2011).

At December 31, 2011, an amount of \$3.9 million due under ARC's working capital facility in the following 12 months had not been included in current liabilities as ARC has the ability and intent to refinance these amounts through the syndicated credit facility.

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
December 15, 2005	US\$46.9 million	5.42%	December 15, 2017	Eight equal installments beginning December 15, 2010
March 5, 2010	US\$50 million	4.98%	March 5, 2019	Five equal installments beginning March 5, 2015

Senior Notes Not Subject to the Master Shelf Agreement

The senior notes not subject to the Master Shelf Agreement were issued via 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 27, 2004	US\$12.8 million	4.62%	April 27, 2014	Six equal installments beginning April 27, 2009
April 27, 2004	US\$19.2 million	5.10%	April 27, 2016	Five equal installments beginning April 27, 2012
April 14, 2009	US\$54.0 million	7.19%	April 14, 2016	Five equal installments beginning April 14, 2012
April 14, 2009	US\$35.0 million	8.21%	April 14, 2021	Five equal installments beginning April 14, 2017
April 14, 2009	Cdn\$23.2 million	6.50%	April 14, 2016	Five equal installments beginning April 14, 2012
May 27, 2010	US\$150.0 million	5.36%	May 27, 2022	Five equal installments beginning May 27, 2018
August 23, 2012	US\$60.0 million	3.31%	August 23, 2021	Five equal installments beginning August 23, 2017
August 23, 2012	US\$300.0 million	3.81%	August 23, 2024	Five equal installments beginning August 23, 2020
August 23, 2012	Cdn\$40.0 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, 2012:

	Credit Capacity		Drawn		Remaining
Syndicated credit facility	\$	1,000.0	\$	-	\$ 1,000.0
Working capital facility		25.0		-	25.0
Senior Notes subject to a Master Shelf Agreement ⁽¹⁾		223.9		96.3	127.6
Senior Notes not subject to a Master Shelf Agreement		691.1		691.1	-
Total	\$	1,940.0	\$	787.4	\$ 1,152.6

(1) Total credit capacity is US\$225 million.

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 times trailing twelve month net income before non-cash items and interest expense;
- Long-term debt, letters of credit, and subordinated debt not to exceed four times trailing twelve month net income before non-cash items 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 book 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, 2012, ARC had \$9.1 million in letters of credit (\$12.9 million dollars in 2011), no subordinated debt, and was in compliance with all covenants.

The fair value of all senior notes as at December 31, 2012, is \$827.9 million compared to a carrying value of \$787.4 million (\$467.1 million compared to \$437.8 million as at December 31, 2011).

13. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were 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 asset retirement obligations to be \$532.9 million as at December 31, 2012 (\$496.4 million at December 31, 2011) based on a total future undiscounted liability of \$1.39 billion (\$1.37 billion at December 31, 2011). At December 31, 2012 management estimates that these payments are expected to be made over the next 60 years with the majority of payments being made in years 2061 to 2072. The Bank of Canada's long term bond rate of 2.36 per cent (2.5 per cent in 2011) and an inflation rate of two per cent (two per cent in 2011) were used to calculate the present value of the asset retirement obligations.

The following table reconciles ARC's provision for asset retirement obligations:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Balance, beginning of year	\$ 496.4	\$ 381.7
Increase in liabilities relating to development activities	5.9	6.3
Increase in liabilities relating to change in estimate and discount rate	29.7	105.6
Settlement of reclamation liabilities during the period	(11.9)	(8.4)
Accretion expense	12.4	13.4
Reclassified as liabilities associated with assets held for sale	0.4	(2.2)
Balance, end of year	\$ 532.9	\$ 496.4

14. CAPITAL MANAGEMENT

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 for a minimum period of six months in order to normalize the effect of commodity price volatility to shareholders.

ARC manages the following capital:

- Common shares and
- Net debt, which includes long-term debt and working capital deficit (surplus), if any. Working capital deficit (surplus) is calculated as current liabilities less current assets, and excludes current unrealized amounts pertaining to risk management contracts, assets held for sale and asset retirement obligations contained within liabilities associated with assets held for sale.

When evaluating ARC's capital structure, management's objective is to target net debt between one to 1.5 times annualized funds from operations and less than 20 per cent of total capitalization. As at December 31, 2012 ARC's net debt to funds from operations ratio is 1.0 and its net debt to total capitalization ratio is 9.0 per cent.

(\$ millions)	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash from operating activities	703.5	902.7
Net change in other liabilities (Note 21)	10.6	9.6
Change in non-cash working capital (Note 21)	5.7	(68.0)
Funds from operations	719.8	844.3

(\$ millions, except per share and per cent amounts)	December 31, 2012	December 31, 2011
Long-term debt ⁽¹⁾	787.4	761.7
Accounts payable and accrued liabilities	301.0	305.0
Dividends payable	30.9	28.9
Financial liabilities associated with assets held for sale	-	0.3
Cash and cash equivalents, accounts receivable, prepaid expenses, and short-term investment	(373.7)	(186.2)
Net debt obligations	745.6	909.7
Shares outstanding (millions)	308.9	288.9
Share price ⁽²⁾	24.44	25.10
Market capitalization	7,549.5	7,251.4
Net debt obligations	745.6	909.7
Total capitalization	8,295.1	8,161.1
Net debt as a percentage of total capitalization	9.0%	11.1%
Net debt to funds from operations	1.0	1.1

(1) Includes current portion of long-term debt at December 31, 2012 and 2011 of \$39.7 million and \$40.5 million respectively.

(2) TSX closing price as at December 31, 2012 and December 31, 2011 respectively.

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.

In addition to internal capital management, ARC is subject to various covenants under its credit facilities. Compliance with these covenants is monitored on a quarterly basis and as at December 31, 2012 ARC is in compliance with all covenants.

15. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instrument Classification and Measurement

ARC's financial instruments on the Consolidated Balance Sheet are carried at amortized cost with the exception of cash and cash equivalents, short-term investment, reclamation fund assets and risk management contracts, which are carried at fair value. With the exception of ARC's senior notes, there were no significant differences between the carrying value of financial instruments and their estimated fair values as at December 31, 2012. The fair value of the ARC's senior notes is disclosed in Note 12.

All of ARC's cash and cash equivalents, short-term investment, risk management contracts, and reclamation fund assets are transacted in active markets. ARC classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- 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.

ARC's cash and cash equivalents, reclamation fund assets and risk management contracts have been assessed on the fair value hierarchy described above. ARC's cash and cash equivalents and reclamation fund assets are classified as Level 1 and risk management contracts as Level 2. 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 level.

ARC holds an investment in a junior oil and gas producing company that had an initial cost of \$2.9 million. The short-term investment is classified as fair value through profit and loss and is presented at fair value with any periodic change in fair value being recorded as an unrealized gain or loss in the Consolidated Statements of Income. At December 31, 2012, the fair value of ARC's investment was \$1.7 million (\$3.3 million at December 31, 2011) and an unrealized loss of \$1.6 million was recorded for 2012 (loss of \$0.2 million in 2011). ARC classifies this investment as Level 1 in the fair value hierarchy.

Market Risk Management

ARC is exposed to a number of market risks that are part of its normal course of business. 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 risk management program is overseen by its Risk Committee based on guidelines approved by 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 the sections below, ARC has prepared sensitivity analyses in an attempt to demonstrate the 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.

Commodity Price Risk

ARC's operational results and financial condition are largely dependent on the commodity prices received for its 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.

ARC manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts (see Risk Management Contracts 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, 2012. The sensitivity is based on a US\$10 increase and decrease in the price of WTI, a US\$0.50 increase and decrease in the price of NYMEX natural gas, a five per cent increase and 10 per cent decrease in AECO basis relative to NYMEX, and a Cdn\$20 increase and Cdn\$10 decrease in the AESO Power price. The commodity price assumptions are based on management's assessment of reasonably possible changes in oil and natural gas prices that could occur between December 31, 2012 and ARC's next reporting date.

	Increase in Commodity Price			Decrease in Commodity Price		
	Crude Oil	Natural Gas	Electricity	Crude Oil	Natural Gas	Electricity
Net income (decrease) increase	(39.6)	(104.5)	1.6	41.5	151.8	(1.0)

As noted above, the sensitivities are hypothetical and based on management's assessment of reasonably possible changes in commodity prices between the balance sheet date and ARC's next reporting date. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

Interest Rate Risk

ARC has 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.

Foreign Exchange Risk

North American 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, 2012 as well as the unrealized gain or loss on revaluation of outstanding US dollar denominated debt. The sensitivity is based on a 10 per cent increase and 10 per cent decrease in the Cdn\$/US\$ foreign exchange rate and excludes the impact on revenue proceeds.

Sensitivity of Foreign Exchange Exposure		Increase in Cdn\$/US\$ rate		Decrease in Cdn\$/US\$ rate
Risk management contracts	\$	(0.2)	\$	0.4
US dollar denominated debt		(14.6)		14.6
Net income (decrease) increase	\$	(14.8)	\$	15.0

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 period ended December 31, 2012.

Risk Management Contracts

ARC uses a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, interest rates and power prices.

Following is a summary of all risk management contracts in place as at December 31, 2012:

Financial WTI Crude Oil Contracts						
Term		Contract	Volume bbl/d	Bought Put US\$/bbl ⁽¹⁾	Sold Put US\$/bbl ⁽¹⁾	Sold Call US\$/bbl ⁽²⁾
1-Jan-13	30-Jun-13	3-Way	2,000	90.00	65.00	110.00
1-Jan-13	31-Dec-13	3-Way	4,000	100.00	65.00	110.00
1-Jan-13	31-Dec-13	3-Way	2,000	90.00	60.00	100.00
1-Jan-13	31-Dec-13	3-Way	4,000	95.00	65.00	105.00
1-Jan-13	31-Dec-13	Collar	2,000	95.00	-	100.00
1-Jul-13	31-Dec-13	Collar	2,000	95.00	-	100.00

(1) Settled on the monthly average price.

(2) Settled on the term average price.

Financial WTI Crude Oil Swap Contracts					
Term		Contract	Volume bbl/d	Sold Swap US\$/bbl	Sold Put US\$/bbl ⁽³⁾
1-Jan-13	30-Jun-13	Swap	2,000	\$90.08	65.00

(3) Settled on the monthly average price.

Financial WTI Crude Oil First vs Second Month Calendar Spread Contracts ⁽⁴⁾				
Term		Contract	Volume bbl/d	Spread US\$/bbl
1-Jan-13	31-Dec-13	Swap	2,000	0.40
1-Jan-13	31-Dec-13	Put	2,000	0.40
1-Jan-14	31-Dec-14	Swap	2,000	0.31

(4) ARC receives the second delivery month contract average plus the calendar spread; ARC pays the prompt contract monthly average.

Financial NYMEX Natural Gas Swap Contracts ⁽⁵⁾			
Term		Contract	Sold Swap US\$/mmbtu
1-Jan-13	31-Dec-13	Swap	40,000
			3.54

(5) Last Day Settlement.

Financial NYMEX Natural Gas Contracts ⁽⁶⁾

Term		Contract	Volume mmbtu/d	Bought Put US\$/mmbtu	Sold Call US\$/mmbtu
1-Jan-13	31-Dec-13	Collar	90,000	3.25	4.00
1-Jan-13	31-Dec-13	Collar	10,000	3.50	4.25
1-Jan-13	31-Dec-13	Collar	10,000	3.60	4.25
1-Apr-13	31-Oct-13	Collar	30,000	3.75	4.25
1-Jan-14	31-Dec-14	Collar	30,000	4.00	4.50
1-Jan-14	31-Dec-17	Collar	60,000	4.00	5.00

(6) Last Day Settlement.

Financial AECO Basis Swap Contracts

Term		Contract	Volume mmbtu/d	Ratio Swap AECO/NYMEX ⁽⁷⁾
1-Jan-13	31-Dec-14	Swap	170,000	89.8%
1-Jan-15	31-Dec-17	Swap	110,000	90.6%

(7) ARC receives NYMEX price based on Last Day (LD) settlement multiplied by AECO/NYMEX US\$/mmbtu ratio; ARC pays AECO (7a) monthly index US\$/mmbtu.

Financial Electricity Heat Rate Contracts ⁽⁸⁾

Term		Contract	Volume MWh	Heat Rate GJ/MWh
1-Jan-13	31-Dec-13	Heat Rate Swap	10	9.15

(8) ARC pays AECO (5a) x Heat Rate; ARC receives floating AESO power price.

At December 31, 2012, the net fair value associated with ARC's risk management contracts was \$21.8 million (\$2.8 million at December 31, 2011). ARC recorded gains on risk management contracts of \$80.6 million for the year ended December 31, 2012 in its consolidated income statement (gains of \$59.3 million for the year ended December 31, 2011).

16. INCOME TAXES

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

	December 31, 2012		December 31, 2011	
Income before tax	\$	188.4	\$	384.0
Canadian statutory rate ⁽¹⁾		25.0%		26.5%
Expected income tax expense at statutory rates		47.1		101.8
Effect on income tax of:				
Effect of change in corporate tax rate		-		(6.4)
Unrealized loss on foreign exchange		0.1		1.7
Change in estimated pool balances		2.8		(0.3)
Other		(0.8)		0.2
Income tax expense	\$	49.2	\$	97.0

(1) The statutory rate consists of the combined statutory tax rate for the Company and its subsidiaries for the years ended December 31, 2012 and December 31, 2011. The general combined Federal/Provincial tax rate lowered to 25.0% in 2012 from 26.5% in 2011 due to the Federal rate dropping from 16.5% in 2011 to 15.0% in 2012.

	December 31, 2012		December 31, 2011	
Deferred taxes liabilities:				
Capital assets in excess of tax value	\$	651.9	\$	610.9
Risk management contracts		8.2		6.2
Long-term debt		6.1		6.1
Partnership deferral		12.9		120.5
Deferred tax assets:				
Asset retirement obligations		(133.6)		(124.5)
Non-capital losses		-		(80.7)
Risk management contracts		(2.7)		(5.5)
Long-term incentive compensation expense		(13.1)		(13.1)
Attributed Canadian royalty income		-		(4.5)
Other		(7.4)		(9.0)
Deferred taxes	\$	522.3	\$	506.4

A continuity of deferred taxes is detailed in the following tables:

(\$ millions)	Balance December 31, 2011 Asset (Liability)	Recognized in Profit or Loss Asset (Liability)	Recognized in Equity Asset (Liability)	Recognized in Property, Plant and Equipment Asset (Liability)	Balance December 31, 2012 Asset (Liability)
Property, plant and equipment	(610.9)	(40.8)	-	(0.2)	(651.9)
Risk management contracts	(0.7)	(4.8)	-	-	(5.5)
Long-term debt	(6.1)	-	-	-	(6.1)
Partnership deferral	(120.5)	107.6	-	-	(12.9)
Asset retirement obligation	124.5	9.1	-	-	133.6
Non-capital losses	80.7	(80.7)	-	-	-
Long-term incentive compensation expense	13.1	-	-	-	13.1
Attributed Canadian royalty income	4.5	(4.5)	-	-	-
Other	9.0	(5.2)	3.6	-	7.4
Total	(506.4)	(19.3)	3.6	(0.2)	(522.3)

The petroleum and natural gas properties and facilities owned by ARC have an approximate federal tax basis of \$2.4 billion (\$2.7 billion in 2011) available for future use as deductions from taxable income.

The following is a summary of the estimated ARC tax pools:

	December 31, 2012	December 31, 2011
Canadian oil and gas property expenses ⁽¹⁾	\$ 826.0	\$ 876.8
Canadian development expenses ⁽¹⁾	875.8	678.0
Canadian exploration expenses ⁽¹⁾	22.9	103.6
Undepreciated capital costs	595.8	690.0
Non-capital losses	-	290.7
SR&ED tax pools	-	28.7
Other	29.3	19.7
Estimated tax basis, federal	2,349.8	2,687.5
Provincial tax pools	28.1	177.6

(1) The tax pools presented above reflect the application of partnership deferral rules. There is a deferral of partnership income of \$51.6 million inherent in the income tax calculation for the year ended December 31, 2012. This deferral, as available under Canadian income tax legislation utilizes \$118 million of the income tax pools in the table above.

For the year ended December 31, 2012, ARC incurred current tax expense of \$29.9 million. No current taxes were incurred in the year ended December 31, 2011.

17. SHAREHOLDERS' CAPITAL

(thousands of shares)	Year Ended December 31, 2012	Year Ended December 31, 2011
Common shares, beginning of year	288,895	284,379
Equity offering	14,588	-
Dividend reinvestment program	5,405	4,516
Common shares, end of year	308,888	288,895

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

(thousands of shares)	Year Ended December 31, 2012	Year Ended December 31, 2011
Weighted average common shares	297,161	286,593
Dilutive impact of share options	81	-
Diluted common shares	297,242	286,593

On August 22, 2012, ARC issued 14,587,750 common shares at a price of \$23.65 per share for aggregate gross proceeds of \$345 million. Share issue costs of \$14.3 million were incurred as a result of this transaction.

Dividends for the years ended December 31, 2012 and 2011 were \$1.20 per share.

On January 16, 2013 the Board of Directors declared a monthly dividend of \$0.10 per common share, payable in cash, to shareholders of record on January 31, 2013. The dividend payment date is February 15, 2013.

18. LONG TERM INCENTIVE PLANS*RSU & PSU Plan*

ARC's share-based Long-Term Incentive Plan (RSU & PSU 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 & 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 Performance Share Units ("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 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.

A portion of total compensation costs associated with the RSU & PSU Plan is charged to property, plant and equipment to reflect those costs that are directly attributable to spending on capital projects, a portion is charged to operating expenses to reflect the awards that are attributable to certain individuals working in field operations, and the remainder is charged to general and administrative expense.

DSU Plan

ARC offers a DSU Plan to non-employee directors, under which each director receives a minimum of 55 per cent of their total annual remuneration in the form of 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. Compensation expense associated with the DSU Plan is based on the fair value of DSUs at the date of grant, adjusted to the current fair value of outstanding awards at each period end. Units are settled in cash based on the common share price plus accrued dividends. Compensation expense relating to the DSU Plan is charged to general and administrative expense.

The following table summarizes the RSU, PSU and DSU movement for the year ended December 31, 2012:

(number of units, thousands)	RSUs	PSUs	DSUs
Balance, beginning of period	852	1,445	64
Granted	354	572	70
Distributed	(443)	(517)	-
Forfeited	(67)	(99)	-
Balance, end of period	696	1,401	134

Compensation charges relating to the RSU & PSU and DSU Plans can be reconciled as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
General and administrative expense	32.4	25.5
Operating expense	4.8	4.3
Property, plant and equipment	3.4	2.5
Total compensation charges	\$ 40.6	\$ 32.3
Cash payments	\$ 40.9	\$ 28.1

At December 31, 2012 \$28.6 million of compensation amounts payable were included in accounts payable and accrued liabilities on the Consolidated Balance Sheet (\$35 million at December 31, 2011), and \$24.5 million was included in long-term incentive compensation liability (\$18.5 million at December 31, 2011). A recoverable amount of \$0.8 million was included in accounts receivable at December 31, 2012 (\$0.9 million at December 31, 2011).

Share Option Plan

Share options are granted to officers, certain employees and certain consultants 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 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.

ARC estimates the fair value of share options granted using a binomial-lattice option pricing model. The grant date fair values of the share option plans were \$3.6 million, or \$8.40 per option outstanding for the 2011 grant and \$5.5 million, or \$5.25 per option outstanding for the 2012 grant. The following assumptions were used to arrive at the estimated fair value at the date of the options grants:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Grant date share price	\$20.20 - \$27.11	\$27.11
Exercise price ⁽¹⁾	\$19.60 - \$25.01	\$26.21
Expected annual dividends	\$1.20	\$1.20
Expected volatility ⁽²⁾	37.00% - 38.00%	37.00%
Risk-free interest rate	1.39% - 2.61%	2.61%
Expected life of share option ⁽³⁾	5.5 to 6 years	5.5 to 6 years

(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 past 7 years.

(3) Expected life of the share option is calculated as the mid-point between vesting date and expiry.

ARC recorded compensation expense of \$1 million relating to the share option plan for the year ended December 31, 2012 (\$0.5 million at December 31, 2011).

The number of share options outstanding and related exercise prices are as follows:

Year ended December 31, 2012		
(number of units, thousands)	Share options	Weighted average exercise price
Balance, beginning of period	419	\$26.21
Granted	1,056	20.20
Forfeited	(55)	23.69
Balance, end of period	1,420	21.06
Exercisable, end of period	-	-

19. COMMITMENTS AND CONTINGENCIES

Following is a summary of ARC's contractual obligations and commitments as at December 31, 2012:

(\$ millions)	Payments Due by Period				Total
	1 year	2 - 3 years	4 - 5 years	Beyond 5 years	
Debt repayments ⁽¹⁾	39.7	83.0	81.5	583.2	787.4
Interest payments ⁽²⁾	37.0	66.7	57.0	95.4	256.1
Reclamation fund contributions ⁽³⁾	4.0	7.1	6.4	54.4	71.9
Purchase commitments	47.8	15.4	11.3	11.9	86.4
Transportation commitments	42.8	71.1	34.3	0.2	148.4
Operating leases	14.7	27.4	25.3	80.9	148.3
Risk management contract premiums ⁽⁴⁾	0.5	4.8	4.8	-	10.1
Total contractual obligations	186.5	275.5	220.6	826.0	1,508.6

(1) Long-term and short-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 risk management contracts.

In addition to the above risk management contract premiums, ARC has commitments related to its risk management program (see Note 15). As the premiums are part of the underlying risk management contract, they have been recorded at fair market value at December 31, 2012 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 current annual 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.

20. RELATED PARTIES

Interest in Partnership

ARC owns a 99.99% interest in the ARC Resources General Partnership (the “partnership”). The other 0.01% of the partnership is owned by 1504793 Alberta Ltd, a 100% owned subsidiary of ARC. ARC’s oil and gas properties are owned and administered by the partnership. ARC is also the sole beneficiary of the Redwater A&R Trust, which administers the reclamation fund on ARC’s behalf.

Key Management Personnel Compensation

ARC has determined that the key management personnel of ARC consists of its officers and directors. In addition to the salaries and directors fees paid to the officers and directors respectively, the Company also provides compensation to both groups under the Long-Term Incentive Plans. As well, the officers participate in ARC’s share option plan. The compensation included in general and administrative expenses relating to key management personnel for the year was \$35.1 million (2011 - \$26.7 million).

21. SUPPLEMENTAL DISCLOSURES

Income Statement Presentation

ARC’s statement of income is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both the operating and general and administrative expense line items.

The following table details the amount of total employee compensation costs included in the operating and general and administrative expense line items in the statement of income.

	Year Ended December 31, 2012		Year Ended December 31, 2011	
Operating	\$	28.9	\$	25.5
General and administrative		88.5		71.5
Total employee compensation costs	\$	117.4	\$	97.0

Cash Flow Statement Presentation

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

Changes in Non-Cash Working Capital	Year Ended December 31, 2012		Year Ended December 31, 2011
Accounts receivable	\$	4.1	\$ (11.6)
Accounts payable and accrued liabilities		(4.1)	86.5
Prepaid expenses		1.2	(2.4)
Total		1.2	72.5
Operating activities		(5.7)	68.0
Investing activities		6.9	4.5
Total	\$	1.2	\$ 72.5

Other Non-Cash Items	Year Ended December 31, 2012		Year Ended December 31, 2011
Non-cash lease inducement	\$	(2.2)	\$ 0.3
Loss on short term investments		1.6	0.2
Share option expense		1.0	0.5
Total other non-cash items	\$	0.4	\$ 1.0

Net Change in Other Liabilities	Year Ended December 31, 2012		Year Ended December 31, 2011
Long-term incentive compensation liability	\$	6.0	\$ (6.4)
Risk management contracts		(4.7)	5.2
Asset retirement obligations		(11.9)	(8.4)
Total other liabilities	\$	(10.6)	\$ (9.6)

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

This Annual Report describes certain information in our news releases dated February 6, 2013 titled: “ARC Resources Ltd. Announces Fifth Consecutive Year of Greater than 200 Per Cent Produced Reserves Replacement in 2012” and “ARC Resources Ltd. Reports Fourth Quarter and Full Year Results” and readers should refer to these news releases, which are hereby incorporated by reference. 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 and 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 and in the Corporation's Annual Information Form for the year ended December 31, 2012, 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 “Definitions of Oil and Gas Resources and Reserves” 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, 2012 using forecast prices and costs. The reserves evaluation was prepared in accordance with National Instrument 51-101 (“NI 51-101”). Crude oil, natural gas and natural gas liquids benchmark reference pricing, as at December 31, 2012, inflation and exchange rates used in the evaluation are based on GLJ's January 1, 2013 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 for the 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, 2012 and is based on GLJ's forecast pricing as at January 1, 2013.

All amounts in this Annual Report are stated in Canadian dollars unless otherwise specified. We have adopted the standard of 6 mcf:1 bbl when converting natural gas to barrels of oil equivalent (“boes”). Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value. In accordance with Canadian practice, production volumes and revenues are reported on a company gross basis, before deduction of Crown and other royalties, 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, 2012, which will include 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 U.S. standards, and in this Annual Report, ARC has disclosed reserves designated as “probable reserves” and “proved plus probable reserves” and “proved plus probable plus possible reserves”. Probable reserves and possible 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 U.S. 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 royalty 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 including contingent resources, whereas Canadian issuers may disclose oil and gas resources. Resources are different than, and should not be construed as, reserves.

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 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 and ARC’s commodity risk management programs; future results from operations and operating metrics; future development, exploration, acquisition and development activities (including drilling plans); and 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. There are a number of assumptions associated with the development of the Montney reserves, including the quality of the Montney reservoir, continued performance from existing wells, future drilling programs and performance from new wells, the growth of infrastructure, well density per section, recovery factors and development necessarily involves known and unknown risks and uncertainties, including those risks identified in this Annual Report and in ARC’s public disclosure documents. ARC believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this 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 Montney lands; the potential for variation in the quality of the Montney 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.

INFORMATION REGARDING FINANCIAL INFORMATION

This Annual Report includes certain information which is set forth in the audited financial statements of the Corporation for the year ended December 31, 2012, including the report of our auditor’s thereon and the notes thereto, and readers should refer to those financial statements, which are hereby incorporated by reference. These financial statements can be found on our SEDAR profile at www.SEDAR.com.

GLOSSARY

API	American Petroleum Institute
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe*	barrels of oil equivalent
boe/d*	barrels of oil equivalent per day
Capex	capital expenditures
FD&A	finding, development and acquisition costs
F&D	finding and development costs
FDC	future development costs
GAAP	generally accepted accounting principles
G&A	general and administrative
GJ	gigajoule
LNG	liquefied natural gas
mbbls	thousand barrels
mboe*	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmboe*	million barrels of oil equivalent
mmbtu	million British Thermal Units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
NAV	net asset value
NGL	natural gas liquids
NYMEX	New York Mercantile Exchange
Oil Equivalent	barrels of oil and natural gas converted at 6:1
RLI	reserve life index
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate
2P	Proved plus Probable

*In accordance with NI 51-101, a boe conversion ratio of 6 Mcf : 1 bbl has been used, which 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 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.

» Corporate & Shareholder Information

DIRECTORS

Mac H. Van Wielingen ^{(3) (4) (6)}
Chairman

Walter DeBoni ^{(1) (2) (5)}
Vice-Chairman

Myron M. Stadnyk
President and Chief Executive Officer

John P. Dielwart

Fred J. Dymment ^{(1) (2) (6)}

Timothy J. Hearn ^{(3) (4) (5)}

James C. Houck ^{(1) (2) (5)}

Hal Kvisle ^{(4) (6)}

Kathleen O'Neill ^{(1) (3)}

Herb Pinder ^{(2) (3) (4)}

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Reserve Committee

⁽³⁾ Member of Human Resources and Compensation Committee

⁽⁴⁾ Member of Policy and Board Governance Committee

⁽⁵⁾ Member of Health, Safety and Environment Committee

⁽⁶⁾ Member of Risk Committee

OFFICERS

Myron M. Stadnyk
President and Chief Executive Officer

Cameron S. Kramer
Senior Vice-President and Chief Operating Officer

Steven W. Sinclair
Senior Vice-President and Chief Financial Officer

Terry Anderson
Senior Vice-President, Engineering and Land

David P. Carey
Senior Vice-President, Capital Markets

P. Van R. Dafeo
Senior Vice-President, Finance

Terry Gill
Senior Vice-President, Corporate Services

Jay Billesberger
Vice-President, Information Technology

Neil Groeneveld
Vice-President, Geosciences and Exploration

Wayne Lentz
Vice-President, Strategy and Business Development

Al Roberts
Vice-President, Production

Allan R. Twa
Corporate Secretary

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AUDITORS

Deloitte LLP
Calgary, Alberta

ENGINEERING CONSULTANTS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Burnet Duckworth & Palmer LLP
Calgary, Alberta

CORPORATE CALENDAR 2013

May 1, 2013 - 2013 Q1 Results

May 15, 2013 - Annual General Meeting

STOCK EXCHANGE LISTING

The Toronto Stock Exchange Trading Symbol:
ARX

INVESTOR INFORMATION

Visit our website at www.arcresources.com
or contact:

Investor Relations

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CARBON DISCLOSURE PROJECT

ARC is recognized on the Carbon Disclosure Project Leadership Index as being one of Canada's Climate Change Disclosure Leaders.



ARC is listed on the Jantzi Social Index; a common stock index of 60 Canadian companies that pass a set of broadly based environmental, social and governance rating criteria.



ARC is a CAPP member. Members commit to continuous improvement in the responsible management, development and use of our natural resources; protection of our environment; and, the health and safety of our workers and the general public.



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